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British Land

Half Year Results Presentation
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British Land

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Bhavesh Mistry, Chief Financial Officer

Kelly Cleveland, Head of Real Estate and Investment

Questions

Rob Jones, BNP Paribas Exane

Zachary Gauge, UBS

Sam Knott, Kolytics

Adam Shapton, Green Street

Max Nimmo, Deutsche Numis

Jonathan Kownator, Goldman Sachs

Celine Soo-Huynh, Barclays

Tim Leckie, Panmure Liberum

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Introduction and Key Highlights

Simon Carter, Chief Executive Officer
Well good morning everyone. Thank you for joining us for the Half Year Results. It covers quite a busy period for the company. It started back in April with the pre-let to Citadel, we then had the sale of a stake in Meadowhall - our stake in Meadowhall, a series of Retail Park acquisitions and wrapped up in October with the placing, so a busy period.

But before we get into that I did just want to say a thank you to Bhavesh who's here today, he steps down as our CFO today. He's made a very significant contribution to the business over the last three and a half years. I think in particular there's three areas where he's really excelled, cost control, balance sheet management and capital allocation.

Bhavesh I've really enjoyed working with you and I know the rest of the team have and we wish you all the best at Kingfisher.

As you know David Walker becomes our new CFO today, David's here in the front row, he's very well equipped to pick up the reins from Bhavesh. Many of you know him from his time as Interim CFO and Head of Investor Relations and more recently he's been our Chief Operating Officer and has executed brilliantly against the mandate to make the British Land boat go faster. I know he's looking forward to seeing many of you on the road over the next couple of weeks.

And then next to David is Kelly Cleveland. Kelly has been our Head of Investment for the last eight years, so central to all of the capital activity particularly over the last 12-18 months. Kelly is taking on a broader role from Darren that now encompasses Head of Investment and Head of Real Estate. We're combining our asset management, our leasing and our investment and that's going to enable us to drive further outperformance from the business.

So before I hand over to Bhavesh, I just thought I'd share my thoughts on the first half. The operational momentum of the last couple of years really continues. We've leased well across the business, ahead of ERV, which combined with our cost discipline and successful asset management means we've been able to grow underlying earnings and that's despite significant development activity and that development activity is going to be a key driver of future earnings growth.

And then in Retail Parks we're seeing the best occupational markets in over a decade. Retailers are competing for space as they look to expand out of town. With occupancy at 99% this drove ERV growth of 3.7% in the half.

The fundamentals are also very compelling for developing new headquarter space particularly in the City where we estimate a 5 million square feet shortfall of new space under construction. As a result super prime rents have grown around another 10% since the Citadel deal back in April.

We've continued to deploy capital into these markets investing over £700m into Retail Parks and committing to develop 2 Finsbury Avenue where you may have seen on the way in the core on the east core is already at level 25.

We now have 1.8 million square feet of best-in-class workspace delivering over the next three years into a supply constrained market.

Over the last four years we've radically reshaped our business via £3.7bn of capital activity. This includes disposals of £2.1bn of mature offices and shopping centres at an average yield of 5%. The acquisition of £1.1bn of Retail Parks at a yield north of 7% and the assembly of a 1.9 million square feet Urban Logistics development pipeline. So today 93% of the portfolio is in our preferred sectors.

With that I'll hand over to Bhavesh to go through the financials for the last time.

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Financial Review

Bhavesh Mistry, Chief Financial Officer
Thank you, Simon and good morning everyone. I'll take you through our financial results for the first half of the year much of which you'll be familiar with following our trading update in early October.

We delivered £143m of underlying profit in the half up by 1%, despite our decision to take several properties into development and the surrender of 1 Triton Square lease last September.

Earnings per share was up by 1% at 15.3 pence and we will pay a dividend of 12.24 pence per share.

Net tangible assets were up 1% at 567 pence per share supported by an increase in property valuation.

We've been active in the period with disposals acquisitions and developments. As a result pro forma LTV increased to 50 basis points to 37.8% and pro forma Group net debt to EBITDA stands at 7.4 times.

Let me now walk you through our income statement starting with gross rental income which was down 3% due to the disposal of Meadowhall in July 2024. The surrender of 1 Triton Square last September offset by surrender premium receipts in the period which I'll touch on shortly.

We were pleased to have acted quickly to redeploy the Meadowhall sale proceeds into Retail Parks by the end of the half. These parks will be earnings accretive and on an annualised basis have fully offset the earnings dilution from the sale.

Property operating expenses increased by £5m in the period versus the prior year which had benefited from a one-off collection from Arcadia.

Our net rental income margin remained strong at 91.6%.

Fees and other income increased to £13m. We now recognise the full fee for managing Meadowhall.

Administrative expenses decreased to £41m and I'm pleased our EPRA cost ratio now stands at 15.3%.

Net finance costs were down £10m due to the timing of £456m of net disposals completed over the last 18 months to September offset by ongoing spend on our committed development pipeline.

Our hedging continues to protect us from higher market rates and our weighted average interest rate at September was 3.5%.

Underlying earnings per share was 15.3 pence up 1% and our dividend is 12.24 pence per share up 1%.

Let's now look at earnings per share growth in more detail starting on the left of this slide. Sales and purchases increased EPS by 0.4 pence as the disposals of non-core and mature assets were offset by finance cost savings from the joint venture formation at 1 Triton Square.

Although developments are a long-term driver of EPS growth, they reduced EPS in the period by 1.2 pence as we moved 1Triton Square, 1 Apple Street and floors at Broadgate Tower into our development pipeline. This was offset by good leasing progress at our newest schemes Norton Folgate which is now over 50% let or under offer and 3 Sheldon Square at Paddington which is over 90% let or under offer.

Surrender premium receipts added 0.9 pence to underlying EPS following our active asset management in the period where we took back floors at 155 Bishopsgate and 20 Triton Street enabling us to capture positive reversion we are seeing in the market.

Encouragingly 88% of this space is already let or in negotiations at rents significantly ahead of previous passing rent and includes 77,000 square feet let to Akin Gump in the period at 155 Bishopsgate.

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Provisions for debtors and tenant incentives reduced EPS by 0.6 pence this reflects the impact of the Arcadia payment we benefited from in the prior period. Like for like growth added 0.5 pence to EPS, these movements together delivered a first half EPS of 15.3 pence per share.

For the full year we're increasing our earnings per share guidance from 27.9 pence to 28.1 pence to reflect the impact of the successful equity placing and Retail Park portfolio acquisition and you can find our usual guidance slides in the appendices to the presentation.

We were pleased to deliver positive like for like growth across the portfolio in the half and we expect strong performance to continue across our sectors.

On our Campuses like for like growth was 3.8%. Strong leasing ahead of ERV across all three of our London Campuses drove this performance where occupancy currently stands at 97%.

Retail and London Urban Logistics delivered 2% like for light growth in the half. Our Parks have performed particularly strongly in this period with occupiers continuing to expand into the format our Retail Park occupancy remains at 99%. On London Urban Logistics we continue to maintain full occupancy on the standing investments.

Keeping a firm grip on our costs is an important lever underpinning our earnings growth. Our EPRA cost ratio has reduced from 25.6% in 2022 to 15.3% today. We have remained disciplined on administrative expenses despite the recent inflationary environment, grown fee income through our existing and new joint venture partnerships whilst an improvement in rent collection post COVID has resulted in a strong net rental income margin. And going forward tightly managing our cost ratio is something that I know David will continue to focus on.

Moving on to NTA. Property valuations were marginally up in the first half of the year adding one pence to NTA. Strong Retail Park performance where values increased 5% offset moderate declines in Campuses and London Urban Logistics. Kelly will provide further detail on our valuations later.

Underlying profit less the dividend paid increased NTA by 4 pence which ended the period at 567 pence. Our total accounting return in the period was a positive 2.8%.

Turning now to our balance sheet which I'm pleased to say is in good shape and has allowed us to seize opportunities that we see in the market. I'll start with our key debt metrics on the right hand of the slide.

Post period end we completed an equity placing and Retail Park portfolio acquisition as well as a further £86m of disposals. Pro forma net debt stands at £3.5bn, LTV is 37.8% and net debt to EBITDA on a Group and proportionally consolidated basis are 7.4 and 8.6 times respectively.

We front-loaded acquisitions given inflecting markets and expect to continue to recycle capital out of non-core or mature assets.

We continue to have excellent liquidity with £1.6bn of undrawn facilities in cash and based on our current commitments in these facilities there's no requirement to refinance until early 2027.

We've completed close to £1.4bn of financing activity in the year to date. This included £930m of new unsecured RCFs and the extension of £450m of term loans and RCFs. The new bank - the new finance raised included a £730m syndicated RCF with a group of 14 banks in October which replaces a £525m RCF maturing in May 2025. This is in addition to nearly £1bn of financing activity completed in the previous six months.

In July following their annual review Fitch affirmed all our credit ratings including senior unsecured at A with stable outlook which we've held since 2018.

You're familiar with our capital allocation framework against which we've executed well in the period. The resilience of our balance sheet is of utmost importance, and it gives us the flexibility to invest in opportunities as they arise. We were pleased to have executed the disposal of non-core and mature assets earlier this year.

We acted with pace to redeploy these proceeds into Retail Parks at an attractive 7% net equivalent yield, protecting earnings and growing our Retail Park portfolio which now stands at 32% of our gross asset value.

We've all we also have an attractive development pipeline. In the period we committed to 2 Finsbury Avenue on signing the pre-let with Citadel representing one-third of the building and more recently we committed to the science and technology development at 1 Triton Square which is expected to deliver an IRR of over 30%.

We remain selective and disciplined in deploying capital into future acquisitions and developments.

The Retail Parks acquired with the proceeds of the £301m equity placing are expected to deliver double-digit ungeared IRRs given the attractive yield and strong rental growth prospects and are immediately accretive to earnings. On an annualised basis this transaction will increase underlying EPS by 0.4 pence or 1.6%.

The placing price was at a 3.6% discount to the undisturbed share price and a 26% discount to the September 2024 NTA reducing NTA per share by 11 pence. Given the strong returns we're seeing in this sector we expect to mitigate this dilution over time.

The transaction will also improve net debt to EBITDA by 0.3 times on both a Group and a proportionally consolidated basis. We're very pleased with the overall demand for the placing.

We're very focused on growing our business and our earnings. Like for like is a key driver of earnings growth and is supported by the strong supply demand fundamentals in our markets. Leasing our development pipeline is another key lever of earnings progression and the demand for our best-in-class space continues to remain strong in this area and is expected to deliver around 4.5 pence of EPS to FY29.

We'll also continue to recycle capital into opportunities that can integrate into the existing British Land platform at minimal incremental cost as you saw us execute with the earnings accretive Retail Park portfolio purchase in October.

This earnings growth along with potential capital growth supports our target of an 8 to 10% total accounting returns through the cycle.

In this half we've delivered positive earnings growth and been disciplined and decisive with capital allocation. We're confident in the future levers of growth in this business.

This is the last set of results I'll be delivering for British Land, and I'd like to say how much I've enjoyed working with you all. As I hand over to David, I'd like to wish him and the British Land team all the best for the future.

I'll now hand over to Kelly for a leasing and investment update.

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Leasing and Investment Update

Kelly Cleveland, Head of Real Estate and Investment
Thank you, Bhavesh and good morning everyone. I'll start today with valuations which are marginally up for the portfolio overall.

On our Campuses ERV was within guidance up 1.7% for the first half. Values are down 1.7% due to outward yield shift of 12 basis points, but the investment market recognises the strength of the occupational market and liquidity is returning in larger lot sizes.

The value of our Retail Park portfolio is up 5% that's due to inward yield shift of 22 basis points and strong ERV growth of 3.7% exceeding our full year guidance on an annualised basis.

In London Urban Logistics values were slightly down and ERV growth was 0.3% in the half. This is lower than you've seen recently due to a lack of lease events across the small standing investment portfolio. We're pleased that we've delivered ERV growth of 15% per annum over the last three years.

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Leasing performance on our Campuses is a reflection of strong demand across the market for best-in-class office space in core locations. While overall take-up in the quarter was down 8% on the 10-year average it was 8% ahead for space in core Central London.

Forward-looking indicators are also positive. Space under offer in the City is 25% ahead of the 10-year average and active demand across central London is 34% above average, 13 million square feet as you can see on the right.

So a really strong picture on the demand side. On the supply side vacancy continues to diverge between the best and the rest. For new or refurbished space in core Central London it's just 1.7% compared to 11% overall for the rest of Central London. And you can see on the right-hand chart the actual amounts of vacant new space in the City and West End are very low.

This is reflected in our excellent leasing performance with deals on nearly 960,000 square feet, 8.3% ahead of ERV. This includes the Citadel pre let at 2 Finsbury Avenue, A&O Shearman taking up their auction space at 1 Broadgate and Akin Gump at 155 Bishopsgate on floors we had taken back earlier in the year.

High demand continued into the second half with a further 296,000 square feet under offer at 1.4% ahead of ERV. This lower premium reflects a long-term lease to a strong covenant with annual CPI uplifts.

We also have 1.7 million square feet of active negotiations at very strong rents on just 0.9 million square feet of space.

Storey is a key component of our campus offer and in the first half we've done 20 deals on 77,000 square feet with occupancy above our 90% target.

Sustainability is a focus for the entire portfolio, and it gives us real competitive advantage on our Campuses. The proportion of our total portfolio with A or B rated EPCs has increased from 36% in 2022 to 64% today. We've spent a total of £19m to achieve this of which 60% is recovered so we're well within our original target of £100m. We also retained our five-star GRESB sustainability rating outperforming last year's scores for both standing investments and developments.

Moving on to Retail, Retail Parks continue to go from strength to strength. We completed over 300,000 square feet of leasing in the half, 7.4% ahead of ERV and we have a further 430,000 square feet under offer, 7.3% ahead of ERV.

We have significant demand from retailers expanding their footprint including discounters such as Aldi and Lidl, fashion retailers such as Primark and JD Sports and leading channel retailers such as M&S and Next.

We remain virtually full; we have 99% occupancy and had just 24 vacant units out of over a thousand at the end of September. Three quarters of these are now under offer or in negotiation.

Retail is not without its covenant risks but when retailers do go out of favour, we're able to get the space reoccupied in short order. Carpetright which went into administration in July is a great example. All the units are already assigned under offer or in negotiation.

Since we launched our strategy to buy Retail Parks, we've deployed £1.1bn at a yield of 7.1%. These acquisitions reflect our real competitive edge when it comes to underwriting and executing deals in this space. This comes down to our scale. We are the largest owner and operator of Retail Parks. They now account for 32% of our portfolio up from 15% in 2021. Provided we continue to see these returns this weighting will increase.

Turning now to Logistics we've built a pipeline of seven schemes covering 1.9 million square feet with a gross development value of £1.3bn. Logistics vacancy in London remains low especially for zone one and two Ultra Urban Logistics where it's just 0.2%. The sequencing of our schemes means that the first opportunities we'll deliver are located in these zones starting with Mandala Way and Verney Road in Southwark which Simon will talk about shortly.

We're also working out planning submission at Finsbury Square car park and considering a range of uses and occupiers at The Box in Paddington.

Our other schemes at Thurrock and Wembley have longer term development potential.

So to conclude, yields are stabilising and we're driving strong ERV growth across the portfolio. We benefit from tight supply in high demand sectors, and we continue to deploy capital into higher returning Retail Parks and world-class developments.

With that I'll hand back to Simon.

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Strategy and Outlook

Simon Carter, Chief Executive Officer
Thanks Kelly. I'm just going to provide a brief update on strategy, and I'll start with the Campuses.

As you know our Campuses are rich in amenities and they sit at major transport nodes so they're in the sweet spot of demand for best-in-class workspace. This is reflected in our very high customer retention rates, above market rental growth and high office utilisation. Office utilisation has returned to pre-pandemic levels in the middle of the week.

You heard from Kelly about the mismatch between the demand and supply of new space. This is most acute for headquarters workspace which is mainly what we provide on our Campuses. If you take the City for example, over the next four years based on a historic take-up we expect around 9 million square feet of demand for new and refurbished space. But supply looks like it will be less than 4 million square feet, so as you can see on the slide a shortfall of 5 million square feet.

It's obvious what this means. Rents are growing quickly especially at the super prime end of the market, buildings like 1 Broadgate or 2 Finsbury Avenue. For product like this rents have risen north of 10% since the Citadel deal.

It's worth flagging here that our reported ERV growth excludes our developments. As you can see from the slide Cushman and Wakefield are predicting further rental growth of around 8% per annum. This makes complete sense given the level of interest we have in 1 Appold Street which is about twice the amount of space available.

With this kind of dynamic we're pleased to be delivering almost 2 million square feet of high-quality space into the market over the next three years.

This slide shows we've maintained momentum on our developments and that's despite the challenges posed by COVID, supply chain disruption and inflation. I think it's striking that these are not computer-generated images, they're photos of our sites and newly delivered schemes.

And here's a photo of Canada Water. The placemaking is really beginning to take shape here. A new dock and striking boardwalk opened at the beginning of the month and our 50,000 square foot cultural hub opens in the spring operated by the team that brought London The Printworks.

We're seeing the pace of residential sales increase at the founding which completes in the middle of next year with 44 units sold at an average of £1,250 per square foot ahead of business plan levels. Workspace at The Dock Shed and 3 Deal Porter also completes around the same time and we're seeing good level of viewings and live negotiations.

We expect to benefit at Canada Water from the shortfall of new space in core Central London which is causing demand to ripple out to adjacent markets.

After a couple of years of subdued activity take up of new space in these markets has increased 67% this year and some big deals have recently gone under offer.

You may recall the Canada Water consent provides significant flexibility of over the mix of uses we can deliver enabling us to flex our plans for market conditions. The development economics are shifting in favour of residential so the next phases will probably include more of this and as you can see, we have significant scope to dial up the residential component.

We'll probably partner or sell some plots to house builders and student developers to benefit from their lower cost delivery models and to bring forward cash flow.

A key focus on our Campuses is science and technology. London is the leading city in Europe for artificial intelligence not far behind Boston. The bulk of activity in AI is happening in the Knowledge Quarter as businesses cluster around UCL and Imperial College's world-renowned computer science departments.

These businesses operate across a range of sectors from life sciences to health tech to digital marketing. But the common theme is the use of AI to accelerate innovation or productivity. McKinsey estimate that AI provides an opportunity for pharma companies to generate 60 to 80bn in additional value each year.

In the last 12 months we've agreed deals with 14 AI businesses including three unicorns and we've made good progress with our science and tech pipeline. We've committed to deliver a world-class innovation building at 1 Triton Square in partnership with Royal London Asset Management. We're fitting out 30,000 square feet of labs at 20 Triton Street with the Francis Crick Institute. We're on track to deliver the Optic in Cambridge early next year and are under offer on all the space at good rents and we've submitted planning for a 235,000 square feet scheme on the Botley Road in Oxford.

Moving now to Retail as you just heard from Kelly, we've been acquiring more Retail Parks that's because we really like the occupational fundamentals. We're seeing the strongest occupational market in over a decade. The affordability, accessibility and adaptability of these parks means a wide range of retailers are competing for space as you can see on the slide.

The increase in retailers costs due to the budget is likely to accelerate the shift from the high street and secondary shopping centres to this cost-efficient format and we have very high occupancy across the portfolio at 99%.

There's been virtually no new supply over the last 10 years, and it seems unlikely the picture will change given the restricted planning regime for out of town and values below replacement cost.

It's worth noting that Retail Parks make up just 8% of UK retail.

So these strong occupational fundamentals combined with attractive yields, limited capital expenditure requirements and liquid lot sizes make Retail Parks a conviction sector for us.

Now let's look at Logistics. As you heard earlier the fundamentals of London remain very compelling particularly in zones one and two. Our Mandela Way scheme in Southwark tops out later this month and completes in June. It really is a first-of-its-kind facility. It's set across four floors, serviced by five goods lifts large enough for a forklift and has three separate cargo bike lifts with ample loading space at ground level.

The scheme launched to the market in October and whilst its early days interest has been very broad it isn't just logistics companies that want this kind of space in Central London.

Last month we also received planning from Southwark for a sister scheme nearby in Verney Road so five out of seven schemes in the pipeline now have consent.

Turning now to the outlook there was clearly market volatility around the recent budget and US election but overall the UK macro backdrop feels supportive. The base rate is declining albeit perhaps more slowly than expected earlier in the year. Unemployment remains low and real wages are growing. Together with the strong occupational fundamentals you've heard about today this gives us confidence in our guidance of 3 to 5% rental growth across our portfolio.

Assuming medium-term interest rates do not increase materially from here we expect investment markets to continue to improve. We're already seeing good activity in Retail Parks, and we expect it to pick up for larger offices as the investment market responds to the very strong occupational market for best in class.

As we continue to implement our strategy successfully our priorities remain the same. On our Campuses we'll continue to recycle out of mature assets into super prime developments bringing in partners on these developments to accelerate delivery and share risk. We also plan to increase our exposure to science and tech given the growth trajectory of this sector. We will grow our Retail Park business if we can continue to invest at attractive yields and below replacement cost. And in Urban Logistics it's all about building out our attractive development pipeline and sourcing future opportunities.

So to conclude we're in markets with favourable supply demand dynamics. We create additional value through our development and asset management capabilities and with a portfolio yield over 6% strong rental growth prospects and development upside we're well placed to deliver attractive returns looking forward.

Thank you very much for listening. Bhavesh and Kelly will now join me on stage and we're happy to take any questions.

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Questions and Answers

Simon Carter, Chief Executive Officer
So we've got a hand up already straight away. Rob over to you. I think microphone on its way.

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Rob Jones, BNP Paribas Exane
Morning team. Just two quick ones. Kelly, Thurrock you talked about obviously in the London Urban Logistics portfolio states it's got longer term development potential. It's a consented scheme five of the seven are. Why longer-term development potential and not shorter-term development potential? Maybe that's a question linked to capital allocation for Bhavesh potentially as well.

And then Simon you talked about the potential to sell or likely to sell some of the Canada Water resi lands to UK house builders or other potential options to accelerate some of the cash flows for yourself. Do you have an estimate for the potential land say pricing as a percentage of GDV that you potentially achieve? Thanks.

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Simon Carter, Chief Executive Officer
Should I take that first one - that last one first on Canada Water. Not at this stage probably not going to share a level, but we are seeing a quite active market particularly from student developers at the moment. They're looking to deploy capital. It's been a very successful student location and also as you know a wider residential location. So yeah, land values look pretty favourable at the moment certainly ahead of where we would be on a book value basis.

Kelly, do you want to answer?

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Kelly Cleveland, Head of Real Estate and Investment
Yep sure. Thurrock it's an alternative use play. It's a Retail Park so we have the optionality about what we do with it. We're working through numbers and options, and we have the flexibility of timing there as well.

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Zachary Gauge, UBS
Morning everyone. So a couple of related questions from me. Firstly on the total accounting return you sort of came in at 2.8% you're targeting 8 to 10% so still a little bit below that but we've got yields flat. ERV is growing top end of guidance so obviously the missing piece is the development part which is negative rather than positive. I guess the question is what do you need to see in the market for the developments to start to add accretive value towards your total accounting return target?

And the second question more into the capital allocation. I don't think that you gave a total return number for your Shopping Centres but they're yielding 8.1%, 2.5% ERV growth and with some yield compression I'm guessing it's double digit. Do you still intend to recycle that capital out of Shopping Centres given the relatively attractive low risk returns and into your development pipeline or could you foresee yourself holding onto those assets whilst they continue to be earnings accretive?

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Simon Carter, Chief Executive Officer
Sure no thank you Zach. So on the total accounting return as you say 2.8% and just below the range that we're looking for really, annualised it gets into the range, but we would expect looking forward that returns will increase from here. This has been stable yields we've seen the rental growth come through I think that rental growth will continue to come through strongly. If you think where we are at the halfway point 2.5%, we're guiding to 3 to 5% and with stable yields that's going to start getting us towards the top end of our range.

You asked a specific question around development, so we saw the development values marginally down that was due to the pipeline actually and the runoff of income on that pipeline as buildings get ready for development. So buildings like Broadgate Tower which will show very strong returns - at the moment that's well into sort of double digits mid digits in terms of IRRs, very good profit on cost. And actually on the on-site developments they were positive return and particularly strong from the schemes that we've committed to since the adjustment in interest rates, the likes of 2 Finsbury Avenue.

So I really do believe they're going to be quite a nice sort of cherry on the top of the growth that you'll get from the yield, the ERV growth and then you've got the developments on top of that. So yeah, that would be the answer there.

And was there a second question sorry?

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Zachary Gauge, UBS
Capital allocation and selling out of Shopping Centres given the returns.

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Simon Carter, Chief Executive Officer
Sure, yeah on the Shopping Centres you're right they're performing well at the moment, yields are broadly stable you're collecting the - you're collecting the income there. No rush to recycle out of those. Longer term, we'll likely do so, as you know we've got a preference for the Retail Parks in the longer term it's just a tighter market occupationally, capital expenditures lower and

they're more liquid as assets. But very happy with the performance of those Shopping Centres at this point.

And a number of our shopping centres have lower capex requirements. So for example our Bath Shopping Centre is an open-air scheme and that really does have a much lower level of capital expenditure associated with it.

I've got one question over here.

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Sam Knott, Kolytics
Hi thanks for the presentation. Just two quick ones so firstly on the EPRA cost ratio it's obviously come down a lot, I just want to understand are there any one-off items in there or is that 15% level really something you'd target going forward?

And then secondly on the REITs and placing, just trying to understand when you were looking at different funding sources and given that you're trading at a discount obviously it's still potentially accretive, but how you compare that to maybe selling more of your mature assets what was the reason for going for the placing there?

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Bhavesh Mistry, Chief Financial Officer
Well I'll start with the EPRA cost ratio we're pleased with what we've done and where we're at. You know as I said in my speech we talk about administrative expenses and we continue to keep a grip of that, David's all over it already, our fees and we benefit from fees from our joint venture relationships, and you'll expect us to continue to keep a good close firm grip on that. It's a good driver of earnings and earnings matter for us.

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Simon Carter, Chief Executive Officer
And then I'll pick up the one on funding sources as you say for the Retail Parks that made a lot of sense. Looking forward it will really be about earnings accretion. So probably the next source of funding for Retail Parks will be recycling out of capital. That's more likely in the short term. But if we see good opportunities and we can get good earnings accretion is something we would look at again in the future.

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Adam Shapton, Green Street
Good morning. I guess related to the previous question, could you just talk about the outlook for net investment so there's lots of opportunity, obviously we've talked about scalable platform and Retail Parks, we can see the development pipeline committed and near term and medium. But you're also talking about selling mature assets, you're also talking about JVs obviously non-core sales - and the way most people are talking about the cycle we would expect you know a reasonable amount of net investment. But how does that look?

And I guess also how that would relate to admin expenses if you think about that scaled to the gross asset value rather than as an EPRA cost ratio? What's the outlook there on whatever time scale you feel comfortable saying.

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Simon Carter, Chief Executive Officer
Picking up your second part of your question there, it is certainly the case that the platform is very scalable. We saw that with the recent Retail Park acquisition and placing there was no incremental marginal cost, or very, very limited marginal cost of operating another £440m of assets. And so you know that's one of the drivers of EPRA cost ratio going down.

We do think in time British Land will be a bigger business and we'll continue to leverage the strength for that platform. We do that in a number of ways today, that's through growth, net investment as you described, but also by bringing in partners, we earn fees there, we share risk, we increase our returns. So that's a very compelling proposition as well.

At the moment in the short term focused on capital recycling, I think that's just good management of the portfolio. If we're selling assets and we're selling them at lower prospective returns than where we're reinvesting that's good. And as we know real estate has an element of depreciation and obsolescence and I think you do need to be active in that regard and we will continue to do that.

But as I say, look I think if the right opportunities are there, we can deliver earnings accretion in our strategic areas where we think there's very compelling fundamentals occupationally then that will absolutely look to grow the business.

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Adam Shapton, Green Street
Just one follow-up on the placing, I don’t know to what extent you can comment on this, but is it fair to say that your experience is that the market was prepared to support an earnings accretive Retail Park story with, you know yields above your implied yield today, that if you went out and said we want 500m quid to do a - you know to fund 2 Finsbury or whatever it might be that there's less appetite for that amongst your shareholders and potentially new shareholders?

Simon Carter, Chief Executive Officer
It's an interesting question, I mean there's sort of a little bit of subjectivity around it, but as you say there was certainly very strong support for what we did, there's the earnings accretion and as we said there's a bit of NAV dilution day one, but we're investing in a sector with some very strong return outlook and we expect to eat into that NAV dilution very quickly.

I think you know not speaking for my investors, but I suspect on developments it would be all about the yield on cost you could deliver. And there's certainly very strong support for us to continue to invest in developments like 2FA that's – I think 7.7% gross yield on cost, pre-let basis with very strong follow-on demand that feels like a good use of capital as well. It's certainly obviously an easier story and a better story when you get the earnings accretion right from day one. I think we all we all like that and that's why we really liked what we did.

Max Nimmo, Deutsche Numis
Hi morning thanks for the presentation, just a quick follow-up I guess related to the whole kind of capital allocation. You know Retail Parks at a third of the portfolio now given the outlook you know where would you feel comfortable kind of taking that to? And maybe just talk in terms of the context of your kind of view on where Urban Logistics can get to now as an overall proportion and should we you know still expect Campuses to be the majority of what you will do? Thanks.

Simon Carter, Chief Executive Officer
Kelly, do you want to pick up on the Retail Park point?

Kelly Cleveland, Head of Real Estate and Investment
Yeah, sure with the Retail Parks we'll continue scaling up, we'll continue buying as long as we see value there. The size of the market is not so much the limiting factor as the pricing, making sure we get the pricing returns that we need. So we're carrying on there where it's a more competitive market than when we set out on the strategy in 2021. So we're hunting where it's a bit less crowded that will tend to be bigger lot size assets where others are put off by the need for the debt or asset management and we actively want the asset management. So we'll keep going so long as the returns work and use our competitive advantages to keep buying.

Simon Carter, Chief Executive Officer
And on the Urban Logistics obviously today the portfolio is very small because it's sites for build out it's a development pipeline. Built out I think it's something like £1.3bn so crudely 15% of the portfolio. I think we'll continue to grow that. Very much as Kelly said on the Retail Parks it comes down to returns. If we can find the sites that will deliver IRRs, we target crudely sort of 15% and above on the Urban Logistics schemes, if we can hit those, we'll keep we'll keep going in that on that front.

. . . .

Jonathan Kownator, Goldman Sachs
Morning. What is the status of your discussions with large stakeholders both in the context of any potential disposals of large-scale assets, obviously some of the completed developments, perhaps JVs, but also JVs in terms of investments for development amongst others. Is there more appetite or - in the market?

. . . .

Simon Carter, Chief Executive Officer
I'd definitely say there's very good appetite for the sort of best-in-class stock that we're creating. You've seen and Kelly will build on this, in the investment market you've seen demand for development opportunities - value add opportunities. And it's now beginning to again sort of ripple out to more core assets. We've seen some players come into the market - I'm not going to be specific on the items we're looking at, but as we've sort of strongly hinted, we will continue to recycle bring in partners and you know we expect to see activity over the next six to twelve months. And I think there's good appetite for the type of schemes we're delivering.

Really the investment market is following what's happening in the occupational market. It's obviously been very, very quiet to date, but I think it's very clear to everyone now that the rents are growing very strongly for the best product. Whereas if you think 24 months ago people didn't have that visibility.

Kelly, I don't know if you want to add on what we've seen in terms of core money coming back.

. . . .

Kelly Cleveland, Head of Real Estate and Investment
Yeah, exactly as Simon says it's a definite change in terms of the willingness of the investor group to underwrite the kind of rental growth that we're seeing, the rents we're seeing, but also future rental growth that's a real change in my view from say 12 months ago, which is a good thing. And yeah, we're starting to see the buyer pool increase as well, so going beyond private equity into more institutional core type money.

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Jonathan Kownator, Goldman Sachs
As a follow-up does that mean that the people you're talking to are seeing active - I mean some of these have had said previously they wanted to reduce allocation to office, essentially that they were overexposed. So does that mean that they're rethinking those allocations or is it from players that just don't have so much exposure to begin with?

. . . .

Simon Carter, Chief Executive Officer
It's a mixture actually, I think some of the core capital Kelly's mentioning these are people that have always been active in the office market and now there's more visibility on rates and the occupational outlook they're putting their foot down again.

I have seen - private equities quite interesting - it wasn't so long ago I was - probably 18 months ago speaking to the head of Europe of big private equity and they're like we're probably not going to invest in offices for the foreseeable future. And now they're quite actively targeting offices and we've seen that across the piece. It's more the value-add opportunities the brown to greens, the development projects but they are underwriting some pretty strong rental growth there.

And then I think those people that were actively exiting sometimes that's for the denominator effect that's sort of stabilised now. But I think occupational market always drives the investment market and that that's good at the moment.

Look rates will move up and down and that might mean it takes a bit longer to come through but if we have these kinds of occupational markets investment demand is going to be back, I think.

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Jonathan Kownator, Goldman Sachs
Thank you.

. . . .

Celine Soo-Huynh, Barclays
Morning. Can I ask a question for David Walker if possible?

. . . .

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Simon Carter, Chief Executive Officer
Oh yeah you can, we'll get him a mic. You didn't know you'd be answering a question this morning David, did you?

. . . .

Celine Soo-Huynh, Barclays
So hi David, Simon reminded us Bhavesh is known for cost control, balance sheet control and I would say driving this company through a property downturn. So as you step into your new role as a CFO and values have stabilised or seem to have stabilised, what do you think your priority could be different from Bhavesh's? Thank you.

. . . .

David Walker, Incoming CFO
Sure no problem I think as Bhavesh alluded to that's something I've been focused on too. I've been the COO for the last three and a half years and prior to that Interim CFO so I've worked really very closely with Simon, Bhavesh and the rest of the team on delivering a lot of that, so expect more of the same in short.

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Simon Carter, Chief Executive Officer
Any other questions in the room? Oh second question or third question?

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Rob Jones, BNP Paribas Exane
Sorry just one quick follow-up. On our slide 21 which just talks about the strong operational momentum across Campuses, the space under offer obviously was only 1.4% ahead of ERV versus 8% for the leasing activity during the period. You touched on I guess potentially a lease that was done below ERV, but I wonder if we strip that out maybe the balance would be maybe more in line with the 8 during the period?

And secondly linked to that of the 1.7 million square feet in negotiations, of the part of that that maybe is in say advanced negotiations and therefore you've got a rental tone as part of that discussion, I wonder if that's now looking closer to the 8% ahead of ERVs versus more like the one? Or you know I guess the point is should we see this as not a trend in terms of a slowing of the rate of …?

. . . .

Simon Carter, Chief Executive Officer
Yeah, you shouldn't see it as a trend, but Kelly will explain.

. . . .

Kelly Cleveland, Head of Real Estate and Investment
Yeah, in terms of the under offers, as you say that that's due to one lease, it's not below ERV but it's very close to ERV so that drags it down a little bit.

There are also - there is a lot of momentum in the office leasing market and the under offers have been in play for a little bit longer than the advanced negotiations. So there is an element where the 1.7 million square foot in negotiations, it has more you know more up-to-date rental tone. But it is certainly supportive of rental growth.

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Simon Carter, Chief Executive Officer
All right second question's now all around that's good.

. . . .

Zachary Gauge, UBS
Hopefully just a quick one. You sort of talked earlier about buying more Retail Parks particularly of scale where you get a competitive advantage because your LTV is at 37.8% so there's not a huge amount of wriggle room assuming 40% is sort of the high watermark for that. You obviously got a sizable capex pipeline as well. Would you have a situation where obviously the market's moving quite quickly you know you get a large portfolio that you particularly like would you push the LTV above 40% to execute that in lieu of disposals coming through later, or is that 40% set in stone and you really would prefer not to breach that?

. . . .

Simon Carter, Chief Executive Officer
It's a range we like to stay within that range and that's what you've seen us do pretty successfully over the last two three years. We do have some disposals in hand so if there are those opportunities in the Retail Park space, I think we would be able to take advantage of those. I don't know Bhavesh if you'd add anything.

. . . .

Bhavesh Mistry, Chief Financial Officer
Exactly that, we've been very active in recycling capital you've seen us do it post period end where we've had another nearly £90m of disposals and it's a very active part of what we do. And

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we try to balance both where we deploy but also where we recycle. And you know the balance sheet has been well managed over a difficult period and we've kept within the 30 to 40, trying to keep our net debt to EBITDA below 8 and we're still within those parameters and we'll continue to sort of navigate our business to those parameters.

. . . .

Tim Leckie, Panmure Liberum
Hi. Since you guys are very clearly believing in the strength of the prime London office rental market, can you make some comments please on how that might impact your pre-letting strategy. Are you willing to get more tougher with tenants, push the negotiations further to completion to capture that?

And then a follow-up what does it mean for the rest of the portfolio, you'll have some newer stuff some older stuff. Can you talk to us about how you're seeing re-lettings they've been dragged up are you seeing growth elsewhere or is it just that top tier stuff?

. . . .

Simon Carter, Chief Executive Officer
Morning Tim you can ask some more questions like that. Yeah absolutely, I mean this is about there's conversations on 2 Finsbury Avenue and as a as an organisation we're seeing that rents are moving up and you know we're looking to capitalise that. And there is a question about how quickly you lease the space, given that trajectory we've shown, and we do think it will continue given that that shortfall.

To some extent you've got to take a balanced risk management approach and yeah getting a large pre-let at a rent ahead of ERV is normally a pretty good thing and we don't try to game it too much. But it certainly feels like it's a market that's moving in our favour which is a good thing to do.

And then you asked about the other buildings and Kelly I don't know if you want to touch on where we've been upgrading space and we're doing well second-hand space that's upgraded is getting good rents.

. . . .

Kelly Cleveland, Head of Real Estate and Investment
Sure - yeah, we're finding that the rental tone that's coming through from new developments is - we're also seeing that with refurbishments, we're getting some good - we've got some good discussions in hand and things progressing nicely.

. . . .

Tim Leckie, Panmure Liberum
Like going from what to what - like you know getting some more concrete numbers, if possible, is it 60 to 70 – is it 70 to 90 and we need these rents to move on from that low yield – the more concrete you can ...

. . . .

Simon Carter, Chief Executive Officer
Yeah, I mean we've seen on one deal in particular it involved a bit of capex to go into it because the demand is strongest at the top, you know these are buildings that have been occupied for 25-30 years there's some capital expenditure to go into it. But when you factor in the value and the capital expenditure, you're getting good returns and you're seeing rents move on materially. So might have been £60 rents that have been there for a while and you're moving them on to the £80s. And actually you know that's a pretty good - that's a pretty good return profile and a bit beyond that.

It really does come down to what we focused on, Campuses we've got that amenity, the transport, all the key ingredients. So if you can deliver the very high-quality product then you can get paid well for it. But you know you're picking out a little bit of something that we are very cognisant of. There is depreciation and obsolescence in offices, and you need to be careful that once you've developed you exit at the appropriate point or you're very confident that you can get very good returns at the end of a 15-20 year lease. So something we spend a lot of time thinking about and why we've been more active capital recyclers over the last sort of three or four years.

Any other questions? Ah one more.

. . . .

Zachary Gauge, UBS
Are you able to comment on the level of capex that you had to spend on that piece?

. . . .

Simon Carter, Chief Executive Officer
Yeah, on that deal it was about £300 a square foot of capex. So and that includes what you would have spent on Cat A as well so your Cat A would have been sort of 80 to 90 typically so there's a little bit more beyond that. And we're often taking the opportunity to upgrade end-of-trip facilities sustainability credentials.

Great I don't know if we've got any questions on the line at all or on the webcast.

. . . .

Telephone Operator
Yes, to ask a question please press *1 on your telephone keypad now, if you change your mind please press * followed by 2. When preparing to ask your question please ensure your device is unmuted locally.

We have a question from Vinessi Iliev (?) of Kempen. Vinessi (?) please go ahead.

. . . .

Ventsi Illiev, Kempen
Hi good morning, thank you for the presentation. Two quick questions from my side. On the Retail Parks of course you're signing ahead of ERV, but are you now also signing ahead of previous passing rent?

And second on Norton Folgate of course it's only been recently delivered but the pre-led is at 50 - could you just highlight how negotiations are going and just overall demand. And are you just speaking rents or - yes that's it thanks.

. . . .

Simon Carter, Chief Executive Officer
Sure no thank you for those questions, I'll take the first one on Retail Parks so in the period we were still a little bit behind previous passing rent, I think it was sort of 6% that kind of order of magnitude. But what we have seen is if you go back, we started this period maybe two three years ago with a 20% over rent and actually despite that we've managed to generate like for like growth in each period. That was initially growing occupancy and now we're seeing that that over rent has basically burnt through. So looking forward we will be doing more and deals above previous passing rent.

It's a bit lumpy sometimes there's an old legacy lease that you've got where it might be 20 to 30% over rented because it hasn't come up for renewal for a long time. But the market is certainly moving positively there. And then Kelly if you want to pick up on Norton Folgate.

. . . .

Kelly Cleveland, Head of Real Estate and Investment
Yeah sure, Norton Folgate we're 50% let, you're used to seeing us 97% let at PC, but that's a very different void profile that's for big floor plates big buildings and with Norton Folgate you know nobody's going to sign up to a 10,000 square foot letting three years in advance of PC. It's just a different void profile.

We're well within our void assumptions and as you say we just finished fitting at the beginning of summer. Viewings are ramping up and we have five deals in hand at the moment. They're the kind of occupiers that want to see and feel - you know get in and see what they're - and see the space. So that's why we're seeing things ramp up now that we've fitted it out.

. . . .

Simon Carter, Chief Executive Officer
If anyone has five minutes after this go and have a look across the road, the scheme looks really, really good we're really pleased with it, so it looks wonderful.

Any other questions on the line at all?

. . . .

Telephone Operator
We currently have no further questions on the conference line.

. . . .

Simon Carter, Chief Executive Officer
Any webcast questions Lizzie.

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Moderator, Lizzie King
Yes, two questions um the first is from Miranda Cockburn at Berenberg. Can you talk a little bit more about your Homebase exposure?

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Simon Carter, Chief Executive Officer
Yeah, very happy to do that, Kelly do you want to take that one.

. . . .

Kelly Cleveland, Head of Real Estate and Investment
Sure so Homebase' we had six at the start of the period we sold four in the period before the administration, ahead of book value and at sub 6% equiv yields. And we sold those to retailers which is - you know that's demonstrative of the depth of demand from retailers for the format.

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That leaves us with two, one we have agreed a lease with somebody else to take the space and then the other we are in conversation with a number of different occupiers on it. So we're pretty pleased with them we've landed on Homebase'.

. . . .

Moderator, Lizzie King
Thank you. And two questions from Bjorn Zietsman at Panmure Liberum.

Do you think retailer affordability is likely to come under pressure with the rise in employer NI and business rates?

And sort of linked to that many larger retailers are now warning of this pressure to operating profits, does this reverse the positive ERV trend you are seeing in Parks?

. . . .

Simon Carter, Chief Executive Officer
We don't think it does, you know I mentioned it briefly in my prepared remarks. I think it comes down to the format - the Retail Park format the affordability of the space. You know we've seen this shift from less efficient formats, so that's the high street, it's secondary shopping centres and you're seeing them move to Retail Parks. And what we're seeing, and you know Kelly has just given a prime example, you know that's a very, very recent example, retailers taking space, buying units ahead of potentially an administration, where they might be able to get hold of the unit for a new store. So the market is very, very tight.

I mean obviously retailers have got an additional cost and it's a headwind for them, but if the incremental store delivers incremental profits that's something that can offset that. So I think as long as we see um OCRs in the right place, we're 9%, and we see incremental stores adding to profit that's a good place to be and I think is supportive of the theme. So we remain with our ERV guidance of 3 to 5%.

Any other questions Lizzie or was that it?

. . . .

Moderator, Lizzie King
That's it.

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Simon Carter, Chief Executive Officer
Great. Okay, well thank you everyone for your time. We really appreciate you coming along. See some of you on the road shortly, thanks a lot.

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END

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