Land Securities Annual Results Presentation

Wednesday 16 May 2012

Speaker: Robert Noel – Chief Executive

Slide 1 – Title slide

Good morning everyone and welcome.
Welcome also to those of you that are watching or listening to the webcast.

Slide 2 – Agenda

As you will have noticed, we are a slightly reshaped team and I have with me my two Board colleagues, Martin Greenslade and Richard Akers.

We have divided the presentation into three main sections. In a moment, Martin will take you through the numbers in detail. Richard will then talk about our activity in the retail market and I will then follow with what we are up to in London.

There is a lot going on within Land Securities and so today's presentation will be more operationally focussed than usual, as our market views are not substantially changed from November.

Slide 3 – Introduction

Since late 2009, Land Securities has had a clear strategy and a clear plan. That strategy is focussed on the London and retail markets, and our plan is based on a realistic outlook. One of the themes you will hear today is that every asset plays its part and every asset has a plan.

I have been fortunate to inherit a strong business and a strong team with a deep knowledge of our core markets. We will continue to build on this strength and our clear proposition as one property business. As you will hear, our portfolio is well positioned and our modest gearing enables us to continue developing where we see supply / demand imbalance.

Across the business, our development programme is best in class and well timed. In development, timing is everything, from planning to vacant possession, from striking the construction cost curve to delivering the end product, and ultimately, the exit. As you know, we have successfully taken profits at the front end of our programme. We have good interest in our schemes on site and there are more we have the option to deliver, just at a time when many others are finding it difficult to get out of the blocks.

In Retail, our schemes in Leeds and Glasgow are letting up well and our Edge programme has good momentum as you will hear from Richard. In London, the team is busier than ever and I will talk about this activity later.

Our investment portfolio is being worked hard by great operators and their blood is up. Voids are down and lease terms are longer, and in executing our plan, you will have seen our disciplined approach to risk, reward, and capital recycling, strengthen the business.

Slide 4 - Financial summary

As you will have seen this morning, we reported resilient numbers and in a minute, Martin will take you through them in detail.

Underlying revenue profit is up 9%, to £299.4m, and adjusted diluted earnings per share is up 8.5%, to 38.5p.

The valuation surplus for the year was 2%. This, combined with a net surplus of 4.3% from sales, helped adjusted diluted NAV per share up 4.5% to 863p.

The final dividend is recommended at 7.4p. This would take the dividend for the year to 29.0p, up 2.8%, in line with our aim to progress the dividend at a sustainable rate.

Slide 5 - Combined portfolio valuation

Turning briefly to the valuation, and looking at the make up of the valuation surplus of 2%, you can see that ongoing developments did best but the sites of future developments were a drag on performance. Valuations of sites in uncertain markets, as income expires and before building contracts are tendered, are notoriously volatile but as we have seen before, they can bounce back very quickly.

Slide 6 – Investment portfolio performance relative to IPD

In overall terms, our portfolio outperformed the IPD quarterly universe, by 1.3%.

At sector level, we delivered strong outperformance in our Retail Portfolio, with early anticipation of changing patterns in the market giving us resilience.

London underperformed its benchmarks this year, while we took action to get the portfolio into the strongest possible position for the future.

Slide 7 – Rental and capital value trends

This bar chart shows rent and capital value growth on our like for like investment properties over the two halves of the year and the year as a whole. The second half was weighed down by the effect of economic uncertainty on consumer and business confidence.

You will find a lot more detail contained within the appendix to your packs and we will be around later to answer any questions you may have.

Slide 8 – Title slide

As you know, our plan always envisaged ripples. Our actions in the year have reflected that and we are confident that we will benefit from the discipline we have shown in strengthening our business.

Let me now hand you over to Martin.

Speaker: Martin Greenslade – Chief Financial Officer

Slide 8 – Title slide

Thank you Rob. Good morning everyone.

Rob has taken you through our headline results. I would like to take you behind those numbers, explain how some of our actions have yet to feed through into those numbers and demonstrate to you the strength of our financial position.

Let's start by looking at revenue profit in a little more detail.

Slide 9 – Revenue profit

This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. As Rob said, our revenue profit for the year was £299.4m, up 9.0% on last year. Before we look at the major movements behind this, I briefly want to mention non-recurring items.

In both this year and last year we benefitted from approximately £10m of non-recurring items. While the amounts may be the same, these items arose in different places. This year the three largest items were surrender premium receipts of £6.0m (part of gross rental income), the release of £5.8m of dilapidation provisions (netted against direct property expenditure) offset by the closure costs of Brand Empire (in indirect costs). There are further comments on the non-recurring items in the net rental income slide in the Appendix.

Net rental income was £16.0m higher primarily due to reductions in direct property expenditure which more than offset a small reduction in gross rental income resulting from disposals.

The reduction in direct property expenditure is due to some £8m of non-recurring items (including the dilapidation releases I just referred to) with the balance being higher fee income from development management, particularly from Park House, and lower void costs, lower bad debt charges and lower letting fees.

Below the net rental income line, indirect and unallocated costs were £10m higher. This was largely due to some £5m of non-recurring provision releases last year and the Brand Empire closure costs this year which amounted to £2.7m.

The level of net indirect costs in the business is a key focus of ours. Except for last year, these costs have been around £85m p.a. for a number of years. In the coming year, I would be disappointed if they are not at £80m or below.

Finally, the other main driver of the increase in revenue profit was the £18.7m reduction in net interest costs. This was largely due to the buyback of medium term notes in the previous financial year using cheaper revolving credit facilities as well as a lower average debt balance.

Let's look at net assets.

Slide 10 – Movement in adjusted diluted NAV

On this slide, I have set out the key items behind the 4.5% increase in our adjusted diluted net assets per share. Adjusted earnings were £298.3m. The next two items reflect the changes in the value of our assets. First is the valuation surplus of £190.9m, up 2.0% over the year. And the second is investment property disposals which contributed a profit of £46.4m or 4.3% above their carrying values. So we sold well but we did make some disposals at below our carrying values; and we make no apology for this – these were assets we believe will underperform from the prices we received.

Profit on the disposal of trading properties amounted to £5.2m, the largest component of which was the sale of Fen Farm. Please note, the sale of the flats at Wellington House has not yet been recognised. That is a treat for next year.

Dividends were £154.8m, made up of two elements: £221.4m paid to shareholders in the year less £66.6m which was in the form of a scrip dividend. Just a small housekeeping point here on the scrip dividend. To date, the scrip dividend alternative has been a non-PID which means it is not subject to the same withholding tax for some shareholders as the cash dividend. The reason we offer the scrip alternative is to enable shareholders to select the distribution they prefer. Now the scrip dividend results in cash being retained in the business, but it also results in new shares being issued. If the new shares are issued at a time when the share price is below our adjusted net asset value per share, there will be a small dilution to existing shareholders from this discount. Rather than suspend the scrip dividend alternative when the discount is material, in those circumstances we intend to buy back an equivalent number of shares to those issued in connection with the scrip dividend, thereby retaining choice for shareholders but minimising any dilution associated with issuing shares.

Moving on, during the year we purchased £18.5m of shares for the Employee Benefit Trust and with other reserve movements of £8.9m our adjusted diluted NAV per share ended the year at 863p.

For followers of our adjusted diluted triple net assets per share, this was actually 4p lower over the year at 808p, which demonstrates how the decline in medium term interest rates has not been matched by a similar growth in asset values.

Let's move onto cash flow.

Slide 11 – Cash flow and debt

Set out on this slide are the major components of our statutory cash flow movements, so IFRS debt excluding joint ventures.

We began the year with net debt of £3.31bn. Operating cash inflow after interest was £259.6m. Tax paid was just £5.5m and after cash dividends come the three items related to capital transactions: acquisitions, capital expenditure and disposals. Taking these three together, there is a net disinvestment of £99.4m, or £86.6m if you were to include joint ventures.

More importantly, at the year end, there is a further £481.7m of cash we are due to receive in respect of disposals which have already been recognised in our results to date.

Now as you know, our broad aim over time is for property disposals to match capital outflows on acquisitions and capital expenditure. We do not expect this to be achieved perfectly every year and we don't need it to be. We have a strong balance sheet which gives us flexibility to respond to opportunities as they arise. This year we identified very few attractively priced investment opportunities as investor demand for better quality assets remained good. Instead, we were able to sell some of our secondary assets into that demand as well as one non-income producing development site.

In addition to the purchase of own shares, the other item of £51.5m was largely the result of investment in our joint ventures and, in particular, our 20 Fenchurch Street development.

Slide 12 – Financing

So, on to financing…

During the year, we signed a new £1.085bn five year revolving credit facility at a headline margin of 120 basis points over LIBOR. The facility includes a new feature allowing us greater flexibility to draw cash even in extreme market conditions. In addition to the new facility, we retained £300m of existing bilateral arrangements which are due to expire in November 2014. So, in total, we have around £1.2bn of firepower with just under a further £0.5bn of sale proceeds to come.

The weighted average maturity of the Group's debt, including JVs, is 10.9 years with a weighted average cost of debt of 5.0%.

Group LTV including JVs was 38.0%, down from 39.0% last year due to the increase in the value of our assets and the disposals we made in the year. And if you include the sale proceeds we have yet to receive, our proforma Group LTV is 33.4%.

Now, before I wrap up, I'd like to take you back to the future by showing you this year's net rental income slide but with the purpose of giving you a feel for our income over the coming year.

Slide 13 – Net rental income analysis

Here we have this year's net rental income broken down into various categories. As we look ahead to next year, there are two important categories: proposed developments and sales. As anticipated, of the £10.9m of net income we received this year from proposed developments, £10m will not be there next year as most of it relates to Kingsgate House which is being demolished.

In the sales category, this year we recognised £37.0m of net rental income, none of which will be there next year. And remember we also had £10m of non-recurring items this year – but to avoid double-counting around £6m of that is in these two categories. So taken together, you can see there will be a significant decline in net rental income from these two categories. There may be some offsetting growth from assets in the other categories but it is unlikely to be significant. The majority of our development programme completions are not until 2013 or later and, if we look at acquisitions, we bought very few assets this year so there is no further increase from a "full year effect" to come. I know a number of you have already reflected our proposed developments and sales in your earnings estimates but hopefully my comments now bring everyone up to date.

What would enhance our income in the coming year but we cannot predict is the level of accretive acquisitions we will make in the coming months.

We remain very mindful of our income but we are a total return business and, at times, our development programme or indeed asset sales will result in a short term reduction in earnings.

So let me summarise…

Slide 14 – Summary

We have made good progress on revenue profit this year. Our balance sheet is in very good shape, we have low gearing, good dividend cover and plenty of firepower – and that gives us real flexibility on how and when we exploit market opportunities.

Speaker: Richard Akers – Executive Director

Slide 15 – Title slide

In the retail sector there is a significant amount of change taking place but…

Slide 16 – Executing our plan

As we said at our Investor Conference last July, we are not sitting around talking about it. As Rob said, every asset has a plan and today we'll talk about our progress on the execution of those plans.

We have seen a few encouraging signs in recent weeks but broadly, the consumer economy remains fragile and non-food retail sales growth for the year to the end of March has been negative 1.3%.

Slide 17 – Retail market and trends

And the structural change in retail can be summed up as market share of non-food retail sales being taken from the weaker shopping centres and high streets and moving to internet-enabled shopping, larger centres with choice, out of town and supermarkets and destinations with good leisure facilities. We are now invested almost entirely in the type of asset that is growing market share.

Over the past five years we have sold eight of our weakest shopping centres and 16 retail warehouse assets.

Slide 18 – Portfolio reshaped

This has reshaped our portfolio. We now have only around 5.5% of our portfolio in the secondary shopping centre category. As we have said repeatedly, we will aggressively recycle capital and this reshaping I've described, as well as the efforts of our great team, has enabled us to show a very strong and improving relative performance, as you can see in the table. Whilst we have tackled this transition, retailers face an ever greater challenge. The persistently weak economy, weak credit markets and the imperative for change driven by shopper behaviour have all combined to see another round of retailer failures.

Slide 19 – Performance – Voids, lettings, insolvency

But our strong leasing performance with 182 lettings for £14.6m of rent has reduced our voids in the like-for-like portfolio from 4.3% to 3.6% over the year. If you exclude turnover and temporary lettings, these have been at 2.1% above ERV. If you include the 23 turnover lettings they are at 1% below ERV. But in the second half of the year we saw a significant number of retailer administrations, many of which were still unresolved at the year end. The result is that our administrations have moved up from 0.6% at the start of the year to 2.2% at 31 March. So what impact has that had on occupancy?

Slide 20 – Performance – Operational metrics and occupancy

The bar chart on the lower part of the slide gives you all the detail. A void figure of 3.6%, offset by temporary lettings, adding units in administration and then deducting those units in administration but still trading, gives a vacancy of 3.7%, and therefore an occupancy rate of 96.3%. To update you, the impact of Clinton Cards is 0.5% on our like-for-like portfolio, so we now have 2.7% in administration but the Clinton Cards units are all still trading. So our occupancy on this basis is unchanged. Our operational information shows our footfall to be down, but it's ahead of the benchmark. Our retailers' sales are in line or ahead of the BRC index after adjustment for VAT. As always, we give you full detail of sales and occupancy costs in the appendix slides.

In the past, I have talked about our trials with Amazon and Ocado.

Slide 21 – Internet and multi-channel retailing

The Amazon lockers in seven locations around London and the Ocado QR code wall trialled at One New Change and I announced in November that we were planning to introduce free Wi-Fi in all of our shopping centres and mobile-enable our shopping centre websites.

This has been actioned and we've introduced a new trial, this is Google Local Product search.

Here you can search for a product on our White Rose Centre website, either on your computer or your mobile device and it will give you the product options available at the White Rose Centre itself. The trial involves six stores including Debenhams. Here, as an example, I have searched for men's black shoes.

There are 147 products identified in the search and I have ranked them by price because I know the price range I am looking for. Whilst we've only got six retailers in the trial at one shopping centre, we can see the relevance to shoppers whether they've searched at home, or on a mobile device in the centre and we are the only property company doing this.

Rob said the presentation would be more operational and I'd now like to update you on our asset management and development activity.

Slide 22 – Sales

During the period we sold £282m of assets at 5.6% above their March 2011 valuation. The largest of those sales were St John's Centre in Liverpool, Corby town Centre and Almondvale Retail Park. One of our asset management themes is to introduce new anchor stores.

Slide 23 – Shopping centre asset management – Bringing in new major occupiers

We are progressing with construction of the new Primark store in Sunderland and their opening in the autumn of this year has encouraged other lettings including Superdry. In Exeter we took a surrender from Clinton Cards and Warehouse to introduce Hollister into the scheme, which has also attracted Cath Kidston, Joules and Yo! Sushi.

At Southside in Wandsworth we secured planning in March for a 126,000 sq ft development including a new anchor store and 10 new shops and a gym. Here we are also significantly upgrading our catering provision and this is another asset management theme.

Slide 24 – Shopping centre asset management – Improving the food and beverage provision

Partly through new development and partly through reconfiguration we are adding five new restaurants to the mix at Southside: Cattle Grid, Ed's Diner, Prezzo, Rossopomodoro and Wagamama. In Aberdeen we have completely refurbished the centre and our food court, introducing four new restaurants. At 02 we are improving the upper level with two new restaurants, Rossopomodoro and Wagamama and a relocated Yo! Sushi.

In March/April next year we will open two kilometres of new shop frontage in Trinity Leeds and 185-221 Buchanan Street.

Slide 25 – In-town development

Trinity Leeds is now 72% pre-let or in solicitors' hands and Buchanan Street has only three units remaining. These are the CGi's and this is the current progress [shown on screen]. As we have said, we are progressing cautiously on plans for further town centre schemes.

Slide 26 – In-town development – Future opportunities

At Westgate in Oxford, we have agreed terms for a Development Agreement with Oxford City Council and for a letting to John Lewis as the anchor store. At Exeter, we have an exclusive position on the next phase of development which will be anchored by the John Lewis store we are currently building on Sidwell Street and at Buchanan Galleries we have planning permission. We have the principle of tax increment financing approved by the Scottish Government and we have a preferred developer position with Network Rail on Queen Street Station. But we will only take these schemes forward if we can reduce the risk through pre-letting and phasing and can achieve the required returns.

Our out of town development and asset management activity involves 2.9m sq ft of new space. That's in relation to a portfolio of just 3.75m sq ft.

Slide 27 – Out of town activity

We have 220,000 sq ft under construction which is 93% let. 582,000 sq ft with planning consent which is 55% let and 17% under offer. This includes the four schemes where I announced we had made applications last year: Taplow, Peterborough, Crawley and Chadwell Heath.

We have submitted planning applications for a further 1.17m sq ft which is 25% pre-let. And we have six further schemes under contract subject to planning and leasing pre-conditions which extends to a further 900,000 sq ft. In all, this programme, allowing for Joint Venture interests, would involve capital expenditure of £500m and our target IRR is 15%.

Slide 28 – Leisure

Whilst in shopping centres and retail warehouses our strategy is to improve the performance and quality of our portfolios, we see the leisure sector as an opportunity to acquire high quality earnings accretive investments. Leisure is not subject to the same structural changes as retail, "you can't eat out on the internet". And we are already big investors in leisure with nearly £40m of rental income coming from some 2m sq ft of space.

Over the year we have acquired Kingsmead in Bath and some 12% of the X-Leisure Fund. Since the year end we have acquired the Cornerhouse scheme in Nottingham. These schemes have significant synergy with our shopping centre business, in fact two-thirds of the occupiers at Cornerhouse are already our tenants in our shopping centre portfolio.

Slide 29 – Summary

The retail sector is changing fast and, our strategy is driven by retailers' changing requirements. We have been really busy over the past year; intensively managing our assets, developing new schemes to upgrade our portfolios, selling our weakest assets, and growing our earnings with high quality leisure acquisitions. We expect to see even greater levels of activity this year…and we are confident about the outlook.

Speaker: Robert Noel – Chief Executive

Slide 30 – Title slide

London is the only city in Europe that can claim to meet the pre-requisites for a truly global city. Uncertainty elsewhere only serves to underline its enduring strength.

The population is growing so the residential market is deep and liquid. London is a magnet for shoppers and tourists so the retail and leisure markets remain healthy, overseas businesses are still arriving and in the office market, vacancy rates are stable with the development pipeline restricted.

The portfolio is well positioned. Every asset has a plan and we have made excellent progress.

Slide 31 - Disciplined appetite for risk

We have been selling for the right reasons. £624m of net proceeds during the year in London, at 3.8% above the March 2011 valuation. Included in that were one or two below the March valuation but, as Martin said, we make no apology - it was the right decision for the business.

The asset management team is flat out with £29.5m of investment lettings and lease restructurings. This activity has increased the weighted average unexpired office lease term in London by over a year in the year.

And we are managing our development pipeline well with early lettings starting to come through, sales crystallising profits, and a significant JV formed in Victoria.

Slide 32 - Sales

Sales first, And here are 4 examples:

110 Cannon Street, an opportunistic sale, in the course of construction. Exactly like Park House last year, crystallising virtually all our anticipated development profit early, and with no market risk.

Eland House sold below valuation. Our call? We felt the tenant will exercise its break in four years' time, leaving us a £12m void in a 24 year old empty building requiring significant capital expenditure, and competing with contemporary, world class product coming on stream at the same time.

At the time we announced our JV at 20 Fenchurch Street, we signalled our aspiration to do the same at Victoria Circle. Having completed the site assembly, we did exactly that with Canada Pension Plan.

Finally, Arundel Great Court. From the price offered, we believe our returns will not be as attractive as those from our development plans in Victoria. Development is about getting the timing right. We don't have the appetite to add both to our development programme at the moment, and we don't want £234m of non-income producing rocks in our ruck sack.

Slide 33 - Asset management

Following astute deals by the team last year with Primark at Oxford Street, Telecity at Harbour Exchange, and the pre-let to Bain at 40 Strand, we have made further strides this year.

The refurbishment of 40 Strand was completed on time, and to budget, in March, and the 15 year lease to Bain has been completed.

At Southwark Bridge Road, we restructured a lease on 56,000 sq ft with Motability due to expire in December 2012, to a new 15 year lease.

At Moorgate Hall in the City, we sorted out a 39% vacancy by letting the entire 67,000 sq ft office element of the building to Mace, again on a 15 year lease. Mace will grow into the building from various locations as the other leases in the building expire.

At 16 Palace Street in Victoria, we have taken some space back from 3i in return for extending their leases on the majority. The vacant floor will be marketed, once it has been refurbished by us at 3i's expense, and we are confident of achieving a higher rent which will move rental values on in the building.

Slide 34 – London developments – May 2010

As I said, we are managing our development pipeline well, ensuring we keep it on the move and right sized.

This is the pipeline we put up in this presentation exactly two years ago so what have we done to it?

Slide 35 – What we have done with them

One New Change was completed and is now 90% let.

Park House and Cannon Street were both sold in the course of construction crystallising all of our anticipated surplus early, and Wellington House has been 100% pre-sold.

Arundel Great Court and City Forum have been sold prior to construction at prices from which we were not prepared to develop.

62 Buckingham Gate, 123 Victoria Street and 20 Fenchurch Street are all on site and going well.

Ludgate Hill and Hillgate House were combined under one planning consent and are now demolished, forming the site for 1 and 2 New Ludgate.

VTI 2 is now Victoria Circle, and where site assembly has been completed and a JV formed.

And finally, planning has been obtained at Shoe Lane, now 1 New Street Square, and Kingsgate House where demolition is underway.

This activity is part of our clear plan and has been vital to get us into the position we are in today.

Slide 36 – London Portfolio

Here you can see a breakdown of the portfolio at March. As I said earlier, the team has been busier than ever and although we have underperformed IPD this year, all the activity in the Asset Management and Development teams has been focused on putting us in a great position.

70% are prime assets let at an average office rent of £42 per sq ft, with an office weighted average unexpired lease term of 10.2 years.

And look at how this unexpired lease term has improved over the last few years, as highlighted by the red arrow.

In green, you can see the schemes we have on site. 1.2 m sq ft timed for delivery into a tight market.

We have a further 700,000 sq ft oven ready in black giving us great optionality, another 1.2 million sq ft of further consented schemes in brown, and 600,000 sq ft in feasibility. The remainder, in pink, comprises more secondary assets, each with a clear plan to work up the hierarchy.

The investment portfolio, with its low average rents and now with a longer unexpired lease term, is the perfect complement to our development pipeline.

Slide 37 – Supply – Central London

And before updating you on the pipeline, I'd like to briefly remind you of our market call.

This chart shows the long run of development completions in central London. In the near term, we are looking at the lowest run of development completions since the mid 90s and we entered this cycle with far less availability, shown in the red line, than in both the early 90's and early noughties.

The grey and white bars on the right hand side show what is actually being built and the dotted bars show what could be built, but as you all know, financing for these schemes remains very difficult and relatively expensive.

Slide 38 – London office supply – lost space

In addition, we have the increasing spectre of alternative use, particularly residential, eating away at existing and potential supply. This slide, from PMA, shows space lost from office use to other uses. You can see the sharp increase over the last two years. We expect this trend to continue.

Slide 39 - Land Securities London developments

So to map out our development time line, this slide shows sites under construction in blue, schemes with planning consent in green, and schemes in design in the box at the top. In all, a potential total development cost well over £2 billion. So, despite our profit taking to date, we still have plenty of operational leverage for this cycle, and that's before you add the stuff Richard has just spoken about.

Slide 40 - City developments

In the city, 20 Fenchurch Street is well underway and this picture shows the core is at full height. The steel work for the floors started earlier this month and will rise through the course of the year at a rate of 1 floor a week.

We have good interest in the scheme with 8% in solicitors' hands and in advanced negotiations on significantly more, two years before completion.

At New Ludgate, demolition is now complete. From mobilisation to completed building, it is 22 months. So we are holding back at the moment because we believe delivery would be better timed for late 2014.

At 1 New Street Square, we now have planning consent and the majority of leases are aligned for December this year.

Slide 41 – West End developments

I showed you this picture in November. It highlights our West End schemes and the transformation of Victoria.

Slide 42 - West End developments - Under construction

Of the three schemes under construction…

At Wellington House, we have now pre-sold all of the flats. Completion is on programme for July and it will have been a very successful scheme for us.

Following some small design changes, 123 Victoria Street will complete in August. 21% has been pre-let to Jimmy Choo and we have good interest in all of the remainder.

Progress at 62 Buckingham Gate is ahead of schedule. We are now a year from PC and are beginning to see interest now the building is taking shape. You can see the progress in this photo.

Slide 43 - West End developments – Proposed / planning secured

Looking forwards…

At Kingsgate House, where we achieved our planning consent during the year and the leases expired in March, we have started demolition and have committed to build to Grade as we did at 20 Fenchurch Street. This will give us maximum flexibility for timing delivery of the space.

At Victoria Circle, the JV has submitted a planning application to Westminster City Council to refine the design. The proposals have officer support and if we get consent, then demolition will commence in October.

Finally, at Portland House, we aim to submit our planning application this financial year.

We plan to transform this 1960's tower into spectacular residential space. 206 apartments over 360,000 sq ft.

Slide 44 - Victoria programme

Finally, for those thinking about supply, this slide shows the pre and post development floor areas and their uses at our developments in Victoria. The 2.2 million sq ft under construction and planned will only increase the office supply by 150,000 sq ft, or 14%. The vast majority of the increase will be fabulous residential space and a new retail heart for this part of the West End.

Slide 45 – Summary

The London portfolio is well positioned. We have the right development programme. This programme is supported by a first class investment portfolio and both are being worked on by a great team.

Slide 46 – Outlook

So, as you have seen, there is quite a lot going on in Land Securities.

You have heard a lot about delivering on our plan in both our business segments, a clear plan that we have been following for a while.

We will continue on this path in both our areas of core expertise, with each asset playing its part, and with the muscle required to deliver.

In the retail markets, it means continuing to position our assets for tomorrow's consumers and retailers, and providing space for the retail winners.

In London, choice for the contemporary occupier is evaporating and we see development as a way to lock into higher yields and create value.

So we will continue to develop where we consider the supply demand dynamic to be balanced in our favour, and with our usual rigour when it comes to risk and reward.

There is real momentum in the business. Everyone has a clear set of priorities. We have good financial discipline and our modest gearing will allow us to deliver the plan.

Slide 47 - Driving the business forward

We are in great shape.

…We are now happy to take your questions.

Question 1
Kristian Bandy, UBS
Just two questions from me. Firstly Martin you said that you would look at the NAV discount to consider buying back shares. At which level would you consider to be material?

Answer – Martin Greenslade, Chief Financial Officer
Yes I used the word material deliberately rather than give you a number. I think material changes depending on where the market is. Clearly, in a very fast rising market, material might be lower than in a market which is uncertain of direction. But what I intend to do is I intend to look very closely at any discount that exceeds 10%. So that gives you an idea, but as I say I will judge it according to how I see the market.

Further question
And one question for Rob. Can you give us some colour on how the letting progress is going at One New Change and there has been press speculation about further lettings at Fenchurch Street, if you could give some colour there too?

Answer – Robert Noel, Chief Executive

One New Change, we have let about £5m over the last 14 months. The latest deal was 15,000 sq ft concluded last week. We have got 45,000 sq ft left, so 90% of the building is now done. And we have got good interest in that space. It has been a little bit slower than we were anticipating, but we have got good interest at the moment.

At 20 Fenchurch Street as I said, we have got 8% in solicitors' hands; we are in advanced negotiations in an awful lot more than that. And we gave a little bit of guidance to the market last year in that we said we hoped we would get about 200,000 sq ft let during the course of this calendar year. If everything that we have got in advanced negotiations comes off, it will be materially more than that.

Question 2

Chris Freemantle, Morgan Stanley

Just two questions, one on ripples. Can you be a bit more specific on London? Do you expect some downward ripples in London or is this just a gradual upward trend?

And secondly on Fenchurch Street, should we expect those deals to enhance the rental tone of the City of London in terms of prime rents?

Answer – Robert Noel, Chief Executive

Two questions there, let's talk about ripples first. The greatest brains in the UK at the moment have got no idea in which direction we are heading. The only thing I can say is we have got our balance sheet into a really strong position so we can react whichever way the wider market takes us. You know we are very comfortable with the amount of development exposure we have got. We are very happy to have the oven-ready schemes that if things look materially better than people are expecting, we can crack on with them straight away. If things get materially worse than people are expecting, then we are pretty resilient and we have got some money to spend elsewhere as other people suffer.

Turning to rental levels at Fenchurch Street; we gave guidance last year that our underwriting rents at Fenchurch Street were an average of £59 per sq ft. I can tell you that every deal we have got agreed is higher than that level.

Question 3

Harm Meijer, JP Morgan Cazenove

Good morning, just a couple of questions if I may. Rob, what kind of lettings in your pipeline will you be happy with next year? What would you say for us to hear, this was a great year and I am happy?

Answer – Robert Noel, Chief Executive

Well in the City, let's start in the East where we are two years away from completion of 20 Fenchurch Street, it is a big building. I said in November that we would be happy or in an ideal world we wanted to get 200,000 sq ft. And it looks as though we will be ahead of that, so I am happy. What is quite clear in the market is that anecdotally there are real people who have to move and they want to move and they are beginning to realise that they are not going to have much choice, and so they are engaging early, so we are ahead of expectation.

In the West End, you all know this, the West End is not particularly a market which is predicated on pre-lettings, it is a much lower bite size in take-up and people like to see completed buildings before they complete. Having said that, we have let 21% of 123 Victoria Street which completes in July of this year. We have got interest in all of the remainder of the space. So we are pretty confident about that and I would like to see that let in its entirety by this time next year.

62 Buckingham Gate, again we are starting to get interest and what people are saying to us is, we like this building, we like what you are doing to Victoria and we like the fact that you are a discount to the core. So we have got interest now and again if we can get that to, let's say 50% let, by the time we complete the building this time next year, I will be a very happy bunny and so will you.

Further question

Great. And what about current rent demand, what are you issuing right now? Has it picked up recently?

Answer – Robert Noel, Chief Executive

It has absolutely picked up. And as John Burns said the other day, all we can do is tell you how it is and you know 20 Fenchurch Street we have a lot of interest. 123 we have interest in all of the space. I mean proper negotiations.

Further question

And maybe just a last one. Are you going to change anything now you are the new man?

Answer – Robert Noel, Chief Executive

Well I have been the new man for six weeks, I am already feeling not very new. Listen I have been on the Board of Land Securities for two years. I have been absolutely instrumental and part of the plans and actions we have put into place, articulated and are delivering on. So don't expect any left turns.

Question 4

Bernd Stahli, Merrill Lynch

Three questions if I may. Martin if a 10% discount is material enough to buy back the scrip why is it not material enough to buy back stock in general?

Answer – Martin Greenslade, Chief Financial Officer

It is all about what we do with our money. What we don't want is for the dividend to the scrip alternative which is done for specific reasons which I outlined. It is all about neutralising the effect of the scrip dividend. In terms of the wider discussion of returning capital to shareholders or not, that is down to opportunities in the market. If we don't see any opportunities at all then we will return capital to shareholders and if we see loads of opportunities we will ask them for more. That is the business of being a listed company.

Further question

Richard, you have bought a seat at the table at X-Leisure, you must have some ambition because for a hundred quid you can go to IKEA and buy a chair and a table, so you are spending a lot more than that. Where do you want to go?

Answer – Richard Akers, Executive Director

Well I think as I hinted at in the Presentation, we quite like the leisure sector. Leisure has become a really integral part of the shopping centre portfolio and successful shopping centres have good leisure provision. So we already have a lot of leisure occupiers in our portfolio and good relationships with them. So we are interested in this sector. We think there are good assets in the X-Leisure fund. We think our stake in the fund will perform well for us. It will be a good investment and it gives us a seat at the table as that fund faces decisions about its future.

Further question

And you have got the balance sheet to do something if you wanted to?

Answer – Richard Akers, Executive Director

As Rob and Martin have said, yes we do have a strong enough balance sheet to do what we want to do in that space, yes.

Further question

Last question for Rob. There has been more than yourself in terms of people change at Land Securities. We are hearing quite a lot of stories about people leaving, people going. On a net basis have you been reducing headcount over the last 12 months? Is that a strategy for more of that?

Answer – Robert Noel, Chief Executive

Not particularly. And headcount is not particularly relevant in the context of a business our size. But just to give you some colour. In London the headcount has reduced pretty much over the last couple of years. I think it was about 140 when I joined, it is about 120 now. And there have been quite a few changes. But that is just my mark on how I want things run. And if you look at where we are today, we have slimmed down the Board. Again this is the way I want it run. We have pushed down management of the portfolios into operational executive committees run by fantastic people I have to say, both in London and in Retail. And this is what I mean about lifting up pace, because we will have clearer decision making, quicker decision making and much more ownership and accountability right through the business.

Question 5

Nicolas Lyle, United First

It is very clear you are in a great position, Land Securities is in a great position, you are doing many things. So if you look 12 months ahead are you expecting to be stronger in the offices or in the retail segment?

Answer – Robert Noel, Chief Executive

We have absolutely no prescription as to sector allocation. We are about buying the right assets and playing with the right assets. So whether a building is a shopping centre, a shop, an out of town shed or a world class office building in the City of London, it depends on the returns. What we are building in Glasgow and Leeds **–** they are going to go very well.

Further question

So more opportunistic?

Further answer – Robert Noel, Chief Executive

Completely.

Further question

And the second question, what is the five-year plan internally? Is there an overriding motto or plan that you are using to drive the business forward?

Answer – Robert Noel, Chief Executive

We are going to be winners.

Question 6

Remco Simon, Merrill Lynch

Martin you mentioned in your records an unallocated expense of £85m that you would be disappointed if that was not £80m or less this year. Is that the end target or do you see more upside in terms of reducing overhead cost for the years thereafter?

Answer – Martin Greenslade, Chief Financial Officer

Well I think overhead costs, indirect costs, direct property costs - they are always a focus for us. I know people would love one number, one figure to sum it all up. It is not as simple as that. You have to look at the business you are in and what business you do. We carry overhead cost for very good reason, because it drives the asset returns that you are seeing today. But there is a very real focus on it and we will look at efficiency in that on a continual basis. I mean just to stand still with inflation of 2.5% to 3%, that's increasing by £2m to £2.5m a year. So just standing still is an achievement, but we regularly review if we have got our structures right internally and if we can take out costs, we will.

Further question

Richard, at the end of your presentation and summary you said we should expect greater activity again this year. Of the things you listed, is there anything to particularly focus on? Is it mostly asset management? Is it more acquisitions and leisure or is it more capital recycling? What is the highest priority?

Answer – Richard Akers, Executive Director

I reckon it is all high priority. Clearly there is a lot of focus at the moment on dealing with the retailer administrations which we have experienced over the last few months. So there will be a big focus on protecting our occupancy. We are proud of the levels we have got and we need to protect those as the year goes on. But we think the retail market is going to be all about the actions that we take and the value we can create. So that activity building up our out of town development pipeline, looking for new development opportunities in town centres, is very, very important. As Rob said, Trinity Leeds and Buchanan Street are performing very well for us and delivering good returns. We want more of that, so there is going to be a lot of activity in building up that pipeline as well.

Further question

The last question, 33% LTV and this year a bit more sales, acquisitions or investments? Where do you see that going over the medium term? Is low 30s% the new normal?

Answer – Robert Noel, Chief Executive

We have let sales run ahead of acquisitions. Most of our sales have been carried out in the last quarter, as you will have noticed. There is no real design in that. We have always said we want to see gearing come down as we go through the cycle and we have always said we are going to be funding our acquisitions and developments through sales. And we have got our revolving facility there for other opportunities and also to back us up with our committed development capex. So I can't tell you exactly where it is going to be in a year's time, but I think we have always said we are going to bring the gearing down as we go through the cycle and nothing has changed.

Further answer – Martin Greenslade, Chief Financial Officer

And we have said our range has been 35-45% LTV but you have got to look at operational gearing as well as financial gearing, they go hand-in-hand. And so being in the 30s%, given that we have got a development pipeline in London, that is the right place to be.

Question 7

John Lutzius, Green Street Advisors

Land Securities has a mixed track record of outperforming IPD on a total shareholder return basis when you look at it on a multi-year basis. When you look at the sources of that, why has that happened in the past? And then as we look forward what will be different based on the way you run it and the expectations we should set?

Answer – Robert Noel, Chief Executive

Well John the facts and figures are there and I tend to look forward rather than look in the past, but I mean the standout strategic goal for all of us is to get the gearing right at the right point in the cycle and it is the gearing that has been out of kilter with REITs in the past that has led to their underperformance on a TSR basis. So that is the thing to get right.

Further question

Is it solely gearing, when you look back on the development story and how it's maybe sometimes got the cycle right and sometimes not? How much of an issue is that?

Answer – Robert Noel, Chief Executive

It's a big issue and I think actually Land Securities has got the development pretty well right last time round. And it is one thing that we have to get right every time round in order to produce long term returns and that is our aim. There is not really much more I can say than that.

Further question

Do you accept the idea of total shareholder returns versus IPD as an important minimum benchmark?

Answer – Robert Noel, Chief Executive

I accept the idea of total shareholder return both relative and absolute and that is what I am about. I don't really mind too much about IPD because it is a theoretical benchmark which has not often an exact correlation with shareholder returns.

Question 8

Ryan Palecek, Kempen & Co.

Good morning. I have a question looking at the picture of Victoria. Smack in the middle of it there is a relatively large property, Cardinal Place. It has comparatively short rent tenants which could be walking and it appears to be slightly over-rented. Could you maybe talk about your strategy in managing that property through the coming years?

Answer – Robert Noel, Chief Executive

If you don't mind if I can turn those questions around and answer the over-renting point first. I think the average rent in Cardinal Place is in the mid-£50s. And with the lettings that we are going to be doing in the buildings that are coming out of the ground next door, both our refurbishment at 123 Victoria Street and the new building at 62 Buckingham Gate will show that Cardinal Place is actually not over-rented.

Secondly, the weighted average unexpired lease term. You are absolutely right the weighted average unexpired lease term at Cardinal Place is probably around seven years and actually if you see what we have just done with 3i which is part of Cardinal Place at 16 Palace Street, we have taken some space back from them in return for lengthening their lease. So we are very alive to this and working on it. But because what we are doing to Victoria will absolutely be a game changer, Cardinal Place is set to win, so it is a core part of our package and our portfolio.

Further question

Could you expand at all further on its valuation or the yield?

Answer – Robert Noel, Chief Executive

No I don't think we ever give valuations or yields for individual buildings. But suffice to say it is the largest asset in the portfolio.

Question 9

Keith Crawford, Peel Hunt

Suddenly out of a clear blue sky the EC3 market seems to be very much better, something nice is going on in the international insurance markets which most of us don't understand, but we do know something about the financial markets. Normally the Ludgate site in EC4 - one would expect that to be of world interest really, it is a tremendous location, very unusual singular thing and yet quite a lot of time has now passed and the fact is that the EC2 and EC4 markets appear to have been very quiet and the industry is in bad shape actually?

Answer – Robert Noel, Chief Executive

Keith it is a very good observation and the first quarter of this year there was very little take-up in the City market. And this is one of the reasons why we are delaying Ludgate, because it will be of great interest when the pent-up demand sitting on its hands gets released. And anecdotally we are having conversations with people all the time, very serious people. There are law firms, there are international firms who are coming into the market who no one has heard of yet who are engaged with us in discussing. And there is no point in starting this development now if we can start it in six months' time and get more money for it. You know the development is about timing and there is no point in starting a speculative development now if a pre-let tenant comes on the market in three months' time and wants the building to be changed because that is just going to waste a lot of money.

Further question

Given there is almost like a focus, Victoria is almost the story to some extent now. Since you have had many of those properties for 70 years, the outlook is extremely good clearly. However the station for example closes when it rains. The underground station closes when it rains. It is miles to the nearest station. Anything being done about the infrastructure?

Answer – Robert Noel, Chief Executive

One of the reasons it closes when it rains is that the lid has been taken off it because the Victoria station upgrade is right in the middle of being done and in 2016 we will be handed back a brand new station between what is going to be Victoria Circle and what is going to be Portland House so you will be able to access the station on that wide pavement concourse there and that work is being done at the moment.

Further question

Is there potentially a further phase of Victoria even after Portland House, are there other properties still?

Answer – Robert Noel, Chief Executive

Not in ours, no. Portland House will be the last piece in the jigsaw.

Further question

That will be the last piece. And that will start potentially?

Answer – Robert Noel, Chief Executive

All the leases aligned are for March 2015.

Further question

The other thing I was going to ask you about was Aldwych because presumably the buyer has a different view? He presumably is looking at the residential there as priceless given Covent Garden at the back, Pidgely on the side, river on the front. You know a desirable place, very interesting, nice view. He has probably got a different view, is that the situation?

Answer – Robert Noel, Chief Executive

It is a great scheme, that scheme. The issue is that we should be getting on with it now or someone should be getting on with it now and we don't as you know have the appetite to do everything all at the same time. What I would rather do from the money we have got from it is pour that money back into sites which are going to produce higher returns. And you have made a point, it is residential. So most of the property in that scheme is residential and is taxable for us.

Question 10

Mike Bessell, Investec

In shopping centres, the bulk of the rental decline that you saw in the last financial year was in the second half of the year, how have you seen tenant incentives move over that period in light of those declines and particularly in light of Leeds and Glasgow. How are they behaving and what are the trends there?

Answer – Richard Akers, Executive Director

The trend is that we are still seeing good demand for space. Certainly in Trinity Leeds the demand is accelerating. It is a bit difficult to say about Buchanan Street in Glasgow because we are not really marketing it any longer. We have kind of done that. And generally incentives in our portfolio lettings have been pretty constant over quite a long period of time now and over the past year on average in our shopping centres we are looking at 12 months effectively which has been the answer to this question every time we have reported results for as long as I can remember. So that is pretty constant. In developments clearly incentives are slightly higher, but we are right on our budget with Trinity Leeds and we feel that we are in a very strong position with the remaining space.

Further question

And so what underpins the remaining £6m of capex on St David's that presumably relates to the 12% vacancy that is still to come? Putting that in context with the £16m of rent roll from the 88% that is let at the moment? What assumptions underpin that remaining capex which presumably is to support tenant incentives on that scheme?

Answer – Richard Akers, Executive Director

Yes the bulk of it is to support tenants incentives, I think, and also potentially alterations to units to accommodate tenants as that is always a feature of development. It is always built into development appraisals. So this is capex hanging over from the development appraisal as such. And yes we still have, as you can see, more letting to do at St David's.

Question 11

Nick Webb, Exane BNP Paribas

I just have two questions, one is on acquisitions. You said you didn't see much in the way of interesting acquisition opportunities recently. I just wondered why that was? Is it the type of property that you are seeing or is it the level at which it is being priced?

Answer – Robert Noel, Chief Executive

I think we are actually seeing more over the last few weeks than we have previously. We get asked this question every year and I have been asked this question every year for the last 10 years, where are you going to get your acquisitions from? And you know it is the same problem that everyone faces, and they come along like buses, but you just grab the right one. You don't rush into the market as a forced buyer.

Further question

I am glad someone asked again this year!! Can I also ask about London residential. You mentioned the increase in residential being a big part of the Victoria scheme. How sustainable do you think conditions in the central London market are at the moment?

Answer – Robert Noel, Chief Executive

That is a good question. The population of London is growing. The residential housing stock within central London, within the Circle Line, is, in order, compromised conversions of Georgian, Victorian and Edwardian houses, there is very little purpose built apartment blocks within central London. And if you think about the international buyer that is supporting the prime end of the market and washing people down then into the next level of the market, it requires apartments. They come from areas where apartments are built. The population is growing, so this market is very deep and liquid. Now our market segment is that market segment which is between £1,400 and £2,000 per sq ft, which is the majority of the market. We are not aiming for the £6,000 per sq ft mark. And don't forget that pretty well all of our pipeline is located half way between Eaton Square and St James's Park, so it is exactly where I want it to be.

- End -

LandSecurities

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