Places for London

The TfL Property Company

Quarterly Performance Report

Appendix 1

Q2 2023/24

23 July – 15 October 2023

Market Context

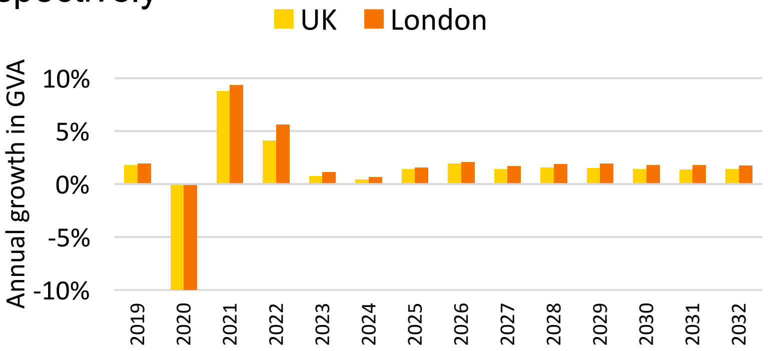
Graeme Craig

Director & Chief Executive

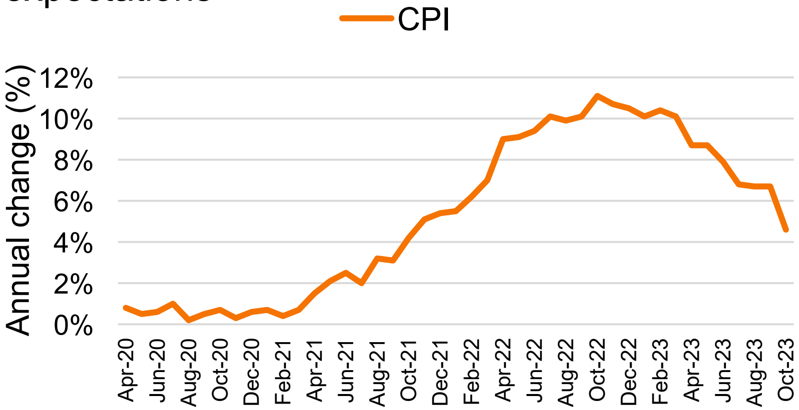
Inflation has continued to fall, allowing the Bank of England to pause rate rises in the near term

- The UK's Gross Domestic Product (GDP) was flat in Q3 2023, with services sector contracting slightly. Inflation fell to 4.6% in October, though core inflation remained higher (5.7%).
- With the economy starting to slow, the Bank of England held the base rate at 5.25%. Oxford Economics forecast that rates are at their peak and will remain steady until mid-2024, before starting to fall from early 2025 and reaching 2% by the Q3 2027.
- The more benign outlook has had a knock-on effect on the cost of mortgage debt, with a 2-year fixed 75% LTV mortgage falling from 6.25% in July 2023 to 5.63% in October.
- Nominal wage growth in London eased slightly, rising by 5.6% in the 12 months to September, compared with 7.7% over the 12 months to June 23. The continued growth softens some of the impact of rising costs, especially as inflation slows, and real wage growth is expected to return. But strong wage growth remains something the Bank of England is concerned about.

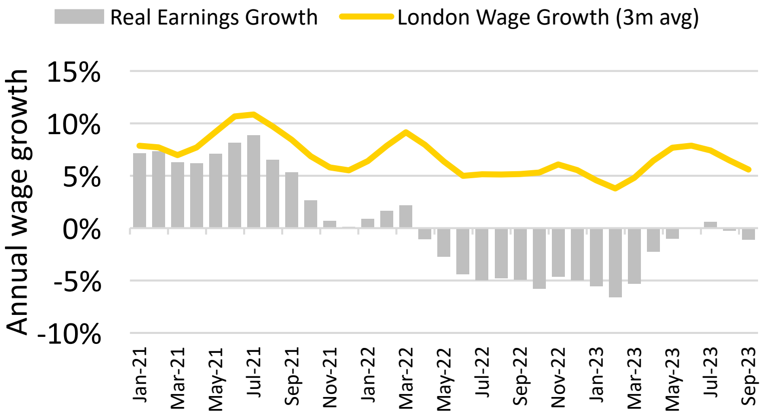
London's gross value added (GVA) forecast has been revised up in 2023 and 2024 to 1.1% and 0.7%, 40bps and 30bps higher than the UK respectively



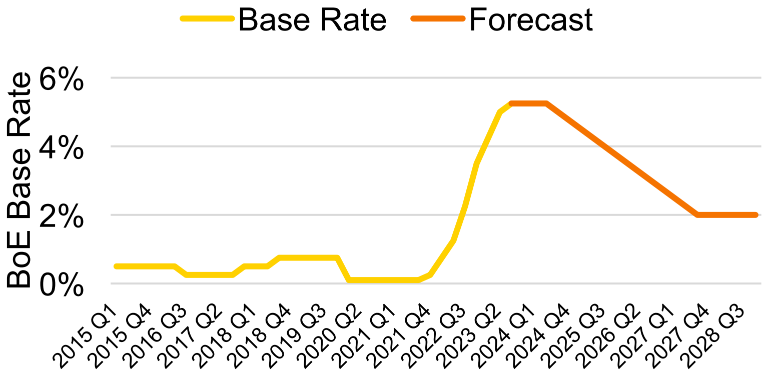
Inflation has fallen in recent months, reaching 4.6% in October, beating economists' expectations



The rate of nominal wage growth has eased, but remains high at 5.6% in September



Base Rate was held at 5.25% in November, which is forecast to be the peak



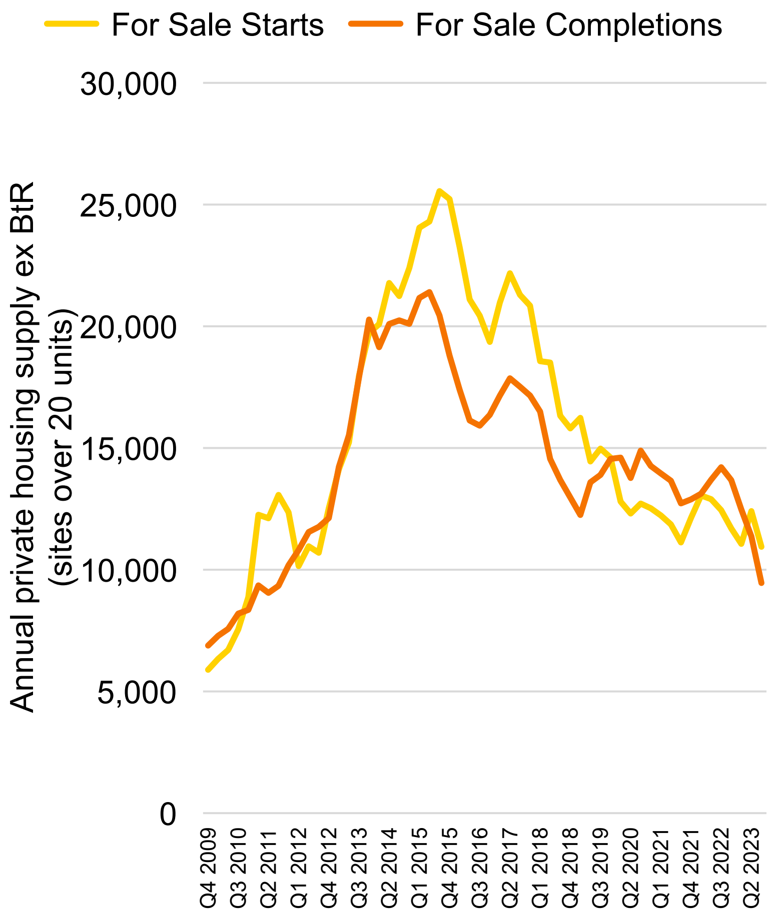
Places for London
The TfL Property Company

1 Market Context

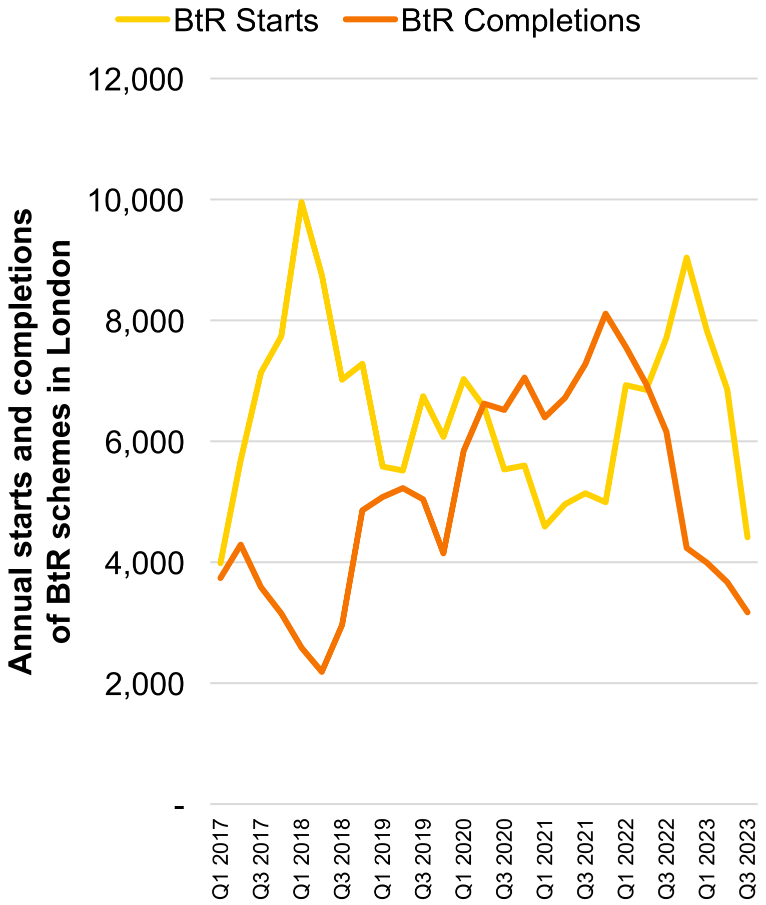
- New construction continues to be impacted by the wider economic challenges. With high debt costs making it difficult for both developers and investors to start new projects, especially while mortgage rates remain high, reducing end user demand.
- High build cost inflation has also acted as a barrier over the past 12 to 18 months, though this is showing some signs of easing.
- In addition, the sector is facing further challenges around changing fire safety regulation – specifically the introduction of the second staircase requirement. It has now been confirmed that this will be for buildings over 18 metres, not the 30 metres initially proposed.
- As a result of these challenges, London has seen a dramatic fall in new construction starts for both Build to Rent and Build to Sell development.
- It is expected that new construction starts will remain subdued in the short term.

New residential construction starts have fallen to their lowest level on record for both sale and Build to Rent

Construction starts on private for sale schemes in London fell to the lowest level on record in Q3 2023, with 1,000 units starting construction



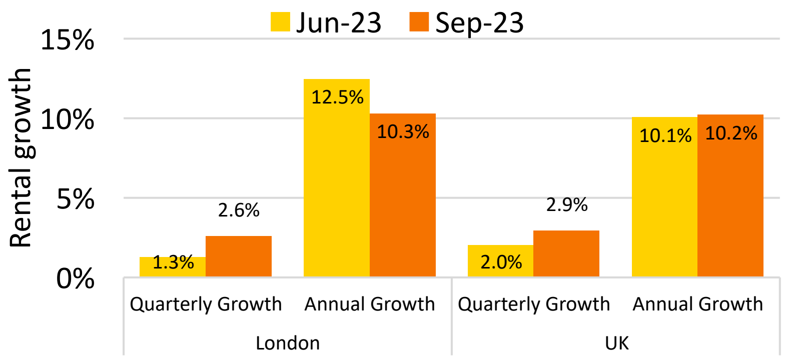
Build to Rent starts fell further in Q3 2023, with only 35 units beginning construction



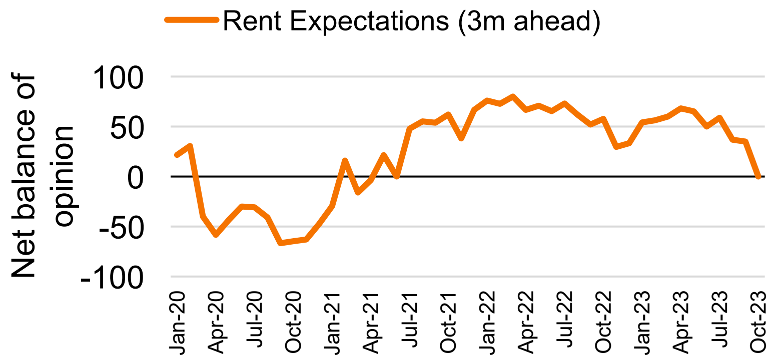
Cost of debt still impacting sales market, but rental demand easing for the first time in London since 2021

- Recent rental growth in London accelerated, rising 2.6% over Q3 up from 1.3% the previous quarter, though annual growth to September 23 has slowed to 10.3%. Availability of rental stock remains tight, but there are indications that affordability could be starting to impact demand. For the first time since March 2021, the Royal Institution of Chartered Surveyors (RICS) survey shows demand falling. Agents in October 2023 reported that they expect rental growth to over the next 3 months to be flat.
- London house prices saw prices fall in Q3 2023, by -0.5% following growth in the previous quarter. They remain -3.8% below their level a year ago. The high cost of mortgage debt and the already stretched affordability have weighed on buyer demand. It is likely that further rises in interest rates will have a bigger impact in London than other parts of the country and further limit the pool of potential buyers.
- Weaker demand is also impacting the land market, where values continue to cool as fewer developers are in the market for land in the near term.

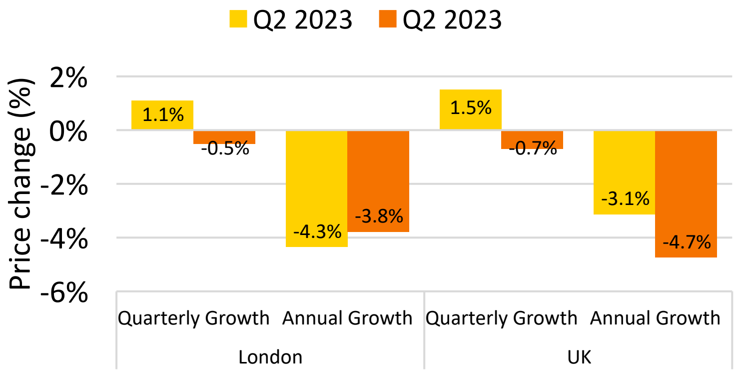
Rents in London have risen by 2.6% over the 3 months to Sep-23, up from the 1.3% in the 3 months to Jun-23



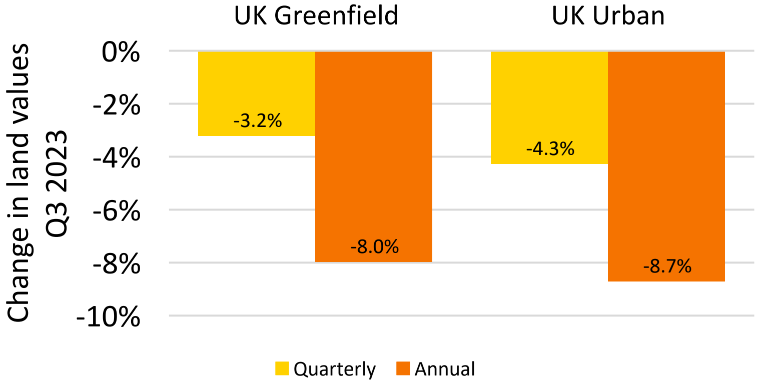
Agents reporting a fall in rental demand in London for the first time, feeding through to expectations of slowing rental growth



House prices fell by 0.5% during Q3 2023 across London, having risen in the previous quarter



Weaker demand continued to drive down land values in Q3 2023



- The high interest rates and stretched affordability are expected to continue to supress demand in the sales market and led to further slight house price falls in 2024. This will be more acute in London where households need to raise larger deposits and borrow more relative to their income than the national average.
- The forecast fall in interest rates from late 2024 will start to open capacity for price growth in the latter part of the forecast period. London will remain less affordable than the national average, which is why we do not expect the same strength of price growth in 2026 and 2027.
- In the rental market the short-term outlook is for continued strong growth – albeit at a lower level than we have seen in 2022 and early 2023 – driven by the continued mismatch between supply and demand.
- However, the strong growth in rents is expected to bring affordability pressures to the rental market. This will lead to rental growth below income growth as households look to reduce the rental burden.

Rental growth is forecast to outperform value growth over the next five years

Sales values are forecast to continue seeing slight price declines in 2024, as interest rates remain high. However, falling rates in the latter part of the forecast period are expected to open capacity for growth.

Value Growth	**2024**	**2025**	**2026**	**2027**	**2028**	**2024-2028**
UK	-3.0%	3.5%	5.0%	6.5%	5.0%	**17.9%**
London	-4.0%	2.0%	4.0%	6.0%	5.5%	**13.9%**

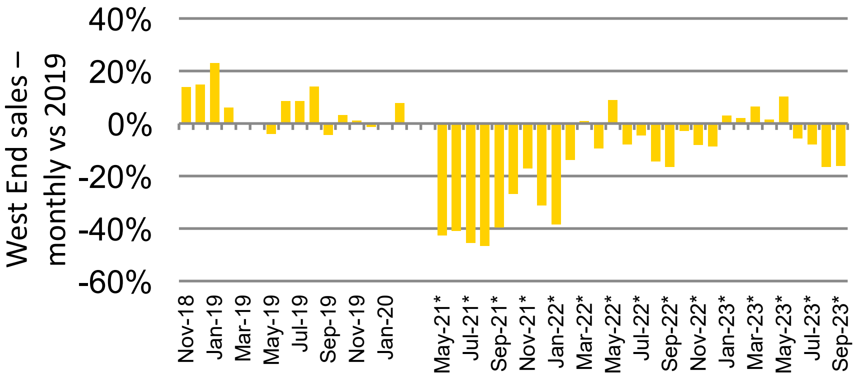
In the near-term, rental growth is forecast to outperform income growth driven by the supply and demand imbalance. However, the latter part of the forecast period will see slight under performance compared with income growth as affordability becomes more stretched

Rental Growth	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2024-2028**
UK	9.5%	6.0%	3.5%	3.0%	2.5%	2.0%	**18.1%**
London	8.0%	5.5%	3.5%	3.0%	2.5%	2.5%	**18.2%**

Rising retail spending driven by international tourists, as domestic shoppers are impacted by rising costs

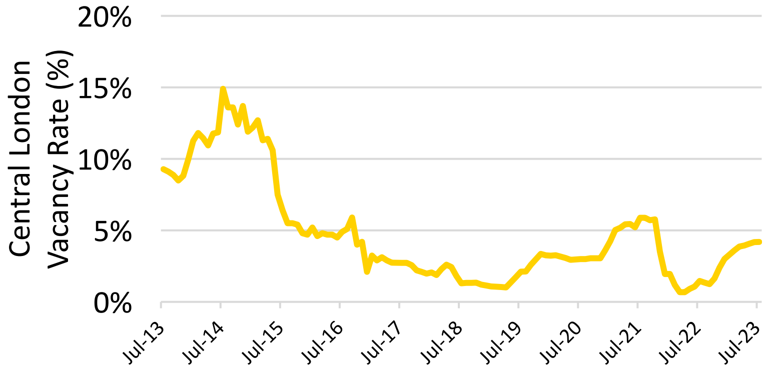
- Consumer spend across the West End has fallen further during Q3 2023 compared with pre-pandemic levels continuing the trend started in June 2023. This is likely driven by headwinds facing domestic buyers from cost of living challenges.
- International travel continues to grow, which in part underpins a more optimistic outlook for spend over the festive period. However, there are still concerns about the strength of the spend in the absence of tax-free shopping.
- The latest Pret Index continues to show strong level of sales in suburban locations – indicating that a degree of workplace flexibility remains in place – while the West End has seen sales volumes recover to pre-pandemic levels. The City is also showing signs of returning to this level, which could indicate an uptick in the return to the office.

Sales in the West End have declined again compared with their pre-Covid level

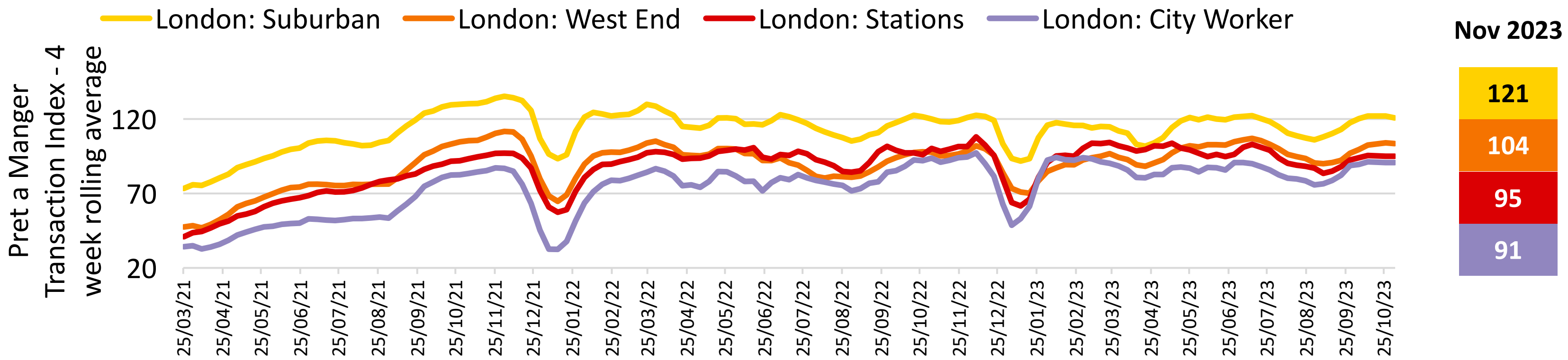


*Note, post 2021 figures are relative to the same period in 2019

Central London vacancy has continued to rise to 4.2%, returning to similar levels to 2020



City Worker Pret Sales Index getting closer to pre-pandemic levels in recent months



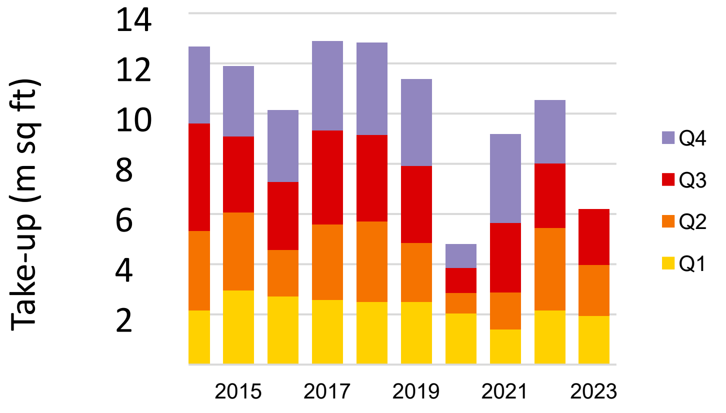
The Pret Index is calculated against a baseline of January 2020 (pre-Covid). When the figure is above 100 it implies that sales are above their pre-Covid level and when below 100 they are below pre-Covid levels.

1 Market Context

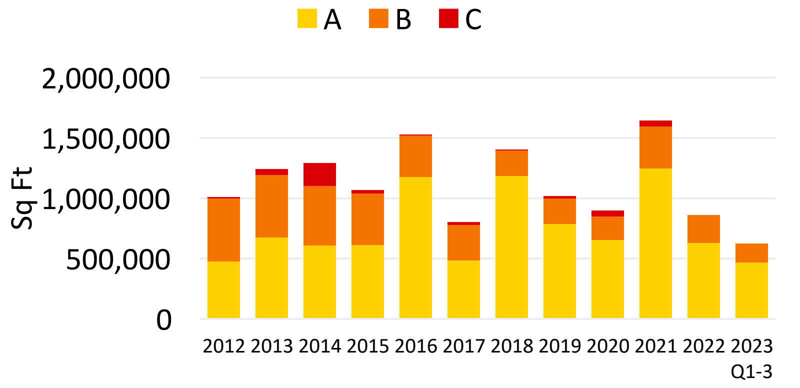
- Take up of office space remains subdued in London compared with the long-term average. This is true for both Central London and Greater London, as tenants take their time to decide on their next moves.
- Tenants continue to seek high-quality space, with 64% of space leased in Greater London being Grade A. We expect to see this trend continue, as companies look to meet their ESG targets and reduce their environmental impact.
- Office supply across Greater London remained broadly stable between August and November, with 36% of new supply being Grade A. A key challenge moving forward is what can be done to older Grade B and C stock that is likely to be in less demand. We expect some will be redeveloped / refurbished into better quality stock where costs are viable. Alternative uses will need to be found for other stock.
- Take-up of light industrial space reached 59k sq ft in Q3 2023, which is higher than the whole of 2022 (55k sq ft), but well below previous years. Tenants are likely to be similarly constrained by rising costs and challenges in securing financing.

Office and light industrial leasing markets remain constrained as occupiers are hesitant

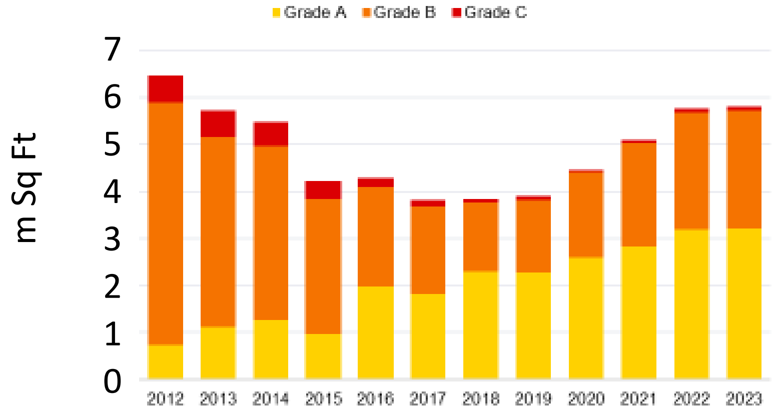
2.2m sq ft of space leased in Central London in Q3 2023 – 25% below the long-run average



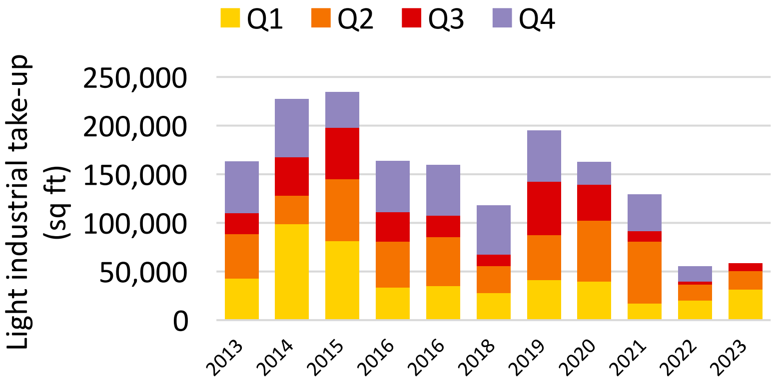
Take-up in Greater London was 248k in Q3 2023 – 64% of which was for Grade A space



Supply across Greater London rose by c.10k sq ft between August and November



59k sq ft of light industrial space has been let year to date, more than 2022



Health & Safety Performance

Lisa-Jane Risk

Head of Operations

Places for London

The TfL Property Company

We are continuing to develop our Health & Safety strategy

- We are working closely with the TfL Safety, Health and Environment (SHE) team to develop Places for London's long-term Health and Safety (H&S) strategy and further improve the SHE Culture in the organisation.
- We are introducing changes to the way that we govern and assure Health and Safety, mirroring arrangements within TfL. This includes the establishment of a new assurance and validation group
- We are seeing encouraging signs that our tenant compliance regime is proving successful in reducing the risk profile of our tenants' activities
- Improvement Plans across the organisation focus on six key workstreams
  - Incident reporting
  - Roles & responsibilities
  - SHE culture
  - H&S strategy
  - Resources and
  - Governance & assurance

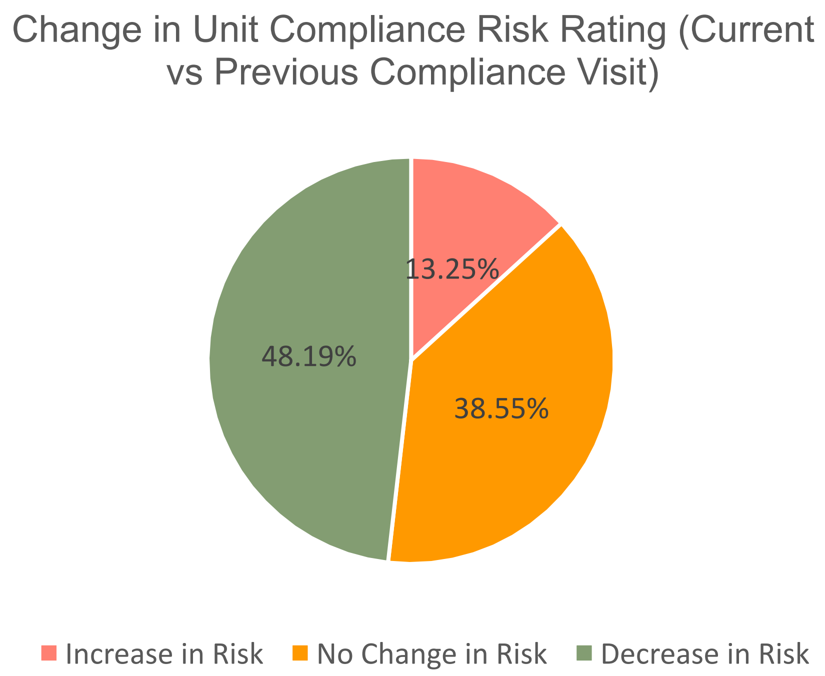
H&S Scorecard (P7)

Metric	23/24 YTD Actual
Killed or Seriously Injured (KSI) injuries	0
Tenant managed estate: Completed versus Planned compliance inspections	105 per cent
All injuries	4

Improvement Plans

Plans defined across the organisation focus on 6 key workstreams – incident reporting, roles & responsibilities, SHE culture, H&S strategy, resources and governance & assurance.

Our tenant behaviour / enforcement protocols are improving risk ratings in the majority of cases – we will continue to monitor this trend as we roll out our programme of re-inspections



Financial Performance

Digby Nicklin

Chief Finance Officer

Places for London
The TfL Property Company

3 Financial Performance

- Gross Property Income is £3.5m ahead of budget, predominantly driven by retail turnover rents.
- The infrastructure budget originally included bus garages, however we are now splitting these lines out for reporting our actual position. From next year, the two will also be budgeted separately.
- Direct Property Costs are £9m lower than budget due to the settlement of a long running bad debt. Otherwise our cost base is largely on budget.
- Central Operating Costs are better than budget, largely because of recruitment delays. In addition, a number of projects have been rephased and are not incurring the budgeted spend.
- Project Income includes a receipt from our Liberty of Southwark (Landmark Court) joint venture of £2m.
- Project Costs higher than budget following trader compensation payments at Seven Sisters Market following project delays when the contractor discovered unforeseen issues on site which have also caused cost increases.

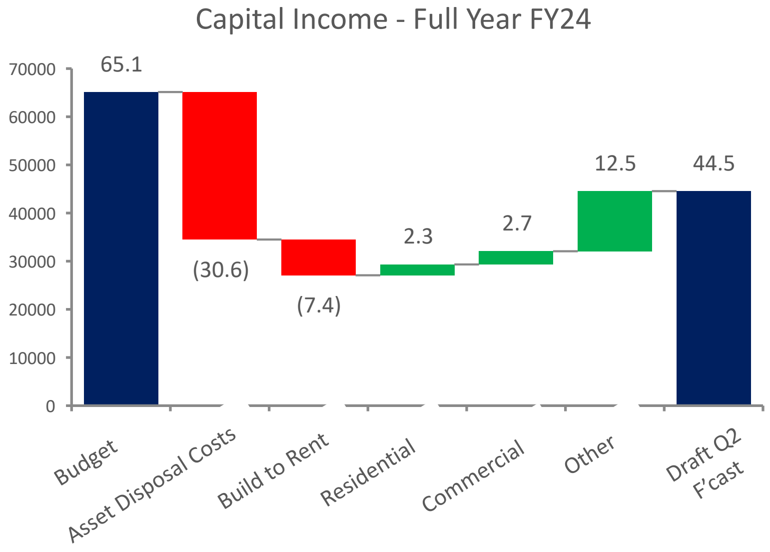
Income Statement

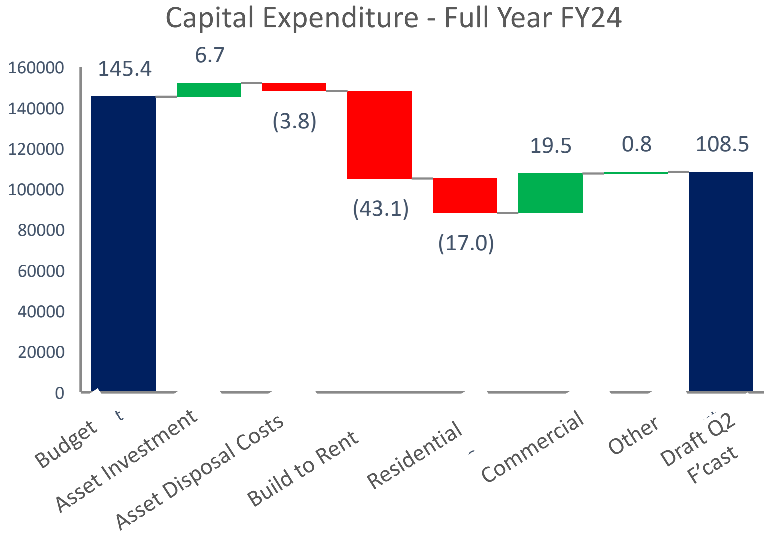
Income Statement	Year To Date				Full Year			
(£m)	Actuals	Budget	var to Budget	var to Prior Yr	Draft Q2 Fcst	Budget	Var to Budget	var to Prior Yr
Core Trading								
Retail	20.9	20.3	0.6	3.4	38.5	38.0	0.6	1.4
Arches	6.0	6.0	0.1	0.1	11.6	11.3	0.3	0.2
Offices	1.9	1.4	0.6	0.8	2.9	3.0	(0.0)	0.9
Residential	0.7	0.6	0.1	(0.1)	1.6	1.3	0.3	0.1
Car Parks	10.3	9.0	1.2	0.3	18.6	16.9	1.8	0.0
Industrial	0.8	-	0.8	0.8	1.8	-	1.8	1.8
Bus Garages	3.0	-	3.0	3.0	5.2	-	5.2	5.2
Infrastructure	3.0	5.0	(2.0)	(4.9)	4.8	9.4	(4.6)	(5.2)
Contract revenue & central income	0.2	1.2	(1.0)	0.1	-	3.1	(3.1)	(2.3)
JV Dividends - Build to Rent	-	-	-	-	-	-	-	-
Gross Property Income	47.0	43.5	3.5	3.6	85.0	82.9	2.1	2.0
Direct Property Costs	(2.4)	(10.1)	7.6	9.0	(11.4)	(19.8)	8.4	6.3
Net Property Income	44.6	33.5	11.1	12.6	73.6	63.0	10.5	8.3
Margin (%)	95%	77%			87%	76%		
Non Asset Management Income	0.0	-	0.0	0.0	0.0	-	0.0	(0.0)
Central Operating Costs	(20.0)	(23.7)	3.7	(2.3)	(42.0)	(44.2)	2.1	(8.2)
Core Trading Surplus	24.6	9.8	14.8	10.3	31.6	18.9	12.7	0.1
Project Income (inc JV Dividends - Build to Sell)	3.1	1.4	1.7	3.1	4.7	2.3	2.4	(12.6)
Project Costs	(3.6)	(2.9)	(0.8)	(1.2)	(2.9)	(6.0)	3.0	2.1
Net Operating Surplus	24.1	8.3	15.7	12.2	33.3	15.2	18.1	(10.4)
Margin (%)	48%	19%			37%	18%		
Net Operating Surplus (exc Management Fee) - Scorecard	27.8	13.0	14.8	11.5	40.5	24.3	16.2	(10.6)

Capital Account at Period 7

- Asset Disposals - 33 sites with a value of c£30m withdrawn from the market due to the economic environment.
- Build to Rent – Cockfosters land disposal put back due to delays in obtaining planning and Secretary of State approval to dispose.
- Residential – Accelerated receipt for Lillie Bridge Depot which has offset some delays.
- Commercial - Land swap with Southwark Council (previously forecast for FY23).
- Other - Unbudgeted receipts have been agreed at Little Chalfont and White City
- Asset investment - Project delays offset by acquisition of Buck Street Market, Camden
- Asset Disposal costs - Reduced in line with the Disposal Proceeds above.
- Build to Rent – Capital spend on main construction contracts delayed. This is in part to uncertainty around building safety regulations.
- Residential - Re-working designs to improve viability has delayed planning submissions
- Commercial - Capex on Southwark pushed out following the delayed land swap

Capital Account	Year To Date		Full Year	
(£m)	Actuals	var to Budget	Draft Q2 Fcst	Budget
Income				
Asset Disposals	3.3	(16.2)	8.8	39.4
Build to Rent	-	-	-	7.4
Residential	2.3	(7.7)	19.2	16.9
Commercial	3.7	2.5	3.9	1.1
Other	1.2	0.9	12.8	0.3
Total Capital Income	10.4	(20.4)	44.5	65.1
Expenditure				
Asset Investment	(24.6)	(3.2)	(40.8)	(34.1)
Asset Disposal costs	(0.1)	1.6	(2.0)	(5.9)
Build to Rent	(1.5)	20.0	(8.6)	(51.7)
Residential	(4.5)	17.3	(20.1)	(37.1)
Commercial	(25.6)	(18.8)	(31.8)	(12.3)
Other	(0.6)	1.0	(5.2)	(4.3)
Total Expenditure	(56.9)	17.8	(108.5)	(145.4)
Net Capital				
Asset Investment	(24.6)	(3.2)	(40.8)	(34.1)
Asset Disposals	3.2	(14.7)	6.7	33.5
Build to Rent	(1.5)	20.0	(8.6)	(44.2)
Residential	(2.2)	9.6	(0.9)	(20.2)
Commercial	(21.9)	(16.3)	(27.9)	(11.2)
Other	0.5	1.9	7.6	(4.1)
Total Net Capital	(46.6)	(2.6)	(63.9)	(80.3)





Operational Performance

Daniel Lovatt

Director of Asset Management

Places for London

The TfL Property Company

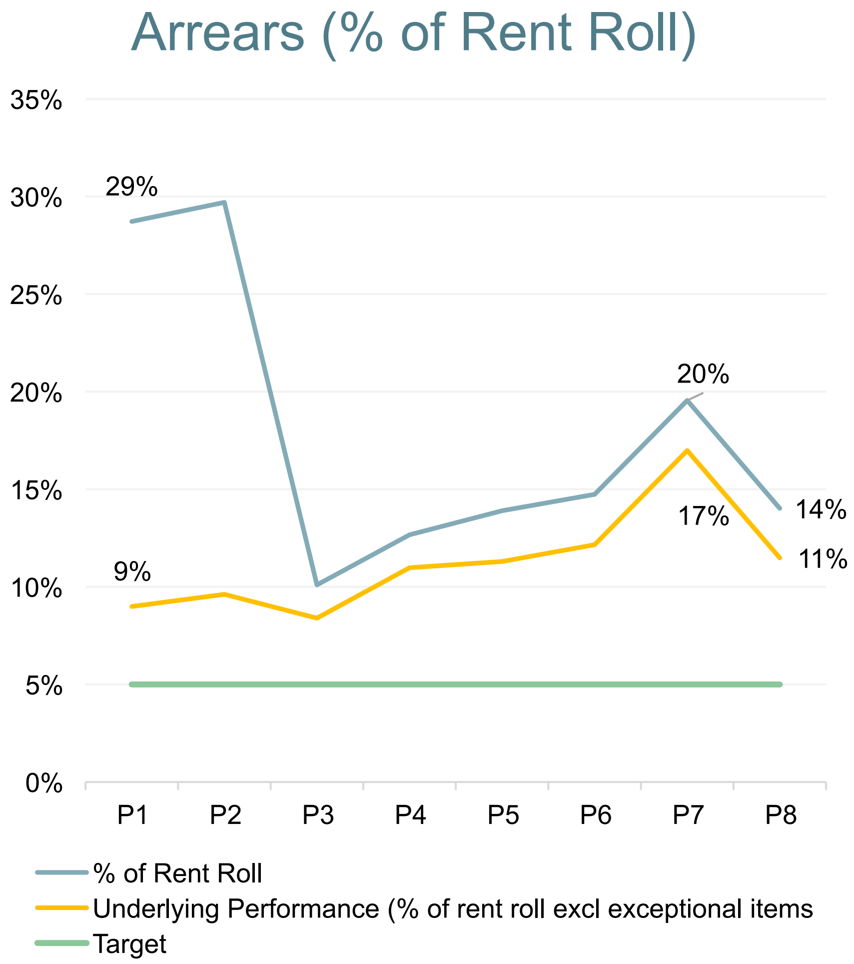
Places for London

The TfL Property Company

4 Operational Performance

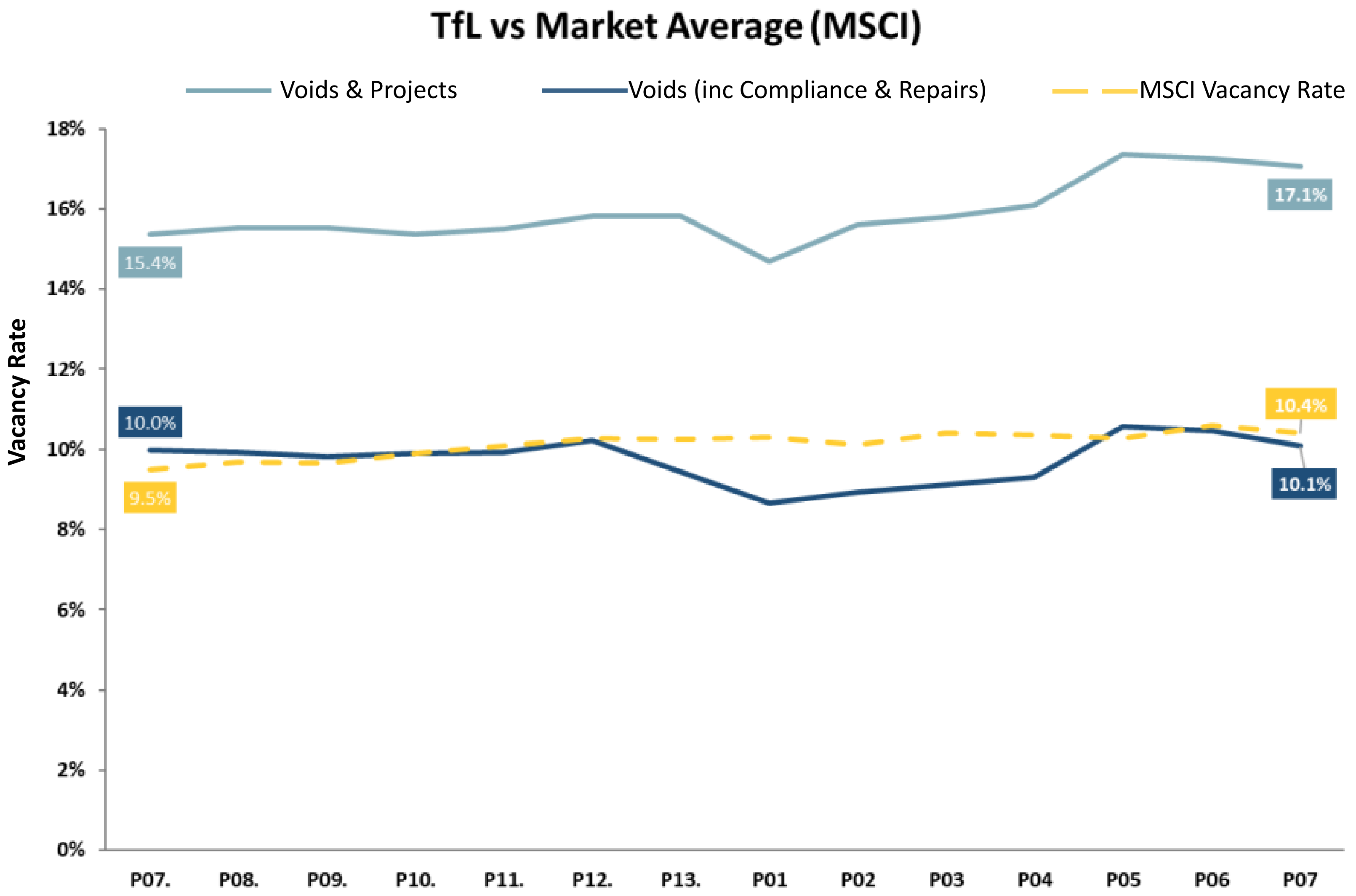
- There are circa 1,600 premises with a rent of >£100 per annum.
- At Period 7, our total arrears were £11.8m, post September quarter day and 1 October monthly rents. This includes £1.5m of due but unpaid utilities invoices.
- By Period 8, our arrears had dropped significantly to £8.5m. We expect this trend to continue following an increase of property management resource and continued focus from our credit control team.
- Arrears Target: 5% of Rent Roll. P8: 14% (11% excluding exceptions – bus garage utilities). See graph,
- At Period 7, the June Quarter finished with 90% of income recovered which is comparable with the end of the previous quarter. By Period 8, collections for June were up 4% to 94%.
- At Period 7, the September Quarter was 65.4% collected. Recovery increased to 80% by Period 8.

Places for London is making progress towards its targets on collections and arrears



Year-on-Year Voids

- Our commercial void rate is 10.1 per cent, 0.3 percentage points better than the MSCI benchmark
- 28 units are under offer at a rental value of £1.4m.
- A further 80 units with an estimated rental value (ERV) of £2.8m are being marketed
- 128 units with an ERV of £3m require some works before a lease is completed, though some are being marketed at the same time.
- We have a further 7 per cent of properties that are classed as 'projects', for example at Whitechapel and Victoria where refurbishment works are underway – we are undertaking these major projects to drive more revenue from the estate.
- We have been cleaning the data to improve accuracy of reporting – and from P7 new governance has been embedded to control classification of vacant units



* MSCI is a global provider of real estate indices

Places for London

The TfL Property Company

New Homes Update

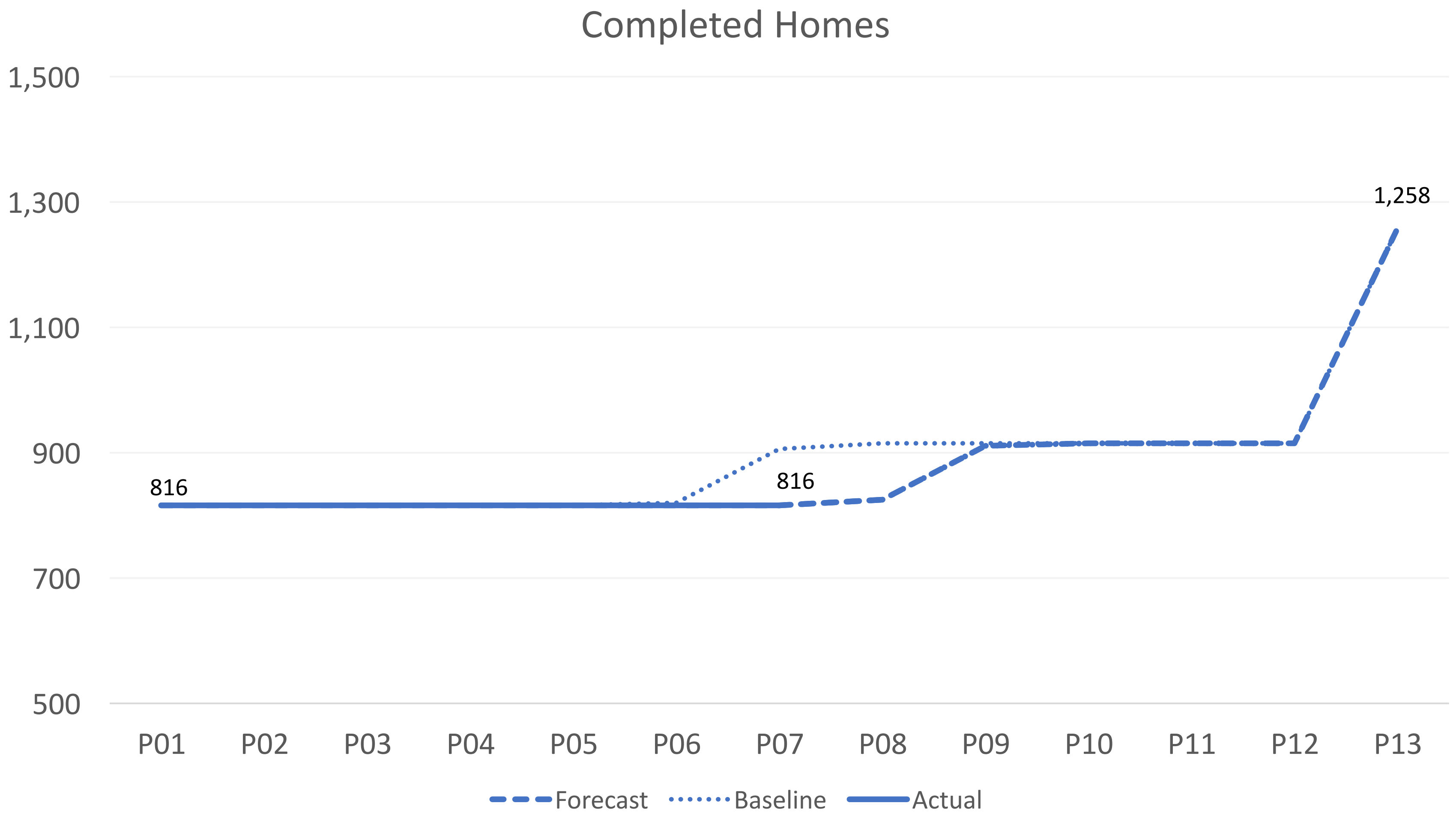
Lester Hampson

Director of Property Development

5 New Homes Update

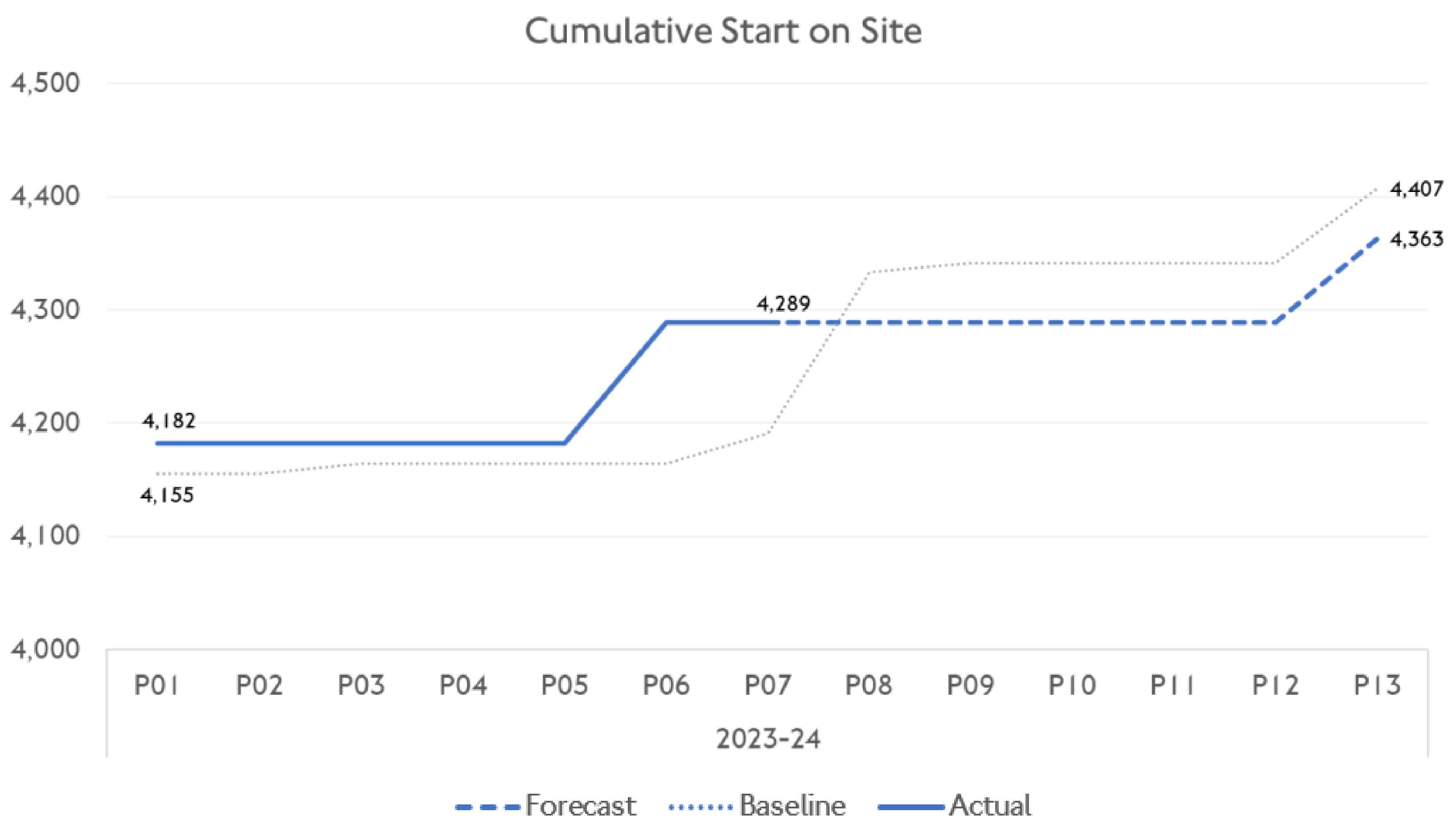
Places for London Completions

- A number of issues are impacting specific sites:
  - Albany Road (4 homes) delayed to Period 10 - practical completion slipped due to supply issues, which have now been resolved
  - Woodside Park (86 homes) delayed to Period 9 by the agreements required for a retaining wall
  - Aylesbury Street (9 homes) - issues on site with a wayleaves agreement causing delays
  - Kidbrooke may now only deliver 101 out of the 343 homes planned for March 2024 due to delays in the main contractor's programme
- The revised forecast next quarter will reflect a year end position which is likely to be 1,016 against a target of 1,258



Places for London Start on Sites

- Our development programme is significantly challenged, and we anticipate starts on site this year will be below our target
- The following projects were baselined to start in 23/24, but have been delayed to 24/25:
  - Upper Richmond Road (6 homes) resubmitted to planning for amendments
  - 12-22 Finchley Road (66 homes) engineering issues
  - Western Avenue (44 homes) - requires agreement with adjoining landowner
- To mitigate these delays, Snaresbrook (74 homes) has been brought forward and will help to contribute to our overall target



Understanding our impact

Places for London

The TfL Property Company

Mark Farrow

Director of Strategy & Planning

6

Understanding our impact

To provide a more up to date view , we have included the Period 8 Scorecard

- Total Engagement - Our Viewpoint score met the floor target, with 2% improvement on 2022.
- Start on Sites – Delays to Finchley Road and Western Avenue drive the forecast for this year to below the full year target. As mitigation, Snaresbrook has been accelerated.
- Completions – 242 of the homes at Kidbrooke will now be delivered early in 24-25.
- Carbon Literacy training - All but one of our senior managers have either attended or are booked on a course.
- EV Charging Hubs – Tender has gone to market on 28 November.
- Asset Disposals – Disposals of Lillie Bridge Depot and Little Chalfont have brought in £13.3m which means the full year target has been achieved

2023/24 Places for London Scorecard - Period 08

	Measure	YTD Actual	YTD Target	YTD Floor Target	Full Year Forecast	Full Year Target	Full Year Floor Target	Weighting	YE Prediction
Safety & Risk	Inspections Completed vs Planned	105%	95%	90%	105%	95%	90%	10%	10%
Safety & Risk	Killed or Seriously Injured (KSI)	0	0	0	0	0	0	10%	10%
Colleague	Total Engagement	61%	64%	61%	61%	64%	61%	10%	1%
Colleague	All Staff Representativeness								
Colleague	Gender	47.8%	45.3%	45.0%	47.8%	45.3%	45.0%	1.25%	1.25%
Colleague	Ethnicity (BAME)	28.1%	27.9%	25.1%	28.1%	27.9%	25.1%	1.25%	1.25%
Colleague	Disability	6.1%	9.4%	8.9%	6.1%	9.4%	8.9%	1.25%	0%
Colleague	Minority Faith / Belief (not Christian, Agnostic or Atheist)	14.2%	15.8%	13.8%	14.2%	15.8%	13.8%	1.25%	1.05%
Homes	% Affordable Start on Sites	47%	47%	47%	48%	47%	47%	10%	10%
Homes	Start on Sites (Cumulative)	4,289	4,333		4,363	4,407	4,314	5%	3%
Homes	Housing Completions (Cumulative)	816			1,016	1,258	915	5%	2%
ESG	Complete carbon literacy training (Band 4 and above)	73%	62%	47%	100%	100%	75%	5%	5%
ESG	Customer Satisfaction Survey	-	-	65%	-	70%	65%	5%	5%
ESG	Achieve ESG Milestones	4/5 On Track	5/5	3/5	4/5	5/5	3/5	5%	4.5%
ESG	Complete EPCs by Mar 24	90%	-	-	100%	100%	100%	1%	1%
ESG	GRESB 5* Rating	completed	-	-	completed	31/03/2024	31/03/2024	1%	1%
ESG	Publication of BBP compliant NZC roadmap	on track	-	-	31/12/2023	31/12/2023	31/03/2024	1%	1%
ESG	TCFD (Task force on climate related financial disclosures)	completed			completed	30/08/2023	30/08/2023	1%	1%
ESG	EV out to tender	28/11/2023	-	-	28/11/2023	30/09/2023	31/03/2024	1%	0.5%
Finance	Total Revenue	£52.5m	£50.0m	£45.0m	£85.0m	£82.9m	£74.6m	10%	10%
Finance	Operating Surplus	£23.7m	£14.8m	£13.3m	£40.5m	£24.3m	£21.9m	5%	5%
Finance	Asset Disposals	£23.8m	£23.5m	£18.8m	£36.2m	£23.5m	£18.8m	5%	5%
Finance	Asset Investment	£(26.8)m	£(26.7)m	£(21.4)m	£(42.8)m	£(40.0)m	£(32.0)m	5%	5%
Finance	Dividend				£9.4m	£9.4m	£9.4m	5%	5%