

Land Securities Half-yearly Results Video Interview

Thursday 10 November 2011

Francis Salway, Chief Executive and Martin Greenslade, Group Finance Director

Overall performance

Question 1

These results are again ahead of expectations, so what has driven this?

Answer - Francis Salway, Chief Executive

I think the key measures are in the right direction - so valuation up, revenue profit up, vacancy rate down and gearing lower. If I was to pick three things it would be success in leasing space to our customers, which has brought down vacancy rates to just 3.4%. Those lettings have been ahead of rental value estimates and developments have again been a driver of the valuation, with strong performance from our developments.

Question 2

Strong performance. You have outperformed the market benchmark for the portfolio as a whole, but you have underperformed for certain business areas. Why is that?

Answer - Francis Salway, Chief Executive

Our outperformance overall is down to the developments that I have talked about and also the mix of our portfolio with a big exposure to both London offices and London retail. In each of the segments - London offices we were a little below - but then our outperformance is likely to come when we do key development lettings. London retail again down a bit, but remember last year we were over 12% ahead of the benchmark. Retail warehouses is pretty much in line and shopping centres ahead.

Question 3

Martin, turning to the financials in more detail, what is driving the revenue profit growth?

Page 2 of 7

Answer - Martin Greenslade, Group Finance Director

The revenue profit growth is down to two things. There was an increase in net rental income and that was primarily on the back of £13m of non-recurring items. Also revenue profit grew because our net interest cost declined. It declined by some £11.2m over the six months.

Question 4

With such relatively low voids, where will future revenue growth come from?

Answer - Martin Greenslade, Group Finance Director

Low voids is a good starting point for rental growth, but if we look at our five year plan the majority of our earnings growth will come from the developments that we are producing at the moment and getting a good high yield on cost from those.

Question 5

What are the implications for revenue profit for the second half of the year?

Answer - Martin Greenslade, Group Finance Director

I think we will see revenue profit in the second half come off as I think it is highly unlikely that we will see the same level of non-recurring items that we did in the first half. I think net rental income may also reduce slightly as we empty out certain properties in advance of redevelopment. On the net interest cost side however, I would expect that benefit to flow through into the second half of the year.

Question 6

Earnings are up around 16%. The dividend is up less than 3%, so shouldn't you have passed more of this increase onto shareholders?

Answer - Martin Greenslade, Group Finance Director

There are a couple of points to make. The first is that this is a half year and what we do for our quarterly dividends is we reflect the final dividend from last year. That was up by just under 3% and so we followed that through into the first two quarters this year. I think it is important to recognise that dividends and dividend growth are about our medium term outlook, not about a six month period which included some non-recurring items.

Page 3 of 7

Question 7

You said that you have enough balance sheet capacity to fund new acquisitions, but you have also said that the credit market risks are increasing. What will you do if you cannot negotiate new facilities?

Answer - Martin Greenslade, Group Finance Director

Let me just explain what our facilities are. We have got £1.5 billion of revolving credit facilities that have a legal maturity of August 2013 and then we have some bilateral facilities, £700m of those, that mature in 2014. In total we are only drawn at just over £400m. So I think it is important to put it into context but, more importantly, we will be able to put in place new facilities and I am confident that they will be sufficient for our requirements. We also have access to the bond market with our AA rating.

London Portfolio

Question 8

Your statement seems more cautious on London developments with regard to occupier take-up so what is you thinking here?

Answer - Francis Salway, Chief Executive

I think there is data in a market which shows that levels of take-up in 2011 are more muted than in 2010, but interestingly what we are seeing is large corporates who need to move are recognising that they have little choice. We think the appetite for the relatively small number of new buildings that are being delivered continues to be good.

Question 9

And more specifically, what is the prospect for the leasing of 20 Fenchurch Street and your other committed schemes?

Answer - Francis Salway, Chief Executive

What we have seen since the summer of this year is actually an increase in the number of enquiries on our committed development schemes, so we have live enquiries for all of 20 Fenchurch Street, 123 Victoria Street and 62 Buckingham Gate.

Page 4 of 7

Question 10

And what about Old Bailey, Victoria Circle, Arundel Great Court? When will these schemes be brought forward?

Answer - Francis Salway, Chief Executive

Arundel Great Court and Victoria Circle we do not even get vacant possession until towards the end of 2012. We will make decisions closer to that time. Ludgate and Old Bailey is being demolished at the moment and we will make a decision within the next couple of months as to whether we press the button or wait for a pre-let or perhaps pause a little bit as we have done successfully in the past with Park House. But we are encouraged by pre-letting discussions.

Retail Portfolio

Question 11

Your performance in retail looks slightly counter-intuitive to the doom and gloom we are seeing in the newspapers, over consumer sentiment for example. Can you explain how you are achieving that?

Answer - Martin Greenslade, Group Finance Director

In very broad terms, it is that we are providing a space that retailers want. If you look at our retail warehouse portfolio, we are able to produce larger units than those that are generally let to the stronger, larger occupiers. If you look at the shopping centre portfolio, we know the customers very well, we are able to deliver them the size of units that they want and we can be flexible on the types of leases we offer.

Further answer - Francis Salway, Chief Executive

I think it's a bit about people and property. We aspire to do better than national trends in retail so we have great relationships with the major retailers and we have a high quality portfolio. You are seeing an increasing divergence between poor and average retail property and really good quality retail properties. You can see it in the vacancy rates, 12–13% nationally, 3–4% on the best portfolios.

Page 5 of 7

Question 12

Voids are down significantly in the period, but we do have the crucial Christmas period coming up. What are your expectations for insolvencies after Christmas?

Answer - Martin Greenslade, Group Finance Director

There are always insolvencies in retailing and the period after Christmas is often the most challenging time. In our announcement today we have said that we expect insolvencies to increase but with our high quality portfolio and the low level of voids, we think we are reasonably well placed.

Question 13

You have achieved £8.9m worth of lettings at good rental levels in the period but what kind of incentives are you having to offer?

Answer - Martin Greenslade, Group Finance Director

In shopping centres it is around 12 months and that is no change on previous periods. If we look at retail warehousing, it is up a little there but that is largely because we give longer leases.

Question 14

Francis, you have made good progress on your out-of-town development initiative, but again is this really the right time to be investing in further retail developments?

Answer - Francis Salway, Chief Executive

Absolutely. You will have picked up that the stronger retailers are prudently taking more space to grow profits and we are responding to that demand and are prudently delivering those additional units on a pre-let basis to drive our returns.

Question 15

Buchanan Street is progressing well but Leeds does not look to have moved forward much in leasing terms.

Page 6 of 7

Answer - Francis Salway, Chief Executive

The pattern of lettings and pre-lettings on big shopping centre developments is quick/slow/quick, so early on you get the big retailers who commit to pre-lettings. You then tend to get a quieter period two years or so out from completion and then in the run up to opening you get a rush of lettings. So actually we are bang on the plan that we set for pre-lettings at Leeds.

Outlook

Question 16

Francis, you have not made any major acquisitions this year so what has to change for you to take advantage of the opportunities that might arise?

Answer - Francis Salway, Chief Executive

There have been a few comments in the press. We have actually bid on more properties in the last three months. To date we have not been successful. I am relaxed about that because we are prepared to be patient, we are going to stay disciplined on pricing. I do think we are seeing a bit of a shift on the balance between buyers and sellers and I think you will see us making a number of acquisitions which are accretive to earnings and accretive to total return.

Question 17

You have been very consistent in your outlook at the property market. You say it is challenging. Does it still feel like a ripple?

Answer - Francis Salway, Chief Executive

We said exactly two years ago we did not see absolutely straight line growth in the recovery in property markets. We said we thought there were still some residual financial imbalances, which might cause a ripple. The sense I have at the moment is conditions are changeable and they are uncertain. Some aspects are attractive, like very low risk-free rate of return on government bond yields. Other aspects are more challenging. I think we are extremely well positioned on a range of scenarios. Our balance sheet gearing is low, we have low vacancy rates within the portfolio and we have some optionality on some of our potential future projects.

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