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Heron Annual Lunch 2011

▪ Speech by Gerald Ronson

Gerald Ronson, Chief Executive of Heron International, a leading pan European property group, today addressed an audience of 350 opinion formers and business leaders at the Heron Annual Lunch 2011 in London.

The content of his speech is set out below:

Sports presenters often say “for those of you who don’t want to know the score please look away now”. If only it was that simple.

Whilst I am not Mr Happy about what is happening in the market as a whole, last year I predicted that it would be ‘The Year of the Heron’ and it has been a year of milestones and achievements.

In January this year we secured planning consent for Heron Plaza, comprising a Four Seasons hotel, luxury apartments, retail and the creation of a substantial new public open space in the City of London adjacent to Heron Tower. We have also completed Heron Tower and have already let 20% of the space, meeting our expectations at this stage of the project, and we look forward to its official opening in a few months’ time.

The City of London’s attraction as a global financial capital remains strong as evidenced by the fact that UK property is still attracting significant interest from overseas investors. In fact, 40% of the buyers for apartments in our residential scheme, The Heron, have come from investors from places such as China, India, Russia and Malaysia. The attraction is not just the property and its position at the heart of the City of London but also weak Sterling and other benefits such as the attractive UK tax environment for non-domiciled investors. The remaining 60% has been sold to domestic buyers taking the total sold off plan to well over half of the development; this is well ahead of our expectations.

I have always said that property is a long term business but it has actually become a very long term business. At the ripe old age of 71 after overcoming numerous battles it would be very nice if someone would make my life a little easier! ‘Easier’ is not, though, a word that will apply in 2011 but ‘opportunities’ is. I make this comment sounding a loud note of caution for it is dangerous to your health and wealth to generalise - I am referring specifically to the London market and prime property only – the rest of the market is one where a large degree of luck, bravery and Alka Seltzer will be required.

In my opinion, the opportunities in 2011 will come from several areas. The cycle of lease renewals is appearing on the horizon. It is unlikely that growth will come from a

flood of businesses seeking new office buildings for expansion, but businesses are looking for better quality space and the limited supply will create positive dynamics in the market once again.

Whilst the instability in the Middle East and the recent disaster in Japan have rightly unnerved some, many will see the UK as a safe haven for their investments just as the Canadians and Norwegians have over the last year in Central London. Soaring fuel prices could also provide many other overseas investors with greater resources to invest and the other effect of rising oil prices is of course the linked rise in inflation, which has traditionally been good news for property.

Rental levels in the City of London remain highly attractive and in fact are sitting at roughly the same level as the 1980s when they were over £50 per square foot in the City. The opportunity here is the limited supply of prime quality office space which should result in growth in rental rates for the best properties in the best locations.

The banking sector has not been able to provide the oil necessary to get the development wheels working again. Banks still have a lot of unfinished business of their own and the big question is what happens to the parcels of toxic waste they have tucked away. They are sitting on a mountain of distressed assets, most of which they should never have lent money on and could be festering there for some time. It is easy to get rid of the quality assets but the banks, especially the Irish ones, will be sitting on some very big losses. The opportunity here is for new models to emerge and for more imagination to be used to find solutions to help them unwind their positions. In previous downturns, new entrants have come into the market. For example, today we are seeing the Chinese wanting exposure to the market and overseas investors may well step in to take up the slack. Also, the insurance companies are setting up property debt vehicles, so new entrants with new financial models, and joint ventures are likely to help the property industry start to be a proper business again.

Returns are key and at Heron House we will use our owner driver mentality to identify opportunities in the areas that deliver the returns we require. Today the returns available for prime London assets are far more institutional than entrepreneurial and there are a lot more people in the property business pecking in the pot which makes business very difficult but nobody said it was going to be easy... well certainly I haven't heard anyone say *that* since 1997, the start of a golden decade which since 2007 has been turned on its head.

We are now, I believe, a third of the way through the recovery in the cycle with 2014/15 looking like the most likely time for the sun to start shining again. The big cloud is not in Central London and the City of London, which remain strong, but what will happen in the provinces. There will be major implications following government spending cuts and initiatives to re-base our economy. The Government has always been a significant property occupier and the assumption has always been that they won't exercise break clauses. This should no longer be 'a given' as the impact of Government spending cuts is likely to create a significant void. The impact of the internet on retail outlets also cannot be underestimated.

The fact is that rents outside London may well go down, not up and there will be fewer retailers. Much of the fault for this lies with the planning regimes that have killed our

towns. It may be good for shareholders but it has been a disaster for our towns and villages which could destroy the fabric of our society.

In contrast, let's reflect for a moment at what the Mayor of London and his team are doing to rejuvenate the most blighted and depressed areas of London.

Let's imagine a London after the Olympics and then let's try and reflect that vision, the flair and imagination that London's leaders are bringing to the task. Let's reflect that onto the country at large and imagine what could be.

Historically, I have been concerned that the politicians have not done enough to regenerate outside of London to create jobs and a future for the young people in this country. It is interesting to see that in last week's Budget the Chancellor made a play that this was a priority, but it's obviously too early to know whether the steps he has taken will make any difference.

I'm passionate about my business, about building great buildings and about this country. I am very proud of this country and all we have achieved but I am deeply saddened and very concerned by what is happening outside the capital.

As well as welcoming Boris Johnson here today, I would like to take this opportunity to thank the Mayor of London and his team, and the City planners and their counterparts in Westminster, for having passion and vision. Despite the recession, the City of London's skyline is changing significantly and for the better. Their ability to consider the requirements for our nation's capital to remain the financial centre of the world and the crossroads of commerce has resulted in some spectacular new developments and we are grateful for their support.

For those in this room, our challenge is to reinforce this leadership with vision, creativity and the responsibility we have to ensure that London's geographic position at the centre of our world is matched by its world-class facilities.

So that's the score. We are not out of the woods, in fact there is a lot going on in the woods, but we can now see the wood for the trees.

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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 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