

British Land Q3 Analyst Conference Call
Thursday, 7th February 2008
09:30 Hrs UK time
Chaired by Stephen Hester

Stephen Hester

Good morning everyone thanks for joining. Graham Roberts, our finance director, is with me as well. Sorry we are a few minutes late in starting – we have record demand for today's call, so obviously everyone must be bored or something. Anyway, we will, as usual, go through the slides that are up on our website which, hopefully, you have access to and make comments to them and then take as many questions as you'd like to throw at us. So I'll start and then Graham will go into the numbers.

Starting on slide one of the pack. As you can see, in a sense our results are a tale of two parts – the investment market, reflecting what's been going on in the world and been affecting all asset prices, are weak. So we've marked the portfolio down 8.9%, pretty much in line with IPD and translated through to NAV that's down 16%. At the same time our cash flows are robust, healthy and growing and our earnings per share are up 16% with our underlying profits up 12.5% and our rents having grown again in the quarter. I am sure that you will ask more questions about the investment market and about our business – the point we make clearly, as it relates to the business, is that we are capturing growth – our ERV growth in the nine months of this fiscal year is 5% against the market at 3.4, slowed a bit in the fourth quarter to 0.8% ERV growth. We have sector leading cash flow resilience, as you know we have the highest occupancy rates at 99%, longest leases, our debt is the most fixed rate, the lowest cost, the longest life and the biggest war chest. We have also, during the quarter end in January, sold £600m of property at values that are broadly supportive of our December valuations, including Plantation Place South which we announced yesterday, in the city and we have a couple of hundred million of further sales under offer again at levels supportive of December's valuations, so we have tried to be thoughtful in what is, of course, not in any way a clear or exact science. The investment market, as a whole, is adjusting faster than at any previous time to reality. We think that is excellent, we think that having numbers that don't reflect reality doesn't help anyone and the sooner that investor confidence and turnover returns the better and, to the extent that we have been able to work with our valuers to get ahead of the curve - we've tried to do that. And, although our results are pretty much in line with IPD, it certainly would be my view that, over time, prime property should outperform the average represented by IPD and that is suggested that not every valuer in every company in the index has yet taken the same view on values. But we'll get there in the end.

I do think that, therefore, relative values will come more into focus once the big move downs have been made and we'll see that sifting process in the coming months and, as I said, as our sales volume show, January is feeling a lot healthier in investment market terms than November and December. Clearly it's possible that the World takes another lurch down and, therefore, that that proves to be a false dawn but, nonetheless, that does appear to be light in the investment market, relative to where we were which is then behind the quote in our press release, believing that the worst is probably behind us. With that perhaps I can ask Graham to go through the numbers in a little more detail?

Graham Roberts

Stephen, thank you and good morning. Just moving onto the second slide, I'd like to talk to you first about the increase in the underlying profits which are up and healthy at 12.5% to £72 million in the quarter. In rental terms, gross rental income is virtually unchanged, despite a £2.1 billion net divestments since March, the reason for that, clearly, is the letting success on the development programme coming through effectively with the rental income from Willis and York House and the extensions at Meadowhall and also our rent review cycle offsetting the lost rent from the disposals. In terms of fees and other income which are down £3 million in the quarter, that is due to the fact that we have less performance fees, as you'd expect, in the current year compared to the previous year. Then, in administration costs we are about £10 million down year to date, that is due to the restructuring that, you remember, we reported on previously. On becoming a REIT we could achieve efficiencies in our operating structure, and that benefit is now coming through. Interest is also down because of the net divestments during the period and in the quarter there was interest

capitalisation of £12 million. The underlying tax rate was 4% and that gives us an underlying earnings per share increase of 25% to 40 pence year to date – that's a 17% increase in the quarter. And, our dividend is 8.75 pence for the quarter, consistent with our 35 pence full year target.

Then, moving onto the third slide, I'll talk about the balance sheet movement. As Steven said earlier, we've had a 53 basis point outward yield shift - that's 51 basis points in offices and 55 in retail, giving us an 8.9% markdown on the portfolio as a whole and that has contributed to the decrease in net assets, by 16.7% to 1401 pence. The property revaluations contributing 280 pence of that movement and we have also written down the investment in Songbird by 17.8%, i.e. by £40 million and that contributes a further 8%. So that takes us, also, to a triple net of 1437 pence, which is above NAV because we had locked at much lower long term interest rates than the current market. Our total properties are valued at £14.6 billion and total properties owned and under management now amount to £18.4 billion.

Then moving onto slide four – just to summarise for you the key features of our balance sheet which is quite exceptional – we have average lease terms of 14 years to first break, we have an occupancy level of 99% on an underlying basis and this gives us exceptional cash flow security through difficult times. Our LTV is now at 45% with, obviously, the valuation decline offset by the disposals that we've been able to achieve. This is below our long run average and well within our target range. In terms of interest, our cover remains at 1.8 times, this is significantly increased from early years, largely due to the timely refinancings that we've carried out and also the disposals towards the top of the bull market. Our debt is 100% fixed at 5.28% and has a 12.6 years average maturity. We have three billion of bank lines and only 275 million of those expiring in the next three years, so we have no material short term refinancing requirements and, indeed, we have committed undrawn facilities of £2 billion which gives us that extra liquidity and firepower should we wish to use it. On that note I'd like to hand back to Stephen.

Stephen Hester

Thank you Graham. Slide five – I think the bottom line is that what's happening in markets doesn't change our strategy – we built British Land to be resilient and, hopefully, that will show through. We are in the sectors we're in because we believe in their long-term performance and we still believe in that, and there will always be cycles. We will continue to be activists, we will continue to sell lots of things in any year and, hopefully, we will continue to buy things, assuming we find value and I've already mentioned the sales that we have done in the last three months or so. On this slide you can also see the rental growth that we've accomplished. Obviously over the nine months offices were still proving to be the strongest growers, followed by our retail warehousing. Interestingly in the fourth quarter, across our entire retail portfolio, we added eight million to rent through both rent reviews and new lettings, although some of that, obviously... that's not a net addition. But those all took place at an average 4.5% premium to the valuers ERV, thereby suggesting that our ERVs continue to be well founded and well based in terms of the reality of customer demand. And, although there were less rent reviews, those rent reviews and lettings that we did in the office portfolio, were also all above ERV by a larger percentage. On the developments, no particular new news – you know that the majority of our deliveries for this coming year are pre-let – we still have space to let. In the retail sector it's going fine, in the office sector it will go more slowly for a while but in any two year period, figure out how long you think markets will be weak, but in any two year period we never put more than 3.3% of new space, relative to our existing portfolio, onto our books – just to give you a frame of reference of our exposure to development lettings.

Flipping to slide six, that simply details the sales in the period and a bunch of sales, subsequent to the period, we give the gain relative to March, as we'll show in the accounts, which obviously was a high point, and you can see it is a whole mixed bag of gains and losses but when you average them, and average the more recent ones, completely supportive of the December valuations – the yield on disposals and we give it topping up of rent-free of 6.4%, frankly I don't think it means a whole hell of a lot but we'll give it to you for what it's worth.

If we move to slide seven on the valuation, again, I'd somewhat urge you, although it would be tempting not to, not to get too granular in looking at one quarters valuation, the fact is people were just taking a stab in the dark in the absence of big investment market turnover and I don't think one should ascribe over importance to a few a percentage points above the norm or below the norm. For example, I've heard comments saying that retail warehousing and superstores were below the norm – that's a mathematical outcome of them being the lowest yielders and us having moved up by a certain amount of yield because our valuers and our perspective was that the investment market, currently, is focussing on certain important yield points – as I

said, I believe that as the market works through changes, that relative yields will readjust again and we'll see some of the more secondary property move out further and I continue to believe that retail warehousing, or at least the Open A1 retail warehousing we have, and superstores will out perform in the medium term and we feel very relaxed about them and we continue to get good rental growth in them. Equally shopping centres, which was dominated by Meadowhall, fell by below the norm and that was in part because we took some medicine early on that, unlike some others. So, there are swings and roundabouts, you can see the three month numbers and the nine month numbers and, again, we outperformed on rental growth and we took more negative yield shift in the market although, I suspect, other people will catch up in due course. The portfolio, as a whole, yields 5.4% net equivalent and 5.2% initial, if you add back our rent-frees and 5.7% gross reversionary. And we think for the prime nature, for the rental growth prospects, that that is now offering much clearer value, both on a relative and on absolute terms.

Slide eight gives you a little more detail in yield shift terms of where we've shifted the different segments and how that compares to IPD and CBRE.

Slide nine, a few more comments on our two principal segments - in both segments at the moment the outward yield shift seems to be slowing and, indeed, perhaps halting in some areas, although it is probably too early to be certain about that. In both segments there is clear evidence of money building up on the sidelines, people looking to deploy that money although a range of different views of sentiment as to how aggressively it will be deployed and how quickly and how nervous it is. From a retail perspective, although clearly the retail sector remains competitive, retail sales and internet spending are being looked at. The trends that favour out of town open A1 continue, and that's shown very well in the detail of our press release in terms of the asset management and letting and rent review gains that we're making and beating the market with.

In respect of London offices, clearly we have at least a pause as occupiers assess the outlook for their businesses. We have not yet had any material volume of redundancies, but that doesn't mean to say we won't have and we have to wait and see, although we remain completely sanguine about the medium-term prospect for financial and business services demand in London. It's also worth noting that with vacancy rates for grade A in the city, in particular, are down as low as 2.6% and with none of the gray space that there's been in previous times the market is less vulnerable to pauses than at some prior moments. It's certainly true that there is supply to come in '08 and '09, but with the continued inflation of construction costs and with the rising yields and uncertainty to put against that we suspect the supply pipeline is beyond that, will come down and be deferred materially. We are fully let, other than our developments of course.

Finally then on slide ten, with British land we believe you continue to get exceptional defensive strengths from our real estate, from our customers, from our cash flows and from our balance sheet, and the value added strength remain and are there to be captured, some of them in difficult markets and some when markets become less difficult. With that I'm very happy to turn over to questions.

Questions and Answers

Harm Meijer – JP Morgan, London

Good morning. JP Morgan. I just wanted to ask several things, if that is possible. First of all, could you give an overview of what's currently happening in the city office market, and also whether there are still potential tenants basically looking at your projects out there, and basically what's happening in terms of rental levels? If you look at Broadgate, the ERV is, I think, flat over the fourth quarter; any expectations about that? That's my first question.

Okay, Harm. Well, I'm not sure what I have more to say than I just said actually, to tell you the truth. I mean, if we take the subjective indicator of viewings of our developments that are going up, I would say viewings are as good as they were in the summer. If we take a subjective view of how many people are going to write a big check in the next three months, I think not many. Most people are lining up. You know, there are lots of people who will, in the next few years, need to move, need to consolidate space and need to expand. They're lining up their options, but they're probably pausing in terms of pulling the trigger until their senior management is more confident about headcount. So that's why I think you'll see a pause in major lettings other than those that have been in the pipeline. But we're certainly not seeing a pause in viewing and we remain confident therefore about the medium-term prospects. More than that I can't tell you

because I don't know, I think the occupiers themselves don't know. They're looking at the world with its uncertainties in the same way that we are. And, therefore, for rental growth it seems to me pretty unlikely that you'll get rental growth in the current quarter and beyond that then is in the lap of the gods a little bit in the near term, although I'm very confident you will in the medium-term.

Okay. And you were quite positive on page two of your press release. Now, it basically sounds that you think that British land will start to outperform the IPD because you have more prime assets. Is that a fair conclusion to think?

I would hate to make forecasts of that nature, but it is my view at, particularly in more difficult times people reassess their risk of views on property and property that offers higher risk, either because of its age or its Capex requirements or its voids that you might not fill in a tougher economic climate, or its customer demand if it's secondary. All of those features tend to be looked at with a more sceptical eye than in a bull market, and that tends to mean that property with more risk and typically secondary should under perform prime in a way that the inverse was true during the bull market. So if that happens, then we will outperform IPD which has got more secondary in it. In the near term it's got all, it's got much more to do with which values are aggressive and which aren't, and which companies fight their valuers and which don't.

Right. And which percentage of your portfolio would you say is prime versus secondary if you had to say?

It would be north of 90%.

90%, okay. And which areas within your portfolio do you think will perform the best in '08 and also, if you look in the current market, what are the areas you are actually eyeing? If you were to come back or were to buy into the market again, which areas would you actually look for?

Well, I think that we are economic animals and we would buy or sell anything any time if we thought that the return signals and the price concerned made sense, and so that's why you saw us sell something like £3 billion of property in the last year at the top of the market and get our gearing down as a consequence. But the stuff we sold sometimes was the small sort of secondary, bulky, retail warehouses. Sometimes it was industrial so it was things you might think, well, I understand why they're selling that. But sometimes it was some of our best assets; the EBRD building in the city, or half of Fort Kinnaird. But by best that also meant the rents were high and we thought that they were going to be slower growth, and so the same you can pick for when we buy things. Sometimes we buy things for long-term strategic views on the sector, and sometimes we buy things for short-term tactical because we just think they're cheap, even if we don't think, don't plan to own them in ten years. So in terms of what we're going to buy, I don't know. We're sifting around for things we find are cheap, find cheap, either on a strategic view or on a tactical view, and I don't know what we're going to find and I don't know when we're going to find it. In terms of things that we will sell, we will continue to sell things that, for one or the other reason, we think are likely to be slower growers and most of the time we're driven by our view of long-term rental growth because short-term yield movements are harder and more fruitless to predict.

Right. Last one and I may have missed it, but is there a table with the ERV growth per property segment in your portfolio because I've seen here...?

No, there isn't. You... As you know, our convention is to give the full data every six months, but in neither the first or the third have we given all the pages actually because people like you have begged us not to because it increases the workload too much.

All right. Okay. Thank you very much.

Nan Rogers – Arbuthnot, London

Good morning. Nan Rogers from Arbuthnot. I was actually just wondering about the valuation, and on slide seven you referred to the fact that the valuation movement of 8.4% or 8.9% over three months is negative Capex. So did you write off Capex and is that the difference between your number and the IPD's assessment of your valuation at 9.5%? And if so, what would the change in the value of the developments have been?

You never write off Capex, but what you do is you add Capex to values and then you revalue and the sum of the total will be different than where you started in either direction. IPD have a rather abstruse methodology,

which I won't bore you with, but if you ever wanted to call Amanda Jones in investor relations she will explain it to you at length. But they average Capex spending and a whole range of different things in a different way than anyone else does for financial statements, which is why there are always small differences between IPDs data and, if you like, a straight mathematical calculation. The developments are down 7.4%.

Okay. Thanks.

Keith Crawford – KBC, London

It's Keith Crawford actually at KBC. Good morning, Stephen. Well, thank you. This statement of course is infinitely more valuable than quite a number of rather wet comments we've had recently of a much more partial nature because this addresses the reality of the situation very effectively, so that's great. And there was something I just wanted to try and understand with you, though. I mean, like any other company you have certain substantial holdings and they cannot be perfect all the time. Now, we've all got banking backgrounds and, I mean, as far as I can understand, in banking at the moment virtually every sector is adverse, profit outlooks have deteriorated, and it's a nice, easy way in short to medium-term business to chuck out staff. That is a question for rents, is it not, in the period ahead?

Well, yes, it must be and that's why, as I say in the statement, there is more of a question mark over office rents in the short-term than there is over retail. Although if you want to scare yourself about consumer spending, you can, you know. The world is a place you can scare yourself, if you want to, and that's the reason why it's nice to have 14-year lease lengths, 99% occupancy, and fixed rate debt at 5.28%.

There's no question. You have reflected here again the powerful, reliable cash flow aspect of this company as a very, very powerful company.

But, you know, as I say, the, there are a range of outcomes for financial and business services employment. You know, it's interesting in some prior investment banking cycles there was a lot of firing already, people pulled the trigger earlier, and there's been virtually none so far. And I think that most of the companies are trying as hard as they can not to do something knee-jerk that they will regret later if the world picks up, but that's not the same as saying that the world will pick up or that there won't be more firings. I think all of that is in the balance. The companies don't know themselves yet and so, inevitably, there are, you know, offices are more cyclical. And by the way, that's why they trade at a higher yield. That's why our offices are at a five and 5.6% equiv and retail is lower than that. You know, our superstores are at a 5% equiv. Well, why is that, you know? Because they're less cyclical.

And we're also having to embrace the fact that CBRE are saying of course in all categories the monthly statements are still weaker on yield, and this, of course your results do reflect this. Although there's some aspects, it has affected everything.

But, you see, then another thing to look at, if I might make a partial point even though I know you don't like them, you know, the... If you top up for rent-free's, which are certain, our city yield, our initial yield is 5.5 as against the 5.6 equiv, so we are not very vulnerable to losing reversions in the city. There are some companies where the difference between their initial yield and their equivalent yield is massive.

Yeah, yeah, yeah. My second question was about the Songbird investment; have you written that down based on net asset assessment or is it...?

Well, because we report earlier than Songbird, we have no idea what their net assets of December will be. So we sort of triangulate on a few internal measures and look at what happens if their property decline, like the city, and run it through their gearing and what's their share price and we sort of stick a finger in the air and come up with a number.

Yeah. Stephen, you don't need to...

Sorry, the accountants wouldn't like me saying that. I take it back. It's very scientific.

Well, that's very good. Thank you. My final question is really about borrowing margins. I mean, you don't particularly need to arrange facilities, clearly. But my understanding is companies like yourselves, it might be 90 basis points over 80 to 100 basis points over at the moment, but presumably, outside this spectrum, as

we get away from the British Land height of the mountain, we're looking at 150 basis points aren't we, or worse?

Graham Roberts

I think that's entirely probable for those who are a shorter, or not long term investors in the marketplace. But I have to say, I mean, I don't know where ours would be at the moment, because we don't have any need to negotiate, we're 40 basis points over for the next two billion that we spend.

Stephen Hester

It's also hugely loan to value sensitive, and I think much more than before. So, you know, if you were borrowing with our aggregate loan to value of 45%, I don't think you'd pay big spreads, but if you were borrowing at 80%, first of all you wouldn't get it at 80% anymore, but even if you were borrowing at 75%, you'd pay much bigger spreads. So, in a sense, the private market that was leveraged, typically leveraged a lot higher, and that's the place where the borrowing costs will bite, or else, there'll need to be more de-leveraging, and of course that's where one looks if there is going to be distress, for it to be most likely to manifest itself.

Thank you, thanks.

Bernd Stahl – Merrill Lynch

Hello. Bernd Stahl, Merrill Lynch. A quick question really. Have you already seen any difference between net effective rents and headline rents, the ERVs? Is that difference already increasing?

You mean incentives?

Correct.

No visibility at all, and in fact, those city lettings that have been announced in the last month, which weren't with us, but the meaningful, the bigger ones, seem to have incentive packages completely consistent with where we were last summer.

Which is a month on every year at least?

It's very dependent on how big, how much space is being taken. But, I would say... you know, that sort of order, yeah.

Bernd Stahl

Yeah. Okay, that's all.

Quentin Freeman - UBS

Morning, Stephen. And it's Quentin of UBS. Stephen, you alluded to the market being a little bit better in January, or in terms of turnover, better in January than November and December and you said that in some areas, you thought that things might have been almost beginning to sort of calm down and settle down. Could you just let us know what sort of areas those are?

Well, as I say, I'm very hesitant to say that what we were experiencing in January will most definitively carry through. It might or it might not, but all I'll do is tell you what we were experiencing in January and you can decide whether you think it's going to carry through. Just to pick some straws in the wind, we have three superstores under offer, averaging our December valuation. We just sold Plantation Place South at a level consistent with our December valuation. We sold some crappy retail warehousing. We don't have much that's crappy, but we did sell some crappy stuff at levels consistent with the valuation. And there's a couple of things we've got in the market that will sell at level two or 3% below the valuation. So, at the moment, we're getting those signs but, you know, as I say, I'm inevitably cautious because, you know, a swallow doesn't maketh a summer, but those are the signs we've got.

Thanks very much.

Daniel Horwood - Kaupthing Singer & Friedlander

Good morning. It's Daniel Horwood at Kaupthing. Morning, Stephen. Morning, Graham. Just a quick follow-up on this question of the solidity of reversions. You've dealt with the City one very effectively. On retail warehousing where you haven't given the stats for them, I'm assuming there is still quite a large reversion. ERV growth obviously you've quoted it's slowing down 0.6% this quarter, could you perhaps clarify this point on slide five as to where these retail lettings 4.5% above ERVs were? And then perhaps we could just turn back to that question of, you know, that maybe some comments on whether you think some of that reversion might blow away in the short term, albeit you're still predicting I notice from the interims last time, four or so percent per year average ERV growth over the next five years?

That's PMA's forecast, not ours.

Sorry, not yours, yes.

We're not, we're not in, we're not in violent disagreement with them. I can only speak for our portfolio. The majority of the rent reviews that were giving rise to us beating the ERV were in the out of town retail warehousing area, and we are experiencing no difficulties in hitting our reversions as we speak. I would also say to you though, that we believe that we are at the responsible end of practice in establishing reversions, and try to estimate ERVs only when we have very good and very comparable evidence and there is a range of market practice and some people take more tenuous ERVs. But for the time being we see no reason to worry about our reversions in retail. The place to worry about reversions in retail are those retail locations and types of property where tenant demand is low, classically in town and secondary, including bulky goods warehouse, retail warehousing, because where you have thin demand, you can have sharper movements in what people are prepared to pay, which don't get the reversions. In the open A1 segments we still have lots of people who want space, as the letting that we detailed in the press release underlines.

Okay. Thank you.

John Fraser Andrews - HSBC

It's John Fraser Andrews from HSBC. Good morning.

Good morning, John. You're sounding more gloomy in tone of voice already. I hope we're cheering you up.

Well, it was kind of you to quote the title of the note, Stephen. The question is around the valuation of the developments that fell, I think you said seven point something.

Point four, yeah.

Point four in the quarter. And that seems surprising in the context of some of the evidence, certainly from the shard of glass, that valuation. CLS took a 50% hit on that, and I just wondered if you could flesh out how your valuers approach the development's valuation and why they fell less than the rest of your office portfolio, City offices.

Well, obviously the valuation percentages are a total, you know, a total across the buildings, and at March when we give the full data pack again, we'll give you the normal sort of building by building breakdown. But broadly speaking, the valuers do it exactly the same way they should do it anywhere and that is to say that they look at a model of each development and they look at what they think the rents are going to be, they look at the construction costs, they look at finished yields, and tick off a profit margin and work back to a residual. And broadly speaking, rents haven't moved over the quarter in terms of what's being projected. And therefore the damage done into the valuation has come pretty much exclusively from moving yields out which we have done, reflective of moving yields out on the office portfolio, bearing in mind though that newer buildings will tend to move out a bit less yield than older buildings and therefore some of our development yields would have moved out a bit less than we moved Brookgate out for example.

Right. Okay, and you mentioned earlier that incentives...

Sorry, I'll just give you one number as an exemplar of that. 201 Bishopsgate, we moved, which isn't quite finished, but is nearly, but is brand new and is actually let to tenants on long lease, we've moved that prospectively out to five and a quarter, whereas Broadgate has moved out to five and a half or 5.6 if you look at equivs. So, you have a spectrum of different buildings and different lease lengths which have different outcomes.

Okay. In the past, you've given some outlook on the extent to which your development programme construction costs are locked in. Could you just update on that please?

I don't think there's much new to say because we haven't started anything new since we were last with you. To be honest, because we don't do those figures at the quarter, I don't have them in front of me but, you know, if you assumed, you know, a modest continued of locking in, relative to where we were last time, you'd be about right.

From memory it was around 30%.

I don't remember that.

And the final question...

But if I get, I mean, obviously Broadgate, if we go through the different ones, we're entirely locked in on the Broadgate Tower and 201, which is this year. Next year, Ropemaker will be, I'm inventing it, 70-odd percent. And Leadenhall, which is not until 2011, we're probably in contractual terms, less than 50%, and in negotiating terms, we've got a visibility of a bigger percent.

Okay, thank you. And the final question is regarding the retail warehousing and superstores where surprisingly, the portfolio valuation reductions topped the tree in the quarter. And you referred earlier to your sense that that would recover. Could you just flesh out that ERV growth? It does seem as though it was just over half a percent for the quarter, and was that the case also in superstores? And just could you explain any discussions that were had with the valuers on those two elements of the portfolio?

You know, with respect, I think that this is the downside of putting out quarterly valuations and giving you transparency more than most, because you then over-analyse and try and extrapolate things that are not worth doing. There is nothing happening in open A1 retail warehousing or superstores that leads us to be more concerned about its future prospects for rental growth. Obviously we expect rental growth to be less than it was in the last ten years because you won't have the consumer boom, but we are broadly in the same camp as PMA for those asset classes. And what deal didn't happen in the quarter is a matter of coincidence and doesn't change our view. But you're right, in the quarter, the percentages were roughly of the order that you said. Ditto, the percent that they marked down. We marked them down that percent because we felt that they needed to get with a five handle, not a four handle, and they had low handles, and so the percent was bigger. I think that other things will get marked down more, but it'll just take them more than one quarter. So, you know, to be honest, a percent here or there in one quarter in a market that's given this much, you know, I would just really wouldn't read anything into it.

Sure.

You know, we like the sectors, we think they're good, we think they're defensive, and we think they'll produce superior rental growth. And we still think that.

Sure. And the superstores, did they match that retail warehouse ERV growth?

In the particular quarter, it was a bit below that, it was half a percent. But that's, as you know, superstores are the lumpiest ERV's, because, you have so few data points in terms of rent reviews, and that's always been the challenge, given that so many are owned by the occupiers. But if you just look at Christmas trading, the retail winners once again were the superstore operators, the like for likes picking up the most profit margins, the best protected, and I have no concerns at all about it.

Thank you.

Bhavin Patel – LaSalle Investments

Hi, I'm calling here from LaSalle Investments. Stephen, I just wanted to ask you a quick question. On slide five you pointed out the fact that the unlet space delivered by British Land over any two years is roughly 3.3% of British Land's portfolio, and on number four of the press release, we have 52% of London offices pre-let in 2007 and eight. What's the percentage figure for breakeven in terms of developments? I assume it's quite lower than that.

Sorry, I'm not sure what you mean by breakeven.

For a development to be breaking even in terms of, in your initial yields when you bring it down to a stabilised yield. How much percentage do you need to pre-let at ERVs before it breaks even?

I'll give you the answer, but it's not helpful. On average, when we start a development we like to make 15% on cost after paying for finance. And so you could say that therefore we've got a 15% cushion on costs that could be absorbed by costs or rent, or percent let, or yield. However, by the time we get where we are with each of our developments, that percentage is totally changed because from the moment that we first thought about the development to now, some things will have gone well, some things will have gone badly, and we'll have a widely differing range floating around. But that would, if I gave you a standard figure, that would be what the figure was.

Okay. Thanks.

Charles Watford - Pimco

Hi, it's Charles Watford from Pimco. I wonder if you could just talk me through what your committed CAPEX is for the next two to three years?

Well, you'll find the more detailed slides in the September presentation which sets them out individually by individual company.

And it hasn't changed.

And it won't have changed, it won't have changed at all.

It hasn't changed, okay.

You can go back through that detail.

Great, thanks.

Behrak Shahriari - Basso

Behrak Shahriari, Basso. Hi, Stephen. You mentioned that some properties are currently being sold, or are in the process of being sold below the summer valuation. I was wondering if you could provide more colour as to the type and the location of these properties.

Stephen Hester

I'm not sure that I can give you a logical trend right now, you know, the market's trying to find its level and I think it would be giving the market more credit than it deserves to say that there's yet a logical thread that can be put through it. So, at the moment I find it a matter of coincidence.

Closing comments

Terrific. Well look, thank you very much for listening. I hope that was helpful, and look forward to the next time. Have a good day.