



OPERATING AND PORTFOLIO REVIEW

Our combined portfolio was valued at £10.0bn as of March, comprising the following segments:



CENTRAL LONDON

Our well-connected, high-quality office (84%) and retail and other commercial space (16%), located in the West End (69%), City (23%) and Southwark (8%).



MAJOR RETAIL DESTINATIONS

Our focused investments in six shopping centres and three retail outlets, which are amongst the highest selling locations for retailers in the UK.



MIXED-USE URBAN NEIGHBOURHOODS

Our investments in mixed-use urban places in London and a small number of other major growth cities, with medium-term repositioning or development potential.



SUBSCALE

Assets in sectors where we have limited scale or competitive advantage and which we therefore plan to divest over time, split broadly equally between retail parks, leisure and hotels, the last of which we have sold since the year-end.

INVESTMENT ACTIVITY

During the financial year we sold £225m of assets, including our two smallest retail outlets, a retail park in Romford, and two small leisure assets and two mixed-use development assets in London, on average at a 1% discount to March 2023 book value. Since the year-end we have sold our hotel portfolio for £400m, slightly ahead of the March 2023 book value. This crystallised the strong recovery in performance post Covid yet as the income on this portfolio was 100% turnover linked on long-term leases to Accor, there was no opportunity for us to influence or enhance its future operational performance.

During the year we made £136m of acquisitions and spent £220m on development capex. We acquired an 89,000 sq ft office in Kings Cross for £90m which we plan to reposition to Myo for an opening in 2025, with an expected IRR in the mid-teens. In addition, we bought a £30m site adjacent to our Timber Square development for an implied price of c. £100 per sq ft. This could almost double the size of the combined site and create a significant c. 670,000 sq ft estate across four buildings. We also spent £16m on a small number of site amalgamation opportunities adjacent to existing assets. Whilst these acquisitions do not produce income in the short term and therefore create a c. £6m earnings drag in the current year because of finance costs, they unlock substantial near-term upside potential at a low in-price.

With the sale of our hotel portfolio, we have now sold £3.1bn of the c. £4bn assets we said we intended to sell over a period of c. 6 years when we launched our updated strategy in late 2020. We will continue to recycle capital where assets do not meet our return requirements or fit our strategic focus, but this means we are now through the vast majority of our disposal programme. As such, our focus for the rest of the year is now on acquisitions, as we aim to recycle the proceeds of our hotels disposal into additional opportunities in major retail. In London and

mixed-use, our own investment in new development commitments is likely to be funded principally through future disposals of mature or standalone assets, alongside other, complementary sources of capital.

PORTFOLIO VALUATION

The marked increase in interest rates during the first half of the year meant that transaction activity across global property markets has been subdued. As a result, valuation yields softened so despite the fact that our successful leasing delivered 3.2% ERV growth, our portfolio value reduced by 6.0%. The impact of rising rates principally affected the first half of the year, as yields remained flat in the final quarter and c. 60% of our portfolio was effectively stable in value in the second half.

Our Central London portfolio was down 6.9% for the year, as upside from 5.0% ERV growth was offset by a 46bps increase in yields to 5.4%. The value of our West End office (-3.6%) and retail and other assets (-4.7%), which make up 77% of our London investment portfolio following our significant City disposals over the last three years, again proved more resilient than City values (-13.9%). This reflects strong ERV growth, driven by our successful leasing in Victoria, which means West End office values were stable in the second half. Development values were down 9.9% given the early stage these projects are in, but we are confident these will deliver attractive returns once these are completed and let.

Major retail valuations were virtually stable for the year, down just 1.1%, following a minor increase in the second half (+0.2%), reflecting their high income return and improving operational performance, with LFL net income up 6.9%. Valuers' assumed ERVs continue to trail operational performance and leasing, up just 1.4%, but despite this, major retail again was the best performing part of our core portfolio with a 7.1% total return over the year, ahead of Central London (-2.9%) and mixed-use (-8.9%).



OPERATING AND PORTFOLIO REVIEW CONTINUED

In mixed-use, values were down 14.0%, mostly driven by outward yield shift at MediaCity and a softening of yields and a reduction in income at our three existing retail assets in Glasgow and London, as these have so far been managed for short-term

income to maximise flexibility for future development.

Across our subscale portfolio, the value of our hotels was up slightly (0.6%), whilst retail park values were relatively resilient (-1.8%). The value of our leisure assets was down

8.2% as investor sentiment towards cinemas remains subdued, even though our largest leisure customer, Cineworld, successfully recapitalised during the year and operational performance and ERV growth remains positive.

VALUATION ANALYSIS

TABLE 2

	Market value 31 March 2024 £m	(Deficit)/ Surplus £m	FY valuation change %	H2 valuation change %	LFL rental value change ¹ %	Net initial yield %	Topped up net initial yield %	Equivalent yield %	LFL equivalent yield change bps
West End offices	3,109	(111)	(3.6)	(0.5)	6.9	4.2	5.5	5.3	37
City offices	1,192	(188)	(13.9)	(4.6)	1.3	3.9	5.4	6.0	78
Retail and other	991	(48)	(4.7)	(3.3)	5.0	4.6	4.8	4.9	30
Developments	926	(102)	(9.9)	(4.1)	n/a	0.0	0.1	5.4	n/a
Total Central London	6,218	(449)	(6.9)	(2.4)	5.0	4.2²	5.3²	5.4	46
Shopping centres	1,226	1	0.1	-	1.5	8.1	8.7	8.1	23
Outlets	605	(21)	(3.3)	0.5	1.3	6.3	6.5	7.0	17
Total Major retail	1,831	(20)	(1.1)	0.2	1.4	7.5	8.0	7.8	22
London	191	(23)	(10.3)	(8.7)	2.0	4.2	4.2	6.6	22
Major regional cities	510	(93)	(15.3)	(6.6)	(1.2)	6.7	6.7	7.7	106
Total Mixed-use urban³	701	(116)	(14.0)	(7.8)	(0.3)	6.1²	6.1²	7.3	85
Leisure	423	(35)	(8.2)	(5.5)	1.5	8.7	8.9	8.8	26
Hotels	400	2	0.6	(1.1)	5.7	7.3	7.3	7.2	54
Retail parks	390	(7)	(1.8)	(1.2)	1.4	6.0	6.8	6.8	38
Total Subscale sectors	1,213	(40)	(3.2)	(2.6)	2.7	7.4	7.7	7.6	38
Total Combined Portfolio	9,963	(625)	(6.0)	(2.4)	3.2	5.4²	6.2²	6.2	45

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

2. Excluding developments/land.

3. Previous Mixed-use urban sub-segments have been changed to a classification based on geographical location, which is better aligned to how these assets are managed internally and our revised approach to a number of assets.

Looking ahead, we expect that the relative stability in long-term rates and improvement in availability and pricing of credit will support a pick-up in investment activity. We are seeing investor interest emerge in London and shopping centres from parties who have not been active in these markets for years, but who are now attracted by historically attractive yields and clear evidence of rental growth for best-in-class assets. The refinancing of cheap debt issued pre-2022 remains a challenge for parts of the sector, yet the risk of disorderly sales substantially driving down the value of high-quality assets seems low. Markets remain sensitive to rates, yet values for the best assets have begun to stabilise, even though secondary likely has further to fall. Whilst we are principally focused on driving like-for-like income, we expect ERVs for our London and major retail assets to grow by a low to mid single digit percentage this year.

LEASING AND OPERATIONAL PERFORMANCE

CENTRAL LONDON

Customer demand remains firmly focused on buildings with the best sustainability credentials, transport connectivity and local amenities. The amount of space which meets these criteria remains limited, so pricing of this continues to go up, whereas space which does not meet these criteria is at risk of becoming obsolete, almost regardless of price. We continue to see the evidence of this strong demand across our portfolio, for example in the new record rents we achieved in Victoria.

Reflecting the appeal of our buildings and locations to people, we have seen an increase in daily turnstile tap-ins of 18%, significantly ahead of the growth in TFL public transport data. Across our leasing deals, we have also seen customers plan for, on average, c.30% more square foot per

person than they did before the pandemic in 2019, to create more space for collaboration, focus work or wellbeing. As such, of our £40m of office lettings over the past year, 47% saw customers increasing floor space, whilst only 19% reflected customers downsizing. This is in line with market data which shows that only one-fifth of active tenant requirements is for less space.

We have consistently said that we felt that large HQ space and areas which lack the amenities to make people want to spend time there are most at risk as a result of more flexible ways of working. Virtually all of the £2.2bn offices we sold since late 2020 were large, single-let HQ buildings where our ability to add further value was limited, whilst we increased our focus on multi-let clusters in the lively, well-connected West End and Southbank markets. These now make up 77% of our London portfolio vs 58% in 2020.



In a world where demand is concentrated in the best part of the market, market averages become rather meaningless. This is illustrated by the fact that, whereas overall office vacancy in London is elevated, at 8.8%, 90% of all vacant space sits in 10% of all buildings and close to 40% of vacant space sits in just 1% of all offices in London. This shows vacancy is mostly a building issue, not a market-wide issue. It also shows offices are different than retail 5+ years ago, as in retail even the best locations saw vacancy rise and, as a result, rents fall, whereas in offices Grade A availability remains low, so rents continue to rise.

Even though take-up across the overall London market slowed, demand for space across our standing portfolio remained resilient. We signed lettings during the year totalling £30m of rent, on average 5% above valuers' assumptions, with a further £5m in solicitors' hands, 9% above valuers' estimates. Overall, relettings and renewals reflected a 15% uplift vs previous passing rent and occupancy increased 140bps to 97.3% – substantially outperforming the Central London market, where occupancy fell by 100bps. Our two existing Myo locations saw average occupancy for the year rise to 93%, up from 86%.

MAJOR RETAIL DESTINATIONS

We have continued to see a further shift back from online to physical sales, with negative online non-food sales growth for the last two years. The exact split between online and offline is becoming less of a factor for the best locations as for most major brands online and physical channels are firmly interconnected. The increase in cost of capital and cost of doing business online is keeping pressure on low-margin online sales. This principally affects pure-play online models, which in response have shifted their focus to improving profitability rather than growing market share, increasing the cost for consumers to buy online.

Reflecting this, we continue to see growing demand from brands for physical space in the best locations. There is a clear focus on 'fewer, bigger, better' stores, as leading brands such as Inditex and H&M have announced significant investments in their best stores, even though they often continue to close the tail ends of their portfolio. Supported by the fact that for many key brands, including JD, Zara, Boots and Next sales growth in our centres is outperforming their overall sales growth, this explains the strong demand for our space. Across our portfolio, total sales grew 4.1% and like-for-like sales were up 1.5%.

Footfall increased 3.9% and is now at c. 93% of pre-pandemic levels.

On the back of this, we delivered 6.9% like-for-like income growth and a 130bps increase in occupancy to 95.4% – effectively back to pre-pandemic levels. As a result, we are seeing improved pricing tension and selective competition for space. A year ago we said we expected the last large over-rented leases to reset during the year, which has happened. Despite this, for the first time in years we have started capturing positive uplifts on renewals and relettings. This was still modest at 1% for the year, but is up to 6% for deals in solicitors' hands. In total, we completed 219 lettings totalling £27m of rent, on average 5% ahead of ERV, with a further £10m in solicitors' hands, 7% above ERV.

MIXED-USE URBAN NEIGHBOURHOODS & SUBSCALE SECTORS

In mixed-use, the increase in vacancy partly reflects the fact that we have so far managed part of the existing income for maximum development flexibility. We expect this to reverse with our revised approach to these assets, which involves retaining more of the existing built stock to reduce embodied carbon and build on the existing income, rather than working towards a wholesale redevelopment in one go. The operational performance of our retail parks and leisure remains strong, with £7m of lettings on

average 5% ahead of valuers' assumptions plus a further £3m in solicitors' hands at a 3% premium, whilst occupancy was up 30bps to 98.0%. We agreed a restructure of a number of leases with Cineworld following its recapitalisation during the first half resulting in an annual rent reduction of less than £1m, but all our units continue to trade. Our hotels, which are fully let to Accor, saw occupancy rise from 94% to 98% of pre-Covid levels, driving an increase in RevPAR, which supported our disposal post the year-end.

DEVELOPMENT PIPELINE CENTRAL LONDON

We continue to see good demand for the high-quality space we develop. During the year, we completed our n2 development in Victoria and Lucent behind Piccadilly Lights, both of which were effectively fully let within four months post completion, with rents on average 14% ahead of initial assumptions. At The Forge in Southwark, Myo opened in the Phosphor building just before Christmas, whilst the Bronze building is 42% let or in solicitors' hands. We also completed the development of 21 Moorfields, which we sold in September 2022 for £809m, crystallising a 25% profit on cost.

Aside from The Forge, we also opened two Myo locations at One New Change and New Street Square just before Christmas and in February, combined making up 138,000 sq ft, so all three of these are currently in lease-up.

OPERATIONAL PERFORMANCE ANALYSIS

TABLE 3

	Annualised rental income £m	Net estimated rental value £m	EPRA occupancy ¹ %	LFL occupancy change ¹ ppt	WAULT ² Years
West End offices	160	186	99.6	0.1	6.5
City offices	70	93	93.7	3.2	7.8
Retail and other	43	55	97.2	1.9	5.7
Developments	8	93	n/a	n/a	n/a
Total Central London	281	427	97.3	1.4	6.8
Shopping centres	121	122	95.1	1.0	4.3
Outlets	48	49	96.0	2.0	3.0
Total Major retail	169	171	95.4	1.3	3.9
London	11	16	90.2	(3.5)	9.0
Major regional cities	37	38	93.5	(4.1)	6.8
Total Mixed-use urban²	48	54	92.6	(4.0)	7.2
Leisure	46	42	96.9	1.6	10.2
Hotels	35	29	n/a	n/a	7.1
Retail parks	27	29	97.5	(1.1)	5.9
Total Subscale sectors	108	100	98.0	0.3	8.0
Total Combined Portfolio	606	752	96.5	0.8	6.2

1. Excluding developments.

2. Previous Mixed-use urban sub-segments have been changed to a classification based on geographical location, which is better aligned to how these assets are managed internally and our revised approach to a number of assets.



OPERATING AND PORTFOLIO REVIEW CONTINUED

We are opening a new Myo at Lucent shortly and plan to open a seventh location in Kings Cross in 2025, which will bring our total Myo space to c. 300,000 sq ft. Rents are broadly in line with our underwriting assumptions, representing net margins of c. 20% over standard office space.

Whilst the sharp increase in interest rates over the past two years has naturally impacted property values, the flipside is that it is

limiting new supply. Compared to a year ago, total space under construction has increased from 12m to 13m sq ft yet 42% of this is already pre-let. This means that speculative office space under construction which is expected to complete over 2024-26 is roughly half of the long-term average new-build office take-up in London. As demand remains focused on the best, most sustainable space, we expect this will drive further rental growth for the best quality assets.

As such, during the year we started the major refurbishment of Thirty High (formerly Portland House) in Victoria and the development of Timber Square in Southwark. Reflecting our positive outlook for rental values, we expect these to deliver a gross yield on cost of 7.2% and be highly earnings accretive, with an expected ERV of £59m once fully let vs £434m residual cost to complete.

COMMITTED PIPELINE

TABLE 4

Property	Sector	Size sq ft '000	Estimated completion date	Net income/ ERV £m	Market value £m	Costs to complete £m	TDC £m	Gross yield on TDC %
Thirty High, SW1	Office	299	Aug-25	30	238	183	412	7.3%
Timber Square, SE1	Office	381	Dec-25	29	137	251	411	7.1%
Total		680		59	375	434	823	7.2%

FUTURE CENTRAL LONDON DEVELOPMENT PIPELINE

TABLE 5

Property	Sector	Proposed sq ft '000	Indicative TDC £m	Indicative ERV £m	Gross yield on TDC %	Potential start date	Planning status
Near-term							
Red Lion Court, SE1	Office	250	335	24	7.2	H2 2024	Consented
Liberty of Southwark, SE1	Office/residential	225	260	17	7.4 ¹	H1 2025	Consented
Total near-term		475	595	41	7.3		
Medium-term							
Old Broad Street, EC2	Office	285				2025	Consented
Hill House, EC4	Office	380				2026	Consented
Nova Place, SW1	Office	60				2025	Design
Southwark Bridge Road, SE1	Office	150				2025	Design
Timber Square Phase 2, SE1	Office	290				2026	Design
Total medium-term		1,165					
Total future pipeline		1,640					

1. Gross yield on cost adjusted for residential TDC.

In terms of future pipeline, we have started the deconstruction of the existing building at Red Lion Court to prepare this for a potential start late this year. We also secured planning consents for the development of 55 Old Broad Street and Hill House, at our New Street Square estate, and a significant increase in scale of our planning consent at Liberty of Southwark. Combined, this brings our consented pipeline to 1.1m sq ft. We also acquired a site adjacent to Timber Square for a low implied land value of c. £100 per sq ft, which unlocks the opportunity to create a significant c. 670,000 sq ft estate across two phases, with significant public realm incorporating the site's historic Victorian railway arches.

MIXED-USE URBAN NEIGHBOURHOODS

Landsec has a long history of creating thriving urban places, such as in Victoria, Oxford, Leeds or Cardiff. These places are scarce and their enduring attraction underpins their longer-term growth, even though the exact mix of uses of space differs by location. As consumer expectations on how we live, work and spend our leisure time continue to change, we have a number of opportunities in some of the fastest growing areas in the UK to create and curate the next generation of such places.

At Finchley Road, in zone two London, we received unconditional planning consent for our 1,800 homes masterplan including detailed consent for the first 600 homes during the year. We have started offsite utility upgrades with site preparatory and enabling works to follow in autumn this year. We anticipate spending c. £10m on these works over the next 18 months. This will put us in a position where we can commit to the development of the first 600 homes by late 2025. The investment for this would be roughly £300m, with a target IRR in the low double-digits. At the same time, we will look to rebuild the income in the existing retail asset ahead of its potential longer-term redevelopment.

**MIXED-USE URBAN NEIGHBOURHOODS PIPELINE**

TABLE 6

Property	Landsec share %	Proposed sq ft '000	Earliest start on site	Number of blocks	Estimated first/total scheme completion	Indicative TDC £m	Target yield on cost %	Planning status
Near-term								
Mayfield, Manchester	50-100	2,500	2024	18	2027/2034	800-950	7-8	Consented
Finchley Road, NW3	100	1,400	2025	10	2028/2035	950-1,050	6-7	Consented
Medium-term								
MediaCity, Greater Manchester	75		2026					Consented
Buchanan Galleries, Glasgow	100		2026					Design
Lewisham, SE13	100		2026					Design

At Mayfield, adjacent to Manchester's main train station, we have been working with our JV partners on optimising the development strategy for this site. Building on the successful place we have created with the new 6-acre park, we have the option to start the first c. £140m office block late this year, which would then also unlock the future residential phases of this new mixed-use neighbourhood.

At Lewisham, south-east London, and Glasgow we are evolving our plans to focus more on masterplans that can be delivered in discrete incremental phases. Alongside this we will seek to embrace opportunities to retain and reinvent existing buildings in our ambition to reduce embodied carbon. This new approach will improve overall returns by retaining more of the existing income and growing this, alongside discrete development interventions. We are still finalising our plans, but this will likely result in less embodied carbon, lower risk and less capital intensive routes to realising the potential of these mixed-use estates.

Rents for the highly sustainable, best-in-class space we can deliver in London and across our mixed-use pipeline continue to grow and construction cost inflation has normalised, although returns on any future commitments will need to compensate for higher costs and higher exit yields. We will therefore continue to optimise designs, planning and delivery programmes to ensure our future developments deliver an attractive return and sufficient risk premium vs the return on assets we sell to fund our investment in these. The significant size of our medium-term London and mixed-use pipelines means it is unlikely that we will fund all of this on our own balance sheet, so we will explore opportunities to access other, complementary sources of capital to help accelerate the delivery of these opportunities.

DELIVERING IN A SUSTAINABLE WAY

Aligned to the Science Based Targets initiative's (SBTi) new Net-Zero Standard, we have committed to a target to reduce direct and indirect greenhouse gas emissions by 47% by 2030 vs a 2019/20 base year and to reach net zero by 2040 from the same base year. This includes emissions from all sources, including all of our reported Scope 3 emissions such as the emissions from our development pipeline, supply chain and customers. So far, our emissions have already reduced by 24% compared to this baseline. To align with our revised carbon reduction target, we have updated our energy intensity target to reduce energy intensity by 52% by 2030 from a 2019/20 baseline. We are currently tracking an 18% reduction, having achieved an energy intensity reduction across our portfolio of 3.7% vs the prior year.

We continue to progress our Net Zero Transition Investment Plan, which will ensure we deliver our near-term science-based target and meet the proposed Minimum Energy Efficiency Standard of EPC 'B' by 2030. The expected cost to deliver this plan is already reflected in our current portfolio valuation. 49% of our portfolio is already rated 'B' or higher, including 44% of our office portfolio, up from 36% a year ago. We expect this to increase from 2025 onwards, as the benefits from our net zero investments come through.

We have now started the retrofit of air source heat pumps at two office locations. We expect to start a further three retrofit projects in the current year and are progressing detailed designs for another one. During the year, we have expanded the work with our customers on energy audits from 25 to 38 of our largest customers. These cover 56% of the energy used by our customers in our office portfolio and so far this work has identified potential annual carbon and energy savings of 10-40% for the majority of customers.

With respect to our target to reduce upfront embodied carbon by 50% vs a typical development by 2030, to below 500kgCO₂e/sqm for offices and 400kgCO₂e/sqm for residential, our future pipeline is currently tracking at an average 40% reduction. The two schemes we started this year are already close to, or ahead of our 2030 reduction target. At Timber Square, we achieved a reduction to 522kgCO₂e/sqm due to retention of part of the existing structure, a highly optimised design and the use of low carbon cross laminated timber, whilst at Thirty High, retaining the original structure and upgrading the existing façade resulted in an upfront embodied carbon intensity of just 347kgCO₂e/sqm.

In March, we launched our new nature strategy, Let Nature In, which recognises the interdependency between the climate and biodiversity crises and aims to consistently enhance nature across our portfolio to improve biodiversity in the built environment; promote health, wellbeing, and community engagement; and create nature-based solutions to mitigate and adapt to climate change.

Our Landsec Futures fund, which will see us invest £20m over 2023-2033, aimed at improving social mobility in real estate and tackling issues local to our assets, continues to support the delivery of our 2030 target to create £200m of social value and empower 30,000 people towards the world of work. From our 2019/20 baseline, we have so far created £54m of social value and empowered 10,249 people.