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LAND.L - Full Year 2019 Land Securities Group PLC Earnings Call

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PRESENTATION

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So good morning, everyone. A very warm welcome to our results presentation. Welcome to London Stock Exchange, a new venue for us.

It's been a busy and eventful year with much to share with you. At the operational level, we've maintained high occupancy. We've introduced new products and services. We've added to our development pipeline. We've got planning consents. We were [after for] our outlets. We're using innovative techniques in construction, and strategically, we're increasing our focus on London where we see plenty of opportunity in the future playing to our skills and strengths.

Before we go into the meat of the presentation, I just like to talk about the direction of the business and my perspective on the year just gone, and let me start with our slightly more compact lineup. I was sad to see Scott leave. He's been a great colleague and instrumental in executing our shift in retail. But we've great strength in our teams with skills which are wider than just property and which are increasingly applied across the business as one portfolio, and they're stepping up to take on more responsibility. And to reflect this, the property teams have been brought together under one reporting line to Colette, as we announced last month.

While our London Portfolio assets are in London, our retail portfolio assets -- our retail portfolio include assets which are in London and assets which aren't retail at all. And as the balance of the business is shifting and the teams are coming together, this will be the last time we present our financial information under the 2 business segments of London Portfolio and Retail Portfolio. And at our investor conference in September, in good time for the half year results, we'll provide full detail on how we'll be reporting the numbers going forwards along with a reconciliation to existing disclosure.

So there are 4 big themes influencing our strategy that I'd like to mention. First, digital technology. This permeates everything. It's both a disrupter and an enabler. Second, demographics. A growing, aging and shifting, more diverse population, nearly 2 generations pretty much unable to access homeownership without the help of parents and grandparents, 2 to 3 generations in the workplace and 3 to 4 generations active in shopping and leisure activities. Third, what people want from space in a more mobile, agile, shared world. Just as we're more demanding as consumers, occupiers are becoming more service-experienced and convenience led. And fourth, the sustainability agenda. Society is demanding that businesses become a force for good rather than just an employer. Social value, mobility and inclusion are all hot topics. Resource scarcity and climate change are also key issues for real estate companies. Rightly, legislation is getting tougher. Being on top of this is hugely important. It drives commercial advantage, including increasingly with customers and with getting planning consents. We've done a lot of work to position our portfolio for these trends and



our balance sheet to the right place for the environment we're in. So we're able to address these themes with vigor and look forwards as you'll hear today.

Our business is changing. Today, 65% of our assets by value and our entire GBP 3 billion development pipeline are in London, one of the most vibrant, best-connected and popular cities in the world. This will grow as our activity will shift our business significantly more towards London over the coming years. With focus on well-connected locations, we ensure our buildings are readily adaptable, and we're expanding our range of products and services. We're also spending a lot of time on how buildings will need to perform in the coming decades, investing in constructing and running buildings smarter and more efficiently.

35% of our business is currently outside London, primarily destinations which attract people to spend time shopping, eating, exercising and socializing. We constantly think about the retail landscape. We moved early to shift our CACI out of secondary shopping centers and 2/3 of our retail parks while market conditions were strong. Going forwards, we'll focus on fewer assets which appeal across generations and catchments, which are growing and supportive. This will mean further sales over time. But with our balance sheet in good shape, we don't need to rush for the door. So expect this pie to become much more pink.

Now our perspective on the year just gone. For much of the business community, of course, this has been a strange year with a macro environment of contrast. Politics has been a bit bouncy and continues to be around the world. And here in the U.K., unprecedented chaos in Westminster has so far led to 2 delays of our proposed departure from the EU. Despite this, economic growth has remained positive and with record levels of employment in this country, though real wages are still lower than they were a decade ago. The consumer remains cautious on fashion and goods but is spending more on leisure and lifestyle. Retail has had a very difficult year with the cyclical pressures adding to the structural, punishing retailers and retail real estate. In contrast, London has pretty much shrugged its shoulder at Westminster, with most market segments holding up well with good demand for Grade A space and strong investor demand during the year, albeit we saw a quieter first quarter of 2019.

Against this backdrop, our operational performance has been good. We've retained a high occupancy level. Our pipeline of schemes now extends to over GBP 3 billion, and we expect to grow this further. And following the actions we took this year and last, earnings growth is strong. The difficulties in the retail market particularly in shopping centers and retail parts are reflected in our valuation and reduction in NAV. But importantly, we're financially strong with a prudent level of debt and great financing facilities. And this enables us to look through the current environment and turn our attention to future growth. Finally, having rebased the dividend up 39% over the 3 previous years, we continue to grow the dividend up 3.1% this year so we can increase dividend cover and give ourselves good operational flexibility.

So now let's move to our results presentation. First, Martin will run through the results and the valuation in detail. I'll then cover regional retail and leisure. After that, Colette will cover our activities in London before I conclude. So here's Martin for now.

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

Thanks, Rob. Good morning, everyone. Landsec continues to be in strong financial health, and it's been another year of good earnings growth. Our business has diverse income streams. It has significant development opportunities, and it has a balance sheet which can withstand weakness in the market while supporting our next generation of development.

So as usual, let's start by looking at the headline numbers before going into more detail. So revenue profit. Revenue profit for the year was GBP 442 million, and that is up 8.9% despite the disposals we made last year. Our valuation deficit was GBP 557 million or down 4.1%, and that led to a loss before tax of GBP 123 million. Adjusted diluted earnings per share were up 12.4% to 59.7p. Now this increase is ahead of the growth in revenue profit, and that's due to the reduction in the number of shares and issues following the share consolidation that we did back in September 2017 as part of that GBP 475 million return of capital to shareholders at the time. EPRA NAV per share was GBP 13.39. Now that is down 4.6% or 64p over the year.

And finally, our dividend is 45.55p for the year. That is an increase of 3.1%. And as Robert just mentioned, we grew our dividend quickly between 2015 and 2018 by 39%, and that was as we completed and we let out our last development program. But from that higher dividend base, we've decided to slow our dividend growth to reflect what we see ahead. Rental growth in London is limited, and there'll continue to be downward

pressure on rents in most retail assets. Against that backdrop, having a higher dividend cover now gives us the flexibility to make the right asset decisions, so be that selling assets or emptying Portland House in advance of redevelopment but at the same time still growing the dividend sustainably from here.

So let's now look at revenue profit. Revenue profit increased by GBP 36 million to GBP 442 million. This was driven by a GBP 7 million increase in net rental income. I'm going to cover that in more detail in a moment. But it was also driven by a GBP 25 million reduction in net finance expense and a GBP 4 million reduction in total and direct expenses. That GBP 4 million reduction is shown here, and that was mainly due to lower variable pay this year. The reduction in net finance expense was due to interest savings following the liability management exercises that we did in the year to 31st March 2018.

So let's now turn to that net rental income. Here, we have the changes in net rental income split between London and Retail. Overall, net rental income increased by GBP 7 million. But behind that, the London Portfolio increased by GBP 21 million and the Retail Portfolio declined by GBP 14 million. So starting with the like-for-like net rental income. That was up GBP 10 million in total with the London Portfolio up GBP 20 million and the Retail Portfolio declining by GBP 10 million.

Let's look briefly at what's behind these like-for-like movements, and we'll start with Retail. So the impact of voids, relettings, turnover rents and rent reviews, well, they broadly balanced out. We lost GBP 3 million of income from retailers who have gone into CVA or administration; a little under half of that GBP 3 million relates to administrations and CVAs prior to the start of the financial year. So this included Toys R Us, Maplin and Prezzo. Administrations and CVAs since the beginning of this financial year include Homebase, Coast and Poundworld. We also provided for over GBP 1 million of SIC 15 balances related to these retailers, and that GBP 1 million is part of this GBP 5 million provision for bad debts and SIC 15 balances, which represents our current best estimate of the charge required today. It does cover retailers which have not yet started insolvency proceedings but where we're aware of difficulties, like Arcadia, for example, or where they started proceedings after our year-end, like Debenhams. You'll find a lot more information on CVAs in the appendices.

So let's now look at the London like-for-like movement. London like-for-like net rental income was up by GBP 20 million. GBP 5 million was down to rent reviews. GBP 8 million came from new lettings and reduced service charges and letting fees. GBP 2 million related to lower bad debts, and GBP 5 million came from having Piccadilly Lights up and running for a full year.

So now back to the remaining elements of the movement in net rental income. The GBP 14 million increase from completed developments that came from additional net rental income following the completion of Westgate Oxford and Nova and some further lettings at the Zig Zag Building. Acquisitions contributed GBP 3 million. In Retail, this relates to the 3 outlets that we acquired in May 2017. And in London, this is largely a property acquired in Wardour Street related to the provision of affordable housing for our 1 Sherwood Street development. We gave up GBP 14 million of net rental income from disposals. Those disposals included our remaining interest in Livingston that was sold in the current year and 20 Fenchurch Street and the Ibis hotel at Euston, which were both sold in the prior year. And finally, the reduction in nonproperty-related income largely relates to reduced development fee income following the completion of Nova and Westgate Oxford.

So right, let's now look at the valuation. As Rob explained, 65% of our assets are in London with 35% outside the capital. London-located assets were down 0.8% in value with assets outside London down 9.4%, and the combined valuation decline was 4.1%.

Now let's turn the pie into the more familiar one showing our asset segments and split for the last time into our London and Retail Portfolios. I'll talk about the segments in a minute. But overall, the London Portfolio was down 0.5%, with the largest segment, offices, up 0.4% while the Retail Portfolio was down 8.4%, and you'll see in a minute that was driven by shopping centers and retail parks.

So let's now look at the detail by segment. So offices values there were up by 0.4%, and this was helped by a 21.5% increase in the value of 21 Moorfields as construction risk reduced and Deutsche Bank confirmed that they would occupy the whole building. The like-for-like office portfolio saw a marginal decline in values, and that's largely due to a small outward yield shift in Victoria. Despite the difficult retail market, Central London retail held up relatively well, the 3.9% decline in valuation being largely driven by Piccadilly Lights. Piccadilly Lights was down 6.8% as the shorter letting profile on 3 sections of the screen resulted in lower certainty of income. London shopping centers were down 5.4%. Now that's driven by Southside and West 12 as rental values declined.



Our regional shopping centers saw a 13.2% decline in values. 5.9% of that is down to a reduction in rental values, and there was also a 30 basis points outward movement in yields. Bluewater was the best relative performer, and Buchanan Galleries was the worst. Retail parks saw the greatest valuation decline in the portfolio with values down 15.5%, but the range was absolutely enormous. The best performer was up 9%, and the worst was down 27%. The declines in retail parks and shopping centers they contrast sharply with our outlets where values were down but by a more modest 0.5%. This segment of the retail market has shown much more resilience. But again, it is not completely immune from the challenges facing retailers. And finally, leisure was down 3% against the backdrop of some difficulties in the F&B market while hotels were up 0.1% as income grew.

So before we look at financing, just a brief look at our expected future development expenditure. This slide shows the potential cash expenditure on our 3.6 million square feet of development opportunities, and Colette's going to cover this in a minute. But as you can see, that totals GBP 2.1 billion. Even if we fund it, all of this expenditure, from new debt and sold nothing, which is highly unlikely, our group LTV would only rise to just under 37%, and that assumes current values and no profit on any of these schemes.

So turning now to financing. Our adjusted net debt increased by GBP 85 million to GBP 3.7 billion. And that combined with the valuation deficit resulted in an increase in our LTV to 27.1% at 31st March. While our year-end cost of debt was up fractionally at 2.7%, the average cost of debt this year was 2.6% compared with 3.4% in the prior year. Now given the uncertainty borne out of a lack of progress on the Brexit negotiations, we took the opportunity to add an extra GBP 625 million of bank facilities during the year; and as a result, we now have GBP 1.6 billion of firepower.

So let me summarize. It's been another year of strong earnings growth, particularly in London. Our diverse income streams have helped mitigate the decline in the value of our shopping centers and retail parks, and our balance sheet remains strong. We have plenty of firepower and balance sheet capacity to fund new investment and to build out our development pipeline.

So now let me hand you over to Rob.

Robert M. Noel - Land Securities Group plc - CEO & Director

Thank you, Martin. As I said earlier, we constantly think about the retail landscape. This has been a difficult year for retailers with a hesitant consumer, rising costs and increased business stress. With the widening use of CVAs, it also made it a hard year for retail real estate. And we're not immune, as you heard from Martin. Our strategy for this sector is driven by the rise of e-commerce, the demographic changes I spoke about at the beginning, increased spend on leisure activities and the growing importance of experience to shoppers. We're clear that to thrive destinations must provide great and wide-ranging experiences. Our focus has been on fewer, stronger destinations, and this evolution will continue.

This slide shows how we've executed our strategy so far in anticipation of these trends. And you can see on the left, we've shifted from a large tail of retail parks and secondary shopping centers towards shopping destinations, outlets and leisure. As shown on the right, we've also shifted value south and to support its growing catchments.

Today, these Retail segments make up 34% of our portfolio. The difference between this number and the 35% outside London is made up of some hotels. 60% of our hotels are in London, and you can see how the 34% is broken down. Overall, we have 97% occupancy with a good level of leasing activities. And it'll come as no surprise to you that both footfall and same-center sales were down during the year, but these are high footfall destinations, with 147 million visits at our shopping centers and outlets during the year, and both sales and footfall metrics were ahead of industry benchmarks. Within this, however, there are different stories, as Martin has already said. Outlets and leisure are performing well in the context of retail. Shopping centers and retail parks are weaker as rental values continue to come under pressure with market yields rising.

So let's start at the top with retail parks. Having sold 2/3 of our retail warehouses over the last 10 years, we sold Selly Oak and Livingston during the year. In aggregate, the proceeds were 2.5% below the March 2018 valuation. We now have 11 retail parks and will continue to work our way out of them. But as I said earlier, we're not going to compete to rush for the door. Our parks all have A1 planning use, giving us flexibility. We have high occupancy. Our average rents are at the lower end of the range at GBP 20 per square foot. And of the 11, 2 are clearly underwritten by alternative use value for residential.



We have 6 shopping centers outside London, representing 17% of our portfolio by value and with, again, 97% occupancy. This has been a busy year for the team, with 65 lease events in the 6 centers, a surprising amount of positive activity given sentiment, though rental values are under pressure. In Glasgow, we opened new stores for Victoria's Secret, Schuh and Whittard's. In Leeds at Trinity, now in its seventh year, we opened the upsized New Look store, Timberland, Khaadi, Rosa Thai and Black Box Revolution. And at White Rose, the upsized River Island opened, and we completed the lineup of a leisure extension and a new ScreenX in the cinema. At Westgate Oxford, we said goodbye to L.K.Bennett. But Zara, MANGO, Urban Outfitters and Flannels joined the lineup. At Cardiff, the opening of Stradivarius in tail end of last year was followed this year by new stores for Bershka, ECCO and Slim Chickens. And finally, at Bluewater, we completed a let, a plaza development. We've upsized JD Sports, Rituals and Beaverbrooks. Levi's and Polo Ralph Lauren opened new stores, and in March, we opened the new 62,000 square foot Primark store, bringing a much-requested retailer south of the river.

Moving on to our leisure parks. As we've sold retail parks and secondary shopping centers, we bought into these between 2012 and 2014, and they continue to serve us well in the context of the retail market as a whole. They cater for the growing experience segments of consumer spend, providing a varied range of entertainment from family friendly cinema to sport-anchored experiences and the award-winning escape destinations. Cinemas have their highest attendance for nearly 50 years this year, and we've continued to maintain the investment fundamentals across this portfolio through reversion release agreements with both cinema and bowl operators. And we now have fixed or minimum rental uplifts across 1/3 of the leisure park income.

Our outlets are destinations for a day out and provide a shopping experience which is difficult to replicate online. Outlet leases have the benefit of capturing income growth annually with short-term performance-related agreements. This enables us to curate lineups which reflect changing consumer preferences and introduce popular new brands. Over the last 4 years, we've grown the retailing trading density at Gunwharf Quays by 36% using the upsize of key flagship brands like Polo Ralph Lauren as a catalyst for the introduction of other premium brands who want to trade alongside them. This year, we also introduced Polo Braintree Village, and their new flagship store will open in November. Earlier in the year, we put them in a temporary store, and we've already seen trading density grow in the Village by 12.5% since acquisition. We'll continue to transform the lineup in the year ahead with further new brands. We've also received planning commissions for our scheme upgrades at both Junction 32 and Clarks Village. Here, we've also introduced Velvet, Jack Wolfskin, Dune, Jack Wills and Barbour during the year. These consents will enable us to implement the business plans we talked about in November and drive sales, and we'll cover it again at our investor conference in September.

So to summarize in regional retail and leisure. It's been a tough year for retail, and this will continue. But the best destinations which provide a place to spend time, shop, eat, socialize remain in demand from both consumers and retailers. We're clear on what we want to own, and our portfolio will continue to evolve. We'll focus on fewer destinations, all of which must appeal across generations and be in growing and supportive catchments. Strategically, regional retail will continue to reduce, as I said earlier, as a proportion of our business.

So let me now hand you over to Colette. She will talk about our growing activities in London.

Colette O'Shea - Land Securities Group plc - MD of London and Retail Portfolios

Thanks, Rob. Good morning, everyone. [Say for] London and what we're doing, our current performance and how we're driving our future growth.

Let me start with our office portfolio. We're 98% full with a healthy WAULT of 9 years and reversionary potential of GBP 16 million or 5% of rent over the next 5 years. We've completed GBP 23 million of rent reviews, increasing the passing rent by 17%. The most significant were at New Street Square, where we completed GBP 18 million of reviews and increased the rent by 18%. We've done GBP 15 million of lettings, including a GBP 2 million [reger] at One New Change and lots of other activity, mainly in the West End.

We continue to attract a wide range of customers, adding to the mix today, broadening the opportunity to capture future demand for more customers as their business needs evolve. Our portfolio is strong, and we're performing well.

Key to our strategy is that service, flexibility and convenience are moving from nice to have to fundamental decision drivers. To benefit from this growing trend, we're developing a range of products to broaden our customer base and deepen existing relationships. We're aligning our products



and services with business priorities of talent attraction and retention, maximizing productivity and cost efficiency. Providing this choice and flexibility will drive our performance.

As you'd expect, each one of our products is a result of expansive research, data insight and careful planning. Now our customers can choose from one or a combination of our traditional HQ offering, Landsec Fitted, our new fitted-out solution, and Myo, our flexible office offering. And all of these can be enhanced by our popular Landsec Lounge.

Starting with our Headquarters offer, London remains the preeminent global city HQ. And we have a strong track record, delivering great space and long-term partnerships. Deloitte's commitment to New Street Square showcases how companies can treat -- aspirate -- can create aspirational hubs where the experience reflects their brand and culture.

Our newest offering, Landsec Fitted, as the name suggests, the space is fully fitted out, ready to move into. Our customers told us they want to use our property expertise so they can concentrate on their businesses, leaving the property stuff to us. This service gives customers another option to choose from and gives us the ability to capture premium rents doing what we do well. Our first 3 spaces are underway, and we expect to expand this across the portfolio.

Myo is our flexible office offer. We began marketing in January and opened at 123 Victoria Street at the start of the month. I'm delighted with how it's going and the feedback that we've had on our menu of options. The next step is to expand it across the portfolio, and we'll share more of this at our investor conference.

Whilst broadening our service offerings, our Landsec Lounge continues to add to the popularity of our buildings. New Landsec Lounges are underway at 62 Buckingham Gate and Dashwood House with New Street Square and One New Change to follow. These offers all provide us with the opportunity to increase income through premium rents and reduced rent frees.

As well as new products, we're working hard on innovative ways to reduce waste and energy whilst increasing the efficiency of our cleaning, security and maintenance. This is important to us and our customers. By taking this approach, we make our space even more competitive. So that's our office portfolio and new services.

Now I'd like to update you on hotels. In London, we have GBP 300 million invested, with the rest in large regional cities like Birmingham, Manchester, Edinburgh and Glasgow. Income, which is growing steadily, is based on a percentage of turnover. Furthermore, the vacant possession value is higher than the investment value because of where they're located. Many have significant future development potential.

I can't yet tell you when or how, but let me give you some examples. In Hammersmith, the hotel provides a potential toehold in the future regeneration of a site next to the tube station. In Docklands and Birmingham, you can see the densification prospects. So whilst we enjoy a growing income stream, we can also look ahead to the potential opportunities.

Talking of opportunities, now to our current developments, where you'll see you all our new products and services emerging and more. We've a total of 3.6 million square feet, all of which is in London, and have grown since November with our acquisition of Lavington Street in Southwark. This acquisition builds on our existing investment in this location. The more we can develop in an area, the greater the overall impact. But more on that in a moment.

Our office program now stands at 2.2 million square feet. It's going well, and 1 million square feet will be on site by October, ready for delivery from 2021. The total development cost is around GBP 2 billion with a potential rental value of GBP 140 million.

Let me take you through it, starting with 21 Moorfields. The complexity plays to our strengths, and we continue to complete each stage on time or even ahead of target. And here are some of the highlights. Deutsche Bank wants the whole building, giving us a 25-year lease. We finished our piling 6 weeks early, no mean feat as we spread it 15 piles 60 to 70 meters through Moorgate station. We started installing the frame, and we remain within our TDC of GBP 576 million. All of this activity has now substantially derisked the project, and we're on track to deliver to DB at the end of 2021.



In November, I talked about our new approach to using 3D modeling. Here it is again because it's working and it's proving its worth and it's pretty cool. We're finding design clashes early rather than on-site. We're able to sequence the program so materials only get delivered to site when they're needed, making us more efficient. We're getting detailed cost much earlier, creating certainty. All of this reduces risk. And now we're using it to create visualization so shareholders and customers can get a better understanding of the space. So not surprisingly, given all that, we'll be using it across all our schemes.

Over in the West End at Nova East, which marks an evolution of our Victoria product with highly engineered spaces and terraces on every floor, we're on-site with enabling work, ready to start piling in July.

A few steps away at Portland House, our plan for this West End landmark are gaining momentum. In November, during our feasibility stage, I talked about knocking the whole building down. But as we did more work, it became clear that extending the existing building and comprehensively remodeling it is a better option. It gives us great space, faster to market with less risk, creating better returns. A new 14-story building will be attached to the existing Portland, which currently stands at 29 stories, and we're adding one more for a rooftop restaurant. Overall, we're increasing the floor area by 30% and creating a choice of floor plates from 11,000 to 17,000 square feet. Also, as I've already talked about, the increasing importance of amenities to customers and I talked about (inaudible) for customers. And at Portland House, we'll have some of the very best on offer. As well as the cafés and wellness facilities you'd expect, we're turning to neuroscience to create spaces which impact on people's moods and productivity, even their blood pressure. Again, we'll be able to tell you more about this in September.

Now for 1 Sherwood Street, our 144,000 square foot development behind Piccadilly Lights, which I gave you a flavor of in November. We're pairing this iconic location with an exciting design, which includes a winter garden, Landsec Lounge and rooftop restaurant, to create a product which we believe will be highly sought after and command premium rent. We're on-site and already talking to potential occupiers. Demand for the best space in the best locations is high, and we've had interest even at this early stage.

Moving south of the river. Changing London's skyline with landmark buildings is always something we're proud of. But when we can invest in a number of buildings in close proximity and really breathe new life into an area, that's when we make a real difference. We've done it in Victoria, and we're going to do it in Southwark, an area we know well. Our latest acquisition, Lavington Street, brings the number of buildings we own to 5.

And we're progressing 3 schemes: 105 Sumner Street, Lavington Street and Red Lion Court. At Sumner Street, we have consent for 131,000 square feet in 2 buildings and expect to be on-site by October in order to deliver in 2022. We're trialing our kit-of-parts approach here, which I'll talk about in a minute. Lavington Street, which we acquired in December, is well embedded into our plans. We're in the feasibility stage and are looking at both refurbishment and redevelopment options to deliver approximately 370,000 square feet. We started discussions with Southwark, and our proposed start on-site date is July 2020. At Red Lion Court, our scheme on the Thames, we're working on a building, 324,000 square feet, with a very large public space. We're aiming to submit a planning application later this year.

Turning now to residential. Rob introduced this in November, and our plans are moving forward. We aim to deliver 1,700 homes at Shepherd's Bush and Finchley Road. We're in detailed discussion with the planners, with a view to submitting applications by March. We also have potential at Lewisham where we're at the master planning stage, and we'll share more about our vision to these at the investor conference. So that's our development.

So let me take a moment to talk about how we're continually innovating to build and design better, faster and for less, to find ways of reducing our impacts on the environment by sourcing responsibly and maximizing our use of resources. I've talked about BIM modeling, but there's another area of innovation gaining momentum, our kit-of-parts approach I talked about in November. To remind you, this is where parts are designed and manufactured offsite and then put together on-site using automated assembling techniques. This has many advantages, including greater efficiency, better quality control, reduced risk, reduced cost from economies of scale and less environmental impact, all of which lead to higher margins and improved financial performance. We start with Sumner Street, where a government grant awarded in recognition of our innovative approach has enabled us to significantly accelerate the testing program. It's still early days, but we're really excited about the potential benefit and positive impact on our performance. And of course, the more we use it across our developments, the greater the number of standardized parts, the more the benefits will grow.

So we're busy, really busy, but it's exciting, and we want more. We're focused on buying assets which will enhance our development program, assets that will support new products and services and assets that will thrive in exciting new locations. We maintain financial discipline. But Lavington Street shows that we're competitive for the right assets and that there are multiple levers we can pull to win deals. In fact, we were an underbidder, but our reputation as a highly credible buyer who can move quickly secured us the property at an attractive level.

So let me sum up. Our office portfolio is full. We have new products and services, which are creating a wider customer appeal. Our focus on innovation is leading to new ways of designing and constructing buildings, better, faster and for less. Our ambition is to lead in sustainable development. Our development pipeline is growing, and 1 million square feet will be on-site by this year. We're working on 1.4 million square feet of new homes. We're committed to London and delivering space usable for the way people want to live, work and play, and we're confident about the value we can generate for shareholders.

Now let me hand you back to Rob.

Robert M. Noel - Land Securities Group plc - CEO & Director

(technical difficulty)

[hands-off] strategy involved and what should you expect from us going forward.

As you know, we were early to develop during the run-up of the cycle so we could deliver into the hotspot. As we did this, we also took the opportunity to sell out a secondary retail to focus on experience-led destinations. Since the run-up to the referendum as political and economic uncertainty grew, we were net sellers and returned capital to shareholders while maintaining a strong balance sheet.

Internally, we've been focused on what it would take to be the successful property company of the future. This now means delivering more than just a great building on time and to budget. It's resulted in the development of a range of property services and modern building techniques and taking a lead in environmental and social factors. At the same time, we've been preparing and expanding our 3.6 million square foot pipeline for development. We're now very well placed to create buildings for our customers and value for our shareholders despite the continuing uncertainty.

Customer demand for the right space will continue wherever you are. London is supported by demographic and behavioral trends and has more than proven its resilience over the last 2 years or so. The market dynamics remain healthy, and customers are demanding quality space, great service and robust building performance. And this will provide opportunity for us. The retail market will be mixed. We see continued demand in our leisure parks and growth in our outlets. But shopping centers and retail parks will remain tough in the near term, although these segments only make up 21% of our portfolio.

So to conclude, we're well positioned to grow and create value. We've created a high-quality and versatile portfolio and are in strong financial shape. The balance of the business is shifting as we allocate more capital and take more risk in London with an increasing development program, and this includes our organic opportunity to enter the living market. Outside London, you'll see us focus on fewer destinations which must provide a broad range of offer, amenity and appeal across generations and be supported by good and growing catchments. We're widening our range of products and services thoughtfully, ensuring that we can meet future demand in terms of space, amenity and building performance. We're innovating to increase efficiency and reduce cost, waste and risk. We have a deep and demonstrable skill base and great partner relationships, and finally, we're the sustainability role model in our sector.

So let's end there and hand over to you for questions. I think there should be some microphones around. If you could -- if you want to raise a question or ask a question, please raise your hand. We'll get a microphone to you. And if you can get your name and company down, we can -- we've got it for the record.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jonathan Sacha Kownator - *Goldman Sachs Group Inc., Research Division - Financial Analyst*

Jonathan Kownator from Goldman Sachs. A few questions, if I may. First one, you talked about disposals, and you -- or can you quantify that in terms of quantum? And perhaps, do you have a timing horizon for that?

The second question. On offices, can you elaborate perhaps a bit on the incentives that you've had to give for new lettings?

And on development and the new schemes you want to commit to, would you commit on a spec basis? Or will you work for pre-let to come?

And sorry, final question on the residential. Do you have a target size that you want to reach in terms of portfolio (inaudible) value (inaudible) schemes? Or do you have a (inaudible) to do more going forward as well?

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So thank you very much, Jonathan. Let me answer the disposals and residential, and then I'll ask Colette to answer the incentives on the office and the spec or not on development.

So on disposals, I'm not going to give any guidance on quantum. The last thing I want to do is tell you what I want to sell and when I'm going to sell it by because that will hang me out to dry. What we have said all along is that we want to reduce our exposure to retail warehouses. As you know, we sold out a lot of them, and that will continue. But we've got our balance sheet to where it is today. We're in no rush. We're very strong, and I'm not going to compete to rush for the door. So that's all I'm going to say on that.

On the residential, again, I'm not going to say what sizes are the portfolio because there are a number of factors around the residential. This is a hugely growing sector, will be large. We've got an organic opportunity on a few sites in London, which provide us really good opportunity. The first 2 themselves would be (inaudible) GBP 1 billion. So that'll give you some guidance. The issue with the residential is the political environment is so fluid, and neither political party have got behind yet. We think they will, but they haven't got behind the build-rent sector with clear policies. And so the last thing we want to do is rush into a sector where the politics is fluid. But we're positioned very positively for the sector, and we're very excited about what we can produce.

Jonathan Sacha Kownator - *Goldman Sachs Group Inc., Research Division - Financial Analyst*

And perhaps if you could comment on development -- I'm sorry, on disposals. I understand you don't want to, obviously, give a target. Perhaps you can comment on -- obviously, you'd be keen to sell some of the retail exposure around (inaudible). Would you be looking at funding your pipeline through further disposals perhaps in mature offices, in particular?

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So we're always selling and buying buildings, Jonathan. I'm just not going to get -- taking into how much we are or we're not going to sell. As you see at the moment, 65% of our business is in London. That's going to get bigger, not least because we're building over the coming years GBP 3 billion worth of development. We always sell buildings and buy buildings. It depends on what offers we get at the time. No office is sacrosanct as we said all the time. Colette, incentives and spec.



Colette O'Shea - Land Securities Group plc - MD of London and Retail Portfolios

Yes. So I mean the incentive question is very simple, and incentives really have stabilized. And we're looking very typically 24 months, a 10-year term.

And then spec or not, if I just can give you some insight into our thinking. As I said, we've got 1 million square feet that we'll have on-site by September or October this year. Half of that is 21 Moorfields, which as you know is pre-let. So we've derisked that. The 3 schemes are in different locations. So one is Sherwood Street behind the Light; more of Victoria, which really -- no, we really like a lot; and then Southwark. And the point about those is that it's not about when you start them, it's actually when you deliver them, the delivery windows. And the delivery windows for those are '22, '23.

And if you have a look at the -- in some of the appendices I put in the back, you can see that we're starting to see a potential opportunity there where there's a shortage of space. And the other thing that I would say is that we're seeing that customers now are becoming very discerning. We're seeing a real flight to quality. And what they are looking is -- looking for is very much Grade A space. So we see real opportunity with our schemes.

Jonathan Sacha Kownator - Goldman Sachs Group Inc., Research Division - Financial Analyst

An the (inaudible), obviously, for Sumner Street, which is a south of the river location, so you would effectively start whether or not pre-let effectively to be delivering into that window?

Colette O'Shea - Land Securities Group plc - MD of London and Retail Portfolios

Yes. So the -- it's planned to start in October.

Paul J. May - Barclays Bank PLC, Research Division - Analyst

One in the back here. It's Paul from Barclays. Just a quick question for me, a couple on Retail and 1 generally. Given the lack of liquidity in Retail assets, what makes you/the valuers convinced that the 5% top yield in your shopping centers is appropriate at the current time? Adding to this and just generally on the Retail issues, do you think it's appropriate at the current time that you don't have a Retail specialist at the exec level?

And finally, more generally, given the outlook for valuations in the near term is likely to be negative and income is likely to be the main positive return, was this [low] dividend increase and earning increase and flexibility over your operations going forward an indication that you expect earnings to decline in the near term?

Robert M. Noel - Land Securities Group plc - CEO & Director

Thanks, Paul. I'll ask Martin to answer the income earnings question.

On Retail, I mean the values are going to say what the value are going to say. The market is very quiet, as you know. Rental values are coming down, and yields are going up. And the valuations are sort of mathematical -- as a mathematical calculation on that. We are expecting rental values to continue to decline. So we're expecting further valuation decline. Whether our existing valuations are -- they're as right as we think they can be, but they're never right in a falling market or a rising market. And so we're as close as we can be. The important thing for us is we're in a really strong financial position. We can ride out anything. Our shopping centers are pretty much full as we've demonstrated today. We let stuff as it comes empty. So the quality of the space we have, I'm very relaxed about.



As for the Retail specialist at the exec level, I'm going to say 2 things. First of all, we've got great teams on our business. We all sit in one open plan room. We don't need specialists in everything everywhere. We need people who can galvanize very highly qualified and experienced teams to do the right job for our portfolio. So I'm totally relaxed about that.

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

Paul, on income, the question you ask around the dividend. When we do anything with assets, when we sell them, when we put certain assets into development, there are times when our income dips. And that's perfectly possible given there's limited rental growth. If you look at Portland House with GBP 40 million of income coming from it, if we want to redevelop it, then that income will go. I think the upside, if you look at our development program, is very clear, but that comes through over time. What I'm trying to do is to smooth the dividend growth through the bounce in earnings that come from those asset decisions, be that selling, be that putting assets into development.

And so I'm not going to make a prediction on exactly where the income level goes. But what I am telling you is that we're trying to smooth the dividend growth through any volatility in earnings that comes from asset decisions that we make. And it's really important to put the business in a position where it makes the right asset decisions rather than it's in some way confined by dividend policy. And so we're trying to get the asset core right first.

Paul J. May - *Barclays Bank PLC, Research Division - Analyst*

Sorry. Just one follow-up on the Retail valuations. Given your strong balance sheet maybe compared to some of your peers, are you prepared to make the market in those retail values given nobody knows where the bottom is? And would you be prepared to sell below book value in order to, as I say, make that market given your strong balance sheet and your ability to do so?

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So as I said at the moment, Paul, I mean we are focus on that experience-led destinations. We've done an awful lot to shift our portfolio towards those levels over the last 5 years. We are very relaxed about our positioning. We will continue to sell retail warehouse products. I'm not going to tell you by when or at what price, and I'm not going to rush for the door and compete with anyone to -- that the market...

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

But we did sell our Livingston retail park below book because we thought it was still the right thing to do. So the book value is not the determinant of what price we sell at.

Robert Alan Jones - *Deutsche Bank AG, Research Division - Research Analyst*

Rob Jones from Deutsche Bank. I have 3 questions, 2 on Retail, 1 on the office development acquisition opportunities. So firstly, just on Bluewater, best relative performer of your U.K. shopping centers. What was the capital value decline at that asset and the average (inaudible)?

Secondly, on retail parks. Really interesting to see such a wide spread in terms of capital value movement during a period. Maybe you can give a bit of detail in terms of the driver of this? Was it primarily CVAs? And maybe what lessons could be learned going forward in terms of the ability to maximize capital value resilience within that portfolio?

And then finally, on the office side. So you talk in the statement about the fact that we're seeing a bit of a polarization of demand by occupiers towards the highest quality of assets going forward. I just wonder to what extent do you see scope for outward yield shift of maybe assets that might going forward be defined as undesirable secondhand space. And secondly, within that, does that then present new acquisition opportunities for you to fire up that space and redevelop it for the future?

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So let me -- Martin's going to answer the Bluewater and the retail part question. Let me just knock the office question on the head beforehand.

One of the things that we've done over the last 5 years is to drive our London Portfolio into quality buildings. Okay? We have seen a rise of demand for quality, for flexibility, for great building performance, for good environmental performance, for technical resilience as buildings are being occupied at greater densities. That has been our mission since we started developing in 2010. So we are in a great position with our London Portfolio. Most of the buildings are of great quality. And those that are, are, effectively, development sites. As Martin said, the stuff that is being developed by us here at the moment has a current rent-roll of GBP 19 million, not very much for a 3 million square foot -- GBP 90 million coming out before the new money comes in. So we're in a great position there. I don't see that we're going to have any issues in our portfolio of not being able to match customer demand.

As for buying in London, well, we bought one this year. And Colette and her team are -- or Colette is all over looking at stuff we're going to buy. We will if it's the right price and we can get the right return. If we can't, we won't. But it -- if, as you say, that there are going to be a load of secondhand buildings which are not fit for purpose, then that is not good hunting ground. Martin?

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

Yes. A couple of questions there around the valuation. Bluewater was down 9%. The yield shift there was around 15 basis points. So that's coming in around 4.9% currently.

But what I would say on valuations generally, I mean income streams within shopping centers are being valued at different yields. So if you have a particular occupier that there is concern in the market over, then the values will put a different yield on that unit, on that income stream. They may have some costs associated with what they expect to happen to that unit. So the shopping center itself is a blend of different yields.

You asked also about retail parks and the ones, I think, that has the largest drop. The major reasons for those, if you look at them, almost certainly they've got some -- they will have some large units to the likes of Homebase, Carpetright and so on. So it's where you've had the major CVA exposure. That's where we're seeing the biggest valuation decline.

Christopher Richard Fremantle - *Morgan Stanley, Research Division - Executive Director*

Chris Fremantle from Morgan Stanley. One big-picture question, one detailed question. The big-picture question is about the rental cycle in London office. I think you've talked in the past about London office rents being close to the peak of the rental cycle. Do you still stand by that view? Or have you change that view about the outlook for the rental cycle in London?

And then the detailed question. Just on the like-for-like in retail, you gave a lot of granularity about the historics of net rents and the provisions that you had taken in net rents. Can you just help us a little bit with the outlook going forward for accounting net rents based on what you know of the leases coming to you and the CVAs that have been announced? Can you just help us a little bit with how we -- how you -- how the net rent picture in retail is likely to move going forward given what you've already taken as provisions in there?

Robert M. Noel - *Land Securities Group plc - CEO & Director*

Yes. So Martin will take you through the CVA analysis, and we've got quite a lot of information in the appendix (inaudible) if you just take away the (inaudible).

Colette, can you talk about the rental cycle in London?



Colette O'Shea - *Land Securities Group plc - MD of London and Retail Portfolios*

Yes. I mean, obviously, what we've seen is a cycle of tiny sort of uptick over the last 12 months. I mean I think in looking forwards we're not expecting to see a huge growth in rent in London.

Christopher Richard Fremantle - *Morgan Stanley, Research Division - Executive Director*

And you're not expecting a big downcycle either? Because that was effectively how you were positioning the business a couple of years ago, for a big downcycle in rents. If you're changing that now, it'd be helpful to know.

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So what we're seeing is a differential between prime and secondary, and the prime market has held up. The Grade A market has held up well. London, as I said early on, has shrugged its shoulders at Westminster. The supply/demand dynamics have been good for property developers and landlords. People are delaying development decisions, and that's what's given us the sort of comfort that we can crack on with our schemes because occupiers are moving to quality very fast. So I'm not expecting a big downcycle in rents in Grade A buildings, no.

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

Yes. So the million-dollar question, obviously, how it's going to look like in Retail. Look, what we've done is we've taken as best a provision as we can for where we see trouble ahead, so where we see retailers are having difficulty. So you're not going to get SIC 15 write-offs in relation to those. We've taken those. However, more may yet come out over the course of the next 12 months.

If you look at the spot rents, and we do give you the spot rent at 31st of March, there is not much of a reduction versus the rental income that we have booked for the year-to-date. But again, as I say, the issue is, is actually what happens in year if you get administrations, if you get people closing units and rent dropping. And that is going to have the larger impact than the actual spot rents as we see them today on the 1st of April 2019 not materially different to the income that we recognized during the course of the year.

David Brockton - *Liberum Capital Limited, Research Division - Research Analyst*

It's David Brockton from Liberum. I've got 2 questions on Retail as well, and the first one relate to the last question. Not a day goes by where we don't see a retailer talking about sort of getting a 20% plus reduction in rents. And putting CVAs to one side, I'm interested in the fact that the like-for-like net rent was broadly held stable. I was wondering if you can help us understand what the moving parts are there. Is it just that the retailers that are negotiating rent reductions are not in your stores? Or are you seeing new demand coming in from different types of occupiers that are offsetting that? Just help me understand, bridge that gap. That's the first question.

The second question relates to footfall. You clearly get footfall, which is declining for the wider Retail Portfolio. I was wondering if you can give a feel for footfall in some of the more leisure-orientated assets. And also the assets are those -- is footfall still growing there? And wonder if you can give us a feel for how much.

Robert M. Noel - *Land Securities Group plc - CEO & Director*

Sure. So let's just talk about the 20% reduction in rent. I mean when retailers report, they report over their portfolio as a whole, and our shopping centers are not representative of the U.K. retail market as a whole. This is why we positioned our portfolio where we have. We've got 97% occupancy. When retailers go, we generally fill them. We'll fill them with slightly lower rents. And you've seen where the value is important the Rental value is down. That's evidence based on what is going on in our portfolio. So whilst retailers have a stronger negotiating position, obviously, than they did



last year and the year before and the year before that, we have not seen anything like that fall in our portfolio. And we're, as I say, 97% occupied. It's about as much as we've ever been.

On the -- sorry. The second question was on like-for-like. That may give you an answer as to why the like-for-like is stable. I mean most of the people are staying. And if you saw the rent reviews and lease renewal stats in our Retail Portfolio, they were flat. So they haven't come down.

Footfall, we don't measure in the leisure centers. We only measure in the outlets and shopping centers. I haven't got the breakdown here, but it's certainly in the appendix in your pack.

Osmaan Malik - *UBS Investment Bank, Research Division - Head of Pan European Property Research and Executive Director*

Osmaan Malik, UBS. Just one quick question. It's a follow-up on Chris's question and Martin's response. As I understand it, the bad debt provision and the SIC 15 provision, sorry, you've taken a view on retailers that you think could get into difficulty. Have you shared that information with the valuers? And have the valuers taken a similar approach with fair valuations?

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

Yes. They have in terms of how they've marked out -- so for example, we've discussed the names Debenhams and Arcadia. Those are post year-end. Those will -- as at the 31st of March, within the valuation, the valuers are, obviously, clearly aware of those. They're also aware we have complete open dialogue on all the assets as to our concerns around particular retailers. But on those, they will then move out the yield on those particular ones. So it should be tied in with our view of the retailer but also what a buyer, how a buyer would approach any impending CVA or administration. And so it's reflected in the valuation through a yield shift.

Robert M. Noel - *Land Securities Group plc - CEO & Director*

So we've got a question on the screen.

I just look at the 2.7% weighted average cost of debt versus 2.6% last year. I know it has no material impact on Landsec financial expenses according to average length. However, could you comment maybe the changes in your own marginal cost of debt over 2018 to the beginning of '19, first, and market spreads? Do you see the first tensions there? And talk a little bit about lenders requirements, Martin.

Martin Frederick Greenslade - *Land Securities Group plc - CFO & Director*

So just a breakdown on the lending market. So I think what I would say is from our perspective it would be wrong to judge the lending market on what we see. We have sort of a thin veneer. We've got a security group, a AA rating. And so what we experienced isn't necessarily what other people are experiencing when they're going for single asset financing at far higher leverage levels than this. We have seen no tightening in the cost of credit for us. Those additional facilities we added are no more expensive than the facilities they were added to. So we haven't seen a change of that.

The saving on our interest across the year has been due to the reduction in the average cost of debt rather than the year-end and year-end. And that's the point that I was trying to make is that the average cost of debt has come down. During the course of this year, it's been pretty well bank stable at 2.6%. And I really don't have a feel for what the more leveraged market looks like. I mean we hear that it's slightly tougher. But I think you're better to asking those people who are actually out seeking finance on those assets to see how they're performing. All of our assets are in a security group, and there's a huge amount of benefit to us from doing that.



Robert M. Noel - Land Securities Group plc - CEO & Director

Good. So we have no more questions. It's 10 past 10. Thank you very much. We'll see you -- we're around all day if you want to ask questions. Otherwise, we'll see you at our Investor Day in September, which I think most of you have got a hold-the-date in your diaries for. Thank you.

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