LandSecurities

Half-yearly results presentation – 12 November 2008
Question and Answer Session

Question 1
Harm Meijer – JPMorgan
Good morning. Just a few questions if I may. Firstly, on Trillium. Is it possible to get an update on where we stand in terms of the potential disposal?

Answer
Martin Greenslade, Group Finance Director
I think we have said pretty well all we are going to say on where we are in that process. We have said that the sales process continues. We will see that through to a conclusion. I am not going to give you a timescale on that. I think we have already indicated that in this particular market, all types of transactions, particularly M&A is more protracted for obvious reasons and those reasons relate to the debt. So we will just have to be patient on that. We will update the market when we have something to tell.

Further question
Are there one or two bidders left?

Answer
Martin Greenslade, Group Finance Director
Well we have never said whether there was one, two, three or four. So I think you are drawing me on a subject that I haven't commented on before. You are reflecting on speculation in the press not comments from us.

Further question
The 2.9% retail tenants in default, how that has evolved over the last months? Where do you think that will go to and also, what is the turnover currently within Shopping Centres?

Answer
Richard Akers, Managing Director – Retail Portfolio
I think the question is, what is the trend? Clearly the occupational market has been very difficult in retail in recent times than they have been for quite some time. We expect that to get more difficult in the early parts of next year after the Christmas period. So we are expecting more insolvencies in the early part of next year than we had in the early part of this year.

On the whole, and Francis showed a slide of our tenant diversity, we feel that our major tenants in our centres are very strong, profitable organisations who are cash generative. So we are not expecting a proportionate impact on our portfolio. There will be a bigger impact on the wider market.

Since 30 September we have had the administration of MFI. We had eight units with MFI and we have been approached by solicitors acting for the new company and they want to sign six of those leases. We have agreed to that on four of them. The other two, there are guarantees in place, so we are still negotiating on that. On the two units we will get back we already have an occupier ready to take one of them and an asset management initiative in place to deal with the other one. And that reflects where we have been in the Retail Warehouse market, we have been able to effectively manage the units that we received back through administrations.

Further question
And on turnover trends within Shopping Centres?

Answer
Richard Akers, Managing Director – Retail Portfolio
Firstly on our footfall trend. Like-for-like footfall in our portfolio is up 1% on the same period last year, whereas the national benchmark is down 0.9%. In terms of turnover, we do not have perfect information on all of our centres. Where we do, particularly in our factory outlet centres, we have seen an upward trend. In Gunwharf Quays, we are up 1.3% like-for-like on the previous year and at the Galleria in Hatfield we are up 3.5%. To some extent that may reflect the attraction of outlet centres with their discount message.

Further question
The demerger process is over, is it forever or will it be taken up again in 2 years time?

Answer
Francis Salway, Chief Executive
The file is closed. We still see benefits from specialisation, but we are not constantly going to be reconsidering whether we should reopen the issue of demerger. The right thing to do is to focus on running the business and at some stage in the future, I am sure our Board will revisit the issue as responsible Boards would. My perspective on it is that the plan for demerger was to create shareholder value and with current markets, and the likely costs of changing debt, that would not be the case. So it is a very natural thing to say, we will cease work on demerger as we would not create shareholder value because of the transition costs in the current market.

Question 2
Martin Allen – Morgan Stanley
You have given a very good run through of the debt / gearing covenants on your main debt facility, but could you confirm whether you have any debt gearing covenants on any other debt and if you have what are they?

Answer
Martin Greenslade, Group Finance Director
We do have different covenants on the smaller amounts of borrowing that we have for some of our developments and into our joint ventures. I do not have all the details of the covenants. I am quite happy to be make them available to the extent that they are, but they don't require a revised LTV test. Because they are developments, there is a breathing space, in certain examples of a couple of years, to provide for the development to get going.

Further Answer
Francis Salway, Chief Executive
I think certainly on the largest of the joint ventures, it is purely ICR covenants on the debt.

Question 3 – from Webcast
Read by Francis Salway, Chief Executive
Could you please elaborate further on the cashflow statement with regards to the line item 'net loans from / to' – what makes up the £149.5m? Martin?

Answer
Martin Greenslade, Group Finance Director
I think the line that is referred to there is 'net loans from to joint ventures and cash contributed'. Cashflow to us. That comprises of a large number of items. The largest cashflow to us is from selling Empress State into a joint venture with Liberty, and then gearing that joint venture. In total the cash proceeds we received were around £180m. On top of that, we received a small amount of cashflow from gearing our Harvest Joint Venture with Sainsbury's. From that number you then have to deduct cash that we put into St David's and Cabot Circus, both joint venture developments. So that is how we get to a net figure of £149.5 million.

Question 4
Quentin Freeman – UBS
Could you update us on the Leeds development. I know you are saying it is being demolished, but do we assume you are actually going to push ahead with it?

Answer
Richard Akers, Managing Director – Retail Portfolio
We have been demolishing the existing Trinity and Burton Arcades in preparation for development there. We have also been working on the planning – improving the planning permission and we received a new planning permission last week plus the agreement with the local authority has also been reviewed. We have been negotiating with the building contractor but we have not yet signed a building contract. So we are not committed to proceed with this development, but we are intending to do so in the New Year. From my perspective, Leeds is a city with possibly the highest number of retailer requirements and probably the highest number of retailers who are in accommodation which is not optimal for them. We are very positive about the occupational demand and the popularity of the schemes that have opened this year, such as Cabot Circus and the Westfield scheme. They have both demonstrated that if one produces world class destinations, then the consumers will come. So we are very positive about the prospects for Trinity in Leeds.

Further Question
Can you tell me what the expected capex is on Leeds?

Answer
Richard Akers, Managing Director – Retail Portfolio
The project is in our development pipeline at the moment, we will confirm capex levels and expected income levels when it moves into the programme.

Further Question
Could you tell me what the rent is currently on Ashdown House and how flexible your arrangement with the Government is?

Answer
Mike Hussey, Managing Director – London Portfolio
I cannot tell you the absolute number, although I can probably follow that one up for you. But the deal was a combination deal for DCLG and the Government on Eland House and Ashdown House. The effect of it has not really hit the income line as such because what we have done is provided them with a sort of tactic (as we call it), called Govflex. Where we have actually got them to cover our income for a two year period, after which, if they don't want to use it internally for Government then we will expose it to the market with further cover for our own income. So we have not really lost out at this stage. The actual rents per square foot however are at more sensible levels. We have offered them a total accommodation charge similar to Landflex,

which is around £70 psf. And if you broke that back to a rent today, it would be in the mid £40s. So we have got that cover until we move it into the open market in a couple of years time.

Further Answer
Francis Salway, Group Chief Executive
We have had ongoing discussions with the Government for two or three years about whether we could give them some space with more flexibility within Victoria and we are delighted that we have finally got the building where we could make it work.

Further question
On Dashwood House, could you give an indication of what rent levels we are talking about on this development?

Answer
Mike Hussey, Managing Director – London Portfolio
As Francis very accurately put it, we have only just finished the building, we have only just started the conversations, but if you have got an interest I will talk to you afterwards.

Further question
Thank you. And in terms of the development properties which are not developments yet, but are sites being vacated for future development, therefore maintained in the investment portfolio. Could you give us an idea of the value of those sites in the London Portfolio and the Retail Portfolio?

Answer
Mike Hussey, Managing Director – London Portfolio
Arundel Great Court is the big one in terms of the news for this quarter. And we have run the lease out with Deloittes. But we have had a lot of progress in planning with Westminster. We expect it to go up to their committee in the next 2-3 months for consideration. We are also in the process of dealing with the re-gear of the long leasehold interest and all of that has an overall impact on the valuation of that particular site. The others have pretty much gone in line with market both in West End and City and as Francis said, the development sites are being hit harder than the investment properties. As you know, from our previous five year cycle in developments, it is exactly what happened last time round in 2003 and I think everybody was reasonably satisfied with the outcome in 2008.

Further question
And then finally, on the fund, how much more appetite is there in the TIP fund to buy PPP contracts from Land Securities?

Answer
Ian Ellis – Chief Executive – Land Securities Trillium
What we have currently done on the fund, and it is one reason we wrote off the goodwill, is we have decided that the new money into that fund 12 months out will be very hard to identify today. So we are content that we have the capacity to deal with the assets we have got on the balance sheet over the next 12-18 months, but we are not currently buying further assets to feed into the fund until we can see the equity come back into new subscriptions.

Question 5
Bhupen Master – Merrill Lynch
Could you just comment on what your internal hurdle rates are for developments and has your thinking changed in the last six months?

Answer
Francis Salway, Group Chief Executive
Historically, we have tended to look at hurdle rates 4-5% higher than income producing investments. We are not absolutely rigid on hurdle rates and we do need to take into account the degree of pre-letting that we might have done. So we will start shopping centre developments at a lower margin on IRR than that, because we will have got a degree of pre-letting in place.

Question 6
John Fraser-Andrews - HSBC
Firstly three questions on Trillium. Could you disclose the IRRs that you sold the 17 projects into the fund at in the period please?

Secondly, on the DWP contract, it produced £40m of underlying profit in the first half. Martin, your guidance on this has been trending down to £50m, that was around 12 months ago, could you update on that in a recessionary climate and indicate your exposure on profits on DWP if you struggle to reach your central case re-lettings and sales?

And thirdly, on a similar basis, could you give a bit more detail on the exposure of your profitability in the Royal Mail contract?

Answer
Ian Ellis – Chief Executive – Land Securities Trillium
On the fund disposals, IRRs are not the right basis to use. You sell into the fund on the running yield it will give the fund and the target is 9%. And effectively what the fund does is look at the returns, and there is an independent Board on that fund and on advice, if they are content at selling the asset in at the figures shown giving them a 9% yield going forward, then those assets go in. As you will see, there is a profit on disposal of some £17m and the IRR to us has probably been around about 10%, but it is, the return to the fund going forward that dictates the sale price into the fund.

Answer
Martin Greenslade, Group Finance Director
We are not intending to change our guidance on DWP. It still does have a vacation allowance, all the details are set out in your pack. They have not utilised that in full. And as you know, when they do, we get both the vacant space liability and a reduction in income. So we are not changing our view over the long-term where that contract will trend before indexation picks it up again. I think we have always been clear that you have got the competing factor of indexation coming through as well to offset some of that decline.

Further question
What is your central case for re-letting the DWP vacated space and what is the exposure to that central case not being met in DWP and also in Royal Mail?

Answer
Martin Greenslade, Group Finance Director
When we bought the Royal Mail portfolio, we had vacant space as Francis indicated, around 0.75 million square feet. And we also had income from the let portfolio, which continues. At the time of the purchase, we set up an onerous lease provision and that was our best view at the time of how long it would take us to let that space. We have changed that view in terms of how long we think it will take and the costs before we let it up and we have also taken into account the changes to rates. But I think the point is that the numbers that you see now on the provision that we have made, is our best view. There is a provision in the accounts for it.

Answer
Ian Ellis – Chief Executive – Land Securities Trillium
I think two things to help size the problem. We currently have about £25m of exposure on the vacant space across two portfolios. So you can say, if we have got that wrong by 10% in terms of success in letting it, that is £2.5m. That helps you size the potential liability. On Royal Mail we currently have £19m of provisions against the vacant space and that is the only increase we have had this year. So we feel we have some fairly good provisions, but we are into a tough letting market as you perceive.

Further question
Two further questions if I may. Firstly, on Ebsfleet, you were running a market value surplus over book. Have you reassessed that in the light of the residential landmark?

And finally, on rental value changes that you have reported – Retail down 1.4%. London down 3.8% – I am assuming those are headline rental value changes? Could you clarify that and indicate the two sectors where you are seeing incentives at the moment?

Answer
Francis Salway, Group Chief Executive
On Ebsfleet, we do have a revaluation to assess the cost figure at which the asset is held in our balance sheet and the amount of the surplus has come down considerably over the last period, but we have not announced an impairment there.

The rental values that we report are on the basis of the expected outcome on rent review, which will to varying degrees, take into account rent free periods depending on the precise wording in the rent review clause. So it is the rent review ERV which is the number that comes through. Within our portfolio, there are certain odd areas which are not representative of overall market movements. One is the City of London where we have incredibly few assets in the City of London, quite a few are pre-development properties and an ERV figure does not give you a feel for general market movement because it was always kept at a low ERV on a tired pre-development property. So just having put your mind to rest about the slightly surprising figure on the City, I will ask Mike and Richard to comment more specifically on trends in rental values.

Mike Hussey, Managing Director – London Portfolio
The consensus view among the principal agencies is that the headline rents in the City have come off significantly, with not a huge amount of evidence around them. We are waiting for one or two big transactions to really mark the market. However, as Francis said, our specific assets in the City are nearly all pre-development properties or drop into a slightly different category to what you might expect general rental trends to reflect. I would have said that we were probably looking at rental values in

the net effective terms coming off a significant proportion, taking the consensus view of the agency, is probably down about 20% in the last twelve months. I really would urge you though to look at specifics, because one or two deals are being done at the moment when I suspect incentives are quite significantly up. And that number may be even larger. But we don't have any direct experience of that on current transactions. Across the board generally, I think the City has suffered most, but as we all know, we believe rents will be down generally across London.

Richard Akers, Managing Director – Retail Portfolio
In retail, levels of incentive over the period have been higher than previous periods. In development lettings, it has gone up from 18 months on average to 21 months. In our portfolio, it has increased from a very low base of 7 months to 14 months.

Question 6 – from Webcast
Read by Francis Salway, Chief Executive
How much have we spent on demerger costs?

Answer
Francis Salway, Chief Executive
We announced at our last full year results, a figure of £9m which was expensed. The figure for this period is £16m, making a total of approximately £25-26m. To put that in context, that is the sort of number of expenditure that we will incur on some of our largest development sites before we know that we are in a position to take them forward.

Question 7
John Lutzius – Green Street Advisers
Can you talk and contrast the Cabot Circus experience with the expectations at St David's with respect to yield on cost and free rent periods please?

Answer
Richard Akers, Managing Director – Retail Portfolio
The key difference in these two schemes is clearly timing. Cabot Circus has been enormously successful in its opening and the way it has attracted its catchment, and Francis mentioned the footfall that we have achieved there. We expect similar success at St David's when it opens in about a year's time. Clearly the leasing market is getting more difficult, so we would expect the level of incentives to be higher on St David's than they have been on Cabot Circus, where a lot of the leasing was carried out between one and two years ago. On average we therefore expect incentives to be higher and the outturn profit to be lower.

Further question
Can you share specific estimates of yield on cost or expected IRR on each of the projects?

Answer
Richard Akers, Managing Director – Retail Portfolio
Well Francis mentioned the figures on Bristol showing approximately 14% profit on cost. Yield on cost was just in excess of 7% on Cabot Circus. On St David's, the yield on cost is around 6%. I can check that figure for you.

Further question
The opening of Westfield London has shown some very interesting new tenants in a shopping centre scheme. Is there any possibility of getting some of the very interesting luxury tenants into a project like St David's?

Answer
Richard Akers, Managing Director – Retail Portfolio
Westfield have a luxury Mall which isn't fully opened yet, but they have achieved some fantastic lettings with retailers like Luis Vuitton etc. I think it is unlikely that we will be able to achieve those brands in a location like Cardiff or Bristol, I think that is very much a London thing. I am not sure that we would even want to because the cost of achieving that might be prohibitive. What we will achieve in Cardiff is a very broad tenant mix, complementary with the anchor store which is John Lewis. Slightly different from the Westfield scheme and will include mid to upper market fashion brands as well as mass market brands.

Francis Salway, Chief Executive
I think we demonstrate a very good understanding of who our shopper base is at the various centres we own. At White Rose in Leeds, where we have done phenomenally well, we have always known that our catchment was Cs and Ds and we have pitched the tenant mix accordingly. We also own W12 which is near Westfield London, we held onto it in the belief we would get improved footfall with value retailing and the footfall since Westfield London opened is up 42%.

Question 8 – from Webcast
Read by Francis Salway, Chief Executive
Is Management confident that the valuation industry can balance the implications of falling risk free versus the requirement to value on a willing buyer / willing seller basis? And do you believe there is a danger valuations can overshoot significantly, especially on prime assets?

Answer
Francis Salway, Chief Executive
The valuation industry in the UK, I think, has shown real leadership from an international perspective on reflecting the realities of the marketplace in which we operate. We do believe that there is a differential between prime and less than prime, but prime is not immune. If the market as a whole overshoots then values should reflect what is happening in the market as a whole.

Question 9
Kim Wright – UBS
Just on slide 14, you mentioned that with the security pool for the debt there is additional assets that you may be able to transfer into that pool. Could give us an idea of the value of those assets?

Answer
Martin Greenslade, Group Finance Director
Our current estimate is that just under £250m of assets could move across post 30 September.

Question 10
Martin Allen – Morgan Stanley
What would the implications be of a Trillium sale on your dividend distribution?

Answer
Martin Greenslade, Group Finance Director
I think to answer that question we would need to speculate about timing and about use of proceeds and about amount of receipts and I am not going to do that. Our dividend policy is set with the long-term view of the business. We have good

dividend cover at the moment and we would expect that to flex over the period. Over a cycle you would naturally expect dividend cover to flex somewhat. I think, our dividend is set with the clear intention from the Board, who understand that dividend is very important to shareholders. You can see from the past that we have been very dividend friendly as a business, we have raised our dividend consistently and it has been an important part of shareholders' return.

End