10 January 2012

Development Securities PLC Interim Management Statement

Development Securities PLC today releases its Interim Management Statement for the period from 30 June 2011 to date following the change to its new accounting reference date of 29 February.

We have continued to make progress since we last reported in August 2011 with activity levels amongst their highest to date. We are now in the early stages of recycling the assets acquired since August 2009, the date of our first £100 million equity raise, generating revenue from our investments. We continue to invest selectively the equity from our rights issue in August 2010, in properties with the potential for refurbishment or redevelopment into prime or near prime assets. To date, we have invested close to £160 million of the net £188 million of equity raised in over 40 deals representing total asset value of over £340 million. Good progress has been made on the execution of the business plans relating to these individual assets.

KEY POINTS:

- *Equity selectively deployed into the right buying opportunities*
    - Valentines House, Ilford – acquired an office property for £5.3 million yielding c.6.0% which has interesting options for a food store anchored, mixed-use scheme
    - Lichfield, Staffordshire – invested £2.4 million in a 50:50 partnership to develop a 395,000 sq. ft. mixed use complex with the new shopping centre, Friarsgate, at its core
    - Chorlton Cross, Manchester - acquired the 2.5 acre Chorlton Cross Shopping Centre in the affluent Manchester suburb of Chorlton-cum-Hardy, for £9.0 million yielding an initial 8.4% and offering a medium-term opportunity for extensive refurbishment or redevelopment
    - Ladybarn House, Manchester – acquired a 120-bed hall of residence adjacent to the main residential campus for the University of Manchester for £6.4 million, which is currently yielding 6.3%

- *Recycling of the trading and development portfolio gaining momentum, achieving budgeted levels of return*
    - Westminster Palace Gardens, Central London – completed the sale of the residential units for £20.6 million of which we have to date received cash of £1.8 million, with the balance to follow on delivery of the units. Practical completion scheduled for May 2012. Contracts exchanged in December for the sale of the office component at £2.3 million with completion scheduled for January 2012. Profits from these two elements anticipated at £3.5 million. The retail component of the scheme is now being marketed for sale
    - Rock portfolio – 6 assets sold during 2011, generating revenue of £14.4 million and profits of £3.6 million
    - Lawley, Telford – forward funding of the 40,400 sq. ft. food store completed in December for £12.0 million to Abbey National Pension Fund

- The Old Vinyl Factory, Hayes, Middlesex – granted a long lease to bring forward the refurbishment of a 300,000 sq. ft. building to B1 use generating a premium of £3.8 million in the partnership, with further amounts to follow as the works are completed
- Greenwich, South East London – exchanged contracts with a major construction group for the development of the residential plot and with Travelodge to pre lease the 103 bedroom hotel within this 2.2 acre mixed-use regeneration scheme, generating revenue of £25.0 million

- *Asset specific business plans progressing well*

- *Balance sheet remains strong, with modest gearing and long average debt maturity*
    - Borrowings originated in the year totalling £78.0 million direct and £40.0 million in joint ventures, demonstrating our continued access to debt through strong banking relationships
    - Net debt at £192.3 million as at 31 December 2011 representing gearing of 58.4% measured against our 30 June 2011 NAV of £329.6 million
    - Weighted average maturity of debt stands at 8.5 years with an average cost of 5.6%

Michael Marx, Chief Executive, commented:

"There remains a significant arbitrage opportunity in the pricing of prime and non prime property and accordingly we continue to pursue a clear strategy as before: identifying secondary real estate that, through improvement or redevelopment, has the potential to be sold into the prime or near prime market. Our mix of available equity and broad expertise enable us to exploit this opportunity.

The average period of time for us to complete these individual projects and to exit is 3 to 3.5 years. Accordingly, 2012 will be the first calendar year in which we will begin to see some meaningful exits and disposals of those assets recently acquired. As previously indicated, we continue to target an IRR across our portfolio in excess of 20.0%.

Analysis of the assets we have secured to date would indicate that approximately 60% of the value creation will come from changes brought about by new or enhanced planning consents. We find that local planning authorities are pleased to work with us, especially in such challenging macro-economic times, to regenerate obsolete assets, delivering them into sectors where demand exists and benefiting the surrounding communities.

Geographically, the transactions completed since our equity raise in August 2009 have been largely clustered in the outer districts of London - especially in locations that will be improved by access to Crossrail - and elsewhere in the South of England and in Manchester. We intend to continue to focus on the more affluent districts of the UK economy. From a sector point of view, we have found that demand exists for these regenerated assets for food stores, retail schemes around strong anchors such as food stores, selected residential and student accommodation in certain locations and hotels. Notably, we have not found many attractive projects in areas that will deliver new offices or industrial facilities. This does not surprise us.

Apart from two schemes in Westminster and Kensington, we have found the Central London markets to be relatively unattractive due to the high levels of pricing which these markets have achieved. Perhaps not surprisingly, given London's global status, both the prime residential market in the West End and the office market in the City appear to us to have reached demanding levels of valuation due, not insignificantly, to the quantum of overseas funds that have been deployed therein.

The profile of investments completed since August 2009 achieves a risk diversification across multiple transactions rather than any concentration of value in one or two individual assets. Where assets have been large, we have sought to bring in partners to provide risk equity, reducing our own exposure and improving our potential returns at the same time."

MAJOR DEVELOPMENT PORTFOLIO

It is pleasing to note a significant increase in development activity in the final quarter of 2011 as we move further into the implementation of our asset-specific business plans. At Hammersmith Grove, we commenced enabling works in December for the first phase of our 275,000 sq. ft. prime office development. The initial building of 110,000 sq. ft. net was speculatively forward-funded in December by our joint development partner, Scottish Widows Investment Partnership Property Trust, with practical completion targeted for early 2013. The creation of high quality office space will be further enhanced by the provision of 6,000 sq. ft. of new restaurants and cafes as well as significant public open space.

At Two Kingdom Street, PaddingtonCentral, we completed the letting in December of two and a half floors (58,400 sq. ft.) to Nokia UK Limited, leaving 76,000 sq. ft. of office space and 28,000 sq. ft. of studio space to be let. This further enhances the excellent tenant quality at this prime investment, developed in partnership with Aviva Investors and Avestus Capital Partners.

OTHER DEVELOPMENT AND TRADING PORTFOLIO

We have made good progress in our trading and development portfolio. At Westminster Palace Gardens, London SW1, having secured consent for change of use from offices to residential, the conversion of 24,000 sq. ft. is proceeding well and scheduled for practical completion in May 2012. We have completed the sale of the residential units for £20.6 million of which we have to date received cash of £1.8 million, with the balance to follow on delivery of the units. In December, we exchanged contracts for the sale of the offices at £2.3 million, with completion scheduled for this month. Profits from these two elements are anticipated at £3.5 million. The retail component of the scheme is now being marketed for sale.

At Hale Barns in Manchester, we improved the original planning permission for the redevelopment of the retail centre, including a 30,000 sq. ft. food store pre-leased to Booths, and completed the S106 agreement. We have strong pre-letting interest from several national retailers for the remaining units and anticipate commencement on site by the middle of this year.

At Sandbanks, Dorset, construction of the five apartments (12,000 sq. ft) is well under way and marketing will commence in Q2 2012, with off-plan interest already strong.

Sales from the Rock portfolio are proceeding well, with 6 assets sold during 2011, generating revenue of £14.4 million and profits of £3.6 million. In addition we have completed the works at the residential site at Harmood Grove, NW3, one of the properties within the portfolio, with units anticipated to be sold during the first half of 2012. At Radlett, Hertfordshire, we have achieved planning permission for the construction of a 7,000 sq. ft. dwelling on a greenfield site.

In Dartmouth, construction of the new 80-bed care home is well under way, with practical completion expected in Q3 2012. The property is pre-let to European Care Homes with an option to purchase on practical completion.

At Luneside in Lancaster, we have secured planning permission for the first phase of this redevelopment, being the refurbishment of the circa 36,000 sq. ft. St Georges Mill into office and ancillary use. The remainder of the site has outline planning consent for 250 residential units and we are beginning discussions for the sale of this element.

In December, HDD, our wholly owned subsidiary, completed the £12.0 million full forward-funding of the 40,400 sq. ft. food store at Lawley, Telford, pre-let to Morrisons. The purchaser was Abbey National Pension Fund. Construction of the entire scheme, including a further 15,400 sq. ft. of retail and 37 apartments, will commence this quarter, with completion scheduled for the end of the year. Five of the other ten retail units are also under offer.

At Llanelli, Glamorgan, construction of the 110,000 sq. ft. town centre office and leisure scheme is proceeding on schedule, with practical completion anticipated by the end of this year. Half of the development has been pre-leased and there is firm interest in the other units.

At Greenwich town centre in London, our 2.2 acre regeneration scheme in partnership with Cathedral Group, we achieved a resolution to grant planning for a new, sustainable and mixed-use community development to comprise residential, student apartments and a hotel alongside extensive community infrastructure. We are now nearing conclusion of the negotiation of the associated S106 agreement. In December we exchanged contracts with a major construction group for the development of the residential plot and with Travelodge to pre lease the 103 bedroom hotel. These transactions will generate £25.0 million of revenue in the partnership, at levels above the business plan targets established on acquisition. The development should commence in May.

At our site in Hayes, Middlesex, known as The Old Vinyl Factory, also in partnership with Cathedral Group we are working on our masterplan for the 17.0 acre site, with the application for the first phase of residential development (140 units) scheduled for planning committee this month. In December we granted a long lease to bring forward the refurbishment of a 300,000 sq. ft. building to B1 use. This generated a premium of £3.8 million in the partnership, with further amounts to follow as the works are completed.

In addition, we are awaiting planning decisions on a number of projects which will create further saleable assets in the short term. At the Wick Site, Littlehampton, we have exchanged contracts with Morrisons for the sale of a 47,500 sq. ft. food store, conditional upon planning permission. The proposal has been well received locally, and we anticipate the decision in Q1 2012.

Also in Q1 2012, we await a decision in respect of our application at Rembrandt House, Watford, for the construction of 114 residential units on former B2/B8 space to the rear of the office building.

Later this quarter, we also expect a decision on our 300,000 sq. ft. residential and retail redevelopment proposals for Shepherds Bush Market, West London, a joint venture with Orion Land & Leisure Ltd.

We have several further schemes targeting planning permission during 2012, including our 7.0 acre mixed use site at Colindale, NW9 and our 27.0 acre residential site at Broughton Park, near Chester, where we are awaiting the decision of the Inspector following our appeal against non-determination by the local authority.

As notified in our Interim Statement in August 2011, we acquired an office property in Ilford, North East London, in July for £5.0 million yielding close to 6.0% in a location designated by the local authority as an opportunity area and which has interesting options for a food anchored, mixed-use project. Also in July, at Lichfield, Staffordshire, we invested £2.4 million into a 50:50 partnership to develop a 395,000 sq. ft. mixed-use complex with new shopping centre, Friarsgate, at its core. Practical completion is anticipated in 2014.

INVESTMENT PORTFOLIO

We continue our strategy of active management of our investment portfolio. During 2011 we have added 18 new lettings, representing 67,300 sq. ft. and rental income of £0.8 million. Vacant space now stands at 5.6% (79,800) sq. ft., with an ERV of £1.0 million.

In November, we achieved a resolution to grant planning consent for the expansion of the 100,000 sq. ft. Atlantic Village retail outlet centre in Bideford, North Devon, by up to 58,000 sq. ft., adding several new retail units and 385 parking spaces.

Construction of the 17,000 sq. ft. extension to the Primark store at The Broadway, Bexleyheath, is complete and the store is now fully open.

In September we purchased Ladybarn House, a 120-bed hall of residence adjacent to the Fallowfield Campus, the main residential campus for the University of Manchester. The acquisition price was £6.4 million, which today is yielding 6.3%. Occupancy is at 95% per cent. The planned rolling refurbishment is due to commence in Q2 2012 and the anticipated yield for the 2012/2013 academic year is anticipated to be 8.2%.

In November we acquired the 2.5 acre Chorlton Cross Shopping Centre in the affluent Manchester suburb of Chorlton-cum-Hardy, for £9.0 million yielding an initial 8.4%, offering another medium-term opportunity for extensive refurbishment or redevelopment.

FINANCE

We continue to enjoy strong support from our banks for both investment and development activity. The £38.0 million refinancing with Lloyds Banking Group, announced in December, took our borrowings for the year to a total of £78.0 million on wholly-owned assets, together with a further £40.0 million on projects in joint venture. This demonstrates that we continue to have access to borrowings for both investment and development through our strong banking relationships, despite generally constrained debt markets.

As at 31 December 2011, net debt (including our share of joint ventures) stood at £192.3 million, (31 December 2010: £92.2 million) representing gearing of 58.4% measured against our 30 June 2011 NAV of £329.6 million (31 December 2010: 27.7 % measured against our 31 December 2010 NAV of £333.1 million). The weighted average maturity of our debt portfolio stands at 8.5 years (31 December 2010: 8.5 years), with only the project specific debt of £4.7 million in respect of Westminster Palace Gardens due for repayment in 2012. Our average cost of debt stands at 5.6% (31 December 2010: 5.6%), because we have chosen to fix a higher proportion of the debt (81.0%), taking advantage of current medium term swap rates (all figures include our share of joint ventures).

Forward-looking statements

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