

Physical resources: How we are performing

2015/16



The land and property
that we own and utilise.

Our physical resources report



Our land and property are fundamental to our business, providing the raw materials, infrastructure and physical assets that we actively manage.

Our portfolio is diverse, ranging from core West End retail and office space to regional retail parks, thousands of hectares of agricultural land and seabed. Focused and active asset management of these resources drives our business forward and has impacts on our other resources and relationships.

For example, within our Regional Retail portfolio we invest financial resources to improve the physical environment of our retail parks in order to create more attractive destinations for visitors and value for tenants as footfall increases.

Our physical resources report continued

Physical resources

The land and property that we own and utilise.

The financial performance of our physical assets is well documented in our integrated report. Although we have outlined the financial highlights in the paragraph below, the objective of this report is to show how placemaking, in particular, makes commercial sense.

The total property value of the estate, including the share of joint venture and other property investments, increased to £12.05 billion at 31 March 2016, an increase of 9.7% over the figure of £10.98 billion at 31 March 2015. The key highlights include:

- The Urban Portfolio has grown by over 11% and is now valued at £9.1 billion, driven by strong commercial property values in central London.
- The Energy, Minerals & Infrastructure Portfolio is now valued at £1.04 billion, a 20% increase on last year driven by an increase in the value of offshore renewables.
- The Rural & Coastal Portfolio remains valued at £1.62 billion after realising £127 million of capital receipts.
- Windsor has grown by 4% to £271 million.

Performance this year has been driven by our West End holdings. Particularly strong contributions came from our development programme and associated lettings ahead of forecast.

Placemaking

Our priority remains to create world-class shopping and leisure destinations that people want to visit. We are achieving this through continued occupier management, rightsizing units, compelling market activities and crucial investment into the public realm. Placemaking is at the heart of our development activity as we see enhancing the streets and public realm around our buildings as an important factor in the long-term out-performance of our properties.

Central London

Regent Street: The Crown Estate holds almost the entire freehold to Regent Street and since 2002 has been implementing a £1 billion Regent Street investment programme. With a street frontage of over two kilometres and over 15,000 people employed there, Regent Street has a footfall of over 70 million over the past year. The Grade II listed façades also represent some of the most distinguished architecture in London.

Its 1.5 million ft² of flagship retail space is home to one of the finest collections of international brands in the world, including Apple, Burberry, Banana Republic, Hugo Boss, J. Crew and Anthropologie.

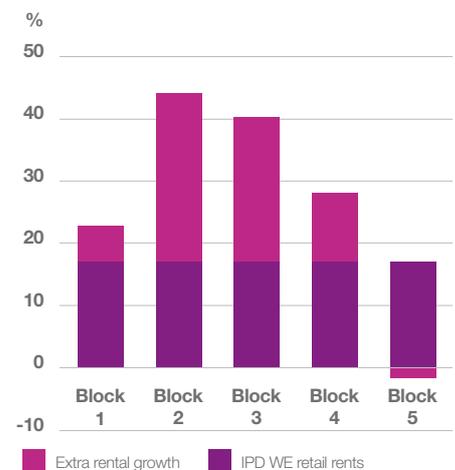
Improving the public realm has been a key element of The Crown Estate's investment strategy for achieving attractive investment returns from Regent Street. The objectives were to:

- redress the balance between pedestrians and vehicles;
- remove traffic clutter and barriers;
- reduce traffic and carriageways;
- renew street furniture;
- improve signage and way finding; and
- floodlight buildings.

St James's: Our business includes around half of St James's and today our £500 million investment programme vision, launched almost five years ago, is a reality. The area is now home to many restored listed buildings, landmark new developments and a transformed public realm from the sweep of Piccadilly Circus southwards to Waterloo Place. Testament to the quality of what we are delivering was the private equity firm Carlyle Group's decision to relocate from Mayfair to St James's Market. We have also attracted some very special retail and restaurant brands. Building on our success with a delivery traffic management in Regent Street, we are establishing a freight consolidation scheme to reduce the number of deliveries made to St James's and have also created taxi drop-off points and provided cycle parking facilities. The result is a distinctive new place for living, working and visiting, alongside world-class architecture.

Performance: The public realm expenditure was originally justified by calculating the extra retail rental growth, over market levels that would justify the projected expenditure. In practice, as shown in the figure below, retail annual rental growth rates have exceeded the market levels by significantly more than the levels necessary to justify improvement expenditure. A detailed analysis, block by block, interestingly shows this extra rental growth on all blocks except one (Block 5 in the graph below). Here the growth rate is marginally below the market figure. That block is one of the few where no public realm improvements have been undertaken. The improvements also benefit office values but this has been ignored in these assessments.

Comparison of retail rental growth achieved to appraisal break even number of 0.9%



In addition to these commercial benefits (increased rental value, lower/shorter voids) that are delivered by these public realm improvements, there is also a very clear set of sustainability benefits, including the reduction of noise and air pollution, improved traffic and pedestrian safety, enhanced environment and wellbeing. The freight consolidation scheme has resulted in a reduction in CO₂e in the air around The Crown Estate's portfolio by 15-20 tonnes per annum.

We work to our own exacting standards which exceed legislative requirements, and our sustainability principles inform the design, construction and operation of all projects [<http://www.thecrownestate.co.uk/media/476284/development-sustainability-principles.pdf>].

Our physical resources report continued



Savill building, Windsor Great Park

Regional

Our focus on core sectors has seen continuing investment in our Retail Portfolio, making The Crown Estate one of the largest managers of regional shopping centres, and our investment in the development of the Westgate Centre in central Oxford and Rushden Lakes in Northamptonshire is an indication of our confidence in the sustainability of well-located, well-designed and well-managed space.

Leisure is an important aspect of our retail schemes, as consumers demand more from their shopping experience. We are investing in more leisure facilities, incorporating cinemas and restaurants into projects such as the MK1 Shopping Park in Milton Keynes.

We have committed to funding the development of the £140 million Rushden Lakes shopping and leisure scheme in Northamptonshire. The scheme promises to be a unique new concept in out-of-town retail and leisure, delivering 400,000 sq ft of new retail and restaurant accommodation, together with leisure facilities for activities such as canoeing and wakeboarding, and a visitor centre.

Windsor

Our Windsor estate has been a great place to visit for many years. Five million visitors come through the gates each year to enjoy the historical monuments, unique biodiversity, ancient forests, stunning flora and fauna and world class gardens. The upkeep and maintenance requires a great deal of work and we are always looking to enhance the visitor experience.

Awards

We were delighted to win a number of awards this year for our developments:

- IP Real Estate Global Awards 2015 – Best Investor from UK & Ireland
- UK Property Awards 2015 – Best office and best mixed use development (10 New Burlington Street)
- Property Investment Awards – 10 Year Return Award – activity in St James's
- International Property Awards 2015 – Regional Award for Office development for the UK region (10 New Burlington Street)
- Estates Gazette Awards 2015 – Retail & Leisure Company of the Year
- Property Week Sustainability Achievement Award 2016