

RNS Number : 6684C

Development Securities PLC

18 November 2009

Development Securities plc ("Development Securities" or "the Company")

Interim Management Statement

Interim Management Statement for the period 1 July 2009 - 30th September 2009

#### Key points

\*The Company today announces the unconditional acquisition of a leasehold interest in the 1.5 acre Hammersmith Grove Site, with premiums payable on a phased basis commencing in 12 months' time

\*Current development programme remains on track, with CityPark achieving practical completion in the period and delivered to the purchaser on time and on budget

\*Approximately £40.0 million of the proceeds raised from the equity issue in July 2009 have been invested predominantly into income generating assets at an average initial yield of 9.0%

\*Net indebtedness currently £38.2 million, equivalent to 16.1 per cent of net worth at 30 June 2009

\*Company is well placed to continue its search for suitably priced opportunities but remains cautious about the strength of the market in 2010 and will continue to appraise possible new investments accordingly

David Jenkins, Chairman said:-

"Capital values in the property investment market have not only ceased their relentless decline over the previous two years, but have started to recover somewhat, although transaction activity remains moderate. There is a significant weight of equity chasing minimal available stock so perhaps it should not surprise us that capital values are rising. Against this backdrop, both investors and banks, the latter laden with distressed loans, are unlikely to release significant quantities of stock to the market especially when the returns available in cash are so negligible.

On the other hand, concerns over the wider economy and downward pressures on consumer demand must temper expectations of a reduction in vacancy rates and a rapid return to sustainable rental growth.

Since our capital raising in July this year, we are pleased to have secured a number of assets at cyclically low values. We continue to appraise and negotiate a number of further potential acquisitions, but are cautious to maintain our principles of stock selection and risk aversion as the market recovers upward momentum."

For further enquiries, please contact:

Graham Prothero, Finance Director, Development Securities plc, 07879 432 963

Mallika Basu/Richard Evans, The Communication Group plc, 020 7630 1411

#### Development Programme

On 17 November, we contracted unconditionally with London Underground Limited to acquire a 175 year leasehold interest in the 1.5 acre site at Hammersmith Grove, London W6. The agreed premium is payable on a phased basis to allow flexibility in timing construction of the development to meet occupier demand. The initial payment of £5.0 million is due in 12 months' time. Further consideration of £8.0 million is payable in tranches at the commencement of development. The site benefits from planning consent for 325,000 sq. ft. of offices together with ancillary retail and leisure space.

In September, the pre-sold 147,000 sq. ft. office building at CityPark, Manchester achieved practical completion both on schedule and on budget and was handed over to the purchaser. The outstanding consideration of £42.3 million was received from the purchaser in October and our related bank loan of £22.3 million was repaid.

At Two Kingdom Street, PaddingtonCentral we were pleased to sign an agreement to lease 50,000 sq. ft. with AstraZeneca. Construction of this 252,000 sq. ft. prime office development, owned by Aviva Investors and Quinlan Private, is scheduled for completion in early 2010. In October we submitted reserved matters planning applications to Westminster City Council in respect of Four and Five Kingdom Street, also owned by Aviva, which will comprise a further 350,000 sq. ft. of office buildings.

At the 54,700 sq. ft. Weeke Local Centre in Winchester, the 33,400 sq. ft. Waitrose store successfully opened on 1st October. The balance of the new development is largely pre-let to a Primary Care Trust, Boots and Costa Coffee, with significant interest in hand for the remaining three retail units.

At Colindale, we are continuing to appraise redevelopment options, whilst also considering approaches which may lead to an outright sale.

#### Investment Portfolio

Following the successful capital raising in July 2009, we have taken advantage of cyclical low values to invest approximately £40.0 million of the proceeds predominantly into income-generating assets at an average initial yield of 9.0 per cent. The acquisitions included the 92,300 sq. ft. House of Fraser store in Grimsby, a parade of eight retail units in the centre of Cardiff, a 35,000 sq. ft. retail property in Eltham town centre, South East London, and a bank loan secured on a neighbourhood shopping centre in South West England, where we also acquired adjoining land for the extension of the centre. We have now taken ownership of the shopping centre and are commencing our asset management programme.

The IPD capital index returned a positive 1.5 per cent capital growth for the third quarter, and continued its upward trend in October. Our next formal valuation is at 31 December 2009, and we would expect our portfolio to perform broadly in line with this movement.

The vacancy rate within the portfolio currently stands at 9.3 per cent. Whilst a small number of tenants have moved to monthly rental payments, we have not experienced a significant level of administration or receivership activity.

#### Net indebtedness

In July 2009, we raised approximately £100.0 million gross proceeds (circa £94.0 million net of fees) from a firm placing, placing and open offer of new shares. Since concluding the capital raising, we have invested circa £40.0 million of the proceeds. We are considering a number of offers to raise new debt against these assets, but have not yet committed to do so.

In October, we repaid the CityPark development loan from the proceeds of the sale. Following the portfolio revaluation at 30 June, we also made some further modest prepayments in compliance with loan-to-value covenants, from funds previously reserved for this purpose. Our net indebtedness at 31 October was £38.2 million representing £130.5 million of debt and £92.3 million of cash. This is equivalent to 16.1 per cent of our proforma 30 June net asset value of £237.0 million (derived by adding the net proceeds from the capital raising of £94.0 million to the reported net asset value as at 30 June 2009 of £143.0 million).

#### Outlook

Following the successful capital raising in the summer, and a number of transactions concluded, the Company is well placed to continue its search for suitably priced opportunities where a mixture of our expertise and financial resources can unlock value. However, we remain cautious about the strength of the market in 2010 and continue to appraise possible new investments accordingly. We are also looking beyond the current downturn to identify potential opportunities for major new development projects to be delivered in the medium to long term, once the next cycle has gained momentum.

#### 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.

This information is provided by RNS

The company news service from the London Stock Exchange

END

IMSGUGGPGUPBPUM