Land Securities half-yearly results presentation

Tuesday 12 November 2013

Speaker: Robert Noel – Chief Executive

Slide 1 – Title slide

Good morning everyone. Welcome to Land Securities' half yearly results.

The company is in good health, performing well, and we are delivering to plan - so there should be no surprises today. And I make no apology for returning to themes we have aired before.

Land Securities is a total return business. We run it on property fundamentals - understanding occupiers' changing needs and delivering space that commands a premium. Those changing needs provide opportunity; changes in what occupiers are looking for also demand active property management and capital recycling. Not just passive rent collection.

Three years ago, we set out our strategy to be an early cycle developer. Ever since, we have focused on planning, constructing and leasing our developments. That focus is unrelenting and it is delivering results. We have made strong progress on lettings, where we are ahead of plan. And we are set to benefit from increased occupier activity because our schemes are well located, great quality, highly efficient and technically resilient.

In retail we have also been recycling our capital. We have quietly transformed our asset base. Trinity Leeds symbolises that change, and it is proving very popular with both shoppers and retailers.

We are working on plans for further developments at Glasgow, Oxford and, potentially, Guildford which match this blueprint. And, we are putting our skills to work on our out of town programme to drive additional returns.

Having also been alive to the shift in consumer trends towards experiences early, we increased our exposure to the leisure market including gaining control of X-leisure - without paying a premium by acting quickly and decisively.

And we remain focussed and disciplined when it comes to our balance sheet. We have been maintaining a broadly neutral stance on net debt since we came out of the downturn because we want to reduce our financial leverage as we move through the cycle. And, you'll hear more from Martin on that in a minute.

None of this should be new to you; it's all about delivering against these familiar themes. As we have said before, every asset has a plan and we are focused on delivering it.

Slide 2 – Agenda

And here's the running order this morning.

First, Martin will take you through the numbers before we move on to activity in Retail from Richard and then London from me.

Speaker: Martin Greenslade – Chief Financial Officer

Slide 3 – Title slide
Thank you Rob. Good morning everyone.

First, I'm going to take you through our headline results and then I'll take you behind those numbers, and show you the impact of another period of strong operational performance.

Slide 4 – Financial summary
Our profit before tax was £397.9m, which includes our valuation surplus of £209.8m and £24.9m of disposal profits. Adjusted diluted NAV per share was 937p, an increase of 3.8% or 34p since March. I will explain the movement in adjusted diluted NAV per share in more detail in a moment.

Revenue profit for the six months was £156.5m, up £12.8m or 8.9% on the same period last year.

Similarly, adjusted diluted earnings per share were up 8.2%, a slightly lower growth than revenue profit largely due to take-up under our scrip dividend scheme increasing the number of shares in issue.

On dividend, we have today confirmed a second interim dividend of 7.6p bringing the total to 15.2p for the six months, up 2.7%.

These results have translated into a total property return of 4.7% and a total business return of 5.4% for the 6 month period.

Let us now look at revenue profit in some more detail.

Slide 5 – Revenue profit

This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. And just to remind you, it also includes our proportionate share of X-Leisure, which under IFRS is accounted for as a subsidiary.

As you can see, a £25.3m increase in net rental income was the major driver of the growth in revenue profit and I will go through the major elements of this movement on the next slide.

Compared with the prior period, our net indirect expenses were up £3.8m on the back of the acquisition of the X-Leisure management company and an increased accounting charge for share based payments reflecting our strong performance over the last 3 years. Since six months is a very short period over which to judge costs, our detailed disclosure on costs will make a reappearance at the year end.

The other major element explaining the movement in revenue profit was an £8.7m increase in the net interest costs of the Group and joint ventures. It's right to consider these balances together as we have been reducing debt in joint ventures wherever possible and using group facilities instead. The increased interest costs were partly due to higher average debt balances, but also reflected the end of capitalised interest on completed developments such as Trinity Leeds and 62 Buckingham Gate.

Let's now look at the £25.3m increase in net rental income.

Slide 6 – Net rental income analysis

Here we have net rental income broken down into the various categories and compared against the first half last year. There is a more detailed split between London and Retail in the appendix but this slide brings out the main points.

Net rental income on the like-for-like portfolio was down slightly. What may surprise you is that it was down in London but up in Retail. Retail was up by £2.6m primarily due to improved rental income at Gunwharf Quays and lower bad debts, while London was down £4.3m although this was mainly due to the prior period benefiting from a £3.9m surrender receipt at Cardinal Place.

The £1.2m reduction in income from our proposed developments was entirely due to the vacating of 1 New Street Square as it is now being demolished.

The development programme saw net rental income increase by £12.3m – and that was mainly due to Trinity Leeds – while the increase in rental income from completed developments of £3.8m was largely down to 185-221 Buchanan Street, Glasgow which opened fully let in March this year.

Acquisitions contributed a £15.7m increase in net rental income mainly due to X-Leisure and The Printworks in Manchester.

And, finally, disposals resulted in a loss of £5.3m of net rental income with the main impact from Empress State, the St John's Centre and Clayton Square in Liverpool and the designer outlet store in Livingston.

Let's now look at adjusted net assets.

Slide 7 – Movement in adjusted diluted NAV

We started the period with adjusted NAV per share of 903p and ended it at 937p. This slide shows you the main movements within that performance. Adjusted earnings were £156.2m. Then comes our valuation surplus of £209.8m. This is followed by two items related to profits on sales; first £20.6m from investment properties (largely Oxford House) and then £4.3m from joint ventures.

Our dividend in the period was £86.6m as this ignores the element which is taken as a scrip dividend.

Finally, we spent £9.4m buying shares for the EBT, and with other reserve movements of £10.1m, our adjusted diluted NAV per share ended the period at 937p. Let's move onto cash flow.

Slide 8 – Cash flow and adjusted net debt

Set out on this slide are the major components of the cash flow movements which affect our adjusted net debt – so that is our net debt on a proportionately consolidated basis. Since IFRS takes a different approach, you will find almost none of these figures in our statutory results. However, fans of IFRS cash flows will find plenty of information in the appendices and elsewhere in the accounts.

So beginning with adjusted net debt at 31 March of £4.29bn, operating cash inflow was slightly low at £77.3m. The main reason for this was that £40m of interest payments were due on the 29th to 31st March, or Easter weekend as we knew it, and these payments were made on 1st April – so in this financial period. Acquisitions almost entirely relates to X-Leisure and includes the increased share of its underlying debt. We spent £186.1m on development and refurbishment capex including our joint ventures at Nova, Victoria and 20 Fenchurch Street. Including the debt at Empress State, we received consideration of £294.4m from disposals and, after some sundry items, we ended the period with adjusted net debt of £4.42bn, up £131m.

So onto financing.

Slide 9 - Financing

The increase in our adjusted net debt has led to a small 0.1% rise in our LTV to 37.0%. The increase in the value of our properties wasn't quite enough to offset the higher debt.

The weighted average maturity of our debt is 9.1 years with a weighted average cost of 4.8%, down a little as we increased the borrowing on our cheaper, revolving credit facilities.

During the period, we agreed two new bilateral facilities totalling £350m and we ended the period with £1.1bn of undrawn facilities and available cash.

Now just before I summarise, I want to explain the relationship between our results and the level of adjusted net debt.

Slide 10 – Adjusted net debt

On this slide, I am comparing how our adjusted net debt has evolved over the last six months (in blue) to the progression last year (in red).

The difference between these two lines over their respective 6 month periods, shown here as shaded, amounts to an average higher net debt of just under £300m. And that £300m broadly represents the higher net investment we have had over the last six months. Now our marginal cost of debt is around 1.5% while the yield on our leisure assets is around 6.5%, so a difference of approximately 5%. That £300m of additional investment, therefore, broadly translates into around £15m p.a. of additional income or £7.5m this period compared to last.

This slide is a simple depiction of what I have said before, namely that, our revenue profit performance is closely linked to the level of net investment. Over time, if we maintain our net debt neutral approach, this will balance out but over discrete accounting periods there will be some volatility. Looking ahead, given we have recently exchanged on over £400m of sales, we would expect the two lines in this graph to cross over, leading to a lower revenue profit in the second half.

So let me summarise.

Slide 11 – Summary

We have had a good financial performance over the six months, partly driven by net investment but also a strong operational performance – low voids, new lettings and successful developments generating additional rental income.

Our balance sheet is robust and sufficiently flexible to support the business for whatever opportunities lie ahead.

Now let me pass you over to Richard.

Speaker: Richard Akers – Executive Director

Slide 12 – Title slide

Thanks, Martin and good morning. A lot of you attended our investor day on the 20th September so you're very up to date with our news and aware of our strategy.

Slide 13 – Clear plan for Retail Portfolio

Our clear plan for Retail is:

- to improve the portfolio in the face of the structural change we see in the sector
- make sure we deliver operational excellence in all of our asset management and development activities
- take action to increase our resilience in a consumer economy which may remain tough, and
- gain exposure to the growth opportunities that we have identified.

I'm now going to take you quickly through some of this activity.

Slide 14 – Activity – capital recycling

We've continued to sell our weaker assets where we see limited growth potential, but once again we've been net investors with the acquisition of a further 35.6% stake in X-Leisure representing £208.1m of gross assets. That means we have grown our leisure and hotels portfolio to over £1.2bn. It now represents 21.6% of our Retail Portfolio, and if you include the leisure embedded in our retail assets, then 31% of our rental value is now from leisure!

Slide 15 – Activity – operational excellence

Our asset management has been intense as we execute our plans for each asset. As an example, we have expanded the scope of our additional development at Southside, Wandsworth to add four more units to the Debenhams development, as well as an advertising screen. At White Rose, the strong leasing performance ahead of ERV has taken the centre to 99.8% occupancy and, we also have significant demand for additional space which we will provide if we get our planning application approved when it's considered next month.

At Buchanan Gardens, the residential element of our highly profitable Buchanan Street development, we have all but three of the 49 apartments reserved, and 16 of those have exchanged with completion due in December. At Trinity Leeds, we completed and opened Trinity Kitchen on the 17th October.

Slide 16 – Trinity Kitchen – unique street food concept
This 'street food' themed fast food concept is unique. And, it provides a cool edge to the exceptional catering offer we have at Trinity Leeds.

Slide 17 – Trinity Kitchen – unique street food concept
In its first few weeks it has been extremely successful for the operators and is causing the centre to trend very strongly on social media. Our number of Facebook fans has increased by 15% to nearly 100,000.

Slide 18 – Activity – operational excellence
In retail warehousing, we have started the development of a 48,000 square foot Asda store at the Greyhound Retail Park in Chester and we've completed the new Marks and Spencer at Bexhill Retail Park.

In leisure, we have completed a small re-development in Milton Keynes to provide an Aspers Casino, two new restaurants and a new bowling complex, and we have let the largest void in the leisure portfolio at Lockmeadow, Maidstone to Hollywood Bowl.

Slide 19 – Activity – ensuring our resilience
Once again we've demonstrated the resilience of our portfolio. In this period, it is 'material' that our quantum of new lettings is over 40% up on the same period last year!

We are ahead of ERV. Our voids and administrations in the like-for-like portfolio have fallen from 5.1% to 4.1% and our occupancy has risen from 97.3% to 97.8%. These results clearly represent an excellent performance from our leasing teams. But they also show that conditions are improving in our occupational markets.

We are full, and at a number of our assets, we are now looking to grow rents. We have very good exposure to this upside we see in the retail sector through our development programme.

In city centres we aim to build on the successful retail and leisure mix we've achieved at Trinity Leeds.

Slide 20 – Activity – growth opportunities in-town

At Buchanan Galleries, we have signed Marks and Spencer and at Oxford we have signed John Lewis and on the 20th September we submitted our planning application.

We've been appointed as developer for the North Street development area by Guildford Borough Council and have also entered into a development agreement and submitted a planning application for a leisure and residential scheme called 'Ealing Filmworks'.

Slide 21 – Activity – growth opportunities out-of-town

And out of town we have signed up with Debenhams for our proposed development at Junction 7 of the M20 near Maidstone taking our pre-letting to 37.5% of the income. We have now submitted our planning application. And on the 17th October we achieved a 'Resolution to Grant' decision from Birmingham City Council for our 363,000 square foot Selly Oak scheme.

At the same time, we've agreed terms for 53% of the income for a development near Worcester and are preparing a planning application. At Preston, a scheme we didn't identify specifically at our investor day, we have signed a 'Conditional Land Purchase Agreement' for a 50 acre site identified for development which could accommodate a significant retail and distribution scheme.

Slide 22 – Retail Portfolio valuation movements

Whilst conditions on the ground are improving, this is not showing up in our valuation performance. Values are flat overall: down a little in retail warehouses although up in leisure and hotels.

Rental values have continued to decline in some areas, but at a much slower rate than we have seen in previous periods. That has been balanced by more assets generating growth in rental value.

So the conditions are more stable for our Retail Portfolio than they've been and we see some upside in the macro economic outlook.

Slide 23 – Summary

The structural changes affecting retail are still playing out, but we have a clear strategy and an approach to execution which has seen our exposure to leisure increase, our portfolio continuing to become more 'prime' and some great opportunities for growth coming forward through development.

Rob…

Speaker: Robert Noel – Chief Executive

Slide 24 – Title slide

Thank you Richard. Turning now to London, and just to remind you, our strategy is to exploit a significant amount of opportunity in our existing portfolio rather than compete in the investment market.

Since we started, we have been busy building, selling and recycling capital back into the programme and bringing forward more schemes. And remember, we have always said that our plan is not predicated on economic growth. Rather, that we would build more efficient and technically resilient workspace striking the construction cost curve at the low point.

Last year, we said that the continued scarcity of development finance meant that construction starts had remained relatively limited. In turn, that meant our window for development had become longer than we thought it might be when we restarted development back in 2010.

So, in May we announced our commitment to Nova, Victoria, and in August we started building New Ludgate. And in our Oriana JV with Frogmore, we have committed to Phase II of our Oxford Street scheme: nearly £700m of total development cost. That's our share

Slide 25 – London Portfolio valuation movements

But before I focus on how our development programme looks today I'd just like to cover the valuation and give you some market context.

Rental value growth in our like for like portfolio was positive, but modest, at 0.5%. But there are two things you need to note. First, our like-for-like portfolio is to all intents and purposes full. So it's pretty difficult to get hold of the space and prove new rents. Second, 30% of the London portfolio is not in like-for-like, because we are doing things to it, and that's where the action is. I'll come onto that in a minute.

The London portfolio, including all non like-for-like properties but excluding the development programme, increased in value by 2.8% in the first half, with our development programme increasing in value by 7.6% giving a combined surplus of 3.7% for the 6 months.

There is a more detailed breakdown of the movement set out in your pack.

As to the market context…

Slide 26 – Supply – central London

I'd like to take you back to a slide you have seen before.

The green bars show the historic run of development completions. The four bars on the right hand side show what is set to be delivered over the next few years. White is pre-let, red is speculative, dotted bars are possible, but yet to be committed, and many of those will slip, as we have seen before.

Up to December 2015 we believe there is very little that can be brought on stream to change the supply landscape, and you can see, in a historical context that development completions remain relatively modest. These bars include new schemes and Grade A refurbished accommodation.

If we add the vacancy rate, now shown in the red line, you can see how different the dynamic of this cycle is. The vacancy rate in 2009 was much lower than in previous vacancy peaks in 92 and 2003.

Now, if we look at Grade A take up, now shown in the blue line, you can see that it never died and is now picking up. Fast.

In May, we talked about increased occupier activity on the horizon. We believe there is simply not enough new, efficient, technically resilient space being developed between now and mid-2016. Occupiers are running out of choice.

Slide 27 – London Portfolio office developments

And if we zoom in on 14, 15 and 16 and look at our schemes, this slide shows the 2 million sq ft of offices alone that we are delivering into this stage of the cycle.

So you can see that we are well positioned.

Onto our developments then, and I will skip through these as all of our usual disclosure is included within your packs.

Slide 28 – Starting new developments – 1 & 2 New Ludgate, EC4

Since we saw you in May, we have committed to two new schemes.

At New Ludgate, we are developing two independent buildings totalling 378,000 sq. ft just at a time when the Midtown/ Farringdon market is starved of new space.

Construction is well underway and practical completion to shell and core is due in April 2015. The level of interest in both buildings is encouraging. And, with our appraisal rent averaging £57 per sq. ft. for the office space we expect the risk to be on the upside.

Slide 29 – Starting new developments – Oriana, W1 – Phase II

At the east end of Oxford Street, demolition has started and we will develop 71,000 sq. ft of retail space and 18 private residential apartments by July 2016. We have pre-let 65% of the retail space to Schuh and Primark, for whom we will be building a 40,000 sq ft extension to their existing 148,000 sq ft store. We will be marketing the two other flagship stores when we start construction.

Moving onto schemes you already know about, and in order of Practical Completion

Slide 30 – Developments – on site – 20 Fenchurch Street, EC3

Good momentum is being maintained at 20 Fenchurch Street.

We are now 76% let or in solicitors' hands. Average rents, lease terms, and incentives are comfortably ahead of original expectations and we are confident of further progress - with interest from more potential occupiers than we have space for in the building.

I know you won't let me escape without updating you on the solar reflection issue. Despite specialist modelling prior to construction, now that the building is built, we have an issue that, without rectification, may manifest itself at certain times during the year.

We have worked extensively to find the right solution and are confident that this will be settled very shortly. Although not finalised, the cost will sit comfortably within our unutilised scheme contingency, so the total development cost will remain within our previous estimates and disclosure.

The solution is expected to be external and will be installed during the office fit out period. Overall, 20 Fenchurch Street will be ready for occupier fit-out to commence in April as planned, with the Sky Garden due to complete by June.

Over in the West End

Slide 31 – Developments – on site – Kings Gate, SW1

At Kings Gate, our residential scheme is now due to complete in February 2015. This is due to an 8-week extension of time agreed with the contractor following delays to the construction of the UK Power Networks substation.

72 of the 100 apartments have been pre-sold at an average price of £1,650 per sq ft. We expect a few further sales between now and completion, but the majority of the remaining space is higher value upper floor and penthouse space that's more likely to be sold post PC. The retail space is pre-let to Jamie Oliver.

Slide 32 – Developments – on site – The Zig Zag Building, SW1

Next door, at The Zig Zag Building, we are now out of the ground and the UKPN substation, important to both this scheme and Nova, is being installed. The building comprises 231,000 sq ft of offices and retail space and we are very encouraged by the interest we are already receiving.

Like Kings Gate next door, the delay to the substation has added 8 weeks to the programme so project completion is now scheduled for March 2015. Our appraisal rents for the offices average £70 per sq ft.

Slide 33 – Developments – on site – Nova, Victoria, SW1 – Phase I

Up the road at Nova, those of you who have had a tour recently will have seen that the site is a hive of activity. Demolition is complete, the secant perimeter piling is virtually complete and half of the load bearing piles have been installed. We are on programme for completion in April 2016 and marketing of the first phase of residential units in the Nova Building will start just after the New Year.

At our two completed developments:

Slide 34 – Developments – completed – 123 Victoria Street, SW1

123 Victoria Street is now 86% let and we hope that the emerging competition for the remaining space will improve rents further.

Slide 35 – Developments – completed – 62 Buckingham Gate, SW1

At 62 Buckingham Gate, we've made good progress. At 31 March, 10% of the space was in solicitors' hands and in May we said we were slightly disappointed that we had not let more prior to completion. Today, 57% of the space is let, and we have a further 10% in solicitors' hands. Note the average rent we've achieved here is already ahead of our appraisal rents at The Zig Zag Building.

Looking forward to schemes where we are yet to commit.

Slide 36 – Developments – proposed – 1 New Street Square, EC4

It is more likely than not that we will commit to 1 New Street Square. Demolition of the existing building is well under way and in order for us to deliver a building for July 2016, we'll have to take the decision to crack on by the end of January.

We will complete the tender process shortly and expect our total development cost for this scheme will be around £180m with a net rental value in the order of £15m

Slide 37 – Developments – proposed – 20 Eastbourne Terrace, W2

At Eastbourne Terrace, right outside the entrance to Crossrail, we are due to get vacant possession in January for completion in Q1 2016. The total development cost is likely to be in the region of £65m with a rental value of just over £5m at a rent of £54 per sq ft.

Slide 38 – Developments – planning secured – Portland House, SW1

During the period we achieved two significant planning consents. The first was Portland House, where we now have consent to remodel this 1960's tower building into 206 apartments. Part of the affordable element will be included at Castle Lane, which you will recall we bought last year to give us optionality on our Victoria transformation.

That consent also gives us great optionality for this building, which is virtually fully occupied at the moment with all leases due to expire or containing a landlord break by March 2015. We are currently working up a detailed approach to design and construction.

We also achieved consent for the redevelopment of Oxford House, for a mix of retail and residential and this was subsequently sold.

On that subject,

Slide 39 – Disposals

We made three sales in the first half. 38-48 Southwark Bridge Road, post the lease re-gearing activity we talked about last time, our share of Empress State Building, sold to our JV partner Capital & Counties; and Oxford House, post planning consent, sold to Great Portland Estates – these last two were special purchasers. No asset is sacrosanct. Each one had specific reasons for sale at the prices we sold.

Since 30 September, we have sold Bankside to M&G. At Bankside, we have seen the yield move down from 7% in 2009 to 5.2% today. For a single tenant, leasehold, it is a large lot size. So we have taken advantage of the current liquidity in the market to sell it and we leave that part of Bankside totally transformed.

Slide 40 – Asset Management – Cardinal Place, SW1

Scott's team remains very busy

Voids have been kept to a minimum as with the retail business and smart lease re-gearing activity has strengthened our income.

At Cardinal Place for example, since 31 March, leases over 113,000 sq ft with £6.6m of rent roll to Experian and Wellington, have been extended from a weighted average 5.2 years to 11.3 years.

Slide 41 – Asset Management – Piccadilly Lights, W1

At Piccadilly Lights we agreed deals with three retail tenants to reconfigure their units. That was made possible by the purchase we made next door last year. Not only are we transforming the retail space for the occupiers, but these deals have freed up space for a new advertising screen shown here in green for which we got planning consent and is currently being installed. Taken together, the rental values of these units have increased by £2.4m, or 46%.

Our like-for-like void rate remains exceptionally low at under 1%. And our weighted average unexpired lease term in our offices is almost 10 years.

Slide 42 – Summary

So, we are delivering on our strategy.

In retail, it's about moving our assets up the retail hierarchy providing space for retail winners and increasing our exposure to leisure. And we have been doing exactly that.

As you have seen, Trinity Leeds is an exemplar and we have more to come, both in and out of town.

And securing control of X leisure was well executed.

In London, the market is broadly behaving as we expected.

Our developments are letting-up well.

We have added more to our well timed programme, just as we said we would, and the asset management team remains on top of its game.

As I have said before, we have made great strides over the last few years to position our assets for tomorrow's customers and consumers. As the boundaries between work, home and play become more blurred it's about fabulous work space, environment and connection.

And, as I have also said before we will continue to manage our balance sheet with discipline even at the short term expense of marginal earnings in this low interest rate environment.

Markets are ever more transparent and quick to react. So we've got to manage each part of the cycle appropriately because that's absolutely right for our shareholders.

And with that we'll hand over to you for questions

Question 1
Harm Meijer, JP Morgan Cazenove
Can I just jump on the lease terms for a moment for retail and offices. How have they changed in terms of extra for tenants and basically also a little bit on the outlook in terms of office rents?

Answer - Robert Noel, Chief Executive
Well let me tackle offices first Harm, if you don't mind and then I will pass over to Richard to talk about lease terms in retail. We have given the stats in our slides today of all the deals we have agreed on our office lettings in London. Broadly, lease terms are getting longer. So in 20 Fenchurch Street for example, our weighted average lease length is now 17 years. Our incentives are getting shorter. So 12 months ago, 24 months ago one would be expecting to have 12 months of incentives for every 5 years term certain. We are now down to 8 months at 20 Fenchurch Street, we are still 9 months in the West End. So the incentives are shortening.

As for forward guidance for that. I don't expect those incentives to come in any shorter. The market is fairly well established and occupiers can never time moving from one building into another building exactly. And trying to swage that double overhead is really quite important to most people. That has always been the case and it will remain the case. So for offices we don't expect it to come in much further.

Further answer – Richard Akers, Executive Director

On the retail side we had 93 investment lettings at 2.3% above ERV. I think probably Martin will always say that you have got to look behind those numbers. Our incentives were higher on the lettings we completed in this period than the previous year. The previous year they averaged 9.1 months and in this six months 14.4 months. Now what we also have to look at is the term of those leases and we have signed longer term leases this time around. So on average 14 years in length as opposed to 10.6 years for the previous year.

Further question

And then just one other one. Your LTV is currently 37%. What would this number be at let's say the top of the cycle?

Answer - Robert Noel, Chief Executive

Okay, well we have given previous guidance to our gearing levels and we have been pretty consistent in this. And that is to say that in normal operating environments we would expect to operate between a gearing level of 35 to 45% LTV and at the extremes of the markets we would expect that to move out to 25 to 55%. Now I see no reason to give you any further guidance than that. Where we stand today we are at 37%. We are running a net debt neutral position as we have said. So if the V goes up the L will stay the same, but the V will go up. So I expect that LTV level to continue its march down. It was 53% three years ago and it is 37% today. The trajectory is down and that will continue.

Question 2

Remco Simon, Kempen

Richard if I can ask you on retail. You mentioned that you intend to make the portfolio more prime. I wouldn't want to ask you how much of the portfolio is not prime, but we are gradually seeing quite a bit of interest in more secondary retail if you can believe the property press. How much of an opportunity do you see this as to recycle more capital and to be selling more assets going forward?

Answer – Richard Akers. Executive Director

Well first of all, we have been continually recycling capital over the years and we have sold many of our non prime assets. So this is a continuation of a process really and we will continue to recycle capital within the retail portfolio and across the Group. So how much of an opportunity is there? Well I think you are right, there does seem to be more confidence from investors in a wider range of retail assets. And if there is good demand for assets that we wish to sell, then that will be very good news for us.

Further question

But do you see that significantly picking up from I think it was £66 million for the first half year in the second half?

Answer – Richard Akers. Executive Director

I think it is difficult to give guidance on a quantum, but the £66 million was made up of a number of small assets and so yes I think it is likely that if we make sales in the second half, it will be a greater quantum than that, yes.

Further question

And maybe in the operating environment, you sounded a bit more positive about the retail market outlook, cautiously more positive perhaps, does that translate into you being a little bit more going up the risk curve in terms of potential new developments? Can you accelerate things like Oxford or Guildford or Glasgow given the fact that you are more positive in the market?

Answer – Richard Akers. Executive Director

Yes I think we are a little bit more positive and the figures for the six months bear that out. But we are also cautious because we look at the life of the average consumer in the UK and disposable incomes are not rising. So we are seeing that in the headlines today another item about energy costs rising. And also we hear news that two retailers have gone into administration. So we have to be tempered by that caution as well. But we do have an exposure to the upside through our development programme. Can we accelerate that? Probably not. The big schemes in Oxford and Glasgow and potentially Guildford are on a path and we are moving them forward as fast as we can, I think accelerating those is difficult. But what we will do is get as much exposure as we can to the out of town development market and you have heard some news on that as well.

Question 3

Kristian Bandy, UBS

I just wondered if you could give me a bit more detail on why the retail parks portfolio and the food stores have underperformed IPD. Certainly CBRE and others have suggested that these potentially had actually been undergoing valuation recovery. But you have had some difficulty here. Can you give me some colour?

Answer – Richard Akers. Executive Director

All I can talk about is our Portfolio and the valuation of our portfolio, I can't really talk about IPD. But our valuers have said to us that values in retail warehousing have come down partly because rental values have come down, but also partly because they are quite cautious about rental values going forward and forthcoming lease expiries and the capital incentive requirements that will be needed to deal with those lease expiries. So those have been bought into our valuation and caused the small decline that we have seen in this period.

The other impact which we talked about is the illiquidity in the very large lot sizes. And we have a couple of very large retail parks that our valuers feel the market would be quite thin in terms of numbers of potential investors and that has made them cautious on those assets. But that is what we see happening in the retail warehouse sector. I can't really comment on where other valuers, or where other portfolios, have gone in this period as we haven't see all of those results yet.

Further question

Great and maybe one for Rob. Do you think potentially the capital gains tax changes being reported in the press could change the potential demand for the Victoria residential?

Answer – Robert Noel, Chief Executive

A good question. As you say, they are only potential. Early intelligence is actually they won't make much difference and in fact we think they will make less difference than the rise in the stamp duty that was talked about. I think most people's attitude is, well if I do make a profit then I am happy to pay some tax. But don't forget that in Victoria we are developing, all up, 500 apartments over the next five years if we do Portland house which overlooks the back garden of Buckingham Palace. I mean we are pretty confident about our location in an area we are completely transforming. We are not developing elsewhere.

Question 4

Jon Stewart, Liberum Capital

Just one question in terms of construction costs. Have you seen any pick-up in construction costs and inflation yet? And if so, how much?

Answer – Robert Noel, Chief Executive

Yes that's a good question Jon. One of the leading indicators for us, if you remember we spoke about last time, for an uptake in construction starts would be a pick-up in construction costs. We are beginning to notice a pick-up: the tender returns 1 New Street Square would suggest a slight pick-up. It's not coming through strongly yet though, we still expect it to at some stage in the near future and it won't be a gentle curve.

Question 5

Nick Webb, Exane BNP Paribas

I just want to ask about the development pipeline yields which look quite cautious at 6.9 in total. And specifically on something like Trinity Leeds which has been up and running for longer than six months now, still valued on a yield of 6.3%. When can we expect to see that approach, what people regard as more of a market yield, when you take the valuation gains there?

Answer – Robert Noel, Chief Executive

Well the first thing is I should say we don't value our portfolio, it is valued independently by Knight Frank. And one of the reasons we have extended in the last couple of years the guidance that we give, the disclosure we give in our development table, is so that you guys can really work out for yourselves what is still to come. So if you go into the two development tables, one for the London portfolio, one for the Retail portfolio, what we set out is the ERV as given by Knight Frank. We give the valuation added to the amount of development capex we still have to spend on the scheme. So you can work out from that what our development yield is. We also give you in the Appendix to your pack, the difference between the headline rent and the SIC 15 rent so with those figures you should be able to work out that actually there is still quite some margin. Now at what stage Knight Frank give us the benefit of those profits is completely up to them. But I think we are pretty well set for a robust second half.

Question 6

Herman Kotak, Green Street

A question for Rob please. With respect to the London Market, you are net sellers in terms of acquisitions and disposals. Is it your opinion that the market is now getting fully priced? Is that why you are a net seller?

Answer – Robert Noel, Chief Executive

No we have always said that all of our acquisition activity across the business and also our development activity will be funded through sales. And we have always said that no asset is sacrosanct. We were not net sellers in the first half at Land Securities, we probably will be net sellers in the second half. Now that is led by the sale of Bankside. And as I said earlier, this is a single let, leasehold, £350 million lot size. And windows for liquidity are quite narrow. So you may or may not get the right time. But when you do see that liquidity, and as I said we have seen the yield come in from 7% two years ago to just over 5% today, we know what the balance is, so let's hit the bid. And that is what we have done. So that is £300 million and that makes quite a bit of difference. And would we do the same thing again? Absolutely. Will we sell more assets for the right price? Absolutely.

Further question

Okay, and a further question on London. In your statement you referred to the fact that there simply isn't enough I think, good quality space for occupiers. Deloitte published a crane survey and they are talking about 28 new schemes coming online in the last six months I think it is and about 6 million is unlet. Obviously you have put your own chart up which I think tells us the story that you are telling. But there is the added story about Schroder's taking the space at London Wall and how schemes can be brought online you know if there is demand. Do you worry about players like Canary Wharf or other players bringing on space and that actually changing quite quickly?

Answer – Robert Noel, Chief Executive

Well one of the things that we look at is the ability for people to change the scene over a set period of time and we can just about look out two and a half years. Beyond that we can't because as you say, if people decide to turn the tap on then they can generally start building in large scale in a three year period. What we do know is that between now and July 2016, so two and a half years out from now, we just don't think there is much that people can do to upset that balance. Because although, yes people can start building, can you actually deliver a new building of scale from a standing start in that time period? The answer is it is very difficult, which gives us the comfort that we have. So that is why we are saying we think over the next twenty-four to forty-eight months, the negotiating power will be in favour of the landlord.

And that is why we are able to achieve the longer leases that we have been achieving and the rental rises we have been achieving at 20 Fenchurch Street say. So if an occupier comes to you and says we only want to sign a 10 year lease and we say well we would like you to sign a 15 year lease, they say no and they go away and they look for the other space and they realise they can't find any space that is as efficient and they come back to us and then we have a conversation. And you know, that is why development is about timing and that is why we are an early cycle developer as we have said, because I think we get a better negotiating stance and then we also get liquidity through the end of our programme.

Further question

Okay and one last question on London. One New Street Square. You said you will probably start that. What does your decision rely on? What do you factor in?

Answer – Robert Noel, Chief Executive

Well I have said it is more likely than not that we will start it, which is pretty good guidance. And in my view we don't have to commit until January. If we commit now it makes no difference to the timing for delivery because our critical path is July 2016. We haven't finished demolishing the building yet. So in my book, why make the decision if you don't have to, it is not going to affect the delivery time.

Further question

Sorry that wasn't my question. My question was what factors will be based on your decision process whether or not you will start it?

Answer – Robert Noel, Chief Executive

Well I think it is more likely what factors will be based on our decision if we don't do it, which is we would probably see more space coming through in the market in the next two years than we were previously thinking. But as I say, I think it is more likely than not that we will proceed with the development. But this is a decision for our Board to take when I have presented the argument to them.

Further question

Okay, and you don't necessarily need a pre-let on that scheme?

Answer – Robert Noel, Chief Executive

No I think that our track record shows that you know when we think it is time to build, we will build.

- End -

Forward looking statements