Our **half year results**

for 30 September 2022

Landsec

@LandsecGroup

Landsec.com

Half year results 2022

Mark Allan

CHIEF EXECUTIVE OFFICER

Landsec

2020 strategy: two key principles of sustainable value creation

Focus on competitive advantage and preserving balance sheet strength

Late 2020:	Delivered since then:
Capital markets	**SOLD – £2.0bn**
Interest rates and property yields near all-time lows	£1.8bn of mature London offices at average yield of 4.35%
Investment	**ACQUIRED – £0.9bn**
Focus solely on opportunities with clear value or long-term optionality	Stake in Bluewater at 8.15% yield, 75% stake in MediaCity at 5.8% yield and U+I plc
Balance sheet	**DE-LEVERED – £0.5bn**
Reduce financial leverage	Lowered net debt, LTV and net debt/EBITDA

THREE KEY COMPETITIVE ADVANTAGES:

HIGH-QUALITY PORTFOLIO — STRONG CUSTOMER RELATIONSHIPS — UNLOCKING COMPLEX OPPORTUNITIES

Successful execution of strategy

Well positioned for new market environment

High-quality portfolio

- Quality of place increasingly key customer-decision driver
- London office portfolio already 43% EPC 'B' or higher
- Growing brand relationships underpinning growth in retail

Decisive capital allocation

- Allocated capital aligned to opportunity to add value
- Sold £1.8bn of mature, low yielding London offices
- £0.9bn of acquisitions focused on income and future growth

Future optionality

- Unlocked new prospects for future growth via complex deals
- Full flexibility on spend with only £127m committed capex left
- Significant optionality in 11m sq ft London/mixed-use pipeline

Financial resilience

- Strong capital base, with 31% LTV and 8.7x net debt/EBITDA
- 9.8-year debt maturity and no refinancing needs until 2026
- Flexibility to respond to new opportunities

OUR PURPOSE: SUSTAINABLE PLACES. CONNECTING COMMUNITIES. REALISING POTENTIAL

Competitive advantage underpins strong operational results

High-quality portfolio and strong customer relationships pay off

Central London

One New Change, EC4

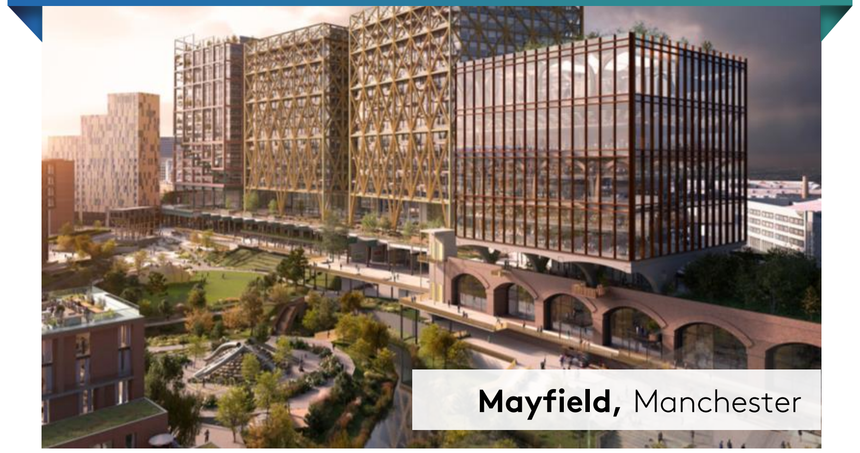
- £41m of lettings signed or ISH, 3% above valuers' estimates
- £1bn of disposals, crystallising high value/development gains
- Current pipeline 38% pre-let or ISH, with deals since May 11% above net effective ERV

Retail

Trinity Leeds

- £27m of lettings signed or ISH, 12% ahead of ERV
- Sales up 6.3% YoY; LFL sales 3.6% above pre-Covid levels
- Occupancy up 120bps to 94.4%, as brands invest in fewer, bigger, better stores

Mixed-use urban

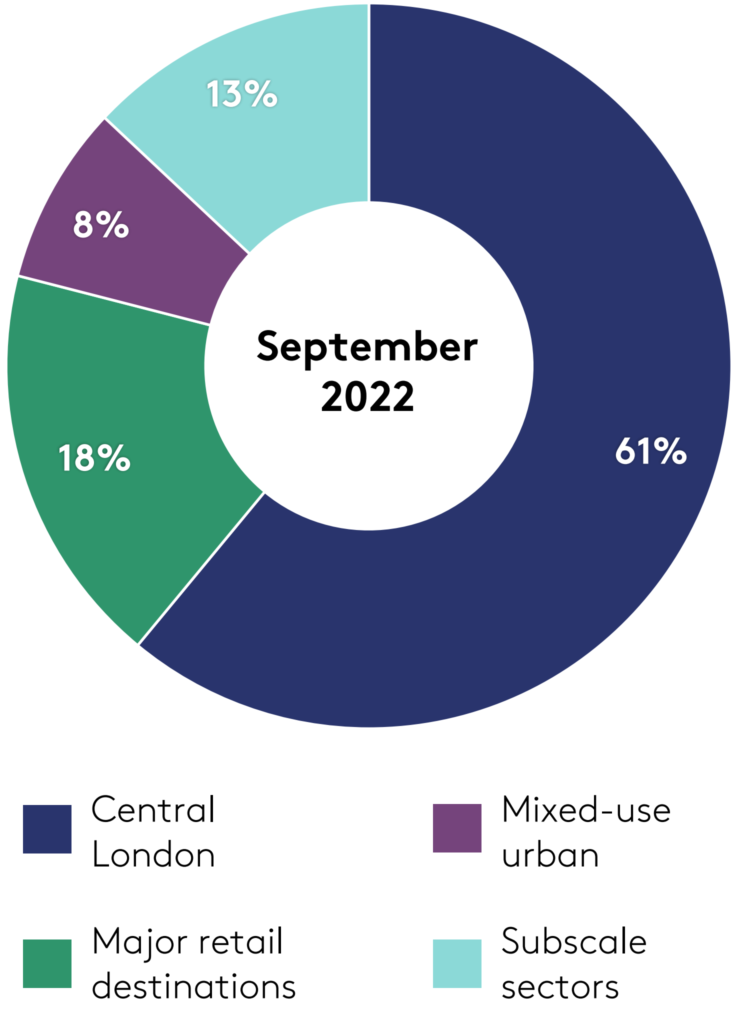


Mayfield, Manchester

- Further progress on preparing pipeline for potential starts
- No commitments to start any development projects
- Well-located urban locations provide significant optionality with limited holding cost

£10.9bn portfolio

Portfolio split



Financial results supported by strong operational performance

Strategic actions mitigate changing market conditions

	30 September 2022	30 September 2021	% change
EPRA earnings	**£197m**	£180m	9%
EPRA earnings per share	**26.6p**	24.3p	9%
Dividend per share	**17.6p**	15.5p	14%
Total accounting return	**-2.9%**	3.7%	

	30 September 2022	31 March 2022	% change
EPRA NTA per share	**1,010p**	1,063p	-5%
LTV	**31.1%**	34.4%	-3.3pp

Focus on delivering sustainably
Progressing our sustainability commitments

Build well **Live well** **Act well**

- Energy intensity stable YoY despite higher utilisation, on track to reduce by 45% by 2030 vs 2013/14 baseline
- Embodied carbon reduction on current pipeline -23.8%
- Progressing £135m net zero transition investment plan
- Start retrofit of first air source heat pumps next year
- Over 50% of office portfolio to be EPC 'B' by 2025, with biggest impact of net zero investment after that
- Target to reduce embodied carbon by 50% by 2030
- Launch of Realising Potential Fund to invest £20m by 2030

Operational review

Mark Allan

CHIEF EXECUTIVE OFFICER

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Central London

Strong leasing momentum, as customer focus on quality intensifies

- High-quality portfolio underpins continued demand
  - 48% of portfolio built or redeveloped over last ten years, compared to c. 20% of overall London market
  - 43% of office portfolio EPC ‘A’ or ‘B’, compared to 15% for overall market
- Strength of customer relationships reflected in number of major lease regears
- £10m of rent signed, 1% ahead of valuers’ estimates
- £31m of rent ISH, 3% above valuers’ estimates
- Vacancy half of overall London market
  - Overall occupancy up 30bps to 95.1% since period-end

Central London – operational performance

	30 September 2022	31 March 2022
Number of lettings/renewal completed	20	21
Rental income generated by new lettings/renewals	£10m	£63m
Rent achieved vs valuers’ assumptions	+1%	+4%
West End office occupancy (LFL)	98.4%	98.2%
City office occupancy (LFL)	90.4%	91.3%

Piccadilly Lights
W1

New Street Square
EC4

Central London

De-risked pipeline. High quality, sustainable product drives ERV growth

- 564,000 sq ft
- Completion March 2023
- BREEAM Outstanding
- Crystallised 25% profit on cost

- 140,000 sq ft
- Completion December 2022
- BREEAM Excellent
- WELL Core Gold

- 144,000 sq ft
- Completion March 2023
- BREEAM Excellent
- WELL Core Gold
- 19% pre-let, with further 5%(1) ISH, 19% ahead of ERV

- 165,000 sq ft
- Completion June 2023
- BREEAM Outstanding
- WELL Core Gold
- 27% pre-let, with further 39% ISH, 6% ahead of March ERV

£110M CAPEX LEFT TO SPEND ON THREE RESIDUAL SCHEMES, SET TO GENERATE £38M ERV WHEN FULLY LET (38% PRE-LET/ISH)

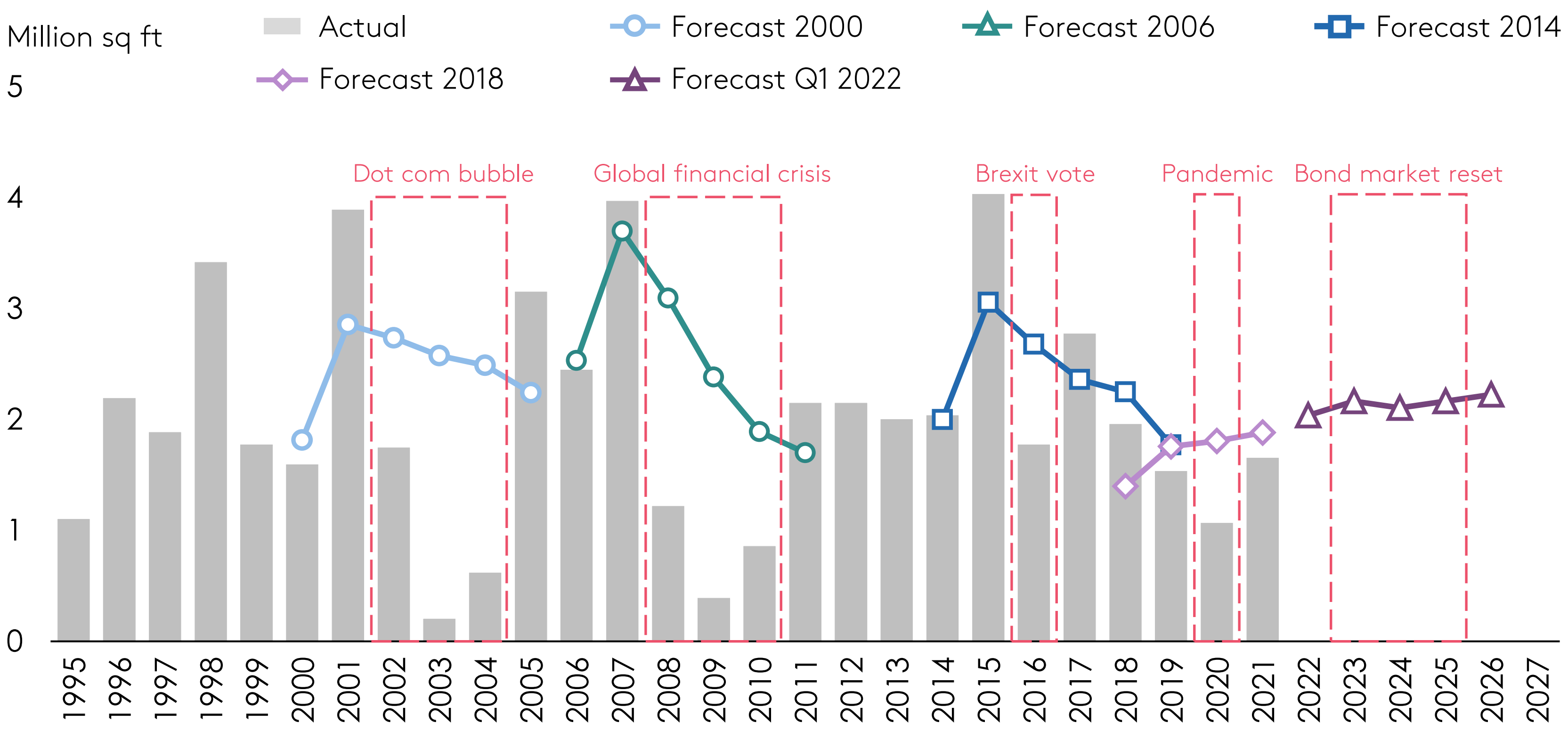
(1) % let excluding MYO space

Central London

Optionality in future pipeline as new supply is set to reduce sharply

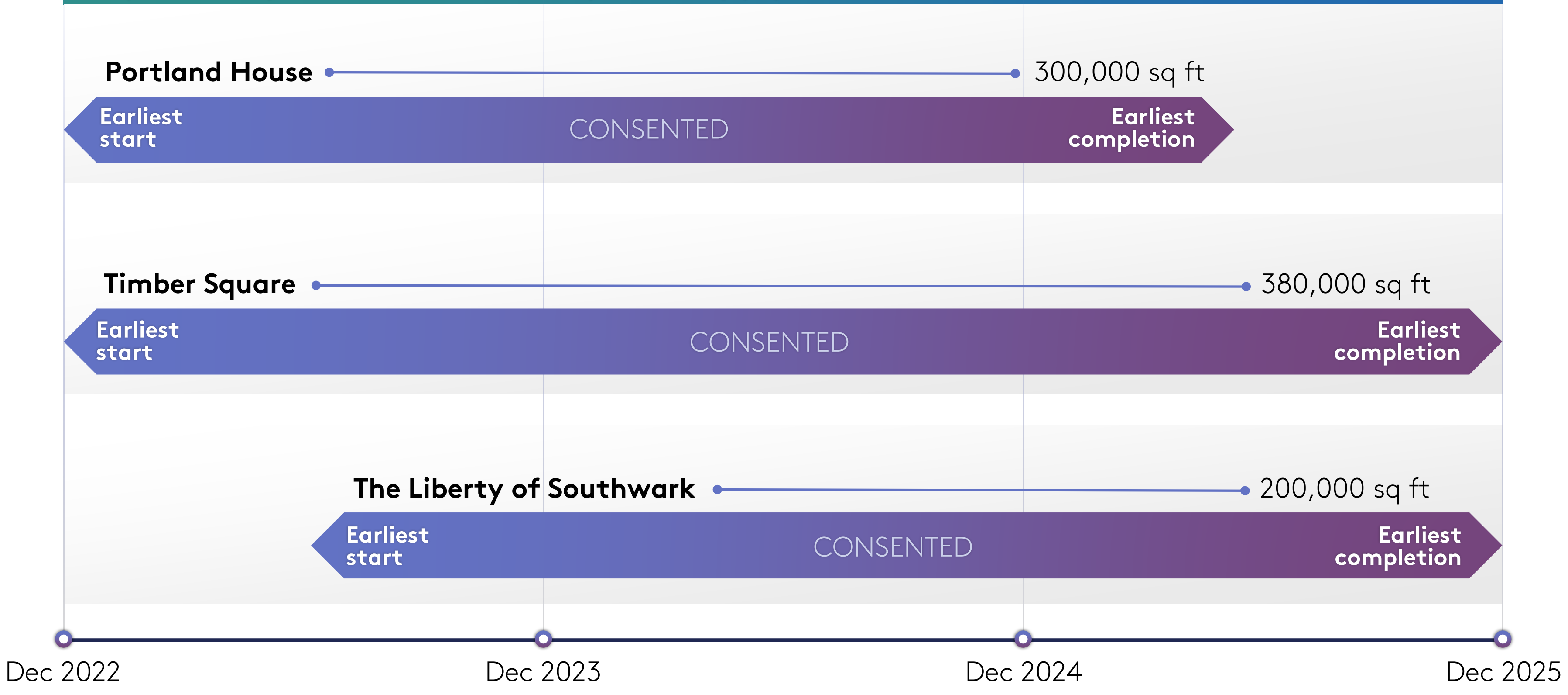
- Grade-A vacancy at low 1.5%
- Expect reduction in new development starts to further increase shortage of Grade-A space
- Potential to deliver 0.9m sq ft in 2025
  - — Three schemes with combined £1.0bn TDC
  - — 7%+ gross yield on cost; 10%+ on incremental capex
- Start c. £55m early works at Timber Square and Portland House to maintain optionality
  - — Strong sustainability credentials, with embodied carbon of 535 and <400kgCO_2e/sqm respectively

Office construction starts in the City – forecast vs actual



Source: PMA

Near-term development potential
Optionality to deliver 0.9m sq ft in supply constrained market in late 2025



Major retail destinations

Demand in high-quality retail destinations continues to grow

- Online and physical channels recognised as fully inter-connected by key brands
- Pandemic impact on consumer behaviour waning
- Customer focus on 'fewer, bigger, better' stores
  - Brands upsizing existing stores
  - New brands relocating in 'flight to prime'
  - Existing customers opening stores in new locations
- Challenging macro outlook likely to accelerate rationalisation of tail-end of store portfolios

Key trends driving shopping centre demand – last 12 months plus live deals

Upsizing
23 brands
expanding from 134k to 303k sq ft (+119%)

Flight to prime
11 brands
across our three inner-city centres (+122k sq ft)

Existing customers, new locations
12 brands
adding 43k sq ft

Overall impact
+335k sq ft
6.0% of total space

Major retail destinations

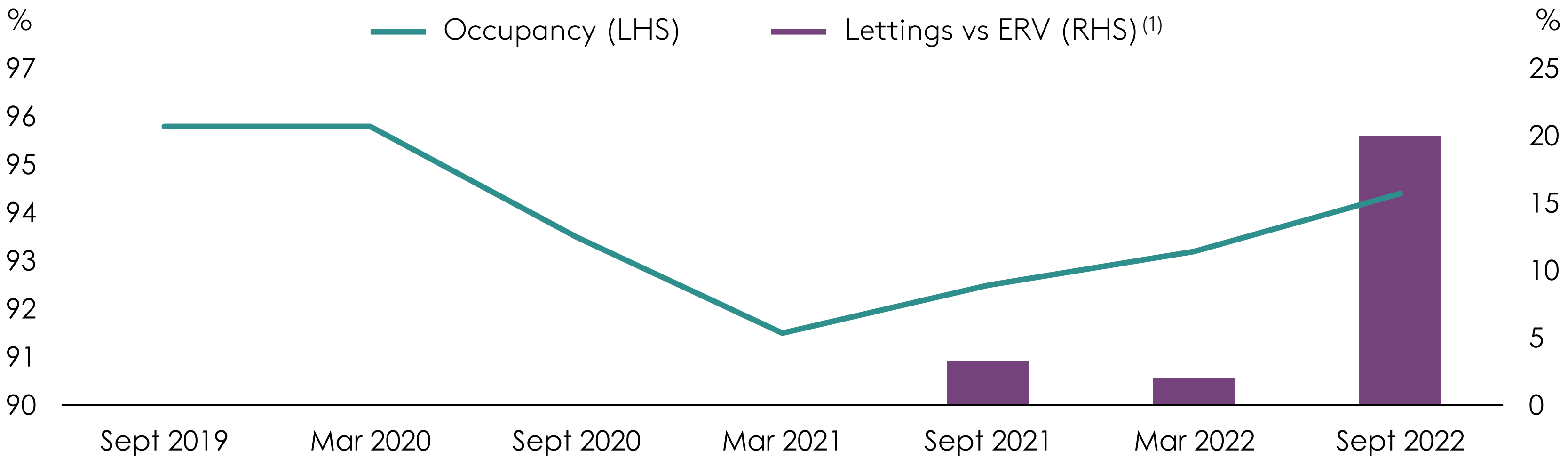
Focus on growing brand relationships starting to drive growth

- Strengthened retail team with clear focus on brand relationships and guest experience
- Total retail sales up 6.3% YoY, with LFL sales 3.6% above pre-Covid levels
- £12m of lettings, on average 20% ahead of ERV
  - Leasing volume 70% ahead of prior period
  - Shopping centre leases 7% ahead of ERV
- Further £15m of lettings ISH, 7% ahead of ERV
  - Shopping centre leases 8% ahead of ERV
- Overall occupancy up 120bps since March to 94.4%

Major retail destinations – operational performance

	30 September 2022	31 March 2022
Number of lettings/renewal completed	103	228
Rental income generated by new lettings/renewals	£12m	£20m
Rent achieved vs ERV	+20%	+2%
Shopping centre occupancy (LFL)	93.9%	92.8%
Outlet occupancy (LFL)	95.2%	93.8%

Major retail destinations – growth in occupancy with leasing ahead of ERV



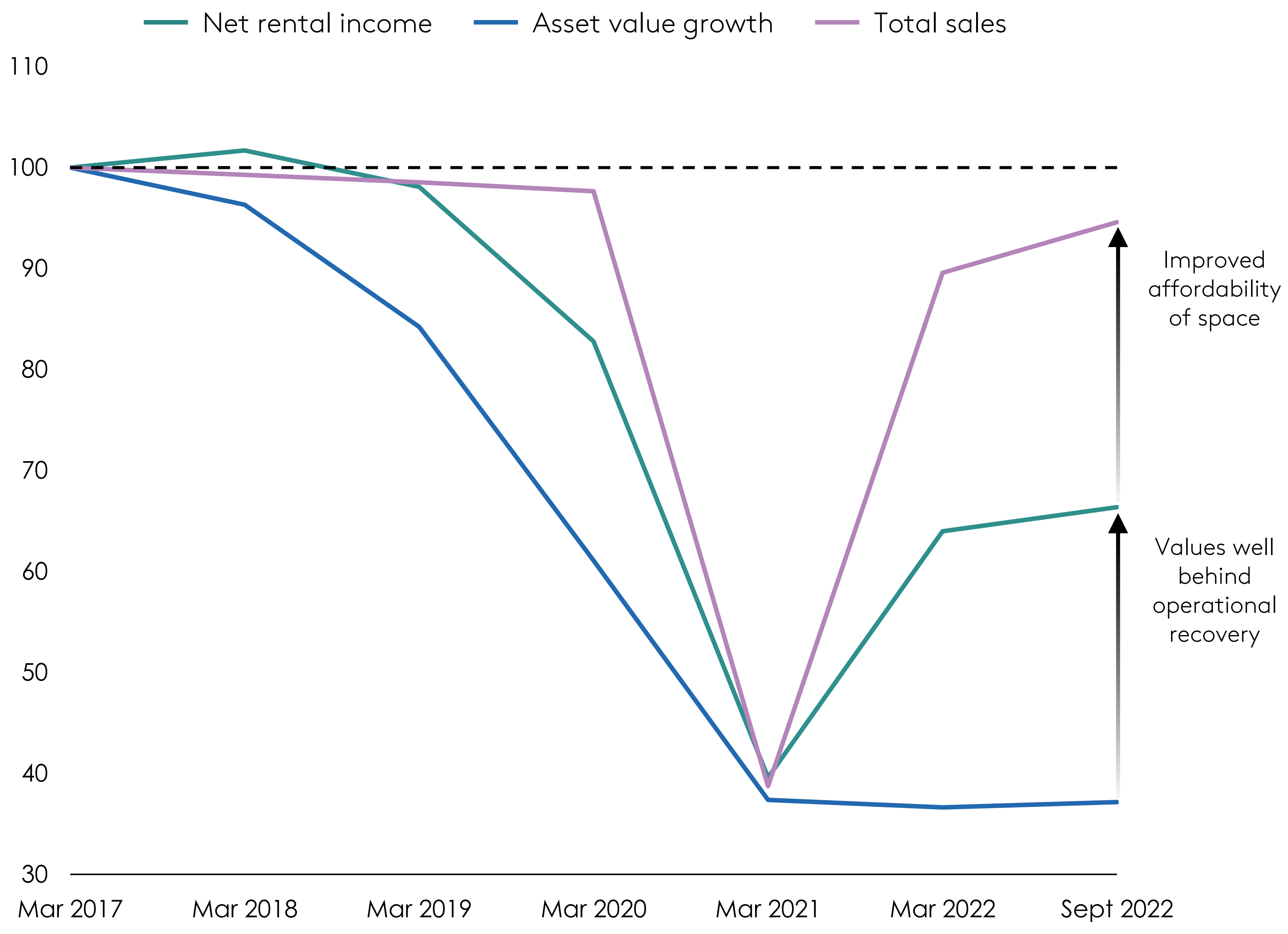
(1) Lettings vs ERV first disclosed in September 2021

Major retail destinations

Return to growth underlines attractive value opportunity

- Strength of customer relationships and insights in trading provide unique perspective on value
- Marked improvement in affordability of physical space, driven by strong recovery in sales
- 23% of retail ERV let or re-let over last 18 months, 8% above ERV, highlighting sustainability of rents
- Valuations still at peak Covid-19/peak online levels, despite strong recovery in sales and income
- Potential for attractive value opportunities

Movement in shopping centre sales, valuation and rents – March 2017 = 100

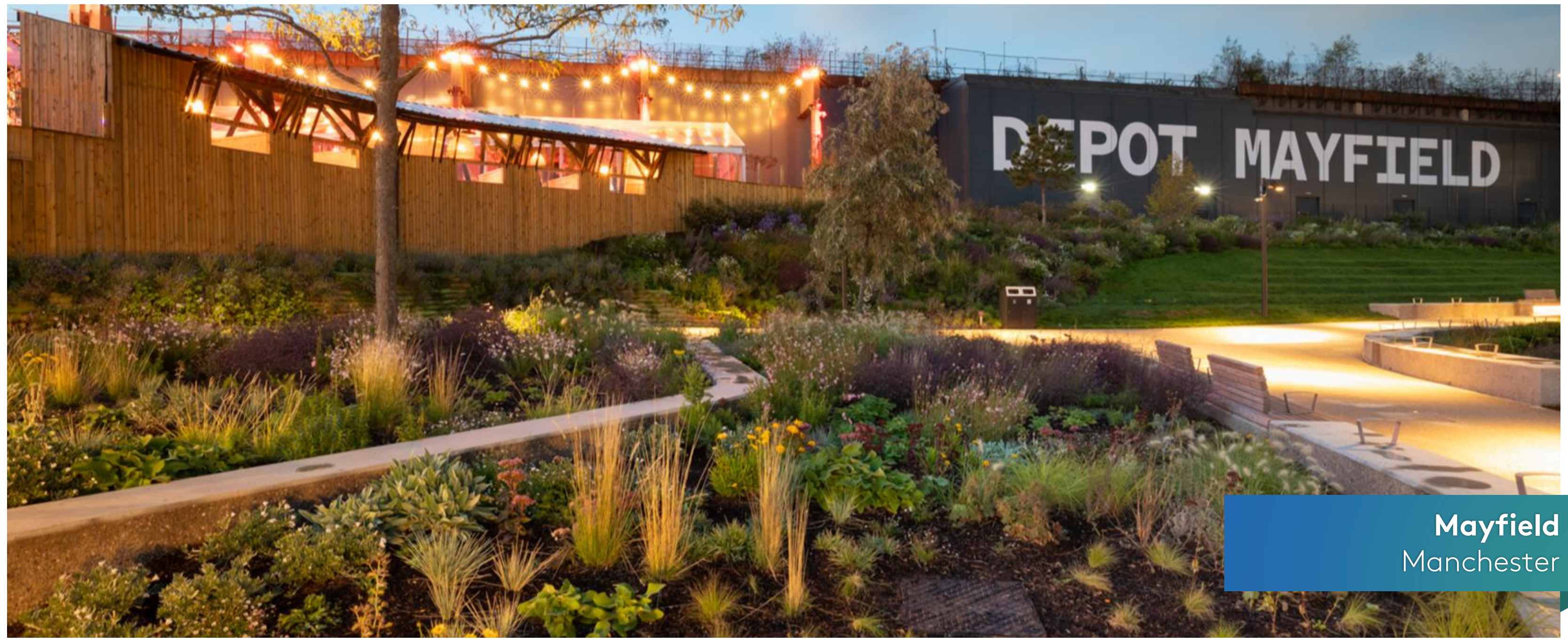


Source: Landsec

Mixed-use urban neighbourhoods

Significant optionality supported by structural growth trends

- Supported by long-term trends of demographic growth, urbanisation, growing sustainability requirements and changing cities
- £269m U+I acquisition in late 2021 added to long-term optionality
  - U+I and Landsec teams now fully integrated
  - Almost half of non-core U+I assets sold/exchanged for £85m, 22% above book value
- Attractive mix of income returns, development upside and medium-term growth
- Balanced risk profile, due to mixed-use nature, phasing of capex and geographic spread



Mayfield
Manchester

MediaCity
Greater Manchester

Mixed-use urban neighbourhoods

Progressing preparations but full flexibility on any potential starts

- Preparation of pipeline on track, but retaining flexibility on future capex commitments
- Optionality to start first phases at Mayfield and MediaCity in early/mid 2023
- Regional development returns more sensitive to yield movements and construction cost
- Target low to mid teens IRR
- Potential 9m sq ft pipeline across five schemes
- Limited holding cost: c. £350m book value, with blended 6% income yield from meanwhile use


CGI of Mayfield
Manchester

Buchanan Galleries
Glasgow

MediaCity
Greater Manchester


CGI of Lewisham
SE13


CGI of Finchley Road
NW3

Financial review

Vanessa Simms

CHIEF FINANCIAL OFFICER

Landsec

Financial summary
Continued growth in earnings and further strengthened balance sheet

	30 September 2022	30 September 2021	% change
Gross rental income[1]	**£325m**	£282m	▲ 15%
EPRA earnings[1]	**£197m**	£180m	▲ 9%
EPRA earnings per share[1]	**26.6p**	24.3p	▲ 9%
Dividend per share	**17.6p**	15.5p	▲ 14%
Total accounting return	**-2.9%**	3.7%	n/a

	30 September 2022	31 March 2022	% change
EPRA net tangible assets per share[1]	**1,010p**	1,063p	▼ 5%
Gross asset value[1]	**£10,929m**	£12,017m	▼ 9%
Group LTV[1]	**31.1%**	34.4%	▼ 3.3pp

(1) Including our proportionate share of subsidiaries and joint ventures

EPRA earnings up 9%
Continued growth in income

- Strong growth in income, with gross rental income up £43m and net rental income up £24m
- Property operating costs up £13m, reflecting acquisitions and increased utilisation of assets
- £10m increase in surrender premiums received added 1.3 pence to EPS
- Inflation puts upward pressure on cost, but plans to improve cost base remain on track
- Expect EPRA cost ratio to improve toward low 20's over medium term

	30 September 2022	30 September 2021
	£m	£m
Gross rental income[1]	**325**	282
Net service charge	**(9)**	(6)
Net direct property expenditure	**(38)**	(25)
Bad debt	**-**	3
Net rental income	**278**	**254**
Net administrative expenses	**(41)**	(41)
Net finance expense	**(40)**	(33)
EPRA earnings	**197**	180
EPRA EPS (pence)	**26.6p**	24.3p
EPRA cost ratio (%)	***26.2%***	*23.7%*

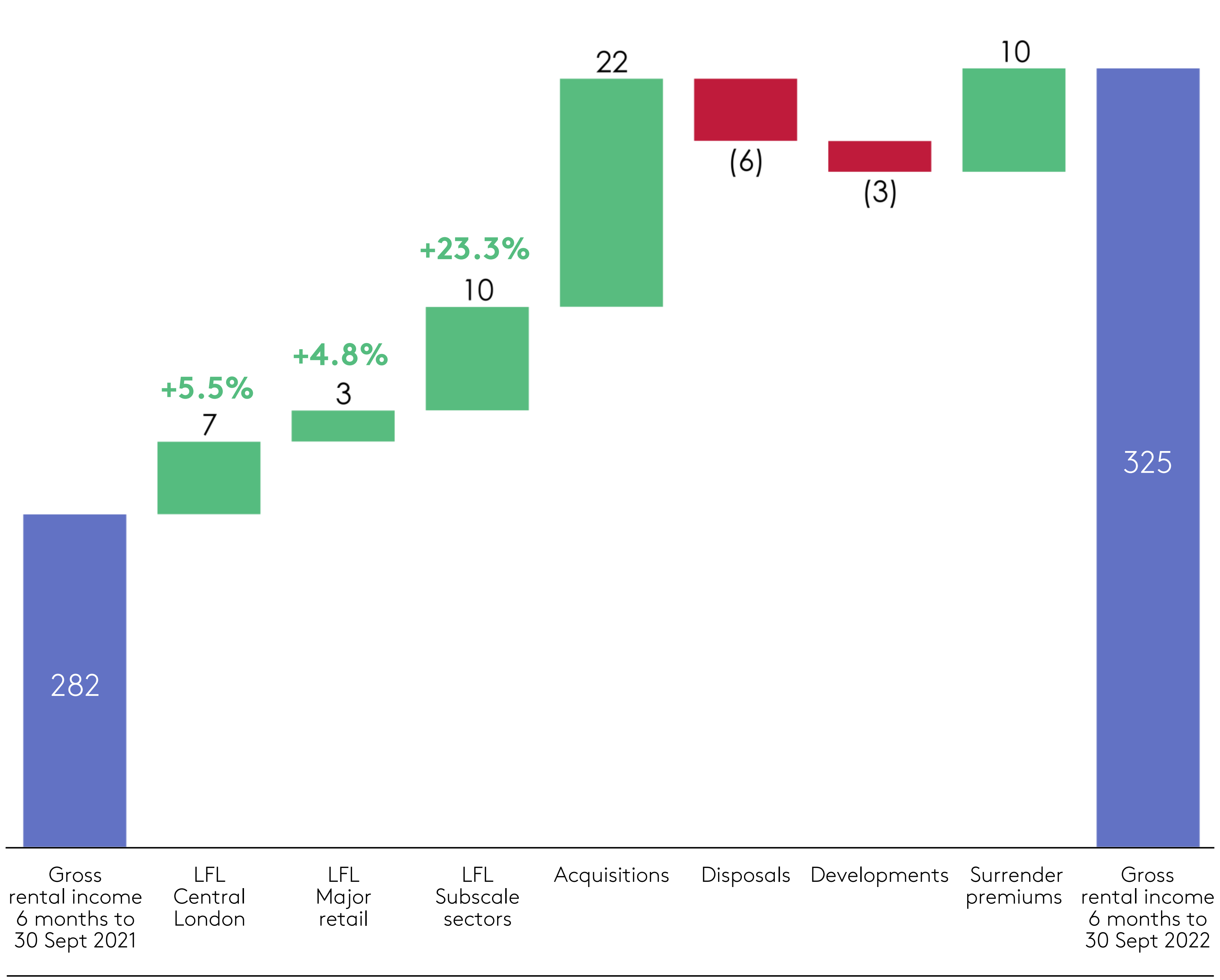
(1) Includes finance lease interest, after rents payable
Note: Including our proportionate share of subsidiaries and joint ventures

Like-for-like gross rental income up 8.3%

Positive growth across all sectors

- Gross rental income increased to £325m
- Positive net impact from our investment activity
- Central London LFL income up 5.5%, driven by strong leasing ahead of ERV
- LFL retail income up 4.8%, driven by positive leasing and growth in turnover-related income
- Subscale sectors LFL income up 23.3%, driven by growth in hotel income and turnover-related leases
- Increase in surrender premium income largely due to Deloitte lease restructuring at New Street Square

Movement in gross rental income (£m)

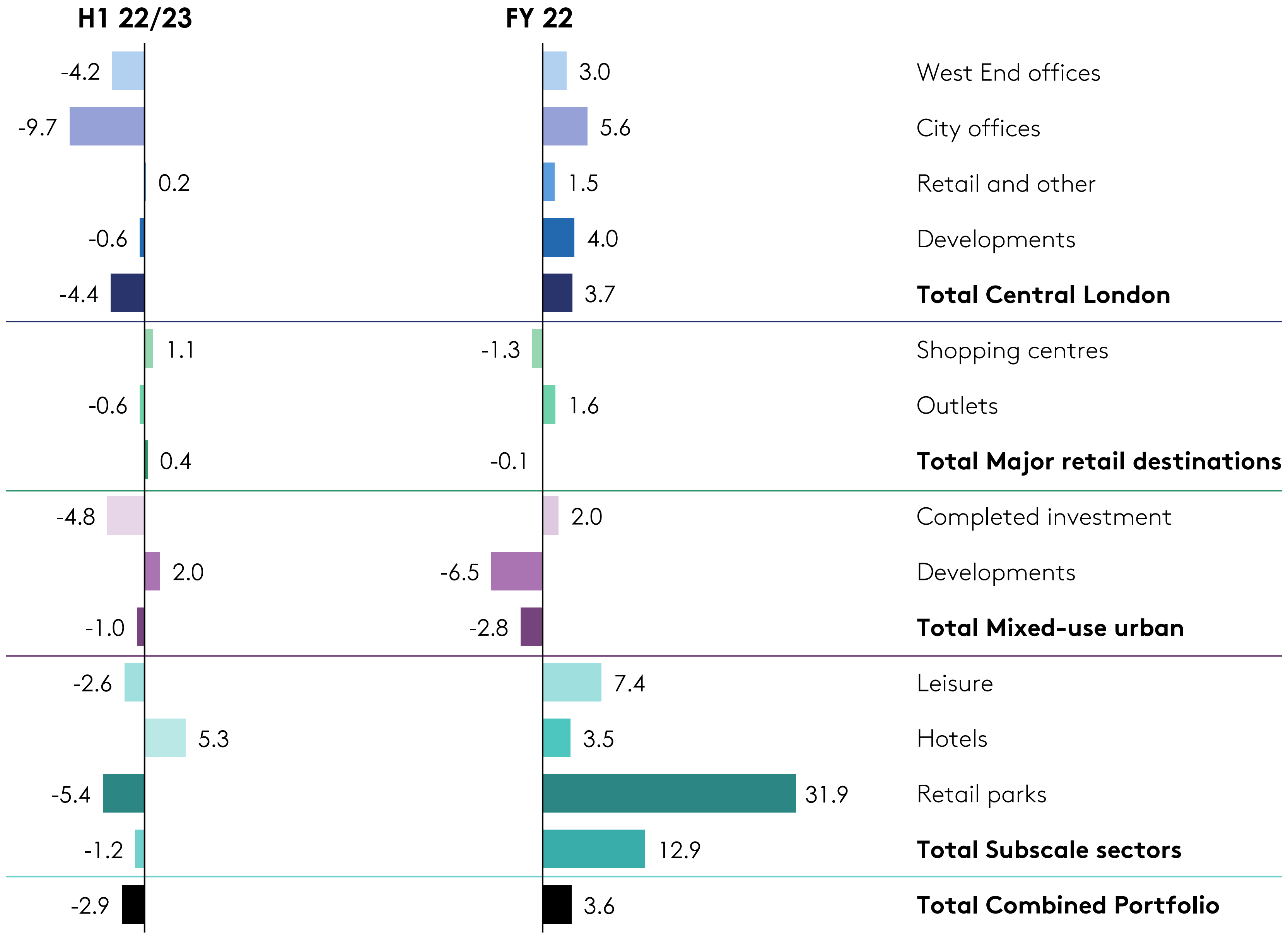


Portfolio valuation down 2.9%

Yield movement drives office values lower, retail portfolio up 0.4%

	Valuation as at 30 September 2022	Surplus / (deficit)	Equivalent yield	LFL equivalent yield movement	LFL ERV movement
	£m	%	%	bps	%
West End offices	2,761	(4.2)	4.8	21	2.2
City offices	1,746	(9.7)	4.9	27	3.3
Retail and other	1,089	0.2	4.6	14	2.7
Developments	1,102	(0.6)	4.5	-	n/a
Total Central London	**6,698**	**(4.4)**	**4.7**	**21**	**2.8**
Shopping centres	1,150	1.1	7.4	5	2.4
Outlets	740	(0.6)	6.7	(4)	(0.9)
Total Major retail destinations	**1,890**	**0.4**	**7.1**	**1**	**1.1**
Completed investment	393	(4.8)	5.9	18	n/a
Developments	497	2.0	5.3	-	n/a
Total Mixed-use urban	**890**	**(1.0)**	**5.6**	**18**	**n/a**
Leisure	563	(2.6)	7.2	27	(0.4)
Hotels	444	5.3	5.5	(1)	(1.1)
Retail parks	444	(5.4)	6.0	29	1.8
Total Subscale sectors	**1,451**	**(1.2)**	**6.3**	**17**	**0.1**
Total Combined Portfolio	**10,929**	**(2.9)**	**5.4**	**19**	**1.8**

Valuation surplus / (deficit) % – H1 22/23 vs FY 22



Total accounting return -2.9%

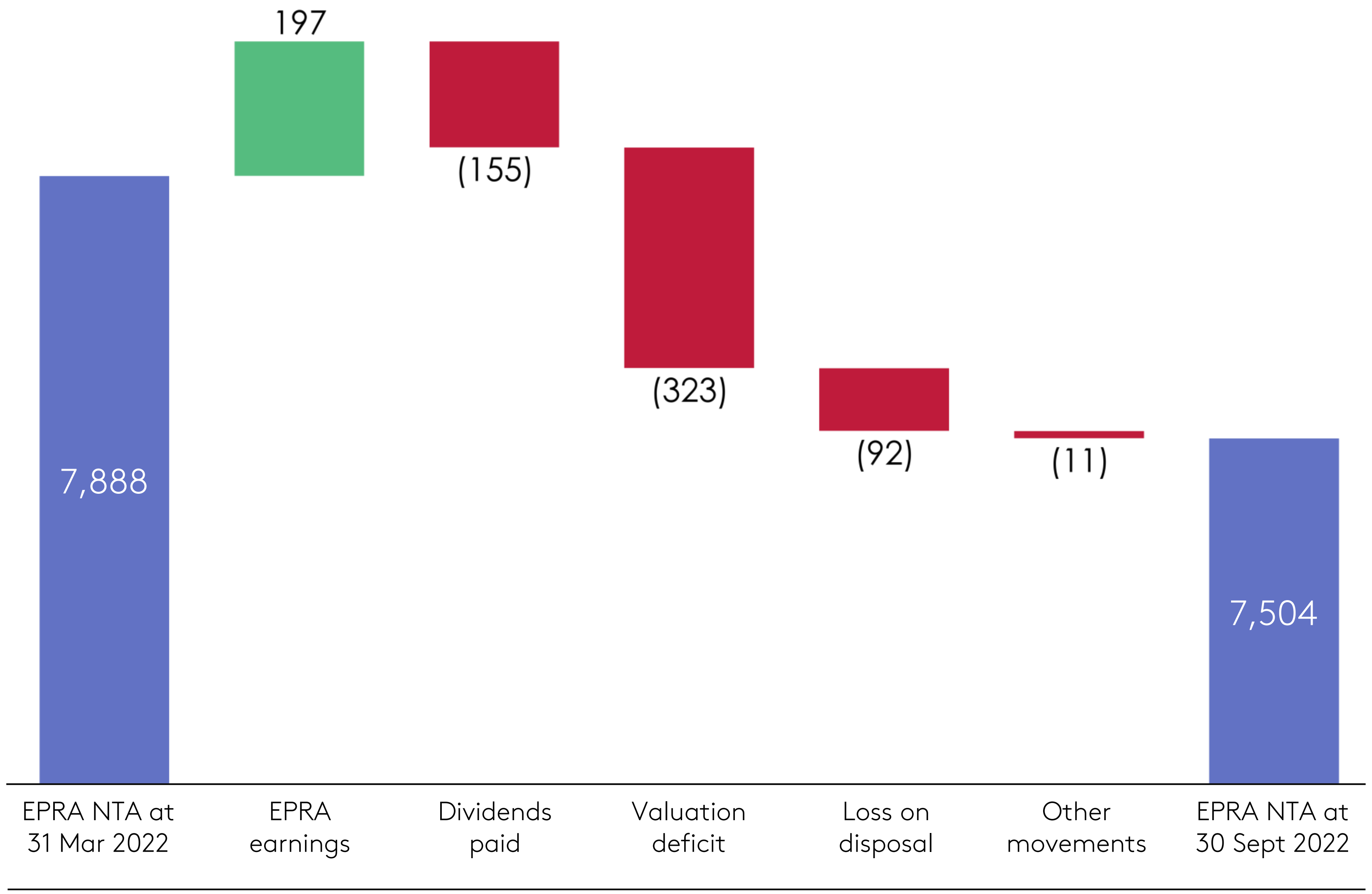
Strong operational performance offset by impact of rising bond yields

- EPRA NTA down 5.0%
- c. 95% of valuation deficit driven by London offices
- Sale of 21 Moorfields crystallised 25% profit on cost despite 9% discount to last book value
- Total accounting return including dividends paid -2.9%
- Dividend for the period of 17.6p up 13.5%, reflecting continued growth in earnings

Movement in EPRA NTA and NTA per share (£m)

Diluted pps

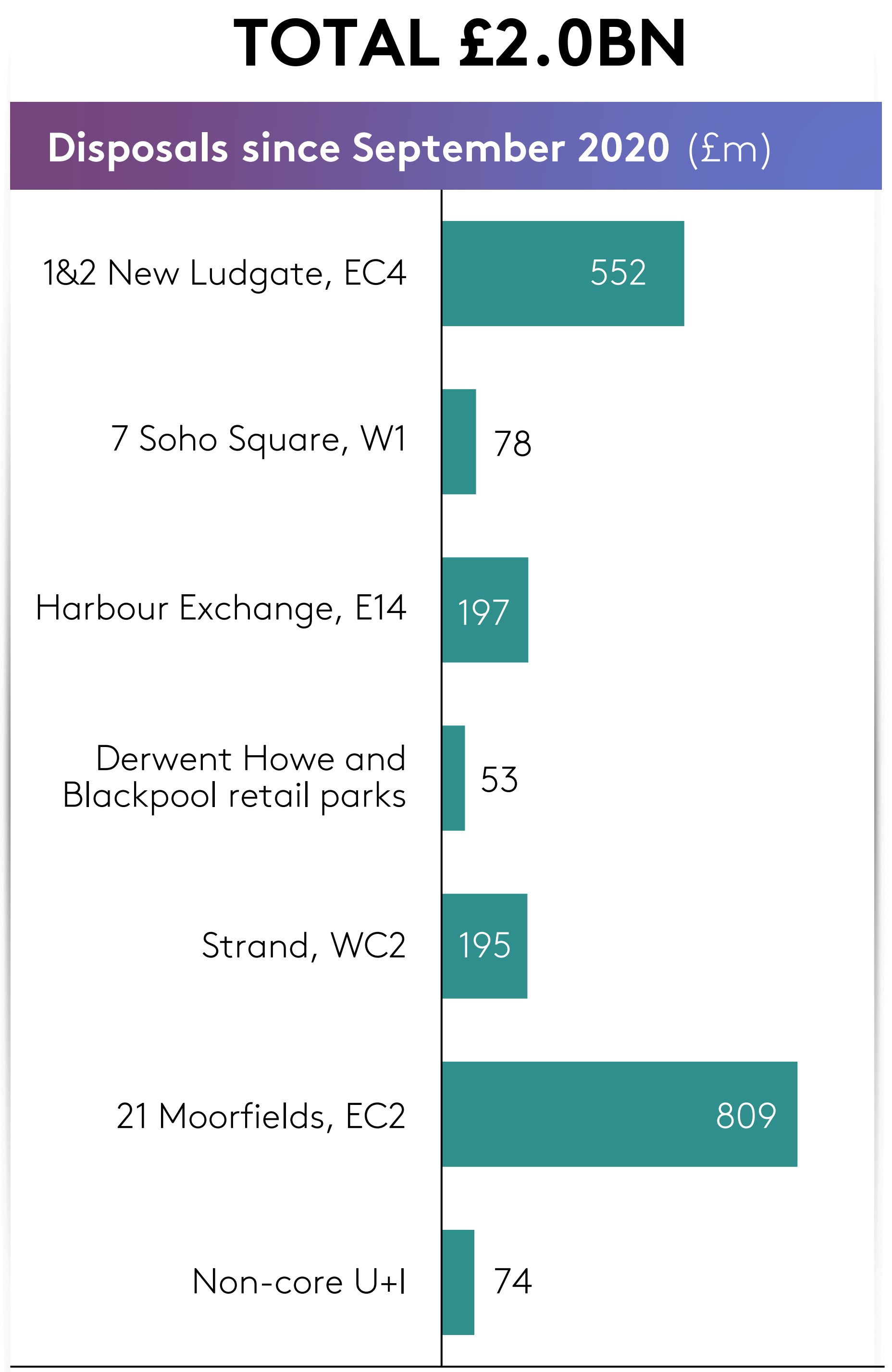
1,063	27	(21)	(44)	(13)	(2)	1,010

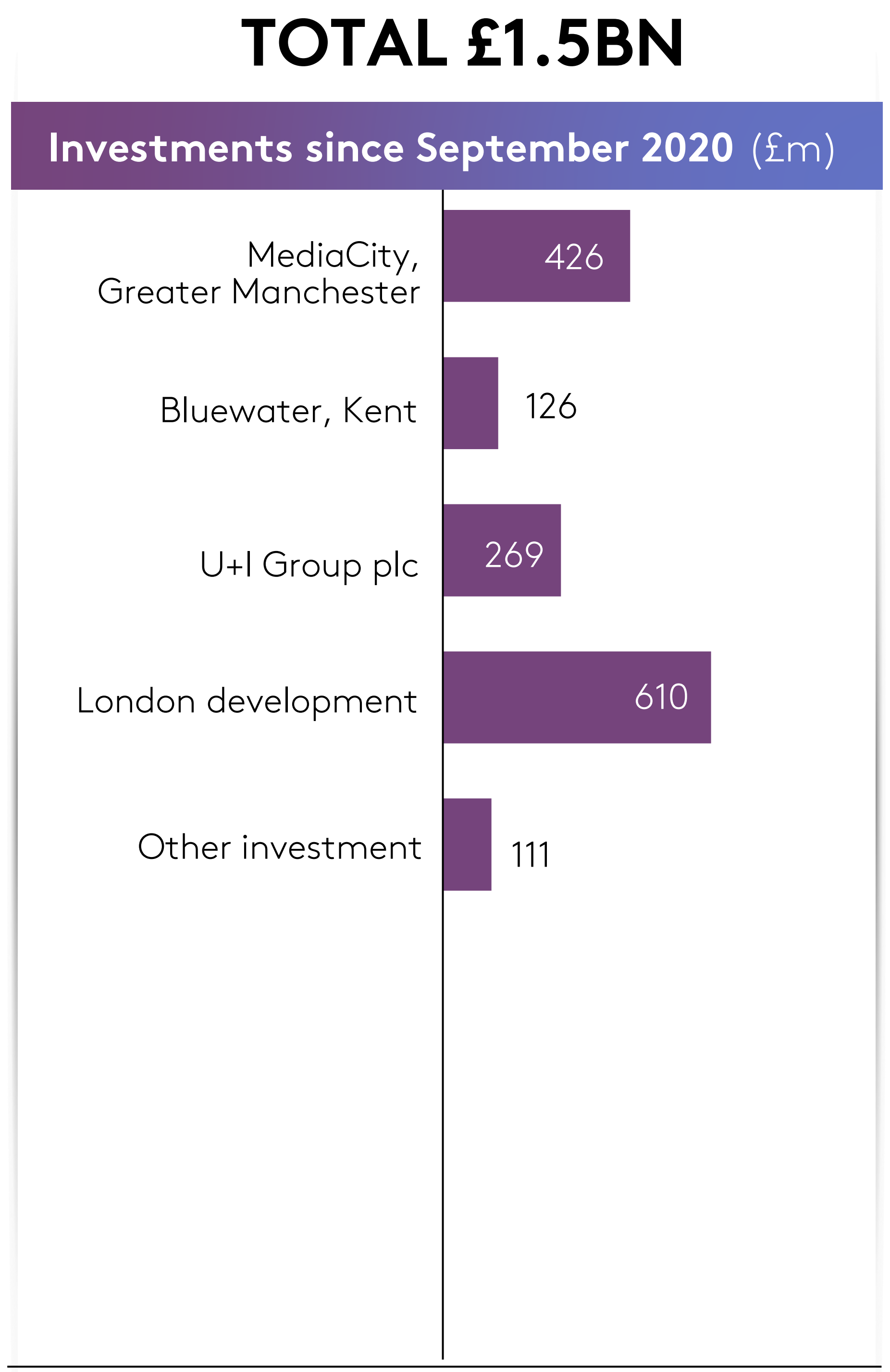


Delivering on more decisive capital allocation

Actions driven by clear view on returns

- Decisive capital allocation based on clear view on return expectations
- Sold £2.0bn of assets since late 2020 – virtually all mature, low yielding London offices
- Focused new investment on opportunities with clear value or long-term optionality
- Rest of c. £4bn of assets originally earmarked for sale equally split between four sectors
- Pursuing further disposals to add to future optionality, but can afford to be selective

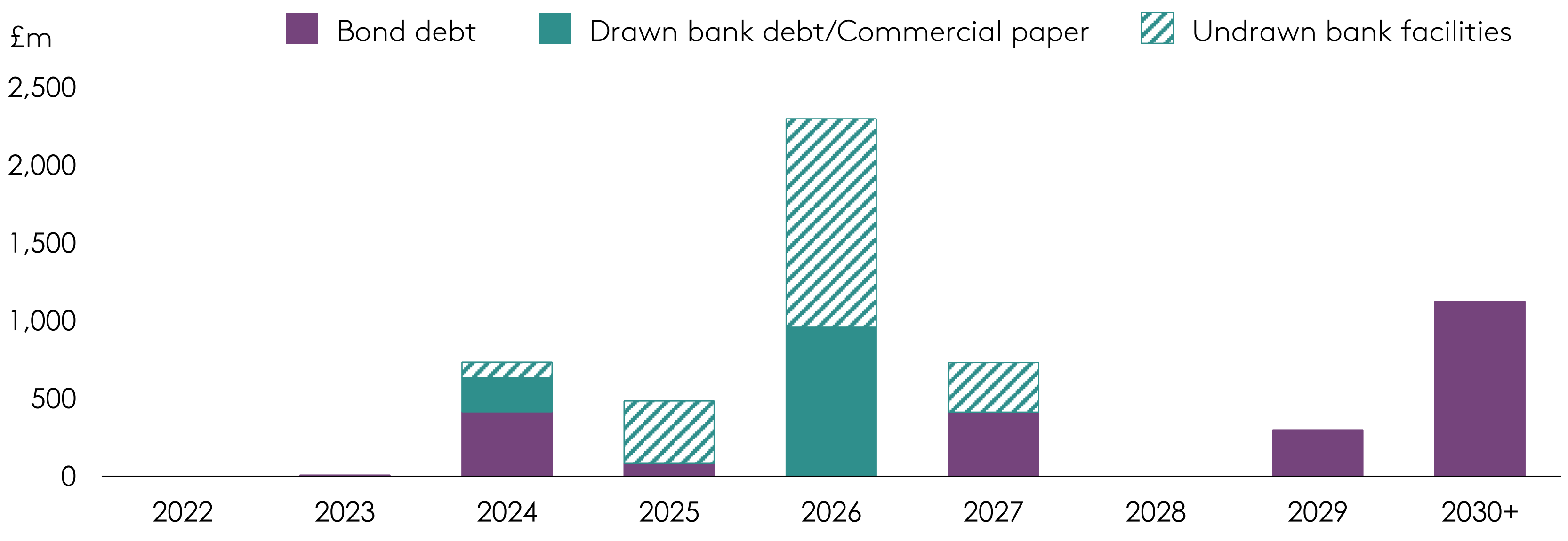




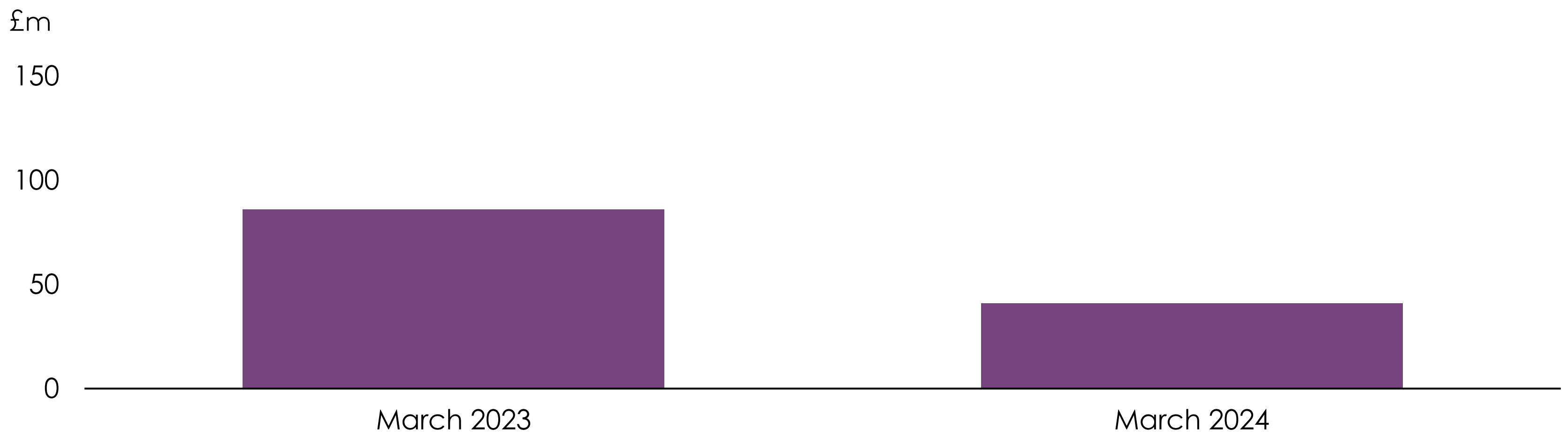
Further improved balance sheet strength

Low LTV and net debt/EBITDA provide resilience

Debt maturity – calendar year[(1)]



Committed development capex[(2)] of £127m



(1) Commercial Paper maturity date refers to the maturity date of bank facility which is reserved against it
(2) Includes committed capex of £17m for pre-construction works

	30 September 2022	31 March 2022
Adjusted net debt	**£3,441m**	£4,179m
Group LTV	**31.1%**	34.4%
Weighted average net debt/EBITDA	**8.7**	8.8
Interest cover ratio	**4.3**	4.9
Average debt maturity (years)	**9.8**	9.1
Weighted average cost of debt	**2.7%**	2.4%
Percentage of debt fixed	**84%**	70%

- LTV down to 31.1%
- Net debt/EBITDA expected to reduce to c. 8x by year end
- Committed capex 1% of portfolio value
- Average debt maturity of nearly ten years
- No need to refinance any debt until 2026

Strong financial position provides optionality

Long-dated debt profile supports visibility

- Expect underlying EPRA EPS for this year to grow low to mid single digit percent, excluding benefit of increase in surrender premiums
- Dividend to grow in line with underlying EPRA EPS
- Completion of current developments to benefit income from next year onwards
  - £38m ERV with only £110m left to spend
- Exact shape of EPS progression beyond current year reliant on timing of disposals/investments
- Well placed for future opportunities

21 Moorfields
EC2

Overview

Mark Allan

CHIEF EXECUTIVE OFFICER

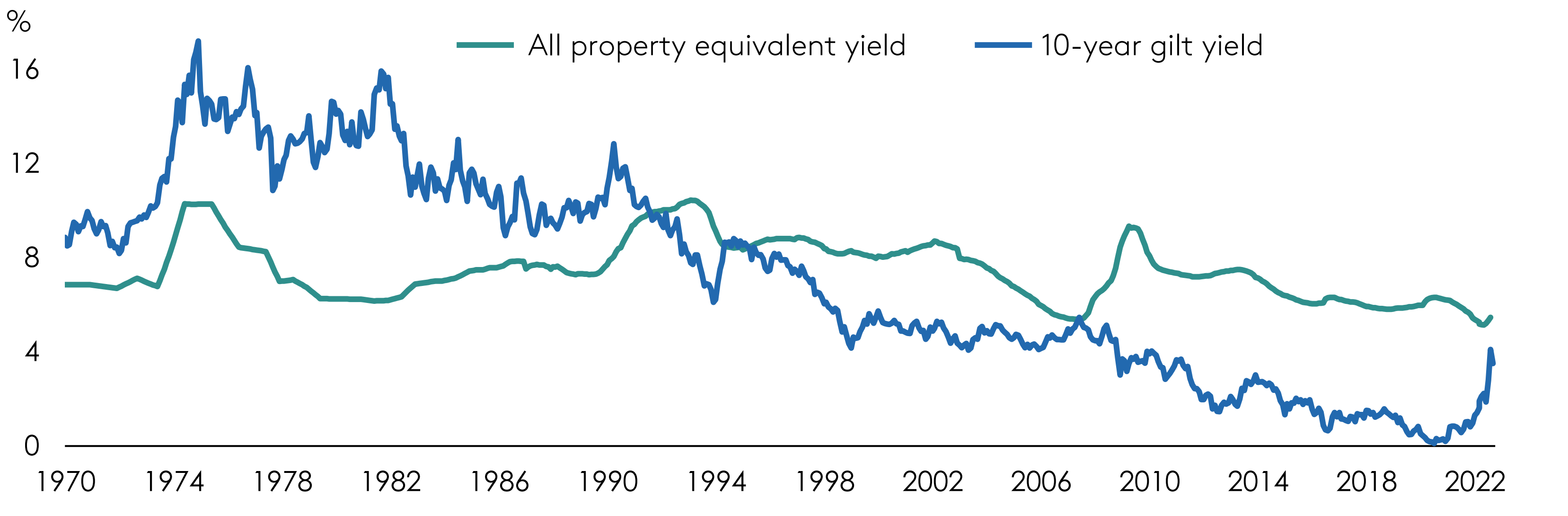
Landsec

A rapidly changing market

Well placed as markets adjust to new reality

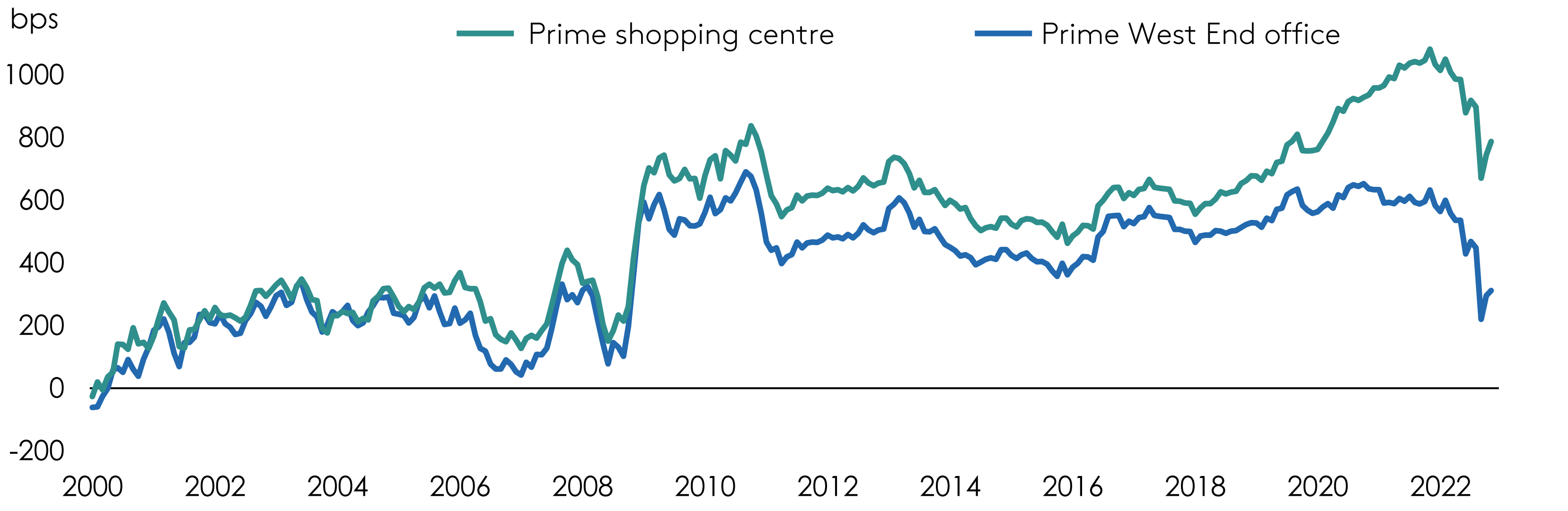
- Capital markets adjusting to new normal, as bond yields rise and decade of stimulus unwinds
- Lasting impact on asset values, including property
- Property repricing to continue, with sectors with lowest yields most at risk; value in prime retail
- Resilient occupational demand, supported by increasing customer focus on quality
- Portfolio quality and balance sheet strength most important attributes

Long-term perspective – property yields vs 10-year gilt yields



Source: Bloomberg, MSCI

Risk premium – spread between prime yields and five-year real interest rates

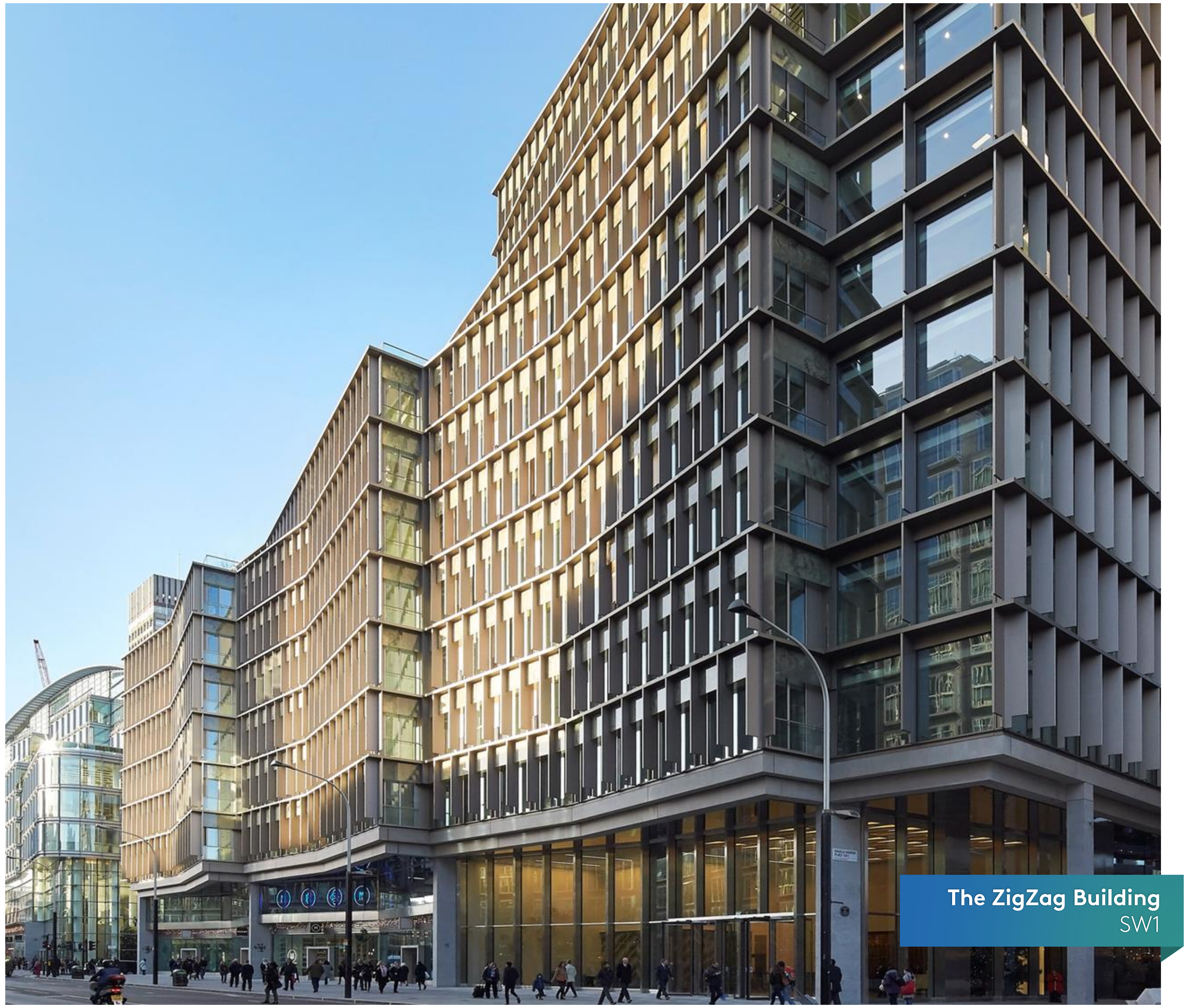


Source: CBRE, Bloomberg

Our focus for the next 12 months

Right strategy – Well positioned for future opportunities

- Position Landsec to capitalise on market recovery
- Maintain strong operational momentum
- Culture, cost base and customer relationships
- Monetise assets where we cannot add further value
- Maximise optionality in development pipeline
- Leverage unique platform and strength of capital base to deliver enhanced returns over time



The ZigZag Building
SW1