



Hello!

Here in the UK, we're in the midst of a real estate revolution. Companies are demanding far more flexibility from their premises. It's a reaction to shortening business cycles, rapidly accelerating technologies and uncertainty around events like Brexit.

And that's not all. There's a weight of momentum behind occupational wellbeing. Employees are demanding spaces that mirror their professional and personal values, and environments that enhance their ability to thrive. The result? Both the physical form of the office and the contractual way it is leased is changing.

We have clear plans in response to this, including a commitment to make all our projects WELL certified and bring our co-working platform to the UK. It's what will set us apart from our rivals, who are mainly already well established public companies.

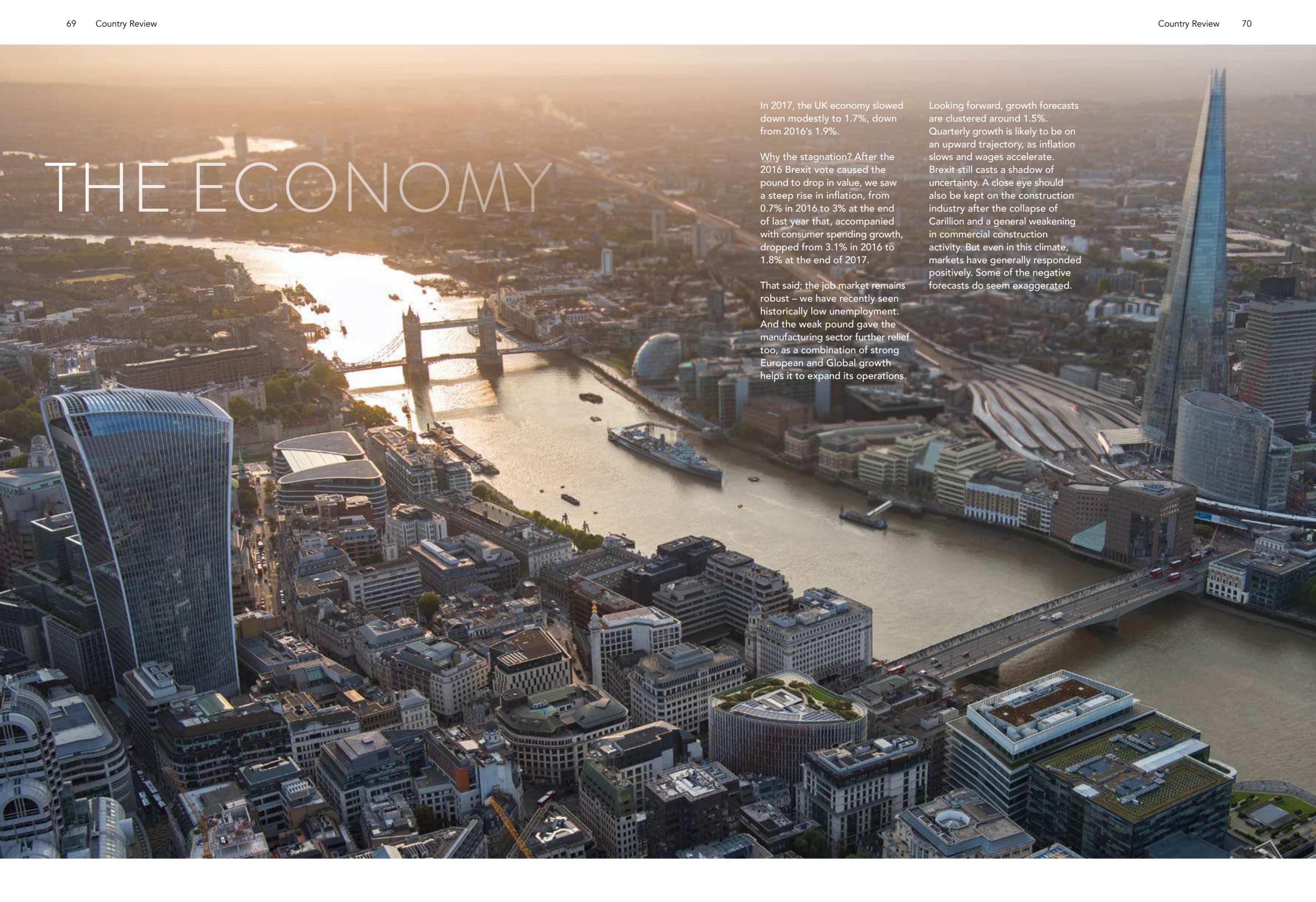
As a private firm, we are free to be more agile and intuitive. As one the very few integrated developers, we have more control over the quality, speed and sophistication of our projects. Together, these unique attributes have allowed us to bring disruptive solutions to our occupier clients' needs. We will continue in making bold decisions that create long-term value – and meet the demands of the office leasing revolution.

Radim Rimanek

Deputy CEO, HB Reavis Group,
responsible for overseeing the UK market

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THE ECONOMY



In 2017, the UK economy slowed down modestly to 1.7%, down from 2016's 1.9%.

Why the stagnation? After the 2016 Brexit vote caused the pound to drop in value, we saw a steep rise in inflation, from 0.7% in 2016 to 3% at the end of last year that, accompanied with consumer spending growth, dropped from 3.1% in 2016 to 1.8% at the end of 2017.

That said; the job market remains robust – we have recently seen historically low unemployment. And the weak pound gave the manufacturing sector further relief too, as a combination of strong European and Global growth helps it to expand its operations.

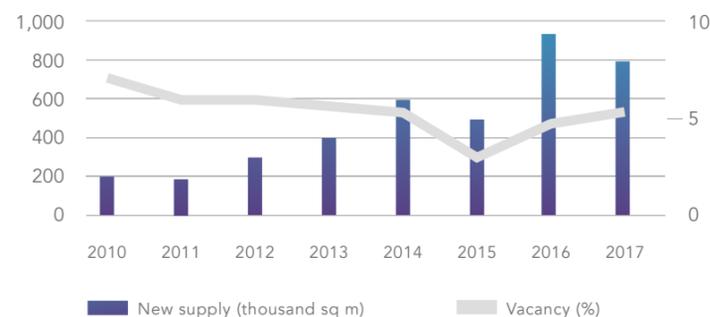
Looking forward, growth forecasts are clustered around 1.5%. Quarterly growth is likely to be on an upward trajectory, as inflation slows and wages accelerate. Brexit still casts a shadow of uncertainty. A close eye should also be kept on the construction industry after the collapse of Carillion and a general weakening in commercial construction activity. But even in this climate, markets have generally responded positively. Some of the negative forecasts do seem exaggerated.

THE MARKET

2017's occupational markets performed much more strongly than anticipated. Leasing volumes across central London totalled 1.09m sq m, 14% ahead of the 10 years average, and 10% ahead of the five years prediction. There were major London contracts with Deutsche Bank, Dentsu Aegis, Freshfields, Spotify, BGC and Arup, highlighting the capital's appeal. And the trend of larger transactions (38 over 4,600 sq m) and pre-leasing (55% of all projects in build are already let) has continued. The serviced, or flexible, office market also had its strongest year with 21% (almost 232,000 sq m) of all new contracts.

Upstream, there has been a clear slowdown in new construction as developers react to Brexit. And with rising costs and a restrictive funding market, developers want to minimise risk before starting speculative construction.

Central London



Source: CBRE, JLL

There are clearly opportunities. Few schemes are under construction and available – but there are around 836,000 sq m of leases expiring each year from 2020 to 2025. It's a time when the outlook should be more stable generally – post-Brexit and with a predicted growing economy. So now is perhaps, a time to be brave.

OUR PERFORMANCE

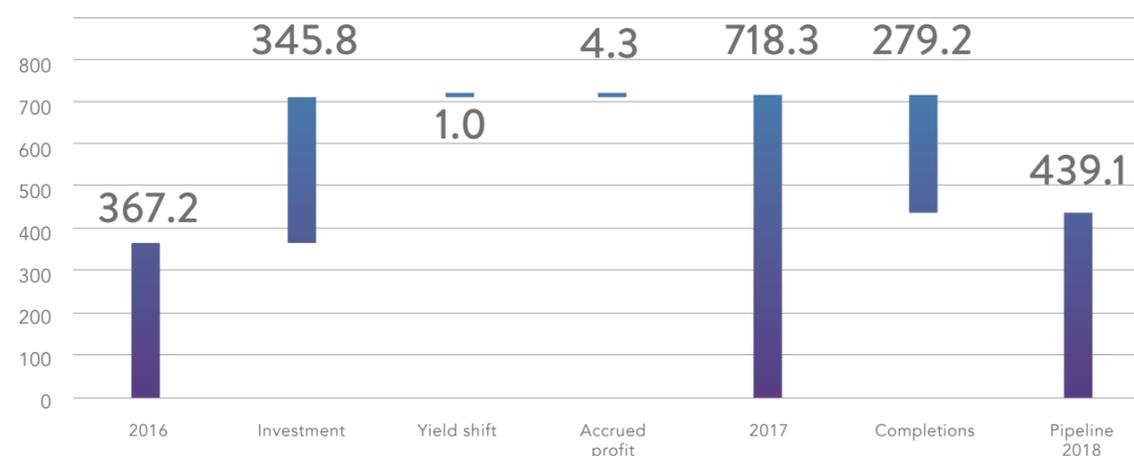
We continued to expand and evolve our UK office last year and have become one of London's major players in the midst of general inactivity and uncertainty.

In May we successfully acquired One Waterloo (Elizabeth House). One of the capital's most important development projects, it was also the year's largest transaction, in excess of £240m. Next to the UK's busiest station, Waterloo, it's a unique opportunity to deliver a world-class development supporting thousands of jobs and creating a public realm for literally millions of people.

In December, we completed the forward sale of 33 Central, a 21,105 sq m new office building in the City of London to giant US bank, Wells Fargo. It was their first international real estate purchase and our first London development site – justifying our commitment to speculatively construct the building. 33 Central showcases our innovation, sustainability and biodiversity, not least through its third-of-an-acre rooftop garden and panoramic views.

A final piece of great news: we started speculative construction on Cooper & Southwark in 2017. And already, we have pre-leased the entire, 7,200 sq m re-imagining of a dilapidated office at 61 Southwark Street to CBRE. This project also led to success in the funding markets, securing a £47m loan to finance the development.

Changes in our UK development property value (€m)



HB Reavis development United Kingdom	GLA sq m	Valuation				ERV	GDV	Value change	Investment
		2014	2015	2016	2017				
Projects completed	21,105	109.1	228.9	255.3	279.2	16.7	334.9	23.9	27.0
Projects under construction	14,984	39.2	48.1	111.9	157.3	11.7	253.4	45.4	43.0
Projects in preparation	126,484	0.0	0.0	0.0	281.8	102.8	2,741.1	281.8	276.0
Total 2017	162,572	148.3	277.0	367.2	718.3	131.2	3,329.4	351.1	345.8
Total pipeline for 2018	141,467	39.2	48.1	111.9	439.1	114.5	2,994.5	327.1	318.7

Note: Figures based on external expert valuations and management report.

Completed Projects

33 Central London

It will forever be an exceptional milestone in HB Reavis' history. The acquisition of an existing office building at 33 King William Street in the City was completed in late 2013.

With views of the River Thames, St Paul's Cathedral and the Shard and a location only meters away from the Bank of England and right on London Bridge – this was supposed to become one of our landmark projects. And that is exactly what has happened.

Demolition of the original building started in July 2014, construction itself one year later. In 2015 we embarked on developing 33 Central (21,105 sq m of GLA). In the meantime, the project has taken the UK Property Award for the Best Office Architecture and Development. In 2016, the leasing negotiation with potential tenants turned into the opportunity to forward sell the building to Wells Fargo, the third largest US bank by assets. That deal became one of the first major real estate transactions after the EU referendum.

Construction work has been progressing during the year and we successfully completed the building and we immediately handed it over to the new owner in December 2017. The disposal itself, including the settlement of the purchasing price, was completed before the year end as well.



Projects Under Construction



20 Farringdon Street London

The existing office building at 20 Farringdon Street was acquired in October 2014 for £29m. The building already had valid planning consent in place for the redevelopment of 6,800 sq m of new office GLA.

The project has an excellent location in London's Midtown, just a short walk from the headquarters of international companies such as Mizuho, Deloitte, Amazon and Goldman Sachs.

After the acquisition, we decided to optimise the project's concept and design to increase the size and quality of the floor space. Ultimately, we managed to achieve 7,700 sq m of GLA, some 14% more than originally permitted. We started the demolition of the original building in June 2015 and, after some delays with construction, achieved practical completion in April 2018.



Cooper & Southwark London

In April 2016, we acquired 61 Southwark Street, our first refurbishment and extension project in London. The building's location in the South Bank area perfectly complements our existing Central London portfolio.

The South Bank attracts various business segments such as accountancy, professional services and tenants preferring the location as a more economical alternative to the West End. With the acquisition, we secured the development of approximately 7,200 sq m of office GLA.

The cost of the acquisition was £44m. We finished construction in April 2018 and have already agreed a lease with a tenant for the whole project. We aim to hand it over in the second quarter of 2018.



Projects in Preparation



One Waterloo (Elizabeth House) London

We completed the purchase of One Waterloo (Elizabeth House) over the summer of 2017, our fourth and largest major investment in London to date. At the time of the transaction, the consented scheme comprised 88,000 sq m GLA of which 68,900 sq m was office, 1,200 sq m was retail and 17,900 sq m was residential space. Our ethos is to create remarkable places and experiences for people, and we believe we'll have that opportunity right here by Waterloo Station.

We have appointed Stirling Prize-winning architects AHMM to work with us to take a fresh look at the significant opportunities on this strategically important site. They will help us create a world-class, contemporary office-led development that provides public realm improvements that will benefit the tens of millions of people who use Waterloo Station.

This exemplary development will also have complementary active uses at the lower levels such as restaurants, retail and leisure – bringing the public realm to life, encouraging accessibility and permeability through the site. The new public realm will also help to create a seamless pedestrian environment between the station, the new development and the wider context beyond.

We are now working to develop our proposals before consulting widely with stakeholders and the local community during 2018. We intend to be part of the Waterloo community for years to come and greatly look forward to making a hugely positive contribution to the local area.