CONFERENCE CALL ON LAND SECURITIES' Q3 INTERIM MANAGAMENT STATEMENT
19 January 2010

Speaker: Francis Salway, Chief Executive

Good morning and thank you for joining us today for our third quarter Interim Management Statement. I have with me Martin Greenslade, our Finance Director. After a few words on our announcement, we will be happy to take your questions.

The themes of our Interim Management Statement are that we have further extended our debt facilities, continued to secure a high volume of lettings across the business and committed to starting a major development programme in the West End of London.

We have today confirmed the go ahead for three West End development projects. The total development cost, including land and capitalised interest will be £655 million. The delivery dates for the three schemes will be mid 2012 for Wellington House, late 2012 for Park House and an expected 2013 for Selborne House. Building contractors are lined up and the incremental capital expenditure to complete the schemes will be around £345 million. We believe that strong rental growth will emerge in the West End and that being the first to start large scale development in this market is an attractive proposition - both to occupiers and to our shareholders.

The quarter also saw us make our first acquisition from a bank with the purchase out of administration of the Atlas Site in Glasgow. The site is opposite to the Buchanan Galleries shopping centre, which we jointly own, and it has a 200 foot frontage onto Buchanan Street. This site has long been viewed as a great development opportunity. In fact some 25 years ago I remember trying to buy into it for a previous employer. Site assembly proved too difficult then – and has done for others since – but we have, I believe, caught the moment with the CPO imminent and needing the support of a financially strong developer. You could say the site was only £10 million, but I would not want to overpay and the total development cost for the project is some £75 million, so it represents a medium sized opportunity delivering development - level returns. It is also a good guide to our approach on some of the assets and transactions coming into the market. We are looking for the right opportunities at the right price and ones where we can use our expertise to drive shareholder value.

For the longer term we continue to monitor the market and we stick to our view of being willing to be patient. We have chosen so far to allocate new capital to higher return development activity, but we are also looking at income producing assets where we can use our asset management skills as well. We do expect the range of investment opportunities to widen as we progress through 2010.

I talked earlier about volume of lettings, and the strength and appeal of our portfolio is underlined by our continued success in securing income through lettings. A further £10 million was secured in the period giving us around £40 million of income from lettings over the 9 months of the financial year to date. And there is another £23 million currently in solicitors' hands.

More specifically, in London we have seen further office lettings at Thomas More Square and also at Dashwood House, which is now 77% let or in solicitors' hands. We have also had strong momentum on retail lettings at One New Change, where the retail element is now 68% let or in solicitors' hands.

On operational measures, we saw a slight rise in voids across the portfolio, but this was fully offset by a fall in units in administration. We are also actively seeking to grow net income and, as we reported today, we have been successful in securing temporary lettings – particularly on our retail portfolio. These temporary lettings do two things for us - they generate some short term income and they offset outgoings on vacant space. But as the temporary lettings are for terms shorter than twelve months we do not count them as units that are let for the purposes of our void reporting.

Turning to finances, we have continued to strengthen our balance sheet by further extending our average debt maturities. With gearing where we want it to be at this point in the cycle, our focus has been on extending debt duration. We believe that with banks looking to reduce their exposure to the commercial property sector over time, the question on debt will increasingly be not how much firepower do you have but when do you have to pay it back? 'Debt with duration' is likely to become the catch phrase and we are pleased with the progress we have made during this financial year. We started this year with an average debt maturity of 9.0 years and today we are at 12.0 years.

Over the period, we extended £650.0m of bilateral bank facilities to the financial year 2015; and we repaid £360.0m of outstanding short term debt together with £165.8m of other bank facilities. As a result of these actions we have reduced net debt (including joint ventures) by a further 5% to £4.15billion.

On outlook, our views remain broadly the same. We anticipate that from the low point in July 2009, property values will rise over the next five years with the profile characterised by ripples rather than pure straight line growth. As well as the strengthening property investment market, we have now also seen improvements in London office leasing, which ties in well with our starting three London development projects.

To sum up, we have made major investment decisions to exploit medium term opportunities and we are confident in our ability to deliver.

Now over to you for any questions.

Question 1
Harm Meijer – JPMorgan
Can we talk about your rental growth outlook? As we know, you are quite bullish on the West End office market; can you give us a bit more detail about the rental growth you're actually seeing there? And also what would you say is currently the new prime City office rent, is that already £50; and on top of that what are the rent-free periods at this moment?

Francis Salway – Chief Executive
In terms of outlook, we do expect that over the next few years the London office market, both City and West End, will show strong annual percentage growth rates for rental values; we expect the level of growth in rental values in the retail sector to be more modest and that is one of the attractions of being able to start some development projects in the West End now with a view to crystallising lettings in or shortly before 2012, so we expect to capture some rental growth during the construction period.

We are looking more immediately to where we are right now in the London office market. I think we are at a turning point and we are beginning to see slight signs of improvement in length of rent-free periods coming down a little, and/or, probably not both yet, rental values perhaps moving ahead a little. I don't think you will yet see that coming out in market-wide data; I think initially it will be limited to prime properties and there will then be a lag before it widens out to all properties within the London market.

Follow up question
Is it possible to give some numbers, do you expect rental levels to bounce back to the market levels of before the downturn over the coming years and what are the number of rent-free periods at the moment?

Francis Salway – Chief Executive
I think the guiding point in the City has been that rent-free periods have been around 15 months for every five years duration of the lease. We think we are beginning to see a slight improvement on that and I think we will see some deals where the rent-free period is a little shorter than that and others where that is the rent-free period, but the headline rent is a little higher. I think good property owners show flexibility in negotiation; one needs to be alert to what is important to occupiers, so it will be some deals where it is rent-free period that improves, others where it is headline rent.

Follow up question
Which part of your portfolio do you see the best outlook for over the coming 12 months in terms of capital growth or total return?

Francis Salway – Chief Executive
I think it is evident from market data that it is the retail warehouse sector that has seen particularly strong growth in capital values. Interestingly, on a 24-month view I think that some of our shorter lease London properties will also see considerable pickup in London in capital values, as rental values begin to move ahead and as people soften the risk pricing that they put on assets with shorter leases. Those would be the two that I would pick out for stronger capital growth.

Question 2
Carl Gough – Cazenove
In your development appraisals for the schemes you have started, what are the valuers assuming the ERVs are on the office elements of those schemes?

Francis Salway – Chief Executive
The valuers will apply on a site the rental value that a prospective purchaser would apply in bidding for a site, because that is how you get to the correct site value. We know that as markets turn, when people bid for sites there is a small element of forward-looking in rental values and my judgement would be that is the case with the rental values which our valuers use to arrive at site values. Those figures will be disclosed with our year-end results, because those three schemes will be in our development programme and so we disclose income secured or ERV on development programme projects.

Follow up question
While we're on those three projects, have you now formalised the construction contracts and if so have they come in less than you were envisaging or in line?

Francis Salway – Chief Executive
We have selected the contractors for each of those schemes and, yes, the pricing has come in slightly better than we had expected, which I think is a reflection of the current market. The extent to which it is lower than expectations is really a function of how simple and straightforward the scheme is. Simpler projects – very competitive bidding. Projects with a little bit more complexity in – I think contractors are still slightly cautious about the risks on delivery.

Follow up question
The 20 Fenchurch Street development scheme, what do you need to see to become confident to start construction? Is demolition now complete?

Francis Salway – Chief Executive
The demolition is completed and we are now thinking about timing for 20 Fenchurch Street; no firm action or firm decisions yet, but we are thinking about what might be the appropriate time to deliver that building into the City market.

Question 3
Quentin Freeman – UBS
Under the new loans you have secured, the £650 million, could you tell me what the margin is?

Martin Greenslade – Group Finance Director
It varies, but the sorts of margins we are talking about are just under 200 basis points to around 250 basis points; it depends on a number of factors, as there are a number of facilities there.

Follow up question
At December what were your undrawn facilities?

Martin Greenslade – Group Finance Director
We have got undrawn facilities of around £2.3 billion in terms of capacity, but some of that depends on where LTVs are in terms of its usability, but we have around £1.6 – 1.7 billion that we could use today.

Follow up question
And then the incremental cost on that debt, the short-term debt, is that still around about 1%?

Martin Greenslade – Group Finance Director
On the short-term debt we use our syndicated facilities and that is the cheapest debt; now that is now in very low basis points, in the 20s.

Follow up question
And how long does that last for?

Martin Greenslade – Group Finance Director
That lasts through to an expected maturity of 2012.

Follow up question
When in 2012?

Martin Greenslade – Group Finance Director
I think its July; I don't have the exact date to hand.

Follow up question
So roughly mid 2012. On the development side, Francis, can you give us a clue on what sorts of assumptions you have been using for the value of residential property in the West End?

Francis Salway – Chief Executive
The sites vary significantly. Clearly the range of values between Mayfair and Victoria residential is quite material. I suppose in very simplistic terms one is a little over £1,000 a square foot and the other is around the £2,000 a square foot mark.

Follow up question
And then finally, on Leeds where you are stressing that you have more progress on reaching your pre-let threshold, I wondered if you could tell me how close you are with that; and secondly, what are your target returns you are aiming for with your pre-let threshold?

Francis Salway – Chief Executive
We are in discussions with retailers, advanced discussions on sufficient lettings that would get us to our pre-letting threshold, and those discussions range between actually under lease or in solicitors' hands. There are still some under negotiation; they are not yet at the stage of being in solicitors' hands, but progress has been good and the fallout rate has been slightly less than we expected. The picture on that has improved since our November announcement. And in terms of returns, we target minimum IRRs of 14% on developments; we will certainly achieve that, and I think on a very old-fashioned but very reliable measure of gross yield on cost, that figure will start with an eight based on our current appraisals.

Question 4
Remco Simon – Kempen
Could you indicate how the recent lettings on both the office as well as the retail portfolio have compared to the September ERVs or to previous rents?

Francis Salway – Chief Executive
The London office is very consistent with ERVs, the odd one slightly below, the odd one slightly ahead. And on retail on the long-term lettings, again, consistent; clearly on temporary lettings there are instances where we will secure a temporary letting at quite a low rent for the benefit of closing out outgoings on vacant space, but then we have given fairly clear disclosure around that in today's announcements. I think the difference is that in London offices we are beginning to feel that on a fairly widespread basis rents will just begin to nudge forward. In retail, for the most part bumping along the bottom, but you may recall that in November we said that we could look forward to the date when some of the strongest centres with low vacancy rates we could begin to get competition between retailers for some of the larger units.

We have now seen this at the N1 Centre in Islington, which we own in a joint venture. You may have read in the property trade press that we paid a premium to the administrator for Borders Books to get the unit back and we received 12 bids from retailers for a 10,000 sq ft unit, eight of them from leading fashion retailers; and terms have been agreed, which will push the tone of rents ahead a little on the basis of what in 2004/5 we would have called a standard market rent-free period. But that is not representative of the retail market as a whole whereas there is a message on London offices, we can see the beginnings of slight improvement more widely spread across the market.

Follow up question
We have seen some quite strong monthly data from IPD and CBRE over the past two months; could you enlighten us as to what your view is on the investment market and how sustainable or far these increase in values could potentially continue in 2010?

Francis Salway – Chief Executive
In the autumn we have seen an abundance of buyers and very few sellers, which has led to sharp monthly increases on the indices such as IPD. As we move into 2010 we expect that balance to even up with some more sellers and potentially not quite as strong buying interest; whereas in autumn 2009 I think an awful lot of overseas investors were focusing purely on the London market, because it has fallen more sharply than any overseas markets. We are now in a position where London has picked up a bit and other markets are getting more transparency about where values may bottom out.

It is very hard to judge; we can do all the theoretical analysis we like about their pricing of property; ultimately it is about the balance between buyers and sellers, but I think we do expect that to even up a little as we move through 2010 and for us we think we will get more volume of buying opportunities in 2010.

Question 5
Nicolas Lyle – HSBC
Could you be a bit more specific as to why you think investment opportunities will increase and where you see the supply coming from and what is driving that supply?

Francis Salway – Chief Executive
Two things and I will comment on the first and Martin will comment on the second. The first is I think we are seeing a little bit of profit-taking by those who may have bought in the first half of 2009, and the other natural source is banks; Martin?

Martin Greenslade – Group Finance Director
I think it is going to be a year where we see banks bringing forward more property to the market in one form or another. Clearly, 2009 was the year of incredible transition for the banks both in terms of dealing with the Government on the Asset Protection Scheme; were they in it, were they not, what would the rules of that be? Plus they needed to get their arms around, particularly in the case of Lloyds, the HBOS portfolio, so a lot of work went on internally within the banks. I think we will see the natural working out of some of that lending; some will be extended to managers and to counterparties that they wish to continue with, others will be precipitated to administration, I think we are already beginning to see that. The

natural end of that is that some of those will come to the market be it in joint ventures, be it in working with property companies or indirect sales, so I think we will see more volume coming through.

Follow up question
Do you expect to see that all over the country; do you think the majority of that type of property will be secondary retail type schemes in regions, or do you think there is a lot of London office to come through; what are your expectations on type of assets?

Francis Salway – Chief Executive
I think there is an awful lot of property that has basically got bank lending secured against it. A lot of it will be secondary, quite a bit of it will be residential related, but a fair amount of it will be City office buildings and retail assets that we would be interested in. We will have to wait and see as to whether it is the right product for us, whether the lot size is right and so on.

Follow up question
Could you give us a view, if you have some data, on how your retail tenants have performed over Christmas and what concerns they may have and how important the pending business rate rise is likely to be for them?

Francis Salway – Chief Executive
The trading of retailers over the Christmas period has clearly been very strong. You are aware that footfall is up; generally footfall in our shopping centres was up 1.6% ahead of the Experian National FootFall Index, so performance achieved by retailers has been enormously encouraging. As retailers look forward into 2010 a number of them have expressed a degree of caution around things like VAT increase and potential increases in unemployment in the public sector.

Interestingly the point about business rates has not been mentioned, that I am aware of, in many of the announcements by retailers. I think they do see some other potential pressures on their business in 2010. I think 2009 was clearly much stronger for retail sales than people had feared at the beginning of the year.

Follow up question
On the balance sheet, in the debt, what proportion of your debt is at a fixed rate?

Martin Greenslade – Group Finance Director
98%

Question 6
Graham Jones – Green Street Advisors
Could you provide some colour, please, on the rent collection rates for the December quarter and if there were any surprises there?

Francis Salway – Chief Executive
No surprises whatsoever; we have been absolutely in line with what we have been achieving over about the last 18 months, so we were at around 95% collection within five days and 98% within 10 days.

Follow up question
What is your recent experience in terms of the current level of troubled retailers or retailers that you might have on credit watch within the portfolio?

Francis Salway – Chief Executive
You will be aware that we have been more successful in reducing units in administration than we had perhaps anticipated and I think the reason for that is a lower level of new administrations than we might have budgeted for. We always thought that we would get some lettings of units in administration, other businesses in administration would be sold out either in whole or in part, but we have had less new administrations than we budgeted for, and so far in the post-Christmas period that continues to be the case. I think we will get some throughout 2010, but at the moment it has been at a lower rate than we expected.

Graham Jones
Sorry, can I push you for a number? Is it 5% on CreditWatch or tenant risk?

Francis Salway – Chief Executive
We don't run anything specific like that. Because there is such a spectrum, we think it is actually difficult to put firm boundaries, so we just don't have a statistic exactly like that. I think that is the last of the questions; are there any other questions?

Thank you for joining on this conference call. I think two key themes are we can see the appeal of our portfolio to occupiers with continued progress on lettings. I think 230 retail lettings in the nine months to date is probably ahead of what people might have expected if we had gone back nine months. Secondly, we are beginning to make major capital investment decisions from a position of financial strength and trying to make sure that we have competitive advantage around the capital that we are investing, which is all about being first off the blocks with major development projects in the West End and actually indeed in the UK. Thank you.

– ENDS –

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