Chief Executive's statement

Our results

4.3%
Ungeared total property return

–1.0%
Decrease in adjusted diluted net assets per share

9.9%
Increase in adjusted diluted earnings per share

1.8%
Total business return

Our activity

— £23m of investment lettings
— £48m of development lettings including pre-let at 21 Moorfields, EC2
— Acquisitions of £351m
— Development and refurbishment expenditure of £183m
— Disposals of £1.1bn of which £475m returned to shareholders
— £1.5bn (nominal) of bonds repurchased and £1.4bn of new issuances

Robert Noel reports on our performance during the year and shares his outlook for the next 12 months.

Landsec has continued to execute well. During the year, we completed and let major development projects at Nova, SW1 and Westgate Oxford. We pre-let and have subsequently started a 564,000 sq ft development at 21 Moorfields. We acquired three retail outlet destinations. We sold one of our largest developments, crystallising exceptional returns, and distributed the majority of proceeds to shareholders. We further reduced our cost of debt, increased its duration and renewed our revolving credit facilities on improved terms. And we enabled the 1,000th person from a disadvantaged background to gain employment through our Community Employment Programme.

The cost of refinancing £1.5bn of bonds is behind both the loss for the year of £251m and the slight fall in adjusted diluted net asset value per share to 1,403p. Revenue profit is up 6.3% to £406m and adjusted diluted earnings per share are up 9.9% to 53.1p. Our Combined Portfolio is valued at £14.1bn. With adjusted net debt at £3.7bn, our loan-to-value is 25.8%.

The business is in good shape for the uncertain market conditions, with a portfolio well matched to customer needs and with conservative gearing. We're recommending a final dividend of 14.65p – raising the dividend for the year by 14.7%. This brings the growth in dividend per share since we restarted speculative development in 2010 to 58%, broadly in line with the growth in adjusted diluted earnings per share we've generated over that period.

Our market

Last year, I said our markets were healthy but had paused for breath. That prognosis remained accurate for the year in both the London office market and the retail sector, although demand from office occupiers was somewhat stronger than we anticipated and demand from retailers weaker. Generally, vacancy rates are continuing to rise, albeit slowly, in both our markets. However, our quality space saw good demand enabling us to achieve one of our best leasing years and reduce voids to 2.4%.

We remain confident in our view that London will continue to be a world-class city with opportunity for our customers and for Landsec. We have a growing pipeline of development opportunities in the capital and a strong balance sheet, which means we can time when we deliver new space in line with customer demand. While our current development activity is based on pre-lettings, with the UK's exit from the EU likely to lead to fewer construction commitments, speculative development will become an attractive option in due course.

The retail market continues to be affected by structural change in shopping habits and has been impacted by weaker consumer confidence as inflation outstripped growth in pay during the year. Coupled with this, retail businesses face higher costs, with business rates rising, increasing investment in multi-channel solutions and the roll-out of the National Living Wage increasing employment costs.

So, retailers are operating in tough conditions. As for retail real estate, the gap between the best space and the rest keeps growing. To thrive, an asset must be dominant in its catchment and provide convenience or experience. The successful leasing of Westgate Oxford speaks volumes for the value of experience-led destinations – delivered in the right way in the right locations. There's clearly an important role for great physical retailing in a multi-channel world, not least enabling brands and shoppers to connect in a variety of exciting ways.

Our portfolio

The foundations of the business remain strong, underpinned by our resilient portfolio and low leverage.

In London, our modern, well-let space is well matched to the evolving needs of customers. The outstanding quality of the space we create was reflected in the sale of 20 Fenchurch Street for a record City of London price, generating exceptional life-cycle returns. This year we strengthened our portfolio with the completion of 560,000 sq ft of mixed use space at Nova. And we've started construction of a pre-let London headquarters for Deutsche Bank at 21 Moorfields. We continue to work up substantial development opportunities in Victoria, Soho and Southwark, together with options to develop some of our suburban London shopping centres into mixed use destinations.

In Retail, we have transformed our portfolio of destinations in line with our focus on dominance, convenience and experience. We continued to enhance the portfolio this year, completing and letting Westgate Oxford; carrying out various asset management plans to bring in exciting brands; and acquiring three outlet destinations with good growth potential.

Our sustainability

We aim to be the best property company in the UK in the eyes of our customers, communities, employees and partners. Their experience of us determines whether they will continue to support us, and their support is vital if we're to sustain our business. In a year that saw the tragedy at Grenfell Tower and the collapse of Carillion, the importance of good governance, long-term thinking and a wider social purpose has been brought sharply into focus.

Robert Noel
Chief Executive

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From climate change to social inclusion, sustainability is so critical to our future that we embed it in every part of the business. Our employee engagement scores are in line with the best performing companies. We remain the only property company in the UK with an approved science-based carbon reduction target and we followed this up by signing the Task Force on Climate-related Financial Disclosures' pledge to demonstrate our commitment to sustainable business. Our Community Employment Programme created 187 new job opportunities this year, keeping us on track to meet our target of helping 1,200 disadvantaged people into employment by 2020.

Our Chairman

After 14 years on the Board and nine years as Chairman, Dame Alison Carnwath will be retiring from the Board following the AGM in July. With her broad range of skills, Alison helped steer Landsec through the financial crisis in 2008/9, our subsequent successful push into speculative development and the transformation of our Retail Portfolio. She leaves us a strong business in a very sound position. On behalf of my colleagues, I would like to record our thanks for her leadership, support and challenge. Alison will be succeeded by Cressida Hogg, a Non-executive Director who joined the Board in 2014.

Outlook

We are a long-term business and we have to manage what we do by reference to market cycles and customer trends. As the UK prepares for its exit from the EU, we are navigating uncertain waters in the near term and we expect investment and leasing volumes in the property market to be more subdued. We are prepared for this uncertainty with conservative gearing and a development exposure which we have shifted from speculative to pre-let. Looking ahead, we are working on a growing pipeline of development opportunities in London and are ready to buy when we think the time is right.

Further out, profound change in the way we work, live, shop, play and travel will be a much greater force in determining which companies are sustainable. We will continue to address and identify opportunities from the big drivers of change in our market sectors, from product innovation to sustainability, adapting our portfolio as appropriate. We are well equipped for this with a great and increasingly diverse team, alert to change, with the expertise to provide great experiences for our customers and communities – helping businesses and people to thrive.

Robert Noel
Chief Executive