

Chief Executive's statement

I joined Landsec on 14 April 2020 and am conscious that I have arrived at an extraordinary time.

The speed and scale of the impact of Covid-19 on business and the economy are unprecedented and profound long-term consequences will play out long after the government lockdown has lifted. Some of the long-term economic and societal trends which were already disrupting the property industry are likely to accelerate, new ones are sure to emerge and major issues such as climate change will remain as significant as ever. How we choose to respond to this unique and fluid combination of challenges will define Landsec for years to come.

Landsec faces this situation from a position of strength. We have a strong balance sheet, a portfolio of properties that are amongst the highest quality for the sectors in which we operate and a team of talented, dedicated people across the business. These attributes stand us in good stead but will need to be allied to bold, ambitious thinking and a willingness to adopt new and creative approaches if we are to make the most of Landsec's undoubted potential.

Overview

Although I did not join Landsec until after the financial year had ended, looking at the results there are three distinct themes that characterise our performance:

- Operational resilience. Despite a backdrop of prolonged political uncertainty and subdued business confidence for much of the year, the Office segment performed well in terms of both occupancy levels and rental growth. And despite changing consumer habits and a challenging market environment for retailers generally, occupancy and rental income across our Retail segment also held up well.
- Structural changes in retail. Ongoing structural changes to the retail property sector, driven by the continued rise of online shopping and changing consumer behaviour, had a material negative impact on asset



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values. The nature of these changes, accompanied by the continued downward pressure on retail rents, means that the impact on valuations is more likely to be structural in nature than cyclical.

- Covid-19. Although the scale of the global pandemic and associated government policy response only began to become clear in the last month of our financial year, it has had a negative impact on asset valuations, necessitated higher debtor provisions and resulted in significant economic uncertainty, such that the Board concluded it was prudent to cancel the third interim dividend and is not proposing a final dividend, in common with many other listed businesses.

Outside of the themes mentioned above, the business took important action in a number of areas that leaves us well placed for the future:

- We committed to becoming a net zero carbon business by 2030. Climate change remains the defining global challenge of the next 20 years and Landsec is clear in its ambition to play a leading role in the property industry's response.
- We progressed our development programme to take advantage of anticipated supportive conditions in the London market. Importantly, this programme has been established in such a way that we retain full optionality over the scale and extent of speculative commitments for approximately the next six months, allowing us to adapt our approach to best suit post Covid-19 conditions.

- We continued to manage our financial position with prudence and flexibility in mind. As a result, we have significant balance sheet capacity that will allow us both to weather a prolonged downturn or capitalise on opportunities that arise.

Results and dividend

This year, Landsec recorded a loss before tax of £837m (2019: £123m) as underlying earnings were more than offset by a fall in the value of our assets, down 8.8% (or £1,179m). The majority of the valuation deficit is attributable to our Retail segment, which suffered a 20.5% decline over the 12 months as a result of the challenging environment and ongoing structural changes, exacerbated at the year end by the early effects of Covid-19.

Operationally, Landsec's results were resilient despite persistent uncertainties in some of our core markets. We reported revenue profit of £414m (2019: £442m), equating to adjusted diluted earnings per share of 55.9p (2019: 59.7p), with the majority of the decline (£23m) associated with provisions relating to 2020/21 rent that was invoiced in March and where recoverability is affected by Covid-19.

Our EPRA net tangible assets per share were down 11.6% at 1,192p, reflecting the loss for the year, while our loan-to-value ratio increased to 30.7% from 27.1% a year ago, largely as a result of the fall in portfolio value, but it remains at a prudent level providing plenty of balance sheet capacity.

As a result of the significant uncertainty surrounding Covid-19, the Board took the difficult decision in early April to cancel the third interim dividend. With limited change in the situation since then, the Board is also not proposing the payment of a final dividend. We recognise that this is disappointing as income is an important component of our return for shareholders and are committed to resuming dividends at an appropriate level as soon as conditions stabilise.

Covid-19 and our response

Our operational response to Covid-19 was both immediate and proactive. Our site teams continue to follow all guidelines issued by the relevant public health authorities and we are taking a stringent approach to the cleanliness and hygiene of our assets. We have worked with occupiers to allow them to access stock where safe to do so, and our frontline staff are working to keep our assets safe and secure for customers and guests.

We also acted swiftly to offer financial support to our customers and communities. In early April we established an £80m rent relief fund, targeted at our customers most in need, with a particular focus on supporting F&B customers and small and medium sized businesses. Further action will be required in the months ahead; we recognise the importance of all stakeholders working together collaboratively and are committed to playing our part.

The immediate impact of Covid-19 has been particularly significant on our Retail and Specialist segments. Only essential services like supermarkets and pharmacies remain open at our retail destinations, with four of our retail assets shut completely. Although our Office segment has seen a less pronounced immediate impact, the vast majority of our customers' employees are now working from home, with less than 10% usage of our office space. Rent collection rates in March and early April were impacted negatively across the portfolio with an average 63% collected within ten days of falling due, compared with 94% for the same period in 2019.

June rent collection rates are likely to be worse than March given that most of the negative economic impact from Covid-19 has fallen in the second quarter, notwithstanding the commendable scale and intent of the Government's economic response. The pace of subsequent recovery from hereon will vary by sector. Ongoing social distancing measures will affect certain sectors much more than others, all businesses will need time to work with their global supply chains and workforces to resume trading as normal and heightened levels of caution amongst the general public are likely to affect behaviour for many months to come. While it is too early to predict outcomes with any certainty, it seems prudent to plan for more business failures and higher vacancy rates

across our portfolio, in particular leisure and retail, and we don't expect to see the economy recover to pre-Covid-19 levels before 2022 at the earliest.

Recognising that the effects of Covid-19 will be felt for some time to come, we will continue to take proactive measures to ensure that Landsec emerges from this crisis in as strong a position as possible:

- We will continue to focus on controlling operating costs, both across our business and within service charges, but are committed to doing so in a way that is sustainable and does not risk service levels in the longer term.
- We will aim to preserve balance sheet capacity and flexibility, both to ensure that we can weather a prolonged downturn but also so that we are well placed to capitalise on any opportunities that emerge over time.
- We will control capital expenditure carefully and retain optionality over our speculative development programme for as long as possible so that we can adapt our approach as the longer-term effects of Covid-19 become clearer.
- We will work proactively with our customers and partners to find solutions that derive mutual benefit at such a challenging time.

We are also mindful that Covid-19 is likely to have profound long-term effects on society and, by extension, the property sector. Understanding, anticipating and responding to these likely effects will be vital to the long-term success of Landsec and we are committed to doing so.

Leadership in sustainability

In the face of the considerable near-term impact of Covid-19, it can be easy to lose sight of the very significant threat posed by climate change. Landsec has always been a sector leader in this space – we were the first commercial real estate company in the world to commit to science-based reduction targets for CO₂ and we built on that in 2019 by committing to become net zero carbon by 2030 – and I am determined that we continue to build on this leadership position in the years ahead.

Of course, sustainability is about more than climate change and I view our commitment to the communities in which we operate as vitally important. In April, we made £500,000 of community grants available to offer immediate financial assistance to our existing charity partners, as they work to support the most disadvantaged in society at this time of crisis. £100,000 of this amount was donated to property charity LandAid to help fund their campaign to end youth homelessness. This amount was further supplemented by the Board of Directors waiving 20% of their base salaries or fees for an initial period of three months.

At our sites, we offered free parking to key workers, offered space for mobile blood banks and blood transfusion units, and Public Health England used Piccadilly Lights free of charge to display advice on health matters. Our community employment programme has now helped over 1,500 people furthest from the job market into work, including ex-offenders who have graduated from one of our three prison academies, and we know this programme will have a vital role in the months to come. We are also committed to the UN Sustainable Development Goals and the Global Compact. And we're making good progress on our commitment to generate £25m of social value by 2025.

Strategy

The arrival of a new CEO provides a good opportunity for the Board to step back and consider the long-term strategic direction of the business and we intend to do exactly this over the next few months, communicating the outcomes in the autumn.

In many ways, this is an ideal time to undertake such an exercise. There are profound structural trends already disrupting the real estate sector that present both risks and opportunities; there is the significant short-term impact of Covid-19 to be navigated and its longer-term consequences still to be determined; and there is a political backdrop which, at least before Covid-19, points to a period of improved stability after three years of sustained uncertainty although we recognise our future trading relationship with Europe is yet to be resolved.

Priorities for the year ahead

For virtually all businesses, 2020 and 2021 will be dominated by tackling the consequences of Covid-19 and it is still too early to predict what that will mean. Like all crises, the Covid-19 crisis will pass in time but its impact in the longer term, from both a societal and economic perspective, is likely to be profound. For this reason, our focus at Landsec in the year ahead will be twofold: firstly, doing everything we can to ensure Landsec emerges from Covid-19 in as strong a position as possible; and secondly, determining the long-term strategic direction for our business. We approach these challenges from a position of strength and are prepared to be bold in our thinking, determined to make the most of Landsec's undoubted potential.



Mark Allan
Chief Executive