

Agenda

Meeting: Land and Property Committee

Date: Monday 16 January 2023

Time: 13:00

Place: Conference Rooms 1 and 2,
Ground Floor, Palestra, 197
Blackfriars Road, London, SE1
8NJ

Members

Prof Greg Clark CBE (Chair)
Dr Nina Skorupska CBE (Vice-Chair)
Heidi Alexander

Seb Dance
Anne McMeel
Ben Story

Copies of the papers and any attachments are available on [tfl.gov.uk How We Are Governed](https://tfl.gov.uk/How_We_Are_Governed).

This meeting will be open to the public, except for where exempt information is being discussed as noted on the agenda. There is access for disabled people and induction loops are available. A guide for the press and public on attending and reporting meetings of local government bodies, including the use of film, photography, social media and other means is available on www.london.gov.uk/sites/default/files/Openness-in-Meetings.pdf.

Further Information

If you have questions, would like further information about the meeting or require special facilities please contact: Shamus Kenny, Head of Secretariat Email: ShamusKenny@tfl.gov.uk.

For media enquiries please contact the TfL Press Office; telephone: 0343 222 4141; email: PressOffice@tfl.gov.uk

Howard Carter, General Counsel
Friday 6 January 2023

Agenda
Land and Property Committee
Monday 16 January 2023

1 Apologies for Absence and Chair's Announcements

2 Declarations of Interest

General Counsel

Members are reminded that any interests in a matter under discussion must be declared at the start of the meeting, or at the commencement of the item of business.

Members must not take part in any discussion or decision on such a matter and, depending on the nature of the interest, may be asked to leave the room during the discussion.

3 Minutes of the Meeting of the Committee held on 18 October 2022
(Pages 1 - 8)

General Counsel

The Committee is asked to approve the minutes of the meeting of the Committee held on 18 October 2022 and authorise the Chair to sign them.

4 Matters Arising, Actions List and Use of Delegated Authority
(Pages 9 - 12)

General Counsel

The Committee is asked to note the paper.

5 TTL Properties Limited Quarterly Performance Report (Pages 13 - 34)

Director and Chief Executive, TTL Properties Limited

The Committee is asked to note the Performance Report.

6 TTL Properties Limited Procurement and Commercial Strategy
(Pages 35 - 38)

Director and Chief Executive, TTL Properties Limited

The Committee is asked to note the paper.

7 TTL Properties Limited Assurance Update (Pages 39 - 52)

Director of Risk and Assurance

The Committee is asked to note the paper, the exempt supplementary information in Part 2 of the agenda and the Integrated Assurance and Audit work in progress and forward plan and approve the IIPAG-TTLP sub-group Terms of Reference.

8 Commercial Office Investment Portfolio Joint Venture (Pages 53 - 66)

Director and Chief Executive, TTL Properties Limited

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and approve additional Land Authority and the formation of a wholly owned subsidiary company.

9 Bollo Lane and West London Development Joint Venture
(Pages 67 - 74)

Director and Chief Executive, TTL Properties Limited

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and approve additional Land Authority and the formation of a wholly owned subsidiary company.

10 Build to Rent Programme Update (Pages 75 - 80)

Director and Chief Executive, TTL Properties Limited

The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and approve additional Land Authority across four of the sites.

11 Members' Suggestions for Future Discussion Items (Pages 81 - 84)

General Counsel

The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.

12 Any Other Business the Chair Considers Urgent

The Chair will state the reason for urgency of any item taken.

13 Date of Next Meeting

Thursday 23 March 2023 at 10.00am.

14 Exclusion of Press and Public

The Committee is recommended to agree to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), in order to consider the following items of business.

Part 2 Agenda

15 TTL Properties Limited Assurance Update (Pages 85 - 86)

Exempt supplementary information relating to the item on Part 1.

16 Commercial Office Investment Portfolio Joint Venture
(Pages 87 - 108)

Exempt supplementary information relating to the item on Part 1.

17 Bollo Lane and West London Development Joint Venture
(Pages 109 - 114)

Exempt supplementary information relating to the item on Part 1.

18 Build to Rent Programme Update (Pages 115 - 124)

Exempt supplementary information relating to the item on Part 1.

Agenda Item 3

Transport for London

Minutes of the Land and Property Committee

**Conference Rooms 1 and 2, Ground Floor, Palestra,
197 Blackfriars Road, London, SE1 8NJ
11.00am, Tuesday 18 October 2022**

Members of the Committee

Professor Greg Clark CBE (Chair)
Dr Nina Skorupska CBE (Vice Chair)
Heidi Alexander
Seb Dance
Ben Story (via Teams)

Board Members

Marie Pye

Greater London Authority Observer

Lyn Garner Chief Executive London Legacy Development Corporation (via Teams)

Executive Committee

Alex Williams Interim Chief Customer and Strategy Officer

Staff

Graeme Craig	Director, Commercial Development
Andrea Clarke	Director of Legal (for Howard Carter, General Counsel)
Justine Curry	Head of Commercial Law (via Teams)
Margaret Deegan	Head of Property and Planning Law (via Teams)
Patrick Doig	Group Finance Director (via Teams)
Mark Farrow	Director of TTLP Strategy and Planning
Lester Hampson	Property Development Director, Commercial Development (via Teams)
Joanna Hawkes	Corporate Finance Director and Chief Finance Officer, TTLP
Emma Hatch	Senior Property Manager
Lorraine Humphrey	Director of Risk and Assurance
Paul Hymers	Head of Business Partnering (via Teams)
Shamus Kenny	Head of Secretariat
Daniel Lovatt	Director of Asset Management (via Teams)
Martin Mohammed	Senior Property Manager
Heather Renton	Head of Governance and Compliance, TTLP

Independent Investment Programme Advisory Group

Ray Christopher	Chair, TTLP Sub-Group
Peter Cornforth	Member, TTLP Sub-Group
Derek Williams	Member, TTLP Sub-Group
Joanne White	Member, main group

12/10/22 Apologies for Absence and Chair's Announcements

An apology for absence had been received from Anne McMeel. Howard Carter, General Counsel, was also unable to join the meeting and was being represented by Andrea Clarke. Ben Story was attending the meeting via Teams and was able to take part in the discussions but did not count toward the quorum. The meeting was quorate.

The Chair welcomed everyone to the meeting of the Committee, including Marie Pye, who was observing, Ray Christopher, Peter Cornforth and Derek Williams of the Independent Investment Programme Advisory Group (IIPAG) TTLP Sub-Group and Joanne White of IIPAG. The meeting was being broadcast live on TfL's YouTube channel to ensure the public and press could observe the proceedings and decision-making.

The Chair reminded those present that safety was paramount at TfL and encouraged Members to raise any safety issues during discussions on a relevant item or with TfL staff after the meeting.

13/10/22 Declarations of Interests

Members confirmed that their declarations of interests, as published on tfl.gov.uk, were up to date and there were no interests to declare that related specifically to items on the agenda.

14/10/22 Minutes of the Meeting of the Committee held on 30 June 2022

The minutes of the meeting of the Committee held on 30 June 2022 were approved as a correct record and the Chair was authorised to sign them.

15/10/22 Matters Arising, Actions List and use of Delegated Authority

Andrea Clarke introduced the item. The use of delegated authority would be a standing item on the agenda for this Committee, as it was for the Finance Committee and the Programmes and Investment Committee. The only item to report was the use of Land Authority by the Chief Finance Officer in relation to the disposal of land at Aldgate High Street.

All actions from the inaugural meeting, on 30 June 2022, related to future papers and briefings and were captured in the forward plan, elsewhere on the agenda.

The Committee noted the paper.

16/10/22 TTL Properties Limited Half-Year Performance

Graeme Craig, Lester Hampson and Daniel Lovatt summarised the financial and operational performance of TTL Properties Limited (TTLP) in the first half of 2022/23. It linked to the paper on Investment, Business and Corporate Planning 2023/24, elsewhere on the agenda (Minute 17/10/22), and informed the strategic activity TTLP was undertaking over the next six months to be ready for the financial year 2023/24.

The paper covered the market context, financial performance, capital, operational performance and property development. The uncertain economic outlook provided challenges for TTLP and its tenants but TTLP's increasingly diverse asset base helped protect revenue at the business level. The long-term approach of investment and steady asset growth also created a more resilient business that could better withstand short-term economic downturn.

TTLP's capital commitments would be taken forward cautiously to ensure resilience and liquidity through economic cycles. TTLP would aim to deliver throughout the property cycle, accepting that its returns would not always be as high as would otherwise have been the case. Market conditions would be continuously reviewed, while bringing forward medium-density, high-amenity, high-accessibility, low-carbon places that supported vibrant life and commerce. TTLP was confident that it was well placed to meet its long-term targets.

Results from the first six months showed income, costs and operating margin performing better than budget. The best performing sector, Arches, had recently piloted an integrated operating model that would be rolled out to other sectors. More needed to be done to drive forward capital project delivery to unlock future revenue growth, and this would include investment in resource and a new, more efficient approach to procurement.

Housing delivery remained challenging in the current market, though TTLP was starting to operate at or above the pace required to deliver 20,000 homes over the next 10 years. The developments planned with Grainger and the Bollo Lane development accounted for around 75 per cent of the target and progress was being made with both. The start on some build to rent sites had been delayed as value engineering was required due to cost inflation and there was a significant underspend on asset management, which was being addressed. The supply of power, particularly in west London, remained a concern but work was progressing to resolve this. The housing programme, along with commercial office developments and investment in the existing estate, would transform TTLP's finances and the capital itself in the years ahead.

Recruiting and mobilising staff within TTLP remained a key challenge.

While TTLP's voids performance compared well to the market, it recognised the need to improve in this area as it would unlock significant value.

TfL had engaged well with its tenants during the coronavirus pandemic, which had built up goodwill and trust and was reflected in rental income despite the current economic uncertainty. Senior managers engaged with tenants regularly and had processes in place to assess credit risks and ability to pay, so that sound and rational judgements could be made on how to support them.

TTLP also had regular engagement with its delivery partners as it sought to develop strategic relationships with shared values, which did not undermine the competitive process but allowed learning from each project to be applied to future projects.

Members discussed some of the key developments including the largest, Earls Court where the recent inclusion of the Lille Bridge Depot site increased opportunities on the site and would bring operational and financial benefits to TfL with the relocation of the depot. A site visit to see the proposed development site at Earls Court would be arranged.

[Action: Secretariat]

Members welcomed the performance report. The TTLP management team would evolve the reporting to provide similar information to listed peers in their half-year and annual reports. Members were keen to see key performance indicators and profit and loss summaries for each business area and key developments would include occupancy, void performance and yield.

[Action: Graeme Craig]

The Committee noted the paper.

17/10/22 Investment, Business and Corporate Planning 2023/24

Graeme Craig introduced the item, which set outlined the strategic activity TTL Properties Limited (TTLP) was undertaking over the next six months in preparation for the financial year 2023/24. This activity built on the current TTLP Investment Strategy and Business Plan, discussed at the meeting on 30 June 2022, and reflected TTLP's half-year performance and the wider market conditions.

Significant work had been undertaken on the development of the TTLP Purpose, which included a vision statement and nine operating principles, which aligned with TfL's Vision and Values. By April 2023, this work would be extended through the creation of a new document that would outline TTLP's purpose and vision and its corporate objectives, along with the measurement criteria to achieve these. This document, alongside the Investment Strategy, Environmental, Social and Governance (ESG) Strategy and Business Plan would set out how TTLP would deliver its Corporate Strategy.

The Investment Strategy provided a framework for investment decisions to enable TTLP to deliver its objectives in a way that maximised returns and mitigated risks. The two primary objectives were to generate sustainable and growing net income and to deliver new homes and communities. The first Investment Strategy provided long-term direction and the next iteration would be updated to apply lessons from current performance and to reflect current market conditions.

TTLP was also developing its first consolidated ESG Strategy which was key to the financial sustainability of its portfolio and would demonstrate the significant potential of TTLP's business to deliver environmental and social benefits to London. The development of the Strategy focused on understanding and responding to the ESG market and regulatory opportunities and the risks to the property portfolio. The Strategy would include short-term priorities, including environmental impact, social value, customer experience and unlocking value. The ESG would build on TTLP's existing GRESB accreditation, which currently applied to property development only, which ranked TTLP as the most diverse developer in the UK and the third in the

world. TTLP aspired to be net zero by 2030 but recognised this required investment in its existing estate.

The emerging Investment Strategy for 2023/24 would directly inform the Business Plan update for April 2023. The updated Plan would focus in detail on the short-term including known and committed projects, with a high-level update on the medium and long-term elements.

Given the scale of TTLP's assets, it was reviewing its digital and data capabilities with the overall goal of creating processes, systems and data that reflected a commercial property business rather than a department in an operational transport organisation. 'Digitally Connected' was one of TTLP's nine Operating Principles and was pivotal to achieving its Vision. TTLP Digital would deliver technology, data and innovation capabilities that maximised the value and return of TTLP's assets through enabling data-driven decision making and driving transformation across the organisation. The initial focus would be on bringing in new skills and ways of working and supporting ongoing data improvement to enable the business to take data-informed decision.

People were the single most important element for the success of TTLP. By the end of 2022, TTLP would have set out the core principles of its new People Plan to establish TTLP as an employer of choice, capable of attracting, recruiting, rewarding and retaining a diverse, high-performing workforce that reflects the city it served. The People Plan would be in place by April 2023.

An update on the development of these documents would be reported to the next meeting, ahead of their submission to the meeting in March 2023. The Committee would then receive regular progress reports on their delivery

Members would sponsor different elements of TTLP's work:

- (a) Branding and Position – Ben Story;
- (b) ESG (with an initial focus on energy systems and electric vehicle (EV) charging) – Dr Nina Skorupska CBE; and
- (c) Finance and Assurance – Anne McMeel.

TTLP was keen on building communities and placemaking sustainable spaces. It was looking at logistics that would support new town centres and it was working with stakeholders, small and medium enterprise tenants and boroughs to ensure that local needs were met. This included the provision of support and services and social spaces that enabled communities to easily communicate to encourage local buying, movement of staff and collaboration.

Consideration was also being given to reducing costs such as heating by looking at communal systems, though developments in this area moved quickly and systems that were affordable now could quickly become out of date. Work was also being undertaken on supporting the strategic approach of the Greater London Authority and TfL on the provision of EV charging solutions.

The Committee noted the paper.

18/10/22 TTL Properties Limited Assurance Update

Lorraine Humphrey introduced the item and the information on Part 2 of the agenda, which provided an update on progress with programme assurance activity across TTL Properties Limited (TTLP) during Quarter 2 of 2022/23 (26 June to 17 September 2022).

The recruitment to the Independent Investment Programme Advisory Group (IIPAG) TTLP Sub-Group had been completed, with the appointments of Ray Christopher (Chair), Peter Cornforth and Derek Williams. The Sub-Group formed an essential part of the assurance framework for the work of TTLP and would be an invaluable resource for the Committee. Ray Christopher would attend future meetings, with other members of the Sub-Group and Joanne White of the main group supporting where required.

The Integrated Audit and Assurance Schedule, appended to the paper, set out the indicative workplan of continuous assurance and targeted reviews for the next six-months. Staff from the London Legacy Development Corporation would also support peer reviews. TTLP welcomed the assurance framework and assurance approach. Risk owners would attend meetings as required.

Members discussed risks relating to finance – including current economic conditions impacting both tenants and the supply chain, market conditions, stakeholders and security (including cyber security) and the importance of learning lessons from similar enterprises.

The Committee noted the paper and the exempt supplementary information in Part 2 of the agenda and approved the Integrated Audit and Assurance Schedule at Appendix 1.

19/10/22 Members' Suggestions for Future Discussion Items

Andrea Clarke introduced the forward plan for the Committee. Members had agreed to lead on specific areas of the Committee's work and several briefings and site visits were planned.

A performance report would be a standing item and include updates on the market context, as this was an overriding risk.

Work had been commissioned on the approach to housing provision in other world cities and this would be the subject of a future briefing.

The item on TTLP's commercial strategy, scheduled for the next meeting, would include information on the approach to procurement.

The Committee noted the forward plan.

20/10/22 Any Other Business the Chair Considers Urgent

There was no other urgent business to discuss.

21/10/22 Date of Next Meeting

The next scheduled meeting of the Committee would be held on Wednesday 18 January 2023 at 10.00am.

22/10/22 Exclusion of the Press and Public

The Committee agreed to exclude the press and public from the meeting, in accordance with paragraph 3 of Schedule 12A to the Local Government Act 1972 (as amended), when it considered the exempt information in relation to the item on TTL Properties Limited Assurance Update.

The meeting closed at 1.00pm.

Chair: _____

Date: _____

[page left intentionally blank]

Land and Property Committee

Date: 16 January 2023



Item: Matters Arising, Actions List and Use of Delegated Authority

This paper will be considered in public

1 Summary

- 1.1 The use of delegated authority is a standing item on the agenda to inform the Committee of any use of delegated authority by the Committee, through Chair's Action or of Procurement or Land Authority (in respect of matters within the Committee's remit) granted by the Commissioner and the Chief Finance Officer in accordance with delegated authorities under TfL's Standing Orders since the last meeting of the Committee. The paper also provides information on Mayoral Directions to TfL within the Committee's remit. The paper also reports on progress against actions from previous meetings.
- 1.2 Since the meeting of the Committee on 18 October 2022, there have been: no uses of Chair's Action, nor uses of Procurement Authority by the Commissioner or the Chief Finance Officer; and no Mayoral Directions to TfL within the remit of the Committee.
- 1.3 Land Authority was exercised by the Chief Finance Officer in relation to the Build to Rent programme and Land Authority was also exercised to enter into two co-terminus leases at Buckingham Palace Road by the Chief Finance Officer and the Commissioner.
- 1.4 Similar papers are submitted to the Finance Committee and the Programmes and Investment Committee in respect of any use of Chair's Action or Procurement Authority, Programme and Project Authority and Land Authority granted by the Commissioner and the Chief Finance Officer in respect of matters within the remit of those Committees, together with relevant Mayoral Directions.
- 1.5 The only actions from the inaugural meeting of the Committee on 30 June 2022 related to setting up briefings and agreement to future agenda items. These are addressed in the forward plan elsewhere on the agenda.

2 Recommendation

- 2.1 The Committee is asked to note the paper.

3 Use of Authority Delegated by the Board

- 3.1 There has been no use of authority delegated by the Board since the last meeting.

4 Use of Chair's Action

- 4.1 Under Standing Order 113, in situations of urgency, the Board delegates to each of the Chair and the Chairs of any Committee or Panel the exercise of any functions of TfL on its behalf, including the appointment of Members to Committees and Panels. Any use of Chair's Action is reported to the next ordinary meeting.

4.2 There have been no uses of Chair's Action since the last meeting.

5 Procurement and Land Authority Approvals

- 5.1 Procurement Authority is the authority to make a binding or contractual commitment with a supplier for the purchase of goods, services, land or works or to receive income arising from TfL Group activities in the areas of goods, services, land or works.
- 5.2 Land Authority is the authority to engage in a Land Transaction or to dispose of any assets.
- 5.3 The Board had delegated to the Committee approval of unlimited Financial Authority, Procurement Authority and Land Authority in relation to Transactions and Commercial Development opportunities. The approvals delegated to the Commissioner and the Chief Finance Officer are set out in the Table of Authorities in Standing Order 170.
- 5.4 Since the last meeting, there has been no use of delegated authority to approve Procurement Authority by the Commissioner. The Chief Finance Officer and the Commissioner approved Land Authority to enter into two co-terminus leases at Buckingham Palace Road.
- 5.5 The Chief Finance Officer also approved Land Authority in relation to Build to Rent programme. Further information is provided in a separate paper elsewhere on the agenda for this meeting.

6 Mayoral Directions to TfL

- 6.1 The Greater London Authority (GLA) Act 1999 (as amended), permits the Mayor to issue to TfL general directions as to the manner in which TfL is to exercise its functions or specific directions as to the exercise of its functions (or not to exercise a power specified in the direction). Directions are also often made in relation to the implementation of matters in respect of which the Mayor delegates statutory powers to TfL.

- 6.2 The Mayor makes Mayoral Directions through Mayoral Decisions. Papers for Mayoral Directions set out the financial and other implications. If those implications change over time, that will be reported to the GLA.
- 6.3 All Mayoral Decisions are issued in writing, with the information that is not exempt from publication included on the GLA's Decisions Database on its website: <https://www.london.gov.uk/about-us/governance-and-spending/good-governance/decisions?order=DESC>.
- 6.4 Mayoral Directions fall into three broad categories: those addressing technical issues relating to statutory powers; those related to commercial development activities; and those related to projects and programmes. Mayoral Directions relating to TfL are reported to the Board's Committees for discussion as soon as possible after they are received by TfL or published. Regular reports will list the relevant Directions for as long as they are applicable.
- 6.5 Annually the Audit and Assurance Committee considers the list as part of its consideration of the annual audit plan to ensure that appropriate audit resource is applied to assurance on TfL's work in implementing Mayoral Directions. This will also be kept under review at each quarterly meeting of that Committee.
- 6.6 A summary of current Mayoral Directions to TfL is maintained on the "How we are governed" page on our website, with links to the relevant Mayoral Decisions: <https://tfl.gov.uk/corporate/about-tfl/how-we-work/how-we-are-governed>. That page will be updated as and when further Directions are made.
- 6.7 Mayoral Directions to TfL addressing technical issues with our statutory powers are reported to this Committee.
- 6.8 There have been no Directions issued to TfL within the remit of the Committee since the last meeting.

List of appendices to this report:

Appendix 1: Actions List.

List of Background Papers:

Minutes from the previous meeting of the Committee.
Greater London Authority Decision Making Database.

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

Appendix 1

Land and Property Committee Actions List (to be reported to the meeting on 16 January 2023)

Actions from the meeting held on 18 October 2022

Minute No.	Item/Description	Action By	Target Date	Status/Note
16/10/22 (1)	TTL Properties Limited Half-Year Performance: Earls Court Site Visit A site visit to see the proposed development site at Earls Court would be arranged.	Secretariat	November 2022	Completed: Visit held 25 November 2022.
16/10/22 (2)	TTL Properties Limited Half-Year Performance: Future content The TTLP management team would evolve the reporting to provide similar information to listed peers in their half-year and annual reports. Members were keen to see key performance indicators and profit and loss summaries for each business area and key developments would include occupancy, void performance and yield.	Graeme Craig	January 2023 and ongoing	Enhancements have been made to the Performance Report on the agenda and this will continue to evolve.

There are no outstanding actions from previous meetings.

Land and Property Committee



Date: 16 January 2023

Item: TTL Properties Limited Quarterly Performance Report

This paper will be considered in public

1 Summary

- 1.1 This paper summarises the market context and the financial and business performance of TTL Properties Limited (TTLP).

2 Recommendation

- 2.1 The Committee is asked to note the Performance Report.

List of appendices to this report:

Appendix 1: TTLP Quarterly Performance Report

List of Background Papers:

None

Contact Officer: Graeme Craig, Director and Chief Executive, TTL Properties Limited

Email: graemecraig@tfl.gov.uk

[page left intentionally blank]

TTLP Quarterly Performance Report

16 January 2023

1

Market Context

- General
- Market conditions by Sector

2

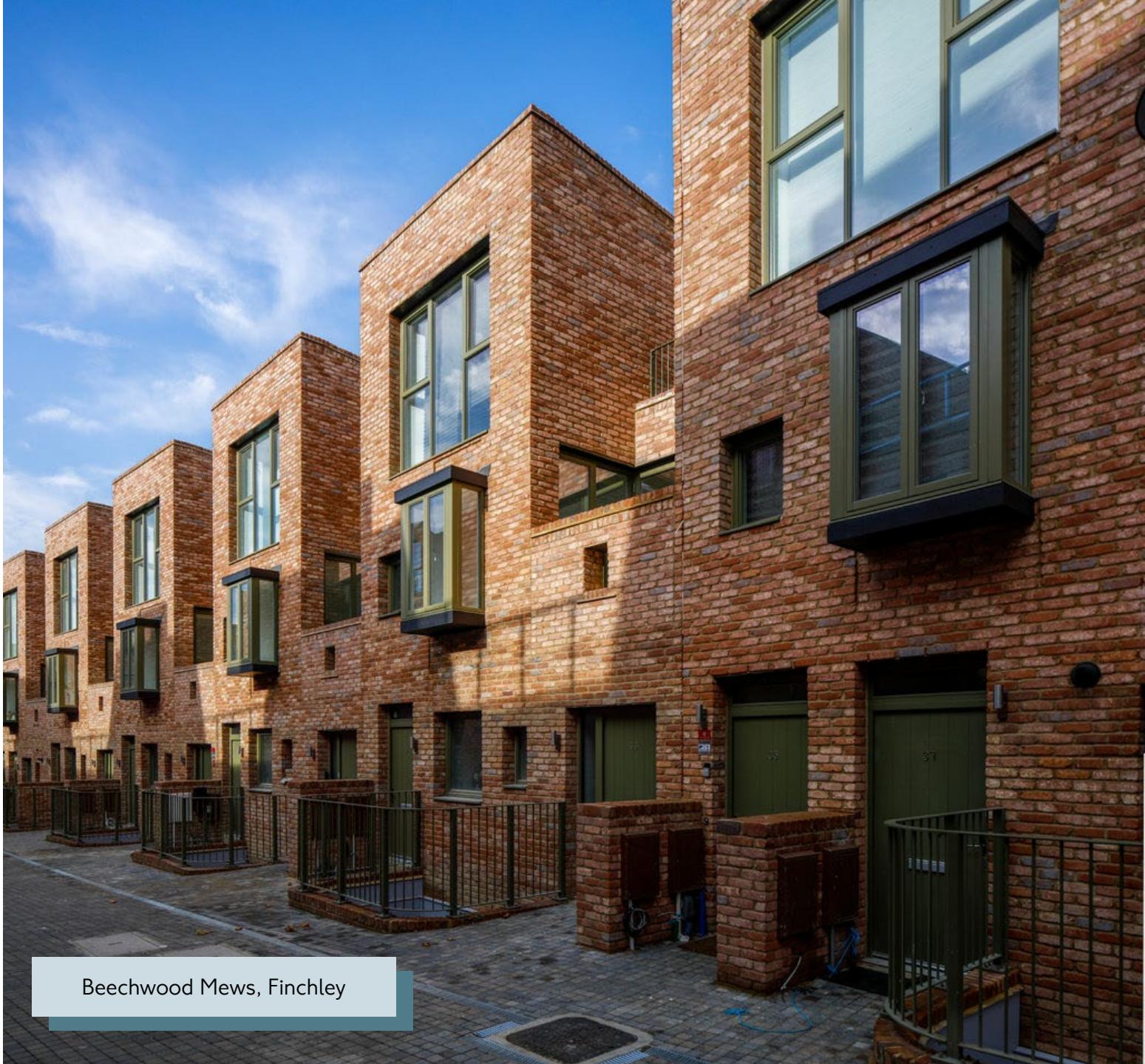
Financial Performance

- Financials against Budget
- Investment Metrics

3

Business Performance

- Homes
- Transport
- Project Delivery
- Our People



Beechwood Mews, Finchley

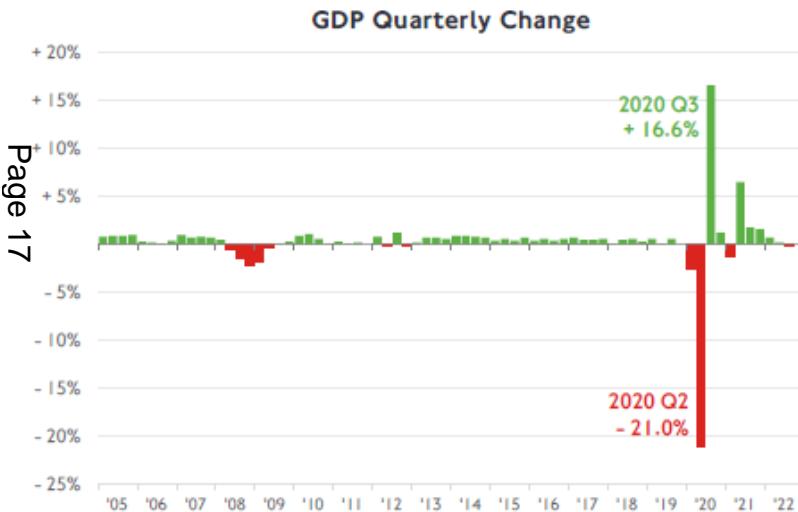


Tart Modern at Baker Street

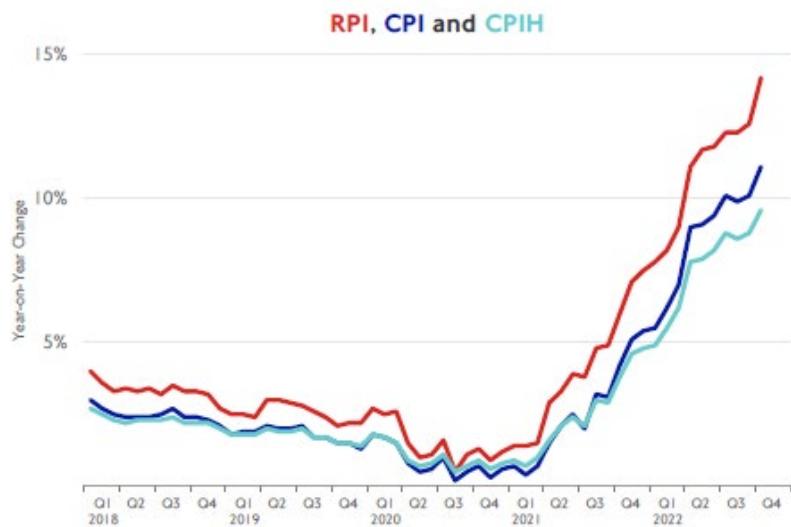
Market Context

Economic outlook is challenging, with high inflation and energy prices driving the cost-of-living crisis

GDP Growth



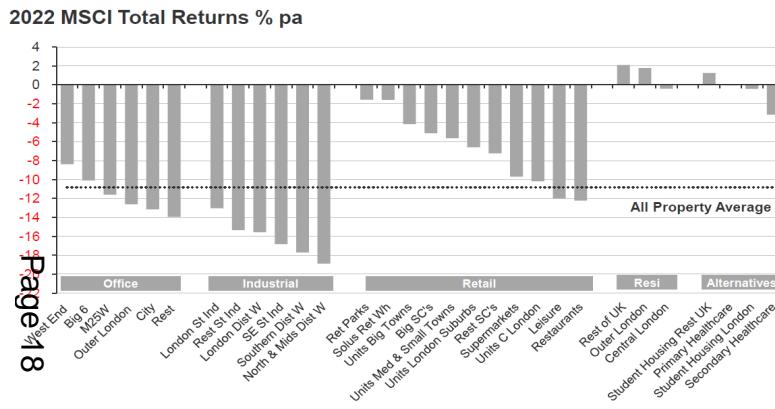
Inflation



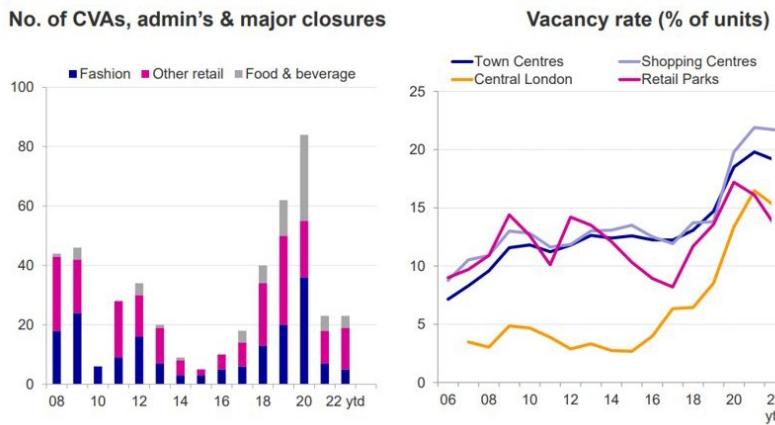
- In a very challenging economic environment, the real estate market has been broadly resilient to date, but we are beginning to see softening of retail income.
- Within TTLP Asset Management, challenges include increasing costs, rental income not keeping pace with inflation, an increase in bad debt, and lengthened time to fill voids and complete lease renewals.
- TTLP Property Development is facing increases in the cost of materials and labour, lower capacity for debt and higher equity requirements impacting Internal Rate of Return.
- TTLP's long-term approach – diversifying the estate and investing in multi-use hubs to encourage sustainable asset growth – will make the business more resilient to economic headwinds.

Retail will see the biggest impact

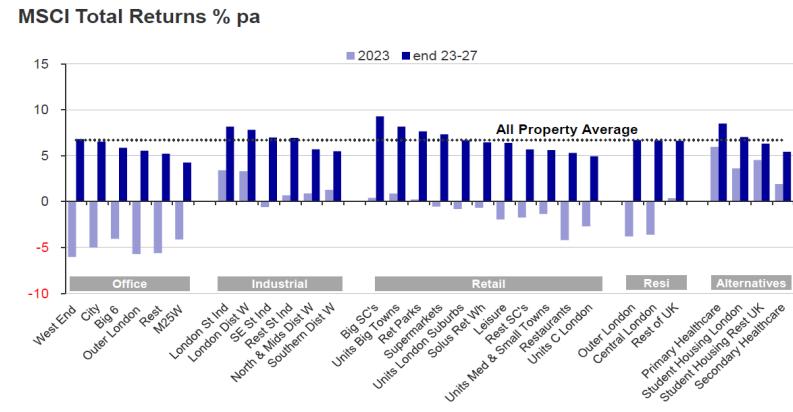
All property returns c.-11% this year, with industrials hit hardest, while alternatives and resi most resilient



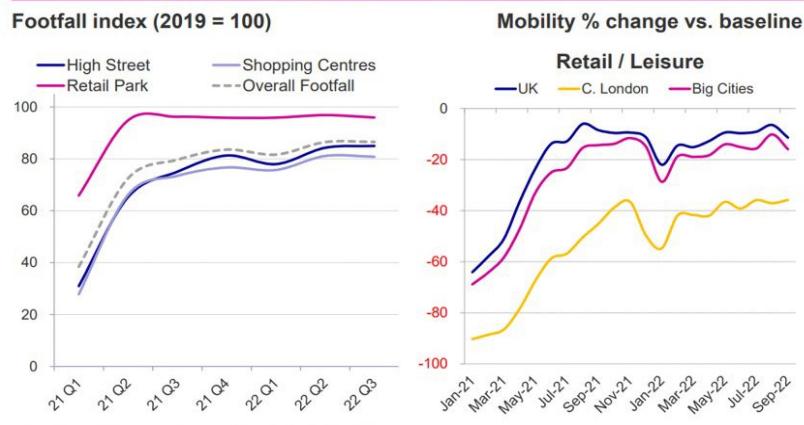
Retail vacancy has moderated, but a risk of renewed increase in 2023



From late 2023, recovery may be led by re-priced London (excl. retail) and prime regional retail



Retail footfall overall has not fully recovered, most notably for town centre space and Central London



- Office, industrial and retail sectors across the economy saw diminishing returns – capital growth and income – during 2022.
- In general, TTLP's retail assets are more resilient than many in the market due to their proximity to transport nodes, but with retailers still cautious about negotiating deals given macro-economics, we do not expect to see significant rental growth in the next 12 months.
- Demand for retail and restaurants are generally bouncing back in central London (although cost of living crisis may dampen this). The most successful areas (e.g. Soho, Kings Road) have a robust customer profile, and strong identity as a location.
- We continue to work with our customers and monitor the market closely and will take account of longer-term trend forecasts in strategic investment decisions on existing and potential new sectors.

Pricing growth on both London office and residential

Despite mounting economic headwinds, the Central London Office market remains remarkably healthy

Quarterly take-up 2.4m sq ft Down quarter on quarter	YTD take-up 7.5 million sq ft Up year on year	Under offer 3.0 million sq ft Up quarter on quarter	Active demand 7.8m sq ft Stable quarter on quarter
Overall vacancy rate 8.1% Up quarter on quarter	New build vacancy rate 1.3% Down quarter on quarter	Prime office rent £125 per sq ft Up quarter on quarter	Quarterly investment £3.2 billion Up quarter on quarter

- On commercial office, the shortage of good quality stock continues to support higher rents across Central London.
- Steady growth is anticipated in both the City and West End at 2.0% per annum over the next five years though growth expectations have been scaled back in the short term.
- Rental uplifts are expected to be sustained for the best office space, reflecting the ongoing ‘flight to quality’.
- In housing, the Q4 Nationwide House Price Index shows prices in London rose 4.1% in Q4 2022 compared with the same three months in 2021, averaging £528,000 - this compares with growth UK wide of 4.8%.
- For the rental market, the Homelet Index shows annual growth in achieved rents of 14.6% in December 2022, the highest growth of any UK region, with average London rents reaching £2,007 per month in December 2022.





Fenwick construction site, Lambeth

Financial Performance

Operating performance is better than budget

Operating Account	YTD			Full Year		
	Actuals £'000's	Budget £'000's	var £'000's	Draft Q2 Fcst	Budget £'000's	Prior Yr £'000's
Retail	21.3	21.3	0.0	35.8	35.4	31.0
Arches	6.9	5.5	1.4	11.4	8.9	10.6
Offices	1.3	2.6	(1.4)	2.7	4.2	3.0
Residential	0.9	0.8	0.1	1.3	1.3	1.5
NCP Car Parks	9.8	8.4	1.4	14.2	13.6	10.5
Lease Car Parks	1.5	1.7	(0.3)	2.4	2.8	2.7
Infrastructure Property income	9.0	7.0	2.0	12.2	11.6	19.8
Total Property Income	50.7	47.4	3.3	79.9	77.8	79.0
Maintenance	(2.9)	(3.5)	0.6	(7.5)	(6.9)	(3.7)
Car park and other direct management costs	(3.3)	(3.5)	0.2	(6.1)	(6.0)	(5.0)
Rental Costs	(1.5)	(1.3)	(0.2)	(2.5)	(2.3)	(1.7)
Other direct property costs	(4.2)	(2.1)	(2.1)	(5.0)	(3.5)	(3.7)
COVID relief credits added back into income	-	-	-	-	-	(4.1)
Bad Debt expense	(1.8)	(2.4)	0.6	(2.2)	(3.0)	(8.7)
Total Direct Property costs	(13.8)	(12.8)	(1.0)	(23.3)	(21.7)	(27.0)
Net Property Income	36.9	34.6	2.3	56.6	56.1	52.0
Net Property Margin %	73%	73%	-	71%	72%	66%
Property JV and Other Income	0.0	0.4	(0.4)	18.9	17.7	1.0
Staff Costs	(12.3)	(13.0)	0.6	(20.5)	(22.4)	(18.8)
Legal and Professional fees	(2.7)	(5.2)	2.5	(8.3)	(8.6)	(6.0)
Other indirect property costs	(1.9)	(2.1)	0.3	(3.6)	(3.5)	(3.4)
Exceptional costs	(0.0)	-	(0.0)	(0.0)	-	(4.1)
Operating Surplus / (Deficit) (before TfL Management Fees)	19.9	14.6	5.3	43.0	39.2	20.7
Management Fee Cost	(5.0)	(6.9)	1.9	(7.6)	(11.0)	(6.4)
Operating Surplus / (Deficit)	14.9	7.7	7.2	35.4	28.1	14.3
Operating Surplus Margin %	29%	16%	-	36%	29%	18%

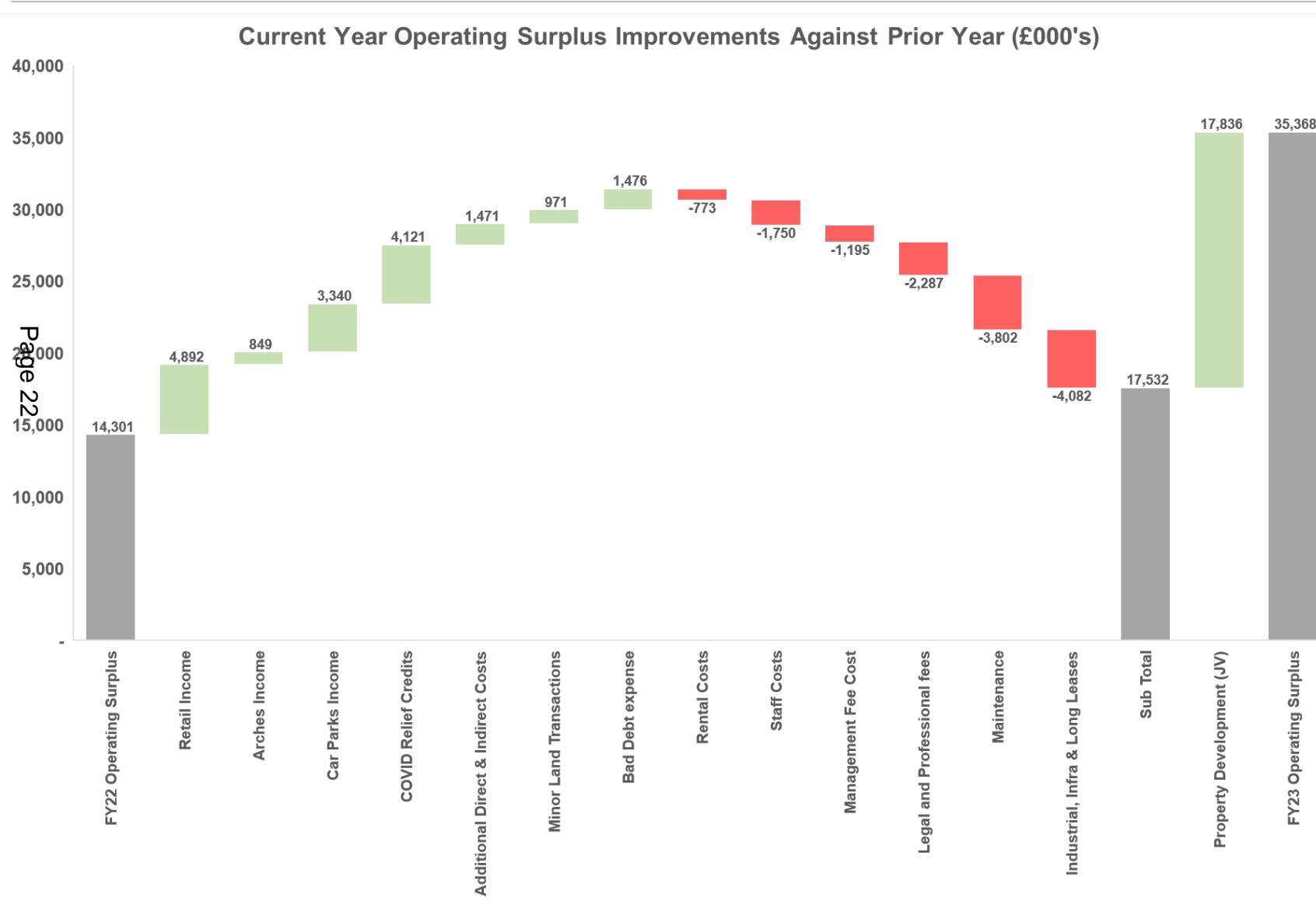
Year-to-Date Operating Surplus £14.9m - £7.2m higher than Budget:

- Retail income remains on track
- +£1.4m Arches income, from continued focused effort to reduce voids
- +£1.4m Car Parking income with continued high utilisation
- +£2.0m Infrastructure from inclusion of additional bus garages and other properties.

Full Year Operating Surplus forecast to be £35.4m, £7.2m better than budget:

- Income forecast to exceed budget, with Arches a key driver of the success
- Direct costs forecast to increase, due to maintenance requirements and pressure on Rates and Utilities.
- Staff costs down due to 61 unfilled vacancies.

Operating surplus has risen year on year



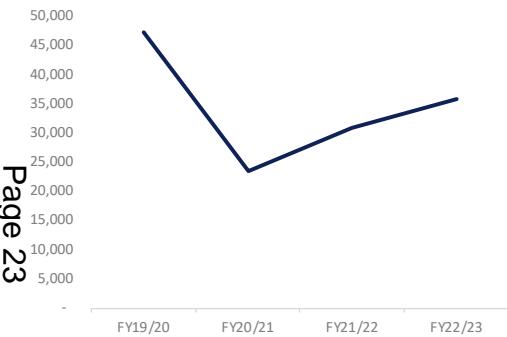
Year-on-year recurring revenue + £3m (22%):

- Retail income +£5m
- Car Park income +£3m
- COVID credits +£4m
- Direct costs +£2m
- Maintenance -£4m
- Consultancy -£2m
- Industrial, Long Leases -£4m
- Additional £17m upside due to joint venture development profit at Blackhorse View.

Year-on-year total operating surplus + £21m

Trends in our income vary by sector

Retail	Income FY Pre-Post Covid		Covid Recovery
	£47.24m	£35.84m	76%



Arches	Income FY Pre-Post Covid		Covid Recovery
	£11.26m	£11.4m	101%



Residential	Income FY Pre-Post Covid		Covid Recovery
	£2.43m	£1.28m	53%



Page 23

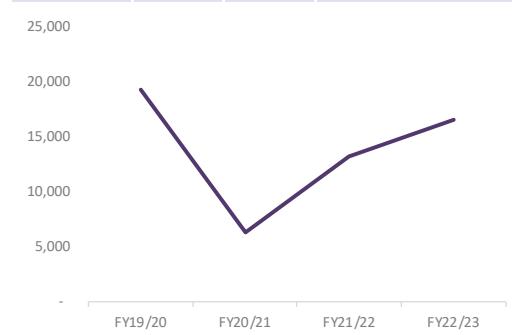
Industrial & Other	Income FY Pre-Post Covid		Covid Recovery
	£14.15m	£11.76m	83%



Offices	Income FY Pre-Post Covid		Covid Recovery
	£5.99m	£2.66m	44%

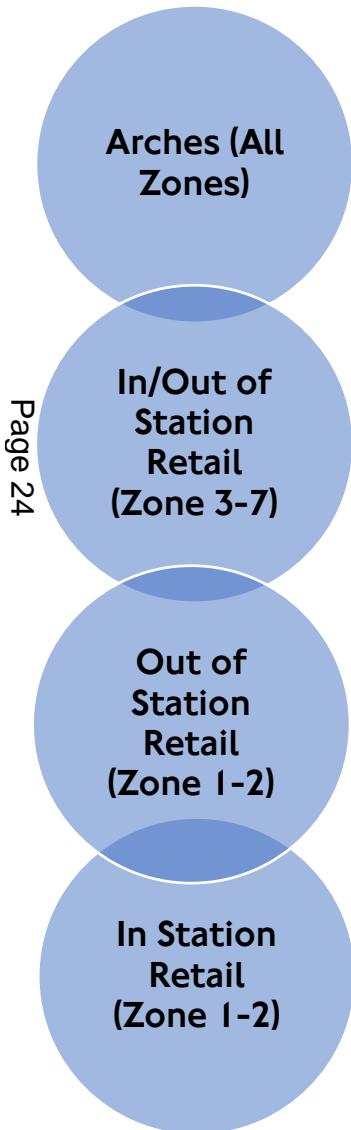


Car Parks	Income FY Pre-Post Covid		Covid Recovery
	£19.31m	£16.54m	86%



- TTLP Arches is now exceeding pre-pandemic performance, and the strategy in this area – focused on voids, arrears and collections – will be extended to other sectors during 2023.
- Car park income has grown steadily, however this will drop off as car parks are vacated for residential development, supporting the Mayor's Transport Strategy, the London Plan and TTLP's ESG agenda.
- Retail income is recovering but remains most impacted by market conditions.
- Long-term growth in income from residential and office sectors is dependent on Built to Rent and the new commercial office joint venture, though some smaller refurbishment and development projects will also be done.
- More work is needed to understand growth potential, particularly in industrial and logistics.

Impact of post-pandemic behavioral change



Effects of the Pandemic

Arches – Arches are situated in the heart of London communities and the Working From Home (WFH) trend has clearly benefitted Arches' performance with people spending more locally

In/Out of Station (Z3-7) – Has experienced the most significant change due to reduced footfall and a historic reliance on coffee and 'grab and go' that is now less popular

In/Out of Station (Z1-2) – Commuters and tourists are returning, with a clear pattern of increased patronage from those with a Tuesday to Thursday working week and tourists driving demand at weekends

Our Response

Arches – Focus on a local offer bespoke to the community and its needs – we are piloting this approach at Kilburn

In/Out of Station (Z3-7) – This area will be a key focus in our customer research, with Asset Plans focused on balancing identified local need as well as a changing commuter requirements

Out of Station (Z1-2) – Focus on creating station 'hubs' with a mix of flexible uses that can change with demand – we will pilot this approach at Whitechapel, Baker Street and Victoria

In Station (Z1-2) – Stations as end-of-journey destinations, curating the offer to meet the demands of modern working while meeting the 'grab and go' need

Our Asset Management Philosophy

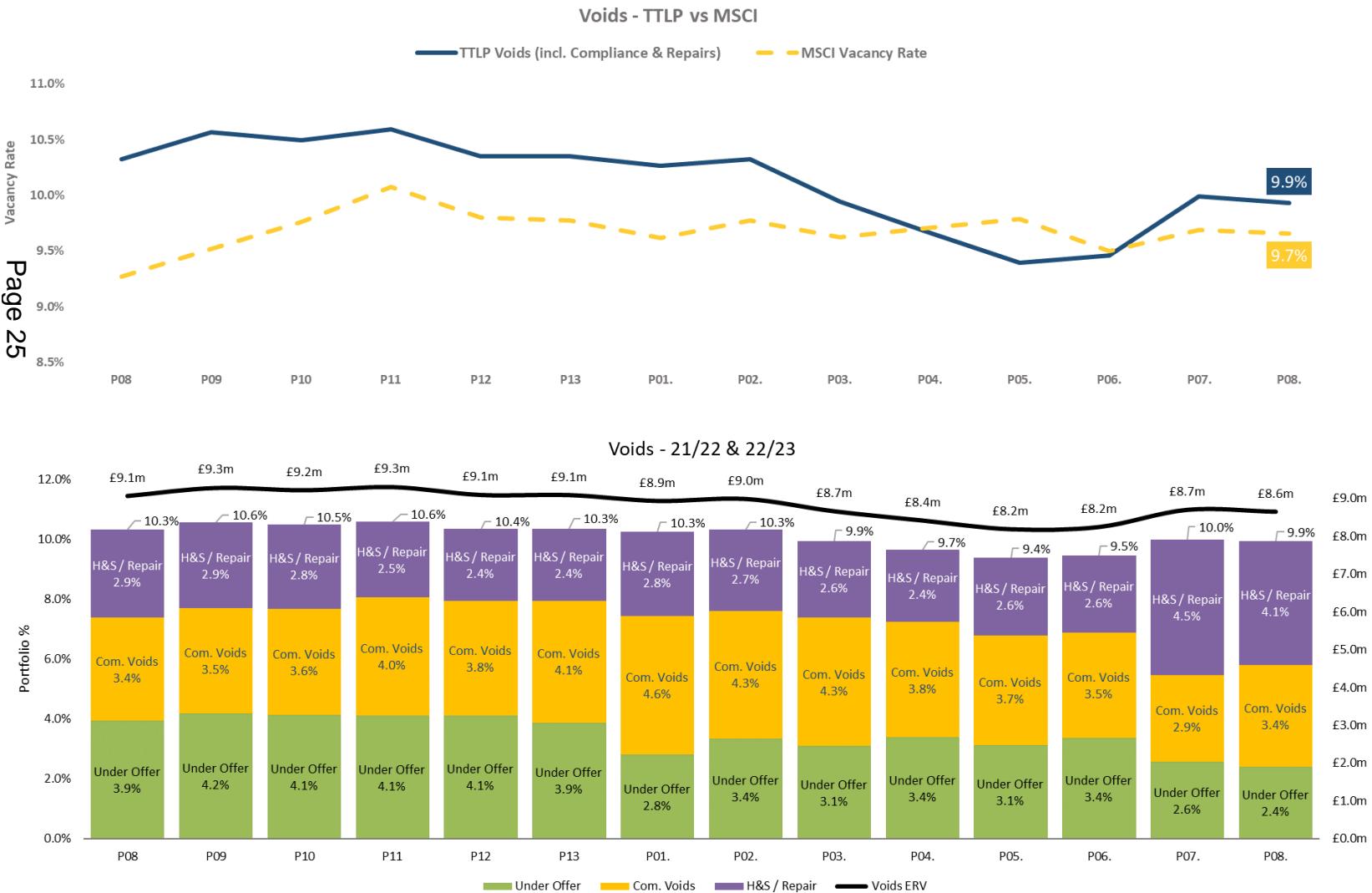
We are currently in a period of unprecedented cultural and behavioural change driven by the impacts of the pandemic – as a result our approach to asset management must evolve.

We must dig deeper using data, insights and segmentation to understand what our assets can deliver in financial terms as well as the social value they can deliver for communities, commuters and visitors to London.

We are looking afresh at our major stations to create vibrant flexible 'all-day' destinations that positively attract people – this will ultimately increase usage across TfL's network.

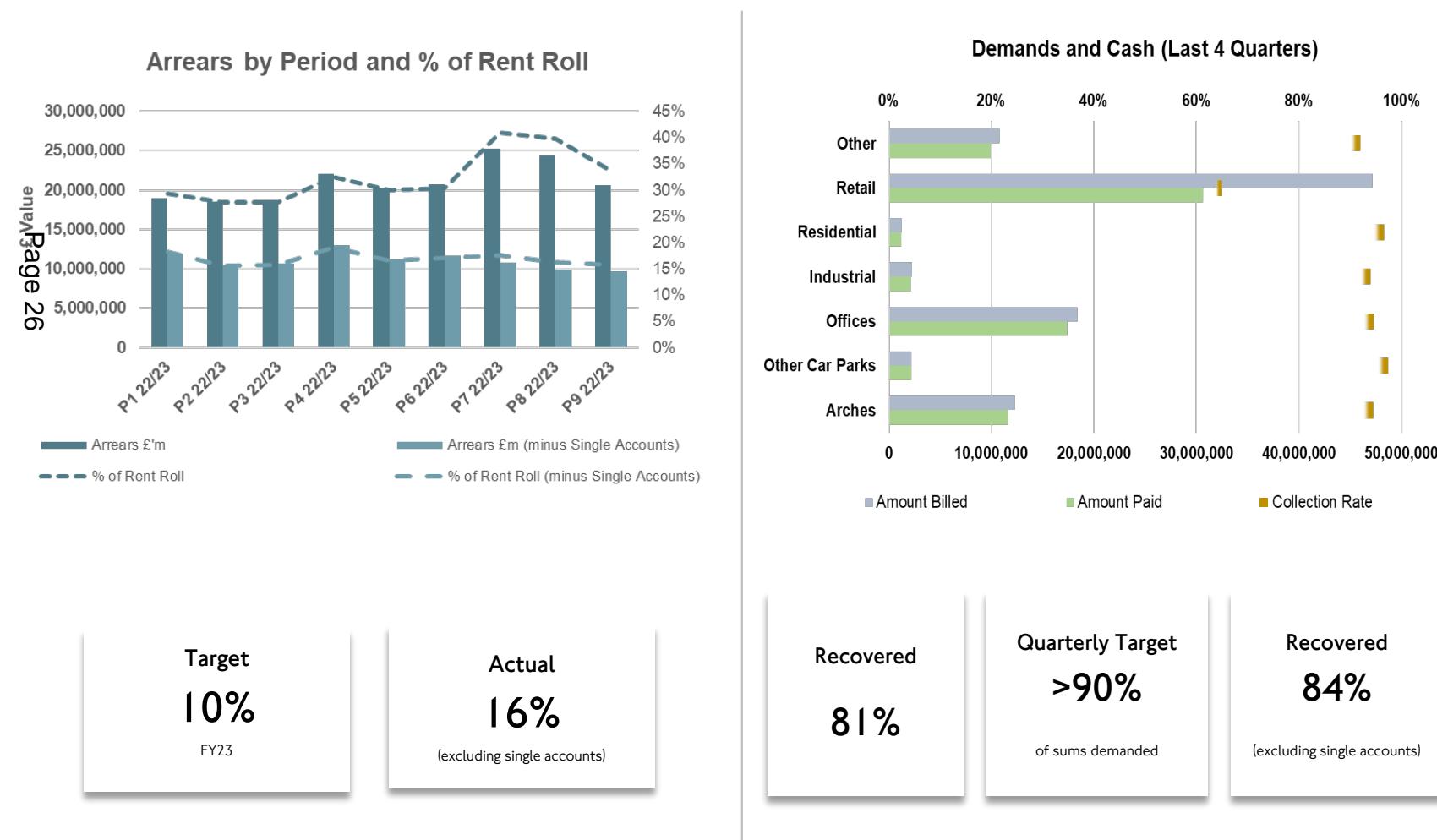
We have started to create schemes at Kilburn Arches, working closely with the local community to understand its needs – and we are utilising flexible space with providers like SOOK to meet changing consumer demand throughout the day and week.

TTLP's void rate has risen and is now slightly higher than the market



- Reductions in the viability of some businesses due to inflation and reduced footfall drove an increase of 0.5 per cent in void premises compared to Q2. These additional voids have an Estimated Rental Value (ERV) of £1m, with Retail (£0.4m) and Arches (£0.2m) the most significantly affected.
- There remains interest in units that we bring to market with terms being agreed, subject to robust business plans. The aim is to increase sustainable revenue, improve tenant mix and increase employment on our network.
- There has been an increase in units coming back in need of repairs and Health and Safety works, reflecting a lack of available cash for basic maintenance – this is being addressed in future tenant business plans.
- TTLP is reviewing opportunities for meanwhile uses across the portfolio to reduce holding costs and support adjacent businesses.

TTLP is not yet hitting its targets on collections and arrears



- At the beginning of December, collections were at 86 per cent year to date, and 93 per cent excluding single account debt
- At the beginning of December, total arrears were £19.5m – excluding single accounts, this figure was £9.5m, an increase of £1.4m from the end of Q2
- There is a sharpened focus on customers with debts over £50k as this accounts for a substantial portion of our arrears
- Retail sector continues to lag and we continue to work with customers to find amicable solutions
- There has been success with the Commercial Rent Arrears Recovery process, with nearly £0.5m of debt being placed in the hands of enforcement agents over the last 3 months with positive results

TTLP's capital account is healthy despite project movements

Page 27	Capital Account - Summary	YTD			Full Year		
		Actuals	Budget	var	Draft Q2	Budget	Prior Yr
		£m	£m	£m	£m	£m	£m
	Asset Management	3.4	7.2	(3.8)	23.6	21.2	10.7
	Property Development	21.6	51.4	(29.8)	79.3	83.2	53.5
	TTLP Corporate	-	-	-	-	-	-
	Capital Income	25.0	58.7	(33.7)	102.9	104.4	64.2
	Asset Management	(5.8)	(29.3)	23.5	(26.3)	(53.9)	(6.4)
	Property Development	(30.0)	(61.0)	31.0	(109.1)	(99.7)	(38.4)
	TTLP Corporate	(0.5)	(1.4)	0.9	(0.8)	(2.2)	(0.6)
	Capital Expenditure	(36.3)	(91.7)	55.4	(136.2)	(155.9)	(45.4)
	Net Capital Surplus / (Deficit)	(11.3)	(33.0)	21.7	(33.3)	(51.5)	18.8

- TTLP continues to underspend on capital projects and is also lagging on capital receipts, though the overall capital surplus remains better than budget and Q2 forecast
- Build to Rent projects have been delayed – impacting both capital expenditure and land value receipts – whilst work was done on mitigations for cost impacts on returns and hurdle rates; the aim is still to complete these transactions this financial year
- The focus on in-station retail has moved to reducing voids on the existing estate rather than creating new units – and therefore capital expenditure will be lower than originally budgeted
- Challenging market conditions and procurement delays meant that progress on some other asset management schemes was slower than expected, but these projects are now moving forward



Lulett Flowers at Hendon Central

Business Performance

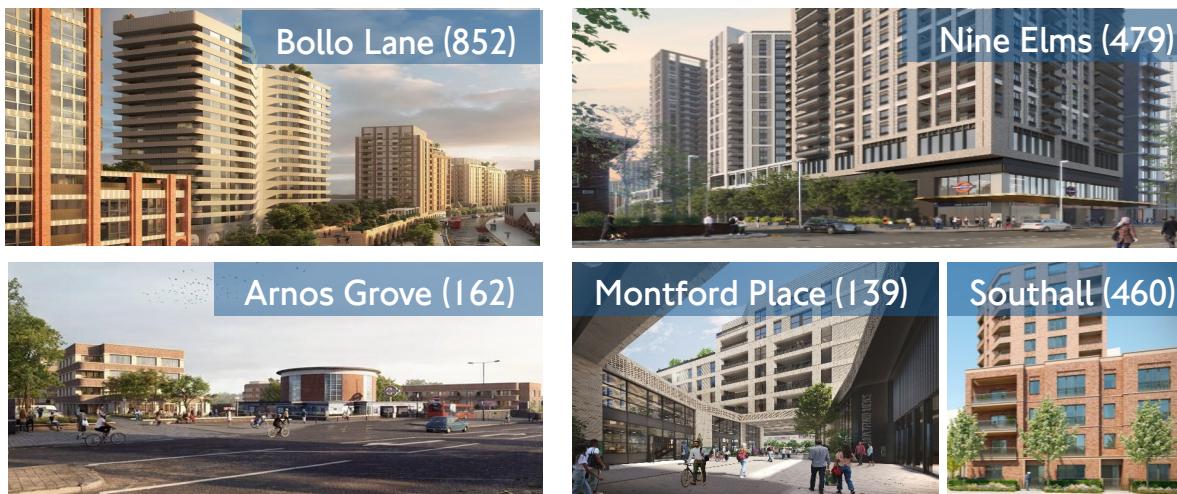
TTLP will have built or started over 4,500 new homes by the end of March 2023

2,034 homes completed or under construction

Page 29



Starting up to 2,657 more homes in the next 3 months



- 2,034 homes are currently completed or under construction. As well as the locations pictured, work is underway at Wembley Park (454 homes), TCRW Soho (92) and Oxbourne House (11), as well as 13 homes at two smaller sites.
- In addition, there are plans to start a further 2,657 homes before the end of the financial year, which will make TTLP one of the largest developers in London.
- TTLP is actively managing a number of risks to the programme, including rising interest rates, construction cost inflation and delays in achieving Section 163 consents. TTLP is also working with partners to address power grid capacity challenges in west London.



TTLP is improving its existing estate



Liverpool Street Arcade



Baker Street Structural Works



Kingsbury (2 x new units)



Whitechapel Estate project



Victoria Island project



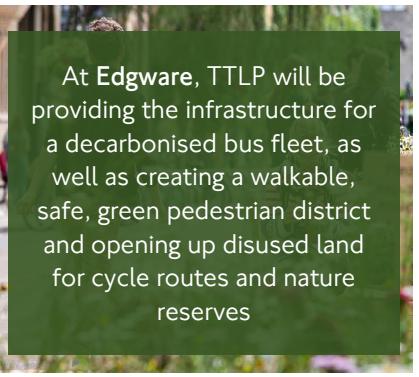
Kilburn Arches (Phase 1 - Mews)

There is a major refurbishment programme underway across TTLP's estate, delivering critical Health & Safety improvements as well as increased value:

- Baker Street structural works onsite October 2022
- Liverpool Street Arcade works onsite November 2022
- Kingsbury demolition and two new retail units just completed
- Whitechapel works planning approved and construction contract due to be awarded February 2023
- Victoria Island Phase 2 works finish summer 2023
- Kilburn Arches Phase 1 detailed design March 2023
- Lockton Street Arches detailed design April 2022.



TTLP's schemes deliver many benefits to TfL



- When planning a property scheme, it is often possible to include operational improvements at a more efficient cost than a stand-alone operational scheme.
- At many of its sites TTLP is modernising existing or building new accommodation for TfL train crew, bus drivers and engineers, often in places where the current offering is outdated and inefficient.
- TTLP is enabling savings from its office estate by upgrading and leasing out accommodation for which TfL has no business need.
- The next stage will be to better understand where operational improvements, such as step-free access or operational accommodation, is most required and assess how TTLP commercial schemes could fund and / or help deliver those benefits.



We have a plan but there is much to do

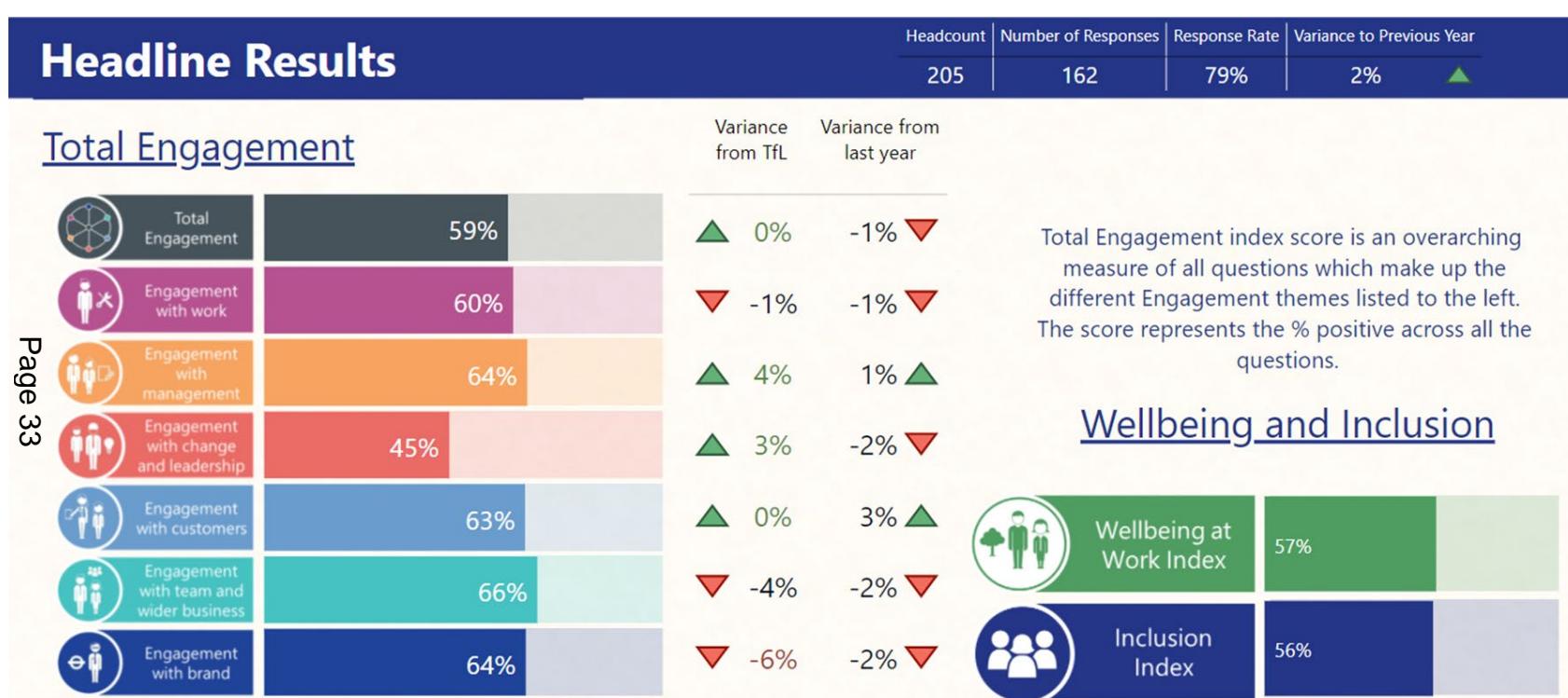
Page 32



Blackhorse Road, Waltham Forest

- We are outperforming our budget in both operating cost and income – and this is increasing the operating surplus.
- A strong financial performance will be driven by disposing of underperforming assets, reducing voids and investing in assets with growth potential.
- This will be supported by continued transformation of the business: making accountabilities clearer; improving cost reporting, data quality and analytics; and creating long-term asset plans.
- Many of TTLP's development projects are at a critical point: we are due to start 2,600 more homes by the end of the financial year.
- Work is underway to improve procurement routes and strengthen the team to support progress with our capital programme and improve revenue streams.

More work is needed to improve wellbeing in TTLP



Page 33

PEOPLE AWAY DAY: 17 November

Attraction & Recruitment

People Development

Progression & Talent Management

Culture

Reward & Recognition

- TTLP's most recent Viewpoint employee engagement scores have been received: TTLP's total engagement dropped 1 per cent year on year.
- TTLP is significantly under-resourced and the wellbeing scores reflect current challenges with filling vacant headcount.
- There is also a significant change programme which is driving uncertainty.
- The TTLP People Plan is in development and the Viewpoint results will feed into that plan.
- On 17 November TTLP held a “People Awayday” for all colleagues to discuss the People Plan, generating ideas and initiatives centred around the five key themes shown.
- The Branding workstream will support better engagement with our brand.

Scorecard outcome is forecast at 60 per cent

2022/23 TTLP Scorecard - Period 08				Predicted Score: 60 / 100
Commercially Astute (Finance)				
Measure	Q2 Forecast	Budget	Weighting	Prediction
Operating Profit	35,368	28,134	10%	10% 
Operating Profit Margin	35.8%	29.5%	10%	10% 
Revenue Growth (rent roll) (%)	3.47%	3.47%	10%	10% 
Safety and Risk				
Measure	Forecast	Target	Weighting	Prediction
Statutory Testing - TfL Managed Property	83%	100%	10%	0% 
Lost Work Time	0.6%	2.0%	5%	5% 
Killed or Seriously Injured (KSI)	0	0	5%	5% 
Customer				
Measure	Forecast	Target	Weighting	Prediction
Customer Satisfaction	71%	71%	15%	0%
People				
Measure	Forecast	Target	Weighting	Prediction
Total Engagement (ViewPoint)	59%	66%	15%	0% 
Operations				
Measure	Forecast	Target	Weighting	Prediction
% Affordable Start on Sites	52%	50%	10%	10% 
No. Start on Sites	2,657	2,409	10%	10% 

- TTLP is forecasting to achieve all its financial KPIs, exceeding budget on our operating profit and operating margin and hitting budget on revenue growth.
- Progress is being made on compliance, and the new teams have identified gaps in statutory testing – a Head of Health and Safety will be appointed to drive this activity forward.
- The engagement target was intentionally challenging, but the performance was disappointing, albeit for reasons that are well understood. Good progress is now being made with the People Plan.
- Customer Satisfaction scores are expected in February 2023.
- Work will be undertaken jointly with the Committee to define a completely new scorecard for 2023/24 – and this will include measures on sustainability and social value.

Date: 16 January 2023

Item: TTL Properties Limited Procurement and Commercial Strategy

This paper will be considered in public

1 Summary

- 1.1 This paper summarises the work undertaken to date by Transport for London (TfL) and TTL Properties Limited (TTLP) on TTLP's Procurement and Commercial Strategy.
- 1.2 Throughout 2022, joint activity has taken place between TTLP and TfL's Procurement and Commercial (P&C) team to design and deliver a more efficient approach to procurement in TTLP. The aim is to see projects mobilised more quickly and delivered effectively, while retaining all the controls and protections currently enjoyed across TfL's wider procurement and commercial activity.
- 1.3 The proposed approach is to build a small core team within TTLP that can deliver procurement and commercial activities that are critical to TTLP. TfL's P&C team will continue to deliver the generic category services, including professional services and Information Technology. This approach will help to assure TTLP's delivery and build a centre of procurement and commercial excellence for the property sector within TTLP.

2 Recommendation

- 2.1 The Committee is asked to note the paper

3 Background

- 3.1 Although TTLP has relatively small direct spend with third-party suppliers of up to £30m a year, the spend of the joint ventures is significant and in total is estimated at up to £100m per year (this figure is expected to increase).
- 3.2 At its meeting on 18 October 2022, the Committee discussed a paper on TTLP Half-Year Performance which stated more needs to be done to drive forward capital project delivery to unlock future revenue growth, including a new, more efficient approach to procurement.
- 3.3 With the commercial funding of TTLP agreed, this is the time to ensure TTLP has access to a procurement and commercial function with the capacity and capability to deliver the new Business Plan.

- 3.4 In preparation, early work has already taken place to assess what new commercial frameworks and contractual arrangements are needed to enable and support successful delivery of the TTLP investment plan.

4 Proposed Operating Model

- 4.1 The aim is to build a lean, best-in-class procurement and commercial function that enables TTLP to deliver its financial and non-financial targets.
- 4.2 It is agreed with TfL P&C that TTLP moves to a hybrid model, where core procurement and commercial activities that are unique or critical to TTLP are delivered by a new function positioned within TTLP, while non-core activities are consumed as a service from TfL. This is still subject to ratification by the TfL Change Steering Group (CSG). TTLP will continue to comply with all TfL procurement policies. Similarly, the TTLP team will fully participate in development and other activities with colleagues from across TfL.
- 4.3 Workshops held with TTLP senior managers have suggested that a small number of partnerships and frameworks would significantly aid delivery capability. TTLP therefore proposes to move away from recurring, low-level procurement activity and focus instead on long-term strategic partnerships. Environmental, Social and Governance (ESG) in particular will be a critical element of all future partner selection.
- 4.4 When evaluating bids, cost will remain important, but appropriate weighting will be placed on long-term value. As currently occurs within TTLP's joint ventures, a focus on long-term alignment of objectives and incentivisation of innovation will grow in importance across TTLP's wider activity.
- 4.5 Given the range of activities undertaken by TTLP, a number of delivery routes are being reviewed. For example, TTLP has met with Bristol City Council to assess the impact of the Council's long-term Capital Strategic Partnership with Arcadis, Arup and Mott MacDonald. This Partnership was launched in 2019 to accelerate the delivery of infrastructure and building projects to meet the city-wide ambitions of the One City Plan. TTLP is also examining how to provide improved access to its procurement processes for Small and Medium Enterprises (SMEs), such as on its minor works programme.
- 4.6 Moving towards longer-term, portfolio-wide partnerships, whether with multi-national organisations or SMEs, will see less transactional procurement activity within TTLP. Instead, there will be greater importance placed on market engagement and supplier / contract management. This will help ensure increased supplier appetite and reduced delivery risk and value erosion. This is a priority for the new TTLP commercial function and work has already commenced on scoping this new activity.
- 4.7 Subject to approval from CSG, it is proposed to put in place a simple, flat structure with around six members of staff supporting procurement and commercial activity in TTLP. The new team will focus exclusively on

procurement and commercial property related matters and provide an end-to-end service for TTLP.

- 4.8 TTLP proposes to pay TfL an annual service fee to provide procurement of non-core services and these will be managed under a structured Service Level Agreement (SLA). An SLA has been drafted, and TfL P&C and TTLP are working on the financial recharging model. Subject to CSG approval, it is proposed that this new model will come into effect in April 2023.
- 4.9 The recruitment strategy for TTLP's procurement and commercial function will follow the broader approach within TTLP, with a focus on attracting a diverse pool of candidates on the basis of commitment to TTLP's values and a focus on skills rather than necessarily established qualifications. Like TfL, TTLP will offer best-in-class development with industry-leading qualifications.
- 4.10 TTLP will continue to work collaboratively with TfL P&C colleagues, including the adoption of its management framework, leveraging aggregation for indirect spend, sharing development and best practice, and providing secondment opportunities. TTLP will also continue to use TfL P&C systems, including SAP Ariba.
- 4.11 TTLP will work with other organisations in the private and public sectors that are seeking to deliver efficient and innovative procurement. TTLP will remain subject to public sector procurement regulations, and hence TfL and TTLP will continue to liaise with HM Cabinet Office as new post-Brexit regulations are introduced.
- 4.12 TTLP procurement and commercial will also continue to work closely with property functions across the GLA Group, though GLA activity is not currently within scope for TTLP commercial.

List of appendices to this report:

None

List of Background Papers:

None

Contact Officer: Graeme Craig, Director and Chief Executive, TTL Properties Limited
Email: graemecraig@tfl.gov.uk

[page left intentionally blank]

Date: 16 January 2023

Item: TTL Properties Limited Assurance Update

This paper will be considered in public

1 Summary

- 1.1 This paper reports on progress with assurance activity across TTL Properties Limited (TTLP) during Quarter 3 of 2022/23 (18 September 2022 to 10 December 2022) (Q3).
- 1.2 A paper is included on the Part 2 agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendation

- 2.1 The Committee is asked to note the paper, the exempt supplementary information in Part 2 of the agenda and the Integrated Assurance and Audit work in progress and forward plan and approve the IIPAG-TTLP sub-group Terms of Reference.

3 Background

- 3.1 The TTLP Integrated Assurance Framework is based on a Three Lines of Defence model comprising:
 - (a) Line 1 – Management functions of TTLP and key interfaces;
 - (b) Line 2 (LoD2) – Project Assurance (PA) and Quality, Safety and Security Assurance; and
 - (c) Line 3 (LoD3) – TfL Internal Audit and a sub-group of the Independent Investment Programme Advisory Group (IIPAG-TTLP).
- 3.2 This paper reports specifically on Line 2 (PA), Line 3 (Internal Audit) and Line 3 (IIPAG-TTLP) assurance progress. Work in progress for LoD2 and LoD3 are set out in Appendix 1 and work starting next quarter is set out in Appendix 2.
- 3.3 The LoD2 and LoD3 teams meet periodically to ensure that assurance is carried out by the right team at the right time and to avoid duplication.

4 Line 2 (PA) Assurance

- 4.1 Good progress has been made since the last report. LoD2 has started to provide assurance on an ongoing continuous basis as well as commencing Targeted Assurance Reviews on key areas.
- 4.2 Since the last report, PA and IIPAG-TTLP have had further meetings with the TTLP leadership team, and other TTLP team members to build our understanding of the key challenges and emerging plans to tackle these issues.
- 4.3 Three targeted assurance reviews are in progress with two more planned to start in Quarter 4 of 2022/23 (Q4). More detail is contained in Appendices 1 and 2.
- 4.4 PA and members of the IIPAG-TTLP sub-group have been briefed on the Platinum Portfolio and Bollo Lane authority requests and will continue to review them as they develop through the project lifecycle.

5 Line 3 (Internal Audit) Assurance

- 5.1 There are two audits in progress, Property Transfer Accounting and Accounting and Cash Management, and more detail is contained in Appendix 1. Fieldwork is ongoing with draft reports expected in early 2023.

Audit Delivery

- 5.2 No audits were completed in this reporting period. No audits were cancelled or deferred.

Management Actions

- 5.3 The team will monitor the implementation of all Internal Audit management actions and confirm whether they have been adequately addressed. There are currently no overdue actions from previous audits.

6 Line 3 (IIPAG-TTLP) Assurance

- 6.1 The proposed Terms of Reference for the IIPAG-TTLP sub-group have now been finalised and are attached at Appendix 3.
- 6.2 IIPAG-TTLP work for Q3 and Q4 is set out in Appendix 1 and 2. Activity will focus on retail income forecasts up to 2031 and delivery confidence in the short to medium term housing objectives.
- 6.3 IIPAG-TTLP feel that the way risks associated with investment decisions are presented in investment papers could be further strengthened.
- 6.4 As IIPAG-TTLP obtain a more detailed understanding of the business they will add additional workstreams to the Integrated Assurance and Audit Schedule.

7 Enterprise Risk Management

- 7.1 The TTLP leadership team has agreed the order of priority for reviewing the new Level 0 (L0) risks.
- 7.2 The Committee will receive an update on each risk once a year. Details of the seven TTLP L0 Risks are set out in Appendix 4.

List of Appendices:

Appendix 1: Integrated Assurance and Audit Schedule – work in progress

Appendix 2: Integrated Assurance and Audit Schedule - forward plan

Appendix 3: IIPAG-TTLP sub-group proposed Terms of Reference

Appendix 4: TTLP Enterprise Risks

Exempt supplementary information is contained in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Lorraine Humphrey, Director of Risk and Assurance

Email: lorraine.humphrey@tube.tfl.gov.uk

[page left intentionally blank]

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
1	Property transfer accounting	<ul style="list-style-type: none"> New financial processes and controls have been implemented. 	Targeted	Internal Audit (IA)	Underway	<ul style="list-style-type: none"> To assess the maturity and understand financial reporting requirements.
2	Resourcing	<ul style="list-style-type: none"> Reported staff shortages across multiple teams and reliance on secondments/non-permanent labour. People Plan still in development. Internal audit review of the Financial Sustainability Plan recommended a resource review and establishment of Programme Management Office. 	Targeted	Project Assurance (PA)/ Independent Investment Programme Advisory Group-TTLP sub-group (IIPAG-TTLP)	Underway	<ul style="list-style-type: none"> To understand how resourcing risks are identified and managed and to assess the impact on the delivery plan. To consider whether there is an understanding of the skills required and whether the right skills currently exist. To understand challenges in filling vacancies and make recommendations to help improve recruitment and retention.
3	Retail	<ul style="list-style-type: none"> Considerable uplift in retail income assumed in Business Plan. Resource shortages impacting ability to deliver new retail opportunities. Responsibilities historically split across a number of teams and roles and responsibilities/handover points may be unclear. Wider economic factors are likely to impact viability of existing tenants resulting in more unoccupied units/rising levels of debt. 	Targeted	IIPAG-TTLP	Underway	<ul style="list-style-type: none"> To assess the likelihood that the retail strategy can deliver the required uplift in income. To identify challenges in securing additional retail income and make recommendations which will improve delivery confidence.

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
4	First line assurance /project controls / information and data management	<ul style="list-style-type: none"> No evidence of effective first line assurance or effective project controls or reporting. Minimum reporting requirements are not understood and there are no consistent data sources/data storage arrangements. Roles and responsibilities are not always clear, particularly where there is an interface with the operational business. IIPAG review of August 2020 recommended first line assurance improvements, assurance training, standard reporting on joint venture (JV) projects and creation of management dashboards. 	Continuous	PA	Ongoing	<ul style="list-style-type: none"> To assess the effectiveness of existing first line assurance/project controls/project reporting. To consider potential risks resulting from existing arrangements and the suitability of any improvement plans. To consider requirements for data management and storage.
5	Lillie Bridge vacant possession – vacant possession of site for development	<ul style="list-style-type: none"> High value/complex project with significant operational interfaces and a large number of stakeholders. Governance arrangements developing but not yet finalised. Opportunities to deliver operational efficiencies have been identified – governance/funding route needs to be confirmed. 	Targeted	PA/IIPAG-TTLP	Underway	<ul style="list-style-type: none"> To establish whether requirements are clear and reflect the needs of the development and the operational business. To consider whether the proposed governance structure and delivery model is appropriate.
6	Risk management (projects)	<ul style="list-style-type: none"> Lack of specialist risk managers to support project teams. Risk reporting/escalation routes are unclear. 	Continuous	PA	Ongoing	<ul style="list-style-type: none"> To assess the effectiveness of existing risk management process and the suitability of any proposed changes.

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
7	Procurement and Commercial	<ul style="list-style-type: none"> New specialist frameworks are being considered. Resourcing issues have impacted on procurement and contract management. IIPAG report from August 2020 recommended commercial team involvement in the development of project execution strategies. 	Targeted	PA/IIPAG-TTLP	Underway	<ul style="list-style-type: none"> To assess the appropriateness of proposed commercial strategy and any interim arrangements. To consider any risks to the successful implementation of new frameworks and commercial strategy and make recommendations to minimise any risk.
8	Health and Safety	<ul style="list-style-type: none"> Currently no Head of Health and Safety within TTLP although intention is to have one. TfL Safety Health and Environment provide support for TTLP. Work ongoing to improve tenant compliance and compliance monitoring. 	Continuous	PA/Quality, Safety, Security Assurance	Ongoing	<ul style="list-style-type: none"> To consider whether the emerging strategy is appropriate. To assess whether the balance of responsibilities between TfL and JV partners is appropriate. To assess the appropriateness of processes and actions taken to achieve tenant compliance.
9	Project management	<ul style="list-style-type: none"> Resource concerns. IIPAG review of August 2020 identified the need to develop project management strategies, practices and processes, the development of project management tools and process and the recruitment of experienced staff. 	Continuous	PA	Ongoing	<ul style="list-style-type: none"> To establish where gaps exist in existing project management processes and understand any proposed changes.
10	Bollo Lane - residential development	<ul style="list-style-type: none"> About to enter JV partnership for delivery. Successful delivery requires relocation of operational functions from the site. 	Continuous	PA/IIPAG-TTLP	Ongoing	<ul style="list-style-type: none"> To support the Committee with investment decision.
11	Platinum Portfolio (Commercial Office portfolio)	<ul style="list-style-type: none"> About to enter JV partnership for TTLP commercial office portfolio. 	Continuous	PA/IIPAG	Ongoing	<ul style="list-style-type: none"> To support the Committee with investment decision.

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
12	Accounting and Cash Management processes	<ul style="list-style-type: none"> Considerable work to be done to set up the new financial structure but work is not complete. Resourcing concerns. 	Targeted	IA	Underway	<ul style="list-style-type: none"> To assess financial readiness maturity. To gain an understanding of financial reporting including cash flow and financial commitments.

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
1	Residential sector	<ul style="list-style-type: none"> • Target doubled from 10,000 to 20,000 units. • Delivery is challenging - often taking longer than expected. • Impact of external market influences including inflation. • Resourcing shortages. • Affordable housing requirement (50 per cent across the portfolio) will impact the viability of the more challenging sites. 	Targeted	Independent Investment Programme Advisory Group (IIPAG)	Q4 2022/23	<ul style="list-style-type: none"> • To consider appropriateness of residential strategy, including split between residential sectors. • To assess delivery confidence and understanding/mitigation of key risks.
2	Pipeline development and delivery strategy	<ul style="list-style-type: none"> • Robust development/delivery pipeline and prioritisation process is essential for successful delivery. 	Targeted	Project Assurance (PA)	Q4 2022/23	<ul style="list-style-type: none"> • To consider the appropriateness of pipeline development and delivery strategy. • To understand the prioritisation and appraisal process.
3	Assurance of tenants' safety compliance	<ul style="list-style-type: none"> • Work ongoing to improve tenant safety compliance and compliance monitoring. 	Audit	Quality, Safety, Security Assurance	Q4 2022/23	<ul style="list-style-type: none"> • Assess the appropriateness of processes and actions taken to achieve tenant compliance.

Priority	Topic	Evidence of Need	Type	Who	When	Objectives
4	Governance / first line assurance	<ul style="list-style-type: none"> • Governance arrangements are changing – links into wider TfL Executive are not fully defined. • Governance can be complex where there is an operational interface. • IIPAG review from August 2020 recommended Responsibility Assignment Matrices (Responsible, accountable, consulted, informed (RCIs)) on every project to address roles and interfaces. • No Programme Management Office and handover/Gate control not clear. 	Targeted	PA	Q4 2022/23	<ul style="list-style-type: none"> • To consider appropriateness of existing governance/first line assurance arrangements. • To consider appropriateness of governance/first line assurance proposals.
5	Joint Venture management	<ul style="list-style-type: none"> • IIPAG review from August 2020 recommended introduction delivery metrics, change control, risk management, progress reporting for Joint Venture (JV). 	Targeted	IIPAG	Q4 2022/23	<ul style="list-style-type: none"> • To assess appropriateness of existing JV management processes. • To assess understanding/mitigation of key JV management risks.

Draft Terms of Reference for the Independent Investment Programme Advisory Group (IIPAG) TTL Properties Limited (TTLP) Sub-Group to provide Line of Defence 3 (LoD3) Assurance on TTLP.**Purpose**

The Independent Investment Programme Advisory Group TTLP Sub-Group (IIPAG-TTLP) will provide independent assurance and expert advice to the Land and Property Committee (LPC), the Audit and Assurance Committee (AAC), TfL Executive Committee and the TfL Executive. IIPAG will ensure that their work is complementary to that of other assurance providers to TTLP.

Membership and Appointment

There will initially be four members of IIPAG-TTLP which can be increased by agreement of Chair of AAC who will appoint the members. A Chair of IIPAG-TTLP will be appointed and report to the Chair of TfL IIPAG. Members will be appointed on the basis of a two-year tenure with the option for TfL to extend.

Frequency of Meetings

IIPAG-TTLP will meet each period. In addition to attendance at LPC, the Chair of IIPAG-TTLP and other members may be required to attend relevant meetings of the TfL Board, AAC and TfL Executive Committee as requested by the Chair of those committees.

Terms of Reference

1. IIPAG-TTLP will provide independent assurance and advice to the TfL Board, LPC, AAC, TfL Executive Committee and the TfL and TTLP Executive teams with regard to:
 - (a) Key risks and issues for the successful delivery of the TTLP Investment Strategy;
 - (b) Existing strategies and processes and suitability of any proposed improvements;
 - (c) Investment decisions and delivery approach for key developments and asset management activities;
 - (d) The effectiveness of the first and second lines of assurance.
2. IIPAG-TTLP will provide a strategic view of the above matters and undertake detailed assurance reviews as appropriate.
3. IIPAG-TTLP will work with other assurance providers to develop the Integrated Assurance and Audit Schedule which will be submitted to LPC for approval and AAC for noting.
4. IIPAG-TTLP will input into the TTLP Programme Assurance Group (TTLP-PAG) forum of second and third line assurance providers (periodically).
5. IIPAG-TTLP budget will be agreed with the TfL Chief Finance Officer annually.
6. TfL IIPAG and IIPAG-TTLP will share information to ensure good practice is transferred between them.
7. IIPAG-TTLP will maintain the confidentiality of information provided to them and will follow the agreed procedures for dealing with confidential, legally privileged and other sensitive information.
8. Reports produced by IIPAG-TTLP are subject to the Freedom of Information Act 2000.

[page left intentionally blank]

TTL Properties Limited (TTLP) Level 0 (L0) Enterprise Risks Appendix 4

Risk	Risk Title
TTLP-L0-1	Inability to deliver safety and legal obligations
TTLP-L0-2	Attraction, retention, health, wellbeing and capability of our employees
TTLP-L0-3	Financial sustainability
TTLP-L0-4	Stakeholders and partnerships
TTLP-L0-5	Environment including climate adaptation
TTLP-L0-6	Inability to react to external market forces
TTLP-L0-7	Procurement including supply chain

[page left intentionally blank]

Date: 16 January 2023

Item: Commercial Office Investment Portfolio Joint Venture

This paper will be considered in public

1 Summary

- 1.1 This paper seeks approval for TTL Properties Limited (TTLP) to invest in a joint venture to create a growing long-term income stream from a portfolio of high-quality, commercial office assets with best-in-class environmental and wellbeing credentials located near central London transport interchanges. This joint venture is a core element of TTLPs Investment Strategy. As well as long-term income and financial returns that can be reinvested across the portfolio, it will provide investment diversification and should enhance TTLPs environmental sustainability performance and credentials.
- 1.2 TTLP wishes to form a joint venture with a culturally aligned, financially strong, proven office investor / developer to bring forward suitable opportunities on TTLP's land. The three development sites at Bank station, Southwark station and Paddington station are the initial sites for this joint venture (the 'Seed Sites').
- 1.3 A paper is included on the Part 2 agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information in Part 2 of the agenda and approve:**
 - (a) **Land authority in the suns set out in the paper on Part 2 of the agenda for the transaction (the Transaction) as described in this paper and in the paper on Part 2 of the agenda; and**
 - (b) **the formation of a wholly owned subsidiary company for the purposes of entering into the contractual agreements relating to the Transaction.**

3 Background

Market Characteristics

- 3.1 The central London office market is an established investment market with a total investment volume of some £13.3bn and total leasing take-up of 8.5m square feet in 2021.
- 3.2 Total investment returns in the London office market are cyclical. The chart below shows cycles in total return, income return and capital growth for London offices over the last 20 years.

Chart 1: Income return, capital growth and total return associated with holding central London offices over last 20 years [Source: Jones Lang LaSalle (JLL)]



- 3.3 The chart shows that, although the returns associated with holding central London offices are volatile, that volatility is driven largely by changes in capital value. Income return over the last 20 years has been relatively stable, with a quarterly average of 1.1 per cent.

Market Stratification and Environmental Social & Governance (ESG)

- 3.4 The buildings will be constructed on the basis of Net Zero Carbon and the joint venture will collaborate with tenants to target the highest global standards for sustainability and well-being.
- 3.5 This proposed joint venture is a core element of TTLP's Investment Strategy. As well as long-term income, it will provide investment diversification and will enhance TTLP's environmental sustainability performance and credentials.
- 3.6 The strategic rationale for this joint venture is founded on the growing demand among London occupiers and investors for the best commercial workplaces. JLL, TTLP's appointed commercial agents, forecasts that demand for the most sustainable Net Zero Carbon buildings in London will significantly exceed supply

over the next decade. The independent research firm Property Market Analysis LLP (PMA) forecasts annual rental growth for prime central London offices to average between 1.6 per cent and 2.1 per cent until 2026.

- 3.7 Indeed, since the 2020 coronavirus pandemic (the pandemic), investment performance has become increasingly stratified between 1) office assets with the highest occupier wellness and ESG credentials, and 2) the remainder of the market.
- 3.8 A 2022 occupier survey, undertaken by JLL, has shown that this trend is, in part, driven by firms looking for high-quality office space to attract staff back to the office following the pandemic. Another important driver is an increasing focus on office ESG credentials on the part of investors and occupiers. For these reasons, the joint venture will collaborate with tenants to target a rating of BREEAM Outstanding and Platinum WELL v2 Core.
- 3.9 The Building Research Establishment (BRE) established the Building Research Establishment Environmental Assessment Method (BREEAM) standards as the leading global science-based certification systems for the sustainable built environment. The BREEAM “Outstanding” rating represents the highest achievable certification within the BREEAM assessment.
- 3.10 JLL research indicates that BREEAM Outstanding buildings let at a nine per cent rental premium to comparable buildings with lower ESG ratings. The same research shows that, on average, a BREEAM Outstanding building is 81 per cent let on practical completion compared to 48 per cent for BREEAM Excellent buildings.
- 3.11 The International WELL Building Institute (IWBI) created the WELL Building Standard to certify spaces that advance human health and well-being with rigorous performance standards, operational protocols and company-wide practices. WELL Core is a distinct pathway for core and shell buildings seeking to implement features to benefit tenants, and WELL Core Platinum is again the highest available global standard.

TTLP's Goals and Objectives

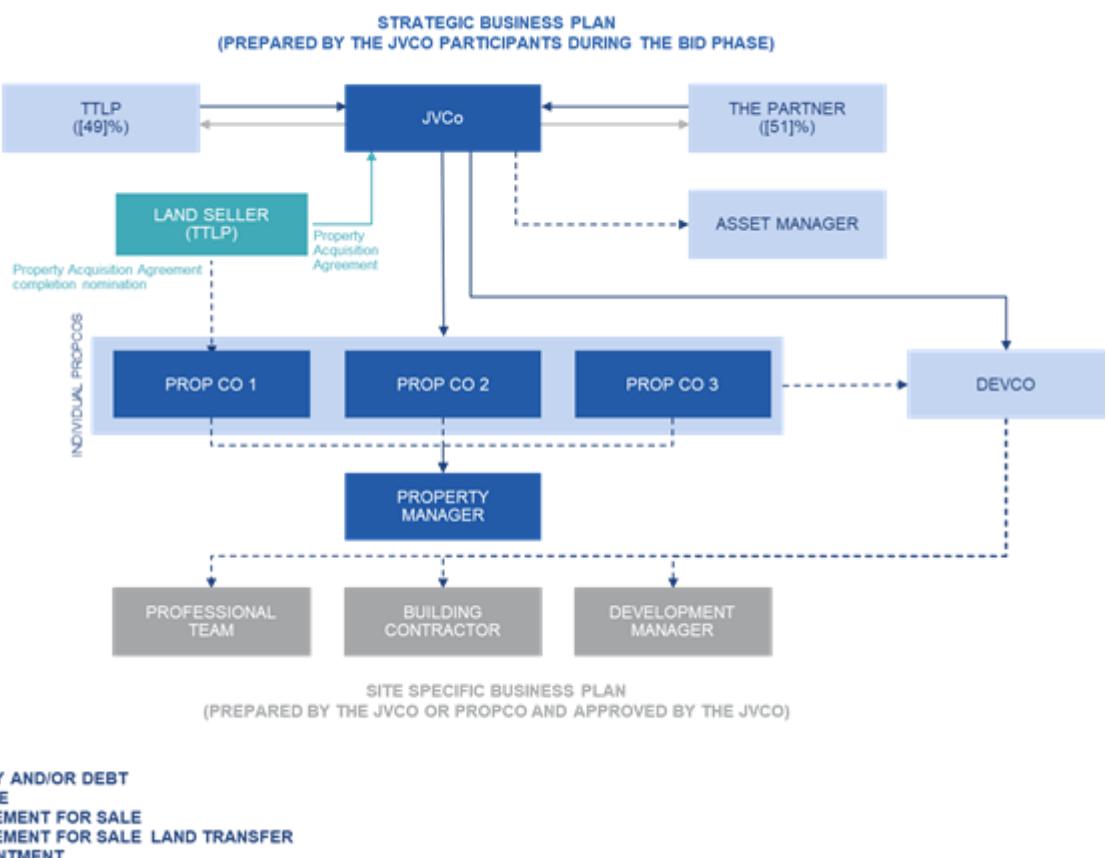
- 3.12 TTLP has a diverse portfolio that has grown organically. A key principle of the Investment Strategy is to provide strategic direction across the portfolio mix, encouraging investment in sectors and assets with medium to long-term growth while supporting the rationalisation of areas with poor performance and / or management issues. This strategy not only seeks to increase the gross income of the portfolio but also the cost efficiency through a higher operating margin.
- 3.13 The Commercial Office Portfolio is identified in the TTLP Investment Strategy and Business Plan as key to achieving TTLP's medium-term goals. By developing a portfolio of best-in-class offices that will be retained for income, TTLP will diversify and improve the ESG credentials of its portfolio and associated dividend. It will create new 21st-century offices that achieve the highest sustainability performance, both leading the market and modelling the working environment that will be required to attract people into city centres in a post-pandemic world.

- 3.14 TTLP's current asset portfolio includes 100,000 sq ft of offices generating £5m a year. In line with the 'flight to quality' among London office occupiers, the Investment Strategy advocates a focus on market-leading, purpose-built office space located near transport nodes, which makes the most of the stations and their environs and drive London's future growth and transport ridership with new capacity. The strategy also recognises the potential to convert existing secondary office buildings to more modern flexible workspace.
- 3.15 The core elements of the commercial office strategy for TTLP include:
- (a) rationalise / exit existing secondary office portfolio with high vacancy rates and significant capex requirement;
 - (b) consider scope to convert well-located existing office assets, smaller in size and floorplate, to flexible workspace;
 - (c) invest in joint venture to create a portfolio of core, high-quality central-London assets at transport nodes;
 - (d) produce a recurring, growing rental income stream to TTLP;
 - (e) increase and improve TTLP's investments in the London office market to bring it in line with the TTLP Investment Strategy and Business Plan.
 - (f) significantly improve TTLP's value weighted sustainability performance by developing best in class offices using the Sustainable Development Framework and Mayoral policy (London Plan) on environmental and design standards;
 - (g) utilise and promote Modern Methods of Construction (MMC) in accordance with TTLP's wider commitments;
 - (h) maintain and promote exemplar health and safety both in its construction and development phases; and
 - (i) provide opportunities for skills and apprentices in line with Mayoral, TfL and TTLP policies.
- 3.16 The proposed commercial office portfolio joint venture will create commercial revenue and capital from developments that contain a significant commercial-office component.
- 3.17 It is important for joint venture longevity that the joint venture has the flexibility to trade its investments and recycle its capital into higher performing assets to retain high-quality returns. This includes investing in new assets for development. This will mitigate potential risks such as falling income growth and asset value as the buildings age in the long-term.
- 3.18 Future iterations of the TTLP Business Plan, including the paper scheduled for the Committee on 23 March 2023, will include recommendations for commercial office investments that will involve our investment in this joint venture.

4 Joint Venture Proposal

- 4.1 The proposed joint venture will be formed by a TTLP subsidiary vehicle holding a 49 per cent equity stake whereas the joint venture partner will hold 51 per cent equity stake.
- 4.2 Key contractual terms of the joint venture are listed below, with an executive summary of the Heads of Terms included in Appendix 1.
- 4.3 The joint venture will commit to acquire long-leasehold interests in the Seed Sites on an unconditional basis at a fixed purchase price, and on fixed future dates, prior to the joint venture's planned commencement of major construction works. The joint venture's acquisition of Southwark over station development (OSD) will not occur before TfL confirms that the part of the station that will form part of the site is no longer required to operate the station.
- 4.4 The structure of the joint venture will be determined based on legal and tax advice. The currently anticipated structure is that each property will be held in a separate subsidiary vehicle (Propco). The diagram below shows the proposed structure of the Joint Venture company (JVCo).

Proposed JVCo Structure Chart



- 4.5 The joint venture proposes to use debt to fund the development of each property at an expected loan to development cost ratio of between 50 per cent and 65 per cent. After practical completion and letting of each property, the joint venture

proposes to refinance the debt at a loan to value of up to 60 per cent of the completed property's value. Refinancing may release equity capital from the completed, income producing buildings depending on the level of leverage utilised at build phase.

- 4.6 The business of the joint venture will run in accordance with an agreed business plan, and the joint venture agreement will set out a list of "Reserved Matters" and "Major Reserved Matters", both of which require approval of the joint venture partners.
- 4.7 The joint venture will appoint a development manager, an asset manager and a property manager based on a pre-agreed scope of services. TTLP's joint venture partner will provide the development management service and is also likely to provide the asset management service.

5 Partner Procurement Process

- 5.1 On 20 May 2022, TfL published a Contract Notice to notify the market it was undertaking a Competitive Dialogue process in accordance with the Public Contracts Regulations 2015 to identify a joint venture partner.
- 5.2 Detailed final tenders from three shortlisted potential partners have informed this paper and authority recommendation. Evaluation is underway, and the preferred partner is anticipated to be selected in late January 2023.
- 5.3 Following strong SSQ responses, seven of London's most accomplished office investors and developers were selected in July 2022 for Stage 2 of the process, the Invitation to Submit Outline Solutions (ISOS).
- 5.4 The ISOS stage ran until September 2022. The three organisations with the best responses were invited to the next stage, Invitation to Participate in Dialogue (ITPD).
- 5.5 On 30 November 2022, the three short-listed potential partners submitted their final tenders and, TTLP is now concluding the evaluation of them, with the preferred partner anticipated to be selected in late January 2023.

6 TTLP Site Handover Plan

- 6.1 TTLP needs to undertake preparatory works and maintain each of the Seed Sites before selling long-leasehold interests in the sites to the joint venture.
- 6.2 The Bank over station development is currently a worksite for the Bank Station Capacity Upgrade (BSCU) project. The BSCU project is nearing its final phases. Once BSCU works on site complete, the site will be handed over to TTLP. TTLP will then be responsible for security and drainage of the site as well as any other maintenance matters until it is leased to the joint venture. The costs associated with this site maintenance and are included in extant Authorities.
- 6.3 The Paddington site also needs to be maintained for the period until the lease is sold to the joint venture.

- 6.4 To handover the Southwark site to the joint venture, the assembly of the land interests for the development needs to be completed. The next stage of this is a land exchange with the London Borough of Southwark (LBS) and an associated payment that enables LBS to build 25 new homes on its land. Authority for this exchange and payment is already in place. The exchange will be completed ahead of granting the TTLP lease for the Southwark site.
- 6.5 The final stage of the Southwark site assembly is Southwark station works that enable release of underutilised back-of-house space at the station that will be incorporated into the basement of the over-station development. The space released from the station must have no detrimental impact on the operation of the station or the passenger experience. Currently, this area is home to critical station systems., and these systems must be relocated, re-routed, or removed if no longer required. The area will then be physically separated from the station. To comply with transport operational fire regulations, the ticket hall internal elevation is to be reconfigured as a new party wall. The station will remain operational throughout this phase of the project.

7 Finance

Investment Performance

- 7.1 The projected investment performance presented below is TTLP's analysis of the Seed Site projects and informed by TTLP's advisors. The potential partners' responses are expected to be broadly consistent with this modelled performance and within the parameters of the Authority recommendations, which include a margin for TTLP as investor and shareholder to respond to changing market conditions while in joint venture with the selected partner.
- 7.2 The Seed Sites have planning permission for some 600,000 square feet of commercial office workspace. Once complete, TTLP can expect to receive net income of around £11m per annum from a 49 per cent equity stake in the joint venture. The return on equity investment TTLP is seeking is a yield in excess of seven per cent.
- 7.3 The development phase of the Seed Site projects will target a 20 per cent profit on cost and a geared internal rate of return exceeding 10 per cent. Depending on the characteristics and risk profile of future projects that the joint venture undertakes the profit on cost may vary from 20 per cent.
- 7.4 TTLP will manage its investment in the completed buildings through the joint venture, which has been designed to provide liquidity that is market-standard for investment property joint ventures.
- 7.5 The investment performance of the portfolio of Seed Sites, as assessed and modelled by TTLP, meets TTLP's Business Plan metrics and investment strategy requirements, as endorsed by the Land and Property Committee in June 2022, as summarised in the table below.

Metric	TTLP Business Plan Investment Strategy Metrics
Net Present Value (NPV) ¹ @ 6.29% (for the base-case 10-year build and hold scenario)	>0
Unlevered Internal Rate of Return (IRR) ² for the development period	7-15%
Return on Capital Employed on development projects ³	20%
Incremental Yield on Expenditure (assessed at stabilisation of asset income) ⁴	> 3.6%

8 Guarantees

- 8.1 The JVC will need to enter into Works Agreements with London Underground Limited (LUL) for each of the Seed Sites. In addition to securing insurances, the Works Agreements require the JVC to put in place any mitigations required by LUL's engineers and indemnify LUL against any breaches of the Works Agreement. Other Guarantees are covered in the Part 2 paper.

9 Risks and Opportunities

- 9.1 The table below summarises some of the key risks identified and their associated mitigations.

Potential Risk	Proposed Mitigation
Market downturn An occupational market downturn could harm the letting of the sites and hence TTLP's cashflow. A weaker capital market at the time the joint venture looks to dispose of one or more of the assets or when TTLP looks to dispose of its interest in the joint venture could reduce TTLP's capital receipts.	The joint venture will consider pre-let both before and during construction in order to limit market risk on delivery. Active asset management will be required in the investment phase in order to further limit this risk. The joint venture and TTLP will be strategic in choosing when to recycle capital into and out of the portfolio in order to best exploit capital market cycles.

¹ Each project is assessed against an IRR hurdle rate equivalent to the market risk rate of return relevant to the asset class, risk and complexity of the project.

² The average annual return without debt finance, expressed as percentage.

³ Net Operating profit (or earnings before interest and taxes (EBITDA) divided by capital employed.

⁴ Yearly rent at stabilisation over total development costs (including voids and development finance costs).

Potential Risk	Proposed Mitigation
<p>Cost overrun</p> <p>The financial modelling is based on cost reports and builds in an allowance for inflation, however, there is a risk associated with an inflationary shock driving up construction cost or unforeseen project factors leading to increased cost.</p> <p>This would have the effect of increasing TTLP's required equity investment in the development phase.</p>	<p>A proactive procurement strategy will be required to ensure that the inflation risk associated with procuring contractor work packages is effectively limited.</p> <p>Ongoing due diligence is required at later design stages to limit the scope for potential cost overruns, and where possible identify efficiencies and savings.</p>
<p>Leveraging</p> <p>TTLP's strategy calls for project level debt in both the development and investment phases.</p> <p>Whilst this increases returns, it does present risks for the portfolio. Examples include equity call risk and increased downside risk in a downturn.</p>	<p>The loan to cost ratio in the development period and loan to value ratio in the investment period will be managed to ensure they remain at reasonable levels as agreed with the joint venture in order to limit the effects of excessive levels of leverage.</p> <p>The debt funding will be raised on a site-by-site basis providing an opportunity to assess risk exposure before commencement.</p>
<p>Project obsolesce and depreciation</p> <p>There is a risk posed by changing occupier demand and associated rental depreciation and obsolescence.</p> <p>This could reduce rental values of the buildings or require capital intensive refurbishments.</p>	<p>The Seed Sites have been designed with industry-leading ESG credentials in order to align with occupier demand to mitigate this risk in the short to medium term.</p> <p>In the longer term, active maintenance and asset management will be required to mitigate the operational impacts on LUL and appropriately consider the disposal of assets with significant depreciation risk.</p>

10 Assurance and Consultation

- 10.1 TfL Project Assurance and the Independent Investment Programme Advisory Group (IIPAG) were briefed on this authority submission on 15 December 2022. Project Assurance is providing assurance on an ongoing basis and Targeted Assurance Reviews will be arranged to support future investment decisions.
- 10.2 TfL Infrastructure Protection (IP) has been involved in the design development of the three Seed Sites to ensure protection of the retained transport assets and premises. IP has been consulted and provided support in collating the technical

due diligence and in drafting the legal agreements during the various stages of the procurement process.

List of appendices to this report:

Appendix 1: Executive Summary of the Heads of Terms

Exempt supplementary information is contained in a paper on Part 2 of the agenda.

List of Background Papers:

None

Contact Officer: Graeme Craig, Director and Chief Executive, TTL Properties Limited
Email: graemecraig@tfl.gov.uk

Executive Summary of Heads of Terms

This document describes the principal terms of the joint venture (the “JV”) between TTL Properties Limited (“**TTLP**”) and the preferred applicant. Please note that this document is a headline summary of the principal terms only and you should refer to the long form legal agreements for the detailed terms of the JV. For full definitions of the capitalised terms used in this document (which are not otherwise defined in this document), please refer to the JV Agreement.

JOINT VENTURE STRUCTURE AND OBJECTIVE	
JV Participants	<p>The participants in the JV will be a TTLP subsidiary vehicle (“TfL Partner”) and the selected applicant’s vehicle (“JV Partner” and, together with the TfL Partner, the “JV Participants”). The anticipated initial ownership interests in the JV will be that TfL Partner will hold a [49]% ownership interest and the JV Partner will hold a [51]% ownership interest in the JV.</p> <p>Guarantees will be provided from the JV Participants' parent companies, to guarantee the JV Participants' equity contributions to the JV. The JV Partner's parent company will also guarantee the JV Partner's share of liability to TfL under the Works Agreement.</p>
JV Objective	<p>The objective of the JV is to acquire, develop, manage and hold the Southwark OSD, Bank OSD and Paddington Triangle OSD properties (the “Properties” and each a “Property”) for investment purposes with a view to optimising income and capital returns for the JV Participants (the “Project”). The JV is formed with the intention that further properties will be added in the future, subject to the approval of the JV Participants.</p>
Property Acquisition	<p>The JV will acquire the Properties on an unconditional basis at the agreed individual completion dates for an agreed land price (without overage). The acquisitions are expected to take the form of assignments to the relevant Propcos of existing long leases held by TTLP.</p> <p>The acquisition of future sites may be subject to conditions agreed between the parties on a site-by-site basis including a planning condition, site assembly condition, site valuation condition, TfL consent condition</p>

	<p>and other site specific conditions, and may include planning overage.</p> <p>TTLP will have the option to reacquire a property at its market value if development has not commenced by an ultimate longstop date (which for the initial Properties is the date 5 years from completion), subject to non-default extensions.</p>
Works Agreement and Infrastructure Protection	A Works Agreement will be entered into with the relevant TfL landowner in respect of each of the Properties (and any future sites), ensuring the development works are carried out in accordance with TfL's standard infrastructure protection requirements.
FUNDING	
Equity funding	<p>The JV Participants commit to fund the JV up to an agreed level of commitment in respect of each Property (the “Commitments”), with the TfL Partner committing to provide [49%] of the total Commitments and the JV Partner [51%]. Neither of the JV Participants shall be obliged to increase their Commitments without their agreement.</p> <p>The JV Agreement will contain customary provisions regarding the provision of further funding, if required, including a priority return on any unmatched shortfall funding.</p>
Debt funding	<p>It is the intention of the JV to raise debt funding on each Property at an expected loan to cost ratio of up to [60]%. Following the end of the Development Phase, it is envisaged that construction debt will be refinanced with third party investment debt funding at a maximum of LTV of [60]%. </p>
MANAGEMENT	
Management of JVCo	The JV Agreement contains customary provisions regarding management and joint decision making, conflicts and disenfranchisement.
Business Plan	The business of the JV will be run in accordance with the agreed business plan (the “ Business Plan ”). The Business Plan will be reviewed on an on-going basis and approved on an annual basis.

Deadlock Provision	The JV Agreement contains typical provisions for resolving deadlock matters, involving escalation to senior executives, resolution by an expert (where appropriate in respect of technical matters), or continuation of status quo, save that where the deadlock relates to a Major Reserved Matter (being a Reserved Matter which requires resolution for the JV to continue) either JV Participant can trigger a sale process, subject to a first right for TfL to acquire the relevant interest at market value.
Development, Asset and Property Management	The JV shall appoint a Development Manager and an Asset Manager and shall delegate certain matters to them in relation to (respectively) the management of the development of the Properties and the management of the portfolio and the JV Group. The initial Development Manager and Asset Manager will be affiliates of the JV Partner. The JV shall also appoint a Property Manager to manage the Properties on a day-to-day basis.
PROFIT SHARING AND DISTRIBUTIONS	
Profits and distributions	Net Income and capital receipts of JVCo shall be distributed pari passu, subject to a priority return in respect of any shortfall funding provided by either JV Participant.
TRANSFERS OF JV INTERESTS AND DISPOSAL OF THE PROPERTY	
Transfers	Save for transfers to affiliates, no transfers of any interests in JVCo shall be permitted without the consent of the other JV Participant prior to the last to expire of the Propco Lock-in Periods relating to the initial Properties (the " JV Lock-in Period "). " Propco Lock-in Period " means in relation to each Property, the period until the earlier of (a) the first anniversary of PC and (b) the relevant Propco letting threshold having been achieved post-PC.
Transfers – JV level	After the expiry of the JV Lock-in Period, if either JV Participant wishes to transfer its interest in the JV (other than to an affiliate), it may do so subject to a right of first refusal in favour of the non-selling JV Participant. If the non-selling JV Participant does not offer to purchase the interest, the selling JV Participant shall then be entitled to sell the interest to a third party at a price no less than 97.5% of the price offered

	within a period of 6 months.
Transfers – individual Properties	After the expiry of the Propco Lock-in Period, if either JV Participant wishes to transfer its interest in an individual Property, an equivalent right of first offer mechanism will apply, save that if the other JV Participant does not wish to acquire at the price offered, the Property (or Propco) will be marketed as a whole and if the price achieved is above the price offered then both parties will agree to sell.
MISCELLANEOUS	
Default Buy-Out	The JV Agreement contains customary provisions regarding events of default for insolvency and material breach, including rights for the non-defaulting party to acquire the interests of the defaulting party at a 10% discount (or as an alternative the right for the non-defaulting party to require a sale and receive a 10% premium from the proceeds).

Date: 16 January 2023

Item: **Bollo Lane and West London Development Joint Venture**

This paper will be considered in public

1 Summary

- 1.1 This paper covers the residential-led property development at Bollo Lane, Ealing and the procurement of a joint venture development partner to undertake development management and construction works for sites within TTL Property Limited's (TTLP's) west London land portfolio, potentially comprising some 2,500 new homes with a value of £1bn.
- 1.2 The paper sets out progress to date and seeks Land Authority which will enable the disposal of the first two phases at Bollo Lane and entry into contractual agreements with the preferred bidder.
- 1.3 A paper is included on the Part 2 agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

- 2.1 The Committee is asked to note the paper and the supplementary information on Part 2 of the agenda and approve:
 - (a) Land Authority in the sum set out in the paper on Part 2 of the agenda for the transaction (the Transaction) as described in this paper and in the paper on Part 2 of the agenda; and
 - (b) the formation of a wholly owned subsidiary company for the purposes of entering into the contractual agreements relating to the Transaction.

3 Background

- 3.1 The Bollo Lane site is approximately 6.75 acres and runs 750m from Acton Town station in the north to a level crossing at the southern end of the site. It is currently occupied by a combination of operational uses and third-party light-industrial units.
- 3.2 It offers a significant residential-led development opportunity in TTLP's 20,000-homes programme. It benefits from a hybrid planning permission which was granted in December 2021. This permission includes both detailed and outline

elements and will deliver up to 900 new, much-needed homes (50 per cent of which will be affordable), new train crew accommodation and over 2,000m² of new commercial and retail space.

- 3.3 The scheme comprises 10 buildings of various heights spread across seven plots. The development is designed so it can be delivered in three self-contained phases: Phase 1 will deliver 195 new homes; Phase 2 will deliver around 450 new homes; and Phase 3 will deliver around 250 new homes and a new train crew facility.
- 3.4 In December 2021, the opportunity for the Bollo Lane project was launched in the market to find a joint venture development partner.
- 3.5 The offer to market was extended to include additional sites within TTLP's west London commercial property portfolio. This included land at Ealing Common Depot, where detailed feasibility and due diligence has taken place, and other known TTLP sites that are considered suitable for joint venture development.
- 3.6 The total gross development value of the homes and commercial provisions to be delivered by the Bollo Lane joint venture is potentially £1bn.
- 3.7 The contract award at this stage is for Phases 1 and 2 at Bollo Lane, with Phase 3 subject to a future approval. These phases will be sold to the joint venture for development subject to conditions relating to vacant possession, site value, planning and finance being satisfied.
- 3.8 The additional sites referred to above will be subject to TTLP's Business Plan approval process, which will require TTLP governance to be followed before new land is introduced into the development joint venture.

4 Procurement Process

- 4.1 The procurement was run in conjunction with TfL's Procurement and Commercial team and followed the competitive dialogue process. Eight standard supplier questionnaires (SSQs) were received in response to the procurement notice.
- 4.2 Following analysis of the SSQ submissions, four parties were invited to submit outline solutions (ISOS) for the project.
- 4.3 Prior to submitting their ISOS responses, two parties withdrew due to resourcing constraints. Following review of ISOS returns, the two remaining parties were invited to participate in dialogue.
- 4.4 Bids were assessed by evaluators for quality and commercial performance and a Preferred Bidder was identified.

5 Transaction Overview

5.1 The transaction entails:

- (a) disposal of the first two phases at Bollo Lane to the Joint Venture Limited Liability Partnership (LLP) via a 999-year leasehold interest, following the satisfaction of the Phase 1 and 2 contractual conditions, for a consideration no less than the guaranteed minimum land value;
- (b) entry into contractual agreements with the preferred bidder, including the conditional joint venture agreement (CJVA), phase 1 and 2 works agreements (WA's), phase 1 and 2 business development management agreements (BDMAs), Planning Overage Agreement and the Members Agreement (MA), and any documents ancillary to those or contemplated within them, including any planning-related agreements; and
- (c) TTLP will form of a wholly owned subsidiary company to act as shareholder in the joint venture and that shareholder will take an equity stake of 49 per cent in the first two phases of the joint venture.

5.2 TTLP will bear the costs incurred in satisfying the conditions precedent prior to disposal of the site to the joint venture.

6 Investment Strategy

- 6.1 Phase 1 of the development is 195-home Build to Rent (BtR) block. The appointment of the BtR provider will be made when the development joint venture is established. TTLP's share of any CLL acquisition of the BtR block has been included in TTLP's Business Plan. Ownership of a BtR block at Bollo Lane would be in line with TTLP's target of creating a significant BtR portfolio generating long-term income across London. A detailed proposal will be brought forward in due course.
- 6.2 The structure of the transaction provides TTLP with the opportunity to acquire the majority of the commercial units delivered at the site to secure long-term revenue, and provision has been made within the TTLP Business Plan to secure these units. A specific approval paper will be submitted to the Committee to seek authority for the proposed acquisition at the appropriate time.
- 6.3 The development joint venture also provides an opportunity to invest in build for sale housing to generate a significant capital receipt through both land receipt and development returns. The levels of financial return are detailed in the related paper on Part 2 of the agenda.
- 6.4 This investment will provide improved fleet and staff parking (including introducing electric vehicle charging), and deliver a new, fit-for-purpose facility for the escalator team, a new security office providing improved security and access to Acton Works, and a new, better-located train crew facility, subject to approval of the Phase 3 business plan.

- 6.4 The development is also delivering significant highways improvements by introducing a new pedestrian footway down the western side of Bollo Lane, creating two new zebra crossings, a raised table to help traffic calming and improve safety, and improving the two existing bus stops on the western side of Bollo Lane.
- 6.5 The development will also deliver the following public benefits:
- (a) provision of high-quality new homes designed to exceed modern housing standards;
 - (b) 50 per cent affordable homes, providing a variety of tenures and formats to address housing need;
 - (c) an approach to letting that is tenure blind to promote inclusion and quality;
 - (d) high-quality amenity space through a series of curated landscaped areas, children's play space, private balconies and roof gardens;
 - (e) based on sustainable design principles turning an underused brownfield site into a modern, well-connected development with buildings optimised in terms of energy, carbon, water and waste;
 - (f) improved pedestrian and cycle-friendly connections to promote active forms of travel;
 - (g) dedicated service road taking the burden created by deliveries and refuse collection away from the highway; and
 - (h) 2,350m² of high-quality employment space which will provide a minimum of 44 full-time employment opportunities.

7 Environmental, Social and Governance (ESG) Strategy

- 7.1 TTLP's Sustainable Development Framework (SDF) is an industry leading ESG tool, and it has been embedded throughout every stage of the Bollo Lane project. The SDF is performance-focused and measures the project against 98 Key Performance Indicators (KPIs). It spans the full range of social impact, economic prosperity and environmental stewardship.
- 7.2 Against these measures, Bollo Lane is currently scoring 61 per cent compared with the residential portfolio average of 65 per cent. It is expected that the Bollo Lane score will increase, and this will be addressed when the TTLP Design Team is able to fully engage with the successful bidder.
- 7.3 Measuring Bollo Lane against the SDF scorecard:
- (a) the site includes 50 per cent affordable housing provision and therefore fully meets the KPI;
 - (b) the Urban Greening Factor is 0.42, which is slightly below the KPI target of 0.50. To enable the development, all the existing trees will have to be

removed but the landscaping strategy includes over 200 replacement trees being planted, and the aim is to achieve at least 0.45;

- (c) the cumulative Carbon Emissions Reduction score of 65 per cent surpasses the KPI of 55 per cent;
- (d) there is an outstanding score against TTLP's Healthy Street policy, reflecting the significant improvements being made by the scheme; and
- (e) over 20 apprentice and training opportunities will be created by the project, building on the great work now taking place across TTLP's development sites.

7.4 The SDF forms part of the joint venture contract documents with the joint venture partner committing to deliver the higher of the current score or best practice, where achievable.

8 Key Stakeholders

- 8.1 The engagement with stakeholders during the planning process, coordinated by the TTLP communications team, helped deliver a resolution to grant planning on this scheme with overwhelming support at the planning committee.
- 8.2 Key ongoing stakeholder management includes to the vacant possession work and interface with operations. The project team is working closely with operational colleagues, particularly those in Investment Delivery Planning and Asset Performance and Capital Delivery, to ensure that all works are aligned with operational strategic policies. A steering group has been set up to oversee progress and ensure coordination between the related projects.

9 Operational Impact and Assurance

- 9.1 Significant engagement has been undertaken with all operational occupiers of the site and the TfL estates function. This has fed into the vacant possession strategy, to help ensure there is no detrimental impact on operational activities currently associated with the site.
- 9.2 The development team has continued to work closely with Project Assurance colleagues to implement the recommendations that came from a Target Assurance Review in March 2021.
- 9.3 Project Assurance and Independent Investment Programme Advisory Group (IIPAG) TTLP sub-group were briefed on the project and the authority requests in this paper on 15 December 2022. The briefing was well received with no major concerns raised. Assurance will be ongoing throughout the project lifecycle and outputs will be provided to this Committee as necessary.

10 Indicative Programme

Land and Property Committee Contract Award (subject to approval)	January 2023
Start on Site Vacant Possession Works	January 2023
Enter Contracts	March 2023
Start on Site – Phase 1	August 2023
Start on Site – Phase 2	March 2024
Practical Completion – Phase 1	December 2025
Practical Completion – Phase 2	November 2026 – December 2027 ¹

11 Risks

11.1 As with any project of this scale, and notwithstanding the work already undertaken to secure planning consent and define the operational interface, there are a range of risks, including key risks set out below.

Risk	Grading	Mitigation
Recognised ongoing issue with insufficient electricity capacity in west London that may delay programme	Medium	Working with the utility supplier to secure the power needed to deliver all the units. Further mitigation is provided by ring fencing existing on-site capacity as operational buildings become vacant.
Planning permission refused for replacement car park	Low	Full engagement with planning authority and a policy compliant proposal submitted.
Section 163 refused by Secretary of State	Low	Detailed application made in September 2022. Low impact on operations with enhanced facilities to be provided by the development. No impact on customers.
Market forces - inflation and interest rates	Low	Guaranteed Minimum Land Value bids take account of worst-case scenarios and therefore, if approved, the scheme will be deliverable.
Vacant possession costs impacting on scheme viability	Low	Vacant possession costs currently carry a 30 per cent contingency.

¹ To reflect the fact that buildings are available for handover prior to completion of the phase

List of appendices to this report:

Exempt supplementary information is contained in a paper on Part 2 of the agenda.

List of background papers:

None

Contact Officer: Graeme Craig, Director & Chief Executive, TTL Properties Limited
Email: graemecraig@tfl.gov.uk

[page left intentionally blank]

Date: 16 January 2023

Item: Build to Rent Programme Update

This paper will be considered in public

1 Summary

- 1.1 TTL Properties Limited (TTLP) has made good progress in its Connected Living London (CLL) joint venture with Grainger plc to develop and manage a portfolio of Build to Rent homes, such that it is now ready to start construction at four sites at Arnos Grove, Montford Place, Nine Elms and Southall that will see 1,240 homes come forward.
- 1.2 The investment partnership with Grainger plc was initially approved by the Finance Committee on 4 July 2019. In July 2022, TfL's Chief Finance Officer (CFO) used delegated authority to approve an additional Land Authority, reflecting an increase in the estimated peak equity requirement resulting from increased construction cost inflation. Since then, market conditions have worsened further. Despite a rebasing of the appraisals to take account of realistic upside and downside assumptions, there is now a risk that, on the basis of the existing growth assumptions, some of the financial metrics set out in the TTLP Investment Strategy will not be met.
- 1.3 The Committee is asked to increase the Land Authority to reflect the market conditions and, while acknowledging that there remains risk to the financial performance of these developments, approve a course of action that will mitigate the risks whilst allowing the developments to progress to help meet the need for housing, including affordable housing, in London.
- 1.4 A paper is included on the Part 2 agenda which contains supplementary information that is exempt from publication by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the business affairs of TfL. Any discussion of that exempt information must take place after the press and public have been excluded from this meeting.

2 Recommendations

- 2.1 **The Committee is asked to note the paper and the exempt supplementary information on Part 2 of the agenda and approve additional Land Authority across four of the sites, as set out in paper on Part 2 of the agenda.**

3 Background

- 3.1 In July 2019, the Finance Committee approved the investment sum and Land Authority necessary to deliver a portfolio of Build to Rent development sites through TTL Build to Rent Limited which is a 49 per cent shareholder in the CLL

joint venture. The CFO was authorised to approve the disposal of sites and the investment into the joint venture, subject to certain investment metrics being met.

- 3.2 The CFO approved Agreements for Lease and Land Authority for four sites at Southall, Arnos Grove, Montford Place and Nine Elms between November 2019 and November 2021. CLL plans to commence enabling works on these sites in the first quarter of 2023, with main contracts following later in 2023.
- 3.3 The four approved sites are set out below.

Site	Total Homes	Affordable Homes	Land Disposal	Start Enabling Works
Montford Place	139	56	Jan 2023	Jan 2023
Arnos Grove	162	65	Jan 2023	Mar 2023
Nine Elms	479	190	Jan 2023	Jan 2023
Southall	460	184	Feb 2023	Feb 2023
Total	1,240	495		

- 3.4 Cockfosters, which provides a further 351 homes, is awaiting planning consent and a Section 163 consent to dispose of operational land (notwithstanding a resolution to grant planning permission from the local planning committee). Consequently, it does not form part of this approval request.
- 3.5 In July 2022, additional Land Authority was approved by the CFO, reflecting an increase in the estimated peak equity requirement resulting from increased construction cost inflation.
- 3.6 Since the July 2022 paper, market conditions have worsened further following the market reaction to the September 2022 mini-budget. The site appraisals have been impacted by further increases to construction cost, increased financing costs, reduced debt availability and weakening sentiment in respect of investment yields. Within the updated base case, these negative factors are partially offset by favourable short-term rental growth and other revised assumptions on inflation and affordable rents.
- 3.7 However, these market factors have two key impacts:
 - (a) increasing the level of shareholder equity required; and
 - (b) a requirement for construction cost moderation and other changes to appraisal inputs to enable the project metrics to be achieved.
- 3.8 The effect of these two factors means that further equity is needed to complete the schemes and there is a risk that the original TTLP metrics may not be met.
- 3.9 TTLP could pause activity until market sentiment improves. This, however, would delay the delivery of 1,240 homes, including 495 affordable homes. It

would also lead to a loss of affordable housing grant, making viability more challenging. The CLL schemes are using grant funding from the existing Affordable Housing Programme (AHP), which covers projects that start on site prior to March 2023. Under the replacement AHP scheme (funded by Central Government), the discounted market rent (DMR) product that forms part of the Build to Rent model does not qualify for grant assistance. The schemes will therefore lose their grant funding allocation unless they start on site by March 2023.

- 3.10 TTLP's Investment Strategy states that TTLP will aim to deliver throughout the property cycle, accepting that its returns will not always be as high as would otherwise have been the case. If a decision is taken to proceed, there are actions that CLL can take to mitigate the impact of the market conditions. These cannot however guarantee that the investment metrics will be achieved.

4 Market Context

- 4.1 CLL has recently received proposed terms from four potential lenders. The large increase in base bank rates, from 1.25 per cent in July 2022 to 3.5 per cent in December 2022, has increased the overall debt needed to develop the four sites. In addition, banks are being more cautious, and the amount of interest cover and therefore debt that can be supported by rental cashflows has reduced. In a Build to Rent model, the increased cost of long-term investment stage debt negatively impacts investment returns.
- 4.2 CLL employs three cost consultants across the portfolio of sites, and monitors forecasts from the rest of the market. Quantity surveyors' inflation projections vary considerably, from two per cent to five per cent in 2023 and from two per cent to four per cent in 2024/25. Whilst there is a growing consensus that construction market inflation has peaked, the quantity surveyors are predicting an easing of inflationary pressure rather than a significant deflationary event. On average, forecasts suggest an expectation of 3.2 per cent inflation per annum over the next three years, down from four per cent per annum six months ago.
- 4.3 Whilst the economic circumstances are different to the 2008 position, it is worth noting that the global financial crisis led to a 16.7 per cent price construction cost deflation between 2008 and 2010.
- 4.4 Given the public sector drive for residential starts on site by March 2023, there is an expectation of continued construction demand in the short-term. There is, however, an increasing expectation from developers that projects will be paused beyond this date, given the higher interest rate environment and the increased yield expectations across all sectors of the property market. Registered providers are also reducing output, given their need to focus on maintenance and improvement of existing stock. Total construction orders fell by 10.4 per cent in Quarter 2 (Q2) 2022 on the previous three months, the largest quarterly fall since Q4 2020 (Office for National Statistics, 2022).
- 4.5 These factors may lead to a repositioning of the contractor supply chain as order book forecasts reduce, with potentially a more pronounced deflationary movement than cost consultants are currently suggesting.

- 4.6 Despite the above, there is a risk that international cost factors including energy pricing, currency volatility and the Ukraine war, could continue to impact material prices in the short term and drive continued inflationary pressure.
- 4.7 Notwithstanding the market challenges, a record £2.5bn was invested into UK Build to Rent in the first six months of 2022. Given the weight of money seeking to secure institutional residential investments, prime yields have reached 3.25 per cent for stabilised assets. While there is very limited transactional evidence demonstrating an outward yield movement, agents are indicating a pause in activity during Q3, weakening market sentiment and an expectation of downwards yield movement in response to rising interest rates and funding costs, and the increase in 10-year gilt rates.
- 4.8 Conversely, with mortgages being harder and more costly to obtain and with private rented sector (PRS) landlords seeking to exit the sector, annual London PRS rental growth reached 16.1 per cent in Q3 2022, according to Rightmove. Tenant demand has increased by 20 per cent compared with last year, available properties to rent have reduced by nine per cent and consequently, occupancy levels remain strong.
- 4.9 The market continues to be underpinned by strong fundamentals of tight supply, high demand and a robust outlook for earnings growth – all reasons why TTLP saw Build to Rent as its most important medium to long-term investment class. This should allow for good rental growth prospects and constrain any outward yield movement.

5 Proposed Next Steps

- 5.1 There is a strong rationale to maintain momentum on the CLL sites and progress the delivery of much-needed private and affordable homes, in accordance with the Mayor's Transport Strategy. For the reasons set out in paragraph 3.9 above, the programme will also lose affordable housing grant funding unless it starts on site by March 2023. The financial risk of the current market, however, needs to be managed effectively.
- 5.2 Sensitivity analysis and scenario analysis on key appraisal inputs including construction cost, rental growth and finance swap rates have been assessed to demonstrate the market adjustments that would be needed in order to allow the TTLP investment metrics to be achieved. Given the current market context, it is considered that there is a realistic prospect of these market adjustments taking place. A strategy has therefore been developed that enables the CLL leases to complete and allows enabling works to progress, subject to a maximum initial commitment as set out in the exempt paper on Part 2 of the agenda.
- 5.3 The strategy allows CLL to retain the affordable housing grant, progress schemes within the current building regulations framework and put itself in the best position to deliver homes as quickly as possible, subject to market conditions. The enabling works capital is also accretive to value, i.e. would make the sites more valuable if disposed of.

- 5.4 Progressing to main contracts and committing further capital would then be dependent on achieving the investment metrics or achieving a new Committee approval.
- 5.5 Assuming that the projects can proceed to the main construction contracts, the equity requirements for the programme within the development phase will increase, based on the increase in rolled up interest and the reduction in loan to cost funding ratios. Consequently, this paper requests an overall increase in Land Authority as set out within the exempt paper on Part 2 of the agenda.
- 5.6 Following a detailed review of the site appraisals and market conditions, Grainger's Investment Committee has approved in principle the proposed strategy, subject to this Committee's approval.

6 TTLP Business Plan and Debt Funding

- 6.1 The previous levels of equity are included within the TTLP Business Plan. While the additional requirements are not currently included in the TTLP Business Plan, TTLP has sufficient financial resources available to enable the projects to proceed at these levels of equity, without impacting the capital programme for other projects across TTLP. The updated equity requirements will be included in the current Business Plan process.

List of appendices to this report:

Exempt supplementary information is contained in a paper on Part 2 of the agenda.

List of background papers:

Funding Update on TTL Properties Limited, Finance Committee, 22 June 2022

Financial Framework for TTL Properties Limited, Land and Property Committee 30 June 2022

Contact Officer: Graeme Craig, Director and Chief Executive, TTL Properties Limited
Email: graemecraig@tfl.gov.uk

[page left intentionally blank]

Land and Property Committee

Date: 16 January 2023



Item: Members' Suggestions for Future Discussion Items

This paper will be considered in public

1 Summary

- 1.1 This paper presents the current forward plan for the Committee and explains how this is put together. Members are invited to suggest additional future discussion items for the forward plan. Members are also invited to suggest items for future informal briefings.

2 Recommendations

- 2.1 **The Committee is asked to note the forward plan and is invited to raise any suggestions for future discussion items for the forward plan and for informal briefings.**

3 Forward Plan Development

- 3.1 The Board and its Committees and Panels have forward plans. The content of the plan arises from a number of sources:
- (a) Standing items for each meeting: Minutes; Matters Arising and Actions List; and any regular quarterly or periodic reports. For this Committee, these are the performance report and the assurance update.
 - (b) Land and property schemes that require Committee approval.
 - (c) Items requested by Members: The Deputy Chair of TfL and the Chair of this Committee will regularly review the forward plan and may suggest items. Other items will arise out of actions from previous meetings (including meetings of the Board or other Committees and Panels) and any issues suggested under this agenda item. For this Committee, these will include regular informal deep dive briefings and site visits.

4 Current Plan

- 4.1 The current plan is attached as Appendix 1. Like all plans, it is a snapshot in time and items may be added, removed or deferred to a later date.

List of appendices to this report:

Appendix 1: Land and Property Committee Forward Plan 2022/23

List of Background Papers:

None

Contact Officer: Howard Carter, General Counsel
Email: HowardCarter@tfl.gov.uk

Appendix 1

Land and Property Committee Forward Plan 2022/23

Membership: Professor Greg Clark CBE (Chair), Dr Nina Skorupska CBE (Vice Chair), Heidi Alexander, Seb Dance, Anne McMeel and Ben Story. GLA Observer: Lyn Garner

Abbreviations: TTLP (TTL Properties Limited); DCE TTLP (Director and Chief Executive of TTLP)

Standing Items		
Matters Arising and Use of Delegated Authority	General Counsel	Update of actions from previous meetings and any use of delegated authority or receipt of Mayoral Directions within the remit of the Committee.
TTL Properties Limited Assurance Update	Director of Risk and Assurance	Update on assurance matters.
Performance Report	DCE TTLP	Update on TTLP performance.

23 March 2023		
Investment Strategy	DCE TTLP	Approval request.
ESG Strategy	DCE TTLP	Approval request.
People Plan	DCE TTLP	Approval request.
Business Plan 2023/24	DCE TTLP	Approval request.

[page left intentionally blank]

Agenda Item 15

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

Agenda Item 16

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

Agenda Item 17

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]

Agenda Item 18

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

[page left intentionally blank]