Finance Committee

Date: **24 November 2021**

Item: **Build to Rent Joint Venture Agreement**

This paper will be considered in public

1. Summary

1.1 This paper requests approval for a series of amendments to the Joint Venture Agreement (JVA) which TTL Build To Rent Limited entered into on 12 July 2019 with Connected Living London Limited (a wholly owned subsidiary of Grainger Plc).

1.2 The need for these amendments is driven by the risk introduced into Transport for London's (TfL's) ability to fund construction as a result of TfL's short-term funding position.

1.3 TfL's Joint Venture partner, Grainger, has understandably flagged concerns with continuing to invest should TfL not have funding for its share of costs when the construction funding is required.

1.4 The amendments to the JVA represent a 'backstop' mechanism that will only apply if TfL was unable to provide required funding. They are not expected to be required but are considered reasonable provisions to adopt to ensure continued progress on sites and delivery of homes.

1.5 A paper is included on Part 2 of the agenda, which contains exempt supplemental information. The information is exempt by virtue of paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial and 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 and the supplementary information on Part 2 of the agenda and approve the proposed amendments (as substantially described in the Part 1 and Part 2 papers) to the Connected Living London Joint Venture Agreement and the incorporation of the associated Funding Condition within the site-specific agreements for lease.

3. Background

3.1 In July 2019, the Committee approved the investment sum and Land Authority necessary to deliver the current portfolio of Build to Rent development sites. It approved the formation of a subsidiary entity (the holding company known as TTL Build To Rent Limited) as a wholly owned subsidiary of TTL Properties Limited for the purpose of entering into the joint venture with a Grainger entity. The Chief Finance Officer was granted delegated authority to approve the disposal of sites and the investment into the joint venture.

3.2 The build to rent programme was conceived in order to facilitate the delivery of a sustainable operating surplus from TfL's property assets for reinvestment into the transport system. This remains as the primary objective and is consistent with TfL's current Business Plan and Commercial Development's Growth and Investment Strategy.

Market Overview

3.3 The number of Build to Rent homes has increased at an average of 54 per cent per annum since 2015. The rate of growth stalled because of lockdown measures but is expected to bounce back sharply, with 16,340 units set to be built in 2021.

3.4 There are now over 42,400 operational Build to Rent units in the UK, with a further 50,000 either under construction or with planning consent. Despite this, Build to Rent assets continue to represent a minor component (circa 1.4 per cent) of the wider private rental market, with significant capacity to grow.

3.5 There is a continuing demographic shift towards rental, with a 93 per cent increase in the number of households renting over the last 15 years. This compares to a 3 per cent increase in owner occupation over the same period.

3.6 UK Build to Rent investment reached £6.6bn in 2020, rising from £3.1bn in 2015. Yields have remained stable, with the principle reasons driving investor appetite being the strong supply and demand dynamics, the sector's limited exposure to economic cycles and the length of income streams available.

3.7 The coronavirus pandemic has impacted rental growth and forecasts remain subdued for the next 12 months at 2.5 per cent. However, income has been shown to be relatively resilient, with occupancy levels at 91 per cent and rent collection at 95 per cent in 2020 (JLL, UK Build to Rent, 2021). With the easing of restrictions, the market expectation is that Build to Rent will outperform the standard private rental market and return to levels of 3.0 per cent per annum growth by 2023 (JLL, UK Build to Rent, 2021).

4. Built to Rent Progress

4.1 The TfL Build to Rent programme has made significant progress since the formation of its partnership with Grainger.

4.2 CLL has obtained resolutions to grant planning consents for 1,078 homes across three sites at Montford Place (Kennington), Nine Elms Over Station Development and Southall Sidings. Montford Place has received formal planning consent, with Nine Elms and Southall Sidings expected to follow by the end of the calendar year.

4.3 A further 513 homes at Arnos Grove and Cockfosters are currently in the planning process. The site at Arnos Grove is the subject of a planning appeal, with a Public Inquiry expected in March 2022 and determination expected by June 2022. The

Cockfosters planning committee is expected in December 2021 and, if successful, would lead to a formal consent by spring 2022.

4.4 In order to enable TfL to meet the Mayoral priorities contained within the London Plan, all of the Build to Rent schemes are delivering 40 per cent affordable housing. The design process has been supported by GLA and Local Authority design reviews. TfL's Sustainability Development Framework has been adopted by the joint venture and is driving enhanced environmental and economic performance across all sites.

5. Funding and Programme Challenges

5.1 During the coronavirus pandemic, the sites have been adequately funded in order to undertake feasibility work, concept design and planning applications. However, TfL has been unable to make longer terms commitments, given TfL's financial constraints resulting from the pandemic.

5.2 The shareholders now need to commit to a new phase of investment for detailed design, procurement of main contractors and construction funding. The new mechanisms allow the projects to continue in accordance with the Joint Venture business plan.

5.3 The arrangement is also expected to allow Agreements for Lease (AfLs) to be signed for the remaining sites in the portfolio which are not under contract (Cockfosters and Nine Elms), as it provides a route to development in the event that TfL does not have the required equity.

5.4 It is therefore proposed that TfL enters into the proposed amendments to the JVA and incorporates an associated funding condition within the site-specific AfLs, for the reasons outlined within the paper on part 2 of the agenda.

6. TTLP Business Plan and Debt Funding

6.1 The paper to the meeting of the Committee on 23 June 2021 set out how TTLP had worked with Deloitte to review potential funding options to meet TTLP's capital requirements. The review concluded that commercial debt financing by TTLP was the preferred route.

6.2 The paper to the meeting of the Committee on the 6 October 2021 then provided an overview of the New Baseline Plan which, subject to ongoing discussions with Government and TfL approvals, will see TTLP aim to start on sites that deliver 20,000 homes over the next 10 years. The New Baseline Plan projects that the annual return to TfL will increase from £6.0m in 2021/22 to £155.7m over 15 years. Over the same period, the value of TTLP's property assets are projected to rise from £2.22bn in 2021/22 to £4.46bn in 2035/36. This is to be funded by commercial debt that is non-recourse to TfL. As the paper set out, peak debt requirement is forecast to be £500m in 2029/30, although the debt in the first three years remains modest at around £150m.

6.3 Initial discussions have taken place with a number of lenders, including UK clearing banks, European banks and institutional investors. All conversations to date have been based on either publicly available information, including the paper to the Committee on 23 June 2021, or non-sensitive information that could be made public. Initial feedback from lenders has been very positive and no concerns have been raised about the ability of the structure proposed by TTLP to be financed.

7. Conclusion and Next Steps

7.1 Significant progress has been made in relation to five Build to Rent sites across London. In order to progress to the next stages of development, TfL needs to commit to construction funding, but this commitment cannot be made until commercial debt is in place.

7.2 Amendments to the Joint Venture Agreement are therefore proposed that provide protection to Grainger and allow projects to proceed if TTLP cannot commit to the required funding.

7.3 As long as commercial debt funding is obtained in accordance with the current plans, the JVA amends will have no impact on TTLP.

List of appendices to this report:

A paper containing exempt supplemental information is included on Part 2 of the agenda.

List of Background Papers:

Funding Update on TTL Properties Limited – Finance Committee, 23 June 2021
Funding Update on TTL Properties Limited – Finance Committee, 6 October 2021

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