

A strategy to maximise value

Strategic objectives

Our strategic objectives are designed to help guide us in setting our priorities and in assessing how we're doing against our vision.

1

To actively manage assets in our core sectors to drive total return and a strong income stream to Treasury.

2

To secure access to capital via third party funds under management through the selective use of strategic partnerships.

3

To encourage a high performance culture and be known as a great place to work, so the best people want to join, stay and thrive.

4

To ensure high levels of customer satisfaction through the value we deliver and a commitment to excellence in how we do business.

5

To measure, report and improve our Total Contribution to ensure that we create value beyond our financial return, acting responsibly, with sustainability built into everything we do.

6

To be recognised and respected for delivering conscious commercialism, and for operating as one business, one team, with a common sense of purpose.

The markets in which we operate

Our markets

The diversity of our business means that our markets are influenced by a wide variety of economic, social, political and technological factors. These will range from the health of the property market, to the emergence of a new technologically-dependent population both as workers and consumers and the need to move to a low carbon economy. We term the most significant of these factors our Material Issues, and review them on an annual basis.

Analysing our markets – Our investment strategy

Our investment strategy underpins our business performance and so the broader trends outlined in this section are those that are most relevant to our ability to deliver against this strategy.

Our investment strategy focuses on sectors where we can outperform the market through our expertise and critical mass. These key areas are West End development, regional retail and leisure, strategic land within our rural portfolio and the offshore wind sector. As part of our investment strategy we also seek to ensure we continue to enjoy access

to capital through sales of non-core/ex-growth assets and the formation of strategic partnerships.

The attractiveness of the UK, and London in particular, to international capital

With a substantial part of our Urban portfolio based in the West End of London, the strength of the city is vital to our future business success. In particular, we have seen considerable benefits from the truly global nature of London and its attraction as a location for both visitors and investors. This is

reflected in the significant international capital we have secured for our West End developments, the number of overseas brands and organisations that have opened flagship stores and headquarters on Regent Street and St James's and the amount of business generated by overseas visitors who shop in Central London.

It is clear that London's future success will depend on the UK continuing to be an open and welcoming environment within the global market. That means maintaining depth of liquidity, the rule of law, stable taxation and a safe environment, all of which are so valued by overseas investors.



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Our markets continued

Occupier demand

As a property company, demand for office, retail and residential space is critical to our business. In our Urban portfolio that demand is strongly influenced by the wider economy and by improvements in the economic outlook during 2013/14 which resulted in strengthening occupier demand.

In the short to medium term, we believe that growth will continue and, in particular, we expect strong demand in London's office market for units of all sizes. This reflects the fact that supply of both new and second-hand space will remain relatively limited by historic standards. All of our current schemes are scheduled to complete by early 2016.

We will continue to focus on improving our assets in innovative ways, to provide the best possible space for our occupiers that meets contemporary workplace needs. This includes our extensive pipeline of schemes in the West End which provide high quality, attractive space for a very wide range of business occupiers.

The changing nature of retailing and leisure

In our urban business, one of the central challenges for us will be to respond to changes in the nature of retailing. Technology-driven change is happening very fast and it is difficult to make accurate predictions of what the retail sector of the future will look like. However, it's likely that the most successful retailers will be those that manage the interaction between online, mobile and traditional in-store retail effectively. That flexibility is likely to become ever more important as new services such as 'click-and-collect' develop further.

We also expect the trading environment for many high streets to remain challenging and for a continuation of the movement to a smaller number of dominant schemes, both from existing retailers and new-entrants to the market. This is likely to lead to the further development of the best retail parks into broader leisure destinations in response to consumer trends.

These developments in the market are leading to fierce competition for the most desirable stock and we believe that our focus on investing in high quality shopping parks in strong regional locations will drive returns over the medium to long term. This further underlines the importance of placemaking and the need to continue our investment in making our properties, and the areas around them, sustainable and attractive places to visit.

Planning

With growing pressure on land use and the need for high quality sustainable development, planning policy will have an important influence across our portfolios. The reforms to planning legislation under the National Planning Policy Framework have helped stimulate the residential development market. This, combined with ongoing pressure for more housing, means we expect demand for strategic land will continue to increase. We see this as an ongoing driver of returns in our rural business and, in response, our pipeline of strategic land sales has been accelerated. We will be looking to replenish this portfolio over the longer term.



In the short to medium term, we expect strong demand in London's office market for units of all sizes.



Overall, we believe that the market for residential property is likely to remain strong, especially for high quality developments in good locations. However, in the longer term there is a risk that an oversupply of less well located/high quality stock, especially in London, could affect pricing.

Planners will also need to ensure their decisions prevent the economic strength of central London leading to fragmentation of the city in a way that causes social or economic tensions. We know that there are particular challenges for those who work in London and we have signed up to the Mayor's housing covenant to provide homes for working Londoners. Effective planning decisions will help to manage those differing needs and sustain a mixed community in central London.

Looking to the retail sector, the West End has seen continued demand for units in the best locations, from both domestic and international occupiers. Outside of London there are early signs of improvement in the retail landscape, particularly for the best retail parks and, after a period of stagnation, rental growth is likely to return over the next year or two.

In more rural areas, we see the competing demand for land use and natural resources becoming more acute in the years ahead as the demands for land for farming, conservation, energy and leisure grow. The potential impacts of climate change are also a concern. The UK loses about 70,000 hectares (173,000 acres) every year to development, including renewable energy projects. As a result, planners will face increasing needs to balance those different demands for land and ensure that it is used efficiently. The Crown Estate will continue to review its rural portfolio to understand the locations and types of land that will achieve the best returns.

Infrastructure

Good quality infrastructure is vital for economic development and plays a central role across all our portfolios. This ranges from the importance of Crossrail for our developments in the West End to the need for the connections required to develop the UK's offshore renewables sector.

The Crown Estate will continue to play a critical role in facilitating energy infrastructure. We expect increasing demand for cables and pipelines for efficient transmission of energy from offshore generation, as well as for transporting carbon dioxide to carbon capture and storage projects and for gas storage. This part of our business will also play a key role in telecommunications and broadband as more remote areas of the UK become connected. In our marine minerals business, we anticipate continued growth in the demand seen over recent years from a range of construction and infrastructure projects.



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Our markets continued

Government policy

The Crown Estate has strong working relationships across Government, especially with the Treasury and the devolved administrations including the Scottish government. An area of our business that is particularly related to government policy is the Energy and Infrastructure portfolio. The recent energy market reform has brought welcome clarity and we can see a clearer pathway towards future growth and attractive investment opportunities in the maturing offshore wind industry. However, we believe that some projects will prove too costly or construction too challenging and we expect some further attrition in the pipeline of projects.

We also expect further development in wave and tidal projects and carbon capture and storage. While these are still emerging technologies, we believe, given the right policy framework, there is clear potential for them to play a significant role in the UK's future energy markets.

The combination of the need to move to a lower carbon economy and underpin the UK's energy security means that we expect continued focus on enabling renewable energy developments, leading to a significant growth in installed capacity from 2018–2022.

Analysing our markets – Our material issues

While our investment strategy underpins our commercial business approach, we are also conscious of the material issues which impact our ability to deliver on our strategic objectives. We follow a structured process for the annual review of material issues, based upon economic impact and stakeholder interest as well as likely future impact – which means many of our material issues are present in this analysis of our markets.

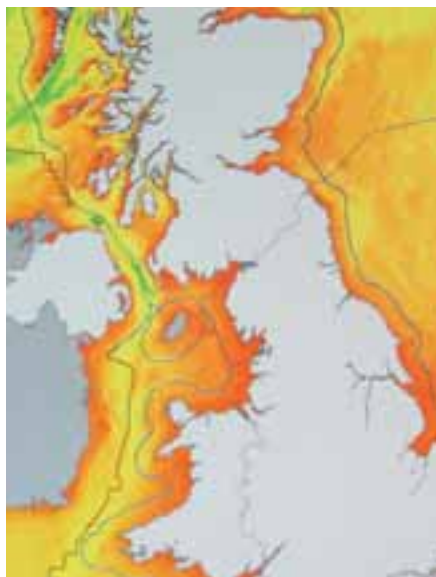
Our material issues are:

- Optimisation of the portfolio for sustained and profitable growth
- Attraction of suitable commercial partners and investors
- Reputation and trust
- Government policy
- Attraction, nurturing and retention of best talent
- Governance
- Health and safety
- Availability of natural resources
- Customer focus
- Health of the economy
- Effect of climate change
- Successful placemaking

 **Material issues**
See pages 46 – 47



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Our investment strategy is influenced by our markets and underpins our approach to business.

We outline what we have been doing across our portfolios through our core activities of investment, asset, development and property management.