DERWENT
LONDON

8 April 2020

**Derwent London plc** (“Derwent London” / “the Group”)
## FIRST QUARTER BUSINESS, AGM AND COVID-19 UPDATE

### SUMMARY

### Q1 business update

- Statement brought forward from 7 May 2020
- New lettings of £2.1m on 52,700 sq ft in Q1 2020, 4.6% above December 2019 ERV
- Completed the sale of 40 Chancery Lane WC2 for £121.3m
- Completed the acquisition of Blue Star House, Brixton SW9 for £38.1m
- EPRA vacancy rate of 1.0%
- Robust finances:
  - LTV of 16.2%[1] with cash and undrawn facilities of £554m
  - Rents and values could fall 70% and 71% respectively without breaching covenants[1]
  - Final dividend of 51.45p per share will be paid in cash on 5 June 2020

### AGM

- AGM on 15 May 2020:
  - Venue changed to 25 Savile Row W1 and to be held as a closed meeting

### COVID-19 update

- At the moment, the health and wellbeing of our employees, occupiers and other stakeholders is our top priority
- All employees below the Board are on full salaries and benefits and none have been furloughed
- Increased support for our occupiers most in need and our communities
- 73% of March Quarter Day rents received, plus 6% now paying on a monthly basis and another 12% on agreed payment plans
- Developments:
  - Construction temporarily paused at our three major sites
  - Optionality over timing of future pipeline
- ERV[2], property yield and EPRA earnings guidance withdrawn until greater visibility returns

[1] Based on December 2019 property values
[2] Estimated Rental Value

**Paul Williams, Chief Executive of Derwent London, said:**

*"Derwent London has always focused on outstanding quality, a long-term view and close relationships with occupiers, business partners and communities. At challenging times like this, they are as important as ever. Derwent London is well placed to meet its commitments to invest in its longer-term objectives and to balance its stakeholder responsibilities. After careful consideration, we believe it is appropriate we pay the final dividend. I am particularly grateful to the Derwent London team for their hard work and the way they are collaborating, both together and with others."*

**For further information, please contact:**

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## BACKGROUND

With unprecedented global disruption being caused by COVID-19, Derwent London is bringing forward its Q1 business update, originally due for release on 7 May 2020, to 8 April 2020 and providing further information in relation to its responses to the pandemic and the impact on the business. Also provided below is an update on the forthcoming AGM.

Following a positive start to the year, more recently the Group's main focus has been on responding to the outbreak and lockdown, particularly the health and wellbeing of our staff, occupiers, supply chain, local communities and other stakeholders. As explained in Paul Williams' message published on our website on 20 March 2020, we have also been ensuring that our employees have the right technology and resources to work as effectively as possible from home, and that our communications with all stakeholders are as transparent and informative as they can be.

Our high quality portfolio is focused on central London offices, which make up 90% of our income, with 10% from retail, restaurants and leisure. While the latter sectors have suffered most, other businesses have also seen significant impacts. The Group has always been customer focused and we have been working together with our occupiers on a case by case basis to understand their position and to provide support where it is needed most.

## WHAT WE HAVE DONE SO FAR

Most of our employees have been working from home since 18 March 2020. We are missing our office environment but the success of homeworking so far is evidence of the resilience and adaptability of our people, backed up by our IT team. All of our employees below the Board continue to receive their full salaries and benefits and none have been furloughed.

We continue to manage our office buildings to provide access where required, as well as additional cleaning and security together with essential plant maintenance. However, as physical occupation rates are low, we have been scaling down services where we can to minimise running costs.

The Group is focussed on ensuring we have strong liquidity whilst working alongside our tenants, particularly those most in need.

We have a flexible development pipeline and, where appropriate, we have deferred expenditure and decisions on future projects while keeping very close to our contractors, professional consultants and the project teams on site.

In order to provide additional assistance where the need is greatest, we have increased our 2019 commitment to charitable donations and sponsorships by 81% to £696,000. This includes £186,000 to be paid for by waivers of 20% of base salaries or fees from each of Derwent London plc's Directors for a three month period, effective from 1 April 2020. Of this sum, we have initially allocated £20,000 to fund the purchase of commercial fridges to store food for NHS workers at University College Hospital and a further £166,000 will be distributed shortly. In addition, we have been working with the relevant agencies to provide carparking and accommodation to NHS staff in central London.

As announced at the year end, we remain committed to our plans to be net zero carbon by 2030 and are finalising our 2019 Responsibility Report, due to be published in April 2020.

**OPERATIONS**

Earlier in the year, Derwent London's business was proceeding to plan with renewed expectation of rental growth in a central London office market characterised by low vacancy rates and strong customer demand. Letting enquiries were good and, with little space immediately available, in Q1 2020 we achieved another £2.1m of rent on new lettings totalling 52,700 sq ft at 4.6% above December 2019 ERV. At 31 March 2020 our EPRA vacancy rate was 1.0%. During the period we completed the sale of 40 Chancery Lane WC2 for a headline price of £121.3m and the acquisition of Blue Star House, Brixton SW9 for £38.1m, before costs. Both transactions had been announced previously.

As with other landlords, we have seen the first economic impacts of the lockdown on our tenants in the March Quarter Day collection rates. We have been dealing with this on a case by case basis, supporting them as appropriate through converting some quarterly payments in advance to monthly ones and, in some cases, rents due will be collected over longer periods. We have also agreed rent-free periods of three months for some retail, restaurant and leisure occupiers.

In total, we have so far received 73% of rents due on the Quarter Day with another 6% now being received on a monthly basis in May and June. Therefore, at least 79% of total rents are expected within the quarter. In addition, we have agreed payment plans on another 12% of rents payable with the balance either outstanding or subject to rent-free periods. Details are given in the table below.

**March 2020 Quarter Day rent**

| Current position | Office | Retail / Hospitality | Total | March 2019 |
|---|---|---|---|---|
| Received | 78% | 20% | **73%** | 98% |
| Monthly payments | 6% | 2% | **6%** | - |
| Payment plans | 11% | 23% | **12%** | - |
| Outstanding | 5% | 12% | **5%** | 2% |
| Rent free granted | - | 43% | **4%** | - |
| **Total** | **100%** | **100%** | **100%** | 100% |
| | **£39.5m** | **£3.8m** | **£43.3m** | £37.4m |

We have three major developments under construction totalling 790,000 sq ft which are 72% pre-let (see Appendix). The current situation has meant that the contractors have temporarily halted work on site; 80 Charlotte Street was closed on 24 March, just a few days before it was due to reach practical completion. Depending on how long the site remains inactive, this will delay the rent start date. The loss of rent will be partially offset by capitalised interest. We are in daily contact with our contractor, Multiplex, and remain close to our two main pre-let tenants.

The other two schemes are not due for completion until 2022 with some off-site fabrication and design work continuing at Soho Place. Again, we have frequent updates with both contractors and our future tenants.

At the time of our annual results announcement on 25 February 2020, we commented that we were appraising a number of schemes which, in aggregate, could see us commence another c.600,000 sq ft of development in 2021. We still have the potential to do this in whole or in part, but we have considerable flexibility in relation to each scheme and could run on much of the income instead. This optionality is a strength of our business model and the Group does not have to commit to these schemes until much later in the year once we have better clarity on the outlook.

**FINANCIAL POSITION**

Our financial position remains very strong with a particular focus on lender relationships, another cornerstone of our business model, and liquidity. Having refinanced £875m of debt in 2019, our weighted average unexpired term was 7.2 years at 31 March 2020 and we have no debt maturities until 2022.

Net debt fell from £981.6m in December 2019 to £939.4m at 31 March 2020. The decrease was due mainly to the net proceeds received in February 2020 of £120.1m from the sale of 40 Chancery Lane WC2. Capital expenditure spent on projects during Q1 was £43.4m and we also acquired Blue Star House SW9 for £38.1m.

As a result, our loan-to-value ratio has fallen slightly to 16.2% at 31 March 2020 based off year end property valuations and we estimate that our net asset value (“NAV”) gearing was 20.8%. Interest cover was 4.8 times for the three month period to 31 March 2020 and we had cash and undrawn facilities of £554m at the quarter end. Our main debt covenants are NAV gearing of 145% and interest cover of 1.45 times and, based off our December 2019 valuation, we estimate values could fall up to 71% and income fall by 70% before we would breach our covenants. The weighted average interest rate on our debt at 31 March 2020 was 3.43% on an IFRS basis or 3.30% based on the cash coupon payable on the 2025 convertible bonds.

**GUIDANCE**

In our 2020 outlook issued in February, we stated that we thought the central London office market was well-positioned and expected our portfolio to see ERV growth of between +1% to +4% with property yields to tighten. This was backed up by activity earlier in the year. In the light of recent events, we are withdrawing this guidance until we have greater clarity on the economic outlook, vacancy rates, the financial health of our tenants and the condition of the wider property market. Given the ongoing uncertainty and the lack of clarity over the duration of this pandemic, it is also too early to give meaningful guidance in relation to the impact on 2020 EPRA earnings or cash receipts. Future dividends will remain under review.

**AGM**

In response to the COVID-19 outbreak, and in line with the related public health guidance and legislation issued by the UK Government, the Board has determined that it is no longer practical to hold the AGM at the original venue disclosed in the 2019 Annual Report.

The AGM will now be held at our registered office, 25 Savile Row, London W1S 2ER, on Friday 15 May 2020 starting at 10.30am.

At the time of this announcement, the UK Government has prohibited public gatherings of more than two people and non-essential travel, save in certain limited circumstances. In light of these measures, the AGM this year will be run as a closed meeting.

Shareholders will not be able to attend in person. Shareholders should vote in advance either online or by using the Form of Proxy that will be enclosed with the Notice of AGM.

We will aim to provide conference call facilities to enable shareholders to follow the proceedings and to ask questions of the Board remotely. As the situation is constantly evolving, the UK Government may change current restrictions or implement further measures relating to the holding of general meetings during the affected period. Any changes to the AGM will be communicated to shareholders in advance of the AGM on the Investors section of our website at www.derwentlondon.com and, where appropriate, by RNS announcement.

Notwithstanding these alterations to our usual AGM format, we remain committed to engaging with our shareholders. We hope to hold further shareholder events later in the year when it is safe to do so.

**2019 FINAL DIVIDEND**

In the light of the COVID-19 outbreak, the Board has given careful consideration to our obligations to all our stakeholders. With our strong liquidity and financial position and the further cash received this year on the sale of 40 Chancery Lane, we believe it is appropriate to pay the 2019 final dividend of 51.45p per share which will be paid on 5 June 2020 to shareholders on the register of members at 1 May 2020, subject to shareholder approval at the AGM. Payment of the final dividend will cost £57.6m.

For ease of reference, key information on the 2019 final dividend is provided below:

- Ex-dividend date: 30 April 2020
- Record date: 1 May 2020
- Payment date: 5 June 2020
- 34.45p will be paid as a Property Income Distribution (PID) and the balance of 17.00p as a conventional dividend.

In our preliminary announcement released on 25 February 2020, the Board's intention was to offer a scrip dividend alternative for the 2019 final dividend. Since 25 February 2020, the Company's share price has been volatile and, more recently, has been trading below Net Asset Value. The Board of Directors has determined that it is no longer in our shareholders' best interests to offer a scrip dividend alternative for the 2019 final dividend and the dividend will continue to be paid in cash.

## APPENDIX: MAJOR DEVELOPMENTS PIPELINE

| Property | Area sq ft | Capex to complete £m[1] | Comment |
|---|---|---|---|
| **On-site projects** | | | |
| 80 Charlotte Street W1 | 380,000 | 40 | 321,000 sq ft offices, 45,000 sq ft residential and 14,000 sq ft retail – 90% pre-let / pre-sold overall |
| Soho Place W1 | 285,000 | 233[3] | 209,000 sq ft offices, 36,000 sq ft retail and 40,000 sq ft theatre – 76% commercial space pre-let[4] |
| The Featherstone Building EC1 | 125,000 | 61 | 110,000 sq ft offices, 13,000 sq ft workspaces and 2,000 sq ft retail |
| | **790,000** | **334** | |
| **Major planning consents** | | | |
| 19-35 Baker Street W1 | 293,000[2] | | 206,000 sq ft offices, 52,000 sq ft residential and 35,000 sq ft retail |
| Holden House W1 | 150,000 | | Retail flagship or retail and office scheme |
| | **443,000** | | |
| **Total** | **1,233,000** | | |

[1] As at 31 December 2019 [2] Total area - Derwent London currently has a 55% share of the joint venture
[3] Includes remaining site acquisition cost and profit share to Crossrail [4] In addition the 40,000 sq ft theatre is pre-let

**Notes to editors**

**Derwent London plc**

Derwent London plc owns 82 buildings in a commercial real estate portfolio predominantly in central London valued at £5.5 billion (including joint ventures) as at 31 December 2019, making it the largest London-focused real estate investment trust (REIT).

Our experienced team has a long track record of creating value throughout the property cycle by regenerating our buildings via development or refurbishment, effective asset management and capital recycling.

We typically acquire central London properties off-market with low capital values and modest rents in improving locations, most of which are either in the West End or the Tech Belt. We capitalise on the unique qualities of each of our properties – taking a fresh approach to the regeneration of every building with a focus on anticipating tenant requirements and an emphasis on design.

Reflecting and supporting our long-term success, the business has a strong balance sheet with modest leverage, a robust income stream and flexible financing.

As part of our commitment to lead the industry in mitigating climate change, in October 2019, Derwent London became the first UK REIT to sign a Green Revolving Credit Facility. At the same time, we also launched our Green Finance Framework and signed the Better Buildings Partnership's climate change commitment. The Group is a member of the 'RE100' which recognises Derwent London as an influential company, committed to 100% renewable power by purchasing renewable energy, a key step in becoming a net zero carbon business. Derwent London is one of only a few property companies worldwide to have science-based carbon targets validated by the Science Based Targets initiative (SBTi).

Landmark schemes in our 5.6 million sq ft portfolio include Brunel Building W2, White Collar Factory EC1, Angel Building EC1, 1-2 Stephen Street W1, Horseferry House SW1 and Tea Building E1.

In 2019, the Group won several awards including EG Offices Company of the Year, the CoStar West End Deal of the Year for Brunel Building, Westminster Business Council's Best Achievement in Sustainability award and topped the real estate sector and was placed ninth overall in the Management Today 2019 awards for 'Britain's Most Admired Companies'.  In 2013 the Company launched a voluntary Community Fund and has to date supported 95 community projects in the West End and the Tech Belt.

The Company is a public limited company, which is listed on the London Stock Exchange and incorporated and domiciled in the UK.  The address of its registered office is 25 Savile Row, London, W1S 2ER.

For further information see www.derwentlondon.com or follow us on Twitter at @derwentlondon

**Forward-looking statements**

This document contains certain forward-looking statements about the future outlook of Derwent London.  By their nature, any statements about future outlook involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future.  Actual results, performance or outcomes may differ materially from any results, performance or outcomes expressed or implied by such forward-looking statements.

No representation or warranty is given in relation to any forward-looking statements made by Derwent London, including as to their completeness or accuracy.  Derwent London does not undertake to update any forward-looking statements whether as a result of new information, future events or otherwise.  Nothing in this announcement should be construed as a profit forecast.