

Retail Portfolio

Richard Akers

Managing Director,
Retail Portfolio



Watch Richard's overview at:
www.landsecurities.com/annualreport2009

“The retail environment worsened dramatically over the year and we reacted accordingly, applying all of our experience, skills and relationships to protect income and work with retailers to respond to these very tough conditions.”

[Richard Akers](#)

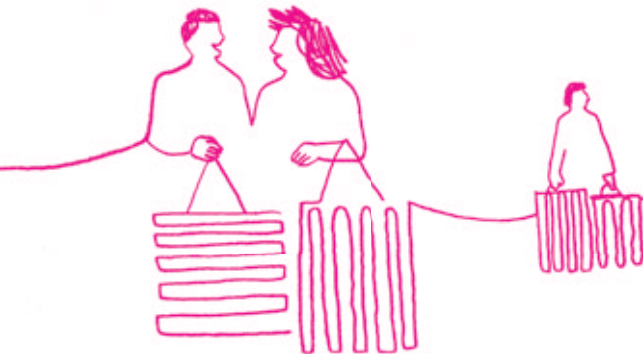
Key objectives for 2008/09

- Apply skills to support retailers and protect revenues
- Use strong customer relationships to fill voids left by insolvencies
- Make sales and recycle capital
- Expand Harvest joint venture with J Sainsbury through acquisition or development
- Open and let Cabot Circus, Bristol and The Elements, Livingston
- Bring forward key development opportunities
- Achieve IPD outperformance

How we create value

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

- identifying, acquiring and enhancing shopping centre and retail park assets with growth potential
- 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



Top 6 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.

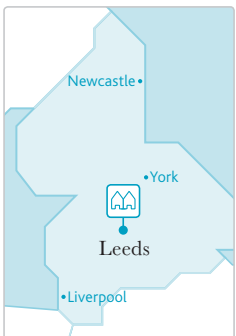
Principal occupiers
Sainsbury's, Debenhams, Marks & Spencer, Primark.

Ownership interest
100%

Area
63,170m²

Passing rent¹
£27m

Let by income³
97%



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.

Ownership interest
50%

Area
111,480m²

Passing rent²
£12m

Let by income³
92%



3.
The Centre,
Livingston



Unique retail destination in the heart of the town centre, incorporating Elements Square, Wintergarden, The Avenue, Almondvale Walk and Almondvale Place. Each part has its own unique atmosphere, shops, restaurants and cafés.

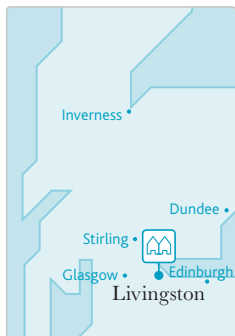
Principal occupiers
Debenhams, Marks & Spencer, Bhs.

Ownership interest
100%

Area
85,940m²

Passing rent
£14m

Let by income³
87%



4.
Bullring,
Birmingham



An iconic shopping location, this partnership development has led the city's retail renaissance. It provides retail space, with more than 160 shops and 3,100 car parking spaces.

Principal occupiers
Debenhams, Selfridges, Next.

Ownership interest
33%

Area
110,000m²

Passing rent²
£16m

Let by income³
94%



5.
Gunwharf
Quays,
Portsmouth



This well known scheme comprises a Designer Outlet 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.

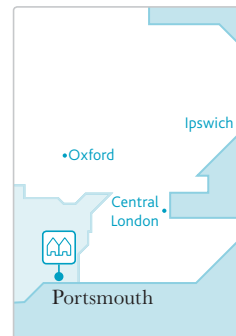
Principal occupiers
Vue Cinema, Marks & Spencer, Nike, Gap.

Ownership interest
100%

Area
41,250m²

Passing rent
£19m

Let by income³
98%



6.
Princesshay,
Exeter



Award-winning mixed-use development based around a vibrant piazza. An array of great retail brands combines with restaurants and cafés to provide a great shopping experience in the heart of the city.

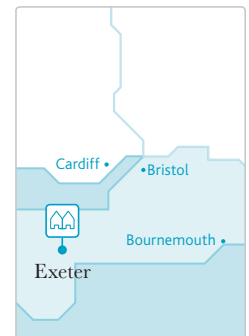
Principal occupiers
Debenhams, Next, Zara, Top Shop.

Ownership interest
100%

Area
37,360m²

Passing rent
£12m

Let by income³
99%



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

Our market

The long-term strength of the retail property market has been based on the historic trend of retail sales growth, together with relatively tight planning controls and the need for retailers to improve store locations to meet changing consumer demand. This year, however, wider economic, financial and commercial pressures hit the retail sector hard. This flowed through to the retail property market, with a particularly rapid decline in values and pressure on income from September 2008 onwards.

The investment market saw a greatly reduced number of transactions. The low level of debt available led to fewer buyers and continuous downward pressure on values. Investors found it easier to raise smaller amounts of debt, so smaller lot sizes attracted the most buying interest.

The occupational market was also impacted. While many retailers continued to trade profitably, and shopping centre openings across the UK in 2008 generally let up well, conditions worsened considerably in the second half of the year. Most retailers suffered declining like-for-like sales and trading conditions proved difficult for all retail businesses. As a result, we lost income through insolvencies and tenants not renewing their leases. At year-end we saw higher void levels than in the downturn of the 1990s and potential purchasers began to build in assumptions about occupiers going into administration. These dynamics had a considerable negative effect on values.

Market outlook

We expect to see continuing difficulties for retailers in the occupational markets while the economy is still in recession and the rate of unemployment is rising. In the investment market we have seen early signs that buyers are returning for certain types and sizes of asset.

We believe the present tough market dynamics will produce some cushioning effects. For example, it is natural that the viability of a retailer is improved when a competitor goes into administration. As we lose names from the high street, some retailers will benefit. Our recent reviews of sales data also revealed that many value and discount retailers have been able to maintain or increase levels of trade as more customers have become value conscious. This trend also applies to our factory outlet centres and looks set to continue, as the discount proposition will remain compelling for consumers.

A significant reduction in sales growth hit both retailers and landlords hard, and impacted values heavily.

Chart 26

UK retail sales growth to 31 March (%)

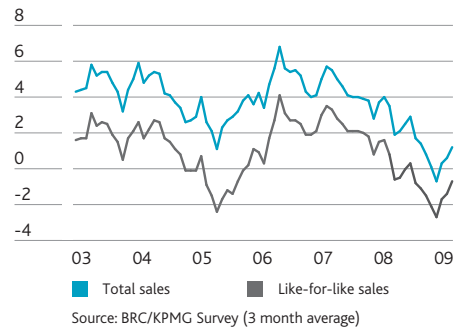


Table 27

Retail property – floorspace

Type of retail property	Market million m ²	Land Securities million m ²	% market share
Shopping centres	16.3	1.1	6.7
Retail parks	15.9	0.4	2.5
Total core markets	32.2	1.5	4.7
Other retail markets	87.1	0.1	0.1
Total	119.3	1.6	1.3

Source: Property Market Analysis

Increasing attraction of value and discount offers create opportunities for us.

We have sold more than £1bn of retail assets since April 2007, as we anticipated more challenging conditions.

Our performance at a glance

- Gross rental income up £4.0m (1.1%)
- Voids across the like-for-like portfolio at 5.2% (4.2% at March 2008)
- Cabot Circus, Bristol and The Elements, Livingston open and 91% and 80% let respectively
- Outlet centres seeing rise in customer numbers as value proposition drives footfall

Chart 28
Retail Portfolio by capital value
£4.32bn (%)



Table 29
Retail Portfolio valuation and performance summary

	31/03/09 £m	31/03/08 £m
Combined portfolio valuation	4,317.6	6,673.2
Like-for-like		
Investment portfolio valuation	3,149.8	4,849.5
Rental income	284.5	281.2
Gross estimated rental value	302.5	316.4
Voids by estimated rental value	15.6	13.4
Gross income yield	8.54%	5.54%

Chart 30
Retail Portfolio valuations
at 31 March 2009 (£bn)

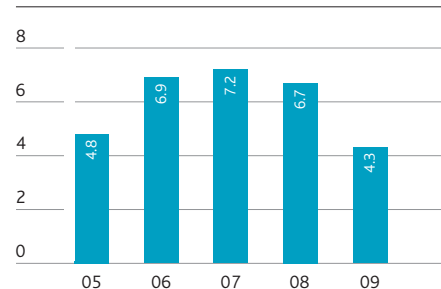


Table 31
Top 10 retail tenants
(% of total income)

Tenant	%
Arcadia Group	1.7
DSG	1.4
Boots	1.4
J Sainsbury	1.2
Marks & Spencer	1.2
Next	1.1
New Look	0.9
Home Group	0.9
Tesco	0.8
H&M	0.7
Total (all Retail tenants)	11.3
Retail other (excluding Accor)	47.3
Total (all Retail tenants)	58.6

Chart 32
Tenant diversification
(% of total income)

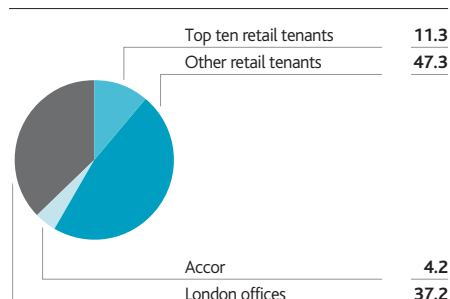
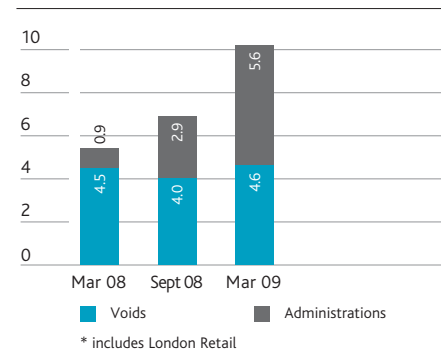


Chart 33
Voids and units in administration
– Retail* (% of ERV)



Despite tenant insolvencies, we mitigated voids and achieved an increase in income by moving quickly to support retailers.

Top Retail Portfolio properties

—over £50m by location

North, North-West, Yorkshire and Humberside



Sunderland
4 The Bridges*

Leeds
5 Leeds Plaza and Albion St▲
6 White Rose Centre*☆

Liverpool
7 St John's Centre,
Williamson Sq and Clayton Sq*



Gateshead
3 Team Valley Retail Park*

Liverpool
4 Aintree Retail Park▲

Chester
5 Chester and Greyhound
Retail Parks▲

Midlands



Corby
8 Corby Town Centre●▲

Birmingham
9 Bullring*
³ Part of Birmingham Alliance

Wales and South-West



Exeter
14 Princesshay*

Bristol
15 Cabot Circus*●●
⁵ Part of the Bristol Alliance

Cardiff
16 St. David's
Shopping Centre*●●

Portsmouth
13 Gunwharf Quays*
⁴ Part of St. David's 2 Partnership

Key



Shopping centres



Retail warehouses



Best retail space awards



BREEAM Excellent rating

- * £100m or above
- ▲ £50-£100m
- In development pipeline/programme

Scotland



Aberdeen
1 Bon Accord Centre¹▲
St Nicholas Centre¹

Glasgow
2 Buchanan Galleries²*

Livingston
3 The Centre*●●

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



Dundee
1 Kingsway West Retail Park▲

Livingston
2 Almondvale West
Almondvale Retail Park
Almondvale South

South and South-East



Welwyn Garden City
10 Howard Centre▲

Maidstone
11 Fremlin Walk▲

Hatfield
12 The Galleria▲



West Thurrock
6 Lakeside Retail Park*

Thanet
7 The Fort, Westwood Cross*

Bexhill-on-Sea
8 Ravenside Retail
and Leisure Park▲

Bracknell
9 The Peel Centre▲

London

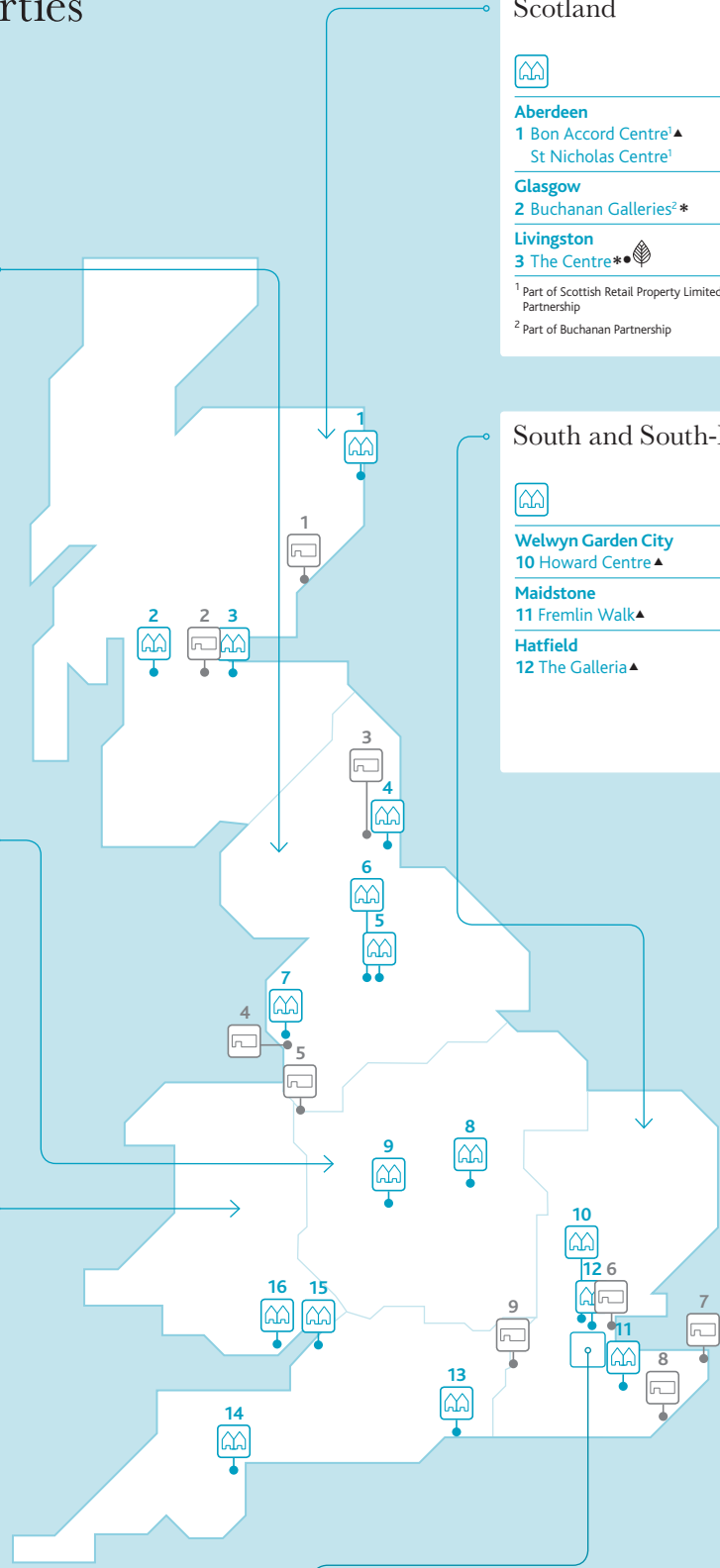


17 Stratford Centre, Stratford*

18 Lewisham Centre▲☆

19 Southside, Wandsworth⁶▲

⁶ Part of Metro Shopping Fund LP



Business commentary

Overview

We recognised the early indications of a slowdown in our market some time ago and adjusted our portfolio and development pipeline in response. In our 2007/08 financial year, for example, we sold £835m of assets at 3.1% above valuation. We also achieved 97% occupancy on our three developments opened in 2007 – Exeter, Corby and Cambridge.

This meant we went into the year focused on two clear priorities: first, applying our asset management expertise and customer relationships to support retailers and protect revenue; second, opening and letting our two new developments completing in 2008 – Cabot Circus in Bristol and The Elements in Livingston.

At year-end, occupation levels at Cabot Circus and The Elements were 91% and 80% respectively – a respectable performance in a challenging climate. However, difficult market conditions impacted occupiers across the portfolio. Although we were hit by insolvencies, we moved quickly to support occupiers and mitigate voids, and saw a 1.1% increase in income from the portfolio. Valuations were hit hard, and our Retail Portfolio recorded a 37.3% valuation deficit for the year. The valuation deficit for shopping centres was 4.1% greater than for retail warehousing, reversing the trend of the previous year. In terms of rental values, we saw a 4.6% decline for shopping centres and shops, and 4.9% for retail warehouses.

Our Retail Portfolio underperformed its IPD Quarterly Universe sector benchmark in relative terms by 4.7% overall. For shopping centres most of this was attributable to our development and pre-development sites in Cardiff and Leeds, and for retail warehouses to some retail parks where occupancy is restricted to bulky goods users. This was offset in part by the stronger relative performance of the Accor hotel portfolio.

Sales and acquisitions

We continued to sell assets during the year. Our strategy is to manage assets proactively, so we looked to sell assets and partnership interests where we were not responsible for asset management or where we saw limited potential for long-term growth.

Although a lack of available credit for buyers restricted sales activity in the market, we once again met our objective of being a net seller with total disposals of £177.9m at an average of 21.9% below March 2008 valuations. This means that since April 2007, when we anticipated more challenging conditions, we have sold over £1bn of assets from the Retail Portfolio.

At just £82.7m, acquisitions have been limited to properties with key strategic relevance. These included a parade of shops in Exeter, which may form the basis of another phase of development, and a Sainsbury's store in Lincoln, which we have added to The Harvest Limited Partnership with J Sainsbury. We have raised debt to fund further potential acquisitions for Harvest, and we are looking for additional ways to extend our convenience retail activity.

Asset management

This year we concentrated on addressing voids and supporting retailers in difficult market conditions. We listened carefully to suggestions from tenants and took the lead on responding to their concerns. We were one of the first landlords to offer a monthly rent proposal for retailers. We introduced greater flexibility in a number of agreements, and wherever possible, we reduced service charges. At the White Rose shopping centre in Leeds we achieved a 13% reduction on the charges – on top of a reduction last year – and we know this has helped our occupiers significantly.

Our efforts were recognised in December 2008 when we won the Property Managers Association Retail Landlord of the Year 2008 Award. The judges praised us for our approachability, willingness to listen to retailers' needs and overall efforts to collaborate in current difficult trading conditions. We believe landlords and retailers must continue to be open-minded and realistic, responding to each other's position and working together for mutual benefit.

Looking at specific asset management initiatives, we executed major change at the Bon Accord centre in Aberdeen, our joint venture with British Land. The Woolworths unit was taken back and re-let to Topshop/Topman and River Island. Simultaneously, four units have been let to the Mosaic brands Karen Millen, Oasis, Coast and Warehouse, a commitment that the new parent company, Aurora, has agreed to honour. These new fashion stores will open in 2009, along with a 5,000m² Next and a refurbished central atrium. We also saw further advances in Corby this year, with Primark opening a 4,460m² store within the Willow Place shopping centre in April 2008 and a new rail connection with London opened in February 2009.

In retail warehousing, we made good progress at Edmonton, where we let the last of five redeveloped units. At Bracknell we completed a 4,000m² letting to Tesco Home, which is the first stage of a very substantial improvement to the park. We did see significant problems in the established furniture sector, with both MFI and Land of Leather going into administration, but by acting quickly we were able to re-let a number of MFI's units. We also negotiated a substantial payment from Galiform releasing it from guarantees related to MFI. Through our good relationships with retailers we have been able to offset much of the negative news in this sector and, since the year end, have let a major unit at the Commerce Centre, Poole to John Lewis for the first of their new concept of out-of-town stores.

Development

Given deteriorating market conditions it was critical that we opened our two new developments on time, achieved good levels of lettings at both, and made progress on our future pipeline projects. In overview:

■ Cabot Circus, Bristol

Created as part of our 50:50 Bristol Alliance joint venture with Hammerson, this innovative, mixed-use, large-scale development opened on 25 September 2008 and quickly established a dominant position in one of the UK's most important cities. It was 91% let or in solicitors' hands on opening and, even with the outward yield movement prior to opening, it delivered a profit on cost of approximately 14% at that date.

Integrated seamlessly with the surrounding streets and buildings – many of which are also owned by the Bristol Alliance – the centre boasts retail, leisure, restaurants, offices, car parking, student accommodation and a hotel. With a wide range of brands represented in the House of Fraser and Harvey Nichols anchor stores, and more than 100 other shops now open, this is the greatest range of fashion retailing we have yet developed. The quality of the scheme was recognised in its BCSC Supreme Gold Award and MAPIC EG's Best Shopping Centre of the Year award.

▪ **The Elements, Livingston**

This high quality extension to the existing centre opened on 16 October 2008 and is now 80% let. It has increased Livingston's catchment area in the central belt and moved the town up the retail hierarchy to the benefit of our other substantial holdings at this location. The new centre provides stunning new Marks & Spencer and Debenhams department stores and 46 other shops, leisure facilities and restaurants, all with good parking and easy access to the motorway. The attractive food and drink offer is proving popular with shoppers and encourages longer stays at the centre.

▪ **St David's 2, Cardiff**

St David's 2 is a development project being undertaken by St David's Limited Partnership – our joint venture with Liberty International. The scheme will create a John Lewis department store – the largest outside London's West End – together with more than 100 new shops, 25 new cafés and restaurants, and luxury apartments, all in the heart of Cardiff. Initial letting progress on this scheme has been slow, reflecting both the tough environment for the retail sector and the substantial amount of space taken up by retailers in other schemes that opened in 2008. At year-end, however, the scheme was 46% let or in solicitors' hands and we expect the pace of lettings to quicken as we move towards opening in autumn 2009. The scheme will open during a very difficult time for the retail market but we believe St David's 2 has excellent prospects over the long term.

We also have a number of proposed developments which are affected by weaker occupier demand. Our response has been to reschedule the programme for our Trinity Quarter development in Leeds, deferring the aimed completion of this 92,000m² scheme, depending on letting progress, to autumn 2012.

In October, The Buchanan Partnership – our joint venture with Henderson Global Investors – received permission to increase the size of the Buchanan Galleries shopping centre in Glasgow. And in June we secured planning permission for a refurbishment and partial reconstruction of the St John's centre in Liverpool. These and other developments provide us with a strong foundation for when the economy turns. As ever, our priority is to time our activity in line with the market cycle to maximise returns.

Looking ahead

With market conditions expected to be difficult for some time, we will focus on applying our proven strengths and capabilities. We will continue to strengthen our well-established relationships with occupiers. We will look to acquire and transform distressed assets. And we will work to enhance our reputation for creating excellent and successful developments. The value of our reputation was confirmed in February 2009 when Chester City Council and ING Real Estate selected us to become their preferred development partner on the potential future regeneration of Chester city centre.

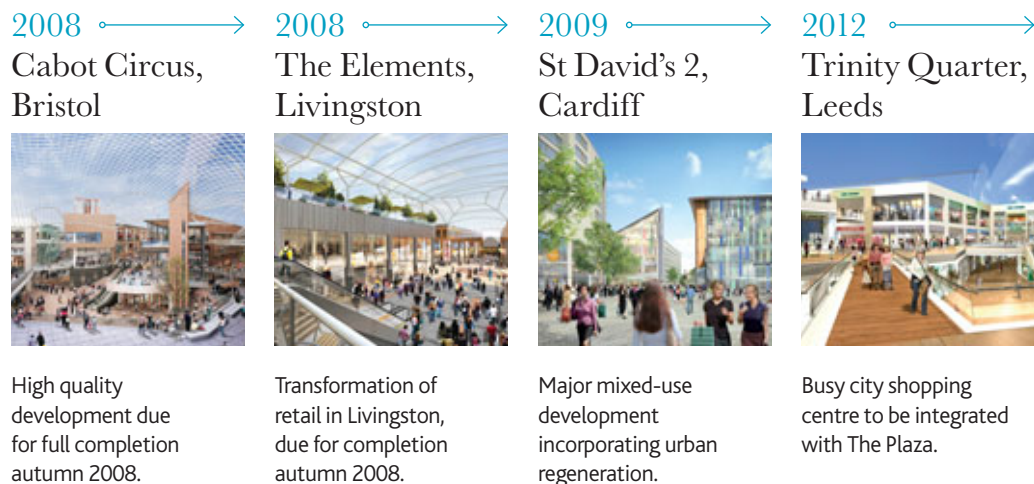
We expect to see further insolvencies amongst retailers, so it is important to recognise the quality and diversity of our tenants. Our largest single customer, Arcadia Group, represents just 3.4% of the Retail Portfolio rent roll, and our top ten tenants are well-known retail brands. We intend to maintain the breadth, depth and quality of our tenant base and work hard to support our occupiers.

Internet retailing accounted for the entire growth in UK retail sales in 2008 and looks set to perform relatively well over time. However, we believe people will continue to see going to the shops as an attractive leisure activity and a convenient way to buy goods, as this year's successful openings in Bristol and Livingston are now demonstrating. For this reason we will pursue our strategy of investing in mixed-use urban regeneration schemes and convenience-based schemes with good access. However, as the market evolves over the next 12 months, we will continue taking the tough tactical decisions required in a fast-changing environment while positioning the business to take advantage of long-term opportunities.

Key objectives for 2009/10

- Protect income through proactive asset management
- Continue to make sales as appropriate
- Identify acquisition and uplift opportunities
- Maintain position as best-in-class for development and customer service
- Complete and maximise lettings at current developments

Retail development pipeline



Retail 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
Shopping centres and shops									
Developments completed									
Willow Place, Corby	Retail	100	16,260		83	2	Oct 2007	42	42
Cabot Circus, Bristol – The Bristol Alliance – a limited partnership with Hammerson	Retail Leisure Residential	50	83,610 9,000 18,740		91	17	Sept 2008	257	257
The Elements, Livingston	Retail Leisure	100	32,000 5,670		80	8	Oct 2008	166	166
Developments approved and those in progress									
St David's, Cardiff – St David's Partnership – a limited partnership with Liberty International	Retail/Leisure Residential	50	89,900 16,500		28	17	Oct 2009	240	347
Proposed development									
Trinity Quarter, Leeds	Retail	75	92,000	PR	n/a	n/a	2012	n/a	n/a
Retail warehouses									
Developments, let and transferred or sold									
Angel Road Retail Park, Edmonton	Retail	100	3,480		100	1	Mar 2009	19	19

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

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.

Net income/ERV

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