Operating and portfolio review

We have a £10.8bn Combined Portfolio which is comprised of office space in London, and retail, leisure and hotel assets across the UK.

AT A GLANCE

-13.7%[1]
Valuation deficit

-9.6%
Ungeared total property return

4.4%
Like-for-like voids (31 March 2020: 2.5%) and units in administration: 2.2% (31 March 2020: 0.8%)

£24m
of investment lettings, with a further £12m in solicitors' hands

1.0m sq ft
of developments now on site

CENTRAL LONDON

-6.5%[1]
Valuation deficit

-2.3%
Ungeared total property return

£9m
of investment lettings with a further £1m in solicitors' hands

3.3%
Like-for-like voids (31 March 2020: 1.3%) and units in administration: 0.3% (31 March 2020: nil)

REGIONAL RETAIL

-31.4%[1]
Valuation deficit

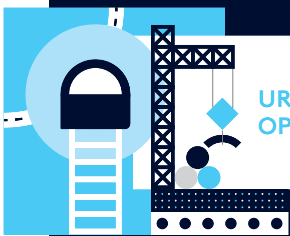
-28.4%
Ungeared total property return

7.5%
Like-for-like voids (31 March 2020: 4.7%) and units in administration: 5.8% (31 March 2020: 2.1%)

£9m
of investment lettings, with a further £7m in solicitors' hands

59.4%
Same centre sales (excluding automotive), taking into account new lettings and occupier changes, down (BRC national benchmark down 29.2%)

65.3%
Footfall down (ShopperTrak national benchmark down 58.2%)



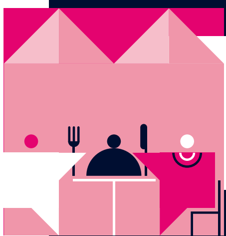
URBAN OPPORTUNITIES

-23.3%[1]
Valuation deficit

-21.4%
Ungeared total property return

£1m
of investment lettings, with a further £1m in solicitors' hands

5.0%
Like-for-like voids (31 March 2020: 4.8%) and units in administration: 1.1% (31 March 2020: 0.4%)



SUBSCALE SECTORS

-16.4%[1]
Valuation deficit

-12.8%
Ungeared total property return

£5m
of investment lettings, with a further £3m in solicitors' hands

2.5%
Like-for-like voids (31 March 2020: 2.0%) and units in administration: 2.9% (31 March 2020: 0.9%)

1. On a proportionate basis.

We focus on maximising financial, physical and social value through providing the spaces and environments to allow businesses and people to thrive. This approach has been particularly important during the challenging environment we have operated in during the pandemic. Our focus during the year has been on supporting our customers and positioning our business to emerge from the pandemic in as strong a position as possible.

THE IMPACT OF COVID-19 AND OUR RESPONSE

Our entire financial year was impacted by the pandemic. Operationally, all areas of the business were affected but the impact varied across the portfolio. Our office portfolio remained open throughout the year; occupation was significantly below pre-Covid-19 levels but we saw progressively higher levels of occupancy during each successive lockdown. In retail, leisure and hotels, the impact was more severe – during periods of lockdown, only essential retail and services could trade, with other operators limited to servicing online customers or providing takeout services. The financial impact of Covid-19 was much more acute in the retail and hospitality segments of our business, where rent collection rates were significantly below pre-Covid-19 levels. Almost all of the rent due from our office occupiers was collected.

Our priorities throughout the year have been: (i) colleague and visitor safety; (ii) proactively supporting our customers; and (iii) preserving financial strength and flexibility. We tailored our support to the specific needs of each area of the business.

In offices, we provided some financial support to a very small number of occupiers whose businesses were particularly impacted by the pandemic, but the majority of our support related to ensuring the safety of our spaces and helping our customers to adapt their spaces to meet their specific needs.

In retail and hospitality, our focus was on providing financial support from our £80m customer support fund, ensuring our assets allowed safe and easy navigation for guests, and providing marketing and operational support for our customers.

For our people, we provided regular updates from our business resilience team, increased the mental health and wellbeing support available for those who needed it and we made sure there was regular contact between teams while working from home. None of our people have been furloughed.

We took advantage of resilient investment markets in London to maintain financial capacity and flexibility through targeted disposals, and minimised the disruption to our committed developments while preserving optionality on our longer-term pipeline.

As the year progressed, and the path out of the pandemic became clearer, we focused on ensuring our portfolio and strategy were positioned appropriately for a post-Covid-19 world. Covid-19 has accelerated many existing trends which would otherwise have taken a number of years to play out. The range of office products we offer will enable us to provide the space our customers need as they adapt to potentially different and more flexible ways of operating, combining office and home-based working. Our Regional retail portfolio is well placed to provide the right mix of exciting retail brands, leisure and entertainment which will be essential for successful centres. And our hotels and leisure assets are well placed to benefit from the consumer-led recovery we expect to see as we emerge from lockdown restrictions.

Operating and portfolio review
continued

VALUATION OF INVESTMENT PROPERTIES
Our Combined Portfolio declined in value by 13.7% or £1,646m over the year compared with a decrease in the prior year of £1,179m. A breakdown of valuation movements by category is shown in table 7 below.

Valuation analysis

Table 7

	Market value 31 March 2021 £m	Valuation movement %	Rental value change[1] %	Net initial yield %	Equivalent yield %	Movement in equivalent yield bps
Offices	5,194	-4.3	-1.9	4.4	4.6	3
London retail	623	-26.7	-25.2	4.4	4.5	26
Other central London	420	-1.2	n/a	2.6	4.4	6
Regional shopping centres and shops	1,041	-38.2	-21.5	7.9	7.6	140
Outlets	722	-18.5	-3.8	5.3	6.8	91
Urban opportunities	360	-23.4	-11.0	5.6	5.9	73
Leisure	483	-22.9	-7.1	6.9	7.6	118
Hotels	406	-13.4	-17.2	3.3	5.5	34
Retail parks	397	-10.1	-8.1	7.4	7.6	15
Total like-for-like portfolio	**9,646**	**-14.8**	**-9.1**	**5.0**	**5.5**	**29**
Proposed developments	286	-12.4	n/a	–	n/a	n/a
Development programme	713	-0.2	n/a	–	4.3	n/a
Acquisitions	146	-5.4	n/a	3.3	5.4	n/a
Total Combined Portfolio	**10,791**	**-13.7**	**-9.1**	**4.5**	**5.4**	**29**

1. Rental value change excludes units materially altered during the year.

The 13.7% decline in the value of our Combined Portfolio is mostly due to a fall in the value of our retail and leisure assets, driven by reductions in rental values and expanding equivalent yields. Within the like-for-like portfolio, regional shopping centres and shops saw the largest reduction in values, down 38.2% overall as rental values reduced by 21.5% and yields moved out 140bps. London retail reduced in value by 26.7% as rental values declined by 25.2% and yields moved out by 26bps. Our leisure assets declined in value by 22.9% with rental values 7.1% lower and yields expanding by 118bps, while hotels were down by 13.4% due to the impact of Covid-19 on our turnover rents and a 34bps expansion in yields. Our office assets saw a more modest decrease in value of 4.3% as rental values declined by 1.9% and yields moved out slightly. The values of our other central London assets, principally Piccadilly Lights, W1, were down marginally.

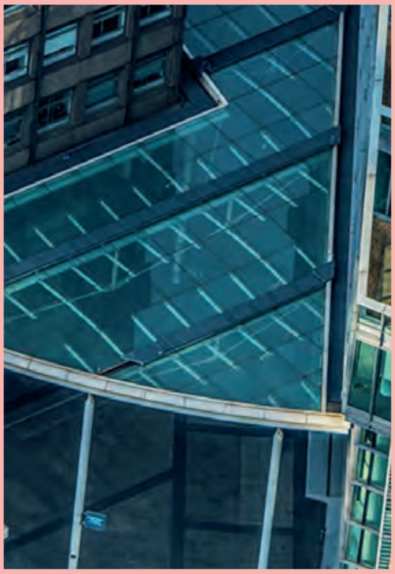
Outside the like-for-like portfolio, values in the development programme were broadly flat, with the value of 21 Moorfields, EC2 increasing as we approach completion of the development, offset by declines at Lucent, W1 and n2, SW1 where expected rents have been slightly reduced and development costs increased. The 12.4% decline in the value of our proposed developments is due to Portland House, SW1 and Timber Square, SE1 where expected rents have reduced and costs on Portland House have increased.

Our acquisitions fell in value by 5.4%, driven by a decline in value of the X-Leisure portfolio, where we acquired the remaining 5% in December 2019.

1

OPTIMISE OUR CENTRAL LONDON PORTFOLIO
Our £7.3bn Central London portfolio comprises offices (85%), associated ground level retail (9%) and other assets (6%), the most significant of which is Piccadilly Lights, W1. The portfolio is characterised by its quality, resilience and liquidity and despite challenging market conditions, valuations were resilient with our office valuations declining by 4.1%. Our offices remain almost fully let and rent collection remained strong, with almost all of the rent due now collected, reflecting the strength of our occupier base.

The central London market has been significantly impacted by the pandemic but Landsec remains in a strong position with high levels of rent collection and a clear strategy to create value.



Maintaining office health during Covid-19

Following the first national lockdown, we developed an office remobilisation plan, and by the end of May 2020, had implemented new Covid-secure measures across our office portfolio, including one-way systems, signage, hand-sanitiser stations, PPE bins and a ventilation strategy. We reviewed all properties based on a 'customer journey', to ensure users and visitors could meet social-distancing guidelines.

Clear communications at all times

We quickly designed and developed an easily accessible Covid-19 document centre, to provide building-specific guidance, which we also distributed to all customers. This included interactive walk-through videos and FAQs, all updated, sometimes daily, through the subsequent phases of lockdown. Office customers have accessed these live documents over 25,000 times so far. In addition, we maintained a continuous programme of customer engagement, including webinars, weekly video meetings, and electronic messaging around buildings.

Dealing with confirmed cases

In all, we had to deal with six on-site cases of Covid-19, five of them over a short period. We had a step-by-step guide for people to respond, available company-wide and updated after each case. We also created a specially equipped fast-response team to undertake a full deep-clean in line with Public Health England guidelines, ensuring all sites were safe again for 6am the following morning.

Working with our customers

During this period, we were able to reduce service charges, adapting to lower occupancy levels, and reducing energy use. We liaised with all customers on matters such as security patrols, water flushing on unoccupied floors and resilience of critical communications systems. We were also able to improve shower facilities, increase cycle-storage capacity, and test air quality, UV monitoring of mail and other measures. We continue to track daily office occupancy levels across the portfolio, so we can react quickly to any changes as the country opens up gradually from lockdown.

More information on www.landsec.com

Covid-19 impacted the London office market in two ways: low levels of occupation and a significant reduction in demand for new space. This, in turn, affected the London retail and hospitality sectors which are dependent upon office workers and tourism for the majority of their custom. Retail footfall in central London was down 82% year on year, reflecting the challenging nature of this market.

Physical occupancy in our offices portfolio was, on average, 6.2% reflecting a combination of working from home and social distancing guidelines as employers imposed occupancy limits as part of maintaining a Covid-19 secure workplace. Central London office take-up in the 12 months to March 2021 was just 4.4 million sq ft – the lowest annual take-up rate for over 30 years. Availability across the market increased to 25.3 million sq ft, compared with the 10-year average of 14.8 million sq ft, driven by second-hand space as leases expired and some occupiers looked to sub-let excess office capacity. As a result, vacancy rates rose to 8.9%, the majority of which is second-hand space. Despite this, there continues to be demand for high-quality office space, with 39% of total take-up being of new space. One of the trends accelerated by Covid-19 is demand for sustainable, healthy work environments. This is offered by the best space and is likely to continue the bifurcation of the occupier market.

Investment market volumes in the 12 months to March 2021 were below the long-term average with transactions totalling £7.2bn, reflecting the logistical challenges of viewing assets particularly by overseas investors, but there was continued demand for long income, high-quality assets. London remains a global financial centre and, with average prime yields of 3.75%, continues to offer relative value compared with other major cities.

Operating and portfolio review
continued

SUPPORTING OUR CENTRAL LONDON CUSTOMERS

Supporting our customers and maintaining their safety has been a top priority this year. The vast majority of our office customers' businesses were resilient throughout the year, but we used our customer support fund to help three who were particularly challenged. As customers start to plan for their return to the office, we are liaising closely with them to understand their intentions and help them return smoothly and safely.

While some customers will review and potentially consolidate their requirements, there is ongoing demand for high quality office space, and we are seeing the benefit of working alongside our customers to understand their needs. For example, in Victoria, we are currently in active discussions with seven occupiers across 300,000 sq ft in five buildings. This ranges from a 40% upsize to a 20% downsize. The outcome will be stronger customer relationships, re-geared leases, a more diverse product mix and reduced vacancy across the estate. This is not simply a function of upcoming lease events, it is being driven by strategic partnerships with our occupiers and a proactive approach to delivering the right solutions for them.

While our office customers have remained resilient, the trading environment for central London retail and hospitality has been particularly challenged, and we expect this part of the market to take longer to recover. Through our customer support fund we have provided £6m of concessions, together with longer-term support through turnover related leases for some customers. In addition to financial support, we are helping customers with their reopening plans. Alongside targeted marketing, we have worked closely with local authorities to enable hospitality customers to extend their outside trading capacity, creating space for 680 additional covers.

We are seeing interest from occupiers in taking new space, but the market remains challenging. In Victoria, One Rebel expanded their footprint at Nova, we have good interest in the former Goldsmiths unit at Cardinal Place, and we are exploring upsize options for one of our existing brand partners. At One New Change, EC4, we completed the letting of the former Topshop unit to Zara as well as progressing renewal terms with a number of existing brand partners.

DISPOSALS

In line with our strategy to recycle capital out of assets where there are limited opportunities for us to add further value, we completed two disposals during the year. In September 2020, we sold 7 Soho Square, W1 for £78m at a 4.0% yield and 4.3% above the March 2020 valuation, and in December, we sold 1 & 2 New Ludgate, EC4 for £552m at a 4.2% yield and 1.1% above the March 2020 valuation. Both assets attracted significant interest from bidders and demonstrate the continued demand for prime London office assets.

DEVELOPMENTS AND ACQUISITIONS

During the year, our focus has been on progressing our committed development schemes and preserving optionality on the others. We maintained flexibility in the pipeline while we assessed the long-term prospects of the London office market. Having completed our review in the first quarter of 2021, we increased our speculative developments to 451,000 sq ft by adding n2, SW1 to our existing schemes at Lucent, W1 and The Forge, SE1. Alongside our pre-let to Deutsche Bank at 21 Moorfields, EC2, this takes our committed activity to 1.1 million sq ft, with a further 1.0 million sq ft held for development.

At 21 Moorfields, the contractor Sir Robert McAlpine, doubled the facilities space for construction workers in order to accommodate more people on site in a Covid-secure way. Weekend working was also introduced to mitigate some of the delays resulting from lower on-site capacity. However, as a result of the lower on-site capacity we now expect practical completion to be delayed to July 2022.

At Lucent, The Forge and n2, we negotiated break options ahead of entering into the main construction contracts. This enabled us to progress with building to grade and construction of the cores while maintaining optionality before committing to further work and capex. With confidence in the long-term prospects of the London office market, we fully committed to Lucent and The Forge in September and n2 in March. Completion dates at The Forge, Lucent and n2 are June 2022, December 2022 and June 2023 respectively.

To date, the additional costs resulting from the impact of Covid-19 have been accommodated within the contingency allowances of the schemes' total development costs (TDCs), but further disruption may put modest upward pressure on TDCs as projects complete. We continue to focus on mitigating the cost impact of Covid-19 wherever possible.

Despite the current low levels of take-up in the market, we remain confident about the occupational markets we will deliver space into. Demand is expected to be strongest for prime, high-quality, sustainable space and our three speculative office schemes will meet this need in different locations in London, with phased completion dates.

We added to our development potential with two acquisitions during the year. In December, we purchased 55 Old Broad Street, EC2 for £87m. The acquisition offers significant marriage value as the site is adjacent to an existing Landsec asset, Dashwood. We also acquired the remaining undeveloped land on the Nova, SW1 island site from our joint venture for a consideration of £13m. We now own 100% of the final two phases at Nova (n2 and Nova Place) and we have recently satisfied all of the Nova P1 planning obligations, meaning Nova Place is now an unencumbered site.

POSITIONING OUR LONDON BUSINESS FOR A POST-PANDEMIC WORLD

The long-term impact of the pandemic on central London is not yet clear but it won't be uniform. We are likely to see some bifurcation of demand as quality of space and sustainability credentials become significant factors for customers. Some sectors, such as banking and professional services, may reduce their floorspace. Others, such as tech, are not necessarily changing footprint size but are focused on quality of space and employee choice. We will work closely with our occupiers to understand and deliver their needs and the scale that is required.

It is clear that customers who are looking to consolidate want to occupy the best space. This plays to our strengths. Our portfolio and product range gives us the opportunity to tailor our customer conversations to meet upsize, downsize and servicing needs, which is leading to several positive re-gearing discussions. We are also working with some customers to consolidate into a smaller number of buildings, freeing up development opportunities in assets which otherwise would not have become vacant.

BUILDING ON THE PROGRESS MADE TO DATE, OUR OPTIMISE STRATEGY IS BASED ON FOUR OBJECTIVES:

❶ Creating value through development

Our focus for the coming year will be on progressing our committed schemes while minimising the impact of Covid-19 on completion dates and costs. We are already seeing occupier interest in our three speculative schemes and we will continue to work towards securing pre-lets as activity in the occupational market increases.

At Portland House, SW1, strip out and design works continued through to the end of April. We are currently assessing the potential timing of the scheme and are likely to pause to manage development exposure.

At Timber Square, SE1, demolition of the existing building is due to commence by the end of May 2021 with a decision on development to be taken by the autumn. The earliest PC date is February 2024 and we will assess the expected demand levels and rental tone before committing to the scheme.

At 55 Old Broad Street, EC2, we will continue to work towards vacant possession in December 2024. In the meantime, we will be working up development plans while protecting short-term income.

❷ Creating value through resilience

Our high rent collection throughout the year demonstrates the resilience of income from our office portfolio and, despite the challenges of the pandemic, we renewed £8m of leases during the year and secured £1m of new lettings. As we look to position our portfolio for future growth, we are using data and insight to focus our activities and capital on sectors, locations and products that we believe will be successful for the long term.

We have three office products which enable us to meet the space requirements of existing and potential customers, large or small, established companies or new businesses. At 123 Victoria Street, SW1, Myo occupancy averaged 85% over the year, and we extended five leases with existing customers. At 31 March 2021, occupancy dropped to 71% through lease expiries, but we are having positive discussions with new customers, as well as upsizing discussions with two existing customers. We are also trialling Covid-secure daily and weekly bookings at 123 Victoria Street.

The reduction in central London footfall significantly impacted the out-of-home advertising market in the year, with short-term bookings at Piccadilly Lights, W1, 68% below 2019/20. However, we are starting to see evidence of the market recovering, with significant interest for summer bookings. We have demonstrated the long-term appeal of Piccadilly Lights, signing a new ten-year agreement with Samsung and we are in discussions with two other brands about longer-term agreements.

We will look to strengthen our resilience further through acquisitions. We have identified a number of potential acquisitions within London providing a range of opportunities for us to add value.

❸ Creating value through relentless customer focus

We are progressing the roll-out of our office products and continue to invest in delivering great customer experiences across our office portfolio. We have invested significantly into Dashwood, EC2 where a range of Myo, Customised and Blank Canvas spaces have been delivered in a single building. Myo Liverpool Street at Dashwood, provides flexible office, meeting and amenity spaces on floors 6 to 8, with delivery of floor 9 to follow later this year. The Customised show floor is complete on level 2, with further Customised floors available to be delivered on demand. A visualisation tool has been created for customers to configure their space virtually to ensure it meets their specific needs before physical work starts.

Customised is also being delivered at 55 Old Broad Street, EC2 and 30 Eastbourne Terrace, W2, with further expansion of this product planned to meet customer demand across our portfolio. Landsec lounge spaces have been completed at One New Change, EC4 and 6 New Street Square, EC4 to enhance the arrival experience and provide informal drop-in work and meeting spaces.

With a focus on delivering healthy and sustainable spaces, we are progressing our WELL Building portfolio accreditation, aiming to achieve accreditation across the entire office portfolio.

❹ Realising value through disciplined capital recycling

Disposals in the financial year totalled £0.6bn at an average yield of 4.1%.

We have indicated our intention to sell approximately £2.5bn of central London assets with more limited asset management opportunities. We have made £0.6bn of disposals since March 2020 and therefore expect to sell a further £1.9bn over the next two to three years.

2

REIMAGINE OUR REGIONAL RETAIL PORTFOLIO

Our £1.8bn Regional retail portfolio comprises six regional shopping centres and five outlets.

Covid-19 has had a profound effect on the retail sector. In addition to the short-term impact resulting from three lockdowns and social distancing restrictions, the pandemic has significantly accelerated the structural trends which were already changing how people shop. Online is now the primary growth channel across most areas of retail. For retail property to be relevant and thrive in an omnichannel world, it needs to be compelling in its own right, complementary to online or offer something which cannot easily be replicated online.

Retailers recognise the importance of physical retail to their omnichannel strategy, but there is too much of it in the UK and a lot of it is poor quality. 17% of retail space across the UK is currently vacant and this is expected to rise to 25% in 2025, equivalent to 158 million sq ft of excess or obsolete retail space.

Outlets are one of the strongest retail formats as they offer a service and experience which cannot be replicated online. The higher quality regional shopping centres are generally well placed to support and complement online – brand mix needs to evolve, but rents are approaching sustainable levels which will support store level profitability.

Operating and portfolio review

continued

A year of Covid-19 in retail

When what is now known as lockdown 1 hit on 23 March 2020, with barely any notice, our Property Operations team already had their plans in place. With 65% of the retail sector deemed non-essential, we still had to ensure our 'essential' retailers could continue to trade. Naturally our highest priority was the health and safety of all staff and guests.

So as well as adhering to Government guidelines, we worked closely with our brand partners and colleagues on all necessary planning, ensuring a consistent approach across our shopping centres and outlets. At Bluewater, White Rose and all four of our suburban London properties, we continued to operate, providing a critical service to each local community.

LITTLE DID WE KNOW, BUT THE EVER-EVOLVING CHALLENGE OF THIS FIRST LOCKDOWN PHASE, AND GEARING UP FOR THE INITIAL 15 JUNE AND 4 JULY REOPENINGS, WAS HELPING PREPARE US FOR SUBSEQUENT LOCKDOWNS AND REOPENINGS. THIS INCLUDED ORGANISING:

- HAND-SANITISER POINTS
- ENHANCED CLEANING REGIMES
- ONE-WAY SYSTEMS AND CALCULATIONS FOR MAXIMUM CAPACITY
- SIGNS, FLOOR STICKERS AND TEAMS OF 'SOCIAL DISTANCING CHAMPIONS'
- QUEUING SYSTEMS FOR POPULAR PERIODS
- WEB AND SOCIAL MEDIA COMMUNICATIONS FOR OPENING TIMES AND FAQS

The Government's autumn tiering system brought differing regional challenges, and by the third lockdown on 5 January 2021, we had the experience needed to again expedite matters quickly, efficiently and, above all, safely. Minds again turned to planning the reopenings of 12 April 2021 and beyond, which included a 71% increase in external seating to support the hospitality sector.

Throughout the year we ran individual meetings with our brand partners, and our Commercial Office and Retail teams combined their experiences to produce printed and online guidelines, or host explanatory webinars. This ensured all brand partners were able, at all times, to offer an appropriate balance between doing business and maintaining safety when welcoming their guests back.

Rent collection was significantly impacted by Covid-19 throughout the year. We have now collected 58% of the net rent due on 25 March 2021. For the four quarters to 25 March 2021, 71% of the net rent due has been collected. The rent moratorium, which remains in place, restricted our ability to enforce rent collections. With lockdown measures easing and operators re-opening, we hope to see a return to timely rent payments and settlement of arrears.

The scale and pace of retail and leisure CVAs and administrations has increased significantly during the year, and some high-profile names have disappeared from the retail landscape. During the year, £41m of annualised rental income was subject to CVA or administration, of which we lost £29m. This compares with £9m of annualised rental income in 2019/20. 360 units across 58 brand partners were impacted, with 48 units falling void as a result. Like-for-like voids across the portfolio were 7.5% (31 March 2020: 4.7%) and units in administration were 5.8% (31 March 2020: 2.1%).

We have engaged with a number of brand partners during the year on opportunities to reduce their overall store portfolio, with some customers also seeking consensual rent reductions to reduce their occupancy costs. We remain committed to working alongside our customers to ensure rents are affordable, and we welcome open and constructive dialogue. However, during the year we have also taken legal action where we believe insolvency processes have been used unfairly, or due legal process has not been followed.

SUPPORTING OUR RETAIL CUSTOMERS

The pandemic brought significant operational challenges for the portfolio and safety has always been our first priority. The first lockdown, starting on 23 March 2020, saw footfall at our regional shopping centres reduce significantly. Throughout each lockdown and reopening we have had a clear plan for each asset, and provided frequent communications to our brand partners and guests.

We adapted our response as conditions allowed, with brand partners evolving the way they used their space to support online fulfilment through click & collect and food deliveries. Post lockdown, 24-hour trading at some Bluewater stores helped to spread capacity and drive sales.

In early April 2020, soon after the start of the first national lockdown, we established a customer support fund of £80m for occupiers who most needed our support. We have now granted £42m of agreed concessions from the fund to brand partners.

We continued to work closely with our brand partners, particularly in the lead up to the reopening of non-essential retail in England and Wales on 12 April and in Scotland on 26 April. Early evidence suggests there is pent-up demand from customers to return to physical retail and leisure. Shopping centre sales, excluding F&B, in England are up 5% versus the same period in 2019 and outlets up 14%, with footwear and outdoor particularly popular sectors.

POSITIONING OUR RETAIL BUSINESS FOR A POST-PANDEMIC WORLD

There are increasingly clear trends which could offer an opportunity for us to reset the portfolio and provide a more sustainable future:

TREND

Retail winners are looking for **fewer, larger stores**

LANDSEC ACTION/ EVIDENCE

- Zara business development during the pandemic period:
  - White Rose, Leeds – 21,000 sq ft renewal
  - One New Change, EC4 – new letting of 26,000 sq ft
  - St David's, Cardiff – opened a new 38,000 sq ft store
  - Bluewater, Kent – upsize opened Dec 2020, from 19,000 sq ft to 37,000 sq ft
- Decathlon have opened their 35,000 sq ft unit at Trinity Leeds

TREND

Flight to prime as retailers demand the right space in the best locations

LANDSEC ACTION/ EVIDENCE

- Our exposure to outlets and the quality of our shopping centres mean our portfolio is well placed to benefit from the flight to prime:
  - Trinity Leeds accounts for 19% of retail space in Leeds city centre but has a 35% share of spend

TREND

Greater focus on **experiences**

LANDSEC ACTION/ EVIDENCE

- The outlets experience is not replicable online and provides a resilient model
- Leisure will be another important element of experience – we have let the 80,000 sq ft former Debenhams space to Gravity at Southside, Wandsworth, providing a significant footfall driver and improvement in mix

TREND

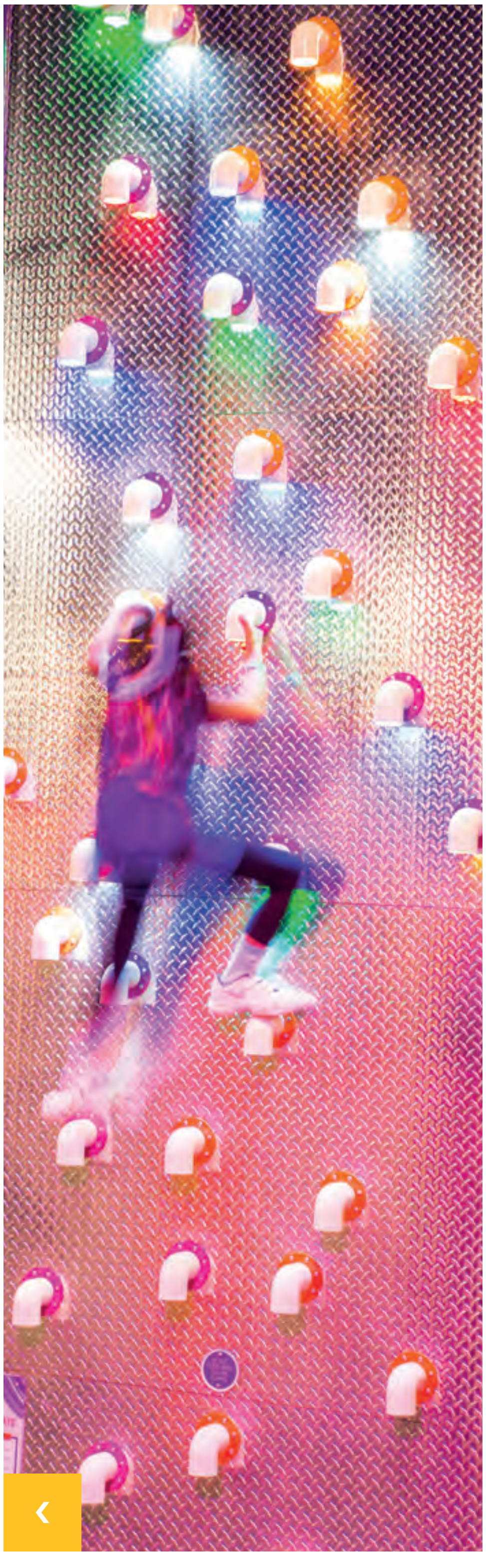
Greater operational alignment with **brand partners**

LANDSEC ACTION/ EVIDENCE

- Increased operational risk is a reality but it is something that can be embraced and treated as an opportunity, particularly with rents approaching sustainable levels. We have increased the number of turnover only leases by 76% this year

Operating and portfolio review
continued

LOOKING FORWARD, OUR REIMAGINE STRATEGY IS BASED ON THREE PRIORITIES:



CREATING VALUE THROUGH TAILORED GUEST EXPERIENCES

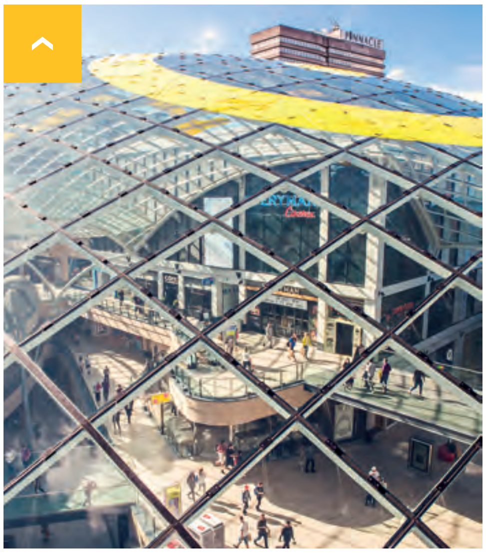
We are putting guest experiences at the heart of everything we do, so that our destinations continue to be relevant for the communities they serve and deliver shopping and leisure experiences that cannot be matched online. This will help ensure our destinations remain the location of choice for our brand partners to deliver their physical and digital propositions to meet specific needs of our guests. During the pandemic, we added activities services such as virtual shopping and click & collect, expanded our 'al fresco' dining options and introduced drive through collection points to help our brand partners to connect with their customers.

CREATING VALUE THROUGH DEEP BRAND PARTNER RELATIONSHIPS

We are developing deeper relationships with our brand partners to enable them to maximise the role of the physical retail environment. By understanding our brand partners and their aspirations for the physical environment, we can develop a range of leasing models to suit different situations. There will not be a one-size-fits-all solution on how we contract with our brand partners, but rather different models that enable all parties to share in the value of the physical store. We are currently developing a suite of four products to address evolving space needs. These will operate in a similar way to the three products we have developed within our office portfolio, enabling us to better serve our brand partners and attract and retain new ones across existing and emerging market segments.

CREATING VALUE THROUGH ASSET MANAGEMENT EXPERTISE

The last few years have demonstrated that some of our retail destinations are over-sized, and we do not have the best occupier mix and usage of space at all our assets. We are underway designing a new approach to assessing and planning the right use and mix of space at our destinations. The approach is underpinned by data; catchment insight, economic forecasts and predictions of social trends all contribute to determining how our assets can be best placed to maximise future growth and de-risk returns.



3

GROW THROUGH URBAN OPPORTUNITIES

Urban opportunities are essentially mixed-use, multi-phase regeneration projects rooted in a need to redevelop parts of the built environment that are no longer fit for purpose. Retail is the most prominent example, and our Urban opportunities portfolio comprises five suburban London projects with redevelopment potential over 1.6 million sq ft with the potential to extend to around 8.0 million sq ft of mixed-use space.

These urban development projects can offer a compelling blend of income, development upside and rental growth throughout their lives. And development can be phased, enabling risk and capital investment to be spread over the life of the projects.

At our most advanced scheme, Finchley Road, NW3, consultations have taken place with a further phase of consultation due in early summer as we progress our master planning and design. We remain on track to submit our planning application this coming financial year. Our other projects are all progressing through concept and design during the pre-development phase. Our large mixed-use schemes will embrace local communities and placemaking to deliver the most suitable and sustainable developments in line with our purpose to provide sustainable places and connect communities. We have engaged external agencies to help develop our overall vision for our Urban opportunities. And we have progressed discussions with a number of leisure operators to trade rent reductions for lease break points and flexibility as we progress towards vacant possession.

The redevelopment potential and more convenience-led nature of these assets has meant that valuations have been more resilient than shopping centres but were still down 23.3% to £0.4bn. Across our five schemes, 45% of retailers remained open throughout the third lockdown, significantly ahead of the rest of the retail assets in our portfolio. This reflects the local convenience nature of our five schemes and demonstrates that these assets already play an important role within their local communities.

The timeline for these projects is long but the right opportunities can start delivering balanced returns in the near future. We are also evaluating opportunities to add to our portfolio, ideally with projects that offer an accelerated returns horizon.

So, looking forward, our strategy will be to progress planning and delivery strategies for our existing portfolio of projects and to evaluate and ideally secure new complementary opportunities.

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REALISE CAPITAL FROM SUBSCALE SECTORS

Our £1.3bn Subscale sectors portfolio comprises hotels, leisure parks and retail parks, which we intend to divest over the medium term.

The £0.4bn hotel portfolio has been impacted by the periods of lockdown during the pandemic with the majority of our hotels closed for 20 weeks on average over the year. The portfolio is let on turnover based leases and income has been significantly lower during the year, down 90%. As lockdown restrictions ease, we expect to see a recovery in the hotel sector and our portfolio of two and three-star hotels is well placed to benefit.

Our leisure portfolio comprises assets typically anchored by cinemas and leisure and F&B operators. Social distancing measures have impacted the performance at these assets. Cinemas were closed for 41 weeks of the year and the F&B industry has been particularly challenged. This was reflected in valuations which were down 23.0% to £0.5bn. These assets, like the hotels, are well placed to benefit from the expected consumer-led recovery. We continue to work on asset management initiatives across the portfolio to ensure it is well positioned for sale.

Our ten retail parks performed more strongly, benefiting from their open-air design and increased spending on home and leisure products. However, the portfolio was not immune from the challenges faced by the wider market and values declined by 10.1% to £0.4bn. The valuation declines in retail parks are less pronounced than other retail assets, and there has been increased investor demand for stronger retail parks in recent months.

The F&B segment of both portfolios has been challenged but we have responded quickly to replace operators. In response to Pizza Hut entering CVA, we replaced three units with Canadian fast food operator Tim Hortons on 15 year leases. In addition, Tim Hortons will convert these units into drive-thrus. We have also completed two deals with both KFC and Burger King. At six sites, we have replaced units previously occupied by Chiquito, Frankie and Benny's and Bella Italia with foodhall operator Gourmet4 – their concept reverses the classic restaurant model with a delivery business supported by a strong eat-in operation.