LAND SECURITIES' Q1 INTERIM MANAGEMENT STATEMENT CONFERENCE CALL
22 January 2014

Speaker: Robert Noel, Chief Executive

Good morning everyone, and welcome to our third quarter IMS. As usual, I am joined by Martin Greenslade and Richard Akers, and I'd like to give you a short summary of progress and then we will take any questions you may have.

In a positive sense we are seeing more of the same: high levels of activity right across our business, with a like for like portfolio all but fully occupied; in London, we have seen occupier demand increase in the last quarter, and this has resulted in further letting progress at our developments; and in retail, we have seen continued demand for good locations and strong demand for food and beverage.

In London, as you know, we are delivering sensational office space, highly efficient and technically resilient, on a speculative basis into a market with increasing demand but constrained supply. At 20 Fenchurch Street, we are now 64% pre-let with a further 23% in solicitors' hands: that's 87% spoken for with three months to go before we hand space over to occupiers for fitting out. At 1&2 New Ludgate, we are very encouraged by the levels of interest in the space and confident in the prospects for these two buildings. There is a distinct lack of new space coming on to the market in that part of the City between now and 2016, and today we have also announced the start of construction at our 270,000 sq ft scheme at 1 New Street Square.

In the West End, our on-going developments are moving with pace. Our residential developments continue to prove attractive with 77 of the 100 apartments at Kings Gate now pre-sold and early marketing of the apartments at The Nova Building has resulted in 54 pre-sold. 123 Victoria Street has moved to 93% let. 62 Buckingham Gate is 67% let or in solicitors' hands and we are augmenting the programme with the commitment to 20 Eastbourne Terrace.

In Retail and Leisure, at Trinity Leeds, Primark opened at the centre in December and has been attracting more than 80,000 visitors a week. In addition, the stunning new food van concept Trinity Kitchen, has been a huge success demonstrating the importance of providing the right mix of leisure in shopping centres. Food and beverage demand is particularly strong and so we are pleased with our acquisitions in the leisure sector, where integration into the business has gone smoothly.

Although more generally, the retail market remains mixed, recent retailer trading shows that those retailers which deliver a great shopping experience, through the right formats are doing well - the same is true for retail property.

Voids were down in our portfolio over the quarter and occupancy is now over 98%, and although we have seen footfall decline slightly, spending is increasing per visit. This underlines the theme of people shopping less often but spending more when they are there.

We continue to progress our in-town and out of town development opportunities and were granted planning permission for our extension of White Rose Leeds and for our cinema-led leisure, retail and residential scheme at Ealing.

We continue our net debt neutral strategy, and with disposals exceeding investment this quarter as expected, we saw our LTV fall from 37% in September to just under 35% by the end of December. Increases in property values are likely to reduce the LTV further and we are quite content with this position. As you know it is in line with our plan.

So in summary, we are seeing high levels of activity across our business and the portfolio is virtually full; our London developments are set to benefit as supply constrained conditions kick-in; and in retail, we have seen continued demand for good locations and strong demand for food and beverage. Our clear plan is working well for shareholders.

And now let's hand over to you for any questions you may have.

Question 1
Osmaan Malik, UBS

Very good, IMS is very clear, just if we could expand on the office market please, you sound quite positive I was wondering if you could frame that by talking a bit more about the movements of rents that you've seen over the past month, whether incentives have moved in. And I guess whether this makes you a bit more comfortable for longer on the London office market than maybe you signalled back in November. Thank you.

Answer - Robert Noel, Chief Executive

Yes, sure, Os. There're a few bits to that question, let's just talk about the mood now compared to November. I don't think there's any change in the outlook that we have now compared to what we had in November. This is very much a question of the proof point of the supply constrained conditions that we signalled on the horizon a couple of years ago now kicking in, and there are a number of things that are contributing to this. First of all following the global financial crisis there was a complete hiatus in development activity as we know. Businesses need to continue to move, as they have, and although demand has been running at below the long term average until now it's now kicked up in line and indeed above the long term average as expected and that's all, we've got very little space available.

Secondly, occupational requirements are changing. People want very technically resilient and efficient buildings now and there simply aren't enough of them. All we're doing is coming into that stage of the market, over the next couple of years, where occupiers who were beginning to realise that their choice was evaporating a year or so ago are now realising that they don't have much choice at all. And this drives fairly typical behaviour which is they get engaged in discussions with those people who are building buildings.

Now, what we are seeing is a noticeable uptick in the number of negotiations we have going on. I think as we said in September we signalled that we thought there would be some quite significant spot market increases in quarter four, calendar year 2013 and quarter one, calendar year 2014 of let's say between 5% and 10% spot market rental growth, and we are absolutely in that zone, but bear in mind also it's not just about rent. What happens in these market conditions is people are prepared to take longer leases because the whip hand is more in the hand of the landlord and incentives dropped down as well.

So if you can recall in November when we spoke about the leasing up of 20 Fenchurch Street and we said the average lease term was 17 years, that would have been unheard of three years ago and so we're in a pretty good place.

Further question

I see, okay so 5% to 10% over the six months, that's excellent. Does that just relate to primary space or do you get the feeling that also secondary office stock in the City is seeing that kind of rental growth?

Answer - Robert Noel, Chief Executive

Well, it's spot market really and we use the primary gauge because it's easy to follow. If you look at all the agents they would have said a spot market rent, and a benchmark spot market rent in the city in September was £55 and today they're saying it's £57.50 so that's 5% already. And the answer is if you have space available you will let it for more today than you would have done three months ago. If your space is let then you are at the vagaries of the rent review cycle as to whether you capture it or not.

Question 2
Tim Leckie, JPM Cazenove

Hi, good morning, thanks for the colour so far. I'd just like to ask firstly capital flows seem to be very much back as a topic. Have you seen any evidence of the weight of money putting further downward pressure on yields over the last quarter?

Answer - Robert Noel, Chief Executive

Capital flows remain at high levels and there is competition for virtually every asset offered to the market and so we've seen market yields tighten a bit across all sectors over the last quarter. As we said in the statement we expect to see LTV reduce further as values rise and we're quite content with this position, and we expect capital value or capital flows to remain high for the foreseeable future. Our markets are mid-cycle: London is in a period of spot market rental growth, as we've just been discussing, and good retail is set to benefit from increased consumer confidence. So I think we're going to expect more of the same for the next six months or so.

Further question

And following on from that can you maybe talk about delivery timing of the development you've pulled the trigger on today, how they fit into the current timeframe?

Answer - Robert Noel, Chief Executive

Sure, 1 New Street Square is due to complete in July 2016 and Eastbourne Terrace December 2015 so we are as we were in November: our entire programme is due to be delivered by the summer of 2016. And there's method in that in that there's not much that we can see over the next two years that will upset the balance between supply and demand, beyond that we simply don't have any visibility. If there is a huge development response in the course of the next year then, of course, beyond that the balance may tip the other way, but we certainly don't know that yet.

Further question

And a final question from me. We're seeing some other West End developers sell off 50% of a project. Is there any potential do you think or have you had approaches from people struggling to get into the London market willing to take on some more developments and partner you on some of your projects?

Answer - Robert Noel, Chief Executive

Well, the answer to the latter part of that question is we get telephone calls all the time and as you have said there are huge capital flows from global equity coming into London or trying to get into London. As far as us partnering with people we don't believe we need to or want to. We did on 20 Fenchurch Street in 2010 for the reasons rehearsed at that time. It was a big call at that time and we were likely to be doing Nova at the same time and that level of risk at that point of the market was considered perhaps too much to do both of them on our own at the same time. We wanted to do them both. It was about timing and we chose to seek out partners for those two schemes but the others, no.

Question 3
Michael Prew, Jefferies

Good morning. I'm so surprised that you're running with a debt neutral position with such a rosy scenario of a yield shift with a rental shift which seems to be mostly your asset base, apart from some retail assets that seem to be offering a mixed portfolio performance.

Answer - Robert Noel, Chief Executive

We've been running a net debt neutral position now for three years and we were very clear about why we were doing that. At the bottom of the cycle with historically high levels of financial gearing, we wanted to bring that down as we go through the cycle, but don't forget we've also got pretty high levels of operational gearing. We've got 2.6 million square feet of speculative office space being delivered into the London market over the next two years. Now, our economic interest in that is £1.5 billion. So we need to manage everything pretty carefully with that in mind. So we're quite happy to have our financial gearing coming down as values go up.

Further question

And is that then reliant on the growth in values or the further disposals targeted?

Answer - Robert Noel, Chief Executive

Well, a net debt neutral position has been exactly that. We had £4 billion in net debt at the end of, early part of 2010 end of 09 and we've got £4 billion of net debt now. We have been funding our accretive activity through sales of assets which we do not think are as well equipped for the future as perhaps others. So, we've been selling out of secondary shopping centres. We've been selling mature London assets or assets where we think that actually they're at great risk of perhaps not performing well in the future to fund this accreted activity. So as the "V" has been rising the "L" has stayed the same.

Further question

Okay, so can you just quantify the next couple of quarters to the middle of this year, how much are you intending to sell per quarter?

Answer - Robert Noel, Chief Executive

Well, we've got a development capex run rate of about £200 and something million a year so it's safe to assume that we will be selling at least that.

Further question

And your Overgate Centre in Dundee is that on the market at the moment?

Answer – Robert Noel, Chief Executive

I don't think we ever comment on what's on the market or not, Mike.

Further question

How about the Manchester Print works?

Answer - Robert Noel, Chief Executive

Manchester Print works, well not that I know of.

Further question

Okay, all right, just the stories we hear. Okay, thank you very much.

Question 4
Hemant Kotak, Green Street Advisors

Yes, good morning gentlemen very good progress on the residential sales. Can you just give us an indication of how the pricing at Nova compares to the £1,650 average selling price that you mentioned for Kings Gate back in November? And if there is a material difference how much of that is attributable to the timing differences and perhaps the quality or locational differences?

Answer - Robert Noel, Chief Executive

Yes, it's a great question, Hemant, but I'm afraid I'm going to disappoint you. What we said in November is that we give you residential pricing twice a year. So we give it to you in May and November. We don't give it at the interim statement, but what I will say is that the sales at Nova are ahead of our underwriting figures.

Further question

Okay, that's great. What were your underwriting figures just to remind us?

Answer - Robert Noel, Chief Executive

I don't think we gave them.

Further question

Oh, I see, okay. Perhaps first another question on residential before I, I have one more on office. Did you consider holding back on the pre-sales in residential in light of the currently rising market? It's a pretty hot market, or is that actually a reason for you to get on with these sales because there might be some concerns about a correction?

Answer - Robert Noel, Chief Executive

Proceeding with the sales is nothing about a correction at all. We have quite a lot of capital going out and we want to know that we've got capital coming in. These are being built for sale not built to rent so sell them we will, if you dump them all on the market at the same time then, you're running around. If you sell them as a steady drip feed during the construction process the process is easier and fine, you might be able to get a little bit more at the back end, but at least you've got your bases covered.

Further question

That's great, thank you. And just one question on the two new office schemes that you're going to develop 1 New Street Square and 20 Eastbourne Terrace, can you give us your projected rental levels for that given that you've mentioned that the market is rising?

Answer - Robert Noel, Chief Executive

Yes, again, sorry, I'm going to disappoint you, we'll give them to you in May with the disclosure on rental values that you will have from the valuers as at 31 March, but it's safe to assume that 1 New Street Square will be slightly ahead of New Ludgate and the New Ludgate figures were given to you in November.

Question 5
Steve Bramley-Jackson, HSBC

Thank you very much, good morning. I just had a question on 20 Fenchurch Street having taking the degree of pre-lets up. Rob, can you give us a sense as to how that may have impacted the average rent per squarefoot of £63 that you talked about back at the half year?

Answer - Robert Noel, Chief Executive

Yes, Steve a good question. As you will appreciate, at the half year the figures I gave you were on the back of about 67% and we've now got a further nearly 20% in solicitors hands, but that 20% has got to move the 67%. So although the rents are higher than the average we were talking about, the rate of increase in that average will slow down. I think we gave an average of 17 years lease term, £63 and nine months incentives to five years that average would have nudged up a bit.

Further question

Okay, a little bit, okay. The other question I had really was on debt. Obviously, interest rates are leaning upward and I've just noticed your debt's ticked up ten basis points. Can you just give us a sense as to how that is expected to travel as you go through to the full year or maybe over the next is there anything built in that will see a further increase by the full year?

Answer - Robert Noel, Chief Executive

Well, the reason it's ticked up, as you rightly comment is that we have repaid and when we sell assets we repay on our revolving facilities, of course, where the spot market levels are much lower. Much of our business is funded through our bonds which have an average price of 5%. So the more we have drawn on our revolver the lower that number will be below 5%. If we had nothing drawn on the revolver it would be exactly 5%.

Further question

And then following on from a question earlier, you're going to be disposing to match your development capex, so we should see that continue to move in an upward direction as you complete those disposals?

Answer - Robert Noel, Chief Executive

Yes.

Question 6
Kristian Bandy, UBS

Morning gentlemen, thanks very much for the update, I actually just want to ask about the retail market. It seems to me that the retail sales numbers are showing some improvement and I just wanted to know to what extent you're actually seeing this coming through in being able to charge higher rents or you're potentially seeing a greater diversity in the number of retailers which are talking to you about add-on space. Is there anything else you might be able to say on that market?

Answer – Richard Akers, Executive Director

Yes, Kristian I think what we've seen is a slight uptick in retail sales which is very good news. It's derived from increased consumer confidence and a tick down in the savings ratio. So fundamentally consumers still remain under a fair bit of pressure and we think the outlook is still quite mixed as we have said, as we said in November. Consumers are still under pressure as real wages are not really growing and disposable incomes are not really growing at the moment.

But yes, there has been an improvement in the occupation market and that continues to be evidenced in our yield position, which is falling, and our high occupancy. And yes, there is steady demand for the space in our assets and as Rob said at the outset, strong demand in certain sectors like food and beverage. I think it's too early to call that this is leading to rental growth across the board although, obviously, we do have pockets of rental growth in the food and beverage sector and in certain assets such as Gunwharf Quays where we continue to see very strong sales growth there.

Further question

Excellent, and maybe if I can just follow on from that and ask at the half year period retail warehouses were weaker than expected. Is there anything, any colour you might be able to give on the performance of those in the third quarter? Are you seeing increased demand, is there anything specifically on that asset class?

Answer – Richard Akers, Executive Director

Yes, our void levels in retail warehouse are very low. We know that some of our occupiers in that sector have had a very good Christmas. I think the growth in retail sales has been focused on big ticket items such as electrical and furniture, very positive for that part of the market. Again, that sales performance doesn't necessarily feed directly through into rental growth or valuation growth. Clearly we don't have a valuation to report, but we're very satisfied with the performance of our retail warehouse portfolio since the half year.

Question 7
Hemant Kotak, Green Street Advisors

Hi, sorry, I'm back for one more please. Just on the debt neutral strategy that you have, obviously, if the current uptick in capital values continues for a number of years that could take your leverage pretty low. Do you have a floor or will you actually stick with this debt neutral strategy?

Answer - Robert Noel, Chief Executive

I think that the best way to answer that, Hemant, is to refer you to the very consistent line we've taken on financial gearing certainly while I've been in the business and I suspect before I joined the business. In normal market conditions we would expect to offer between 35% and 45% LTV. We are in normal market conditions. We're at the bottom end of that range at the moment. We are happy to be at the bottom of that range because we've got a lot of operational leverage in the business with our developments. . Late cycle and in outlying market conditions peak and trough we say that those parameters should move to between 25% and 55% and I don't think I can give you any other guidance than that. I don't see any reason to change that guidance and as we get later cycle I'm very happy that the financial gearing, you know, eases down further.

Final remark - Robert Noel, Chief Executive

Well guys thanks very much for joining the call. There are a couple of things I just wanted to leave you with. In London, supply constrained conditions have kicked in and occupier interest has picked up, and the combination of these two things means that we're very well positioned as we have a relatively large speculative committed programme.

In Retail, the overall market remains mixed, of course, but our portfolio's well placed. It's been largely repositioned up the quality curve over the last decade with a significantly increased exposure to the leisure sector. We're seeing demand for the good locations with demand for food and beverage particularly strong. Both of these are evidenced by the increased occupation in our portfolio which is over 98% occupied.

So the portfolio is virtually full. Our net debt neutral strategy is seeing our balance sheet get stronger all the time, all this has been good for shareholders and we're pretty confident as we head into the last quarter of the year. So thanks very much for joining the call and we will see you in May.

– ENDS –

Forward Looking Statements

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