

# Landsec Capital Markets Day

19 September 2019



**Robert Noel**  
**Chief Executive**

## Our aims for today

- Give you give an in-depth update on our activities in London
- Provide you with greater insights into our approach to sustainability
- Explain changes to financial reporting going forwards
- Meet the wider Landsec team

In addition:

- RNS released this morning
- Reconciliation between financial reporting published on Landsec.com

# Evolving strategy addressing key trends

## Digital

- Disrupting traditional models
- Enabling better products, solutions and services

## Demographics

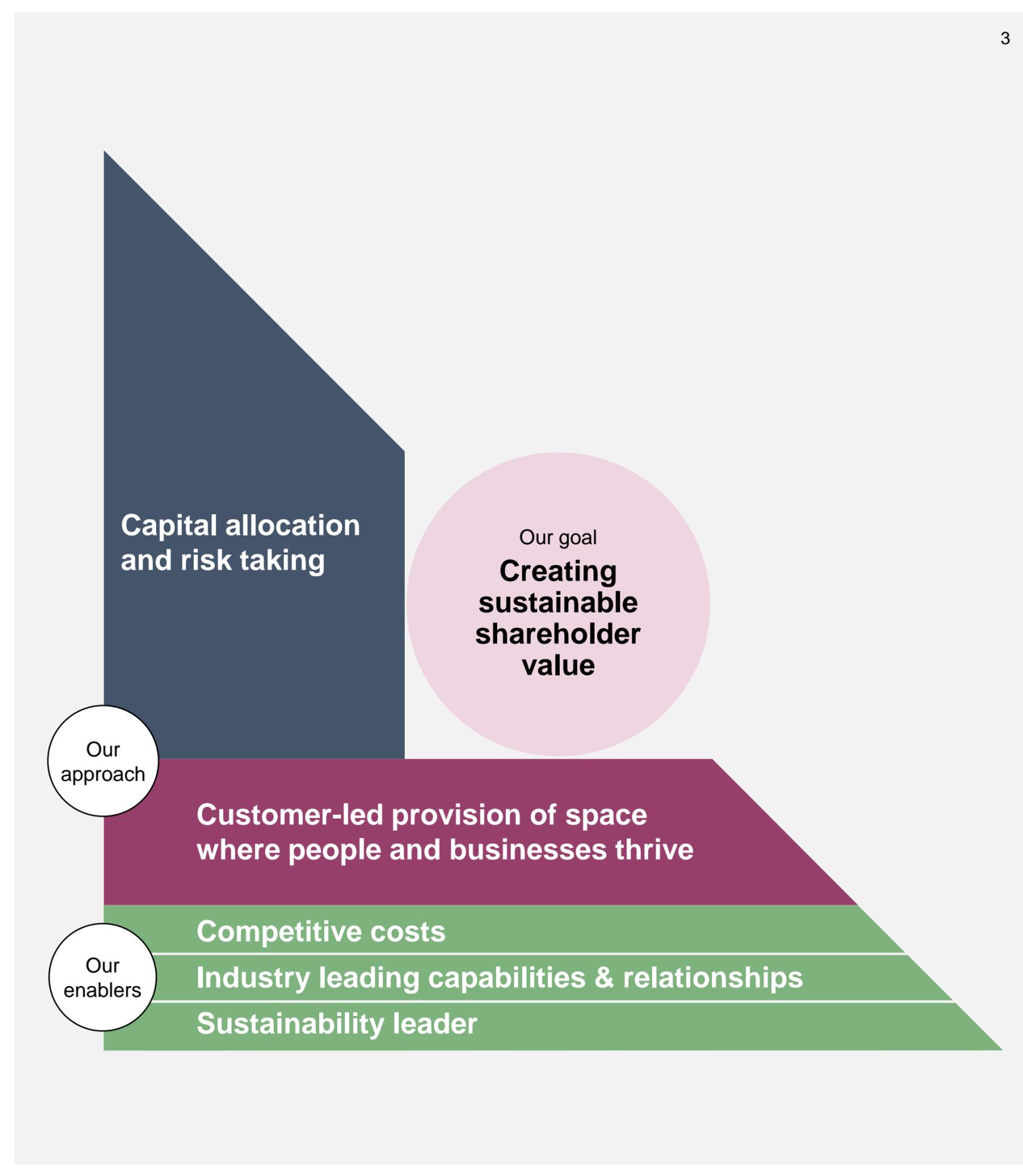
- Growing, ageing population
- Millennials and Gen Z growing proportion of workforce

## Demand

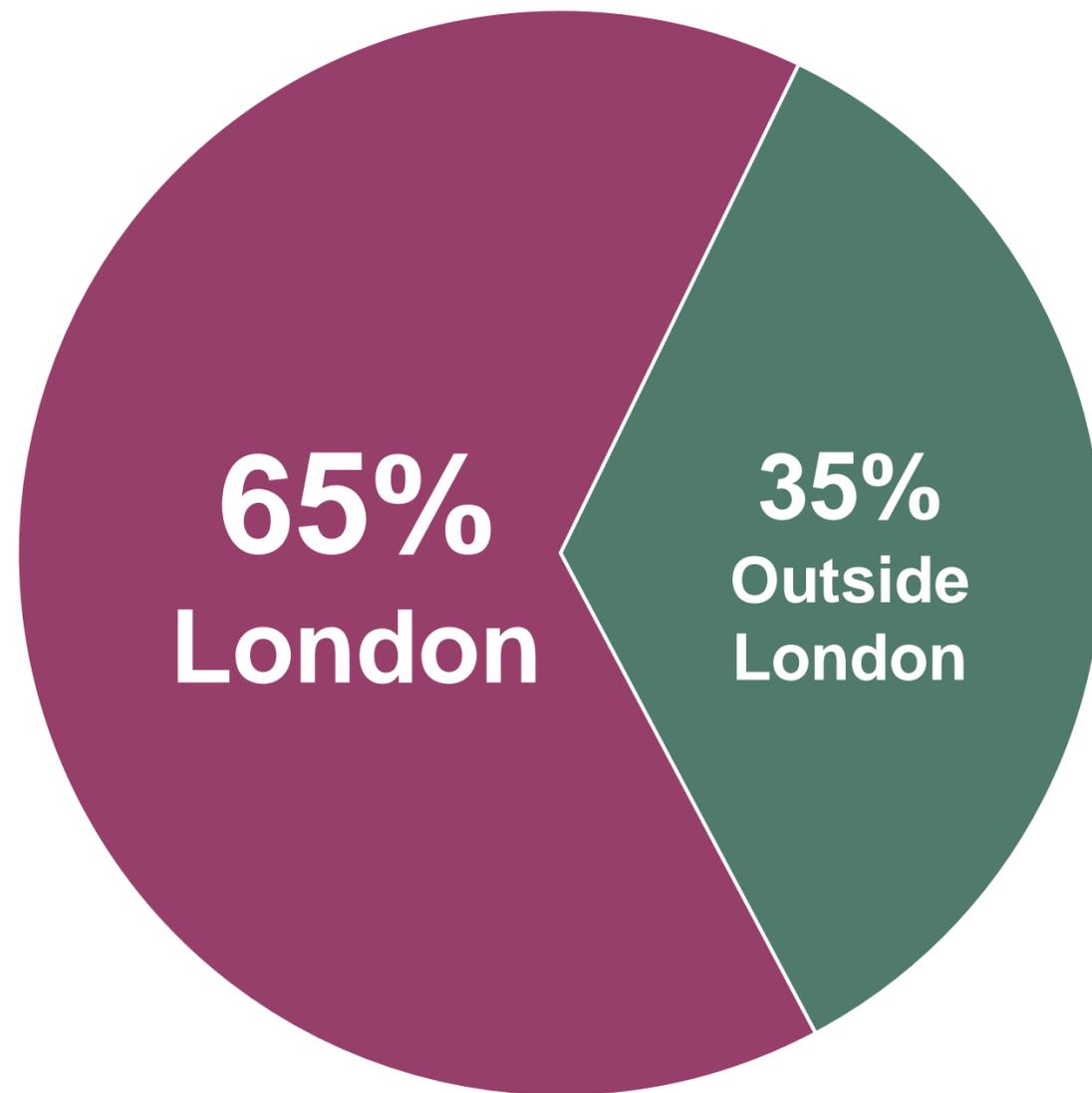
- Changing living, working, shopping and leisure habits
- Occupiers increasingly service and convenience-led

## Sustainability

- Social purpose, value and expectations
- Resource scarcity and climate change



## Creating the spaces for tomorrow's businesses and communities



### 65% of assets by value are in London

- London is the ultimate mixed-use destination
- Offices; continuing to cater for our customers' needs from serviced flexible space through to our full HQ offer
- Residential; we will progress our plans as the market develops
- Our London retail exposure continues to evolve towards an amenity or ancillary role

# Agenda for the day

Robert Noel  
Marcus Geddes  
Caroline Hill  
David Heaford  
Martin Greenslade  
Q&A

---

Tour

---

Lunch



**Marcus Geddes**  
**Head of Property**

# London update

- Market trends
- Broadening office products
- Investment activities
- Portfolio update

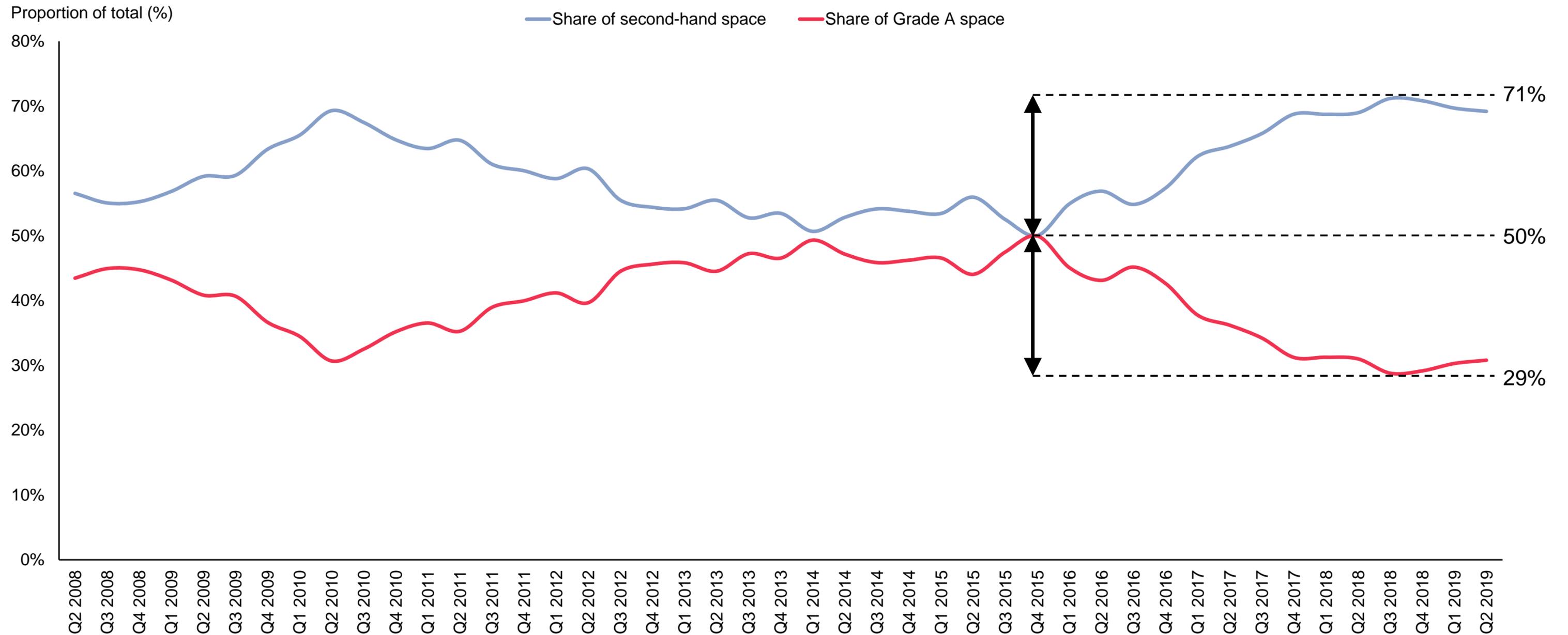


# Uncertainty prevails



# The majority of availability in London is second-hand space

London office market availability – Grade A vs. second-hand space



Source: CBRE

Note: Grade A space here is defined as newly-completed space and space that is under construction and will become ready to occupy within 12 months.

# Market trends

**Only the best will do**

---

**Supply shortages in near term**

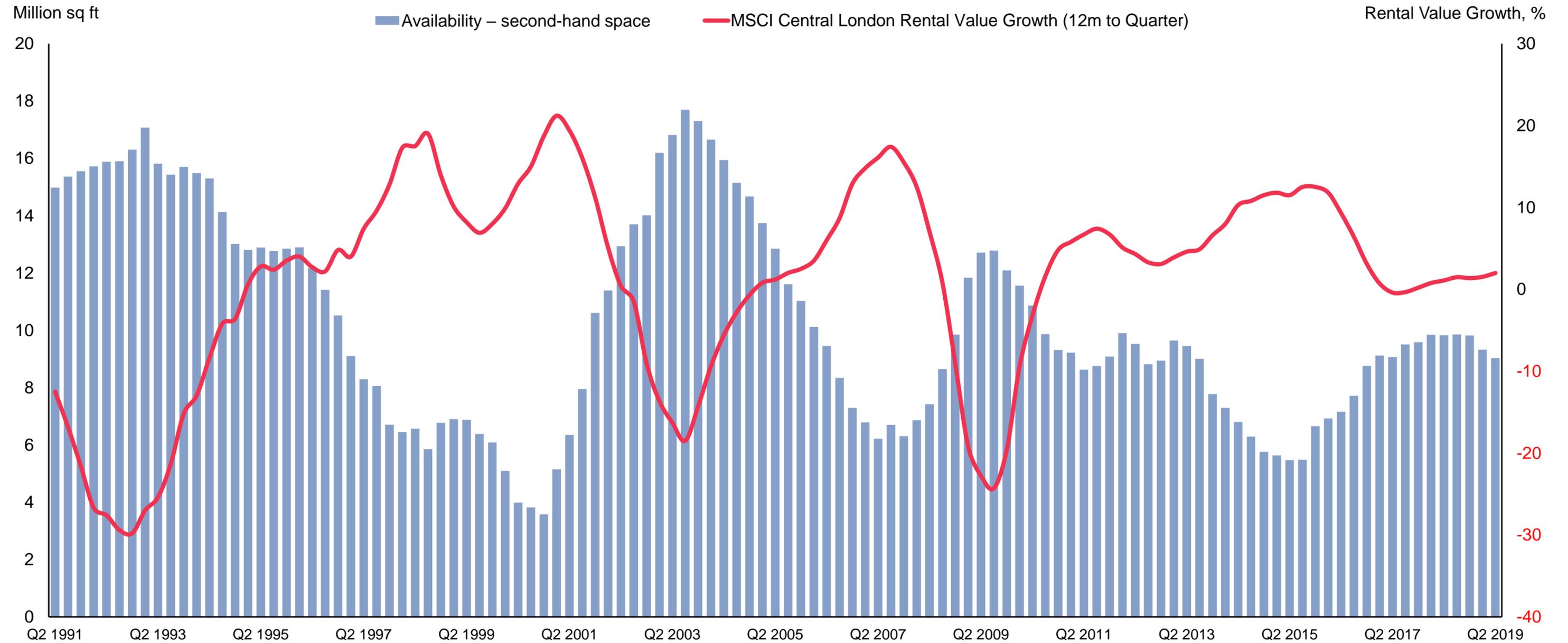
---

**Customers valuing convenience, flexibility and choice**

---

# Increasing availability of second-hand space has not hit rental growth

Central London second-hand availability vs MSCI rental value growth

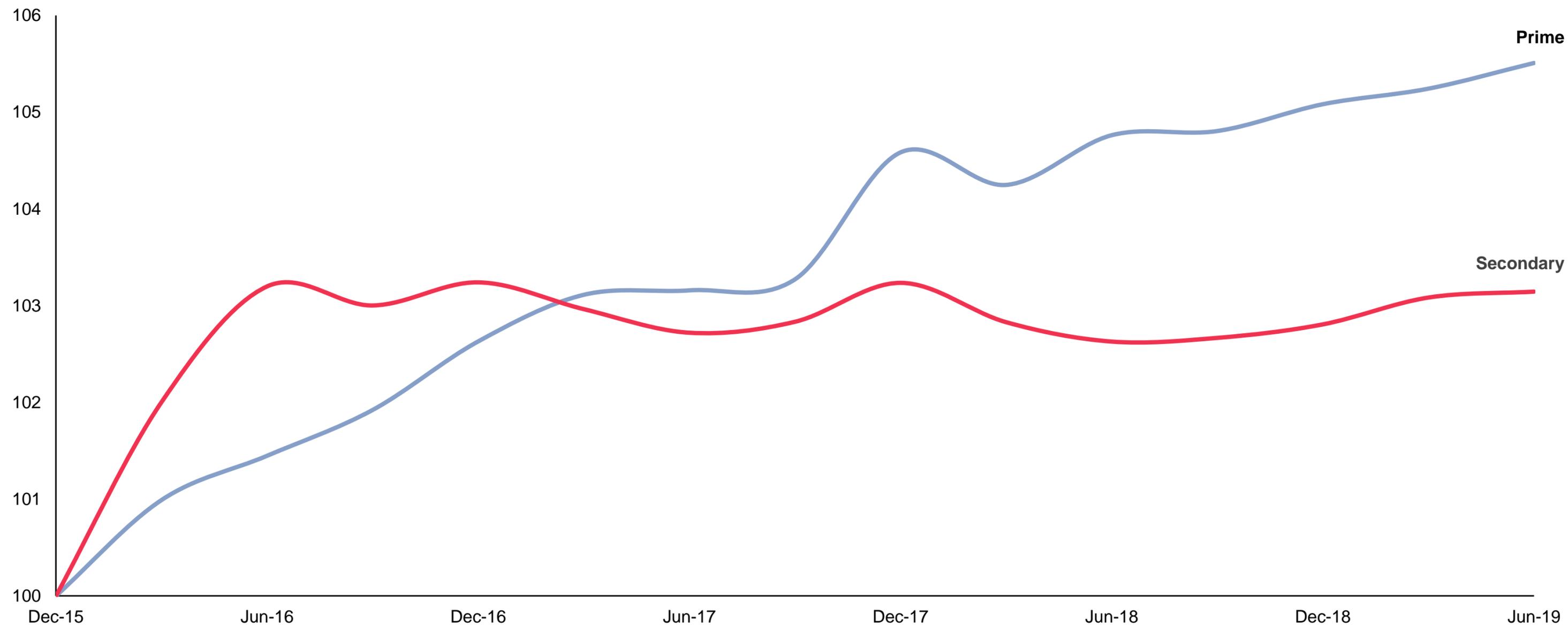


Source: CBRE, MSCI Monthly Index

# Prime office space rent continues to outperform secondary

Rental growth by quality of space

Rental Growth Indexed series  
Dec 15 = 100



Source: MSCI

Note: MSCI data used to assess Prime and Secondary Office Space. Central and Inner London Office segmented by Equivalent Yield Quartile Range. Low Quartile a proxy for Prime and Upper Quartile Secondary

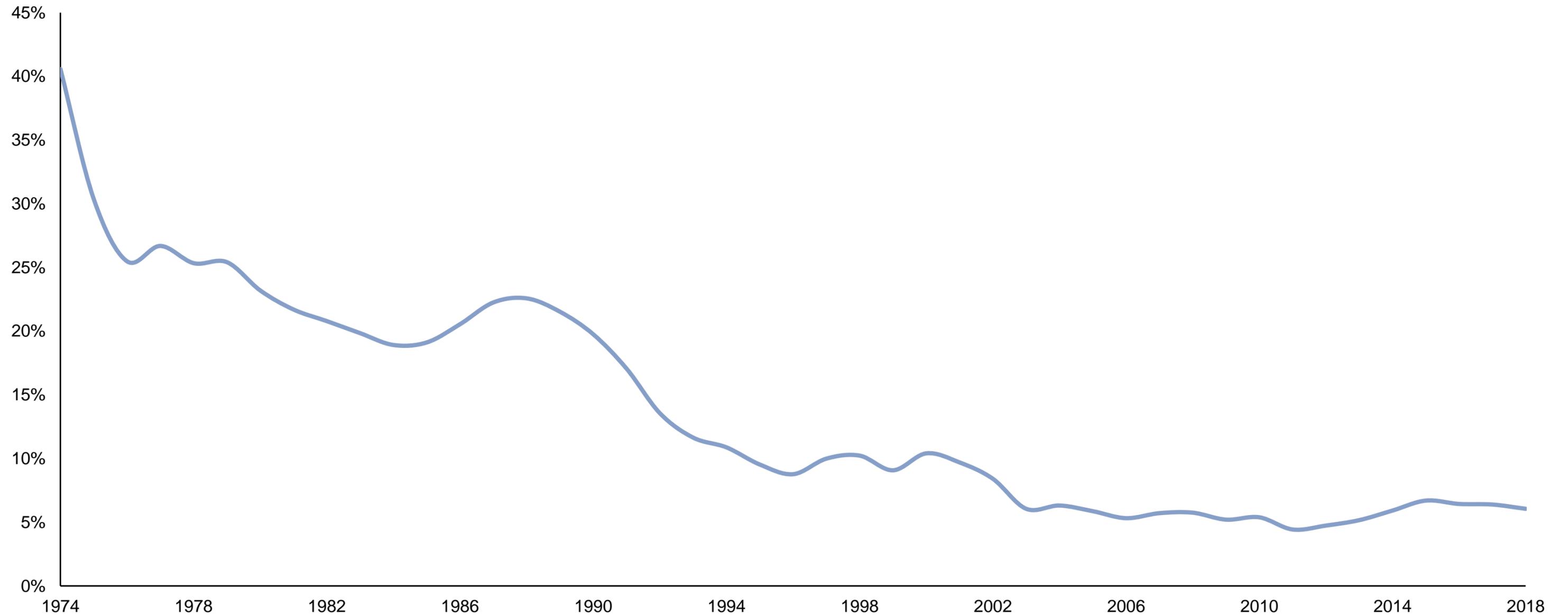
# Transformation of Victoria



# Rents remain a relatively small proportion of customers' costs

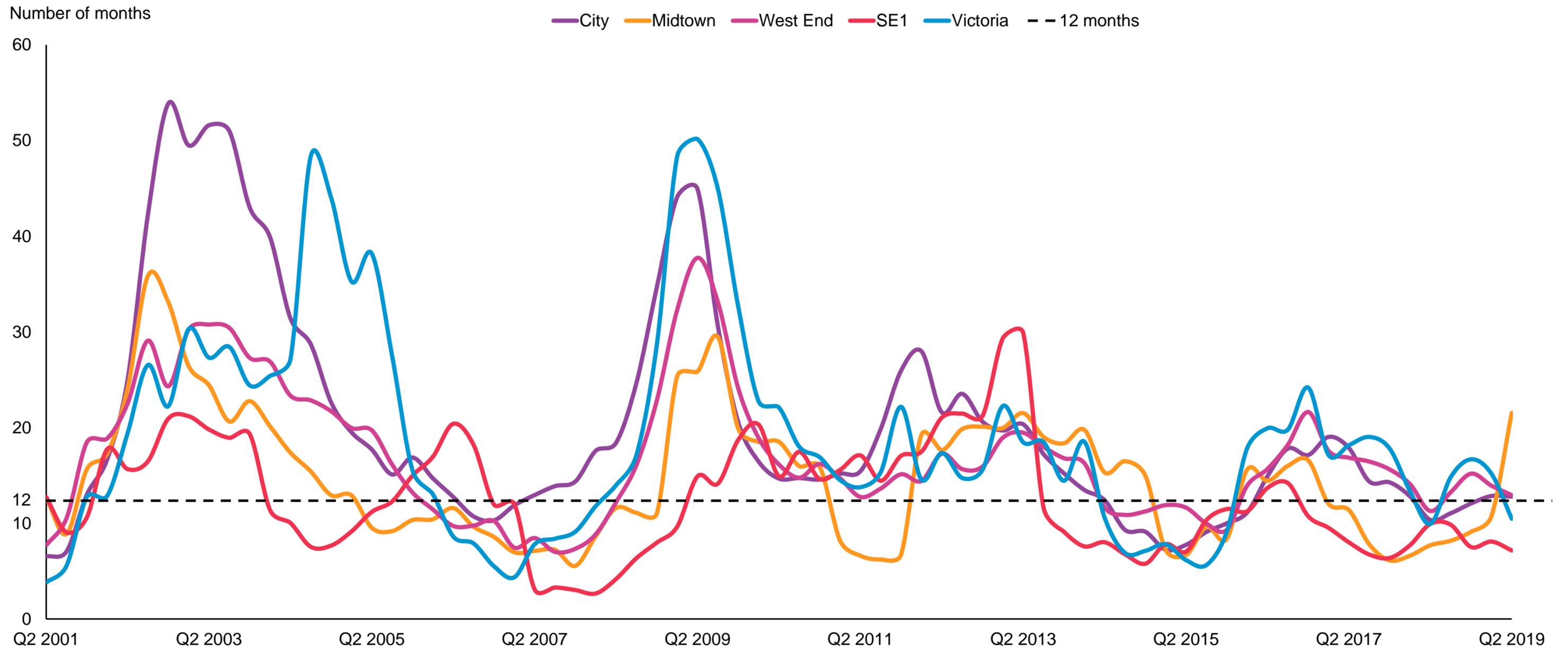
## Affordability of workspace

Rents as % of salary (City)



# Overall availability of space is low

## Core Markets — Number of months supply (all grades)

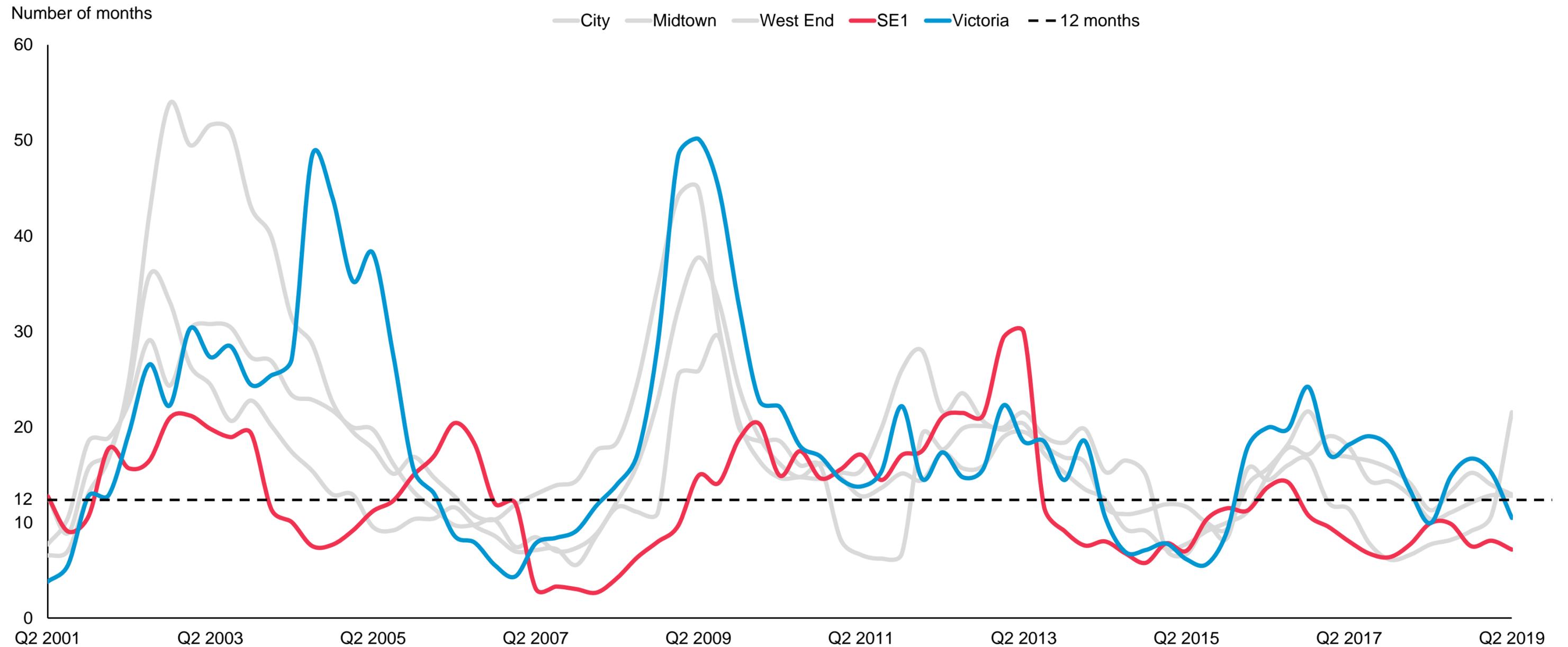


Source: PMA

Note: Number of months supply based on rolling annual take-up

# Availability in our key development areas is most acute

Core Markets — Number of months supply (all grades)

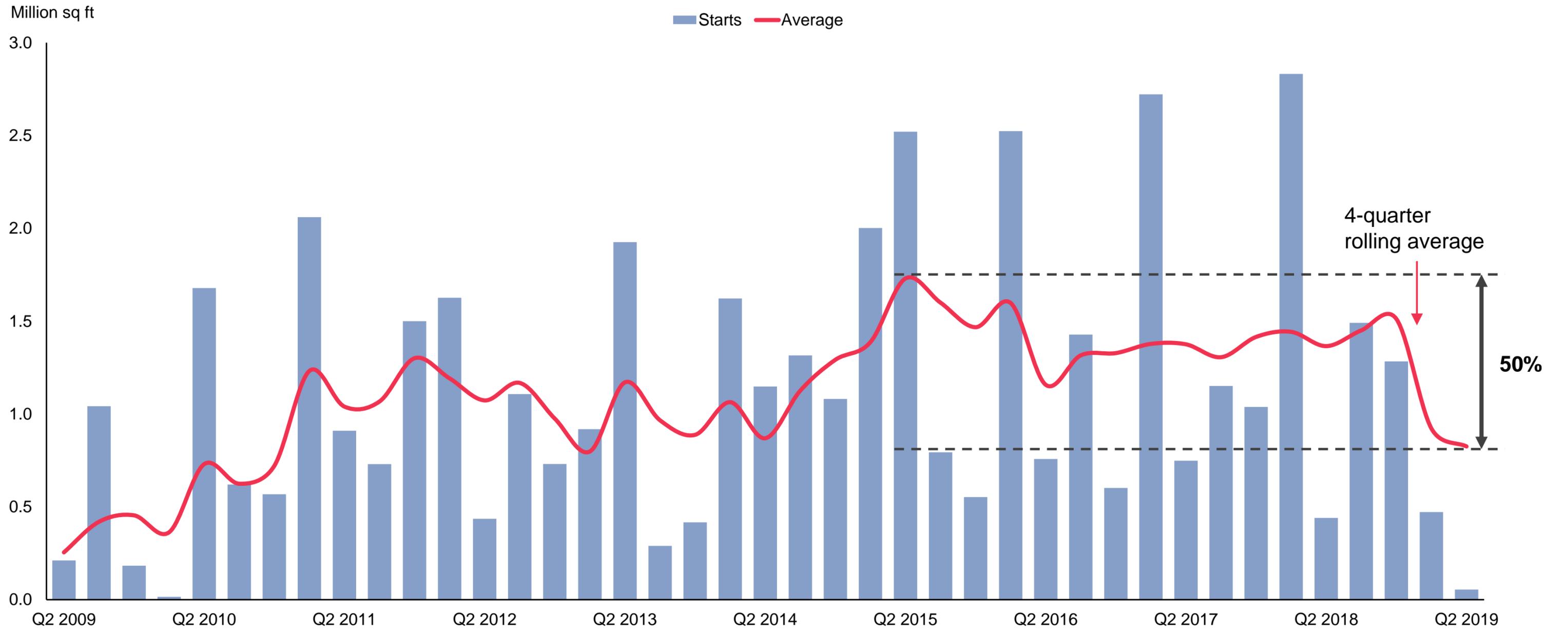


Source: PMA

Note: Number of months supply based on rolling annual take-up

# Construction starts have slowed

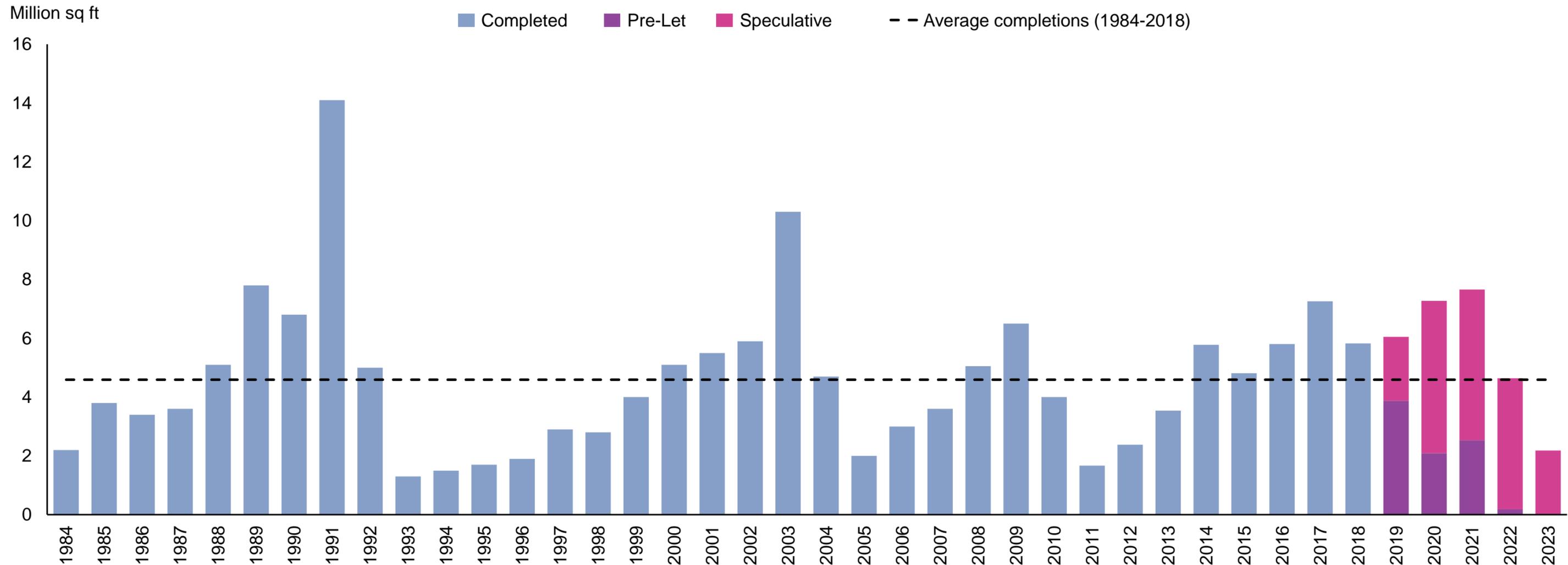
## Central London construction starts — Q2 2019



Source: CBRE

# Forecast speculative supply is not excessive

Central London supply as at 31 March 2019 - Grade A pre-let and speculative



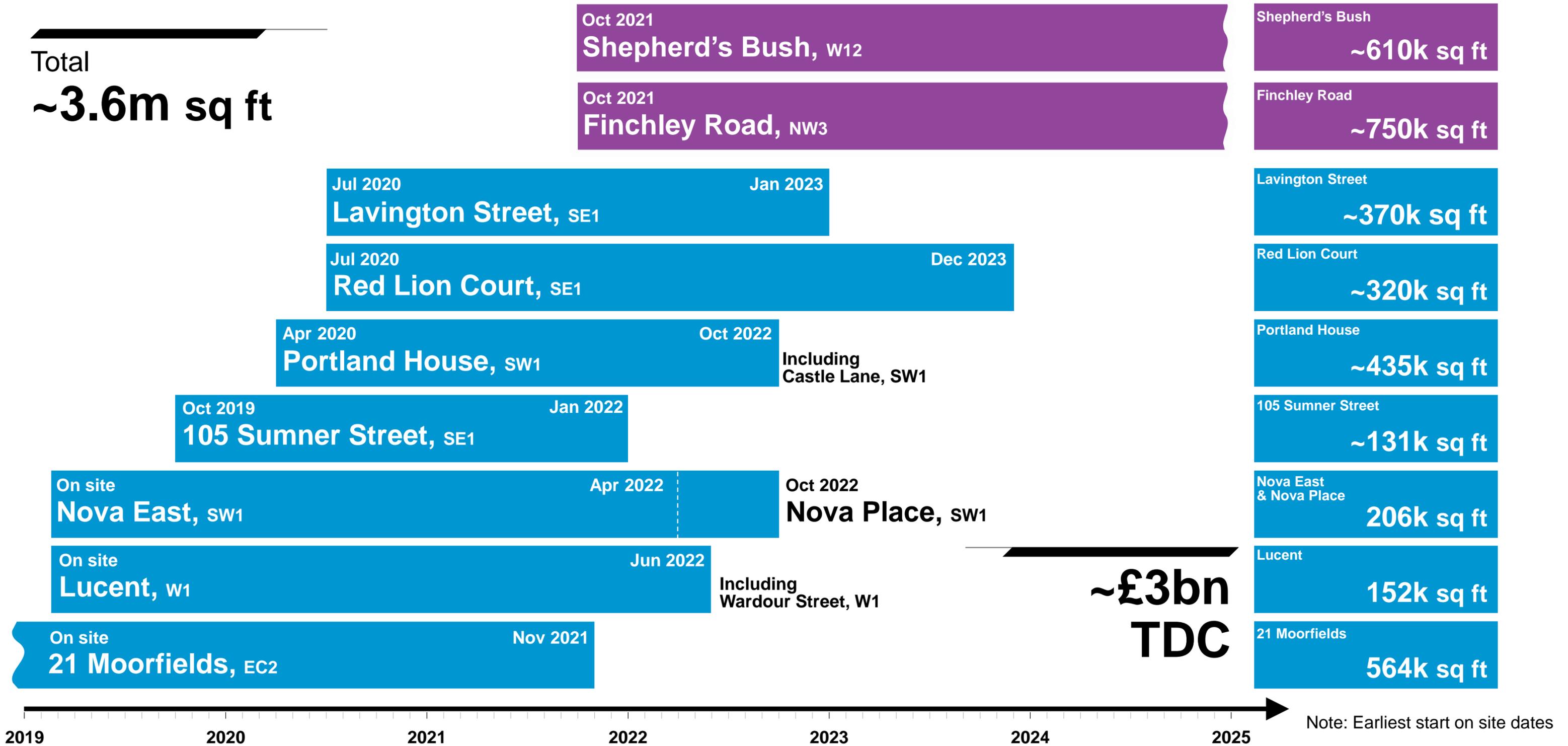
Source: CBRE, Knight Frank, Landsec

1. Completions / under construction includes fringe (White City, Non-Core Docklands, Stratford, Nine Elms, Hammersmith). From 2017, supply pipeline monitors schemes above 20,000 sq ft
2. Landsec estimated future supply based on data from CBRE and Knight Frank
3. "Definite/Likely" are schemes where the status indicates that it is reasonable to expect delivery in that year, with reference to conditions such as; construction contract, VP, funding, demo, pre-let, planning
4. Grade A space is brand new or comprehensively refurbished space, with top specification and prominent market image
5. Vacancy rate is expressed as vacant space as a percentage of Total Stock

# Progressing the pipeline

## Investing in London

Total  
~3.6m sq ft

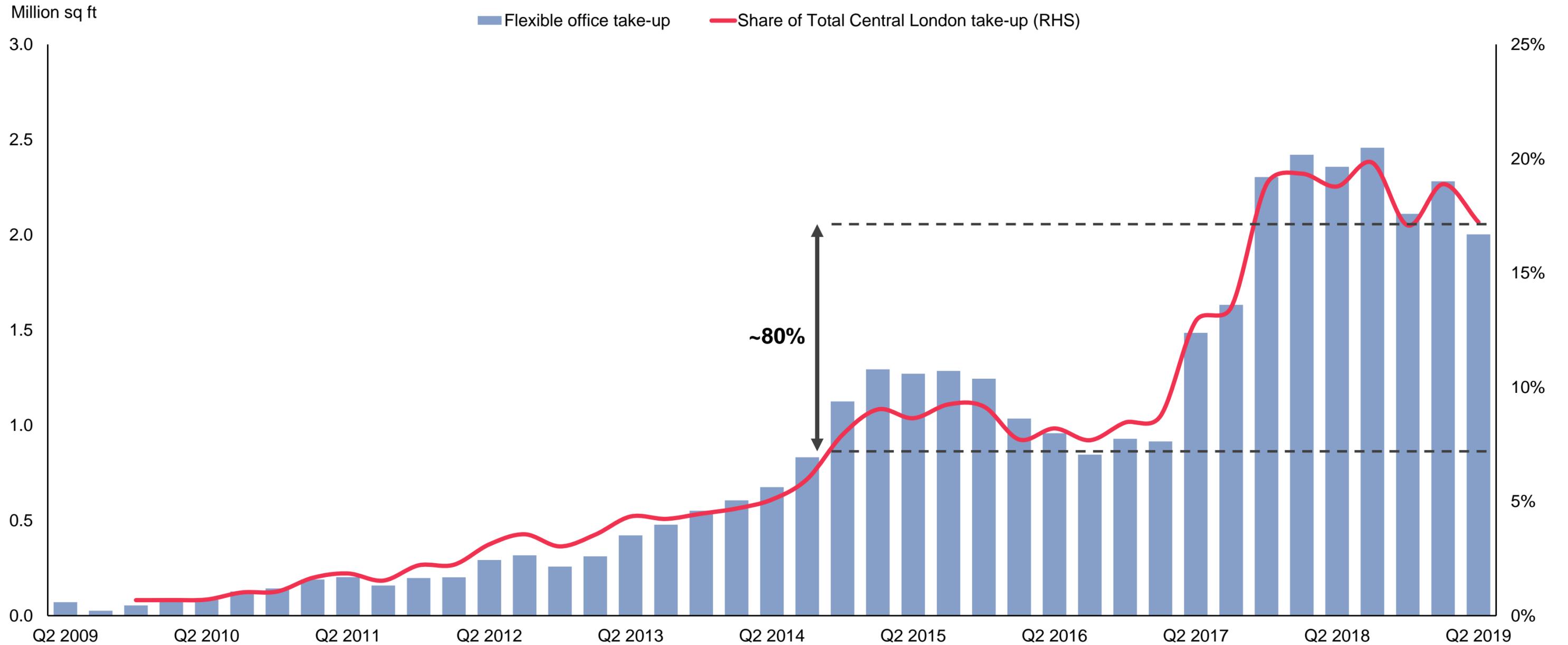


# Customers demand convenience, flexibility and choice



# Growth of the flexible office market — 2.3m sq ft taken in last 12 months

Flexible office operator take-up, rolling 12 months



Source: CBRE

# Expanding our customer offer, meeting the needs of our customers

## Business priorities:

Talent

Productivity

Efficiency

HQ

Fitted

MYO

10+ year leases

3 - 10 year leases

1 - 3 year leases

Blank canvas

Furnished  
and connected

Furnished  
and fully serviced

100+ people

50 - 150 people

10 - 100 people



Landsec HQ



Landsec Fitted



MYO

Supported by

Landsec Lounge

All tech enabled

# Landsec Fitted

## Hassle-free and ready-to-go

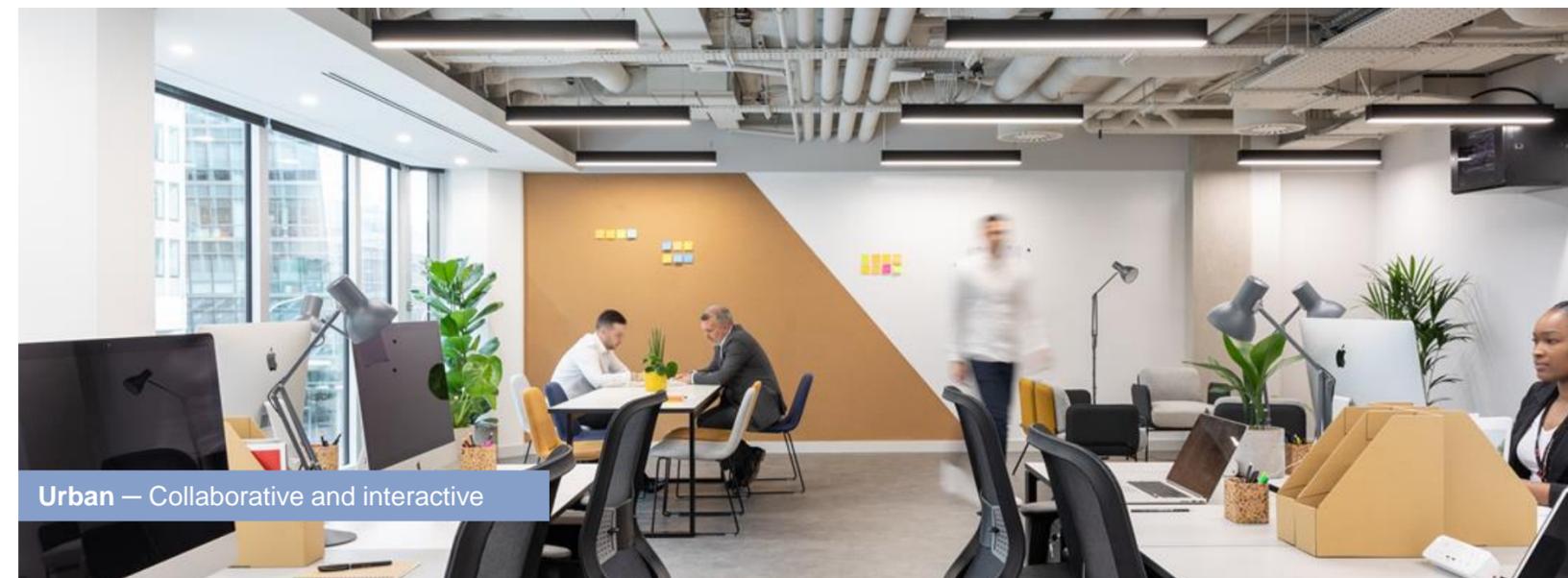
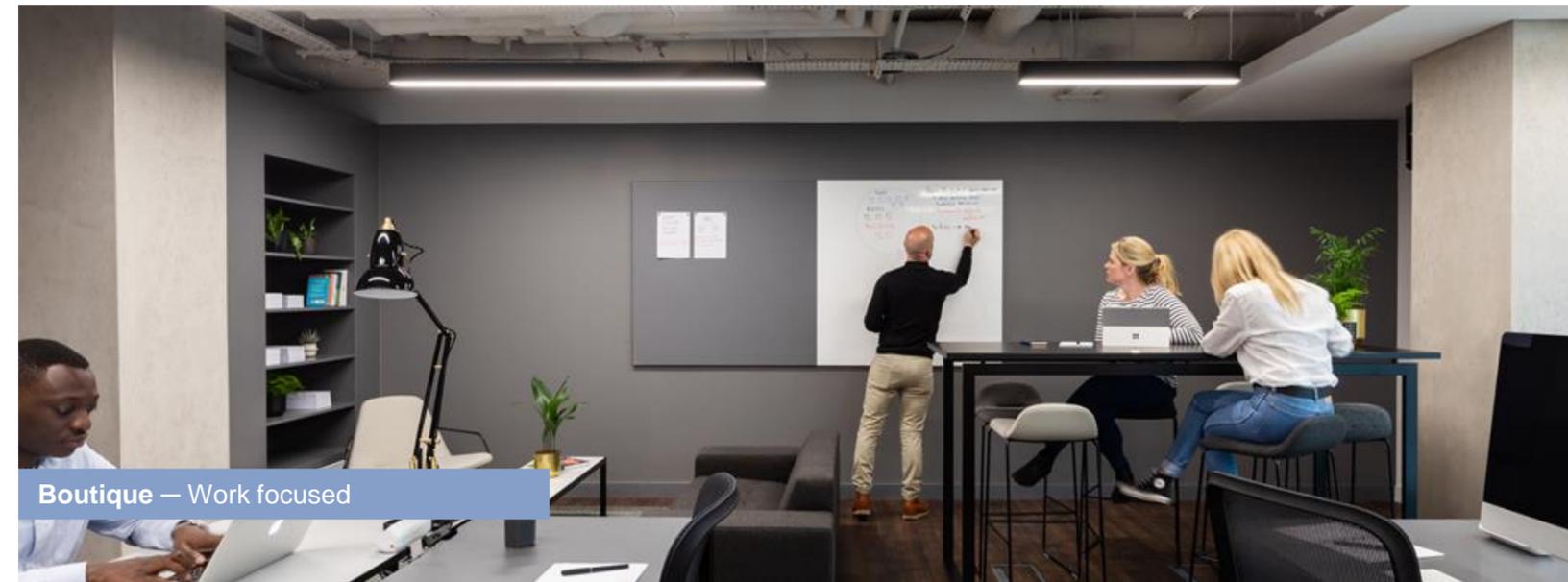
- Fully fitted, furnished and connected
- 7,500 and 9,000 sq ft office suites at 123 Victoria Street
- Rents 24% ahead of typical HQ letting of the same space with incentives 50% shorter
- Premium of 5 - 15% to net effective rent and reduced voids



# MYO

## Freedom to make your mark

- Serving existing customers
- Delivery of customised space
- Landsec brand surety



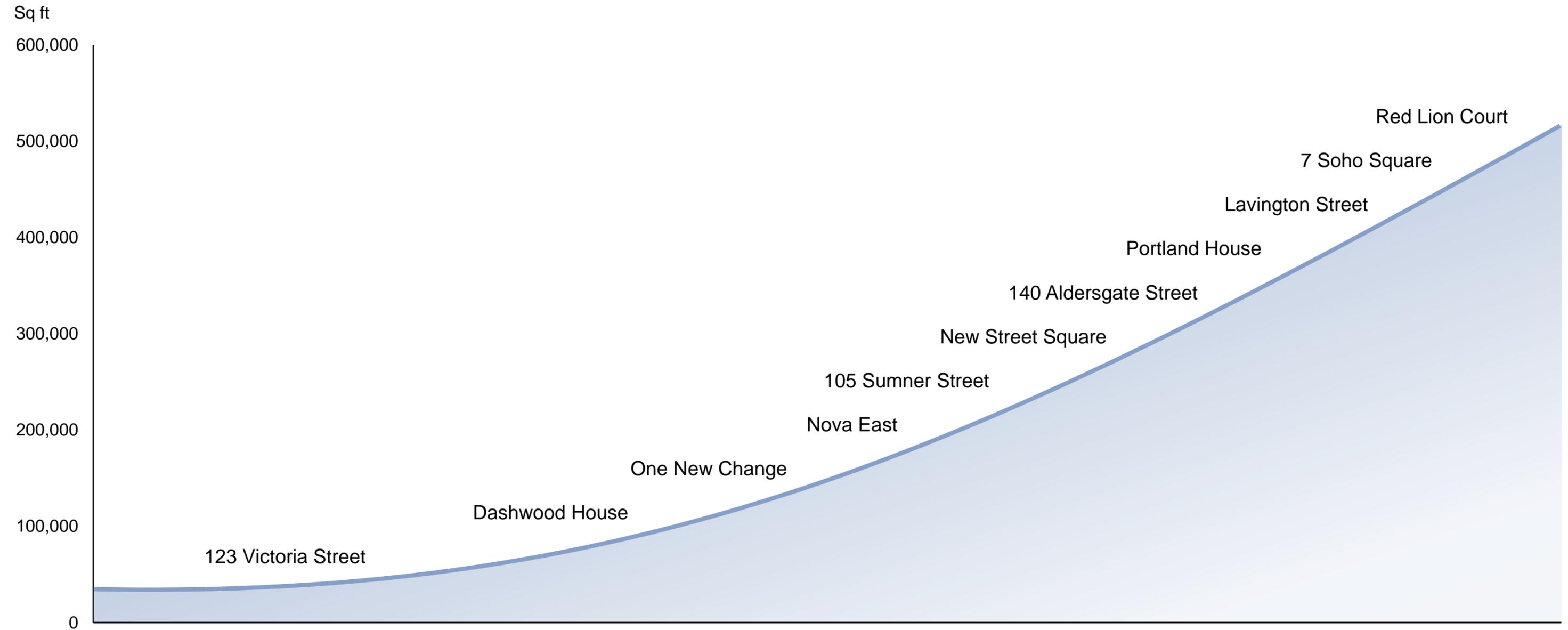
# MYO progress to date

## 123 Victoria Street — ahead of plan

- 36,000 sq ft
- Over 2 floors with internal connecting staircase
- 57% let
- Opened May 2019



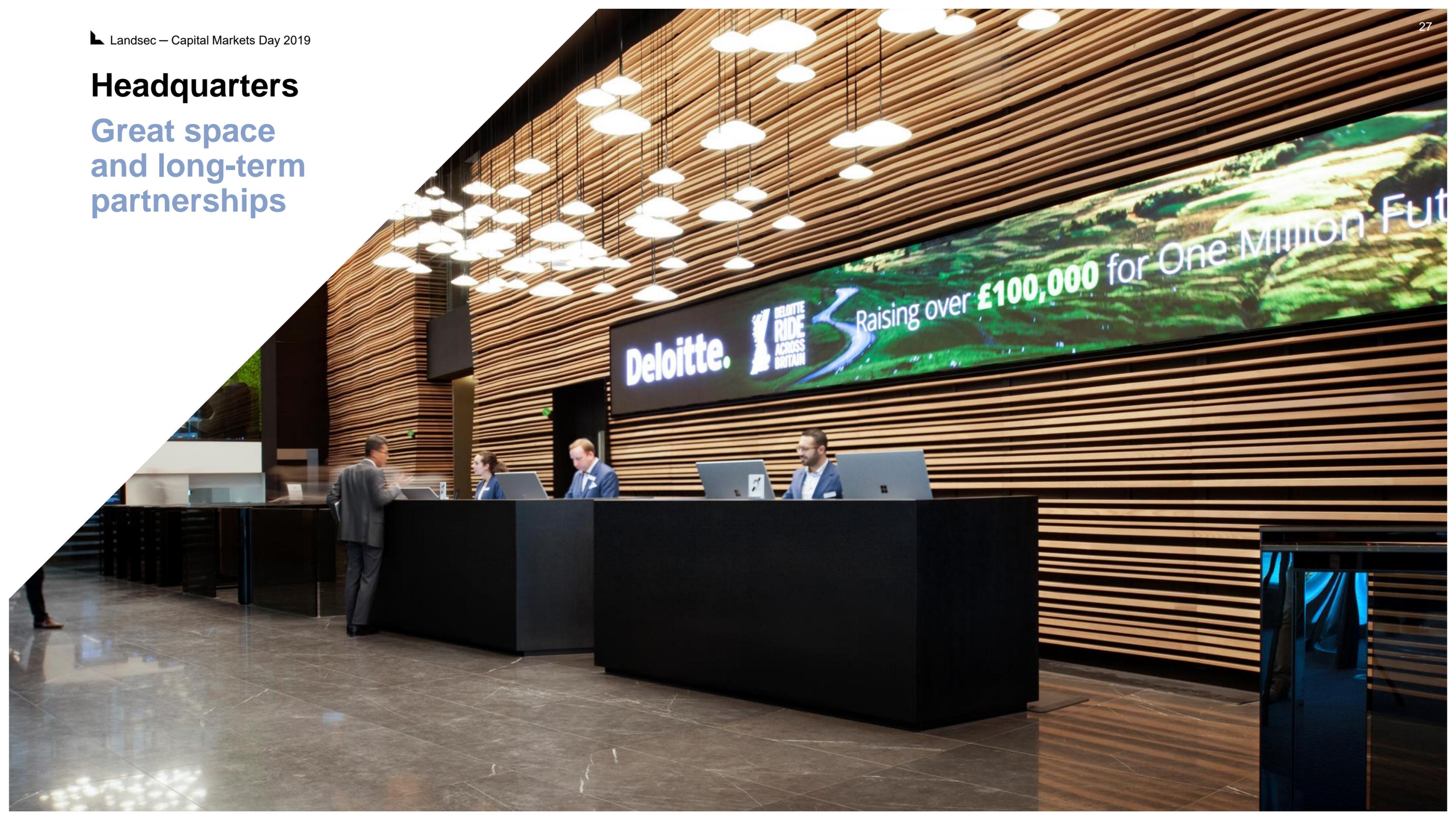
# MYO — significant potential to scale up the offer



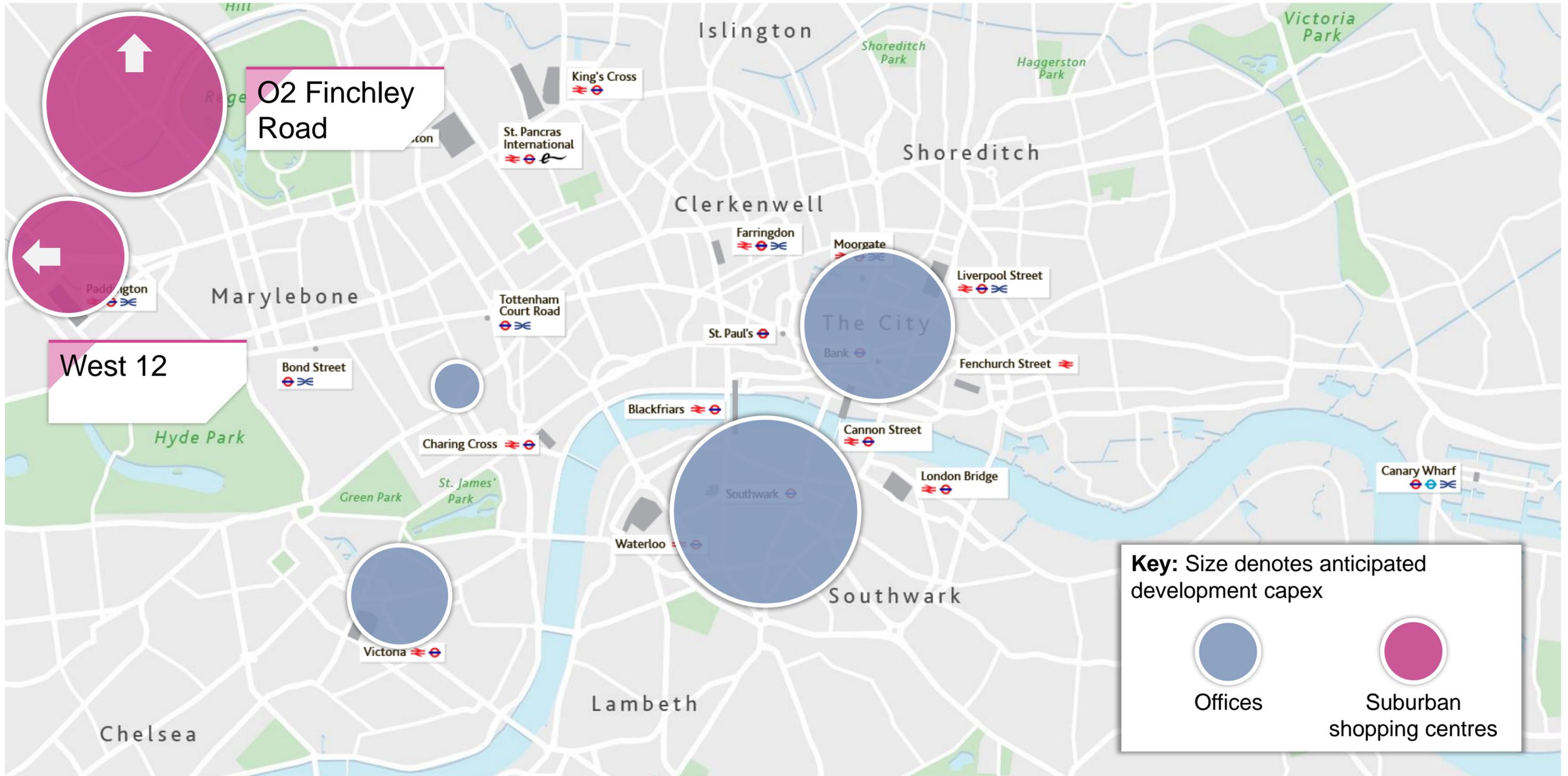
Up to 30% of a building serviced by MYO

# Headquarters

Great space  
and long-term  
partnerships



# Development activity to 2024 – compelling assets in well connected locations

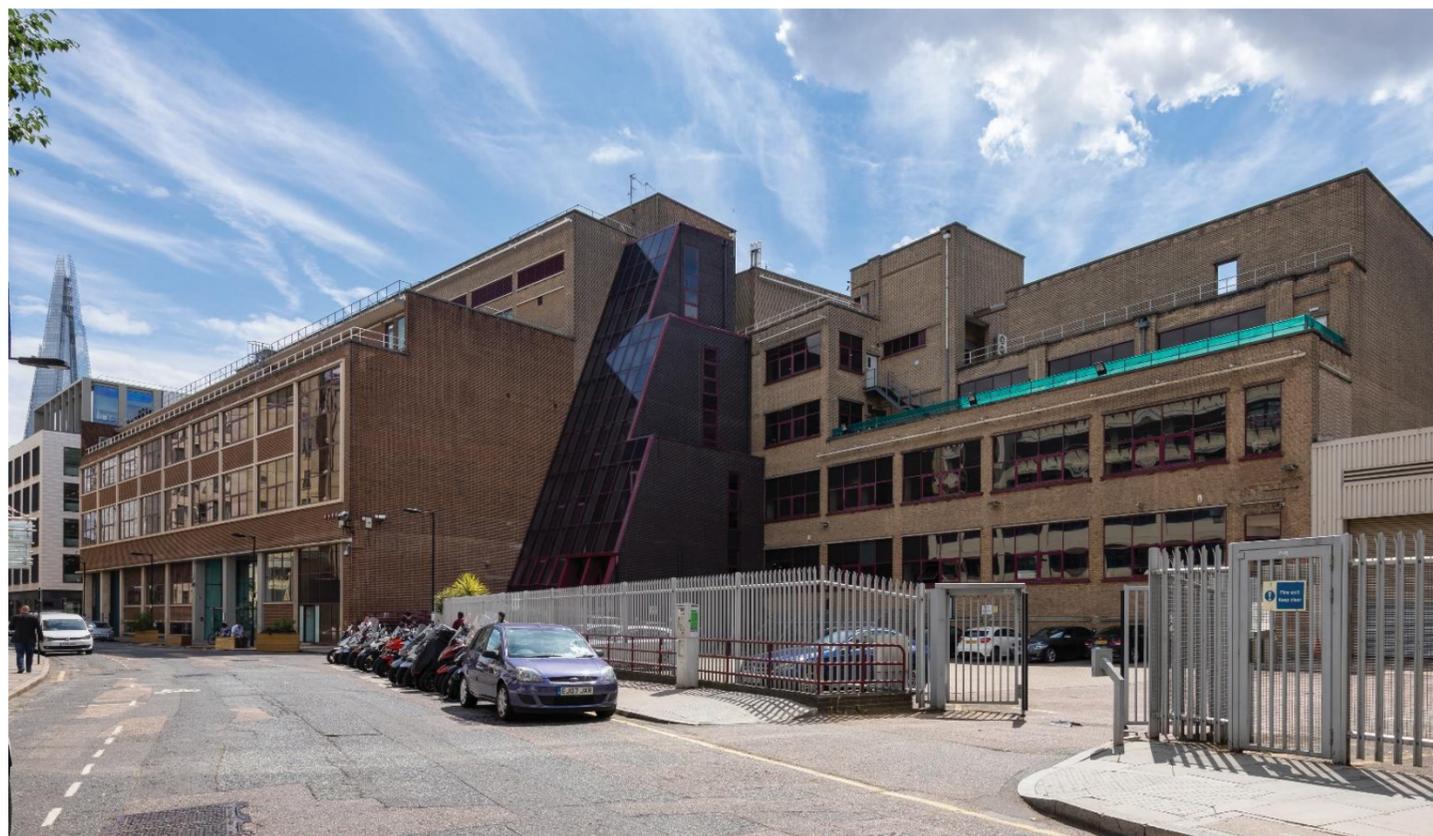


# Lavington Street, SE1 — growing Southwark footprint

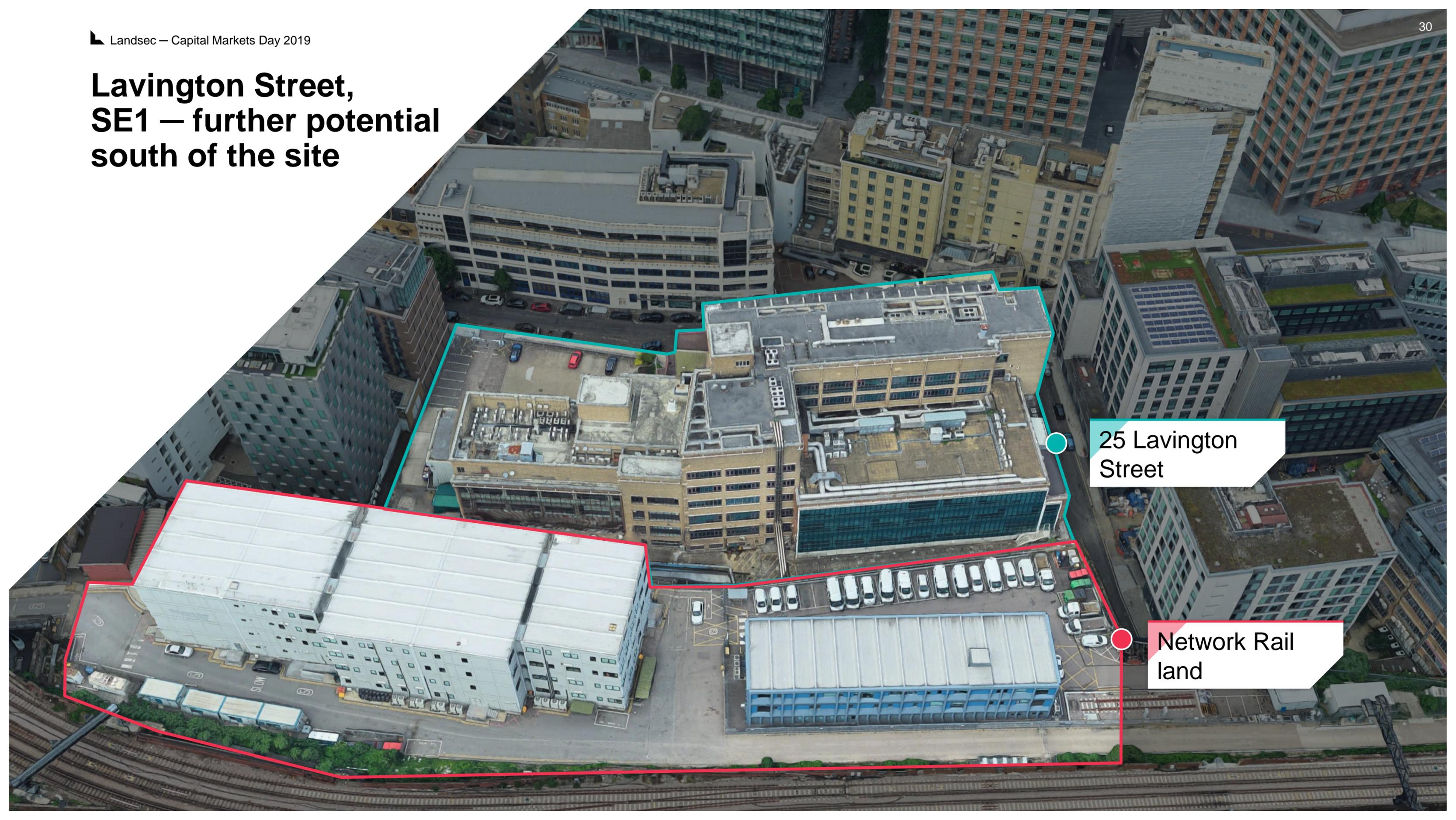
- Acquired in December 2018
- Two buildings
- Mix of refurbishment and redevelopment providing approximately 390,000 sq ft of space

- Planning application to be submitted Q1 2020
- Earliest start on site July 2020, completion 2023

MYO  Landsec Fitted  Landsec Lounge



# Lavington Street, SE1 — further potential south of the site

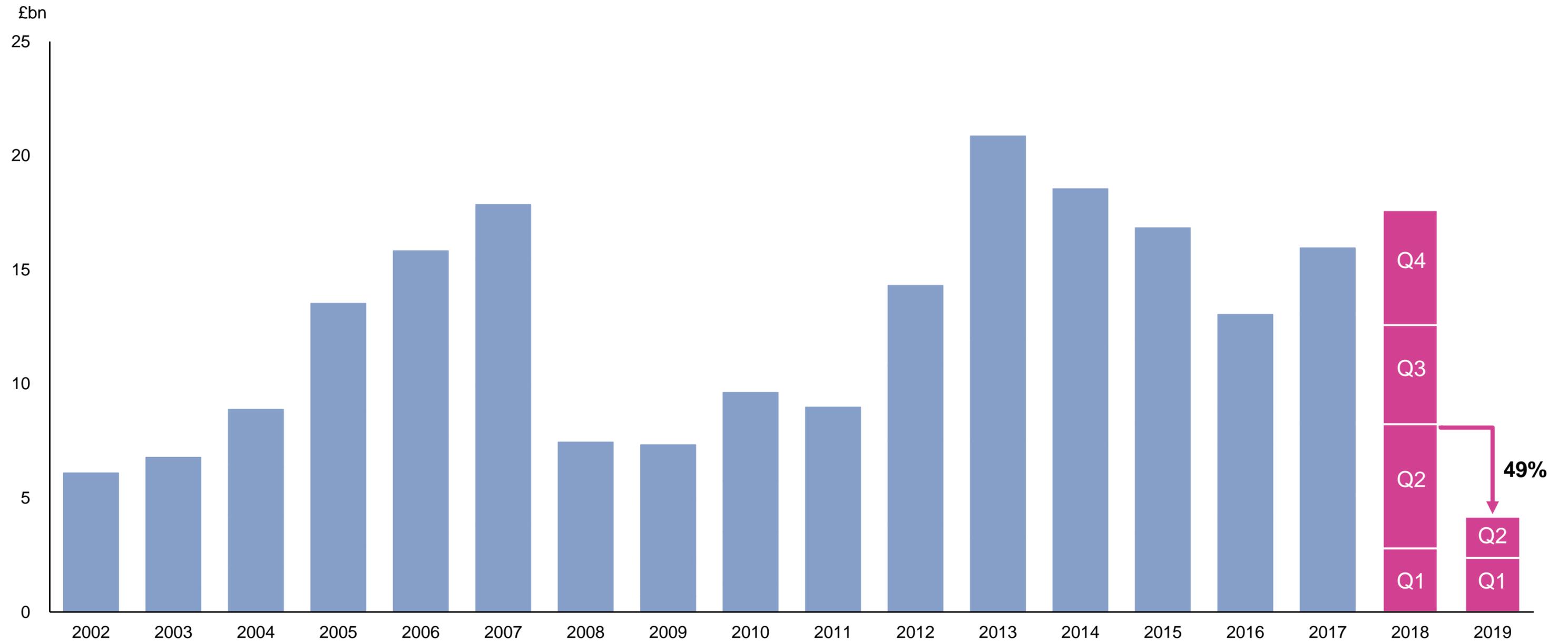


25 Lavington  
Street

Network Rail  
land

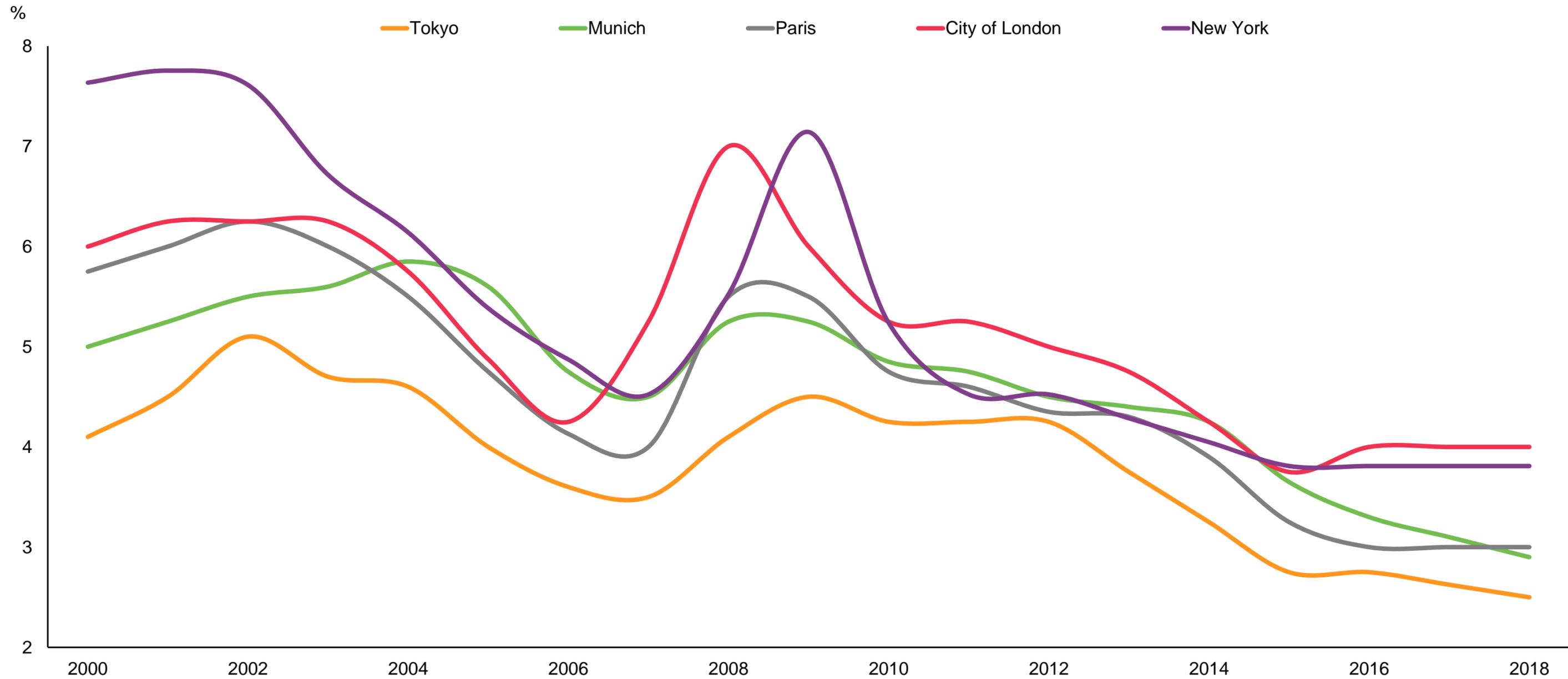
# H1 transaction volumes at levels last seen in 2009

Central London office transactions

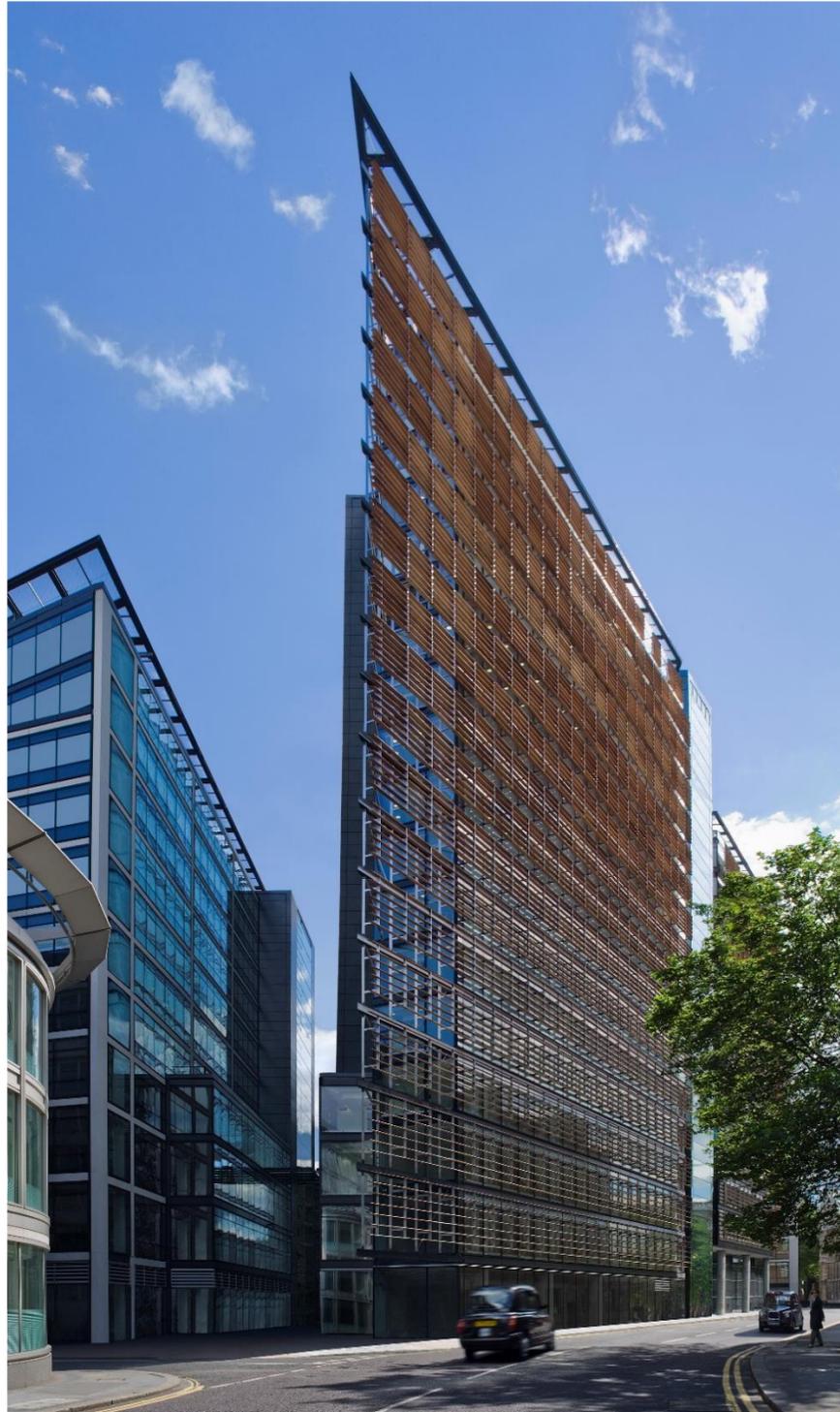


# London still offers good value compared to global markets

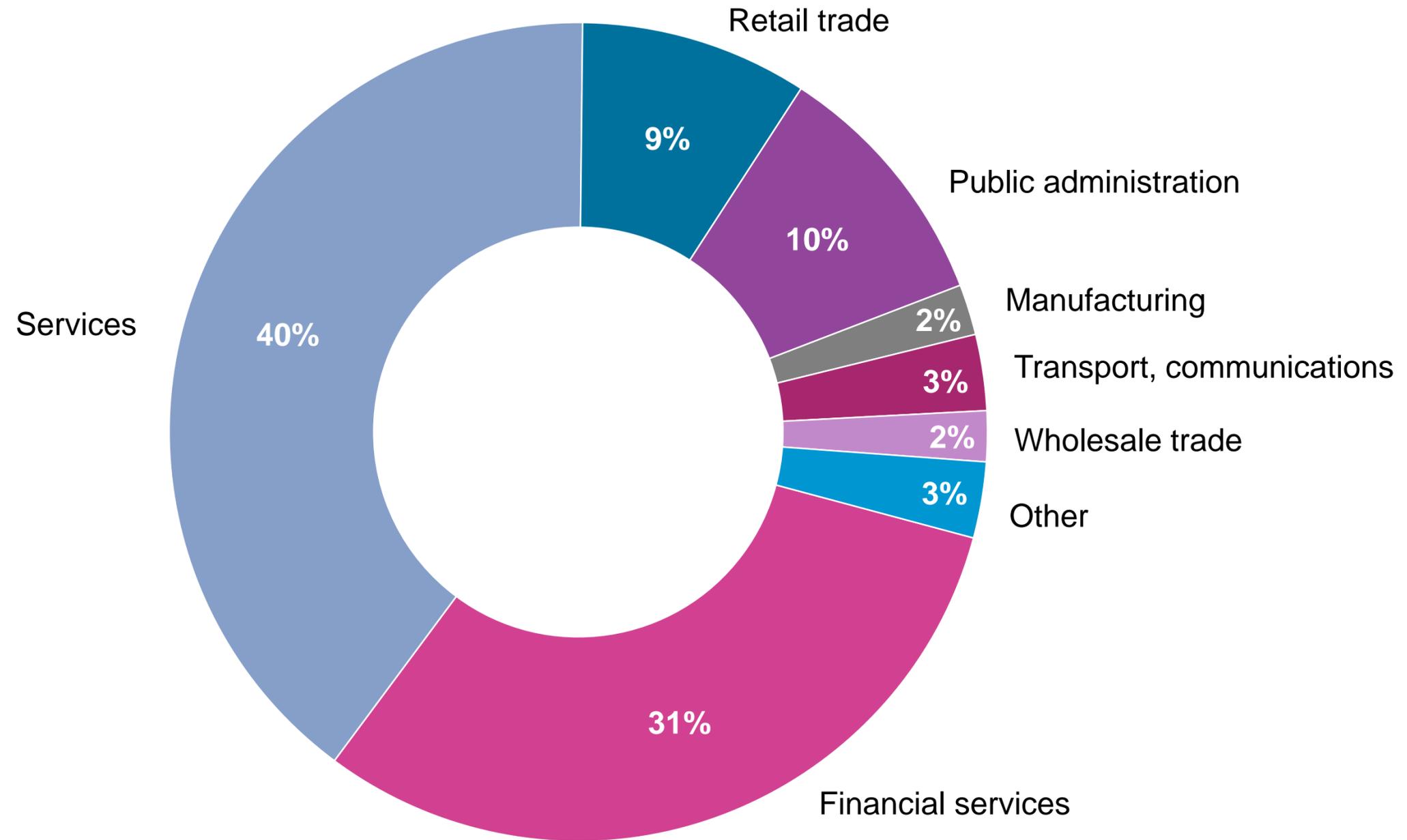
Prime office yields



# Portfolio update — choice, amenity, flexibility and sustainability



# Broadening our pool of office customers



Above shows contracted rental income breakdown by occupier business sector at March 2019

# Dashwood House

## Refreshing the building and enhancing the product offer



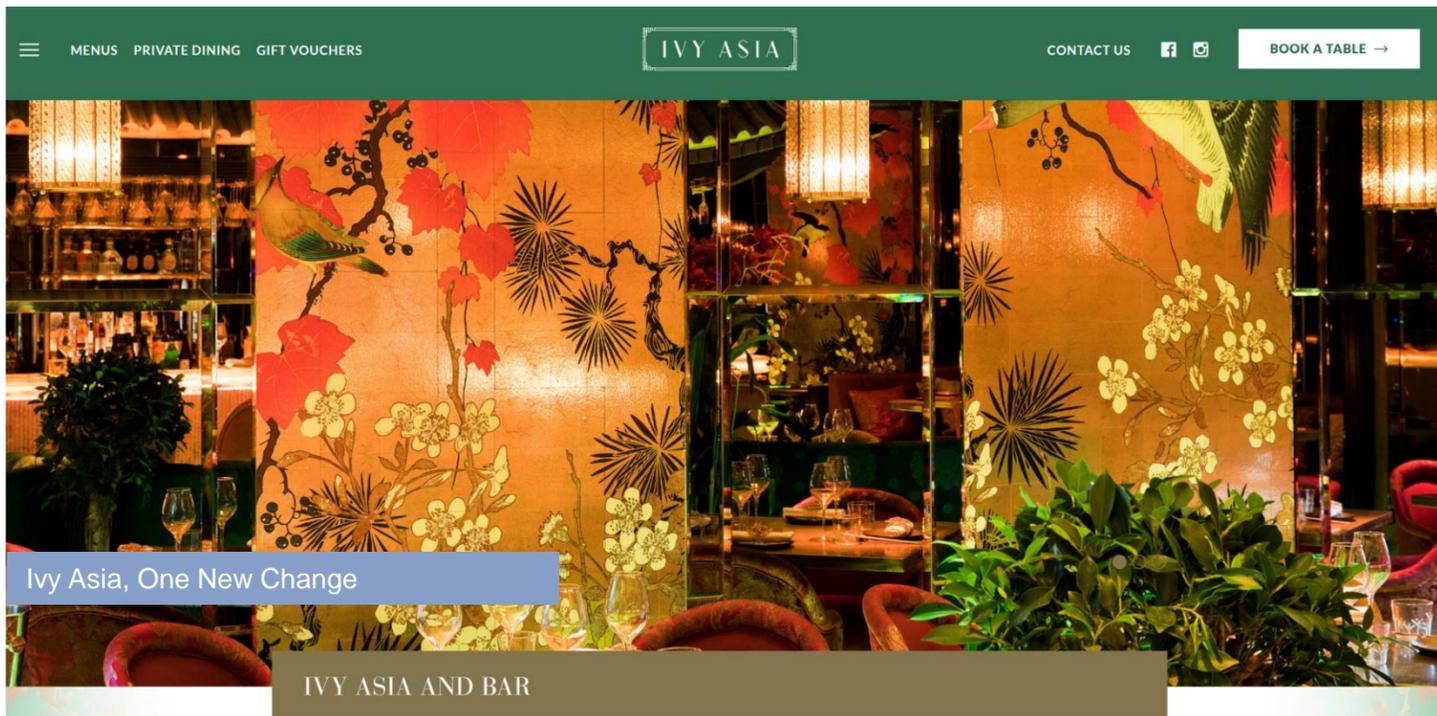
# One New Change

## Enhancing the offer with Landsec Lounge and MYO



# Replacing Jamie's Italian and growing rents

## Moving rents on by 8%



# Summary

- Investing in our development pipeline
- Increasing convenience, flexibility and choice
- Best in class portfolio
- Ready to add to the pipeline
- Tight income and cost management



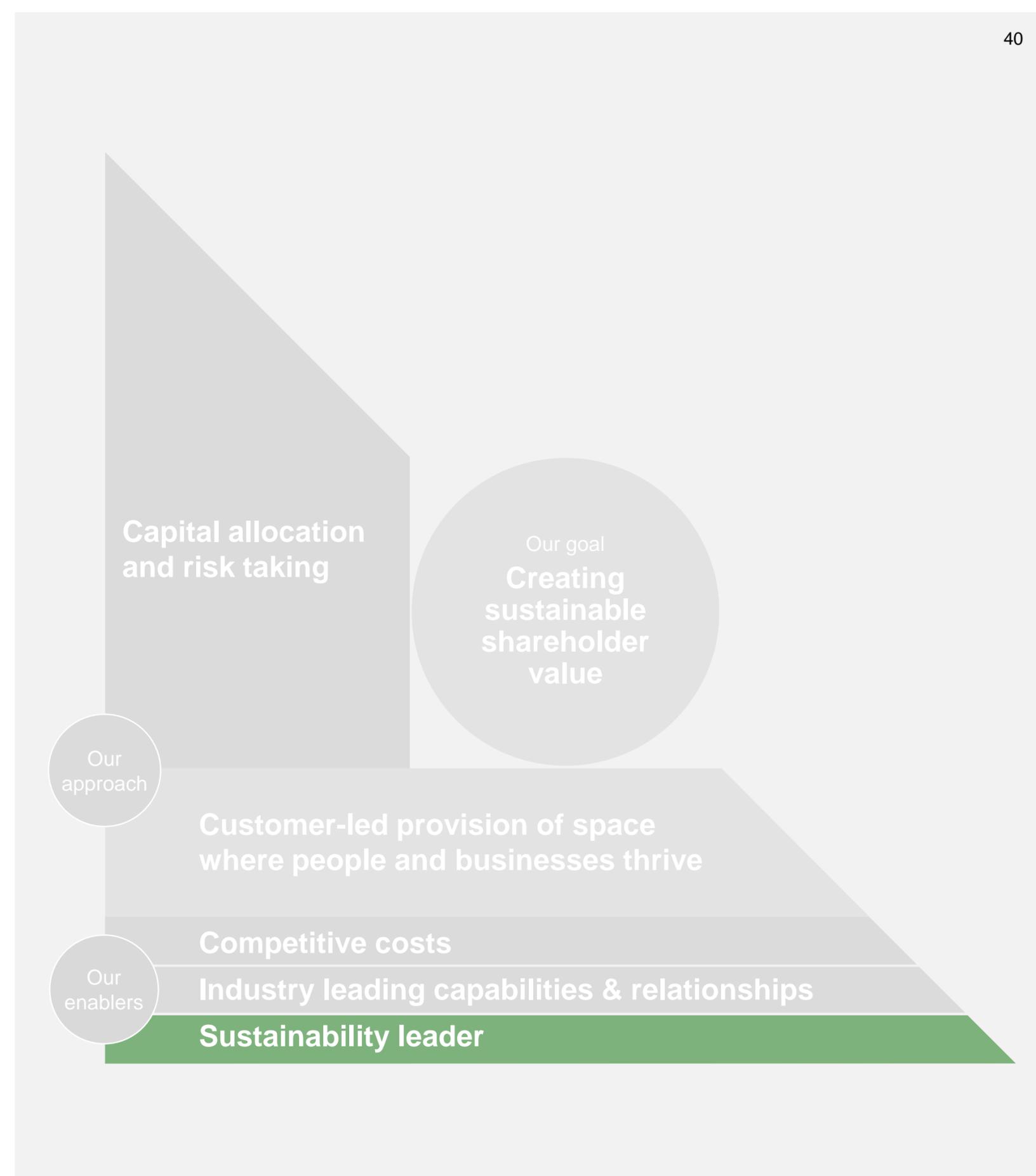
**Caroline Hill**

**Head of Sustainability  
& Public Affairs**

# Evolving strategy addressing key trends

## Sustainability

- Social purpose, value and expectations
- Resource scarcity and climate change



# Our sustainability strategy

## Three priorities

### Creating jobs and opportunities

---



### Efficient use of natural resources

---



### Sustainable design and innovation

---



## Community employment

1,300+ people successfully supported  
into work since 2011



# Community employment and social value



# 2018 at a glance

---

**£1.2m**

of social value has been generated through our Community Employment Programme – £980,000 through job outcomes we have created and £248,000 through training and work experience opportunities

---

**295**

young people – 63% of whom were female – have completed a Landsec education initiative

---

**92%**

of these students reported an increase in confidence and 97% said they felt more prepared for the labour market

---

**1,018**

people have been engaged through our volunteering programme

---

**£624,600**

has been donated to charities, including £97,500 to our national charity partner Barnardo's

---

**£746,000**

worth of space has been donated to charities and local groups including meeting rooms, mall space and retail units

---

**£163,000**

of social value created through volunteering in schools and communities and with ex-offenders and the homeless

---

**£466,100**

of in-kind contributions have been made

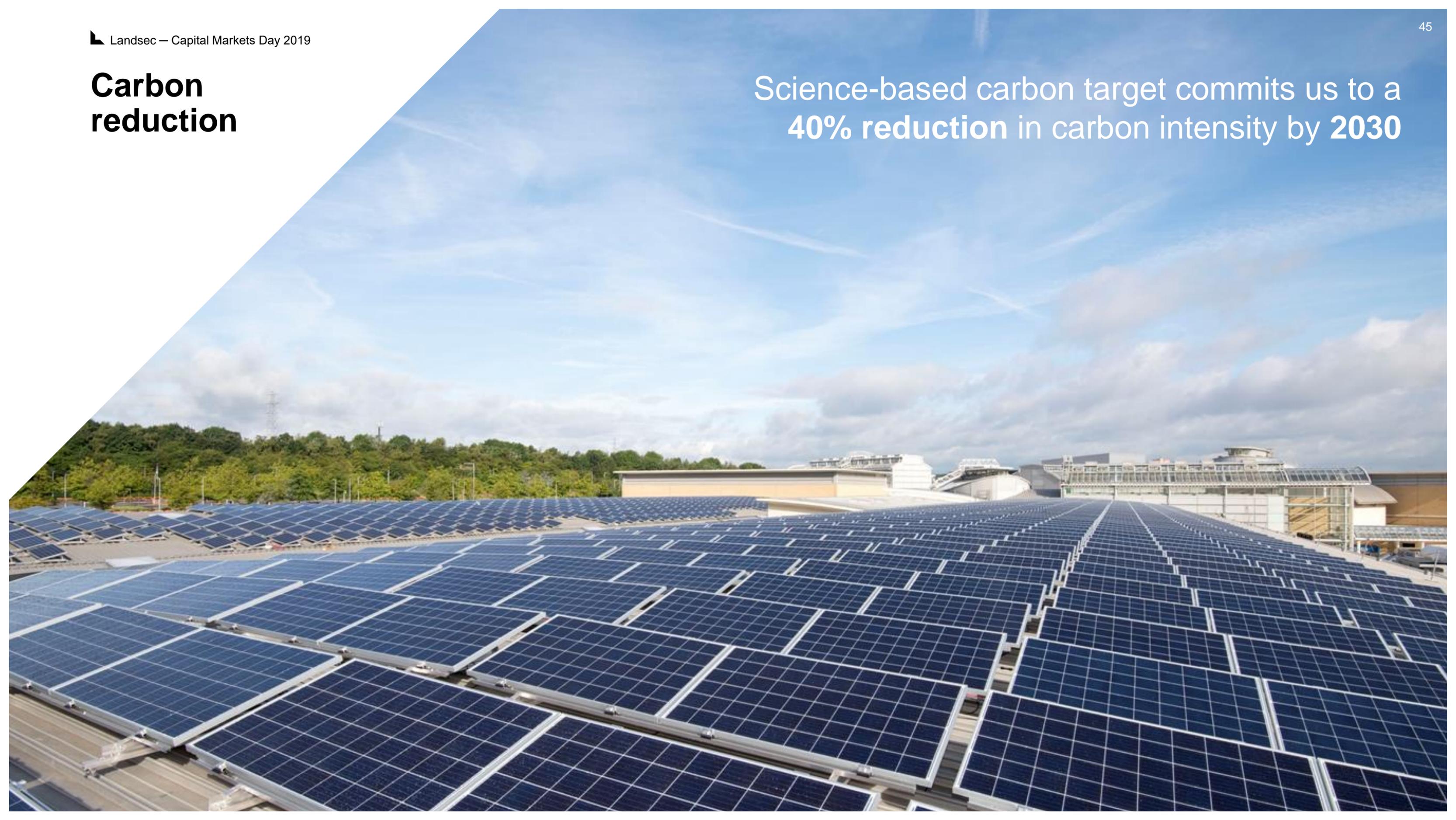
---

**£3.2m**

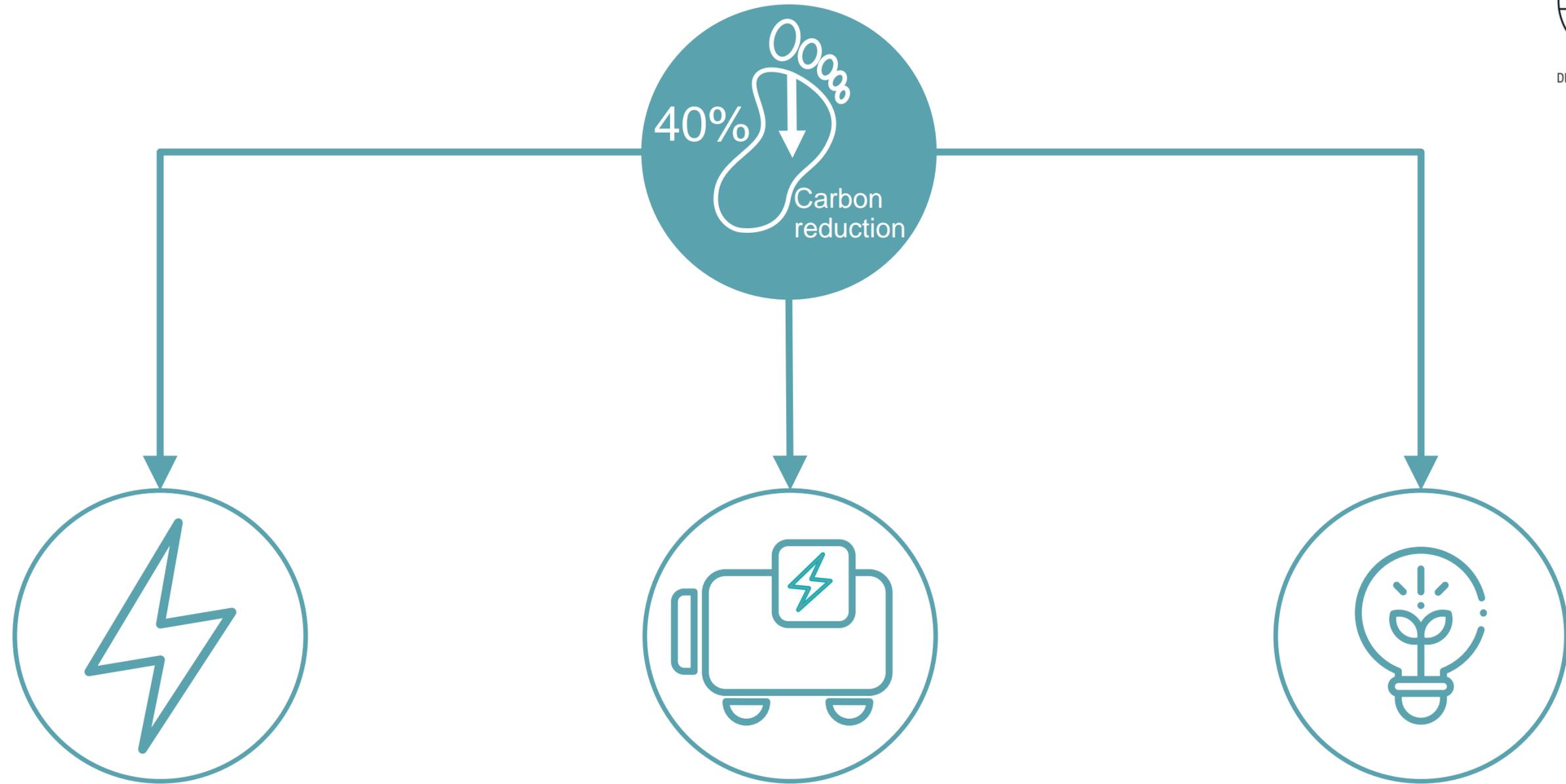
total social value created through our community programmes and partnerships in 2018

# Carbon reduction

Science-based carbon target commits us to a  
**40% reduction** in carbon intensity by **2030**



# Delivering meaningful carbon reduction

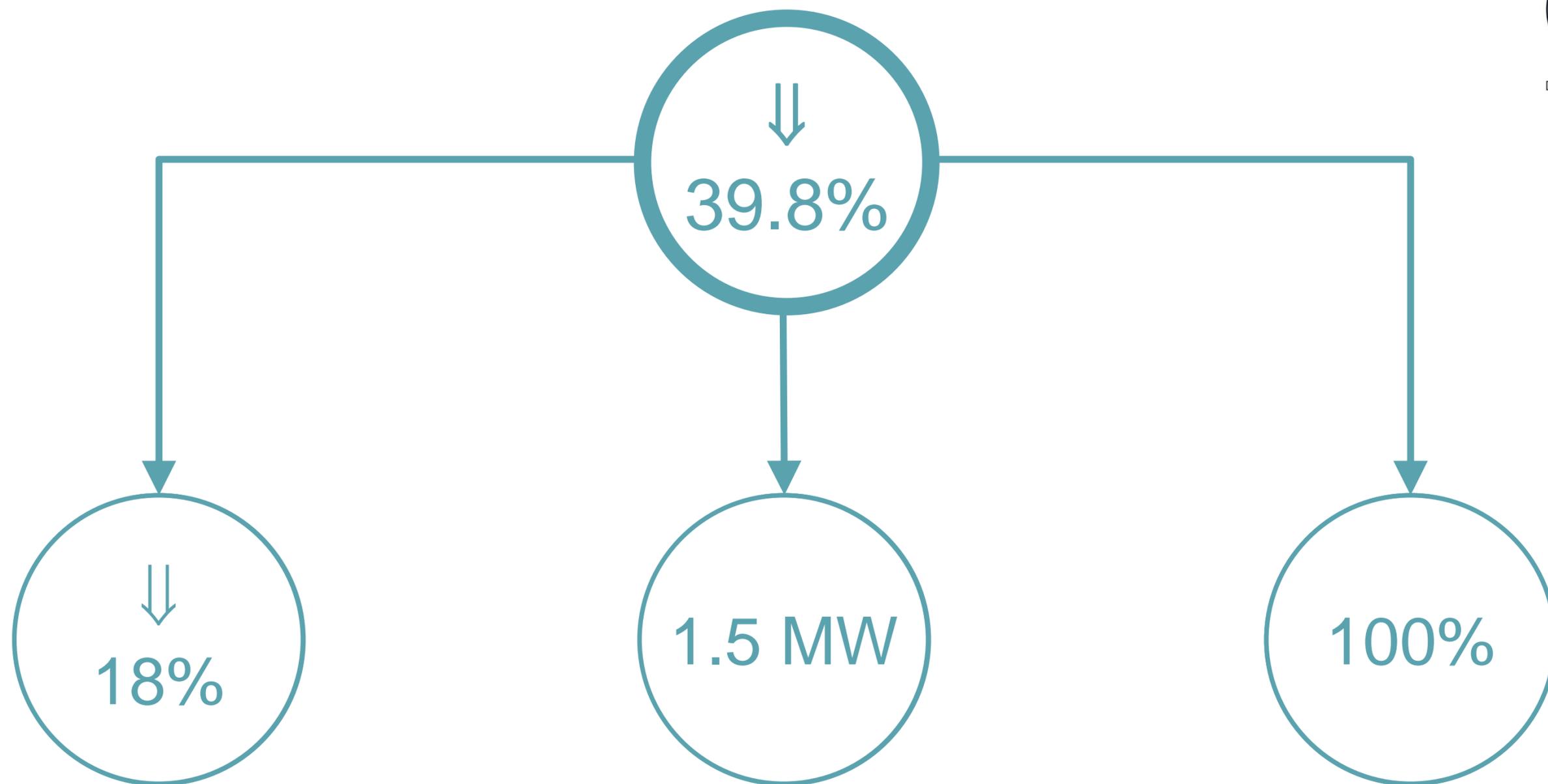


Using less energy

On-site generation –  
e.g. White Rose PV

Supporting de-carbonisation  
of UK energy mix through  
procuring renewables

# Delivering meaningful carbon reduction



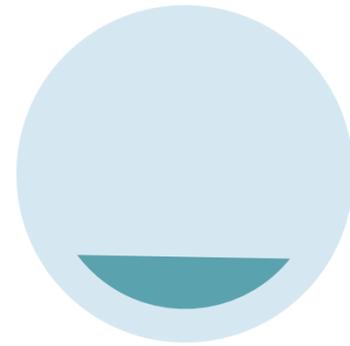
Using less energy

On-site generation –  
e.g. White Rose PV

Supporting de-carbonisation  
of UK energy mix through  
procuring renewables

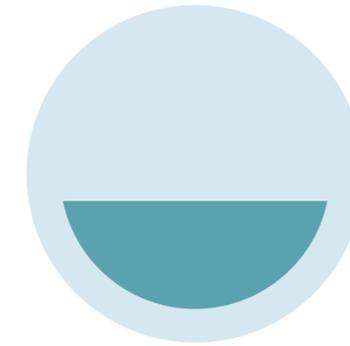
# Five steps we are taking to achieve net zero buildings

## Reduce operational energy use



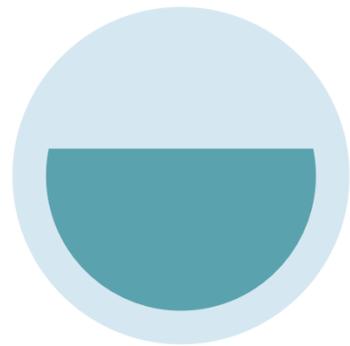
Using science-based operational targets  
Designing for Performance

## Purchase renewable energy



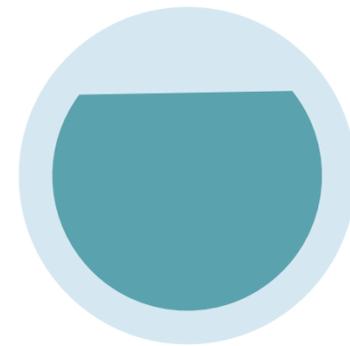
Implementing Power-Purchase  
Agreements (PPAs)

## Use an internal shadow price of carbon



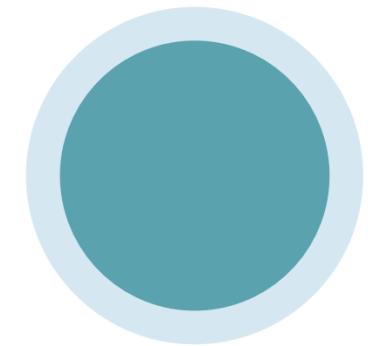
Driving investment toward  
cleaner alternatives

## Reduce construction impacts



Designing and specifying  
Repositioning assets

## Offset remaining carbon



For remaining  
construction impacts

## Climate resilience

Assess and mitigate physical and financial climate change adaptation risks that are material across our portfolio



# Designing climate change resilient buildings

## Increased temperatures

- High performance facades
- Thermal comfort
- Passive design solutions
- Planting
- Water drinking fountains

## Increased winds

Structural designs to respond to predicted future wind loads

## What could happen by 2070?

**5.4°C**

hotter in summer

**50%**

increase in heatwaves

**35%**

more rain in winter

## Increased rainfall

- Green roofs
- Rainwater harvesting
- Attenuation tanks
- Permeable paving and rain gardens



# Sustainability driving value

## Summary

- Creating social value
- Targeting net zero carbon
- Climate change resilience
- Future customer expectations
- Partner of choice for planners
- Reduced build and operational cost
- Talent attraction and retention

### Benchmark



### Performance in 2018/19

A (Leadership)

Score 82 / percentile ranking 98<sup>th</sup>  
European Real Estate leader

We've again been named a climate leader, ranking 10<sup>th</sup> for all FTSE 100 companies and 1<sup>st</sup> for our sector

Received our 6th Gold Award from EPRA for best practice sustainability reporting

Percentile ranking 89<sup>th</sup>. We continue to retain our established position in the FTSE4Good Index

Score 90% / ranked 1<sup>st</sup> in Europe and UK diversified office / retail (mixed) listed categories

ESG rating AA

Score 82 / Percentile ranking 97<sup>th</sup>

Score 73%, above sector average of 62%

Winner Mission Possible:  
The Built Environment Award

**David Heaford**  
**Head of Development**

# Development — Agenda

## Our approach to development

---

Customer centric

---

Technology enabled

---

Sustainable

## Overall pipeline

---

Schemes on site / near term

---

Further opportunities

## Customer centric

- Workplace: seismic shift
  - Part of business strategy
  - Attracts / retains talent
  - Expresses brand / culture
- Customer needs evolving
  - Destination and experiences
  - Wellbeing, collaboration, increased productivity



## Customer centric — research



- Sensing mood and behaviour
- Impact to health and wellbeing
- More on the tour...

HUMAN  
METRICS  
LAB

- Combines architecture and neuroscience
- Relationship between people and place

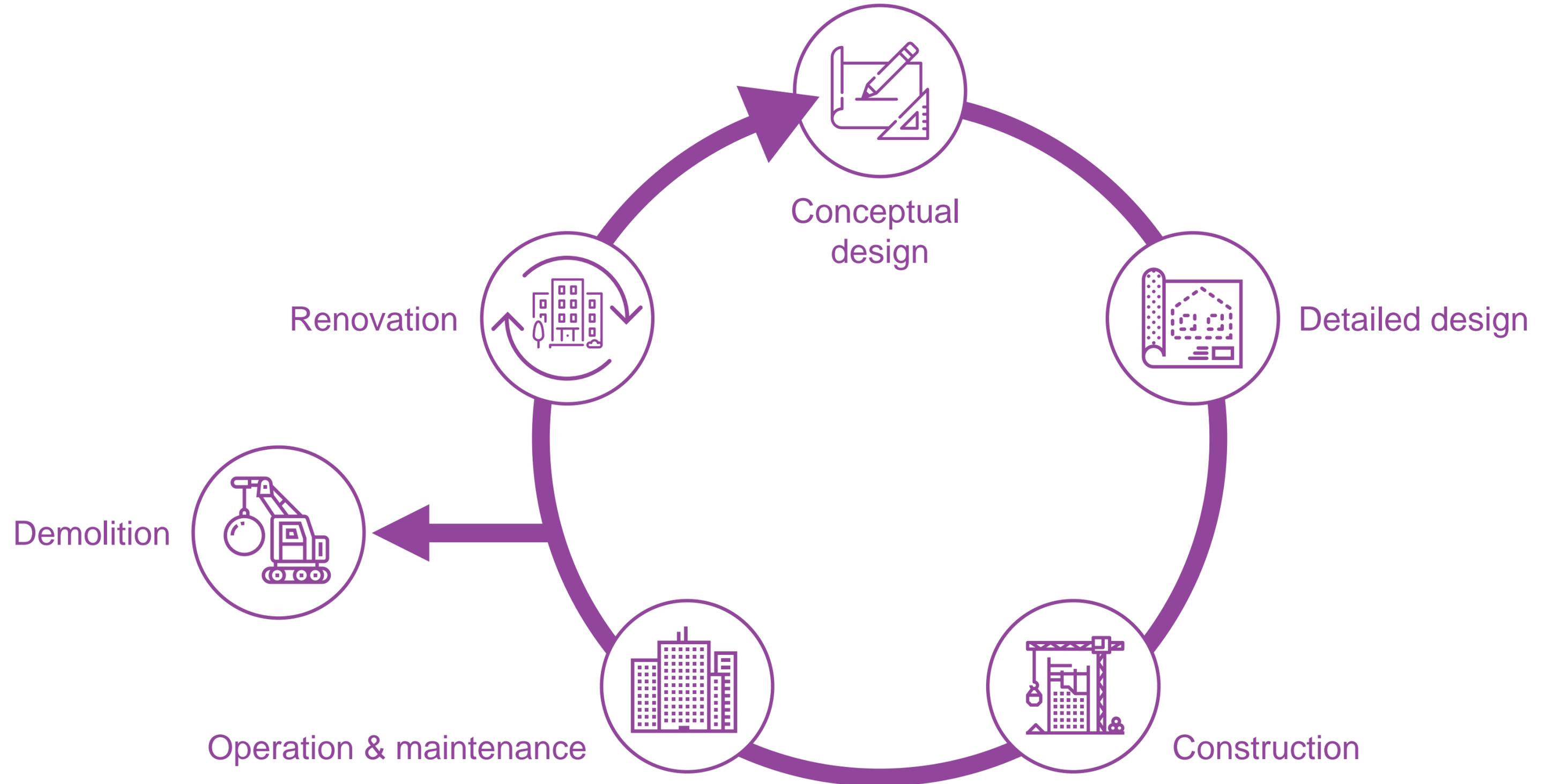


## Customer centric — Portland House

- HQ, Fitted and MYO
- Landsec Lounge, wellness and leisure
- Circa 400k sq ft, attaching new 14-storey building
- Total TDC c.£440m, development yield c.7%, ERV c.£30m
- Ecosystem offering:
  - Community
  - Flexibility
  - Wellbeing

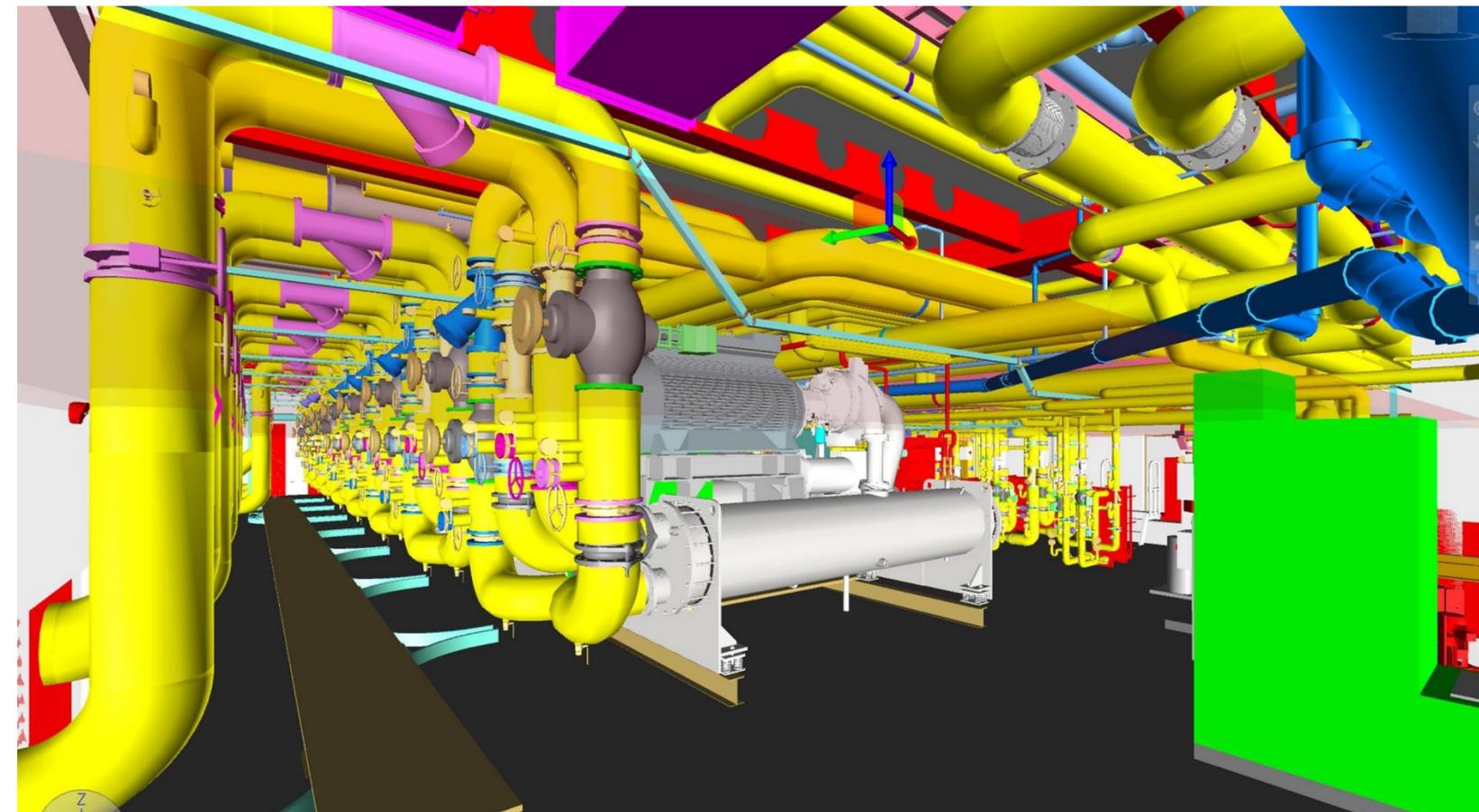
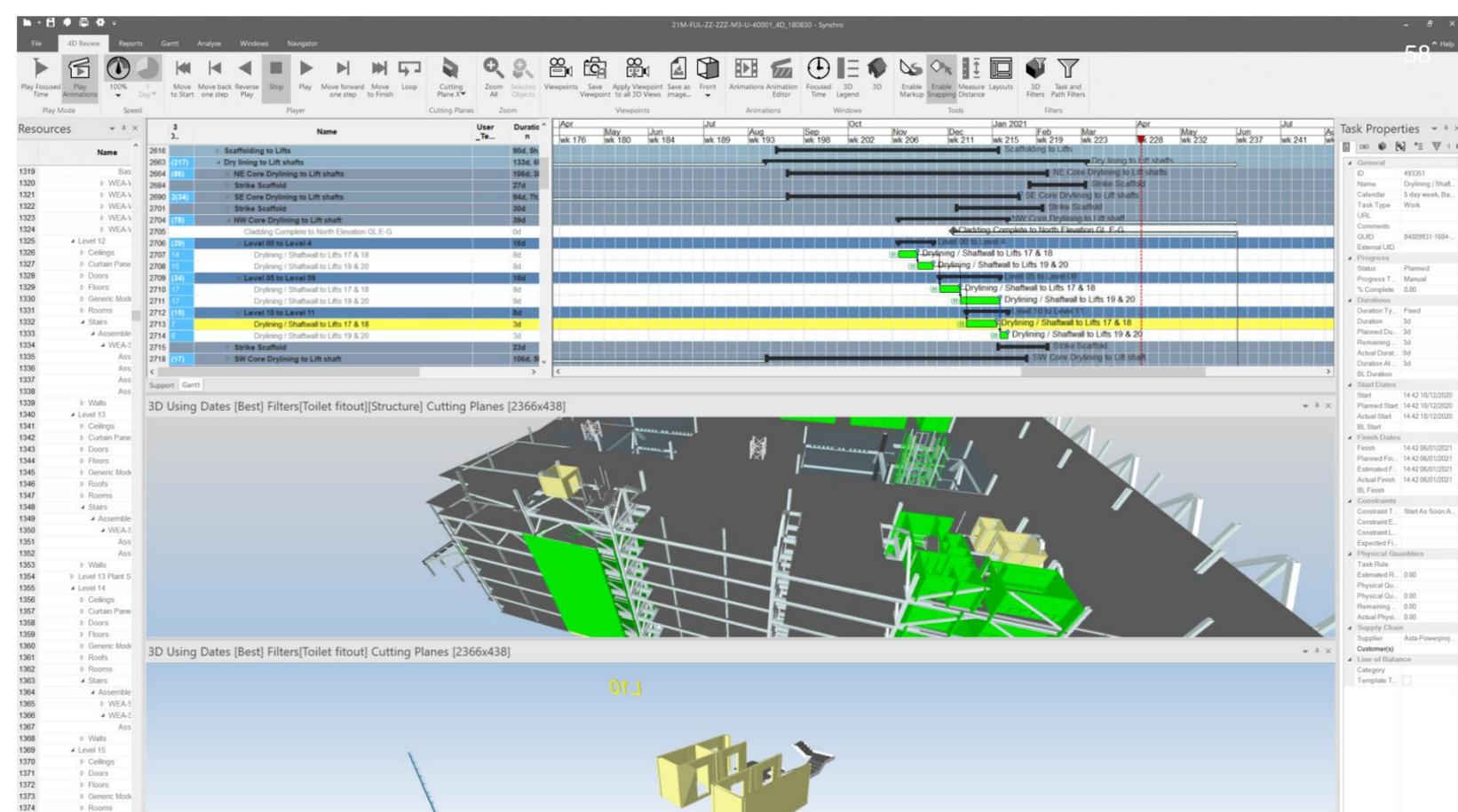


# Technology enabled — Building Information Modelling (BIM)

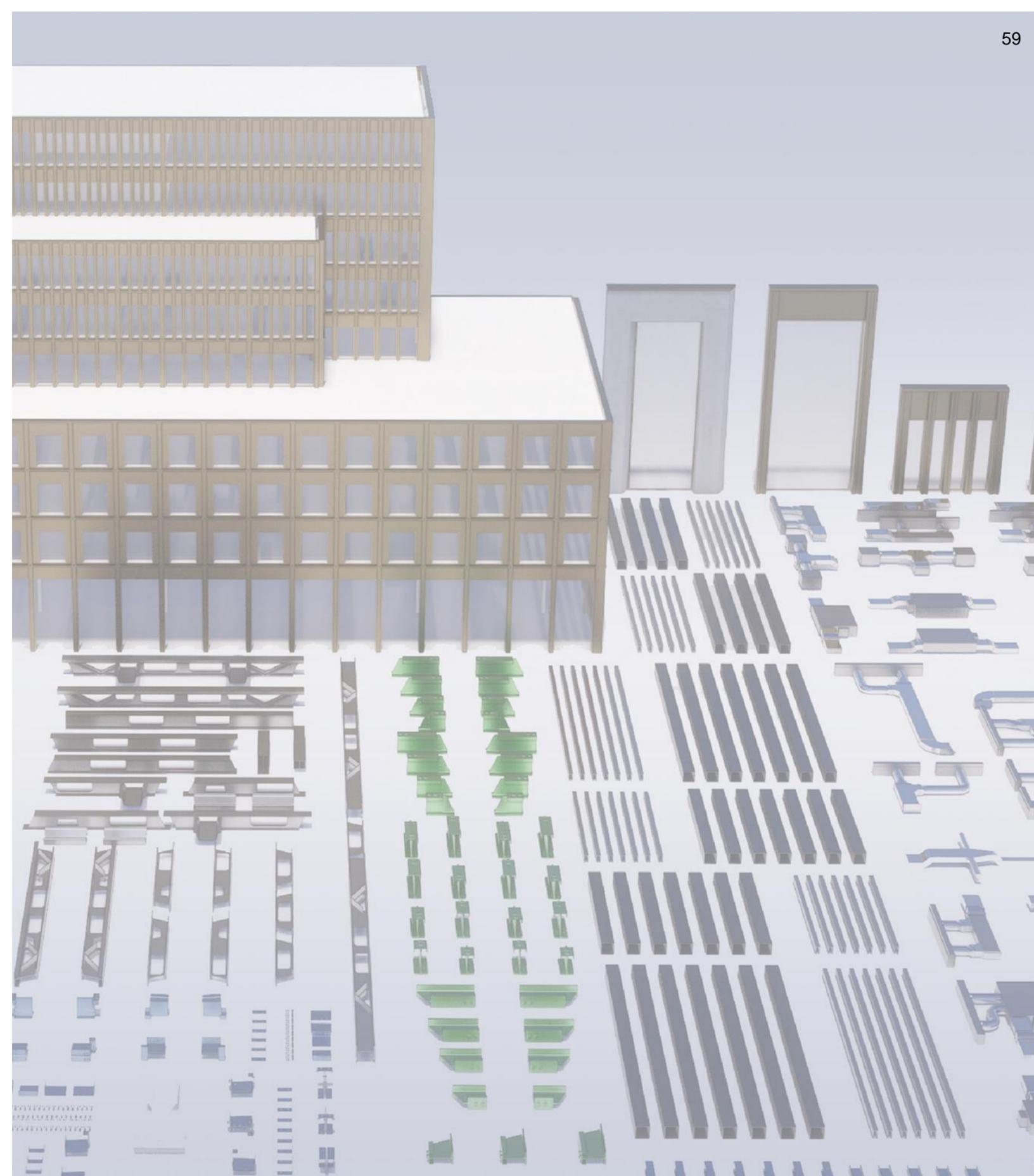
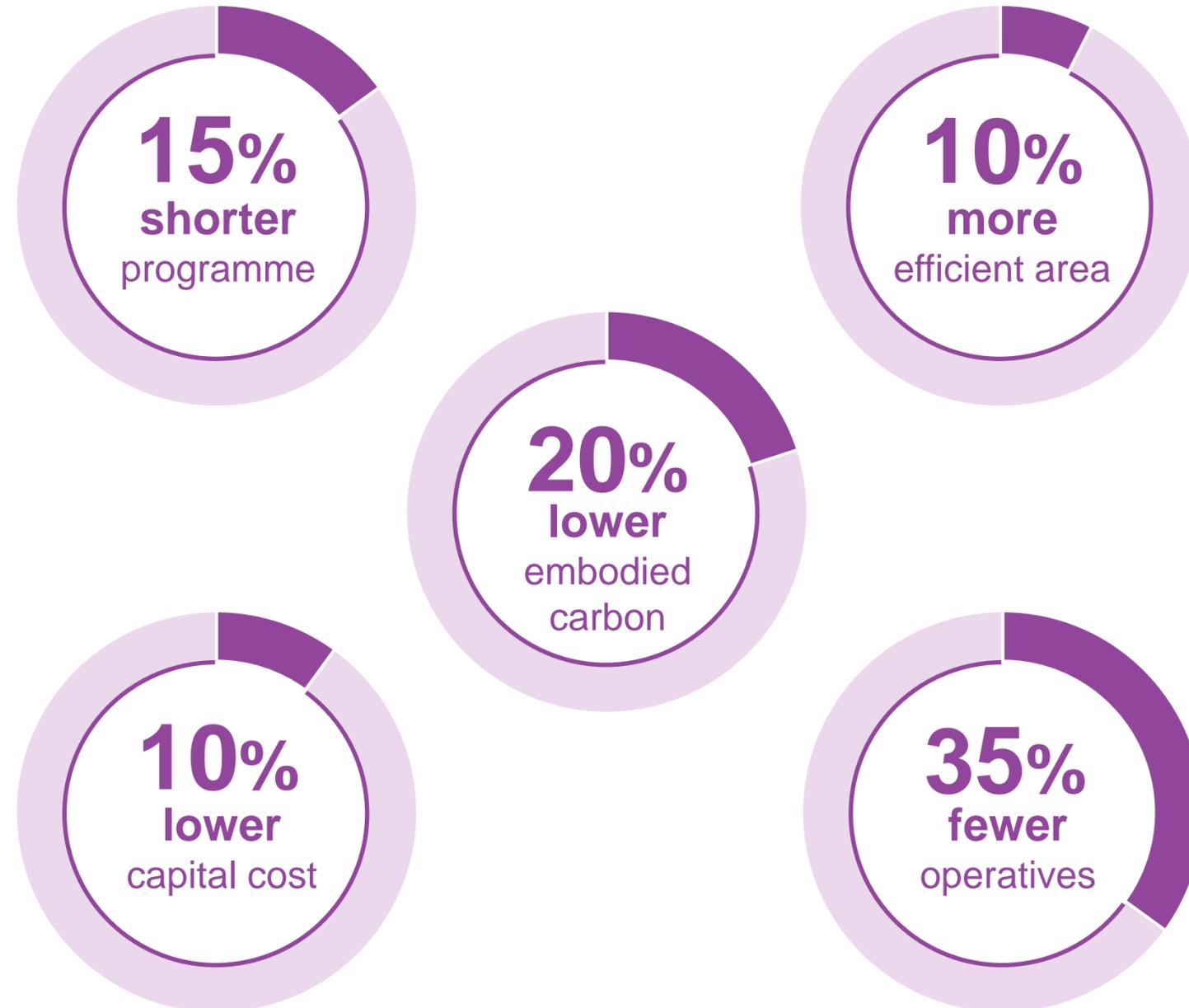


# Technology enabled — BIM

- BIM is adding new dimensions beyond the 3D model
- These additional dimensions are:
  - 4D programme / logistics
  - 5D cost management
  - 6D sustainability & facilities management

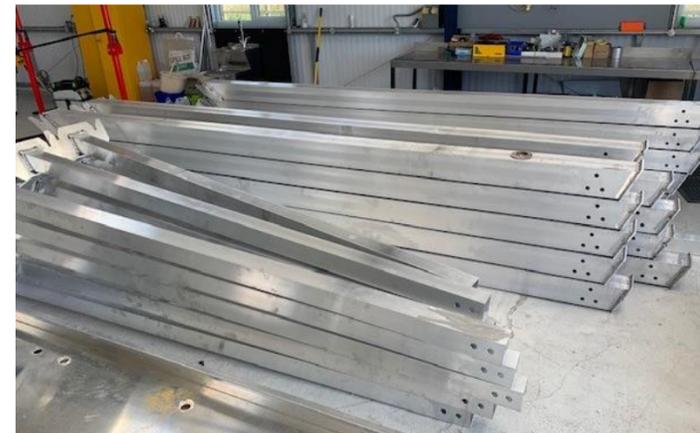


# Technology enabled — kit of parts



## Technology enabled — Prototype Lab

- Prototype centre in Hampshire
- Building a section of Sumner Street
- Two new partners
- Testing and learning to apply to Sumner Street



# Technology enabled — BIM suite



# Technology enabled — smart buildings



## High performance

---

- Reduced energy consumption and carbon footprint



## Efficient and flexible

---

- Preventative maintenance and fault diagnosis
- Flexible spaces, easy to alter / repurpose



## Sensing and responding

---

- Data from the building and inhabitants
- Frictionless customer experience

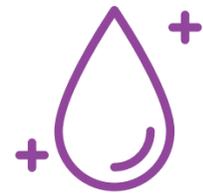
# Technology – space utilisation



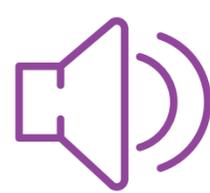
Occupancy



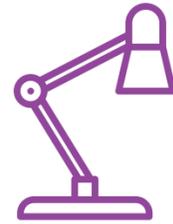
Temperature



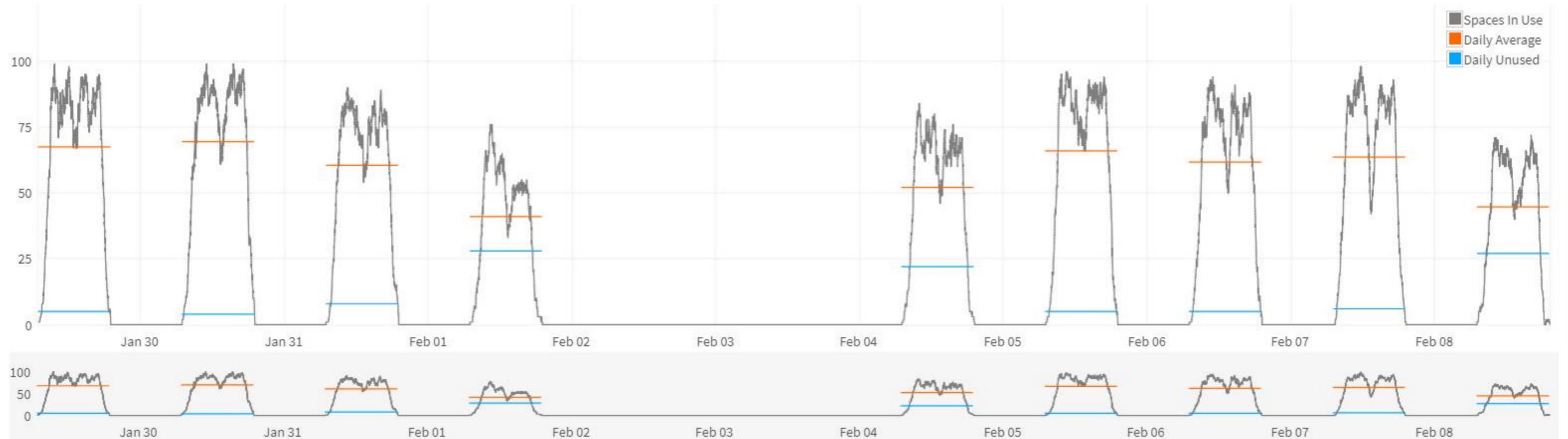
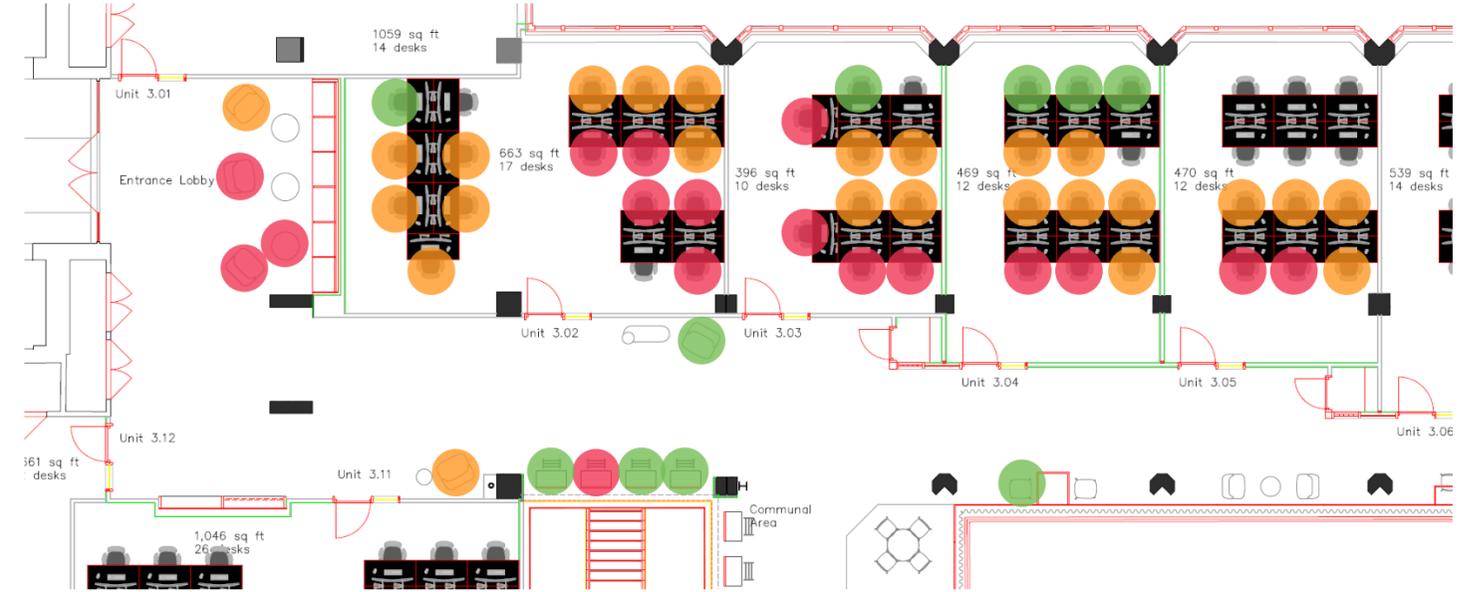
Humidity



Noise



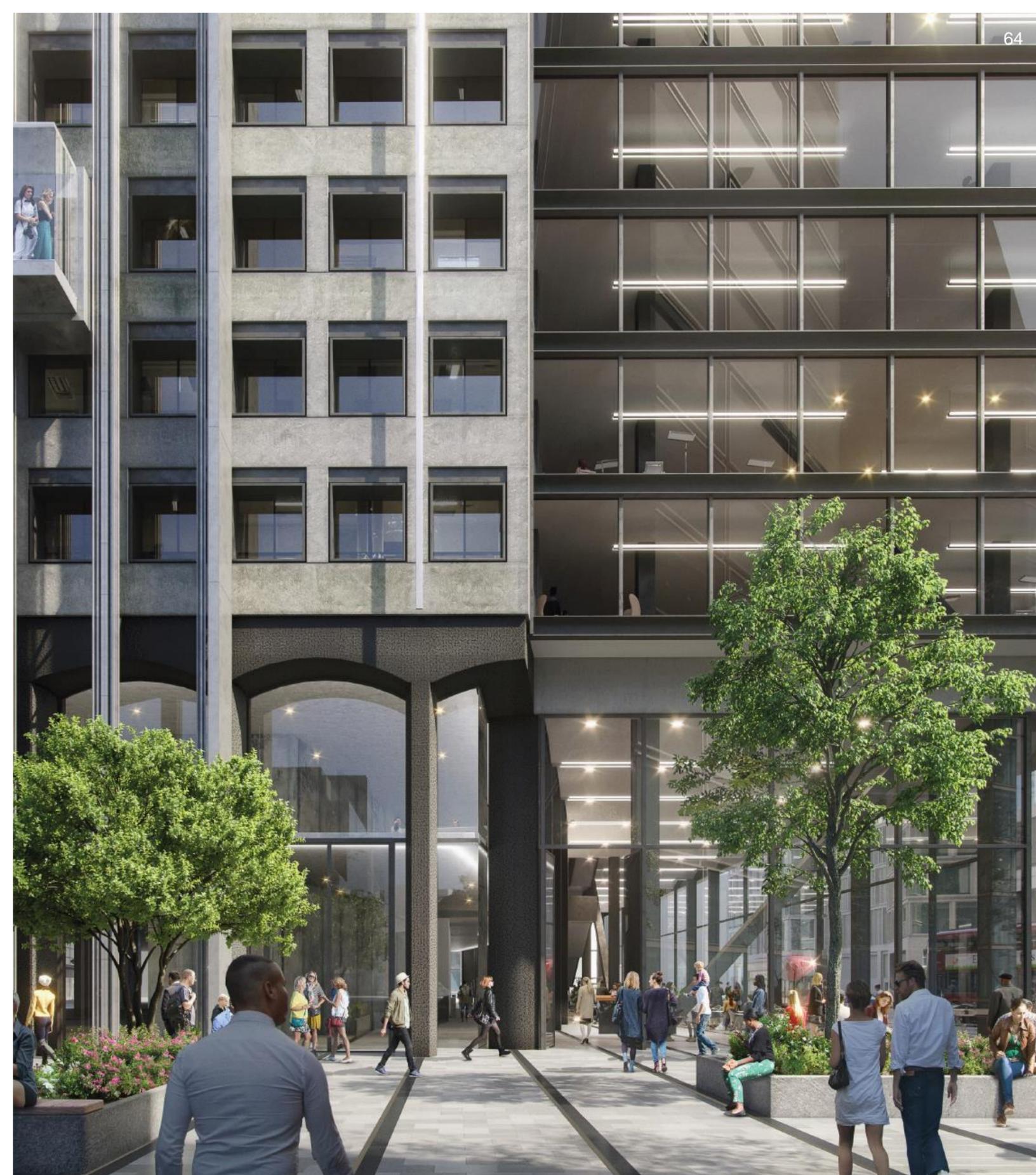
Light



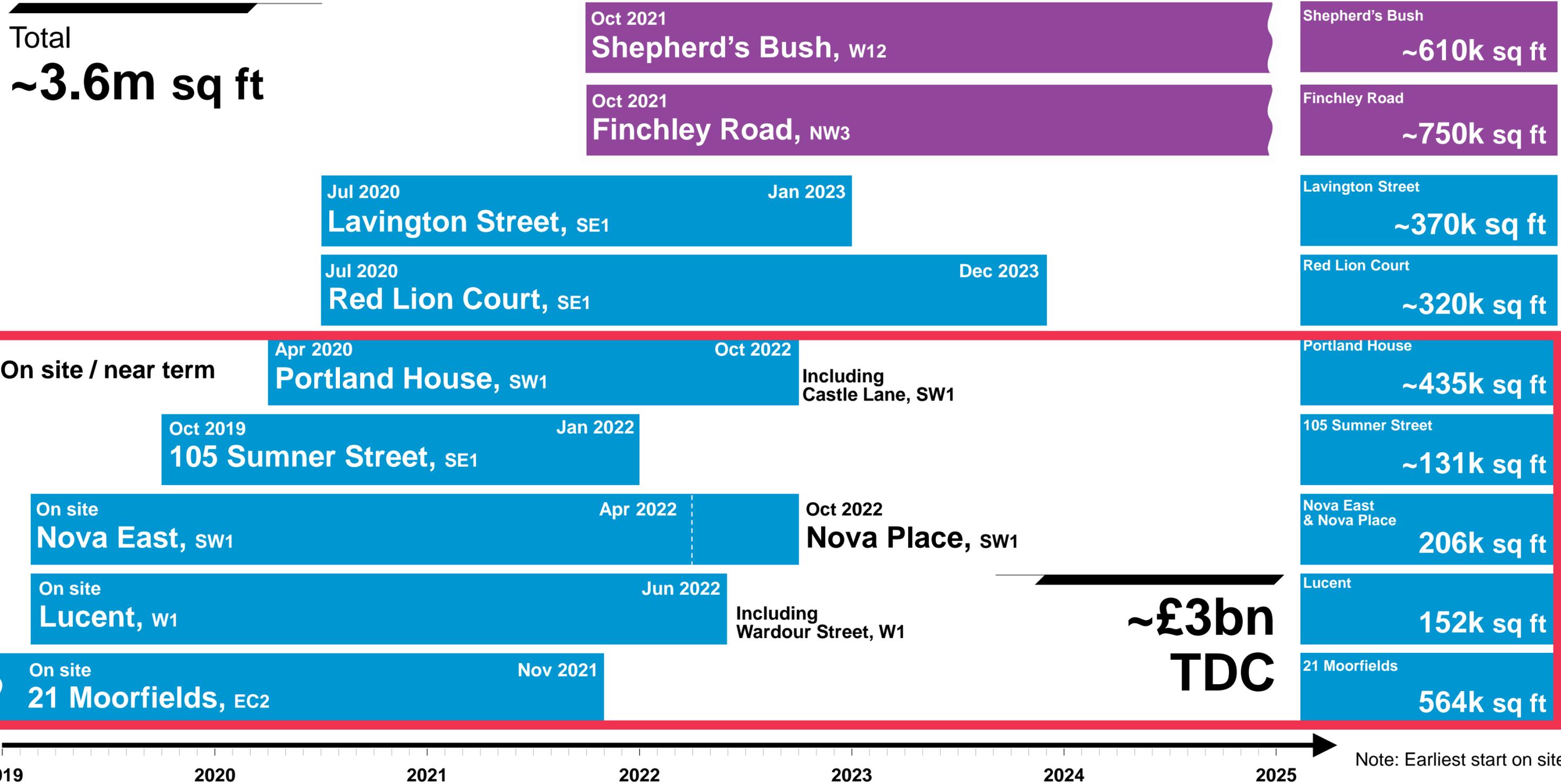
# Our approach to development

## Summary

- Better, faster and more cost efficient
- Close partnership with councils and communities
- Faster time-to-market
- Higher quality product
- Sustainability at the core



# Progressing our drivers of growth



## On site / near term developments

	Total TDC	Development yield	ERV
	£m	%	£m
Portland House	c.440	~7.0%	c.30
Sumner Street	c.114	~7.0%	c.8
Nova East (50%)	88	7.2%	6
Lucent (One Sherwood Street)	221	6.2%	14
21 Moorfields	576	6.6%	38
<b>TOTAL</b>	<b>c.1,439</b>	<b>6.2% – 7.0%+</b>	<b>c.96</b>

## 21 Moorfields

- 560,000 sq ft, HQ for Deutsche Bank
- On time and budget
- Subterranean work complete
- TDC £576m, development yield 6.6%, ERV £38m



# Sumner Street

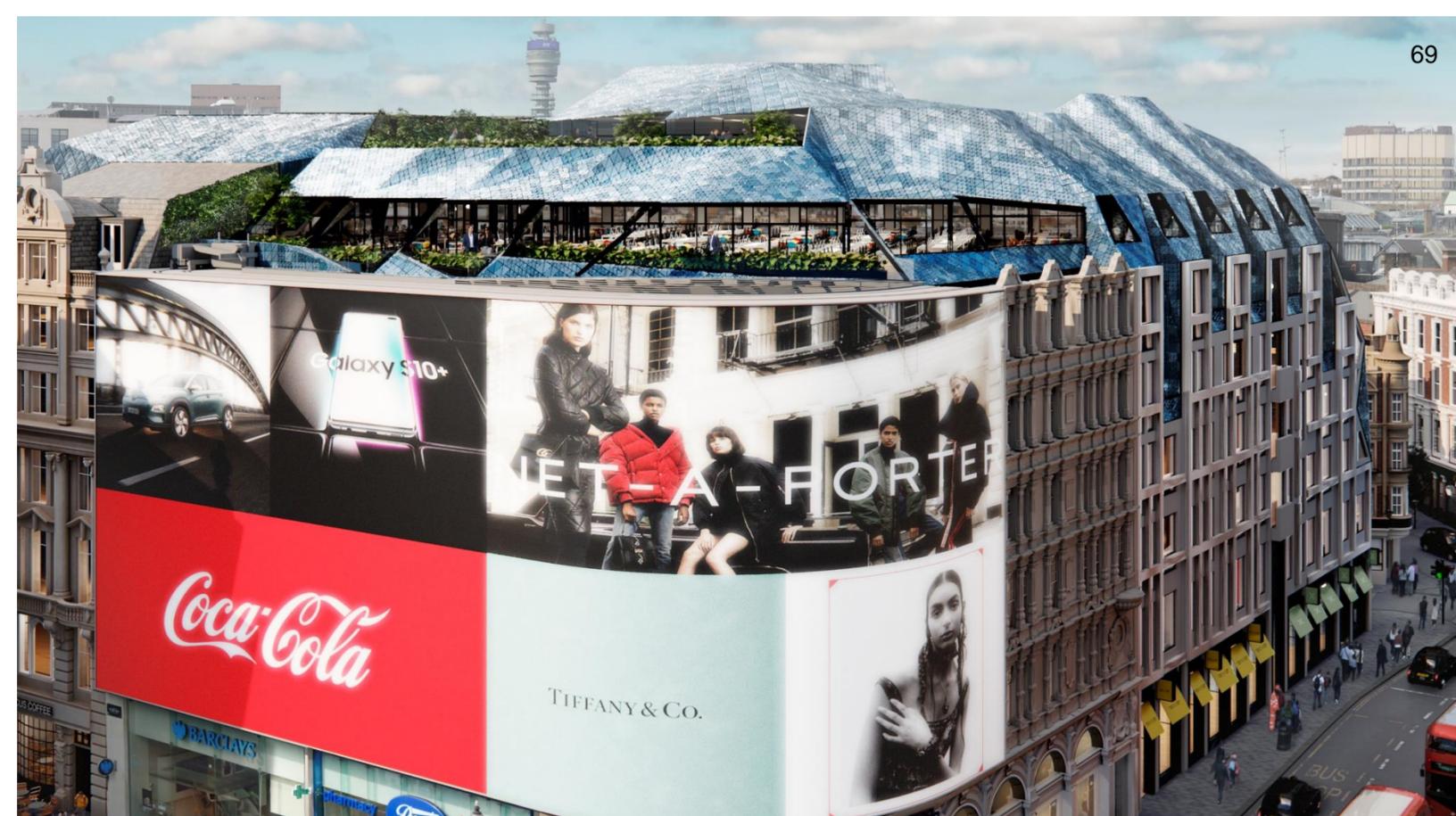
## Delivering new product

- Consent for 131,000 sq ft in 2 buildings
- New public square
- Full range of products
- TDC c.£114m, development yield c.7%, ERV c.£8m
- Southwark prime office rents £65 psf



# Lucent

- Location known around the world
- 144,000 sq ft behind Piccadilly Lights
- Range of amenities, including winter garden and roof top restaurant
- TDC £221m, development yield 6.2%, ERV £14m
- Prime office rents and yields:
  - Soho £87.50 psf and yield at 4.0%
  - Mayfair / St. James £107.50 psf and yield at 3.75%



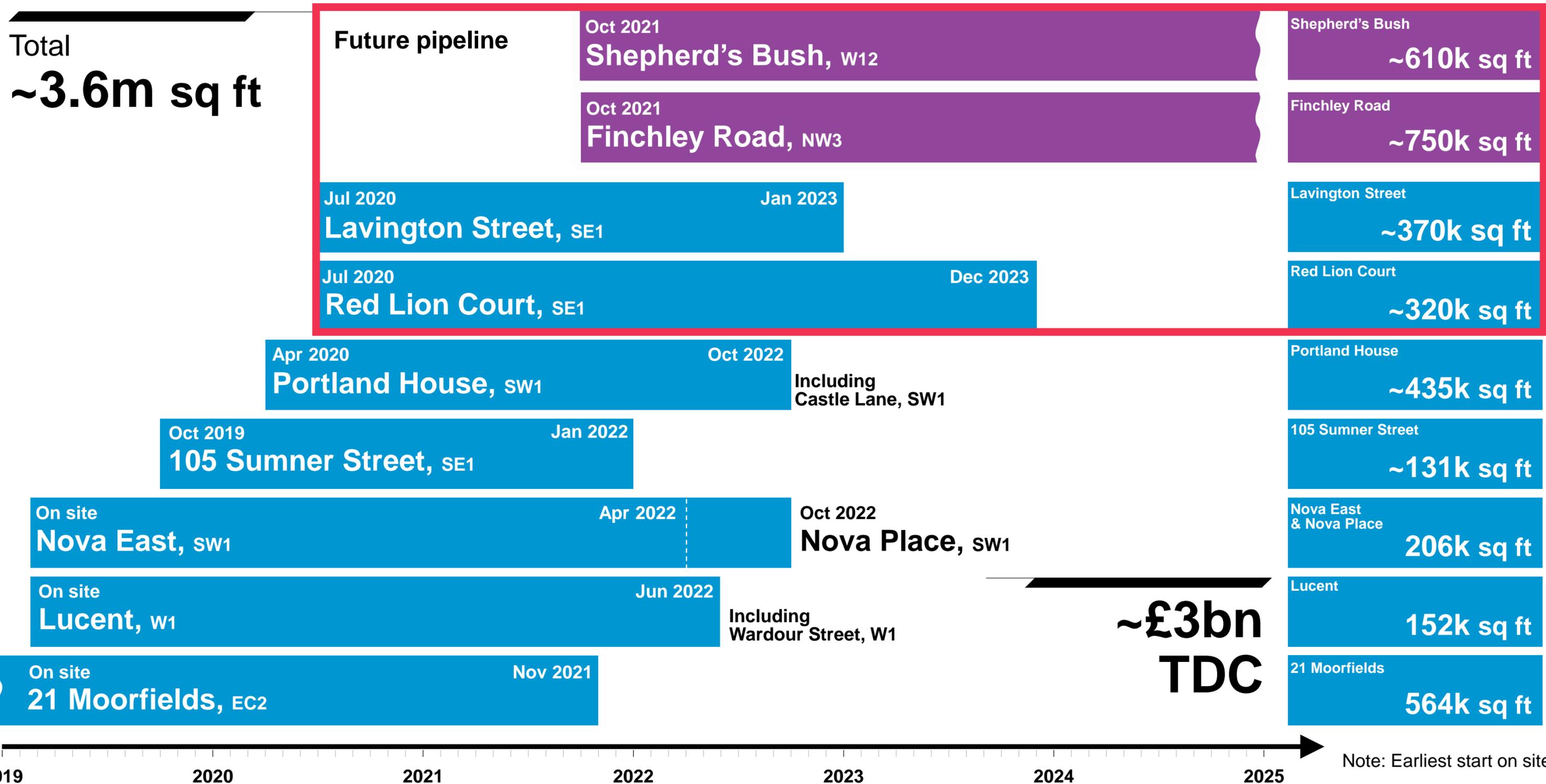
## Nova East

### Next generation Victoria

- 165,000 sq ft, integrated with Nova North, Nova South, public realm and food quarter
- Resolution to grant planning
- Terraces on every floor
- Clear site, piling commenced
- TDC £88m, development yield 7.2%, ERV £6m
- Victoria prime office rents £75 psf



# Progressing our drivers of growth



# Red Lion Court

## Prime river front scheme

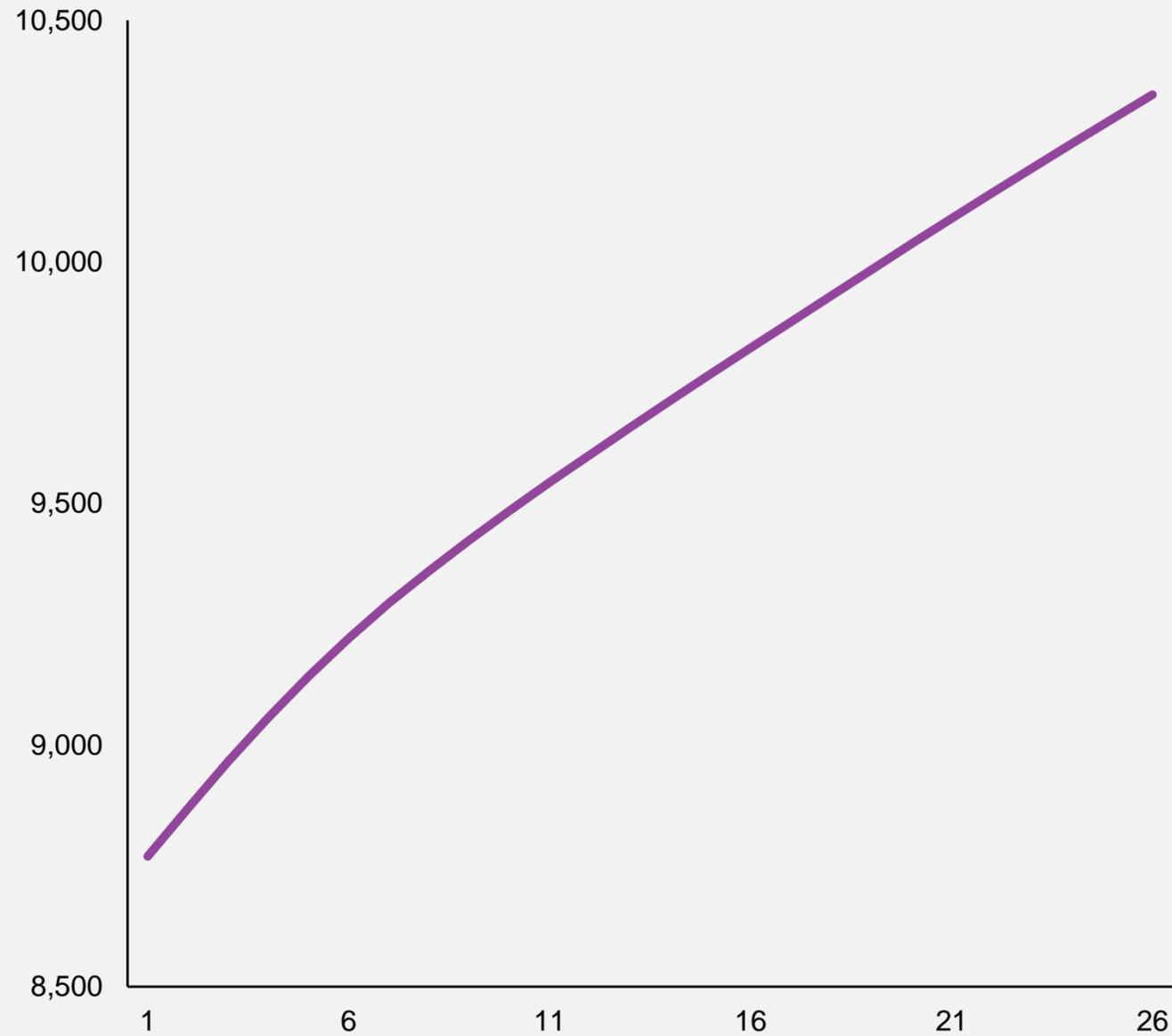
- Enhancing Thames path
- Circa 320,000 sq ft scheme
- Large public space
- Earliest start on site July 2020, completion 2023



# Residential

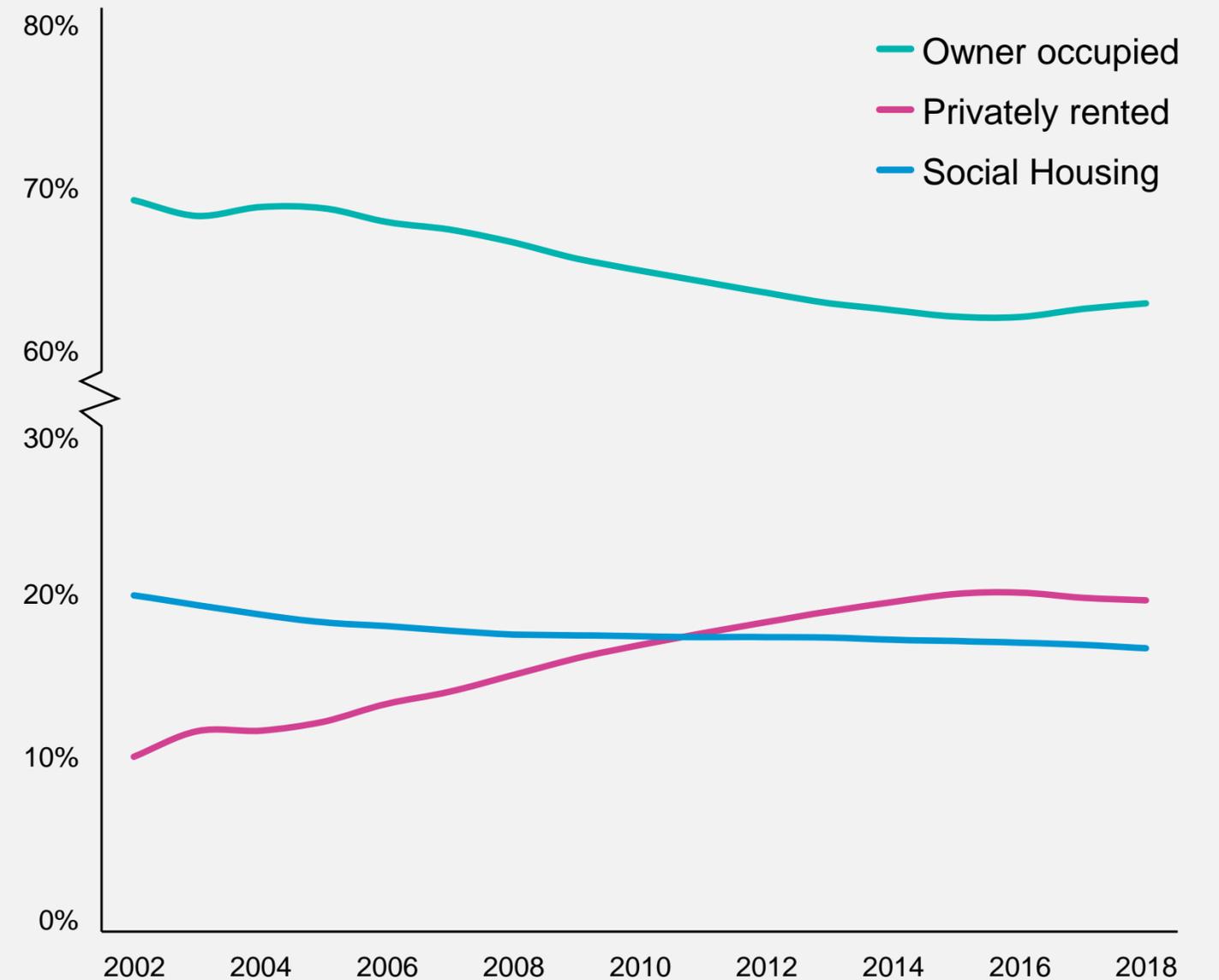
## Population growth forecast (London)

Figures in thousands



Source: ONS

## Residential trend



Source: ONS

## O2 Finchley Road

- Links Finchley Road to West Hampstead
- Excellent transport links: Jubilee, Metropolitan and Overground lines
- 8 acre site
- ~1,000 units, most likely for rent
- Estimated start on site Q4 2021



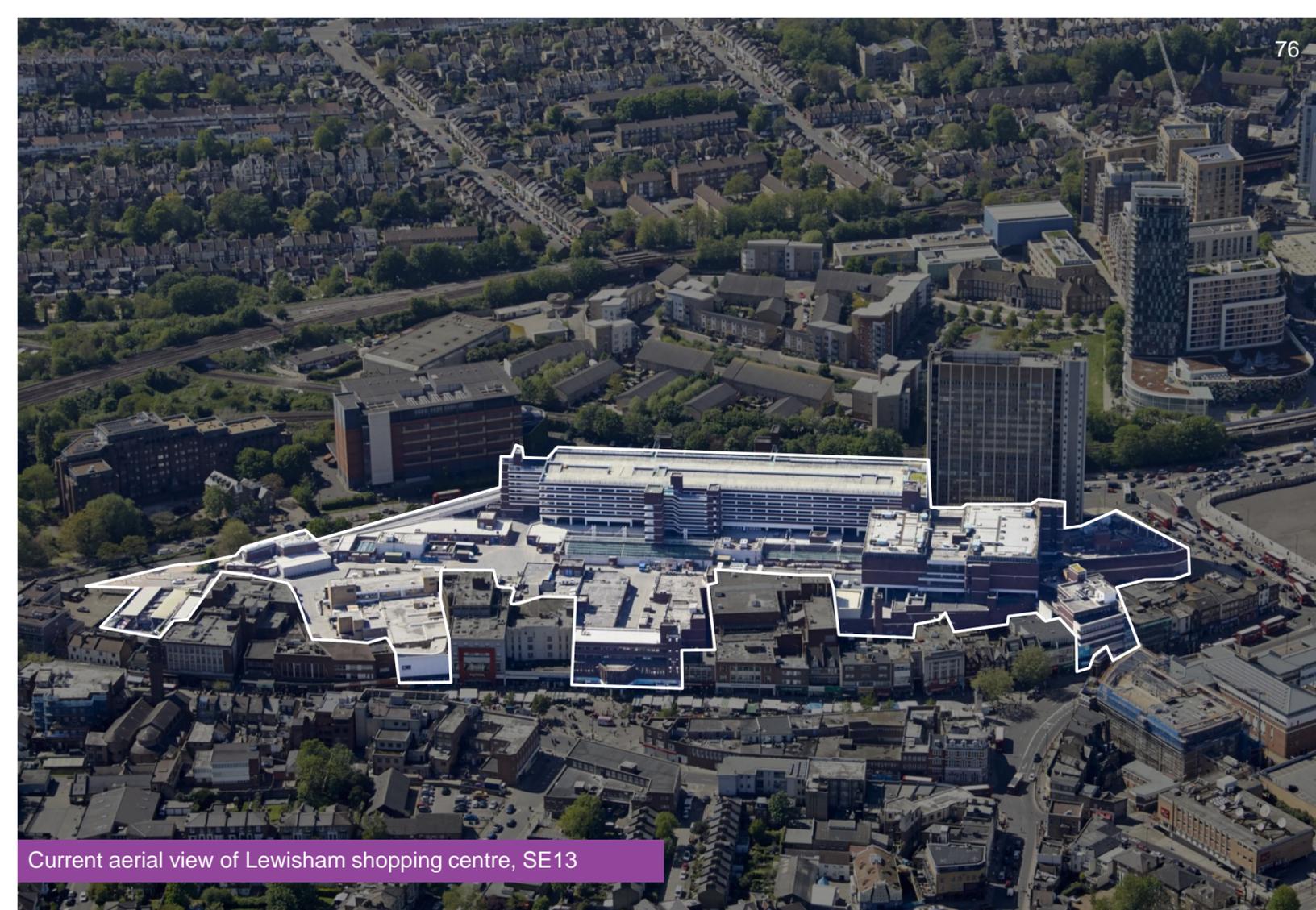
# West 12 Shepherd's Bush

- Adjacent to Shepherd's Bush tube station
- ~700 units
- Office, leisure, convenience retail
- Estimated start on site Q4 2021



# Residential potential

- Lewisham
  - Significant opportunity
  - Potential for over 2,000 flats
- Total residential
  - 4,000 new homes
  - Enter at scale
  - Flexibility should macro / regulatory environment change



Current aerial view of Lewisham shopping centre, SE13



# Development Summary

## Our approach to development

---

Customer centric

---

Technology enabled

---

Sustainable

## Overall pipeline

---

Schemes on site / near term

---

Further opportunities

**Martin Greenlade**

**Chief Financial Officer**

# What am I going to cover?

## Reporting changes

---

Why?

---

What?

## Wrap up

---

## Q&A

---

# Current reporting structure

## Segment reporting

### Current

#### London Portfolio

£8.0bn asset value

£329m rental income

- London offices
- Central London shops

#### Retail Portfolio

£5.8bn asset value

£360m rental income

- Shopping centres and shops
- Outlets
- Retail parks
- Leisure and hotels

#### Year ended 31 March 2019

	Retail Portfolio	London Portfolio	Total
	£m	£m	£m
<b>Revenue profit</b>			
Rental income	360	320	680
Finance lease interest	-	9	9
<b>Gross rental income (before rents payable)</b>	<b>360</b>	<b>329</b>	<b>689</b>
Rents payable	(10)	(3)	(13)
<b>Gross rental income (after rents payable)</b>	<b>350</b>	<b>326</b>	<b>676</b>
Service charge income	41	48	89
Service charge expense	(51)	(47)	(98)
Net service charge expense	(10)	1	(9)
Other property related income	18	16	34
Direct property expenditure	(50)	(33)	(83)
<b>Net rental income</b>	<b>308</b>	<b>310</b>	<b>618</b>
Indirect property expenditure	(20)	(15)	(35)
Depreciation	(1)	(1)	(2)
<b>Segment profit before finance expense</b>	<b>287</b>	<b>294</b>	<b>581</b>
Joint venture finance expense	(3)	(16)	(19)
<b>Segment profit</b>	<b>284</b>	<b>278</b>	<b>562</b>
Group Services – other income			3
– expense			(44)
Finance income			20
Finance expense			(99)
<b>Revenue profit</b>			<b>442</b>

# Future reporting structure

## Segment reporting

### Current

#### London Portfolio

£8.0bn asset value  
£329m rental income

- London offices
- Central London shops

#### Retail Portfolio

£5.8bn asset value  
£360m rental income

- Shopping centres and shops
- Outlets
- Retail parks
- Leisure and hotels

### Future

#### Office

£6.6bn asset value  
£265m rental income

- London offices

#### Retail

£5.5bn asset value  
£319m rental income<sup>(1)</sup>

- London retail
- Regional shopping centres
- Retail parks
- Outlets

#### Specialist

£1.7bn asset value  
£99m rental income

- Leisure parks
- Hotels
- Piccadilly Lights
- Other

<sup>(1)</sup> Restated as a result of adopting IFRS 16

# Future reporting structure

## Segment reporting

### Future

#### Office

£6.6bn asset value — London offices  
 £265m rental income

#### Retail

£5.5bn asset value — London retail  
 £319m rental income<sup>(1)</sup> — Regional shopping centres  
 — Retail parks  
 — Outlets

#### Specialist

£1.7bn asset value — Leisure parks  
 £99m rental income — Hotels  
 — Piccadilly Lights  
 — Other

Year ended 31 March 2019

	Office £m	Retail £m	Specialist £m	Total £m
<b>Revenue profit</b>				
Rental income <sup>(1)</sup>	256	319	99	674
Finance lease interest	9	-	-	9
<b>Gross rental income (before rents payable)</b>	<b>265</b>	<b>319</b>	<b>99</b>	<b>683</b>
Rents payable	(3)	(10)	-	(13)
<b>Gross rental income (after rents payable)</b>	<b>262</b>	<b>309</b>	<b>99</b>	<b>670</b>
Service charge income <sup>(1)</sup>	44	51	-	95
Service charge expense	(43)	(53)	(2)	(98)
Net service charge expense	1	(2)	(2)	(3)
Other property related income	15	17	2	34
Direct property expenditure	(20)	48	(15)	(83)
<b>Segment net rental income</b>	<b>258</b>	<b>276</b>	<b>84</b>	<b>618</b>
Other income				3
Indirect expenses				(76)
Depreciation				(5)
<b>Revenue profit before interest</b>				<b>540</b>
Finance income				20
Finance expense				(99)
Joint venture net finance expense				(19)
<b>Revenue profit</b>				<b>442</b>

<sup>(1)</sup> Restated as a result of adopting IFRS 16

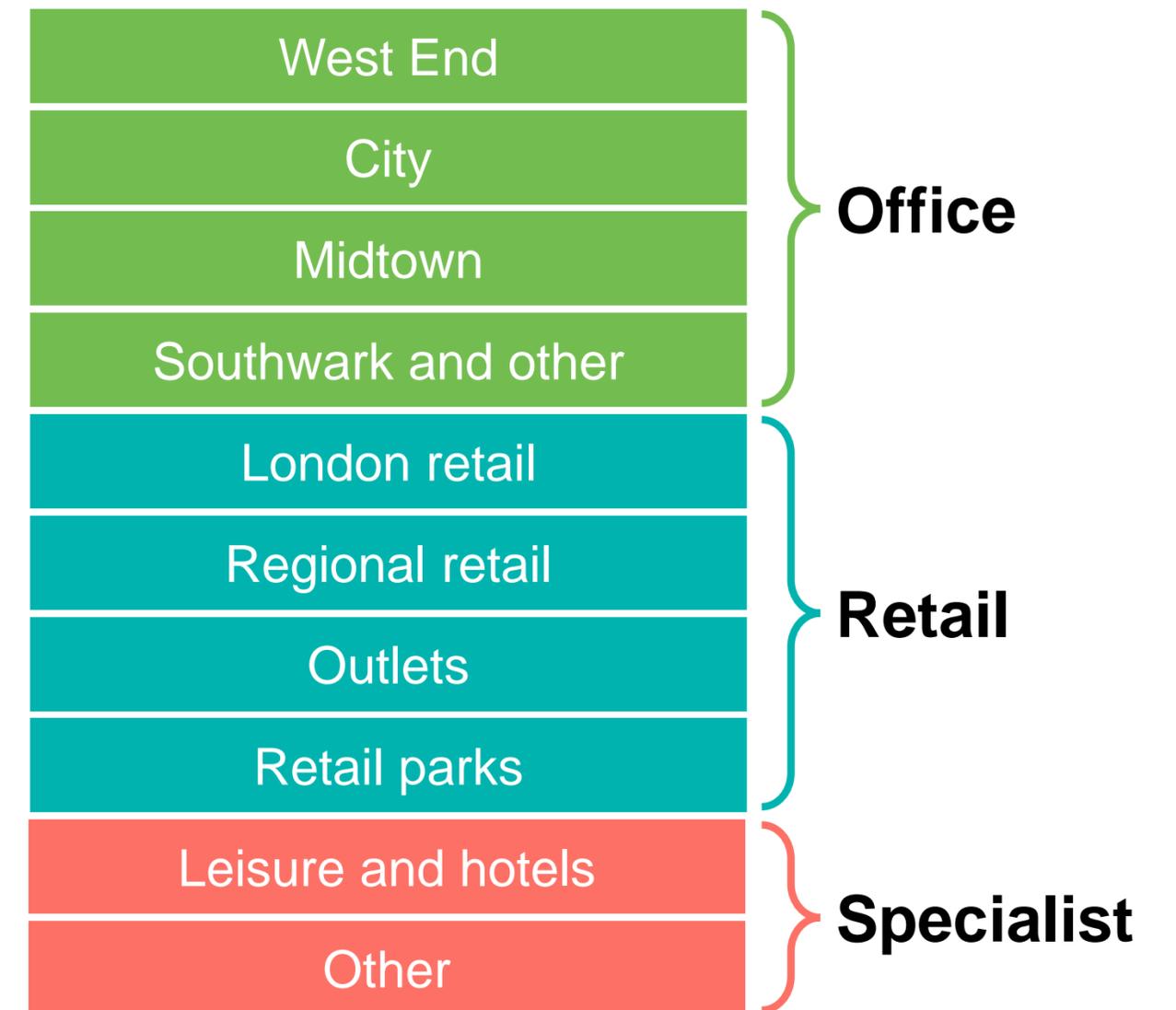
# Future reporting structure

## Combined portfolio analysis

### Current



### Future



# Combined portfolio

## Future

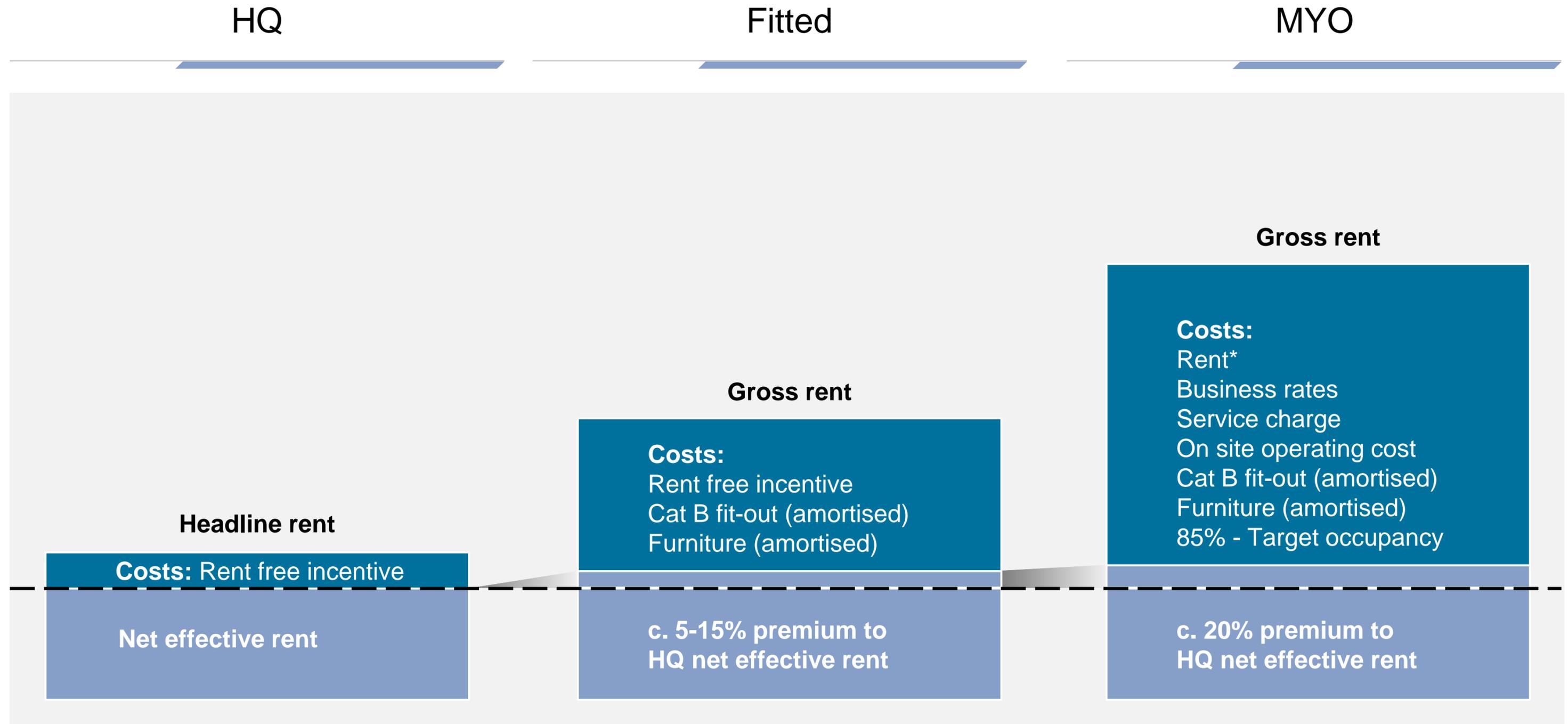


# Appendices

Landsec



# Office product rental profiles



\* Landsec charges MYO a notional rent on market terms for the space on an assumed 10-year term

# Development pipeline

Scheme	Description of use	Size (sq ft)	ERV (£m)	TDC (£m)	Development yield (%)
21 Moorfields	Office	564k	38	576	6.6
Lucent <sup>(1)</sup>	Office	144k	14	221	6.2
Nova East <sup>(2)</sup>	Office	165k	6	88	7.2
105 Sumner Street	Office	~131k	c. 8	c. 114	~7.0
Portland House <sup>(3)</sup>	Office	~400k	c. 30	c. 440	~7.0
Red Lion Court	Office	~320k	N/A	N/A	N/A
Lavington Street	Office	~370k	N/A	N/A	N/A
Finchley Road	Mixed use	~750k	N/A	N/A	N/A
Shepherd's Bush	Mixed use	~610k	N/A	N/A	N/A

1. Excludes Wardour Street (~8k sq ft)
2. Excludes Nova Place (~41k sq ft)
3. Excludes Castle Lane (~40k sq ft)