

10 Property

Property reconciliation for the year ended 31 March 2017

	Investment				Investment and development properties Level 3 £m	Trading properties £m	Owner-occupied Level 3 £m	Total £m
	Retail Level 3 £m	Offices & residential Level 3 £m	Canada Water Level 3 £m	Developments Level 3 £m				
Carrying value at 1 April 2016	5,617	3,436	256	334	9,643	325	95	10,063
Additions								
– property purchases	80	–	8	–	88	–	–	88
– development expenditure	12	4	10	55	81	56	–	137
– capitalised interest and staff costs	–	–	2	3	5	5	–	10
– capital expenditure on asset management initiatives	82	9	1	–	92	–	–	92
	174	13	21	58	266	61	–	327
Depreciation	–	–	–	–	–	–	(1)	(1)
Disposals	(624)	(39)	–	(7)	(670)	(26)	–	(696)
Reclassifications	–	271	27	(271)	27	(27)	–	–
Revaluations included in income statement	(105)	(57)	(18)	36	(144)	–	–	(144)
Movement in tenant incentives and contracted rent uplift balances	(41)	(8)	–	–	(49)	1	–	(48)
Carrying value at 31 March 2017	5,021	3,616	286	150	9,073	334	94	9,501
Head lease liabilities (note 15)								(64)
Valuation surplus on trading properties								83
Group property portfolio valuation at 31 March 2017								9,520
Non-controlling interests								(310)
Group property portfolio valuation at 31 March 2017 attributable to shareholders								9,210

NOTES TO THE ACCOUNTS CONTINUED

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Property reconciliation for the year ended 31 March 2016

	Investment				Investment and development properties Level 3 £m	Trading properties £m	Owner-occupied £m	Total £m
	Retail Level 3 £m	Offices & residential Level 3 £m	Canada Water Level 3 £m	Developments Level 3 £m				
Carrying value at 1 April 2015	5,584	2,902	249	385	9,120	274	60	9,454
Additions:								
– property purchases	4	234	–	–	238	–	–	238
– development expenditure	4	6	1	43	54	59	–	113
– capitalised interest and staff costs	–	–	1	3	4	5	–	9
– capital expenditure on asset management initiatives	91	24	1	–	116	–	–	116
	99	264	3	46	412	64	–	476
Depreciation	–	–	–	–	–	–	(1)	(1)
Disposals	(372)	(130)	–	(7)	(509)	(11)	–	(520)
Reclassifications	135	22	–	(172)	(15)	(2)	17	–
Revaluations included in income statement	161	369	4	82	616	–	–	616
Revaluation included in OCI	–	–	–	–	–	–	19	19
Movement in tenant incentives and contracted rent uplift balances	10	9	–	–	19	–	–	19
Carrying value at 31 March 2016	5,617	3,436	256	334	9,643	325	95	10,063
Head lease liabilities (note 15)								(37)
Valuation surplus on trading properties								85
Group property portfolio valuation at 31 March 2016								10,111
Non-controlling interests								(324)
Group property portfolio valuation at 31 March 2016 attributable to shareholders								9,787

Property valuation

The different valuation method levels are defined below:

- Level 1:** Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2:** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3:** Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

These levels are specified in accordance with IFRS 13 'Fair Value Measurement'. Property valuations are inherently subjective as they are made on the basis of assumptions made by the valuer which may not prove to be accurate. For these reasons, and consistent with EPRA's guidance, we have classified the valuations of our property portfolio as Level 3 as defined by IFRS 13. The inputs to the valuations are defined as 'unobservable' by IFRS 13 and these are analysed in a table on the following page. There were no transfers between levels in the period.

The Group's total property portfolio was valued by external valuers on the basis of fair value, in accordance with the RICS Valuation – Professional Standards 2014, ninth edition, published by The Royal Institution of Chartered Surveyors.

The information provided to the valuers, and the assumptions and valuations models used by the valuers are reviewed by the property portfolio team, the Head of Offices, the Head of Retail and the Chief Financial Officer. The valuers meet with the external auditors and also present directly to the Audit Committee at the interim and year end review of results. Further details of the Audit Committee's responsibilities in relation to valuations can be found in the Report of the Audit Committee (on pages 67 to 70).

Investment properties, excluding properties held for development, are valued by adopting the 'investment method' of valuation. This approach involves applying capitalisation yields to current and future rental streams net of income voids arising from vacancies or rent-free periods and associated running costs. These capitalisation yields and future rental values are based on comparable property and leasing transactions in the market using the valuers' professional judgement and market observation. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

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In the case of ongoing developments, the approach applied is the 'residual method' of valuation, which is the investment method of valuation as described above, with a deduction for all costs necessary to complete the development, including a notional finance cost, together with a further allowance for remaining risk. Properties held for development are generally valued by adopting the higher of the residual method of valuation, allowing for all associated risks, or the investment method of valuation for the existing asset.

Copies of the valuation certificates of Knight Frank LLP, CBRE and Jones Lang LaSalle can be found at www.britishland.com/reports

A breakdown of valuations split between the Group and its share of joint ventures and funds is shown below:

	2017			2016		
	Group £m	Joint ventures and funds £m	Total £m	Group £m	Joint ventures and funds £m	Total £m
Knight Frank LLP	7,031	2,883	9,914	7,529	3,576	11,105
CBRE	2,489	1,380	3,869	2,582	1,361	3,943
Jones Lang LaSalle	–	538	538	–	–	–
Total property portfolio valuation	9,520	4,801	14,321	10,111	4,937	15,048
Non-controlling interests	(310)	(71)	(381)	(324)	(76)	(400)
Total property portfolio valuation attributable to shareholders	9,210	4,730	13,940	9,787	4,861	14,648

Information about fair value measurements using unobservable inputs (Level 3) for the year ended 31 March 2017

Investment	Fair value at 31 March 2017 £m	Valuation technique	ERV per sq ft			Equivalent Yield			Costs to complete per sq ft		
			Min £	Max £	Average £	Min %	Max %	Average %	Min £	Max £	Average £
Retail	4,987	Investment methodology	2	77	22	4	11	5	–	48	6
Offices ^{1,2}	3,695	Investment methodology	7	117	54	4	7	5	–	150	20
Canada Water	271	Investment methodology	15	25	22	2	5	3	–	18	10
Developments ²	150	Residual methodology	18	72	54	2	6	4	–	616	508
Total	9,103										
Trading properties at fair value	417										
Group property portfolio valuation	9,520										

¹ Includes owner-occupied.

² Includes Residential with an average capital value per sq ft of £981 including developments at end value and mixed use.

NOTES TO THE ACCOUNTS CONTINUED

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Information about fair value measurements using unobservable inputs (Level 3) for the year ended 31 March 2016

Investment	Fair value at 31 March 2016 £m	Valuation technique	ERV per sq ft			Equivalent Yield			Costs to complete per sq ft		
			Min £	Max £	Average £	Min %	Max %	Average %	Min £	Max £	Average £
Retail	5,608	Investment methodology	2	75	22	3	11	5	-	45	8
Offices ^{1,2}	3,492	Investment methodology	4	136	53	1	8	4	-	150	15
Canada Water	250	Investment methodology	15	25	22	1	5	3	-	5	4
Developments ²	343	Residual methodology	65	107	73	4	5	4	-	664	447
Total	9,693										
Trading properties at fair value	418										
Group property portfolio valuation	10,111										

¹ Includes owner-occupied.

² Includes Residential with an average capital value per sq ft of £1,028 including developments at end value and mixed use.

Information about the impact of changes in unobservable inputs (Level 3) on the fair value of the Group's property portfolio for the year ended 31 March 2017

	Fair value at 31 March 2017 £m	Impact on valuations		Impact on valuations		Impact on valuations	
		+5% ERV £m	-5% ERV £m	-25bps NEY £m	+25bps NEY £m	-5% costs £m	+5% costs £m
Retail	4,987	276	(246)	359	(317)	n/a	n/a
Offices ¹	4,112	284	(274)	393	(352)	n/a	n/a
Canada Water	271	11	(11)	20	(17)	n/a	n/a
Developments	150	9	(13)	-	(3)	5	(9)
Group property portfolio valuation	9,520	580	(544)	772	(689)	5	(9)

¹ Includes trading properties at fair value.

Information about the impact of changes in unobservable inputs (Level 3) on the fair value of the Group's property portfolio for the year ended 31 March 2016

	Fair value at 31 March 2016 £m	Impact on valuations		Impact on valuations		Impact on valuations	
		+5% ERV £m	-5% ERV £m	-25bps NEY £m	+25bps NEY £m	-5% costs £m	+5% costs £m
Retail	5,608	136	(124)	206	(187)	n/a	n/a
Offices ¹	3,910	318	(304)	470	(420)	n/a	n/a
Canada Water	250	11	(11)	23	(19)	n/a	n/a
Developments	343	24	(24)	9	(8)	12	(12)
Group property portfolio valuation	10,111	489	(463)	708	(634)	12	(12)

¹ Includes trading properties at fair value.

10 Property continued

All other factors being equal:

- a higher equivalent yield or discount rate would lead to a decrease in the valuation of an asset;
- an increase in the current or estimated future rental stream would have the effect of increasing the capital value; and
- an increase in the costs to complete would lead to a decrease in the valuation of an asset.

However, there are interrelationships between the unobservable inputs which are partially determined by market conditions, which would impact on these changes. There were no transfers between valuation levels in the period.

Additional property disclosures – including covenant information

At 31 March 2017, the Group property portfolio valuation of £9,520m (2015/16: £10,111m) comprises freeholds of £5,576m (2015/16: £6,184m); virtual freeholds of £809m (2015/16: £906m); and long leaseholds of £3,135m (2015/16: £3,021m). The historical cost of properties was £6,024m (2015/16: £6,544m).

The property valuation does not include any investment properties held under operating leases (2015/16: £nil).

Cumulative interest capitalised against investment, development and trading properties amounts to £95m (2015/16: £88m).

Properties valued at £1,882m (2015/16: £2,559m) were subject to a security interest and other properties of non-recourse companies amounted to £1,158m (2015/16: £1,244m), totalling £3,040m (2015/16: £3,803m).

Included within the property valuation is £62m (2015/16: £110m) in respect of accrued contracted rental uplift income. The balance arises through the IFRS treatment of leases containing such arrangements, which requires the recognition of rental income on a straight-line basis over the lease term, with the difference between this and the cash receipt changing the carrying value of the property against which revaluations are measured.

11 Joint ventures and funds

Summary movement for the year of the investments in joint ventures and funds

	Joint ventures £m	Funds £m	Total £m	Equity £m	Loans £m	Total £m
At 1 April 2016	3,109	244	3,353	2,833	520	3,353
Additions	59	3	62	13	49	62
Disposals	(30)	–	(30)	–	(30)	(30)
Share of profit on ordinary activities after taxation	44	8	52	52	–	52
Distributions and dividends:						
– Capital	(73)	–	(73)	(73)	–	(73)
– Revenue	(45)	(14)	(59)	(59)	–	(59)
Hedging and exchange movements	1	–	1	1	–	1
Reclassification of venture as held for sale asset (see page 124)	(540)	–	(540)	(355)	(185)	(540)
At 31 March 2017	2,525	241	2,766	2,412	354	2,766

Additional investments in joint ventures and funds covenant information

At 31 March 2017 the investments in joint ventures included within the total investments in joint ventures and funds and joint venture held for sale was £3,299m (2015/16: £3,348m), being the £2,766m total investment shown above, plus the £540m joint venture held for sale, less the net investment of £7m (2015/16: £5m) in PREF, a property fund in Continental Europe.