LANDSEC HALF-YEARLY RESULTS PRESENTATION TRANSCRIPT

12 November 2019

Speaker: Robert Noel – Chief Executive Officer

Slide 2 – Introduction

So good morning everyone and a very warm welcome to our half-yearly results presentation. We talked about our direction of travel in May and most of you attended our London focused Capital Markets Day in September. So you know we went into the year focused on progressing our development programme, improving the mix at our retail destinations, further improving our sector leading sustainability credentials and innovating in construction, products and services and we have done exactly that as you will hear today.

Unsettled politics and a tough retail market have been our backdrop, but as you will have seen this morning, we have produced resilient results. This is due to the quality of our assets and our conservative capital structure with earnings up marginally and the effect of the decline in retail values on EPRA and net assets limited by the diversification of our portfolio in recent years.

Slide 3 – H1 2019/20 – balance of business shifting more to London

Before we get into the meat of the presentation, I just want to remind you of our portfolio breakdown both by sector and geography. As you know we merged our operating units of London and Retail during the first half, as we are increasingly applying skills from across the business on all assets. At our Capital Markets Day, Martin set out the re-segmentation of our reporting into Office, Retail and Specialist assets, along with a reconciliation to our previous reporting, which is also on our website. You can see the breakdown by classification and subsector here and we will refer to these as we go through the presentation.

By geography, 67% of our portfolio is now in London, shown on the right-hand side of this slide and this is set to grow as we continue to work our way out of our remaining retail parks and – a potential £2 billion of development costs to come in our pipeline over the next few years – which is all in London as you know.

Slide 4 – H1 2019/20 – resilient results in mixed markets

As Marcus reported at our Capital Markets Day, the London office occupational market remains healthy **–** we have put lots of market data in the appendices to your packs. The flight to quality and convenience continues and our office portfolio is well set up for this, and growing. The portfolio is pretty much full. Myo and Fitted, which most of you toured in September, have landed well with customers and are both well ahead of plan. As for progress with our development programme, just over 900,000 sq ft was on site at 30 September with over 100,000 sq ft started since and we expect to start a further 400,000 sq ft by the time we report to you in May. This means we should have 1.4 million sq ft underway in the next six months of which 40% has been pre-let. Delivery of this space is in 2021 and 2022, at a time when we think the supply of good quality space will remain constrained.

Our Specialist assets are holding up with leisure and hotel assets at virtually full occupancy. Though the food and beverage sector is facing widely reported headwinds, our dominant destinations remain popular with the consumer, and in demand from operators with UK cinema attendance significantly up year-on-year. Hotel revenues have held up. And at Piccadilly Lights, our short-term leasing is going well with 90% of our target for the financial year already committed.

The retail market is tough as we all know, but it is nuanced. Outlets are holding up well as is London retail in the main, while regional shopping centres and retail parks remain difficult as we all adapt to structural change and a more cautious consumer. There were a number of high profile CVAs and administrations during the period, and limited demand combined with poor investor sentiment has impacted rental and capital values. Having said that, these two segments make up just 19% of our portfolio as a whole and our performance against national benchmarks for footfall and sales is excellent. Same centre sales, excluding the positive effect of automotive sales, were down by 0.7% on the first half versus the benchmark which was down 3.8%.

Martin will take you through the numbers and a breakdown of the valuation in a few minutes and Colette will cover all of our activity throughout the portfolio in more detail after that.

Slide 5 – H1 2019/20 – progress on sustainability

I talked in May about our ambition to push on with our sustainability agenda. Caroline covered it in more detail at the Capital Markets Day and reinforced how it is integrated into pretty much every aspect of what we do. We see this as a crucial part of having a licence to do business with our communities, our customers and our partners and in having the support of both our employees and increasingly our investors. We were really pleased to be recognised again in September as the sector leader ranking first in the UK and Europe among our peer group by GRESB and as European leader in the Dow Jones Sustainability Benchmark. As planned, we continue to push on, having been the first real estate company in the world to be recognised for our science based carbon reduction targets. We have now raised our targets to reflect new climate science which shows that the world must remain within 1.5 degrees of warming. We are committed to being a net zero carbon business by 2030 and at Sumner Street we will be developing our first net zero carbon building.

So now to our Results and I will hand over to Martin.

Speaker: Martin Greenslade – Chief Financial Officer
Slide 6 – Financial results

Thank you Rob. Morning everyone. As Rob said, our business has delivered a resilient performance for the first six months and we remain in a strong financial position so let’s go through the headline numbers.

Slide 7 – Financial summary

Revenue profit for the six months was £225 million, that is up £1 million or 0.4% and that is despite the challenges that we see in the retail market. Our valuation deficit was £368 million leading to a loss before tax of £147 million. Adjusted diluted earnings per share were up 0.3% to 30.4p. EPRA NAV per share was £12.96, that is down 3.2% or 43p since March. And finally, our dividend is 23.2p for the six months, that is up 2.7%.

Slide 8 – Revenue profit

Turning now to that £1 million increase in revenue profit. And I can safely say that this is by far the simplest slide that I have ever had to present because as you can see revenue profit was up by £1 million due to a £1 million increase in net rental income while all other costs were flat. So let’s really get under the skin of that £1 million movement in net rental income.

Slide 9 – Net rental income analysis

As I explained at the Capital Markets Day in September, we are one business and the London and Retail Portfolio split is a thing of the past. Our segmental reporting, that now reflects the predominant use class of our assets grouped into Office, Retail and Specialist. And what this chart shows you is the changes in net rental income and I have broken down the movement in like-for-like net rental income into those three use types.

So overall net rental income increased by £1 million. Like-for-like net rental income was up £4 million with Office up £3 million, Retail declining by £2 million and Specialist up £3 million.

Slide 10 – Like-for-like net rental income analysis - Office

The £3 million increase in like-for-like office was due to £1 million from rent reviews, principally at New Street Square and £2 million came from new lettings, mainly at Nova and 10 Eastbourne Terrace last year, but also the new lettings at Myo this year.

Slide 11 – Like-for-like net rental income analysis - Retail

Turning to Retail, and remember this is all retail including our London retail, like-for-like rental income declined by £2 million. The impact of voids, re-lettings, rent reviews and surrender receipts – those broadly balanced out. We saw a £1 million improvement in bad debt and lease incentive provisions compared with this time last year. Now over the past six months there have been a few high-profile administrations and CVAs, notably Arcadia and Debenhams, although we did take a provision against lease incentive balances for these two retailers at the end of last year. Lost income from administrations and CVAs totalled £3 million in the period. Taking into account the timing of store closures and changes to rents, I would expect the second half decline to be around a further £3 million, that is before taking into account any additional provisions for lease incentives that may be required. Now there is more information as Rob said on CVAs in the appendices.

Slide 12 – Like-for-like net rental income analysis - Specialist

On to Specialist where like-for-like net rental income increased by £3 million. £1 million comes from lower lease incentive provisions compared with the prior period. And £2 million was driven by increased short-term lettings at Piccadilly Lights where we are really pleased with the progress.

Slide 13 – Net rental income analysis

So back now to the remaining elements of the movement in net rental income. I have combined proposed developments, the development programme and completed developments into one, and these saw a £1 million reduction in net rental income as we began vacating Portland House prior to redevelopment next year. Income from Portland House will remain at around its current level in the second half. Acquisitions had a £1 million negative impact due to empty rates at Lavington Street, and we also sold Livingston Retail Park last year which resulted in £1 million lower net rental income in this period.

Slide 14 – Combined Portfolio valuation

So let's now look at the valuation. Set out here is our Combined Portfolio of £13.4bn split into various asset classes. Overall our assets reduced in value by 2.8% but once again there was a considerable variation in performance across the asset classes.

Slide 15 – Combined Portfolio valuation - Office

Office, which makes up half of the Combined Portfolio by value, saw no overall movement in valuation. Like-for-like rental values were up 1.9% and there was a 5 basis-point outward movement in yields. Within the Office segment, like-for-like assets were up 0.3% in value, primarily because of an increase in rental values in Victoria. Our office development programme increased in value by 3.8% largely due to construction risk reducing at 21 Moorfields, while proposed developments declined by 8.1% and that reflects the valuation of Portland House now being done on a residual basis.

Slide 16 – Combined Portfolio valuation – London retail

Moving onto London retail, that is the retail in central London below our offices, plus our suburban London retail assets – that segment reduced in value by 3.5% due to a 2.7% reduction in like-for-like rental values and a 4 basis-point outward movement in yields.

Slide 17 – Combined Portfolio valuation – regional retail

Regional retail, so that is our shopping centres outside London, was down 9.4% and here like-for-like rental values fell by 3.7% and yields moved out on average by 36 basis-points. There was little difference in performance between any of the centres with the best performer being down 7.9% and the worst down 11.5%.

Slide 18 – Combined Portfolio valuation – outlets

Outlets continue to be the best performing retail asset class with values up 0.6%. Letting activity in the period resulted in a 1% increase in rental values and Colette will talk about outlets a little more in a minute.

Slide 19 – Combined Portfolio valuation – retail parks

Retail parks were down 11.1% in value and that is largely due to a 58 basis-points outward movement in yields. Our average equivalent yield on retail parks is now 6.7%.

Slide 20 – Combined Portfolio valuation – leisure and hotels

And finally Specialist. The value of our leisure and hotel assets was down 3%. Hotels were broadly flat but the challenges facing the casual dining sector impacted our leisure assets.

Slide 21 – Combined Portfolio valuation – other

The "other" category here is principally Piccadilly Lights where values were broadly unchanged.

Slide 22 – Development expenditure

So moving on to development expenditure, and I have set out here the potential cash expenditure on our 3.5 million sq ft of development opportunities. As you can see, that totals just over £2 bn. Now if all of that cash cost was funded from debt without any disposals **–** which it won't be **–** our LTV would rise to 37.6% assuming current values and no profit on any scheme.

Slide 23 – Strong financing position

Over the six months, our adjusted net debt increased by £61 million and that, together with the decline in the value of our assets, was behind the increase in our LTV to 28.1%. Our weighted average cost of debt was marginally lower at 2.6% and we continue to have around £1.6 bn of fire power for investment opportunities and to backstop committed capex on our development schemes.

Slide 24 – Financial summary

So let me summarise. Despite the market backdrop, particularly in Retail, our income has proved resilient, our balance sheet remains strong and we have plenty of fire power for acquisitions and our exciting development programme.

Now let me hand over to Colette.

Speaker: Colette O'Shea – Managing Director
Slide 26 – Strengthening portfolio

Good morning. We have continued to strengthen the portfolio, introducing new products, staying ahead of market trends and driving through new and better ways of working throughout the business. This morning I will bring you up to speed on the whole portfolio, how we are tackling market challenges and, as far as possible, turning these into opportunities.

Our Office portfolio is virtually full, the new products Fitted and Myo are both performing well and our development programme is progressing at pace.

As you saw at the Capital Markets Day we are getting better and better at using technology and data to give customers more of what they need and want in both design and services **–** as well as to build faster, more efficiently, saving cost and reducing waste. But, as we all know, retail continues to be challenged by structural changes which are here to stay. Again, we are using data and market intelligence to understand the new reality of retail and what we need to do to drive down occupancy costs, drive up sales, whilst protecting income.

Slide 27 – A resilient performance across the portfolio

Let me start by giving you some headline numbers. We are 98% let, we have delivered £14 million of lettings with another £17 million in solicitors' hands. And completed £16 million of office rent reviews at 10% above the passing rent. Our office WAULT is almost 9 years which is long for the sector. Our retail net rental income has held up despite the challenging market, decreasing by only £2 million compared to last year. And looking to the future, we have a mixed use development pipeline of 3.5 million sq ft, all of which is in London and will be delivered from 2021 onwards.

Slide 28 – Office – London continues to be a highly desirable location

As our Capital Markets Day was only a few weeks ago, my London update will be brief. However full disclosures are in your appendices. So, the summary version. London continues to be a highly desirable location despite the political turmoil. It is an exciting, vibrant city where people want to live and work and invest. The dynamics of the occupational market have altered little in the last year. The flight to quality continues to drive activity with Q3 take-up above the long-term average and 11% up on Q2. But, as we have been saying for a while, there is limited supply of new space and the vacancy rate is down to 4% compared to a 10-year average of 4.2%. There is approximately 8 million sq ft of speculative space under construction, but with an average take-up of 5.5 million sq ft over the last 3 years there is just under 18 months' supply being built. This gives us confidence for our own development pipeline which is delivering 3.5 million sq ft between 2021 and 2027 and there are detailed charts in your appendices showing all this.

In the investment market, volumes are down 59% on 2018 with overseas investors appearing to take a "wait and see" approach. We remain vigilant, looking for the right London opportunities, but discipline is key.

Slide 29 – Office – a robust performance across all three products

Let me turn to our Office portfolio, I am really pleased with the performance of all three of our office products. Starting with HQ, we are virtually full, but have grown income through rent reviews and lettings. Fitted, our fitted-out solution launched in the spring with two floors at 123 Victoria Street, both are let at a premium of 20% to net effective rents. And as we roll out this offer, we will be targeting a 5-15% premium.

Myo is also proving the benefits of careful market analysis and greater customer understanding. We wanted a product that was truly differentiated and could also be integrated into our portfolio. By focusing on 1-3 year leases, together with the ability to personalise the space, we have a real point of difference and it has paid off. We set an ambitious business plan and, six months in, we are beating our targets with 60% of the space occupied. Interestingly, 30% of those customers are also HQ customers and a further 20% come from businesses that are in some way connected to them helping us build stronger, more lasting relationships. And of course we fully expect that some of those who start in Myo will go on and move into our HQ buildings. The strong early performances of both Fitted and Myo show that there is demand for both. So we are now progressing at Dashwood House and through the development pipeline.

Slide 30 – Specialist – leisure

We spoke at length about our Office portfolio in September so I will leave it there and move onto what we now refer to as the Specialist part of the business. This covers our leisure properties, the hotel portfolio and of course Piccadilly Lights which Martin rather unceremoniously re-categorised as "other" in his redefining of the accounts.

You can ski, swim, play golf and pay to get locked in a room at our leisure parks. They are vibrant places where experience is everything. Their popularity has helped us sustain occupancy levels at 97%. The cinema operators who make up 26% of the portfolio had a solid performance with UK admissions up 9% as families flocked to see the Avengers. And the release of Star Wars 9 this December should ensure a similar outing stays on the Christmas activity list. Around 17% of the rent comes from casual dining and the issues here are well publicised. Older concepts are struggling, and others are carrying too much debt. However, history tells us that families keep going to leisure parks throughout cycles. Yes, we will need to refresh the line-up with new concepts and yes, some operators may need to restructure. But with the right line-up and our dominant cinemas, our destinations will continue to attract families for days and nights out.

Slide 31 – Specialist – hotels

Moving onto hotels. We really like our hotel portfolio which has delivered 27% income growth over the last 10 years in the budget and mid-market sectors. They are let on turnover-only deals which means local factors count, whether it is major sporting events or airline administrations. Some sites are up and some are down, but overall the valuations and income were flat. We also know there is a lot of potential in the underlying site values which are well ahead of book value.

Slide 32 – Specialist – Piccadilly Lights

Onto Piccadilly Lights, brightening up the heart of London. Activity is gaining momentum. Three of the screens continue to be used by Coca-Cola, Samsung and Hyundai on two to three year leases. And the other three screens are used on a short-term basis. We are doing really well and have already secured over 90% of our target income for the year with strong momentum in the run-up to Christmas. Selfridges, Reiss, BT, Pandora, Nike and Uber have all been lighting up the Soho sky. All this activity will start to provide evidence for future valuations.

Slide 33 – Retail – tackling the retail reality

Moving onto Retail. We are constantly reading negative stories about retail and it has been a tough six months for CVAs and administrations with more likely to come. But I would like to put this in the context of our portfolio. As Martin explained, our net rental income is only down £2 million on last year. Importantly that is less than 1% of our Group rent. The limited impact we see is due to the strength of our portfolio. Our occupancy rate has held up at 97% and our sales and footfall performance have exceeded the benchmarks. Our same centre sales were up 0.7% significantly ahead of the BRC benchmark. This is despite a decline in footfall, indicating an increase in basket size at our centres.

Slide 34 – Retail – tackling the retail reality

Where we have been hit by CVAs only 14% of our units have closed showing the popularity of our assets. And where the units have closed, we have re-let over half including The Ivy Victoria which opens this morning in the old Jamie's Italian unit. That said, we know we are operating in a retail reality with more challenges ahead.

Slide 35 – Retail – tackling the retail reality

So, let me tell you what we are doing to make sure our assets meet these challenges. I will divide this into three: activity in the last six months across the different sub-sectors; how we plan to maximise our performance in the medium term; and what we believe are the longer-term trends and how we are going to stay ahead of the curve.

Slide 36 – Short term activity – retail parks

So, what we have done in the last six months, starting with retail parks. It has been mixed. Despite the wave of CVAs and administrations, occupancy is high at 96% and we have protected rental income. However value has declined by 11% as yields moved out. In light of this I am pleased we completed the sale of Poole for £45 million, around 12% below the March book value. We said before that we don't see retail parks as core to our portfolio and expect to continue to make disposals.

Slide 37 – Short term activity – outlets – effective tenant mix

Now to outlets, where we have a steady stream of lettings to 20 target brands. All our consumer research points to the fact that retail mix is key to our destination success with nearly 70% of consumers giving retail mix as one of their top reasons to visit. So we are using data more and more to help us create the best line-up for each location.

Slide 38 – Short term activity – outlets – attracting new brands

At Braintree Village, our research told us that Polo Ralph Lauren would improve performance and act as a draw for both shoppers and brands. This has proven to be the case. Polo opened their temporary store in November last year. In the three months after opening, footfall increased by 6% and total sales by 15%. And this has continued with an improvement in total sales of 3.7%. Also, as predicted, Polo has acted as a magnet for other brands.

Slide 39 – Short term – Retail – compelling retail mix

Our regional shopping centres have been more challenged, but we have been working hard to attract brands that resonate with changing consumer demands and the way people spend their time and money. One trend is health and fitness. Peloton, which is all about cycling in your home, have opened at Westgate and Bluewater along with Ribble Cycles who have taken space at Bluewater as part of their online to offline strategy. We are also targeting categories like cosmetics, working with brands that have an appetite to move from online to offline such as Clockface who have opened at Trinity and more established brands like L'Occitane and Rituals who have opened at Westgate, and Kiko at Buchannan Galleries.

Slide 40 – Short term – Retail – supported by great events

And, of course, we continue to hold events. But it is not all about new brands and fun days out. We also recognise the importance of working with the larger brands to ensure our destinations have the best mix.

Slide 41 – Short term – last six months

Bluewater is a great example of this, where footfall is up 2.5% and sales are up over 1%. Such a movement is never down to one thing in isolation, but the result of us making sure we have the best retail mix and the right size. Neither Apple nor Tesla are new to Bluewater, but the launch of the iPhone 11 and the rollout of the Tesla Model 3 have drawn people to the centre. So has the opening of Primark. We identified a pent-up demand for Primark at Bluewater and worked hard to make the space for them. Using consumer card data we can see that in the 15 weeks after opening, Primark customers visited Bluewater twice as often as non-Primark customers. They spent over 50% more in total and they spent in more stores than non-Primark customers. They may come for Primark, but while there they visit more stores more often.

Slide 42 – Retail – medium term – proactively addressing the challenges

So in the medium term, performance in retail is about convenience and good locations with the right mix and environment. Customers then have a great experience and come again and spend more. And it is not just about having the right brands, how much space they have matters too.

Slide 43 – Medium term – Retail – compelling retail mix

And when a brand is really popular like Zara, bigger is better. Our research shows that Zara customers have a longer dwell time, spend nearly half as much again as the average customer and 17% more on F&B. They visit and spend in more than twice as many stores compared to the non-Zara shopper. So we are upsizing Zara at Bluewater from 19,000 to 37,000 sq ft. And we are creating space at St David's to deliver a 36,000 sq ft unit to bring them into the centre for the first time. And at Trinity Leeds, we are upsizing another key anchor, H&M from 25,000 sq ft to 39,000 sq ft so they can bring their full range of fashion, kids and homeware to the heart of Leeds. This sounds straightforward but it isn't. It is like a Rubiks cube. We had to move six retailers to create the space for the two Zara's and H&M. They all needed the right location and the right size unit to create the best mix **–** a lot of negotiations.

Slide 44 – Medium term – Retail – a partnership approach

I talked earlier about the importance of working closely with our customers to help their businesses remain sustainable. One way we are doing that is to look at how we can reduce service charges to improve affordability and protect rental income.

Slide 45 – Retail – long term – addressing the challenges of an over supplied market

So what are the future? There needs to be a fundamental change in the retail sector. As I said, the right retail of the right size in the right location performs well. But it will take data insights to find the sweet spots and the reality is there will be less of them. That is because there is too much retail in the UK and poor sentiment is challenging liquidity. So some of it has to go.

Slide 46 – Retail – long term – re-imagining destinations

This creates opportunities for us. We are looking at alternative uses, particularly residential across our whole portfolio. We have talked to you about 02, W12 and Lewisham. And since the Capital Markets Day, we have added Wandsworth to the list.

Slide 47 – Retail – long term – re-imagining destinations

At W12 and O2 we anticipate that we will see retail and leisure shift from 100% to only 11% with the opportunity for offices and around 1,700 homes helping to underpin values. At Lewisham, we are master planning and at Wandsworth, our new entrant, we think there is potential for a residential tower. So we have started work to see the art of the possible.

Slide 48 – Further progress on our London-centric opportunities

This leads me nicely to the rest of our development programme. All is going well and we could have 1.4 million sq ft on site by April 2020. Again, I am not going to go through these in detail, but will give you the highlights from the last couple of months.

Slide 49 – Further progress on our London-centric opportunities

At 21 Moorfields, we have finished piling the hardest part of the programme technically and 12% of the steel frame is now complete. At Lucent, behind Piccadilly Lights, demolition is 90% complete and foundation and basement works are underway with 70% of the piles installed. At Nova East, piling has begun on the 165,000 sq ft scheme. This will bring much needed prime space to Victoria and completes our pedestrian routes through Nova into Cardinal Place. We are already responding to requests from prospective customers for presentations at both Lucent and Nova East.

At Sumner Street, we submitted a revised planning application to improve buildability and demolition has started. We will be applying automated methods of construction and new technology to reduce construction time, waste and cost. Also this will be our first net zero carbon development. At Portland House we received planning consent in September to add a 14 storey extension to the existing floorplate giving us 394,000 sq ft of new and refurbished space. The new Portland House will be home to all our products, HQ, Fitted and Myo as well as a focus on wellness and leisure. Vacant possession is planned for March 2020.

And at Red Lion Court, we are doing a short-term letting to maintain income while we progress our plans which, along with Lavington Street, gives us a potential of over 600,000 sq ft of offices in Southwark.

Slide 50 – Creating destinations and products of choice

So it has been busy. The office portfolio is full and performing well. Fitted and Myo are ahead of their business plans. Piccadilly Lights is exceeding expectations. Retail is challenged but we continue to outperform on sales and footfall. We are using customer data across all sectors to inform our decisions. Technology and new ways of working are leading us to build better and more efficiently. And we continue to deliver all our activities in a market-leading, sustainable and responsible way. Our development programme is gearing up and we could have 1.4 million sq ft on site by April next year. London remains a vibrant city and we are making the most of what it has to offer now and in the future.

Now let me hand you back to Rob.

Speaker: Robert Noel – Chief Executive Officer

Slide 52 – Looking ahead

Thanks very much Colette. So to conclude, our direction of travel is clear. We are well placed to create buildings for our customers and value for our shareholders despite the continuing uncertainty. Customer demand for the right space will continue. London is supported by demographic and behavioural trends and has more than proven its resilience since the referendum. The market dynamics remain healthy for most uses and customers are demanding quality space, great service and robust building performance and this will provide opportunity for us.

We have a good development pipeline entirely located in the Capital. We have a strong track record in delivery, but we are taking it further. We are applying innovative approaches to design and construction and, of course, we are delighted to be delivering our first net zero carbon building at Sumner Street.

We said in May that retail would be mixed, it has been. We see continued rental growth in our outlets as Colette has explained. Shopping centres and retail parks will remain tough in the near term although, as I said, these segments make up less than 20% of our business.

We see continued demand in our leisure parks and our hotels are more than underwritten by site value as you know.

Overall, we have created a high quality and versatile portfolio with opportunities for the short, medium and long-term. Looking ahead, we are positioning our portfolio for the future so its shape is set to change with a potential £2 billion of expenditure to come in our existing development pipeline in London and the continued workout of our retail parks.

Given the unsettled environment, I am pleased we are in strong financial shape and are in a position to press on with the developments and seize opportunities when we see them. Let’s see what December brings to all of us.

We are now going to hand over to questions. Thank you very much.

Question and Answer Session

Question 1

Marc Mozzi, Bank of America Merrill Lynch

Good morning, Marc Mozzi from Bank of America. I just wanted to follow-up on the press speculation at potential disposals you are targeting in some areas of your retail, leisure space. Can you give us a bit more colour or size of what we should expect in H2 or in the future in terms of capital allocation? Thank you.

Answer: Robert Noel

Thanks Marc. The only guidance we have given on disposals is that we will continue to work out of our retail warehouse portfolio. We are down now to 10 locations down from about 30 I think a decade ago. And it is now 4% of our business and we will continue to work out of it at our best advantage over time. Otherwise, as we always say, nothing is sacrosanct but I have got nothing to say to you this morning about potential sales.

Question 2

Sander Bunck, Barclays

Good morning, a couple of questions from me please. First one on your London retail ERVs taken down. Was that actual letting activity or is it just your valuers, taking a slightly more cautious stance?

The second question would be on the overall retail valuations. Given that you have one of the lowest gearings in the sector and have positioned your portfolio pretty much where you want it to be, why are you not taking a slightly more aggressive stance to the retail values and why are you not basically writing them down to a level where you think it is appropriate or where we see over the next 12 or 18 months would be better?

And then very lastly, are you seeing anything on WeWork at the moment? Do you think that has any impact especially as the rest of the London lettings market continues to be pretty strong?

Answer: Robert Noel

So that is three questions! I am going to ask Martin to cover retail ERVs, Colette can you cover WeWork, but I will first of all start off with gearing and valuations.

So our capital structure is where it is through design, we have been on this route for a few years as you know. We are trading at the bottom end of our capital structure range, our LTV range, and we are really comfortable with that.

As for values, I can very safely tell you that the retail values and all capital values are at the whim of CBRE not us. We are independently valued twice a year so the best thing to do is speak to them. But there is no doubt that there is difficulty in the retail market, it is very difficult for them to put valuations on retail at the moment. I would say that of the two segments, retail warehouses and shopping centres, retail warehouses is somewhat easier **–** there has been quite a bit of trade over the last six months so there is a sort of clearing price today that they can put their finger on. Shopping centres is more difficult **–** as you have seen there has been very little evidence in the market.

Answer: Martin Greenslade

So let me just give you a little bit of colour on retail in London. So from a valuation perspective, I know you asked about rental values, but from a valuation perspective, a couple of the suburban London retail sites **–** the shopping centres where we have the build to rent prospects, the closest build to rent prospects **–** those wouldn't have moved in value much, those were underpinned by value. The other portfolios did move out, not quite as much as regional shopping centres, but they did move out as the valuers moved out equivalent yields there.

In terms of your question specifically on rental values, that is a combination of experience on rents. So let me give you an example, but remember there is quite a lot of retail in London retail. But for example, on Victoria Street rental values will have fallen and that is from experience of lettings we have done. So it is a combination of both anticipation on rent as well as some evidence from the deals that we have done.

Answer: Colette O'Shea

And then you asked the question about the WeWork impact. What I would say to that is that we are really clear from the conversations we are having with our own customers, and also the success of Myo and Fitted, is that the flexible model is very much part of business planning now. So the issue really I think becomes who actually provides it. WeWork have come in, as you know, as a sort of disrupter to the sector and there has been a lot of responses from landlords, the likes of us. I think what you also have to think about with WeWork, there are two questions really, one is that we don't know what space is available within their own units. We have highlighted that before, that has always been an issue in terms of vacancy and availability. But equally, if you look at the profile of occupiers they have, those businesses still need to be housed. So I think the point becomes, whilst there is a lot of speculation around WeWork, I think the model is here to stay, but it is who actually provides the space that probably will change quite a bit.

Question 3

Chris Fremantle, Morgan Stanley

Hi, Chris Fremantle from Morgan Stanley. Just wanted to ask you a probably slightly awkward question about politics which has clearly been a barrier to investment and sentiment over the last few years. How do you think your business and your markets are likely to be impacted by the various political outcomes in the forthcoming election and is it likely to change your behaviour either in terms of your developments or what you are doing to your capital structure? Is it likely that there is an outcome that could make you move from the rather defensive positioning that you have adopted over recent years? Thank you.

Answer: Robert Noel

Thanks Chris. Politics is very fluid and moving and I don't think anyone in this room will be able to predict the exact outcome of the general election on the 12th December or indeed whether we are going to be in or out of Europe, whether it is going to be hard, soft or medium and when that is going to be and how long it is going to take to negotiate etc. So, as things stand, we are very happy with the developments that we have got committed and we are very happy to be moving forward to get to the point of commitment on the developments we haven't started yet based on the outlook that we see which is there is a tide of demand and not very much supply. Now in the event that tide of demand gets switched off, then we may well change our view. But obviously we can't change the view on stuff that we are committed to. But of the stuff that we are committed to, 60% is pre-let so we are pretty relaxed about that. And the other two buildings are in amazing locations and we are already having conversations with people about whether they want to take pre-lets and these buildings are two and a half years out. So we are fairly relaxed, but we position the business for a reason. The outlook is uncertain and we have to make sure that we can cope with that, which we can.

Question 4

Rob Jones, Deutsche Bank

Rob Jones from Deutsche Bank, a couple of questions. Just firstly Rob on Sumner Street, on page 5. This was touched on at the Capital Markets Day as well, but can you give us a bit more detail in terms of what you do differently to develop a net zero carbon building?

Secondly, Colette, interesting to see the stat on the Central London vacancy, are you able to split out figures for vacancy rates on new/substantially refurbished space versus second-hand space in the market today?

Thirdly, just thinking in terms of success around timing of disposals, obviously you mentioned Poole as a recent transaction, 12% below March 2019 book value. Can you give us an idea, or are you willing to disclose the figure, in terms of what discount that was sold at versus its peak valuation during your ownership?

And then a final question. Colette, you said obviously casual dining we know has still got challenges at present, I appreciate it is only 17% of your Leisure rents, but can you give us a figure in terms of quantifying how bad either it has been over the last six months or how you expect it to be going forwards? Thanks.

Answer: Robert Noel

So let me deal with Poole and net carbon and perhaps you (Colette) can deal with new versus second hand space and the fourth point. Poole peak valuation I am afraid I can't tell you what the peak valuation is. What I can tell you is that since the peak of the market in 2015/16 our retail warehouse parks have come down in value by 26%, that is up to September.

On net zero carbon. So to get to a net zero carbon building there are three work streams that one needs to undertake. First of all is to design and build your building as efficiently as possible to reduce waste. Secondly is to procure your ingredients for building from the best sources and in the best way. And those two things combined will reduce your embodied carbon, or embedded carbon, at the time of practical completion by as far as you can possibly go. The third element is then to offset what is the remainder. It is simply impossible to dig material out of the ground and build a building and produce a net zero carbon building, it has to be a net zero carbon building. So offsetting as far as we are concerned is a market that is going to grow very rapidly over the next decade. At the moment, we are only interested in offsetting schemes which are gold standard recognised by the United Nations. And just to give you a little bit of guidance on Sumner Street where we have designed a building using digital twin technology to make sure there is very, very little waste, it is a manufacture for assembly building so it is being component built. Indeed some of the processes are being done automated. It is very efficient in terms of the way it is designed to run operationally going forwards and the offsetting that we will have to pay to make that a net zero carbon building at the point of delivery is less than one quarter of 1% of construction costs. The way we see this going is that pretty well every business is going to have to be net carbon zero at some point in the next decade or so or otherwise simply society will not give you a license to trade. So we have to get on it and we are doing it well and we are doing it efficiently and we are doing it sensibly, but we are doing it as fast as we can.

Answer: Colette O'Shea

And in terms of the second-hand space versus the Grade A, I can't actually split out the vacancy rate for you. But what I will say is that the themes that we have been seeing and been talking about are still very consistent. So we are still seeing a lot of take-up of the Grade A space. What is very interesting in markets like the West End there is much more speculative pre-letting activity than historically. Also the quantum of Grade A space hasn't impacted on rental values. And I think this is also why we are now starting to see people ask about Lucent and Nova East now very, very early on, is because people are looking for that type of space rather than going for the second-hand space which is available. I think it also brings into question the flexible because what we are seeing is that people are taking the Grade A space and then for the overflow space, the flexible. So what the future of the second-hand space potentially becomes I think has a question mark over it.

Casual dining, it is very difficult to actually say what is going to happen there. The conversations that we are having are very much around the actual specifics of an offer. So there are certain offers that come within the casual dining sector that seem to be doing pretty well. And then there are others that are really not. And where we have customers who are providing multiple offers in various different locations, in one area it might be going really well, somewhere else they might ask to come out. So until we start to get a real sense as to which of the offers are going to work versus not, it is quite hard to predict what the future is going to be. But I think we are going to see a lot more of it over the next six months.

Question 5

Jonathan Kownator Goldman Sachs

Hi Jonathan Kownator at Goldman Sachs. Just coming back to page 11 and the rent reviews on the retail side, I just wanted to understand did you have a period with limited rent reviews? You mentioned surrendered premiums as well. Obviously it was flat, but perhaps also if you can comment on your re-lettings versus previous passing rents here that would be helpful. Thank you.

Answer: Martin Greenslade

Jonathan, we don’t comment on letting versus previous passing or versus ERV. What I would say is there isn’t any great surrender premium that nets off against downs in this. This is just basically it is a zero, it is a combination of very small amounts and I have just lumped them together, not because there is anything in that. The amount of rent reviews is relatively limited. All the pressure in retail comes from your vacant space and that is where most of it is. Space that we have had back from CVAs and the like which will appear in the administrations column, that has been led at just under, and this will vary very much, but in the six months it has been let at just under 20% below the most recent rent. So I am trying to give you an idea of where we are on letting, but not through the rent review process, actually through the empty space that we have had back.

Further question

Inaudible Temporary lets?

Answer: Martin Greenslade

So just our void stats are fairly flat. If you look at voids and admins together, we don't count temporary lettings as let so we count those as voids. So it is not in the numbers.

Question 6

Alan Carter, Stifel

Alan Carter, Stifel. It is fairly minor but can you just explain how you within the retail sector, you give priority to protect income, but how you reduce occupier service charge without that being detrimental to LandSec's income?

Answer: Colette O'Shea

This is something we are really focused on at the moment and this is very much about this service element of what we are actually providing, as distinct from the rent. And clearly the two reinforce each other because if we can get the service charges down it helps reduce the overall occupancy costs. And there is no silver bullet, it is about tackling all aspects of how we run the centres. We are looking very much more at digitising things. Working out with the dialogue with the retailers, what are the important things that they really want to keep going. For example, security is really important, but things like marketing can use digital platforms. So it is tackling everything and it will be done in phases. So we expect to have some impact for the next service charge round and we will keep working on that.

Robert Noel

So there are no hands up and there are no questions online, so thank you very much for coming and we will see you next time.

End

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