Land Securities' London Portfolio Investor Conference

Friday 6 July 2012

Speaker: Robert Noel – Chief Executive

Slide 1 – Title slide

A very warm welcome to One New Change and thank you very much indeed for taking the time out of your schedules to spend the time with us today and thank you also to K&L Gates, for lending us your magnificent auditorium. One New Change is now virtually full as you'll hear later on from Scott so we have to resort to the goodwill of our customers to hold days like this.

Martin, Richard and I have seen most of you since our results' presentation ten weeks ago, either in one-to-one meetings or in small group sessions, and as we have been saying, Land Securities is delivering on a clear plan. We led the industry in starting development in 2010 as we saw tightening supply in areas where there would be demand and with this plan, a disciplined balance sheet approach that saw funding of developments through sales rather than increased debt in order that our gearing would come down during the cycle. And at the same time, a relentless approach to asset management has seen our portfolio strengthened significantly as you know. We have been selling well and for the right reasons. Our voids are stable and our weighted average lease term is up.

Our development pipeline is being well managed and right-sized. We have crystallised profits at the front end, enabling us to keep up the pace, have good interest in the five large schemes we have in Glasgow, Leeds and London and the option to do more with oven-ready schemes and further planning permissions beyond that. We remain risk aware but not risk averse.

Today we have a proforma loan to value ratio of 33%. Add to that a £1.1 billion revolving facility priced right at the bottom of the cost curve and plenty of operational leverage and you can see why we feel we're in a great position.

But today is about London and giving you slightly more flavour than we can convey in a ten minute slot in a results' presentation or a one-to-one meeting.

Slide 2 – Agenda

The day will be hosted by Scott and Colette, who you know, and their teams. And in a minute they will give you an overview of progress in order to set the scene and we're then going to split you into three groups, take you to 20 Fenchurch Street, after that we will go over to Victoria, split back into our three groups again and then re-congregate for lunch.

We have very strong teams here, they're at your disposal all morning. We have leasing managers, investment managers, asset managers, residential guys, engineers, development managers and project managers. You can ask any question you like of any of them, if they don't know the answer they will know someone who will.

So with that, have fun, and I'll hand you over first to Scott.

Speaker: Scott Parsons – Head of Property, London Portfolio

Slide 3 – Title slide

Thanks Rob. Good morning everyone. Now I think we're all aware that there's uncertainty in the London property market at the moment, but uncertainty can also mean opportunity, provided you have the right plan and we have the right strategy. It's a clear strategy and it's not predicated on a bull market. We've got a strong investment portfolio and it's getting stronger every day because of our relentless focus on asset management. We've proven our ability to recycle our capital in a smart way and we're delivering the right product into the right market as Colette is going to show you later.

Slide 4 – London Portfolio

Now I started off by saying we've got a clear strategy that's not predicated on a bull market so I'm going to start the presentation by showing you why. There is market uncertainty at the moment but there's also structural demand.

Slide 5 – Structural demand

This chart shows lease events over the next ten years and by lease events I mean breaks or expiries. And what it tells us is that about 50 million square feet are impacted by lease events during this period but those lease events are only the known lease events, and given that the London property market is more than 200 million square feet and if we assume an average lease term of about ten years, that 50 million square foot figure is probably going to be about double.

The characteristics of the buildings that are impacted by these lease events **–** the chances are they're going to be in need of comprehensive refurbishment. So if the tenants in those buildings want modern, fit for purpose, Grade A space, they're going to have to move.

Now as you can see here the first spike hits in 2015 and given that it takes about two or three years for a tenant to orchestrate a move, those tenants are starting to look now. So with tenants starting to look, we know demand is coming. Where will they move to?

Slide 6 – Supply constrained market

Now the takeaway from this slide is that completions are well below average, so supply is tightening. I think you saw this slide at the prelims and what the green bars show you is the existing stock. The white [black on the printed presentation] and the grey bars show what is being developed. And the dotted line bars show what could be developed. And I think we're all aware that there is virtually no speculative development packages out there at the moment, so what is probably going to happen is that the schemes within those dotted line bars are going to get delayed or they're not going to get built at all.

It's also important to touch upon vacancy and vacancy is shown by the red line. The key point here is that it's much lower than it was in previous troughs looking back to the early 90s or the early noughties.

So, not enough space is being built.

Slide 7 – Central London office availability – Grade A space

Let's take a look at availability. The key point on this slide is that we actually see a scenario where we could run out of Grade A space by 2015. The brown areas on the chart show current availability and the purple areas show what could be delivered through the pipeline of developments and major refurbishments.

Now if all those developments and major refurbishments get built and we assume long term average rates of take-up, we do see supply running out of Grade A space by 2015, especially in the West End.

So with low supply and low availability why, given the economic uncertainty, are we so confident that tenants are still going to take that plunge and move? Well it's because never before has moving to new Grade A space been so affordable.

Slide 8 – Reasons to move – affordability

You saw this slide at the London Investor Conference two years ago and it still shows us that rents as a percentage of salary costs are still at an all-time low. This in itself is a very compelling proposition for tenants, but it's only half the story because never before have new buildings been more efficient.

15 years ago the average central London office had an occupational density of one person to about 16 square metres. Most developers today in their new developments are targeting a ratio of about one to ten and Land Securities at 20 Fenchurch Street, for example, we're building to a ratio of one to eight. So more efficient space means less space and less space, of course, means less cost.

Slide 9 – Markel relocation example

Let me take you through an example. So on the left hand side of the screen you see Markel's current building. It's an 80s building and within the next couple of years it's going to need a comprehensive refurbishment. Now Markel occupy about 68,000 square feet on four floors. As you can see from the floor plan below, they're not very efficient floor plates, and Markel currently occupy at a density of about one to 15 [square metres].

Now look at the other side of the screen and you see 20 Fenchurch Street. 20 Fenchurch Street is far more efficient, so Markel were able to sign up for 51,000 square feet instead of the 70,000 square feet that they've been out on the market looking to take up when their lease expires in 2015. Now they're paying us £65 per square foot but that £65 per square foot on 51,000 square feet equates to just about £47 had they gone for a less efficient building and taken up the 70,000 square feet they were looking for.

If you add in savings in rates and service charge on the smaller space they're occupying, they save about another £520,000 a year. So Markel are getting modern, fit for purpose space, in a new iconic building, but they're getting it for well within their budget.

So we see there's structural demand, there's constrained supply, there's low availability and affordability and efficiency on new modern space is at record levels. So our strategy is not based on a bull market.

Slide 10 – London Portfolio mix

Now it's not just market factors that are giving us confidence in our strategy, we've also worked our portfolio really hard to get it to where we want it to be. This is what our portfolio looked like two years ago and that was around about the time when we embarked on our current early cycle development strategy. So you can see about half the portfolio was prime, about a fifth was active management and the rest was in development and that was either on site, with consent, or in feasibility.

Since that time we've been on a mission. We've been on a mission to lengthen and strengthen our investment portfolio income. We've been on a mission to recycle our capital in a smart way and we've been on a mission to deliver the right product into the right market.

Slide 11 – Investment portfolio – Converting active asset management to prime

So let's first take a look at what we've done to the investment portfolio. Now these are three examples of where we've taken assets with a high degree of vacancy and very short term income and we've transformed them into assets with secure long term income. So with 40 Strand, with City Gate and with Moorgate Hall, we now have 15-year term certain leases to good covenant tenants. So effectively what we've done is we've taken these assets and we've moved them from that pink slice of pie into the blue slice.

Slide 12 – Investment portfolio – strengthening prime

Now we're not just sweating our active management assets, we've also been busting a gut to lengthen and strengthen income in our prime assets. So, firstly over on the left, One New Change, where we are today; at One New Change, Panmure Gordon have taken almost 15,000 square feet. Now that was a tenant retention play, because we had to move Panmure Gordon out of Moorgate Hall to enable the Mace letting that you saw on the previous slide. Panmure Gordon moved here to One New Change because we were their landlord of choice. I think Rob also touched upon the fact that we've let 20,000 square feet on the third floor of One New Change to bwin. So now overall One New Change is about 94% occupied.

On the retail side, we've implemented our tenant mix strategy, and we've now got two units being taken by tenants at above ERVs. The first unit has gone to Bang & Olufsen and the second one is in solicitors' hands to a major high street retailer.

Two examples on the right are in Victoria. In Victoria we've been particularly focused on lengthening income, and that's because we don't want our investment portfolio to be competing with the new Grade A space that we're delivering through our Victoria masterplan. Since the prelims, Ruffer have taken a reversionary lease in line with ERV. Ruffer are doubling their space in the building, and their term certain is now extended to 2021.

So, the 3i and the Ruffer deal secure income from two key tenants at Cardinal Place to well beyond the completion of our Victoria masterplan. So whether active management or prime, each and every one of our assets has a plan and we're relentless in our focus on delivering those plans. The result has been fantastic.

Slide 13 – Investment portfolio – WAULT

In the last 12 months we've secured almost £30 million in investment lettings and lease restructurings; and we've brought our voids down from 3.8% to less than 3%. Our weighted average unexpired lease term is now longer than ten years, so that's a 30% increase since we saw you all last time at the last London Investor Tour. And with the weighted average unexpired lease term of longer than ten years, operationally we think we've got the best of both worlds: we've got a secure long-term income foundation to complement the enhanced returns that we're going to get from London's best development pipeline.

Slide 14 – Investment strategy – sales

So we've been really focused on lengthening and strengthening our investment income. Now let's look at how we've been smart when it comes to recycling our capital. I think you're all aware that we sold a lot last year, but rest assured that everything we sold, we sold for the right reasons. We're disciplined when it comes to recycling our capital – no asset is sacred. And if we can get better returns from other assets within our portfolio we will recycle and redeploy our capital. So City Forum, Eland House, Bonhill Street and at Arundel Great Court, we did just that. And the proceeds from those sales have been redeployed into our development programme.

Where we can realise profits upfront, we will. At 110 Cannon Street, just like at Park House, we crystallised almost all of our development profits early; and that was without deploying any valuable capital, and without any market risk.

Slide 15 – Investment strategy – acquisitions

Smart capital recycling isn't just about sales, we've got to keep acquiring new opportunities that are going to produce good returns. Although we're only a few months into the year, we've already made two small, but very strategic acquisitions. The first is the St James's Park Centre in Victoria. Now this building, when combined with the former hostel buildings on Palace Street and Castle Lane that we bought last year, tie right into our Victoria masterplan. They sit just in between Cardinal Place and Wellington House – I think you'll be walking by them later – and they give us the scope and the quantum for placemaking and to really improve the overall environment. And hopefully you're all aware that that is a Land Securities' speciality.

Now the second acquisition **–** you may have seen in the press last night **–** is going to consolidate one of our most iconic holdings. With the acquisition of this 23,000 square foot late 1970s building we'll own every building within the Piccadilly Lights island site. This area is really improving on the back of what the Crown have done at AirW1 and with what Ferndale are doing with their hotel development next door. A lot has been spent in the vicinity of improving public realm as well.

We're buying this building with vacant possession, and the plan in the short term is to maximise short-term income while we develop our plans to rationalise the servicing for the entire island site, to reposition and improve the retail offering, and to exploit other opportunities within our ownership.

I expect we'll see more opportunities for interesting acquisitions on the horizon, but rest assured that we will remain very disciplined when it comes to recycling our capital.

Slide 16 – London Portfolio mix

So with all this activity, let's take a look at how it has changed our portfolio.

This is the portfolio mix I showed you a couple of minutes ago, and today, with relentless asset management and capital recycling to focus on the best performing assets, now more than two-thirds of our asset base are prime and this is a great position to be in in these uncertain times. About 20% of our book is in development. Now that's smaller than it was two years ago, but it's far more advanced in terms of deliverability and optionality.

And now to take you through the detail of that development programme, I'm going to hand you over to Colette. Thanks

Speaker: Colette O'Shea – Head of Development, London Portfolio

Slide 17 – Title slide

Good morning everybody. So as Scott just said, our strategy is not predicated on a bull market, but it's about getting the right product into the right market – and we have the product.

Slide 18 – A timeline to transformation

We've got 3.8 million square feet of space in our programme: 1.3 million in the City; 2.5 in the West End, of which 900,000 is residential; we've got operational leverage; and as Rob has said on many occasions, we have optionality on timing. The developments are phased over the next six years and beyond. And with only 1.26 million square feet committed, we're very active now in securing our future. So it's about now securing our construction costs.

Slide 19 – Land Securities' developments

We're buying our costs at the bottom of the cost curve, and this enables us to build more space for our money, it reduces our breakeven rents. It's a really crucial activity for us, if costs go up, rents have to go up correspondingly.

So, for the next ten minutes I'm going to talk about our City developments, our residential programme and the transformation taking place in Victoria.

Slide 20 – 20 Fenchurch Street, EC3

So first of all 20 Fenchurch Street. That really is the right product in the right market. We've done the letting to Markel, as Scott has said, and we've got 19% let or in solicitors' hands. We've got discussion on space at the top, middle and bottom of the building, and that's two years before completion. The floor plates are very efficient; we've invested money in the specification and this enables us to permit an occupancy of one person per 8 square metres.

And when you visit later, you'll see that we've completed the core of this building, which ultimately will be 160m tall. 20 Fenchurch Street is going very well for us, and the market likes our product.

Slide 21 – 1 & 2 New Ludgate, EC4

1 & 2 New Ludgate. This is a really cracking location **–** a different sort of location. It's on the corner of Ludgate and Old Bailey. St Paul's is a block away. We've got the Thameslink station opposite and Farringdon only five minutes away and when Crossrail is completed that will be one of the busiest stations in London. Our ambition is to deliver these two buildings into late 2014. We've completed the demolition, we've secured our costs, and we've only got 22 months now until completion, we've got great flexibility on timing. So in the City we're very well placed to capture the structural demand that Scott has talked about.

Slide 22 – Who's buying?

I'm now going to move on to residential. This market is very attractive to us and it's not, as some might think, the poor cousin to offices. We can take a commercial building worth £1,000 a square foot and we could convert it to something worth up to £2,500 a square foot. That's why it's attractive to us. And I'm not talking about super prime I'm talking about prime residential. And the definition of that is over £1,000 a square foot in the two boroughs of Westminster and Kensington and Chelsea.

So where's the demand coming from? It's very diverse and it's global. And we're very optimistic about this demand. And the reasons for that is that we have a growing population, we have a culture of people moving back into the cities, and London is still ranked first or second with New York in rankings of great cities. London is a global city and it's a place where people want to live. So what are these people buying? Well they're buying what we're selling.

Slide 23 – What are they buying?

Westminster and Kensington and Chelsea are constrained by conservation areas and listed buildings and the housing stock typically, therefore, is period buildings, and by their very nature, less functional. The left hand pie chart shows who's buying these period buildings. The right hand chart, on the other hand, is showing who's buying modern apartments and this is dominated by the global market **–** the international market. These people want something different. They want security, they want convenience and they want simple things like car parking all of which are very difficult to provide in the historic period buildings.

Slide 24 – What are they buying? (2)

This is a tremendous opportunity for us and if I overlay the demographics of the profile of the people who have bought our Wellington House apartments, you can see it's very, very similar. So our estate creates a great opportunity for us to provide this modern, highly specified and highly defined product.

Slide 25 – Demand

So where is the majority of this demand sitting? Well it's sitting in our core market. That's in a £1 million to £5 million bracket and over the last 11 years, 73% of transactions have been in the £1 million to £5 million price range. Wellington House is in this bracket, it's all sold and we haven't even finished building yet. The purchasers like our product and they like us.

We have corporate strength and to a purchaser where you've got to pay 20% deposit before the building is even completed, that's worth a lot. They like our design flair, our construction expertise and in effect they get from us our quality assurance badge. This market is deep and liquid and we're really serious about it. We've got 900,000 square feet in our programme and 700,000 square feet of this sits between Buckingham Palace and the Houses of Parliament.

Slide 26 – Our residential ambition

So this is our product. We're using award winning architects. We're using interior designers that are excited about pushing the boundaries and working at the scale that we're operating at. And we're delivering a product into a market that has been starved of this type of apartment.

And we're powering ahead with our delivery.

Wellington House: all units are sold.

Kingsgate House: 100 units planned for 2015 and, as you'll see when we go to site later, demolition has started.

77 Buckingham Palace Road is part of Victoria Circle: 170 units are planned for 2016, demolition starts this October.

Castle Lane: hard to believe this is affordable housing. I've talked to you in the past about affordable housing, it's a planning requirement and it's a barrier to entry for our competitors. Castle Lane which you'll see later is a derelict homeless hostel. We're transforming it and we're creating another affordable housing bank to enable buildings such as Portland House.

Portland House stands at 101 metres tall and hopefully, weather permitting, we'll be able to take you up to see the magnificent views that it commands over London. We're working with the architect David Chipperfield and we're going to be reshaping the building and recladding it in Portland Stone. We will end up with some of the best apartments in London. We are a serious player in prime residential.

Slide 27 – Victoria office occupiers

I'm now going to move on to the transformation in Victoria. I've talked about getting the right product into the right market, Victoria is far more than this. The impact of our residential, the office occupiers we're attracting, the new retailers, the architecture and our investment in the public realm means that we're actually changing a whole market and Victoria is regaining its rightful place in London.

Let me remind you where it's located **–** it's SW1, seven minutes' walk from the Houses of Parliament, an eight minute walk from Buckingham Palace, seven minutes' walk from St. James's Park; and two stations **–** one at either end of Victoria Street. And we're continuing what we started at Cardinal Place.

Cardinal Place saw new corporates moving into the area. And over the last six years others have remained and others have moved in and made it their home, and in particular people like Tom Ford and Burberry, and most recently Jimmy Choo at 123 Victoria Street. The occupier landscape has changed completely. No longer is it dull and grey as we've all had in our minds, it's beautiful and it's trendy now. We are transforming the market.

Slide 28 – Victoria retail vision

But we're also concentrating on the retail. This is crucial to creating a sense of place and it provides for the offices and the residential. Gone are the buildings whose ground floors contributed nothing to the street and acted simply as access and egress points. We have a retail vision that stretches from Buckingham Gate to Victoria Circle and the station. Every building has retail on the ground floor and, like a shopping centre, we've planned where we want our retailers and we've designed the buildings accordingly. To the right we have the restaurant zone; you could see Jamie Oliver and Gordon Ramsay locking horns again as they do here [at One New Change]. In the middle of the street, we have our high street and we'll see names such as Karen Millen that will complement Cardinal Place. At Victoria Circle, we're planning aspirational retailers such as Ted Baker and COS mixing with restaurants and cafes and a supermarket to serve the commuters. The names you see there are aspirational, only some of them exist today, but in two years' time when we see you again, we will see more of them. Retail is a very important part of Victoria's transformational change.

Slide 29 – 123 Victoria Street, SW1

So we've got all of the components, we've got great momentum, I'm now going to take you through each of the individual schemes and give you a little bit more clarity on them. 123 Victoria Street, Jimmy Choo has arrived. They've taken 48,500 square feet of space on a ten year lease, and that's more than we've spoken to you about before because they had an 11,000 square foot option which they've taken up. We've got another 31,000 in solicitors' hands. That means we've got 42% [pre-]let or in solicitors' hands. And we've got further interest in all the remaining space and completion next month.

Slide 30 – 62 Buckingham Gate, SW1

62 Buckingham Gate, designed by Cesar Pelli who designed the Canary Wharf Tower, this is really making a statement on the corner of Victoria Street. We're on programme to complete in 2013. And with target rents of £65.50 we've got interest already in a significant proportion of the building.

Slide 31 – Kingsgate House, SW1

Kingsgate House. We're replacing a 1960s building with two stone buildings planned for 2015. The residential building on the right, I've already mentioned. And the office building on the left, we've already committed to build to grade and we've got optionality now on whether to build one building or both buildings.

Slide 32 – Victoria Circle, SW1

And then finally, Victoria Circle, which is in itself a transformational project. It will transform completely the area in front of the station. We're delighted to be in partnership with CPPIB and we've got huge momentum. We've submitted a planning application to improve the quality of the product and to improve deliverability, and that's going to the planning committee next week with offers of support. We've sorted our CPO, we've sorted our Section 237, which, as many of you will know, sorts out rights of light which is a major barrier to development at the moment. And we have all our approvals in place to start demolition in October.

Slide 33 – Victoria Circle Masterplan

So just a little bit about the makeup of the scheme: it's 910,000 square feet; 600,000 of offices, 90,000 of retail, 200,000 of residential and that is split across five buildings. They're all linked by a pedestrianised space, building on our mixed-use philosophy for which you're so aware now and familiar with. And crucially, the buildings can be delivered in phases. This creates great optionality as we're now consistently talking about.

Slide 34 – Victoria Circle Masterplan – Phase I – Delivery 2016

Phase I delivered 2016: it includes the residential building I referred to earlier and two office buildings totalling 550,000 square feet.

Slide 35 – Victoria Circle Masterplan – Phase II – Delivery 2018

Phase II due to be delivered in 2018 and it's simply one office building of 100,000 square feet.

Slide 36 – Victoria Circle Masterplan – Phase III – Delivery 2018

And then finally, Phase III is effectively our Section 106 building because it comprises a library and affordable housing, and it's very likely as needs change this building will change as we go forward. And the other important thing here is that London Underground are continuing with their investment into the underground here, £500 million. And that will improve the Victoria Line, there will be a new ticket hall and, importantly for us, there will be a new entrance at the corner of the Cardinal Place nose.

Slide 37 – Victoria

So in Victoria we have all the components we need to make transformational change. We've got new residential, we’ve got new businesses choosing to make Victoria their home. We’ve got great architecture, we’ve got investment in the public realm, there’s investment in the underground; we’re changing that market. This is a once in a generational opportunity and we’re really grabbing it and Victoria will regain its rightful place in London.

We also always have an eye to the future and I’ve talked about what we’re doing currently in the City and the West End, but in the development team we’re consistently looking for new opportunities. We’re looking at Oxford House, we’re looking at Eastbourne Terrace and we’re looking at Southwark Bridge Road, and there certainly isn’t enough time today to talk about those, but on another occasion we’ll update you on where we are.

Slide 38 – Summary

So to conclude, as Scott said, we're operating in a tough market, but this brings opportunity.

Our strategy is not predicated on a bull market, we have an amazing portfolio, we're continuing smart capital recycling, we're delivering the right product into the right market at the right time.

So today we've given you a very, very brief introduction to our activities and what's going on in London, and before we go on our tour, Scott and I will now answer any questions that you might have.

Question 1

Christopher Fremantle, Morgan Stanley

Can you just talk on the Victoria site, what the pre-let requirements are, how speculative it's going to be for each of the buildings you're talking about?

Answer – Colette O'Shea – Head of Development, London Portfolio

Well, on Victoria Circle the decision that we've made at the moment is to start the demolition, and what that does is that it means we can clear the site and then through the planning regime we've got optionality on when we can start each of the buildings, so we can then decide, depending on how things are going, how we will deliver it, but the point is having the optionality.

Further question

So you just haven't made the decision yet basically?

Answer – Colette O'Shea – Head of Development, London Portfolio

No we haven't made the decision yet.

Question 2

Carl Gough, Oriel Securities

It's a very positive picture you paint for London, one I certainly agree with. What are you seeing at the moment in terms of rental growth over the first half of the year? And given the lease expiry events, lack of supply coming on over the next three years, where are rents going to go at the market level for good prime space, not particularly your schemes, but just where is this market heading to?

Answer – Scott Parsons – Head of Property, London Portfolio

Well, I think in general when it comes to rental growth, I think it will come, but it will come a little bit slower perhaps than last year's consensus, and that's underpinned by the structural demand and supply points we raise. Just to give you a flavour of actually what we've had on the investment portfolio, lettings may have taken a little bit longer to come, but by and large they've been ahead of ERVs.

Further question

Can you put any quantification on those comments?

Answer – Colette O'Shea – Head of Development, London Portfolio

I think on the development side of things what I can say is that we've got a lot of interest in all the buildings. At 123 Victoria Street we've guided at £52 [per square foot]; we're doing better than that. At 20 Fenchurch Street, we guided at £60 [per square foot]; we've done the Markel deal at £65, and at 62 Buckingham Gate, we've guided at £65.50 [per square foot] and the discussions that we're having are in line with that.

Question 3

Hemant Kotak, Green Street Advisors

With regard to the residential, can you give us an idea about the economics of that? What are the returns relative to some of the offices that you're doing please?

Answer – Colette O'Shea – Head of Development, London Portfolio

Well first of all it's a taxable activity, so all our appraisals are based post-tax, and they have to meet the same hurdle rates as our commercial schemes.

Further question

Do you have an idea in terms of the magnitude, so including things like Section 106 costs what are the average type of returns that we can expect from residential? You mentioned the big uplift you're seeing in value per square foot when you transfer to prime residential, how do the economics stack up?

Answer – Colette O'Shea – Head of Development, London Portfolio

Well I think in simple terms at Wellington House we've spent £60 million and we've got in £90 million.

Further question

Just looking forward though with regards to the 900,000 square feet please?

Answer – Colette O'Shea – Head of Development, London Portfolio

Well I would anticipate similar sorts of returns.

Question 4

Marcus Phayre-Mudge, Thames River Capital

There's been a bit of journalistic puff about hidden incentives, etc. on a couple of deals. Can you just clarify **–** I'm sure it's all made up.

Answer – Colette O'Shea – Head of Development, London Portfolio

Yes, well I mean I've read the press on Markel as well; it is exactly as we've said to you, the only thing that I would add to that is they were very early into negotiations with us at a point when we hadn't finalised our PC date because of our construction management route there, and the arrangements that we have with them is that the lease completes either on PC, which is April 2014, or July 14, but they can't start fitting out until they complete their lease. So that's the only thing I can add to what we've put in the press.

Further question

Great thank you, and one other question. Back to residential, your affordability, your affordable housing bank I think is very important and can you expand on that a little bit about how much of affordable you've got stacked up, how much of your prime you'll be able to satisfy with the affordable element?

Answer – Colette O'Shea – Head of Development, London Portfolio

That's a really good question, because as I said to you, it is a barrier to entry. At the moment we've got enough affordable in our bank to support all the schemes that I talked about today, so we're in good shape.

Question 5

Nick Webb, Exane BNP Paribas

Just two questions, firstly we tend to see – in London – industries clustering around certain areas, as you see in the City and the insurance district and so on. Are you targeting any industry in particular with the Victoria development, or is it likely to be a very diverse group?

Answer – Colette O'Shea – Head of Development, London Portfolio

I think that's the interesting thing about Victoria, and that was the reason for showing you the range of occupiers there, because what we are seeing now is very much corporates, but it's really interesting that it's becoming a design fashion centre as well, that the name is really getting out there, it's SW1, it's so well connected. And it's likely we'll see something from the TNT sector as well, so it's truly diverse.

Further question

Thanks. And the second question was just on residential; I think everyone knows the positive story, and you set out a very optimistic vision, I just wondered what your view as the biggest risks to your residential schemes, and specifically maybe if you could talk about the affordability per square foot, and also the regulatory environment given the stamp duty changes we saw in the most recent budget.

Answer – Colette O'Shea – Head of Development, London Portfolio

In terms of the risk side, I think we're very well managed there, because actually whilst it looks like a lot of residential it's only 480 units over the next five years, and bearing in mind we can't house our population in the UK, there is a lot of demand. I think in terms of values, we are focused on the prime, rather than the super prime, and therefore we're not into that sort of high risk territory, and as I said, most of the demand is in the £1 million to £5 million price bracket, which is where we are focused. In terms of regulatory, as I mentioned it's a post-tax activity and our activities won't take us outside the REIT rules.

Question 6

Harm Meijer, J. P. Morgan Cazenove

Just on the market just in general, you are actually kicking off by saying some things but I'm not so sure, can you give a bit more colour and do you also mean that for property prices or what is your outlook just on the actual values at this moment?

Answer – Scott Parsons – Head of Property, London Portfolio
I think our view is that yields will remain relatively stable, but I guess I'd harp on again about delivering the right product into the right market and the schemes where we're on site now, the occupational markets are quite active, so the insurance market is very active at 20 Fenchurch Street and TNT and high fashion in Victoria. And I'd like to think that the other developments are in a good state of optionality to respond to occupier demand as it fluctuates.

Further question
And in the press there was potential talk between you and another large company about swapping assets. Was it true or can you give us a bit of colour behind that?

Answer – Scott Parsons – Head of Property, London Portfolio
I have to say that I think you'd be disappointed, and I'd certainly be disappointed if we didn't look at every opportunity out there in the market, so that's probably all I'd say on it.

Further question
Just here, how is trading actually going here in One New Change of the retailers? How are they trading compared to last year at this moment?

Answer – Colette O'Shea – Head of Development, London Portfolio
They're trading really well, and trading is up on last year and we're finding that things like Mother's Day, the significant events like that, we're doing incredibly well. And I mean I think it's still bedding down, we're still working hard on the Sunday trading.

Answer – Scott Parsons – Head of Property, London Portfolio
The good news is shoppers on Saturday and Sunday, they may be fewer in numbers but they're actually spending more when they come, so that helps a lot in terms of turnover.

Further question

But can you give some numbers? I mean is it good compared to the market or are we really up in absolute terms? Are we up by 5%, 10%, 20%? I mean just a bit of colour?

Answer – Colette O'Shea – Head of Development, London Portfolio
We haven't got the numbers here but we've got the man in the room that does, so you can talk to him afterwards.

Answer – Scott Parsons – Head of Property, London Portfolio
That's Tim [Allibone]. Any other questions? Do feel free to ask questions throughout the day.

- End -

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