

Retail Portfolio



To watch Richard's video go to:
www.landsecurities.com/annualreport2010/richard

“We are emerging from very tough conditions in resilient shape. We have protected income, secured new lettings and sold properties with limited growth prospects. We will continue to create value by letting vacant space and undertaking developments with significant pre-lettings.” *Richard Akers*
Managing Director, Retail Portfolio

Progress on our key objectives for 2009/10

Objective	Progress
<ul style="list-style-type: none"> Protect income through proactive asset management 	<ul style="list-style-type: none"> Secured £27m lettings and reduced units in administration from 5.1% to 1.8% Achieved rental growth at key locations, including Gunwharf Quays, Portsmouth; The Galleria, Hatfield and the N1 Centre, Islington
<ul style="list-style-type: none"> Continue to make sales as appropriate 	<ul style="list-style-type: none"> Sold Bullring, Birmingham, as had no active role in asset management and were unable to utilise asset for debt purposes Sold 50% share of Exeter assets while retaining responsibility for asset management and future development
<ul style="list-style-type: none"> Identify acquisition and uplift opportunities 	<ul style="list-style-type: none"> Acquired The Atlas Site, Glasgow, helping us to maximise the development potential of our Buchanan Street holdings Achieved planning success to enhance Sainsbury's foodstores in Lincoln and Wandsworth, through Harvest Partnership
<ul style="list-style-type: none"> Maintain position as best-in-class for development and customer service 	<ul style="list-style-type: none"> Enabled John Lewis Partnership to launch its first new format 'at home' shop, in Poole, Dorset Retail customer satisfaction survey score remained consistently high at 4.17
<ul style="list-style-type: none"> Complete and maximise lettings at current developments 	<ul style="list-style-type: none"> St David's Shopping Centre, Cardiff now 74% let or in solicitors' hands. Achieved strong progress on pre-lettings at Leeds Trinity, now 44% let or in solicitors' hands. H&M, River Island and Next signed up.

How we create value

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

- Prioritising assets able to thrive in a fast-changing retail environment
- Using our asset management expertise to make locations more attractive to shoppers and retailers
- Developing major new shopping and leisure assets that can transform undervalued areas into thriving destinations

- Forming close relationships with retailers and local authorities, so we can respond to people's changing needs and ensure our portfolio fits the market
- Recycling our capital and applying our skills to reposition assets higher up the value hierarchy

Our performance at a glance

Highlights

- Valuation surplus of 11.7%
- Shopping centres outperformed IPD sector benchmark by 6.9%
- Retail warehouses outperformed IPD sector benchmark by 0.75%
- 350 lettings secured during the year
- Successful opening of new John Lewis at home store in Poole
- Successful launch of St David's 2 shopping centre in Cardiff
- Acquired Atlas development site in Glasgow, O2 Centre, Finchley Road NW3, and Westgate Shopping Centre, Oxford

Chart 26

Retail Portfolio by capital value

£4.27bn

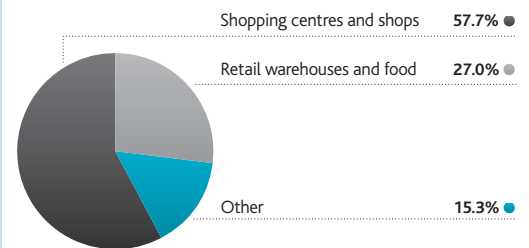


Chart 27

Retail valuations at 31 March 2010 (£bn)

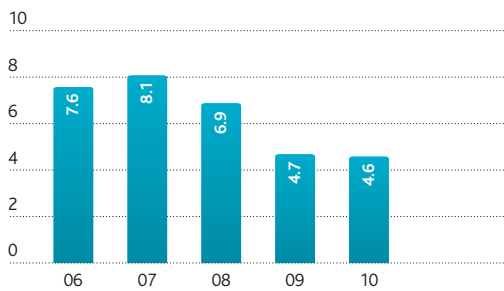


Table 28

Retail Portfolio valuation and performance summary

	31 March 2010 £m	31 March 2009 £m
Combined portfolio valuation	4,265.7	4,317.6
Like-for-like		
Investment portfolio valuation	3,584.5	3,140.0
Net rental income	279.2	318.5
Gross estimated rental value	286.1	300.6
Voids by estimated rental value	5.8%	5.1%

Chart 29

Voids and units in administration – Retail* (% of ERV)

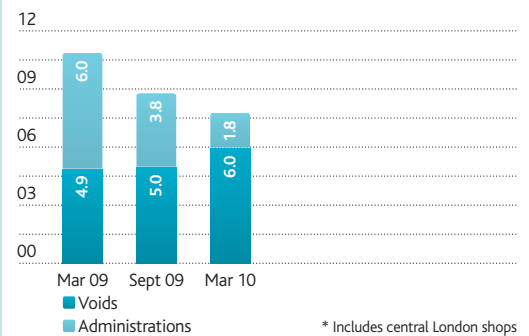


Table 30

Top 10 retail tenants (% of Group income)

Tenant	%
DSG International	1.5
Arcadia Group	1.5
J Sainsbury	1.3
Boots	1.2
Marks & Spencer	1.0
Next	0.9
Home Retail Group	0.9
Tesco	0.8
H&M	0.8
New Look	0.7
Total (all retail tenants)	10.6
Retail other (excluding Accor)	42.2
Total (all retail tenants)	52.8

Chart 31

Retail Portfolio — tenant diversification (% of Group income)

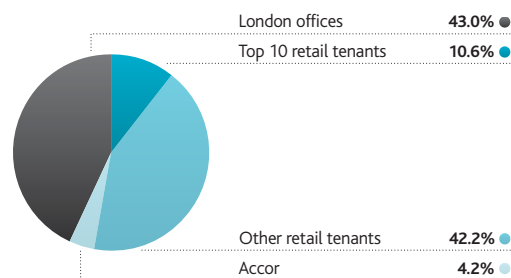
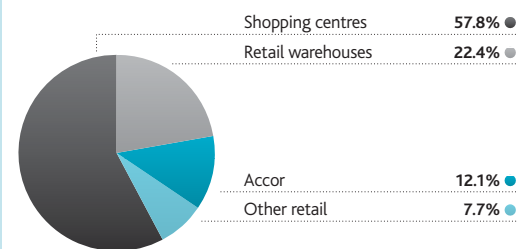


Chart 32

Retail Portfolio floorspace under management

1.59 million m²



Business commentary

Our market

At the start of the year the economic outlook continued to cast a shadow over retail property investment values, but the picture improved significantly as we moved towards and beyond the half-year point, with growing investor demand for shopping centres and retail warehouses. We saw a pronounced rise in values for retail warehousing, which was a result of particularly strong buying interest from institutional investors.

While occupier markets remained tough this year, well located retail assets in a good catchment continue to attract retailers. We saw consistent leasing activity from a number of well-known brands both in shopping centres and the retail warehouse market.

The first half saw the sector continue to be hit by further retailer insolvencies, but the level of units in administration in our portfolio remained relatively stable and then declined in the second half due to our focus on securing new lettings.

Our performance

The valuation of our Retail Portfolio resulted in a surplus for the year of 11.7% overall, with shopping centres and shops up 8.3% and retail warehouses and food stores up 22.5%.

Rental values in our like-for-like portfolio fell 6.3% for our shopping centres and shops, and 4.7% for our retail warehouses and food stores over the year as a whole. However, the rate of decline was ameliorating as the year progressed and, in the second half, rental values fell by just 0.7% for shopping centres and shops, and by 0.2% for our retail warehouses and food stores.

On the basis of ungeared total property returns, our shopping centres outperformed the IPD Quarterly Universe by 6.9% and our retail warehouses outperformed by 0.75%. The primary reasons for this outperformance were higher levels of occupancy coupled with the completion of a number of key asset management initiatives.

We significantly reduced the proportion of units in administration from 5.1% in March 2009 to 1.8% at year-end. Voids across our like-for-like Retail Portfolio were 5.8% compared to 5.1% at March 2009. Within this 5.8% void figure, 1.8% is occupied under temporary lettings. These results reflect good leasing progress assisted by our established relationships with retailers.

Table 33

Net rental income

	31 March 2010 £m	31 March 2009 £m	Change £m
Like-for-like investment properties	228.5	242.0	(13.5)
Proposed development properties	7.2	8.6	(1.4)
Ongoing developments	7.1	2.8	4.3
Completed developments	12.3	4.5	7.8
Acquisitions since 1 April 2008	0.2	–	0.2
Sales since 1 April 2008	20.2	55.2	(35.0)
Non-property related income	3.7	5.4	(1.7)
Net rental income	279.2	318.5	(39.3)

The variance in net rental income compared to the same period last year is mainly attributable to our sales programme, which resulted in a decline of £35m. The decline in net rental income on like-for-like investment properties is attributable to the full year effect of the vacant units that resulted from the failure of a number of retailers in the second half of 2008/09 and also a fall in the income from the Accor hotel portfolio, reflecting the difficult trading conditions within the hospitality sector. However, this has been partially offset by an increase in income from our completed developments in Bristol, Livingston and Cardiff, which opened in September 2008, October 2008 and October 2009, respectively.

Our strategy

Despite recent turbulence in our market, our strategy has remained clear, consistent and in tune with evolving retail trends. We work to ensure our shopping centres – both large and small – provide shoppers with convenience, great leisure experiences and a breadth of successful retail brands. And we continue to develop our retail warehouse portfolio so major brands can provide attractive and convenient out-of-town options for shoppers.

We look to improve assets, raising them up the retail hierarchy and positioning them to become dominant in their catchment. Our key objective is to maximise long-term returns from our portfolio.

The fundamentals of our strategy are well suited to the market's recovery phase, but over the next 12 months we will be placing particular emphasis on four key priorities. We will look to expand our out-of-town presence through new acquisitions and development. We will continue our intense focus on meeting pre-letting targets for development schemes, including Leeds Trinity. We will continue to work to protect income across our portfolio. And we will maintain effective cost control on capital expenditure and irrecoverable costs associated with shopping centres.

Sales and acquisitions

This year asset sales totalled £625.5m. On average, sales were at 1.6% below the 31 March 2009 valuation (before disposal costs) and showed an average income yield of 7.6%. We chose to sell assets that offered less opportunity to create value through development and active asset management.

The largest disposal related to our one-third ownership in the Bullring, Birmingham, which was sold to the Future Fund of Australia for close to £210m in September 2009. We had no operational control of the Bullring asset and saw limited opportunities to create additional value through asset management.

In December 2009, we sold a 50% share of our leasehold interests in Exeter city centre to The Crown Estate for close to £100m. This transaction has enabled us to extract capital while retaining the asset management, property management and future development functions for this estate.

Other asset disposals this year included retail warehouse parks and food stores in Bury, Melton Mowbray, Plymouth, Liverpool, Edmonton, Swansea and Chester, together with shopping centres in Maidstone and Welwyn.

After conversion to REIT status in 2007 we became a net seller of retail assets and initially enjoyed the capital gains tax benefits REIT status brings to transactions. Even as we moved into the downturn we succeeded in making good sales. In 2007 and 2008 we disposed of nine retail warehouse assets with a combined value of £300m, at an average yield of 5.2%. In 2009 we sold a further five assets for £170m bringing the combined average yield up to 6.2% for this whole period. We have sold many of our older retail warehouse assets, some dating back to the early 1980s and now have a very robust portfolio, with a low level of voids and significant opportunities for development and enhancement.

Top 5 properties

1
White Rose, Leeds



Award-winning shopping centre with more than 100 stores and a range of cafés and food outlets. Located on the outskirts of Leeds, it serves a large and loyal catchment ensuring a consistently strong performance from retailers.

Principal occupiers
 Sainsbury's, Debenhams, Marks & Spencer, Primark.

Acquisition date
 1995

Completion
 March 1997


Form of ownership
 leasehold

Ownership interest
100%

Area
63,170m²

Passing rent¹
£27m

Let by income³
99%



2
Cabot Circus, Bristol



Opened in September 2008, this exceptional new retail, leisure and residential space integrates seamlessly with the city centre. It provides Bristol with the quality and choice of amenities it deserves.

Principal occupiers
 House of Fraser, Harvey Nichols, H&M.

Acquisition date
 1950s to 2005

Completion
 September 2008

Form of ownership
 leasehold

Ownership interest
50%

Area
111,480m²

Passing rent²
£18m

Let by income³
95%



3
Gunwharf Quays, Portsmouth



This well known scheme comprises a Designer Outlet Centre with over 80 shops and a wide range of leisure including a cinema, bowlplex, hotel, restaurants and bars. Its historic location on Portsmouth harbour makes it a popular destination.

Principal occupiers
 Vue Cinema, Marks & Spencer, Nike, Gap.

Acquisition date
 2001

Completion
 N/A

Form of ownership
 freehold

Ownership interest
100%

Area
41,250m²

Passing rent
£19m

Let by income³
99%



4
St David's, Cardiff



This is now the dominant shopping centre in Cardiff. Having opened in October 2009, visitor numbers reached 20 million within its first six months and a further 40 stores have opened since launch.

Principal occupiers
 John Lewis, New Look, H&M.

Acquisition date
 1993

Completion
 October 2009

Form of ownership
 leasehold

Ownership interest
50%

Area
130,060m²

Passing rent²
£12m

Let by income³
74%



5
The Centre, Livingston



Recently extended through a £130m development, The Centre is home to more than 155 shops and five new restaurants. It is divided into distinct zones, each with its own character and style.

Principal occupiers
 Debenhams, Marks & Spencer, Bhs.

Acquisition date
 1973

Completion
 Phase 1: September 1976
 Phase 2: August 1996
 Phase 3: October 2008

Form of ownership
 freehold

Ownership interest
100%

Area
88,260m²

Passing rent
£15m

Let by income³
92%



1. A proportion of this income is paid in ground rent.
 2. Refers to Land Securities' share of total passing rent.
 3. May include units in administration where lease has not been surrendered.

Business commentary

In December 2009 we completed the purchase of the property known as The Atlas Site for just under £10m – a relatively small but important transaction that demonstrates how we create value. Located on Glasgow’s Buchanan Street, The Atlas Site is directly opposite the Buchanan Galleries shopping centre, which we jointly own with Henderson Global Investors. Ownership of the new asset will help us to maximise the development potential of our Buchanan Street holdings, as we work to cement its place as the dominant pitch in this major city.

Since the year end, we have also acquired the O2 in Finchley Road, NW3 and a 50% stake in The Westgate Centre, Oxford. The O2 has a very secure income stream and a number of interesting asset management opportunities. In Oxford, we have entered into a partnership with The Crown Estate after they agreed to acquire the centre. Oxford has very strong demand from retailers and a shortage of quality retail floorspace.

Asset management

Our asset management initiatives across our centres have also created encouraging results. Our factory outlet centres continue to prove attractive to retailers and consumers alike with the convenience, value and breadth of their choice. At Gunwharf Quays in Portsmouth, sales grew by 6.7% over the year helped by new lettings to Fiorelli, Quba Sails, Yo Sushi and Wagamama. The Galleria at Hatfield has also seen good progress, with Gap, Jaeger, Laura Ashley and Gant new to the centre. Across our shopping centre portfolio, we have seen emerging instances of being able to secure higher rents for the right unit in the right location. An example is at the N1 Centre in Islington where the former Borders unit attracted a significant amount of interest and H&M ultimately beat several competitors for the space at a rental level considerably higher than the previous rent. In Aberdeen, the centre has responded well to recently opened competition with lettings to Hobbs, Jo Malone, Phase 8 and Swarovski helping reinforce the fashion offer of the centre. Towards the end of the year we obtained a resolution to grant planning permission for 4,350m² of extension space at White Rose in Leeds which will help satisfy demand from retailers to upsize and, since the year end, we have signed a lease for a new 1,860m² store for H&M.

During the year we continued to see retailer demand for space in the retail warehouse sector, and secured new lettings at our Livingston, Dundee, Thanet and West Thurrock retail parks. In October 2009 the first of the new format John Lewis shops opened in Poole, Dorset. This 5,110m² shop sells the retailer’s home, electrical and home technology products. The retailer believes there could be potential for up to 30 new locations if the trial proves successful. By choosing to work with us on this important project, John Lewis has highlighted our ability to build lasting relationships and deliver great sites. Our work with John Lewis – and with J Sainsbury through the Harvest Partnership – underlines both the increasing attraction of the retail warehouse sector for major brands and our excellent track record in this area.

We continue to introduce initiatives to strengthen our relationships with retailers. Our new Clearlet leases are proving popular, and we intend to introduce more of these on new lettings to help speed up and simplify the leasing process. Clearlet leases are straightforward contracts that simplify key aspects of the landlord-tenant relationship.

This year we also launched our innovative Brand Empire subsidiary, which enables overseas retailers to initially enter the UK market through our shopping centres. Brand Empire is a wholly owned subsidiary which acts as an incubator for the retail brands by investing in the store set up and employees while the retail partner takes responsibility for the product line and marketing. Brand Empire then pays the retailer for the product at the point of sale. We already have four brands signed up to enter the UK. In February 2010 we agreed terms with Grupo Cortefiel, one of Spain’s largest fashion retailers, to bring three of its core brands – Cortefiel, Springfield and women’s secret – to the UK. And in March we announced that Laline, a leading cosmetics retailer, would also be entering the UK via Brand Empire.

Development

In October 2009, we opened the St David’s Shopping Centre in Cardiff. Created with our partners, Capital Shopping Centres PLC, the centre is anchored by a new John Lewis department store – the first in Wales and the largest outside London. The new development links to the existing Debenhams and Marks & Spencer stores, which were refitted to coincide with the opening. The centre is now 74% let or in solicitors’ hands by income – a satisfactory result in a tough market. Although it was launched in difficult economic conditions, St David’s is located in the centre of a major city and is anchored by high quality retailers. We believe it will become a dominant asset and has good future growth potential.


Having obtained planning consent to provide 70,000m² of new retail space at our Leeds Trinity shopping centre development, we have made good progress in discussions with retailers and are increasingly confident about starting the scheme in 2010 as we move towards the pre-lettings target we have set prior to development.

In November 2009, The Harvest Partnership, a joint venture between J Sainsbury and Land Securities, was successful in securing permission to extend and improve the popular Tritton Road food store in Lincoln. In Wandsworth, we have obtained a resolution to grant consent for an extension to the Sainsbury’s store, an additional retail unit and hotel. During the year we also obtained consent for both a 8,360m² Sainsbury’s store at Almondvale South retail park, Livingston and a food store at the Greyhound retail park, Chester. These planning successes reflect both the relative buoyancy of the food sector as it expands into non-food areas and also our ability to identify development opportunities and secure planning consents.


Top Retail Portfolio properties

—over £50m by location

North, North-West, Yorkshire and Humberside

	
Sunderland	Gateshead
4 The Bridges*	3 Team Valley Retail Park*
Leeds	
5 Leeds Plaza and Albion St**	
6 White Rose Centre*	
Liverpool	
7 St John's Centre, Williamson Sq and Clayton Sq▲	

Midlands




Corby
8 Corby Town Centre▲

Wales and South-West

	
Exeter	Poole
10 Princesshay*	8 Commerce Centre▲
Bristol	
11 Cabot Circus▲*	
Cardiff	
12 St. David's Shopping Centre**•	
Portsmouth	
13 Gunwharf Quays*	

3. Part of St. David's 2 Partnership
4. Part of the Bristol Alliance

Key



 Shopping centres	 Retail warehouses
* £100m or above	
▲ £50-£100m	
• In development pipeline/programme	

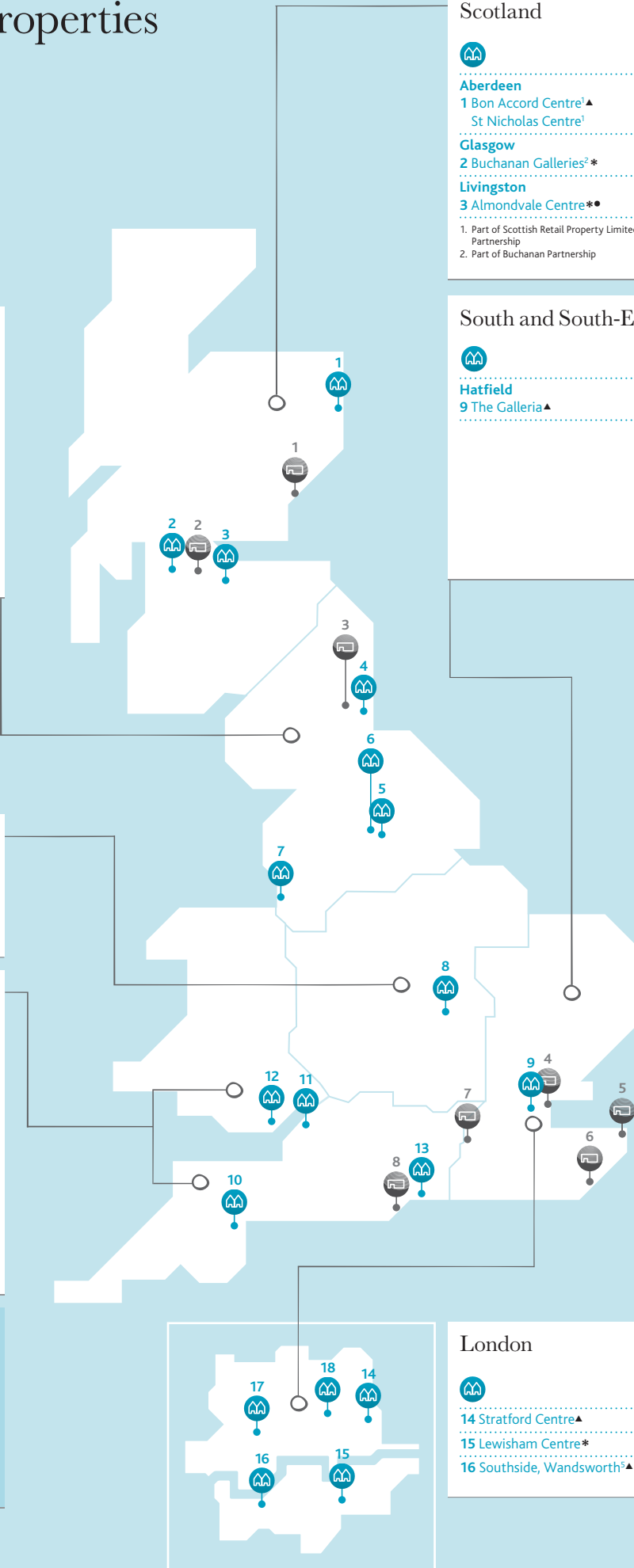
Scotland

	
Aberdeen	Dundee
1 Bon Accord Centre▲ St Nicholas Centre!	1 Kingsway West Retail Park▲
Glasgow	Livingston
2 Buchanan Galleries²*	2 Almondvale West▲ Almondvale Retail Park Almondvale South
Livingston	
3 Almondvale Centre**	



1. Part of Scottish Retail Property Limited Partnership
2. Part of Buchanan Partnership

South and South-East

	
Hatfield	West Thurrock
9 The Galleria▲	4 Lakeside Retail Park*
	Thanet
	5 The Fort, Westwood Cross*
	Bexhill-on-Sea
	6 Ravenside Retail and Leisure Park▲
	Bracknell
	7 The Peel Centre▲



London

	
14 Stratford Centre▲	17 Notting Hill Gate▲⁵
15 Lewisham Centre*	18 Islington▲⁵
16 Southside, Wandsworth[▲]	5. Part of Metro Shopping Fund LP

Looking ahead

Over the coming months we expect to see continued buying interest for retail investment property and more retailers leasing space. There is a relatively high level of available space, so rental trends are likely to remain flat in the short term before returning to moderate growth. Despite these market dynamics, we have scope to drive growth in capital values by continuing to lease up vacant space, particularly in our shopping centre assets.

We have a very clear view of how our market is evolving and which trends are most likely to shape our future. Intensive research into the retail market has given us insights into the way consumer needs, habits and aspirations are changing, and the effect of online shopping and other technologies on physical retailing. The insights gained are now guiding our strategy.

While the internet will attract customer spend, consumers continue to value the immediacy, convenience and community offered by physical shops, together with the ability to see, feel and take home products. These advantages mean bricks and mortar shops have a vital role to play in retailing for years to come. While online shopping may increase competition for some retailers, we also believe the growth of multi-channel retailing, digital marketing and mobile technology will create many new opportunities and benefits for retailers with access to high quality retail space.

Over time, the potential casualties of the structural changes are likely to be shops in medium size towns where there is a low quality offer and poor facilities, especially those located near bigger centres. Rental recovery is likely to reflect this, becoming polarised across UK towns and cities according to the level of vacancies and the attraction of individual assets. We saw signs of this polarisation in the second half of the year and expect the trend to continue into 2011 and beyond.

Shoppers continue to value convenience, hence the continued rise of supermarkets, which has taken place in tandem with the growth of online retailing. This is one reason why we are working closely with supermarkets such as J Sainsbury, in our Harvest partnership, and other major retailers, such as John Lewis, on continuing to grow and develop our out-of-town offer.

The consumer preference for the choice provided by big centres means we expect the long-term trend of retail sales moving to the biggest locations to continue. This is evidenced by the level of retailer interest in our proposed Leeds Trinity scheme in Leeds and reflects our increased focus on long-term dominant assets.

Key objectives for 2010/11

- Outperform IPD
- Expand our out-of-town presence through new acquisitions and development
- Meet pre-letting targets for development schemes, including Leeds Trinity
- Protect income across our portfolio
- Maintain effective cost control, including capital expenditure and irrecoverable costs associated with shopping centres

2008 Cabot Circus, Bristol


Opened successfully and now established as a landmark addition to Bristol.

2008 The Elements, Livingston


Now opened and part of The Centre, a major regeneration of retail in Livingston.

2009 St David's 2, Cardiff


Opened to acclaim last year and continuing to attract new lettings.

2012 Leeds Trinity


Vibrant new retail space in the heart of Leeds.

Table 34
Retail 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
Shopping centres and shops									
Developments, let and transferred or sold									
Willow Place, Corby	Retail	100	16,260		94	2	Oct 2007	42	42
Cabot Circus, Bristol	Retail Leisure Residential	50	83,610 9,000 18,740		95	16	Sep 2008	269	269
Developments completed									
St David's, Cardiff	Retail Residential	50	89,900 16,500		61	15	Oct 2009	323	357
The Elements, Livingston	Retail Leisure	100	32,000 5,670		88	8	Oct 2008	166	166
Proposed developments									
Leeds Trinity, Leeds	Retail	100	70,000	PR	32	n/a	2012	n/a	n/a
The Atlas Site, Glasgow	Retail Residential	100	10,660 4,180		–	n/a	2013	n/a	n/a
Retail warehouses and food stores									
Developments approved and those in progress									
Almondvale South Retail Park	Food store	100	8,360		100	1.6	May 2011	12	17
Sainsbury, Lincoln	Food store	50	10,870		100	1.1	Dec 2010	12	15
Proposed development									
Sainsbury, Wandsworth	Food store	50	9,850	MG	58	n/a	2012	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

MG – Minded to Grant

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 Cabot Circus, Bristol (£12m) and St David's, Cardiff (£20m).

Net income/ERV

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