

London Portfolio



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“We are moving into supply-constrained market conditions in central London offering opportunity for those able to deliver the right property at the right time. Our robust balance sheet and sizeable development pipeline put us in an excellent position.” *Robert Noel*
Managing Director, London Portfolio

Progress on our key objectives for 2009/10

Objective	Progress
<ul style="list-style-type: none"> • Preserve income by applying asset management skills 	<ul style="list-style-type: none"> • Secured £31m lettings, including higher occupancy at Dashwood, EC2; 30 Eastbourne Terrace, W2; and New Street Square, EC4 • Achieved largest letting of second-hand space in the London office market since 2003, at Thomas More Square, E1
<ul style="list-style-type: none"> • Complete asset sales and recycle capital 	<ul style="list-style-type: none"> • Achieved total sales of £411.4m • Remained patient on acquisitions but restarted £649m development programme in London
<ul style="list-style-type: none"> • Adjust development pipeline in line with market 	<ul style="list-style-type: none"> • Held 20 Fenchurch Street, EC3, and now seeking partners with eye to starting project • Held Park House, W1, ready for planned construction start in May 2010
<ul style="list-style-type: none"> • Achieve planning success, especially around Victoria, SW1 	<ul style="list-style-type: none"> • Secured planning permission for 84,600m² of space in SW1, part of our Victoria Transport Interchange development project • Secured planning permission for 61,890m² of space at Arundel Great Court, WC2
<ul style="list-style-type: none"> • Spot opportunities to create value through the cycle 	<ul style="list-style-type: none"> • Implemented successful, flexible strategy at One New Change, EC4, with strong emphasis on securing retail lettings • Restarted development programme in London to enable well-timed delivery to a supply-constrained market
<ul style="list-style-type: none"> • Make progress on development at Ebbsfleet, Kent 	<ul style="list-style-type: none"> • Responded to wider market conditions by largely halting development and awaiting appropriate conditions
<ul style="list-style-type: none"> • Outperform IPD 	<ul style="list-style-type: none"> • On the basis of ungeared total property returns, our London offices underperformed by 2.3%. The total return would have been 1.2% higher if adjusted for the impact of the Queen Anne's Gate bond issue. The other factor impacting on performance was static or falling valuations on pre-development sites. These sites are expected to provide the portfolio with a good source of opportunity going forward

How we create value

We aim to deliver growing rental income streams, higher investment values and future development opportunities over the long term by:

- Investing in assets early in the cycle to maximise returns and selling when appropriate
- Ensuring we understand our customers' changing circumstances, so we can adapt and evolve our products to meet their needs

- Using a mixed-use, high quality product to mitigate risk, generate strong demand and achieve improved rental performance
- Maximising gain from our development work on new schemes through innovative master planning and other strategies

Our performance at a glance

Highlights

- Valuation surplus of 9.1%
- £31m of new lettings secured during the year
- Completed the largest single letting of second-hand office space in London since 2003
- Work started on site at three West End locations – Park House, W1; 62 Buckingham Gate, SW1; and Wellington House, SW1
- Retail component of One New Change, EC4, now 90% let or in solicitors' hands
- Planning permission granted for development at Victoria Transport Interchange, SW1, and Arundel Great Court, WC2

We have concentrated development activity on the West End and the City, the areas we expect to recover first. [p50 and 53](#)

Chart 35
London Portfolio by capital value
£5.27bn

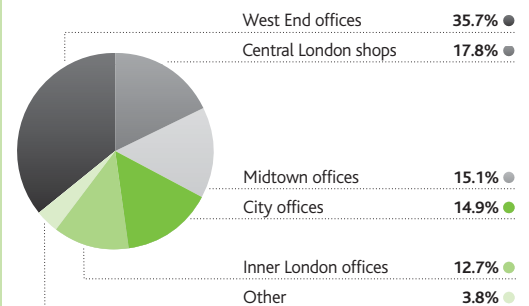


Chart 36
London office valuations at 31 March 2010 (£bn)

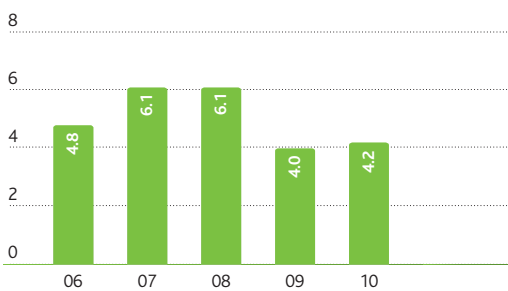


Table 37
London Portfolio valuation and performance summary

	31 March 2010 £m	31 March 2009 £m
Combined portfolio valuation	5,274.7	5,089.4
Like-for-like		
Investment portfolio valuation	3,589.8	3,331.6
Net rental income	288.3	326.6
Gross estimated rental value	244.5	263.7
Voids by estimated rental value	6.1%	4.9%

Chart 38
Voids and units in administration – London offices (% of ERV)

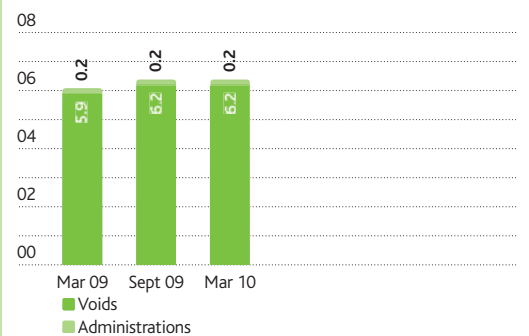


Table 39
Top 10 office tenants (% of Group income)

Tenant	%
Government	9.2
Deloitte	2.5
Royal Bank of Scotland	2.5
Bank of New York Mellon	1.4
Metropolitan Police	1.0
EDF Energy	1.0
Microsoft	0.8
Speechly Bircham	0.7
Lloyds Banking Group	0.7
Taylor Wessing	0.7
Total (all office tenants)	20.5
Office other	22.5
Total (all office tenants)	43.0

Chart 40
London Portfolio – tenant diversification (% of Group income)

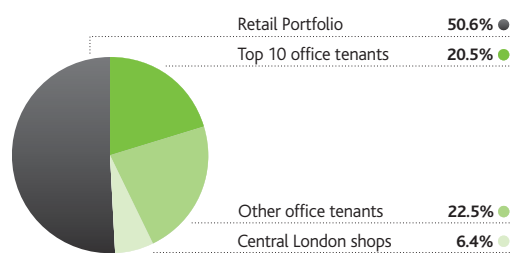
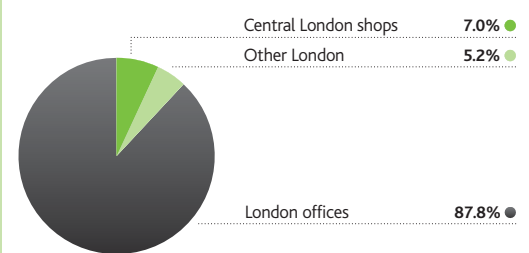


Chart 41
London Portfolio floorspace under management
0.83 million m²



Business commentary

Our market

Despite continued anxiety around the financial and economic environment, London reasserted itself as a centre for property investment this year. Currency movements, high levels of transparency and London's fundamental qualities as a capital city helped to draw significant interest from global investors. We saw rising investment values as a result.

As expected, rents were slower to respond to growing confidence and we continued to see a softening of rental values across London over the year as a whole. As we moved into the second half, continued occupational demand combined with a reduced construction pipeline started to limit the availability of prime office buildings. Consequently, tenants now have less choice and rental value growth is returning.

Over the longer term, the picture is one of increasing supply constraint for prime buildings in key London locations.

Our performance

The valuation of the portfolio resulted in a positive valuation surplus of 9.1% over the year, most of which came in the six months to 31 March as a result of significantly improved market conditions.

Rental value in our like-for-like portfolio fell by 9.3% in central London over the year as a whole, virtually all of which was attributable to the first six months of the year. Rental values declined just 0.5% in the second six months as we moved through the turning point in the cycle.

Voids across the like-for-like portfolio increased from 4.9% in March 2009 to 6.1% at year end. This movement resulted from lease expiries, some of which related to pre-development properties where we are creating the opportunity to deliver new, larger buildings into an improving market.

On the basis of ungeared total property returns, our London offices underperformed the IPD Quarterly Universe by 2.3%. The total return on our London offices would have been 1.2% higher if we adjusted for capital extracted from Queen Anne's Gate through a bond issue. The other factor impacting negatively on performance was static or falling valuations on pre-development and other properties with short unexpired leases, although these same properties are expected to provide us with a good source of opportunity as we move into the next stage in the cycle.

Table 42

Net rental income

	31 March 2010 £m	31 March 2009 £m	Change £m
Like-for-like investment properties	226.4	232.5	(6.1)
Proposed development properties	5.5	5.7	(0.2)
Ongoing developments	(5.0)	(0.3)	(4.7)
Completed developments	46.6	41.6	5.0
Acquisitions since 1 April 2008	1.1	0.5	0.6
Sales since 1 April 2008	11.1	44.7	(33.6)
Non-property related income	2.6	1.9	0.7
Net rental income	288.3	326.6	(38.3)

Net rental income declined by £38.3m or 11.7% to £288.3m largely as a result of our sales programme but also due to lease expiries within like-for-like properties at 123 Victoria Street, SW1 (formerly Ashdown House) and Portland House, SW1. The fall was cushioned by the increase in income from completed developments, particularly New Street Square, EC4 and Queen Anne's Gate, SW1.

Our strategy

We expect to see rising levels of demand over the medium term, so our strategy is focused on maximising potential returns as we move through the rental cycle. Our priority is to develop space appropriate for its market at the right time in the cycle so that we meet occupiers' needs and create value in a supply-constrained environment. We intend to deliver early in the cycle so we gain the benefit of competitive construction pricing, rising rental values and a liquid market in which to make sales, as and when necessary. While a relatively early delivery of developments may lower the ceiling for rents, it also reduces the risk and is likely to provide more stable returns over the long term.

Sales and acquisitions

During the year, we completed our planned programme of asset sales. Disposals included One Wood Street, EC2; Portman House, W1; 22 Kingsway, WC2; 98 Theobald's Road, WC1; 40/50 Eastbourne Terrace, W2; and Sardinia House, WC2. All of these properties were acquired by overseas investors. Sales totalled £411.4m and, on average, were at 1.5% below the 31 March 2009 valuation (before disposal costs). The average income yield was 7.9%.

Asset management

We maintained an intense focus on leasing activity throughout the year, achieving success through our close relationship with occupiers, attractive assets and pragmatic approach. Key leasing activity included:

- Thomas More Square, E1 – owned with The Cadillac Fairview Corporation Limited – we completed a letting of 17,820m² of office and support space to News International for a minimum of five years, at a rent of £4.2m per annum. This is the largest letting of second-hand space in the London office market since 2003.
- Portland House, SW1 – a 26,700m² office building where 4,400m² of the space was re-let during the year following lease expiries.
- New Street Square, EC4 – a mixed-use scheme where terms are agreed to let the last remaining retail unit and the office space is now fully let.

Top 5 properties

1
Cardinal Place, SW1



Stunning trio of buildings encompassing office space and retail accommodation. This landmark site is home to 24 retailers, including a Marks & Spencer anchor store, together with blue-chip businesses.

Principal occupiers
 Microsoft, Wellington Management.

Acquisition date
 1969

Completion
 January 2006

Form of ownership
 freehold

Ownership interest
100%

Area
47,500m²

Passing rent
£30m

Let by income
100%



2
New Street Square, EC4



Innovative offices with retail and restaurants. Recreating traditional ground-level routes, including a delightful public square, the property offers office space with attractive retail and leisure facilities.

Principal occupiers
 Deloitte, Taylor Wessing.

Acquisition date
 1958

Completion
 May 2008

Form of ownership
 leasehold

Ownership interest
100%

Area
65,300m²

Passing rent
£23m

Let by income
100%



3
Queen Anne's Gate, SW1



This refurbished former Home Office building is now occupied by the Ministry of Justice. It was built by Land Securities in 1977, to designs by Sir Basil Spence.

Principal occupiers
 Government.

Acquisition date
 1959

Completion
 May 2008

Form of ownership
 freehold

Ownership interest
100%

Area
30,100m²

Passing rent
£27m

Let by income
100%



4
Bankside 2&3, SE1



A contemporary office, retail and leisure space. The two buildings occupy a prime site on the South Bank, opposite the City and close to the West End, served by four major railway termini and several Underground lines.

Principal occupiers
 Royal Bank of Scotland.

Acquisition date
 1969

Completion
 August 2007

Form of ownership
 freehold

Ownership interest
100%

Area
38,700m²

Passing rent
£17m

Let by income
99%



5
Park House, W1



Due for completion in 2012, this development will occupy an entire block on Europe's busiest high street – Oxford Street. It will boast eight floors of offices, luxurious apartments, 11 retail units and the most sought-after commercial address in London.

Principal occupiers
 n/a – development.

Acquisition date
 1961

Completion
 November 2012

Form of ownership
 leasehold

Ownership interest
100%

Area
28,700m²

Passing rent
N/A

Let by income
N/A



Business commentary

Development

Our long-term development strategy ensured we had comparatively little completed space coming onto the market in the downturn. Dashwood, EC2, our 14,820m² office refurbishment completed in October 2008 is now 88% let. In 2009, our development completions totalled just 4,470m² and related entirely to our development at 30 Eastbourne Terrace in Paddington which completed in May 2009 and is now 38% let.

In terms of schemes in our development pipeline:

- **One New Change, EC4**

One New Change is taking shape and will complete in October 2010. This fabulous addition to London will comprise 19,900m² of retail space and 30,840m² of office space which will be completed to shell and core. On the retail side, we worked relentlessly to achieve lettings and now have 90% of space pre-let or in solicitors' hands. Recent retail lettings include Next, All Saints, Reiss, Hobbs and a new Jamie Oliver restaurant concept. Given the potential recovery in the office market, we saw no need to over-incentivise office lettings and remain confident that we will complete agreements – at the right level, with the right occupiers – once the building is completed. The office element was 38% let at the year end.

- **Park House, W1**

This scheme covers an entire city block of just over an acre on a prime Mayfair site with frontage onto Park Street, North Row and Oxford Street. It will provide 15,140m² of offices, 8,140m² of retail and 5,380m² of residential in 39 units. The total development cost, including land and finance costs, is £412m of which the remaining capital expenditure to complete the scheme is £179m (excluding capitalised interest). Construction has started for delivery in late 2012.

- **62 Buckingham Gate, SW1 (formerly Selborne House)**

This scheme will provide 23,450m² of office accommodation, together with street-level shops and restaurants. Demolition has started, and we expect to complete the scheme in 2013. We are investing significant time in refining the way the building will sit within its environment, particularly the relationships between offices, retail, leisure and residential.

- **Wellington House, Buckingham Gate, SW1**

The new scheme will create a residential development of 5,540m² providing 59 units. The total development cost, including land and capitalised interest, is £55m. Demolition has started and delivery is scheduled for 2012.

- **20 Fenchurch Street, EC3**

The changing dynamics in the office market lead us to believe that both Land Securities and the City of London will gain substantial benefit from this landmark development. It is a bold, aspirational scheme that will provide truly world-class space. We estimate construction time at three years. We are currently exploring the options to develop this scheme in joint venture in order to diversify leasing risk and leave us capacity to bring forward a range of other projects.

- **Arundel Great Court, WC2**

In November 2009 we secured full planning consent for a 61,890m² mixed-use development. Recent lettings have secured income on the site until the end of 2012, with the earliest delivery of the scheme not anticipated before 2015.

- **Victoria Transport Interchange, SW1**

In February 2009 Westminster City Council resolved to grant planning consent for our 84,600m² development. This will occupy an island site close to Victoria station, the capital's busiest transport hub with approximately 115 million users travelling through it each year. The site, which is mainly let until September 2012, is opposite our Cardinal Place development and will comprise six buildings arranged to open up new accessible public spaces, with a mix of office, residential, retail and restaurant space and a new public library.

We are planning further schemes at 123 Victoria Street, SW1 (formerly Ashdown House), Cannon Street, EC4, Shoe Lane, EC4, and Ludgate Hill, EC4 and aim to submit planning applications during the year to March 2011.

Top London Portfolio properties

—over £100m by location

WC2

- 1 Arundel Great Court and Howard Hotel •

W1

- 2 Park House, Oxford Street •
- 3 Piccadilly Lights

EC4

- 10 New Street Square
- 11 One New Change •
- 12 Times Square

E14

- 13 Harbour Exchange

SW1

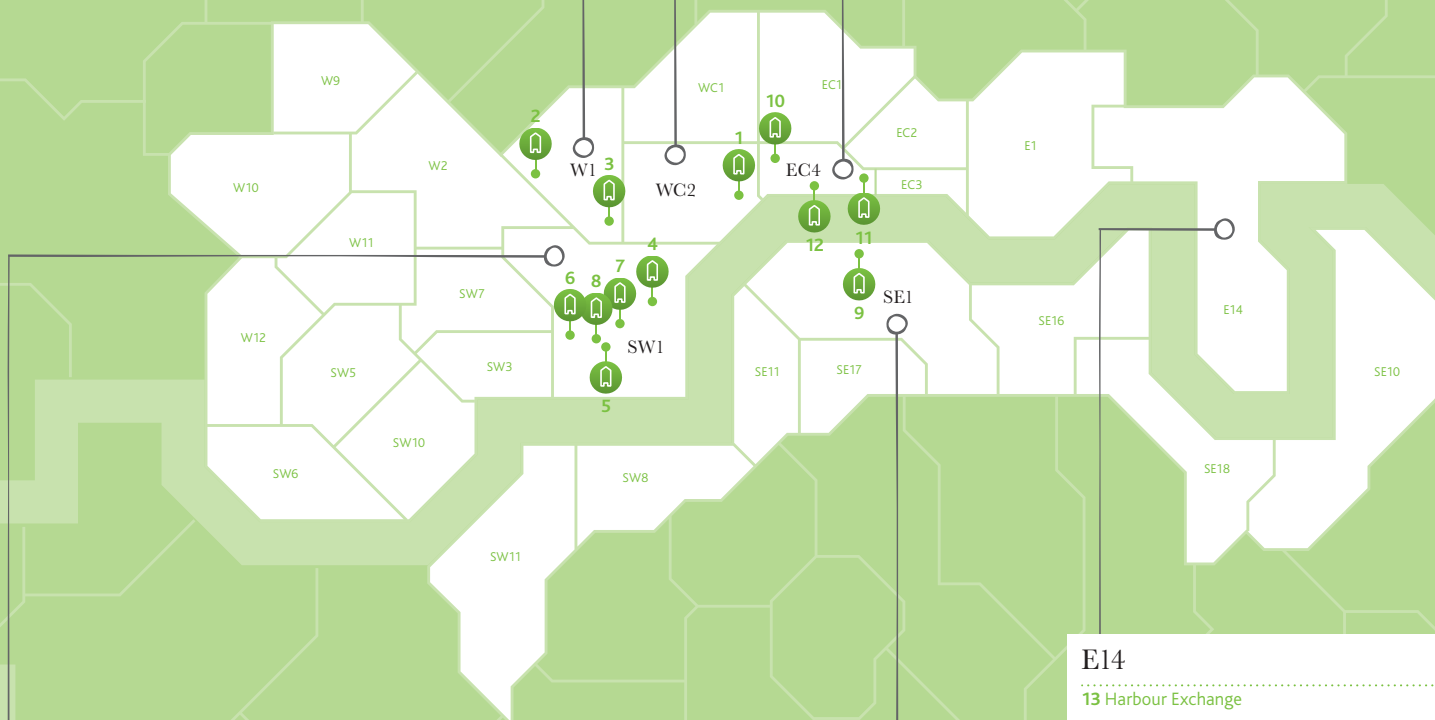
- 4 50 Queen Anne's Gate
- 5 Portland House
- 6 Eland House
- 7 Kingsgate House
- 8 Cardinal Place

SE1

- 9 Bankside 2&3

Key

- In the development pipeline



Looking ahead

The outlook for rents in the London office market is positive. Vacancy rates have peaked at lower levels than in 2003 and there is a very limited supply of new developments coming onstream in the short term. We expect the emergence of a supply-constrained London office market to drive rental values. We are well positioned to benefit from this through our scalable development programme. Strong demand will be driven by a number of factors, including:

- The higher than normal level of lease expiries due from 2013, particularly in the City market;
- A number of key assets coming to the end of their economic life at the same time;
- Prospective occupiers using the end of leases to rationalise their estates; and
- Increasing emphasis on corporate responsibility, which is requiring many occupiers to choose buildings with excellent sustainability performance.

In addition, many prospective occupiers are recognising that rent now represents a relatively low percentage of the total cost of property. Energy efficiency, brand reputation, communications capability and productivity requirements are likely to drive high demand for new and newly upgraded properties in the best locations.

Key objectives for 2010/11

- Outperform IPD
- Submit further planning applications to ensure we can meet demand for offices in a supply-constrained market
- Let up balance of office and retail space at One New Change, EC4
- Achieve retail lettings at Park House, W1
- Achieve success with our nascent residential development programme

2010 ▶▶
One New Change, EC4


Landmark mixed-use development in an extraordinary location adjacent to St Paul's.

2012 ▶▶
Park House, W1


Offices, apartments and retail over an entire block on Oxford Street.

2013 ▶▶
62 Buckingham Gate, SW1


Formerly Selborne House, will provide new offices, shops and restaurants in the heart of Victoria.

2014 ▶▶
20 Fenchurch Street, EC3


Rafael Viñoly-designed 509ft tall City tower incorporating premier offices, retail, café and public Sky Garden.

Table 43
London development pipeline at 31 March 2010

Property	Description of use	Ownership interest %	Size m ²	Planning status	Letting status %	Net income/ERV £m	Estimated/actual completion date	Total development cost to date £m	Forecast total development cost £m
Developments, let and transferred or sold									
New Street Square, EC4	Office Retail	100	62,340 2,980		100 90	32	May 2008	377	377
Developments completed									
Dashwood House, EC2	Office Retail	100	14,110 710		75 100	7	Oct 2008	113	113
30 Eastbourne Terrace, W2	Office	100	4,470		38	2	May 2009	32	32
Developments approved and in progress									
One New Change, EC4	Office Retail	100	30,840 19,900		38 61	28	Oct 2010	409	540
Wellington House, SW1	Retail Residential	100	240 5,540		–	–	Jul 2012	23	55
Park House, W1	Office Retail Residential	100	15,140 8,140 5,380		–	24	Nov 2012	217	412
62 Buckingham Gate, SW1 (formerly Selborne House)	Office Retail	100	23,450 1,540		–	17	Apr 2013	49	182
Proposed developments									
20 Fenchurch Street, EC3	Office Retail	100	61,660 2,130	PR	n/a	n/a	2014	n/a	n/a
Arundel Great Court & Howard Hotel, WC2	Office Retail Residential	100	36,750 2,470 22,670	PR	n/a	n/a	2015	n/a	n/a

Floor areas shown above represent the full scheme whereas the cost represents our share of costs. Letting % is measured by ERV and shows letting status at 31 March 2010. Trading property development schemes are excluded from the development pipeline. Cost figures for proposed schemes are not given as these could still be subject to material change prior to final approval.

Planning status for proposed developments

PR – Planning Received

Total development cost

Total development cost refers to the book value of the land at the commencement of the project, the estimated capital expenditure required to develop the scheme from the start of the financial year in which the property is added to our development programme, together with capitalised interest. The figures for total development costs include expenditure on the residential elements of Wellington House (£55m) and Park House (£101m).

Net income/ERV

Net income/ERV represents headline annual rent payable on let units plus ERV at 31 March 2010 on unlet units.