Land and Property Committee

Date: **30 June 2022**

Item: **Investment Strategy and Business Plan**

This paper will be considered in public

1 Summary

1.1 This paper summarises the TTL Properties Limited (TTLP) Investment Strategy and associated Business Plan. Together these provide a framework for TTLP's decision making in relation to all its investments by allowing the organisation to deliver on its objectives in a way that optimises returns and manages risk across the investment programme. Both have been prepared on behalf of TfL, TTLP's sole shareholder.

1.2 This is the first consolidated Investment Strategy created in relation to the TTLP portfolio and will be reviewed annually to reflect its evolution over time.

1.3 TTLP's Investment Strategy and Business Plan have underpinned the positive engagement with lenders and, as well as supporting a growing dividend for TfL, set out the commercial investment to deliver 20,000 homes by 2031 to meet a key Government and Mayoral target for TTLP.

2 Recommendation

2.1 The Committee is asked to note the paper.

3 Investment Strategy

Strategic Context

3.1 TfL owns 5,475 acres of freehold land and a further 404 acres leasehold. In total this equates to 1.5 per cent of London's landmass. Whilst the vast majority of this land will always be required to support the operational transport network, TfL's landholdings have increasingly supported the Mayor's priorities to build homes and create jobs, while generating revenue to reinvest in London's transport network.

3.2 TfL plays a critical role in supporting London and the UK economy. To continue fulfilling this role, it is essential that TfL has stable, long-term investment to operate and maintain the London transport network. In this context, TfL published a Financial Sustainability Plan[1] that set out the impact of the pandemic on TfL's operating income and proposed how this impact could be mitigated. TTLP was and remains an integral part of TfL's Financial Sustainability Plan. The model being adopted by TfL for property follows the

---

[1] https://content.tfl.gov.uk/financial-sustainability-plan-11-january-2021.pdf

leading international examples where the transport authority owns a property subsidiary.

3.3 The pandemic has impacted the national economy and real estate market in unprecedented ways. Across the UK, the return to pre-pandemic levels of activity has been slowest in London, requiring business to adapt rapidly. Whilst challenging, the pandemic has highlighted changes in the decisions that businesses and people are making about how they live, work and consume. It is essential that TTLP reflects these lessons in its strategy and continues to work closely with its customers to ensure that it remains flexible in its approach.

3.4 In London and elsewhere, several key themes are clear, including:

(a) a flight to quality in commercial offices;
(b) the impact of legislation and social expectation on environmental, social, and corporate governance (ESG);
(c) a move from traditional to experiential retail;
(d) growth of last mile logistics and alternative uses;
(e) a housing shortage, with an affordability and quality crisis;
(f) business growth amongst small and medium enterprises (SMEs) and a transformation in the relationship between landlords and tenants;
(g) an emerging institutional purpose-built residential market (Built to Rent); and
(h) an emerging focus on multi-use campuses.

3.5 TTLP has a diverse portfolio, including well-positioned assets across London, making it well placed to adapt quickly to changing customer requirements and economic conditions. TTLP's portfolio comprises 4.68m square feet of real estate, the majority of which can be broken down into the following sectors: retail (current value £610.4m), arches (£175.1m), commercial office (£156.4m), car parks (£105.5m) and residential (£97.7m).

3.6 The estate also includes concentrations of mixed-use assets around central London transport nodes, such as Baker Street, Victoria and Liverpool Street. These provide examples of large-scale priority assets within the portfolio that offer substantial repositioning and redevelopment opportunities.

3.7 On development, there are two separate rationales underpinning TTLP's activity. The first is to create high-quality future investments and at a higher income yield by virtue of the development margin, including through the Build to Rent (BtR) joint venture with Grainger plc. The second rationale is linked to TTLP's aspiration to support the delivery of new homes. In most cases, TTLP invests and shares in the development profits from the delivery of homes on major sites through joint ventures with companies specialising in the delivery of 'for sale' residential units. TTLP currently has five committed BtR joint venture projects with Grainger delivering 1,591 homes. TTLP also has five committed 'for sale' joint venture projects for 4,844 homes, with the potential for a further 6,000 homes in future joint ventures.

3.8 In virtually all instances, TTLP manages exposure of its own capital to such developments by establishing joint ventures that raise non-recourse development finance. Furthermore, as TTLP realises receipts for its land transferred into these joint ventures, its capital commitment beyond the land receipt is reduced.

3.9 Working closely with TfL, TTLP will continue to identify additional properties that can transfer to TTLP over time, and this is likely to result in the portfolio continuing to grow in both scale and value. Given the ability to plan decades in advance, including taking account of future extensions of the transport network, it is also likely that TTLP will undertake strategic land assembly, notwithstanding an initial focus of optimising value from the existing portfolio.

3.10 Linked to TTLP's Purpose and Operating Principles, TTLP has a number targets that are summarised below:

(a) Generate Sustainable Net Income
- Increase gross annual operating income from £69m in 2021/22 to £187m in 2030/31.
- Achieve a market-competitive operating margin by 2025/26.
- Create a balanced portfolio capable of delivering sustainable financial returns over the long-term.

(b) Deliver New Homes and Neighbourhoods
- Start on the sites that will deliver 20,000 well-designed homes over the next 10 years, across a mixture of tenures and price points.
- Deliver longer-term opportunities by working closely with TfL to unlock sites for development alongside operational improvements.
- Target strategic acquisitions of land and buildings to unlock further opportunities and programmes.

(c) Environmental, Social and Corporate Governance (ESG)
- Extend the Sustainable Development Framework, that led TTLP to be recognised by GRESB as the leading sustainable diversified developer in Europe, across the whole of TTLP's commercial estate.
- In keeping with TTLP's commitment to Better Buildings Partnership's Climate Change Commitment, develop and deliver a net zero carbon pathway.
- Actively pursue opportunities to adopt Modern Methods of Construction (MMC) and enhance construction industry skills within the development programme.
- Advance social value, environmental sustainability, and improved transport and mobility across TTLP's estate.

Measuring Performance

3.11 Effective measurement of returns and performance, at portfolio and asset level, is key to achieving TTLP's objectives. Clear visibility of potential returns across the portfolio (and the makeup from individual sectors) will allow effective decisions on capital allocation and ensure that risk is adequately priced.

3.12 Setting the right key performance indicators (KPIs) will enable TTLP to incentivise the right behaviours within its business. This, therefore, will be a key focus over the next 12 months to ensure that the measurement of performance is accurate. To better support this, new and robust data for TTLP's portfolio is required. In the meantime, we have adopted a range of interim metrics. All of these metrics and their targets will be reviewed over time with the Committee.

3.13 TTLP's key strategic objective is to generate long-term, sustainable net income. We have therefore identified the following financial KPIs to be monitored at a portfolio level:

Metric	What it means	Target
Increase Gross Rental Income Receivable	Aligned with the objective to grow long-term sustainable income Delivers higher dividend to the shareholder	>CPI[2]
Increase Net Property Profit from Recurring Income	Aligned with the objective to grow long-term sustainable income Delivers higher dividend to the shareholder Joint venture development profit is excluded for the dividends and therefore not included in this metric	£80m increase by 2030/31
Reduce Voids	Focuses business on increasing total revenue by improving occupancy levels across the portfolio	Vacancy level below comparable MSCI[3] market levels within three years
Improve Operating Margin	Improve efficiency of business, which in turn will enhance net recurring operating income and dividend to TfL	Operating margin minimum of 40-50% by 2026/27
Total Property Return	Ensures investment to grow short-term net income is not to the detriment of the long-term value of the estate	Outperform a tailored MSCI London Total Return benchmark on a rolling three-year basis

3.14 We will manage TTLP's capital commitments with a cautious approach to reflect the self-funding nature of TTLP and to ensure resilience and liquidity through economic cycles. Below, we set out TTLP's key financial management principles.

---

[2] Though CPI remains the long-term target, the short-term impact of the current high level of inflation is being assessed

[3] MSCI is the leading global provider of real estate indexes and analysis tools

Metric	How it's measured	Target
Loan to Value (LTV)	The ratio of principal value of gross debt less cash, short term deposits and liquid investments to the aggregate value of properties and investments	<40%
Interest Coverage Ratio (ICR)	Net operating income divided by the total interest costs	>2×
Liquidity	Cash and undrawn committed facilities assuming a risk reduction in disposal receipts	Sufficient undrawn borrowing commitment and cash in bank to meet financial commitments over the next 18 months and a cash reserve of £10m is maintained
Equity	Maximum amount of TTLP's gross asset value to be invested as equity in development projects	No more than 33%

3.15 In addition to the above, each individual Business Unit will be required to align with the following financial KPIs. This will ensure that capital is appropriately allocated within the TTLP business. Individual asset plans will be required to meet these hurdle rates to secure funding from the business.

Metric	How it's measured	What it means for TTLP	Target
Net Present Value (NPV)	Each project is assessed adopting an appropriate IRR hurdle rate	Ensures that we are allocating capital appropriately	>0
Unlevered Internal Rate of Return (IRR)	The average annual return, expressed as a percentage	Enables the average annual total return of each project to be assessed and ranked providing an additional metric to support the capital allocation within the Business Plan	7-15% Taking into account levels of risk and the non-financial benefits

Metric	How it's measured	What it means for TTLP	Target
Return on Capital Employed (ROCE) on development projects	Net operating profit (or earnings before interest and taxes (EBITDA) divided by capital employed	Enables the level of profit to be compared to the level of capital invested, which will support the prioritisation of projects within the Business Plan	20%
Incremental Yield on Expenditure	The new rent post-capital investment minus the former passing rent divided by capital expenditure plus associated void costs	Ensures we are allocating capital and generating a return on investment aligned to the objective of delivering net income growth.	>3.6% Taking into account levels of risk and the non-financial benefits

3.16 Additional KPIs will be monitored at individual site or asset level. These will collectively ensure that the portfolio-wide targets are met.

3.17 Over the course of the next 12 months, supported by its advisors, TTLP will look to develop new non-financial KPIs based on market benchmarks from comparable enterprises. This will ensure that TTLP can deliver on its objectives in a way that optimises returns and mitigates risk across the estate. This review will include taking the principles successfully adopted for Property Development in the Sustainable Development Framework as the approach is applied across the wider TTLP portfolio in a new Sustainable Estates Framework.

Delivery Approach

3.18 In the short-term (one to three years), TTLP's focus will be on optimising its portfolio's performance through enhancing day-to-day operations and pursuing proactive asset management initiatives. Alongside this, TTLP will undertake feasibility work on the longer-term asset development pipeline. This will ensure that the existing revenue stream is sustainable and robust, allowing the organisation to move into the longer-term phase of targeting value-add opportunities.

3.19 This approach will be embedded within TTLP's governance and management strategies, as well as the underlying Asset Plans. This will ensure that all investment decisions and capital within the business are focused on achieving TTLP's primary objectives. Rooted in this approach is a continual focus on capital discipline. In line with its objectives, TTLP is focused on delivering a well-managed portfolio providing sustainable, robust long-term income.

3.20 The TTLP Investment Strategy aligns with TTLP's Business Plan, which outlines how TTLP will deliver the objectives. Together, the Business Plan and Investment Strategy enable TTLP to prioritise capital investment.

3.21 The Business Plan will be supported by Sector Strategies and individual Asset Plans that set out the specific strategies for each project, including detailed KPIs and Asset Strategy Risk Registers.

3.22 The following provides an overview of the Sector Strategies prepared by the individual Business Units and used to inform TTLP's Business Plan. Where these assets are co-located, particularly around transport nodes, they will be considered not as individual sectors but collectively as multi-use hubs or campuses. These campuses, where space can flex over time to meet market demands, will be viewed at a premium by TTLP and will always be assessed as a priority for investment. Opportunities for land assembly around these hubs will also be reviewed.

3.23 **Retail** – TTLP's sites are located near transport nodes and offer the convenience favoured by consumers, resulting in an annual rent roll of over £27m, even in a coronavirus-impacted year. TTLP will capitalise on this by focusing on the relative resilience of local and essential retailing and convenience, 'Grab & Go' space and service sectors seeking larger units both inside and outside of stations. TTLP will also consider the opportunity for showrooming and experiential marketing within stations.

3.24 To enable the diversification of its portfolio, the near-term strategy is focused on the optimisation and rationalisation of the existing retail portfolio. This will enable the business to prioritise investment on core assets in Zones 1-3 (including the new Elizabeth line) and rationalise the out-of-station portfolio in Zones 4+ where appropriate. The detailed retail strategy will consider the distinct requirements of in-station and out-of-station, as well as opportunities for retail as a whole, including smaller interventions that deliver enhanced income and improved customer experience.

3.25 **Arches** – TTLP's significant arch portfolio in London generates over £7m a year across predominantly light industrial uses, with a limited number of retail and leisure uses. In the short-term, the focus will be the repurposing and redevelopment of identified key arch estates, alongside income protection and stabilisation. Investment in compliance and health and safety will also take place as required. In the medium-term, TTLP will review the opportunity to introduce logistics and distribution uses in appropriate locations across the portfolio. TTLP also proposes to explore the opportunity to deliver affordable workspace as part of its portfolio, whilst focusing on commercial returns elsewhere.

3.26 **Offices** – TTLP's portfolio includes over 100,000 square feet of existing offices generating £5m a year as well as a pipeline of office developments. Building on the continued 'flight to quality' among London office occupiers, in the short-term TTLP will focus investment on office development and the repurposing of existing office buildings that could support a flexible or co-working provision. Other assets will be reviewed for disposal, in line with TTLP's capital recycling plan.

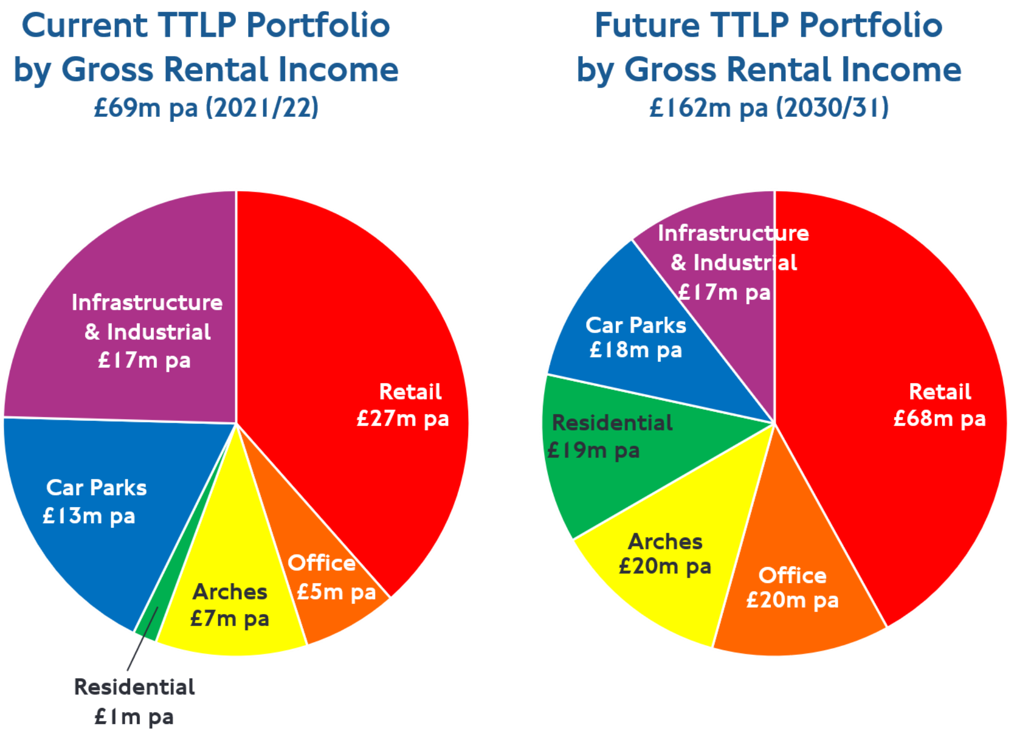
3.27 In the medium term, TTLP’s portfolio presents opportunities to deliver market-leading office buildings via an Over Station Development programme, starting at Bank, Paddington and Southwark, which together will deliver 600,000 square feet of the highest quality office space in the capital, with world-leading sustainability and wellbeing credentials.

3.28 **Residential** – The strategy for the residential business unit is to become a market-leading delivery vehicle in London, starting on the sites that will provide 20,000 homes by 2031. This will include a mixture of tenures, locations and price points, with an increasing focus on Build to Rent, including through Connected Living London (CLL), TTLP’s joint venture with Grainger plc.

3.29 Revenue from disposals and private for-sale homes will provide capital to be reinvested in more income-producing opportunities. This combined with the direct delivery of Build to Rent units via CLL will provide a long-term sustainable net income stream back to the business, as well as a growing residential asset base. This will enable TTLP to focus resource on delivering quality services to TTLP’s customers where it is best placed to do so.

3.30 **Car Parks** – TTLP’s short-term focus will be protecting the income from existing contracts, as well as reviewing appropriate interim strategies and meanwhile uses prior to any redevelopment. This will be supported by a review of potential green energy initiatives, such as Electric Vehicle (EV) charging hubs and the opportunity to generate long-term index-linked leases across the estate.

3.31 **Infrastructure and Industrial** – TTLP’s portfolio currently includes several high-value, low-risk assets in the form of long leaseholds and long income streams, both of which are suitable for secured lending. The short-term focus is to review assets for value optimisation and produce detailed asset strategies. The medium-term strategy is to drive revenue and value-add opportunities from long-leaseholds and consider the scope for a larger industrial portfolio. TTLP recognises that its real estate portfolio weighting needs to change to enable it to focus on securing low-risk sustainable income with growth potential, supported by profits from new developments. The Sector Strategies outlined above have been prepared in accordance with this and are anticipated over the long-term to result in the following changes to the sector allocations in the portfolio.



3.32 As a wholly owned subsidiary of TfL, TTLP will operate as a financially self-sufficient business. An operating agreement will set out how TTLP and TfL will encourage housing and commercial return alongside operational delivery. TTLP also wishes to work closely with Government departments and agencies, the Greater London Authority (GLA) and other transport authorities to establish best practice in residential and commercial development above and around the transport network.

3.33 TTLP's Business Plan will (either directly or indirectly) expose TTLP and TfL to delivery and market risks. A risk register and mitigation strategy will therefore be implemented and reviewed on a regular basis. The Asset Strategy Risk Registers will provide a more detailed schedule of key risk items and their proposed mitigation strategies.

4 Business Plan

Introduction

4.1 The Business Plan has been prepared using the following approach:

(a) prioritisation of capital projects across the portfolio based on Investment Strategy principles and consideration of resource and delivery requirements. This has been produced at a sector level;
(b) assessment of the sources of capital income including primarily a review of the disposal portfolio and risk adjustment methodology;
(c) review of operating costs, ensuring these are in line with the prioritised capital plan such that the plan reflects the costs of delivery (e.g. resource);
(d) review of rental and other operating income by means of evaluation of:

(i) existing rental income and expected changes to that (e.g. pandemic recovery assumptions, turnover rent assumptions, standard growth assumptions, voids improvement);

(ii) removal of income for activities such as lease renewals and rent-free periods and vacant possession requirements for projects as identified in the capital programme; and

(iii) growth from capital programmes e.g. delivery of Build to Rent and commercial schemes; and

(e) the Business Plan is forward-looking, covering a nine-year period running from 1 April 2022 to 31 March 2031.

4.2 The Business Plan is made up of a combination of projects, disposals, management of income sources and management of costs. Each of these elements of the plan is described below with a focus on both the contents of the plan and the approach to delivery including how TTLP is managing resources to ensure delivery.

4.3 The Investment Strategy over the course of the plan changes the portfolio balance.

4.4 With regard to TTLP's existing estate, the Business Plan is split between priority assets, with accompanying detailed unit-level cashflows; and a sector-based delineation of the remainder of TTLP's portfolio (the 'tail' assets), with associated cashflows based on broader financial assumptions. Many of the priority assets are mixed-use and capital investment has been apportioned accordingly between asset classes. This reflects TTLP's management approach.

4.5 TTLP's Investment Strategy makes clear that the strategy is to hold assets that meet key criteria – located in core locations where TTLP has a critical mass, key growth sectors; and / or where assets are closely integrated with TfL's transport network (e.g. In-Station Retail and Arches). These assets can deliver future value, and TTLP is best placed to manage them.

4.6 To drive operating efficiencies across the portfolio, the Business Plan includes a strategic disposal programme. As well as providing capital receipts, this enables a more efficient management approach by rationalising disparate assets in low-growth sectors. A comprehensive review of the existing portfolio has been undertaken to identify disposal opportunities. In line with market evidence, disposals are focused on less-resilient sectors where there is a strong case to rationalise TTLP's asset base.

4.7 Asset management projects will typically be delivered directly by TTLP, utilising an in-house project management function and with TTLP funding 100 per cent of the capital investment. Asset management activities and works packages will typically be phased or incrementally committed and executed; disposal proceeds will typically be through unconditional sales.

4.8 Property Development projects will usually be delivered through joint ventures, with TTLP typically taking a 49 per cent shareholding. TTLP will sell land into the joint venture through granting a long leasehold interest, and then reinvest the required equity into the joint venture vehicle in line with its shareholding. The land receipt from the joint venture vehicle will typically be conditional on planning permission (and other conditions precedent). TTLP shares risk capital with its partners in getting up to this point.

4.9 TTLP has a housing delivery plan agreed with the Mayor and Government. The London Plan requires TTLP to manage to an average of 50 per cent affordable housing across the portfolio. Some development projects are better delivered by third parties due to scale and or social housing expertise. In such cases, TTLP does not take a stake in the development vehicle, and following initial feasibility, due diligence and marketing costs, does not have any further capital investment requirement. Disposal proceeds will typically be conditional on planning permission.

Sectors

4.10 The following section provides an overview by sector, including an explanation of the sector strategies and a range of significant projects.

4.11 **Priority Assets, including Multi-Use Hubs** – As was set out in the Investment Strategy section above, where assets are co-located, particularly around transport nodes, they will be considered not as individual sectors but collectively as multi-use hubs or campuses. These hubs, where space can flex over time to meet market demands, will be viewed at a premium by TTLP and will always be assessed as a priority for investment. These are key portfolio assets with significant opportunities to enhance local environments and capitalise on income potential.

4.12 The initial projects identified as having potential for this approach are Victoria, Whitechapel, Liverpool Street Arcade and Baker Street. A capital allowance has been included in the Business Plan for strategic acquisitions to strengthen TTLP’s ownership at such locations.

4.13 **Retail** – The TTLP Retail portfolio comprises In-Station Retail, i.e. units within TfL stations requiring close coordination with operational teams, and Out-of-Station Retail units that are generally situated around stations but not within the operational footprint.

4.14 In-Station Retail is a unique element of TTLP’s portfolio. The near-term strategy for this portfolio is focused on optimisation with most of the investment on smaller interventions that bring in income, better customer experience and improve the ambience for a wide range of stations and the communities they serve. Alongside these smaller interventions, these retail assets form an essential element of multi-use hubs – in the medium-term TTLP’s investment priorities align to enhance and grow these significant multi-use nodes.

4.15 Out-of-Station retail the near-term strategy is focused on the optimisation and rationalisation of the existing retail portfolio with most of the investment focused on ensuring TTLP keeps assets to a high standard to both maintain and improve rental income and attract new tenants.

4.16 **Residential** – One of the two primary objectives of TTLP’s Investment Strategy is to start on the sites that will deliver 20,000 homes over a ten-year period. Over 2,000 new homes have already been completed or are under construction. Sites delivering a further 2,400 homes are expected to begin construction in the next 12 months. The Business Plan includes a mixture of tenures, locations and price points and various methods of delivery.

4.17 Earls Court Partnership Limited (ECPL) is a joint venture between TfL and Delancey investors, DV4 and APG. TfL holds a minority share of 37 per cent. ECPL is the owner and developer of Earls Court, a site of approximately 25 acres in Zone 1 between Earls Court and West Brompton stations. The site benefits from an extant, implemented planning permission for primarily residential development. ECPL is now working on a new fully mixed-use masterplan.

4.18 Build to Rent is TTLP's most important new investment category, largely delivered through Connected Living London (CLL), a joint venture with Grainger plc. The programme will provide a long-term sustainable income stream back to the business, as well as a growing residential asset base. There are five active sites in the programme delivering 1,591 homes with 40 per cent affordable homes. The Business Plan also includes forward-fund opportunities for TTLP to purchase completed units within development projects to enhance the residential investment portfolio. The wider programme is being reviewed to understand further opportunities for this programme (these will all be subject to further approvals and consents).

4.19 The For-Sale Residential programme sees TTLP working with partners to generate capital to reinvest in income producing opportunities. Homes are currently delivered via TfL's Property Partnership Framework, by direct development and through disposals. Joint ventures are currently in place with Barratt London and Notting Hill Genesis via the TfL Property Partnership framework, and these sites are delivering 1,423 homes. TTLP is also working with the London Borough of Lambeth to build 46 affordable homes in Fenwick.

4.20 Alongside the short-term residential programme, TTLP has a longer-term Major Projects & Pipeline programme to allow it to deliver the remainder of the 20,000 homes. This Major Projects and Pipeline programme includes a number of major town centre regeneration opportunities. In the short-term these projects require feasibility, due diligence and planning workstreams.

4.21 The disposals programme includes sites with up to 100 per cent affordable homes to ensure TTLP achieves an average of 50 per cent affordable across the portfolio. The disposals programme also includes TTLP's smaller sites which are released via the GLA's Small Sites Small Builders programme which allows small developers, housing associations and community-led organisations to work with TTLP on nearly 500 homes over 19 sites.

4.22 The existing residential portfolio is geographically spread across London with varying degrees of connection to the transport network. Some of the portfolio is required for development and operational requirements, with the rest being retained from an asset management perspective. Properties that are not required for a development or operational reason and do not align with TTLP's Investment Strategy principles are considered surplus to requirements and will be disposed. Typically, these assets are disconnected from the transport network or were once acquired for a transport-related project that has subsequently been concluded.

4.23 **Commercial Offices** – TTLP's portfolio includes 100,000 square feet of commercial offices generating a revenue stream of £2.5m a year, as well as a pipeline of significant office developments. Building on the continued flight to quality among London office occupiers, in the short-term TTLP will focus investment on core-plus office through the repurposing of existing office buildings that can support a flexible / co-working provision.

4.24 Longer term, the land portfolio presents opportunities to deliver market-leading office buildings initially via a programme of over 600,000 square feet at Bank, Paddington and Southwark that will generate significant annual revenue for TTLP.

4.25 TTLP will also undertake a review of TfL's 1.57m square feet existing Head Office estate to assess opportunities for rationalisation. Some existing TfL Head Office buildings are included within the Victoria and Baker Street priority asset plans, as these offices are integral to the long-term aspirations for these campuses.

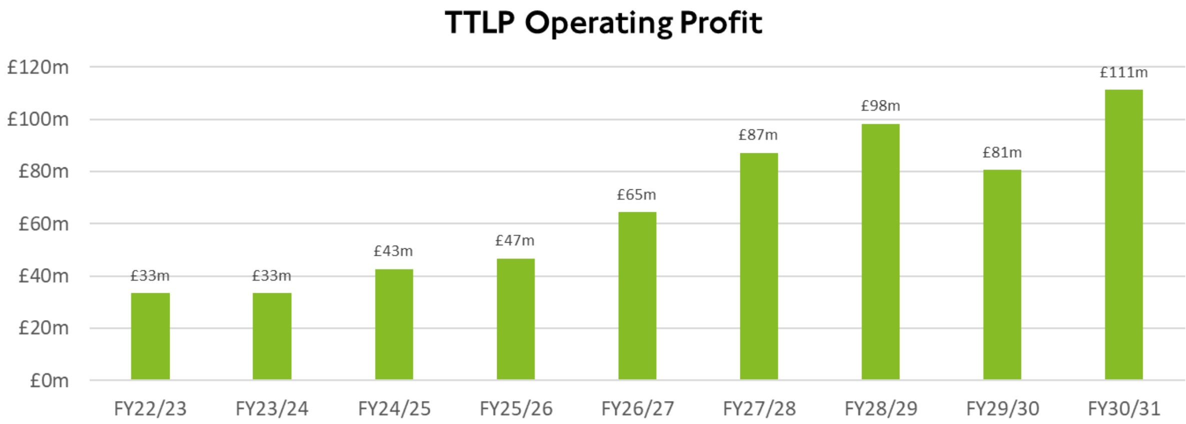
4.26 **Arches** – In the short-term, working with local communities, TTLP's focus will be the repurposing and redevelopment of key arches, income protection and stabilisation, and investment in compliance and Health and Safety as necessary.

4.27 In the medium-term, TTLP will review the opportunity to introduce logistics and distribution uses in appropriate locations across the portfolio, and other uses suitable and relevant to specific locations. The Business Plan contains assumptions about future projected expenditure based on this comprehensive strategy. It is anticipated that over the next one to three years identified projects will be developed through the continual review of asset plans.

4.28 Given the intrinsic nature of the Arches portfolio to the operational TfL transport network, and the unique opportunity these assets provide to the TTLP portfolio, no disposals are proposed over the Business Plan period.

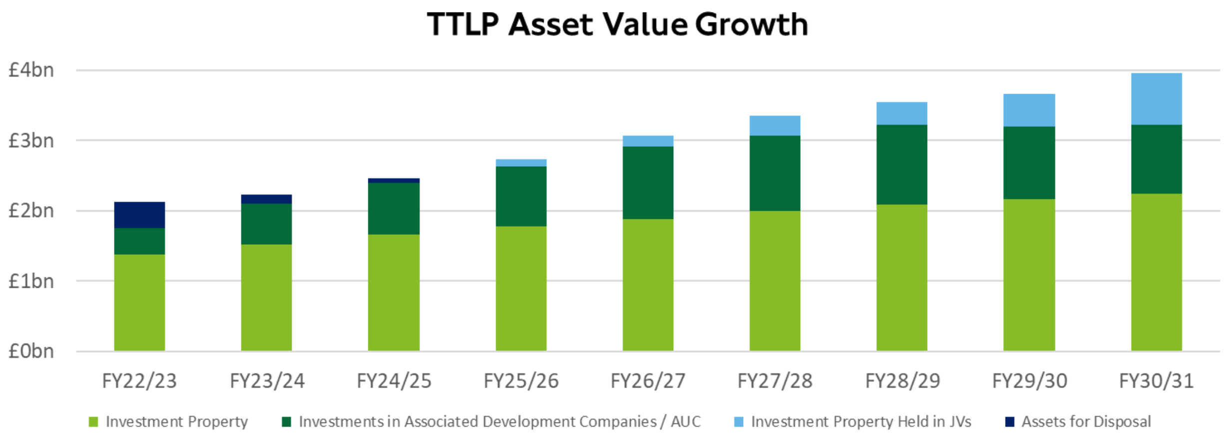
4.29 **Car Parks** – In the short-term, TTLP will focus on protecting the income from existing management contracts, as well as review appropriate interim strategies and meanwhile uses prior to any redevelopment. This will be supported by a review of potential green energy initiatives, including electric vehicle (EV) charging hubs, and the opportunity to generate long-term index-linked leases across the estate. Long-term redevelopment or disposal of the car park portfolio will be assessed to support TTLP's wider objectives, including in relation to ESG.

Overall Financial Performance



4.30 TTLP's operating profit rose from (£7m) in the coronavirus-impacted year of 2020/21 to £16m in 2021/22. It is forecast to rise further to £33m this year. Thereafter the profitability of TTLP rises through the remaining years of the plan to hit £111m by 2030/31.

4.31 The position in terms of asset value growth is even more marked, with TTLP's asset value rising from £1.7bn in 2021/22 to £2.1bn this year. Thereafter it rises to almost £4bn by the end of the Business Plan period, making TTLP a major property company in its own right. The asset value, especially of revenue-producing assets, is important as it underpins the availability of debt.



5 Housing Programme

5.1 Like all major public bodies in London, TfL is an owner of land that is derived from its wider role. This TfL land includes bus depots, station precincts, car parks, railway sidings, engineering yards and more. As needs for such land change with the development of transport technologies, TfL can deploy them to achieve positive transport-aligned policy goals, if these can be done in ways that do not disrupt transport operations and maintenance. Evidence shows that the development of such sites for housing and mixed-use development is best done through a partnership mechanism operated as a business within the TfL Group, i.e. the plan for TTLP.

5.2 TfL’s land ownership typically includes sites surrounding the transport hubs, as well as air rights above stations and depots – space that is not needed for the provision of the transport hub itself but can be made available for alternative development which would benefit from, and encourage, regeneration in the location. Such hubs are the primary value ‘hot spots’ across the capital because of their connectivity and accessibility. They are typically the focus of a residential neighbourhood or employment area and so are natural clusters for housing and associated development. Without the mechanism proposed through TTLP these sites are potentially undevelopable due to the complex transport interdependencies that they require.

5.3 This land bank is a valuable endowed legacy for London – something most property companies do not have, requiring them to continuously buy land in the market. With a combination of appropriate planning consents, smart partnership delivery and environmental stewardship, the portfolio’s value can be significantly enhanced over time, whilst delivering a stronger pipeline of new homes, a generation of new transport users, and a regular flow of capital receipts and revenues for TfL. At the same time, it will contribute to the continuous improvement of the community amenities, the urban fabric, and the economic and lifestyle competitiveness of the city.

5.4 TfL and its predecessor organisations have for many years promoted development around its transport hubs. But now there is new motivation to do more. This is due to multiple factors: housing supply need, town centre regeneration, hybrid working encouraging more activity within local centres, and climate imperatives and ESG aspirations.

5.5 TfL has built up a significant body of expertise and capability in land promotion, development and asset management, as well as many project and programme partnerships with private sector developers able to bring considerable capital and additional expertise into the arrangements. These elements have combined to build a strong track record and reputation for responsible development, including being identified as the leading sustainable diversified developer in Europe.

5.6 Several overseas transit authorities already have their own in-house property companies which have worked very well. Experience shows that if the land is transferred out of TfL, development will be delayed because it takes longer for the operational constraints to be addressed. In some cases, the transport interdependencies are so significant that the site is effectively undevelopable without TfL directly engaged.

5.7 With TTLP totally focused on unlocking the potential of the land, and with the benefit of delegated decision-making and access to capital, TTLP can increase the pace, scale and diversity of delivery, as well as the quantum of external investment attracted. The ability of TTLP to access non-recourse debt without a parent company guarantee will provide a fresh strand of unsecured capital at the corporate level, and this will enable TTLP to retain a larger share of returns at the project level, and so stretch its own capital further, without taking unmanageable additional risk.

5.8 By remaining part of TfL, TTLP will more easily be able to access land where transport interdependencies are high, and which might otherwise have been harder to develop independently. A harmonious continuing relationship with TfL will enable greater leverage between transport planning and property planning for mutual benefit.

5.9 The additional value being created can be measured through a variety of outcomes, including:

(a) increased housing numbers;
(b) reduced carbon footprint;
(c) positive social impact;
(d) enhanced financial returns; and
(e) economic value – and TfL's projects, particularly those which are accompanied by transport improvements, will act as catalysts for nearby beneficial cluster development.

5.10 Planning remains one of the biggest challenges to the pace of delivery. Going forward, TTLP will aim to take the lead in more planning applications directly itself, such as at Bollo Lane where it secured consent for 852 homes. TTLP will also work with the development companies that have a track record of delivery at scale and pace across London. TTLP will foster a joined-up approach to planning that takes more account of the view of outer London boroughs.

5.11 In the shorter-term, TTLP will be selective on the locations where it focuses its management time and investment. In the longer-term, working with the GLA and Government, it is hoped that a wider net of opportunity can be unlocked. The proposed TTLP Business Plan reflects this constraint.

5.12 TTLP has already established a land transfer methodology from TfL, and there is a good and improving rapport in co-ordinating property planning with transport planning and identifying priorities. It has been demonstrated that property development and asset management activity can bring transport benefits hand in hand, not least in step-free access and the triggering of surrounding community regeneration, and a generation of new riders.

5.13 There are many locations where TfL's landholding adjoins other public sector landowners. By establishing good working relationships with the organisations concerned, establish the opportunities for mutual benefit.

5.14 All of the above recognises the new realities of urban living – including hybrid working, climate change, lifestyle needs and wellness, characteristics which will be fundamental to TTLP's activities. TTLP will be recognised as TfL and London's 'public interest' developer of places and homes. It will aim to develop a reputation for long term stewardship of public assets.

5.15 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. As a long-term investment endowment, and whilst still hitting the agreed financial metrics, TTLP can and should take a long-term view which many other commercial companies cannot.

5.16 TTLP's scale of activity, the longevity of its programme and its delivery through the property cycle opens the opportunity for TTLP to pioneer the role of MMC, which offers substantial benefits in speed of delivery, sustainability, health and safety and quality.

List of appendices to this report:

None

List of Background Papers:

None

Contact Officer: Graeme Craig, Director Commercial Development
Email: graemecraig@tfl.gov.uk