Land Securities' half-yearly results presentation

Thursday 8 November 2012

Speaker: Robert Noel – Chief Executive

Slide 1 – Half-yearly results presentation 8 November 2012 - Welcome

Good morning everyone and welcome, and welcome also to those of you that are watching or listening to the webcast.

Slide 2 – Agenda

Like May, we have divided the presentation into three main sections, after this introduction. Martin will take you through the numbers, Richard will then talk about our retail activity and I will follow with an update on our progress in London.

Slide 3 – Introduction

As you know, since late 2009, Land Securities has been working to a clear plan. We have a clear plan for the business, operating in our two core markets of London and retail. A clear plan for each of these markets, both of which have very different dynamics.

And a clear plan for each asset.

All based on a realistic outlook; and developing where we see supply/demand imbalance. Risk aware, but not risk averse. In challenging conditions, our teams have maintained momentum. Voids are lower, investment lettings are being done ahead of ERV, except in a few pre-development properties where we are keeping income aligned, and development lettings are ahead of plan in terms of timing, rent levels and incentive levels.

We are right on track.

Slide 4 – Financial summary

We have reported numbers that reflect the actions we have taken to strengthen the business.

Our revenue profit for the first half was £143.7m, down 9.8% on the same period last year. We signalled in May that we were happy to have sold ahead of acquisitions, the short-term effect of these sales along with moving some properties into redevelopment being a negative impact on earnings. Adjusted diluted earnings per share were 18.4p, down 10.2% on the corresponding period last year. The valuation was down a smidgen, with adjusted diluted NAV per share up 1p to 864p.

Slide 5 – Investment portfolio valuation

Turning briefly to the make-up of the valuation, the movements of the various parts of the portfolio are shown in the coloured bars and you can see that it is our development programme, in green, that stands out, up 8.2% over the first half.

That's because we are letting ahead of valuers' previous estimates as you will hear this morning.

And for those of you that hanker after performance against IPD we continue to outperform the index this time by 1.6% over the 6 months, with sector outperformance in both business units. You will find more detail on all of this within the appendix to your packs and we will be around later to answer any questions you may have.

Slide 6 – Agenda

As I have said, we continue to operate in challenging conditions, but we know our markets inside out. Our actions so far this year have reflected that knowledge and experience and we remain confident that we will benefit from the discipline we have shown in strengthening our business.

Now I'll hand you over to Martin to cover the financial numbers in more detail.

Speaker: Martin Greenslade – Chief Financial Officer
Slide 7 – Financial results

Thank you, Rob. Good morning everyone.

Rob has taken you through our headline results. I would like to take you behind those numbers, explain the connection between our actions and the numbers and remind you of the strength of our financial position.

Let's start by looking at revenue profit in a little more detail.

Slide 8 – Revenue profit

This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. As Rob said, revenue profit for the six months was £143.7m, down £15.6m or 9.8% on last year but ahead of our internal expectations. The main culprit for the decline was net rental income, down £23.6m, which I'll cover now before coming back to this slide.

Slide 9 – Net rental income analysis

So, here we have net rental income broken down into the various categories and compared against the first half last year. There is a more detailed split between London and Retail in the appendix but this slide brings out the main points.

As Rob has just reminded you, we chose to let sales run ahead of acquisitions last year which has resulted in a £21.7m fall in net rental income. Our sales included Eland House, 50% of Victoria Circle, Arundel Great Court, St Johns, Liverpool and Corby Town Centre and we're just as happy with those sales today as we were the day we made them despite the impact on net rental income.

Net rental income on the like-for-like portfolio was up slightly in both London and Retail with a surrender receipt at Cardinal Place and increased income at Piccadilly Lights and 40 Strand putting us a little ahead of last year's first half despite that period having a £4.8m surrender receipt.

As expected, income from our proposed developments declined, mainly at Victoria Circle as the site is prepared for development. The development programme saw a £5.0m reduction in net rental income largely due to the demolition of Kingsgate House, which generated £4.6m of net rental income in the prior period.

Completed developments saw net rental income increase by £1.8m, reflecting lettings at One New Change. And although small, acquisitions also contributed a £1.8m increase in net rental income mainly due to The Cornerhouse in Nottingham.

So back to the revenue profit slide.

So we've covered the reduction in net rental income. Partly offsetting that decline is a £3.3m reduction in admin costs, which is these two lines taken together, and a £4.7m reduction in interest costs. Admin costs are down on the back of lower staff costs and professional fees while interest costs were down largely due to higher capitalised interest as we invested in our development programme.

Slide 10 – Movement in adjusted diluted NAV

We started the period with adjusted NAV per share of 863p and ended it 1p higher. And what this slide shows you is the main movements. Adjusted earnings were £143.4m. Then comes our valuation deficit of £10.9m. The next two items are small profits on sales; first £1.8m from investment properties and then £1.0m from trading properties. Please note, the sale of the flats at Wellington House has not yet been recognised. That is a £20m treat for the second half of the year.

The next two items relate to our dividend. Cash dividends were £90.8m, but we also spent £23.8m buying our own shares, almost all of which relates to buying back shares we issued under the scrip dividend. As I explained in May, we did this to preserve choice for shareholders as to the form of their dividend but also to minimise dilution.

With other reserve movements of £5.4m, our adjusted diluted NAV per share ended the year at 864p.

If you need any reminding that interest rates continued to decline over the six months, then you can see it in our adjusted diluted triple net assets per share which ended the period down 31p at 777p.

Let's move onto cash flow.

Slide 11 – Cash flow and net debt

Set out on this slide are the major components of our statutory cash flow movements, so IFRS debt which excludes our joint ventures.

We began the period with net debt of £3.18bn. Operating cash inflow after interest was £66.6m. Some of you will have immediately cast your eyes right to compare this figure with dividends paid of £90.9m and are wondering why the cash inflow is lower. There are two main reasons: the first is that the cash inflow ignores the cash received by our joint ventures and the second is due to the timing of quarter days. Rather inconveniently, 29 September fell on a Saturday meaning less rent was collected than normal by the end of September and that is compounded by the fact that, coming into the six month period, most of the March rent which was due on 25th March had been collected by the start of the year.

After dividends, come the three items related to capital transactions: acquisitions, capital expenditure and disposals. Acquisitions totalled £73.7m largely made up of The Cornerhouse in Nottingham. We spent £142.4m on capital expenditure. And although we did not make any sizeable disposals during the six months, we received £396.6m from sales recognised in the prior period. Taking these three together, there is a net cash inflow of £180.5m, or £116.5m if you were to deduct our share of the investments made by joint ventures which falls into the other category.

And on the subject of the other category, the £110.5m of other cash outflow was largely the result of investment in our joint ventures and, in particular, development funding for 20 Fenchurch Street and a partner loan to Scottish Retail which was used to repay external debt.

So, overall IFRS debt was down by £25.8m but because we used group resources to repay external debt in Scottish Retail, our adjusted net debt including joint ventures was down £90.5m.

Slide 12 – Financing

So let's turn to our financing.

With values broadly flat, our LTV fell to 36.2% during the six months largely because the proceeds from last year's sales which we received this period exceeded our net investment in new acquisitions and our development programme.

Following repayment of the Scottish Retail external loan and due to the reduction in the amount of debt drawn on our short-term, cheap revolving credit facilities, our weighted average maturity of debt stayed constant at 10.9 years but our weighted average cost of debt increased slightly to 5.1%.

At 30 September, we had £1.2bn of cash and undrawn facilities. We will deploy that firepower if and when suitable opportunities present themselves.

So let me summarise.

Slide 13 – Summary

Our asset strategy is clear: we will continue to recycle capital, investing it in the right places for future returns. And the strength of our balance sheet and our financing structure are ready and able to support that strategy.

What would enhance our income in the coming year, but we cannot predict, is the level of accretive acquisitions we will make in the coming months.

We remain very mindful of our income but we are a total return business and, at times, our development programme or indeed asset sales will result in a short-term reduction in earnings.

Speaker: Richard Akers – Executive Director

Slide 14 – Retail Portfolio

This morning I'd like to give you our insights into what is changing in the retail property market. Our response to these changes will have a familiar theme. High levels of activity. When your environment is changing quickly you have to adapt quickly. And that is why over recent weeks and through 2013 we will open 1.4 million square feet of new retail floorspace in major stores and new developments. This represents around 10% of our existing shopping centre and retail warehouse floorspace. We believe that shopping and leisure go hand in hand. So, I will be talking about our increasing exposure to the leisure sector, both within our shopping centres and in standalone schemes. I will outline our strong operational performance in retailer sales, void management and leasing and lastly I'll give you a few examples under Rob's constant theme of "every asset having a plan."

Slide 15 – Retail market trends

There are three key trends that I would like to outline. They are rooted in the long term and are dominating the current environment. First, people are shopping less frequently but staying longer and spending more. Second, the consumer is voting for convenience, and thirdly the fast adoption of "multi-channel" or "omni-channel" by retailers.

Slide 16 – Changing shopping patterns – Fewer trips with higher spend

The national travel survey of 2010 observed that the number of shopping trips per person fell by 18% between 1997 and 2009. This long term trend is completely consistent with our short-term operational performance in our shopping centres. Footfall is down slightly, like-for-like sales are up slightly, our same centre sales (which includes changes in retailers and new lettings) are up more significantly and our food and beverage sales are up even more reflecting the longer dwell times in major centres.

Slide 17 – Changing shopping patterns – Leisure spend growth outstripping retail sales growth

This strong performance from leisure and food and beverage also stands out in the ONS data shown on this graph clearly indicating that over the last four years spend growth on restaurants, cafes and leisure services has outstripped non-food goods.

Over the long term, consumers have always searched for more convenient ways to shop.

Slide 18 – Shift to convenience based shopping patterns

CBRE's national survey of local shopping patterns calculates that since 1998, the market share of out of town retail has increased by 53%. Even more compelling is the actual demand we are seeing for out of town floorspace. Every single one of these retailers across supermarkets, major stores and fashion all the way through to food and beverage has active requirements for out of town floorspace and the shift to multi-channel.

Successful retailers are exploiting every channel to market that is available to them. And, to us it is clear that for most retailers this involves utilising their property assets.

CBRE's research on the impact of the internet on shop expansion, observes that its immediate impact has been to capture existing mail order, sales of downloadable material and services. This has resulted in a big fall in the number of service outlets on the high street and many vacancies. But shopping centres are mainly selling goods and so it's the growth of home delivery which gives the better guide to the impact on the retail property we hold.

Slide 19 – Multi-channel

This bar chart from Verdict plotting internet sales growth against home delivery growth illustrates the point. Home delivery is expensive so it is not surprising that retailers are pushing click and collect. In a recent report Accenture state that 10% of e-tail sales in the UK are now accounted for by click and collect and growing fast. So what is our strategic response?

Slide 20 – Our strategic response

To address changing shopping patterns we're increasing leisure and food and beverage in all of our shopping centres and we're investing in standalone leisure assets such as The Cornerhouse which we acquired in May and The Printworks in Manchester, a prime city centre leisure scheme which was acquired last week. We are opening our schemes in Leeds and Glasgow in March and we have more prime city centre opportunities in the pipeline in Oxford and at Buchanan Galleries in Glasgow.

To respond to shoppers desire for convenience.

Slide 21 – Our strategic response

We are progressing with our supermarket anchored scheme in Crawley and our retail park at Taplow respectively 94% and 68% pre-let or in solicitors' hands and we've added a further 650,000 square feet to our retail warehouse pipeline which is detailed in the appendix slides.
To respond to multi-channel we've produced new formats for both John Lewis and Debenhams.

Slide 22 – Our strategic response

In Exeter, John Lewis have used technology to provide visibility of their entire range in a store half the size of their normal full line department store. At Chesterfield, Debenhams have opened an out of town style department store, the first of its kind. These stores are both trading beyond expectations. Our Google local product search initiative, which I talked about in May, has now been extended to our other shopping centres and will include other landlords and more retailers. And, we will be introducing more technology initiatives in our Trinity Leeds scheme including interactive screens giving retailers the ability to project their image and product outside their actual stores.

Slide 23 – Our strategic response

So we are responding to the changing market. This slide gives a very simple outline of how these changes lead to the type and level of activity that we describe in our updates to you. More leisure, more retail warehousing and more development. But in such a challenging market our focus has had to be firmly on our operational performance.

Slide 24 – Performance – Voids and administrations

Here, we can report that voids are down, units in administration have been significantly reduced and our occupancy has improved to 97% from 96.3% in March. We have the impact of the JJB failure in these numbers and the impact of the post-September administrations of Comet and Optical Express still leave us in a better position than March even before taking into account lettings concluded since the half year. Our footfall, retailer sales and occupancy cost ratios are, as usual, detailed in the appendix slides.

Slide 25 – Performance – Lettings progress

Our progress on lettings has been good. Our investment lettings were at 2.9% above ERV, we are now over 99% let or in solicitors' hands at Buchanan Street in Glasgow and 84% at Trinity Leeds. So our plans for these developments are on track. I can also announce that Victoria's Secret have chosen Trinity Leeds for one of their first stores outside London.

Slide 26 – Delivering on asset plans – out of town

Our asset plans are also coming together. In Northampton, with restructured and renewed leases; we have extended the average lease term from three and a half years to over eight years. At Chesterfield, we are building on the success of the new Debenhams store to add a further 27,000 square feet pre-let to Hobby Craft and Asda Living.

Slide 27 – Delivering on asset plans – shopping centres

In shopping centres, we are under construction with six outward facing units at Southside in Wandsworth three of which have been pre-let to restaurant operators and we have just entered into an agreement for a lease with Debenhams to provide a new 82,000 square foot department store in the centre. At O2, we are bringing in new retailers and restaurants and we have obtained planning permission for improvements to the façade shown here.

Slide 28 – Summary

In summary you can expect more development, creating the right space and importantly at the right price for retailers. You can expect us to invest in more leisure both within the shopping centre portfolio and in stand-alone assets. You can expect us to continue nurturing our very strong relationships with retailers so that we can accurately predict the pace of change and you will see high levels of activity in re-shaping the portfolio.

Speaker: Robert Noel – Chief Executive

Slide 29 – London Portfolio

Thank you Richard. As you can see there is plenty of activity in our retail business. The portfolio is almost fully occupied, and the proceeds of last year's sales are being recycled into great developments and acquisitions set to benefit from changing trends and these themes are common in London which I would like to turn to now.

In May 2010, we set out our clear plan to exploit a significant amount of opportunity that lay within the portfolio rather than compete in the investment market. Since we started we have been busy building, selling and recycling capital back into the programme, bringing forward more schemes.

We have always said our plan is not predicated on economic growth.

Rather that we would build more efficient buildings and strike the construction cost curve at the low point to keep break even rents low. The continued scarcity of development finance means that our window for development has become longer than we thought it might be when we restarted development 2010. And the success we have had with Park House, Cannon Street, and Wellington House and the excellent progress we are making at 123 Victoria Street, 62 Buckingham Gate and 20 Fenchurch Street, which I will talk about in a minute, has given us the confidence to commit to more.

I would just like to illustrate that occupational cost point.

Slide 30 – Building efficiency

On the left you can see the typical cost per square foot of occupying a building built in the late 1980s or 1990s, having been through at least one upward rent review cycle, made up of rent in blue, rates in green and service charges and hard and soft facilities management costs in brown. Probably around £118 per square foot all in based on a rent of £55 per square foot

Today, at 20 Fenchurch Street for example, assuming a headline rent at £65 per square foot, the all in cost could well be nudging £127 per square foot, an increase of around 7%.

But if we then take into account building efficiency, a different story emerges.

In the 1980's and 1990's buildings, even at an occupancy of one person per 10 square metres, hammering the hell out of a building which would most probably have been designed to house one person per 12 square metres or more, the occupancy cost per workstation is around £12,750 now shown on the right hand scale.

At 20 Fenchurch Street at an occupancy of one person per eight square metres the total occupancy cost per workstation is actually lower and that is at a rent of £65 per square foot. As you know we have been targeting an average of £60 per square foot.

Add that to the fact that you may be in a legacy lease which may be too big for you or a number of leases because you have outgrown your original space and you may be in two or more buildings, and that you need something that will be fit for purpose for the next stage in your business plan, which is not becoming more and more expensive to run, and the story starts to become very compelling.

In my introduction I mentioned the construction cost curve.

Slide 31 – Land Securities' developments

Many of you saw a version of this slide when Colette put it up at our London investor day in July to illustrate the advantage of buying construction now as contractors are fiercely competitive.

But, as capacity in the construction industry naturally falls in leaner times, it doesn't take much of a pick-up in orders for those same contractors to be less keen for the work. When this happens, as we have all seen before, the rise in costs will not be gentle.

At 20 Fenchurch Street, for example, 10% on raw construction costs would have added just over 5% to our breakeven rent.

Slide 32 – Developments

20 Fenchurch Street, EC3

So to update you on our current schemes and starting in the City at 20 Fenchurch Street. We said at the outset that our break even rent is just under £50 per square foot and our target rent was just under £60 on average.

Today we have 23% pre-let to Markel, Kiln and Ascot, at an average rent of £62 per square foot, a weighted average lease term certain of 17.8 years and a weighted average rent free period of 31 months. 8.7 months for every five years.

And we have a further 11 % in solicitors' hands.

All this activity covers floors 5, 6, 7, 8, 9, 14, 15, 16, 17, 26, 27 and 33. A whole range.

They are all, also, ahead of plan in terms of timing, rent and incentives and we have good interest in a significant amount of further space with practical completion to shell and core not due for another 18 months.

123 Victoria Street, SW1

In the West End, at 123 Victoria Street, we achieved practical completion in August, within budget. The retail space is fully let.

The office space and this is now a photo of the finished space, not a CGi, is 42% let and we have a further 25% in solicitors' hands. Rents are ahead of plan and we are delighted with our progress.

62 Buckingham Gate, SW1

Over the road at 62 Buckingham Gate we are due to complete 275,000 square feet next May. And again, this is a photo, not a CGi.

We are within budget, slightly ahead of schedule and we have strong interest.

Before talking about the next schemes I would like to put our whole London programme in context.

Slide 33 – A timeline to transformation

Of the four due to complete this year Park House, Cannon Street and Wellington House have all been sold prior to completion and 123 Victoria Street is 73% let or in solicitors' hands.

Next year we have 62 Buckingham Gate followed by 20 Fenchurch Street in 2014, and The Zig Zag Building and Kings Gate in 2015.

As I said in May development is about timing.

If the current level of tenant inquiries remains as it is we are more likely than not to start New Ludgate in the spring of next year for completion in early 2015, and the site is ready to go with a building contract tendered.

Demolition has started at Victoria Circle, and we get vacant possession of 1 New Street Square at the end of December and have agreed terms for a lease re-gear with the freeholder to enable the development.

At Portland House we are on track to submit our application by March.

This will be tied to providing affordable residential space at Castle Lane, a site we acquired earlier this year.

At Eastbourne Terrace and Oxford House we are working on revised plans to deliver schemes right on Crossrail nodes.

Slide 34 – Starting new schemes – New development

Last month we announced that we had committed to push on with the redevelopment of Kingsgate House and here you can see the cleared site.

That redevelopment will comprise two buildings.

The Zig Zag Building, shown on the left, an office building of 188,000 square feet on 12 floors, with floor plates ranging from 5,500 square feet at the top to 23,000 square feet at the bottom all divisible all good west end stuff and the upper floors will have significant roof terraces and spectacular views across the parks.

There will also be 45,000 square feet of retail space and this includes the space below the second building Kings Gate, shown on the right, a 14 storey residential apartment building of 108,000 square feet, comprising 100 private apartments and significant improvements of the surrounding public realm.

We estimate the development cost at £343m and completion is due in January 2015.

You will see this development is now included in the table of committed developments, with our usual disclosure.

Slide 35 – Starting new schemes – Victoria Circle, SW1

At Victoria Circle, we secured vacant possession from around 170 leasehold interests as planned by 30 September, and below budget.

Demolition has started and will take 12 months and while this is going on we are progressing detailed design and tendering.

The scheme is due to be built in three phases. Phase 1 will comprise 732,000 square feet and forms the bulk of the scheme including 175,000 square feet or 170 private residential apartments in two linked buildings, 479,000 square feet of office space in another two buildings all with 78,000 square feet of retail space at ground level.

Many of you will have seen the CGis and models at the Victoria Marketing suite during our investor day in July.

If you have not had a tour, please see Ed or Mel and they will be delighted to arrange one for you.

Slide 36 – Asset Management

I talked a lot in May about the pace in Asset Management.

Apart from the highly efficient securing of vacant possession at Victoria Circle I haven't yet mentioned the asset management team this team remains flat out.

One new Change is now 95% let with two high profile retail re-letting deals both well ahead of ERV.

At Cardinal Place the Ruffer re-gear completed and we have set a new rental tone of £65 per square feet with KPI oil.

At Oriana, on Oxford Street, Primark have now opened their 149,000 square foot store where they have over 1,400 staff on the payroll. We have submitted a planning application for phase two for more flagship retail space and 18 residential apartments.

At Mark Lane, we are now fully let, with income lengthened and strengthened and we have filled Oxford House right up to our vacant possession date of 2014, maximising income from this predevelopment property.

Slide 37 – Summary

So the blood is still up. Having successfully sold the early schemes and Arundel Great Court, the remainder are letting up ahead of plan and we have added The Zig Zag Building and Kings Gate and we hope to add New Ludgate and Victoria Circle shortly. Risk aware, but not risk averse.

We are securing construction contracts at the right point in the cost curve and the development programme is backed up by a first class investment portfolio being worked on by a best in class team

Slide 38 – Group outlook

So you have heard about our activity in London and you have heard from Richard on the changes going on in the retail markets and how we have been positioning ourselves to work with the retail winners.

And you have heard from Martin about how the finances are set up to support all this activity.

And so I would now like to look forwards. Unless you are an undertaker or a tax collector, it is a bit choppy out there, and all business continues to operate in a changeable and uncertain environment.

But we can only tell you what we see with our business and there is an awful lot going on in Land Securities.

We are working to our clear and focussed plan in both our areas of core expertise, with each asset playing its part, and with the finances required to deliver it.

In the retail markets, we continue to position our assets for tomorrow's consumers and retailers, that means providing space for the retail winners and as you have heard from Richard this morning we are delivering on our planned increased emphasis on leisure.

In London, the market is beginning to recognise our efficiency argument, our schemes are leasing up ahead of plan, with our activity set to lock us into higher yields and create value.

And as we said we would, in both our core markets, we are continuing to commit to development where we consider the supply demand dynamic to be balanced in our favour, but with our usual rigour when it comes to risk and reward.

As expected having made some conviction sales last year and putting more capital to work in development, our earnings are down but let's be clear, we prefer to maintain a strong balance sheet and the flexibility to invest in the right opportunity rather than buy turnover.

There is a palpable sense of momentum in this business, with everybody crystal clear on their priorities.

Its business as usual, with plenty of pace.

Thank you.

Slide 39 – Group outlook

So that concludes our slightly shorter presentation than usual and we are now very happy to take your questions.

Question 1

Chris Freemantle, Morgan Stanley

First just a question on retail. I think I am right in saying that you, relative to your peers, have a relatively long tail of shopping centres that are below 500,000 square feet with low numbers of units. Can you be a bit more specific about whether those centres have suffered more in the valuation rather than the larger centres? Is there any variance in terms of size that you can identify there?

Answer – Richard Akers, Executive Director

Let me start with the fact that in May we showed a diagram which illustrated that around 5% of our portfolio we would put in that secondary category. Yet clearly secondary shopping centres have suffered more than more prime shopping centres over the recent past and that trend hasn't changed in the last six months. But it is a very small part of our Portfolio and I think that is all I can say. We have had an enormous amount of change in our portfolio over the recent past. We sold ten shopping centres since 2009. We sold 15 since 2007 and 18 retail parks. So there has been an enormous amount of change which reflects the change we have seen in the retail market.

Further question

Can I just push you slightly, how big is the variance in terms of the big and the small in terms of how values have changed?

Answer – Richard Akers, Executive Director

I think what I would say is that I think the approach of valuers' has been that retail has gone down generally so it is less differentiated between prime and secondary than perhaps it has been in the recent past. I think generally you will see that our rental values have gone down in shopping centres by 2.5% and that is what has driven the valuation deficit on shopping centres. And I think that is just a general feeling rather than any specifics. I mean our specifics are strong. Our lettings are 2.9% ahead of ERV. Our voids are down and our sales are up in our shopping centres. I think there is just a general feeling, which we all read about in the press, that rents should be slightly lower across the board in retail.

Further question

Can I ask one question to Martin or really to Robert. If I look at the second half of the year, it has been characterised by very sharply falling corporate bond yields, does that change your behaviour at all in terms of your appetite for risk or do you perceive it changing the wider markets behaviour in terms of appetite for risk?

Answer – Robert Noel, Chief Executive

I think we have been pretty clear on our appetite for risk. One of the things you have seen us do is bring our financial gearing down, our operational leverage is actually quite high. We know our markets inside out, as I said, we are absolutely as convinced as we can be that our developments are going to fill and that is coming through. And that is it, the root of our presentation this morning.

Further question

Do you think, I suppose the wider question is do you think it influences the outlook for values more widely? Are you seeing the investment market pick up at all?

Answer – Robert Noel, Chief Executive

No I think the investment market has been pretty solid in London. In Retail as the values have come down we are seeing evidence of clearing prices being reached. And we are now seeing opportunities, you saw we bought The Printworks in Manchester last week. We did that deal very quickly. We knew exactly what we wanted and we went in and we snatched it.

Question 2

Nick Webb, Exane BNP Paribas

I have just got two quick questions. Firstly, given the amount of requirements you are seeing in out-of-town retail, would you expect a return to meaningful levels of rental growth in retail warehousing anytime soon?

Answer – Richard Akers, Executive Director

I think it has to be balanced with the fact that we have seen some insolvencies there. Obviously the Comet failure puts quite a bit more space into the market. But we do see that demand. That is the important thing. And as the retailers that customers are not interested in disappear and we bring in retailers that they are interested in, obviously that improves the assets.

Further question

Thanks. And secondly, very quickly on Trinity Leeds. I think you said it was letting up in line with expectations. Would you expect it to open full in March next year?

Answer – Richard Akers, Executive Director

We are 84% let or in solicitors' hands. If it opened now with that level I would be happy. If we carry on at the rate we have gone in the last six months, we will be over 95% let when we complete and if we are full for next Christmas we will be absolutely delighted.

Question 3

Remco Simon, Merrill Lynch

A few questions. First of all maybe on Ludgate. If I recall correctly, previously you mentioned that the idea was to wait for a pre-let, not specifically because it was a reflection of confidence in the market, but also the design of the building, keeping the flexibility to change it to tenant demands. Are you comfortable that the current design reflects tenant demands and therefore to go ahead speculatively?

Answer – Robert Noel, Chief Executive

We didn't actually say we were waiting for a pre-let. What we said is that we would make the decision as to whether to go or not at the end of this calendar year so that is another, whatever it is 6-7 weeks. What we said was that whilst we were waiting, we were talking to potential pre-let tenants and we didn't want to start now, because: it would be early; but also as soon as you get a tenant they want changes made to the building. So we allowed ourselves to use that period. What I said this morning is that activity levels in the market have picked up, I said that in the statement. If those activity levels continue, we are very likely just to crack on in the early part of next year. And that is where we are. We are very comfortable with the design of the building, we have been working on it over the summer. It is looking very good.

Further question

Excellent. Maybe a question for Martin. Loan to value 36%, you have got guys to the left and to the right of you going ahead with developments. You are confident to let that loan to value go up a little bit or are you going to give them another push to actually sell some assets to not let it decrease too much?

Martin Greenslade, Chief Financial Officer

Sorry what was going up?

Remco Simon, Merrill Lynch

Loan to value. At 36%, if you take into account development spends, are you confident to let that tick up a little bit or are you going to look for some asset sales to keep it more or less around these levels?

Answer – Martin Greenslade, Chief Financial Officer

Yeah, they do tend to spend it as quickly as we make it! Well, first of all we have got £71 million still to come in out of those proforma sales at March. We have got the sales on Wellington House to come in. But the key point is we haven't really changed our stance, which is over the medium term to run net debt neutral: so for people to recycle capital, because actually people are good at making decisions between what they like and what they don't like. If the capital is on tap, then you make poorer decisions. So I am very confident that what we are investing in the development pipeline will be much better than the sales that we have made in terms of quality of the product we have sold. So I would expect there to be periods like this one where we invest more in development than sales we actually make. But I would expect it to balance out because that is the challenge to the teams.

Further question

That's clear. My last question, maybe for Richard. How big do you see stand-alone leisure like Nottingham or like Manchester? How big a part of the portfolio do you expect it to be going forward?

Answer – Richard Akers, Executive Director

I think it is a much smaller sector than retail. We only want to be in the best schemes. So I think probably the capacity is less than a billion (pounds) in the leisure sector for us. So that probably answers the question a bit more specifically than you expected, but it is a smaller sector and we would only be interested in investing in the best schemes like the Printworks which is right in the centre of Manchester.

Remco Simon, Merrill Lynch

Thanks

Question 4

Hemant Kotak, Green Street Advisors

Good morning Hemant Kotak from Green Street. Just following on from that. What was the yield on Printworks? Did you mention that?

Answer – Richard Akers, Executive Director

I think we did in a press release. But the initial yield was 6.25%.

Further question

Okay great. I think you have laid out the rationale for investment in leisure quite well. So that is clear. But can you make some statements about the economics of investing in leisure? So with regards to rental growth prospects over and above shopping centres and retail parks? And then total returns as well? And then also occupancy costs ratios, are they more favourable?

Answer – Richard Akers, Executive Director

The dynamics from our perspective look like the returns are slightly more weighted to income, which is a positive. The lease lengths are longer. We are seeing a trend for shortening lease lengths in retail. Lease lengths are longer in the leisure sector. So that is an interesting foil if you like a retail portfolio.

We do see rental growth potential particularly in the food and beverage sector, not so much in the big leisure boxes but in the food and beverage which goes with them, we are seeing very strong demand and potential for growth in those schemes. So the dynamics we think are good. Lower risk, better gross to net ratios and some growth potential as well.

Further question
And just the last bit of that, total return prospects. Do you think they are a bit better than shopping centres and retail parks or is it not so much that but just better risk adjusted returns?

Answer – Richard Akers, Executive Director
I think they are better risk adjusted returns. That would be our approach. In terms of total return, we invest our money where we see the best total returns whether it be retail, leisure, London offices or whatever.

Further question
Okay, just sticking with retail for a second. With respect to your central London retail holding, you obviously have a substantial holding there, I think just under one billion (pounds). How do the return prospects for that over the long-term, how do you think they differ relative to shopping centres and retail parks.

Answer – Robert Noel, Chief Executive
There are two things you need to know about our central London shops. Mostly they form part of office buildings, so you can't separate them out. We give you the use, but we can't separate them out and you can't buy them on their own. Secondly, quite a large contingent of it is the Piccadilly Lights block which is lumped into our retail category. And it is the Piccadilly Lights which has driven the rental value down in central London this year because the valuers are telling us that the rental value of the Lights themselves are lower now the Olympics are over. But we will see how that goes. We don't agree.

So I think that you can't really look at central London retail as its own thing when it comes to our portfolio but the only thing I can say is that we are completely full, we have no voids. The last two lettings we have done at One New Change are way ahead of rental value. And so we are pretty chipper about it.

Further answer – Richard Akers, Executive Director

I would say that having the central London retail portfolio is a big advantage for us because all the retailers that have come into the UK, Victoria's Secret is a good example, they come to talk to us about our London retail first and then we get to talk to them about everything else we are doing as well.

Further question

That's great. And just one more on offices please. There is relatively strong demand from the TMT sector. How do you think Land (Securities) is positioned to best capture that demand?

Answer – Robert Noel, Chief Executive

Again our portfolio is full. TMT is one sector. If they go somewhere else, then that other person is going to have to come to us. And we look at London as one amorphous market, we think we are absolutely in the right locations.

Question 5

Harm Meijer, JP Morgan Cazenove

A couple of questions here please. First of all just on the pipeline. We have read in the property press about potential lettings at Buckingham Gate and 20 Fenchurch Street. Maybe we can get a bit of colour on that?

Secondly, also just on Trinity (Leeds). The asset value, was it actually flat over the last six months? Yes or no? And just a bit of colour on that.

Answer – Robert Noel, Chief Executive

Why don't I take on the London stuff and Richard if you can answer the Trinity question in a sec. Land Securities is quite quirky in the way we announce our deals. We will tell you twice a year what we have in solicitors' hands and we don't identify those people with whom we have deals in solicitors' hands. And we will only tell you that they are in solicitors' hands when the heads of terms are all agreed and signed and the thing has been handed over to the lawyers to close. So you have got those figures today. We won't give any more than that. We are very, very happy with the interest we have in our schemes.

Answer – Richard Akers, Executive Director

On Trinity Leeds, you will see from the development table in the statement that we have added around £15 million to our anticipated development costs there. That is additional space that we have decided to develop for a food service concept which we are calling Trinity Kitchen. And that produces a small amount of additional rent, but it really improves the scheme. And I have banged on a lot about food and beverage and the importance to shopping. So it shouldn't be a surprise that we are doing this. What it does is it increases the amount of food and beverage we have in the centre. It also extends the range and type of food and beverage that we have. There are other benefits. It is improving one of the entrances and it is anchoring the west end of the upper level which will improve rental levels. None of that has been reflected in the valuation. So the performance is flat over the six months, the valuers still have significant profit and contingencies and hopefully adjustments to the yield to make as we let up and complete.

Further question

Valuations on your side were down by 2.5%. Operationally it is actually going quite okay, I would say probably a bit better than expected. What did your faces look like when you got the valuations in? Did you actually think that those were the right ones or did you say, come on guys we are coming to an end and are you sure what you are doing?

Answer – Richard Akers, Executive Director

We are always happy with what Knight Frank say. I said a little bit earlier that there has been a general attitude I suppose from valuers that retail rental values have come back and in retail warehousing I think larger assets are less liquid and there has been a bit of yield shift there. And those are the two effects that have brought values down in both of those sectors. That is a view that valuers have. As you very astutely noted, it is not really supported by our operational metrics over the six months and obviously we would hope to continue that performance and move values back up again.

Further question

Are you currently bidding on any assets, actively bidding on something?

Answer – Robert Noel, Chief Executive

We are always bidding on assets. And when our expectations match with the vendor's we end up buying them as we did with the Printworks.

Robert Noel, Chief Executive

We have one question from the conference call from Ryan Palecek at Kempen.

Question 6

Ryan Palecek, Kempen & Co

Hi, good morning. I was just wondering if you could just discuss on the valuation side a little bit, valuations on the like-for-like portfolio of the London offices? It seems to have been quite flat relative to where indices had fallen. And if you could talk a little bit about what is going on there?

Answer – Robert Noel, Chief Executive

As we have stated, we are operating in a flat market and this business has been positioned to take to create value through development which we see as one of the very, very few ways of making progress at the moment, which is why we are doing it. The investment market is robust, the occupational market has been subdued which is why rental values are not moving forwards. And it is only by creating new space and capturing the demand that is out there, that we can get rents going forward. So it is not surprising that the market is absolutely as you say, flat.

Further question

And if I could just follow that with just one other question concerning asset sizes that you would be interested in for acquisition. Could you give us some kind of wherewithal about how far outside of the box you think about acquisitions in terms of asset style as well as size?

Answer – Robert Noel, Chief Executive

We like to think we think outside of the box all of the time. And our deals, the deals we have done this year range from £50-100 million. Have we looked at deals a lot bigger than that? Yes we have. Have we looked at deals smaller than that? No we haven't. It is all about opportunity and it is all about what adds to what our shareholders already have.

Question 7

Keith Crawford, KBC Peel Hunt

Just one or two things. First of all thank you very much for slide 18 which is these 24 retailers who wish to go out of town and I imagine expect to make money by doing so. It is amusing however to reflect that Tesco which was once the greatest star in the firmament is not in that list as far as I can see. Now a 9p stock. Whilst this group is very encouraging out of town, the metrics are good, may I say that. Whereas that, we might go elsewhere and be a little less sure that some of these retailers in the in town situation, which was the staple of commercial property markets for 50 years, are we as sure now as we were before? I mean will you be taking a different view of these shopping centres? They have very good cashflow profiles, but you sold offices in London and schemes in London and some of these could potentially be for sale in the future?

Answer – Robert Noel, Chief Executive

Everything is for sale if it is at the right price. You know that from us now. This is not about expanding the universe.

Further question

And do you have a substantial shopping centre scheme following Trinity and Buchanan Street, which are excellent for A1s, but have you got any more after that at the moment on the slot?

Answer – Robert Noel, Chief Executive

We have two schemes in the pipeline, one is in Oxford where we are have a joint venture with The Crown and the other one is at Buchanan Galleries in Glasgow, a scheme we already own with Henderson, where we are building on free land.

Further question

This Zigzag Building, sorry to be lazy here. I could work this through, but this is pound for pound going to be more profitable than the schemes that you have done so far isn't it? In Victoria is it is going to be very profitable. Will you perhaps keep some of these residential properties in Central London? The demand for residential is at least twice the population of the London area isn't it?

Answer – Robert Noel, Chief Executive

The demand for residential is very, very strong. This is a very deep and liquid market. People are talking about a bubble. We absolutely do not see it as a bubble. London's population is growing. More and more people want to live in rather than live out. It is very hard for us to own apartments once they have been built. Primarily because the net yield from a completed flat is very, very low single digits. Doing the activity is outside the REIT ring fence. So it is a taxable activity for us. Now if you imagine that you have got a completed flat and your net income yield is in the very low single digits, that means that you require capital growth guaranteed going forwards in order for the thing to behave ahead of your weighted average cost to capital. If you think that is the case, you should be developing not owning. If you don't think it is the case you shouldn't be owning. So in both cases you shouldn't be owning.

Further question

Can you get change of use for sites and or buy in London to do further residential?

Answer – Robert Noel, Chief Executive

Well we have got a pipeline at the moment between now and 2018 of around 500 apartments: and that is Kings Gate which we have committed to in the last month, which is 100 apartments; we have got about 200 at Victoria Circle; and then Portland House our plans are to build 300 apartments there; and we have got some minor residential schemes in Oxford Street and Eastbourne Terrace in Paddington. But this is a 900,000 square foot programme over the next five years, it is quite substantial and it is all in the right locations.

Further question

Would you potentially, just following with a further question, look to expand at Victoria? It is extremely promising delivering right now on this, would you expand your interest in Victoria further?

Answer – Robert Noel, Chief Executive
We will do anything at the right price Keith.

Further question
Okay, and finally the EC2 / EC4 business, where nothing happens. Is this because it is too embarrassing to sign the lease if you are a bank executive?

Robert Noel, Chief Executive
Sorry, can you repeat the question?

Further question
You know how there are no lettings in EC2 or EC4 actually since you last did them, is this due to embarrassment? Is that the reason that it is just too embarrassing to sign the lease at the moment?

Answer – Robert Noel, Chief Executive
No not at all. As we said in the statement this morning, we think interest has picked up enormously since June. So the active demand is really quite substantial at the moment and we are engaged in some big conversations.

Further question
So we may actually see some financials outside insurance doing some signatures?

Answer – Robert Noel, Chief Executive
You may well, yes. I don't think we will see large investment banks taking football pitch size trading floors, but there is quite a lot of activity out there.

Question 8
Martin Allen, Deutsche Bank
What are your plans for Ebbsfleet?

Answer – Robert Noel, Chief Executive
Good question. Ebbsfleet as we have been saying for a while now, is something that will be built up by house builders. We are not a house builder, we spent the last two years

rescheduling section 106 agreements so that we can get the land broken down into its constituent parts. We have achieved that. We are now putting in some small cost infrastructure to divide the thing up into plots and we have started selling plots or we are starting the process of selling plots to house builders. We have agreed our first deal. As soon as we have got any colour on that we will let you know.

Robert Noel, Chief Executive
There are no questions on the web which is great, no more hands up. So I think that concludes the morning, 10 o'clock on the dot. Thank you very much indeed. We are around for another hour or so if you want to ask questions.

- End -

Forward Looking Statements