RNS Number : 2982W
Development Securities PLC
17 November 2010

Interim Management Statement

November 2010

Key points

- Placing and rights issue successfully raised net proceeds of £94.1 million in July
- Active programme of capital deployment continues with £27.8 million of equity committed since 30 June in seven investment, asset management and development opportunities, across a variety of sectors and locations as the banks' net withdrawal of liquidity continues throughout large parts of the property sector
- £2.6 million profits realised through disposal of House of Fraser store in Grimsby, with proceeds intended for reinvestment
- Gearing remains low at 19%
- Investment and development opportunities continue to flow, providing a positive medium-term outlook
- Dividend maintained at 2.4 pence per share

David Jenkins, Chairman said:-

Since the half year, we have successfully completed a number of further investments, pursuing the strategy which we set out in the prospectus for our successful placing and rights issue in August to secure opportunities arising from the dearth of bank finance available to investors and private developers.

We thus continue to attract a stream of well-priced properties that require equity and real estate expertise, where value can be generated by asset management, refurbishment or redevelopment. Given the banks' continuing disproportionate exposure to real estate and the pressure on their capital ratios, we anticipate that the liquidity constraints in significant parts of the real estate sector will continue for several years. As we had envisaged, the terms of trade available to the Company are improving.

The definition of "prime", as a target for major equity investors, appears to be extending into the higher quality levels of secondary property, as the weight of money chases income yielding assets. Development Securities is increasingly seen as a credible and transparent partner for such equity, as well as for investors and developers seeking liquidity.

In addition, we continue to appraise and bid for selected opportunities in our core development market of prime London commercial real estate, but to date have generally been outbid by competitors with a more bullish view on the medium term prospects for tenant demand.

We are not anticipating general rental growth or yield compression in the foreseeable future. Property yields have been broadly flat since April, and the spread over bond yields has now reverted to 350bps. Yields at the all-property level currently incorporate a wide divergence between prime and secondary, with the latter in the range of 7.5-9.0%; hence, we are able to identify value in this area, and do not perceive a particular threat to the capital value of our portfolio. We believe that interest rates will remain at or close to current levels throughout 2011 and possibly beyond.

As at 31 October 2010, our net debt was £42.1 million, rising to £63.1 million if our share of debt in joint ventures is included. This represents gearing of 12.7 per cent, and 19.0 per cent including joint ventures. The weighted average maturity of our loans was 8.6 years, and average cost of debt was 5.6 per cent, both including joint ventures.

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Portfolio activity

At PaddingtonCentral, we are preparing in mid-2011 to commence the 350,000 sq. ft of consented prime office accommodation at Phases IV and V. Potential occupier inspections at Number Two Kingdom Street have been steady, but converting interest into lettings remains challenging for large floorplates in prime new buildings, perhaps reflecting the underlying lack of confidence at this early stage in the economic cycle.

Construction of the 155-key Premier Inn at West Quay, Southampton is proceeding on time and budget, with completion anticipated in May 2011.

At Hammersmith Grove, we have now submitted a planning application for a revised development scheme that comprises two buildings totalling 280,000 sq.ft, on which we hope to receive consent by the end of the year. We have encouraging institutional interest in the funding of the project.

We have submitted a planning application for the residential conversion at the 46,000 sq. ft Westminster Palace Gardens, where we hope to receive consent in the near term, enabling a commencement of works in the first quarter of 2011.

At Hale Barns, Greater Manchester, we are making good progress with potential pre-lets, and are preparing our planning application for submission before the end of the year in respect of a new circa 65,000 sq. ft mixed-use scheme.

At the Manchester Evening News Arena property, which we acquired in the first half of this year, we have now concluded funding arrangements with our new partner, Patron Capital, and are actively progressing our asset management programme for this property. The negotiations in respect of the possible new naming rights for the Arena are well in hand.

At our property in Littlehampton, we were pleased to accept a surrender of leases to Body Shop International Plc and to receive a reverse premium. Accordingly, we are now able to proceed with our plans to secure a planning consent for a retail-led redevelopment of the 6.5 acre site.

In September, we sold the House of Fraser store in Grimsby for £13.15 million, representing a profit of £2.6 million over the acquisition cost of £10.5 million which we paid just over a year previously. Having successfully sold both of our properties at Warrington and Grimsby at or above book values, we have withdrawn our Blackpool property from the market, choosing to retain the income.

HDD

HDD, our food-anchored local retail shopping centre developer which operates within new large-scale housing developments, is making good progress on more than a few projects, which are expected to generate both cash and profits from next year onwards. Of significant note is the property at Stanground, Peterborough where planning consent has been achieved for a circa 55,000 sq. ft retail-led, mixed-use scheme, with the intention to dispose of the foodstore site to Morrisons prior to development.

Portfolio additions

In August, we acquired a 103-key hotel in Glasgow for £3.9 million from the receiver acting on behalf of a bank. Subsequently, we have agreed a franchise and management agreement with Campanile Hotels, a subsidiary of the Starwood Capital Group, and are now undertaking minor refurbishment works before the hotel is reopened later this month.

Also in August, we acquired a site in Dartmouth for £1.2 million with consent for the development of a care home, which we then pre-let to European Care, one of the largest operators in that sector in the UK. We have submitted a revised planning application for a larger 80-bed facility and anticipate commencement of construction in March 2011. We are working on this project with a specialist developer with whom we plan to undertake a series of similar projects.

In September, we agreed a joint venture with Cathedral Group Plc in respect of a 2.2 acre site in Greenwich, London SE10. Cathedral Group is seeking to obtain planning permission for a mixed use residential, student, hotel and retail scheme on the site adjacent to Greenwich DLR Station. The scheme will comprise 180 homes, 370 student flats along with a hotel and retail space. A planning application is likely in early 2011. The joint venture has agreed to purchase the former industrial estate from The London Borough of Greenwich on a subject to planning basis.

In October, we entered a joint venture with the landowner of a 20 acre site opposite our shopping centre at Atlantic Village, Bideford. The land is well located to accommodate future expansion of the shopping centre.

In the same month we completed the acquisition of a non-operating 101-key hotel at Marsh Mills, Plymouth, for £2.9 million. In the short-term, we have introduced a hotel operator to generate income whilst a planning application is prepared and submitted in the medium term for a retail-led redevelopment of the 4.1 acre site.

Also in October, we acquired 14 properties for £23.3 million from the administrator acting on behalf of Lloyds Banking Group. The net initial yield on these properties is 5.86 per cent, notwithstanding that they offer a range of asset management and refurbishment opportunities.

In November, we acquired a shopping arcade in Carmarthen for £4.3 million, reflecting a net initial yield of 10.1 per cent. The yield reflects a number of lease events which offer good asset management potential in the short and medium term.

Forward-looking statements

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking in nature and are subject to risks and uncertainties. Actual future results may differ materially from those expressed in or implied by these statements. Many of these risks and uncertainties relate to factors that are beyond development Securities' ability to control or estimate precisely, such as future market conditions, currency fluctuations, the behaviour of other market participants, the actions of governmental regulators and other risk factors such as the Company's ability to continue to obtain financing to meet its liquidity needs, changes in the political, social and regulatory framework in which the Company operates or in economic or technological trends or conditions, including inflation and consumer confidence, on a global, regional or national basis. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Development Securities does not undertake any obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date of this document. Information contained in this document relating to the Company should not be relied upon as a guide to future performance.