



WESTWOOD CROSS, THANET

Successful retail parks enable people to shop in an easy, convenient way. But they can offer more. At Westwood Cross, for example, we've added a cinema, restaurants and leisure facilities, so there are even more reasons for people to spend both money and time at the centre.

ADDING VALUE
TO CONVENIENCE

UNLOCKING
POTENTIAL

BRINGING POSSIBILITIES TO LIFE!

Retail Portfolio

Completed and launched the Princesshay development, Exeter

Sold £834.8m of assets achieving total sales at 3.1% above valuation

Achieved the successful sale of Whitefriars, Canterbury, for £253m

Launched and grew The Harvest Partnership, a joint venture with J Sainsbury plc



Richard Akers, Managing Director
Land Securities Retail Portfolio

We are transforming shopping as a leisure activity for millions of people across the UK. Using our ability to unlock the potential within properties and places, we develop new and better ways for retailers to connect with customers – creating the environments they need to increase footfall, grow sales and provide a great leisure experience.

“Conditions are challenging but our strong relationships with retailers have helped us perform well. We made sound progress on leasing developments and enhancing assets. We formed a valuable joint venture with Sainsbury’s. And we launched and let our Princesshay development in Exeter.”

Retail Portfolio

Our market

Current market conditions are certainly challenging. Absolute sales growth is the single most useful market indicator for our business as it includes the effect of retailers increasing floorspace to win greater market share. This year absolute retail sales showed positive growth of 5.4% as reported by the Office of National Statistics (ONS).

This is not the whole story, however. Pressure on margins has reduced profitability for many retailers and there has been an increase in insolvencies across the market as a consequence. Our strong leasing performance in the portfolio and in the development programme has helped to mitigate the effects of a weaker occupational market.

2008 will see a peak of completions of new shopping centre developments across the UK. This has sharpened competition between providers, with many retailers being offered greater incentives to take leases. However, well-conceived developments are attracting good levels of demand as no retail business can afford to stand still. Retailers of all sizes know they can work with companies such as Land Securities to enhance their performance through range and format changes, new locations and greater efficiency. Our challenge is to be as dynamic as the most successful retailers and that means evolving our portfolio to ensure we provide good space at good rates in the right locations.

Looking long-term, there will always be winners and losers in the retail sector – and internet retailing is certainly a fierce competitor for some shops – but in our experience people are drawn by the immediacy and experience they get by going shopping. More and more, we work to create a great environment around our shops so people enjoy spending time there, as well as spending money. We see a growing appetite for shopping-as-leisure and expect continued demand for high quality shopping centres and retail parks from our customers and their customers.

Our strategy

Our aim is to be the provider and partner of choice for retailers and local authorities in the UK. We want to be recognised as a market leader in terms of customer focus, design and innovation. Our challenge is to spot, unlock and maximise the potential of places and properties throughout the UK.

We create value by:

- Identifying, acquiring and enhancing shopping centre and retail park assets that offer growth potential
- Using our asset management expertise to make our locations more attractive to shoppers and retailers
- Developing major new shopping and leisure assets that can transform under-valued areas into thriving destinations
- Forming close relationships with retailers and local authorities, ensuring we understand and can respond to people's changing needs
- Recycling our capital and applying our skills to reposition assets higher up the value hierarchy.

Our performance

With the investment markets weakening our focus has been on asset disposals and on leasing.

Disposals of £834.8m at an average of 3.1% above March 2007 valuations has had a significant positive impact on our financial performance with our ungeared property return being 4.6% and 5.5% better than the IPD benchmark for shopping centres and retail warehouses respectively.

Our leasing and asset management activity has helped us to perform well against key portfolio metrics. Rent review programmes, particularly at the White Rose Centre in Leeds, drove our like-for-like rental income up by 5.5%. Asset management activity has helped to create rental value growth of 2.0% in a generally flat market, and our strong leasing performance on the investment properties with some £19m of rent secured has enabled us to keep voids at 4.0% across the like-for-like portfolio.

Future growth in rental income will come from our development programme as we complete schemes and also from the reversionary potential on our existing portfolio on which the rent passing currently stands 11.6% below today's rental values.

We remain in a strong financial position, with resources available to take advantage of opportunities created by changed conditions in the investment market. Our cashflow will continue to be helped by the UK's system of long leases and upward-only rent reviews. The quality and mix of our occupiers is excellent, and this will help to diversify risk if demand from occupiers weakens over the next 12 months.



White Rose, Leeds

Successful rent reviews at shopping centres such as White Rose helped drive up like-for-like rental income by 5.5%.

Chart 24

Retail Portfolio by value £6.2bn

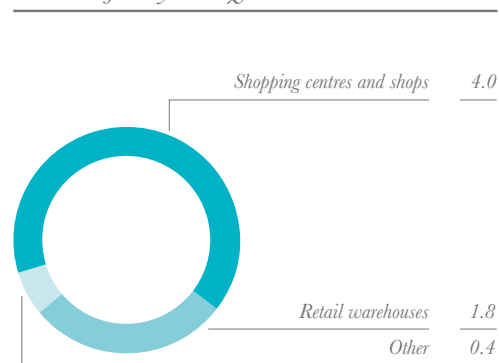


Chart 25

UK retail sales growth to 31 March (%)



Source: BRC/KPMG survey

Sales

The timing of our sales was critical this year. We had anticipated more challenging conditions early and decided to make no major acquisitions during this financial year. Instead, we focused on disposals and achieved total sales of £834.8m at 3.1% above valuation.

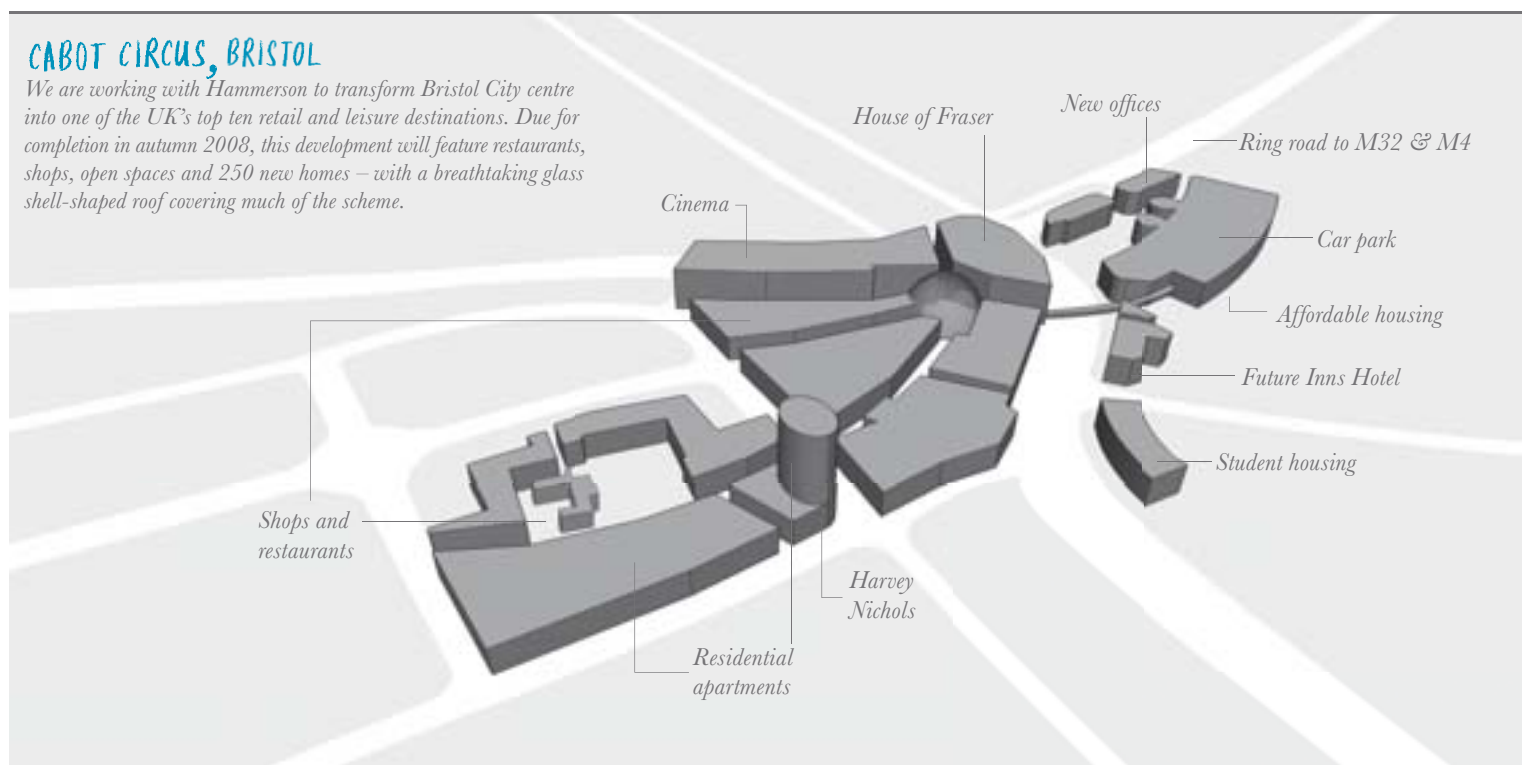
Important sales this year included:

- **Whitefriars, Canterbury**
We sold our award-winning shopping centre to Henderson Global Investors and Canada Pension Plan Investment Board for £253m, achieving a good return on an investment we completed in 2005.
- **East Kilbride Shopping Centre**
The Scottish Retail Property Limited Partnership, our joint venture with British Land Plc, completed a £385m sale of this asset in June 2007.
- **Victoria Place, SW1**
In January 2008 the Metro Shopping Fund LP, our joint venture with Delancey, sold Victoria Place shopping centre, SW1, to Ewart Properties Ltd for £92.5m. The good price achieved reflects the value we have added to the asset and the surrounding environment.
- **Coppergate, York**
In March 2008 we completed the sale of this shopping centre for £42.5m.
- **Retail warehouses**
We completed the sale of eight retail warehouse assets for £130m and sold four supermarket assets for more than £125m.

Asset management

We maximise rental income from our portfolio through asset management. This involves us in making long-term improvements to the environment, to services and to the tenant mix. Rental growth is the reward for our investment in these improvements.

Our approach to our biggest asset – the White Rose Centre in Leeds – demonstrates the value of our expertise. Our successful rent review programme coincided with the opening of a new store for Marks & Spencer. This follows the development of new space for Next, Zara and River Island in 2006. This enabled us to settle the major round of rent reviews, at an average increase in rent of 40% over the five-year period since the previous reviews. We also achieved new lettings at even higher levels, further underpinning the success of the centre.





BRINGING POSSIBILITIES TO LIFE

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CORBY

Our long-term vision and commitment is helping to transform Corby from a town on the margins to an increasingly vibrant centre. Major retailers are taking space; shopper satisfaction levels are increasing; and more people want to spend time in the town.

Retail Portfolio

At Gunwharf Quays in Portsmouth we continued to achieve rental growth, improving the mix of shops with 11 new fascias introduced to the centre, and we won a British Council of Shopping Centres 2008 Achieving Customer Excellence award for customer service.

At Aintree Retail Park in Liverpool we have exchanged agreements to let units to Marks & Spencer, Next and Boots, which significantly changes the retail mix on the park, and we have increased rental values by 12%.

At Westwood Cross, Thanet, we have completed a new development that adds a cinema, restaurants and leisure facilities to the retail units, and introduced JD Sports to the shopping park. Our Thanet ownerships will be further enhanced with the integration of the adjacent Sainsbury's store and car park, which we now jointly own and manage through our Harvest venture with J Sainsbury.

At Lakeside Retail Park we have provided small pod units and Costa Coffee is one of the first occupiers. While the key attraction of retail parks for shoppers remains convenience, we have continued to introduce enhancements like this to improve the overall shopping experience.

Our approach to asset management keeps a clear focus on helping our customers thrive. For example, the running costs of shopping centres are borne by retailers through their service charge. This year we carried out an efficiency programme that has enabled us to achieve a zero increase on the average service charge across our shopping centre portfolio, helping to lessen cost pressures on retailers.

Development

We completed three new developments this year and these set new standards in terms of the positive impact regeneration schemes can have on town and city centres. Highlights included:

- **Princesshay, Exeter**

Our British Council of Shopping Centres Supreme Gold Award, the Retail Week Shopping Location of the Year award and International Council of Shopping Centers award for Best Medium Size Shopping Centre all underline the success of this development, which has been very well received by residents and retailers and was 92% let on full opening in September 2007. The scheme demonstrates our ability to integrate a new development into an historic city centre, drawing more shoppers from a wider catchment area into the city.

- **Christ's Lane, Cambridge**

We achieved very strong pre-lettings for this distinctive retail-led scheme of eight shops, a restaurant and 15 apartments. The retail element opened in December 2007 and is 100% let. The Christ's Lane project sits in a sensitive location within a conservation area between two Cambridge colleges, Christ's and Emmanuel. Our development re-established one of the city's historic streets to create a new, busy retail thoroughfare.

- **Corby**

This year we completed the development of a new mall to complement our existing holdings within the town centre. The quality of new tenants – including Primark, River Island, Jane Norman and Dorothy Perkins – has exceeded our original expectations and significantly improved the attractiveness of the town as a shopping destination. By floor area, the scheme is now 85% let.

Table 26

Retail property – floorspace

Type of retail property	Market million m ²	Land Securities million m ²	% market share
Shopping centres	15.4	1.1	7.1
Retail parks	15.5	0.5	3.2
Total core markets	30.9	1.6	5.2
Other retail markets	86.5	0.1	–
Total	117.4	1.7	1.4

Source: Property Market Analysis

Table 27

Retail Portfolio valuation and performance summary

	31/03/08 £m	31/03/07 £m
Combined portfolio valuation	6,186.6	7,226.2
Like-for-like		
Investment portfolio valuation	4,974.7	5,614.7
Rental income	292.0	276.9
Gross estimated rental value	329.0	322.4
Voids by estimated rental value	13.3	12.2
Gross income yield	5.6%	4.9%



Whitefriars, Canterbury

We achieved a £253m sale this year, generating a good return on our investment in this mixed-use development.

Retail Portfolio

Along with our successful completions we have made good progress with our on-going development programme. For example, our Cabot Circus development in Bristol is on schedule for opening in autumn 2008, is 85% let or is in solicitors' hands and we have secured House of Fraser and Harvey Nichols as anchor tenants. In Cardiff we are on schedule for the autumn 2009 opening of the combined St. David's 1 and 2 shopping centres, with John Lewis as anchor tenant. And at Leeds Plaza we have entered into a partnership with Caddick Developments to link our existing centre to a new development. We opened discussions with potential anchor tenants this year, started demolition in April and the phased opening is scheduled between October 2010 and January 2011.

Joint ventures

This year we once again demonstrated our ability to form strong partnerships with other organisations. In November 2007 we launched The Harvest Limited Partnership, a 50:50 joint venture with J Sainsbury. This adds our expertise in development to Sainsbury's desire to add new space to stores, with the two companies working together to unlock and realise the development potential of a number of sites. Initially, we contributed a Sainsbury's supermarket in our ownership while Sainsbury's contributed two freehold stores. In December we increased the portfolio with the purchase of the Maltings shopping centre in Salisbury for £27.5m. This 8,830m² property includes a Sainsbury's store, 27 retail units and a car park.

Our outlook

Our experience is that UK retail sales growth is relatively resilient through the economic cycle, but we recognise that the current trading environment is proving challenging for retailers. The quality and mix of our tenants is excellent, and this will help to reduce and diversify risk if demand from occupiers weakens over the next 12 months. Our cashflow will continue to be helped by the UK's system of long leases with upward-only rent reviews and also by the reversionary nature of our portfolio.

In the meantime, strong relationships with retailers are enabling us to make sound progress on leasing our developments and we will continue to provide space that meets retailers' need for efficiency and quality. We have a range of upgrade and development opportunities within our own portfolio and we will focus on bringing a number of these projects forward for delivery over the coming years.

Table 28

Customer satisfaction survey – Shopping centres

Shopping centres	2005 Actual	2006 Actual	2007 Actual
Understanding the need of the business	3.60	3.63	3.91
Communications	3.79	3.65	4.10
Willingness to recommend us	94%	91%	95%
Responsiveness	3.85	3.93	4.04
Overall customer service	3.94	3.81	4.19



Christ's Lane, Cambridge

By re-establishing a historic and vibrant thoroughfare we created strong tenant interest, with the retail element 100% let on opening.

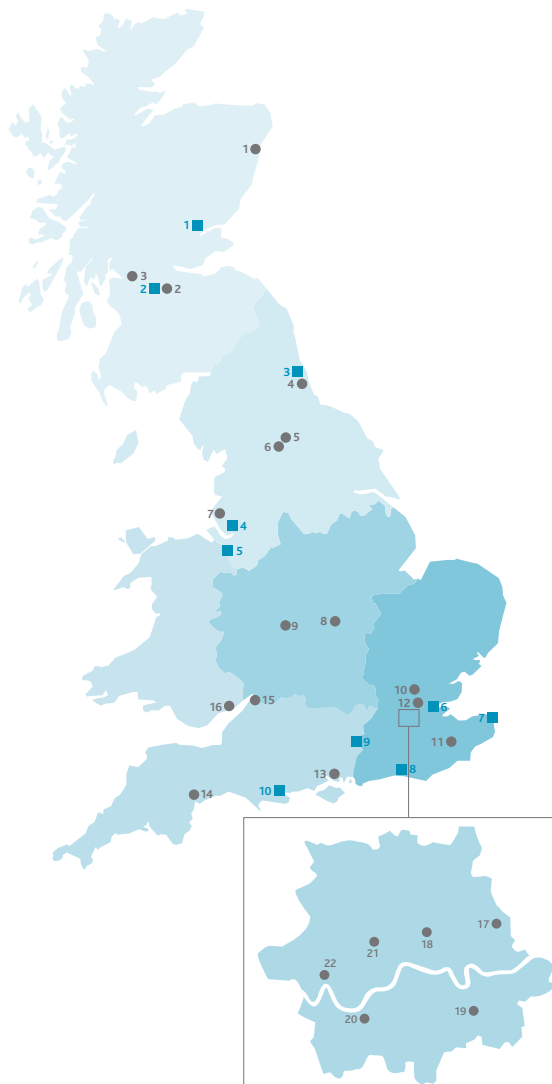
Table 29
Top 12 properties



Top 12 Properties

- a White Rose, Leeds**
Award-winning shopping centre with more than 100 stores.
- b Almondvale Centre, Livingston**
Unique retail destination in the heart of the town centre.
- c Cabot Circus, Bristol**
139,350m² of exceptional new retail, leisure and residential space.
- d Bullring, Birmingham**
An iconic shopping location, this partnership development has led the city's retail renaissance (one-third ownership).
- e Princesshay, Exeter**
Award-winning mixed-use development based around a vibrant piazza.
- f Gunwharf Quays, Portsmouth**
Historic harbour hosts designer outlets, bars, restaurants, cinema and Bowlplex.
- g St. David's Centre, Cardiff**
Home to 70 stores, with links to St David's 2 adding 89,900m².
- h The Plaza, Leeds**
Popular shopping centre with high street shops and cafés.
- i The Bridges, Sunderland**
Our community shopping centre provides a retail focal point.
- j Team Valley, Gateshead**
Retail World, where big shed retailing meets the high street.
- k Buchanan Galleries, Glasgow**
Established destination with consent to double in size.
- l Westwood Cross, Thanet**
Thriving retail park with growing leisure element.

Top Retail Portfolio properties over £50m by location



● Shopping Centres

■ Retail Warehouses

- Scotland**
- Aberdeen
 - 1 Bon Accord Centre*
 - St Nicholas Centre¹
- Livingston
 - 2 Almondvale Centre**
- Glasgow
 - 3 Buchanan Galleries^{2*}
- North, north-west, Yorkshire and Humber**
- Sunderland
 - 4 The Bridges*
- Leeds
 - 5 Leeds Plaza & Albion St**
 - 6 White Rose Centre*
- Liverpool
 - 7 St Johns Centre, Williamson Sq & Clayton Sq*
- Midlands**
- Corby
 - 8 Corby Town Centre**
- Birmingham
 - 9 Bullring^{3*}
- South and south-east**
- Welwyn Garden City
 - 10 Howard Centre*
- Maidstone
 - 11 Fremlin Walk*
- Hatfield
 - 12 The Galleria*
- Portsmouth
 - 13 Gunwharf Quays*
- Wales and south-west**
- Exeter
 - 14 Princesshay*
- Bristol
 - 15 Cabot Circus**
- Cardiff
 - 16 St. David's Shopping Centre**
- London**
- 17 Stratford Centre, Stratford*
- 18 N1, Islington^{4*}
- 19 Lewisham Centre*
- 20 Southside, Wandsworth^{5**}
- 21 Notting Hill Gate, W11^{4*}
- 22 W12 Centre, Shepherds Bush*

- Scotland**
- Dundee
 - 1 Kingsway Retail Park*
- Livingston
 - 2 Almondvale Retail Parks**
- North, north-west, Yorkshire and Humber**
- Gateshead
 - 3 Team Valley Retail Park*
- Liverpool
 - 4 Aintree Retail Park*
- Midlands**
- Chester
 - 5 Chester and Greyhound Retail Parks*
- South and south-east**
- 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*
- Poole
 - 10 The Commerce Centre*
- Notes**
- ¹ Part of Scottish Retail Property Limited Partnership
- ² Part of Buchanan Partnership
- ³ Part of Birmingham Alliance
- ⁴ Part of St. David's 2 Partnership
- ⁵ Part of Metro Shopping Fund LP

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

Retail Portfolio

Table 30
Development timeline



Retail development pipeline at 31 March 2008

Property	Description of use	Ownership interest %	Size m ²	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, let and transferred or sold									
Christ's Lane, Cambridge	Retail	100	5,800	–	100	2	Nov 2007	33	33
Princesshay, Exeter	Residential		1,350						
	Retail	100	37,360	–	95	13	Sep 2007	204	204
	Residential		7,200						
Developments completed									
Willow Place, Corby	Retail	100	16,260	–	75	2	Oct 2007	42	42
Developments approved and those in progress									
Cabot Circus, Bristol	Retail	50	83,610	–	75	18	Sep 2008	198	243
The Bristol Alliance – a limited partnership with Hammerson	Leisure		9,000						
	Offices		28,000						
	Residential		18,740						
St. David's, Cardiff	Retail/leisure	50	89,900	–	12	18	Oct 2009	156	306
St. David's Partnership – a limited partnership with Capital Shopping Centres	Residential		16,500						
The Elements, Livingston	Retail	100	32,000	–	36	8	Oct 2008	107	151
	Leisure		5,670						
Southside Shopping Centre, Phase I, Wandsworth, Metro Shopping Fund – a limited partnership with Delancey	Retail	50	1,960	–	–	1	Sep 2009	6	8
	Office		1,740						
	Residential		4,040						
Proposed developments									
Trinity Quarter, Leeds	Retail	75	94,890	PR	20	n/a	2011	n/a	n/a
Retail Warehouses									
Developments, let and transferred or sold									
Commerce Centre, Poole	Retail	100	19,100	–	100	3	Aug 2006	50	50
Thanet Leisure, Thanet	Leisure	100	8,970	–	100	1	Aug 2007	25	25
Maskew Avenue, Peterborough	Retail	100	13,380	–	100	3	Sep 2007	36	36
Developments approved and those in progress									
Angel Road Retail Park, Edmonton	Retail	100	3,480	–	70	1	Feb 2009	12	18
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 and other miscellaneous sale proceeds. 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 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 net headline annual rental payable on let units plus ERV at 31 March 2008 on unlet units.