Land Securities Investor Conference

Friday 26 September 2014

Speaker: Robert Noel – Chief Executive

Slide – Title slide

Good morning everyone, a very warm welcome to our London Investor Day. As usual the aim of today is really to spend some time in less formal surroundings with all of you, than the Presentations at our Results and also our one to one meetings. And also for you guys to get to know some members of the team or most of the members of the team you don't normally interact with.

As you know we normally alternate these days between a London Day and a Retail Day. Today as you know it is predominantly about London. But after my introduction, Scott will give you fifteen minutes or so on what has been going on, on his side of the business. As you know there is quite a bit of change going on there. The rest of the day will then be led by Colette and her team.

So for my slot I would just like to spend a few minutes reminding you about how we run this business. And I am not going to talk about specifics because these has been covered at results and we will cover more specific when we see you in November. But as I said in our Results Statement this year, our current strategy is shaped by three key factors. First a recognition that the markets we operate in are cyclical. Now this factor underpinned the much greater risk we took earlier on in the cycle as you saw with our earlier commitment to build at scale. A £3 billion programme committed so far since the beginning of 2010. As the cycle advances so we need to reduce our speculative risk. Second occupier requirements in all our product lines are constantly changing and this is driven principally by the way human behaviour is evolving and we need to be very, very keen anticipators of change and acutely aware of it.

Third, as a property company we deal with buildings and we operate within an affect existing communities. And it is essential that we ensure that these communities are pleased it is Land Securities that is operating in their neighbourhood, because trust in Land Securities is vital. And you will see clear links back to these factors throughout the day. The third factor we don't talk about very often, but it is very important as we will come onto.

So during the global financial crisis, this business was effectively forced to sell assets and raise new equity from existing shareholders in order to reduce debt. We were unable to take advantage of the opportunities that were around and as you know we were not alone. Since emerging from the crisis, we have had a laser like focus on developing and owning assets best suited to the emerging customer behaviour.

Slide – Recycling capital and Group Loan to Value

This cycle in order not to end up in the same situation next time, of course there will be a next time, no one knows when and no one knows how deep it will be. We have been running a broadly net neutral approach to our business. That is to say our acquisition and development activity is being funded by sales rather than increased debt. We have been selling assets that are less well equipped for change, mostly non dominant shopping centres, as Scott will come onto, and making opportunistic sales such as Park House and Bankside which you know about.

And as we have captured healthy valuation gains, particularly through our development activity, this net debt, neutral approach has steadily strengthened the business. Since our last London focused Investor Day two years ago, our strategy in London of developing of scale early in the cycle and in retail of reshaping the portfolio, has gathered pace, particularly over the last year. And you will have seen development surplus that we have generated to date and there is plenty more to come as you will see later.

So the business is in great structural and financial shape from having short leases in London and a large tail of secondary retail assets at the top of the last cycle. We have been building and trading our way to a position of increased strength. And this cycle by the time we have completed our development programme, we will have a retail portfolio of appealing and dominant or convenient environments and much longer average unexpired lease term in London, offices and a more conservative LTV.

Slide – Sustainable business

So I would just like to expand on the third factor that shapes what we do. And that is to ensure that communities are pleased that it is Land Securities that are operating in their neighbourhoods. And as I said we don't really talk at our results about that stuff because there isn't time, but it is a vital part of what we do. Particularly with reference to our licence to operate from local authorities as you will hear from Colette later. Our place making, allied with local employment and procurement efforts at Trinity Leeds are an exemplar of this strategy in action. Leeds City Council are delighted with what we have done in Leeds and they are delighted with the way we have gone about it. If we had not behaved the way we had, would we have achieved our out of policy consent to extend White Rose with a leisure and cinema scheme? Almost certainly not.

With our employment strategy, we have brought our supply chain together across our London projects to create training opportunities for school leavers, long-term unemployed, homeless, ex-offenders on our building sites. Since we started, we have provided training for 658 people of whom 478 have moved into employment in our industry. Now Westminster City Council, the City of London and the GLA are starting to see us as a force for good. And this is what we call Shaping the Future for Good. And it will help ensure that Land Securities itself is a sustainable business. Now you may think this is fluffy, but guys this is becoming mainstream and so it is very important for our future.

Slide – Title slide

So we have morphed over the last decade from being a rent collector to being an active recycler of capital acutely conscious of operating in a cyclical and changing market. A performance culture. And although we operate in two broad market sectors which behave differently and we are comfortable in doing so, it is crucial that we operate as a seamless team with crystal clear ownership and accountability throughout the business.

Enclosed in the Appendix to your pack I hope is a chart setting out what those responsibilities and ownerships are in the business. If you pull a string to any real estate activity within Land Securities, then one of the guys on that chart will be at the other end of it. And in turn either Colette or Scott, on whom, let me just say a couple of sentences of introduction before I hand over to them.

As you know, at the end of the last financial year, I chaired or until the end of the last financial year I chaired our London business and Richard Akers chaired our Retail side. When Richard decided to step down, we went through a formal, thorough process to consider internal and external candidates for the London and Retail roles. In a business the scale of Land Securities, where we have plenty of sector specialism within the business, each of these positions requires leaders who can listen, communicate, not collude with failure, have managerial courage and make a call.

Both Scott and Colette were the stand-out candidates and first choice for the roles. They both show these qualities in spades. And I am delighted that they are in position and they have achieved so much in their first six months. So Colette joined Land Securities in 2003 from the Mercers company and became Head of London Development in 2008. Scott joined Land Securities in 2002 after ten years with GE Capital. He then went to Brookfield in 2005 and returned to Land Securities in 2010 as Property Director in the London Portfolio.

So with that introduction, please enjoy the day. I look forward to catching up with you on the tours for the rest of the day. I am going to hand over now to Scott to talk about what has been doing on in the Retail Business and then he will hand over to Colette and her team who will take over for the remainder of the Presentation and the Tours. Thanks. Scott.

Speaker: Scott Parsons – Managing Director

Slide – Title slide

Thanks Rob. Good morning everyone. So officially I am about six months into the new role and I have to say it has been a bloody busy six months. So I haven't had a lot of spare time lately, but whenever I could, I have tried to use that time over the last six months to listen and to visit and to learn and just to cast a fresh set of eyes over our Retail Portfolio. So before we move onto the slides, if you will just a allow me a little bit of introspection.

Now, I spent four years as Head of Property for our London Business so I know I am biased, but I believe that our London Business is absolutely best in class. And I am not just saying that because today is Investor Day and London focused. And our Retail business, well in talking to lots of people, agents, retailers, investors, actually many people in this room, pretty much the universal view on Land Securities Retail Business was that it was good. Good. Integrity, design, passion for retail, corporate responsibility, there were lots of areas that scored top marks. But equally there were a few areas with room for improvement. Speed, boldness, clarity of our strategy and a tail of weaker assets within our retail portfolio.

Well for me, good, just is not good enough, especially in this rapidly changing retail environment. And you all know Rob, so I am sure you can probably guess his views on the matter. What I want and what the new Retail Management Team wants is for our retail business to be absolutely best in class. And I think it will be. The Retail Executive Team or Rexcom as we call it, they are all here today and they are fired up. Our structure is leaner and meaner. Accountability is clear. If it is a shopping centre the buck stops with Ailish. If it is a Retail Park or Leisure Asset with Polly. If it is in development, it is Lester and our Head of Retail Finance, and she is going to kill me for saying this, Despina is a financial guru, she is brilliant. We have a very clear strategy which I will get onto in a minute. But first, and forgive me if I am teaching grandmothers to suck eggs, I would like to give our strategy a little bit of context by just spending a few minutes on the retail environment.

So the Retail Market. Now I am sure you have all heard Rob, me and pretty much everyone on the Land Securities Retail Team use the words dominance, experience and convenience. Very simply, we think that retail property that has these three characteristics will prove resilient and the rest will decline. Here is why.

Slide – Technology

First let's touch upon technology and its impact on Retail. Now I've got four kids and the technology they have got their hands on and their ability to use that technology constantly amazes me. As consumers, my kids have a degree of power that would have been unthinkable when I was young. The power of choice, the power of comparison and independence. They can be consumers without even getting their mum to drive them to the shops. And that is complete with next day delivery. They are incredibly well informed. And because they are so well informed they are incredibly demanding. If a retailer doesn't meet their demands, be it on price, location, environment, delivery, whatever, they have plenty of alternatives out there. So with that in mind can bricks and mortar attract today's demanding, fickle and super informed consumers or is physical retail doomed?

Slide – The consumer choice

Well it is not quite as black and white as that. As we have said many times before, it is a situation of polarisation. Some retail locations are in structural decline. Others will thrive. And that is where dominance, experience and convenience comes in. Now we survey over 25,000 shoppers every year in our centres. So what trends are we identifying? Well online and only channel sales are increasing, no surprises there. But critically, consumers are still drawn to bricks and mortar only to the right bricks and mortar. Centres that offer dominance and experience are doing well and will continue to do so. People are social creatures, but with time being their most precious commodity, they are using their increased power and choice as consumers to spend their time in centres that do for them what sitting at their laptop can't do for them. To touch, to experience and to socialise. Consumers are used to having a wide range of choice online. Now that means that only dominant centres can compete with this wide range of choice because they have the quality of offer that suits their catchment. They offer a choice between a wide mix of brands. They carry a retailer's full range and all sizes in stock and they offer good connectivity, both digital and physical. The consumer experience is also key. Bricks and mortar that provides a stimulating environment makes it worth it for customers to get off that sofa. Experiential centres need a strong identity, a broad range of food, drink and leisure on offer. Diversity, vitality, maybe even a little dose of culture. A place for us to be social creatures.

And now onto convenience retail. With time being precious and so much choice available, only bricks and mortar that makes things easy, quick and convenient for consumers will survive. Free parking, click and collect facilities, easy way of finding, strong locations. These are all things that help consumers use their precious time well.

Slide – The consumer changing shopping habits

The next slide sums up our view on the bricks and mortar winners and the losers from a consumer's point of view. Now you will see footfall is down pretty much across the board and yes broadly it is evened down in dominant and experiential centres because people are visiting less often. But it is not just about footfall is down pretty much across the board and yes broadly it is evened down in prominent and experiential centres because people are visiting less often. But it is not just about footfall. Importantly dwell time is up. So when consumers come, they are coming from further afield and when they get there they are spending more time and more money and they are spending it in more ways. You will probably remember this point from the Investor Day at Gunwharf Quays last year. With convenience retail consumers know what they need so they are in and out quickly. They are visiting more often and they are spending more overall. Now bricks and mortar without any of these three characteristics, dominance, experience and convenience, you can see very clearly from the slide, it is all red arrows.

Retailers. So how are retailers surviving the increased power and demanding nature of today's consumers? Well many of them aren't.

Slide – Retailers logos

These logos graced our high street for generations and now they are all gone. Now we used to want our retailers to sign nice long leases and then we would sit back and we would collect the rent. Well that is not always the case anymore. Things are changing fast and we have got to be bolder. We have got to be making sure we have got the right retailers in our centres and the ability to get them out if they are the wrong ones. The retailers themselves, and I have spent a hell of a lot of time with them lately, well they want what we want and it all comes back again to dominance, experience and convenience.

Slide – Retailer trends

Take fashion retailers. Now fashion retailers want fewer, bigger stores. Stores where they can showcase their range from the absolute best destinations. They don't necessarily need 250 stores to cover the UK market. Stores are expensive to fit out and to staff. And margin locations can be covered by good digital platforms.

Now food retailers are doing the reverse. They are seeking many more units, but in much smaller convenience format. In summary, the retailers are being incredibly choosy when it comes to where they are locating their stores. And in an over supplied market, they can be. And to survive they have to be. That means that the wrong locations will see at a minimum, declining rents and at worst long-term voids.

So that means there will be winners and losers out there in the retail property market and we are absolutely determined to have a portfolio of winners. So that leads me onto our Portfolio.

Slide – Portfolio evolution

Now I think you have all see these two pie charts at our Prelims Presentation. And they demonstrate how our Retail Portfolio has changed since we converted to REIT status in 2007. It is going to continue to change. Let's first take a look at that smaller slice of pie.

Slide – Secondary shopping centres

Secondary shopping centres. In a nutshell this slice of pie is going to disappear. Since starting in my role we have sold Dundee, Sunderland and we have exchanged contracts on Cabots Circus in Bristol. A centre that we did not even class as secondary, but more on that in a minute. Now I won't sugar coat it. We sold these centres because they were take it or leave it locations for Retailers. They're locations were very little or no rental tension exists today. And we see that situation as getting worse not better over the coming years. So although we may have sold at higher yields than Bluewater which I will touch on a bit later, we don't expect this to be the case going forward. And if and when rents stagnate or decline further in these centres and voids increase, we will be very glad we took advantage of the current market window to part ways.

Now Cabot is worth a specific mention because you may be thinking it meets our dominance and experience criteria. Well we used to think so too. But because the retail market is changing so too has our view. And today we don't think it meets our dominance criteria, at least not without significant capital investment. Capital that in our view will not provide an adequate return on investment. Cabot was let at the top of the market, and remember that Cabot is not just Cabot. Our JV interest included adjacent high street and secondary retail units that bring the yield up. And remember too that dominance is very tricky in Bristol. There is a lot of competition, from Broadmead to Clifton to Cribs Causeway. And if you put me on the spot and ask me which was the dominant centre, hand on heart I would have to say Cribs Causeway.

I would like to now move onto our suburban London shopping centres. For the record and to be clear, these are not on our sales list, even if you may equate one of two of them with the word secondary.

Slide – Suburban London shopping centres

These are big chunks of real estate right in the heart of the UK's engine room. London and the South East will be at the forefront of UK population and economic growth. Many of these assets have low site coverage and are in locations experiencing rapid demographic change. Land Securities may have two business units, but we are one company. And the expertise we have in developing London sites when combined with our retail and leisure expertise, means that these centres are worth hanging onto and exploring their potential. There is scope to increase density and mixed use.

Take Finchley Road for example. Now this is a 10.6 acre site with a huge surface car park in an area of London where resi values have soared. Clapham Junction station, some day it is going to be redeveloped and we will have a seat at that table because of our ownership there. At Lewisham and Shepherds Bush the demographics in surrounding areas are changing. They are rapidly gentrifying as large numbers of young professionals are moving into nearby resi developments. So these are holds and of course they will be relentlessly asset managed while we explore their potential for up-side.

Slide – Dominant shopping centres

Okay, now onto dominance. Now this slice of pie is growing and is growing already thanks to our acquisition of the managing stake in Bluewater. So let's talk about Bluewater.

Yes we paid a full price, but remember these assets trade incredibly rarely and when the bidding started we were in it to win it and are delighted with the outcome. The strategic merits of the deal are plentiful. We are now a must go to provider for retailers because we manage the centre that is typically a retailer's first port of call outside central London. We have acquired a dominant and experiential centre in the South-East where we were very keen to own more. And a few weeks ago we integrated an excellent management team. And we have acquired a resilient and growing income stream, while selling assets that will be less resilient into a strong market. And we are confident that Bluewater will perform well. In time for Christmas American Eagle will open their first store outside Central London at Bluewater. We are reducing voids with six lettings since acquisition totalling almost £2 million of rent per annum and ahead of overall ERV. We are going to reduce the number of small units and upsize the MSUs. And we have got Next in solicitors hands to do just that and a couple more in the works. With the skills we acquired with our X-Leisure acquisition, we are upping the anti on leisure and catering front. We have got the third best performing Five Guys Unit in the world. And we are coming up with our plan to transform the Glow space to add to the consumers experience.

Now I have said this slice of pie is growing and it is growing even beyond the acquisition of Bluewater. Over the coming months we will be working tirelessly to get to a decision point on two fantastic development opportunities. At the Westgate Centre, Oxford, we have planning consent along with our JV partners the Crown Estate to refurbish and extend the centre to create a world class scheme in a world class city with a world class brand. Oxford is the number one city on UK retailer requirements and yet it is a city that is woefully undersupplied in terms of retail space. You don't hear that very often any more.

In Glasgow we have got the opportunity to create the dominant scheme in the heart of the UK's number two retail destination. Both schemes can deliver a consumer experience that builds off our success at Trinity Leeds and takes it to a whole new level. So watch this space.

Slide – Shopping centre portfolio 2007

Now before we move onto the other areas in our Retail Portfolio, let's just take a look at how our shopping centre portfolio has changed over the last few years. In 2007 we had about 25 interests spread throughout the UK. And today well we are headed towards about a dozen. A dozen centres that provide resilience in a rapidly changing retail environment. So that is more than £1.2 billion in transactions since I started.

Slide – Shopping centre portfolio 2015

Now I can't think of another property company out there that has demonstrated such scale and pace of transformation. If you only remember one fart from my Presentation today, that is the one. The scale and the pace of our transformation.

Slide – Retail parks

Let's move onto our retail parks. As Rob has said many times before, every asset has a plan. And our dominance, experience and convenience criteria applies to our Retail Park Portfolio too. We have moved away from standalone food stores and pure bulky goods parks which accounted for roughly 40% of our Retail Park Portfolio in 2007. Today bulky goods and standalone food stores account for less than a quarter of our parks. And in fact we have only got three standalone food stores left in the portfolio and they are not long-term holds.

But for me it is not just about bulky goods versus open A1, it is more about convenience for the consumer and good old fashioned demand and supply fundamentals. If a retail park's dominance is in question because of oversupply and a lack of rental tension or retailer interest, we will look to sell. And that is in order to focus on parks that dominate their catchment that have a good line up of retailers and increasingly catering and are convenient for consumers. Parks like Bexhill and Lakeside in our investment portfolio. And in development like Taplow which we completed in July and Worcester Woods where we are soon to submit our planning application.

Slide – Leisure

The final slice of pie is our Leisure and Hotel Portfolio. Now this slice of pie didn't really exist in 2007 but we grew it rapidly with the acquisition of X-Leisure. On the face of it this slice of pie would be shrinking, but this is deceiving. Our standalone Leisure and Hotel Portfolio will shrink, but the overall leisure content in our portfolio as a whole will continue to grow. So effectively the lines between those slices of the pie will blur. It all comes back to our consumers and their desire for experience. With X-Leisure we acquired the absolute best Leisure Team in the UK. And the asset class is becoming institutional. The market is maturing, rents are growing and yields are on a downward trend. The tenant market is expanding and voids are low. We acquired both the Accor and X-Leisure assets at a good price and will now look to sell some of these assets into a strong market and retain those with the best prospects. In terms of Accor, this has been a great performer for us and now sits comfortably in our wider leisure portfolio. And don't forget that most of these assets are underpinned by vacant possession or site value, so below replacement cost and their income was resilient through the downturn. We will look to keep the hotels that have the best prospects for income growth and those mainly in London and South-East that we see as having long-term redevelopment potential and the highest site values. We will look to sell the others.

And with our leisure assets we see no radical change for the moment but looking ahead we may look to exit some of the smaller standalone leisure assets, again selling into a strong market, while focusing on the larger assets and development opportunities such as Film Works in Ealing and the leisure extension to White Rose.

Slide – Dominance, experience and convenience

So that about sums me up. Now I have seen both sides of Land Securities. And I can say with confidence that our Retail and our London businesses are completely aligned. So capital allocation decisions are holistic and complementary. We need a retail business that provides a resilient income stream in a changing retail environment, or silver bullets as Rob calls them. And as I said at the start, that is what we are determined to be, a best in class retail business, characterised by, and I will say it one more time, dominance, experience and convenience.

Now, and speaking of ‘Best of Class’ I will hand you over now to Colette and the London Team. Thank you very much.

Speaker: Colette O’Shea – Managing Director, London

Slide – Title slide

Good morning everybody and welcome to 20 Fenchurch Street. I am here today with my Senior Team, Marcus Geddes, and Tom Elliott who between them have over 30 years investment and asset management experience, Oliver Gardiner who has had a successful 12 year career with Land Securities and is now our Head of Development, Kaela Fenn-Smith, who since she joined us in 2010 has let more office floor space than anyone else in London. And Tom Eshelby, who unlike the rest of us has pure residential background and has led our successful residential programme since he joined us in 2010.

So the format of today, we will give you a Presentation on London followed by Q&A which will be about an hour and twenty minutes. We will then have a tour of this building. We will then take coaches to Victoria where we will have lunch in the Marketing Suite and then we will have a tour of the Victoria buildings.

Just on a point of order, the data that we are using in our Presentation today is what you saw in May. The only new information which I am going to mention to you now are the three deals we announced this week. So a letting to Kiering at 62 Buckingham Gate, which takes us to 73% let or in solicitors hands, a letting to Jupiter at the Zig Zag Building which takes the percentage let to 35% and a letting to Vincent Elkins of this floor, taking this building to 90% let.

So today is all about showing you the best of Land Securities, to demonstrate we have a sustainable business and that we are a good investment. It is fitting we are here today in 20 Fenchurch Street which I believe showcases us at our best. Now you all know Rob and Martin so you will understand the clear strategy for the business. You will also be aware that the London property market is cyclical and due to our scale, we prefer early cycle development. You know our view that there are specific moments to buy, to sell, to develop and manage and the timing is crucial.

Slide – London Portfolio

So you press the development button early in 2010 because we saw supply constraints and conditions. That decision is rewarding investors today.

Today we will take you through the London business activities and show you how we combine people, planning and a focus on excellence to drive results.

Slide – A focus on excellence

Our focus on excellence means Team excellence, operational excellence, delivery excellence and of course excellence at reading the market. So first I will talk about my team. My leadership team is responsible for all aspects of the business, including performance, targets and risk management. We operate with strong governance, good discipline and empowered senior managers. And between us we strive to have unravelled knowledge of the London market, our customer and the kind of space they want. And that is what we develop. For me, another important differentiator is that we manage our properties in-house which enables us to have strong, direct links with our customers. And the other difference is that we retain some in-house specialisms such as project management and engineering.

Slide – Intellectual firepower

And what this means is that we can provide a high standard of customer care, but we also get direct insight into our market and the thinking of our customers. And we then have the in-house expertise to convert this into a product and to sell that product. I believe it is our intellectual fire power that underpins our physical property and it is that which creates and sustains value.

My approach to leading the London Team is to keep things direct, focused, action orientated and to make accountabilities clear and lines of communication short.

Having talked about the Team, there are three other areas I am now going to talk about, what I am going to describe as my Property Trinity.

Slide – The "Property Trinity"

The first, day-to-day operations. This is about getting it right 24/7. Our customers are vital to our business. We need to deliver the right product and service to them in order to gain and retain them. Our size in conjunction with our intellectual capability means that we can flex our approach to our customers' needs. This makes sense to us, not least because it is cheaper and easier to retain customers rather than throwing money at trying to find new ones. But it is also important for our residential customers, who may be repeat buyers, or because they may pass our name onto their acquaintances. Our residential customers have the most exacting standards and a desire only for the best. Our retail customers are constantly searching for the best locations. Our commercial customers are operating in many sectors, but they have one thing in common and that is they are in a war for talent.

Offices and locations are becoming as important as remuneration now in terms of recruitment and talented millennials are becoming increasing demanding about their work space. I think our new offices meet this demand. We have a premium product in the best central London locations and this, along with our ability to compete on productivity, in combination with a shortage of supply, will deliver value added for Land Security shareholders.

Now the second thing we focus on is selecting the right developments, then delivering all aspects of them to plan. So from commissioning architecture to striking competitive building contracts, from negotiating planning hurdles, to creating places, from leasing to fitout, we have to deliver and we do. And of course, as I said earlier, we have to get our timing right. Successful development is all about timing. Having the confidence and market knowledge to start schemes at the right point in the cycle, and the discipline to stop as risk increases. This requires patience and a long-term perspective. Large, important buildings require detailed design and planning and meticulous attention to detail. And the ability to adapt to changing market conditions. And I think this building here today at 20 Fenchurch Street, demonstrates all those qualities.

I guess it should come as no surprise to you that we already have a team reviewing the next phase of London developments targeting sites that will take us beyond the current cycle. We have to think about what will the economy of London look like? Where will there be demand? What new transport connections will there be? How will customers use of office space change? These are just some of the questions we are asking as we size up targets.

Now my third focus is to constantly invest in our relationships. I call this our licence to operate. And it may surprise you that we put such an emphasis on this, that in my 20 plus years in property, this part of the business has grown even more important to creating a sustainable business. Securing planning consents and positive endorsements for the company are absolutely vital. We know the City of London Corporation, Westminster City Council are likely to be our planning authority for at least the next ten years and they have very long memories.

So our actions need to be sustainable, long-term and beneficial to the local communities if we are to remain a sustainable business. And our license to operate extends beyond the borough boundaries. The GLA and Mayor's Office are increasingly important as is the Department for Communities and Local and Government. Indeed our licence extends beyond Government. The property world particularly that focus on central London, is a very close knit community. Our relationships and reputation with the professionals and commentators who operate in this space is our life blood. The Team puts a great deal of effort into creating and maintaining these relationships because it is a currency that we will be spending in the future.

We invest heavily in shaping the future for good, not only with our time, but with our influence. This is why we started the London Employment Programme that Rob mentioned earlier. It is our dual response to the challenges of a shortage of skilled construction workers, unemployment and its associated problems. We used our influence to forge a partnership of construction companies, public bodies, educational establishments and charities, to create employment opportunities for some of London's most disadvantaged people. That has enlightened self-interest and is an investment in our future that we are confident will help our licence to operate for many years to come.

It is initiatives like this that engender trust in Land Securities and that creates value in numerous ways from gaining and maintaining customers to expediting planning consents and I think it is the trust in the Land Securities name and reputation that is a real source of competitive advantage for us.

Slide – A focus on excellence

So as I said at the start, our focus is on excellence in everything that we do. Our knowledge of the customer and the market, our operations, our delivery and, of course, our excellent Team.

Slide – Team excellence

So the format now is that we will start with Oliver who will give a development update, followed by Kaela who will give a leasing and market update, Tom will then talk about our residential activity and Marcus and Tom Elliott will then finish with what we are doing within the Portfolio.

I will now hand over to Oliver.

Speaker: Oliver Gardiner - Head of Development

Slide – Title slide

Thank you Colette. And good morning everyone. I am going to provide an update on our development programme. Set out how our Portfolio is progressing and I will conclude with some commentary on our development returns.

Slide – Green circles

We were one of the first developers to begin building again after the downturn. And since starting in 2010 we have committed to a total of 3.3 million square feet, all speculative with our share of total development cost at £2.4 billion.

Now development is about timing, opportunity, risk and returns. And our portfolio is predicated on achieving the right balance of these principles. In terms of risk management our programme is diversified and we are delivering our schemes through a combination of joint ventures, mixed use development, phasing and as you know, fixing our costs early.

Slide – Land Securities' London developments - Construction contracted

We have an exemplary track record in construction contract negotiations and scheme delivery. And this is a slide that Rob has shown you before. The contracts for our schemes have been procured over the last five years and our build costs are at advantageous levels relative to pricing today. And in starting early we have also secured some of the best contractor teams to deliver our buildings. We push ourselves in both engineering and innovation and future proof on specification. We believe we have some of the most technically resilient buildings in the marketplace today and that they are engineered to cater for the future demands of the workplace.

Our Master Plan for Victoria is advancing and our vision to transform this core area of London is really starting to take shape. What is more, the sequential delivery of our developments together with the scale of change we are creating and the occupiers we are attracting is adding value all the time.

So I would like now to run through our Portfolio, beginning with the three schemes we started in 2010.

Slide – 2010 and our start of development

Park House, as you know was sold just after we started, crystallising all our anticipated surplus early and tax free. Wellington House, our first prime residential development, was completed at the end of 2012. A total of 59 units and all were sold pre PC. And at 62 Buckingham Gate, completed last year as the first piece of the jigsaw of our programme for the office buildings in Victoria this cycle. This building has attracted internationally renowned tenants, including Rolls Royce, Bill and Melinda Gates Foundation, Woodfield Services and Schlumberger.

Slide – Quality design and finishes

Opposite here is 123 Victoria Street. Here we transformed a 200,000 square foot 70's office building, previously occupied by the Government, into one that attracted leading fashion brand Jimmy Choo to take 48,000 square feet for its London office relocation. I don't think you can get two more contrasting occupiers for the same building. That 40 year old property is the perfect example of how we interrogate and advance design development on our schemes and attract the tenants that we do.

On this building, we redesigned the loading bay and rear to create a new entrance onto Howitt Place, a recognised fashion address and opposite Tom Ford and Mark Newson. We also introduced new terraces and much more natural light to create space inspiring for business. This building is now fully let.

Slide – The Zig Zag and Kingsgate

Back across the street and we are building Kingsgate and Zig Zag. These are two separate buildings. Zig Zag an office building on the left and Kingsgate a residential building on the right. And at ground level both buildings have restaurant and retail space. Zig Zag will provide 189,000 square feet of excellent offices and the design of this building has allowed us to introduce terraces to over 50% of the office floors. We have also created a communal terrace on level 10 for use by all the occupiers.

Slide – Kingsgate apartments

And at Kingsgate next door, our experience in developing and delivering prime residential at Wellington House has been applied and is something Tom will talk more about in a few minutes. These two buildings will complete next summer into an improving West End market.

But it is not just the above ground. Below ground is also important.

Slide – Resilient power infra-structure

Now some of you will be aware of the recent power outages in the West End. The availability of power is a key issue for central London and something we think is underestimated by many. In Victoria the existing power network is not sufficient for our schemes. To overcome this we set out to work with UKPN and install a new primary substation into the basement of Kingsgate and Zig Zag. This substation will be one of the first constructed in the West End for 20 years and will be online next year powering Kingsgate, Zig Zag and Nova. We have also recently worked alongside UKPN in the City on the construction of another primary substation which will provide power to our new Ludgate development. Our work with UKPN over the last couple of years has given us competitive advantage on future-proofed power infrastructure for our Victoria and City schemes and has made Victoria one of the most resilient sub-markets in the West End.

Slide – Nova aerial

Following Kingsgate and Zig Zag is Nova, our joint venture with CPPIB and it is worth noting a few details. This is our largest project. It comprises just under a million square feet in five buildings across 5.5 acres. We are committed to Phase 1 in spring last year and it will complete in July 2016.

Slide – Nova construction aerial

It is the largest top down construction project in Europe. Add to this operational tube lines, two major sewers, crossrail to safeguarding and you will get an idea of what the team are dealing with at site level. We are on programme and substructure works are all advancing to plan. There is no doubting that this is a major development for us and we are well equipped to deal with it.

Phase 1 is a total of around 700,000 square feet comprising the Nova Building, which is 170 apartments outlined in green. Two self-contained office buildings, Nova North and Nova South, outlined in orange and new public retail and restaurants shown in blue. Phases 2 and 3 are outlined in pink and the site is currently in the control of London Underground for their upgrade works to the Victoria Line. These works will improve capacity and also include a new entrance and exit directly into Cardinal Place. We are due to get the land back in 2016.

Slide – Nova offices and residential

The offices will be exceptional and the occupiers will have a superb environment to work in, with new shops, restaurants and public space. And this is something Marcus will touch on later. We are confident in our leasing strategy and we are already receiving good interest. And as you know from our Results Announcement in May, our residential has pre-sold very well and Colette will update you more on that in November.

Slide – Perfectly sized floor plates

Now away from Victoria and we have two other schemes in the West End. First to Paddington and at 20 Eastbourne Terrace this is the third and final building of our 10-30 Eastbourne block to be comprehensively repositioned. It will offer creative, well designed floor plates of just under 6,000 square feet over 16 storeys and similar to Zig Zag will have a shared roof terrace at the top of the building. PC will be in February 2016. This scheme should hit a sweet spot of demand for small floor plates that aren't currently available. The building is located right next door to Paddington Station and adjacent to the new Crossrail Station which means connectivity will be excellent.

Slide – More retail in Oxford Street

Our other scheme is Oriana Phase 2 on Oxford Street, our joint venture with Frogmore. Following successful completion of Phase 1, outlined in pink, our plans continue for the second half of the block. Phase 2 outlined in green is 72,000 square feet of new retail space and 18 private apartments. The scheme is 64% let to two retailers already, Primark in a deal that extends their existing store by 40,000 square feet and to Shoe the fashion footwear retailer. Demolition works are close to completion and main construction will begin shortly. PC will be in November 2016 and this is two months later than previously reported due to a vacant possession delay.

Slide – Speculative development in the City

Now I would like to move over to the City and to the building that we are in today. We started this 690,000 square foot office tower speculatively four years ago in joint venture with Canary Wharf. We are now 90% let, average rent at £63 a foot and average lease term to first break of 17 years. We started handing over the offices to our tenants in April, right on programme and the solar shading works are well under way, due to complete at the end of this year. The roof gardens and restaurant space above are also due to be finished at the end of this year and ready for public access in January.

Slide – The centre of Central London, New Ludgate

I would like now to go over to EC4 and to New Ludgate. Here we demolished the previous buildings in 2011 and negotiated a fixed price bill contract which allowed us to start construction with maximum flexibility. We started building in August last year and PC will be seven months from now. Since March this year we have let 61% of the space on 20 year leases and you will hear more from Kaela on this shortly.

Slide – The centre of Central London, 1 New Street Square

Around the corner from here is Number 1 New Street Square. Construction began at New Street Square in January this year and PC will be in June 2016. It will provide over 250,000 square feet of offices. Both New Street Square and New Ludgate are located less than ten minutes walk from Farringdon Station which is the interchange with Crossrail and Thameslink.

Slide – Crossrail Farringdon and Blackfriars stations

Once Crossrail completes at Farringdon, it will be one of the best connected stations in the centre of central London. And what's more, Farringdon will be the only station that will give you access to London's five international airports with direct connections to three of them. Our two schemes are set to benefit from this major transport hub being on their doorsteps and in the heart of this dynamically changing area of London.

Slide – Construction at full tilt

So our construction is at full tilt. Our leasing and sales activity is also advancing well and we are taking full advantage of fixing our construction contracts early, starting our schemes speculatively and delivering them into supply constrained markets. So what does this all mean for our returns?

Slide – Development returns

This slide summarises the Group's returns across our developments as at March and has been included in our disclosers previously. In terms of development profit or valuation surplus, the London schemes have so far generated just under £500 million, with £269 million of this generated in the twelve months to March this year. 76% of the total London surplus to March is from 123 Victoria Street, 62 Buckingham Gate and 20 Fenchurch Street. These schemes are indicative of how our developments can perform as activity progresses through construction, leasing and completion.

I am going to use 20 Fenchurch Street and New Ludgate as case studies to illustrate how using TDC and market value, valuation surplus is captured as our schemes progress through construction and leasing. So beginning with 20 Fenchurch Street.

Slide – 20 Fenchurch Street

On this chart I am going to plot cumulative scheme TDC and separately market value for the period of the construction programme of the project to March 2014. First the TDC in black and second market value in blue. Values for both are on the left hand scale and time is on the X Axis. I am now going to add in the cumulative valuation surplus or development profit at each March and September valuation date during the construction period using the green bars with values on the right hand scale. You can see that increase in profit over the construction period, particularly between March 2013 and March 2014 and our share of valuation surplus at March 2014 was at £137 million. This valuation surplus is down to strong leasing activity, market demand and given the stage of the project now, significantly reduced development risk. For illustrative purposes, if I assume a 5% exit yield to calculate potential future value of the building and assume a straight line increase in value to our next valuation dates, and you can see the potential surplus outstanding.

Slide – 1&2 New Ludgate

Let's compare this to New Ludgate. And remember New Ludgate was unlet at March. Using the same chart I will now add TDC, the black line, market value to March 2014, the blue line and then cumulative valuation surplus, the green bars and you can see the development has already generated a £32 million surplus to March 2014. If I now include our deals to Rizaho and Ropes and Gray and again assume a 5% exit yield, you can see the level of potential profit that can be realised in the future. The profile of increasing valuation surplus as development progresses and risks reduce is consistent across the remainder of our development programme.

Slide – Title slide

As I said when I started, we were one of the first developers to begin building again after the downturn and you can see the results coming through. Development really is about opportunity, risk and timing. Let me now pass you over to Kaela.

Speaker: Kaela Fenn-Smith - Head of Commercial

Slide – Title slide

Thanks Oliver, good morning everyone. Since One New Change completed in October 2010 we have let 1.6 million square feet across our London developments. And of the 350,000 square feet of office space let, since April of this year 92% of it is on 20 year leases and at leading market rents.

Today I will cover three main areas. First how we understand our market, second how we understand our customer and third how understanding these inform our building design and leasing tactics.

Slide – Market, customer, design

The inter-relationship of these three areas enable us to get our timing and our product right in order for us to transact most effectively. From day one the leasing team is heavily involved in the design of our buildings. We determine who our potential customers will be and these sectors influence our design. Market data influences our timing for delivery. And as each development progresses we study the tone of the market and our customers which enables us to deliver results.

Slide – Supply, Central London, May 2014 – Development completions

So let's start with the market and a quick look at supply out to 2018. You will all be familiar with the supply story and Rob showed you this slide back in May. But what has changed in the past four months is that building completion dates have shifted and potential supply has increased in 2017 and 2018.

Slide – Supply, Central London, September 2014 – Development completions

The most important take-away from this slide is that we are delivering our speculative developments at exactly the right time. I think it is also important to compare a pre-let development to a speculative development. A true pre-let is when a lease transaction is required for construction to start.

Slide – Pre-lets

And you would be surprised to know that since 2011 true pre-lets have only accounted for 5% of take-up in the City and 2% of take-up in the West End. So the majority of take-up is in built buildings or those under construction. What this means is that developers need keen foresight.

Slide – Tenant demand

Now let's talk about something we don't often hear about, tenant demand. Who is going to let all of this office space? On a positive note we have just seen one of the highest levels of take-up across central London this past quarter since 2007.

Slide – Tenant demand

And there is evidence that the financial sector is gaining confidence.

Slide – Active demand in Central London – Sector and space requirement

When looking at demand we analyse it in two ways. Potential structural demand by lease event and active demand. There is currently 8.9 million square feet of active demand in central London. And looking at this slide we can see how it is broken down by sector with the key active sectors being financial, media, corporates and professional services.

Slide – Active demand in Central London - Sector and location requirement

And looking at the next slide we can see how much of each sector wants to locate in the City, West End, Docklands and those who are flexible across central London. Interestingly looking at the grey shaded area, we are seeing some of the traditional West End financial businesses looking across London and into the City such as Franklin Templeton and Pantheon Ventures.

Slide – Active demand in Central London - Sector and primary motivation

And in this next slide we see what is driving the move across each sector. In the key sectors of financial, professional services and insurance, a structural lease event is the predominant driver. Occupiers such as Cleary Glottleib, DLA, Zurich Insurance and Credit Agricole all have lease events driving their moves. While for media and corporates, consolidation and expansion are the main drivers, such as Havas or Omnicom. And We Work, an American business aggressively expanding across London.

And looking specifically at potential structural demand in the City, between 2015 and 2018 there are 14 million square feet of lease events.

Slide – Lease expiries in the City – Sector and potential space requirement

As you can see here this is mostly comprised of financial, professional services and insurance. And looking back at 2012, the insurance sector represented the largest share of demand in the City with most of those occupiers having lease expiries between 2014 and 2016. Today active demand in the insurance sector is down by 46%. With most of those large businesses already transacted. Large businesses tend to secure new buildings one to two years before their lease expiry and sometimes even earlier.

Slide – Green circles

So you can see our timing on 20 Fenchurch Street was perfect. Current active demand in the City from the financial sector is up by 56% since 2011. And that is despite significant financial sector take-up in the City over the past twelve months of 1.7 million square feet to tenants such as ING, Schroders and of course Mizuho. So what this indicates is a strong rate of replacement from financial sector demand. And positive sentiment going forward. That is really good news for our current programme.

Slide – Lease expiries in the West End – Sector and potential space requirement

Now focusing on the West End, as the next slide shows from 2015 to 2018 there are 6.5 million square feet of structural lease events in the West End, made up mostly of TNT, financial and corporates. In Victoria we know exactly who our predominant target audiences are. Financial or wealth management, oil and gas, corporates and luxury fashion. But as well as lease events driving moves and driving demand we tend to see headcount growth driving moves in the West End. Tenants such as CDC, Schlumberger and Burberry all moved in Victoria due to headcount growth rather than lease expiry.

Slide – Green circles

What I also think is interesting is that occupiers in the West End are starting to think about their space requirements earlier than they ever have in the past. The vacancy rate in the West End is at its lowest since 2001. And we are seeing much greater leasing activity on buildings under construction. The first half of this year saw almost a five-fold increase in lettings of space under construction than the same period last year. That is more good news for us as we have over 600,000 square feet under construction in Victoria.

Slide – Green circles

Since 2011 active demand in the financial sector has increased almost threefold. And Victoria is now considered a legitimate location for finance. And that is because of the quality office space we are building and improved public realm. And a restaurant offer to rival Mayfair. Businesses such as Lansdowne Partners and Marshal Wace are potential movers.

Slide – Growth in oil and gas sector

The oil and gas sector is also growing in London and we are capturing this demand in Victoria. OMV for example outgrew their premises in St James and needed a technically resilient building to accommodate their trading function. We accommodated this in 62 Buckingham Gate. Noble Energy, Sinochen and Rosneft are all examples of other movers in the sector.

Slide – Headcount growth in fashion sector

Luxury fashion is another sector where we are seeing consistent headcount growth across the industry. We have been developing Victoria into a hub for the business of luxury fashion and the recent moves of Bally and Georgio Armani to Victoria reflects this. We continue to see momentum in this sector moving to Victoria as we just recently completed a lease with the Kering Group to put their London HQ at 62 Buckingham Gate. Kering is the parent company to Gucci, Alexander McQueen and Stella McCartney.

But despite demand looking strong, we have stopped developing speculatively beyond 2016 for three reasons. The uncertainty of supply in 2017 and 2018, the cost of sites today and the cost to procure. But we do think the occupier market has legs over the next few years and we have 1.2 million square feet to deliver into this.

And despite this occupier demand looking positive, it is not so easy to let space. We study demand, we compete for it and we go after it to win it. I thought I would now show you an example of how understanding the market dictates timing of our developments and leads to our leasing tactics.

Slide – One New Change and 20 Fenchurch Street

Let's compare delivery timing and leasing strategies of One New Change and 20 Fenchurch Street. Our leasing success in both schemes speaks for itself and we let well in the context of each market. But our commercial stance was different on each building due to the timing and market.

Slide – One New Change

At the end of 2010 we achieved practical completion of One New Change. And despite the retail being fully let, the offices weren't. Occupier demand in the City was virtually non-existent and to make matters worse, there were several new competing schemes of similar size and location. So our strategy was to be highly commercial. At the time prime City rents were just £55 per square foot with more supply than demand. So we chose not to follow the market on terms and watched rents slowly decline. In fact we led the market on terms. CME was our first customer, our first tenant and we transacted with them at £52.50 per square foot. We gave this American tenant an all critical ten year break when others wouldn't. We went after occupiers aggressively and we responded to what they wanted. We split floors, we offered solutions and then when we had momentum, we brought rents back up and we lengthened terms.

Friends Life was next, we gave them signage for this new brand and we fast-tracked their Cada fit-out. And in return they paid us a higher rent and committed to a 15 year lease. We went on to fill the building well before our competition with strong market terms and best in class businesses.

Slide – 20 Fenchurch Street

Then in 2012 we were marketing 20 Fenchurch Street for a 2014 completion. We knew structural demand would be stronger then. But costs were still an issue for most businesses. At the time Heron Tower was selling high end luxury. The Shard, world-class architecture. And 122 Ledenhall was looking for a large majority tenant. But we decided to set a tone of value.

When we first approached Markel, they refused to be in a tower due to perceived higher costs. So we sold efficiencies based on a one person per 8 square metre occupational density which is a potential 20% cost reduction to almost all other buildings. We were confident in our product and our quality design. Markel started to look at us differently. We were in the magic Lloyds triangle and we weren't afraid to make our first transaction, 50,000 square feet. Prime City rents were still at £55 per square foot, but our first transaction was £65 per square foot and on a 20 year lease. We started to gain momentum and we achieved leading market rents with average lease lengths of 17 years. Both buildings achieved success at the time, but their financial returns are very different and as we have said, timing is everything.

Slide – Customers and our buildings

I would now like to talk to you about our customers and our building designs and how the two work together. There was a time when cost reduction was at the heart of the corporates agenda, but in recent years the emphasis has shifted away from the bottom line and more into the areas of business growth through innovation, productivity, collaboration and talent retention and recruitment. We design our buildings to support all of these things.

Slide – Powerful machines for better business

We develop in the core markets of central London where our customers are mature global businesses. In all of our developments we design in resilience for those businesses who operate 24/7 and where business continuity is vital. All of our developments have multiple roots of power resilience, cooling and back-up generation. We attract many customers due to our specification. But specifically SMBC Nikko and CME in One New Change. OMV and World Fuel Services in 62 Buckingham Gate, Jupiter in Zig Zag and Jane Street Capital in 20 Fenchurch Street.

And not to forget Mizuho who said their building due diligence showed that New Ludgate came out as the most robust building in terms of specification. And this was critical to them. To quote Andrew Perks of Mizuho they had a heavily technically viable decision making process.

We also match our building designs to our target sectors. When we started the design stage of New Ludgate we identified the two key target sectors as legal and banking and finance. And we designed both buildings with column free runs of space for financial, yet a shallow quarter glass dimension to allow law firms to maximise their space utilisation. Having so far let to Ropes & Gray and Mizuho, we nailed it.

Slide – Building design meeting occupier needs

We listen to our customer's needs. We put more filtered fresh air into our buildings than any developer in London. And we do this because we know that good quality air promotes productivity. We provide high quality cycling and shower facilities because they positively affect employee's health and well-being and talent recruitment. Terraces, views and natural light all contribute to a better place to think, innovate and be more productive.

Now large floor plates help businesses and that is why we build them. It is consistently a challenge both internationally and locally for CEOs to move staff away from working in silos in order to communicate, collaborate and cross-sell. Martin Sorrell at WPP calls it horizontality. Google strive for what they call human collisions. When K & L Gates relocated to One New Change they moved from 10 floors to 2. This is what their Managing Partner, Tony Griffiths said. 'Since moving into One New Change, we have seen our London revenues grow by 30% to the end of 2013 and we'll see significant growth in 2014.' He also said 'One New Change has enabled us to fuse our disciplines to better meet client requirements in that very real, measurable sense, One New Change has helped us to differentiate ourselves in the London legal market'.

Slide – Customer experience

Now while timing and design are fundamental, as Colette said, so is customer service. When I recently asked what the customer experience had been like since committing to New Ludgate, Andrew Perks from Mizuho said in one word 'impeccable'. I asked Andrew to share why he ultimately chose New Ludgate. He said 'Two reasons, the right building at the right time'. And he also said 'One Mizuho, the driver for the bank is customer first and Mizuho felt like they were the customer being put first and this matched their culture'. Andrew told me they trusted us, they thought we were genuine. He said the point of difference for them was that Land Securities had a highly technically knowledgeable team at their disposal. He said they trusted our delivery, our product, our after sales service. But most importantly they trusted every member of our team.

We know our customer, we read the market to maximise financial returns. We have upside risk in a rising market. So if timing is right, we can achieve higher rents and longer lease terms, which we are. As I said at the start, of the 350,000 square feet let since April of this year, 92% of it is on 20 year leases and at leading market rents.

And with that I will pass you over to Tom Eshelby who will speak to you about residential.

Speaker: Tom Eshelby – Residential Leasing Director

Slide – Title slide

Thank you Kaela and good morning everyone. Today I am going to describe to you how Land Securities approaches the residential market, how we optimise our residential consents and how we deliver high quality buildings like this at Wellington House which you will see.

Slide – Wellington House

These are all key components in maximising the value of our existing assets and in optimising returns from our development programme. So the reintroduction of prestigious new apartment blocks into Victoria through the creation of both private and affordable homes is a vital part of the area's transformation into a vibrant new West End district. And having created those ideal opportunities for residential projects we have developed the resource to capitalise on them effectively. And that expertise has already benefited us greatly in various ways.

Slide – Kingsgate

At Wellington House and then at Kingsgate as you can see here and most recently at the Nova building we have undertaken full speculative development programmes which I am delighted have all met with resounding sales success to date. And elsewhere we have optimised asset values and disposals through achieving the right planning consents prior to disposal.

Slide – The role of residential within Land Securities

And of course the starting point is that housing is a required part of development within Westminster, so it was really vital that we got to grips with this. Where we have sought consent to replace older office buildings with larger new ones, such as at 62 Buckingham Gate which is shown on the left side of this slide, Westminster City Council requires that this increased development area is offset through the creation of new housing, in this case at Wellington House, along with the requisite provision of affordable housing in this instance at nearby Wilton

Plaza. And that pattern of truly mixed use development has been subsequently repeated at both Kingsgate and then at Nova. So that is around 400 apartments and includes around £600 million of private units and almost 100 new affordable homes.

Delivering really good quality residential buildings has also had a very positive impact on the transformation of Victoria. As Victoria itself is now firmly established as a truly prime central London address and this also helps with our office product.

Slide – Nova aerial

Here at our Nova development, the inclusion of the private residential building along Buckingham Palace Road played a vital role in achieving planning in the first instance. It has also been instrumental in the viability and risk management considerations for the overall project and then in branding this new quarter of London.

Slide – Wellington House

So going back to Wellington House, this marked our first foray into the prime London residential market and we started in 2010 just as the residential market in London was resurgent. And we completed in late 2012 as Oliver mentioned, fully sold ahead of completion and delivering a 47% profit on cost. So as well as being a requirement of planning, doing it well has added extra return and as Rob said, in 2010 when we started this programme we have turned a necessity into a virtue. And residential also gives us greater optionality in our wider planning and development considerations with diversified risk and of course we have various disposal options and those in turn give us flexibility in realising value.

Slide – Residential by Land Securities

High quality architecture and market beating design and specification is vital. And we have built a strong reputation through Wellington House which was crucial for the sales success we have had at both Kingsgate and Nova. This reputation is underlined by our financial strength, transparency and our track record of delivering large scale and complex projects.

Slide – Established and attractive residential developer

Add to that a passionate attention to detail which is vital for the successful creation of what is essentially a luxury product and a desire to deliver 'best in class' homes which runs down to the minutest details, and you have the makings of a very strong brand.

Slide – On-going design work

A year ago we obtained planning consent for Portland House, a 1960s office tower at the top of Victoria Street. Now this is a project on a different scale again and right up there with the very best residential schemes in London. We have created a genuinely outstanding opportunity for super prime development set over 29 floors and comprising 206 apartments. And of course with something of this scale we are considering our options very carefully, particularly bearing in mind the current political climate and you will know that in the meantime, we have the ability to roll over the income from a very popular office building which is fully let until mid 2016 on one of the busiest transport nodes in the capital.

Slide – Disposals with residential consents

As I mentioned earlier, we also have various disposal options and that allows us flexibility. We haven't built out all of our residential planning consents. As you will see we have capitalised by selling on site having first maximised the asset value through a detailed planning consent. A recent case is Oxford House, a fairly tired office building on Oxford Street. By creating plans for 88 private apartments, we were able to optimise the development value of the asset prior to sale. And the residential components also played a key role in maximising sale price at both Arundel Great Court and Park House in recent years.

Slide – Residential programme

The next slide will summarise the residential achievements of Land Securities over the last four years or so. And whilst the overall gross development value of these schemes is certainly significant, you can see that no one project is of particularly huge scale. And each and every project has three key attributes in common. A desirable prime central London address, limited supply competition and distinctive, ambitious architecture. We have had great success over the last four years and although we are not seeking to acquire new sites for residential development at this point in the cycle, we will always buy opportunistically. We understand our market thoroughly and we really know our buyers.

Slide – Overseas investors in prime Central London prefer new build

The first thing to say is that prime central London is a truly global market. Whilst you can see from this slide that UK buyers are by far the leading nationality of existing second hand flats and houses, this changes markedly when looking at new build projects. Here overseas buyers make up the majority of our market. And the reason for this is chiefly that new developments, particularly at this higher end of the market offer international buyers, whether for their own occupation or for investment, the convenience, facilities and peace of mind that London's more traditional stock does not. And our developments provide buyers with underground parking, 24 hour security and concierge services and other amenities such as gyms, business facilities, even private cinemas. And it is these things that are all higher on the list for international buyers than they are for UK buyers.

But the UK market does remain a genuinely strong force and it has been strengthening over recent years. We got it right with our previous three projects, selling strongly off plan overseas with particular success in South-East Asia owing in large part to the favourable currency situation at that time. So we de-risk the project through sales and we capitalise on the international demand which is used to buying off plan for UK property investment.

Slide – Residential by Land Securities

But our focus has now shifted more towards UK based, owner occupiers for the remaining and typically larger apartments on the upper floors of both Kingsgate and at the Nova building. And whilst we continue to cater to the Russian and Middle Eastern markets. Penthouses at Kingsgate such as the one you can see here are now available for around £10 million, see me afterwards if you are interested!

Looking ahead, absent political shock which we see as the greatest risk to the market, we expect continued demand from both UK based and overseas buyers. London is a truly global City and its reputation as a desirable place to invest, live, work and play is undoubted. And in the prime areas this is still a fairly small industry, measured in a few thousand sales each year.

We have every confidence in the success of our residential programme, on which note I will hand you over to Marcus and Tom.

Speakers: Marcus Geddes – Head of Portfolio, West End and Tom Elliott – Head of Portfolio, City

Slide – Title slide

Thanks Tom and a very good morning. I am Marcus Geddes, this is Tom Elliott and between us we head up the investment and asset management teams in the London Portfolio. Broadly we split London geographically down Kingsway. I focus on everything to the West and Tom to the East.

Now you have heard from Oliver already about our developments. But as at March it was our investment assets that made up almost 80% of the Portfolio by value which as you would expect, we manage relentlessly to strengthen the business as we progress through the cycle.

Slide – Green boxes

So Marcus and I would like to focus on four key areas to show you how we are doing this. We will cover asset management initiatives, retail within the London Portfolio, an update on our sales and capital allocation and a look to our future pipeline.

Slide – London Portfolio allocation – classification

The next slide breaks down our Portfolio by classification. Investment assets makes up 79% of the portfolio. We have 1% in feasibility. 4% consented schemes, mainly Portland House and the rest are schemes on site in pink.

Slide – Uncompromising asset management

Since we emerged from the financial crisis our emphasis has been on executing a well-timed development programme which as Oliver showed earlier is at full tilt. But we would now like to turn your attention to the Investment Portfolio, the blue section. On the slide behind me are a number of occupiers with whom we have transacted over the past two years to add value and resilience and it is some of these we would like to explain in more detail.

Slide – Asset Management, 40 Strand

Firstly at 40 Strand, now we have spoken before about the surrender, refurbishment and re-letting of 90,000 square feet of offices to Bale & Co on a new 15 year lease, but this year we have surrendered two retail leases from Spar and Brooke Street Bureau in separate transactions and simultaneously re-let the combined units to Itzu on a new 15 year term. This has increased the rent by 59% proving higher rental values for the remaining retail in the block. And we feel that the arrival of Itzu will significantly improve the occupier mix when the unit opens for trading in December.

Slide – Asset Management, 16 Palace Street

At 16 Palace Street we further lengthened income. DP World have paid us a surrender premium for their lease on the 19,000 square foot, fourth floor which we have pre-let to Polar Capital on a new ten year term. In addition to the surrender premium received from DP World, they simultaneously removed their 2010 break from the fifth floor above. The new letting increases the passing rent in the building from £55 a square foot to a new benchmark of £68.50 and this ahead of a number of rent reviews due in 2015. So following a similar restructure of 3i's leases in the building in 2012, over 90% of the income is now secured beyond 2022.

Slide – Asset Management, 80-100 Victoria Street

And elsewhere on the Cardinal Place Estate, at 80-100 Victoria Street, we have restructured leases with four other occupiers who have all extended their commitment to the building.

Slide – Strategic acquisitions

Now as ever there has been a buzz of activity at the Piccadilly Lights. And when Scott last spoke to you in 2012 we had that day exchanged contracts to acquire 19-23 Shaftesbury Avenue from Royal Bank of Scotland. This piece of the jigsaw shown in blue not only completed our ownership of the island site, but it also facilitated a number of highly accretive deals. We acquired the building with vacant upper floors which we re-let in their existing condition. And as well as that we took back three retail units and re-let and doubled the rent.

Slide – Asset Management – Piccadilly Lights - Crest of London Souvenir Shop

One of these retail lettings was the Crest of London Souvenir Shop where we used a 2016 unprotected lease expiry as a negotiating position to persuade Crest to move from 1-17 Shaftesbury Avenue and into 19-23.

Slide – Asset Management – Piccadilly Lights – Barclays, Boots and Gap

This in turn enabled us to reconfigure units and renegotiate leases with the existing occupiers of Barclays, Boots and Gap. We handed these units over to the occupiers last month on new 10-15 year leases at rents 30% higher than the passing.

Slide – Asset Management – Piccadilly Lights – Barclays, Burberry and Vogue

And this also freed up Barclays first floor windows enabling us to replace the previous advertising screen with a new screen that is now producing an annual rent of £2.5 million. The new screen has been showcasing global brands such as Burberry and Vogue since the installation completed last December.

Slide – WW1 Commemoration

And we were able to leverage the iconic virtues of the site for a great cause on 4 August this year. Working with our customers and Westminster City Council, we supported the' lights out' campaign, poignantly commemorating the 100 year anniversary of the start of World War I. This also demonstrates the ability, given current technology to combine the screens in any way we like, which we expect will give us huge opportunities when the last of our longer term agreements fall in at the end of 2022.

In addition to these asset management wins, completing the island site has enabled us to advance feasibility studies for a comprehensive redevelopment of the majority of the site behind the advertising screens. We are looking to deliver an extra 100,000 square feet of offices and 20,000 square feet of retail space.

Slide – Asset Management, Red Lion Court

So moving to asset management in the East. Red Lion Court shown in the middle of the picture is 130,000 square feet early '90s office building on the South Bank is let entirely to Lloyds. It is part of a longer development term site and since we last met we have re-geared the lease, extending the income on the entire building from 2015 to 2020 without any void costs or capex while we work up our development plans.

Slide – Asset Management, 160 Queen Victoria Street

In EC4, this is 160 Queen Victoria Street near Blackfriars Station, is 360,000 square feet of offices let in the main to Bank of New York Mellon until 2023. The second biggest occupier is Tech-It[?] who have 66,000 square feet and they had an expiry in 2015. But in April this year we agreed an eight year extension to 2023 lengthening the income stream, making their least coterminous with the Bank of New York Mellon and thereby creating a future possible block date for a refurbishment.

Slide – Asset Management, 38-48 Southwark Bridge Road

38-48 Southwark Bridge Road shown here was let to Schroder’s with a break option in February 2014 at which point we would have had significant capex and void costs. Schroder’s were not in occupation. The building with its low ceiling heights and poor outlook had been sublet entirely to Sungard as disaster recovery space. In late 2012 we accepted a surrender from the main tenant Schroders as we were convinced that the sub tenant would remain in occupation and that is exactly what happened. Which meant that having received a surrender premium, we also immediately increased the income from 1.25 years to in excess of five years. That produced an uplift in value which took this potential development site way above site value so we then crystallised the gain by selling the building.

Slide – Asset Management, One New Change

One New Change goes from strength to strength. The offices are fully let and in the shopping centre we are keeping consumer choice relevant and broad based. We currently have 99% occupancy. Turnover is performing very well. We have seen 9% year-on-year growth in sales over the last twelve months. We are seeing high demand in particularly from the food and beverage operators and we are always busy refreshing the tenant line-up. Let me give you an example.

Slide – Asset Management, Wahaca

On the first floor we exercised the landlord’s break in a lease to North Face and surrendered a lease from the Art Gallery in the adjoining unit. We then combined them to create a new unit for Wahaca and we let it to them on a 20 year term. They also took another smaller unit, trading as Burrito Mama as their food takeaway offer, reinforcing this identity of the first floor as the food quarter of the area.

Slide – One New Change is thriving

This four part deal highlights our constant activity to secure the best occupier mix at One New Change. In fact to quote three of our retailers directly. Madison, the restaurant at the top of the building, now operated by D&D ‘The Place has traded its socks off’. Madison is already one of our best performing sites in London. Next have told us ‘We have been very pleased with the performance and rate of growth of sales in our store over the last two years and have seen double digit growth in the past year alone’. And Zizzi’s ‘One New Change is in the top 20% of our London Estate’.

Slide – Asset Management, One New Change

If you use One New Change you may also be interested to know we have planning permission for a new feature glass staircase linking the ground and lower ground floor levels, which we plan to install early next year. We think this will improve shopper circulation even further.

Slide – London Portfolio sector allocation

Hearing about One New Change from Tom is really a valuable reminder that despite a weighting towards offices, retail is a significant and important part of our Portfolio. We have over 180 occupiers in the retail and leisure sectors. That equates to £1.2 billion of assets that's almost 20% of the Portfolio by value as shown in blue.

Our retail assets in central London are managed by the London Team, leveraging hard on the strong retailer relationships that we have across the Group. In fact within the last six months the Team has been strengthened by two senior appointments from Scott's team both bringing with them career long expertise in the retail markets.

Slide – Public space

Not explicitly broken out in our Portfolio is the public space that we deliver and manage on behalf of local communities. Across London in Victoria, Thomas Moore Square, New Street Square, One New Change and 20 Fenchurch Street here, we have or are committed to providing 11.5 acres of public space. That is the equivalent of 6.5 football pitches. We manage and control these spaces and recover the costs of our service charges.

Now our attitude to developing and investing in London isn't just restricted to creating powerful office machines and elegant residences. Because of our ownership we can deliver relevant amenity into vibrant mixed use places. And this drives a sense of destination and reaches well beyond our direct office and residential customers.

Slide – Create Victoria

Taking the retail theme a little further and to illustrate the point, I will rewind to an example of a place-making strategy in its infancy that Colette shared at this event two years ago. As part of our Create Victoria Campaign, we are implementing a Retail Master Plan. It is designed to revitalise a stretch of Victoria Street running from Buckingham Gate down to the Station. We are introducing new food and beverage, leisure, fashion and convenience into an area that has long lagged behind other central locations.

Slide – Victoria retail vision, July 2012

Quoting Colette directly from 2012 and using the same slide 'The names you see there are aspirational, only some of them exist today in Victoria, but in two years' time when we see you again we will see more of them. Retail is a very important part of Victoria's transformational change.' And of course she was absolutely right.

Slide – Victoria retail vision, September 2014

Since July 2012 we have signed leases with Curzon Cinema, Leon, Benugo, Little Waitrose, Jamie's Italian Bakery and Deli and Barracas, Swarovski and Mango. We are currently under offer or committed on five of the eighteen units at Nova and in discussions with numerous other retail and leisure operators from celebrity chefs to independent cafe operators. This is repositioning retail in Victoria, it is bringing vitality to the streetscape and much needed contemporary amenity to the area.

Slide – Capital allocation and returns

We would now like to turn to the investment side. We are constantly analysing buying opportunities, but it has been with discipline given the opportunity costs of our investment capital has been high double digit development RRs such as New Ludgate and anticipated RRs of 10% plus with the refurbishments such as Thomas Moore Square. As you know our main occupier there, News International, is moving to London Bridge and they vacate our Tower Building at the end of this month, at which point we will go site and refurbish 190,000 square feet and improve the public realm and the retail. We have already signed agreements to lease 50% of this space.

Slide – Pre-development sales

Given our broadly net debt neutral approach and our extensive development programme, we have sold a number of investment and pre-development assets. Pre-development sales have been through off-market approaches for example at Park House and 110 Canon Street. These both resulted in bids which enabled us to bank almost all of our anticipated development profit up front with no risk or capital employed. This in turn increased our risk appetite for further developments. In both instances the look ahead returns from the price paid would have been diluted had we carried on the developments ourselves.

Slide – Recent sales – Recycling capital into development programme

Since we last met in 2012 we have sold a further £600 million of assets to fund developments. We sold our noncore harbour exchange assets at the peak of the risk curve with imminent vacancies and substantial capex in a location which was struggling with tenant demand.

38-48 Southwark Bridge Road, we sold after the income extension which I mentioned earlier.

And as Tom mentioned we sold Oxford House with residential planning consent to Great Portland Estates who had a special interest as adjacent owners at Rathbone Square and this sale avoided the risk of mutual destruction between two adjoining schemes and our analysis of the price paid showed poor forward looking returns to us. We also sold our 50% interest in Emperor Estates to our JV Partner Capco with six years remaining on the lease to the Met Police. The offices were significantly over rented with little prospect of renewal and had we then got to the point where a compulsory purchase order had been issued by the local authority, our proceeds could have been significantly impacted upon.

Slide – Recent sales

Our largest and widely marketed sale was our RBS Estate at Bankside. We recognised at the end of last year investment pricing was very competitive and buyers would not discount for the fact that it was in South Bank and not the City core. It was leasehold and not freehold. It was a very large lot size of £315 million and the only tenant as we suspected no longer required the space. We sold the building off at an initial yield of 5.2% which had come in from 7% in 2009. We believed the chances of increasing the rent at the next review were slim and it is a brave investor who thinks that yields will be sharper than 5.2% for a single let leasehold when there are less than 10 years left on the lease.

Slide – Southwark pipeline – Land Securities ownerships

So looking forward to our future development pipeline, but staying in Southwark, we have already touched on Red Lion Court where we have extended the income, but this plan highlights the longer term development potential in the area. We have Red Lion Court in purple to the right and across Southwark Bridge Road we also own buildings outlined in blue and black. The blue buildings are high density and let longer term, but the black buildings have a very low site density and break options enabling us to redevelop in the medium term. And importantly the proximity of all these assets gives us the option to provide a mix of uses as part of a larger consent.

Slide – Future pipeline

Added to these are the three assets behind me which between us we have already touched on. These make up the next wave of potential developments. So between Piccadilly, the later phases of Nova, Portland House and Southwark, we are already working on a future development pipeline of almost a million square feet in London and we are constantly busy identifying sites for the future.

Slide – Portfolio strategy

So let me wrap up. We are well advanced for our development programme which we have largely funded through selective sales. You have seen we are working the investment assets hard to lengthen and strengthen the income and while we already have a future pipeline our balance sheet leaves us well placed to acquire more assets where we see value.

Thank you and will now hand back to Colette.

Speaker: Colette O'Shea - Managing Director, London

Slide – Title slide

Today we have given you an insight into us and the way that we do business. Ours is very much a business based on people and their analysis and judgement. Like any investment business, it is about understanding markets, backing winners and establishing good relationships with customers and stakeholders. It needs powerful data, analytical insight, persuasive arguments and courage. And I believe the team before you here today brings all that to the business.

So we have now got a few minutes. We are on quite a tight programme, for questions. Scott is going to re-join us and if we can take questions that you have for either Scott on the Retail business or myself on London.

LandSecurities

Q&A

Question 1

Can you talk a little bit more about the post 2016 office strategy? How are your initial discussions going with respect to pre-leasing and what will margins look like as we go forward to tenants that maybe have more bargaining power through the pre-leasing process, land prices that are higher? Right now you are on 50% development margins, it is great times. Your caution post 2016 on speculative development sounds wise, but can you give a sense of demand and returns? Thank you.

Answer: Colette O'Shea

I think the first thing to say is that we have currently got 1.2 million square feet of space that we have actually still got to let. Broadly 950,000 of that is delivered into 2016 and about 700,000 of that is across Nova and New Street Square. I mean in terms of the pre-let discussions that we are having, I think we have demonstrated today that we are delivering the product that people want and we are aggressively going after these people, we are able to offer the terms, the product and it means that we are getting the longer leases now and still maintaining sort of leading rents. I think that, in a perfect world I would love it if we had let all of our offices by 2016, but as we always see in development, we will end up with a tail of lettings so if the market is still strong at that point, we will be able to capture it. But equally with the efforts that we have put in to date, we have already banked and secured a lot of our underwriting at good rents and longer leases.

Question 2

A question for Scott. On your 2007 map Exeter is there and on your 2015 it is not, could you expand on that?

Answer: Scott Parsons

I thought somebody might pick up on that. As you know we will never comment on individual transactions.

Question 3

Were you tempted to hold off letting some of this building until next year in order to catch a bit of higher rent in the market?

Answer: Colette O'Shea

Absolutely not. In everything that we have been doing, and I think New Change even demonstrated that, that our approach is to go after occupiers, capture the best terms that we can and effectively bank that rather than waiting for tomorrow which, we are in a rising market at the moment, but we don't actually know what tomorrow is going to deliver. The other thing I think about letting programmes is what you see is that once you get a momentum it really keeps going. We saw that at New Change, we saw that at 20 Fenchurch Street, we have seen it at 1 and 2 New Ludgate. Once you start capturing names, others then follow and that has always been our approach and it is certainly delivering the results.

Are there any more questions?

Question 4

I just have a question on the residential side. If we do get a mansion tax coming through in June, what is your view of what happens to residential prices?

Answer: Tom Eshelby

I think at the moment the market is in a bit of a wait and see frame of mind. We have seen over the last ten years that most of these new measures or new hurdles to entry have been absorbed after the event. So it is actually the uncertainty that creates that sense of stasis. I think once we know what the landscape is, the market can adjust and recover.

Colette O'Shea

Are there any more questions? Right on that note I am going to hand over to Ed, who is going to talk through the logistics of how we are going to get up to the roof garden now.

End