Land Securities interim results presentation

Tuesday 15 November 2016

Speaker: Robert Noel – Chief Executive

Slide 2 – Title slide

Good morning everyone, and welcome to our interim results presentation.

When we met in May, we talked about how we had been positioning the business for uncertainty ahead.

Since May 2014 we have shared with you our aim to get to the end of this calendar year with no developments on site which were not substantially pre-let; a longer weighted average unexpired lease term in London offices; a first class retail portfolio; and lower financial gearing.

And we've been focussed on three things:

Preparing for what we thought would be an inflexion point in the balance between occupational supply and demand in the London office market at some point in 2017;

Transforming our retail portfolio while markets were not so discerning; and

In the second half of last financial year, reducing debt.

Back in May the business community was still pretty confident that the UK would vote to remain within the EU. But here we are, 6 months on, and we've had a change of Government, with its change in rhetoric, and set to invoke Article 50 within the next 94 working days.

Business in general finds itself in uncharted territory.

It remains far too early to tell what the long-term effect on our markets will be. That will depend on a huge range of factors, not least when, and how, our terms of trade with and outwith the EU are settled.

But the short-term effect has seen a shift in sentiment, for which we are well prepared.

In London, take-up is hesitant, the vacancy rate is rising and so the negotiating position is changing as you heard from Marcus at our Investor Day in September. However, on the other hand development commitments may be delayed.

In the investment market, while volumes are down, there is still a large amount of global capital targeted on London.

In retail, the consumer was seemingly less bothered over the summer, but now appears to be under increasing pressure and the polarising of the best destinations versus the rest that convinced us to reshape our portfolio continues at pace.

All the work we did to strengthen the business puts us where we wanted to be today. And firmly on the front foot for tomorrow.

And our relative performance at the property level continues

Slide 3 – Performance – creating shareholder value while strengthening the balance sheet

You've seen this chart before, now updated. It shows our ungeared total property return since March 2010, in green, against our key benchmark, the IPD quarterly universe, in blue. During this time we've delivered a strong performance at the property level.

The pink line shows our total business return over the period; that's rise in net asset value per share, plus dividend, and we have achieved this while slowly halving LTV from 44% in March 2010 to 22% in March this year.

Slide 4 – Total dividend for year ending 31 March

And we have achieved this position while growing our dividend each year. Since 2010, we have increased our total dividend by 25%. And we retain good dividend cover.

And so now, as the market valuation curve turns down, our world class portfolio, combined with historically low financial and operational gearing, leaves us really well protected.

As I said, we approach the current market environment on the front foot. The next phase of our plan will be re-investment in the pipeline for the future. We are in no hurry, but we can move very swiftly when we see opportunity.

Slide 5 – Agenda

So let me now hand over to Martin to take you through the results in detail, before we have brief updates from Colette and Scott.

Speaker: Martin Greenslade – Chief Financial Officer

Slide 6 – Title slide

Thank you Rob. Good morning everyone.

Set against a market backdrop of falling property values, our results reflect the quality and resilience of the assets we have chosen to own. While our values are down slightly, underlying earnings are up and gearing remains low.

So, let me begin with our headline numbers.

Slide 7 – Financial summary

Over the last six months, we posted a loss before tax of £95.0m, on the back of a £259.6m valuation deficit. Our adjusted diluted net assets per share was £14.08, a decrease of 1.8% or 26p since March.

Revenue profit for the six months was £192.5m, up 4.5% on the same period last year. Adjusted diluted earnings per share were up 4.7% to 24.3p and our dividend was 17.9p for the six months, up 9.8%. The percentage increase in the first half dividend is simply a reflection of last year's increase in the total dividend which was driven by a significant rise in the final dividend.

So the percentage increase should not be viewed as a forecast growth rate for this year. That said, we will continue with our aim of growing the dividend in a sustainable manner.

Slide 8 – Revenue profit

So, turning now to more detail on revenue profit.

This slide sets out the main components of our revenue profit on a proportionate basis.

Revenue profit increased by £8.3m to £192.5m. However, net rental income actually decreased by £6.7m due to disposals and I'll cover this in more detail in a moment. The drivers behind the increase in revenue profit were lower indirect costs and a significant reduction in net interest expense.

The £3.7m reduction in indirect costs was mainly due to lower staff costs driven by lower headcount and lower share based payments.

Net interest costs decreased by £12.2m. This was due to lower average debt and the impact of the bond buy back we completed in March.

I'm now going to cover net rental income in more detail.

Slide 9 – Net rental income analysis

On this slide, I have set out the changes in net rental income, split between London and Retail.

Overall, net rental income decreased by £6.7m, made up of a £2.0m increase in London and an £8.7m reduction in Retail.

Like-for-like net rental income was up £5.0m with the majority of the increase in Retail. The increase was due in part to higher turnover income at Gunwharf Quays, White Rose and our Accor hotels. London's net rental income growth is largely due to new lettings and the settlement of a number of rent reviews.

The development programme saw net rental income increase by £6.8m with the significant contributors being The Zig Zag Building and 20 Eastbourne Terrace.

Completed developments increased rents by £7.9m largely due to 1 & 2 New Ludgate and 62 Buckingham Gate.

And finally, disposals. The impact of our disposal activity last year, particularly the net selling we did in the second half, resulted in a decline in rents of £25.7m. The main impact was from the sale of our retail parks in Gateshead, Derby and Dundee and the disposal of Thomas More Square and Holborn Gate in London.

Slide 10 – Combined Portfolio valuation

Turning now to the valuation.

The value of our Combined Portfolio at 30 September was £14.4bn. We reported a valuation deficit of £259.6m, representing an overall reduction of 1.8%. Within this, the Retail and London performances were similar: Retail saw values down by 1.9% and London by 1.8%.

The vast majority of the fall in values came from the like-for-like portfolio where yields moved out 11 bps and rental values grew by 0.6%. The rental value growth was predominately in shopping centres and central London shops while London office rental values were unchanged. Our completed developments were down in value by 1.7%. Here, 62 Buckingham Gate and 20 Fenchurch Street saw outward yield movements of around 10bps.

The development programme saw values rise 2.3% as construction risk reduced particularly at Nova and Eastbourne Terrace.

Slide 11 – Adjusted net debt – Year-on-year comparison by month

So let's now turn to our net debt and how it has changed.

On this slide, last year's adjusted net debt is in pink with the year to date in blue. You can see that our adjusted net debt rose only slightly over the period from £3.2bn at March to £3.3bn at September. You can also see the impact of our net selling in the second half of last year with net debt falling by £800m over that period.

Alongside the bond redemption in March, the reduction in net debt is a major factor behind why our net interest expense was over £12m lower in this six months versus the same period last year.

Now on to financing.

Slide 12 – Financing

The £74m increase in our adjusted net debt, and the small fall in asset values, led to a 0.6 percentage point increase in our LTV to 22.6%.

The average maturity of our debt is 9.0 years with a weighted average cost of 4.7%, down from 4.9% at March. And as you can see, we have nearly £1.5bn of cash and available facilities.

Slide 13 – Financial summary

So let me summarise.

The business is in good shape:

Our capital recycling in recent years means we have a portfolio of high quality, resilient assets;

Our approach to managing gearing through the cycle as well as the disposals we made in the second half last year, mean we enter the current uncertainty with low financial leverage; and despite those disposals, revenue profit is up on the same period last year.

Now with news of the London portfolio, let me hand you over to Colette.

Speaker: Colette O'Shea – Managing Director, London Portfolio

Slide 14 – Title slide

Thank you Martin.

Now to London where we've been working hard to transform the portfolio into one that's well prepared for whatever lies ahead.

And I'm proud of what we've achieved.

Slide 15 – A modern resilient office portfolio

At 10.1 years we've a long office lease term, 81% of the portfolio is less than 10 years old and we've a diverse customer base.

Slide 16 – Our focus

As I said at the Investor Conference in September, our focus is now on:

One, letting the last 13% of the development programme;

Two, extracting reversion from the portfolio;

Three, anticipating our customer's changing needs and;

Four, restocking the portfolio with new product.

Before updating you on the London portfolio, I'll talk about our view of the market.

Slide 17 – Market – supply/demand balance has shifted negotiating position

Take-up was already slowing last year and is now below the ten year average. There was an uptick in the last quarter, but the year-on-year movement is down.

We're monitoring closely the volume of development intentions that slip and estimate approximately 5m sq ft has moved out to 2020 and beyond. What's interesting is that while our supply estimates have fallen compared to our view in March, the fall wasn't as great as might have been expected. We're seeing 3 factors adding to supply, firstly space being released from occupier moves, secondly occupiers releasing surplus space, and thirdly residential schemes switching to offices.

The vacancy rate is rising.

This shift in the supply and demand dynamics means that occupiers will have more choice. This is likely to put pressure on negotiating terms and ultimately future rental values. There are slides in the appendix showing the detail.

Slide 18 – Investment market – quality provides resilience

In the investment market, trading volumes were falling pre the Brexit vote and by Q3 were 34% below the same period in 2015. Those assets that have traded are generally high quality buildings in core locations with longer income streams.

The good news is that these more resilient assets mirror our portfolio, reflecting our relative valuation performance in London as you've heard from Martin.

We anticipate a different outlook for short let more risky assets. Whilst there's been limited transactional evidence, as schemes and capex are put on hold, the market is re-evaluating risk and therefore pricing. However, what this means for us, is opportunities in the future.

And no, we can't say exactly when, but we'll let you know when it happens.

That's the market context, so what about our performance. Martin has talked about our valuations, so I'll update you on the London activity that delivered that performance.

Slide 19 – Development – continued letting momentum

Since March we've let or have in solicitors' hands, a third of the space we had available, on an average lease term of 12 years. This leaves only 13% of the 3m sq ft left to let.

Slide 20 – Development – City lettings successfully completed

In the City, we've completed our developments, and I'm delighted to tell you we're full! With an average rent of £64 per sq ft, an average lease term of 18 years, and an average rent free of 8.7 months for every 5 years, we've exceeded our underwriting.

Slide 21 – Development – West End focus is Nova

Over in the West End where our focus is Nova, we're now 41% pre-let or in solicitors' hands with an average office lease term of 15 years. The first phases have completed and retailer and office occupiers are fitting out.

Slide 22 – Nova – good interest as we approach completion

We've a great customer line up, a great product, with flexibility to meet future customer needs, and have created an outstanding destination. We're staying at the top of customer short lists.

Slide 23 - Residential – small exposure

Residential at Kingsgate and Nova pretty much conclude our development activities. Whilst the market is challenging our £100m exposure represents 1% of the London portfolio. Since March we've sold £14.7m pounds of apartments at an average price of £1,900 per sq ft.

Slide 24 – Manage – strengthening income and building portfolio resilience

As I said at the start, we're focused on capturing reversion in the portfolio, and, given its heightened importance in the current environment, it's worth repeating that our WAULT is now a reassuring 10.1 years.

Voids remain low at 3.9% rising from 2.9% in March, primarily due to 10 Eastbourne Terrace and Portland House. At Piccadilly Lights we're continuing to work towards vacant possession in January 2017.
We've completed £8m of investment lettings and £20.0m of rent reviews.

As I've said before, we're all over our assets and I'll now update you on progress in some of the buildings I talked about in May.

Slide 25 – Manage – strengthening and lengthening income

Let's start with Dashwood House where 86% of the income was up for review by March of this year.

Well, we've completed those reviews and increased the passing rent by 26%.

At One New Change 87% of the rent is due to be reviewed over the next 2 years. We've already reviewed 60% maintained the office rents achieved at the very peak of the last cycle and the most recent review has increased the passing rent by 7%. The retail reviews have increased the passing rent by 25%.

At Cardinal Place, I told you we were celebrating our 10th anniversary which means we're in the second review cycle with £12m subject to review in the next 15 months.

Again we're underway. We re-geared Wellington Management's leases in 2013, adding 5 years. We've now settled their December 2015 review increasing the passing rent by 19%, providing good evidence for the other reviews.

Rather like the growth story of Trip Advisor in Soho Square we told you about at the Investor Conference, at 140 Aldersgate Street we've completed the 2nd upsize for Mount Anvil who've

taken un-refurbished space at £57.50 per sq ft quadrupling their floor space since they moved to the building in 2009.

Slide 26 – Restocking with new product

While we've been doing all this, we've had a clear eye to the future. We've started restocking the pipeline, working on over 1m sq ft of new development, with flexibility on timing as these were effectively land purchases.
And we've an appetite for more. As I said at the Investor Conference, on the buying side we know what we want, and are tracking over £2bn of assets. I can't tell you exactly when the next major acquisition will be, but we're happy to be patient until we find what's right for us. What I can tell you is that when we do, we can move fast.

Slide 27 – A sustainable business

We have a high quality, well-let, resilient portfolio.

We're focused on letting our remaining space and capturing reversion.

We're focused on deepening our understanding of our customer's needs now and for the future, and we're focused on restocking the portfolio with new product.

I'll now hand over to Scott.

Speaker: Scott Parsons – Managing Director, Retail Portfolio

Slide 28 – Title slide

Thanks Colette, and good morning everyone.

Now, Rob has been clear about where we as a business wanted to get to at this point in the cycle and since I became MD of our retail business, I've spoken a lot about our strategy to improve the quality and resilience of our portfolio in a fast-changing retail environment.

In a strong market, a shift to quality might get a mixed reaction but in an uncertain market like the current one, having implemented that strategy pays off and gives us confidence. Our results today clearly demonstrate why.
A couple of minutes ago, Martin spoke about our valuations so let me kick off by spending a minute on our relative performance.

Slide 29 – Quality assets outperforming

Here's how our portfolio has performed over the first six months of the financial year a 0.8% total return.

Now let's compare that to how IPD and the market at large has performed. Overall, our modern, high quality portfolio has outperformed the market by 240bps.

While our shopping centres outperformed, and our retail parks were in line with the benchmark our one and a half billion pounds of leisure and hotels produced the strongest returns, with valuations marginally up.

Slide 30 – Accor – underpinned by vacant possession values

And speaking of hotel valuations, since 30th September we've exchanged contracts to sell four of the seven Accor hotels where breaks were served.

Now remember that the income on the remaining 22 hotels in the portfolio is secured until 2031 and remember too that I've said in the past that our hotels are underpinned by vacant possession values that are higher than their investment values.

Well, the proof of the pudding is in the sale proceeds and the four hotels we've sold transacted at vacant possession values, which equates to about 10% above March book values.

And it's not just on the valuation front where we've achieved good relative performance let's take a look at footfall and sales.

Slide 31 – Footfall & sales – active asset management delivering sales growth

Footfall in our centres was down 1.1% reflecting the trend of shoppers making fewer big shopping trips.
People may be shopping online but social creatures that we are, the right experience in the right destination draws people in, and our centres outperformed the national benchmark by 110bps.

And in fact, if we exclude White Rose, where development of our leisure extension has blocked an entrance and impacted footfall figures, our overall footfall would be flat.

Moving on to sales now weather for retailers is like leaves on the line for the trains too hot, too cold, two wet, too dry but it's the best assets that "weather" the storm and our same centre sales were up 0.8%, outperforming the benchmark for bricks & mortar same centre sales by 260bps and even outperforming the benchmark for total retail sales including online.

This demonstrates how our relentless active management can grow sales even in a challenging retail environment. Our same store sales also outperformed the benchmark.

Now with sales and footfall figures outperforming the market at large our occupancy remains strong.

Slide 32 – Low voids driving rental tension

Overall, our voids and administrations remain low.

At 2.1%, our like-for-like voids were broadly unchanged over the period and our retail parks, leisure and hotels remain pretty much full.

The slight upwards movement in shopping centre units in administration is driven by BHS at White Rose and Trinity but we've exchanged contracts with Next to upsize into the BHS space at White Rose, and have two upsizes teed up to fill their space at Trinity.

Investment and development letting activity has been consistent and strong throughout the first half of the financial year. Across the investment portfolio, we've exchanged 65 lettings equating to £7.1m in rent per annum.

Slide 33 & 34 – Creating value and consumer experience / continually adding to the experience

On the development side, our leisure extension at White Rose is rapidly taking shape on time and on budget delivering a new IMAX cinema and six new restaurants all of which are let or in solicitors' hands.

At Bluewater, we're aiming to start on site shortly to convert the former Glow events space into an expanded state-of-the-art cinema, three new restaurants and a new leisure unit.

Slide 35 & 36 – Westgate – Exciting mix of brands / Great momentum

And at Westgate, with a year to go until opening we're now more than 50% let, with a further 14% in solicitors' hands.

On the main level, all units but 6 are spoken for and up on the roof, we've secured an absolutely brilliant line-up of restaurants to sit alongside the new Curzon cinema.

I'm really looking forward to welcoming you all to Westgate for our next Investor Day so you'll be able to see for yourselves why we're so confident, and excited about this vibrant and stunning new destination.

Slide 37 – Growing net rental income

And speaking of confidence, with our high quality portfolio of destination assets, there are always opportunities to grow net rental income through rigorous asset management. And as always, we've been busy with regears, renewals, reconfigurations, rent reviews, key retailer upsizes and tenant mix plays.

At Gunwharf Quays, Oliver Sweeney, Under Armour, Coach, Jigsaw and Guess are adding to our already fantastic line-up of brands, and we've secured planning for two additional units in the scheme.

In Glasgow we opened Street Dots, Scotland's first indoor street food concept at Buchanan Galleries.

Progress at Bluewater continues at pace, with 8 new openings in the period, H&M's new 40,000 sq ft flagship store unveiled this month, and discussions underway with 8 retailers about upsizing their units.

Across our retail park and leisure portfolios we're continuing to grow income through small but impactful development-led opportunities.

At Westwood Cross we acquired an adjacent site and secured planning for four restaurants, all of which are exchanged or in solicitors' hands. And the refurbishment and reconfiguration of Fountain Park in Edinburgh is progressing well and is now 100% let or in solicitors' hands.

Overall, our efforts have driven an increase in like-for-like net rental income of 2.1% in the first six months of the financial year.

Slide 38 – Resilient portfolio and dynamic team

So, in an uncertain market, it's the strongest assets that perform best with voids low and occupier interest high.

But our outperformance is not just because of our assets, it's because of our exceptionally strong team and their passion for our customers and their experience, for growing net rental income and for delivering a constant flow of asset management wins.

And on that note, I'll hand you back to Rob. Many thanks

Speaker: Robert Noel, Chief Executive Officer

Slide 39 – Title slide

Thanks Scott. So before we hand over to you for questions I'd like to share our outlook for the next six months.

Slide 40 – Outlook – Land Securities well-positioned as planned

In London offices, we expect net effective rental values to weaken. This is because the negotiating position is changing due to the uncertain environment for business. Headline rents may, or may not be, particularly impacted but lease terms are getting shorter again, and incentives are ticking up.

However, the supply outlook may change if development intentions are not converted into development commitments but it is too early to tell right now. There will likely be many twists and turns in the months ahead.

As ever, we will watch the supply landscape like a hawk. Remember this is what gave us the conviction to kick start development in 2010. Even in the nadirs of 1992, 2002 and 2009 take up never dropped much below 75% of the long-run average.

We will remain fully committed to London. It is a deep and liquid market and will remain one of the worlds key cities whether or not we are part of the single market. 9 million people and growing will always need fit for purpose space to live, work, shop and play.

In Retail, well socialised price increases would be difficult for the consumer and therefore difficult for retailers.

However, we believe our strong destinations will continue to serve us well, as you have just heard from Scott, and we are pleased with our current position having sold our secondary assets during 2014 and 15.

If we can add to what we have, we will, as we are doing in Oxford.

Retailers models continue to change and without a tail of secondary centres our destinations put us right at the heart of this change. Great brands, great catering, great front of house, great connectivity. Because everything is about experience.

Standing here today, it's unlikely that we will be big spenders in the second half, but if history is any guide to the future uncertainty provides opportunity and we are fully prepared.

This is exactly where we wanted to get the business at this point.

Let's now hand over to you for questions.

Question and Answer Session

Question 1

Hemant Kotak, Green Street Advisor

Hi, good morning, Hemant Kotak from Green Street. Thank you for the presentation and the market guidance. Just a little bit more on London offices please. Can you just help us understand the deals that you have closed since the Referendum, where have they come out relative to ERVs on a net effective basis and perhaps, if you could just extend that in terms of what you are seeing in pipeline deals as well please?

Answer: Robert Noel

Sure, well no better person to answer that than Colette rather than me, so I will hand over to Colette.

Answer: Colette O'Shea

Yeah I think it is fair to say that post-Brexit, what we are seeing is people pushing us quite hard now on rent free periods. I think as I mentioned at the Investor Conference, actually we have done pretty well in a number of the deals where we moved out the rent frees, but we managed to get fixed uplifts at reviews. I would say to give you a sense, we have probably seen about a 1% fall in the net effective rents on the deals that we have done on post-Brexit and that has been fairly consistent and I think that is what we are envisaging looking forward.

Further question

Thank you, that is very clear. And then just maybe one question on retail if I may. There seems to be a dichotomy in terms of the same centre performance and the same store performance. The same store performance was relatively weak at negative 1.7% and that was close to the national average. Can you just help us understand Scott maybe about why that's underperforming so much and if perhaps that is the more relevant measure for retailers on an individual basis?

Answer: Scott Parsons

Just to be a little bit pedantic, we still are outperforming on a same store basis as well, but it is only by 40 basis points. More and more sales are moving online, we can't get away from that. So like-for-like same store sales essentially reflect a do nothing scenario. Whereas same centre sales reflect the value that can be added through active management. So that is where the skills of my team come into play. They can continue to grow sales and grow net rental income through reconfigurations, rent reviews, some of the active management plays that I referred to in the presentation.

Further question

Okay, that's great thank you. And just one quick follow-on from that. So that is top line sales, do you worry about margin pressure as well? Because there are a few compounding issues in terms of the national living wage which is coming through, business rates potentially and the weaker pound where that could be a problem for retail and margins as well?

Answer: Scott Parsons

For the time being, our affordability remains very strong, but we do talk to our tenants on a daily basis, really focused on the issues facing our customers and we will keep watch. From discussions I have had, national living wage, most of our occupiers are hoping not to have to pass the full impact of that onto the consumer. And for my portfolio at least with the rates revaluation, the impact was relatively small, just over 1%.

Question 2

Remco Simon, Kempen & Co

Morning Remco Simon, Kempen. Question. I appreciate you can't say when you might get into the market, because who knows what is going to happen in terms of timing, but what are the

indicators that you look for that would make you feel more comfortable to get back into the market. Is it simply as prices are coming down, is it leasing indicators looking up or what are the indicators rather than timing that you look for in terms of your positioning?

Answer: Robert Noel

Well I think it is a great question, it is very difficult to answer. I mean we are very clear on what we want to buy. We are not going to tell you what we are going to buy, we are just going to go and buy it and then we will tell you when we have bought it. As I say, I think it is unlikely that it is going to be in the near term. So in the second half of this year I think it is unlikely we are going to be buying in scale. But think about the make-up of our current portfolio. We have world class assets let on long leases. We think there will be opportunity within the more risky sector that plays into our skills for repositioning and redeveloping buildings and we look at all sorts of metrics, capital value per square foot, what we can get on the site, what the leasing negotiating position is between landlord and tenant looking out into the future as we deliver the product that we buy to build or buy to own. So you know as ever, when markets are slightly disrupted buying becomes easier, it has been very difficult for us to buy over the last couple of years, it continued to be difficult for us to buy, but we think that will ease up and we are ready for it.

Further question

Fair enough and in terms of the positioning of the business, you mentioned you are ready for if the supplier outlook starts to change you have got a flexibility in your pipeline. But the current pipeline you have got lined up is just over one million square foot. And if I recall correctly, in 2010 your potential pipeline was about 4m sq ft. Is that the kind of size that you would look to steer the business to again over the next couple of years?

Answer: Robert Noel

That is a great question. I mean just to put it into context the 1.2m sq ft in the pipeline we have is equivalent to what we have done in Victoria over the last three years. I think it was 3 million sq ft we built in London of which, we didn't own all of it. And of course what we weren't in a position to do last time round was buy sites, we already owned the sites. So you know I see a position where we can buy more sites over the next few years and build that pipeline further.

Remco Simon

Thank you.

Question 3

Robert Duncan, Numis Securities

It's Robbie Duncan at Numis, just one question from me. Sticking with the theme of buying sites or buying assets, sorry to carry on about this. But obviously just shy of 23% loan to value today, that is one of the things you have been really focused on and well done for getting it down from 44% in 2010. But where would you be prepared to push loan-to-value, assuming flat capital value, so I appreciate that is the unknown here. But how much would you be prepared to push that loan-to-value if there were opportunities that presented themselves? Thank you.

Answer: Robert Noel

So we have been giving pretty clear guidance in the past about our gearing levels. In normal market conditions we would expect to operate between 35-45% LTV. Remember because we are large it takes us more time to move. So we have to move early. As you rightly say Robbie, we don't know where values are going over the next 12 months, they could go up, and they could go down. I mean if you know what is happening out there, then please tell me, I am all ears. We just don't know. We have to be prepared for this uncertainty. I think the general direction of gearing for property companies will be slightly lower in the future than it has been in the past and that is principally because we are far more operationally geared as business now. Information flows are more rapid, capital flows are more rapid, and so markets move and are slightly more volatile. So that points to lower levels of gearing, but there is no reason why, if we thought we were you know at the bottom of a pricing cycle, there is no reason why we shouldn't push the gearing quite hard. And so that gives us quite a lot of flexibility. Martin I don't know if you want to add to that?

Answer: Martin Greenslade

No I would be more than happy to take it back up to the sort of levels you have seen before you know into the 40s would be fine. And that is a huge amount of fire power. It is a phenomenal amount of assets you could buy because obviously as you increase the loan to do that acquisition, you also increase the V on the bottom of that. So you are talking billions. I think it will be a case of opportunities rather than limitations from LTV.

Question 4

David Prescott, Barclays

Hi, David Prescott from Barclays. As you say there is a huge amount of uncertainty about where values can go from here and you are definitely well positioned to take advantage. Are there opportunities? In the event that we do have a relatively flat market for the next couple of years, will there will be opportunities for you to take and how would you adapt your business model to a not particularly cyclical flattish market?

Answer: Robert Noel

Well if we have got a relatively flat market for the next two years, I am delighted to be in the position we are in at the moment, because no amount of gearing really helps you in a flat market. It is only a rising market that really helps you. I mean we simply don't know. We have positioned the business so that the business can thrive in whatever gets thrown at us. If we knew what was going to happen we would position the business from a position of knowledge, we don't. So you know the one thing I would say is that we operate in two very, very big and liquid markets, particularly in London where the REITs play a relatively small part. So you know if the world does go risk off, that will always throw up opportunities or rather I will rephrase that, if history is any guidance to the future it will always throw up opportunities. But looking into the future, we simply don't know. We are relaxed about where we are positioned at the moment.

Further question

But there could be opportunities in a flat market, you know one-off things that you would be happy to do?

Answer: Robert Noel

I have been doing this for 30 years and in every year in January people say, what are you going to do this year? And every year we find things to do whether it is going up or down. So I am pretty relaxed.

David Prescott

Okay, thanks.

Question 5

David Brockton, Liberum

Good morning it is David Brockton from Liberum. Two questions please. Firstly can I just come back to the retail footfall numbers and the same store numbers. Was the gradual decline there consistent through the period or is it on a worsening trajectory? That is the first question.

Answer: Scott Parsons

Well the figures go through to 30 September and they really represent a post Brexit shock to the figures. So there was a dip in reaction to that. And they have actually bounced back in October.

Further question

Thank you, that is very useful. And then a second one is a very specific one. In respect of Moorefield's, what is the earliest possible start time on that in relation to your relationship with TfL (Transport for London)?

Answer: Colette O'Shea

I think as we have said before on Moorfields, what we are doing is we are doing things incrementally so that we are getting ourselves ready. So at the moment as you have probably seen, we are currently demolishing it. We have got all our approvals in place with LUL, so we are ready and we could actually start piling in January next year. And what we will probably do is take it to grade and then see what the market is doing at that stage.

David Brockton

Thank you.

Question 6

Michael Burt, Exane BNP Paribas

Michael Burt from Exane BNP Paribas. You obviously work very hard to increase the average lease lengths in your office portfolio. Do you think the forward look IRRs on those sort of prime London office assets in your portfolio still justify you remaining a holder? And I ask that question just bearing in mind that it appears that some of your REIT peers may be looking to sell Crown Jewel assets in the London office portfolios?

Answer: Robert Noel

Well just on what the REIT peers are doing, you have to talk to the REIT peers about and as we will always say, no asset in our portfolio is sacrosanct. If you want us to sell everything then the shareholders need to tell us to sell everything, but we have got a business to run. What we have been doing over the last couple of years is very clearly been on a trajectory to increase our weighted average unexpired lease term, particularly in London because we know London, can get a bit bouncy at times. And at those times you want to be battened down. Because the opportunity comes within the short-let buildings. So we have used really good market conditions over the last two years to sell the buildings that we think are most at risk of a market correction. If there was a market correction, whether that market correction comes or not. And then hold those assets which are actually less at risk in the event of a market correction. You know, as I say, we have a business to run. We have a dividend to pay and we have positioned the business so it is as resilient as we can get it at a point where the world is becoming slightly jittery.

Question 7

Oliver Reiff, Deutsche Bank

Oliver Reiff, Deutsche Bank. Can I ask one question on your longer term debt maturities. You know as they draw closer, when or if it becomes economical to refinance and then also if there are any other offsetting impacts that would allow that sort of activity to be NAV positive going forward as well? Thank you.

Answer: Martin Greenslade

Our cost of debt is something that we look at all the time. We look at opportunities to do that. And I am not going to say anything more than general terms around that. But we did something in March and driving down our cost of debt is important to us, but let me just put something in context for you. Had we not made those £800 million of sales in the second half of last year, our weighted average cost of debt would be, so if you inflated it back up and you added £800 million more of debt today, our weighted average cost of debt would be around 4%. So the question that we have to ask ourselves is actually what is the key metric you are trying to drive to? Is it right to have reduced your gearing or is your weighted average cost of debt the key thing you are going to get hung up about? And I think actually driving down your interest bill and driving down your gearing is more important than driving down that one metric. So yes, we do look at it and yes obviously over time there are going to be opportunities to refinance those

as they come up to maturity. But I think we have to see it in the context of what we are trying to do with the business.

Closing comments

Robert Noel
Group Chief Executive
So I don't think we have got anything online with at five to ten, I think we will bring it to a close. Thank you very much. Thank you UBS for hosting us and we look forward to seeing you in May when the weather will be warmer no doubt.

End

LandSecurities

- End -

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