Land Securities London Portfolio Investor Conference presentation

Friday 30 September 2016

Speaker: Colette O'Shea – Managing Director, London Portfolio

Slide 2 – Title slide

Good morning.

Welcome to Victoria and our 2016 Investor Conference. It is an uncertain world out there with many questions yet to be resolved, not least of which is who will win the Presidential race. And here, we are grappling with article 50.

But for Land Securities, it is a time of great optimism. As Rob said in May, the business is in terrific shape with healthy operational performance and a strong balance sheet.

In 2010 we set out to deliver a 3m sq ft speculative development programme in London, to transform our Retail Portfolio, and to finance all this activity through capital recycling.

By 2014 we were in full execution mode and said we were unlikely to start any speculative development that completed beyond 2016.

And late last year, we became a net seller, culminating with the sale of Thomas More Square.

The result is a stronger business, with better quality assets, longer income streams in London, a transformed Retail Portfolio and lower gearing.

Today is about London where we have four areas of focus. Letting the remaining 414,000 sq ft in the 3m sq ft development programme, extracting reversion from the portfolio, getting to grips with our customers' changing needs, and, last but not least, restocking the portfolio with new product.

So let me tell you what is going to happen today.

Slide 3 – Agenda

1. Marcus will update you on the occupational market and progress within our core activities of sell, develop, and manage;
2. I will then talk about our customers, and our approach to restocking the portfolio with new product. This will all take about 45minutes;
3. We will then take you on a tour of Victoria where you'll meet members of the team, ending at Nova with an update from Kaela;
4. Then we would like to invite you to lunch at our newly opened M Restaurant

Over to Marcus.

Speaker: Marcus Geddes – Head of Property, London Portfolio

Slide 4 – Title slide

Good morning everyone.

Slide 5 – London Portfolio

Taking our four core activities, my task is to remind you of our sales, update you on our development programme and share some recent examples about how we manage. Later, Colette will talk you through our plans to re-stock the portfolio.

But to put all of that into context, let me update you on the market, both as we see it today and our view of the future.

Since the 23 June, many businesses in London are reconsidering their need to move. It has been impending lease expiries, building quality, and landlord pragmatism that have shaped the leasing picture in the past three months.

Slide 6 – Take-up falling

But it is really important to remember that take up was already slowing last year and continued right up to the point where we posted our votes into the ballot box. As you can see that has now dipped below the 10 year term average.

Transactional evidence is pretty much limited to those deals already agreed or well-advanced ahead of the vote. The impact of the vote on business decision making is not yet clear and neither its impact on London offices. The Prime Minister has told us that 'Brexit' means 'Brexit' but we've no idea what 'Brexit' means!

Both sentiment and data appear to agree with this mixed picture. Whilst some indicators of confidence such as the PMI (Purchasing Managers' Index) have rebounded after a post vote tumble others remain more cautious. Treasury statistics forecast slowing GDP (Gross Domestic Product) growth and The Bank of England sees stalling employment growth. This suggests demand could be more tentative.

Slide 7 – Employment intentions vs Central London Rental growth

On this slide, the red line reading off the left hand axis shows IPD (Investment Property Databank) London office rental growth data and the blue line, reading of the right hand axis, shows Bank of England data on "Employment Intentions for business services" over the next six months. As you can see, rental growth marginally lags employment intentions. The market had already witnessed a slowing of employment intentions prior to June, suggesting a more challenging outlook for rental growth.

Office supply projections have been fundamental to us when making the big development commitments we have over the past six years.

Slide 8 – Central London supply – September 2016

That is why this slide will be familiar to many of you. We have updated it using the latest market and in-house data. The green bars show historic development completions.

These bars estimate future supply which as you can see is forecasting completions above the long-term average shown as the black dotted line.

As a reminder, the red line shows the vacancy rate which has risen for the first time since 2009 from 2.3% in March 2015 to 3.5% at the end of August 2016.

So, has the picture changed?

Slide 9 – Central London supply – March 16 and September 16 forecasts

Here, we show our view of annual development completions as we saw things in March. Alongside this, we now include our updated view. We estimate approximately 5.1m sq ft has been deferred across 20 schemes. Assuming the earliest possible delivery date, this manifests in a big increase in 2020 from 8.8m sq ft to 13m sq ft.

But what is interesting is that whilst supply estimates for 2018 and 2019 have fallen compared to our view in March, the fall isn't as great as you might expect. Whilst some schemes have pushed out, to a large extent supply has been replaced. That is typically coming through as occupiers move and release space, other schemes that have switched business plan from residential to commercial and some surplus occupier space taken as part of a larger pre-let. For example, last year Ashursts pre-let 260,000 sq ft of office space in the City at the Fruit and Wool building which is due to complete in 2018. Having reviewed its needs, we now understand Ashursts will be looking to sublet 110,000 sq ft, roughly 40% of what they are taking.

Developing this theme further, what could happen if uncertainty forces occupiers to shed space?

Slide 10 – Rents fall as occupiers release space

On this slide the red line reading off the right hand axis shows Central London rental value growth. The blue line, reading off the left hand axis, shows net new supply of second hand or occupier controlled space. As the supply of second hand space increases, rental value growth turns negative compounded by weakened demand and greater choice over space for occupiers, often on more flexible terms. We have seen this before when rents fell 23% post the dot com bust and 28% during the Global Financial Crisis.

So to conclude on the market, as Colette said earlier, since mid-2014 we have been concerned about a move to oversupply post-2016 which is why we did not add to our speculative programme. This remains the case.

Now back to our portfolio.

Slide 11 – Sales – crystallising value

Over the past six years, in order to fund our development programme and the acquisition of X-Leisure and Bluewater, we have sold £3.1bn of real estate in London and £2.1bn of secondary retail. London sales have been a combination of two things. First, pre-development sites where we have taken significant anticipated profit at the outset and secondly, non-core assets at the back end of asset management plans offering limited look ahead returns. In the meantime, we have halved Group LTV (Loan-to-Value), as Rob explained at the May Prelims.

Slide 12 – Development - sustainability

As you know, the development programme has been concentrated in London and with a development yield knocking on the door of 9% has produced great returns as well as creating 11.5 acres of new public realm and employment for 20,000 people across our construction sites.

You have heard us say before that we do not just develop buildings we create and support communities. Our award-winning Community Employment Programme is actually transforming life chances. That is something we are all incredibly proud of. It is important to us and an essential part of our licence to trade.

Our strategy to recycle capital into development while the market was balanced in favour of the landlord, together with selective sales and a relentless asset management ethos has completely repositioned the portfolio.

Slide 13 – London Portfolio (map)

The portfolio was last valued in excess of £8.2bn, across 7m sq ft of space in 48 buildings. The majority is within three minutes' walk of a tube. Here we are in Victoria where 40% of the London Portfolio sits but as you can see we're well invested in a number of clusters across the whole of central London and we're well placed to add to this when we see opportunity as you'll hear from Colette shortly.

We have got resilient, efficient workplaces that help our customers attract the best talent and support their growth.

Slide 14 – A modern relevant office portfolio

If you add refurbished stock with 'demolished and redeveloped', you can see that 81% of the portfolio is less than 10 years old. That's home to some 350 businesses and that customer pool brings a reassuring diversity of income

Slide 15 – Diverse customer base

As you can see we are not over exposed to any one sector. We have got some great customers and at 9.7 years in March, the longest weighted average unexpired lease term for offices in the sector. So at this point in the cycle, the portfolio's in great shape.

Turning now to our development programme.

In a market where demand levels are falling, the right product is essential.

Slide 16 – Development letting – maintaining momentum

20 Eastbourne Terrace is a 90,000 sq ft, 16 storey tower overlooking the Paddington Crossrail station. We completed the refurbishment in April this year. The building offers 6,000 sq ft floors and a stunning communal rooftop garden. Last month we completed three lettings totalling 24,000 sq ft, securing 10 year leases at record rents for the submarket. At 90% let within five months of completion, we have just two floors left to go. The right space for Paddington.

At New Ludgate, we have completed a further letting. The scheme is 96% let with a single 12,800 sq ft floor to go.

The tail of our development programme sits across the road from us at our joint venture Nova scheme.

Slide 17 – Nova – good interest as we approach completion

Since March, we have let 83,000 sq ft of office space on 15 year leases taking the scheme to 35% let leaving 360,000 sq ft to go. Of that, our economic interest is 180,000 sq ft. Complexities of the build have pushed scheme completion out but our office and retail customers who have committed to space are in and fitting out.

We are really pleased with progress and all the positive feedback from occupiers about the sense of place in Victoria. The quality and resilience of our product together with this vibrancy keeps us near the top of short lists.

You will hear more about this from Kaela and the team later this morning.

Slide 18 – Rigorous asset management

Colette said at the start that one of our key areas of focus is extracting reversion from the portfolio. Back in May, she described a number of specific asset management successes, notably at 80-100 Victoria Street, New Street Square, Dashwood House, Moorgate Hall and One New Change. Those were just a few of the opportunities embedded within the portfolio to capture and create reversion in the short to medium term.

Slide 19 – Extracting portfolio income

This chart based on March 2016 estimates shows you the investment portfolio's reversionary potential, in millions of pounds each year between now and 2021. 56% of this, equating to approximately £22m falls within the next two years. Heading into an uncertain market, we'll always move as early as we can to secure reversion ahead of expectation.

I have got a few recent examples to share, where constant focus and customer relationships have enabled us to do this.

Now I really hope that having enjoyed a delicious lunch at M Restaurant later you will be posting rave reviews on your Trip Advisor apps.

Slide 20 – 7 Soho Square – growing customer, lengthening income

Trip Advisor have been a fast growing customer of ours at 7 Soho Square, a retail and office building right next to the Tottenham Court Road West Crossrail entrance. They arrived in the building eight years ago in 3,500 sq ft. By the middle of this year, they had grown into 28,000 sq ft with a term certain to June 2018. They've just taken a further 8,500 sq ft of space and we've removed their 2018 breaks, pushing term certain out five years to 2023. This aligns with a retail lease expiry on the ground floor creating the opportunity for a future redevelopment. On top of that, we have pre-agreed 2018 rent reviews on all their other space.

We have given Trip Advisor the right space to continue growing their business and for us, without refurbishment and re-letting risk in an uncertain period, we have increased rent by 38%.

As most of you probably know, we are moving to 80-100 Victoria Street at the beginning of next year. Let me explain how we have managed our exit from the Strand.

Slide 21 – Working with our customers

Westminster City Council hold a 54 year leasehold interest from us at City Hall and want to commit their long term future to Victoria by modernising their space with a major refurbishment.

With two years to run on our occupational lease at 5 Strand, we have assigned our remaining lease liabilities to Westminster City Council and leased them 33,000 sq ft of short-term space at Portland House. This has given them the swing space they require whilst they refurbish City Hall.

A great solution that works for both of us.

Slide 22 – Creating opportunities

Two years ago I described how we had reconfigured retail units at Piccadilly Circus thereby releasing space to extend the LED screens.

Slide 23 – Creating opportunities – harnessing new technology

We have recently obtained a planning consent to replace the existing six screens with a single state of the art screen which, as well as being as the most energy efficient available, gives us huge flexibility over how we can sell the space. We are working with experts in new technologies and out of home marketing to completely reposition this iconic site giving advertisers innovative ways to interact with the two million weekly passer-by's.

Slide 24 - Optimising efficiency

Moving east, this self-contained 1,700 sq ft building sits at the heart of our 700,000 sq ft New Street Square Estate. Although it is of course dwarfed by its far larger siblings, we like to recognise and celebrate all success and this is a great example of our focus on every little corner of the business. Let me tell you why.

This space has been repurposed before, from a marketing suite to a management office. We are changing it again! This time as a self-contained office suite, which we've let at £80 per sq ft. That is higher than any previous transaction at New Street Square.

Slide 25 – Replacing risk with resilience

So, let me summarise for you. Over the past six years we have sold well enabling us to develop on an unprecedented scale across London actively replacing risk with resilience and actively reducing gearing. We are managing the portfolio tightly because with changing market conditions and customer needs, there is always opportunity to drive value.

With more detail on the customer and opportunities outside of our portfolio, I will hand back to Colette.

Speaker: Colette O'Shea – Managing Director, London Portfolio

Slide 26 – Customer and restocking the portfolio

So there is plenty happening in the portfolio.

Slide 27 – Our focus

As I said at the start, our focus is on letting the remaining 414,000 sq ft in the 3m sq ft development programme, extracting reversion from the portfolio, getting to grips with our customers' changing needs, and restocking the portfolio with new product.

Marcus has talked about our successful sales programme, our rigorous asset management and our good letting progress which I'm delighted with. I believe our reputation as a good counterparty, our locations and our product have all contributed to our progress.

So let me talk to you about what our customers are looking for and how that links with our approach to restocking the portfolio with new product.

As we have said before, we face two key issues in everything we do, we operate in a cyclical market and our customers' needs are changing.

Slide 28 – Changing customer needs – staying ahead of the game

Simply meeting their needs is the easy part. Our success comes from anticipating future trends and staying ahead of the game.

Our development lettings demonstrate how you can reap the rewards if you get this right. Since 2010 we have let or sold 2.7m sq ft of space, 90% of what we've let is on leases with a term certain of more than 16 years, to a diverse customer base as Marcus showed us.

When we go on the tour, Kaela and the team will explain the unique selling points for the individual buildings, and how NOVA is the culmination of all these and more.

To set the scene, I will highlight some of the key changes we have seen.

Slide 29 – Changing customer needs

In terms of product, our customers are now asking themselves the simple question, "what can this building do for my business?" We have to do more than design buildings. We need to create experiences. As well as office space, we think about open spaces, outdoor spaces, green spaces, shops and most importantly space at the bar. It's the restaurants and bars that define a place as cool.

Talent in London demands all this, and more. You will have heard stories of talented individuals turning up at offices for interview, and walking away because of what the office says about the company. The next generation no longer accepts the working practices that we might have done. Providing a working experience to attract and retain the best talent is at the centre of our design principles.

So how do we do this?

Sustainability is at the heart of our design principles. We design for health and wellbeing, efficiency and resilience. When you go to The Zig Zag Building you will see how health and wellbeing were at the forefront of our marketing campaign.

When we met at One New Change in 2012 in K&L gates auditorium we talked about the efficiency of 20 Fenchurch Street. Clever use of design meant that our customers could have the same number of people in 20% less space – very comfortably.

Resilience is about more than good design. It's also about finding solutions to business continuity issues, such as the power capacity problems we face in London. Businesses need a lot of power. For example, 20 Fenchurch Street uses the same power, as the town of King's Lynn.

Slide 30 – Design principles – resilience

At 1 & 2 New Ludgate we enabled the construction of a major substation next door. When Mizuho were considering New Ludgate they brought in a team of engineering experts from Japan, who subjected our building and a number of others, to one of the most rigorous due diligence examinations we've experienced. We ticked every one of Mizuho and their insurer's demanding power resilience requirements. This was the deciding factor in them taking 200,000 sq ft at 2 New Ludgate on a 20 year lease. Power resilience is an essential part of modern development planning.

That is why, the first substation to be built outside the City for about 20 years was built by us here in Victoria – in one of our basements. By working with Westminster City Council and the GLA (Greater London Authority) to include this in our development plans, we are able to offer our customers access to power on a large scale, from a brand new 21st century resilient network. And, as Marcus said, this keeps us near the top of short lists.

So, our new developments have successfully been meeting our customers' needs. But the strength of our business not only lies in development.

Central London retail continues to benefit from the global appeal of London and is delivering both strong sales growth and rental value growth. Looking beyond Zone 1, we have eight assets within Zones 2 to 4 of Greater London – this is our suburban London portfolio.

These assets are in strong London catchments and have development upside exploiting the strong London suburban residential, retail and leisure market.

Slide 31 – Refurbishments

Our refurbishments at 123 Victoria Street, 20 Eastbourne Terrace, Holborn Gate and Thomas More Square have been successfully doing the same.

In each case, we have applied the same skillsets that have driven development outperformance, delivering a different type of product, with a different risk profile, employing less capex, in faster programmes. And, like development, we want to do more.

I think we have done a pretty good job understanding our customers' needs since 2010, but what about their future needs?

Slide 32 – Changing customer needs – what's next?

Places and spaces will need to evolve, to meet not just the physical needs and expectations of the demanding talent pool, but to create environments which foster their creativity, and problem solving abilities.

Technology will continue to transform where and how we work. Resilience and business continuity are no longer just for trading – everyone needs to stay on line, at ever increasing speeds. It's access to this that will increasingly define business locations. Technology with science and clever engineering will lead how we design and construct our buildings in the future.

And what about people? Not only are employees more demanding, the shape of the workforce is changing, age profile is changing, and we have a higher proportion of self-employed and contingent workers. This in turn, creates different demands on space. Our challenge is to see how much more flexible and adaptable we can make our product.

So what does all this mean for us? Well, it is this knowledge and our experience that puts us in a great position to restock the portfolio.

Slide 33 – Restocking the portfolio – flexibility on timing

And this has already started.

We are making progress with 1.2m sq ft of new development.

At NOVA East we are now securing infrastructure approvals, and at 21 Moorfields, demolition and enabling works continue, giving us the option to start next year. With 4m sq ft of active pre-let requirements in the market, this puts us in a great place. We also continue to make good progress at Southwark Street, and 1 Sherwood Street the underused buildings behind Piccadilly lights.

All these were effectively land purchases giving us flexibility on timing.

Slide 34 – Restocking the portfolio

On the buying side we are clear about what we want.

Firstly, London is polycentric so our shopping list will be London as a whole, but in well-connected locations with the potential for outperformance;

Secondly, we have excellent development and refurbishment skills, and will be looking to capitalise on these again, by focusing on opportunities where our skillset can successfully reposition an asset;

Thirdly, we will be looking for pure yield - asset management opportunities, to capture rental and capital value growth, both within our current ownership clusters and beyond;

As an attractive counterparty, we are also alive to the opportunities of partnering with investors and occupiers.

Slide 35 – Restocking the portfolio – tracking £2bn, but patient

We are currently tracking over £2bn of assets but with market uncertainty we are happy to be patient. As you have heard, there is plenty going on in the portfolio. The current political landscape is difficult to read, and the effect on the market even more so.

Pre-BREXIT, investment volumes were already down 25% compared to Q2 2015, and we expect this trend to continue for the rest of the year. This slow-down started with many vendors waiting for a “Remain” vote before bringing assets to market.

With the “Leave” vote, they’re reassessing business plans but haven’t started to implement them yet.

There is currently no forced selling. Those assets that have traded or are on the market, are generally high quality buildings, in core locations, with longer income streams. These assets have proven to be the most resilient. Actually this is great news for us as it mirrors our portfolio.

However it is a different story for short let more risky assets. Vendors are seeing less competition but are not yet prepared to discount prices. This has led to a number of deals agreed pre-BREXIT falling out of bed, further dampening levels of investment activity.

When the market feels rental values will suffer, demand moves down the risk curve.

So while there has been limited transactional evidence on higher risk properties, as schemes and capex are put on hold, the market is re-evaluating the risk and pricing of these assets. We expect this to create opportunities for us in due course. And we are very well placed to move quickly when the right opportunities arise.

Slide 36 – A sustainable business

So in conclusion:

1. We are focused on letting the remaining space in the development programme
2. We are focused on extracting reversion from the portfolio;
3. We are focused on our customer and what our future product needs to be;
4. And we’re focused on restocking the portfolio, and are clear about what we want to buy.

We now have some time to take questions. As this is being recorded, please could you state your name and your company.

So, we are all over the market.

And our product is desirable. Now let me show you why customers come to our buildings.

- End -

Question and Answer Session

Question 1

Remco Simon, Kempen & Co

Morning, Remco Simon, Kempen. Marcus you gave an example of tenants starting to sublet space they had previously agreed on. Is this one incident or is that part of a bigger trend and do you expect that to pick up significantly and see a lot more grey space come into the market?

Answer: Marcus Geddes

That was one example clearly. We have seen in the past two cycles that I showed that when that happens the impact on rents can be quite dramatic. I think all we know at the moment is that the outlook for business is very uncertain and therefore the projections on headcount and space take are also uncertain. So you layer in the supply completion, the development completions and potential for some of that grey space, tenant space to come back and that could have an impact on the outlook for rental growth.

Further question

Thank you. And Colette, you in previous presentations or full and half year results presentations, as part of the development pipeline, the supply pipeline that Rob showed on the screen, he often pointed to the new areas of London where a large part of that supply is. You just mentioned that you are looking at opportunities across the whole of London. Are you thinking about certain new areas like Stratford or Battersea as potential opportunities? Or are you more focused on the slightly more core regions?

Answer: Colette O'Shea

I think what I would say is that we are clearly focused on our existing geography because clearly we want to build on the clusters and you only have to look around Victoria to see there is plenty more to be done here. But I think we can definitely look broader. You know we like south of the river. We like east of the City. And it is going to be very much a case of looking at each opportunity as it arises. I think one of the important things to note though, and you saw it from Marcus's map, is that we like places that are close to tubes and are really, really well connected. We think that is very important.

Question 2

Michael Burt, Exane BNP Paribas

Michael Burt, Exane BNP Paribas. I just want to pick up on your point about being ready to act. I mean how much does the valuation of development land sites you know in the London office market need to correct from pre-Brexit pricing to be interesting for you? And how quickly do you think that might happen?

Answer: Colette O'Shea

Well I mean it is very difficult to say how much things have to correct in order for us to make a move. Because everything is very different. Sites are different to standing assets. And what I would say is that as I referred to there are two different categories now in the investment market. One is the standing assets which seem to be holding up quite well. And I think it will take longer for a correction. I think the areas that are more at risk are where you have got either potential sites or buildings with shorter let income that potentially could come under pressure that much sooner.

In terms of timing, do you know what? I have no idea. We are in an uncertain world and none of us know what is going on and the reality is we have so much to do in the portfolio anyway with extracting the reversion, with the million sq ft we have already got to work with. So actually sitting for a little bit, is not a problem at all.

Further answer: Marcus Geddes

The only thing I would add if I could to that Colette is that when you have got rents up here at all-time highs and yields down here, very small movements in either direction can have quite an impact on prices.

Question 3

Hemant Kotak, Green Street

Hi, Hemant Kotak from Green Street. Just a follow-on from that point. So let's just say that there are some opportunities in the markets. If your shares are still trading at a discount, how do you think about that in terms of making those investments when your shares are trading at a discount?

Answer: Colette O'Shea

I mean those are the types of conversations that we are having around the Executive Committee all the time. And clearly at the point that we decide to deploy our capital, we have to take the judgement, is it shares, is it investing in assets? The point is that until we get to that decision making time we don't need to think about that at the moment. So the decision will come when we are ready to get back into buying.

Further question

Okay and just one more question. So you have got 1.2m sq ft of stock that you are potentially getting ready for whenever the opportunity is right. What type of market conditions would you start that, maybe not all of it, but some of it, when would you start that?

Answer: Colette O'Shea

I think there are two scenarios. The first is I mentioned about the 4m sq ft of pre-let requirements. Now clearly we have got Nova East in particular and 21 Moorfields are absolutely ripe and as you know we are keeping those going step by step. So clearly if an appropriate pre-let came then we are ready to go and they would dictate the timing.

In terms of when we would re-start again, it is very much following the analysis that we saw in Marcus's charts. At the moment you know we are seeing supply moving out, but we are seeing more supply coming back in. But we are seeing demand falling. And the crucial thing is the demand factor. And what we will be monitoring is when do we think that demand is at that point ready for us to start going back in.

The other thing you have to think about is developments take a long, long time. So we would be starting at a point when you might be thinking, whoa, but it will be on the expectation as per 20 Fenchurch Street, by the time we are delivering, the demand will be there for the building.

Question 4

Mark Mozzi, Societe Generale

Mark Mozzi from Soc.Gen. I have two questions. The first one is on your slide 19 where you show the reversionary potential of the next couple of years. I would like to understand how that compares to market rents? What is the gap between the amount of leases that need to be renegotiated if I listened correctly, as compared to where rents are in the market currently?

Answer: Marcus Geddes

So the examples in the slide there, or the numbers in the slide there are based on March rental values as determined by our valuers so that is what is calculating the sum total of rent review expectation which will be a net effective rent and break income which will be a headline rent. So it is a bit of a hybrid of net effective and headline rents if that answers the question.

Further question

It does, but can you give us a percentage if you have any clue on what is the difference between those contracted rents and the March ERVs?

Answer: Marcus Geddes

No because there is such a huge spread and in terms of where contracted to reversion will come, depending on when buildings have been left in the past. What we are focused on is I think the Trip Advisor example showed, is that with uncertainty in front of us, getting ahead is absolutely where we want to be. We have done it in Cardinal Place as Colette explained in March with EDF Trading. We are doing it with Trip Advisor. We were having a conversation yesterday trying to close out a reversionary lease in New Street Square on about 12,000 sq ft which is a December 2017 expiry and we have got an agreement with a tenant there for a new ten year lease to start in December 2017 using today's headline rent. And that is exactly the sort of example we are trying to get ahead of the market.

Further question

Okay that is clear. Only 83,000 sq ft of new leases you have done since March, what sort of terms have you been able to achieve here in terms of how that compares to you ERVs and what has been the terms post-Brexit that you had? How much new incentives you have been forced I guess to concede? If you can give us a bit of colour on that.

Answer: Colette O'Shea

Yes definitely. So we have actually done 126,000 sq ft since March. So we have effectively converted everything that was in solicitors' hands when I was talking to you in May. To give you a sense of what we have given away, it has ranged between two and six months of extra rent free. But in a couple of occasions, in return for that, we managed to secure caps and collars on the rent reviews. So for a couple of them the net effective rent went down, but only by a few percent and in a couple of them we actually achieved an uplift in the net effective rents.

I think going forward, we are in no doubt now that the balance has switched in favour of our customer. And I think what we will start seeing is an increase in the rent free periods. But there is a lot to be negotiated. And one of the things that is very important for us is trying to get these fixed uplifts. So if we can achieve that, then we are in really good shape.

Question 5

David Brockton, Liberum

Good morning, it's David Brockton from Liberum. Two questions please. You have done very well with pre-letting of existing developments but as you look across the rest of the market, can you just talk to the current under construction supply and your feel for how much of that is pre-let versus spec? And how concerned you are as developers seek to de-risk that can compound any pressure on rents?

Answer: Marcus Geddes

I think it goes back to our intention back in 2014 to make sure that we were coming off-site by the end of 2016 and actually that picture has not changed. I think going into next year there are supply increases coming our way and that is why we have done what we have done.

Further question

Okay, so it may have an impact but you are less concerned, okay. The second question was a more general one in respect of building obsolescence. I guess as the design requirement continually changes and the additional facilities that you put in place with building changes, one would think that obsolescence would or buildings would last longer, but it feels like it is shortening. Can you just talk about how that is changing your return hurdles and how much of a material impact it has on your decision making?

Answer: Colette O'Shea

Yes I think building obsolescence is an interesting one. I mean effectively now we are building machines that are wrapped in architecture. They are very complex. And buildings that are not capable of being converted into a machine, the obsolescence is going to come that much earlier. So we have got examples of customers here in Victoria that are in buildings not owned by us, where their leases are not yet expiring, but the building is not capable of serving their business needs. And this is why we have talked quite a bit about this power resilience. And therefore they have got to look for an alternative. So I think where you have got buildings that it is difficult to get them up to the standards of today's businesses, obsolescence if going to increase and the period of time is going to shorten.

Equally though, we have been very successful with refurbishments. We have done 850,000 sq ft of refurbishments that we have managed to get up to the right level. And clearly the new phase of developments have got a lot of flexibility and adaptability built into them. So for us in terms of thinking about the future, we have to think, you know about the building today, but in ten years' time, can we make this building flexible and adaptable. And when you go to Cardinal Place today, you will see how we are now moving that building and pushing it so that it can meet the needs of the buildings of tomorrow. So in our portfolio if you look at the assets that we have got, we are pretty resilient to obsolescence.

David Brockton

Thank you.

Question 6

Osmaan Malik, UBS

Morning, Osmaan Malik from UBS. I just wanted to come back on the reversionary point. You talk about staying ahead and trying to catch this early. I guess given we are three months past Brexit, given all the uncertainties you talk about, do you still feel confident that you are still ahead?

Answer: Marcus Geddes

We are ahead yes. And I think where we have got the opportunity and we have got the engagement with the customer to try and lock down some of that reversion today, we will be pragmatic about dealings. So the example I mentioned with the lawyers at New Street Square, we are giving them some rent free today, to put a reversionary release in place at today's rents that will start in 15 months time.

Further answer: Colette O'Shea

I think the other thing I would add as well is where you have got lease expiries etc, businesses don't want to move. You know they are moving because they have a reason to move which is either the building is obsolete as we were just talking about just now, or there is a hard lease end date, or there is future growth. So you know people were coming to us and actually their aspiration is to stay and if we can bring certainty and help them, partner with them to give them what they need, which we have been doing very successfully, then we are in a good shape. So I think we are very optimistic.

Osmaan Malik

Okay, thank you.

Colette O'Shea

One more question I am told by Ed!

Question 7

Tim Leckie, JP Morgan Cazenove

Lucky me I guess. Sorry, Tim Leckie, JP Morgan Cazenove. In terms of the funding environment, cost of capital has fallen, looks like remaining lower for longer, is your targeted IRR for forward investments, you mentioned pure yield asset management opportunities. Is that target IRR in line with previous cycles or have you spoken about or even changed that downward in line with what looks to be a pretty minimal funding environment for big large cap well finance companies?

Answer: Colette O'Shea

Our returns depend on the activity that we are entering into, whether it is going to be.

Further question: Tim Leckie

We are talking about asset management by yield, would you accept a lower perhaps initial yield plus asset management driven growth, given you can fund it so much lower. Just to make a specific on that?

Answer: Colette O'Shea

If we are looking at an asset, it depends on the risk profile of that asset. And that is how we measure all of our returns. It is the risk that we perceive within that asset.

Further question

You can't say as a blanket, there is a risk, you haven't moved it down?

Answer: Colette O'Shea

No I am not going to say that no.

Further question

Flipping it round, I will give it to you another way. I have the mic now, last question!

Colette O'Shea

You have had your one question. One more!

Further question

If someone pitches up to you and says, what are your new developments, 15 year leases, 16 year leases, rack rented, prime covenant, new build, tax considerations and timing aside, why would you not chuck it out the door in this environment, given you think supply is going to come out and there is going to be pressure across the board that would allow you to fund the secondary prime gap acquisitions you are talking about down the road?

Answer: Colette O'Shea

I think as you know, as we have always said, no asset is sacrosanct. And we would have to look at it based on what was coming in the door, what was on the table and all the other scenarios in the business. But I think the main message is no asset is sacrosanct.

Tim Leckie

Okay, thanks.

Colette O'Shea

Managing Director, London Portfolio

So I am now going to draw this to a close. I think we have demonstrated to you that we are all over our markets. Our product is desirable.

End

Forward Looking Statements

This document may contain certain 'forward-looking' statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances. Actual outcomes and results may differ materially from any outcomes or results expressed or implied by such forward-looking statements.

Any forward-looking statements made by or on behalf of Land Securities speak only as of the date they are made and no representation or warranty is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Land Securities does not undertake to update forward-looking statements to reflect any changes in Land Securities' expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Information contained in this document relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.