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Heron Annual Lunch 2010

▪ Speech by Gerald Ronson

Gerald Ronson, Chief Executive of Heron International, a leading pan European property group, today addressed an audience of 400 opinion formers and business leaders at the Heron Annual Lunch 2010 in London. The content of his speech is set out below:

Yesterday was a big day for Heron as we celebrated the Topping Out of the Heron Tower, now officially the tallest building in the City of London. We bought the site in 1999, started work in 2006, and this time next year it will be completed. Despite the length of the project, it is hitting the market at the right time and is just one of the £1.5 billion of development projects Heron is currently working on in the City of London.

Whilst we are still punching away, there is no denying that events since 2007 have accelerated the process of change in the property business. The industry is going through an evolutionary process; the property developer, though not extinct, is on the endangered list.

The dynamics have been changed by the absence of construction finance and the amount of equity that is needed. This makes it very difficult for the development industry to function. Having said that, the banks appear to have achieved a more stabilised base under which to operate but they have a major role to play in regenerating the industry from a development and investment perspective because you can't have either without the banks. They need to support responsible, professional developers who know their business, where prudent development risk is justifiable. It has the added benefit of creating investment and jobs at a time when both are clearly needed.

Currently the property market is being driven by the availability of cash. Understandably investors find the returns from prime property, for which there is a premium, far more attractive than they do having their cash in the bank; it is also one of the best hedges against inflation.

So although there has been strong institutional buying in the market, there has been a hiatus for entrepreneurial companies who look to generate higher returns from property. Entrepreneurs have made money in every market but you need to ensure there is a balance between risk and reward. That balance has not yet emerged in the pricing of value added opportunities – but it will. It is all about being patient.

We at Heron look for transactions where we can bring our expertise and add value. Fortunately we are in a position, together with partners, to move quickly when opportunities arise but you have to be alert to the market, and stick to the fundamentals.

A note of caution, however, because we are in the middle of an Election campaign and I don't have a crystal ball about who will win or the impact of the measures they implement. What I do know is that it doesn't matter which political party is in power, there are only two ways for them to reduce debt. Just the same as any organisation - reduce expenditure or create fresh revenue streams. My advice, to whoever wins the

next Election, is be careful not to put too much pressure on the people who can make a difference.

Entrepreneurs should not be the targets. Entrepreneurship needs to be encouraged - not penalised and driven out of the country. Entrepreneurs take personal and financial risk and create employment and enterprise. We have to be careful because it wouldn't take a lot for us to slip back into recession and that's before the effect of inflation on the economy. Most of us remember when the Government printed money to get it out of trouble – simple logic says that at some time, in the medium term, it has to happen again. For the property industry, inflation would be the first bit of good news for some time!

Another big concern is what I see happening outside London. I spend 12 hours, once a week, driving around the country. I don't like what I see. We are creating a two-tier country where I fear that the consequential effects of significant unemployment will be social unrest.

The next Government must also tread carefully when making decisions on regulation and the commercial regime. The UK is highly dependent on professional and financial services which have replaced the manufacturing industry we once had. We need to maintain the City of London as a vibrant and attractive environment for international business.

Heron is making its contribution to this process. Our recent planning submission for the Four Seasons Hotel and Residences London at Heron Plaza, working with the world's major hotel operator, aims to create a major new landmark within the City of London and a significant addition to the City's architecture, environment and facilities for business. It will be unmatched in scale and quality by any existing hotel in the City, making it a unique destination.

You have to have vision. Heron has always had a focus on the best buildings in the best locations, which is why we are big believers in London. The time zone, language, financial infrastructure and legal system all contribute to it being the financial centre of the world. The City of London has demonstrated its resilience over the last 12 months and, unlike previous recessions, there is no over supply of buildings in Central London.

The consequence of the halt to speculative development in 2008, means that there is little new, quality stock coming onto the market. This is unlikely to change until 2013 causing a shortage of space from 2011 onwards. The same applies to residential property in Central London due to strong demand from overseas and domestic investors. We have seen this with our own development at The Heron by the Barbican. Having only launched the sales in the second week of March, we are delighted with the results so far. It does go to show that the combination of quality and location will always sell.

The magic ingredient required to generate returns from property is experience and after 50 years in the business we have plenty of that.

In China, 2010 is the year of the Tiger; in the City of London, we believe it is the year of the Heron.

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Enquiries & Publication Quality Photographs of Gerald Ronson:

Lisa Ronson, Marketing Director
Heron International

www.heroninternational.co.uk
Tel: 020 7486 4477

Emma Kane / Henry Columbine
Redleaf Communications Ltd

heron@redleafpr.com
Tel: 020 7566 6700

Notes to Editors:

- Heron International is a leading pan European investment and property group with operations in the United Kingdom and continental Europe. Headquartered in London, it is one of Europe's main property developers and investors.
- Heron specialises in major, complex projects in prime locations including Heron Plaza in the heart of the City of London. Heron Tower, which forms the centre piece of this development, is designed by renowned architects Kohn, Pederson Fox, and will provide world class office space, setting the standards for offices of the future. At 202 metres in height, the 46 story tower will be one of the tallest buildings in the City of London providing unrivalled views and enhancing the London City skyline.
- Since it was founded in 1965 Heron International has also developed 156 buildings in the key business districts of nine leading cities and has developed, invested in and managed a wide range of prime offices, residential, leisure, hotels and mixed-use projects in the UK and Europe.
- It has developed more than 1 million sq m of commercial and retail property and more than 15,000 residential units in the UK, continental Europe and the USA. It currently has a £500 million investment portfolio and its current development programme is valued at £1.5 billion.
- Further information on Heron International is available at www.heroninternational.co.uk