

Date: 23 March 2023

Item: TTL Properties Limited Corporate Strategy

This paper will be considered in public

1 Summary

- 1.1 This paper summarises TTL Properties Limited's (TTLP's) emerging Corporate Strategy, the first of a series of strategies that, when taken together, set the long-term direction for TTLP and define the role we aspire to play in creating the London of the future.
- 1.2 The draft strategy documents provide a framework for success that balances financial, economic, environmental and societal factors delivered by a talented, engaged and diverse workforce. They describe what TTLP is doing now and what it will do in the future, how it will measure its performance, and how it will anticipate and adapt to market conditions.
- 1.3 These strategies will be the basis for more detailed policies, standards and plans which will address the opportunities and challenges across our business.
- 1.4 We will be consolidating and condensing the contents of the strategies, and these will be used in a number of ways, including in the materials to accompany the launch as well as the future TTLP website. We will issue the finalised version to the Committee in due course.

2 Recommendation

- 2.1 **The Committee is asked to note the paper.**

3 Background

- 3.1 TfL owns 5,660 acres of freehold land and a further 362 acres leasehold. This equates to approximately 1.5 per cent of London's landmass. While most of this land is required to enable the operational transport network, TfL's landholdings have increasingly supported the Mayor's priorities to build affordable homes and create jobs for Londoners, while generating revenue to reinvest in London's transport network.
- 3.2 London's transport network has historically shaped how the city has grown and evolved and is an iconic part of the capital's identity. As the city's transport authority, TfL plays a critical role in supporting London and the UK economy, and stable, long-term investment is required for it to continue this role.

- 3.3 TfL's creation of TTLP follows leading international examples where the transport authority owns a property subsidiary. Occupying a privileged position between real estate and public transport, TTLP aspires to draw on perspectives and experience in both sectors to become a centre of excellence with a global reputation, delivering outcomes in the Mayor's Transport Strategy, the TfL Business Plan and its Corporate Environment Plan.
- 3.4 TTLP is uniquely well-placed to play a leading role in shaping the future of this great city as it evolves for the 21st century. Our work will help London prosper at the same time as addressing sustainability, affordability and decarbonisation. We can help meet the needs of the newly polycentric city, one in which mixed-use neighbourhood hubs are connected to a strong centre by convenient public transport links. Our adjacencies and interactions with other public sector landowners will help us in this quest – by working with them we will deliver more and better for London's present, and its future.
- 3.5 Above all, TTLP will build strategic partnerships to deliver safe, well-connected, sustainable neighbourhoods and provide long-term sustainable income for the benefit of the transport network and wider London. In this regard, TTLP's land and assets are effectively the newest of London's "great estates".
- 3.6 London faces multiple complex challenges, including:
- (a) climate change, and the urgent need for decarbonisation and climate adaptation;
 - (b) air pollution, its health impacts and the loss of biodiversity;
 - (c) an affordability crisis, driving inequality and a deterioration in the quality of life which is undermining the competitiveness of London;
 - (d) a housing crisis with a significant under-supply of new homes, particularly affordable housing;
 - (e) skills, material and labour shortages and construction cost instability;
 - (f) the decline of traditional retail and high streets, and changing living, working and movement patterns;
 - (g) increasing consumer expectations of the part the real estate industry, business and the public sector can play in rejuvenation; and
 - (h) economic headwinds in the wake of the pandemic, including higher interest rates and cost of debt, causing reduction in investor confidence.
- 3.7 TTLP aspires to play a role in addressing or mitigating the impact of these and other challenges. TTLP will drive change, create thriving places and develop vibrant and diverse communities, while supporting local economies. Critically, TTLP will deliver operational, environmental and civic enhancements in and around the transport network, including improving access and driving patronage to the public transport network.

4 Objectives

- 4.1 In recognition of TfL's status as ultimate parent of TTLP, we have developed a set of draft shareholder objectives that guide our future financial decision making and enable robust assessments of ongoing performance. The shareholder objectives will support our investment management processes, as well as underpin our business planning and risk management activities. They set out that TTLP will:
- (a) deliver an enhanced financial return to TfL in the form of cash return and capital appreciation, representative of TfL's funding contribution, risk and affordability requirements;
 - (b) develop and embed robust financial management practices appropriate for a real estate business of equivalent size, ensuring minimal financial risk back to TfL;
 - (c) deliver new housing stock in line with the TfL business plan, agreement with HM Government and support of wider Greater London Authority (GLA) objectives; and
 - (d) align with TfL's wider objectives: supporting delivery of operational transport enhancements where there are synergies between TfL and TTLP capital programmes, as well as full alignment with TfL's "Colleague", "Customer" and "Green" objectives.
- 4.2 The draft objectives support TTLP's alignment to TfL's values and overall objectives. In addition, they complement and enhance TTLP's wider organisational objectives to:
- (a) generate sustainable and growing net income;
 - (b) deliver new homes and net zero neighbourhoods and communities; and
 - (c) future-proof our portfolio to achieve Net Zero Carbon.
- 4.3 To deliver on these objectives, there are a number of important enabling activities that will set us up for success, building on the commitments in our Operating Principles. Delivering in each of these areas will take time but will create an organisation that is able to benefit London far into the future.
- 4.4 TTLP will respond to market trends and London's requirements. We are already delivering in more ways than just an end-year dividend and we will continue to fund and deliver operational co-benefits. These include prioritising step-free access, making a huge difference to the accessibility of London's transport network for so many. We are also exploring opportunities to improve lighting and ambiance on the network, from improved lighting in car parks to new walkways and facades. Our projects will improve the public realm and enhance the public's experience of our transport assets.

5 Corporate Strategy

- 5.1 TTLP has an opportunity to play a part in shaping the future of London, re-shaping places for the benefit of the people who live, work and visit our wonderful city. Our work to do this will be based around five central themes:
- (a) Place – making the best use of our property assets by curating well-connected, thriving and smart neighbourhoods that deliver maximum impact for their communities.
 - (b) Planet – respecting the environment and combating climate change is a pre-requisite for TTLP and those with whom we work. Decarbonisation will be a core part of how we do business.
 - (c) Partnerships – TTLP will act as a leader, convenor and partner, harnessing the scale and breadth of our influence. We will work closely with our shareholders to deliver co-benefits for TfL and for London.
 - (d) People – TTLP will value, respect and listen to local communities, taking a customer-led approach in putting people first. This will be enabled by a motivated, highly skilled team that reflects the diversity of London.
 - (e) Productivity – TTLP will encourage innovation and the exchange of ideas across its activities and work to support the growth of small businesses on our estate. We will invest in technology and use data to inform our decisions.
- 5.2 As a part of TfL, TTLP can manage its property portfolio putting the needs of TfL and London to the fore. It can act as an exemplar by considering and embedding public benefit in everything it does. Taking this opportunity will be central to how TTLP manages its properties, developments, places and customers.
- 5.3 With over 2,000 tenants, 93 per cent of whom are small and medium enterprises, TTLP can play a leading role in improving the health of London's small business ecosystem. TTLP can support its customers to grow and scale their businesses and build the communities in which they can thrive. This will strengthen local economies, create jobs and stimulate sustainable growth – which will encourage spending to benefit local communities.
- 5.4 There are significant opportunities for TTLP to work with other organisations to deliver more than could be achieved using only TfL land. These will include public sector partners such as Network Rail, the National Health Service and London boroughs. Working together, we can deliver homes, accelerate sustainable development and drive growth.
- 5.5 TTLP is also working with private sector landowners to bring forward landmark schemes, such as the joint venture with Ballymore at Edgware. This will deliver a major new town centre regeneration, adaptive and activating meanwhile uses, community participation and a significant investment in

public transport infrastructure. At Edgware and elsewhere, TTLP will support London's decarbonisation through development.

5.6 To meet London's challenges, TTLP needs a clear Purpose and sound Operating Principles. As well as setting out the role of TTLP, they emphasise the relationship between TTLP and TfL. They were developed with input from our Leadership team, over 200 TTLP staff, as well as senior TfL managers, including the Commissioner, Chief Customer and Strategy Officer, Chief Operating Officer and Chief Finance Officer.

5.7 Our purpose defines why we exist and what we are here to achieve:

To move London forward with thriving, connected places

5.8 We will lead in shaping connected places that help London evolve safely, inclusively and sustainably, thereby generating funds to improve transport.

5.9 Our Operating Principles were developed to guide our decision-making and approach to shaping places. They enable TTLP to be open and transparent about where improvements need to be made or where it should strengthen its capabilities. The Operating Principles are:

- (a) We put safety above all. We prioritise the safety of customers, workers and the transport network. We never behave as if safety is someone else's responsibility. We invest to make properties safe and compliant. We require our partners to uphold our safety standards at all times.
- (b) We take the long view. We are here to create long-term value for both TfL and London. As a result, we plan for the future rather than taking decisions for short-term gain. In doing so, we preserve flexibility for spaces to evolve and always consider long-term community and transport needs.
- (c) We place customers and communities at the centre. We invest in London's diverse local communities. We stay in close touch with the needs of those who use our spaces, taking feedback and customer insight seriously and ensuring our customers have support. We work to be open, responsible and easy to do business with, without allowing process to hinder our responsiveness. We strive to connect residents and business with opportunities across our footprint. We ensure our scheme designs reflect the needs of our customers and communities.
- (d) We are people driven. Our people and their expertise, skill and talent are key to our success. We are respectful and inclusive, and do not tolerate behaviour that violates our values. We will build a team that reflects the diversity of London. We empower our people and encourage innovation and creative problem-solving. We give everyone who works for us opportunity for development.
- (e) We are commercially disciplined. Achieving our purpose and providing a growing return to TfL requires rigorous discipline. That includes investing

where we can have the greatest impact and making decisions at a competitive pace. We invest in long-term relationships with partners who share our values.

- (f) We are socially inclusive. We are proud that London is the most diverse city in the world. We provide affordable and inclusive options. We make spaces accessible and stimulate inclusive employment, while helping businesses of all sizes succeed. We take pride in providing opportunities in our portfolio for residents and businesses at every stage of their growth.
- (g) We lead on environmental sustainability. Given our unique role at the intersection of housing, commerce and transport in London, we embrace our responsibility to lead on the environment, creating healthy places for people and the planet. We look to the future, building for long-term climate resilience.
- (h) We improve transport and mobility. We recognise the role our spaces play for people travelling on our network. We do this through transport improvements, increasing ridership on public transport, and encouraging the use of other forms of sustainable mobility, including walking and cycling.
- (i) We are digitally connected. Our approach to connected places is underpinned by a strong data and a digital-first orientation. This includes investing in integrated systems and robust single-source data for decision-making.

- 5.10 The Purpose and Operating Principles will be the foundation of the new TTLP brand and its values – making clear how TTLP positions and differentiates itself for new and existing customers, stakeholders and industry, and the wider world.
- 5.11 In conjunction with TfL’s Customer and Design team, TTLP is running a programme to define and establish the brand identity for the new property organisation. This work will establish TTLP with a distinct name, presence and position within London’s crowded property market, while also ensuring proximity to the wider TfL brand given its position as the sole shareholder.
- 5.12 Market research with industry partners, existing and prospective customers, the general public, and TTLP staff has already taken place to help establish the key elements of any new brand. Work on brand strategy and positioning is underway with a view to launch in the coming months.

6 Financial Context and Discipline

- 6.1 Decisions will be taken in the context of long-term financial targets, risk appetite and financial control. These will be considered each autumn in the development of TTLP’s Long-Term Business Plan, which will be produced as part of TfL’s business planning process and as a model that can be dynamically tested in year and shared with external stakeholders as appropriate. As TTLP

does not benefit from financial underpinning by TfL and will borrow on a non-recourse basis, continuously monitoring overall business performance will be key.

- 6.2 TTLP has developed a set of long-term financial targets, benchmarked against comparator organisations, against which to manage its business.

Metric	How Measured	Target
Increase Gross Rental Income Receivable	Gross Rental Income, adjusted for acquisitions, disposals and capex (excluding joint venture revenue and development profit)	>CPI – to be updated
Increase Gross Revenue Receivable	Gross Revenue, including revenue from new joint venture assets held, excluding joint venture development profit	£80m increase by FY31, subject to the planned investment being made
Reduce Voids	Total rent lost to vacancies as a percentage of Estimated Rental Value (ERV) excluding assets subject to capital investment projects	Reduce to 5-10% or below by FY27
Improve Operating Margin	Increase Operating Margin, i.e. Operating Surplus divided by Total Revenue, including joint venture development profit	Operating margin minimum of 40-50% by FY27 (specific targets to be identified for each business unit).
Total Property Return	The change in capital value, less any capital expenditure incurred, plus net income accrual, expressed as a percentage of capital employed over the period, as calculated by MSCI ¹ , including revenue from new joint venture assets held, excluding joint venture development profit	Commercial properties to outperform tailored MSCI Index on a rolling three-year basis

- 6.3 TTLP will rigorously manage its capital commitments to reflect and ensure resilience and liquidity through economic cycles. Its Capital Discipline and Liquidity policies can be summarised as:

- (a) Corporate Net Debt to Assets (excluding equity invested) not to exceed 35 per cent;

¹ MSCI is a leading provider of critical decision support tools and services for the global investment and real estate community

- (b) Consolidated Debt (Combined corporate and TTLP share of project level debt) against TTLP's Gross Asset Value (including joint venture development value) not to exceed 40 per cent;
- (c) Development Equity Exposure not to exceed 33 per cent of TTLP's net asset value;
- (d) Interest Cover – not to be below 2 x Net Debt to EBITDA; and
- (e) Cash and undrawn committed facilities to be not less than the committed expenditure on development projects for the next 18 months.

6.4 Within TTLP, effective measurement of returns and performance at portfolio and asset level are key to achieving its objectives. Target project returns have been set out in high level within the financial section of the Investment Strategy. Decision making on capital investments will take account of those investment metrics as well as the wider corporate metrics set out above.

List of appendices to this report:

None

List of Background Papers:

None

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