

London Portfolio

Mike Hussey

Managing Director,
London Portfolio



Watch Mike's overview at:
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“We anticipated weaker market conditions some time ago and deferred the start dates for a number of our projects. With conditions deteriorating through the year, we have used our expertise and experience to protect income, achieve sales and position the business ready for future opportunities.”

Mike Hussey

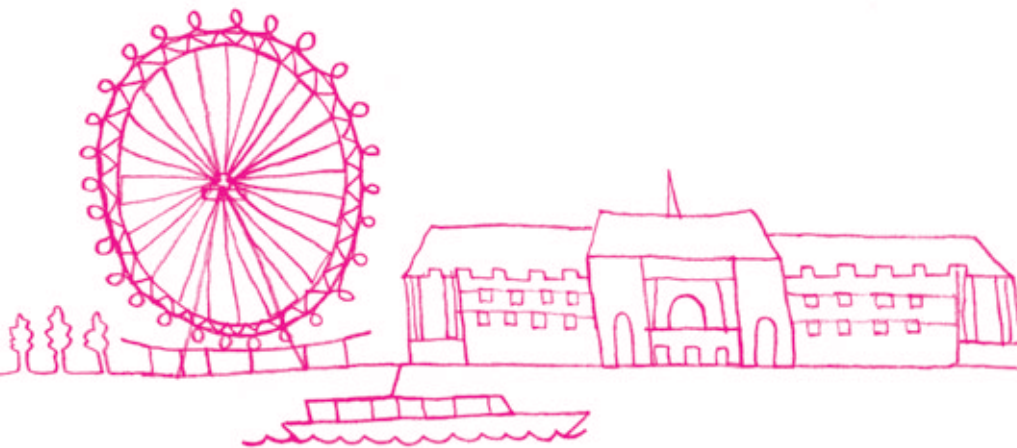
Key objectives for 2008/09

- Preserve income by applying asset management skills
- Complete asset sales and recycle capital
- Adjust development pipeline in line with market
- Achieve planning success, especially around Victoria, SW1
- Spot opportunities to create value through the cycle
- Make progress on development at Ebbsfleet Valley, Kent
- Achieve IPD outperformance

How we create value

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

- investing in and disposing of assets early in the cycle to maximise returns
- 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 we mitigate risk, generate strong demand and achieve improved rental performance
- clustering properties so our existing assets gain from our development work on new schemes



Top 6 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.

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.

Ownership interest
100%

Area
65,300m²

Passing rent
£14m

Let by income
93%



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.

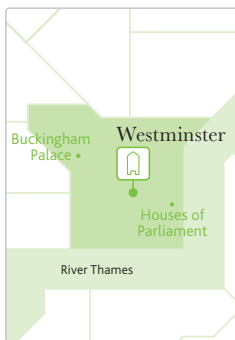
Principal occupiers
Government.

Ownership interest
100%

Area
30,000m²

Passing rent
£26m

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.

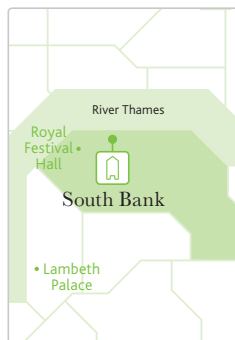
Principal occupiers
Royal Bank of Scotland.

Ownership interest
100%

Area
38,700m²

Passing rent
£1m

Let by income
100%



5.
Piccadilly
Lights,
W1



Offices, retail, leisure and a world famous advertising landmark. This year saw the introduction of enhanced LED screens and a flagship branch of Barclays.

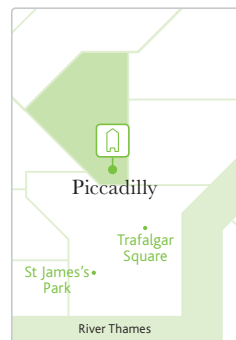
Principal occupiers
Boots, Barclays.

Ownership interest
100%

Area
7,600m²

Passing rent
£11m

Let by income
91%



6.
Portland
House,
SW1



This 29-storey icon of 1960s architecture is a major element in our regeneration of the area. Each of the 26 floors offers around 900m² of open space.

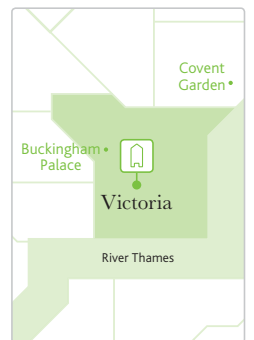
Principal occupiers
Regus, Invensys.

Ownership interest
100%

Area
29,100m²

Passing rent
£10m

Let by income
78%



We have managed development carefully and have limited space available.

Our market

This year the London commercial property market experienced a structural correction driven by a rapid weakening in UK and global debt markets and deteriorating economic conditions.

With low levels of available debt reducing the number of buyers, the investment market declined sharply. Equity buyers bided their time and waited for values to settle. Good transactions could still be made, but prices were unpredictable and weakened over the year. By year-end, values across the sector had reduced dramatically and are now over 40% below the peak in 2007. Assets in the City suffered the greatest falls, and this underlined the value of our strategy to spread the portfolio geographically across the City, Midtown, central West End, Victoria, the South Bank and other key London villages.

Wider market dynamics also impacted the occupier market. Relatively little demand came through around lease expiries and lease events, such as break options, with occupiers reluctant or unable to commit to relocation in such an uncertain environment. London's diverse mix of tenants offered partial mitigation to the widespread downturn, with some law, accountancy and compliance organisations providing potential for counter-cyclical demand.

Retail in London proved relatively robust. Prime West End shopping streets outperformed the UK average significantly. As a result, our strategy of creating mixed-use developments proved well founded. We saw negative pressure on values for London retail properties, but there was a reasonably consistent level of demand from occupiers for prime assets in prime streets.

Market outlook

On the investment side, relatively few buyers will re-enter the market until they feel values have settled, although a degree of stabilisation has begun to feed through at the end of the financial year at the prime end of the market. However, we continue to see opportunities to achieve sales and position ourselves for future acquisitions. In the occupational market, we are matching developments to demand for high quality space in attractive locations. Mitigating voids will remain a priority and we will work closely with occupiers to support each other through these tough conditions. There is a substantial oversupply of office space in London, but, by combining flexibility on terms with good quality product, we are well placed to compete for new tenants for the limited space we have available.

In London, we have always responded early to market cycles and we will continue to do the same, recycling capital to strengthen our position and maximise potential future returns for shareholders. By taking tough decisions early we are able to evolve with the market as it moves into the next phase of the cycle.

Relative strength of prime retail in London underlines the value of our mixed-use strategy.

Chart 34
West End and City vacancy rates (%)

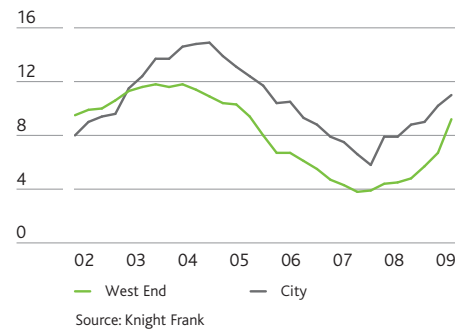


Chart 35
London office portfolio¹



1. Excluding voids and properties in the current development programme.

Our performance at a glance

- Gross rental income up £10.3m (3.0%)
- Property sales of £349.6m at an average of 16.6% below March 2008 valuation (before disposal costs)
- 10 Eastbourne Terrace, W2, completed and 100% let; Dashwood House, EC2, completed and 9% let

Chart 36

London Portfolio by capital value – £5.09bn (%)

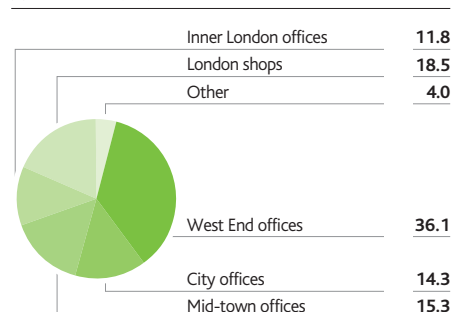


Table 37

London Portfolio valuation and performance summary

| | 31/03/09 £m | 31/03/08 £m |
|---------------------------------|----------------|----------------|
| Combined portfolio valuation | 5,089.4 | 7,349.3 |
| Like-for-like | | |
| Investment portfolio valuation | 2,558.2 | 3,618.2 |
| Rental income | 199.2 | 192.6 |
| Gross estimated rental value | 198.8 | 236.1 |
| Voids by estimated rental value | 3.6% | 2.5% |
| Gross income yield | 7.7% | 5.2% |

Chart 38

London Portfolio valuations at 31 March 2009 (£bn)

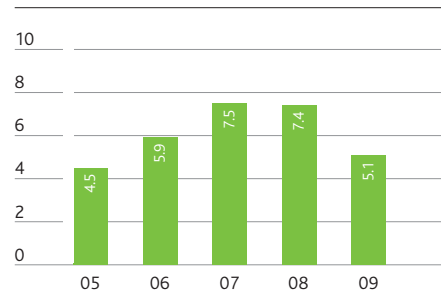


Table 39

Top 10 office tenants (% of total income)

| Tenant | % |
|-----------------------------------|-------------|
| Government | 9.3 |
| Deloitte | 2.3 |
| RBS | 2.3 |
| Mellon Bank | 1.3 |
| Eversheds | 1.1 |
| Metropolitan Police | 0.9 |
| Microsoft | 0.7 |
| Lloyds TSB | 0.6 |
| Taylor Wessing | 0.6 |
| Speechly Bircham | 0.6 |
| Other | 19.7 |
| Office other | 17.5 |
| Total (all office tenants) | 37.2 |

Chart 40

Tenant diversification (% of total income)

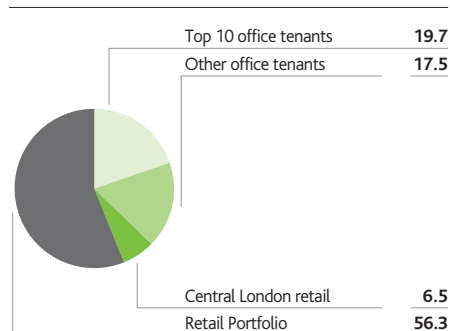
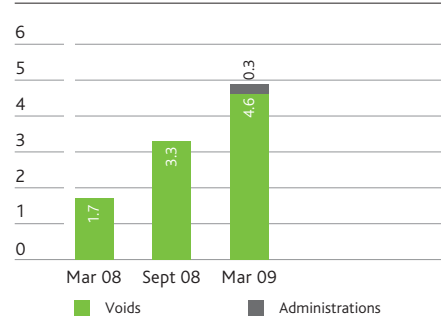


Chart 41

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



The largest occupier is Central Government, which represents 21% of the London Portfolio rent roll.

Top London Portfolio properties

—over £100m by location

WC2

1 Arundel Great Court and Howard Hotel •

W1

2 455/475 and 475/497 Oxford Street and Park House •

3 Piccadilly Lights

4 Portman House

W2

5 10/20/30/40/50 Eastbourne Terrace •

EC2

13 One Wood Street

EC4

14 New Street Square •

15 One New Change •

16 Times Square

SW1

6 50 Queen Anne's Gate

7 Portland House

8 Eland House

9 Kingsgate House

10 Cardinal Place

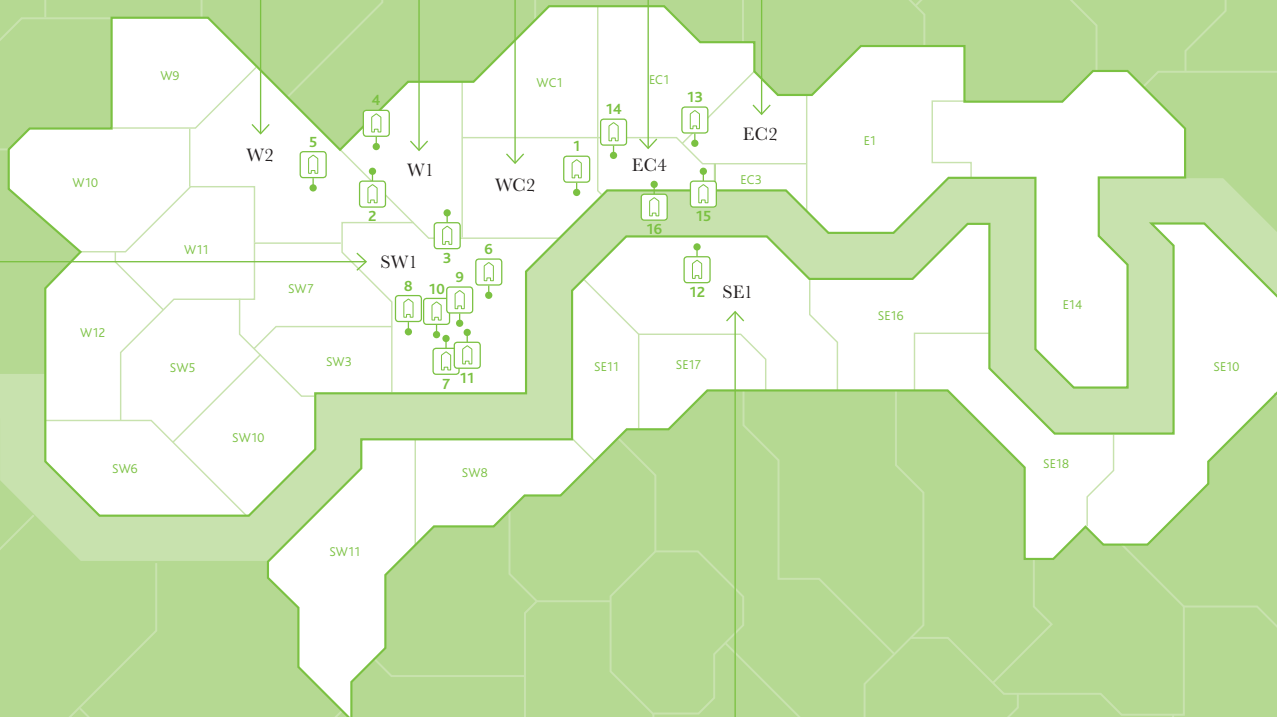
11 Ashdown House

SE1

12 Bankside 2&3

Key

• In the development pipeline



Business commentary

Overview

We did not predict the global financial crisis but we did recognise the early signs of a slowdown in the London market some time ago and adjusted our portfolio and development pipeline accordingly. This strengthened our position as we went into more severe conditions from September 2008 onwards. As the environment worsened, we accelerated the completion of developments due in the year and adjusted the timing of some future developments.

At year-end, headline void levels in the London portfolio were at 6.8% – a strong performance in an exceptionally difficult environment. Valuations in our sector have been impacted heavily, however, and we have not escaped general market movements. Our London Portfolio saw a 31.2% valuation deficit overall, with a 35.6% deficit on office holdings and a 10.6% deficit on London retail. In terms of rental values, London retail saw a 3.2% rise in rental values largely driven by our asset management initiatives, but weakness in occupier demand resulted in rental values for our London offices falling by 19.8%.

We are pleased that, despite falling values, our London Portfolio outperformed its IPD Universe sector benchmarks with London offices outperforming by 1.4% and London retail by as much as 5.8%. Our London office performance was helped by the resilience of some of our assets in Victoria, particularly those let on long leases to the Government. Our London retail assets benefited from the positive growth in rental values created by some of our asset management initiatives.

In recent years, growth in the financial services sector proved very attractive to developers. We took advantage of this opportunity, but we also recognised that growth in this area could not be sustained. As a result, we adjusted our portfolio, moving quickly to reduce our exposure to City offices which now represent only 14.4% of our London Portfolio. In the meantime, we continued to attract a broad mix of occupiers across a number of London's premier villages. This diversity gave us resilience during the year, with retail proving robust and West End assets holding up better than those in the City.

While 16% of our occupiers were in the very hard-hit financial services sector, Central Government remained our largest occupier, representing 21% of the London Portfolio rent roll. We also had a substantial number of occupiers from professional services organisations. This balanced base enabled us to generate increased income in the year of £10.3m at £352.8m. While we would prefer to report significant growth, this represents a sound performance.

Despite uncertainty and demanding conditions, our employees achieved much this year. From working closely with hard-pressed occupiers to closing transactions and achieving milestone planning approvals in Victoria, we acted as a close-knit and highly effective team.

Sales and acquisitions

Our rationale for selling a particular asset is simple – we look to make a disposal if we can recycle the capital into other assets with greater growth potential. This year we sold £349.6m of properties at an average of 16.6% below March 2008 valuation (before disposal costs), as compared to the market-wide fall in value for London offices over the year of over 30%.

Important sales this year included:

- **Turnstile House, WC1**

We completed this sale in May 2008. The property had produced good returns for us since its conversion to an apart-hotel but it no longer fits our main focus of activity.

- **Empress State Building, SW6, 50% share**

In August we completed the sale of our holding to a 50:50 joint venture with Liberty International. We have held the asset for a number of years but saw limited asset management opportunities in the near future. The joint venture with Liberty International reduces our stake while enabling us to realise further value over time.

- **New Scotland Yard, SW1**

In December we sold our freehold interest to the Metropolitan Police Authority. As there was limited potential for us to add value to this property over the next few years, and no further rent reviews until 2028, a release of capital offered good value.

- **Fleet Street Estate, EC4**

In January 2009 we exchanged contracts for the sale of the majority of the estate with the rest to complete late 2009. A substantial part of the site is occupied by the Office of Fair Trading (OFT) and we recently added value with the extension of the OFT lease.

In terms of acquisitions, we purchased just £39.1m of investment properties. These were strategic acquisitions required for site assembly and other purposes around potential development sites.

Asset management

We pursued three clear asset management priorities this year. First, we focused on addressing and minimising voids. Second, we worked to maximise short-term income on assets targeted for redevelopment in the next cycle. Third, we continued our work to enhance the performance of our Central London retail assets. Our operations at the east end of Oxford Street through our joint venture with Frogmore and our work with Piccadilly Lights were particularly effective. With Piccadilly Lights, we have increased income by upgrading advertising signage systems and working closely with Barclays Bank to introduce a flagship branch. Where it proved difficult to achieve lettings, as at Thomas More Square, E1, we quickly reviewed our existing plans and provided attractive, flexible options for potential occupiers.

Development

Having completed a number of large projects in 2007 and spring 2008, our current development pipeline is well matched to the current economic cycle. The balance of expenditure committed to current schemes is £258m. We have 244,950m² of development potential available to us over time through consented planning applications.

During the year we completed development work and achieved 100% occupancy at 10 Eastbourne Terrace, W2. This success was due to our ability to respond quickly to the worsening market. We accelerated work, dedicated considerable efforts to lettings and completed the scheme early.

At Dashwood House, EC2, we had planned to complete the refurbishment in December 2008 but, again, responded to worsening market conditions by accelerating work and achieving completion early, in October. Dashwood House is not a big liability relative to the size of our portfolio and it is our only development completed asset with significant space to let (13,290m² or 2.1% of our total London office income).

While much current work has been focused on protecting our capital, we have one major development and two smaller development projects with committed completion dates:

- **One New Change, EC4**
Due to open in late 2010, this project will bring excellent office, retail and public space to an historic site opposite St. Paul's Cathedral. We have already pre-let 38% of the office space to K&L Gates for a minimum term of 15.5 years and we have let or instructed solicitors on 25% of the retail space (by income), with Marks & Spencer and Topshop committing to the scheme. The unique location, quality of space and views make us confident of securing further lettings, although the office component may reflect weaker pricing trends in the short term.
- **Wilton Plaza, SW1**
Expected to complete in May 2009, Wilton Plaza provides a vibrant mix of market, student and affordable housing, together with ground floor retail space. The scheme is 93% let.
- **30 Eastbourne Terrace, W2**
Another completion expected in May 2009, this scheme is part of our extensive holdings opposite Paddington Station and has been refurbished to provide 4,470m² of prime office space.

There are two further projects where demolition work has commenced on site and for which plans for developments are agreed and in place:

- **Park House, W1**
This scheme will offer some of the largest office floor plates in the West End, together with premium retail space and residential units. Demolition was completed in December 2008. The uncertainty regarding planning permission was finally removed in February 2009 when a High Court ruling approved Westminster City Council's planning consents, following a legal challenge. Work is now taking place to assess the timescales for delivery of the scheme which is set to be the biggest development on Oxford Street in 40 years and the biggest office development in Mayfair in the last decade.
- **20 Fenchurch Street, EC3**
This development will offer office accommodation and retail space in a landmark tower building in the heart of the City. Demolition and ground works are due to complete in June 2009. We have deferred the start of construction work in line with market dynamics.

Planning

While this year's development and asset management activity reflected the current economic reality, we did not stop preparing for substantial future opportunities. We have a proven track record in design and planning, and we continued this during the year by achieving very significant progress on planning consents.

Our VT12 scheme received a resolution to grant permission in February 2009, giving us the go-ahead to create some 83,200m² of space in six buildings next to Victoria Station, SW1. Our 'Vision for Victoria' is to replace outdated pockets of post-war buildings with new offices, shops, restaurants, public amenities, open spaces and homes. In March 2009 we received permission for two further schemes in Victoria – Selborne House and Wellington House. Our success in Victoria is particularly exciting as we believe this is one of the areas likely to recover quickly as we move into the next phase of the cycle.

This year we also received a resolution to grant planning consent for the redevelopment of 30 Old Bailey, EC4, for office accommodation and retail space. Our proposals for Arundel Great Court, WC2, in Mid-town were refused planning consent and we have now submitted an appeal.

Strategic land portfolio

With the housing market in the South-east hit hard this year, reflected in the write-down of our development land holdings, we have adopted a measured approach to the development of our strategic land portfolio. The pace of works has been slowed and we will wait for an improved lending environment before considering a start on further construction.

Our biggest project in this sector is the urban regeneration programme at Ebbsfleet Valley, Kent. This will ultimately transform 420 hectares of land into a vibrant mix of residential, business, retail, leisure and public space over 25 years. Outline planning permissions have been granted for the whole of the project. The completed development will provide 10,000 new homes, over 640,000m² of offices and over 320,000m² of mixed-use space in total. This is a scheme with immense potential but, for now, the pragmatic decision has been taken to pause work. The economic environment has hit the housing and leasing markets hard and we have had to adjust our targets and expectations accordingly. We have progressed infrastructure work in preparation for the next cycle, but we will wait for signs of better economic conditions before starting on detailed design. We remain confident that the general lack of supply in the South-east means demand for housing will remain strong and, as and when finance is available for homebuyers, will begin to translate to active purchasing.

Looking ahead

In the investment market, activity will increase when buyers believe prices have stabilised. We have seen some evidence of this recently in prime stock at smaller lot sizes. In the occupational market, we expect that most occupiers will restrict new activity in response to the operating environment for their businesses. We will keep focusing on our strengths – the quality of our portfolio, our diverse tenant mix and our skilled and experienced people. We will continue to protect our position while preparing to take advantage when the cycle changes.

London remains a world-class city with great qualities in terms of geography, range of property assets, skills base, culture and living conditions. This gives it an enduring appeal to both investors and future occupiers.

The tight supply of prime assets in the West End may prove beneficial given our extensive portfolio. We see remarkable potential around SW1, and our 'Vision for Victoria' is a particularly exciting prospect. The successful Cardinal Place scheme demonstrates our ability to revitalise this area. With VT12 and other development schemes approved, we have the opportunity to establish Victoria as a powerful and vibrant part of London's West End. We will time our developments here carefully.

Across the business, we will continue to make tough decisions and take pragmatic action while looking to the long term. We will keep making disposals and acquisitions as and when attractive opportunities arise. We will be flexible on terms with occupiers while protecting our income. And we will use our strengths to identify and exploit new opportunities. Although we are facing exceptionally demanding conditions, our strategy has always been to address a cyclical market, and we will act decisively to ensure we emerge in good shape from current volatilities.

Key objectives for 2009/10

- Protect income through active asset management
- Maintain strong brand visibility to attract occupiers, partners and investors
- Continue to make sales as appropriate
- Time development progress in line with market cycle
- Act on opportunities to create value through the cycle

London development pipeline

| | | | | | |
|--|---|---|--|---|---|
| 2008 → 10 Eastbourne Terrace, W2 | 2008 → New Street Square, EC4 | 2008 → Dashwood House, EC2 | 2010 → One New Change, EC4 | 2013 → Park House, W1 | 2013 → Selborne House, SW1 |
|  |  |  |  |  |  |
| Comprehensive refurbishment, including external envelope of the building. In Paddington. | Innovative offices around a public square, with retail and restaurants. In the Mid-town district. | Comprehensive office redevelopment in the City, with small retail component. Completed. | Landmark mixed-use development in an extraordinary location adjacent to St Paul's. | Redevelopment to create a major mixed-use scheme. Planning consent now granted. | Planning consent granted for this cutting edge, high quality mixed-use development in Victoria. |

London development pipeline at 31 March 2009

| 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 | | | | | | | | | |
| 10 Eastbourne Terrace, W2 | Office | 100 | 6,150 | | 100 | 3 | July 2008 | 41 | 41 |
| 50 Queen Anne's Gate, SW1 | Office | 100 | 30,140 | | 100 | 14 | May 2008 | 143 | 143 |
| Developments completed | | | | | | | | | |
| New Street Square, EC4 | Office Retail | 100 | 62,340 2,980 | | 93 82 | 33 | May 2008 | 379 | 379 |
| Dashwood House, EC2 | Office Retail | 100 | 14,110 710 | | 6 100 | 7 | Oct 2008 | 113 | 113 |
| Developments approved and in progress | | | | | | | | | |
| 30 Eastbourne Terrace, W2 | Office | 100 | 4,470 | | – | 2 | May 2009 | 29 | 35 |
| One New Change, EC4 | Office Retail | 100 | 30,840 19,900 | | 38 17 | 31 | Sept 2010 | 291 | 543 |
| Park House, W1 | Office Retail Residential | 100 | 15,430 8,140 5,380 | | – – – | 22 | July 2013 | 247 | 387 |
| Proposed developments | | | | | | | | | |
| Selborne House, SW1 | Office Retail | 100 | 23,450 1,540 | PR | n/a | n/a | 2013 | n/a | n/a |
| Arundel Great Court and Howard Hotel, WC2 | Office Retail Residential | 100 | 36,750 2,470 22,670 | PA | n/a | n/a | 2014 | n/a | n/a |
| 20 Fenchurch Street, EC3 | Office Retail | 100 | 61,660 2,130 | PR | n/a | n/a | 2014 | n/a | n/a |
| Wellington House, SW1 | Retail Residential | 100 | 250 5,650 | PR | n/a | n/a | 2014 | 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 2009. 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 PA – Planning Appeal

Total development cost (£m)

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 finance charges less residential costs (totalling £109m across all categories of development).

Net income/ERV

Net income/ERV represents headline annual rent payable on let units plus ERV at 31 March 2009 on unlet units.