

Sanford C. Bernstein's Pan-European Strategic Decisions Conference – 16 September 2009

UK commercial property and Land Securities

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Recent trends in listed and direct real estate markets in the UK

Listed market	FTSE Real Estate Index	<ul style="list-style-type: none">• 80.9% off peak (Jan 2007) to low point (March 2009)• 64.7% off peak to now• 84.9% up from low point to now
Direct market	Capital values	<ul style="list-style-type: none">• 44% off peak (June 2007)
	Rental values	<ul style="list-style-type: none">• 8% off peak (April 2008)



Source: IPD

Listed sector 'forward looking' of capital values...capital values 'forward looking' of rental values





Issues underlying downturn in UK direct commercial property markets

1. Investment property pricing bubble
2. Economic downturn
3. Lack of availability of credit



Issues underlying downturn in UK direct commercial property markets

1. Investment property pricing bubble	(25)%
2. Economic downturn	(20) – (25)%
3. Lack of availability of credit	(5) – (10)%
	<hr/>
	(43) – (50)%

How much will be recovered?





Factors supporting a recovery in UK direct commercial property markets

Positive factors

- Speed and severity of re-pricing
- Positive yield gap relative to 'risk free return'
- Weak sterling
- Positive balance of buyers to sellers

Positive outlook for capital values





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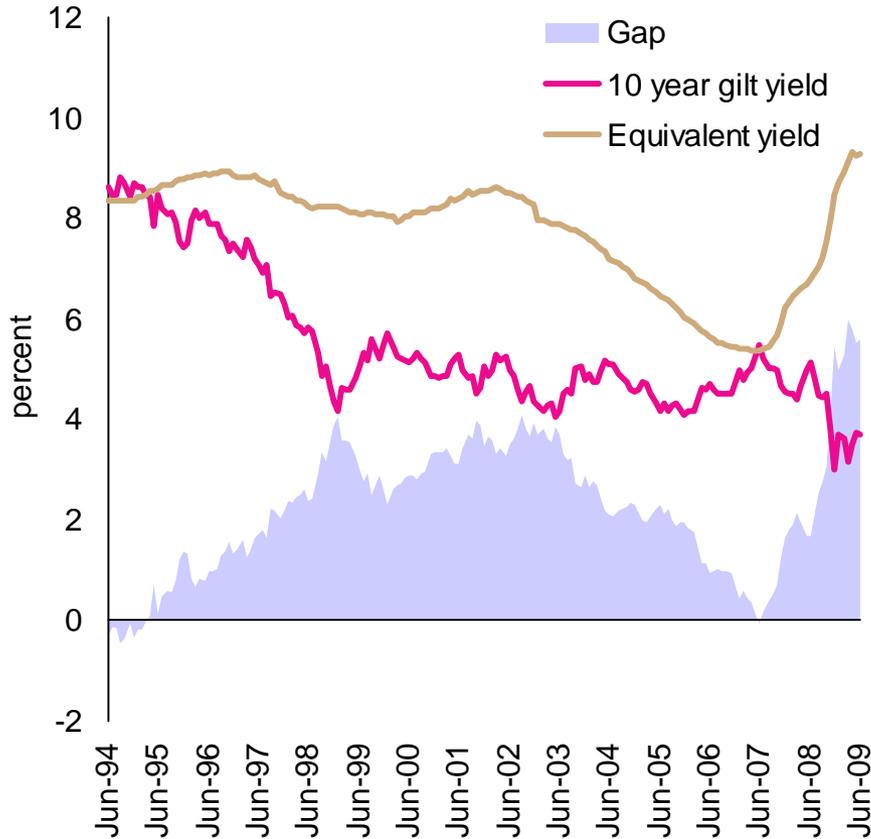
Risk factors

- Unwinding of over-lending by banks
- Size of gap between contracted rents and 'mark to market' rents

Positive outlook for capital values ... but not without risks

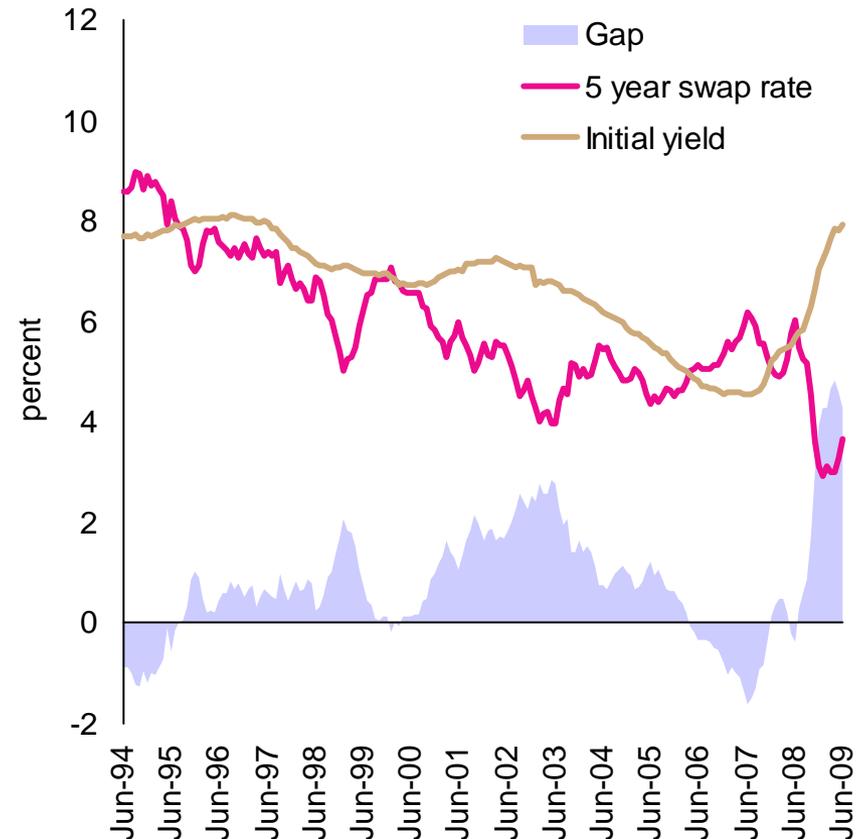


Yield pricing for commercial property relative to 'risk free' rate and finance costs



Source: IPD

Gilts	June 2009	15 year average
Yield gap	5.29%	2.25%



Swaps	June 2009	15 year average
Yield gap	4.27%	0.80%

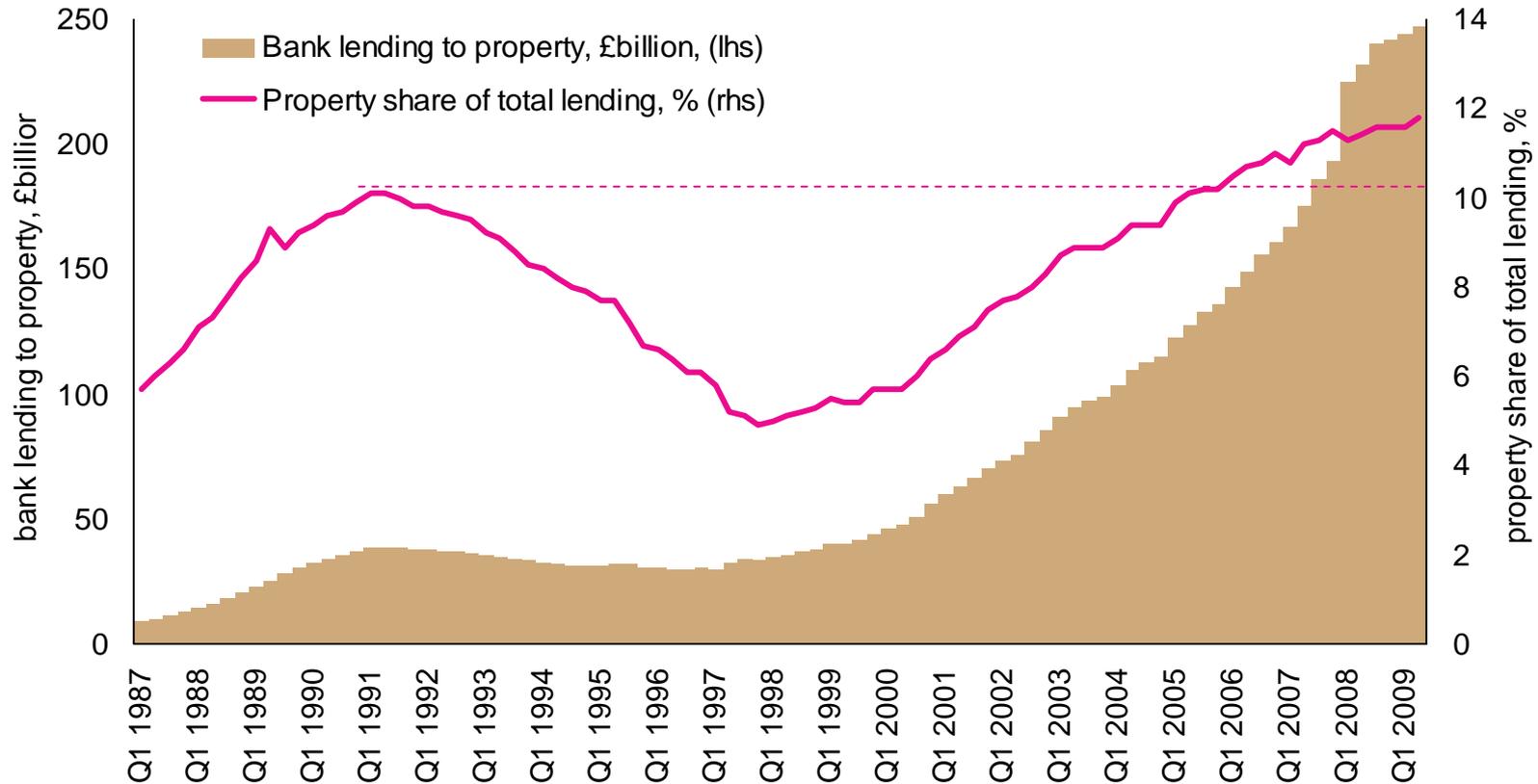
Significant positive yield gap





Commercial property lending

UK bank lending to commercial property



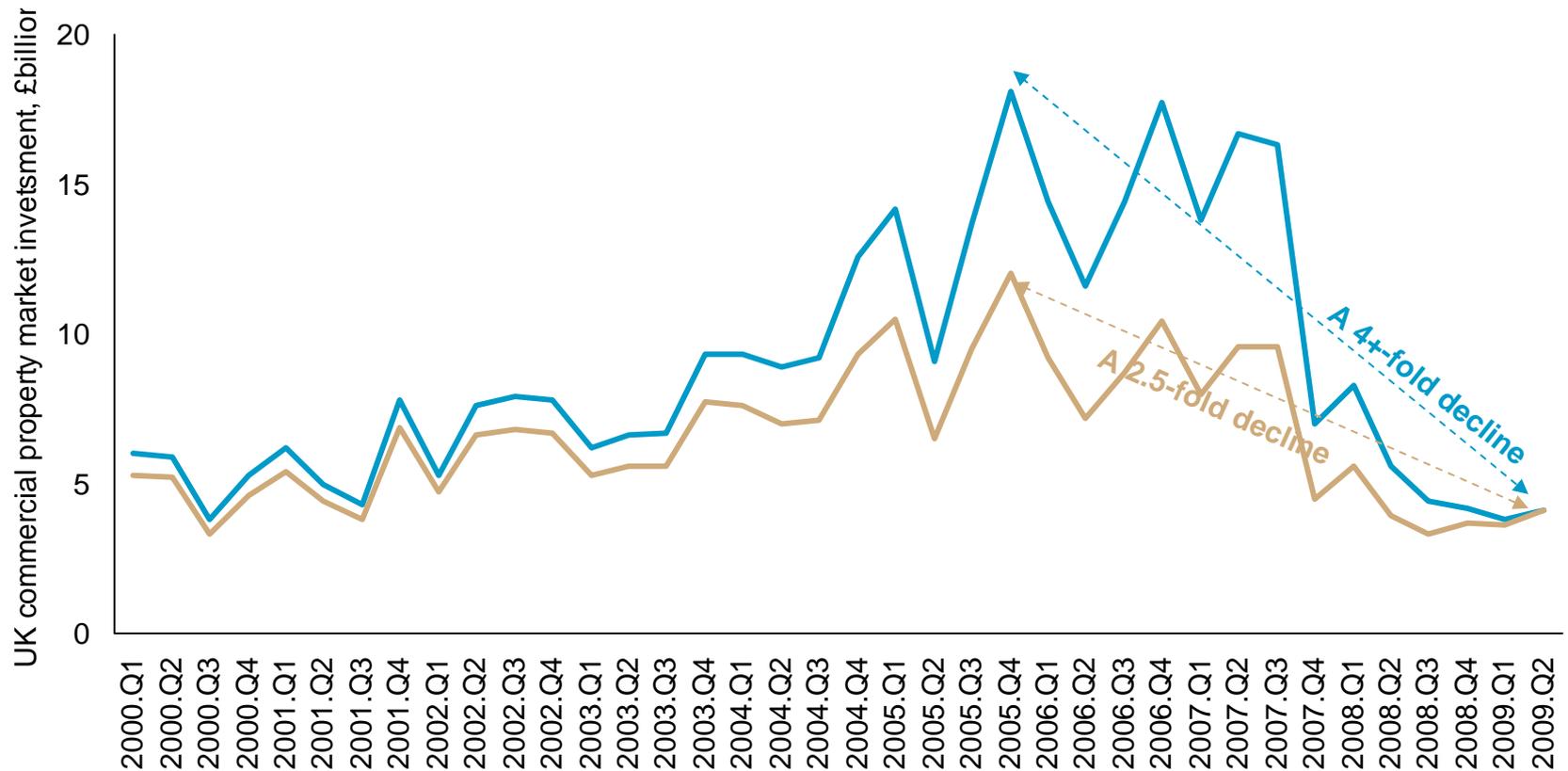
Source: Bank of England

Lending to commercial property significantly above levels seen in early 1990s: a risk factor ... and an opportunity



Turnover of UK commercial investment property

Investment volume by quarter



Source: Property Data Limited.

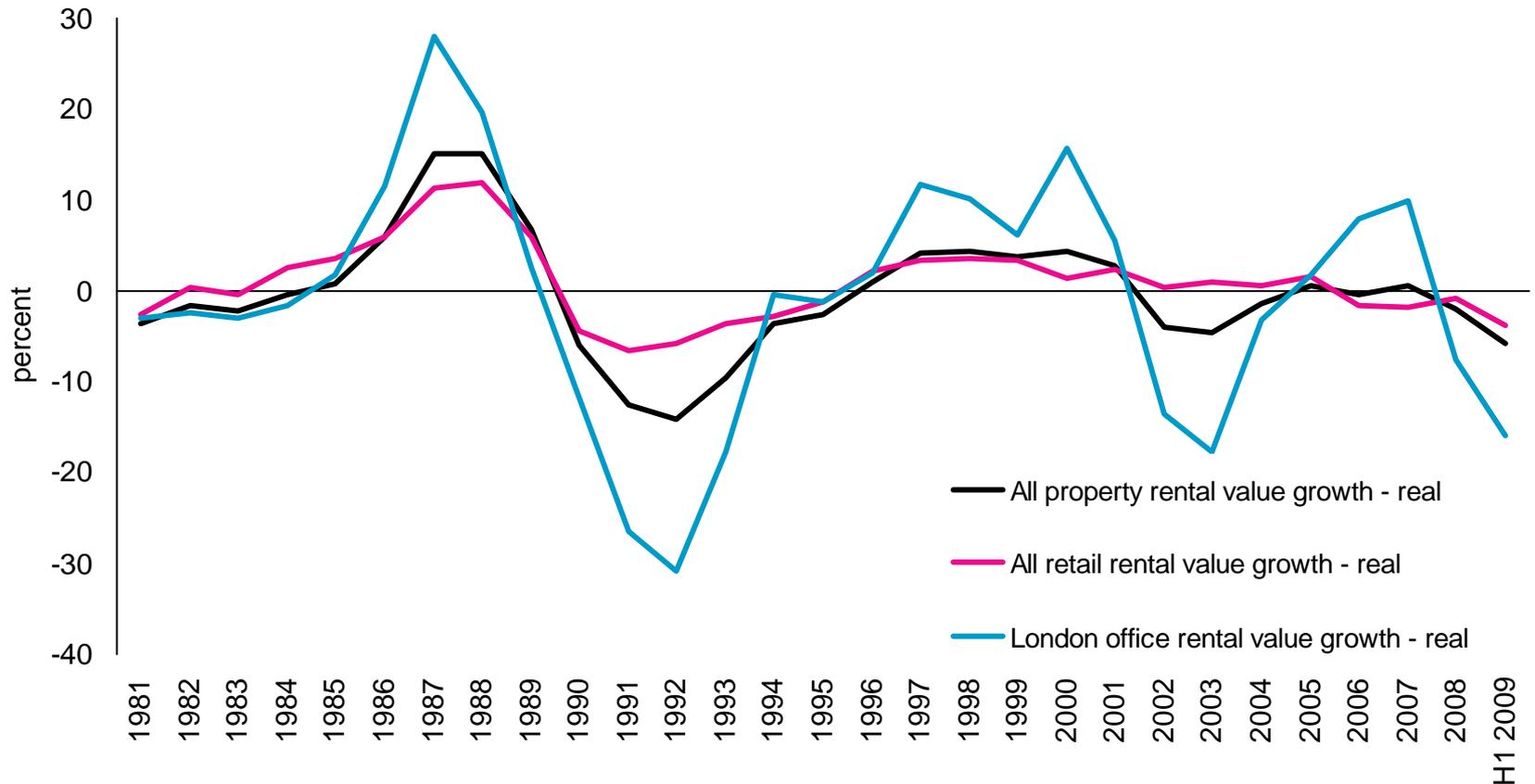
The issue of lower transaction volumes has been overstated, and in real terms volumes have been rising since Q3 2008





Trends in rental values

Real growth in rental values



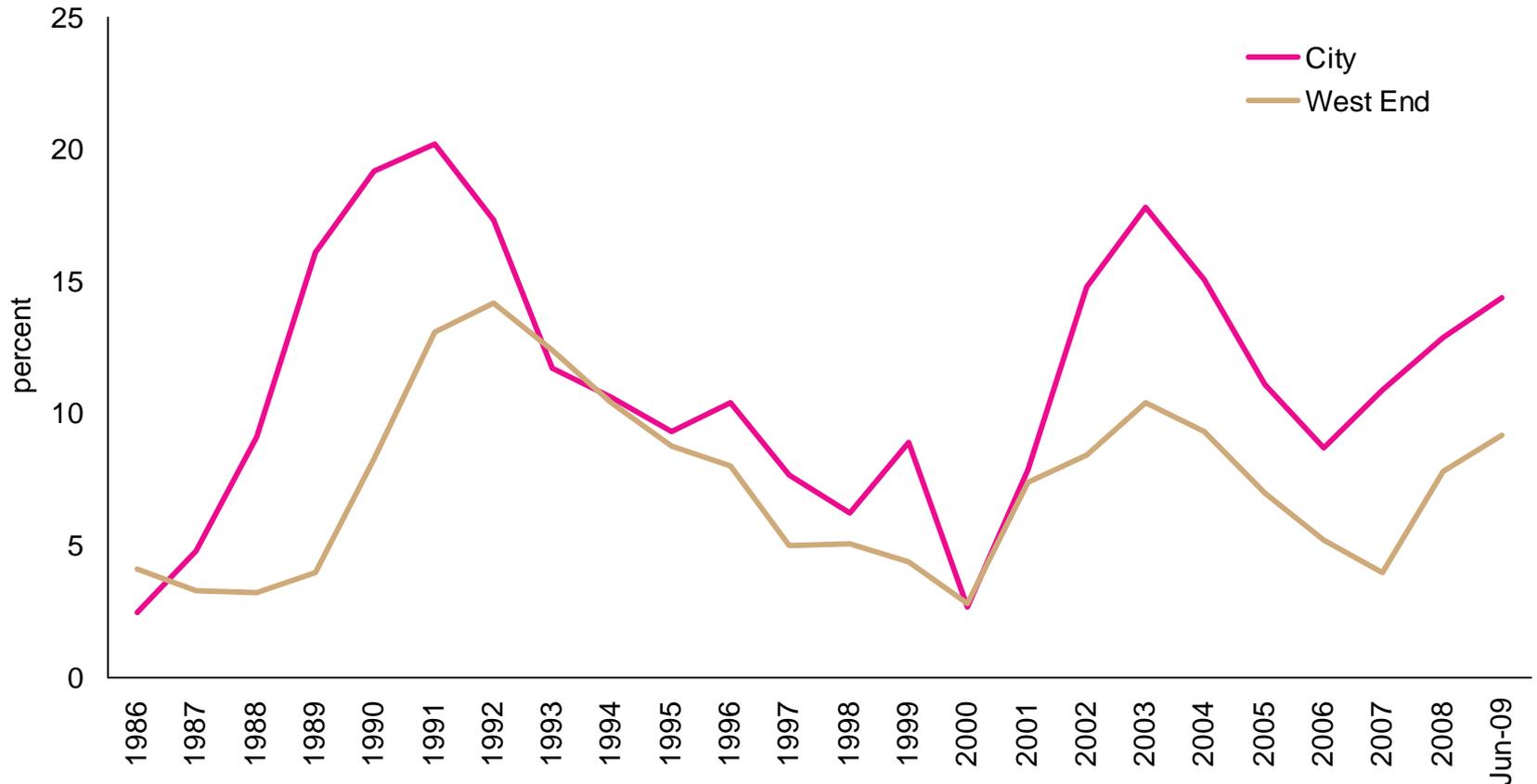
Source: IPD, ONS

No bubble in rents except London West End office market – recovery potential



Central London office market

London office vacancy rates



Source: PMA

London office vacancy rates currently below levels in 1991 and 2003



Central London office market

Construction starts in City and West End



Source: PMA

Construction starts have tailed off significantly





Retail property

Retail market investment portfolio voids



Source: IPD

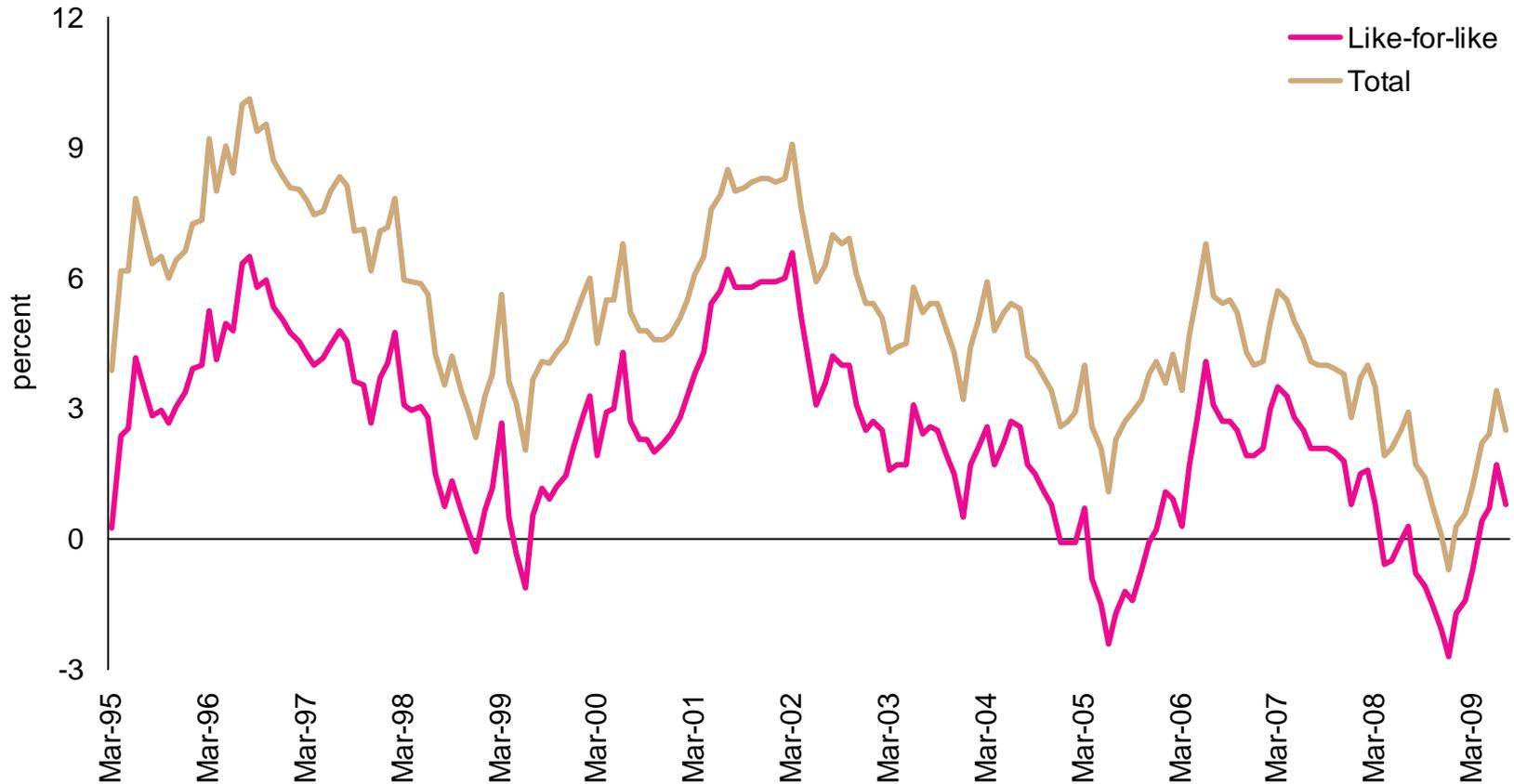
Retail void levels higher than in early 1990s





Retail property

Retail sales growth



Source: BRC

Retail sales more resilient than expected in downturn



UK commercial property market trends

Comparison to early 1990s

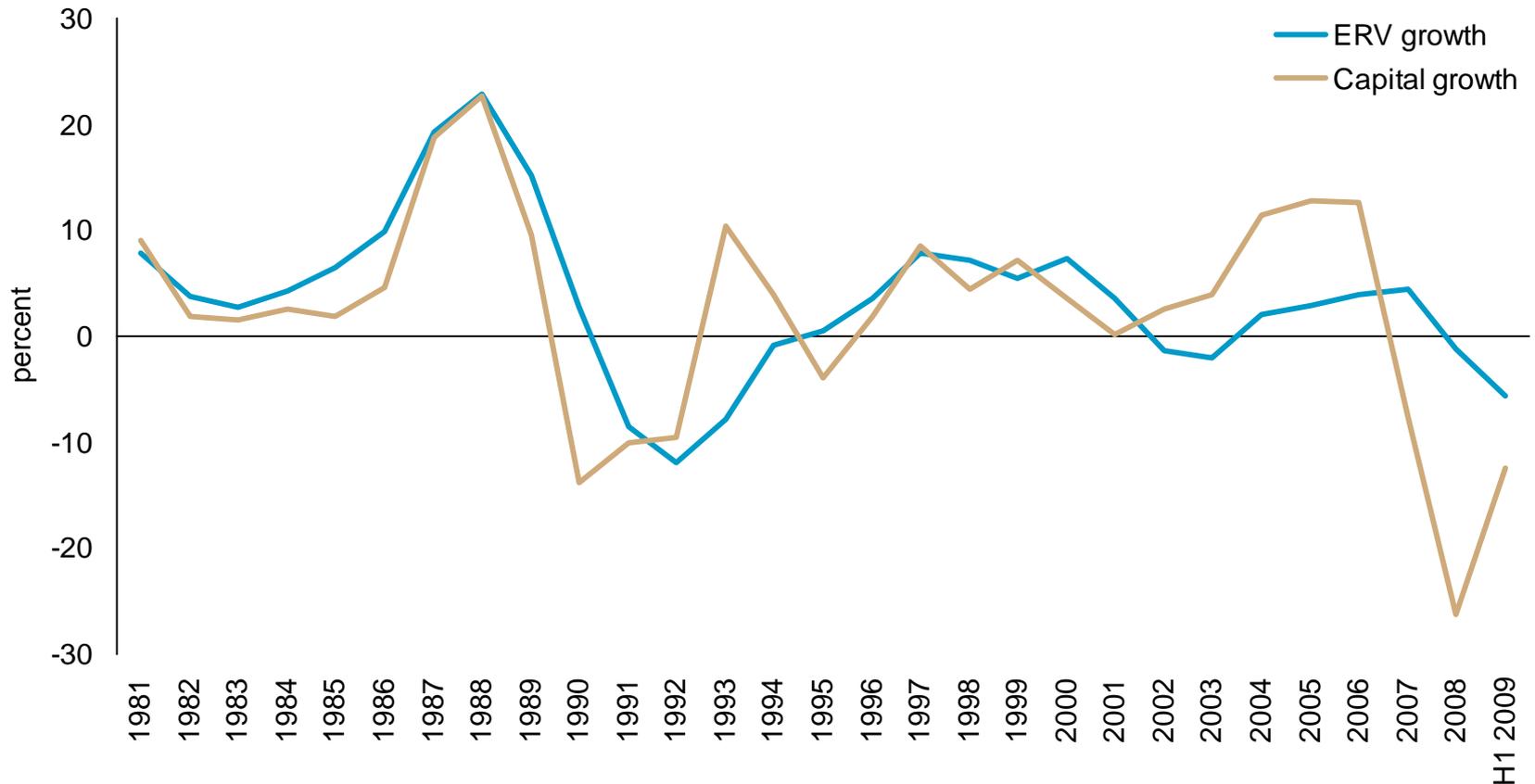
		Early 1990s	Current cycle (to date)
All property	Capital values	-27.1	-44.2
	Rental values	-21.7	-8.0
Retail	Capital values	-19.0	-45.7
	Rental values	-7.0	-5.7
	Void rate	6.0	7.1
London offices	Capital values	-51.2	-47.0
	Rental values	-56.9	-24.4
	Vacancy rate	20.9	9.6

Source: IPD, PMA

Current cycle compared to early 1990s: offices stronger, retail weaker; impact of over-lending by banks not yet known



Drivers of capital value change: rental values and yield shift



Source: IPD

Divergence between rental value and capital value trends from 2002

Land Securities – key facts



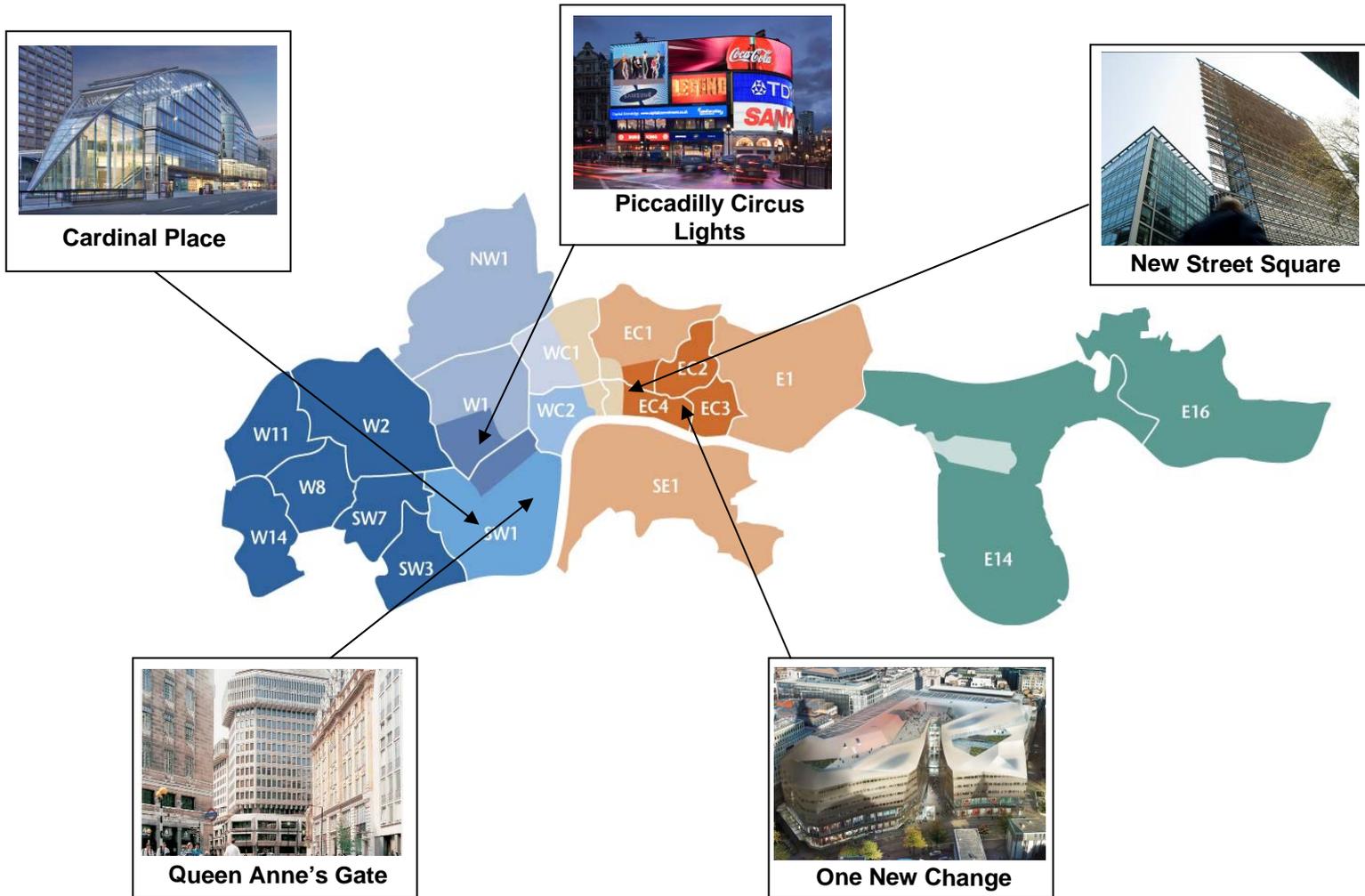
Piccadilly Lights, W1

- £9.4bn portfolio
- Focus on London offices and retail
- Retail – 25 shopping centres and 21 retail parks
- London offices – 9.7 million sq ft
- Strong development capabilities
- Efficient debt structure not linked to specific assets , but benefiting from asset security

A leading multi-focus company: liquidity for shareholders, market presence for occupiers

Land Securities – key assets

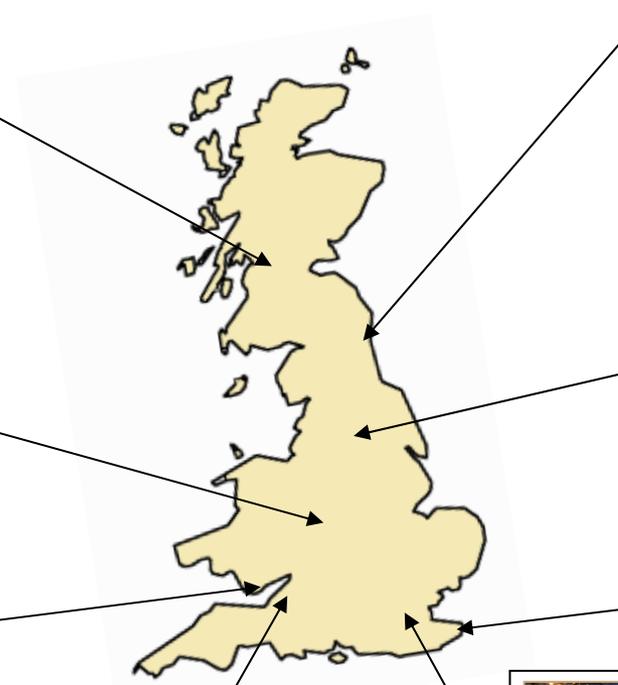
London Portfolio



36% of London Portfolio in West End offices and 18% in retail

Land Securities – key assets

Retail Portfolio



25 shopping centres and 21 retail warehouse parks

Land Securities – property yields⁽¹⁾

	Gross Income Yield ⁽²⁾	Equivalent Yield ⁽³⁾	Range of equivalent yields ⁽⁴⁾
	%	%	%
Shopping centres and shops	9.0	8.0	6.9-10.3
Retail warehouses and foodstores	8.3	7.9	6.9-10.7
London retail	5.6	5.8	5.0 - 7.7
London office	8.1	7.3	6.3-10.5
Total portfolio	8.1	7.5	5.0-10.7

(1) Total portfolio excluding only the development programme and proposed developments

(2) Gross income yield topped up for unexpired rent free periods (but not for future stepped rental increases)

(3) Net nominal equivalent yield calculated on the gross outlays for a purchase of a property (valuation plus purchaser's costs)

(4) Excludes properties under £10m

Yields at historically high levels



Land Securities – balance sheet management

- Approximately £4.0bn of disposals since April 2007
- Rights issue to raise £756m (net) in March 2009
- Group LTV at 31 March 2007 of 38.0%
- Group LTV at 31 March 2009 of 52.0%



Devonshire House, W1
Sold in 2007 at 3.9% yield

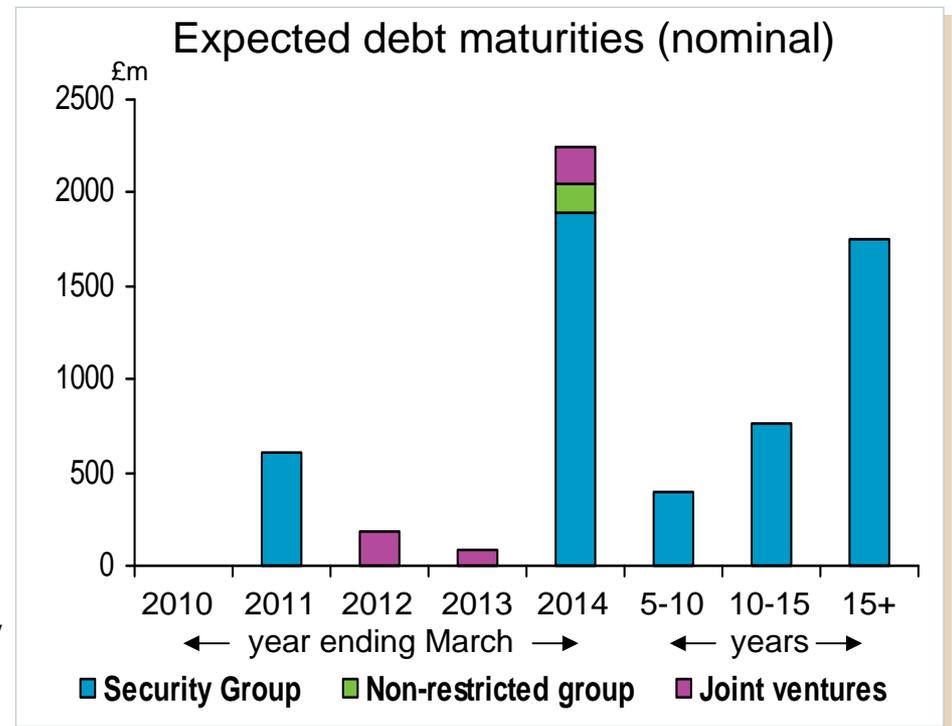


Whitefriars, Canterbury
Sold in 2007 at 4.1% yield

27% reduction in net debt in 2008/9 financial year

Land Securities – liquidity management

- £3.7bn net debt with average duration of 9.9 years
- Cash holdings of £2.2bn (as at 31 July 2009)
- Weighted average cost of gross debt of 4.4%
- No event of financial default under principal debt structure until 100% LTV or 1.0x ICR



Well positioned on debt maturities and loan covenants

Q1 Interim Management Statement

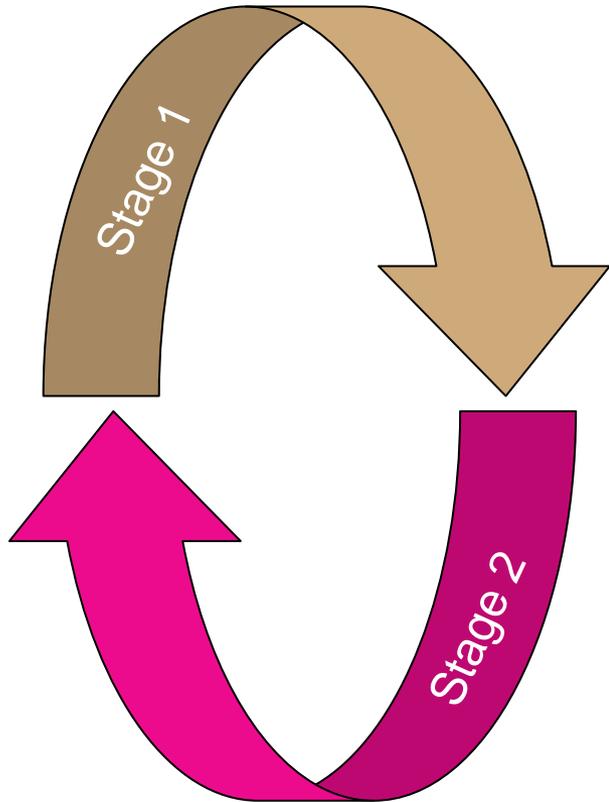
- Trends in property values in line with our February Rights Issue expectations
- Investment property sales in the quarter £357.4m at 2.7% below March 2009 valuation
- Positioned to take advantage of opportunities that will arise as the market turns



Portman House, Oxford Street, W1

Substantive progress, improved sentiment

Positioning a business for the recovery phase



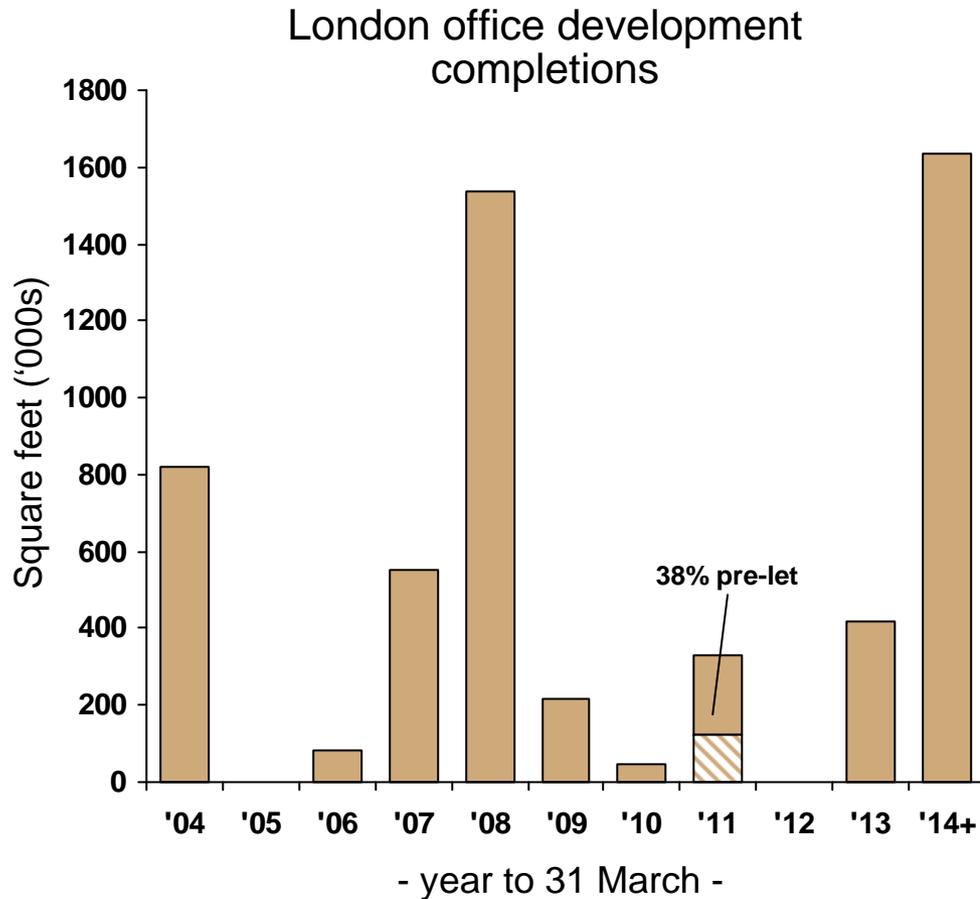
Stage 1	Capital values increase	Attractive level of gearing
Stage 2	Occupier demand improves / rental values increase	Attractive development opportunities – especially in London West End office market

Land Securities – c.50% LTV gearing and c.£750m investment capacity



London offices

Adding value through development



Park House, W1



Selborne House, SW1

A good track record on timing of London office developments

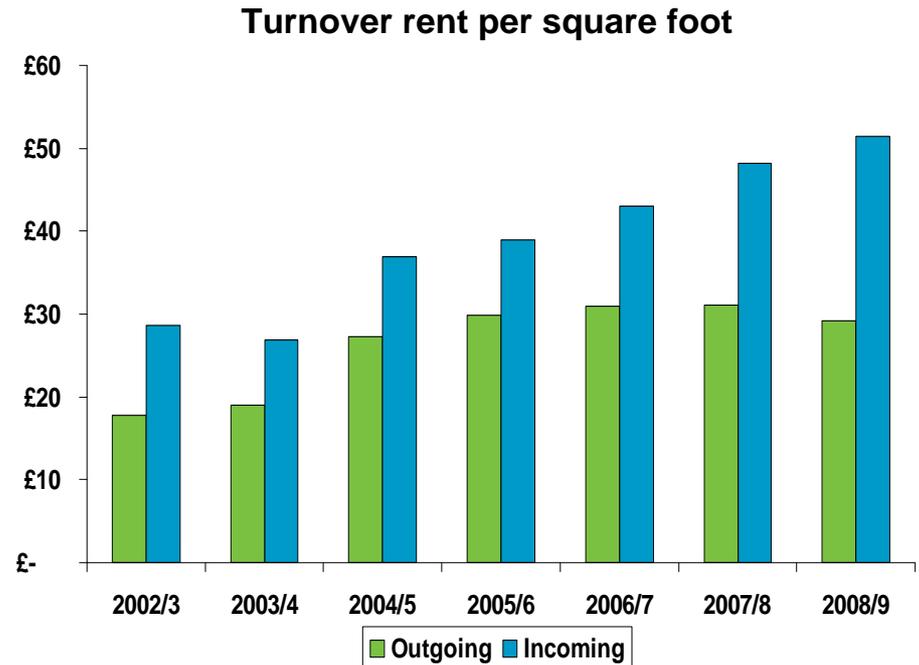


Retail

Adding value through asset management and tenant mix



Gunwharf Quays, Portsmouth



Understanding retailer performance to optimise shopping centre values



Creating a property business from a blank sheet of paper



Land Securities – well positioned for market recovery



Important notice

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

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