VIABILITY STATEMENT

In accordance with the 2018 UK Corporate Governance Code, the Directors and the senior management team have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision.

Time period

The Directors have determined that the five-year period to 31 December 2024 is an appropriate period over which to assess its viability based on the following:

- for a major scheme, five years is a reasonable approximation of the time taken from obtaining planning permission for a typical development to letting the property; and
- most leases contain a five-year rent review pattern or break options. Therefore, five years allows for the forecasts to include the reversion arising from those reviews while also assessing the potential impact of income lost from breaks exercised.

This time period is challenged annually to ensure it remains appropriate. Although the Board's viability review focused on a five-year period, it did consider a number of longer-term factors when considering the Group's future prospects, including:

- the weighted average lease length of 8.3 years (including rent-frees and pre-lets);
- after the refinancing completed during 2019, the weighted average unexpired term of our borrowings was 7.8 years (see page 72);
- the nature of the property cycle and our expectations of how this impacts us (see page 12); and
- changes in technology and tenant expectations (see page 13).

The assessment highlighted that the Group has:

- a proven business model which has allowed us to remain flexible and resilient during previous property cycles;
- a high-quality customer base of tenants, with none of our occupiers being responsible for more than 6.5% of total rental income and relatively low exposure to the retail and restaurant sectors, which are experiencing tenant failures and CVAs;
- income visibility for the life of our leases which on average are 8.3 years (including rent-frees and pre-lets) with upward only or contracted rent reviews;
- good interest in our space with strong pre-let interest in our schemes;
- strong relationships with our debt providers. In October 2019, we signed a new five-year £450m revolving credit facility with a £300m 'green' tranche (see page 72); and
- a low loan-to-value ratio of 16.9% and raised additional long-term debt via the placement of £175m 1.50% convertible bonds due 2025 (see page 72).

Principal risks

The Schedule of Principal Risks is routinely subject to a comprehensive review by the Executive Committee, Risk Committee and the Board. Consideration is given to the risk likelihood, impact and velocity (speed at which the risk could impact on the Group).

It was agreed that none of the changes in risk likelihood or probability during the year (see page 47) had a significant impact on the Group's viability. The Directors identified that, of the principal risks detailed on pages 46 to 57, the following are the most important to the assessment of the viability:

- adverse international trade negotiations following Brexit: as a predominantly London-based Group, we are particularly susceptible to changes which could adversely impact London's future prosperity (see page 49). Although adverse trade agreements would negatively impact our business, they would be unlikely to significantly affect the viability of the Group within the five-year review period;
- risk arising from our development activities: our current development pipeline is sizeable and its delivery remains a top priority. Despite developments being inherently risky, our pipeline is expected to be a significant driver of our earnings growth over the next five years. In addition, development uplifts should enhance valuation returns even in a flat or declining market; and
- climate change: rising global temperatures are a major risk factor for our business and the planet, increasing the likelihood of heatwaves, flooding and property damage. Although climate change will lead to an increase in costs as we take action to combat its impact on our business (both in monetary terms and management time), it would be unlikely to affect the viability of the Group within the five-year review period.

The Directors considered that none of the individual principal risks would in isolation compromise the Group's viability over the five-year period to 31 December 2024.

Qualifications and assumptions

The key assumptions which underpin our strategic plan are:

- the Group's business model remains broadly unchanged and continues to focus on the central London office market;
- we continue to operate a progressive dividend policy whilst ensuring dividend cover remains in or above the range of 125% to 150%; and
- our portfolio remains approximately the same size.

We have the ability to flex our business model to react to unforeseen circumstances or changes in the property cycle by either selling a property to generate additional cash flow or commencing or stopping development projects to manage our capital expenditure. We aim to maintain an adequate level of cash and available financial facilities.

Regular financial forecasting enables us to identify and plan for additional funding requirements in advance.

Emerging risks

We define an 'emerging risk' as a condition, situation or trend that could significantly impact the Group's financial strength, competitive position or reputation within the next five years. Emerging risks involve a high degree of uncertainty and are therefore factored into the Board's viability assessment. The methodology used to review and identify emerging risks is on page 129.

The Directors considered that none of the individual emerging risks would in isolation compromise the Group's viability over the five-year period to 31 December 2024.

Emerging risk	Risk category	Potential impact	Our actions
Diminished development pipeline	Strategic	The Group's portfolio balance could move towards 'core income' properties away from development opportunities following completion of our development pipeline and in the absence of any further acquisitions or disposals.	We continue to focus on recycling capital, selling properties with limited future potential and acquiring properties with future regeneration opportunities in order to maintain a balanced portfolio. On 30 January 2020, we acquired Blue Star House SW9 for £38.1m before costs, which has future development potential (see page 63).
Reduced returns	Strategic	A combination of smaller margins expected on future developments, the level of incentives required to capture reversion and the difficulty in acquiring assets at attractive prices is likely to reduce the Group's future returns.	We continue to seek opportunities where we can add value through development or asset management activities, being creative and challenging the conventional options where appropriate.
Increasing importance of amenities	Operational	The provision of amenities and hospitality in buildings is becoming increasingly important to tenants. The Group needs to ensure it is adequately responding to these demands, so our product remains attractive to tenants, thereby retaining its competitive edge.	A property by property assessment was undertaken during the five-year strategy review to understand opportunities within the portfolio where we could enhance our amenity offering to our tenants.
Adoption of technology	Operational	With technology advancing at a rapid pace the Group needs to ensure it is sufficiently embracing these changes whilst making sure that the Group's strategy is driving which technology the Group chooses to adopt and not being driven by the technology itself.	We have established a Digital Committee (a supporting committee) and will be updating our digital strategy during 2020.
Environmental issues moving up the social agenda	Operational	Concerns around environmental issues, such as climate change, are becoming more important to our stakeholders and to the general public, as shown by recent public demonstrations. Companies not giving sufficient priority to these issues will be unprepared for the risks posed by environmental issues, which will, in turn, adversely impact on their business and reputation.	We are targeting to become 'net zero carbon' by 2030. We recognise this will present challenges, further information is on page 80.

Assessment of viability

To assess the Group's viability, the business model and strategy were stress tested against our principal risks (in isolation and combination), various Brexit scenarios and other sensitivities.

Sensitivity analysis of our strategy

A detailed five-year strategic review was conducted which considers the Group's cash flows, dividend cover, REIT compliance and other key financial ratios over the period. These metrics were subjected to sensitivity analysis to assess the impact of the principal risks to the Group's ability to deliver its strategic objectives, which are set out on page 31, both individually and in unison.

Strengthened financial position

After an active year of refinancing, the Group had £511m of undrawn facilities and cash at 31 December 2019 (2018: £274m) and a weighted average term of borrowings of 7.8 years (2018: 5.9 years).

Stress testing our risk resilience

The Directors stress tested our strategy against a combination of principal and emerging risks which were likely to have a significant impact on the Group's solvency and liquidity over the five-year review period. A scenario was modelled that assumed a severe decrease in property values combined with significant letting delays at the Group's developments and a fall in rental income. As at 31 December 2019, the value of the portfolio could fall by 69% without breaching the gearing covenants and our property income could fall by 69% before breaching the interest cover covenant.

Brexit scenarios

In June 2019, the Board stress tested the potential impact of various Brexit scenarios on our risk resilience, by estimating their financial impact and overlaying this on the detailed financial forecasts included within the strategic plan and five-year forecasts for viability.

A range of Brexit scenarios of 'soft', 'hard' and 'disorderly' were modelled with various levels of impact on our property values and rental income. In all scenarios, our net interest cover remained above 400% and our loan-to-value ratio below 40%, both of which are comfortably within our financial covenants.

Despite Brexit occurring on 31 January 2020, trading relationships remain unclear and we believe that the Brexit scenarios tested in respect of adverse trade negotiations remain relevant.

VIABILITY STATEMENT

Based on the Board's assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the five-year period to 31 December 2024.