Landsec

Press release

Title	Results for the half year ended 30 September 2023
From	LAND SECURITIES GROUP PLC ("Landsec")
Date	14 November 2023

Further operational growth across the business; well positioned for new market reality

Mark Allan, Chief Executive of Landsec, commented:

"Our high-quality, differentiated portfolio and focused capital allocation mean we continue to benefit from customers concentrating on best-in-class space. In London, our well-located, sustainable offices in vibrant, amenity-rich areas continue to see growing occupancy, growing utilisation, growing customer space requirements and hence growing rents. In retail, sales in our locations continue to outperform brands' overall sales growth, also driving further growth in occupancy and rents. Despite the challenges in the general economic outlook, we see no signs of these trends abating.

"Since early 2022, we have been clear that we expected interest rates to remain higher for longer and that asset values would have to adjust to this new reality, which they have. We were decisive in acting on this view by selling £1.4bn of single-let HQ offices, mostly in the City, at prices ahead of today's values. Investment activity remains thin, but we expect this to pick up in 2024, which should start to support values for the best assets. We will continue to recycle capital where our ability to add further value is limited, but having been a net seller when prices were higher, we are well-placed to take advantage of opportunities that will no doubt arise as the new higher-for-longer reality is now more widely accepted."

Financial highlights

	30 Sep 2023	**Prior period** (1)		**30 Sep 2023**	**Prior period** (1)
EPRA earnings (£m)(2)(3)	198	197	Loss before tax (£m)	(193)	(192)
EPRA EPS (pence)(2)(3)	26.7	26.6	Basic EPS (pence)	(24.4)	(25.7)
EPRA NTA per share (pence)(2)(3)	893	936	Net assets per share (pence)	899	945
Total return on equity (%)(2)(3)	(2.4)	(2.9)	Dividend per share (pence)	18.2	17.6
Group LTV ratio (%)(2)(3)	34.4	31.7	Net debt (£m)	3,572	3,348

— EPRA EPS(2)(3) stable at 26.7p, in line with FY guidance, as positive leasing, margin improvement and 2.8% LFL income growth offset impact of deleveraging through asset sales during prior year
— Total dividend up 3.4% to 18.2p per share, in line with guidance of low single digit percentage growth
— Total return on equity improved to -2.4%, with loss before tax of £193m (after a £375m, or -3.6%, adjustment in portfolio value) resulting in a 4.6% reduction in EPRA NTA per share(2) (3) to 893p

— Maintained sector-leading balance sheet strength, with AA/AA- credit rating, 7.2x net debt/EBITDA, Group LTV(2)(3) of 34.4% and weighted average debt maturity of 9.3 years
— Continue to expect EPRA EPS for full year to be broadly stable vs last year's underlying 50.1 pence and low to mid single digit percentage growth in rental values in London and Major Retail

Operational highlights: well-placed due to focused execution of clear strategy

Delivered further growth in operational performance, underpinned by continued customer focus on best-in-class space, as decisive positioning for higher-for-longer rates through well-timed £1.4bn of disposals during prior year leaves Landsec well-placed to capture new opportunities and drive future growth.

Central London: strong customer demand underpins further growth in ERVs and occupancy

— Capitalised on continued customer demand for high-quality space in best locations, with £17m of lettings completed or in solicitors' hands, 3% ahead of valuers' assumptions, and overall Central London occupancy up 60bps to 96.5%, with West End portfolio effectively full at 99.6% occupancy
— Recorded 10% increase in office attendance vs prior six months, reflecting appeal of our well-located portfolio, with 27 of 35 lettings in last 12 months seeing customers taking more or same space
— Delivered 3.3% ERV growth on account of strong leasing activity, comfortably on track vs full year guidance of low to mid single digit percent ERV growth, as rise in valuation yields led to 4.5% softening of values
— Started two new developments in West End and Southwark, with expected 7.3% gross yield on total cost and c. 12% yield on incremental investment, as recently completed schemes are now 83% let or under offer, with lettings 12% ahead of initial assumptions

Major retail destinations: brands' focus on best stores drives growth in occupancy and ERVs

— Continued to drive positive leasing momentum, as key brands increase focus on fewer, bigger, better stores, with £24m of lettings signed or in solicitors' hands on average 6% above ERV, renewals on average 2% above previous passing rent, and current occupancy up 100bps vs March at 95.3%
— Facilitated +4.0% YoY sales growth for brands, with like-for-like sales +5.4% above 2019/20 levels, as online non-food sales fall for 26 months in a row whilst in-store sales continue to grow
— Delivered 1.4% ERV growth, on track vs guidance of low to mid single digit percent growth for the full year, with high income returns underpinning resilience in capital values (-1.3%)

Mixed-use urban neighbourhoods: preparing for first potential development starts in 2024

— Secured detailed planning consent for first phase of office development at Mayfield, creating optionality for potential earliest start of first c. £180m investment in first half of 2024
— Progressed further planning and land assembly workstreams at £1bn Finchley Road scheme to unlock potential start on site in first half of 2024, whilst optimising preparations for rest of long-term pipeline

Underpinning our strategy: strong capital base, operational efficiency and focus on sustainability

— Strong capital base, with AA/AA- credit rating, modest 34.4% LTV, low 7.2x net debt/EBITDA, long 9.3-year average debt maturity, £2.1bn undrawn facilities and no refinancing needs until 2026

- Sold £85m of smaller and non-core assets, on average 6% ahead of March book value, as further planned capital recycling will further increase existing headroom to capitalise on new opportunities
- Improved operating margin, as review of operating model in prior year and focus on cost led to reduction in overhead costs, despite persistent UK inflation
- Starting imminently with retrofit of air source heat pumps at first two sites as part of net zero transition investment plan, with 44% of office portfolio already EPC ‘B’ or higher vs 23% for London market
- Launched Landsec Futures Fund to invest £20m over next 10 years to enhance social mobility in our industry, empower more people towards world of work and deliver £200m of social value

1. Prior period measures are for the six months ended 30 September 2022 other than EPRA NTA per share, net assets per share, Group LTV ratio and net debt, which are as at 31 March 2023.
2. An alternative performance measure. The Group uses a number of financial measures to assess and explain its performance, some of which are considered to be alternative performance measures as they are not defined under IFRS. For further details, see the Financial review and table 14 in the Business analysis section.
3. Including our proportionate share of subsidiaries and joint ventures, as explained in the Financial review. The condensed consolidated preliminary financial information is prepared under UK adopted international accounting standards (IFRSs and IFRICs) where the Group’s interests in joint ventures are shown collectively in the income statement and balance sheet, and all subsidiaries are consolidated at 100%. Internally, management reviews the Group’s results on a basis that adjusts for these forms of ownership to present a proportionate share. These metrics, including the Combined Portfolio, are examples of this approach, reflecting our economic interest in our properties regardless of our ownership structure. For further details, see table 14 in the Business analysis section.

Ends

About Landsec

At Landsec, we build and invest in buildings, spaces and partnerships to create sustainable places, connect communities and realise potential. We are one of the largest real estate companies in Europe, with a portfolio of retail, leisure, workspace and residential hubs. Landsec is shaping a better future by leading our industry on environmental and social sustainability while delivering value for our shareholders, great experiences for our guests and positive change for our communities.

Find out more at landsec.com

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