Land Securities Interim Results Presentation

Thursday 11 November 2010

Speaker: Francis Salway – Chief Executive
Slide 1 – Title slide

Good morning and welcome. We have a lot of momentum within the business, so a major part of this morning's presentation will be delivered by Richard and Robert so that they can give you a flavour for activity.

Our proposition is that we have set up a high exposure to growth opportunities; that we are executing a clear plan; and that this plan is already delivering value.

Slide 2 – Land Securities' proposition

The key elements of the plan are: delivering developments into supply constrained markets; being committed to recycling of capital; and achieving value enhancing lettings. And both Richard and Robert will take you through some of the recent achievements on lettings, many of which post date the half year.

To have a clear plan, you need a view on the market outlook. Almost exactly a year ago today, we outlined our view that the recovery in the property market would come in two stages - initially re-pricing of yields – followed by a second stage driven by growth in rental values.

Slide 3 – Positioning a business for the recovery phase

And this is the exact slide we put up a year ago.

For the first stage, we were well positioned for the yield-driven bounce with an LTV ratio of around 50%. Well placed, but you might say that we didn't have any special competitive advantage.

However, as we move towards and into the second stage of recovery, I do believe that we have done an enormous amount to position the business for this second stage – and that, as a result, we have real competitive advantage. Firstly, we are in the best sectors of the market; secondly, we have created some great opportunities within the business; and, thirdly, we are already demonstrating good execution.

Slide 4 – Activity highlights of H1 2010/11 - developments

In terms of highlights from the half year, and starting with development, we commenced the Trinity Leeds scheme with over 40% pre-let and it has already moved to 50% pre-let or in solicitor's hands. The target gross yield on cost is a very attractive 8%. At 20 Fenchurch Street, we have signed a JV and started works on site.

On schemes which are further advanced, we have had some notable successes.

The retail element of One New Change is now fully let. And at the residential development at Wellington House in Victoria, we are making excellent progress on the sale of residential units – in terms of both volume and price – and Robert will comment further on this.

Preparations for our next tranche of developments are also progressing well. Robert will talk about the three schemes we expect to start in London during 2011, and Richard will talk about our growing levels of activity around delivering foodstore developments to meet the appetite for more space from the supermarket operators.

Slide 5 – Activity highlights of H1 – capital recycling

In the half year, we have made not only acquisitions, but also some profitable sales which demonstrate our commitment to capital recycling. The highlight was the sale of Park House at £242m per acre, and we got that price because of our skills at mixed use development - getting prime retail, prime offices and prime residential all on the same site.

Overall, our disposals were at 5.7% above March valuations.

And you can see from the middle column that there is a 290 basis points positive yield differential between acquisitions and sales.

Slide 6 – Financial summary

In terms of formal results, our profit before tax for the half year was £455m, with the major element of this being the valuation surplus of £314m, representing an uplift of 3.4% on March.

The valuation increase drove a 6.7% increase in NAV to 737 pence per share.
Our underlying revenue profit was £135.9m, up 5.8% on the prior period in 2009. Growth in adjusted diluted earnings per share was higher, up 9.5%, as a result of trading profits flipping from a negative figure in the first half of 2009 to a positive figure in the first half of 2010.

As previously guided, our dividend for the second quarter will be 7 pence per share.

Slide 7 – Investment portfolio valuation movements

As I said, the overall valuation increase on our portfolio was 3.4% - relatively similar across the various sectors with the exception of central London retail which was up 9.1%. This was driven by a big valuation increase on the retail element at One New Change. Within 'other', the Accor Hotel portfolio was up 6.8% driven primarily by a bounce back in income.

I believe one of the stand out features of the half year valuation results is that fact that, at a time when we are committing significant capital to development, the assets in our development programme delivered a valuation surplus of 9.6%. This will have contributed just under 1% to the overall valuation gain of 3.4% and just over 1% came from rental value growth with the balance from 20 basis points of yield shift.

Slide 8 – Like-for-like portfolio

It is on our like-for-like portfolio that we can look at comparative trends in both capital and rental values. As you move from left to right across the slide, you can see the improving trend on rental values (in brown) over the 3 time periods.

And you can see from the right hand set of bars that at the total portfolio level we delivered positive rental value growth, up 1.1% in the 6 months which, for me, is an important turning point.

Slide 9 – Investment portfolio performance relative to IPD

In terms of ungeared total return, our portfolio outperformed the IPD Quarterly Universe by 0.9% in absolute terms or, to be technical, 0.8% in terms of relative performance.

Looking at the left hand bar, you can see that our London offices underperformed the IPD benchmark. Part of that underperformance is attributable to Queen Anne's Gate, from which we have extracted virtually all of our capital through the 2009 bond issue. So we again show adjusted figures excluding Queen Anne's Gate in the footnote to this slide. Another important factor was that our largest property, Cardinal Place, trod water and saw virtually no movement in value. It is always the case that not every property will move in value in every reporting period, and history suggests that any pick up in office rental values in Victoria tends to lag slightly behind the Mayfair market.

Conversely, the performance of our London retail was extremely strong. As I have said, this is largely down to the retail element at One New Change.

Our retail warehouses performed broadly in line with the benchmark, fractionally below, and our shopping centres were a good margin ahead.

I will now hand you over to Martin.

Speaker: Martin Greenslade – Group Finance Director
Slide 10 – Title slide

Thank you Francis. Good morning everyone. Francis has taken you through the financial headlines so I will go through our performance in more detail, starting with our strong revenue profit performance.

Slide 11 – Revenue profit

This slide sets out the main components of our revenue profit and includes our proportionate share of joint ventures. As you have just heard from Francis, our revenue profit for the six months to 30 September 2010 was £135.9m, up 5.8% on the same period last year. Let's look at the major movements behind this.

Gross rental income was down 6.2%, primarily as a result of the disposal of investment properties last year including Portman House and our interest in the Bullring. Partly offsetting the reduction in rental income were lower net service charges and direct property expenses. And behind this are lower voids, an improved bad debt position, and a prior period with a one-off development-related write off. Taking all this together, there was a reduction in net rental income of £13.1m which I will cover in more detail on the next slide.

The other major movement was in interest costs. Net interest reduced by £18m following the cancellation last year of a stand-alone development loan and some interest rate swaps, as well as a lower average debt balance following the sale of a number of investment properties in 2009.

So let's now look at the rental income movement in more detail.

Slide 12 – Rental income analysis

On this slide I've broken down our net rental income into various categories on the left hand side from like-for-like properties through developments and sales. Starting with the top line, net rental income on our like-for-like properties increased by £7.3m or 3.2%. In Retail, net rental income was higher due to new leases at Poole Retail Park, the settlement of some outstanding rent reviews and reduced bad debt charges. In London, net rental income was broadly flat, with a reduction in income on properties being prepared for redevelopment but not yet categorised as a proposed development – in particular Old Bailey – but this was offset by new lettings such as at Thomas More Square. Proposed developments invariable shows a reduction compared to the prior period and the principal property here is 123 Victoria Street (formely Ashdown House) where our income declined by £1.5m. Within on-going developments, Dashwood delivered a strong increase in income – here we have gone from only one floor of the development being let at 30 September 2009 to it now being substantially let. Completed developments saw an increase in rental income as a result of the letting of the final floors at New Street Square and a one-off benefit from a back-dated rent adjustment.

And while you can see there was a £4m benefit from the acquisitions of the O2 Centre and 50% of the Westgate Centre, by far the largest impact on net rental income came from the properties sold since 1 April 2009 with a decline of £26.8m.

Turning now to net assets.

Slide 13 – Movement in adjusted diluted NAV

This slide sets out the key items behind the increase in our adjusted net assets. Adjusted earnings were £141.0m. The next three items reflect the changes in the value of our assets, by far the largest of which is the revaluation surplus of £314.1m.

Dividends were £74.6m, comprising two amounts: £106.5m paid to shareholders in the year less £31.9m which was in the form of a scrip dividend.

With other reserve movements amounting to £5.0m, the total increase in adjusted net assets over the period was £392m taking our adjusted diluted NAV per share to 737p, up 6.7% from 31 March 2010. So effectively, we converted a 3.4% increase in property values into a 6.7% increase for shareholders.

So, let's move from net assets to cash flow.

Slide 14 – Cash flow and debt

The full details of our cash flow can be found in the appendix section of your packs, but I thought it would be simpler to present it by way of the major moments in our net debt.

We began the year with net debt on our balance sheet of £3.26bn, and it has remained broadly unchanged during the six months, increasing by £12.3m. Operating cash inflow after interest was £81.0m. You can see that, somewhat surprisingly for a REIT, tax paid was £59.9m. This reflects a protective payment we made to HMRC in respect of prior year matters. There is no impact on the income statement or net assets as we made full provisions at the time. The other main cash outflows over the six months were the £73.7m in dividends we paid, £145.2m on acquisitions, principally the O2 Centre, Finchley Road, and the £114.1m we invested in our portfolio, largely on our development at One New Change.

Cash from disposals brought in £331m, the majority of which related to Park House, and net cash advanced to joint ventures, principally for the acquisition of the Westgate Centre, represents the majority of the £31.5m spend in the "other" category.

Taken together, these cash flows resulted in our net debt position being virtually unchanged at 30 September at £3.275bn.

Slide 15 – Reconciliation of cash rents and P&L rents to ERV

Before moving on to look at our financing, I just wanted to mention that we have provided you with additional disclosure on our cash and P&L rents. This slide is a summary of the more detailed analysis you will find in the appendix section of your packs. I don't propose to talk through this now in any detail but essentially it provides for the first time an annualised P&L rent figure at 30 September, reconciling it to our annualised cash rent and from that, to our portfolio ERV. I hope you enjoy it.

Slide 16 - Financing

So, on to financing…

During the half year we bought back £254m of bonds due in March 2011. We arranged a new four year bilateral facility of £100m, and in addition, we improved the pricing on our existing bilateral facilities – generally facilities we had taken out or extended in the second half of last year.

As a result of the actions we have taken, the weighted average maturity of the Group's debt, including JVs, is up slightly from the beginning of the year at 11.9 years. Cash and committed but undrawn facilities at 30 September were £2.3bn and 97.5% of our debt was fixed rate.

Group LTV is 42.1%, down slightly from 43.5% at 31 March 2010. In the Security Group, £3.4bn of net debt was secured against £8.3bn of assets, giving a Security Group LTV ratio of 41.4%, down from 45.5% in March. The reduction in Group LTV is in line with our previous comments that we would allow our gearing to reduce as values rose.

Slide 17 – Summary

So let me summarise.

We've had a good revenue profit performance in the first half, probably ahead of most expectations. However, there are a number of reasons why revenue profit is unlikely to be as strong in the second half. As is often the case, these tend to relate to the way developments impact the income statement. As properties are emptied out in advance of development, we lose income – so in our case there is some £4m of income in the first half related to Old Bailey and 123 Victoria Street which will not be there in the second half. And coming out of development we have One New Change which is now completed but the offices are not fully let. So we have capitalised interest of £11m in the first half which will not recur but only around £3m of forecast net income when we take into account void and marketing related costs. Over time, this shortfall is expected to reverse as we lease up the remaining office space.

We also have what I believe is an appropriate level of gearing for this point in the cycle and which has enhanced returns to shareholders this period. And finally, we have considerable financial firepower, with no restriction on use and immediately available to take advantage of appropriate acquisition or development opportunities as and when they arise.

Now let me hand you over to Richard.

Speaker: Richard Akers – Managing Director, Retail Portfolio
Slide 18 – Title slide

Our market is not yet showing rental growth and there are some headwinds facing us in the consumer economy, but despite that we are seeing strong demand from some of the biggest retailers for new floorspace right now and we expect to see rental growth emerging in the medium term as the lack of supply of quality floorspace becomes more apparent.

Slide 19 – Land Securities' Retail

Our strategy is geared to this pattern of recovery. This morning I'll brief you on our progress on key lettings in our investment portfolio, our Trinity Leeds project, a scheme which has the potential to be the most profitable development project in the whole of our current programme and I'll also talk about our progress on out-of-town development.

But, first a bit of background on the company's retail assets. The chart on this slide shows the sub-sector breakdown of this portfolio.

Slide 20 – Land Securities' retail assets

80% of these retail assets are in the 3 prime categories of London Top Fifty Cities or Retail Warehousing. Rob will of course talk about central London and our development at One New Change, where we have seen exceptional retailer demand. In suburban London we see similar patterns of demand where a wider variety of retailers try to increase their exposure to the London market. A good example is at Southside in Wandsworth where we have recently units to Top Shop, Rebublic, TK Maxx and New Look and where see growth in both footfall and spending.

In the Top Fifty cities the assets shown on this slide: White Rose, Bristol, Cardiff and Exeter account for two thirds of this category. With three of these assets being recent development completions it's a rapidly changing and expanding part of the portfolio. And it will continue to change as we complete Trinity Leeds and bring forward development proposals for Glasgow and the Westgate Centre in Oxford.

Our Retail Warehouse exposure gives us very solid income returns with low voids and low management costs, and our plan is to gear up these returns by increasing the proportion of the portfolio oriented towards development.

Slide 21 – Land Securities' retail assets

So what about the remaining 20%? The factory outlet category is dominated by Gunwharf Quays which, once again, has shown the highest valuation surplus in the retail portfolio. We are again seeing like-for-like growth in retail sales this year at both Gunwharf Quays and Galleria. In our 'other' category every asset is there for a reason. The Bridges in Sunderland dominates the city's retail offer and in Corby the population is forecast to grow by 36% in the next ten years.

But as, I said in May, we won't hold these assets forever. We will execute our opportunities and recycle capital.

Slide 22 – Recycling capital

And, we have been very active in recycling capital. We bought two schemes early in the period and we have sold well. The Metro Fund assets were worked hard in our ownership, sold at a low yield averaging 5.3% to the purchaser and we have used much of the proceeds to repay JV debt. In Stratford, we saw competitive risks emerging as Westfield near completion of their Stratford City project with over 300 retail units. On average, our sales were 8.8% above March 2010 Valuation. Expect us to continue committing capital to both developments and acquisitions. We have committed to Trinity Leeds and we expect to commit to the development of the Atlas site in Glasgow over the next 6 months. And, whilst we're developing in the major cities we will also be taking opportunities to buy prime assets outside of the Top Fifty cities, where we see secure income and higher yields, as well as asset management opportunities.

Slide 23 – Lettings, voids and insolvencies

Our number one priority for the period has been income growth. Voids are down and units in administration have been reduced to a more normal level. We have let 107 units over the period for a rent of just over £7m per annum. And, whilst this is not our highest level of letting activity it has been at just 0.8% below ERV. And we have started to see a trend of incentives reducing slightly.

Slide 24 – Lettings, voids and insolvencies

1.7% of the portfolio is subject to temporary lettings and 0.9% of the voids in the like-for-like portfolio are under offer. When these are deducted from our void figure we arrive at an occupancy rate of around 97%. In the development programme we have concluded 50 lettings over the period with 28 more in solicitors' hands. In Cardiff we have moved to 83% committed.

Slide 25 – Key occupiers

One of our objectives has been to secure key lettings in our assets to drive footfall and growth. During the period, we have secured agreements with John Lewis to locate their At Home format in both Exeter City Centre and the Greyhound Retail Park in Chester. Those lettings were both concluded after 30th September. We have also been active with Primark. We are under construction with a store for them in Livingston and we have submitted a planning application to build a new store for them in Sunderland as part of The Bridges shopping centre.

Slide 26 – Developments Trinity Leeds

We have started the Trinity Leeds development. As you can see, it's a gap right in the heart of Leeds City Centre. It is surrounded by existing anchor stores and high footfall streets, and is close to bus stops, the station and car parking.

So, we are not stretching the prime pitch, and we don't have the expense of an anchor tenant, car parking or infrastructure. What we do have is an eager shopping public already there, looking forward to the new shops arriving.

Slide 27 – Developments

We have achieved new lettings to many of the most popular brands including Top Shop, River Island, Hollister, Next and Cult Clothing. We are currently 50% let or in solicitors' hands and we have negotiations underway which will take us to around 60% in the short term and with a gross yield on cost of over 8% and its cost representing 13% of our shopping centre portfolio, it should be a valuable contributor to returns and will significantly increase the proportion of the retail portfolio in the Top Fifty UK cities.

Slide 28 – Out of town developments

We have had a major thrust on out-of-town development. The early projects we committed to in Livingston and Lincoln are completing over the coming few weeks. Whilst relatively small these projects have made a significant contribution to our valuation surplus. We are anticipating a start on our Wandsworth scheme, again with Sainsbury, in the near future.

We have outstanding planning applications that we've submitted in Banbridge, Northern Ireland, the Meteor Centre in Derby, and in Northampton with a total of 270,000 sq ft of supermarket space. We expect these all to be determined before the end of the financial year.

Slide 29 – Retail Portfolio plan

We are very focused on our customers. A lot of the major retailers in the UK, both food and non-food have aggressive expansion strategies. We know what these strategies are. And, even in a market with little or no generic rental growth we are confident that by providing the right space we can grow value in our investment portfolio as well as securing significant pre-let income for our growing development programme.

Speaker: Robert Noel – Managing Director, London Portfolio
Slide 30 – Title slide

Thank you Richard. Good morning everyone.

In May we talked about the London office occupational market turning that we are heading into a market that's supply constrained and where we should see rental growth. .

At our Investor Conference in July we talked about how our portfolio of prime assets, let at the right rents would benefit from this lack of supply and that we would not compete in today's investment market because we have plenty of development opportunity within our existing portfolio where we can invest.

Today I'd like to bring you up to speed with what has been a busy period after briefly covering our valuation and our exposure to Government.

Slide 31 - Valuation

The first three columns of this slide shows the valuation and the movement in capital values in the London Portfolio over the first half.

The right hand column shows our valuation yields on 30th September.

The portfolio, as a whole increased in value by almost £200m or 4.1% over the 6 months to £5.3bn!

In the £3.9bn like for like portfolio the valuation increased by £79.3m. That's an increase of 2.1%.

At 30th September the nominal equivalent yields was a comfortable 6.1%.

As you'll see on the top row we were held back in the West End. That's because of our exposure to Victoria which makes up the bulk of our West End Holdings. As Francis said earlier, Victoria has always been a later cycle play and we have great plans for it, again, we talked about that at our investor conference in July.

The remaining £1.4bn makes up our non like-for-like portfolio. This includes developments we've completed within the last two years. It also includes acquisitions and developments in the course of construction.

Here, the valuation movement was a much more healthy 9.8%. This group can capture spot rental value movements a lot more easily and includes: One New Change, 62 Buckingham Gate, Dashwood House, and New Street Square.

We've got a significant development pipeline to shift into this segment of the portfolio as New Street Square and Dashwood House come out. And, we expect the outperformance to continue.

Slide 32 - Government income

Some of you have recently asked about our exposure to Government.

In March 2008 £67.4 million or 10.7% of Group rent roll came from Government, Local Government or the Metropolitan Police. And, I've excluded Queen Anne's Gate from these numbers where, as you know we raised the £360m self-amortising Bond last year secured against the income.

Since then we have sold Fleetbank House, New Scotland Yard and half of Empress State.

In addition, leases have expired at: 62 Buckingham Gate, 123 Victoria Street, Wellington House, and 60 Ludgate Hill. As you know, these buildings are now or will shortly be part of our well timed development programme.

Today we've got £30.7m of rent coming from these sources that's 5.2% of our rent roll. And, the Weighted-average unexpired income to earliest break is 10.4 years.

The only near term expiries are Kingsgate House and Allington Towers, both of which come up in 2012. Kingsgate is a 200,000 sq ft building, and we will have submitted a planning application for a new 390,000 sq ft mixed-use scheme by the time we talk to you again in May.

Allington Towers forms part of VTI, which, as you all know is an important development site for the group.

Slide 33 - Grade A assets

In the market today, vacancy rates are coming down there's relatively little being built demand is picking up, and that means choice is diminishing.

Prime rental growth has returned and our portfolio is well positioned to benefit.

54% of our portfolio, by value, is made up of Grade A assets. Either properties redeveloped or refurbished in the last 10 years, or trophy buildings, such as Piccadilly Lights and Westminster City Hall

You can see the breakdown of uses at the top of the slide. The weighted average unexpired lease term of the offices is over 12 years with an average passing rent of only £44 per sq ft. And, according to the valuers the rental value is almost in line with that number.

As we head into the rental growth stage in the cycle this section of the portfolio is relatively well set.

Again, Queen Anne's Gate is stripped out of this analysis.

Slide 34 - Development assets

A further 27% are development prospects – be it schemes on site, in green with planning consent, in purple or in design, in red. That last category, in red consists of buildings which are typically still let, but where we are working towards vacant possession or letting them on short term leases to maintain flexibility.

What this means is that 81% of our entire London portfolio is either Grade A property well let and well set for this stage in the cycle, or development prospects. I'll give you an update on the development properties in a minute. .

Slide 35 - Asset management assets

The remaining 19% is active management stock. And, as with all of our assets, we hold them for a reason with a specific asset management plan identified for each property.

Let with an average office rent of just £32 per square foot the weighted-average lease length is much shorter. That suits us just at the moment because it gives us the opportunity to capture headline rental growth as we renew with existing tenants, or as we re-let in a rising rental market.

And, with a re-invigorated asset management team we're re making great progress.

Slide 36 - Asset management

At the Investor Conference in July, Scott gave you the example of our lettings to News International at Thomas More Square.

In August, our Oriana Joint Venture with Frogmore, entered into a conditional agreement to pre-let a new 140,000 sq ft store to Primark at the eastern end of Oxford Street.

That deal would be transformational to the Eastern end of the Street bringing much needed life into the area and great benefit to our neighbouring holdings.

And, since the half year we have executed two deals which illustrate why we have held these assets and what we can get out of them.

First, at 40 Strand we had a 94,000 sq ft office building let to two tenants both with lease expiries in 2012. Both tenants wanted more space. Rather than let one of them take an assignment of the other's lease we took a surrender of one lease of 42,000 sq ft and, subject to refurbishment of the offices we then let all of the 94,000 sq ft of the building to the other tenant, Bain & Co, on a new 15 year lease with no breaks.

At Harbour Exchange in E14, we've restructured Telecity's lease by granting them overriding leases, subject to planning on 260,000 sq ft at two buildings. That will give them expansion space where the existing tenants' leases have mutual breaks over the next 4 years.

These three leasing deals will amount to over £15m in rent with a weighted-average lease term of over 26 years.The rents are nearly 27% ahead of the March 2010 rental value.

As I said, each of our assets has a clearly identified plan; we've now got an enlarged, enthusiastic and commercial Asset Management team to work these assets hard and the results are beginning to show.

Slide 37 – One New Change aerial photo

Now onto the development properties, run by Colette and starting in the City.

We completed One New Change to shell and core last month. And, here you can see a shot of the completed building taken from the dome of St Paul's.

Slide 38 – One New Change

The retail element opened for trading on 28 October. All of the retail units are let and 49 out of 60 are open for trading.

I do hope you have all been shopping or dining at this fabulous new destination not least because a percentage of your spend will find its way to our shareholders!!!!

The offices and you are now looking at the view down Watling Street with Fidelity on the left are finished to shell and core.

We've handed over 115,000 sq ft to K&L Gates for fitting out and they'll be moving in at the end of May. We're now getting on with marketing the remaining 217,000 sq ft of offices, and have one deal in solicitor's hands for 18% of this space.

Slide 39 - In the course of construction

Of the remaining schemes that we are in the course of building, we're making good progress.

And here, you can see pictures of busy sites

Park House, 308,000 sq ft and pre-sold to Barwa Real Estate, but where the development is managed by us is on programme. 95% of the retail space is in solicitors' hands to be let. and Clearly, letting progress is important to us because we still have a profit share at large and these lettings are ahead of target.

At Wellington House, Buckingham Gate our residential scheme is also on track. The old building is now demolished and we are on programme for completion in July 2012 86 weeks away.

So far, we have pre-sold 40 of the 59 units. That represents £49.3m worth at £1,325 per sq ft and ahead of our estimates.

At 62 Buckingham Gate, we completed demolition in the summer, and we are now in the ground. This 269,000 sq ft scheme is on schedule for completion in April 2013.

Slide 40 - 20 Fenchurch Street

Last month, we announced the formation of a 50:50 joint venture with Canary Wharf to develop 20 Fenchurch Street.

This is the site today, where works have already started. The ground slab has been blasted over the summer and we'll start in the ground shortly on what is certainly an extremely important scheme for us and for the City.

In teaming up with Canary Wharf we have brought together two companies with complementary track records: One for delivering large, complex site-constrained schemes in central London the other for building tall buildings. We felt that combination of skills was important and it's clear from the progress we have made over the summer that the tie up will add real value for shareholders.

Slide 41 - Intended 2011 starts

Forward selling Park House successful sales of the flats at Wellington House and bringing a partner in on 20 Fenchurch Street all give us the ability to crack on with other schemes and deliver more space into the market that's short of supply, as I said a minute ago.

Next up will be 123 Victoria Street. We're expecting planning consent shortly so stripping out will start later this month with construction starting in the spring.

That'll be 230,000 sq ft of completely repositioned effectively new space for delivery in Late 2012.

We're able to deliver many different combinations of floor plate size in this versatile building just at a time when supply of new space will be very restricted.

Starting hot on the heels of 123 Victoria Street, but finishing sooner, will be 110 Cannon Street. K&L Gates move out in May and we will be on site the next day in order to deliver 75,000 sq ft of repositioned space into the city market in Summer 2012.

Also in the City by March, we will be submitting a planning application for over 300,000 sq ft in two buildings at 60 Ludgate Hill and 30 Old Bailey. Here, you can see a computer-generated image of the proposed new 30 Old Bailey viewed from The Old Bailey.

Our intention is to start demolition on site when the remaining leases at the existing buildings run out in July aiming to complete the new buildings in early 2014.

Slide 42 - London Portfolio roundup

So, to round up:

We are maintaining our forecast of a Supply constrained office market in the capital

The combination of quality property and conservative rents sees us well positioned for growth in rental value for the next phase in the cycle

The asset management team is at full strength and we will now see the payback with some great leasing deals

We have taken money and profits off the table at Park House pre-sold just under 70% of the flats at Wellington House and we've sold half of the 20 Fenchurch Street site

And we're ploughing the proceeds back into a healthy, well timed development programme.

Francis

Speaker: Francis Salway – Chief Executive
Slide 43 - Outlook

Our views on outlook are slightly more positive than we had expected them to be at this point. The reasons are twofold; firstly, there is still a substantial amount of capital looking to be invested in property because of continuing low interest rates and low gilt yields. Secondly, our larger corporate customers, both in London and in the retail sector, have strengthened their balance sheets following the downturn and are now looking where to grow and where to invest over the next few years. For us, this translates into occupier demand - for new and additional floor space.

Slide 44 - Outlook

But having had a period when all property moved down broadly together and then up broadly together, we expect greater differentiation between sectors and between individual assets over the next few years, as occupational market characteristics and rental value growth determine performance. It's time to shift from a 'top down' perspective to a 'bottom up' perspective.

And we are in great shape on a 'bottom up' analysis. We are in the strongest sectors of the UK market - London offices and good quality retail. And, as you have heard from Robert and Richard, we have created an abundance of opportunity within our business.

Slide 45 – Market outlook and business actions

Turning to more specific comment on the investment market and occupational markets, there continues to be a large volume of capital looking to invest in property, but at the same time we expect to see an increasing number of sellers. The issue, and for us the opportunity, is that the buyers and sellers are not necessarily well matched. The buyers want prime and a lot of the sellers have secondary on their books.

You will see us continuing to recycle capital by selling some assets to those buyers looking for prime, and making selective acquisitions of good quality properties where we see an opportunity to add value, particularly retail properties where we can apply our leasing skills. We will also continue to exploit the attractive current return differential between development and investment – with most of our new capital invested in London likely to go into developments.

In terms of occupational markets and London offices, our view remains unchanged. We are seeing rental value growth now and we expect to see good levels of rental value growth over the next couple of years. We are seeking to maximise returns from this through development.

In retail, national vacancy rates remain high, but prime retail vacancy rates are more moderate and beginning to tick down in a number of locations. We are particularly encouraged by the fact that many of the stronger retailers now have formal acquisition plans to take 20 to 30 units a year. This is not boom times, but it does represent steady demand for the right units. As you have heard from Richard, we have created value from the right lettings to the right retailers (even if those lettings are not yet showing growth in rental values). And we are selectively starting a number of retail development projects grounded upon pre-lettings.

So, that is our outlook - and you do need to have a clear outlook to have a coherent plan.

Slide 46 – Land Securities' proposition

And our plan is as I outlined at the beginning.

We have actively positioned the business to give us a high exposure to growth opportunities. And we have already demonstrated evidence of execution against the plan - with some great lettings to create value on investment properties and a range of exciting developments which are already leading to both profits on sales and market-beating valuation increases. As I said at the beginning, there is a real momentum in the business.

We are now happy to take your questions.

Question 1
Harm Meijer – JP Morgan Cazenove
Good afternoon, Harm Meijer, JP Morgan Cazenove. Maybe just on City office rents, Rob; the pace is picking up in terms of rental growth - how fast is this pace?
And then, are you currently working on any pre-lettings in some of the buildings, or close to some lettings, like in One New Change?

Answer – Robert Noel, Managing Director – London Portfolio
Well, let's divide that into two; first of all, pace of rental growth. I think we set out in May that we felt that City office rents were going to pick up very quickly, and that we were going to see double-digit rental growth over the next two years, and that is certainly the case; no change from that, yet I don't think it's going to be high double-digit rental growth.

If we had let an office building in the city in 2009 it would have been in the £40s, today it's in the £50s, and that is, by definition, 25% in one year. So it's going quite fast and there is still plenty of room to go. And if you remember, in March we set out the slide that we said there were going to be a lot of expiries coming up, that people would move because rents were at an all-time real low; and as a proportion of corporate overhead, they're very low, so affordability is not an issue. The issue is that there is no choice for these guys, so if you are going to move you're going to have to pay up.

The next question was about pre-lettings; yes, we are. We have one chunk of space under offer at One New Change at 40,000 square feet, which is line with the numbers I've just given you; we're also in discussion on a potential pre-let of our Ludgate Hill site, but this is very early days.

Further question
Harm Meijer – JP Morgan Cazenove
That's great. Maybe just a last one: how much do you think you will buy or sell, or buy and sell over the coming 12 months? And maybe also because you were mentioning earlier that there are more sellers coming, with more, let's say, secondary assets for their books - I am sure you were talking about the banks. Maybe you can give a comment on that.

Answer – Francis Salway, Chief Executive
We said a year ago that we'd be patient on acquisitions, to make sure we got the right returns when we invest money. I think you will see us making some more acquisitions shortly. Our name has been associated with things that have been marketed recently.

In terms of the banks, certainly Lloyds, are still focusing on loans which are impaired, which is generally non-income-producing, and development sites. A lot of those sites are small. I think you will see us buying two or three of those, as we've done with the Atlas site in Glasgow. They may be small, in terms of land purchase, but if each one generates a development of £70 million to £100 million, we've then created maybe £200 million to £300 million of high return opportunities.

I also think, about banks: 2011, 2012, 2013, we will begin to see them no longer continually renewing, rolling forward, all loans, and so the borrower, if they're not able to find a lot more equity to get LTV ratios down to normal levels, that will result in a sale of the asset. And that's where I think we'll get some better quality investment properties.

I'm now going to suggest that we take a question from the webcast, Martin.

Question 2
From the webcast – read out by Martin Greenslade, Group Finance Director
The question is "what is the likely run rate on admin costs, going forward, assuming indirect property expenditure in group services, the expense of the two lines which constitute the number of £34.7 million, and what is the likely capitalised interest run-rate, going forward?"

Answer – Martin Greenslade, Group Finance Director
I think, if we look at the indirect property expenditure, the figures for the first half are relatively representative of how we see it, going forward. We had a reduction in certain costs, and we moved out of No. 11 Strand, that has a benefit, we've seen that saving come through. So I'd say the first half is relatively representative on indirect expenditure going forward, but it does vary; it does vary by the number of people that you have on projects, whether you're capitalising staff into specific projects or not. So there is a degree of lumpiness, but I would go with that as an indication.

And then, when we come to capitalised interest run rate: £12.6 million felt relatively high in the first half. Again, that is a feature of where we are in the development phase. One New Change ceasing – as I said, that was £11 million of capitalised interest. On the other hand, that doesn't completely drop out, and so the figure goes back to, effectively, £1.6 million. What will happen is that there is some capitalised interest from Leeds coming through; what we'll do is we'll give you the capex figures: where we are and how we see capex actually evolving, so you can broadly get a sense of how we're going to charge capitalised interest. But it really depends on the run rate of the capital outflow. I agree that £12.6 million is high; it will be less than that, I think, in the second half, but it won't completely drop off to zero as Leeds comes through.

Question 3
Hemant Kotak – Green Street Advisors
Hi, Hemant Kotak from Green Street. With regards to the London portfolio and the three new developments that have been announced, can you comment about the types of returns that you're expecting to get? I realise you've not given detailed numbers yet.

Answer – Robert Noel, Managing Director – London Portfolio
Yes, I can. We can work it out on the hoof, if you like. We'll start with 123 Victoria Street, 230,000 square feet. Our underwriting has been done on a rental, average rent of £51, and if we capitalise that at 6%, we will make a profit on cost of about 18%.

The figures are pretty similar for Cannon Street, but for Ludgate Hill, I can't really give you any guidance, because we simply don't know what size of building. It can literally be somewhere between 300,000 and 370,000 square feet, and of course that will make a fundamental difference to the returns. And we won't know that until we've been, A), through the planning process, and, B), tied up an agreement with one of our neighbours, EDF.

Further answer – Francis Salway, Chief Executive
If I could just add, we have been targeting around 14% ungeared IRR, and we are hitting that on the projects that we are taking forward. There'll always be a little bit of variation around that. But relative to the IRRs on some of the investment transactions in the market, that looks a very appealing ungeared return.

Further question
Sure, thank you. And some retail questions, please; you've done 107 lettings in the half-year, I believe; can you break that down into how many of those are short-term lettings versus long-term lettings?

Answer – Richard Akers, Managing Director – Retail
Yes, I can. They're all long-term lettings. We don't announce temporary lettings because they're voids. Effectively, I did say 1.7% of our voids are occupied under temporary lets, but all of those 107 are long-term lettings.

Further question
If you include all the lettings, so some of the lettings which are short-term lettings, which I realise you count in the 1.7%, what proportion of the total, in large number, is short-term lettings?

Answer – Richard Akers, Managing Director – Retail
The number of short-term lettings is around 37, approximately.

Question 4
Daniel Horwood – Liberum Capital
Good morning, Daniel Horwood, Liberum Capital. Richard, could I just ask about retail warehouses and superstores? Could you split the ERV decline between those two, and perhaps give us some more colour on the retail warehousing ERV decline? Any pattern in there, any particular problems, any particular areas of vacancy or weakness?

Answer – Richard Akers, Managing Director – Retail
I think the ERV decline is mainly in retail warehousing, not in superstores. Most of our supermarket investment, well, certainly the Sainsbury's ones, are on RPI uplift, and so we haven't seen a decline in rental values in the superstore portfolio.

Just to perhaps put a bit of colour on that, I think the retail warehouse sector has seen some fairly significant failures in 2009. Well 2008 and 2009, MFI and Allied Carpets in particular which were, although there were a lot of retail failures over that time, they were particularly impactful on the retail warehouse market. I think what we have been doing is we have been letting that space and we have been focusing on getting it let. So in some instances that has resulted in reduced ERVs, but our voids are very low and I think that is the right place to be for the future.

Question 5
Keith Crawford – KBC Peel Hunt

Did you make any comments – I came late, I'm sorry – on interest rate trends? Did you say anything about that? Because everything's pretty in the garden on property.

Answer – Francis Salway, Chief Executive
We simply said that low current rates are supporting investor demand; we didn't give a forward-looking statement.

Further question
Because this is the strange part of the picture, isn't it? I mean, there's a slight divergence between us and our nearest neighbours in the west, in terms of interest rate trends. We have interest rate trends based on government policy rather than on market reality at the moment. I mean, is this becoming an issue in the next six months, 12 months? A lot of capital going to be sucked into all this stuff, isn't there?

Answer – Francis Salway, Chief Executive
I think all I would say is that the margin on property equivalent yields to gilt yields, which is used for fair pricing analysis by a number of investors, is looking extremely attractive, and it's a bigger margin than I had historically considered looked fair pricing. And the other important point is that we are moving into a period of rental value growth again, which of course, comes into the assessment when you look at property yields relative to, say, gilt yields.

Further question
The Ludgate Hill, Rob, you have got a single party potentially to take that, is that the idea?

Answer – Robert Noel, Managing Director – London Portfolio
No not at all. It is a significant part, not a single party

Further question
There is something of a standoff here. I mean some time in 2013/14 does that mean instead of having one large building at Canary Wharf we are going to get about 6 of these things. A million feet is it at the Shard, something of that sort might be built? Looks like they are building it at the moment.

Robert Noel, Managing Director – London Portfolio
It is up to 56 storeys when I last looked!

Further question
You said it! It's the height of the Chrysler Building. You know, we have been here before, so there does seem to be some urgency in all this, and I just wonder what you thought just might transpire in the next 18 months for these large users.

Answer – Robert Noel, Managing Director – London Portfolio
Yes, it's a good point. I think you have to look at the size of the market as a whole and the makeup of the market. The City office market is 110 million square feet; there is an annual take-up of 5 million to 6 million square feet; there are a large raft of lease expiries coming up in 2013, 2014 and 2015; there is very little space coming out of the ground at the moment, and you can speak to any of the bankers here today, going through their secondary banking crisis – there is no speculative development finance available. And it's very hard to see how the market is going to become oversupplied in the near term, in the next two to three years, and that is what we're playing into. I'm not worried about what's going to happen in 2015, 2016; I'm worried about the next three years.

Further question

My other question was really, the residential element in Central London: is that going to play an increasing part in the results?

Answer – Robert Noel, Managing Director – London Portfolio
Yes, and we gave some guidance on that in May. It is a very deep and liquid market. We are driving rental values for new product, which is very difficult to build in Central London and are rising. There's a lot of demand for it; increased security, increased efficiency. If you want to find a three-bedroom lateral flat in London, or two-bedroom lateral flat in Central London, they just don't exist. So where we can produce, and we will, we're driving values of, as I said earlier on today, £1,325 per square foot in Victoria, which is a sea change from where people thought the market was 12 months ago. And there is plenty of space to bring forward, which, again, will bring pressure onto the office universe.

Question 6
Remco Simon – Bank of America Merrill Lynch
Good morning, Remco Simon, Merrill Lynch. First of all, Francis, you were talking about banks potentially reducing their exposure to property lending. Martin, could you maybe elaborate a little bit on how you see your own funding sources, going forward? Do you anticipate tapping on other sources of funding, convertibles, these kinds of instruments, going forward?

Answer – Martin Greenslade, Group Finance Director
The question regarding our funding structure is one that we are quite focused upon. If we look at where we were before the financial downturn, around 25% of our debt would have been in banking-related facilities, so easily repayable, and 75% in the bond market. As we degeared, some of that flexibility from bank lending, we've used up, because we've repaid that debt, so that's why we have a large amount of available firepower from the banking market today.

I think over time we'd like to see that flexibility reintroduced, so actually to have slightly less bond debt, which is now very high, over high 90s percent of our debt. But we do have the bond market for us to use, so if the banking market is difficult then we have access to that. We have a fantastic AA rated security group, so we access that, we access the ECP market and so on.

On the banking side, if we look ahead to when our facilities come up for renewal, we are not necessarily expecting all of the banks in our revolving credit facility to renew. I think there will be a reduction, and we are planning for that, but we still think that bank lending will form a core part of our borrowing.

Further question
Okay; and, Rob, maybe on the outlook on City office development, there is going to be a lack of supply in the coming few years, but in the event that we're going to see a relatively moderate economic growth base, what is your expectation on tenant demand? And then, principally, with around 4 million square feet of new schemes coming about in 2014, what do you expect will happen with the old space that tenants will leave vacant?

Answer – Robert Noel, Managing Director – London Portfolio
Well, let's divide that up; let's talk about the 4 million square feet coming onto the market in the next four years, and the context of the market size; and I spoke a minute ago of 110-odd million square feet –- 4% of the market is nothing. You need 5% structural vacancy in the market because of the economic life cycle of buildings.

Demand was your next question; the lease expiries coming up 2013, 2014 and 2015 are because of the end of the 1980s office boom, let on 25-year leases, and the 1990s office boom, let on 15-year leases. Many of these buildings, like the one we're sitting in today, are time-expired and the tenants will move out and go to new buildings.

Now, businesses may be 20% smaller than they were two years ago, but they're a sea change from where they were 25 years and 15 years ago, and we have a cyclical opportunity for consolidation, which is what we see is going to happen. Our thesis is not predicated on an increase in employment growth, or any employment growth; it is predicated on people coming out of buildings which are no longer fit for purpose, going to new buildings at very little cost differential, which are fit for their people and fit for their corporate responsibility.

Further question
And how do you expect those old buildings to impact the market?

Answer – Robert Noel, Managing Director – London Portfolio
Well, it will impact the market, but that's a 2016, 2017's problem. We are in a cyclical market, and that is our game, and today the game is to deliver space to satisfy the demand.

Further answer – Francis Salway, Chief Executive
One other point I'd make is: we had a couple of those buildings, we sold them last decade – buildings with lease expiries, 2013-2015; older, single-let buildings. Now, I'm afraid London is really dominating, or perhaps excitingly, we've got two questions on the webcast.

Question 7
From the webcast – read out by Francis Salway, Chief Executive
The first is "is the Walkie Talkie competing head on with Cheesegrater, Pinnacle and 100 Bishopsgate or do you have a differentiated offer? "

And the second question which is related is "were we surprised by the number of city office schemes that are now likely to start? Are we surprised by how quickly how others have followed our lead?" Robert?

Answer – Robert Noel, Managing Director – London Portfolio
Well! Right, in a roundabout way I think I've answered both those questions. Absolutely, those buildings are head-to-head, but there's plenty of room for them. You know, these buildings will be world-class buildings in a supply-constrained market. If you think about the breakeven rents that each of have – I think Toby [Courtauld] said yesterday that his breakeven rent was slightly below £50; we've given guidance that our breakeven rent is slightly above £50 [per square foot]; he said he was aiming for 600,000 square foot, we're aiming for roughly the same. I haven't seen British Land's guidance on Leadenhall, but these are world-class buildings, and if we can deliver them and make money, okay, on those rents, then we will.

Question 8
Quentin Freeman – UBS
Richard on Leeds, that has obviously gone quite well, what are the chances of dusting down the plans on Oxford?

Answer – Richard Akers, Managing Director – Retail
Well we are going through a process on Oxford at the moment of investigating the feasibility of a major scheme there. So we didn't buy it because there was a development opportunity there, we bought it because it was a good market to be in, Oxford, it is one of the least

supplied markets of retail space around the UK. And the scheme that has planning permission that was pursued by the previous owner is not viable. So we can't just deliver that scheme and so we are looking at a revised scheme. It will take about another 6 months before we have made a decision as to whether there is a deliverable revised scheme to do in Oxford. But all the indications and the background for the market in Oxford are very positive that there should be a scheme to be delivered there.

Further question
Would you be looking elsewhere in the UK to do a scheme at the moment?

Answer – Richard Akers, Managing Director – Retail
Well, I think if we want to, and we do, increase our exposure to very prime centres, it is very difficult to buy prime centres, and so we have to access those through development. And that's why we're doing Leeds; we have the opportunity to expand our Buchanan Galleries scheme in Glasgow; we're in fairly advanced discussions on tax increment financing for that scheme, to make it viable; and obviously, we've got Oxford in the pipeline. And if there are other opportunities that arise for developments that others can't deliver, that we can, in those top locations, then we'll be interested in looking at them, yes.

Francis Salway, Chief Executive
Thank you very much, audience. Thank you.

-End-

Forward Looking Statements