

Date: 20 December 2023

Item: Mid-Year Valuation Results

This paper will be considered in public

1 Summary

- 1.1 This paper provides an overview of the mid-year valuation for Places for London's investment assets and joint ventures.
- 1.2 A paper is included on the Part 2 agenda which contains exempt supplementary 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 exempt supplementary information on Part 2 of the agenda.**

3 Investment Portfolio

- 3.1 Since 2019, Places for London has commissioned an annual independent valuation of its investment portfolio. The valuation is carried out by leading global commercial real estate service company, CBRE. This valuation is the first mid-year update, with a valuation date of 30 September 2023.
- 3.2 The valuation process focuses on assets held by Places for London for commercial investment purposes, represented by seven core sectors: Retail, Office, Arches, Residential, Car Parks, Industrial and Infrastructure.
- 3.3 The valuation is produced using asset-specific data and market information. This includes recent market transactions, occupational information, lease details and asset plans. Dependant on the asset class and use, an appropriate valuation methodology is applied in line with the prevailing market practice.
- 3.4 The total value of Places for London's investment portfolio as at 30 September 2023 is £1.467bn, a decrease of £38m (2.5 per cent) since the valuation on 31 March 2023. Adjusting for the new assets and disposals, the like-for-like value reduced by £41m (2.7 per cent). See Table 1 below.

	Market Value 30 Sep 2023 £m	Market Value 31 Mar 2023 £m	Valuation Change £m	Valuation Change %
Valuation	1,467	1,505	(38)	-2.5
Like-for-Like	1,456	1,497	(41)	-2.7
Passing Rent	63.3	61.9	1.4	2.3
Rental Value	93.1	92.5	0.7	0.7

- 3.5 The reduction in value is entirely in line with comparable indexes and market peers.
- 3.6 The Passing Rent is the contracted rent (based on existing leases) for Places for London's Investment Portfolio. It should be noted that this excludes the managed car park portfolio, this operates under a management agreement structure not a traditional lease and does not have a base contracted rent.
- 3.7 Recent high levels of inflation have led to a rise in interest rates impacting real estate values across sectors. Over the past six months this has begun to stabilise, illustrated in real estate yields and our mid-year valuation results.
- 3.8 Yields have stabilised in the industrial, retail and long-term income sectors, having seen significant outward movement in the previous 12 to 24 months.
- 3.9 The office sector has continued to polarise, with high-quality, well-located office stock in short supply and strong demand from tenants and investors. Secondary stock has seen values reduce further as tenants seek best in class space and environmental credentials become ever more important.
- 3.10 Although interest rates have stabilised, the cost-of-living increase and higher mortgage rates are still impacting the residential market, with transaction volume reduced and values showing little to no growth.

List of appendices to this report:

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

List of Background Papers:

None

Contact Officer: Daniel Lovatt, Director of Asset Management, Places for London
 Email: daniellovatt@tfl.gov.uk