Land Securities Retail Investor Conference
Gunwharf Quays

Friday 20 September 2013

Speaker: Richard Akers – Executive Director

Slide 1 – Title slide

A big welcome to all of you and thank you for making the journey down here to Gunwharf Quays today on a nice sunny day.

Many of you will remember coming to Gunwharf Quays four years ago for our Investor Day, so why have we come back to Gunwharf Quays? Well, we did consider Trinity Leeds, but I think you've all seen Trinity Leeds quite recently. We also thought about going on a tour of our London suburban centres, that is Southside, West 12 and the O2 in Finchley Road, but again we thought we could probably take you round those in smaller groups during the course of the year.

But Gunwharf Quays has grown to become the largest asset in our retail portfolio, just behind Trinity Leeds actually now, but more than that, it's very relevant because it illustrates so many of the opportunities and issues that we're facing in asset management today.

I'm going to briefly set out some market context and outline the day before handing over to the team for their presentations, and the market context is absolutely fascinating. I think it's possible to take widely different views of what's happening in the retail sector today, and also to employ widely different strategies, and that's what we're seeing from the REIT sector at the moment. So I think our programme will be really interesting for you today.

It's very exciting to be hearing such positive news about the economy.

Slide 2 – Consumer economy

Retail sales growth in June, July and August has been at 4% in value terms, 2.3% over those three months in volume terms. We've had some really strong figures from the PMI index, so a really key indicator of our economic recovery. Household balance sheets have continued to improve with debt as a proportion of income down 17% from the peak to 142%.

And very importantly, consumer confidence rose three points in July to about its ten year trend level, and confidence in the economy over the next 12 months is in positive territory, and sentiment about big ticket purchases is at its highest level since 2007. And this general increase in confidence is also illustrated by the strong performance of the equity markets in both the retail sector and in house building. And that's good news, but there is another story.

Slide 3 – Consumer economy

The Office for Budget Responsibility predicts a 7% rise in energy costs this winter. PPI claims, which added over 1% to consumer expenditure in 2012, may only add 0.1% in 2014. And real earnings are down to where they were in 2000. Earnings growth is shown in the chart at the bottom right hand of this slide, and also for the doom mongers, this is the longest series on consumer confidence. We have been here before in 2009; could this be another false dawn?

And finally, mortgage rates. Any improvement to the economy is likely to push up rates and according to the Bank of England one in five households with a mortgage would have to take serious action if rates were to rise by just 2%.

So our position is that we feel that any consumer led recovery could be fragile and that position guides our approach in retail. But of course retail property owners have become quite adept at operating in a weak economy, the bigger challenge is to predict the effects of structural change and we have seen, and are still seeing,polarisation affecting our markets. Let me show you.

Slide 4 – Structural change - polarisation

London and the Southeast are driving our economy; Scotland and the North are yet to start catching up. There is a huge polarisation between the retailers who are strong and have invested in omni-channel and those that have not, and we'll see the strong get stronger and the weak will still continue to fail.

By location we've seen a shift of market share from secondary centres to prime centres but the categorisation between prime and secondary has become a lot more complicated and is now much more to do with asset management, targeted marketing and the experience being delivered, as well as the traditional attributes of scale, accessibility and quality of environment.

Now, just a very brief review of our recent performance which has been good, bearing in mind the economic backdrop.

Slide 5 – Our strong relative performance

As you all know we focus hard on keeping our occupancy up and our voids and insolvencies have reduced over the year to March ’13, and indeed reduced slightly further in our IMS to the end of June. Our performance relative to IPD is shown at the bottom of the slide, and this shows that we’ve outperformed over three years, five years and ten years in each of our sectors. Our focus is at asset level, outperformance is achieved through asset management actions. And we’ve been considerably assisted by development.

Slide 6 – Strong development returns

These full year ’13 figures show the total costs of our developments in retail, the net income and ERV and hence the total yield on cost, the gross yield on cost. As you’ll be hearing later we have more development to come, both in city centres and out of town.

So in a macro environment with no clear direction, in a period of structural change in retail which is hard to forecast and when you have a strong balance sheet what should be your strategy?

Slide 7 – Our clear strategy

Well as you’ve heard us say before many times I think every asset has a plan, but asset level performance is being affected by faster moving factors than ever before, and in particular the impact of competition. So capital recycling, that is selling the assets we think are not going to perform to an adequate level and reinvesting that money, is very much a permanent part of our strategy. And so is development, reinvestment through development where we can obtain higher returns as well as transition our portfolio to higher quality assets. And it’s also about diversifying our income away from the structurally challenged retail sector and towards leisure.

These are the areas where we are differentiated from our competitors. The retail specialists are restricted from disposals because their strategy is to grow earnings. Development takes a long time to build up and is an area where you absolutely have to have the expertise and track record. And leisure, both within shopping centres and as standalone assets, has a compelling investment rationale.

Slide 8 – Our established capability to deliver

So, how are we delivering on this strategy? We have a truly excellent development team, carefully built up over many years. You've seen how they've executed Trinity Leeds and groundbreaking schemes in the past like Princesshay. You'll continue to see smart thinking, forensic analysis of potential and rigorous execution on our further town centre schemes.

We'll also show you some evidence today of our site buying capability so that we can really build up our out of town development pipeline and change the nature of our retail warehouse portfolio.

In asset management we've demonstrated our capability directly managing outlets here at Gunwharf Quays and Hatfield. We have truly excellent relationships with our retailer customers assisted by a £1.1bn Central London shop portfolio, which we're not featuring today but is a critical factor in our relationships, particularly with overseas retailers, and we're at the forefront of digital delivery in shopping centres, but we're at the cutting edge, not at the bleeding edge.

We've moved faster into leisure than anyone else, within our centres in standalone assets and on expertise with our acquisition of X-Leisure. And financial discipline. As a company we have no sacrosanct assets. As we've said before, we don't feel the need to be any bigger than we are, and as you know we guard shareholders' capital very jealously.

And finally, acting responsibly. There has always been a very strong culture through Land Securities that we have to create real benefit for the places in which we invest and you'll be hearing a bit more about this and the detail and what we've done on Trinity Leeds and what we're doing through the management of the White Rose Centre and how this is benefitting us right now. In short, if you put something in you get something out.

So what about the rest of the day?

Slide 9 – Who you'll meet today

Well firstly you're going to hear a presentation on shopping centres from Ashley Blake focusing on asset management and Lester Hampson focusing on our future development pipeline. We're then going to have a brief Q&A session and then our short break which Ed described, and then Dominic O'Rourke is going to talk about retail warehousing, largely about our plans to develop new retail warehouse parks through our out of town development initiative.

And then the third of our property categories, leisure. Polly Troughton, who's been the property director of X-Leisure for 12 years, will talk about the portfolio plans and give you an insight into why we think leisure is a good sector for us.

I'm conscious that as we've increased our exposure to leisure we've only given you our top line rationale for that, i.e. yield, lease length, tenant demand and so on. Yesterday you'll have seen that we've increased our stake again in X-Leisure from 60% to 95%, and today you'll hear about leisure in more detail and in a way that you will not have heard before from any listed company.

After that we're going to have a short presentation by Jack Busby on Gunwharf Quays. Jack is the senior portfolio manager who's doing all the asset management work here. We'll then have another opportunity for questions before taking you on a tour of Gunwharf Quays.

As I've said before, we have an excellent team in the retail business, but I'd go further than that, I think it's one of the best in the country and one which we've spent time carefully assembling. We get loads of feedback from you on these days as to how much you enjoy meeting people in the team and so there are others around to help guide you round the tour and to answer any questions you might have after the sessions. We've even got Martin Greenslade here to field any really nasty questions that you might have for us on finance.

Slide 10 – Who you'll meet today

Now you're going to be guided on the tour by Jack as well as Ian Hart who's our centre director here at Gunwharf Quays, and Mike Davidson who's the head of retail operations for the company. And also on the tour you're going to hear little cameos from Sean Curtis who's our head of business to business marketing and he's going to talk to you about digital, and from Suzi Arkley who's our head of consumer marketing who will not just talk about Gunwharf Quays but also about how we're implementing new initiatives around our shopping centre portfolio.

So in summing up, Gunwharf Quays is both an exciting retail site and it typifies what we're doing within the retail portfolio. It reflects our very clear strategy here at Land Securities which is well designed to optimise our operations and assets in today's market. So on that note I'm going to hand you over to Ashley for the shopping centre presentation.

Speaker: Ashley Blake - Head of Retail Portfolio Management

Slide 11 – Title slide

Thank you, Richard. Good morning. Today I'll describe how our shopping centres and our plans for them are designed not just to respond to the changing retail landscape, but to actually benefit from the trends emerging in our retail industry. You'll be pleased to hear I've only got one theory slide. Then I'll give you more detail on our properties and I'll use our properties as real life case studies to describe how we're working with these trends.

As Richard said, the polarisation of shoppers and retailers into fewer, higher performing locations is now an accepted structural change by the industry.

Slide 12 – Drivers of polarisation

So what is driving this behaviour? These are the key factors which have been informing our actions. Shoppers are focusing their spend on fewer, bigger spend trips. Our own conversion statistics from our survey of 17,000 of our shoppers shows us this. Leisure is critical, you'll hear a lot of this today from all of us. 40% of our customers use our catering in our big destinations. People want brands, it's the number one demand we get when we ask them what they want from our shopping centres. The better locations can attract the brands, creating a virtuous circle. Access, whether by car or public transport has always been key. And our requirements for cleaner, safer, more modern environments have grown as shoppers have become more discerning and more demanding. Finally, providing the right kind of marketing and seamless digital service provides a chance to make our locations a real brand in their own right.

So I'll talk you through a range of our assets and how we're working with these issues. Firstly, our major destinations, then a few of our remaining good secondary assets and finally, our focus on our suburban London ownerships.

Slide 13 – Our major destinations: Trinity Leeds

Firstly Trinity. Now, we don't have like for like sales data yet, but since we opened in March our footfall has reached 11 million and we think that's quite an achievement, especially as we've not gone through Christmas yet. Our initial sales data shows strong and consistent figures from both our retailers and caterers. This centre has a significant proportion allocated to leisure uses which I'll detail further in a moment. It's located close to the town centre car parks and public transport hubs. We've taken that even further, we've purchased a 635 space car park near the centre to enable us to fully integrate it into the customer journey. This will allow us to provide additional services, such as customer bag collection and it's also a chance to drive additional car park income.

In terms of brands we've delivered 46 new brands to Leeds, including one of the first Victoria's Secrets opening outside London. Primark opens before Christmas, and our new catering concept, Trinity Kitchen, opens in mid-October. So all the key fundamentals for a true major destination have been carefully designed in and we're working to make it even better.

Slide 14 – Trinity Leeds: Showing the way on leisure

Now leisure and catering are a key area for us as a business. Polly will discuss our pure assets later in leisure, but we have deep exposure to this sector across shopping centres, leisure parks and even out of town. We're the sector's biggest landlord and this gives us tremendous relationships and leverage with the operators. Trinity has extensive catering provision and will feature 34 outlets when Trinity Kitchen opens. Rather than cannibalising each other's trade this produces critical mass attracting even more diners and consumers. This is happening at Gunwharf Quays as well. Trinity will also feature London brands new to the regions, such as a D&D restaurant here you can see at the top (of the slide) with its rooftop bar and restaurant and also totally bespoke unique offerings, such as the Alchemist and the Botanist here you can see at the bottom (of the slide) with its basement bar and restaurant. But you can't stand still in catering, customers demand refreshing brands and new concepts and Trinity Kitchen will give us the chance to bring in new concepts every year, allowing us to curate the experience for our visitors.

Slide 15 – Trinity Leeds: Pushing digital boundaries

We don't see digital as something apart and different; it's embedded in our day to day activities. As Richard said, Sean Curtis who heads our business to business marketing team will talk to you on the tour about our digital and take your questions. Digital needs to sit seamlessly alongside our other services for customers, so here you can see the customer lounge in Trinity providing fantastic physical contact with our staff, an iPhone showing you about the mobile enabled websites that we run, the interactive screen at the top which engages with our shoppers. At the bottom you can see one of our digital advertising screens; this is a high growth area for us as a business. If you take the advertising revenue in Trinity from digital advertising it's one of our top ten rent payers.

Soon at Trinity we'll have another screen, this will be part of something called the Grid. Six of the biggest centres and town centres in the UK will be part of this grid, giving advertisers a chance to get digital access to the major centres across the UK, driving even more revenue.

Slide 16 – Our major destinations: White Rose, Leeds

White Rose is our other major northern asset. It gives us dominance over the out of town and city centre retail provision for the greater Leeds area. It has seen a slight sales drop of 2.4% since Trinity opened but the drop is manageable and we have a plan to grow its performance. White Rose already benefits from great access and 4,750 free spaces, giving it a strong footfall figure of over 12 million. White Rose also has the highest conversion rate of any centre in the portfolio, at over 70%, compared to our portfolio average of 55%. White Rose attracts focused shoppers on a mission to spend. We've added new brands as you can see from the slide and should soon hear on our planning application to extend the size of our key retailer anchor stores, add a cinema and add new catering. New leisure is already being added and more is on the way to cement White Rose as one of the UK's leading out of town destinations. And as if to prove it, the trade from the existing leisure operators is growing well beyond their targets.

Slide 17 – Leeds: Making a positive impact

Now, property companies don't tend to talk about corporate responsibility outside of their CR reporting, but as Richard said, we think it's critical for a retail real estate business to succeed. The consents of our local stakeholders, be they local authorities or communities, are vital in our ability to develop and enhance our assets. In the current climate all local authorities and all communities are keen to push job creation and training. As you can see from the stats on this slide we've created 1,750 new retail jobs on top of the construction jobs, and pushed £740m worth of economic impact into the region. And at White Rose we've had a deep and consistent CR plan going along which has benefited over 37 local groups. This has helped the centre have a real sense of being part of and owned by the local community and that helps build customer loyalty. The work of the Leeds team and Lester's development team has allowed us to get the consents at Trinity and push on at White Rose due to this community involvement. The same applies to all our locations and CR is a key objective for the retail business unit.

Slide 18 – Our major destinations: St David's, Cardiff

Let's turn to St David's which provides the primary shopping destination for Cardiff. St David's has the highest footfall of any centre in our portfolio at over 38 million and as the centre matures its trading metrics are growing. Let's take a look at the car parking, this has grown by 12%. Across the Land Securities shopping centre portfolio our gross car park income has increased from £15.6m in 2010 to £19.6m in 2013, on a like-for-like basis and allowing for our JV ownerships, as we're attracting more affluent car borne shoppers. And we're driving this through tariff increases yes, but also increased occupancy levels and smart use of permit parking which drives revenue when our car parks are less busy.

Like all proper destinations it has a strong and diverse leisure offer, there are over 31 different catering offers throughout the centre. And new brands are being bought in to extend its dominance as Wales' major destination for retail, including a new 106,000 square foot flagship Primark being constructed now and opening after Easter next year. You'll hear a lot about Primark deals during our talks, it's just one example of our deep relationships with expanding and successful retailers.

Slide 19 – St David's, Cardiff: Sales-driven marketing

St David's is also a great case study for our destinational marketing. Who are these people queuing outside the centre? Why are they queuing outside the centre? Is Justin Bieber about to appear in the mall? Is it a Black Wednesday sale at Apple? No!

Slide 20 – St David's, Cardiff: Sales-driven marketing

These guys are students and they're taking part in our student lock-in. This is an event targeted at students, providing promotions, discounts, entertainment. It's driven aggressively by social media in a smart and clever way. And it's really growing; it's attracting 22,000 students now. And everything, everything is focused on one objective – driving sales for the retailers.

We don't do fashion catwalks anymore in our centres. People came, they looked, they didn't spend. Just look at the 300% increase in sales from this initiative as it has grown in momentum. The retailers love this stuff, and we're rolling this out across the portfolio.

Suzi Arkley, who is our head of consumer marketing, is on the tour, and she'll tell you more about this sales focused destinational marketing. Suzie used to be the head of marketing and communications at the O2 Greenwich Arena, which is the world's most popular entertainment venue, so she can bring real skills into the Land Securities business. Now this part of our job is fun but it has a commercial edge as retail, physical retail becomes more of an entertainment. So it's important to get this aspect right.

Slide 21 – Our major destinations: Cabot Circus, Bristol

Cabot Circus in Bristol shows robust footfall at close to 18m, strong occupancy levels, and this is coming through in our sales and car park revenues. We designed a strong leisure offer into the centre from day one with a cinema and a wide range of catering brands that occupy over a fifth of the asset. We're adding more brands to catering: Wagamama's and TGI Friday's for example. TGI Friday's sales are 50% more than their expectations before opening – showing the power of these locations. And this is happening across the portfolio. Our catering sales grew by 3.6% last year and a consistent trend.

Slide 22 – Our major destinations: Gunwharf Quays

Now I won't talk about Gunwharf Quays, that's because Jack will do this later and give the information straight from the coalface. But as Richard said, it's important to recognise that this asset exhibits all of the qualities that make a location thrive in this retail environment, and this has produced consistent outperformance. The major assets I've just run through are the core of my portfolio but I'm extremely lucky. I'm lucky because Lester's development team have got opportunities in towns such as Guildford, Oxford and Glasgow, locations that will benefit from polarisation, very hard to acquire and will drive performance for me in the future.

Slide 23 – Our remaining good secondary: Providing a solid return

Our good secondary exposure is only in a few assets but these properties have strong defensive qualities and are excellent cash generators. The Bridges in Sunderland has strong footfall and incredible customer loyalty in its catchment of over 400,000. Despite some administrations it has strong occupancy levels, and has had one of the strongest occupancy levels in the portfolio for some time, showing how busy the centre is. Sales have suffered, as with many parts of the north and Scotland, but to a much less severe extent, and affordability remains strong for retailers. We worked hard on improving the offer, bringing in a Primark anchor store and extending the Top Shop. And we're now working on a plan to add another major anchor and also build a major leisure element to increase the centre's offer further.

Slide 24 – Our remaining good secondary: Providing a solid return

Livingston remains a busy sub regional mall which maintains strong occupancy at 95%. As with Sunderland it's got a strong catchment, over 400,000, and we've added a new Primark and more brands. And once again affordability remains strong at less than 12%. We disposed of our designer outlet, which you will have seen recently in the press, following on from disposing of one of our retail parks there, as we reduce our exposure to the town and focus on our investment on the prime pitch in Livingston.

Slide 25 – London suburbs: O2, Finchley

Let's move from north to south and focus on our exposure to the London suburban market, a robust and growing market for both retailers and caterers.

The O2 centre is 100% let or pre-let, and is being remodelled now to add even more catering space, more catering offer, a bigger range of retailers, and is becoming a genuine multi-use destination for its affluent shoppers in north London. The work should be complete and all the brands open by next Easter. Is it a leisure scheme or is it a shopping centre? What matters is it's the sort of scheme that Londoners want from their local destinations in the 21st century. And we bought the freehold because it gives us an opportunity to intensify uses on the site, and the freehold gives us the ability to unlock that potential.

Slide 26 – London suburbs: Southside, Wandsworth

Let's focus on Wandsworth. Southside has seen constant improvement over the past few years and now offers the sort of leisure demanded by London residents. After the completion of our two latest blocks the leisure provision has reached 24% of the centre. To continue its evolution we've also signed up Debenhams for a new major 80,000 sq ft department store, and this will be opened by 2015.

Slide 27 – Summary and investment strategy

So, in summary: we're completely driven by total shareholder return and no asset is a 'hold', regardless of performance. A lot of companies say that but not many mean it. Our track record of sales shows we're not afraid to dispose of something. You can see here some of the assets we've disposed of because of the threat from structural change, even though we did lose some earnings. No matter how good an asset might look on the surface, if shareholders' capital can be put to better use we'll reinvest it into better investments, value-add opportunities on existing centres and development.

Slide 28 – Summary and investment strategy

We focus our portfolio on major destinations and Greater London, where polarisation is driving demand and driving spend. As we've shown, the team are incredibly active across the portfolio. We're focused on improving the leisure of all opportunities, and our large leisure ownership gives us a unique position in this field. New brands are being added and more are being added all the time. When Jack talks about Gunwharf Quays you'll see how new brands can benefit a centre. And we continue to improve our physical offer for customers and our digital service to make sure we're at the cutting edge of their demands.

So, we're confident about the position we're in and we're confident about the actions we're taking to position ourselves to perform in this changing retail environment.

Thank you and I'll now pass you to Lester to talk you through our developments.

Speaker: Lester Hampson – Head of Retail Development

Slide 29 – Title slide

Good morning, and may I add my welcome to you. I'm intending to update you on our major city centre developments; opportunities in Oxford, which is in joint venture with The Crown; in Glasgow, which is in joint venture with Henderson's; and our most recent appointment at Guildford. What I will demonstrate is that these are three wonderful opportunities to create strong returns and to enhance the quality of our portfolio.

Slide 30 – Glasgow

So, starting with Glasgow and Buchanan Galleries. What do we like? The existing Buchanan Street is supply constrained of the right space.

Slide 31 – Three key points

In John Lewis and Marks & Spencer's we have the two very best department store anchors. Glasgow City Council has unconditional approval from the Scottish government for an £80m tax incremental financing facility, and this will help with the financing of infrastructure works and public works associated with the project and with the wider Buchanan quarter. We believe that the retail offering in Glasgow will increasingly be focused around Buchanan Street as the famous "Z" of Glasgow's retail starts to shrink. To some extent we are already seeing this with the success of our 185 - 221 development which is opposite Buchanan Galleries.

I think the next photograph really says it all…

Slide 32

…as we look down a heaving Buchanan Street to the To Let board outside St Enoch. I believe that we have the opportunity to create the first truly dominant trading location in Glasgow, providing a range and offer of experiences that is currently just not there.

Slide 33 – Highly attractive demographics

Now, I'd like to have a look at some of the attractive demographics. As you can see Glasgow is already a strong retailing destination, it has an extensive catchment that is more affluent than one might first expect. The existing centre is strategically located between the bus station and the railway station, which has 20 million passenger movements per annum. However, as the next couple of slides show, the existing scheme does offer some scope for updating.

Slide 34 – Refurbishment opportunity

This is a view along the first floor: it enjoys reasonable natural light but it is starting to look a little dated. And those of you who know the asset will be pleased to know that as part of our proposal we intend to create new entrances, one of which will be directly off Buchanan Street into the John Lewis.

Slide 35 – Family dining – time for change

And as you can see from the next slide our existing food hall also offers real opportunity for improvement to cater for family dining. And as the slide says, it is time for change and to update the food offer. And you'll hear later from Polly more about the importance of family dining.

Slide 36 – Strategic locations

Now I'd like to take you through the various floors and showing how we modify the centre as part of our development. Starting with the ground floor: let me help initially orientate you and show you how well located the existing centre is. You can see the existing Buchanan Galleries, which we will refurbish in parallel with the development. You can see our recently completed 185 – 221 development. You can see the railway station and the bus station. And finally I'd like to point out the existing car park, which we will demolish and relocate over here on land that we've agreed to buy from Network Rail. And the next slide shows those changes.

Slide 37 – Great anchors

So, you can see on the site of the existing car park and over the existing rail tracks; this is where we will create the new retail and leisure offer providing a range and size of shops that are just not readily available on Buchanan Street. Now, as you may have noted from previous press comment we have signed M&S for 150,000 sq ft, and they are located in the yellow box on the top right-hand corner of the scheme.

Slide 38 – Right space

So, moving along onto the first floor. You can see that the proposed unit sizes, shown by the colour washed areas, are bigger than the existing accommodation providing modern well-configured, efficient space – it is this space that is missing in Glasgow.

Slide 39 – The importance of leisure

It will be no great surprise to see that we are applying our learnings from Trinity and seeking to create a new leisure heart for Glasgow to complement the retail offer. We will be introducing up to a dozen new restaurants and a large multi-screen cinema, with direct links into the new car park, with strong pedestrian links into the bus and railway stations. And here are a couple of images.

Slide 40 – The importance of leisure

I believe that we really do have the opportunity to create a new retail and leisure heart for Glasgow. We can create a destination that will create a great shopping and leisure experience. And by the strength of demand that is being shown by the cinema operators, so do they.

Slide 41 – Great anchors

And whilst we're on images, here's an image of the proposed M&S.

In relation to the new retail space we think that demand is going to come from existing retailers located in the wrong sized, off pitch and expensive shops, as well as from new entrants into the Glasgow market.

The next slide gives us a flavour of where the demand will come from.

Slide 42 – Strong retailer requirements

And we must remember that this scheme is in effect 26 shops, sandwiched between Marks & Spencer's and John Lewis.

Now, this is an encouraging list illustrating the potential new entrants and those retailers that are currently undersized in Glasgow.

Slide 43 – Outline data

Now I'd like to show you some of our outline data. You can see that we almost double the size of the existing centre and that we are planning to start on site approximately 18 months from now and open it in time for Christmas 2017. The TDC number is, as you would expect, a range which we will obviously refine as we move forward.

Slide 44 – Oxford

Now, moving from the country's best trading location outside London to one of the country's best development opportunities: Oxford. Oxford is simply a unique opportunity, and here's why.

Slide 45 – Three key points

Oxford has global appeal, it's under-supplied, we think demand is going to be very strong, and the existing supply is physically constrained.

Slide 46 – Attractive demographic

I'd like to briefly look at some of the underlying demographics and retail rankings. This slide really highlights what I like about Oxford. It's already a top 50 destination, it's affluent, it's population is young and growing; and, as you can see from the next slide,

Slide 47 – Attractive demographic

it's a very strong tourist destination, it's a strong source of local employment in its own right, and of course it's globally famous for its universities. It's also famous for its listed buildings – there are 1,600 of them in Oxford. And as you can see from the next slide, thankfully the Westgate Centre is just not one of them.

Slide 48 – Place making opportunity

The existing centre is no great joy, no great beauty, the centre lacks presence and its entrance is hidden. But in my world of development these features are opportunities, they're not constraints. I'm confident that we can radically transform this asset to create a truly stunning addition to our portfolio.

Slide 49 – Repositioning opportunity

In addition, the inside of the mall also offers real potential for repositioning. Again, I'm absolutely certain that we can dramatically improve the existing centre both in terms of architecture and tenant line up.

I'd like to move on and show you our plans in a sequence of slides showing before and after on each floor level.

Slide 50 – Strategic location

And let me start by quickly orientating you. You can see our existing Westgate Centre shown by the green edging. You can see the car park just to the south. And you can see Queen Street to the right of the entrance, to the right of the existing Westgate. As you see from the images, the existing Westgate is limited in scale and in offer. It's neither large enough nor attractive enough to provide the breadth of retail offer and leisure experiences that is demanded by this growing and affluent catchment.

Slide 51 – John Lewis - anchor

So let's have a look at the proposal. The point to make in this slide is you can see the John Lewis anchor on the south side in yellow, and the fact that we can provide a range of unit sizes to suit varying retailer requirements. We will provide 1,000 car parking spaces in the basement which will be the dominant car park for Oxford and will access straight off Oxpens.

Slide 52 – No existing first floor trading

As you can see from this slide there is no existing first floor trading, so I'm going to move quickly past that and onto the upper ground space.

Slide 53 – Right space

The colour washed areas show the extent of the additional retail that we are creating. And I think the thing to notice is the MSU space in blue. This will provide a range of unit sizes that are at a premium within Oxford. And from our early positioning conversations with retailers we believe that the demand for this space is going to be very strong. But it doesn't stop there. It doesn't stop at the first floor because the skyline in Oxford gives us a brilliant opportunity to do something that I think is going to be truly special.

Slide 54 – The importance of leisure

We will introduce a rooftop cinema, up to a dozen restaurants, which may turn into what could be a unique “spire walk” exploiting the best views in Oxford of the famous dreaming spires.

Slide 55 – The dreaming spires

It could look something like this.

Slide 56 – Right space

And whilst we’re on images, let’s have a quick look at the internal view looking up towards the existing mall from the proposed new mall.

I mentioned earlier our preliminary discussions with retailers have been very encouraging. Oxford really is a city with a unique global appeal and we would be disappointed if we could not create a tenant mix that simply belies its domestic catchment.

Slide 57 – Strong retailer requirements

So, let’s have a quick look at where we think this demand is going to come from. I think the tenant mix will be curated – and that’s a word I use very carefully – from these retailer segments. Our challenge is to ensure that we maximise the potential of what I believe is going to be an incredibly interesting mix of retail, leisure and restaurants. And whilst talking about demand I should also let you know that we’ve got very strong interest from the cinema operators.

Slide 58 – Outline data

Whilst we’re at a very early stage we thought we’d provide you some outline detail, which is set out on this following slide. You can see that we plan to more than double the size of the existing Westgate. And today is an important day for us because we are submitting our planning application. So we really do have a pretty aggressive programme to get us started on site in the early part of 2015, and we are certainly gunning to achieve this objective.

Slide 59 – Guildford

Before finishing and handing over to our Q&A and back to Richard I’d also like to talk about Guildford, albeit briefly. Earlier this month we were nominated as the council’s preferred development partner. I will show you on the next slide the demographic profile that is simply extraordinary.

Slide 60 – What we like

You can clearly see on the first three bars on the left-hand side of the graph how Guildford over-indexes on the wealthy segments; and from the bars on the right how it under-indexes on the less affluent segments.

The important thing for us is to make sure that we right size the scale of the project, but it is clear that there is a wealthy demographic that is not currently being served. From our existing gap analysis we believe the tenant demand for Guildford will be strong and we are aware that John Lewis have an active requirement for the town. We'd also probably expect this opportunity to include leisure and also residential and we will keep you informed as we progress the project.

I said at my opening that we have three wonderful opportunities that will drive revenue profit and help with the enhancing of our portfolio. These projects will deliver a compelling offer and experience to our primary customer: the shopper. By getting this right we will have a portfolio that is very much fit for the new age of retail. We are confident, we are impatient and we are well-equipped to face the challenges and to deliver the future of retail.

Thank you for listening. And I'd like to hand back to Richard for Q&A.

Question 1

Harm Meijer, JPMorgan Cazenove

Can we just talk for a moment about rental growth? Are we seeing some more pockets of rental growth or do we expect that to happen somewhere over the coming 12 months?

Answer - Ashley Blake, Head of Retail Portfolio Management

Yes we are starting to see pockets of rental growth in parts of the portfolio particularly in the catering side, the London suburbs and in the stronger destinations. And certainly my conversations with retailers they're getting more positive, they're thinking about expansion. So yes I think things are starting to look better.

Further question

On Primark, Primark is in a lot of your centres, are the other tenants also happy with Primark?

Answer - Ashley Blake, Head of Retail Portfolio Management

Well Primark can have an effect sometimes on other fashion brands but effectively it's a fantastic anchor and people want to be near Primark. They drive footfall, they help make a destination, so retailers want a Primark in a centre nearby them and of course they all compete with each other.

Further question

Maybe just a last one, maybe just an odd one because you have a lot of debate about it, do you have a view on 3D printing? And if yes what is that?

Answer - Ashley Blake, Head of Retail Portfolio Management

Well this isn't a Land Securities view but I think for some retailers it can be useful, in terms of instantly gratifying people, I mean not so much 3D printing but taking books, you could see people walking into a bookshop and having a book printed, that technology already exists to have any book they want made as they're waiting effectively. And of course it will allow for more bespoking and customisation of products for customers so actually it could be very exciting.

Question 2

Hemant Kotak, Green Street Advisors

Just a few questions on the two big developments that you've outlined; so Buchanan and Oxford. Very exciting developments, can you please just help us understand the numbers a little bit more? You've got the total development cost forecast there, that includes I think the value of the existing centres in each case?

Answer – Richard Akers, Executive Director

Sorry before I hand over to Lester to answer the questions, please just understand that these are at a relatively early stage so the numbers we've provided are guidance to give you an idea of scale, but Lester do you want to answer that particular question?

Answer - Lester Hampson, Head of Retail Development

I think that's exactly it, when we were pulling the presentation together we wanted to give you an idea of the scale of the projects and that's why there's quite a range of between £50m and £75m on the costs.

Answer – Richard Akers, Executive Director

And Hemant your question specifically I think was are the TDC figures including the existing assets?

Answer - Lester Hampson, Head of Retail Development

On Oxford they will be because we bring in the whole of the asset, on Buchanan it's only the intervention units that we bring in and the value of the existing car park.

Further question

Is there any guidance on, and I take on board your comment what you just made, but is there any guidance on potentially how much incremental rent you can get for this TDC? Are you able to say that at this stage? I realise it's early but can you give some guidance? Will it be like Trinity-like returns?

Answer - Lester Hampson, Head of Retail Development

At Trinity we had a development yield in the high sevens, we'd be targeting 7%+ for both of these developments.

Question 3

Remco Simon, Kempen

What would you need to see change in the retail environment or in retailer sentiment before you are willing to kick off these schemes? Would you be willing to start them today or do you need to see further strengthening of the market before you are willing to commit to something like this?

Answer – Richard Akers, Executive Director

That's a question that perhaps I'll take. These developments we think will work in the current environment. Now obviously whether we go ahead with these developments is subject to a lot of further approvals from our own investment committee and board and our joint venture partners and they will have to hit our hurdle rates and be viable when we're at that point when we're ready to kick them off. We will be looking for a significant amount of pre-let to offset some of the risk. But in terms of the macro environment I don't think we need to see improvement in order to do these schemes because they're predicated on actually satisfying retailer requirements which we see today in the market, not ones which we're predicting will be there in the future.

Further question

This maybe as a follow up. Would you be willing to take more risks today than, for example, when you started Trinity? Are you feeling more comfortable about taking more risks, leasing-wise and with the speculative part of the scheme, now given a bit of improvement in the market?

Answer – Richard Akers, Executive Director

I think we're comfortable with risk. We have to look at the wide range of risks it's not just leasing and market risk it's also construction risk. We have to be happy with that range of risks. Would we be prepared to take more? I think we would still be quite cautious on development. I think in the past we've seen developers, particularly in the retail sector, get a bit over excited and perhaps make some mistakes so I think we will continue to be cautious. And I don't think we need to take risks because pre-letting a significant amount of space is good practice as well as a risk-mitigating exercise.

Further question

In terms of your overall business and I know that maybe it's a question for Martin, or Rob if he were here, how are you competing with these schemes internally in terms of the returns or the risks or however you want to call it with your London pipeline?

Answer – Richard Akers, Executive Director

We're not targeting any particular sector allocation so every project has to stand up on its own, in its own right. If it makes the returns that we're targeting then we'll do it, if it doesn't then we won't. And at the moment we're seeing a lot of London developments which are hitting our target returns and we're progressing with those and I think when these developments come forward these will also hit our target returns and we'll be able to progress with them. But we're not directly comparing one with another, we're taking the opportunities that are best at the time they come forward.

Question 4

Hemant Kotak, Green Street Advisors

I thought I'd come back for one more given that Remco keeps coming back. Just with regards to your out of town strategy British Land yesterday blew us away with their strategy, what's your strategy in that respect please?

Answer – Richard Akers, Executive Director

We are going to have another Q&A session at the end and we're going to hear Dominic talk about our out of town portfolio in a minute so can we park that question and tackle it at the end, and perhaps now it would be a good time to say let's have a comfort break.

Speaker: Dominic O'Rourke – Head of Retail Warehousing

Slide 61 – Title slide

Good morning ladies and gentlemen I'd like to highlight how we're responding to the market context in the out of town sector and I'll use some specific examples to demonstrate our strategy for dealing with both the opportunities and the challenges coming forward.

Slide 62 – Points of focus

Everything we do is underpinned by deep and knowledgeable retailer relationships. This is particularly important in the out of town sector where retailer requirements can shift on a regular basis. We move assets up the retail hierarchy through active asset management, so when an asset has fulfilled its potential we sell. Over the past two years we've worked hard to establish a top quality out of town development pipeline. This is now starting to bear fruit as will become apparent.

The next slide illustrates our income profile by occupier and we feel we have a strong occupier base.

Slide 63 – Strong occupier base

Taking advantage of our 79% open A1 consents we have a 32% exposure to food, fashion and department stores. These are sectors where we think there is potential for growth and which also have defensive qualities. Four of our top ten rent payers are Sainsbury's, Tesco, Morrison and Next.

Richard has talked about the economic context within which we're operating and the structural changes we're facing. As you know consumer spending remains challenged with no real earnings growth at present but retailers are coping with the new normal and retail warehousing continues to offer occupiers good value for money. Occupier levels are good within the portfolio and we're re-letting our void units. We've re-let seven of our eight Comet units, according to Savills 80% of Comet units still remain vacant. In common with all retail the sector is oversupplied with floor space, and for the first time the sector faces a series of expiries. For example by 2018, 65% of Boots leases out of town will be at expiry. Whilst retailer failure is still a threat, the new challenge and opportunity is expiries.

Slide 64 – Low investment volumes

I'd like to now turn to investment volumes. They remain at low levels and the yield gap between traditional prime and secondary categories is widening. Investors remain focused upon the security of income so secure income remains preferred over the perceived opportunity of asset management.

The planning system has been the bedrock of the out of town market and has limited supply. This remains a high barrier to entry for any developer but with the advent of national planning policy framework that barrier has got slightly easier to jump. However that developer or smaller property company is no longer out there given the lack of development finance, which means that all in all the retail warehouse market has become increasingly dominated by similar types of owners, funds and REITs, who aren’t selling.

Our response to this continues to be the rigorous recycling of assets and an active development programme. Both of these, indeed everything we do, is underpinned by deep and knowledgeable retailer relationships and it’s those I'd like to talk about now.

Slide 65 – Retailer relationships

Ravenside Retail Park in Chesterfield is home to Debenhams first full line department store on a retail park. What's exciting about this one is we exchanged an agreement for lease in just three weeks. The 60,000 square feet store opened October 2012 and is trading significantly ahead of budget. The chief executive of Debenhams, Michael Sharp, said, "Chesterfield has been one of Debenhams' most successful launches ever." What this demonstrates is that whilst traditional out of town retailers have fewer requirements we operate in a dynamic sector with new concepts emerging.

Slide 66 – Retailer relationships

At Bexhill we recently handed over a 60,000 square feet general merchandise store to Marks and Spencer's which will open for trade November 2013. Despite M&S's clearly stated views about no new floor space we are still doing some key deals with them. What's interesting here, with the introduction of M&S, is that Next have closed their neighbouring Hastings store to consolidate at Bexhill with the subsequent positive impact on trade. Polarisation is not just about shopping centres.

Slide 67 – Active asset management

Let me now turn to examples of our active asset management. Those of you who attended the investor presentation two years ago may remember this glorious slide. We took a surrender of the former B&Q at Chadwell Heath and handed over a 50,000 square feet store to Asda on the 2nd September.

Slide 68 – Active asset management

They will open for trade late October. With low investment volumes and a strong market appetite for long dated, secure income, we've successfully forward sold the investment to a pension fund at a yield in the mid 4%.

Slide 69 – Active asset management

At Greyhound Retail Park in Chester we've secured a food consent to turn an underperforming cinema and former bowling unit into a 73,000 square feet Asda superstore. We're currently on site and will be handing over the store in August 2014. Needless to say we don't have underperforming cinemas and vacant bowling alleys in the X-Leisure portfolio!

Slide 70 – Active asset management

Now this builds upon the introduction of the JLP Home Unit which opened in September 2011. This 60,000 square feet store has consolidated Greyhound as the furniture and home destination in Chester. This strengthening of the occupier line up of Greyhound has enabled us to complete a ten year lease extension with DFS on the park. DFS is the market leader in upholstered furniture and remains a strong customer draw out of town.

Slide 71 – NPPF – strong development pipeline

National and planning policy framework and localism have certainly changed the dynamic in the town planning system. Planning is by no means easy, but Mr Pickles' reforms mean that if you have a compelling proposition for a local authority you can be successful.

The Land Securities brand and balance sheet have enabled us to build a development pipeline from three sources: new sites; the existing portfolio and the Harvest joint venture with Sainsbury.

Slide 72 – Out of town activity

Now in terms of our out of town activity let me remind you of what Richard said at our Prelims in May. We're currently looking at a total out of town activity of potentially 3.7 million square feet. 2.4 million square feet of this activity is on new third party sites; that is opportunities that are not from within the portfolio or the Harvest joint venture. We currently see better value in this area than attempting to buy assets in a tight marketplace.

It does seem counterintuitive to be developing more space in an oversupplied market but retailers are actively recycling their portfolios. We are providing them with the right space at the right price.

Value has crystallised with lettings and whilst we're promoting good quality product it still does take time, so we generally approach these sites on a conditional basis and we run anchor leasing in parallel.

I'd now like to give you an overview of some of these third party development opportunities. They are all off-market opportunities and some of them you won't have seen before.

Slide 73 – Project Berlin – strong development pipeline

In 2011 Lester talked to you about Project Berlin. Well Project Berlin is Maidstone.

Slide 74 – Maidstone – strong development pipeline

We secured an interest in this great site at Junction 7 of the M20. It benefits from an existing retail consent and over the past couple of years we've secured vacant possession agreements with the existing occupiers, and we've built our relationship with the local authority which has seen the site allocated to the emerging local plan for retail development. We've now exchanged anchor lettings with Waitrose and we'll shortly exchange with Debenhams.

Next month we'll submit planning for a 220,000 square feet redevelopment of the site which, if successful, will become a major fashion and food destination. We're targeting Easter trading 2016. It's a very exciting site.

On the out of town activity slide I showed a further eight third party sites that we have secured and we're bringing forward.

Slide 75 – Worcester – strong development pipeline

We have a 20 acre site located near Junction 7 of the M5. The site benefits from an existing employment consent. We're progressing planning and pre-lets for a 220,000 square feet scheme. We've agreed heads of terms with a food store for 100,000 square feet and we've instructed solicitors with an anchor fashion and home retailer for 30,000 square feet. We're targeting scheme trading summer 2016.

Slide 76 – Project Prague – strong development pipeline

Working in partnership with a major anchor retailer we have recently exchanged a development agreement with a local authority landowner on a strategic investment site.
As you can see we're continuing our theme of European short break destinations! The 50 acre site is located at a major motorway intersection in the northwest. Including our retail partner, the potential scheme is circa 600,000 square feet and it will provide a mix of food, fashion and homewares. Depending upon the exact occupier line up the planning prognosis is good. It's relatively early days on this one and it's commercially sensitive but this is the kind of

large scale development opportunity that we have the skill set and funds to progress, which few others do. All being well you can be updated in November on progress.

Slide 77 – Kingswood, Hull – strong development pipeline

This ten acre site sits adjacent to the existing Kingswood Retail Park. Whilst Hull does have a reasonable supply of existing stock, this is a good example of key retailers unable to gain representation in the town or being in the wrong space. By providing the right space at the right price we're progressing a 110,000 square feet open A1 shopping park. We're currently in solicitors' hands with a 30,000 square feet pre-let to a fashion and home retailer who are relocating from an existing poorly configured unit on the adjacent park. We're aiming to submit a planning application by spring '14 with scheme opening targeted Easter '16.

Slide 78 – Crawley – imminent completion

Crawley is 112,000 square feet and comprises a 75,000 square feet Morrison food store, a 37,000 square feet Travel Lodge Hotel and three catering units. We will PC the building and handover November this year.

As you can see the direction of travel for our development pipeline has been towards larger projects. Hopefully this has given you a flavour for some of the great development opportunities that we're progressing. Within the portfolio we've also produced some strong development wins.

Slide 79 – Taplow – development opportunity from existing portfolio

We've successfully navigated Taplow through a challenging planning journey and we've turned an obsolete 30 year old scheme into a 125,000 square feet open A1 destination. The project is 78% pre-let and we'll hand over units for summer 2014 trade. One of our pre-lets includes Nike for their new out of town format.

Slide 80 – Selly Oak – Harvest Partnership

Let me turn to our Harvest Partnership with Sainsbury. We've achieved some profitable wins such as the link and extension, and the redevelopment of Wandsworth. We're progressing several development opportunities, one of which is Selly Oak. At Selly Oak we've received officer's recommendation for approval for 290,000 square feet of open A1 floor space. Following a recent deferral, we go to Planning Committee early October. We have pre-let

130,000 square foot to Sainsbury's, and we're selling part of the site to Birmingham City Council for a new life sciences' campus. Following remediation work, we will be onsite early 2016.

Slide 81 – Points of focus

As I said at the beginning, everything we do is underpinned by deep and knowledgeable retailer relationships. In an omni-channel world the out of town sector continues to provide retailers with a cost-effective and flexible format. We stick close to our retailers; when they have any new format or requirement we make sure we're in a place to deliver for them. We delivered the first John Lewis Home store at Poole, we delivered the first full Debenhams department store on a retail park at Chesterfield, and we delivered the first Primark store out of town at Westwood Cross – just three recent examples.

We spotted sooner than most the changing nature of the planning environment, which is crystallised as national planning policy framework. With early mover advantage, our brand and balance sheet strength, we've worked hard to establish a top quality out of town development pipeline, and this is now quite clearly starting to bear fruit. On that positive note, let me hand you over to Polly.

Speaker: Polly Troughton - Property Director

Slide 82 – Title slide

Good morning. I'm going to open my presentation with a conclusion of a report that X-Leisure published in 2010 called 'Making the Case for Leisure'.

Slide 83 – The case for leisure

The report concluded 'A shared leisure experience has become an essential part of the DNA of 21st Century everyday family life.' The Land Securities' leisure portfolio is all about family leisure, and as this is the first time we've looked at leisure as a separate arm of Land Securities, I thought we should look at what we mean by leisure in the context of leisure parks, who the operators are and their various sub-sectors and how these sub-sectors are faring, and then look at the specifics of the Land Securities' leisure portfolio as it stands today.

Slide 84 – What is leisure in the context of a leisure park?

So what is a leisure park? At the bare minimum a leisure park is a cinema with some restaurants, and it may or may not include any one or all of the list of leisure operations on this slide. A leisure park can be located in town, out of town, or on the edge of town. X-Leisure published 'The Case for Leisure' because it had a portfolio of strong performing leisure parks, yet the valuers and the general property investment community were dismissing this sector as one that was risky and likely to underperform. Their misconceptions were based on a number of factors.

Slide 85 – Why – strong operating performance; strong property performance

There was a belief that there was a thin tenant market, and those operators within the leisure market had poor covenants. Buildings were expensive to build and were built to the bespoke requirements of individual occupiers. This could lead to structural obsolescence in the long-term. And in tougher economic or recessionary times, the consumer reins-in their expenditures on life's luxuries, and leisure was considered to be one of life's luxuries; we would stop going out, we'd stop enjoying our family leisure time. Leisure was perceived to be a discretionary spend.

The reality of this market is far from this. The consumer is continuing to spend on family leisure. The result is, in the majority of cases, year-on-year revenue increases for the leisure market operators. Buildings are flexible: yesterday's nightclubs are today's kids' play; under-utilised bowl space is satisfying expanding restaurant demand; and you saw from Dom's presentation that where there's retail demand, leisure can be turned into retail. Plus the strength of the operating market and the nature of the tenants' businesses, more expensive fit outs requiring longer periods to amortise, mean that we've got longer leases. Operators frequently like fixed or minimum uplifts instead of open market rent reviews. This means a typical leisure park or leisure park portfolio, will have low voids, long leases and reversionary income underpinned by fixed or minimum uplifts.

Slide 86 – Who – strength and depth

So let's look at the operating market a little bit more closely. You will see we have strength and depth; these are brands and fascias active in the tenant operating market. Most of these brands are very recognisable and their resilience and enduring appeal mean they have been household names for many years; they are mature and successful operators. The percentages on the right-hand side are the value of rental income each sub-sector makes up of X-Leisure's net income, to give you an idea of the relative importance of each particular sub-sector. You will see that the cinema sector, with 27% of net income, is our largest sub-sector, so let's look at that a little bit more closely.

Slide 87 – Our operators – strong and expanding

The cinema sector is dominated by the three large multiplexes: Odeon UCI; Cineworld; and Vue. Between them these multiplex operators account for 70% of gross box office revenue in the UK, and 60% of screens. The rest of the market is represented by smaller multiplexes and the independent boutique operators such as Everyman and Picturehouse. Picturehouse was acquired earlier this year by Cineworld so perhaps is not so independent these days. Cineworld is the only listed operator and the only one to report trading figures on a frequent basis. It is also the largest operator in terms of admissions and revenue. But in terms of screens, Odeon takes poll position.

The big news in this sector so far this year was the acquisition of the Vue cinema circuit by the Canadian institution OMERS, and they have a stated ambition to further grow Vue. This could be by the acquisition of a European chain, or more close to home, the Odeon cinema circuit. All of the cinema operators are taking new sites and signing new leases with landlords and developers.

Slide 88 – Increasing revenues and spend per head

From a leisure park ownership perspective, the success of a cinema is hugely important. These are our anchor tenants, they're our John Lewis Partnership, they drive the footfall and to a great extent the success of a cinema is a success of a leisure park. And this graph neatly shows the increasing box office revenues and the increasing spend per head since 2000 within the sector.

This strong performance is forecast to grow into the future. Mintel currently report that 30% of the UK population go to the cinema on a monthly or more frequent basis. The strong performance has been driven by a number of factors: the relative affordability of the cinema leisure experience offered to the consumer; the advance of 3D technology that adds to this experience and touches our escapism buttons; and digital projection technology which gives the operator so much more flexibility in terms of screening, allowing such opportunities as live events and concerts to be added to their programming. It is hardly surprising given the strength of the cinema market that we have seen a very healthy and strong trading restaurant and eating-out market within the leisure parks, and this has grown across the sector by 9% over the period 2007-2012 according to Mintel.

And my next slide says it all really.

Slide 89 – Our operators – strong and expanding

We're a nation of eating out and we're doing so on an increasing basis, from grab and go lunches to family occasions and celebrations. The eating out industry is hugely important and it is now valued at £32.1bn, and looking forward this is forecast to increase by 2018 to as much as £39.2bn.

The specific sub-sectors that fall within leisure parks are fast food, casual dining and quick service restaurants. These are the bedrock of leisure parks and the majority of these are reporting year-on-year profits and sales increases. They are expanding their estates and have double-digit property site requirements for this year and next year. Couple this with the new entrants onto the leisure parks such as Wagamama's, Giraffe, Gourmet Burger Kitchen and the very new Five Guys from the States, from a property ownership perspective we have demand outstripping supply, and we have rental growth prevalent across the restaurants.

The strength of the eating out sector has been recognised this year within the M&A market. We've seen more corporate activity and acquisitions this year than any year since 2007, with amongst others changing hands; Pizza Hut, Giraffe, and more recently Cote.
Turning back specifically to the world of leisure parks, the restaurant operators would like as many anchors as possible on the park to drive as much footfall to their destinations. Frequently a second anchor is delivered in the form of a ten pin bowling complex.

Slide 90 – Our operators – strong and expanding

The ten pin bowling market is dominated by the three operators: Bowlplex; Tenpin; and The Original Bowl Company with their two faces, Hollywood Bowl and AMF.

The bowling market did have a torrid time: changing in licensing laws, the smoking ban, and too much bank debt at the wrong time, but today all the operators are stable and profitable and this year reported year-on-year revenue increases. The Original Bowl Company and Bowlplex are both out there expanding their estates with site requirements. We've recently completed on two leases with the Hollywood Bowl brand at Lockmeadow Maidstone and Xscape Milton Keynes, adding to the leisure offer at both of these destinations.

Slide 91 – Our operators – strong and expanding

The last sub-sector that we're going to look at in any detail is the health and fitness sector. The latest Leisure Database Company report states that the UK health and fitness industry has grown in the 12 months to March 2013 by 1.5% to £3.92bn. Actual membership has grown by 4.5%. The growth is mainly driven by the rapidly growing budget, low-cost market, the sector filled with easyGym, Pure Gym, Fit4less, and many other small multiples. The consequence is a squeeze on the mid-market, we've got a decreasing average membership fee. This leaves a polarisation between the top end, the likes of David Lloyd Leisure, and the bottom end, squeezing out the mid-market. This squeeze was witnessed last year when Fitness First entered a company voluntary arrangement. The top end is satisfying customers with the added frills of tennis courts, swimming pools and classes, and the bottom end is satisfying the so-called dry member, and we are actively moving our portfolio away from the mid-market.

Slide 92 – Land Securities wholly owned leisure

Prior to this year's acquisition of X-Leisure, Land Securities were already building up their leisure portfolio not just within shopping centres. They had acquired three great destinations in the form of The Printworks Manchester, Cornerhouse Nottingham, and Kingsmead Bath. All of these are anchored by the dominant cinema within their catchment, all with long leases and low voids.

Stock within this sector is difficult to secure, actual product is limited and transactional volume of prime product low. Land Securities have also therefore been building up a development pipeline. They were selected by Ealing Council as the preferred bidder on a residential and leisure scheme, and earlier this week you may have seen we submitted the planning application for this scheme. We are working with the local authority in Canterbury on a mixed supermarket and leisure scheme there, and we are in early discussions with developers on funding and joint venture propositions.

Slide 93 – The X-Leisure portfolio – top performing portfolio

The X-Leisure acquisition started early in 2012 with the purchase of 12% of the units of the X-Leisure Fund on the secondary market. As you know, further acquisition was made in early 2013, and as you heard from Richard and will have seen in the press, we now own 95% of the X-Leisure Fund and 100% of the management company.

Slide 94 – The largest UK leisure landlord

The integration of X-Leisure into the leisure business of Land Securities is well progressed. Today, Land Securities is the largest leisure landlord in the UK with 19 destinations geographically located across the country, from Queens Links Aberdeen in the north, to Tower Park Poole in the south. All of these anchored by dominant cinemas within their catchments, and last year they had a combined impressive 60 million visitors to them.

Slide 95 – Xscape Milton Keynes

The X-Leisure story began in 2000 with the development of Xscape Milton Keynes. This is a flagship leisure destination and is probably the most successful leisure park destination in the UK today. For those that don't know Xscape Milton Keynes, its success is centred around the range of anchor activities on offer; specifically, the very unique anchor of an indoor real snow slope, but it also has a freefall flight simulator and indoor climbing walls, as well as the more standard offers of cinema, bowl and health and fitness.

We have recently completed the redevelopment of 65,000 square feet on the ground and first floor of Xscape. In here we've added to the offer the first and only large casino in Milton Keynes, let to Aspers, a new state of the art ten pin bowling facility, and two new restaurants. This will have a twofold consequence: increased footfall and dwell time through the new and exciting offers; but also increased future rental income, because the bowl and the casino lease are underpinned by fixed uplifts at rent reviews through the term, and the restaurants have prevailing rental growth.

Slide 96 – Snozone

For those of you that don't know what an indoor snow slope might look like, here it is. We have a second Xscape destination in Yorkshire, on junction 32 of the M62. It's very similar to Xscape Milton Keynes, but it also includes an indoor surf experience,

Slide 97 – Flowhouse

and for those of you who are interested, there we have it.

Slide 98 – Brighton Marina

Down in the south coast we own Brighton Marina. Here we have a very strong leisure offer, but as the next slide shows, it is also a very large site.

Slide 99 – Brighton Marina

We're currently working on plans to exploit the strong leisure offer by consolidation and expansion, but also the inherent residential site value offered by this location. From a planning perspective, the site is allocated as an area that could deliver a minimum of 1,000 residential units within the City's Draft Plan to meet their future housing requirements, and within the Local Plan it is a district centre.

Slide 100 – Great North Leisure Park

Many leisure parks within the X-Leisure portfolio are what are called more standard leisure parks; that is they're a series of leisure boxes around a surface car park. Great North Leisure Park in North London epitomises a standard leisure park.

Slide 101 – Great North Leisure Park

And here we have just taken back 3,000 square feet from the Bowl highlighted in yellow on this slide and let to Wagamama. It was Wagamama's first restaurant on a leisure park, and they pay £37.50 per square foot for this unit. This increased the rental value of the park by 25%, the prevailing rental value prior to this letting was £30. And to show you that it isn't one swallow making a summer, we're now busy trying to secure vacant possession of one of the restaurants in the northern block, highlighted blue, to satisfy the restaurant demand for this park, and we're talking to restaurant operators at £40 a square foot.

This just gives you an idea of the strength of this market and the competition between operators to secure the best locations. The average restaurant rent across the X-Leisure portfolio is £23.80, and is proving to be very affordable with restaurant operators keen to secure representation and are continuing to drive our rental values upwards.

Across the estate the active asset management is exploiting this market. The next slide highlights asset management activity that is ongoing, not just within the restaurant market.

Slide 102 – Asset management activity – adding rental income and rental value

We have planning consent at Eureka Park Ashford for a cinema extension, we're adding a budget food superstore at Cardigan Fields, and a drive-thru restaurant. And at West India Quay, an estate that adjoins Canary Wharf, we're reconfiguring space to add value. In all cases the team focuses on adding income and adding rental value.

Slide 103 – The case for leisure

Right, my last slide, back to the beginning, and to sum up the whistle stop tour of the leisure park market I think I can say that leisure spend has shown itself to not be discretionary, that the leisure operating market is strong and the tenants are expanding. Land Securities are now the UK's largest leisure landlord with a portfolio of prime dominant assets, and they have the team in place to exploit the strengths of this market, drive rental income, rental value and capital values.

Thank you. I'm now going to hand over to Jack who's going to talk to you more specifically about Gunwharf Quays.

Speaker: Jack Busby – Senior Portfolio Manager

Slide 104 – Title slide

Thank you, Polly. Good morning everyone. We have heard lots today from the team about the portfolio, and particularly the fusion of retail and leisure. I'd like to share with you now how Gunwharf Quays encapsulates so many of those themes that have been discussed so far this morning.

Slide 105 – Gunwharf Quays - introduction

Firstly, some brief information about Gunwharf. We're a retail outlet scheme with just over 550,000 square feet of lettable floor space, 91 retail units, 32 restaurants and bars, a bowling alley, nightclub, casino, hotel, and of course, a cinema.

Slide 106 – Gunwharf Quays – the estate

It's a large estate – let me just show you. Clearly you see the red line around us here. We're bound to the north by the railway line into Portsmouth Harbour station, residential to the south, and of course the sea to the west. People come to Gunwharf to shop, to eat, to watch a film, and for many reasons. And as a result Gunwharf truly is a day/night experience.

Slide 107 – Day/night experience

People arrive to hit the shops in the morning and many are still here late at night enjoying a meal, a drink, a film, whatever. And this day/night experience, as well as being an outlet scheme, is reflected in the following slide.

Slide 108 – Longer dwell times; higher average spend

Both these top two points illustrate that people come to Gunwharf and stay for some time and crucially they like to spend their money when they're here as evidenced by the average spend. We have nearly 8m visitors a year and 25,000 cars per week entering our car park below us here, and throughout the summer months that can reach up to 30,000 cars. That's a lot of cars. And obviously being an outlet scheme we attract shoppers and tourists from a much wider catchment than a normal shopping centre as you can see in this slide here.

Slide 109 – An extended catchment

This map illustrates the results of our most recent shopper survey and it tells us two important things. Firstly, each purple dot represents a survey respondent and you can see how far away some of these respondents travelled when surveyed. It covers a large swathe of southern England including southwest London. You would expect to see this from an outlet scheme and it helps to explain that extended dwell time, healthy average spend and given a large wealthy catchment.

The second point to consider is the obvious increase frequency of those dots the closer you get to Portsmouth and the darker background colours. The red areas represent where Gunwharf is the primary shopping destination in that area, orange where it's the second destination and so on and so forth. So whilst Gunwharf is an outlet scheme, many people still rely upon it and consider it to be their local shopping centre. With customers travelling these distances to come to Gunwharf we need to be accessible and accommodating. As we're up to 30,000 cars a week, the importance of these features becomes even more apparent.

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Slide 110 – Ease of access

So below us we have a car park with just over 1,500 spaces. We lie adjacent to Portsmouth Harbour Station which has direct trains from London Waterloo. And the Wightlink passenger and car ferry terminals sit close by too; and not forgetting our all-important 26 berth marina.

People often say that Gunwharf is a great place to visit and the quayside location certainly helps to give it that attractive feel. From a landlord's perspective though there are other attractive features.

Slide 111 – Outlet model – attractive features

Each tenant here pays a base rent and we're now achieving between £85 and £115 per square foot on our standard unit shops. In addition we receive turnover rent and that varies between 10% and 14% of net sales. And we receive the higher of the base or turnover rent, and in almost every case it's the turnover rent that we receive.

We heard earlier from Ashley and Polly about the importance of Leisure. And Gunwharf, with its 31 restaurants and bars and other leisure facilities, certainly demonstrates that in a ratio between the two on area, although this is somewhat skewed by the cinema and the hotel. But notwithstanding that, we recognise the importance of driving rental income through increased retail sales; and the ratio between the two on this mark is significantly wider.

Slide 112 – Growth of outlet retailing

The attractiveness of outlet retailing though is not just being enjoyed at Gunwharf. In the last three years there has been significant growth both in Europe and in the UK in outlet retailing. That performance can be seen here with the European non-food retail industry average only growing by 0.3%. McArthur Glen, Neinver and Value Retail are all reporting strong double digit income growth. Crucially though we're seeing that retailers themselves increasingly recognise the importance of outlet as a sales channel. No longer is it regarded as somewhere just to simply shift surplus stock.

Slide 113 – Sales growth at Gunwharf Quays – a rising average spend

Growth at Gunwharf, however, has been particularly strong as these numbers show here. You can see that in the last three years we've seen significant income growth. And whilst car park income growth and visitor numbers have grown at a slower rate this certainly helps to reinforce the trend of a high average spend. This next slide illustrates the split between base and turnover rents.

Slide 114 – Rental income growth

So Gunwharf is the same size and same shape as it was when it was built over ten years ago yet it's yielding more and more income. What's driving this increased spend? The central answer to this question is brands and the outlet shoppers love of them.

Slide 115 – Drivers of growth at Gunwharf

Look at the change in the name of the brands that were here when you last visited on the Investor Day in 2009. Today we can see internationally recognised brands that trade strongly here, and that's helping to reinforce Gunwharf as an outlet destination.

It's because of the importance of these brands that there's a need for us to be responsive and flexible and the outlet model certainly helps to provide that flexibility.

Slide 116 – Outlet model providing flexibility

If people are going to travel from all of those locations we saw earlier on the map with the purple dots, Gunwharf needs to keep up to speed and give people what they want to experience here. As a result asset management can be quite intense as occupiers come and go and this certainly results in shorter leases; our average unexpired weighted lease term is less than five years.

We're certainly helped by the absence of the L&T (Landlord and Tenant) Act which means that occupiers can be changed relatively easily and in some cases before lease expiry if they fail to achieve turnover thresholds. Additionally we are able to annually ratchet-up base rents to capture the previous growth of the previous year. And finally because of this frequent asset management and the high intensity of it, typically we offer short rent frees and minimal incentives to new tenants.

Slide 117 – Significant benefit of churning the retail offer: sales impact

The movement of these tenants is often referred to as churn and this churn can have significant impacts on retail sales as you can see here. These are quite impressive numbers and really do speak for themselves. The sales growth from the same shop unit when a superior brand is introduced is remarkable. Churning the retailers not only allows for greater sales income, it also allows for an opportunity to increase base rents too.

Slide 118 – Significant benefit of churning the retail offer: base rents

In each instance here the outgoing retailer was replaced by a great brand in the same unit at a higher base rent. I mentioned before about the need to stay fresh and exciting and sometimes it isn't always necessary to bring in new tenants to achieve that.

Slide 119 – Shop refits – strong sales growth

Shop refits are a great way of boosting sales as you can see here. These help to bring back existing customers again and again. And they also have an impact on restaurants as well; you can see from the growth here in the Nando's numbers, it's all looking very good for them.

So let me show you where we take Gunwharf Quays next.

Slide 120 – Continuing the growth story

We're following a strategic plan now to capture additional sales both within and beyond out catchment area; we want more purple dots coming to Gunwharf Quays. We want to grow their average spend and we certainly believe there's headroom to do that. We're significantly increasing our marketing and that will manifest itself in a TV advertising campaign, digital presence and increased print media. We've talked about the evolution of the brands and that will continue strongly.

The final point is also an interesting one about the brand of Gunwharf and how do we see ourselves. What does it represent? And what we're looking to do now is to focus on quality and a premium or aspirational outlook. And if we're honest we don't currently do that.

Slide 121 – Current centre branding

The centre currently focuses on its maritime location, there's perhaps an over-emphasis on fun and the centre itself as a place to visit.

Slide 122 – Proposed centre branding

And what we're seeking to do is to create a much more aspirational and affordable luxury feel and some of these images certainly tap into that. You can see the difference and the real clear step change towards quality and a premium feel.

Slide 123 – The attraction of Gunwharf Quays

So in bringing together some of the facets of Gunwharf you can see how we're seeing strong income growth, our shoppers are spending more, these shoppers are coming from a wealthy catchment area and travelling longer than normal distances to come here. We have the ability to change our tenant line up relatively easily. And I've shown you the clear benefit of new brands and new shop fits in driving sales.

So we've seen how Gunwharf Quays brings together many of the themes that have been discussed by the team this morning. Thank you.

Question 5

Kristian Bandy, UBS

A question for Polly: when you speak to the leisure operators, your Pret A Manger or your gym operators, how many stores or outlets do they actually need before they consider themselves to be mature?

Answer – Polly Troughton, Property Director

I don't think there's a question of maturity. Pret A Manger isn't actually in our specific leisure market, so let me take the Restaurant Group. They want to be on every single leisure park in the country that has a cinema that's getting enough foot fall, so there's no absolute fixed number. I think probably Frankie & Benny's is the largest single one of their brands. And they've got a requirement for another 30 this year and next year. So we're not looking at a maturity position there. The budget gyms likewise they're on the rampage to just get representation in every single neighbourhood and office neighbourhood across the UK.

Further question

So they could potentially have hundreds and hundreds of sites?

Answer – Polly Troughton, Property Director
Yes.

Further question
Okay, right. Also, increasing the leisure component amongst shopping centres, and retail parks is obviously something that many of your peers are doing as well, and I just wanted to understand given that this essentially increases supply, how much rental tension are you actually able to see amongst the different operators, how much rental growth are you actually seeing and competition for units?

Answer – Polly Troughton, Property Director
I gave you an example of Great North Leisure Park which is actually in Finchley. Ashley showed you the O2 Centre on Finchley Road which is actually West Hampstead, but on a map you'd look at them and say they were both in north London. One may be a shopping centre, one may be a leisure park, you saw that we've driven in the last 12 months rents on Great North Finchley from £30 to £40. And Ashley talked about the rental growth that's going on within the O2 Centre at the moment so I think we're seeing a very complementary market out there.

Question 6
Charlie Bull, Bell Rock Capital Management
What percentage of the out of town leisure market do you now control through X-Leisure?

Answer – Polly Troughton, Property Director
We don't just have an out of town leisure market. I don't think we'd call ourselves an out of town leisure park operator. Lots of these are on edge of towns or in town even.

Further question
Sorry standalone park.

Answer – Polly Troughton, Property Director
Okay standalone parks. I don't know; there are lots of small ones which will never be of interest to us with a cinema and a few restaurants. Our closest peer, Legal & General, have a portfolio of which we're almost double the size.

Further question

And is the plan to expand it through development or further acquisitions?

Answer – Polly Troughton, Property Director

Acquisitions are difficult. There’s limited prime product out there. So it is going to be expanding by securing the right product but also the development pipeline that I touched upon with the likes of Ealing and Canterbury.

Further question

And what stage is the Legal & General fund at? Has that been extended or is it coming to the end of its life?

Answer – Polly Troughton, Property Director

No that’s been extended.

Question 7

Mike Bessell, Bank of America Merrill Lynch

A question for Richard: going back to the development pipeline and the discussion we had the first part of this morning, can you give us some more colour on how risk adverse the retailers are in terms of appetite these days for significant pre-lets well ahead of construction? Obviously they’re churning their portfolio and seeking more prime pitch but in light of the structural challenges facing retail how cautious are they about entering into long leases well ahead of time and what changes have you seen in that over the last two of three years?

Answer - Richard Akers, Executive Director

I think the background is that the retailers that we’re targeting for early pre-lets in our developments are generally retailers that are finding it difficult to find the right space. So they’re used to committing way in advance. An extreme example would be John Lewis, for example, they have no problem in committing in advance and they’ve signed up with us in Oxford. And then you can move down the scale to the MSU operators, all of them are still prepared to commit in advance to the kind of location that we’re proposing developments in, so we don’t really have a problem with that.

I think I would say that retailers are becoming more cautious about the prospects for trade in the units that they're taking. Clearly they are changing their strategies with the structural change that we're all seeing and there is an element of caution. So our locations have to be absolutely brilliant for them. And I think what we've demonstrated is that we have a programme in city centres and out of town which is comprised of locations which the retailers really want.

Question 8

Remco Simon, Kempen

Polly you spoke about some of the misconceptions about leisure in terms of affordability, weak covenants etc., I was just wondering can you give some indication about occupancy cost ratios of the occupiers in the various categories. And also do you get turnover data which you can monitor?

Answer – Polly Troughton, Property Director

To answer the second part first: in very few locations do we get totally accurate turnover data. Where we've got a site that's got a general manager onsite we encourage them to go out and get turnover data so we have a good knowledge of how the operators are trading. Now every operator has a different turnover threshold. For example, a Bella Italia would actually be profitable at about £12,000 or £13,000 a week turnover. Now that wouldn't work for a Jamie's Italian; so for each individual restaurant operator you need to know what's making their business profitable before you make a big statement on whether or not the turnover is sufficient. But typically a leisure park restaurant operator is turning over £20,000 to £30,000 a week.

In terms of the costs; is that occupancy, service charge rates and rent we're talking?

Further question

Yes just basically comparable to the occupancy cost ratios that you would quote for your shopping centre portfolio.

Answer – Polly Troughton, Property Director

It's a lot cheaper basically. What the leisure parks are offering is a bit like what retail parks have offered historically: cheaper accommodation.

Further question

Do you have some kind of indication of a number on that?

Answer – Polly Troughton, Property Director

No I don't. I think, Ashley, a turnover rent for an affordable shopping centre is £35,000 to £45,000 for a restaurant?

Answer - Ashley Blake, Head of Retail Portfolio Management

Yes. And part of the reason is that in the shopping centres we've been collecting the sales data for a long time so we've got like-for-likes. But in retail parks and leisure parks we're only just starting to collect the data. Polly has the on the ground knowledge with the tenants, but we haven't got the occupancy cost/ratios that we have in the shopping centre portfolio but it's coming. It's an area that we're working on. Polly's right, it is often a lower percentage than we have (in the shopping centre portfolio). We're about 10% rent for sales in the shopping centres and about just under 18% total occupancy costs; and they are lower in the leisure field.

Question 9

Chris Fremantle, Morgan Stanley

Just looking at one of the first slides – again it's a leisure question – looking at one of the first slides on the way UK cinema has grown. It strikes me that this is a very counter-cyclical business, it seems to have grown fastest when the economy has been in trouble and it hasn't really grown when the economy was booming. Is there some other reason for that or am I misreading the chart?

Answer - Richard Akers, Executive Director

I think it's certainly true to say that cinema has been resilient because effectively it's a cheap night out and so it's something that people haven't been prepared to cut. And Polly's talked about is it discretionary or isn't it discretionary. Polly do you want to say anything further about whether this might be just the defensive trend or whether there might be other things happening in the cinema industry which might continue this trend?

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Answer – Polly Troughton, Property Director

I think the increase in consumer spend per head corresponded with the introduction of massive amounts of 3D technology, so we were spending more per head at that point of time. So if that 3D technology had been introduced in the boom time then you'd have seen the spend per head go up then, so I think that's the answer you're probably looking for.

Question 10

Andrew Parsons, Resolution Capital

Could you just talk to us about the management of X-Leisure and the leisure within shopping centres? Are you keeping them as separate businesses, is there going to be integration of the businesses going forward?

Answer - Richard Akers, Executive Director

The way we're going to manage our portfolio going forward is by property sub-sector; so we'll have a shopping centres team, a retail warehouse team and a leisure team. The leisure assets which we've built up, as Polly was saying, will be part of the leisure portfolio and it'll be managed as that. But every asset will have to be in one portfolio or another so there's absolute clarity on who's responsible for the performance of that asset. That's the way we manage the business.

Now that does mean that there will be some elements of leisure within the shopping centre portfolio, within the retail warehouse portfolio and of course there are elements of retail in our London portfolio, so as a business we've got used to slicing it in two directions. We have absolutely clarity of responsibility for performance and the management of those assets but we have a lot of synergies across the business which we work with to make sure that we're getting the most out of each sector whether it be leisure, retail or offices.

Question 11

Paul May, Thames River

Just a quick question on what seems to be the increasing costs of operating a retail portfolio. As you work with the retailers, you try to increase the space, increase the sense of presence how has that impacted your views on potential returns from retail portfolios going forward?

Answer - Richard Akers, Executive Director

It’s a fascinating question and we have been through a period where it has been much harder to upgrade centres as part of accretive asset management plans. So moving back a few years or pre-global financial crisis we would say the depreciation in a lot of shopping centre assets and certainly in retail warehouses was handled by upgrading during the course of accretive surrender and re-lets or reconfiguration of units. Over the last five years it’s been much harder to do that. Now we’re starting to see the ability to do that coming back again in some of our assets. And what we look at very carefully in our assets is what is underpinning the value and if the underpinning of the value is the lease structures, i.e., not the trade of the occupiers, then you’re going to see more depreciation. When you get a lease event then you’re going to have to invest more money in order to prop that value up. So we are orienting our portfolio towards assets where the value is underpinned by the inherent quality of the location and the trading performance of our occupiers and not just the structures of the leases.

- End -

Forward Looking Statements