



Investor day

4 July 2013

INTRODUCTION – MICHAEL MARX

Agenda

Presentations and tour

Timings

Breakfast

8.15 – 8.40am

Introduction – Michael Marx

8.40 – 8.45am

10 Hammersmith Grove tour – Julian Barwick

8.45 – 9.15am

Travel to Greenwich – presentation by Matthew Weiner on
Development and Trading portfolio

9.15 – 11.15am

Morden Wharf tour – Matthew Weiner

11.15 – 11.45am

The MVMNT tour – Matthew Weiner

11.45am – 12.15pm

Session close

12.30pm

Our focus - delivering gains by regenerating real estate

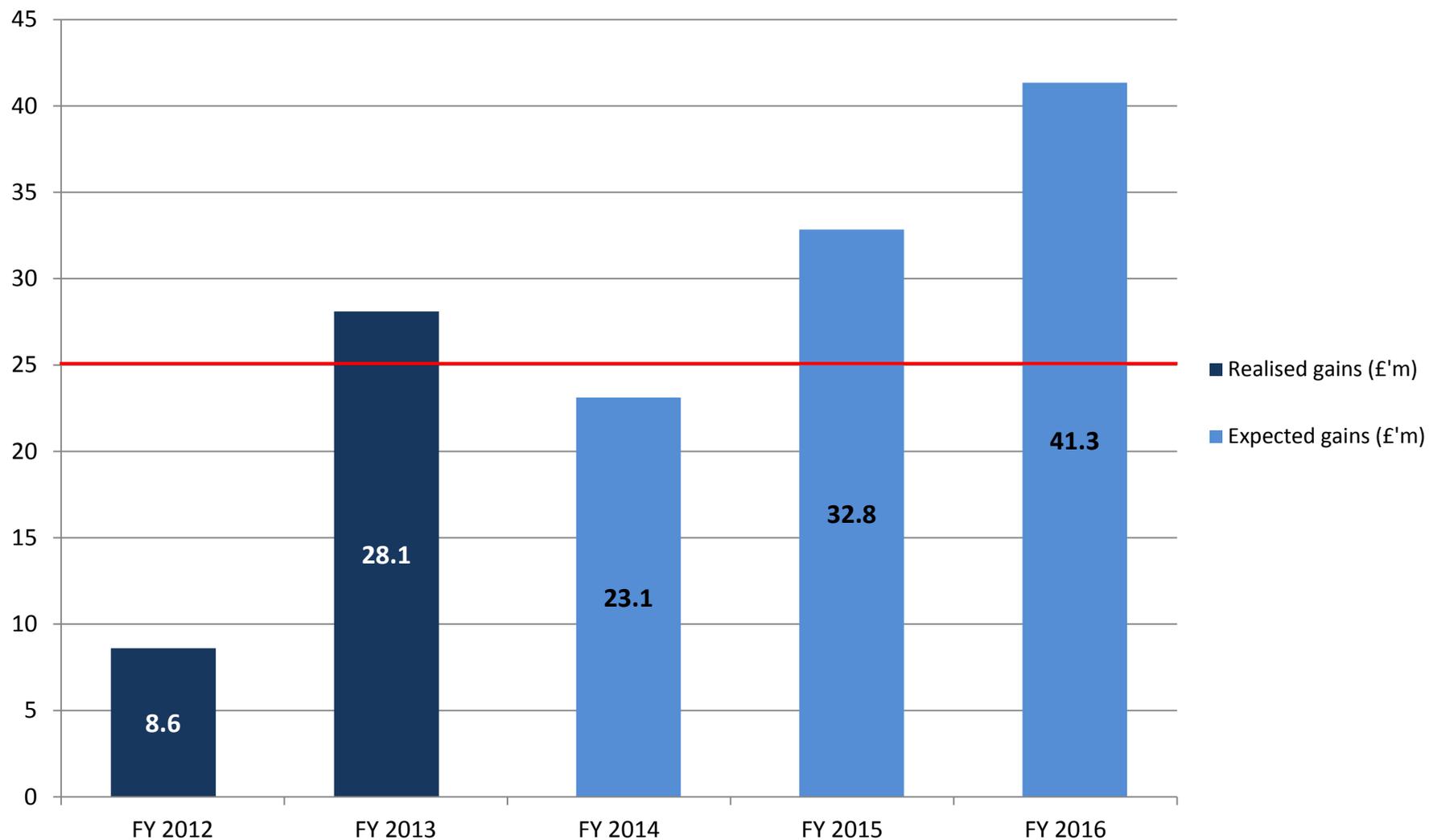
- **Applying equity** – in a capital constrained environment, our equity resource commands a powerful position in the market and terms of trade move towards us
- **Arbitrage opportunities** - transformation of secondary real estate into prime/near-prime product to capture value uplift and deliver strong returns. This can be achieved by:
 - Repositioning redundant/functionally obsolete real estate into sectors of demand through redevelopment
 - Acquisition of real estate loans or portfolios from financial institutions which can be sold individually with or without adding value through the development process
- **Risk diversification** – acquisition of assets across multiple sectors and locations achieving risk diversification as opposed to concentration of value in a few individual assets – target IRRs of 20 per cent and above
- **Reinvestment of gains** - equity released from disposals of assets is recycled into further arbitrage opportunities with consideration given to returns to Shareholders subject to market conditions and Board approval



- **£36.7 million of profit crystallised since 2009**
- **c.£100 million of development & trading gains anticipated to flow over the next 3 years**
- **28 planning consents secured since 2011 to add value through change of use**

Trading gains delivered and more to follow

Recent expectations of gains to be released across portfolio



Key messages

- **Good visibility on development and trading gains of c.£100 million over next three years on existing deals only**
- **Progressing well with strategy – creating value through the regeneration of redundant real estate**
- **Risk diversified across a number of real estate opportunities**

10 AND 12 HAMMERSMITH GROVE – JULIAN BARWICK

Major developments portfolio

Objectives

To deliver prime developments that achieve maximum returns with reduced risk exposure

Strategy

- Target locations where supply of prime product is limited and occupier demand is strong
- Apply our expertise in development and planning to take sites from land assembly and acquisition to scheme completion and full occupancy
- Mitigate development risk by achieving institutional forward-funding/pre-lets – do not develop on our own balance sheet
- Profit participation once project is complete as well as earning project management fees through the development process

Hammersmith – a thriving office location

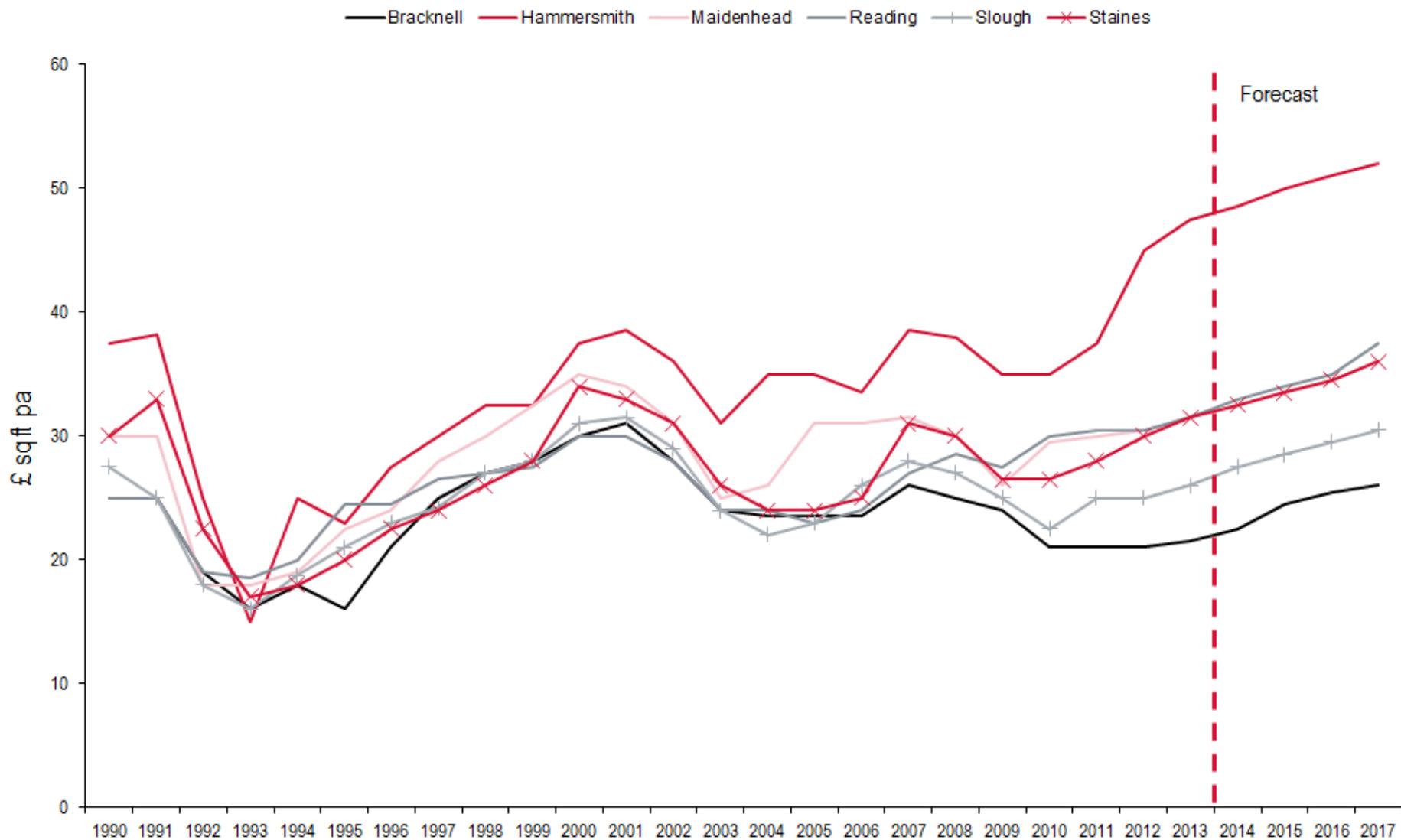
- Established office location with high quality local labour pool and broad occupier base
- A transport hub (4 underground lines, 1 overground line) with good motorway access and proximity to Heathrow – an attractive location for multinational companies e.g. Disney, L’Oreal, Coca Cola, GE Capital
- Surrounded by good quality housing, schools and open space
- Supply of new Grade A office space very limited - grade A vacancy rates of 0.5% - very low compared to West London and Western corridor (*Jones Lang La Salle, Hammersmith Market Report June 2012*)
- Take-up in 2011 was almost double the 10-year average (*Jones Lang La Salle, Hammersmith Market Report June 2012*)
- Upward pressure on central London and West End rents creating competitive advantage for Hammersmith and supporting/strengthening demand

Strong rental growth forecast

	Q1 2012	Q4 2013	Q4 2014	Q4 2015	Q4 2016
Prime Rent (£ per sq ft)	£42.50	£45.00	£47.00	£48.50	£50.00
Annual Rental Growth (%)	13.3	5.9	4.4	3.2	3.1

Source: Jones Lang La Salle, Hammersmith Market Report June 2012

Hammersmith offices – strong forecast rental growth



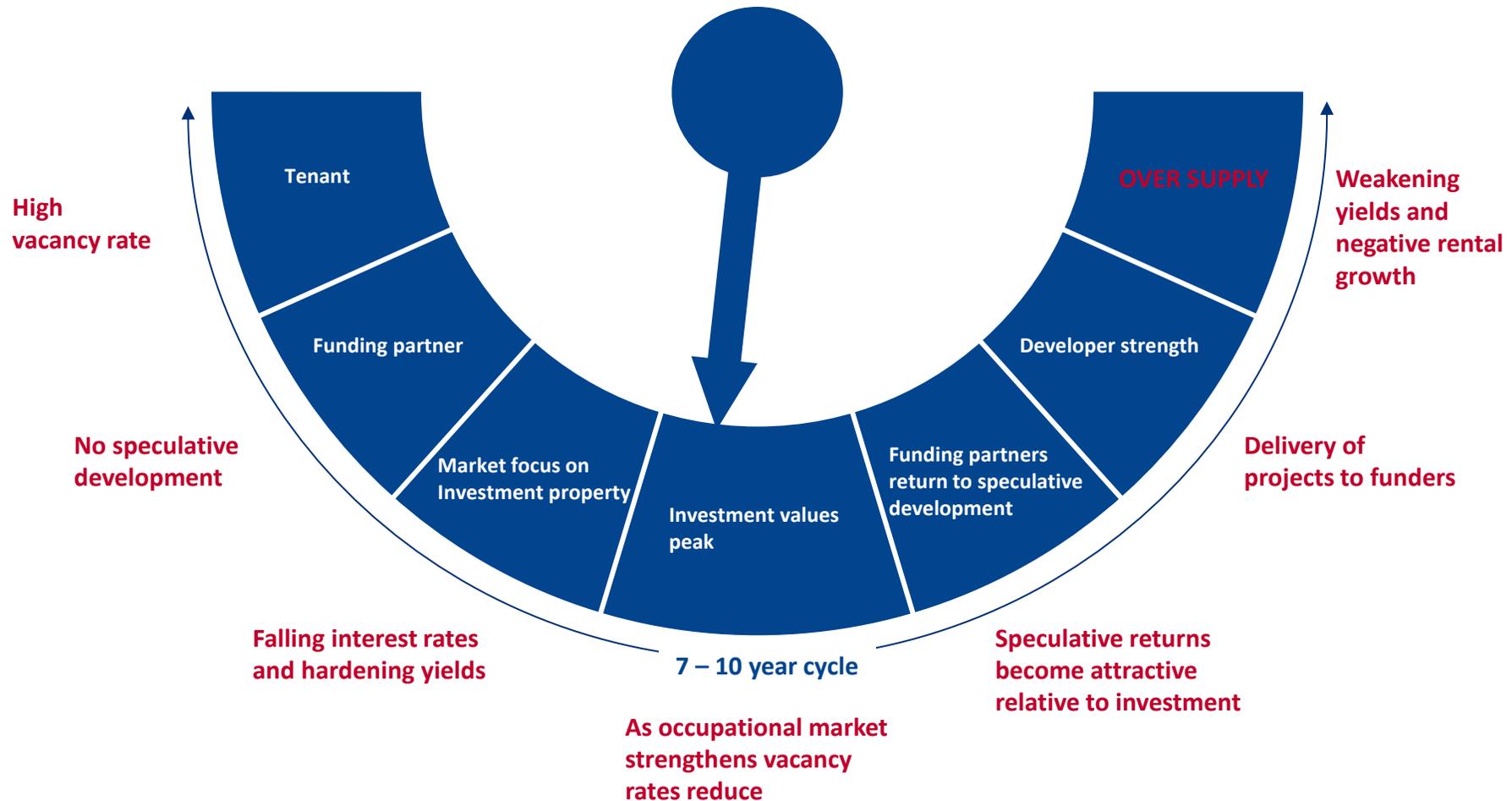
10 and 12 Hammersmith Grove

- Two-phase, prime office development in Hammersmith town centre
- First new speculative office development in Hammersmith for over ten years – the best quality product in an otherwise undersupplied market
- 10 Hammersmith Grove forward funded by Scottish Widows Investment Partnership Property Trust for £50 million – forward funding model is equity light (DS equity is £5 million) and minimises financial risk
- **First phase – 10 Hammersmith Grove**
 - 18 month build, on time and in budget – construction risk mitigated by development expertise
 - 110,000 sq. ft. prime office building with three restaurant units and 6,000 sq. ft. of public realm
 - practical completion reached in June 2013
 - three office floors under offer (31 per cent of space) – rental levels 17.5 per cent ahead of underwrite
 - two of three restaurants under offer – rental levels 23 per cent ahead of underwrite
 - profit payment released on the earlier of 90% let, a sale of the building by SWIPPT or 24 months post Practical Completion
- **Second phase – 12 Hammersmith Grove**
 - consented 165,000 sq. ft. of Grade A office space
 - funding discussions to advance upon majority letting of 10 Hammersmith Grove

**HAMMERSMITH GROVE – COMPLETED
DEVELOPMENT (CGI)**



Power moves as the pendulum swings



Major developments - summary

- **Classic Development Securities product – high quality commercial development that reinforces brand quality**
- **Product typical of late stages of economic cycle but delivered ‘early’ in a location where demand is strong and supply of equivalent quality office space very limited – institutional finance secured on speculative basis**
- **‘Opportunistic’ development in this market de-risked by low risk/reward ratio – forward funding model requires limited equity, minimises risk and maximises returns**
- **Anticipate more major development activity as economy strengthens, the cycle advances and market returns to ‘normal’ levels of activity**

DEVELOPMENT AND TRADING PORTFOLIO – MATTHEW WEINER

Development and trading portfolio - overview

Development and trading portfolio is held at the lower of cost or net realisable value

- Aim to create value through the regeneration of redundant or undervalued real estate, creating product that can be sold into the prime or near-prime market
- Target project life cycles of three to four years and IRRs in excess of 20 per cent
- Diversify financial risk – limited equity deployed in each project - £10 million maximum, £5 million average

Where we operate – development and trading

- A diverse portfolio of development and trading assets across the UK
- Focus on areas of relative economic strength with the majority of investment in London and the South East
- Target opportunities where ultimate demand for regenerated asset is strong – focus on the following sectors:
 - Foodstore-anchored retail schemes
 - Selected residential opportunities
 - Mixed-use development
 - Student accommodation



	Per cent of portfolio by equity invested
London	43.0%
South East	14.3%
South West	12.2%
North West	10.8%
Other UK	19.7%

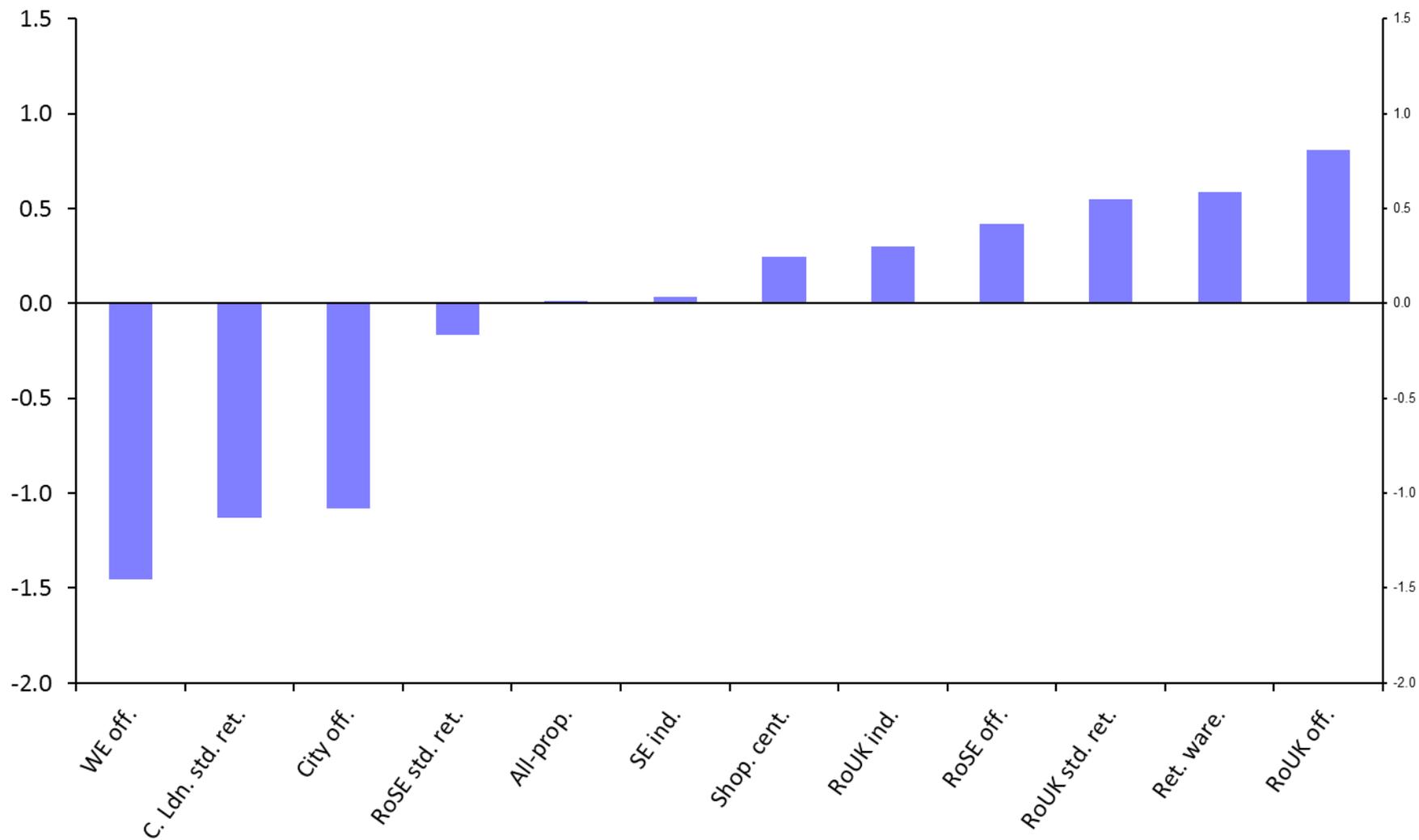
London strategy

- Focus on opportunities where value is created through regeneration – typically suburban/growth areas of London
- Central London exposure limited (e.g. Westminster Palace Gardens, Kensington Church Street)
- Focus on locations that will benefit from Crossrail – infrastructure project predicted to add £5.5bn to value of commercial and residential properties over the next ten years (*Source: GVA Research*)
- Limit risk through diversified portfolio of assets
- Identify robust exit strategies – focus on foodstore opportunities and mixed-use developments

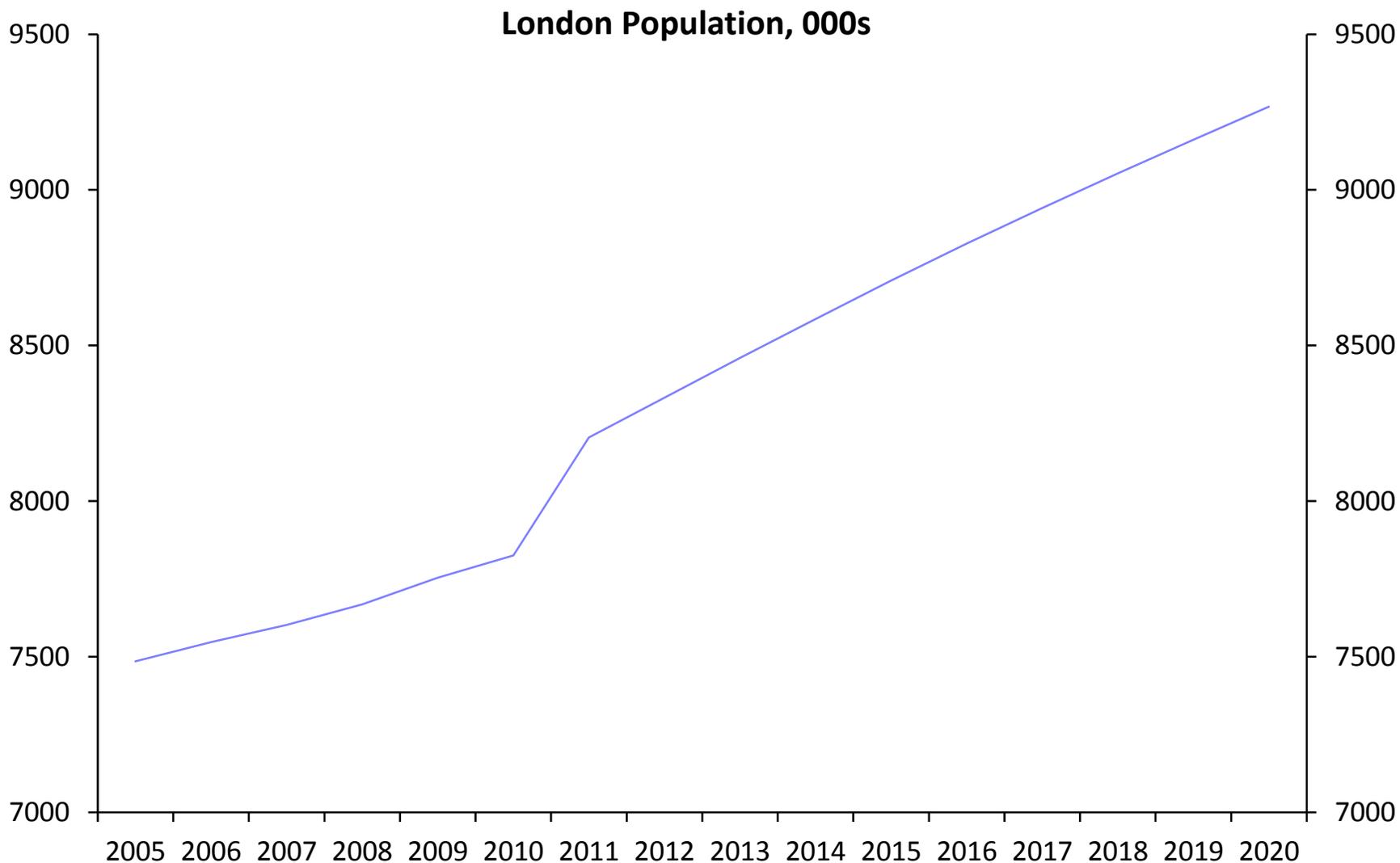


Map of London showing key schemes and Crossrail route

Current divergence in Initial Yields From 20-Year Avg. (%-pts)

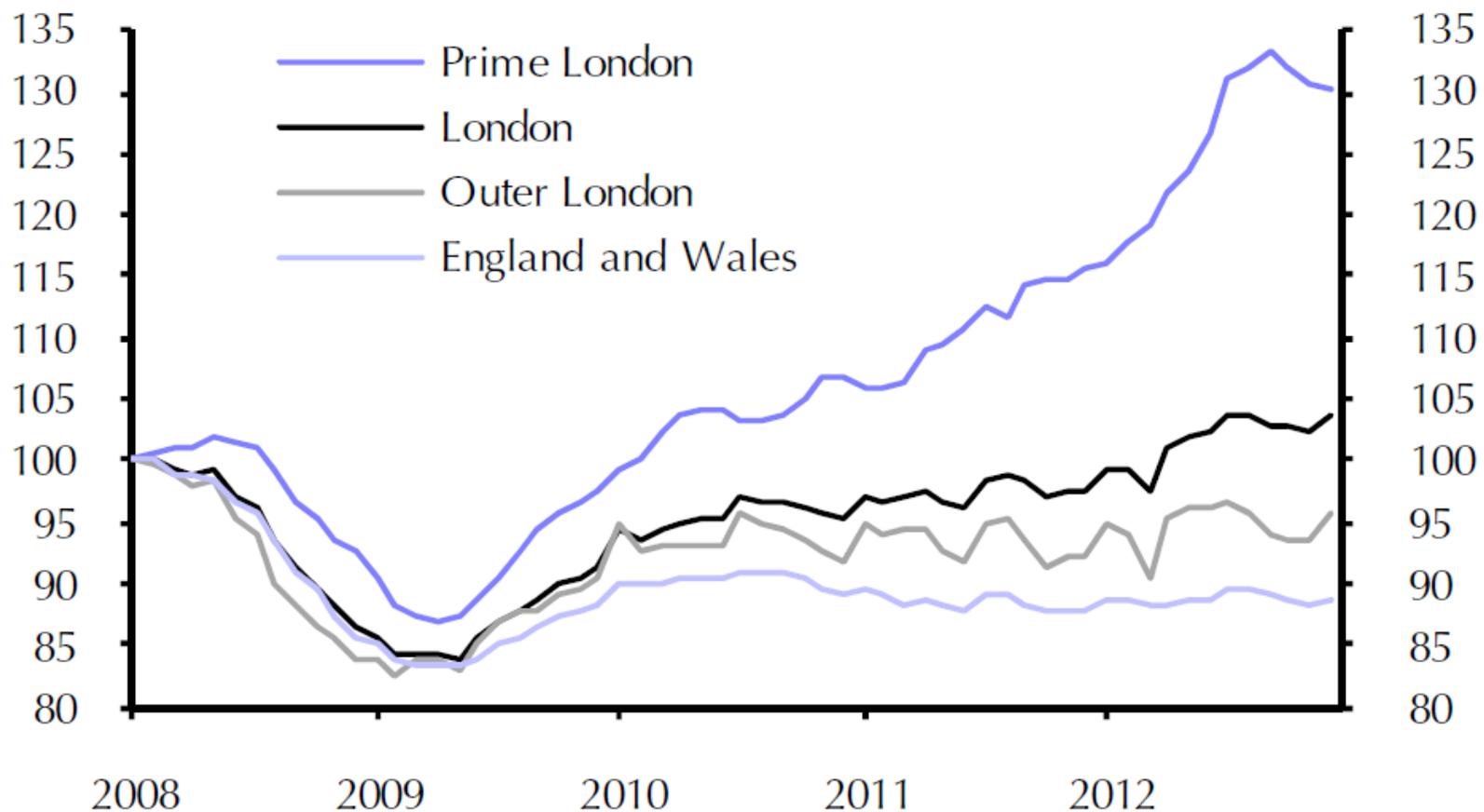


GDP growth underpinned by consistent population growth



Source: Capital Economics

London residential values remain resilient



Source: Land Registry

London residential programme

- Over 2,500 residential units within London schemes valued at c.£1 billion
- Planning consent for change of use adds significant value to residential land/phase within mixed-use schemes
- Focus on £300 - £500 psf sales value for domestic market

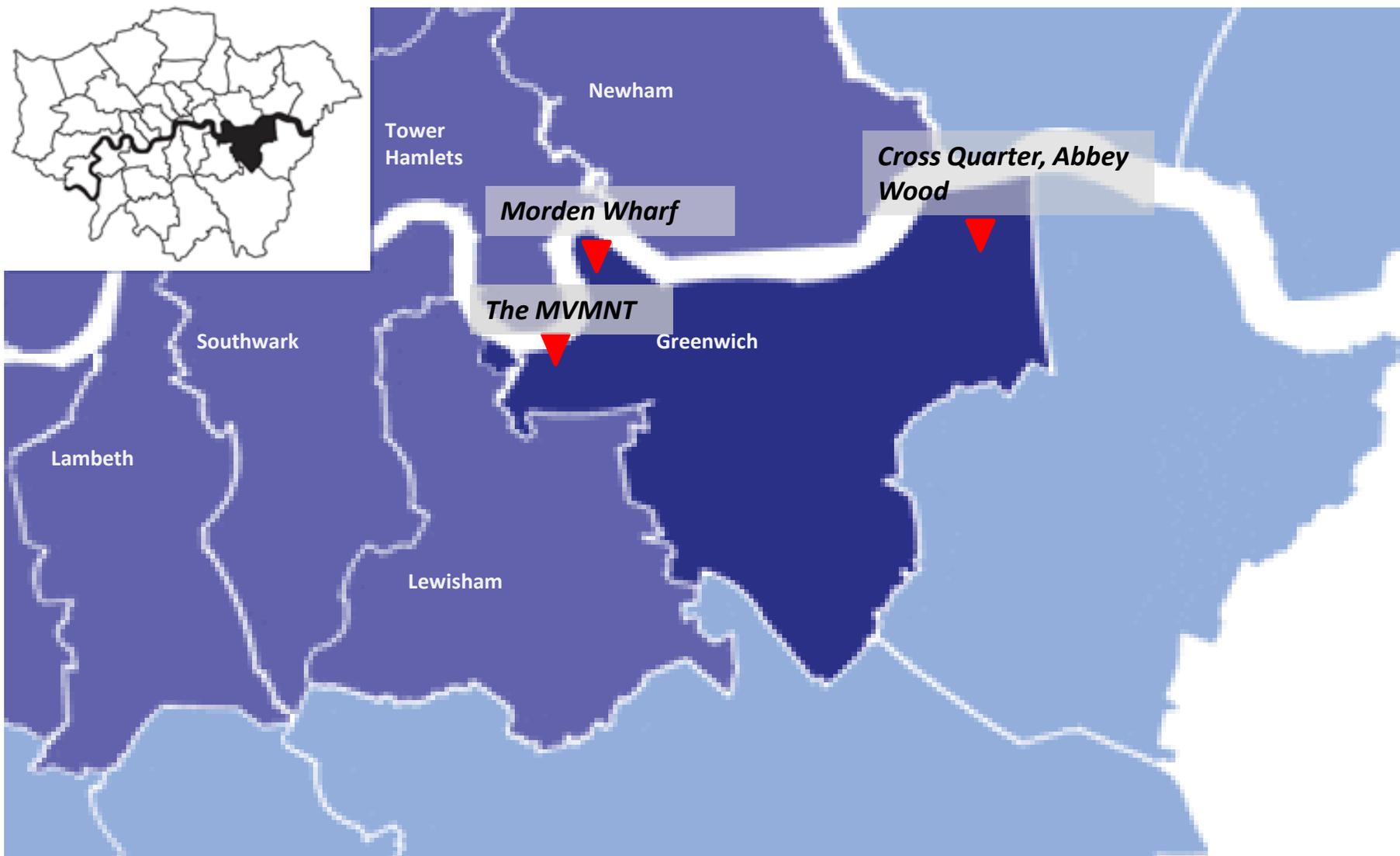
	Scheme Name	Number of Units	Estimated end value	
Constructed / Completed	Wick Lane Wharf, London (JV)	112	c.£1 billion	
	Westminster Palace Gardens*	23		
	Neo Bankside*	5		
Under Construction	The MVMNT, Greenwich* (JV)	181		
Planning Permission Granted	Cross Quarter, Abbey Wood	216		
	Rembrandt House ,Watford	107		
	Shepherds Bush Market (JV)	212		
	The Old Vinyl Factory ,Hayes (JV)	685		
	399 Edgware Road	183		
Design Phase	Valentines House, Ilford	110		
	Morden Wharf, Greenwich (JV)	700		
	TOTAL	2534		

*Sales already achieved

Greenwich – an emerging location

- Three real estate opportunities in the Royal Borough of Greenwich:
 - Morden Wharf
 - The MVMNT
 - Cross Quarter, Abbey Wood
- An emerging location with growth potential – pipeline of substantial residential development established
- Strong Council leadership with unified development strategy
- Good transport connectivity – DLR, Crossrail, Jubilee line, mainline, London City Airport
- Greenwich peninsula – wider masterplan will create significant regeneration and growth

Greenwich - three regeneration schemes



MORDEN WHARF – VIEW NORTH



Morden Wharf - overview

- 19-acre site on Greenwich Peninsula with 500m of river frontage, adjacent to the O2 Arena
- Majority-leasehold (medium-term), part-freehold acquired in joint venture with Cathedral Group
- Site is cleared and remediated bar an office building and two warehouses totalling c. 128,000 sq. ft.
- Generating short-term income to cover head rent
- Masterplan under development for a residential-led, comprehensive mixed-use regeneration scheme
- Anticipated scheme end value in excess of £400 million

THE MVMNT, GREENWICH – VIEW NORTH EAST

To Canary Wharf



Greenwich peninsula



To the City



Greenwich town centre



Greenwich Park



Greenwich DLR station



THE MVMNT



The MVMNT, Greenwich - overview

- 2.2 acre site acquired in September 2010 in JV with Cathedral Group
- Planning consent secured in April 2011 for £110 million, 350,000 sq. ft. mixed-use regeneration scheme comprising:
 - 181 residential units
 - 358-bed student accommodation scheme
 - 106-bed hotel
 - 7,000 sq. ft. of business incubator units
- Sale of first phases now complete generating gains of £1.3 million:
 - Sale of residential element to Willmott Dixon for £16.2 million (subsequently sold by housebuilder at £500 psf validating quality of location/product)
 - Sale of land to McLaren for development of 358-bed student accommodation scheme for £9.0 million
 - Sale of incubator units to Greenwich Enterprise Board
- Further value to be released from:
 - Funding of 106-bed hotel (pre-let to Travelodge)
 - Sale of retail units and health club on ground floor of residential scheme
- Practical completion of remaining plots anticipated in Q3 2014

THE MVMNT - MASTERPLAN

Residential land sold to Willmott Dixon

Sale to McLaren

Hotel pre-let to Travelodge

Incubator units sold to Greenwich Enterprise Board



Cross Quarter, Abbey Wood - overview

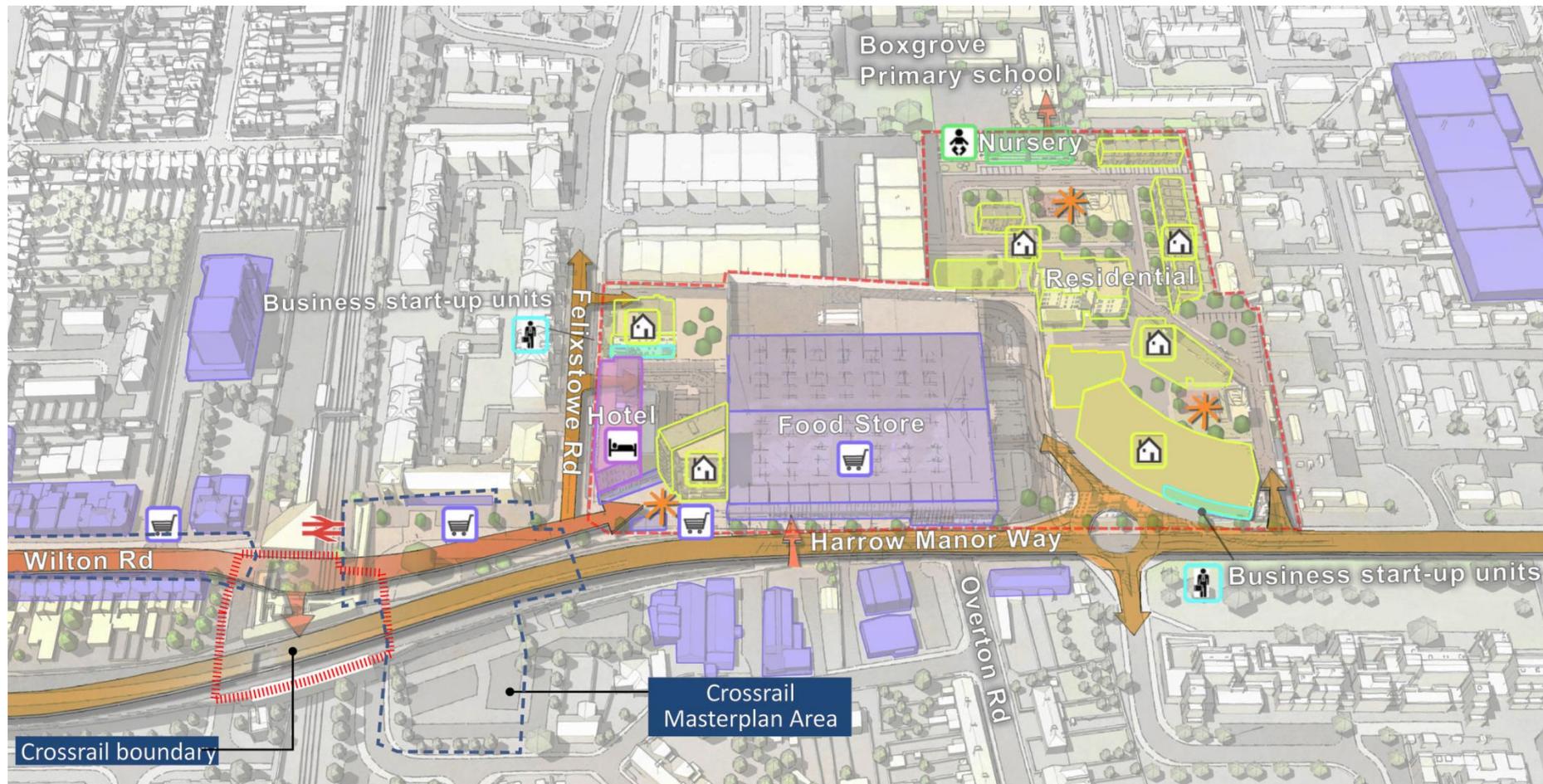
- 10-acre, vacant development site acquired in May 2011 in joint venture with Berkshire Investment Capital and Gallions housing
- Pre-let secured with J Sainsbury for an 81,000 sq. ft. foodstore in July 2012
- Resolution to Grant planning secured in April 2013 for an £85 million foodstore-anchored mixed-use regeneration scheme comprising:
 - 220 private and affordable houses
 - 80-bed hotel
 - 5,000 sq. ft. of commercial space
 - 81,000 sq. ft. foodstore
- Progressing towards disposals - hotel, residential, foodstore and commercial elements of scheme now being marketed for funding

Significant Crossrail impact

- Cross Quarter adjacent to future Crossrail terminus – Crossrail will cut journey time to Central London from 45 - 60 minutes to 23 minutes
 - Journey time improvement could contribute to up to 85% uplift in residential values (*Savills research Feb 2013*)
 - Biggest ‘sphere of influence’ as a result of new connection (*GVA Crossrail impact study*)
 - New connection north of the river
 - Establish a new commuter location and supports greater retail activity



Cross Quarter – a mixed use regeneration scheme



CROSS QUARTER, ABBEY WOOD – RETAIL ENVIRONMENT



**CROSS QUARTER, ABBEY WOOD –
RESIDENTIAL**



399 Edgware Road - overview

- Seven-acre development site on Edgware Road, NW London
- Planning consent secured (May 2013) for £150 million foodstore-anchored regeneration scheme comprising:
 - 80,000 sq. ft. foodstore
 - 183 private residential units
 - 50,000 sq. ft. of retail and restaurant space
- Pre-let contracted with Morrisons for 80,000 sq. ft. foodstore
- Scheme now being marketed for funding
- Start on site anticipated in September 2013. Phased delivery – completion of first phase (supermarket and retail units) anticipated in Q1 2015
- Significant non-income producing legacy asset (book value of £26.4 million) which will release substantial amount of cash, 18 months from initial funding

**399 EDGWARE ROAD – 80,000 SQ FT
MORRISONS**



The Old Vinyl Factory, Hayes - overview

- 18-acre site acquired for £16 million in partnership with Cathedral Group in April 2011
- Outline planning consent secured (December 2012) for significant £250 million regeneration scheme including:
 - up to 642 residential units
 - 550,000 sq. ft. of commercial space
 - nine-screen multiplex cinema
- Sale of Gatefold land under offer
 - consented residential element comprising 132 apartments
 - first phase of residential to kick start the wider regeneration
- Scheme will benefit from Crossrail – Hayes and Harlington station less than five minutes walk from The Old Vinyl Factory

**THE OLD VINYL FACTORY – FIRST PHASE
RESIDENTIAL**



THE OLD VINYL FACTORY – SITE PLAN



Leisure Centre

Town Centre

Hayes and Harlington station

The Veneer Building

The Boiler House

The Gatefold

The Machine Store

The Material Store

The Assembly Buildings

Development and trading portfolio – summary

- In absence of meaningful UK GDP growth, our focus remains to actively create value through the planning and development process where we can identify demand strength
- Opportunities remain in the market for this ‘value-add’ strategy where terms of trade are in our favour outside Central London:
 - We continue to target real estate opportunities in sectors and locations where underlying economic strength/demand is credible
 - Greater London pipeline for this is strong
- Development expertise enhances success in securing planning gains – underwrites a key element of development risk and margins
- Specific project development risk is mitigated by strategy of diversification of equity
- Track record of delivering gains through regeneration of redundant real estate is strengthening with good visibility on future profit

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