REFINITIV STREETEVENTS

PRELIMINARY TRANSCRIPT

SHB.L - Full Year 2020 Shaftesbury PLC Earnings Call - For Bondholders

EVENT DATE/TIME: DECEMBER 15, 2020 / 3:00PM GMT

CORPORATE PARTICIPANTS

Brian Bickell *Shaftesbury PLC - CEO & Executive Director*

Christopher Peter Alan Ward *Shaftesbury PLC - Finance Director & Executive Director*

Simon John Quayle *Shaftesbury PLC - Property Director & Executive Director*

Thomas James Chisnell Welton *Shaftesbury PLC - Property Director & Executive Director*

PRESENTATION

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Good morning, everybody, and welcome to this webcast presentation of Shaftesbury's 2020 annual results.

For those of you who don't know me, I'm Brian Bickell, I'm listen CEO of Shaftesbury, I'm joined today by Chris Ward, our Finance Director. Shortly, we'll be joined by my colleagues, Simon Quayle and Tom Welton, our property directors, who will join by audio for the Q&A session, which follows this presentation.

So today is the first time we've webcast live from the office. So I hope you will be with us in case there are any glitches this morning.

So for our agenda today, I will briefly set the scene for this very turbulent year and then hand over to Chris, who will run through our 2020 results and give you an overview of our financial position, and particularly post our November capital raise. I will then cover the outlook for the business and how we're positioning the business for 2021 and beyond with a particular section on the importance of sustainability, which is much to the floor, even though we are all rather focused on other matters at the moment. Chris and I will be sharing the presentation slides as we go through, and these will be available on our website once the presentation is finished.

At the end of the presentation, we will be inviting questions from the audience. And like the way we usually do these events, you can type your questions into the question box on your screen and any time during the presentation, and there will be a Q&A session at the end of the presentation, which your questions will be read out to the audience. And then answered by myself and my colleagues. We aim to finish the presentation today within the hour. So I apologize if we're unable to get to any questions you may have. But if we don't get around to addressing your questions, please don't hesitate to email me at brian.bickell@shaftesbury.uk, and I will respond by close of business today. I should also say that beyond the agenda you see in front of you, we will have a short video at the end of the presentation, which I hope you will remain online to watch, just to remind you what the West End has to offer.

So just really to set the scene and remind you about the West End and what this business is. The West End sits in the center of 1 of the world's great cities. Perhaps arguably, and perhaps I'm a little biased in saying it's probably the world's greatest and most popular city. Our ownership of 16 acres sits in the heart of the West End, close to Oxford Street, Regent Street and Lester Square.

Our 611 shops, restaurants, Cafés, bars and clubs, account for 2/3 of our rental value. Alongside that, we have around 400,000 square feet of offices and 622 apartments, which we rent out. They provide the other 1/3 of our income.

Like all city centers, lifeblood is the footfall -- excuse me, like all city centers of the world, Footfall is the lifeblood of the economy here. All city centers thrive on huge volumes of people. It gives them their buzz and their atmosphere, and it draws more activity. It's a self supporting virtuous circle. But of course, for the West End, probably the world's best city center destination, the current situation is felt quite acutely.

The West End's exceptional daily footfall, 7 days a week comes from its huge working population, the regular customers for our shops and France. The day visits from Londoners and people in the home counties. But of course, this is supplemented by domestic tourists coming to London and international travelers whether they come for business or leisure.

Like all city centers, the West End is heavily dependent on getting people in and out of this great location on public transport. And we shouldn't forget the importance of international travel. London's 5 airports make it the world's largest aviation hub, which is not surprising, really, bearing in mind, London is still the most visited city tourist destination for international travelers.

So London has a lot going forward, its prospects are great. But as we know, times have been rather unexpected and difficult this year. And we're going to be spending some time talking about that today.

So I've managed to spend several minutes minutes now speaking without mentioning COVID-19 or the panic, and I'm afraid, now we have to move on to the thing that's focused all of our minds.

Looking back over our year, it's worth reflecting that the first months, perhaps first 4 months of the year were relatively normal. I say, relatively normal. We were dealing with the political crisis, a general election and our exit from the world's largest trading block. It was preoccupying everybody at the time, and we had it little knowledge of what lay ahead of us.

For us, COVID concerns were growing in February, as we saw issues around footfall and trading in Chinatown. And of course, that progressed to a total lockdown of the U.K. from late March. We -- that's been subject to gradual release of arrangements, lockdown arrangements as the summer progressed. But then as we've gone into autumn, we've seen the reimposition of further restrictions, so around social distance in trading capacity et cetera.

So for our shops and hospitality businesses, we've seen some -- now some 4 months of total lockdown and 5.5 months of very limited trading, nothing like the volumes our business would have expected to have seen during that period.

And of course, with last night's announcement, London finds itself now subject to Tier 3 restrictions, which is effectively closing down hospitality once again. Throughout this period, there has been considerable government support, which is welcome. But really, the pressure on businesses now is quite severe. It's affecting their prospects, their viability and the confidence of the people who run those businesses to weather the storm.

From the outset, Shaftesbury has recognized the importance of supporting its tenants through this difficult period. The community around us as well is important to us. So we've got the extra mile to make sure our businesses can survive this storm and to come out on the fast side, on the recovery side, ready to face a future, which may be somewhat different. That's been our focus all the way through and continues to be.

So at that point now, I'm going to hand over to Chris, who's going to talk you through the things we've been doing to support our tenants and how that's affected the business. Chris?

Christopher Peter Alan Ward - *Shaftesbury PLC - Finance Director & Executive Director*

Thank you, Brian. Good morning, everybody. So I'm going to just give you a bit of context. I'm going to talk about data to the 30th of September, not further than that, Brian is going to do more forward-looking piece after I finish. So I'm really going to give you some context for how the results have been impacted over the last 6 months, basically.

And you can really see it in a number of statistics, rent collection, vacancy, letting activity, and ERV. So I'm just going to flip through these very quickly.

Rent collection. For the 6 months to September, we collected 53% of our rents. And as you can see from the chart, the proportion we were receiving in each of the uses was very different. In fact, those that were more heavily reliant on footfall paid less. And if you think about hospitality, having to stop start pretty tricky for them.

I would say that the numbers, the 53% is slightly flattered by the use of rent deposits, which was about 12% of the 53%. But that's kind of where we are. And that -- you'll see how that knocks on to the profit and loss account shortly for income statement these days.

Letting activity. We've seen a significant fall in leasing activity this year, and particularly in commercial, which is hardly surprising. And this is all about confidence and people just wanting to see some visibility over sort of footfall and get the confidence in that and for the mist to disappear particularly in our second half.

So the first half was a touch down on last year. And no surprise as Brian said there was lots of uncertainty on way up to December, Brexit and election and everything else. And actually, then it started to sort of grow again in January and then February, then on, we started seeing the impact. And you can really see it, actually in our second half of the year, we only had GBP 2.1 million of commercial lettings, which is extraordinary small amount.

So this is really about demand at the moment and its confidence. And then if we look at vacancy, sort of flip side of this, vacancies increased to unprecedented levels. And this is not just in our portfolio, this is across the West End. And I mean, we've moved up to, we at 10.2% at the end of September. It was across all uses. And so what you're really looking at here is you've got space, you got space all around the West End that's available. And that's a bit of a challenge. But it's obviously something that we're doing everything we can to manage through our support.

Lots of reasons. You've got tenancies ending and people just not renewing because they don't know where the footfall is going to be. We haven't -- hasn't actually been that much in the way of administration, CVAs, liquidations, some, but not very much.

We've had schemes finishing from our development pipeline. And of course, they're just coming into the EPRA vacancy pot. That would be great. One once we get some footfall back, I'm sure demand will pick up, that will start to add to earnings.

And then if you look at that, that sort of imbalance at the moment between supply and demand, the impact of that is on ERVs. And our ERVs have been -- we've shown great resilience over the years. There was a over GFC, we pretty much were level we had 1 year when it was down a bit. But actually, year in, year out, ERV growth pretty steady, steady. But at the moment, at the end of September, that sort of imbalance of supply and demand has pushed ERVs down 6.6%.

So look, context is established, that's what's behind the numbers. So let's look at the numbers. Okay. So I suppose the key thing, if we go to the profit and loss account first, net property income is down 24%. And I will see in a minute. But a lot of that is about provisions and charges for what was now called expected credit losses, bad and doubtful debts in old money. And also impairments of other balances like lease incentive balances.

EPRA earnings, GBP 29.4 million, I mean it's kind of just under half of what last year's was. And when you look at what -- how that's profiled in the year, 85% of that was in the first half. And we didn't really have the problems. If you think lockdown 1 started about a week before our half year results. And we started to see some of these factors in our half year results, expected credit losses and impairments. But actually, it's really in the second half where you see it, as you would expect.

We've talked about rent collection. And if we look at the balance sheet, the portfolio value is down 18%, Longmartin, not far behind. That's had a really big impact, obviously on the IFRS earnings. NAV, down 24%. Pro forma for the capital raise -- sorry, I should say, GBP 7.43 and pro forma for the capital raise GBP 6.72. And our loan-to-value ratio had increased, it had gone up from something like 24% last year to over 31% at September, pro forma after the capital raise, 22%.

So looking at the earnings, and this is what I was talking about, the hit, and you can really see how things will happen here. Actually its pretty small apart from 2 big ones, which are provisions and charges for expected credit losses. This is tenants not being able to pay. And we've been supporting our tenants, deferring rents. Some just haven't paid. But even where we've deferred rents, we've had to think about, are we actually realistically going to be to recover those. And of course, we have to take a cautious prudent view in our accounts.

Impairment charges really is about lease incentives in the main, and this is then looking at what's the likelihood of tenant surviving throughout the whole term of their lease. They're big charges.

The rental income, I mean, this is quite, I suppose, for a non accountant, actually (inaudible) is quite surprising. But rental income is only down a tiny bit because where we waive rent, and we've done quite a lot of that in the year, as you can see from the rent collections slide, you to me, you just haven't got rent, but under the accounting, you have to accrue rent as effectively as a lease incentive. So really, you don't see the impact that much in the rental income line. You really see it in the box that's got the orange dots around it, particularly expected credit losses.

Other things, their property costs are a bit lower, less marketing activity, less letting activity. Admin costs were a bit lower. Mainly because of remuneration, lower directors remuneration. Finance costs were up just a touch because we -- in March, you may recall, we drew down on our revolving credit facilities, thinking where there may be liquidity crisis coming. And of course, as we draw down on those as a cost associated with that. We'll come back to those shortly. And Longmartin down, effectively the same issues, as you can see in the rest of the chart, it's just much smaller. It's only 4% of our portfolio.

So what are we doing in investment? I mean, obviously, we had a fairly active pipeline of schemes on site. I mean COVID did create some delays. I mean, not massive, but delays. We've got 200,000 square foot of space on site, nearly 80,000 of that is Broadwick Street -- 72 Broadwick Street, which is the picture you can see on the screen.

We've got a number of schemes completing in the first half of this year. So actually, that pipeline and that scheme pot is beginning to wind down, and that will all flow into are vacancy. So we'll have to see where demand is. So we may see an increase in our EPRA vacancy in the short term.

So just looking at Broadwick Street, which is our biggest scheme. I mean, this is, let's say, nearly 80,000 square feet. We are -- well, actually, it doesn't quite look like that at the moment. That's a CGI. It's got some really nice vinyls on it with lots of really positive messages, and it all looks very good. But so we've pre-let 48% of the commercial space to an American gym operator. Those discussions, discussions over the design and everything are ongoing.

We had -- there's an office floor. We had that under offer unfortunately, that fell away. I can't remember when a month ago or so. Actually got some really encouraging interest in that space, which is good news. We carry on, and that's starting to complete in phases from the summer next year.

We have -- we've bought 3 buildings in the year. It's 13 -- just over GBP 13 million. One in Kingly Street. It's great. It's (technical difficulty) to fill in between 2 units. We own. It's 1 of the only things we don't own in the whole Carnaby base that we didn't own in the whole Carnaby, and it creates all sorts of opportunities for us and 2 buildings in Berwick Street, which is very useful. And since the year-end, we bought 1 in 7 dials as well.

And then just turning -- talking to Berwick Street Street. 90 to 104 Berwick Street, as you may recall, we had that -- we contracted to buy that at the end of the development. The development was, well, it was the longest site (technical difficulty) the vendor failed to meet their obligations. We are not contracted. We'll carry on discussions with and we'll see where it goes, but they've got a number of conditions they would need to before we would buy that. None of which is certain.

So let's look at the big numbers. The portfolio, yes. So that's fallen quite significantly. It's almost GBP 700 million in the year. And the key features in that revaluation actually yield is the big one, and we'll run through this sort of bridge chart. This is all about investor sentiment. This is about having some visibility in near-term income. So as the mist starts to dissipate and you can sort of get some sort of sense of where your income is going to be because you're deploying capital without certainty over short-term income. So that's a pretty tricky equation, certainly for a lot of private investors. And also, there's the possibility you have to spend some money on the buildings as well at the moment to get them let.

So there's a number of reasons why investor sentiment has come off a little bit. And again, I'm talking about at September -- 30 September. But that had a GBP 370 million impact on our valuation.

In ERV, what we've talked about the demand and supply imbalance across the West End at the moment, and that's really what's driving that. So ERVs came off 6.6% and again, it's all about uncertainty. Everything comes back to footfall and spending.

On the residential, residential is kind of strange because we have 624 flats. And generally, we have 6 empty, maybe often less than that actually. At a moment, we've got quite a large number with a lot of -- quite a lot of overseas students, and they all obviously went back home, and that created a big gap in our residential income. I think we have something like 137 flats empty at the end of March -- end of September, which is an extraordinary level for us, but it's not just us, across the West End. And actually, what that's done, that availability of space in the short-term has made investors a bit more cautious. Again, I get this is the same story really, as they're thinking about near-term income. So we saw a reduction in the residential.

And then the value is then make a deduction for what they think is the likely level of support. We're going to have to give to tenants, plus they increase some of their vacancy assumptions as well, and that had an impact of GBP 57 million.

Our portfolio, the ERV is 28% ahead of the rent roll, it's pretty much vacancy and scheme vacancy at the moment. And as that scheme vacancy finishes, it will move down into the vacancy box. And then as we let it into the contracted and then into the current income. Timing of that will depend on return of footfall and spending.

Well, I would say, and this is slightly unusual for us. Normally, the block before the second -- the last from the right would normally be, we show our portfolio is reversionary. The valuers have estimated that given the ERV decline, our let units, all the stuff that isn't vacant is GBP 2.5 million over rented. That's the first time in -- since I've been at Shaftesbury, that's ever been the case. But again, I think this is a near-term issue.

Longmartin valuation. Well, to be honest with you, there's some stats and things on this slide. Actually, it's exactly the same. It's exactly the same story. It's all about supply and demand and caution. And the valuation decreases, retail, restaurants, they're the big ones, a little bit in the residential. And actually, the office is a small tick up.

So how does that flow into our NAV? So this is pre equity raise 24% down. But as you can see, 10p of earnings, 9p dividend for last year that we paid GBP 2.40 of revaluation losses, and of which GBP 2.28 was the wholly owned portfolio and 12p was the Longmartin valuation.

So just turning to the other side of the balance sheet. This is the position. I thought the best way to sort of describe what's happened is look at where we were at September and what's happened since. So where we were at September, LTV, 35%, so up nearly 8% from last year and all pretty much all because of the revaluation of the portfolio.

We had GBP 179 million of available resources. We had CapEx commitments of GBP 31 million and available resources included an RCF of GBP 125 million, where we were wholly reliant on getting interest cover waivers from the lender.

We did have waivers in place. We had waivers to Jan 2021 and April 2021 for the term loans. And for the RCF, December '20 and January '21. They're all getting a bit short. And so we've been discussing these through sort of September and into October with lenders.

Our bonds compliant and our LTVs across all of the -- all of that is compliant. But with the valuation decreasing, the risk rises. And in terms of nearest term refinancing, our 2 RCF ones May '22 and the other Feb '23. So that's where we were.

So obviously, we're kind of thinking not about that now, we're thinking about the future. And we thought about what are the risks here. We don't (technical difficulty) as income is going to come back on what the time of that is. And the pace of that, we can see risk rising, refinancing risk is rising. We're seeing hearting attitude in the credit markets. We would be very shortly refinancing 1 of our RCFs in a market where -- yes, not so straightforward, if I'm honest with you, LTV risk rising. So that -- and we were reliant on our own is ICR waivers for our working capital.

So there were the risks. That's what we could see and what do we then think about it? How do we think about that? Well, we thought about a number of different options here. And quite clearly, maintaining financial capacity was really key. And solving the finance risk was really key. We considered disposals. As a Board, we concluded that a material level of disposal just was not in the best interest for the long-term of shareholders.

So that's what we saw. That's what we thought. And then what did we do? Okay. So as you know, I mean, they're probably going over old ground, but we did an equity raise, raising net proceeds of GBP 294 million. There's sort of -- there's a waterfall chart on the right-hand side of this, which shows the position in September and then sort of pro formas out, GBP 294 million of net proceeds. We canceled an RCF. So that reduces our liquidity. This is a liquidity chart rather than a cash chart. So that reduced liquidity.

We are -- in our prospectus, we estimated we would need GBP 12 million to top-up interest covenants. Some of our loans have cure rights where you can put money on deposit and it's treated as income. There's only so many times you can do that, but actually really, really useful thing for us. We expect, but -- or we anticipate, but it really depends on how footfall grows and how effective the vaccine is. We expect to make net operating cash loss next year. So that was part of the proceeds.

And we are -- we have a program or further CapEx, a lot of actually to prove our retail and restaurant vacant units to maximize their letting prospects. So that was GBP 65 million. And after all of those, that gives you a sort of a pro forma liquidity level.

So really, what we were doing, we were -- we could see the financing risk raising -- rising. We were shoring up the balance sheet. We're reducing the risk, and we were providing liquidity to carrier running the business.

So what did that mean for the numbers? On the right-hand side of this chart, you can see where we were at September and then the pro forma numbers. So after the capital raise, we canceled term revolving credit facility. That's removed to refinancing risk. It released GBP 252 million of assets into our unsecured asset pool, which is really helpful because that's where -- that's the pot of assets we can (technical difficulty) up LTVs, should they become a problem in the other loans. And in doing so, we're saying [GBP 0.8 million] a year in commitment fees.

We repaid our other RCF is GBP 100 million. That's still available to redraw. It's part of the liquidity chart on the previous page. And well that's going to say, while it's not drawn. I suppose the other side of that is where you can see the extra cost in the earnings per share slide as we drew down on this year.

And finally, we have -- we've now agreed extra extensions to our ICR waivers for our term loans through 1 of them to July 2021, 1 of them to January 2022, and our remaining RCF out to October 2021. So that's where we are. So after all of that put together, our net debt has fallen from GBP 987 million to GBP 693 million. Our LTV has gone from 31.5% to 22.1%. And I think that's the real key thing that the takeaway from this is that, that puts us in a really strong position to: a, weather the store; b, come out of this in a really strong place. Thank you.

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Thank you very much, Chris. So let's have a think about 2021 and what comes after. So clearly, we have some headwinds to address. The last few months -- well, the last few weeks have been good news and bad news. Obviously, there's been good news on the reports of effective vaccines and plans for mass vaccinations. That has brought some sense of light at the end of the tunnel. However, we've always felt the recovery from the pandemic was going to take time, despite the good news that we're seeing. And we've always assumed that for calendar year 2021 and probably the next 9 months of our financial year to the end of the financial year, we're still going to be affected by COVID containment measures. .

If all goes well on the vaccine front, it's reasonable that we expect to see a gradual relaxation of government measures as we go into the year, maybe in the second half of the year. But right now, it is impossible to say. When that turning point is going to come.

So at the moment, businesses, all businesses are facing a difficult couple of months ahead. If you think about our businesses, hospitality businesses, retail businesses, they are a huge chunk of their profits. Some of our tenants say, probably half their profits in the couple of months leading up 7 weeks, leading up to Christmas and over New Year. And because of the restrictions that are now in place, those businesses will have had just 2 weeks of those 7 weeks. And that follows a very disruptive period throughout 2020.

So difficult times. And of course, we come into January, February and March, which are never the easiest times for those footfall reliant businesses, they are the quieter 3 months.

So Tier 3 is with us now from tonight, which means the closing of all hospitality businesses in the West End. But of course, retail will remain open. So we will be still seeing some footfall. But the last couple of weeks have been encouraging in as much as coming out of the November lockdown, we've seen return of considerable footfall to the West End. Just confirmed our belief that people want to come back. It's still a great experience. The Christmas lights are on, people need something to cheer them up. And the West End is the place you come for your West night out.

We're all particularly looking forward to the return of the West End's renowned evening and nighttime economy as well. Of course, we're missing so many of the things that would keep people out into the evening, the theaters, the clubs and things like that. So those will start to reappear. We hope as relaxations happened over the year.

International travel, as I said, is quite a big part of the West End footfall economy. In a way, it's the icing on the cake, as I say, getting the domestic footfall back is the priority. But I think the reality is international travel is going to be slower to recover. And the aviation experts seem to think that we'll see some -- the beginning of recovery in 2020 but it may be not until 2024. We see the long-haul business recovering, which does affect the sort of more high spending far eastern tourists, which are important parts of the London seeing.

We're going to carry on our support, and I'll talk about that in a minute. But I think what businesses will be looking for is to get them through the next 3 months, clarity from the government about what their plans are. The fertilized schemes and business rates relief have been very valuable to all businesses and particularly in the West End. We will be hoping that the government comes with a commitment to extend those schemes if trading disruption continues beyond the first couple of months of the year.

And of course, when it comes to business rates, the government are announcing on a more structural review of what's going to -- what should be in place in a very different commercial world that we live in now. So we hope to see some positive news there for the very longer term, but at the moment, it's the priorities on the immediate.

I'll try to avoid mentioning the word Brexit, but obviously, having started the year with some Brexit uncertainty, I'm afraid we seem to have ended up in that place. And the disruption from the possible routes after the transition period will not be very helpful for businesses generally. So again, some clarity there to avoid further business disruption.

And of course, finally, there, the government's announcement on tax-free -- to the ending of tax-free shopping for international visitors has been -- was rather unexpected, and I have to say, rather, unwelcome, not just for the West End, but the whole of the U.K. hospitality and hotel seen, tourists do come to the West end and spend money. But they also go to other parts of the country. They support the infrastructure here and across lots of U.K. locations.

So we're part of the lobbying campaign that encourages the government to rethink this move. And if they feel it's necessary to do, well, perhaps now is not quite the right time to be doing it when we should be competing for international tourists against cities like across Europe, including the great cities of Paris and others. So timing is everything. Perhaps that's 1 to be put on the back burner.

So thinking about our recovery strategy. Well, as I said at the outset, we felt that we should support our tenants. Our strategy has always been based on making conditions prosperous for our tenants, their prosperities, our prosperity and that is just as applicable in bad times is good. So we expect to carry on supporting our tenants. And also, most importantly, maintaining street-level activation. That will bring footfall back keeping those shop fronts active, keeping a sense of buzz and excitement is what people are looking for when they come back into the West End.

Of course, the subdued trading in October and then the November lockdown has not been very helpful for tenants businesses. Vacancy at the end of November for us, has risen from 10% to 12% at the end of October -- at the end of November, sorry. And rent collections are over to 50% have come down to 37%. So you can see these issues are taking a toll at the moment on the situation. However, we've always expected this. We never believe that things would -- well, as much as we all hope they recover very quickly. We expected this disruption to be with us for much of 2021. And we have always intended, and we've budgeted for further support for our businesses to get them back on their feet.

That support will, of course, taper as things improve towards the latter part of 2021. The market is changing, but then when doesn't it for lettings, flexibility is the buzzword. It was here before all of this, and perhaps the current situation as accelerated trends that were here already. And it will be a feature of the West End market until we return to some equilibrium in supply and demand. But for Shaftesbury, that's nothing new. We've never taken an institutional approach to leasing our properties.

We're very operationally focused and conscious to create interesting areas in a fast-moving world, you must have change. You have to learn to live with shorter leases, particularly for retail, greater volatility in the tenant base and a lineup that reflects what people want today, not what they wanted yesterday.

And in terms of trying new ideas, well, that's part of our DNA. It's never without its, but we think it's the right thing to do to move our offer on and if that means accepting an element of turnover until businesses are based and got themselves up and running, we'll also be it. It's always been part of the strategy, and nothing will change there.

We are encouraged that we've, in the last couple of weeks, seen some encouraging signs in terms of inquiries and a couple of lettings. So I think people are with some of the better news, we've had looking beyond the current situation and thinking how do we get into the best streets and best locations now because the West End will be coming back soon.

So that's great to hear. And it's quite interesting in China, how we've actually let 2 restaurants there recently. I think perhaps these are from Far East and businesses with roots out in the Far East, who, unfortunately, had to suffer a number of these pandemic type issues over the last 10 or 15 years. Of course, it's come as a shock to us. But I think they probably better than we do appreciate as gloomy as we can feel at the moment.

Things do turn around, things do come back and particularly if you're looking at restaurants, you're probably looking at a 6-month, 6 or 9-month lead into opening your restaurant. So those people are taking leases now knowing that they will be up and trading later this year. So we should not lose sight of their experience in dealing with these situations.

I would say around lettings, generally, there is a common theme that tenants expect a little more at the moment in terms of incentives and basic-fit out from tenants. But again, that's not a great issue for Shaftesbury. We've generally only provided incentives in terms of rent freeze but some element of the extra element of an enhanced packages and the way we hand over space is quite manageable for us.

Chris has touched on our investment during the year. We've got some plans for the year ahead. I think, obviously, completing the 72 Broadwick scheme is going to be important for us. Making sure the space we have vacant is in a less able and competitive condition because there is going to be some oversupply in the West End market in the near term.

I'll talk about sustainability in a moment. But of course, all the time, we're improving the accommodation we provide, sustainability issues are an important aspect of that.

Chris mentioned a couple of acquisitions during the year. We've completed the purchase recently of another small building in Seven Dials. I think our view at the moment is that we expect more availability of acquisitions in the West End market. Supply is normally tight, but we are going to be seeing some private owners facing some particular challenges in terms of buildings, which would perhaps not full need reinvestment. They don't really have the resource available to Shaftesbury to deal with those situations.

So we expect to see more properties coming on to the market. But I think for us, it's about keeping our focus for the next couple of months on stabilizing our own portfolio. It's not to say we won't buy anything. A real top priority at the moment is those buildings that are missing from our long-term clusters of ownership, buildings that perhaps we've tracked for 20 years or more. That's (inaudible) for 1 of the building we bought recently.

So opportunities like that are not to be missed. But I think for a wider scale investment activity, it's about making sure what we own already is in a stable situation. Selective disposals of assets, yes, but it's worth reminding you that we've always had a very disciplined strategy when it comes to acquisitions. We've only ever bought what's absolutely core long-term.

So most of those buildings remain remain core. Inevitably, there are 1 or 2 that we may look at disposing if we feel life has moved on. But it's not going to be a major part of our activity, and it would not be in the best long-term interest of our shareholders to even contemplate breaking up some of these long-term core ownerships that we've built up over the last 34 years.

So I'm going to say a few quick words about sustainability now. As I said at the outset, it's easier to lose sight of the bigger picture challenges we all face. And we should remember that businesses do have commitments to the community that we're part of.

So we have 3 pillars to our activity and strategy. We're always looking at the environmental performance of our buildings. We're conscious that older buildings are never going to be as efficient as modern buildings. It's how do we make the best of what we've got. It's improving their energy efficiency and also biodiversity around the West is important. So creating a greener, healthier space for the people who come and visit and as well as the people who live here are very important.

Some of these issues are across the West End. And again, collaboration is important for us with our neighbors and business improvement districts to address some of these issues.

As I said, our communities are important to us. People get around Camden and Westminster, not very far from where our office is, there are communities that face particularly difficult challenges even before the pandemic issues arise. So we've been very much focused on making sure we can help them through this difficult period.

Our total contributions this year to the communities through cash in kind providing space, providing time. We value at just under GBP 0.9 million. So some of that this year has been part funded by the Board's decision to remain 20% of its remuneration for a 4-month period. So it's been great to help those people. But again, I think we're being realistic, those communities will carry on needing support even as we come out of the current situation.

And finally, governance. We're conscious that we have a responsible responsibility to do the right thing, but make sure that we have the infrastructure around us. And a clear set of plans and -- which I'll come on to talk about. We now have a new Head of Sustainability who's bringing together bring some new ideas to us. It's always good to have new approaches. But coordinating many of the things we do so we can become even more effective in the years ahead. But we continue to have good recognition for our sustainability initiatives across the portfolio and we are still well represented in a number of key indices.

And then looking ahead for priorities as well. As I said, we have a challenging portfolio in terms of its age and makeup. But this year, you'll be seeing us setting some very ambitious targets for net 0 carbon, science-based targets. We've not done it quite as quickly as other people because it was felt -- it was important that we had a proper deliverable road map to delivering these ambitions. And so that's what we're working on at the moment, and you'll be hearing more about that next year.

Of course, we all carry on working with our partners around some of the issues around, say, biodiversity, some of the bigger picture issues that the West End faced before. It's been quite interesting actually to see some changes across parts of the West End with already because of COVID, traffic reductions, street closures, outdoor seating, things that perhaps might have taken some time for the local councils to get their head around.

The experience this summer has been very useful. And I think there's some hope there that some of these ideas will take route and are deliverable, requires some investment on behalf of no doubt landowners to make sure the space is good and properly managed. But it's interesting now that 1 of the good things that come out of all of this is try new ways of making the West End more appealing for both those who visit and those who live here.

Communities, while we're carrying on working across our communities. We will partner with expert organizations. We found that's the best way to leverage our support as much as we want to do things ourselves. There are great organizations like the young Westminster foundation, I can't say too much because I'm fortunate to be a trust here of the Young Westmins Foundation, Young Camden Foundation. It's the best way to make sure our support reach is the most needy part of the community and particularly young people who are having a particularly tough time at the moment.

And then finally, on governance. Well, as I said, we're going to set out some important targets coming up in the year ahead. Working on the climate change disclosures. But again, continuing to work with our communities and our local partners for the best long-term interest of the West End, really. And we are fortunate to have those long-established ownerships.

So looking at a little further out. Well, let's just remind ourselves, the situation of the business. We sit in the middle of this great city; London. I can spend 10 -- 10 minutes talking about the superlatives of London and all it has to offer. It is 1 of the great cities. It was a great city when we came into this year, and I promise you it will be a great city when we come out of all of this.

The West End is its own particular environment. I talked about the problems faced by city centers, but really, you can probably say they're magnified here in the West End because it is the greatest destination probably of all the cities in the western world.

All these things will come back. It's going to -- it's a matter of time and say, it's not a matter of if. But these concentrations of the assets that the West End has and its long-term ownership in long-term landed estates like ourselves, our neighbor Copen Garden, the business improvement districts working together is what is going to bring the West End back to its prosperous times.

And Shaftesbury, of course, we sit in the heart of this great location. We come into this with a strategy that's been proven. We have a particular way of looking at our areas. We keep them distinctive with a mid-market offer. Our rental levels are modest. We've got adaptable buildings. So lots going for us.

Really just now to talk about the Shaftesbury proposition. It's as valid now as it ever was. It's this great portfolio. It's taken us 34 years to put it together. There isn't going to be another 1 like it. Its long-term growth prospects are underpinned by everything that London and the West End has to offer the world.

And our focus is low risk. It's not a cyclical business, although we are suffering particularly short-term issues at the moment. But our attitude has always been about sustainable long-term growth and also addressing financing risk before it becomes a problem. That's why we took the actions we did in October to make sure this business has the resource to be stable and be able to support its tenants and support the value of its assets through these difficult times, but also to come out ahead of the game, so we're able to take opportunities which will be there as things start to move on and improve.

It's a long-term estate management strategy. As I said, we -- decisions are here are always based on what's best for the long-term of the business. It's not about just thinking about the short term. And that's why we're positioning ourselves now to think about how we respond to a changing world as we come out of the pandemic situation.

And responsibility is important as to say, we acknowledge our commitments to our tenants, our local communities. And it's taking those decisions in a responsible manner for what's in the best long-term interest of the business.

And then finally, like all businesses, it's not just about the assets, it's about the people. We have a very experienced, committed and innovative team here at Shaftesbury. I have to pay tribute to them for their hard work, incredibly hard work during the last 9 months. It's been a very difficult time for us all, but everybody has been totally committed and gone the extra mile. And the -- in a way really the Shaftesbury's personality comes back is seen really in the way that we've engaged with our tenants to support them through this period.

One of the most important things is that people don't see us as a fair weather friend, a fair weather land, we're here to support people long term. And I think that's going to pay -- well, it's the right thing to do. It's going to support the long-term value in the portfolio.

And when people are coming back to look for space in the West End, we want Shaftesbury to be the landlord of choice because of what we've done and what we can offer them in terms of the way we take a long-term view of managing the space. But again, I would like to thank the staff really for all their efforts in getting us through this period.

We haven't wasted the time. We've been enjoy not -- we don't enjoy not being in our office, but we haven't wasted that time. We spent a lot of time thinking about how we come back better sort of slightly hacked phrase these days. But in every business, there's an opportunity to improve and we're thinking long and hard about how we can make ourselves more effective as a team, what other skill sets we need coming out of this. And generally, I would say, it's how we're going to navigate the -- not just the challenges, but the opportunities that lay ahead of us.

So really, I think that's enough for me now. We'll move on to questions. And I hope you've been typing questions in as we go through that opportunity is still there to typing questions. So please keep peeking them through. And I'm now going to ask Simon and Tom to join us by audio. And I now ask further questions to be shared with the audience.

QUESTIONS AND ANSWERS

Unidentified Company Representative

The first question comes from the line of Robbie Duncan from Numis securities.

You talked on Slide 13 that yield shift was all to do with sentiment. Yet you have flagged in several places in the results that you expect vacancy will continue to rise, which will have a further depressing effect on rents. You also then highlight that sales densities are likely to stay lower for longer.

Shortly, rents are going to stay lower and with higher risk, given the increasing shift to turnover linked model, aren't yields, therefore, likely to, a, rise further and b,stay higher than all for some time to come?

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Chris, can I perhaps ask you to -- it's quite a long question. But Chris, if you want to start off and then I'll chip in.

Christopher Peter Alan Ward - *Shaftesbury PLC - Finance Director & Executive Director*

So Robbie, thank you for that. I mean I was sort of just sort of summarizing really. And the sentence, actually, it is about sentiment. And that sentiment, there's a number of things that drive that sentiment, and some of it might be increased vacancy. And you're right, there is some downward pressure on ERVs at the moment. And and of course, absent anything else, if the ERV declines and the valuation decline, then the yield goes up, but the values are kind of taking 2 different assumptions here. And I was talking about the assumption on capitalization rates than ERVs. But no, you're absolutely right.

Now who knows what the long-term will be? I think it's just too early to tell. But I do think that my personal view is that there's -- well, at the moment, there's a supply and demand imbalance. I think that will reverse. And I think it will reverse -- footfall will come back. And I think we've seen that over the last 2 weeks before the bad news came yesterday, either people are getting a bit more confident, and there are a lot of people out shopping and dining and drinking. And that's a lot about me.

So I think the confidence will come back pretty quickly, actually. And there will be an overhang of vacancy after footfalls grown because the vacancy isn't just in our areas, it's everywhere in the West End.

So there will be an open, but it will come back. And this is a tight supply of space around the West End. And so that balance will change again. So I'm not going to predict our long-term rents. I think we'll see some downward pressure. And then I think we'll see it reverse.

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Thank Chris. Well, obviously, yields do reflect uncertainty. And we have some particular near-term uncertainty in all of our lives at the moment. But I think we -- as Chris said, they will return. It's always important to look at property yields in the context of a bigger picture where interest rates generally are not going to be lower for longer, that looks so they're going to be lower or even negative for some considerable time, but perhaps ever who knows. But in terms of real estate, I think once income is more certain.

So there's a stability there. London property is going to look quite cheap by international standards, and particularly when you're in a very secure location like the West End. So all is not lost here.

And as regards to turnover rents, well, everybody talks about them, so it's going to become the norm. I read in some of our restaurants where we do have turnover top up. So the tenants would rather not have them. They trade so well in the West end. They end up paying far more with the turnover top-up than they ever want it to.

So it can work both ways, particularly in these busy locations. But actually certainty around income, you could say, in the West end, it's always been about maintaining occupancy. That's -- we have always had shorter leases. It hasn't bothered the value as it's this constant cash flow that we're able to deliver, whether it's tenant A or tenant B, it doesn't really matter. It's just the ability, the volume of trading that you can do here that will probably underpin the long-term income prospects, most certainly is.

Unidentified Company Representative

Thank you, Brian. Moving on to our next question that comes from the line of Matthew Saperia at Peel Hunt. Thanks for the presentation. I have forgotten what a shirt and a tie looks like. 2 from me, please. How actively did you look at disposals in new of the equity raise and how did the Board determine they weren't in shareholders' long term interests? And then the second question, you talk about higher specification fit-out demanded. Is this just for F&B space or more widely? Customers pay for it in a rental premium? Or is this a cost that will be borne solely by the landlord?

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Perhaps, if I can just deal with the first question there in terms of disposals as well. It's taken us 34 years to assemble clusters. They're not to be replaced. The simple principle at Shaftesbury, if we feel anything could run out of long-term growth, it goes on the block. We move on. At that point, we'll give money back to shareholders if we thought we -- unless we thought we could invest it. Appropriate on their behalf.

So that's always been the principle. But as we're standing here 12 months ago, we don't feel any of our clusters of well running out of growth. There's a short-term issue here. But in terms of long term ownership, you're investing in the long-term business.

You don't sell things that you're not going to get back again. And the features that made these assets so valuable will come back with the return to normal conditions. But we say, we do have a process of regularly considering disposal. But we've never really gone out and bought things we didn't want to keep long term. I think that's the difference. We're not traders. We're not take a view all of this for a couple of years and move it on. It's this long-term assembly and curation, which is probably very different from most companies in the sector. And that's where the value is.

And remember, the value is still report that this portfolio has a particular value well above what they're able to valuate out under the valuation laws. That has not gone away, so there's a lot to be said for maintaining the scale of the business. And really, we sensed from now discussions with shareholders, none of them were enthusiastic about the prospect of breaking off chunks of this business.

So moving on to the next point. I think that's probably 1 for Simon and Tom.

Simon John Quayle - *Shaftesbury PLC - Property Director & Executive Director*

Thanks, Brian. I think it's fair to say that even pre-COVID, particularly in the retail and office markets, things have changed. And the customers, were expecting more than we ever provided before. So for the REIT market, particularly for the sort of smaller units, we were using what sort of a severe technical term of providing white boxes for retailers, which enabled them to actually take occupation far quicker than in the past.

I think it's fair to say that actually, providing a white box actually doesn't mean that your incentives are less. It's hard to say sort of what the future is going to be in relation to what those incentives are going to be. But certainly, and I think, as Brian mentioned before, that we -- people are looking at London as a long term situation. We are having some really interesting discussions at the moment with both (inaudible) and international retailers, and Tom will talk about restaurants in a minute. But we may be actually on the basis that we are talking short-term for turnover deals. But certainly, 18, 24 months ahead, we'll be looking at more conventional -- conventional rental terms.

So there's still a lot of confidence in London going forward. On the office side, again, we're looking at providing people -- again, it's another technical (inaudible) which is plug-and-play, which effectively means that office occupiers can actually take occupation with spaces. And again, it's a matter you can let this space and incentives and rent frees are far less.

There hasn't been this massive change in any rental values across your office (inaudible).

Thomas James Chisnell Welton - *Shaftesbury PLC - Property Director & Executive Director*

In relation to prostate, we were talking about that sales that we're not talking about actually doing the tenants fit-out all the which we'll about derisking it and creating an envelope, which is ready for them to go and do their fit out. So it seems like putting in extract types. It's shop front, it's perhaps structural work, things have actually have a long-term benefit to long-term value to us. And I guess just at this point in time, just to do with the question is to who's actually ultimately patent for that, at this point in time, the cost falls to us because it's about derisking things for the tenant until we get through this current crisis. But I think as we come out of that, it is something that to make it easy for the tenant, we will pick it up in the ranges right across the sector, all different sectors now, the customers want easy access, they want flexibility and anything we can do to enhance that. I don't know if you're prepared to pay for it.

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Thank you, Tom and Simon.

Unidentified Company Representative

Moving on to the next question. This comes from the line (inaudible) in relation to those rents that you have waived this year due to COVID-19, have the tenants paid rates or has Shaftesbury paid those on tenants' behalf?

Christopher Peter Alan Ward - *Shaftesbury PLC - Finance Director & Executive Director*

Yes. No, tenants -- that's the tenants thing, but there's a rate holiday at the moment until the end of March. So in fact, actually, they haven't had to pay rates. And talk about the F&B and the retail here.

Unidentified Company Representative

Okay. Thank you. Moving on to the next question that comes from James Carswell at Peel Hunt. Did you try and put in place the ICR waivers ahead of the equity raise? Or were the lenders only willing to do so once you had raised the equity?

Christopher Peter Alan Ward - *Shaftesbury PLC - Finance Director & Executive Director*

So we were discussing them ahead of the equity raise. Clearly, the equity raise helped. There was no -- it wasn't -- this is not conditionality, but actually really helps them a short or balance sheet, clearly, as a lender and may go to the -- actually, it's not the people we talk to the lenders, it's the credit committees.

The discussions that they're having have changed. And I have to say back in March, when we were original waivers. This was when everybody was standing on their doorsteps on a Thursday and clapping the NHS, and there was a real bottom for me around the country sort of bunker (inaudible). And everyone wanted to help everybody.

And I'm not saying the banks don't want to help. They do, but the conversations then, particularly with credit misters were much easier and we really sense that hardening, actually. And it's not surprising because 6 months down low, I think I think we'll be out of it by then. I was wrong, not for the first time in my life. And I think for credit committees who then sort of waiver extension, waiver extension, waiver extension, it gets tougher every time for them.

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

So I think that's the equity issue really gave the bank's lenders considerable comfort that this business was well supported by our shareholders because that will not be the case for other businesses who seek forbearance from their lenders. So I'm conscious of the time now. Can we just do 1 more quick question?

Unidentified Company Representative

Sure. This 1 comes from the line of Poonam from Numis. The pre-let to Equinox at 72 Broadwick Street is described as a conditional pre-let. Please, could you specify what it's conditional upon?

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Simon, just like to comment briefly on that before we wrap up?

Simon John Quayle - *Shaftesbury PLC - Property Director & Executive Director*

It's conditional on us completing our schemes. So we've we're looking at actually being able to hand over to Equinox in the summer, probably June or July this year -- sorry, next year. It's only conditional upon us handing over to an agreed specification.

Brian Bickell - *Shaftesbury PLC - CEO & Executive Director*

Well, I'm conscious of the time now. We said we'd finish within the hour, and I'm afraid we haven't quite achieved that. It's like a visit to the West End really, you want it to go on and on. You never want it to end. But I'm sure you are the things to be getting on with today. If we haven't got around to answering your question or there's anything else you want to ask, please don't hesitate to email me, brian.bickell@shaftesbury.uk.

So on behalf of my colleagues, I'd like to thank you for your attendance today. We all wish you a very safe and happy Christmas. And also whatever '21 brings, we look forward to welcoming you back to the West End.

Just to play out, we're going to show you a reminder of video, it's a video we played last year. It's a year in the life of Shaftesbury. It reminds you of all the good things that the West End has to offer. A lot of good things you're going to be able to enjoy when you come back next year. Obviously, when it's safe to do so, it's to be a great day out for you and your family. It always has been and it always will be.

And just on that note, I would say, let's all just remember, the recovery of the West End is not a matter of if, it's a matter of when. And as you look at this video, you'll remember why this is such great and popular destination. So thank you very much for your time, everybody, and we look forward to seeing you all in the new year. Thank you very much.
