

Business Unit Review – Retail Portfolio

Our retail business represents 45.6% of the combined portfolio by value, and includes 27 shopping centres and 26 retail parks. With approximately 1,600 occupiers and 1.7 million sq m of retail accommodation, the Retail Portfolio has a share of the UK's retail property market of some 5%.

The retail sector has been affected by the wider economic pressures in the UK and this has flowed through to the retail property market. Investment markets have seen very low turnover levels and falling values. Signs of stabilisation were apparent in July and August prior to the start of the latest banking crisis, but this has created a further setback. The occupational market has not been immune to the wider economic outlook and a number of retailers have suffered from declining like-for-like sales. However, most retailers continue to trade profitably and shopping centre openings across the UK in 2008 have generally let up well.

Income from our Retail Portfolio has shown growth over the period. Despite property sales, income has increased by £2.0m to £168.2m with a contribution from the completed developments at Exeter and Cambridge and also a 4.0% growth on the like-for-like portfolio (excluding development pipeline properties).

At a time when there is increased focus on retailer insolvencies, it is important to recognise the degree of tenant diversification across our whole portfolio. Our largest single customer, the Arcadia Group, represents just 1.7% of our total investment portfolio income.

We were pleased that our success on portfolio lettings meant that voids on the like-for-like portfolio (excluding development pipeline voids) rose only marginally from 4.1% to 4.2% over the six month period.

The revaluation of the Retail Portfolio resulted in a valuation deficit for the six month period of 14.5% overall. On our like-for-like portfolio, the valuation deficit was at a similar level at 14.3%, driven primarily by a 70 basis point adverse movement in yield pricing. A small part of the valuation decline was also attributable to the reduction in rental values of 1.4%. Within the like-for-like portfolio, our shopping centres and retail warehouses showed similar valuation deficits of 14.9% and 14.3% respectively. Within the retail warehouse sector overall, our supermarkets showed greater resilience with a valuation decline of only 7.4%.

Sales, acquisitions and asset management

Activity in the investment market, as mentioned above, has reflected the lack of available credit in the market and as such has been at significantly lower levels than in previous years. We continued to sell some smaller assets and partnership interests such as our share in Parc Tawe Retail Park, Swansea and the A2 Partnership covering parks in Crayford and Strood. Since the half year end we have also sold our recently developed retail warehouse park in Peterborough.

Our acquisitions at just £81.3m have been limited to properties with a strategic relevance to our business: firstly a parade of shops in Exeter which may form the basis of another phase of development; and secondly the Sainsbury store in Lincoln has been added to the Harvest Partnership with J Sainsbury.

Asset management has been relatively subdued in this weaker occupational market but we have executed major change in Aberdeen at our Bon Accord centre. A large unit is to be taken back and split with part being taken by Topshop. Simultaneously four units have been let to Karen Millen, Oasis, Coast and Warehouse. All of these new fashion stores will open in 2009 along with the new 5,000sq m Next which is under construction.

In retail warehousing we have made good progress on our plans for Edmonton where the last of the five redeveloped units has been let to Paul Simon. At Bracknell we have completed a letting to Tesco Home of 4,000sq

m which is the first stage of a very substantial improvement to the park. Problems in the established furniture sector are to some extent being mitigated by new entrants in this sector such as Tesco, ASDA Living, TK Maxx Home Sense and Next.

Development

After openings last year in Exeter, Corby and Cambridge, now collectively 97% let, we have seen continued high levels of activity. Our two major retail developments for the current year are Cabot Circus in Bristol, our 50:50 joint venture with Hammerson, and the extension to our shopping centre at Livingston. Both have now opened, Bristol on 25 September and The Elements in Livingston on 16 October. The developments were respectively 91% and 82% let or in solicitors' hands on opening.

Cabot Circus will completely change the experience of shopping in Bristol city centre. It has had a very successful start which highlights that a well planned and delivered scheme with an attractive mix of retailers and leisure attractions in the right location can confound the pessimism about the challenges of opening a new scheme in 2008. With a wide range of exciting brands represented in the House of Fraser and Harvey Nichols stores and over 100 shops open, this is the greatest range of fashion ever developed by Land Securities and the message has been received by the community with footfall averaging over 500,000 per week since opening. Even with the recent outward yield movement, the scheme will deliver a profit on cost of approximately 14%.

The Elements moves Livingston further up the retail hierarchy with stunning new stores for Marks & Spencer and Debenhams. The Elements also includes a strong core of food and beverage which will serve the local shoppers and will encourage longer stays at the centre. Both developments have also received a BREEAM Excellent rating for their environmental impact, the first for a covered centre in the case of Livingston and the first for an open centre at Bristol.

In Cardiff we continue to make good progress with construction. The John Lewis store, the largest outside London, has been handed over and our contractor, Bovis Lend Lease, is making excellent progress towards completion in autumn 2009. The leasing programme has been delayed by the huge amount of space taken up by retailers in the schemes opening this calendar year, but we now expect the pace to quicken as we move into 2009.

We have started demolition work on the 100,000sq m Leeds Trinity scheme which is bordered by Commercial Street and Briggate in the heart of the city centre. Completion is scheduled for 2011.

We have also made good progress with our future development proposals for Glasgow and Liverpool. We have received full planning for the extension to Buchanan Galleries (in Glasgow) and in Liverpool we have executed a development agreement with Liverpool City Council.

We outline our development pipeline in Table 1.

Table 1: Retail development pipeline at 30 September 2008

Property	Description of use	Ownership interest %	Size sq m	Planning status	Letting status %	Net income/ERV £m	Estimated/actual completion date	Total development costs to date £m	Forecast total development cost £m
SHOPPING CENTRES AND SHOPS									
Developments completed									
Willow Place, Corby	Retail	100	16,260		75	2	Oct 2007	42	42
Cabot Circus, Bristol - The Bristol Alliance - a limited partnership with Hammerson plc	Retail Leisure Residential	50	83,610 9,000 18,740		90	18	Sept 2008	245	255
Developments approved and in progress									
St David's, Cardiff – St David's Partnership - a limited partnership with Capital Shopping Centres	Retail/leisure Residential	50	89,900 16,500		18	18	Oct 2009	196	312
The Elements, Livingston	Retail Leisure	100	32,000 5,670		72	8	Oct 2008	132	166
Proposed developments									
Trinity Quarter, Leeds	Retail	75	94,890	PR	20	n/a	2011	n/a	n/a
RETAIL WAREHOUSES									
Developments approved and in progress									
Angel Road Retail Park, Edmonton	Retail	100	3,480		100	1	Mar 2009	14	19
Proposed developments									
Almondvale South Phase II b, Livingston	Retail	100	4,180	PR	-	n/a	2009	n/a	n/a

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 less residential costs (totalling £37m across all categories of development). 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 30 September 2008. 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.

Net income/ERV

Net income/ERV represents headline annual rental payable on let units plus ERV at 30 September 2008 on unlet units.