LAND SECURITIES' Q1 INTERIM MANAGEMENT STATEMENT CONFERENCE CALL
17 July 2014

Speaker: Robert Noel, Chief Executive

Thank you very much. Morning, everyone, and welcome to our first quarter IMS call. I'm joined by Martin, Colette and Scott, so if I could just give a brief intro, and then we'll hand over to you for questions, if that's OK.

So the first quarter has been a good one for us. Our strategic focus has been the rapid reshaping of retail under Scott's leadership, and the strong momentum in letting our London developments into the supply-constrained market that we've been working towards, under Collette.

Today's statement sets out evidence to show our strategy in action, and of delivering results. In retail, we sold The Bridges in Sunderland and acquired a 30 percent stake in Bluewater. This is the UK's prime shopping destination outside central London. We're very pleased with this purchase. It's part of the continued strategic shift of our retail portfolio, towards dominance, experience and convenience, funded by sales of assets, which do not meet our criteria.

Now, we've been talking about this for a while, and we'll continue to sell assets, which we do not think are as well equipped to change into a hungry investment market.

We see opportunity to improve returns at Bluewater, by reducing the void rate, combining units to provide fewer, bigger stores, which are more attractive to retailers, and improving the leisure and catering offer.

Across the retail portfolio, we saw retailers' sales grow 4 percent. Consumer confidence is undoubtedly returning, although by no means at the same rate across the country, as we have suggested previously.

In London we're relentlessly letting our developments at strong rents with good lease lengths. 20 Fenchurch Street is now 90 percent let or in solicitors' hands. Average lease term to first break, over 17 years. 1 & 2 New Ludgate, 61 percent pre-let on 20 year leases. There has been excellent progress at Victoria.

We need to keep focused however, because remember our committed development program is delivering 1.6 million square feet, and that's post 20 Fenchurch Street, over the next couple of years. It looks well set.

The occupier market is coming our way with good current demand, and a healthy pipeline of enquiries. We're confident that conditions will continue as we deliver the program over this period. And, that we will continue to secure a disproportionate share of lettings.

Now, although our net debt rose during the period, our net debt neutral approach remains. We will never be able to match the timing of acquisitions, CapEx and disposals perfectly, and this will cause debt ratios to fluctuate between waypoints. The key point is that our approach persists.

So in summary, strong market conditions remain in London, consumer confidence returning in retail. As you know, we have a clear strategy, a clear path. I'm very content with our progress and confident in our prospects.

Now, I'm sure you'll have some questions, so I think on that note, we'll hand over to you.

Question 1
Osmaan Malik, UBS

Thanks for the update. For me this is all about the lettings, and I was just wondering if you could give us, on the office lettings, just let us know how they compare to your expectations.

Answer - Robert Noel, Chief Executive

Yes, let me hand you over to Collette to answer that Os, if I may.

Answer – Colette O'Shea, MD London Portfolio

Yes, what I can say is that we have exceeded our underwriting in terms of the deals that we're doing. And I think the important point to note is that we're securing good lease lengths. As Rob has mentioned, the 17 years at 20 Fenchurch Street, and then the 20-year term at 1 & 2 New Ludgate. So we're pleased with progress.

Further question

Great. Are you able to give us any kind of quantum of how much you're beating, 5 percent ahead, 10 percent ahead, or anything that you can give us, or is it too hard to say at this point?

Answer – Colette O’Shea, MD London Portfolio

Not at this stage, we're not able to give you that information.

Answer - Robert Noel, Chief Executive

I think Os, the only guidance we'll give is we report values twice a year, this is a quarterly call. So it's all about momentum really.

But I can tell you that if you refer back to the tables that we had in our result, which showed ERVs for all of our developments in the development table, we have beaten all those; (we're ahead).

Further question

Understood. Just a second question. So, back with those results that you gave us, you mentioned that there's potential for a loss of supply coming on stream in the London office market 2016/2017.

In the three months that have passed, have you started seeing more development finance becoming more available, people actually pressing the trigger to develop out into those year yet?

Answer - Robert Noel, Chief Executive

I think, there is more development underway in London than there was three months ago and there's more development underway in London than there was six months ago.

More people are building; there's more confidence in the market. Has finance eased up? As I said in May, you can get money from most sources now to build, not necessarily traditional banking sources, but there are all sorts of people who are prepared to fund developments.

Question 2
Michael Prew, Jefferies

Can you just give me a greater idea into the criteria for further disposals, you are probably largely concentrated on those, and your approach to the retail side of the business?

And perhaps give us some guidance as to, in quantum, how much that might amount to and over what period you're thinking of making those disposals and, obviously, how that feeds through into your debt-neutral strategy?

Answer - Robert Noel, Chief Executive

Sure. Mike, if I can take that one, it's pretty simple. We have said that we will continue to run our broadly net debt neutral position. We've articulated in the past why that is, so there's no change there.

We were slightly ahead on selling. Last year, if you remember, I think we ended the year down just under £300 million, more sales than acquisitions.

Bluewater takes us back into positive by about £300 million. We've sold Sunderland, so that takes us positive to £150 million. You know where I'm going. And we've got a £700 million CapEx commitment over the next two years, at the moment.

Further question

When you look at asset by asset and how you're stacking them up now, Sunderland dominance in its catchment, but catchment ageing and probably depopulated.

Could you give us an idea, if we look at your list of assets, how we might guess which ones might be on the market in the future?

Answer - Robert Noel, Chief Executive

Well, I think we have been fairly clear that we don't really want to own secondary shopping centres any more. That middle ground in retail is, we don't think, going to be the future of retailing.

So, we are moving our portfolio towards the polarity of convenience at one end, and dominance and experience at the other. We did put some pie charts up at our results presentation in May, which showed a light blue color reducing, and I think you should expect that to reduce further.

I don't really want to get into specifics. We don't really talk about specific sales before we do them. It might undermine the negotiating position.

Further question

Will there be an opportunity to do a package deal? There are certain investors who are very keen on this strand of the market, even though you and I probably aren't.

Could we see a dramatic one-off sale or disposal or asset swap in some circumstances?

Answer - Robert Noel, Chief Executive

Not necessarily. As we all know, there's quite a lot of money coming into this market, I think. There was a note from one of your colleagues the other day that demonstrated how the inflows into pension funds were quite high at the moment.

So, the assets that we do sell, and it may be in London and it may be from retail, because no asset is sacrosanct, will be sold into a very, very strong selling market.

Question 3
Hemant Kotak, Green Street Advisors

On Bluewater we noted that the price was some 20 percent higher than the last valuation. Based on our discussions with market participants, it was also materially higher than the last round bidders. While I can see the strategic benefit of owning such a stake, I just question if most of the value flowed through to the seller.

Answer - Robert Noel, Chief Executive

Hemant, thanks for that. I'm going to just talk about other bids and then hand over to Scott to talk about the strategic rationale for buying Bluewater.

We really can't comment on where other bids were or whether we were materially ahead or a little bit ahead of last round bids.

This is a unique asset that we've been trying to get for over a year. We were very keen to buy it and we didn't want to come second. We are very disciplined, as you know, and we are delighted to have bought it, for the reasons that we have. So, I'm going to hand over to Scott and he will let you know why we bought it.

Answer – Scott Parsons, MD Retail Portfolio

Hi, Hemant, I can just reassure you that what Rob says is true. We are delighted with the purchase. These assets don't come up very often.

We think Bluewater is the best shopping center outside of Central London. It's now 15 years old. I think it could use a little bit of a refresh. There's some voids that we can reduce to a level more in line with the Land Securities' portfolio average. And most of the voids are in smaller units that we think we can consolidate into the larger units that retailers want today.

Also, now that the X-Leisure team is fully integrated, I think we've got the best leisure and catering expertise in the industry. I think there are a few players at Bluewater along that line as well.

Further question

OK, thank you. Do you see this as a landmark deal that affects the valuation for the high-quality centres then?

Answer - Robert Noel, Chief Executive

I think other high-quality centres are going to be valued just as this one is going to be valued, in line with what our valuers think it's worth, but it's not just a question about value. It's about where we are taking this business. It allows us to accelerate the sales into a very hungry market of the secondary shopping centres that we want to get rid of.

We're going to end up with a very, very strong business in two years' time, having completed a large development programme in London that's going very well, with low financial gearing and silver bullet assets in our retail portfolio. We're very, very happy about that.

Further question

OK, thanks. And just one last question on Nova Victoria; have you started actively marketing the office element of that yet?

Answer – Colette O'Shea, MD London Portfolio

I can answer that. We haven't actively started marketing yet. We'll be launching the offices in the last quarter of this year. But I think the important thing to note is what we have done is we've started on the retail, because that's very important for the place making down in Nova. So it's part of a building programme to launch at the end of the quarter this year.

Question 4
Keith Crawford, KBC Peel Hunt

Scott, this Bluewater purchase, they don't come up very often these. This 40 acres of land, would you envisage that for retail park or for a full-blown extension at some point?

Answer – Scott Parsons, MD Retail Portfolio

It's 110 acres of land. And we're a few weeks into the acquisition and we're looking at (all opportunities).

Further question

Yes that's interesting. I suppose the problem is getting the major tenants when there's not much scope. Can you cooperate? Is there any chance to move any of the big tenants around? They probably don't want to be moved do they?

Answer – Scott Parsons, MD Retail Portfolio

The big tenants don't really need moving, the anchors. But some of the major retailers are interested in upsizing and we'll explore those opportunities.

Further question

Is this going to be a transaction that's going to be significantly leveraged? Because previous acquisitions of this sort have tended to be very leveraged and have made lots of money for people in terms of the equity investment.

Answer – Martin Greenslade, Chief Financial Officer

Keith, it's Martin Greenslade here. No, this will go into our normal security group structure. And we won't put any specific debt on this asset.

Further question

OK, good; right. And will there be scope in the medium to long term to increase the percentage do you think?

Answer – Scott Parsons, MD Retail Portfolio

There may well be. We're happy with the stake we've got now. It comes with the management rights, which is right along with our strategy.

Final remark - Robert Noel, Chief Executive

Great, well look, thanks for joining the call guys. We're very excited about what we're up to here. We're on a very clear path to strengthen the business over the next couple of years. It's all going according to plan.

We very much look forward to seeing you at our Investor Day in September 26, and I think you've all had an invitation to that. We can dig down into more detail on that day on the London portfolio. So see you then and see you at the results in November. Thanks a lot.

– ENDS –

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