CHIEF EXECUTIVE'S STATEMENT

"After a period of proactive asset recycling, we have meaningful capacity to reinvest proceeds in acquiring high-quality assets at an attractive point in the cycle."

MARK ALLAN, CHIEF EXECUTIVE

SUCCESSFUL EXECUTION ON STRATEGY. FOCUS ON DRIVING GROWTH

Over the last three years, our focus has been two-fold: firstly, on increasing our investments in best-in-class assets where our competitive advantages can drive long-term growth, and secondly on preserving balance sheet strength. The success of this is reflected in our continued like-for-like income growth and rising occupancy, significantly outperforming market averages. And despite the adjustment in property values over the past two years following the sharp rise in global interest rates, our proactive capital recycling means that pro-forma for our recent hotels disposal, our 32.3% LTV is now lower than it was two years ago, and our net debt is down £1.1bn, creating balance sheet capacity to grow.

Owning the right real estate has never been more important, as the normalisation in cost of capital means value drivers in real estate have fundamentally changed compared to much of the 2010s decade, when ultra-cheap money and sector themes were key drivers of performance. Irrespective of sector, there is now a growing distinction between those assets that really fulfil customers' future expectations and hence deliver like-for-like income growth and those that do not. This means future performance across the entire sector will be much more driven by asset quality than generic themes.

The successful execution of our strategy over the last few years means Landsec is well positioned in this context. Customer demand for our high-quality product has remained robust despite the unsettled political/economic backdrop, concerns about hybrid working and cost of living pressures for consumers.

In London, our £6.2bn West End-focused portfolio is almost full, with occupancy up to 97.3%, so rents are rising. In retail, our £1.8bn portfolio of nine major destinations has seen occupancy rise to 95.4% and we have started to drive positive reversionary uplifts on lettings and renewals. As a result, our like-for-like net rental income increased by 2.8% last year and, following a period of interest rate-driven asset repricing, the valuation of c. 60% of our portfolio was effectively stable in the second half of last year.

Looking forward, we expect high demand for best-in-class space to persist and, as supply of this space remains limited, this will continue to drive like-for-like income growth. Meanwhile, as the interest rate outlook today appears more balanced than at any point in the last couple of years, yields and values for the best assets are starting to stabilise. Having sold early when values were higher, we now have balance sheet capacity to invest at an attractive point in time. As a result, Landsec is well-placed for growth.

CONTINUED STRENGTH IN OPERATIONAL PERFORMANCE

Our financial results reflect the quality of our portfolio, the strong operational performance of our platform and our resilient capital base. Our FY23 earnings included the benefit of a £22m increase in surrender premiums, which we adjusted for in our 50.1 pence underlying EPRA EPS. Our EPRA EPS last year was stable vs this underlying level, in line with our guidance, as the 2.8% growth in like-for-like income we delivered, and the completion of our successful developments fully offset the impact of our significant disposals during the past two years and a rise in finance costs.

Our dividend for the year is up 2.6% to 39.6 pence per share, again in line with our guidance, reflecting a healthy dividend cover of 1.27 times.

During the first half of the year, the marked rise in interest rates across the globe resulted in upwards pressure on valuation yields, but this eased in the second half and throughout the year the impact of this has been partly offset by our 3.2% ERV growth. This meant that our portfolio value was down 6.0%, or £625m, for the year, driving a £341m loss and an 8.2% reduction in EPRA NTA per share for the year. However, the impact of this was weighted towards the first half, as yields remained stable in the final quarter and our total return on equity for the year improved to -4.0% from -8.3% in the prior year.

HIGHLIGHTS TABLE 1

	Mar 2024	Mar 2023	Change %
EPRA earnings (£m)[1,2]	**371**	393	(5.6)
Loss before tax (£m)	**(341)**	(622)	(45.2)
Total return on equity (%)	**(4.0)**	(8.3)	(51.8)
Basic loss per share (pence)	**(43.0)**	(83.6)	(48.6)
EPRA earnings per share (pence)[1,2]	**50.1**	53.1	(5.6)
Underlying EPRA earnings per share (pence)[1,2]	**50.1**	50.1	–
Dividend per share (pence)	**39.6**	38.6	2.6
Combined portfolio (£m)[1]	**9,963**	10,239	(2.7)
IFRS net assets (£m)	**6,447**	7,072	(8.8)
EPRA Net Tangible Assets per share (pence)[1]	**859**	936	(8.2)
Adjusted net debt (£m)[1]	**3,517**	3,287	7.0
Group LTV ratio (%)[1]	**35.0**	31.7	10.4
Proportion of portfolio rated EPC A-B (%)	**49**	36	
Average upfront embodied carbon reduction development pipeline (%)	**40**	36	
Energy intensity reduction vs 2020 (%)	**18**	17	

1. Including our proportionate share of subsidiaries and joint ventures, as explained in the Presentation of financial information in the Financial Review.
2. FY23 EPRA earnings and EPRA EPS include the benefit of £22m increase in surrender premiums; underlying EPRA EPS excludes this.

OUR STRATEGY

Since we launched our strategy in late 2020, our focus has consistently been on our two key principles of sustainable value creation: focusing our resources on where we have a genuine competitive advantage and maintaining a strong balance sheet. We have increased our investment in best-in-class assets where our skillset allows us to enhance returns and drive long-term growth. This has supported our like-for-like income growth and operational outperformance thus far and should continue to do so in the future. At the same time, our proactive capital recycling means that, despite the rise in interest rates and adjustment in property values, pro-forma for our recent disposals, our 32.3% LTV and 7.0x net debt/EBITDA are low.

For much of the decade leading up to 2022, creating value in real estate was often about leveraging up a spread between rental yields and ultra-low borrowing costs or picking high-level sector themes. The significant rise in cost of capital across the globe has not only changed the former but also the latter, as shown by the challenges faced by low-margin online retail models and the shift back to physical retail. As such, irrespective of sector, quality has become a much more important driver of future performance, which means it can be misleading to look at market averages. Indeed, even though market-wide vacancy is elevated, with London offices at 8.8%, retail at 15% and even logistics at 7.8% now, the best assets in each of these sectors have little vacancy and so continue to show good rental growth.

The successful execution of our strategy means we are well placed to benefit from this. Since late 2020, we have sold around 40 standalone assets, including the 21 hotels we sold since the year-end. We reinvested principally in our key places, be it through development in Victoria, at Piccadilly Lights and in Southwark, or by buying out JV partners in our retail destinations at Bluewater and in Cardiff, such that c. 80% of our portfolio is now invested in twelve key locations with significant scarcity value. We expect each of these unique, multi-let places to drive superior income returns and growth over time.

This provides a critical underpin for capital values. The outlook for interest rates is more balanced now than it has been for a couple of years, but we remain of the view that it is unlikely that rates will come down sharply from current levels. In what will therefore likely remain a higher nominal rate environment, we think yields for assets which have inherent income growth and therefore provide a real income stream look attractive, yet for most assets which lack this growth, we think the risk to values remains down.

In today's more normalised rate environment, we continue to target to deliver a total return on equity of 8-10% p.a. over time, comprising a mix of income and capital returns, driven by rental growth and selective development upside. Short-term movements in valuation yields are outside of our control and mean our return on equity will not be exactly in this range each individual year, as we have seen over the past twelve months. However, with an income return on our March 2024 NTA of c. 5.7%, an expectation of further rental growth and yields starting to stabilise, the outlook for this is encouraging.

As part of this, it is important that we operate efficiently. We reduced our overhead costs by 9% during the year and expect further savings over the next 2-3 years, driven partly by our investments in data and technology. Although our EPRA cost ratio has remained stable at 25%, this solely reflects the impact of capital allocation decisions: since late 2020, we have sold £2.2bn of

CHIEF EXECUTIVE'S STATEMENT
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mature, low-yielding offices which incurred minimal operating costs, but equally had little room to add further value and a mid-single digit forward IRR, whereas we acquired more operational assets that come with higher operating cost, but also a materially higher net income return and much higher forward IRR.

As borrowing costs and our cost of capital have increased, it is also critical we continue to think carefully about our capital allocation decisions. Including our £400m of disposals since the year-end, we have now sold £3.1bn of assets since late 2020, which means most of the c. £4bn disposal target we set out at that time is done. Looking ahead, we have three principal opportunities to invest in: acquiring major retail; our Central London pipeline; and our mixed-use pipeline. We also have three main sources of funding: our balance sheet headroom towards a slightly higher LTV now that rates and values are starting to stabilise; further capital recycling; or attracting other, complementary sources of capital which can enhance our overall growth, capitalise on our platform value, and grow our overall return on equity.

In terms of opportunities, the right major retail destinations offer attractive high single digit income returns with income now starting to grow, as seen across our own portfolio. Alongside our two committed office developments in London, where the yield on the overall capex we are investing is high at c. 12%, this is our key focus for investment at the moment and where we plan to apply most of our existing balance sheet capacity too. Following a period of limited transaction activity in this sector, we are now seeing signs of activity levels around the work-out of broken ownership structures starting to pick up. Further capital recycling out of our residual retail parks will add to our investment capacity in this space and, overall, this is expected to enhance our income growth and return on equity.

Given the significant size of our medium-term London and mixed-use pipelines and our desire to maintain a sustainable level of development exposure, it is unlikely that we will fund all of this on our own balance sheet. Rents for highly sustainable, best-in-class space continue to grow and construction cost inflation has normalised, yet returns on future commitments will of course have to

compensate for higher cost and higher exit yields. We continue to optimise costs, planning consents and delivery programmes in London and mixed-use to ensure any future commitments deliver an appropriate return and risk premium vs the return on any assets we choose to sell to fund our investment in these. We will progress the schemes that deliver this, adjust plans for others, or sell those where the holding cost of maintaining optionality does not outweigh the future upside. Overall, this will enhance our overall return on equity through development upside and longer-term rental growth, reflecting the quality of our pipeline.

CREATING VALUE THROUGH OUR COMPETITIVE ADVANTAGES

In executing our strategy, we continue to focus on our three key competitive advantages: our high quality portfolio; the strength of our customer relationships; and our ability to unlock complex opportunities. Customer demand continues to polarise, as demand for modern, sustainable space in areas with exciting amenities in London remains strong, even though overall leasing across the market was down during the year. In retail, brands continue to focus on fewer, but bigger and better stores in key locations. Supply of both is constrained, which is driving income and rental value growth across our assets.

In London, 77% of our portfolio is now located in the vibrant West End and Southwark markets, up from 58% in 2020. Our recently completed schemes are 89% let or in solicitors' hands, up from 60% a year ago, with rents 12% above initial expectations. Office utilisation is up 18% for the year and 81% of our lettings over the year have seen customers grow or keep the same space. Across our existing portfolio we signed or are in solicitors' hands on £35m of leases, on average 6% above ERV, whilst occupancy is up 140bps to 97.3%. With 15% uplifts on relettings/renewals, our offices saw 1.4% LFL rental income growth and overall ERVs were up 5.0%, at the top end of our guidance of low to mid single digit growth.

Across our major retail destinations, we completed or are in solicitors' hands on £37m of lettings, on average 6% above ERV. Reflecting the marked turnaround of the best assets in this space, we have started to capture positive reversionary potential during the year, with relettings and renewals on average 2% above previous passing rent, whilst occupancy increased by a further 130bps to 95.4%. Combined with strong turnover growth, this meant we delivered 6.9% growth in LFL net rental income. Valuers' assumed ERVs continue to trail operational performance, up 1.4%, albeit in line with our guided range.

Our strong operational performance is supplemented by our ability to unlock complex opportunities, such as in London, where we completed three projects over live Underground stations featuring highly bespoke engineering solutions, combined creating c. £238m of value, or in mixed-use, where we secured planning consent for our 1,800 homes-scheme at Finchley Road, including detailed consent for the first phase. This ability is expected to serve us well when it comes to new opportunities in the year ahead.

DELIVERING SUSTAINABLY

We continue to make progress against our carbon reduction targets, which are aligned with the Science Based Targets initiative's (SBTi) Net-Zero Standard. Our near-term target is to reduce our direct and indirect greenhouse gas emissions by 47% by 2030 from a 2019/20 baseline and to reach net zero by 2040 from the same baseline year. So far, emissions have already reduced by 24% vs this baseline. During the year we updated our target to reduce our energy intensity by 52% by 2030 from a 2019/20 baseline, to align this with our carbon reduction target. We are already tracking an 18% reduction, having achieved an energy intensity reduction across our portfolio of 3.7% during the year vs the prior year.

To make sure we meet our carbon reduction target and stay ahead of the proposed Minimum Energy Efficiency Standard Regulations requiring a minimum EPC 'B' rating by 2030, we have continued to progress our Net Zero Transition Investment Plan. 49% of our overall portfolio is already rated B or higher, up from 36% a year ago. We have started air source heat pump retrofits at two sites and expect to start a further three this year, which will result in improved EPC ratings from 2025 onwards when these become operational. We also continue to focus on reducing upfront embodied carbon from our development schemes and improving energy efficiency across our operational assets, and have been expanding the work with our largest customers to help them identify ways to save energy.

In its first year, our Landsec Futures fund, which is aimed at improving social mobility in the real estate industry and will see us invest £20m over 2023-2033, has already made a significant contribution to our target to create £200m in social value and empower 30,000 people towards the world of work by 2030. Since 2019/20, we have now created £54m of social value and empowered 10,249 people to work.

OUTLOOK

The UK macro outlook has improved over the past year, with a sharp reduction in inflation and a return to real wage growth for consumers, even though economic growth is expected to remain modest in the short term. Combined with the more normalised interest rate environment, this means it has never been more important to own the very best assets in the right locations that cater for customers' future needs and can therefore deliver positive like-for-like income growth.

In late 2022, we said that we expected property values would continue to adjust for some time after a decade of ultra-low interest rates. This has proven to be the case but there are increasingly signs that this is now coming to an end. The relative stabilisation of long-term rates is a clear positive and reflecting the historically attractive pricing of good quality income in London and major retail, we are starting to see interest emerge from investors who have not been active in these markets for some time. As such, we expect activity levels to pick up from here. The refinancing of cheap debt issued before 2022 remains a challenge for parts of the sector, yet absent any further macro shocks, we think the value of high-quality assets has largely bottomed out and will start to grow in the foreseeable future as rents rise.

Against this backdrop, our actions over the past three years leave us well placed:

- we increased our focus on high-quality places where customer demand is demonstrably strong;
- we preserved our balance sheet strength, providing room to grow at an attractive time in the cycle;
- we have a built pipeline of attractive opportunities with flexibility on future commitments.

As customer demand for the best space remains robust, we expect our Central London and major retail assets to again see ERVs grow by a low to mid single digit percentage this year. We are now capturing positive leasing reversion across all main parts of our portfolio, which delivered 2.8% growth in like-for-like net rental income last year, and we expect like-for-like growth to be similar for the year ahead.

Determining how this continued operational growth will then translate into EPS growth will depend on the quantum and timing of net investment from here, where we remain disciplined on quality and price. We have created meaningful balance sheet capacity through our significant asset disposals but our recent sales activity does reduce annualised earnings by c.4%, all else equal. This means that, before reflecting the impact of any reinvestment of these sales proceeds, EPS for the year to March 2025 would likely be slightly below the 50.1 pence for 2024. For March 2026, we currently expect EPS to be slightly above this level, reflecting the combined effect of continued like-for-like income growth and accretive capital recycling. As a result, we continue to expect our dividend to grow by a low single digit percentage this year, as our dividend cover remains towards the high end of our 1.2-1.3x target range.

As macro-economic signals look more encouraging than they have for a while, with long-term interest rates stabilising and customer demand for the best assets remaining robust, the outlook for capital values of the best assets and, as a result, our overall return on equity is positive. With capacity to grow at an attractive point in time, we are positive about the future.

MARK ALLAN, CHIEF EXECUTIVE