Land Securities' 2007 Preliminary Results Presentation
16 May 2007

Question & Answer Session

Question 1
Miranda Cockburn - Cazenove

A couple of questions, one for Mike and one for Richard. Mike you obviously are doing very well in terms of the letting at the moment and you have already accelerated the development programme from here. Do you see this as the final stage of your development pipeline or are you preparing other properties for development? And Richard on the properties for sale, you say that there are about £580 million of properties for sale since March '07. Are you getting close to the March '07 valuations on this or are you having to take any cuts in valuation?

Answer – Mike Hussey

I think I had better go first before I forget the question. We are not near the end of our pipeline in terms of new properties coming through, but we are changing the emphasis of what we are doing. We talked in the Presentation about the City pipeline and we are looking to clearly lease up the remainder of New Street Square, in particular and Bankside is doing well. And we will start to look to our development propositions in the West End where we think the opportunity for redevelopment is much less. The market is tighter, it is the fabric of the West End which is more difficult to procure new developments and we will therefore concentrate on Victoria and Oxford Street for mixed use developments. One New Change is on site, but as Francis said, we have mitigated risk by going down the mixed use route there too. And Fenchurch Street may or may not get consent and we will make a decision on that after that.

Answer – Richard Akers

Yes Miranda. I think on the sales both since January to March and since the end of March we have been very close to March '06 valuations on the retail warehouses. And overall we have been at or just above on average our valuations for all of that sales programme. And actually in terms of the market, we said there had been fewer buyers around. There have been fewer buyers around, but we have got all of them away so far pretty much to the first buyer that has come along at the right price.

Question 2
John Fraser-Andrews - HSBC

Could I first ask for an elaboration on the retail parks. By my estimation they seem to have fallen about 2% in the 4th Quarter. So could we just have a bit more detail on that please? And just around that, Francis you described expectations or a feeling that prime yields might move out in certain sectors. Could you just state what sectors you believe those could be and also within that make the differentiation on your outlook for Central London?

Answer – Richard Akers

On retail warehousing, yes you are right, retail warehousing has performed relatively poorly since the end of 2006. And there are some specific reasons for that and Francis mentioned that rental values in some large stores have reduced. That is the case. There was an arbitration decision on a B&Q warehouse in St Helens which has had the effect of reducing rental values for large units quite significantly by between 5-15%. So that has had a major impact and in fact the impact of that on our large units in our portfolio has been -1.9% on rental values for the portfolio. So to a large degree that has explained the reduction in performance. Generally in the retail warehouse market there is fairly thin occupational demand for bulky goods and particularly for large units in bulky goods retail warehouses.

Further Question - John Fraser-Andrews

Just to clarify that, that was a single asset fall that led to that Q4 reduction largely?

Answer – Richard Akers

No it is not a single asset fall, it is a fall in rental values of larger units across the portfolio.

Answer – Francis Salway

Just to clarify for the audience, we don't own the asset in St Helens, it is comparable evidence used for rent reviews across the UK so it is a spread effect from one arbitrational decision. In terms of yields, we put up in Autumn '06 at our Interim Results Presentation some data on proportion of number of buyers to sellers in the market and we said that in the retail sector you are beginning to see a reduced number of buyers when properties report forward for sale and we basically found that that could have some impact on pricing. Clearly we have seen that in the retail assets with lower growth prospects in the second half of the year. In London we have prime assets like HSBC Tower, still attracting an enormous amount of interest. We have been selling quite a few middle grade assets and there we have seen a number of bidders move from probably 20 to 10 to 5 over a period of time. We still think there is good demand for London, but it is not quite at the level that it was. We do believe the prime assets will hold up much better and that will be entirely logical because of course we saw an undue narrowing of the yield gap between secondary and prime. But you probably know everybody in property always thinks their own assets are immune, that is not always the case. So let us have a little bit of caution about that.

Further Question - John Fraser-Andrews

My last question is regarding share buy-backs. You last bought back shares at a similar discount to the level that the share price is currently trading. Could you just give your thoughts on that subject and how your new REIT status may affect those thoughts?

Answer – Martin Greenslade

Yes as you say, we have done a share buy-back. Particularly where we see the share price trading at what we perceive is quite a large margin below what we think is the intrinsic value of the business. The issue with REIT status is that by not having any tax shielding capacity any more, actually our cost of debt goes up and so the earnings yield on our shares is lower than the cost of debt. Put that into English that means that if we buy back shares we dilute our earnings. Currently we don't have under our most recent AGM Resolution, permission to buy back in shares on a diluted basis. However we will probably rectify that in July at the AGM and we will review the situation as we go.

Further Question - John Fraser-Andrews

Just as a follow up to that are you measuring your business as a total return business and therefore the NAV enhancement that would multiply the earnings dilution by a multiple factor would that be a more important factor than earnings dilution?

Answer – Martin Greenslade

I think we would have to look at the factors at the time that were relevant where our share price was trading versus our NAV and our expectations. But you are right, we are a total return business and that is how we look at it.

Question 3
Quentin Freeman, UBS

Ian can I ask you a couple of questions. Obviously there have been a lot of investments into your side of the business in the last 12 months and you are in the process of landing at least one big fish and hopefully another big fish. Do you just put your feet up now or have you got some more, can we see some more investment in this area and some further big expansion?

Answer – Ian Ellis

I think in terms of the SMIF acquisition, that was to improve our access to the PPP market which has got about £40 billion of completed deals and an annual float of about £5 billion. We intend very much to use that vehicle to secure continued deal flow and I hope at the half year stage to announce quite a few further commitments to capital in that area. Indeed we are targeting up to £200 million a year into that area and at the same time outsourcing areas such as Northern Ireland, will continue to come though on an as and when basis, but we now have a much more solid market platform to access and use our skill sets across. So no feet up I am afraid.

Further Question - Quentin Freeman

There is no other big project beyond Northern Ireland in the market at the moment?

Answer – Ian Ellis

Not of that nature no. But there are some very, very big PPPs obviously out there already.

Further Question - Quentin Freeman

Thanks very much. Can you tell me a bit more about IIC in terms of contracts won and bid for?

Answer – Ian Ellis

Interesting. IIC was really a procurement business. You will recall 18 months ago we went into that sector to access the cashflows from ‘Building Schools for the Future’, which is a £30 billion government project at that time. Now £45 billion as Gordon Brown manages to add more each time. But the reality is money is being spent, approximately £2 billion a year on those projects. The issue with IIC was that that market place slowed down over the last 12 months. It is now being kicked back into life in a big way. Partnerships for Schools is taking a lead for Government and we are down to final stages on both Islington and Kent which are both very large schemes, £100 million, the other £300-400 million over many years. So that was if you like the primary bidding end which is in exactly the same market place as SMIF was in the secondary market where jobs were previously being won. So by buying IIC we can access the primary end and secondary end and decide whether we want to go for deals at the very front end or when they have matured a bit. So that is the logic for buying in IIC and those deals continue to be on track. But the track has been slightly delayed by Government delay.

Further Question - Quentin Freeman

Mike can I ask you a question? There has been a bit of teasing about sales of retail property. Are you proposing to sell any London offices this year and if so what magnitude and what kind of assets might there be?

Answer – Mike Hussey

We have done quite a bit of selling in the office side, particularly as Francis said, in terms of the City investments where we perceive there to be relatively flat performance going forward and also it was hitting a point in the market where particularly funds were interested in the lot sizes we were pushing out. So I think we have got two buildings, one currently under offer and one just about to come to the market which are both in that bracket. Other than that we are concentrating on our development pipeline. We are currently envisaging that we can hold most of the developments we complete because we think they will be rental performance in those going forward. And on the retail side of the London portfolio, we have a lot of developments coming through there where they are part of an overall mixed use scheme and we are just reviewing the proposition for the East End of Oxford Street, but we don’t have any major sales, having done quite a few this year (including Devonshire House) currently on the books, other than the two city properties which I mentioned.

Further Question - Quentin Freeman

Roughly what is the scale in terms of pounds million?

Answer – Mike Hussey

We have got one building under offer at around about £60 million and another one coming up to the market in excess of that. Obviously Devonshire House was over £280 million.

Question 4
Harm Meijer – JP Morgan

I just wanted to ask or basically compare between the difference between shopping centres and warehouses. How do you see that going forward? I am sorry to focus on the more negative parts because I actually felt it was all pretty good, but as an analyst you also have to dig into the weaker parts, so I am sorry for that. Can you please comment a bit on how you see the difference going forward?

Answer – Richard Akers

Right okay. I think to focus first on retail warehouses. Clearly the performance has dropped over the last year from previous levels of performance. In fact in over ten years to the end of March ’06 our retail warehouses produced a total return of 16.9% per annum. So it has been the best performing sector for many years. Many of the fundamentals that have driven that performance still apply. Now there have been some specific issues around retail warehousing to do with the bulky goods recession in 2005 which created a lot of voids from insolvencies of companies like Courts and Furnitureland. And I have mentioned the issue with large units and those have been specific impacts in the sector. But we think the prospects for the sector are healthy going forward, particularly for open A1 consent retail warehouse parks which is what we want to focus on going forward. So we are confident about the long term prospects for retail warehousing. And just to mention shopping centres as well. We are also confident about shopping centres. I think we feel that the occupational market is pretty buoyant at the moment. That is evidenced by the extent of our leasing over the last year as Francis said, nearly 2 million square feet of space we have let in both our development programme and portfolio over the last year. And we have another 700,000 square feet in solicitors’ hands. So we are confident about both sectors and hopefully that explains the disparity in performance or the fall in performance for retail warehousing over the last year.

Further Question - Harm Meijer

There is a table with the best properties. Is there also a table with the worst properties or the worst performing properties? The top six worst performing?

Answer – Francis Salway

You will be surprised to hear that there isn’t! [laughter] Shall I say at the bottom end we have certain bulky goods retail warehouse assets and also interestingly one or two London office assets which are let on very long leases to Government with fixed increases. And so they haven’t had substantial growth in rents. They have also been impacted by the shift in gilt yields because the pricing is very much driven by gilt yields. So they would be towards the lower end of the range.

Further Question - Harm Meijer

How much have those assets been valued downwards then or how well have they performed. Just a rough estimate?

Answer – Francis Salway

On the London ones, the total return is still very definitely positive. But it is a relative issue in that clearly some other London assets have been up by well over 20%.

Further Answer – Mike Hussey

And one of the issues we always have to grapple with in the London market is the volatility of it. And following on from Quentin's question, it may be a natural comment to make, why don't you sell those assets? The advantage of those assets is they are very good in terms of a more difficult market circumstance when rental performance is not so strong, because you then continue to get rental growth out of some of them. But it is a constant balance of the two, strong market conditions versus assets that continue to increase in value.

Further Question - Harm Meijer

If I may ask one other thing. There is a lot of talk about M&A, you hear a lot of talk about Hammerson etc. I was just wondering what would you say if somebody knocks on your door and what do you think about let's say the trend of going global? Do you see anything in that or do you think everything is fine how it is going now at this moment?

Answer – Francis Salway

It is very clear what we would say publicly in a public audience like this if somebody knocked on our door, which would be 'No comment'. And it really is very difficult to say more than that. I think one interesting thing is that at the time we acquired Tops Estates it was cheaper to buy a corporate than it was to buy the assets. The reverse is true at the moment. And you do have to think very carefully about where you are going to find value. And that I think is where it has been quite interesting, where we have done corporate acquisitions, Tops Estates we thought was a very interesting portfolio and within the corporate structure attractively priced and then thinking a little bit outside the box with our acquisition of Secondary Market Infrastructure Fund.

Question 5
Nan Rogers – Arbuthnott Securities

I too apologise for focusing on the negative, but I just wondered if you would mind awfully taking us through why the sector performance relative to IPD was a little weaker and the overall performance was better?

Answer – Francis Salway

The overall performance was assisted by having a substantial exposure to the very buoyant London office market. Within the sectors we have touched on the relevant issues which is lower rental value growth on some older and bulky goods retail warehouse assets and in London it is the issue of some of the large older assets in Victoria which are extremely secure, let to Government on long term leases, but clearly have substantially lower rental value growth than a 5,000 sq ft suite in Mayfair.

Further Answer – Richard Akers

Can I just mention something about shopping centres in that context. While shopping centres have slightly underperformed IPD for the last year, and actually by a margin, which is less than the average outperformance over the previous five years. And we had a meeting with IPD last year and they said that five years outperformance was pretty unprecedented, you can't possibly repeat it. So I blame it on IPD for making that comment.

Question 6
Robbie Duncan – Cazenove

On slide 33 you talk about potentially spinning off or partnering arrangements on Ebbsfleet is that a likelihood or are you thinking about more taking it on your own balance sheet?

Answer – Francis Salway

The reference is to developing individual sites in joint ventures with residential house builders which is what we are currently doing with Countryside on the Springhead site. So it is joint venture in the context of building out a particular phase. It is absolutely not in terms of selling out of totality of our holdings there.

I think there are no more questions so thank you very much for joining us this morning. Thank you.

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