Landsec

LANDSEC ANNUAL RESULTS PRESENTATION 2020
Tuesday, 12 May 2020
08.00

Mark Allan, Chief Executive

Slide 2 – Title slide – Introduction

Good morning everyone, and welcome to Landsec's results presentation for the year to March 2020. The presentation is obviously being held fully virtually for the first time, for reasons that I know you will all appreciate. And this is a pre-recorded presentation, largely to minimise the risk of technology related interruptions, but there will be a live Q&A session at the end. So, thank you for joining us and I do hope that you and your loved ones are all well and have managed to adapt to the highly unusual circumstances we find ourselves in.

These are, of course, my first results as CEO of Landsec having joined exactly four weeks ago today. And whilst I joined after the year had ended, there has perhaps never been a time when the results and activity of the previous financial year have been out of date quite so quickly.

So today you will hear about the key elements of performance for last year but we will also seek to set out the impact of Covid-19, both financially and operationally and that's the impact on these results and on what it might mean looking forward.

But before I hand over to Martin, and then Colette, I wanted to share some brief reflections on Landsec four weeks in.

Slide 3 – Introduction

Firstly, strength and resilience. I think you can understand a huge amount about people and about organisations when you see how they respond to a crisis. I joined Landsec around three weeks into lockdown and it was already clear that teams across the business had quickly got to grips with the emerging new reality and were working proactively and collaboratively, both with each other and with customers and partners, to ensure as effective a response as possible. If I take that, together with the quality of our portfolio and our significant financial resources, it means we have entered this crisis from a position of relative strength.

Secondly, leadership in sustainability. Landsec has been known for quite some time as a leader in tackling climate change, but what has been particularly striking to me is just how thoughtfully and responsibly Landsec has acted in response to the current crisis. This is sustainability in its wider sense, acting responsibly for all stakeholders. It's something I believe in passionately and it is an area where Landsec can and will continue to lead the way.

And finally, opportunity. While it may seem odd to talk about opportunity at such a challenging time for all of us, arguably makes it easier to contemplate change and bold action. As an incoming CEO in an organisation with such significant resources at hand, that can act as a powerful backdrop against which to consider our long-term strategic direction.

I will return to those thoughts later, but will now hand you over to Martin, and then Colette.

Martin Greenslade, Chief Financial Officer

Slide 4 – Title slide – Financial results

Thank you, Mark and good morning everyone.

What an extraordinary end to the financial year it's been! With the current backdrop of Covid-19, it's easy to overlook almost everything that has happened during the year before lockdown. So, I will try where possible to separate out the impact of Covid-19 on our results but overall, we have a resilient balance sheet and the financial capacity to see us through an extended lockdown and slow consumer recovery.

But let's start by putting the year in context.

Slide 5 – Our year in context

What I've set out on this slide is the market environment up until the middle of March and then what happened in the very final part of our financial year. Before Covid-19, the office market was in good health, particularly after the general election, and yield compression was widely expected to come through, the so-called Boris Bounce. Our portfolio was virtually full, our flexible offerings, that is Myo and Fitted, had let well and we were making good progress on our developments.

Similarly, our leisure and hotel assets were virtually full although there were headwinds in the F&B market. Cinema attendance was up and Piccadilly Lights was performing ahead of expectations.

In Retail, the picture was more mixed. Outlets and London Retail were performing relatively well in a difficult market while regional retail and retail parks continued to be more impacted by the trading environment.

The onset of Covid-19 has had a significant impact on all our sectors. We have kept our office assets open but the level of usage is well below 10%.

Our development programme has been delayed as our contractors adapt to implementing social distancing on site. Our leisure and hotel assets were generally closed with turnover-related rental income severely impacted. In Retail, shopping centres remain open for essential trading only and footfall all but disappeared.

So now let's look at financial summary.

Slide 6 – Financial summary

Financial Summary Revenue profit for the year was £414m that is down from £442m last year, largely due to a provision we made at the year end in respect of next year's rent. I am going to explain this charge in more detail later, but without it, revenue profit was down £5m from last year at £437m.

The valuation deficit was £1,179m, leading to a loss before tax of £837m. Adjusted diluted EPS, which is based on revenue profit and so includes the provision related to next year's rent, that was 55.9p, down 6.4% from last year. Without that provision, adjusted diluted EPS would have been 59.0p.

As we announced recently, we are using EPRA NTA as our preferred measure of net asset value. EPRA NTA per share was 1,192p, that is down 11.6% or 156p since last March.

And finally, the dividend. As you know, due to the unprecedented market uncertainty, we chose to cancel the third interim dividend. With the outlook still uncertain and June rent collection likely to be worse, we felt it was too soon to propose a final dividend. We are very well aware of the importance of dividends to our shareholders and we will look to start paying dividends again as soon as it is appropriate to do so. The REIT regulations require us to pay a certain level of dividends each year, failing which we would need to pay a tax charge which is based on any shortfall. It is our preference not to pay such a charge but to pay the dividends instead, which would mean a distribution by 31 March 2021 of a minimum of £78m or 10.5p per share.

Let's now look at how revenue profit changed from last year.

Slide 7 – Revenue profit

So starting with last year's revenue profit of £442m, net rental income was down £12m. More on that in a minute. Net indirect expenses were £4m lower that is mainly due to lower staff costs and we benefitted from £3m of reduced financing costs. Together this resulted in a revenue profit decline of £5m to £437m before a provision of £23m related to next year's rent. Let me briefly explain this provision.

As you know from our announcement on 2 April, the collection of our 25 March quarter day rent was good in Office but it was significantly lower than normal in Retail and Specialist. Now accounting standards require us to assess whether our year end debtors are recoverable and, based on our collection rate and an assessment of the outstanding debtors, we have provided £24m, of which £23m relates to next year as we invoice in advance with the £1m difference relating to the last few days of March. I would love to take that £23m charge against the deferred income creditor which sits on our balance sheet but I am afraid that is not allowed. The full charge has to be taken this year and so we have pulled it out separately in our results as it relates to next year's rent.

So, let's briefly look at net rental income.

Slide 8 – Net rental income analysis

Office like-for-like net rental income was up £7m, largely on the back of lettings at Myo and the full year impact of lettings at Nova.

Like-for-like net rental income in Retail was down £10m or 3.9% with over half of that related to CVAs and administrations, with the balance being a combination of increased voids, temporary lettings and associated legal fees.

In Specialist, like-for-like net rental income declined by £1m but this was a combination of improved short-term lettings at Piccadilly Lights, offset by difficulties in F&B and lower Accor turnover rent as a result of Covid-19 in March. Across Retail and Specialist, the impact of Covid-19 on this year's net income is approximately £5m, from lease incentive provisions to lower car park and hotel income.

The decline in net rental income at our developments is principally at Lucent and Portland House. Looking ahead, Portland House was almost entirely vacated at the end of March, so £11m of net rental income we recognised this year will disappear next year and there are likely to be some related void costs.

In acquisitions and sales, we have costs associated with voids at Lavington Street and the loss of income following the sale of Poole Retail Park.

And finally, we have the £23m of provisions related to next year's rents.

Let's move on to valuations.

Slide 9 – How has Coid-19 impacted valuations?

Before I cover the individual asset classes, I thought it would be helpful to explain how CBRE have approached Covid-19 in their valuations. In general, there has been no change to ERVs but the valuation has been adjusted through capital deductions and yield shifts.

The impact on offices has been limited – some potential yield compression has not been applied and void periods have been increased. But this has negligible impact on our valuations given our very high occupancy. On all developments, CBRE have assumed a six-month delay to practical completion.

In Retail, there has been a deduction in value equivalent to three months of rent, six months for London retail as well as yield shifts of between 15 and 50bps. In Specialist, there has been a similar yield shift but with different amounts applied to different leisure occupiers. So, for example, 25bps yield shift for restaurants and 50bps for cinemas. Hotels have had their occupancy slashed in year one and the discount rate increased by 25bps.

So, what does all this amount to?

Slide 10 – Combined Portfolio valuation

The total valuation decline was 8.8% or £1,179m, all of which occurred in retail and leisure. Approximately a third of the valuation decline was due to Covid-19 factors at the year end.

Overall Office was up by 1.1% with investment properties up 1.7% and developments down 3.1%. Of the retail sectors, outlets were down the least at 10.3% lower with over half of that decline due to Covid-19. London retail saw a decline of 15% but a wide range from no decline in some of the retail below our office assets to down 27% at Southside. Regional retail was down 27.6% or 22.1% pre Covid-19 with very similar movements on individual shopping centres as equivalent yields moved out to between 6% and 7.25% and ERVs reduced. There was a similar impact in retail parks which were off 25.5%.

And finally, our Specialist segment. Here, leisure and hotels were down 10.9% with a little over half of the decline due to Covid-19. And other, principally Piccadilly Lights, was up 1.3% on the back of higher rental prospects.

Turning now to our financial position.

Slide 11 – Year end financing position

At the year end we had adjusted net debt of £3,926m, up £189m over the year due to expenditure on our development programme.

Within our adjusted net debt, we have almost £1.4bn of cash. That is because in late March, we drew down on our bank facilities to cover the £977m outstanding on our short-term commercial paper programme and to provide a liquidity buffer. As a result of the higher drawings on our bank facilities, our cost of debt fell to 1.8% at the year end from 2.7% last year. However, our cost of net debt, taking into account our cash balance, was 2.4%.

Group LTV rose to 30.7% from 27.1% a year ago, partly due to the increase in net debt but largely due to the fall in property values. We have no bond maturities in the next three years and, after allowing for the repayment of commercial paper, we still have a further £1.2bn of cash and available bank facilities. We can draw those facilities up to an LTV of 80% and above an ICR of 1.45x giving us capacity for a further fall in values of 59% or reduction in Security Group EBITDA of around 80% or £412m. More details on our debt facilities can be found in the appendices.

So, let me look ahead and summarise.

Slide 12 - Looking ahead

Covid-19 has had a huge impact on the business over the past two months. In these results, it's increased our valuation deficit by around £380m, it's reduced net income by £5m and we've provided £23m in respect of next year's rent.

In the coming year, our income will naturally be impacted by the ability of occupiers to pay, which we've recognised by setting up our £80m rent relief fund. It is clearly very difficult to predict the level of rent collection we will achieve in June but it is likely to be lower than March. That said, we have a diversified portfolio with a strong occupier line-up in Office. Within our office portfolio, a large proportion of the income comes from our top ten customers, and our office income exposure is weighted towards sectors which are largely expected to be resilient to the impact of Covid19.

There will be a reduction in turnover-related rent, which was around £38m in 2019/20 and, as I mentioned earlier, we will receive negligible income on Portland House. We have a very flexible development programme with a year end capex commitment of around £340m, of which around a third is expected to be spent in the next six months and that is assuming sites remain open and efficient. And, above all, we have a robust balance sheet with considerable liquidity to fund our capital commitments and to withstand a prolonged reduction in rental income.

Now let me hand you over to Colette.

Colette O'Shea - Managing Director, combined Portfolio

Slide 13 - Title slide – Portfolio review

Thanks Martin, and hello everyone.

We all know the last few months have been like nothing we've seen before. It's meant taking difficult decisions to protect our people, customers and partners to preserve the strongest possible future for them and us. There's no rule book for times like these, but I will say this, I've been at Landsec for many years and never been more proud of the people in this business. We acted quickly and responsibly with a strong spirit of community and with a view to protecting the business for the medium and long term. The underlying resilience of the business allowed us to be decisive and practical.

Slide 14 – Supporting our people, partners and communities

We've kept our own staff on full pay and as part of our head office move, we changed the way we worked and invested in Tech to support flexible working. So, we've adapted pretty well to working from home but I am missing the chats with everyone.

We've also supported our service providers who are critical in helping us deep clean buildings, keep everywhere safe and secure and will be vital when we start opening again.

We've been working with our contractors ensuring their people are safe while keeping our sites open and of course we're talking with our customers all day every day, more on that later.

We've increased our contributions to the charities we work with, in particular those helping the homeless and we're progressing our employment programme, which like so many things is evolving to make use of technology to replace in-person support. And we've made our retail car parks free to all NHS staff.

Our buildings are integral parts of ecosystems and communities, and now more than ever our contribution is vital.

Today I'll give you an update on how we were doing before March and then give you more colour around the actions we've taken in response to the impact of Covid-19.

Here's a summary of our headline numbers.

Slide 15 – A summary of our year to 31 March 2020

We are 98% let. We've delivered £39m of lettings. We've completed £23m of office rent reviews, at 7% above the passing rent. Our like-for-like net rental income was resilient, down less than 1% setting aside the doubtful debt provision Martin told you about. Our office WAULT is 8 years. Our Retail destinations outperformed the sales and footfall benchmarks for the first 11 months. We're making good progress with our retail repurposing plans, almost doubling the number of planned homes in London and looking at other cities. And, we had 1 million square feet of developments on site, with good flexibility to phase the programme, more on that in a moment.

Now to the different parts of the portfolio, starting with offices. For most of the second half, the market was as we'd anticipated.

Slide 16 – Office markets mixed in H2

London office take-up to March was slightly below the long-term trend and 7% down on 2019. However, pre-letting activity remained robust.

There's been a varied response since lockdown with the greatest impact in the sub 20,000 square foot end of the market with deals falling over. However long-term strategic requirements are cautiously continuing.

In Q4 the availability of space fell with the vacancy rate down to 4%. In Q1 availability increased by 11% to 14m square feet in line with the long-term average, this led to a small increase in the vacancy rate to 4.5%, mainly driven by smaller second hand units.

By Q1 there was approximately 13.5m square feet of speculative space under construction but 45% was already pre-let. Since then it's clear we'll see completions move out and could see a reduction in starts, all of which we'll take into account as we take decisions with our own programme. I'll talk more about that in a moment.

In the investment market the 2019 volumes were down 40% on last year which was a continuation of the wait and see approach caused by Brexit and political uncertainty. Q1 2020 saw the lowest levels since Q1 2010 as deals started to slow or stop as Covid-19 emerged.

Turning to our portfolio.

Slide 17 – Office – our current position and immediate plans

Key to how we manage our business is open, collaborative conversations. These have been vital in recent weeks as we strive to balance protecting income and the long-term future of the business, with supporting customers.

Our offices are fully let and all buildings are open for occupation but with less than 10% usage.

Of course safety has been our priority and facilities management has been reduced to a minimum.

Like-for-like net rental income was up £7m and we've received around 90% of the rent due at the year-end and expect to receive the rest.

Within the portfolio sit our flexible products Fitted and Myo. By March both were fully let ahead of their business plans. These products aren't targeted at start-ups and are a draw for existing and new HQ customers making them more resilient.

We think flexibility will be increasingly important as we emerge to the new norm so our plans to incorporate them in buildings like Dashwood House and the new developments continues.

Slide 18 – Office – resilient portfolio

It's clear the way businesses use space will change as we adapt to new ways of working. Some of the themes we're thinking about are, the need for healthy buildings with plenty of fresh air and good lifting capacity. Lower occupation densities. Flexibility that allows for layout changes. Supporting more flexible working practices. And remember there's an ongoing need for offices to provide the quality, safe and secure infrastructure required by many businesses that can't be replicated at home.

We've been talking about most of these trends for a while but they're now likely to accelerate. We design for well-being and flexibility and our offices are able to adapt. This is not the first time we've described them as stage sets that change. It's just that now we have a new script.

So all this along with the profile of our customers that Martin talked about means our portfolio is very resilient.

Now to retail.

Slide 19 – Retail – our performance pre-Covid-19

With the challenging structural trends values continued to fall. The number of CVAs and administrations slowed, but occupancy costs were a high priority.

However our centres were busier than most. Our plans to create optimum line ups and unit sizes in our retail locations continued and for most of the year our shopping centres and outlets were 96% let and outperforming the benchmarks for sales by 4% and footfall by 2.5%. However the structural trends continued to impact rent negotiations. We saw 31 customers go into administration and CVA but of these less than a third of the stores closed and some were relet. CVA's and administrations were the main driver for the £10m fall in like-for-like net rental income. But that is excluding the provision for next year.

As with offices we've been in close dialogue with our customers to understand their changing needs enabling us pre Covid-19 to reduce this years' service charge by 4%. We're still working on reducing costs but estimate an additional 20% saving for the lockdown period and this work will continue.

Slide 20 – Retail - the impact of Covid-19

Today the only sites trading are those with essential operators like chemists and supermarkets.

38% of the rent due at the year end has been paid and it's similar for service charges.

It's in our interest to protect the line-ups we've been curating. We've spoken to over 500 retailers. Financial requests range from rent frees, deferments, percentage reductions, rent paid in arrears, monthly payments, to turnover only. Many other themes however are consistent. Hundreds of thousands of staff have been furloughed. How will they trade with social distancing? When they do trade costs will go up as they employ security, manage the issue of trying on clothes or picking up the merchandise and manage supply chains. Many are increasingly frustrated by the CVA process artificially supporting businesses. And they're talking about store closures.

Covid-19 has accelerated the structural problems and the scale of issues is now enormous. We strongly believe that working in partnership will provide the best outcomes. Nothing is off the table but solutions have to work for both our customers and for us.

With this acceleration the work we've been doing looking at alternative uses for the assets is more important than ever.

Slide 21 – Retail – continuing to progress re-purposing

Since November we've expanded the scope of our plans at O2 and started site assembly at Lewisham. Across the four London sites we're now looking at around 7,000 homes that's up from about 4,000 we talked to you last time.

We've also started master planning at Buchanan Galleries in Glasgow looking at adding residential and offices. Last month we submitted a planning application for a 120,000 square foot office building next door.

Moving onto the Specialist portfolio.

Slide 22 – Specialist – Leisure, Hotels and Piccadilly Lights

Like-for-like net rental income was only down £1m, setting aside the provision for next years' rent. But for now, our usually buzzing leisure parks and state of the art cinemas are silent.

The hotels are largely closed. Their leases are based on turnover which means the £26m of annual rent will be greatly reduced until they reopen. But as we've said in the past the underlying sites represent future opportunities for us which as you'd expect we're looking at closely.

At Piccadilly Lights, as we entered March we had real letting momentum and were ahead of our projections. Not surprisingly, since lockdown there's been little demand. But we are getting bookings for later in the year. We also have the three screens let on 2-3-year leases, and that rent has been paid. However the Lights are more than just a big advertising screen. So when we donated space to public health England and they showed the Queen's message it got international attention.

As I've said it's in our interests, and in the interest of our shareholders, to do what we can to help our customers, including giving short-term financial support.

Slide 23 – Supporting our occupiers through the crisis

The £80 million fund we set up is helping, particularly smaller customers. We're treating each on a case by case basis, focussing first on independent businesses and F&B providers. But it's early days and a lot depends on how we emerge from the lockdown.

So that's the situation across the portfolio now let's turn to our development programme where things are moving forward.

Slide 24 – Development

Of course safety is the priority and activity has slowed. But importantly the programme has been designed with flexibility and we've been able to reduce our planned commitments by around £700m. This leaves £340m committed with the optionality to stop all schemes except 21 Moorfields which as you know is prelet to Deutsche Bank.

At £273m this is our main commitment and we're continuing with safety front of mind. The practical completion date has been impacted by about 2 months due to Covid-19, but of course this depends on future productivity and we're in close dialogue with Deutsche Bank.

Slide 25 – Development continued

With Lucent, Nova East and Sumner Street our plan was always to build to grade outside of the main construction contracts. The work is less capital intensive, happens outdoors and needs fewer contractors meaning less people on site, so it can continue safely under current requirements.

This is also a huge benefit as it gives us flexibility on when we commit to the more capital-intensive activities. So we can pause, if we want to.

Today the offices at Portland House are vacant, as planned and we're stripping out and developing the design. We'll then review how we proceed next.

And we're pursuing planning applications for Lavington Street and Red Lion Court. So every scheme except 21 Moorfields is divided into bite-sized chunks, allowing us to review and assess before moving to the next phase. There are more details in the appendices.

Slide 26 – A business with strength and resilience – before the world changed

So in summary: The office portfolio is full. Fitted and Myo are ahead of their business plans. Sales and footfall at our shopping centres were outperforming the market. We're making good progress repurposing retail assets in city locations.

Then the world changed. And the way we have to think and manage the business changed.

Slide 27 - A business with strength and resilience – looking ahead

Our office portfolio is resilient both in terms of the physical buildings and the profile of our customers and we'll be able to adapt to changing occupational needs. There will be customer asks for a while. We'll work with them to find solutions which benefit both of us in the long term. Our work to repurpose retail will accelerate and we have the best skills to do this. We're progressing the development programme whilst preserving cash and maintaining optionality as well as securing more planning consents. We're working out how we'll get 24 million square feet of real estate back open and in use.

As I said at the start we're part of an ecosystem and we recognise that our day to day activities and the partnership role we can play will help sustainable businesses emerge with the knock-on benefits to the communities across the UK. I'll now hand you back to Mark.

Mark Allan, Chief Executive

Slide 28 – Title slide

Thank you, Colette, and thank you Martin So as we begin to wrap up the presentation, I'd now like to pull together what you've heard from us about Covid-19 and how we are thinking about what it might mean for us in the months and years ahead.

Slide 29 – Covid-19

As things stand, it is clear we are facing a mixed but significant impact across our portfolio but that we are doing so from a position of strength.

While it won't be immune, our London office portfolio is the most resilient part of our business with a powerful combination of secure income from a strong tenant base and a modern, adaptable estate. And as a sector, London offices entered the crisis with a tight occupational market and yields some way above those in comparable global cities, both of which should offer some protection.

In Retail, we have a top-quality portfolio that was comfortably outperforming sales and footfall benchmarks coming into the crisis. We've acted swiftly and decisively in dealing with an effective full closure of our estate and are committed to do our bit and to work collaboratively with our customers and partners, as evidenced by our £80m rent relief fund, while being very focused on ensuring that we maintain the right balance between protecting income and value and supporting customers in need.

Specialist is the most impacted part of our portfolio, with a higher exposure to leisure and F&B and hotels on turnover rents. Again, partnership and collaboration have underpinned our approach so far, and will continue to do so.

And finally, as you've heard from Martin, from a financial perspective we have an LTV of just over 30% and cash and facility headroom of around £1.2bn.

From here, the next few months will be all about working collaboratively towards the new normal.

Slide 30 – Our short-term focus

We still don't know exactly what the path out of lockdown will look like, or how long that path will be, but a few things are becoming increasingly clear: All parts of our portfolio will be affected by ongoing social distancing restrictions for a considerable time yet.

Office usage will remain significantly below capacity as we and our occupiers grapple with the challenge of moving people in to, out of and around our buildings safely.

Shopping centres are likely to be similarly restricted for a considerable time, severely affecting footfall and in store sales.

Retail parks and outlets, where there is more outside space, should be slightly less affected but will still take time to recover.

Our specialist portfolio, with its higher exposure to leisure and F&B, is likely to be affected for the longest time and its longer-term recovery will also depend on public attitudes to crowded spaces even after restrictions are lifted.

All of this means the ‘asks’ from occupiers in terms of support are likely to continue for some time.

Our relationship with our customers goes well beyond a simple contractual one but it is contractual. With this backdrop, we will continue to work with all our customers to find solutions that strike the right balance between protecting income and value and offering targeted support. We are firmly of the view that this approach will ultimately deliver the best outcome for our shareholders.

As things stand, we expect June collection rates to be quite some way below March, particularly as customers have little incentive to pay and landlords have few options to oblige them to. It is, however, still too early to predict what this will mean for rental income for the year as a whole.

From a valuation perspective, we expect retail and specialist values to weaken further during the year to March 2021, with the outlook for London offices more nuanced but unlikely to be immune. With such elevated levels of uncertainty, it is a significant positive for us to have optionality across our speculative development programme for approximately the next 6 months.

This should enable us to adapt our approach to be best suited to the new normal. And in moving to the new normal, we are developing three potential scenarios for the next 12-18 months, of varying degrees of severity, and will be using these to guide our decision making in the months ahead. This is work in progress but will help ensure that we are well prepared for a range of outcomes.

And finally, once the lockdown restrictions are fully lifted, it will be vital that we seek to understand and respond proactively to what could be profound long-term impacts.

Slide 31 – Longer-term

For Retail, Covid-19 has arguably only served to accelerate pre-existing structural trends. What might have played out over five years before may now take less than 12 months. It seems prudent, therefore, to plan for more business failures, higher vacancy rates and more downward pressure on rents.

And, as you’ve heard from Colette, at some locations repurposing will also play an increasingly important role. For London offices, trends towards more agile and flexible working and healthier, more adaptable workplaces look likely to accelerate. The move towards higher occupational densities will perhaps slow or reverse. Either way, obsolescence in older stock seems likely to increase. Of course, we cannot pretend to know with any certainty what the long-term outcomes will be.

But what is critical is that we seek to anticipate and act on them, seeing them as opportunities while being alive to the risks.

Slide 32 – Summary

Which is why, returning to my opening remarks, this is in many ways an ideal opportunity to step back and consider our long-term strategic direction. And that is exactly what we will be doing, not only from a Covid-19 perspective but more broadly. Seeking to position the business to benefit from long term trends while also building on the heritage and existing capabilities of Landsec. It would, of course, be unwise for me to be too precise about timeframes for this work in the current environment but we expect to be in a position to share these outcomes in the autumn.

And, finally, returning to my other opening remarks. Leadership in Sustainability. Our collaborative approach to working with our customers and our rapid and significant support to charities and the communities we work with and in, all demonstrate our authentic approach to responsible business.

Long after the Covid-19 crisis has passed, climate change will still be the defining challenge of the next two decades. With a commitment to be net zero carbon by 2030, Landsec continues to lead the way. This approach will help ensure that Landsec is here for the long term and is only possible because of our strength and resilience.

From the very high quality of our portfolio to the depth of capability within our workforce and our significant financial capacity, I am confident that Landsec is approaching the future from a position of strength.

<u>Question and answer session</u>

Question 1 - Peter Papadakos, Green Street Advisers
Good morning, thank you for the presentation. I have three questions if possible. One is just on the pipeline flexibility that you talk about for the next six months. What happens after six months? Can you elaborate a little bit in terms of what you will need to pursue after six months in terms of committed capex?

Then a related question just coming back to sources and uses of funds. So can you elaborate a little bit on how much capex or other commitments you will have by the end of this year or at least if possible by the middle of next year and how do you fund those commitments?

And then to the third question which is a part of a big picture question. In so far as thinking about capital allocation how closely are you going to tie that to your cost of capital? In other words, if you continue to trade at big discounts to your reported NAV is the capital allocation going to be tilted much towards shaking the company as opposed to maintaining the current passive level? Thank you.

Answer: Mark Allan
Thank you Peter. Three questions there and I think there is probably one for each of us. So I will ask Colette to talk about the pipeline flexibility and how things evolve beyond the six months you have referred to. Martin can talk about how our capex commitments might evolve over 6-12 month time frame and perhaps I will talk to capital allocation. So Colette.

Answer: Colette O'Shea
Hi there. Yes, in terms of the pipeline, we have a lot of flexibility at the moment. We were due to potentially commit to £0.5bn by now. That is currently £340m and since March we have committed to £33m and what that is doing, it is enabling us to maintain the build to grade work, continue the detailed design and start procuring long lead items. And as I said that takes us to the six months. Beyond that we then have a lot of flexibility, we could progress all the schemes, we could progress one of them, two of them and we could also continue to progress them with another bite-size chunk approach for yet another six months. So there is a lot of flexibility that we have built in by the way we procure the projects.

Answer: Martin Greenslade
Just to put some colour on the numbers. So £340m is the commitment to date. We expect about a third of that out over the next six months. Then if we were to commit to everything which is in programme, so Sumner Street, Nova East and Lucent - and please bear in mind what Colette has just said - that will add another £250m of capex commitment. And then we have further flexibility to add, should we so wish to, both Portland and Lavington and that would be another £500m. Again that is something we can decide on way down in the future.

So back to the original question, £340m of commitment at the moment, and the vast majority of that, over £270m, is on 21 Moorfields.

Mark Allan
Thanks Martin. So from my perspective the flexibility and the optionality in the development programme is a really significant strength for us at the moment. It does give us the opportunity to then decide where we go, how we adapt, if we adapt that programme to suit our emerging understanding of the post Covid-19 world.

Your broader question around capital allocation and what we will take into account within that and particularly around cost of capital. I think this is a response that would go really to anything to do with our review of strategy. There is absolutely nothing ruled in or ruled out of that. I think we are going into this very much with an open mind prepared to be bold radically if necessarily within our thinking. Although not necessarily assuming that we have to have a radical solution to things. So we are not ruling anything in or out within that. I think it is a case of trying to position things for sectors and opportunities that we think have got structural support for the long term. But we of course have to ground that in where we are today, where our existing capabilities lie, where our existing portfolio is and finding an appropriately deliverable, executable way of marrying those two things together with something that is compelling for the long-term.

Peter
Thanks.

Question 2
Jonathan Kownator, Goldman Sachs
Good morning and thank you for talking my question. I have two questions, one on retail and one on office. Perhaps starting with office, we have seen the collection rate has been quite resilient so far. You commented that you are expecting weaker rent collections for June. Does that include office as well? And perhaps within the question, how is flexibility playing a role? Are tenants taking more flexible part or taking the opportunity to leave here? Are you seeing more demands for the flexible part? That is the first question.

The second question, on retail. You mentioned store closures as part of your discussions. Perhaps can you elaborate a bit more on that and also highlight whether some retailers are considering store closures before actually opening back stores as part of their reopening plans and how wide is this solution considered today? Thank you.

Answer: Mark Allan
Thank you Jonathan. I will provide a brief comment around our views on collection rates and how they might apply across the portfolio and then perhaps I will ask Colette to give you more detail on how our flexible offering is playing a role. And then a bit more colour on the comment around store closures and how that might fit into retailers' wider estate strategies.

Our comment on collection rates for June being likely to be some way worse than March I guess is primarily focused on the retail and specialist sector where the pain is most significant. And it is obviously also a statement we make in light of the Government announcement that has put a moratorium on enforcement action. We do have a very strong tenant base on the office side whose businesses are in the main less impacted directly by Covid-19 so we think less than 10% of the portfolio for example is let to tenants that have an obviously exposure to Covid-19. But it is difficult for us to judge at this stage the extent to which that moratorium, which applies to all occupiers, might play out within the office sector. So it is going to be more about retailers and specialists, but we could see some leakage of that into the office portfolio. Collette.

Answer: Colette O'Shea
So on the flexible offering, the way that our offering is being used is a lot by our own customers and then by other businesses that are looking for leases of between one and three years. And clearly as part of our future thinking in terms of the way that people will occupy space, I think the flexible proposition will really probably play a part and this is why we are looking to expand it into Dashwood House and through the development programme.

And the main point for us is that the office portfolio is very, very resilient and we have got a lot of levers that we can pull and the flexible is one of the levers we can actually pull.

And then in terms of store closures, the whole thing we are hearing from our retailers is really an acceleration of all the themes that we have been hearing over the last couple of years. The point now is there is an acceleration. So retailers have been talking about store closures. The point now is they want to accelerate those closures. Whether they actually don't open stores as part of the re-opening, that is yet to be seen. But clearly we are in close dialogue to understand what their thinking is, which, a lot of it at the moment is focused on opening. And the closing really is taking costs out of their businesses.

Further question
Any perhaps more specific exchanges? When it comes to considering closures, how much of their estate they are considering to close. Any more colour perhaps on that?

Answer: Colette O'Shea
Not at the moment because it is varying by sector so the responses are really quite different, whether you are talking to the F&B (food and beverage) type of businesses, whether you are talking to fashion retailers or indeed talking to department stores. So it is too early to say at the moment.

Jonathan
Okay, fine.

Mark Allan
Jonathan does that answer your question sufficiently?

Jonathan
Yes, obviously it is a complicated environment and I understand a lot of the discussions are still ongoing obviously and anecdotical evidence would obviously be helpful but it may still be too early for that.

Mark Allan
Yes you would appreciate we can't comment on individual cases. I think the reference to store closures was very much about pointing to the significance of this in the eyes of the occupiers, they are thinking pretty broadly and pretty rapidly. As we said, to a large extent we see this as being an acceleration of trends that were underway anyway and I think that is the principle with which we approach all of this.

Further question
Are the retailers who are already in negotiation to set new levels of rents for various space, and obviously there is the short-term answer, but there is obviously longer-term questions around the level of rents that retailers can sustain in an environment where their sale densities are likely to remain permanently impaired or at least for a while. Have those discussions been happening already or is it still too early?

Answer: Mark Allan
In terms of outcomes to that, still too early. But as you would imagine both us and retailers certainly have a close eye on what we think the sustainable position for the portfolio is going forward and the approach has to be one of trying to work in partnership to move in that direction, but recognising we are in a position where we have got leases that are signed and obligations that are in place today and so where we are trying to provide support we are trying to do that in a targeted way more towards the most exposed sectors and the smaller more independent less financially secure businesses.

Further question
And any thoughts on what this long-term relationship may be or partnership may be? Is it turnover rent or anything else that we need to think about?

Answer: Mark Allan
A similar answer I think to one of the questions earlier. I think to us we are thinking pretty broadly about that, but there seems to be little point in either side being overly wedded to one particular outcome. I think we have got to look at this collaboratively and find something that works to our benefit and to the occupier's benefit as ultimately this is all about working together not looking at real estate as being purely a fixed income play. So I think we will think broadly, but we have got to look at how we move towards whatever that new normal is rather than suddenly try and get there overnight.

Jonathan
Okay, thank you very much.

Mark Allan
Thank you Jonathan

Question 3
Rob Jones, Exane BNP Paribas
Hi, good morning everybody. Just a couple of quick ones. One on offices and one on the dividend distribution going forward. So on offices there is a big debate going on at the moment in terms of, on the one hand we are expecting lower occupation density and you talk about that as well. And obviously in the last few years we have seen densities go up by 10-15% over the last five years, albeit that hasn't had a negative impact on positive like-for-like rental growth. But on the other hand you are also seeing more flexible working. People working from home more. I just wanted to hear your thoughts around the extent to which those two opposing factors will play out within your portfolio?

And then secondly, you talk about the fact that your offices can respond to change, you have developed offices with adaptability in mind. Can you give a tangible example of that?

And then I guess a question for Martin. So on the dividend, end of March 2021 currently you need to pay £78m to fulfil your REIT requirements. But obviously the discussions ongoing with HMRC, to suspend those requirements in the near term given the ongoing impact with Covid-19. Is your base case that you will be paying the £78m or is your base case that an agreement will be made with HMRC and therefore you will not be making that £78m payment? Thanks.

Mark Allan
Thanks Rob. I might just take those in reverse order because I think Martin you can clarify that dividend point relatively quickly and then I will ask Colette to talk to the densities question.

Answer: Martin Greenslade
Yes Rob we would love to pay the dividend rather than to agree with HMRC that we don't need to. The key thing is that we need to bring our dividend back on at an appropriate pace relative to the underlying rental receipts and our revenue profit. Dividend is very important, it is an important component of the return to shareholders so we absolutely want to get back to paying dividends as soon as possible.

Rob
Thanks Martin.

Answer: Colette O'Shea
So on the office question, clearly there is an awful lot for us all to be thinking about at the moment and one of the best sources of our information is going to be from our own customers and clearly that dialogue is starting. We have obviously experienced a period of time when offices have been very densely occupied which has been a real benefit for businesses because they have been looking at, rather than a rent per square foot, a cost per head.

Clearly, in terms of the space take, if we imagined a world where at its extreme we go back to cellular offices, but then there is a proportion of people working at home and probably a bit of flex mixed into that as well, then arguably the space take could be similar. Now clearly what the impact on rents is, is unknown at the moment because what we will increasingly see, and we have talked in the past about the divergence between the second hand space and the high quality space, I think with people coming back into work they are going to be looking for healthy buildings, their staff are going to want healthy buildings. And I think the need for really first class office space is going to increase. So our expectation, overlaid on the dynamics of how people use space, is that we are going to see an increase now in obsolescence and the quantum of second hand space will increase and therefore we are going to see an increasing demand for the higher end space. So you have got to overlay that with the quantum of square footage people might want.

In terms of tangible examples, if you think about an office, you have got to have WCs, you have got to have air handling, you have got to have lifting capacity. And we have been working in open plan buildings that have got the controls in the right place, lifts in the right place and WCs. Again at its extreme, if we go back to putting cellular offices in we can lift and shift and move our equipment around so that it is relatively easy to then create completely cellular floor plates. And I think that is one of the things we have talked to you about in the past is how adaptable our buildings are. And this is because we really invest in the specifications. So we can cater for whatever type of layout changes emerge in response to this.

Rob Jones
Okay, thanks very much.

Question 4
Marc Mozzi, Bank of America
Thank you. Very good morning ladies and gentlemen. I have two questions. The first one is, I do appreciate it is a bit early to talk about this, but I would like to get a sense of what has been the outcome as of now of your first discussions with your valuers on how they will assess ERVs going forward particularly in retail and hotels. Are they only continuing to increase yield to take on board the risk of prolonged reduction in rent collection or do they address the level of ERV in a different way? That is my first question.

My second one is a follow-up on Jonathan's question. Did some of your retailers already request some rent reductions and if that is the case, what sort of reductions are they considering? Is that 10, 20, 30% and can you give us a sense of how many of them in terms of percentage of your overall rent base are we talking about for those potential renegotiations? Thank you.

Answer: Mark Allan
Thank you Marc. Just to clarify on your question about ERVs, are you asking specifically in the context of the current Covid-19 situation and how the valuers have approached valuation for the next quarter, next half year?

Marc Mozzi
Yes of course it is Covid-19 but also if your rent collection is going to be, as you said, reduced for a prolonged period of time, how are they going to assess this because potentially we are going to have a recovery at some point. But during this period of time, how is it going to show?

Mark Allan
Martin do you want to talk to the valuers' approach and what we know, if anything, of where they go from here?

Answer: Martin Greenslade
Yes, so I can't obviously completely predict what CBRE are going to do and how they are going to value properties going forward. But let me just give you a little bit of colour. The valuer is looking for transactional evidence. At the year end there was precious little transactional evidence of transactions occurring in the post Covid-19 world. So what they have done is they have said, look, there is no evidence of rental value

movement at the 31 March. So what they have done instead is they have recognised clearly that income is going to be impacted and they have adjusted that as a capital amount from the valuation and pushed out yields by saying, look, if you were a buyer and put yourself in the buyer's shoes you would demand a lower price or higher yield for that asset because of this future uncertainty around rents that Covid is creating. So they have taken the capital deduction for rent free periods and they have pushed the yields out.

I don't know how they are going to respond to that. What I can tell you is that they don't get future ERVs, they don't project ahead and say in six months time ERVs will be that. They tend to adjust that through the yield. And the second point is that on certain assets where they are much more turnover based, like our hotels, they have got a phasing-in approach of how they see that rent coming back. So it isn't just a blanket seven months of no rent, it is actually staged-in from a very low percentage occupancy and then bringing it through. So on turnover-related leases they are more likely to have a sculpted approach to the future because they have to do that to put themselves in the mind of the buyer. And I suspect that will change as circumstances unfold and they get greater visibility of what is going on.

Mark Allan
Thanks Martin. Perhaps I will offer a few thoughts on the approach from retailers to rent and negotiation. At the moment, there are no obvious trends in terms of everyone asking for essentially the same thing. It does very much vary from business to business and that will vary depending on their particular circumstances, but it will also vary depending on the particular characters and approach and how aggressive or otherwise some occupiers want to be within their approach. So requests, and they are requests, we have to stress that at this point, will range from rent holidays, perhaps for a quarter. Deferrals of rent moving to monthly payments, moving to turnover rents. But there is no discernable kind of theme or particular favourite resolution if you like that we see occupiers going for. It does very much vary.

In terms of our approach to that and how that plays out within our retailer line-up, just to give a bit more colour to what our line-up looks like. If you were to rank our occupiers according to the amount of rent they pay us across multiple units, roughly a third of our rent roll comes from our top 25 customers and those would all be the well known national names that you will recognise. Typically coming from a strong background in terms of financial position etc. And there a discussion between us and them is going to range across the entire estate and there will be gives and takes across that given that we will have our own plans and aspirations on certain assets. So it isn't going to be a simply just a one dimensional approach to a rent reduction or otherwise. There are other levers to look at pulling.

So those are reasonably complex discussions, but you are talking a third of the rent roll amongst 25 customers, so it is a manageable number on ongoing discussions. You have then got about another third or so of rent roll that comes from numbers 25 to 100 on that list within the middle. And then you have got a very long tail of around 500 or so occupiers where there is a much smaller rent obligation. And the £80m rent relief fund that we announced we would expect to be more focused towards that longer tail of smaller often independent operators that have fewer financial resources to fall back on. The ones in the middle will typically have multiple units with us, so it will be some elements of broad ranging discussion, but that is also set to where there will be some of the names that people will know that may be under more stress because they have got larger estates without the financial support behind. So there is likely to be some exposure in terms of rent reductions within that sector.

To put some sense of scale, we clearly can't as I said during the presentation, forecast what this means at this stage, but just to put some context to some of the numbers we have already talked about, the provision that we made, the £24m against essentially the March rent quarter day, that equates to about 30% of the rent roll that was due at that point in time. So as a judgement of how much rent is at risk from that quarter, I think that is really the only reference point that we can offer specifically.

And then the £80m fund that we announced which isn't something that is reflected in the accounts, but is an indication of the scale of issue we expect to see through Covid, obviously will go well beyond one quarter. But that is effectively equivalent to a quarter's rent in the retail and specialist portfolio.

So difficult to give any more colour or detail than that, but hopefully that gives you a bit of context about how we are trying to think about exposure within the retail rent roll.

Marc Mozzi
Yes brilliant, thank you very much.

Mark Allan
I believe we currently have no further questions on the conference call, but we do have some questions that have come in on the webcast facility. There are three questions there. So I will just read those questions out and answer them myself or ask my colleagues to answer them.

So the first is probably for your Martin, it quite a specific question about £141m due on 1 April 2020, is that pre Covid-19 rent due or has there been any adjustment such as moving rents to monthly from quarterly following the lockdown?

Answer: Martin Greenslade
So that £141m figure is in table 6 of the financial review. What that relates to is all of the amounts due from all of our occupiers – office, retail and specialist - that was due on both 25 March and 1 April. Those two added together give you £141m. I know it may seem bizarre but we have debtors from 1 April on the balance sheet, but we do. None of that relates to where we have agreed to defer the amounts due on 25 March, so the quarterly payments, none of that relates to deferrals. So if there was an occupier in there who had asked and we had agreed to defer rents or for them to pay it over three months, then it would still be showing as an outstanding. Anything they hadn't paid would be showing as outstanding. So it does not include any deferred amounts. So the amounts due on 1 April were always due on 1 April.

Mark Allan
Thank you Martin. The second question relates to the re-opening of work space and Covid-secure space following the issuance of the Government's guidance. A question about when we envisage opening Landsec's offices as well as other centres around the country. Colette, I might must ask you to talk briefly to that one.

Answer: Colette O'Shea
Yes. So post Sunday, we had a number of conversations with some of our big office occupiers and whilst the buildings are all currently open and they have a skeleton staff in, the feedback we are getting at the moment is most of them are not really going to reconsider coming back into the buildings until after 1 June, so that is really the current status.

Mark Allan
Thank you. And then the last question from the webcast relates to relative performance to MSCI particularly on retail. I know MSCI is a bit of a black box as regards understanding exactly what is in there to judge our performance more precisely against it. But could you just offer some thought as to why there may have been such an under performance of our portfolio, particularly given that in-store sales and footfall outperformed their respective benchmark?

Answer: Martin Greenslade
Yes, it is almost more of a black hole than a black box, virtually nothing ever comes out of it again. So we put in our numbers and we get told what our performance is. We don't know what it is that forces the delta. So we are only left to guesswork, these numbers only came out last week. What we imagine is that there are smaller lot sizes in retail and therefore they are more likely to be local convenience-led retailing and therefore potentially that is easier to assess the individual units, their rents and it may have a greater degree of essential retailing such as food and therefore be at the more resilient end of the retail spectrum, particularly with the Covid-19 hat on it. So that is all I can offer I am afraid, that is just our guesswork as to why our performance is different to MSCI.

Mark Allan
Right, thank you Martin. There are no further questions from the webcast. I will return to the operator to see if there are any further questions from the conference calls.

Operator
There are no further telephone questions that have been registered. So if you would like to make any closing comments, please go ahead.

Mark Allan
Okay, thank you very much. Well ladies and gentlemen thank you very much for taking the time to dial-in and follow the presentation this morning. I know you will appreciate in the current environment the amount of work that will have gone on from teams within the business and further afield to get these numbers together in a pretty testing environment which I am certainly very appreciative of. But I do hope you found that informative and useful and look forward to catching up with all of you in due course in the months ahead. In the meantime, wishing that you all stay well. Thank you very much.

End