LAND SECURITIES' Q1 INTERIM MANAGEMENT STATEMENT CONFERENCE CALL
22 July 2015

Speaker: Robert Noel, Chief Executive

Thanks very much and morning, everyone, and thanks very much for dialling in. You'll have read the statement, so before we hand over for any questions, I've just got three areas to highlight.

First, in the development program we've maintained the good momentum we reported in May in London. 322,000 square feet of development space has been let or is in solicitors' hands. That follows the 670,000 square feet run rate last year.

In Retail we've made further progress in Oxford, with good support from retailers. We're now 35 percent pre-let or in solicitors' hands. While in Glasgow we've deferred our plans, as we've said.

Second, we've seen strong operational performance across the portfolio with voids and units in administration down across the board. And, as you've seen in retail, footfall is up and sales are up.

Third, the balance sheet remains in great shape. Adjusted net debt rose slightly over the quarter but, based on March valuations, our LTV at June 30 was unchanged at 28.5 percent. It's 27.1% pro forma for the sale of Times Square, which is due to complete next week.

With values rising, we'd expect to see this come down further by the half year, absent any acquisitions.

So we've made a strong start to the year. Let me now hand over to you for any questions you may have.

Question 1
Remco Simon, Kempen

Maybe just two questions from my side. Could you comment on the development lettings, how that compares to your expectations, not necessarily just in terms of ERV but also in terms of incentives, how that compares to the expectations at the March end?

Further question

Yes, second question related to the Retail Portfolio. I wouldn't expect you to comment on any individual deals or rumours in the press, but you indicated previously that you might look to sell a bit more out of your retail park portfolio, improve the quality there like you did with the shopping centre portfolio.

And I was just wondering if you have any further thoughts on that, what the potential size of such a retail park portfolio could look like.

Answer - Robert Noel, Chief Executive

Well, the development lettings versus expectations. The only thing we're going to say to you today is that they are all ahead of our expectations in terms of rental value and incentives. They are way ahead of expectations in terms of our underwriting when we started the schemes, but the momentum has just continued from last year. Rents are rising in London.

We don't report lettings against ERV. You all know our stance on this, you can make a letting against ERV say whatever you want. And so until you've got the incentive and everything, and the lease term as well, you can't make a judgment.

But we are very happy with the leasing. Rents are rising. There's good interest across London. Vacancy rates are low, as you know, so the tension is there. It's a landlords' market.

On the Retail Portfolio, as you'd expect, we make no comment on press speculation. We've been very clear that we're running a net debt neutral position. That position remains. Capex is running at about £100 million a quarter at the moment, so you should expect some sales during the course of this year but we haven't announced any yet.

Further question

OK. And maybe as a follow up on the first question in terms of letting terms, the duration that you're able to sign. Could you comment on that? Is that still the long duration that you look for and that you talked about before your results?

Answer - Robert Noel, Chief Executive

Broadly. It's long in the City and shorter in the West End, as you would expect. West End leases are generally shorter duration than City leases. We will give the full figure in November at our half year, when we will aggregate all lettings done in the half year when we report formally and we've got a wide audience.

Question 2
Mike Prew, Jefferies

I mean in terms of the LTV policy, which is very clear, I think, clearer than most of your competitors, actually, it's again neutral. But say, playing Devil's advocate, the real estate market were to slow down abruptly and you still want to get your gearing down, would you resort to asset sales, which are presumably earnings dilutive?

Answer - Robert Noel, Chief Executive

Yes. Any asset sales obviously are earnings dilutive while interest rates remain where they are, Mike. But we’re not that focused. We're an overall return business, so we've got plenty of dividend cover. We wouldn't be scared to sell, if we wanted to sell. And, as we've always said, no asset is sacrosanct. So if we're given a price where we think we should take the cash, that's what we'll do.

Further question

That's all -- ultimately, where's the gearing ratio in your dream sequence heading? Is it 5% or 10%? Or is it 10% to 15%? I know you can't control the valuations but you must have in your own mind some sort of sweet spot about where you are in the cycle?

Answer - Robert Noel, Chief Executive

Yes. I think we've always given guidance, and this is since 2010, that in normal market conditions our LTV range would be 35% to 45% and at the peaks of the cycles 25% to 55%.

However, the guidance we've given to all our shareholders and analysts since is we think the direction of travel of REIT gearing is down as the world is more liquid and more volatile capital flows and new flows are quicker. And so the future direction, the whole tone will move down.

But, as I say, we'll be lower than 27% by September because values are rising and we're very, very comfortable with that.

Question 3
Hemant Kotak, Green Street

Two questions from me, please. One retail and one office. Just on retail, good tenant sales and footfall numbers. Were there any big drivers in that? I'm assuming the impact of Bluewater isn't in there, given, I think, you acquired it in midyear sometime in 2014. So that's the retail question.

And then the office question. For the Central London office market, just wondering what your big picture update is on that, if you can provide one, please, given that the supply is picking up, there's a couple of big notable schemes in the City that will add 2.5 million square feet of supply just between them. And what that might do to where we are in the cycle and how that might change.

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Answer - Robert Noel, Chief Executive

On the retail question, the footfall is pretty broad across the piece but the numbers do include Bluewater and they included Bluewater this time, sorry in November and in May because we have the way the Lend Lease measured footfall and sales is very consistent with the way we do. So we've just been able to run the figures straight through.

There is no individual breakdown. It's been up across the board.

On the office market outlook, we've been pretty transparent on our views on the office market outlook and we gave it pretty lengthy explanation in May at our results presentation, when Colette stood up and put our market charts up.

The market is playing out very much as we were expecting. The only difference at the moment is that construction costs are rising slightly faster than we were anticipating and that's more to do with capacity in the construction. So it's demand pull rather than cost push.

As you say, development starts are up. There were more development starts in the last six months than there were in the previous 12 months. So that rate has increased. And you've seen some highly prominent buildings being talked about, particularly in the City market and further east, over the last couple of months. But whether all of these are committed or not remains to be seen.

I think the takeaway for us is that we see no reason at the moment to change our stance, which is that, post our current program, which has still got 800,000-odd square feet at large to let, we won't be adding to that program speculatively. So any new starts will be based on pre-lets.

As you know, we've got two more sites to go now. One is 21 Moorfields. The other is Nova East. They're 800,000 square feet, but we'll be taking those to grade but we won't be committing those speculatively. And I don't think we'll change that stance as we stand now.

So the market is very much as we thought. There will be some pretty sharp rent rises this year, spot rent rises. But, of course, you've got to have vacant buildings or lease expiry dates and tenants on the outside the Act to capture those. Remember that. It won't feed through into every building across London.

So the spot market rent is rising quite nicely at the moment and we're well set for that with the 800,000 square feet we've still got to let.

Further question

That's very clear. Just two very quick follow ons. Just on the retail side, my phone was cutting out, did you say that the Bluewater's not in the numbers for last year, but it is in the numbers for this year? Is that right?

Answer - Robert Noel, Chief Executive

Bluewater is in the like-for-like figures because Lend Lease, who had it before us, had almost exactly the same methodology. So the figures are completely consistent.

Further question

OK, good. And then you mentioned construction costs are rising faster than expected. Can you help us understand what magnitude that is, please?

Answer – Robert Noel, Chief Executive

Well into double-digits percentage.

Further question

Wow. OK. And is that more the labour side rather than -- yes, OK.

Answer - Robert Noel, Chief Executive

It's capacity in the construction industry. The construction industry at the moment has issues with a load of people who bought contracts two years ago and fought to win them, based on -- they've got subcontractors who are pushing prices up on them and they've got subcontractors who bought contracts who are in difficulty. Balfour Beatty is a great example of that. And they are pricing new contracts much higher.

Question 4
Oliver Reiff, Deutsche Bank

Just one question from me on Nova and Zig Zag. Can you give an indication on the pre-letting interest in the remaining space on those two properties? Thanks

Answer - Robert Noel, Chief Executive

No more than we've said in the generic statement. We've got great interest across London at the moment, so we're very, very relaxed. We're trying to get the right tenant mix, the right lease terms and the prospects are good. We've got good interest in the schemes, as I say. That's all I can say, really.

Final remark - Robert Noel, Chief Executive

Listen, guys, it's an IMS so we don't want to drag this out for too long. So, I'd like to wrap up, if I may, which is to thank you all for calling. We're around all day if anyone has any individual calls and we'll see you in November.

But just to leave it, we're in great shape. Everything's moving in the right direction, development programme really humming, retail absolutely transformed. And our people here are absolutely inspired and cracked on by that because we've got the right kit now. So everything's going well.

Thank you very much. See you in November.

– ENDS –

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