28 January 2021

WORKSPACE GROUP PLC

THIRD QUARTER BUSINESS UPDATE FOR THE PERIOD ENDING 31 DECEMBER 2020

HIGHLIGHTS

- Resilient customer demand through this ongoing period of Government Covid-19 restrictions, with an average of 672 enquiries per month in the quarter (Q3 2019/20: 1,001) and 109 lettings per month (Q3 2019/20: 113)
- Cash collection remains robust, with 91% of rent due for the third quarter and 82% of rent due for the fourth quarter collected to date, in line with the level of rents collected at the same point in the third quarter
- Like-for-like occupancy down by 3.4% in the quarter to 82.1%, driven by the exit of customers that had given notice to leave earlier in the year
- Rent per sq. ft. reduced by 5.3% to £38.46, with approximately half of the decline driven by short-term lease incentives that will unwind over the next six months
- Strong balance sheet, conservatively financed with a pro forma LTV of 23% at 31 December 2020, significant headroom on all facility covenants and £132m of cash and undrawn facilities
- Pathway to net zero carbon published, including a commitment to reducing operational and embodied carbon emissions in line with our approved science-based targets to become a net zero carbon business by 2030

Graham Clemett, Chief Executive Officer, Workspace Group PLC, commented:

"The last nine months have certainly been challenging for society, our customers and our business. Despite near-term uncertainty, we are seeing signs that customers are starting to look through the pandemic and we believe that our strategy, business model and differentiated customer offer position us to outperform over the medium and longer term.

In terms of trading performance in the quarter, customer activity was impacted by Government restrictions, but we were encouraged by the resilient demand for our space, which has continued into the fourth quarter. It appears that we are now coming towards the end of the significant occupancy declines we have seen over the last three quarters.

Alongside managing the impact of the pandemic in the short-term, driving forward our ESG agenda remains a priority for the Company. A key element of that is our ambition to become a net zero carbon business and we have today outlined how we aim to achieve this target by 2030.

The timing and pace of our recovery will depend on the rollout of the Covid-19 vaccines and lifting of Government restrictions. I am confident that once we return to more normal market conditions, our unique, character properties and truly flexible offer will be attractive and relevant to an ever-wider range of businesses across London."

Customer Activity

Having seen an increase in enquiries and lettings to near pre-Covid levels in the second quarter, increasing Government restrictions, combined with the usual quieter Christmas period, saw a reduction in new customer activity in the third quarter. We have continued to price competitively and, whilst overall enquiries and viewings were lower in the quarter, the conversion to lettings was strong, with the number of lettings in line with the same period in the prior year, albeit with higher demand this year for smaller-sized units.

	Monthly Average		**Monthly Activity**		
	Q3 2020/21	Q3 2019/20	30 Dec 2020	30 Nov 2020	31 Oct 2020
Enquiries	**672**	1,001	555	677	785
Viewings	**322**	630	251	304	412
Lettings	**109**	113	110	94	122

Early signs in the fourth quarter are positive, despite the renewed lockdown, with 622 enquiries and 241 viewings in the period to 26 January 2021.

Customer utilisation of our centres has reduced from a peak of 33% of pre-Covid levels in September to around 15% in December. While all of our office buildings remain open for business, as expected, given the current restrictions, utilisation has dropped further in January 2021 to around 10%.

	Month ended		
	30 Dec 2020	30 Nov 2020	31 Oct 2020
Average utilisation (% of pre-Covid levels)	15%	17%	28%

Over the last nine months, we have worked with our customers to retain as many as possible, including resizing or relocating them where appropriate. Unfortunately for some customers this was not possible and they gave notice to vacate, with the notice period typically three to six months. During the third quarter, we saw an exit from those customers who had given notice in earlier quarters. The level of notices to vacate returned to a more normal level by the end of the third quarter.

The net result has been a 3.4% fall in like-for-like occupancy in the quarter to 82.1% and we also saw a reduction in rent per sq. ft. of 5.3% in the quarter (rent roll is reported on a cash basis). While we are competitively pricing our offer to capture demand, around half of the reduction in pricing in the quarter was from short-term incentives for both new and existing customers, granted on a case by case basis, that will unwind over the next six months.

	Quarter Ended		
	31 Dec 20	30 Sep 20	30 Jun 20
Like-for-like occupancy	82.1%	85.5%	90.1%
Like-for-like occupancy change*	(3.4)%	(4.6)%	(3.2)%
Like-for-like rent per sq. ft.	£38.46	£40.61	£41.16
Like-for-like rent per sq. ft. change	(5.3)%	(1.3)%	(2.0)%
Like-for-like rent roll	£89.8m	£98.8m	£105.8m
Like-for-like rent roll change	(9.1)%	(6.6)%	(5.3)%

**Absolute change*

The combined impact of the drop in like-for-like occupancy and rent per sq. ft. in the quarter resulted in a 9.1% fall in like-for-like rent roll, to £89.8m. Total rent roll, which includes the letting up of recently completed projects, reduced by 8.7% in the third quarter to £107.9m.

Rent Collection

Cash collection remains robust, despite the continued Government restrictions on rent collection measures. The majority of our customers pay monthly and we have to date collected 91% of rent due for the third quarter. Collections for the first and second quarters, which were reduced by the one-off 50% rent discount given to our customers in respect of the first quarter, have also improved. In total for the three quarters to 31 December 2020, we have collected 94% of rent due.

	Q1	Q2	Q3
Rent collected as proportion of rent receivable after discounts and deferrals	97%	97%	91%
Rent collected as proportion of gross rents	47%	90%	90%

To date, we have collected 82% of rents due for the fourth quarter, in line with the level of rents collected at the same point in the third quarter.

We continue to engage with customers on outstanding rents due, with the majority of the outstanding amount covered by rent deposits and the provision for doubtful debts.

Financing

Net debt decreased by £5m in the quarter to £566m, with cash balances and undrawn facilities of £132m as at 31 December 2020.

We have significant headroom on all facility covenants and the pro forma loan to value ratio at 31 December 2020, based on the 30 September 2020 property valuation, remained unchanged at 23%.

Pathway to net zero carbon

We have today set out our net zero carbon pathway, publishing our commitment to becoming a net zero carbon business by 2030. We recognise that the building and construction industry significantly contributes to the global carbon footprint and we want to play our part to transition to a green economy, first and foremost by driving down our operational and embodied carbon emissions in line with our approved science-based targets, aligned with the goal of limiting global warning to 1.5°C. Our pathway to net zero carbon includes the following targets:

- Reduce absolute Scope 1 GHG emissions by 42% by 2030
- Reduce Scope 3 GHG emissions from capital goods by 20% by 2030
- Install solar PV systems for all new developments and major refurbishments where possible
- Continue to source 100% renewable electricity

More detail can be found in the separate announcement made today and full pathway to net zero carbon document published on our website at www.workspace.co.uk/investors

Board appointments

As previously announced, two new Non-Executive Directors have joined the Board. Rosie Shapland and Lesley-Ann Nash joined the Board on 6 November 2020 and 1 January 2021 respectively, both joining the Company's Audit, Nomination, Remuneration and Risk Committees.

– ENDS –

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Notes to Editors

About Workspace Group PLC:

Established in 1987, and listed on the London Stock Exchange since 1993, Workspace owns and manages some 4 million sq. ft. of business space in London. We are home to London's brightest businesses, including fast growing and established brands across a wide range of sectors. Workspace is geared towards helping businesses perform at their very best. We provide inspiring, flexible work spaces in dynamic London locations.

Workspace (WKP) is a FTSE 250 listed Real Estate Investment Trust (REIT) and a member of the European Public Real Estate Association (EPRA).

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For more information on Workspace, please visit www.workspace.co.uk