Land Securities Retail Portfolio Investor Conference presentation

Friday 25 September 2015

Speaker: Scott Parsons – Managing Director, Retail Portfolio

Slide 2 – Title slide

Good morning, and a very warm welcome to Bluewater. You're sitting in the shopping centre with the highest retail spend, the longest dwell time and the highest conversion rate in the UK; so it's a perfect venue for us to update you on our retail portfolio.

And to help me do that today are the Bluewater team, led by Russell Loveland and Robert Goodman, and our fantastic retail leadership team – portfolio directors, development directors, and senior leasing and finance people. So please feel free to ask them questions throughout the day. Presenting today, besides me, are Jat Sahota, who, with his great retailer background, leads our Commercial team, and Polly Troughton, who many of you will have met at Gunwharf Quays. She's responsible for our Retail Parks and Leisure as well as our shopping centres during Ailish Christian's maternity leave.

Now we've got a great day lined up for you, a chance for you to experience our retail…

Slide 3 – Agenda

I'll start us off with an overview before handing over to Jat, who'll run you through what's going on from a customer and consumer point of view. Polly will spend some time on our asset management and development activity, and I'll wrap up with an update on Bluewater.

The presentation and Q&A should take about an hour, then we'll divide into groups for a tour of Bluewater. Lunch will be in Glow. Glow is a vast exhibition space that we'll soon be redeveloping to increase our leisure and catering line-up. Before heading back to Ebbsfleet Station, we'll take you through Eastern Quarry, and as you imagine all those thousands of new homes being developed in one of the country's biggest forecast population growth areas, remember that each new house will make Bluewater's tills ring louder.

Now today's presentation has a few key theme…

Slide 4 – Key Themes

First, as we've said before, we're focused on dominance, experience and convenience. Our strategy is clear, and we're delivering it.

We've transformed our portfolio to concentrate on high quality, best in class assets, because it's these that will outperform.

Retailer and consumer needs are changing at pace, as is technology, and we're delving deeper than anyone else to understand these in order to provide our customers with the right space, in the right place.

Our leisure and catering expertise is the most extensive in the industry, by a mile, and we're putting it to good use.

And finally, we've been and will continue to be decisive when it comes to buying, selling and developing. We have a top notch asset management team with a passion for retail. And speaking of passion, to see what makes us tick, here is a day in the life of our portfolio, through the eyes of our thousands of customers and the million consumers we see every day, and experience our retail.

So there's the passion, now let's move on to performance, and why we're confident that we're exceptionally well placed for the future. And to kick off, a few market realities:

Slide 5 – Tackling a challenging market

First, let's talk about quality. There's just too darn much retail space in the UK, and yet bricks and mortar are far from dead. With a backdrop of strengthening consumer confidence and real wages edging upward, the best assets - in the right locations - are thriving, while others continue to suffer. There's a real polarisation between the winners and the losers.

I'll show you in a moment that we've reshaped our portfolio with a focus on quality, to ensure we've got the winners.
Secondly, customers and consumers are ever changing and demanding. For retailers it's all about size of store, location and appeal to their consumers. For consumers, it's all about their shopping mission and experience. Jat will take you through how we're digging deeper than anyone else to understand our customers and our consumers, and how we're applying that insight to proactively meet their needs.

And finally, retail asset management is tougher than ever. Landlords with the wrong kit are struggling to deliver results. Poorer assets suffer from a lack of retailer demand, making voids hard to fill without turnover only deals or huge incentives. This makes rental growth tougher to achieve. And secondary retail property requires more defensive capex to ward off further decline.

Polly will show you how, with our high quality portfolio and our best in class team, our rigorous asset management is delivering performance. Every asset has a plan.

So let's have a look at how the portfolio has changed, so you can see why, in this oversupplied and polarised market, we're confident that we've got a portfolio of winners.

Slide 6 – Seismic Change

We've transformed our portfolio, particularly over the past 18 months from good to best in class. Take a look at the graph, it shows that: we've sold all our secondary shopping centres, where a lack of rental tension stood in the way of performance; we've sold our restricted and inflexible bulky goods parks, an oversupplied subsector where the occupier base has shrunk dramatically; and we've sold all but one of our standalone food stores, where occupiers are struggling with competition and too much space.

So as you can see, what we now have is a portfolio of dominant regional and suburban London shopping centres, a number of convenient retail parks, and, compared to our peers, hands-down the largest proportion of Leisure assets and Central London Retail.

Now this is important. Our expertise in leisure and our exposure to Central London retail is a huge advantage, because while I've said that rental growth is hard to achieve in this challenging market. A bright spark in terms of growth is catering; and with our portfolio's high proportion of leisure and restaurants, we're capturing that growth, which began in Central London and is now spreading into the suburbs and to the wider portfolio.

So we've got the right assets, but importantly, they're in the right locations as the next slide shows.

Slide 7 – Right space in the right place

Take a look at the map. What it shows is that about 70% of our retail assets are in London and the South. Up North, our investment is concentrated in major markets like Leeds, with Trinity and White Rose. And in Scotland, we're largely focussed on Glasgow, a market second only to London's West End by retail spend.

Remember it was Land Securities' very own Lord Samuel who first coined the phrase "location, location, location" and today we've got a portfolio of the right assets, in the right locations, exhibiting our key characteristics of dominance, experience and convenience. They're well positioned to outperform.

And to get to this position, let me briefly remind you of those bold decisions we've made, and will continue to make, to sell, to buy, to develop, and to manage at the right time in the cycle.

Slide 8 – Decisive Capital Allocation

We've recycled our capital well. We knew that some assets in our portfolio would be increasingly challenged in a market that, as I said earlier, was oversupplied and undergoing rapid change. So we were decisive, and we took advantage of a strong investor demand to exit standalone supermarkets, and to sell the shopping centres and retail parks that we didn't think would cut it.

Looking ahead, while no asset is sacrosanct, we've done the heavy lifting to reshape our portfolio. So expect our capital recycling to continue, but at a slower pace.

Now we didn't just demonstrate firm views on which assets would perform poorly in the future. We've been and will continue to be bold in investing in those that will prove resilient and succeed in the years ahead. We invested in leisure, heavily. And now have far more exposure and expertise in this sector than any of our peers. This is good news given that catering is achieving some of the best rental growth, but more on that from Polly later.

We acquired the managing stake in Bluewater. This was a key strategic move for us. It enabled us to sell secondary retail assets whilst protecting and improving the quality and resilience of our earnings. I'll talk more about Bluewater before we embark on the tours.

We bought our partner out of their 50% stake in Buchanan Galleries, to gain control over the timing of scheme refurbishment and extension. And we're investing in dominance through development; with Trinity Leeds and now in Oxford at Westgate.

We've also got plenty of value-add development opportunities in our investment portfolio, with potential mixed-use in Suburban London and projects like the White Rose leisure extension and the refurbishment of Fountain Park in Edinburgh. In a period of relatively modest rental growth, these accretive asset management initiatives are a good driver of performance, and as Polly will show you, our asset management team is firing on all cylinders. They're working our transformed portfolio hard, and they're constantly reviewing our performance metrics. Assets that don't stack up will be sold.

And our insight into our customers and our consumers adds value to our asset management and investment decisions, I'll hand over to Jat to expand on this.

Speaker: Jat Sahota, Head of Commercial, Retail

Slide 9 – Title slide

Thanks Scott, and good morning everyone.

I am a retailer. A retailer who has joined a property business. And Land Securities is a property business that's beating retail sales benchmarks by thinking like a retailer. We understand, and deliver, against the changing needs of the consumer, and that means we're a business that's flexible, and adaptable.

Today I'm going to talk less about property and more about our consumers, and our customers: the retailers. Through our evolving understanding of consumer behaviour we're confident that our portfolio is well positioned now and resilient for the future. We're building compelling destinations that consumers want to visit and that retailers want to be in.

So I'll start with our operating environment, and the forecast for consumer spending power over the next 5 years, because that will be the engine of retail growth.

Slide 10 – Disposable income- the engine of retail growth

Consumers, and retailers, have seen turbulent times since 2007. But we're now entering a period of relative stability, during which the PMA forecast low but steady growth across the key metrics of employment, household income and, most importantly, household spending. It's this spend we aim to capture; and we aim to capture more than our fair share. I'll show you how we do that today, and why I'm confident we'll continue to do so in the future.

The economic environment may be more benign, but retail continues to experience change, on a scale not seen in a generation. So let's look at some of the key changes in consumer behaviour that are driving this.

Slide 11 - Changes in consumer behaviour

The consumer increasingly chooses when and how, he or she will shop: they have access to price comparisons at their fingertips; they have learned, and retained, the "canny" mind set which emerged during the recession, which means they're less impulsive, and more planned; they're influenced by peers and social media; and they're value driven.

The distinction between off and online shopping is being increasingly blurred by smart phone penetration, which is now at over 70% in the UK, and rising. But make no mistake; the store is still king. Recent Investment Property Forum research confirms, 9 out of 10 multichannel transactions include the store. So it's not just about click and collect or returns, but it's also a point of inspiration for purchase online. The most sophisticated retailers get that the presence of a compelling physical store drives off, and online, sales in a catchment.

As Scott showed you, our transformed portfolio is in the right place and offers the right space. When you get this right, as we know we're doing, you can dominate a catchment.

Slide 12 – The right space in the right place

The strength of a catchment is one of the important retail fundamentals and Polly will take you through the others in more detail. The standard metrics of catchment size, drive time and disposable income are important, but we know that there is a deeper way to understand what drives consumers and their spending habits. So I'm now going to take you beyond catchment into the concept of consumer missions: why a consumer shops. Understanding not just where consumers live or their income group, but knowing the mission they're on when shopping, is key to capturing spend.

Slide 13 – Beyond catchment – shopper missions

Regardless of demographic, the reason we shop differs on each trip. So I'd like to show you the kinds of consumer missions that happen across the UK. I'm sure you'll recognise your own shopping behaviour, as I explain the different shopping mission types.

Sometimes you'll be heading to a destination, spending most of the day shopping for pleasure with friends or family. On days like this a wide choice of retailers, great food and beverage options, and an inspiring environment are really important. And this is where the best shopping centres win.

Other times you may make a quick, local, shop. For example, to pick up some grocery items. Speed and convenience are key for this mission and smaller retail parks, and secondary shopping centres serve these consumers well.

And lastly you may be making a trip for a specific item, or splashing out on a big ticket purchase. Ease of access, parking and the right selection of retailers are vital. And this is where the best Retail parks win.

So I've shown you how people shop, and we all fit into those shopping missions at different times, but that's only one part of the consumer picture. The other, crucial part is how much we spend on different missions, and that's where things get really interesting.

Working alongside CACI, and using their UK-wide data set of exit surveys, predominantly across shopping centres and retail parks, we have identified that the amount spent on these missions is unevenly spread.

Let's start with locally driven missions where, as I said earlier, smaller retail parks and secondary shopping centres win. How much spend is attributed to these missions?
Well it's actually very little, only 5% of value, based on CACI's data, as these are quick, convenient, low spend occasions.

When we look at purpose driven missions another picture emerges. These represent 40% of spend as these include the Big Ticket purchases.

An even more compelling picture emerges when we look at spend in destination missions. At 55%, these take the greatest share of spend and this is where the real value sits, in missions such as a big day out with friends, or a family day out, combining shopping with leisure.
Shopping missions are becoming polarised into destination and convenience, and this is where our shopping centres and retail parks are positioned, to win consumer spend. Those consumers on a destination led mission come further, stay longer and spend more. And they expect more. When on a big day out shopping, the quality of the experience is crucial to consumers.

This summer we've completed detailed research into consumer expectations of retail offer, ease of shopping, and experience and I'm now going to share the key insights with you.

Slide 14 - We know what consumers value

Delivering brilliant basics is one of the keys to delighting consumers. A great retail mix is fundamental: having a wide choice of retailers, as well as each retailer offering the best of their ranges.

Food options are vital and consumers demand innovative and sophisticated food choices that cater for all the family.

Consumers want, and expect, help when planning their journeys, finding parking spaces and deciding their shopping route. And it’s here that technology can really help.

And finally the right entertainment can create atmosphere and excitement without getting in the way of shopping. Entertainment can be as broad as branded events, such as the Tesla car showcase at Bluewater, during which Tesla sold six cars, to revolving street food offers, which have been a great success at Trinity Leeds.

I mentioned how technology can really help deliver ease of shop, and this is one of the most rapidly evolving parts of the consumer journey, with a huge range of technologies to choose from. So how do we identify where to invest our efforts in technology? Well we start by thinking like a retailer, and understand the areas in which technology can really help the consumer.

Slide 15– Technology – helping consumers where it matters

Our research clearly laid out the consumers priorities. They need help when planning their journeys through clear, informative websites. They want to be inspired by up-to-date product stories and tempted by personalised offers. And once at our centres we know that parking can be a point of stress. Systems, such as the one at Gunwharf Quays, where an empty parking space is identified by a green light above the bay, can really help and we plan to evolve this further in Westgate. And once on the shopping trip, great Wi-Fi reception throughout the centre and clear wayfinding on their smart phone are high on the consumers list.

When it comes to special offers consumers tell us they prefer to know relevant offers in advance. Many find the idea of being bombarded with messages when shopping intrusive. So we think that sort of messaging is better left to the retailers, but supported by us through technology such as i-beacons, which we have in Trinity Leeds.

Consumers also really value schemes that allow them to be rewarded for shopping across a range of retailers. We've been trialling just such a scheme in Trinity Leeds. It's one of the most innovative of its kind…

Slide 16 – Rewarding customers for loyalty

Our Love Trinity Leeds reward and loyalty trial has been running since the beginning of the year. It brings the consumer exclusive offers and rewards just for shopping, dining or watching a movie. Sign up is free and gives instant access to offers from over 70 retailers. To date over 20,000 customers have signed up and we'll run the trial to the end of this year. We're learning valuable lessons on what motivates our consumers and putting that learning to use.

Technology moves quickly, with today's innovation becoming tomorrow's basic requirement. So how can we keep on top of this constant and rapid change? We've partnered with TrueStart, who are Europe's only specialist retail innovation hub and we are their only property partner.

Slide 17 – Keeping close to future innovation

True Start are experts in retail and consumer innovation. By working with True Start, Land Securities is at the forefront of innovation. The partnership means we have access to the most cutting-edge technology developments, in the retail and consumer world. Through this relationship we're already trialling new technologies in footfall and movement tracking, such as Presence Orb, which uses mobile phone Wi-Fi signals to locate consumers, and Hoxton Analytics which, believe it or not, analyses demographic data by taking photos of shopper's shoes.

So I've shown you how our shopping centres are well positioned to grab more than their fair share of consumer spend, that we understand and deliver against consumer's high expectations of experience and service, and that we understand where to apply technology to help consumers and our retail tenants, where it really makes a difference. So what does that all add up to for the Land Securities Consumer?

Slide 18 - Our consumers stay longer and spend more

Our consumers come to us for those big destination shops which means we over index in dwell time. The same for our consumer spend in both retail and catering - well above the UK average. And frequency is lower than average because consumers are coming less often, but staying longer and spending more.
Our understanding of the importance of these measures is why we sold Sunderland, Livingston, Corby, Aberdeen and Dundee. And it's why we built Trinity Leeds, bought X-Leisure and a share of Bluewater and why we are developing Westgate. Our rationale captured on a single slide.

All of these components of dwell, spend, frequency, as well as experience, combine to deliver one of our key metrics: sales densities.

Slide 19 - Sales densities growing year-on-year

Our sales densities have continued to show great progress over the last two years in fashion, catering and for the overall portfolio. We've reshaped our portfolio, and the results are clear to see. In our most recent Q1 statement, our same store, like-for-like retailer sales were up 3.8% year on year versus the BRC benchmark figure of 2.1%.

It's this out performance that puts us in a strong position with our retail partners because retailers want, and need, to be in our schemes.

Slide 20 – Summary

Our understanding of how to capture consumer spend and deliver a great experience, as well as knowing where technology really helps, all combine to drive the sales densities of our portfolio. Or to put it more bluntly, retailers want to be in our schemes because they're confident that they will enjoy strong sales.

So as I said at the start, we are driven by retailer instincts and by a knowledge of the consumer. We have a portfolio that's not just great for consumers and retailers but it's good for us too, as we drive the value of our assets through our consumer and retailer centric approach.

And on that note, I'll handover to Polly who will take you through how we put this approach into practice.

Speaker: Polly Troughton, Head of Portfolio, Retail Parks and Leisure

Slide 21 – Title slide

Thanks Jat and good morning.

You've heard from Scott about our reshaped best in class portfolio and Jat has clearly defined our mission to understand our consumer and the benefits of doing so.

Slide 22 – Key areas

I'm going to show you how these come together across our retail portfolio, based on our philosophy of dominance, experience and convenience, and how we're set to out-perform.

So to show you all this in action I'll talk you through four key areas:

Firstly, I'll take you through our retail park strategy and the critical part this portfolio plays in both resilience and liquidity.

Then I'll to move on to how our strong leisure relationships and deep sector knowledge is driving up rental values as well as optimising the catering and leisure mix across the wider retail portfolio.

Thirdly, I'll talk about our London portfolio. Particularly our suburban London portfolio which gives us the opportunity to exploit the strength of the London residential, retail and leisure markets.

I'll finish by showing you the success of our shopping centre strategy. Now whilst Jat has shown you the trading success of this portfolio, I want to demonstrate to you how that's converted into retailer demand and how by owning the places retailers want to be we're driving net income.

So first off Retail Parks.

Slide 23 – Focusing on convenience parks

Out of town retail is broadly categorised in to Foodstores Shopping Parks and Convenience Parks. Foodstores need no explanation and we aren't focused in this sector, with only one standalone supermarket in the portfolio.

A shopping Park is fashion focused and needs to be absolutely dominant and provide a fabulous integrated shopping and leisure environment. Get the stock selection right and all is good. But as with prime shopping centres there are not many of these great shopping parks around. Failure to tick the dominance and experience box means that doing deals is expensive: headline rents need to be propped up with large incentive packages in order to attract retailers, and a lot of capital investment is needed to deliver the required shopping environment and experience.

Our strategy for retail parks is to focus and evolve our strategy based around convenience assets rather than shopping parks, of which we only have one. Convenience parks may well have destination anchors, like Next or M&S, but mainly fulfil consumers' convenience shopping trip needs around comparison and household shopping. They require less intensive management and have lower capex requirements than a typical shopping park.

Slide 24 – Retail parks – convenience, resilience and liquidity

We've drilled in to the performance of Convenience Parks and believe that, with the right assets, our strategy will provide a liquid portfolio with solid and resilient income, providing certain key characteristics are met. These characteristics are based around catchment, and what I'm calling property fundamentals, and liquidity. So over time expect to see further evolution of our retail park portfolio.

Firstly catchment. Scott has already talked about location, location, location. Our strategy is focussed on assets that are trading strongly today and where population growth and sales are forecast to be above UK average.

Next, property fundamentals. Most are self-explanatory, but a little more on Flexibility. In this dynamic and changing retail environment, our assets need to be able to respond to the retailers' upsizing, down-sizing or right sizing requirements. And by knowing our operators and owning assets that offer both planning and structural flexibility, we'll be able to do just that.

In relation to liquidity, typically institutional investment demand falls away when the WAULT is less than 7 years and lot size greater than £80m, so the majority of our parks are focussed on the sweet spot of lot sizes between £30m and £80m.

Let me give you some examples of why these characteristics are so important. Dixons Store Group needed to consolidate their operations…

Slide 25 – Strong trading locations…flexibility for retailer needs

and so we worked with them to successfully backfill the 100,000sqft space released because our parks are in strong trading locations where tenant demand is focused. Much of the back filling was to discount retailers and it's these chaps that are driving footfall and rental values. But they can only be accommodated if an asset has the benefit of a flexible planning consent.

Our right places and right spaces are also attracting new retailers as first UK locations. Tapi, the new carpet retailers backed by the former DFS and Carpetright owners, are taking units at Thurrock and Northampton, and Decathlon at Gateshead and Poole. Through our strategy of owning the parks and spaces that are able to respond to retailers, and are in strong trading locations, our WAULT is an attractive 9 years, and our vacancy rate is low at around 2% and falling.

And with the backdrop of driving capital value and income our Portfolio team rigorously manage the assets and as Scott said, every asset has a plan.

Slide 26 – Driving capital value and income

For example last year we completed the development and letting of a new Harveys, B&M and the gym at Chadwell Heath; an Asda store at Chester; and Sofa Works at Dundee; and practical completion is due this month for a new Netto and Poundland store at Lincoln. This all added £2.2m of income to the portfolio with a development yield of 18.2%.

We have pre-lets secured for two further units at Chadwell heath, a pre-let and planning secured week for an Aldi store and an additional 10,000sqft unit at Blackpool. At Workington, we are close to pre-letting a 10,000sqft consented unit, and at Bracknell we are completing the design, and pre-letting for the redevelopment of the existing leisure.

We also added to the portfolio last year with the completion of our new retail park development in Taplow. It was completed on time and on budget, delivered 25% profit on cost off a development yield of 7%, and was 82% let at practical completion with the final 18% let within eight months. So today the scheme is fully let, trading extremely strongly and ticks all the boxes around catchment, property fundamentals and liquidity.

And our development pipeline will continue to add to our portfolio.

Slide 27 – Developing the right space in the right place

At Worcester Woods, we have pre-lets secured with Sainsbury's, Next, M&S and John Lewis. That equates to 69% of ERV, and a planning application that is due to be determined before the year end.

And at Selly Oak, part of our Harvest joint venture, we have secured planning for 262,000sqft of open A1 retail and 178,000sqft of student housing. Reserved matters are expected to be cleared by early next month and we have 55% of the retail terrace now under offer.

Now on to leisure, which is the second area I wanted to talk about today.

Slide 28 – Leisure driving strongest ERV growth

When we met at Gunwharf Quays a couple of years ago I presented “the case for leisure”, and I explained why Land Securities was set to benefit from being the only UK REIT to have such a large investment in the leisure property market and a specialist team. I’m not going to go over this again.

The operating market and consumers’ appetite for leisure remain strong. As at August 2015, every household in the UK is now spending £220 per month on leisure, with general leisure spend and eating out on the increase year on year and drinking-out on the decline.

For Land Securities, we have continued to capture this appetite and it’s reflected in our net income across the X-Leisure portfolio which is up 7% between March 13 to March 15. We’ve also been able to exploit the UK expansion of some of the newer restaurant brands like Five Guys, Busaba and Byron Burger who are now competing with the likes of The Restaurant Group and Casual Dining Group to secure space on our parks and driving up ERVs.

Slide 29 – Restaurant expansion driving rental growth

So restaurant lettings at Bentley Bridge, Boldon, Cardigan Fields, Cambridge and Nottingham have seen rental value increases on the restaurant elements of these parks of 27%, 37%, 19%, 15% and 31% respectively between March 13 and March 15. And we continue to exploit this appetite from restaurant operators with planning consents secured or submitted for additional restaurants at Fountain Park, Ashford, Cambridge and Boldon.

For successful restaurants you need to maintain relevance and ensure future performance of the other footfall driving leisure offers.

Slide 30 – Focus on consumer experience…driving footfall

So out go nightclubs and in come the trampoline operators - which is the very latest craze - opened at Xscape Yorkshire and coming to Lockmeadow Maidstone and Riverside Norwich. This is no loss making offer. At Xscape Yorkshire, Gravity’s average weekly sales are an extraordinary £50,000.

And you'll recall from Gunwharf Quays, the cinema is the anchor tenant and key footfall driver. So keeping our top trading cinemas at the top of the box office rankings ensures future performance.

So we need to work with our cinema partners; extending, refurbing and adding experience screens, IMAX, Supersize or 4DX: a 4D experience that involves smell and movement. The first of these in the UK opened at Xscape Milton Keynes.

Other Supersize screens or IMAX screens have been added at Finchley Road, Norwich, Castleford, Edinburgh, Manchester, and Nottingham. And you'll hear later that we are including experience screens at our leisure extension plans for White Rose and Bluewater.

And now to my third area: our London portfolio.

Slide 31 – London Retail - >£2.4bn in the UK's engine room

Central London retail continues to benefit from the global appeal of London and is delivering both strong sales growth and rental value growth. Looking beyond Zone 1, we have eight assets within Zones 2 to 4 of Greater London – this is our suburban London portfolio.

These assets are in strong London catchments and have development upside exploiting the strong London suburban residential, retail and leisure market.

Slide 32 – Maximising Crossrail opportunity

The portfolio includes our leisure and residential development in the heart of Ealing. Scheme completion is due at end of 2018 to coincide with Crossrail's arrival at Ealing.

Slide 33 – New leisure and residential quarter in heart of Ealing

The leisure scheme has been anchored by pre-lets to Picture House, Vapiano and Planet Organic. And 161 residential units will be delivered in to Ealing, bang opposite the new Crossrail Station. To put this portfolio in to context…

Slide 34 – Creating places…making waves

Combined together these London suburban assets provide more than 50 acres of opportunity across London Zones 2 to 4.

This slide shows our early place making work at Lewisham where through our key leisure relationships we've been busy working with Street Feast and London Union putting Lewisham firmly on London's map of cool places to eat and drink. You've seen what we've been capable of in Zone 1 at Victoria, 1 New Change and Piccadilly Lights, so watch this space as we start creating places in Zones 2 to 4.

Now on to our Best in Class shopping centre portfolio…

Slide 35 – Dominance, Experience and Convenience

You're all well aware of the strategy that we've executed here: Dominance, Experience and Convenience.

Today we have five dominant shopping centres and two, Westgate, Oxford and Buchannan Galleries, Glasgow, that post-development will add to this prime UK portfolio.

This strategy is clearly proving successful. Our shopping centres are in the right place for consumers and retailers, with increased sales and footfall, low vacancy rates and, most importantly for net effective rents, reducing or limited incentive packages at lease renewal or new letting stages.

I want to turn to specific assets to give you more flavour of how our very disciplined strategy is playing out and how it's focused on places retailers want and need to be. I'll start with Oxford where we have started on site…

Slide 36 – Creating a new shopping and leisure destination

...and will be opening in time for Christmas 2017. On completion of the scheme, Oxford is forecast to be the 6th highest spend destination in the UK.

Slide 37 – Strong leasing momentum

Westgate is a £440m development in a joint venture with the Crown Estate and builds on the innovation we demonstrated in developing Trinity Leeds. And it moves design, retailer and catering mix on to the next level.

We're employing a completely different and innovative leasing model. And that will enable us to respond better to both consumer and retailer needs; ensuring we maintain relevant and compelling retail offers and top trading occupiers.

Outside the anchor retailers and MSUs, gone is a requirement for long term leases. We want to be able to manage tenant mix now and in to the future. So we are adopting a mixture of lease terms of 5-8 year with the added benefit of annual fixed upwards rent review provisions. And these won't be protected at lease expiry by automatic renewal rights for the tenant.

We are able to achieve this because retailers want to be part of Westgate Oxford and work with us. They understand our strategy for best in class tenant mix and retail offer through the life cycle of the shopping centre, not just at opening.

Today we're 33% pre-let. Retail pre-lets are right where we want to be with an incredibly strong early line up as this slide shows.

Moving on to the investment portfolio…

Slide 38 – Expanding F&B and strengthening retail mix

At St David's Cardiff, we are focusing on expanding the underprovided F&B offer and bringing great new brands to Cardiff with lettings this year to Wahaca, Shake Shack, Barburrito, and Patisserie Valerie.

We're strengthening the retail mix and have secured lettings to MAC, Alba Rose, Size, Smiggle, Swarovski and Michael Kors. Retailers want to be here: H&M are in the process of creating a flagship store upsizing from 25,000sqft to 45,000 sq ft. And despite the massive annual footfall of 38.5m, we continue to increase the popularity of this destination with an increase footfall year-to-date of 4.4%. That has translated in to strong sales growth up 7.3% to June 2015. And whilst we'd expect rental value growth to lag behind strong sales growth, we're on the right track with net income up 2.1% the year to March 2015.

Slide 39 – Loyalty and leisure. Incubate and innovate

Up in Leeds at White Rose, we're using our leisure expertise to strengthen the appeal of this hugely successful shopping destination with a leisure extension. The multiplex cinema is pre-let to Cineworld and will include an IMAX cinema. And four out of the six restaurants are already under offer, with an on-going bun fight for the last two! On completion, this will add £1.6m of rental value to White Rose with an estimated profit on cost of 15% and development yield of 7%.

Trinity Leeds continues to grow and sales are up year-to-date by 8.2%. Trinity Kitchen is proving to be an "incubator" for new restaurant brands, and two of the originals, MEATliquor and Rola Wala, are now happily housed in permanent units in the scheme. New retail brands recently introduced include Moss Bros and Replay.

Two years ago we met at Gunwharf Quays and Jack Busby presented the strategy of optimising retail mix to drive sales densities at Gunwharf Quays.

Slide 40 – Sales density growth adding value to turnover rent

And Since 2013 when Jack presented, average sales densities have grown by 20%. And we've doubled the number of retailers delivering more than £1000 psf sales per sq ft from 11 to 22.

Aspirational retailers continue to be introduced to the scheme: Hackett, Michael Kors, Phase Eight, Musto and Reiss being the very latest additions. Current year-to-date new tenants are delivering a 67% increase in sales.

But it's not just about optimal tenant line up. We've extended the catchment and increased footfall and sales through upsizing Polo Ralph Lauren. They've opened a new flagship store which is now the largest outlet Polo Ralph Lauren store in Europe and their sales are up +54% versus the old unit.

As part of the Gunwharf Quays experience we have an extensive events programme, which this year included The Americas Cup. Despite the weather that dampened the sailing, retail sales at Gunwharf Quays were up 20% through the duration of the event. And the good news for Gunwharf Quays is all this activity and optimising tenant mix has not been in vain: since 2011 net income has increased by 24.6%

Slide 41 – Summary

So in concluding. I've talked today about four key current areas for us in retail: firstly our very clear retail park strategy; then the unique and increasing value of our leisure expertise across our portfolio; thirdly how we're exploiting growth and development potential in our thriving Central London and suburban London retail assets; and finally how by investing in the right shopping centres we are in places retailers want to be.

As I said at the start, these four areas are underpinned by our focus on dominance, experience and convenience. And it's that focus which ensures we're adding both capital value and income, and have a retail portfolio positioned to outperform.

And on that note let me hand back to Scott who is going to bring you up to date with what’s been going on at Bluewater since acquisition.

Speaker: Scott Parsons – Managing Director, Retail Portfolio

Slide 43 – Bluewater…best of the best

Thanks Polly. As I said at the start, Bluewater has the UK’s highest retail spend, dwell time and conversion rate. Now that equals almost £900m of annual spend, an amazing three hours of dwell time, and a massive 94% conversion rate. With its fantastic tenant line up and affluent and growing catchment of almost 7 million people, Bluewater continues to perform strongly, with year-to-date same centre sales up 4.8% and footfall up 1.7%. And to put that footfall figure into context, the Experian benchmark figure is down 0.9%.

It’s been just over a year since we took over the management of Bluewater, and the centre has acquired a new energy. Now in the hands of a long term investor, with a big balance sheet and a passion for retail, we've used the first year of our ownership to inject fresh momentum into leasing, into improving the leisure offer and into accretive capex to improve the space for our customers and the experience for our consumers. Bluewater is looking to the future, and the future is looking really bright.

And it's not just us who think so. Land Securities own 30% of Bluewater and the evergreen asset management contract. When we presented our first budget as asset manager to our co-owners, it was unanimously approved. So our ambitious plans have the support of our partners. And as a best in class partner, we've made a number of improvements to Bluewater's financial reporting, which have been extremely well received by the co-owners.

Now when we bought Bluewater, we said we'd do a number of things to drive performance - and we're delivering. We said Bluewater would help generate stronger relationships with retailers. Well, it's now sparking dialogue across our wider portfolio from Trinity to Oxford to Nova in Victoria. We said we'd reduce voids and upsize key MSUs; well, including deals in solicitors' hands, voids are down from 5.3% at acquisition to 4.6%. Now this figure would be even lower if it weren't for the unit assembly initiatives underway to deliver larger MSUs for key customers in the future. And we've got even more of these in the works than we originally expected. More on this in a moment.

And we said we'd use our leisure expertise to improve the Bluewater consumer experience, redeveloping the Glow space and driving dwell time and spend. Well, our top notch dwell time and spend figures speak for themselves and our plans for Glow will generate even better returns that we anticipated – more on that in a minute too.

Now, on the leasing front…

Slide 44 – A magnet for new brands

We've completed 24 leasing transactions, with rents totalling over £8m since acquisition. Of these 24 deals, 22 were lettings to new tenants and we delivered a number of important firsts: American Eagle chose Bluewater for their first shop outside London; Breitling chose Bluewater for their first shop off Bond Street; Steamer Trading, Bills and Hackett opened their ever first shopping centre units; and Bluewater has attracted a number of the latest retail concepts such as Aveda, Rockar Hyundai, Nespresso, Kiko and Virgin Holidays.

On top of these, we've got eight more deals in solicitors' hands, which will generate another £1.8m of income.

And Bluewater's appeal means it's not just new tenants taking space…

Slide 45 – Delivering space for showcasing brands

Existing retailers are expanding their space in order to showcase their brand in the most successful locations. At our results presentation in May I told you about the Next upsize, and on the tour you'll see what will soon be their 45,000 square foot state of the art flagship store. Since then, we've agreed terms to almost double the size of another key MSU occupier, H&M, and we've two more big new MSUs in detailed negotiation.

Upsizes can be painful for landlords, making it difficult to maintain ERVs on the larger units. But because of the strength of retailer profitability at Bluewater, we're maintaining ERVs while upsizing retailers into the space they need.

And even those occupiers who aren't expanding are increasingly investing in upgrading their units to ensure they are the statement stores worthy of a destination like Bluewater. Schuh, for example, unveiled its future-proofed new store design at Bluewater. Hollister, Body Shop, Ernest Jones and even McDonalds followed suit.

And as you can see, we're exploring a host of other opportunities to add value, delivering good performance while adding to the consumer experience.

So why are all these occupiers taking new space or investing in their existing space at Bluewater? Well, it's because…

Slide 46 – Wealth of success stories

…they know what Jat said earlier, that the best physical stores deliver fantastic performance. Just ask M&S, whose number one store during peak holidays is Bluewater. Or Jo Malone, whose Bluewater store ranks third in the entire Estee Lauder portfolio; Mont Blanc, whose Bluewater store is second only to their boutique in Monte Carlo; Smiggle, whose number one global store is right here at Bluewater; Rockar Hyundai, who sells more cars at Bluewater than anywhere else in the UK; Lakeland, whose number one store is here, apparently Kent is filled with British Bake Off fans; Nando's, whose Bluewater restaurant is in their top 5 worldwide; Mappin & Webb, whose Bluewater store is number two in the UK, ditto JD Sports; Bills, Wagamama, and 5 Guys, whose stores here are consistently in their top 5 restaurants. And ask John Lewis, whose Bluewater store is only pipped by Oxford Street and Peter Jones, and set their Black Friday record last year.

So what does this mean for us? Well, in the simplest terms, the more successful the retailer, the more rent they can pay. Now I'm not saying that rental growth over the short term is going to knock our socks off. The reality is that the upsizing and leasing initiatives I've spoken about will take a little time to have an impact. But it will happen because of the importance to retailers of destinations like Bluewater, because of our rigorous asset management, and because of the way we've structured our leases to retain maximum control of tenant mix. So while rental growth will be steady and gentle, it will be ahead of the pack and well-timed for the next big spike in rent reviews in 2018-19.

Now before I finish up there's one more thing at Bluewater that we're really excited about…

Slide 47 – Glow… optimising the leisure opportunity

…and that's the redevelopment of Glow. This events space was loss-making so we closed it soon after acquisition. That generated an immediate saving of almost £1 million per annum. We've now put our leisure expertise to good use, and will soon submit a planning application to convert this 60,000 square foot space to add to the consumer experience. It's pre-let to Showcase so they can expand, and enhance the latest screen and sound technology in what is already one of the top performing cinemas in the country.

We’ve got operators queuing up for the four new restaurants, and the redevelopment also includes a new leisure unit to boost our already record-breaking dwell time. And remember, increased dwell time means increased spend. Ballpark capex on the redevelopment of Glow is around £16 million, and we expect to generate a profit on cost of around 10%.

We’ll show you the Glow space over lunch after the tour, and speaking of which, it’s about time to wrap up.

Slide 48 – Summary

So as I said right at the start, we’re delivering on a clear strategy to focus on dominance, experience and convenience: assets where occupiers want to be.

We’ve transformed our portfolio quality to best in class, and we’ll continue to be decisive in buying, selling and developing.

Our regional shopping centres are compelling destinations that appeal to consumers and retailers alike, so we’ll do better than the pack when it comes to securing rental growth. Our suburban London centres are in strong growth locations with potential development upside. We’ve got a large investment in resilient Central London retail. We’re focussing our retail park portfolio on high quality, low void convenience assets. And our leisure and catering exposure and expertise is second to none. Above all, our insight into our customers and consumers is getting better and better and adds real value to our asset management and investment decisions, driving performance.

Now, we’ve got time for a few minutes of Q&A before we move on to the fun stuff; the tours and lunch in Glow. Because the Q&A is being audiocast, if you’ve got a question could you please start out with your name and company, stick to one question at a time, and wait until the microphone gets to you before speaking.

Question 1

Michael Burt, Exane BNP Paribas

I just had a question on the sales density data you gave us. We can obviously see the very clear positive trend in the last two years, I was just wondering where that puts sales densities maybe versus their previous cyclical peak in your portfolio.

Answer - Jat Sahota – Head of Commercial, Retail

I haven't got that data with me today, but we can come back on that via the IR team. We haven't historically released the detail of the sales densities, but we can make that comparison and come back to you.

Further question

This is a follow up on the same broad point: you talked about a lag between that pick up in tenant sales feeding through into rental growth. Can you give any further indication on how long you expect that lag to be, and maybe how much of that growth in sales densities you expect to convert into rental growth?

Answer - Scott Parsons – Managing Director, Retail Portfolio

Typically we've got rent reviews every five years so it would be staggered over. The only thing that would make a difference would be if we had a lot of voids, which we don't, because that would be a way to capture some of the growth sooner rather than later.

Question 2

Hemant Kotak, Green Street Advisors

Two questions from me, please. One big picture on polarisation; it's a topic that I think nearly everyone talks about, and clearly there is a trend of polarisation. Could you give us a sense of how much is behind us, how much of this polarisation aspect has actually happened, and how much is ahead of us? Is the first big picture question.

And then just a second question on Bluewater specifically. Can you help us understand how it's performed in terms of total returns and rental growth since you bought it, how it's compared relative to your portfolio?

And with respect to there's planning permission I think for about 300,000 square feet, are there any plans to progress that in the near-term or is that more of a medium-term story?

Answer - Scott Parsons – Managing Director, Retail Portfolio

The first question on polarisation: obviously we have really reshaped our portfolio at pace over the past couple of years, and that's because we think that polarisation is going to keep going and going. We think the best will keep getting better and the losers will keep getting worse. Second question on Bluewater, I can't quote a forecast return on Bluewater. What I will say is on that £8m of leasing transactions I quoted they were in total about £1m over ERV; they were roughly equal with passing, a tweak ahead. So we are capturing growth and catching up to where we were at the high point in the cycle.

Further question

How has it done since you bought it though, compared to the rest of your retail portfolio? Has it outperformed or underperformed or in line?

Answer - Scott Parsons – Managing Director, Retail Portfolio

I'd say it is performing in line. There are some bright sparks in the portfolios, as Polly outlined. Gunwharf Quays had a fantastic performance, a few of the suburban London centres have stood out from the crowd. But broadly Bluewater has performed in line with the wider portfolio.

Further question

And then the last aspect, the development there is I think 300,000 or 400,000 square feet that you could add. Is that more of a medium-term project?

Answer - Scott Parsons – Managing Director, Retail Portfolio

Do you know what we'd rather do with that planning permission to add space to Bluewater? We'd rather use it to create the units within the existing centres and upsize the key MSU retailers, than use it for a whole scale extension of Bluewater. We've got a lot of opportunities to create value within the existing centre.

And me for one I'm not keen on adding a lot more retail space, because I think we talked throughout the presentation about how important rental tension is to drive future growth. So we want to maximise that tension. So don't expect us to be adding huge swathes of square footage of new retail space.

Question 3
Marc Mozzi, Société Générale

Only one simple question: what is the amount of maintenance capex you need in your Retail Portfolio to preserve its current value, per year of course in terms of absolute number or percentage?

Answer - Polly Troughton – Head of Portfolio, Retail Parks and Leisure
Call it maintenance or defensive, it's actually pretty minimal, between £10m and £15m on an annual basis.

Further question
Why do you think it's a number which is very little compared to what your competitors are currently stating, which is more around £100m?

Answer - Polly Troughton – Head of Portfolio, Retail Parks and Leisure
I couldn't comment on our competitors' spending plans. Our portfolio is relatively new. We have an ongoing spend, so it's pretty much that every year, so it doesn't need a wholesale refresh or refurbishment. And the majority of refresh and refurbishments actually come through a service charge.

Further question
Maybe I should phrase my question differently. How much do you think your portfolio needs of investment to adapt itself to the ongoing changes of the retail environment?

Answer - Polly Troughton – Head of Portfolio, Retail Parks and Leisure
We don't think we've got a huge amount of adaptation to be done.

Question 4

Robbie Duncan, Numis Securities

Polly, when you were talking about Westgate you said that you were seeing incentives come down on the 33% pre-lettings secured to date. I know it's difficult to quantify, it's only 33% and it's some time ahead of completion, but can you quantify that and where incentives currently stand, where does that compare to where incentives are elsewhere in the retail portfolio? And where, bear in mind the comments around improving sales densities, expecting to capture that, how that might play out over the next, say, two to three years therefore driving potential future income?

Answer - Polly Troughton – Head of Portfolio, Retail Parks and Leisure

Incentive packages are not just coming down at Westgate. I think Westgate is in line with where we thought it would be. I think I made the comment at the very beginning of the shopping centre presentation saying that incentive packages are coming down generally. And we've seen that in the last 12 to 18 months that both rents are pushing on and packages are coming down, so one should start seeing it come through in the net effective rents. So a ten-year lease is a 12-month package.

- End -

Forward Looking Statements

Information contained in this document relating to the Company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance.