Places for London

The TfL Property Company

Quarterly Performance Report Appendix 1

Q3 2023/24

16 October 2023 – 6 January 2024

Health and safety performance

Lisa-Jane Risk

Head of Operations

Places for London

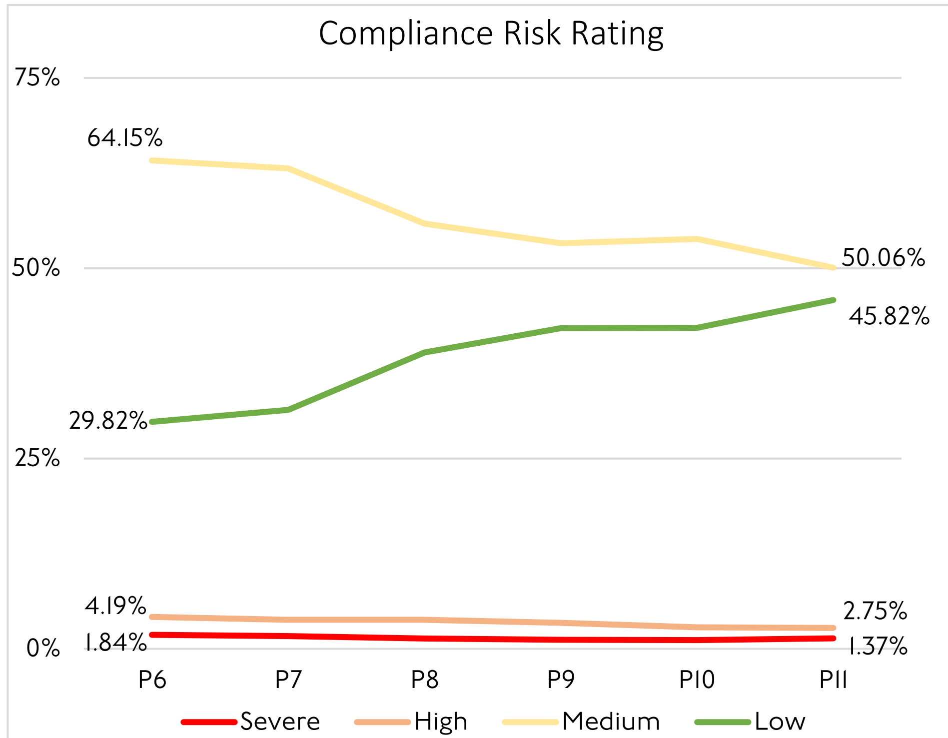
The TfL Property Company

We are continuing to build on the progress already made and reported at the last Committee meeting on health, safety and compliance

Working closely with the TfL Safety, Health and Environment team, we:

- Have established the new review and advisory group to provide assurance to the Places for London Executive Leadership Group on matters of health, safety and compliance on 7 March.
- Are organising a Safety, Health and Wellbeing stand down day on 25 April 2024. This will be an interactive and engaging day for all colleagues where we will fully launch our three-year Health and Safety Strategy.
- Have seen our tenant behaviour / enforcement protocols are improving compliance risk ratings in the majority of cases. Since period 6, severe and high ratings have dropped from a combined 6.03 per cent to 4.12 per cent. The profile also shows a significant shift in properties from medium to low risk. Our proportion of low risk properties have increased from 29.82 per cent to 45.82 per cent.
- Have now started compliance assurance on the Places for London Managed Estate and will report progress at the next Committee meeting.

Metric	23/24 YTD Actual
Killed or Seriously Injured (KSI)	0
Tenant managed estate: 'completed' versus 'planned' compliance inspections	107.5 %
All injuries	4



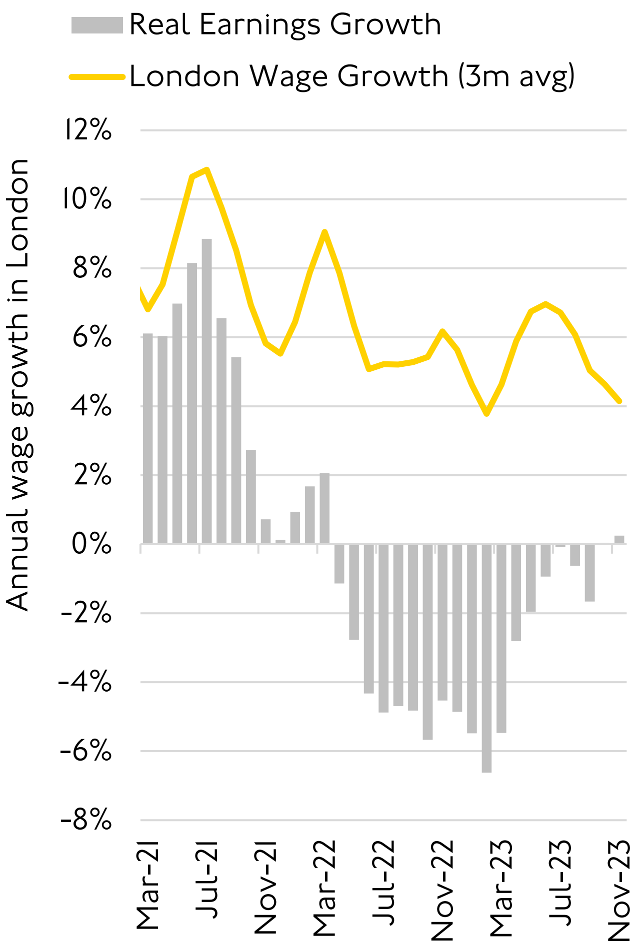
Market context

Graeme Craig

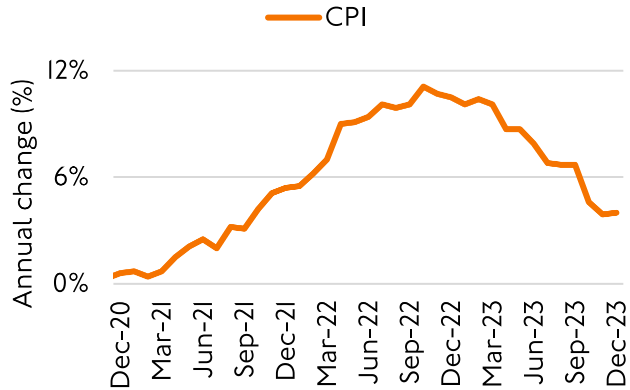
Director and Chief Executive

Bank of England maintains base rates, but cuts are expected in the summer

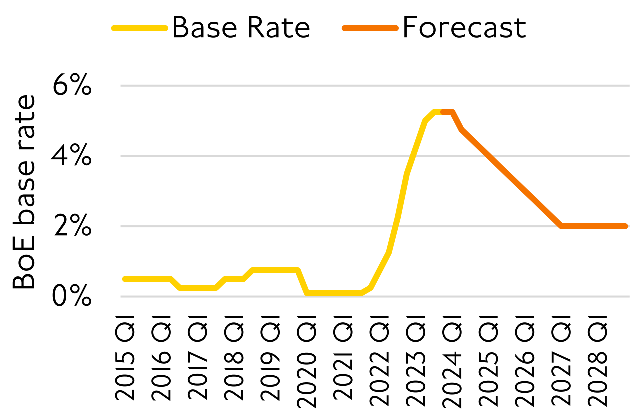
Nominal wage growth was 4.1 per cent in the year November 2023



Inflation was 4.0 per cent in December 2023, slightly higher than economists' expectations, but it is projected to fall



Base rate was held at 5.25 per cent in December, first cut forecast for Q2 2023



Revised figures show that the UK's Gross Domestic Product fell by 0.1 per cent Q3 2023. Inflation fell to 4.0 per cent in December.

The Bank of England kept the base rate at 5.25 per cent in February. The first cut is expected later in 2024.

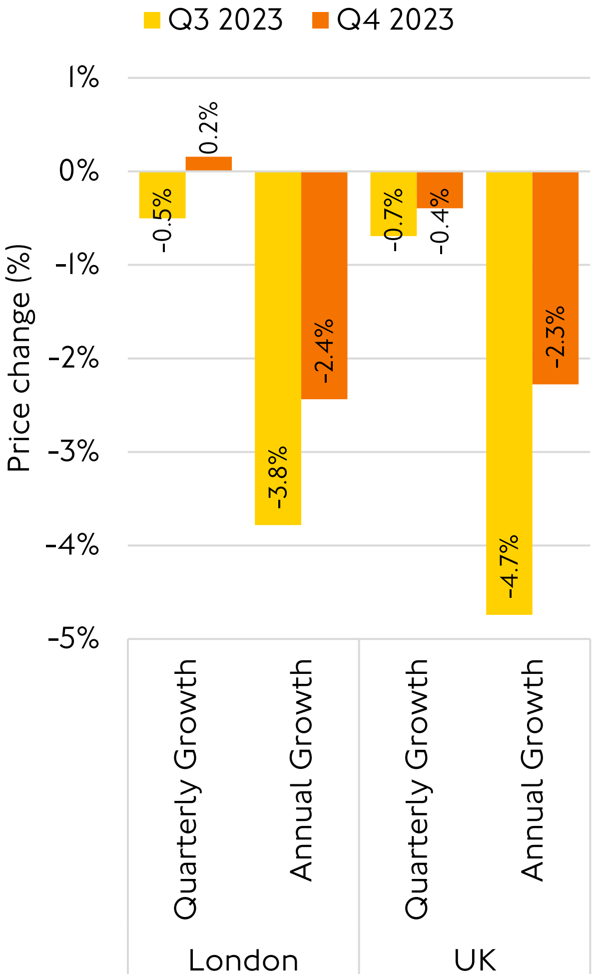
The expectation of lower interest rates has already fed through to mortgage rates. Many banks cut rates in early 2024, although this was limited to those with larger deposits, with first-time buyers still facing substantial mortgage costs.

Nominal wage growth in London was 4.1 per cent in the year to November. In both October and November, wage growth outstripped inflation, delivering the first months of real terms wage increases since March 2022.

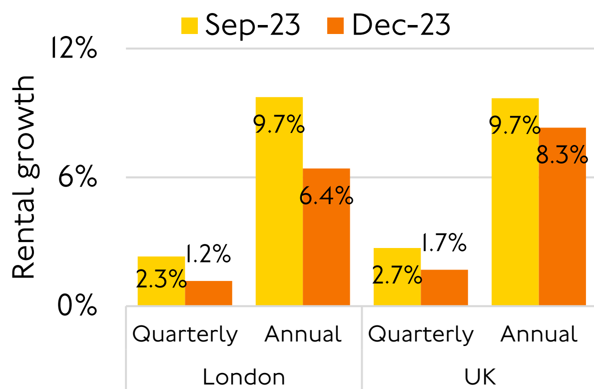
Swap rates fell at the end of 2023, with five-year Sterling Over Night Indexed Average (known as SONIA) swaps reaching 3.34 per cent in December 2023. They have since risen slightly to 3.88 per cent in February 2024.

Rental growth easing in London as demand softens, but sales value showing slight growth

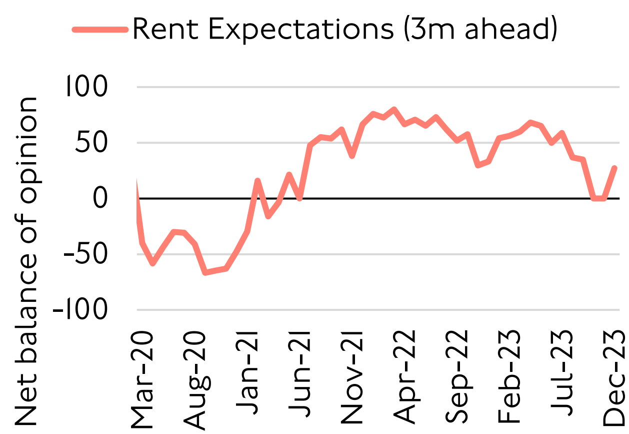
Quarterly house price growth was 0.2 per cent in Q4 - prices fell by 2.4 per cent in 2023



Rental growth in London slowed during Q4, with annual growth easing to 6.4 per cent



Agents continue to report lower demand, but expect rental growth to continue over the coming months as supply remains constrained



Rental growth in London has started to ease, rising by 1.2 per cent in Q4 compared with 2.3 per cent in Q3. This aligns with reported easing in the level of demand by agents in the Royal Institution of Chartered Surveyors survey over recent months.

There remains a shortage of new supply coming to the market, which has led agents to expect more rental growth in the coming three months.

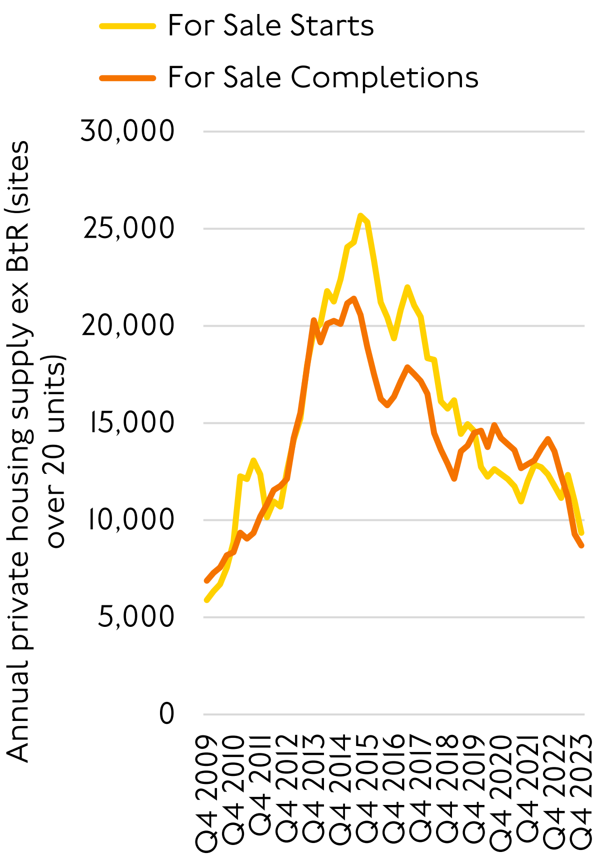
London house prices rose by 0.2 per cent in Q4, according to Nationwide, following a fall of 0.5 per cent in Q3. Despite this they remain 2.4 per cent below their level of a year ago.

With mortgage rates starting to fall for some borrowers, this might unlock additional demand.

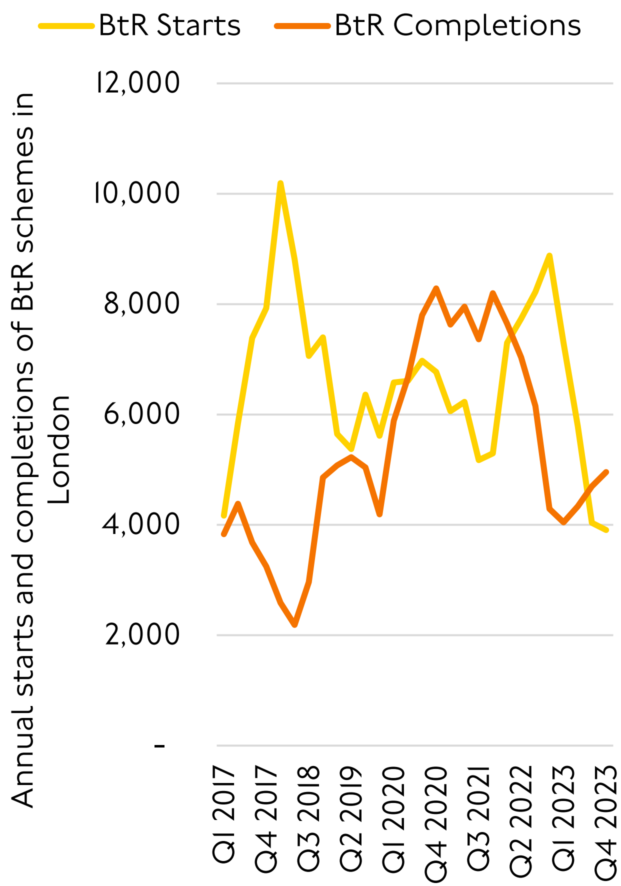
Land values continued to fall in Q4, driven by weaker demand from housebuilders as new build sales rates remain subdued.

Residential construction starts remain low; but slight increase in Q4 2023 compared with Q3 2024

Close to 2,500 private sale homes started construction in Q4, double the level in Q3, but 40 per cent lower than the same period in 2022



There was an increase in new Build to Rent starts in Q4, with c.1,500 homes starting construction in Q4. The majority of these (61 per cent) were in inner London



High construction and debt costs have severely impacted residential construction over the past 18-24 months. Increased mortgage rates have also reduced demand from homebuyers.

Construction cost inflation is starting to moderate, but there is no sign of deflation. This will continue to act as a drag on new projects starting in the coming months.

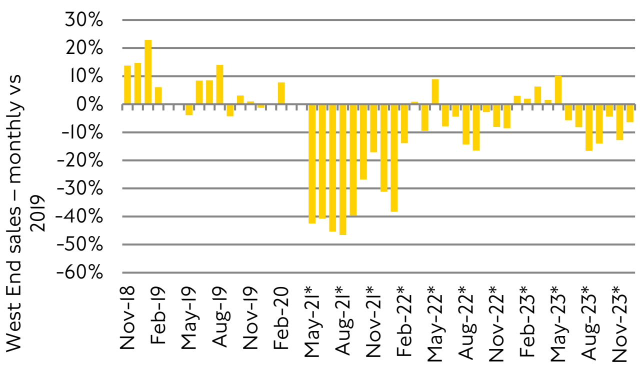
New building regulations – particularly around fire safety – are causing further challenges for some developments.

Construction starts will remain subdued over the short term, with more activity expected as interest rates start to fall later in 2024.

In 2023 planning permission was granted for c.21,700 homes in London - 34 per cent lower than 2022 and the lowest level since 2011.

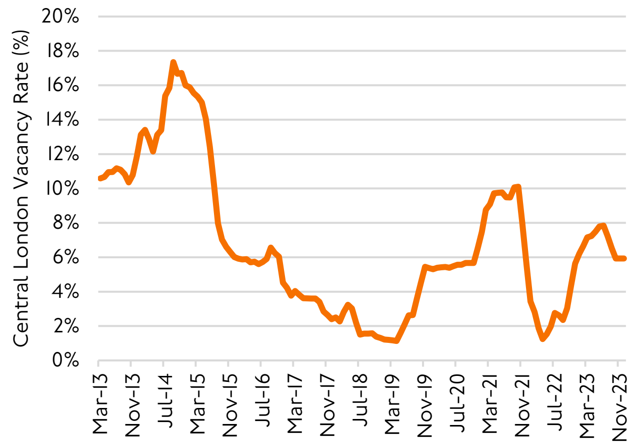
Rising retail spending has been driven by international tourists, as domestic shoppers are impacted by rising costs

West End sales declined by 6.4 per cent in Dec-23 compared with pre-pandemic, outperforming Dec-22 (down 8.6 per cent)

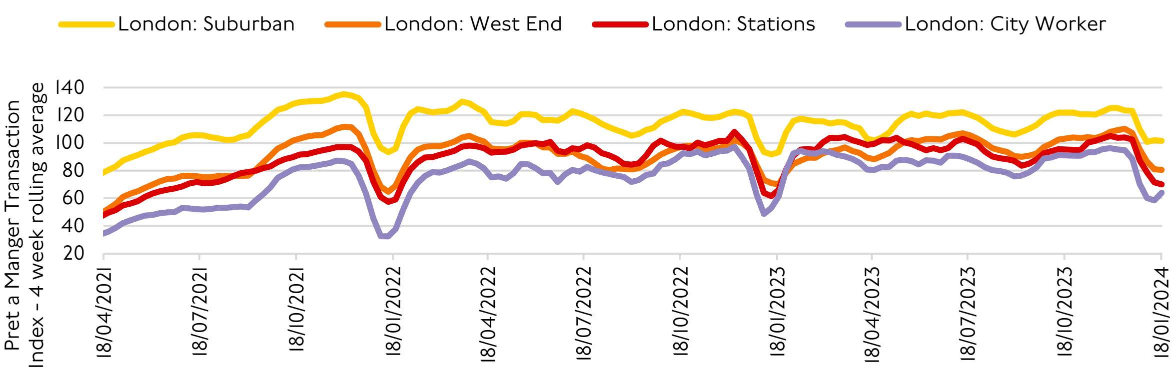


*Note, post 2021 figures are relative to the same period in 2019

Retail vacancies in central London fell to 5.9 per cent in Q4 2023



Only the London Suburban Pret Index has recovered to pre-pandemic levels following the Christmas break, with the City continuing to lag other markets



Jan 2024
102
81
70
64

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

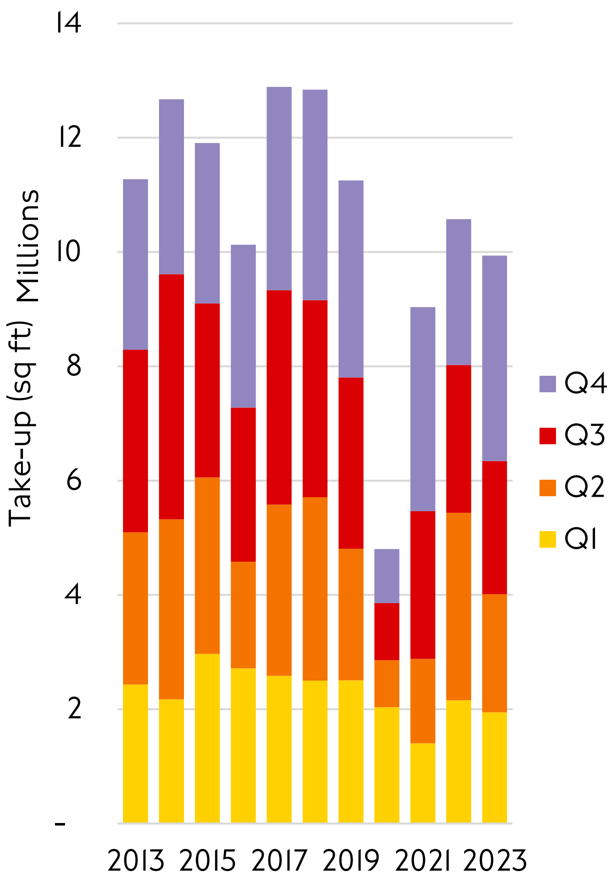
West End consumer spending rose by two per cent in December 2023 compared with the previous year, although this was still 6.4 per cent lower than pre-pandemic levels. This mirrors the pattern seen in footfall and reflects the pressures that domestic buyers are facing from the heightened cost of living.

International travel continues to grow, rising by 21 per cent in December 2023 compared with the same period of 2022. Concerns remain about the strength of the spend in the absence of tax-free shopping.

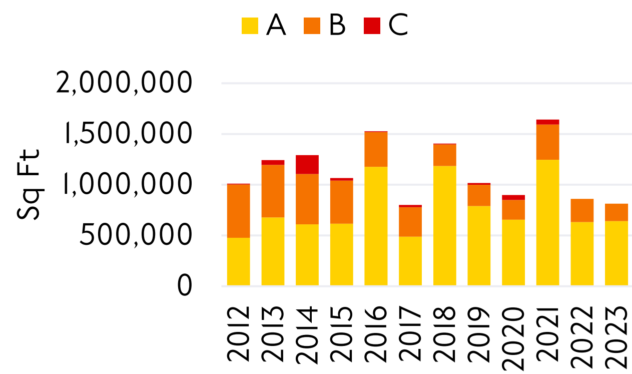
Before Christmas, the Pret Index was showing strong level of sales across all markets – with the City market nearing pre-pandemic levels for the first time, indicating an increased return to the office across London. However, the West End, City and Stations have yet to see a strong resurgence after Christmas and remain well below their pre-pandemic levels.

Leasing activity remains subdued across office and light industrial sectors

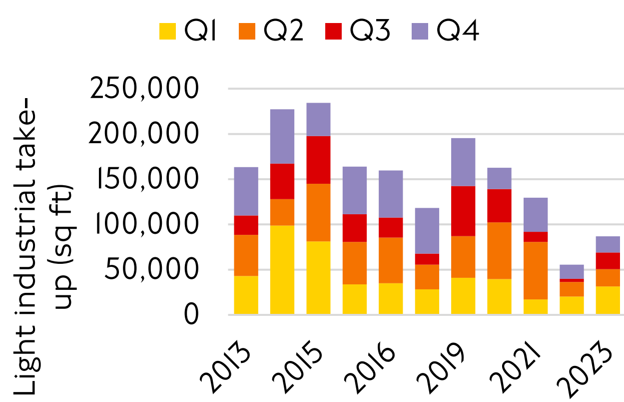
3.6m sq ft of office space was let in Central London in Q4, taking the total to 9.9m for 2023, seven per cent below the long run average



Take-up in Greater London offices was 812k in 2023 – 79 per cent of which was for Grade A space



18k sq ft of light industrial space was let during Q4 2023 taking 23 YTD to 87k sq ft



Office take-up was down across 2023 for both central and Greater London. Across Greater London activity was the lowest in over a decade with just 812k sq ft of space let.

Tenants continued to be attracted to high-quality space, with 79 per cent of space let across Greater London in 2023 being Grade A, the highest proportion since 2018. This trend will continue, as companies look to meet their sustainability targets.

Office supply across Greater London fell, driven by limited Grade A supply. A key challenge moving forward is what can be done to older Grade B and C stock. Some is likely to be redeveloped / refurbished into better quality stock, where viable.

Light industrial take-up was 87k sq ft in 2023, higher than 2022, but below previous years. Tenants are likely similarly constrained by rising costs and challenges in securing financing.

Risks and opportunities

Opportunities

- Bank of England may cut the base rate earlier than expected, reducing the cost of debt, improving mortgage affordability and improving the cost of development finance.
- Slowdown in housing permissions and starts may reduce potential competition for Places for London sites.
- Stronger London economic growth in 2024 and 2025 will drive demand for commercial and residential space.
- Continued residential rental growth may help counterbalance viability challenges on Build to Rent schemes.
- Easing inflation will be welcome news to small and medium-sized enterprise commercial tenants, particularly retailers.
- The continuing flight to quality within the office sector will continue to support the rationale for Project Platinum with Helical.

Risks

- Cost of living pressures remain heightened and continue to limit spending power and consumer activity.
- Lower occupier demand for older office stock threatens rental levels, leading to a higher risk of voids and reduced ability to capture rental growth.
- Retail spend on central London food and beverage remains below pre-pandemic levels and could continue to pose challenges for our Zone-1 retail tenants.
- Continued housing rental growth pushes affordability and lowers demand at certain price points.
- Higher build costs and tightened fire safety / building regulations make new residential development more challenging and could impact the viability of schemes.

Financial performance

Places for London

The TfL Property Company

Digby Nicklin

Chief Finance Officer

Operating account

Income statement	Year to date				Full year			
(£m)	Actuals	Budget	Variance to budget	Variance to prior year	Draft Q3 forecast	Budget	Variance to budget	Variance to prior year
Core Trading								
Retail	29.7	29.3	0.4	2.5	38.2	38.0	0.2	1.0
Arches	8.6	8.6	0.0	0.1	11.2	11.3	(0.1)	(0.2)
Offices	3.1	2.2	0.9	1.3	4.5	3.0	1.5	2.5
Residential	1.0	1.0	0.1	(0.1)	1.3	1.3	0.0	(0.2)
Car parks	15.4	12.9	2.5	1.3	20.0	16.9	3.2	1.4
Industrial	1.0	-	1.0	1.0	1.4	-	1.4	1.4
Bus garages	3.6	-	3.6	3.6	5.0	-	5.0	5.0
Infrastructure	5.4	7.2	(1.8)	(5.1)	7.5	9.4	(1.9)	(2.5)
Contract revenue and central income	0.8	2.1	(1.3)	0.6	0.8	3.1	(2.3)	(1.6)
JV dividends - Build to Rent	-	-	-	-	-	-	-	-
Gross Property Income	68.6	63.2	5.4	5.2	89.9	82.9	7.0	6.9
Direct property costs	(10.3)	(15.0)	4.6	6.5	(13.2)	(19.8)	6.6	4.5
Net Property Income	58.3	48.3	10.0	11.7	76.7	63.0	13.6	11.4
Margin (%)	85%	76%			85%	76%		
Non Asset Management income	0.0	-	0.0	0.0	0.0	-	0.0	-
Central operating costs	(29.8)	(34.0)	4.1	(4.6)	(41.2)	(44.2)	2.9	(7.4)
Core Trading Surplus	28.5	14.3	14.2	7.1	35.4	18.9	16.6	4.0
Project income (including JV dividends - Build to Sell)	3.5	1.9	1.6	(13.6)	3.9	2.3	1.7	(13.3)
Project costs	(7.0)	(4.0)	(3.0)	(3.7)	(9.3)	(6.0)	(3.3)	(4.3)
Net Operating Surplus	25.0	12.2	12.8	(10.3)	30.1	15.2	14.9	(13.6)
Margin (%)	35%	19%			32%	18%		
Net Operating Surplus (exc Management Fee) - Scorecard	30.5	18.9	11.6	(6.3)	36.8	24.3	12.5	(14.3)

Income statement

- Year-to-date gross property income is £5m ahead of budget, primarily from rent reviews. Car parking continues to out-perform budget.
- Year-to-date direct property costs are £5m lower than budget due to the settlement of a long running bad debt. Otherwise, our cost base is largely on budget and is expected to largely remain so for the rest of the year.
- Recruitment is behind budget resulting in lower central operating costs.
- Project costs are higher than budget are driven by expenditure to relocate TfL teams out of 200 Buckingham Palace Road.
- Full year Q3 forecast shows an operating surplus of £30m which is £15m higher than budget generating a dividend to TfL of £21m (budget £9m).
- Property income reflects continued car parks out performance.
- Property costs savings are due to the bad debt release in Q1 partially offset by higher rates on office building transferred from TfL.
- Central operating costs result from continued slower than expected recruitment.
- Project income reflects an additional dividend receipt from Blackhorse Road.

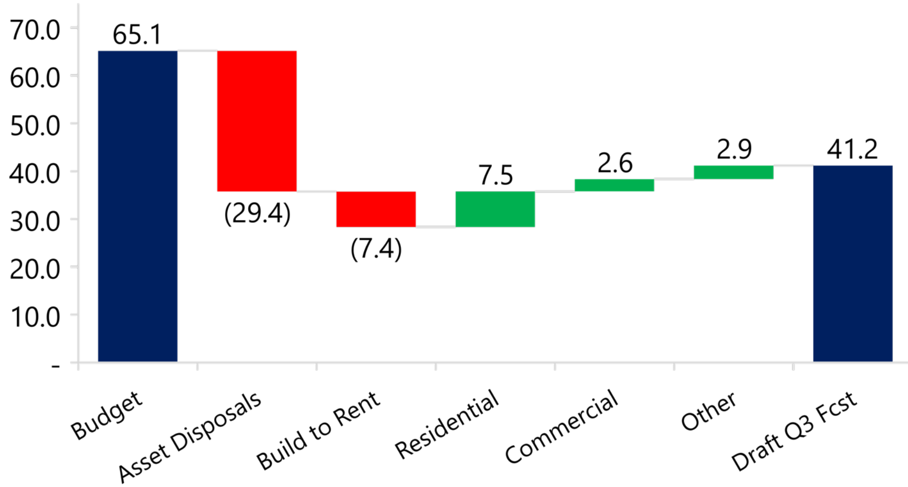
Places for London

The TfL Property Company

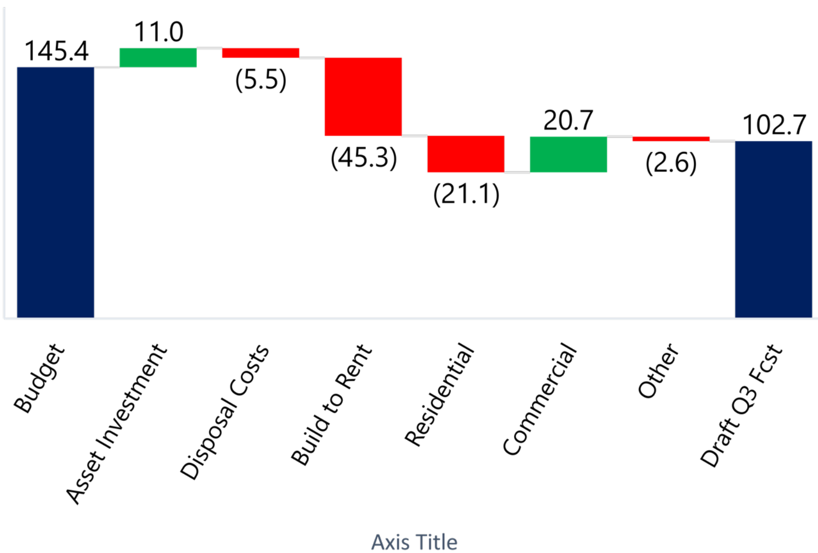
3 Financial performance

Capital account at period 10

Capital Income - Full Year FY24



Capital Expenditure - Full Year FY24



Capital account	Year to date		Full year		
(£m)	Actuals	Variance to budget	Draft Q3 forecast	Q2 forecast	Budget
Income					
Asset disposals	3.3	(23.3)	10.0	8.8	39.4
Build to Rent	-	(5.0)	-	-	7.4
Residential	24.1	10.7	24.4	27.5	16.9
Commercial	3.7	2.5	3.7	3.9	1.1
Other	3.1	2.9	3.1	3.1	0.3
Total Capital Income	34.1	(12.3)	41.2	43.3	65.1
Expenditure					
Asset investment	(32.5)	(2.8)	(45.1)	(41.4)	(34.1)
Asset disposal costs	(0.1)	2.3	(0.3)	(0.5)	(5.9)
Build to Rent	(1.8)	36.0	(6.4)	(8.5)	(51.7)
Residential	(9.7)	18.8	(16.0)	(19.1)	(37.1)
Commercial	(26.9)	(17.6)	(33.0)	(30.6)	(12.3)
Other	(0.9)	2.1	(1.8)	(5.8)	(4.3)
Total Expenditure	(71.9)	38.8	(102.7)	(105.8)	(145.4)
Net Capital					
Asset investment	(32.5)	(2.8)	(45.1)	(41.4)	(34.1)
Asset disposals	3.1	(21.1)	9.7	8.3	33.5
Build to Rent	(1.8)	31.0	(6.4)	(8.5)	(44.2)
Residential	14.5	29.5	8.4	8.4	(20.2)
Commercial	(23.2)	(15.1)	(29.3)	(26.7)	(11.2)
Other	2.2	5.0	1.3	(2.7)	(4.1)
Total Net Capital	(37.8)	26.6	(61.5)	(62.5)	(80.3)

Capital account at period 10

Capital Income

- **Asset disposals** – 33 sites with a value of around £30m have been removed from the market due to the current economic environment.
- **Build to Rent** – land disposals into our Connected Living London joint venture have been delayed pending clarity on the second staircase issue.
- **Residential** – Places has delivered a receipt at Little Chalfont which has offset two sites reprogrammed into next year.
- **Commercial** – this is driven by the delayed land swap with Southwark Council (originally forecast for the final quarter of FY22 but completed in Q1 of the current year).
- **Other** – this is due to an unbudgeted receipt at White City Imperial Way.

Capital Expenditure

- **Asset investment** – a number of projects have been delayed arising from delays to securing the right staff, however this is offset by the opportunity to acquire Buck Street Market, Camden.
- **Asset disposal costs** – reduced in line with the Disposal Proceeds above
- **Build to Rent costs** – uncertainty over second staircase has delayed spend.
- **Residential** – predominantly driven by complex design matters including incorporation of building safety act measures delaying planning submissions.
- **Commercial** – Capex on the Southwark Over Station Development has been pushed out from last year into this year following the delayed land swap with Southwark Council.
- **Other** – driven by the reprofiling of £1.5m of Energy Projects.

Operational performance

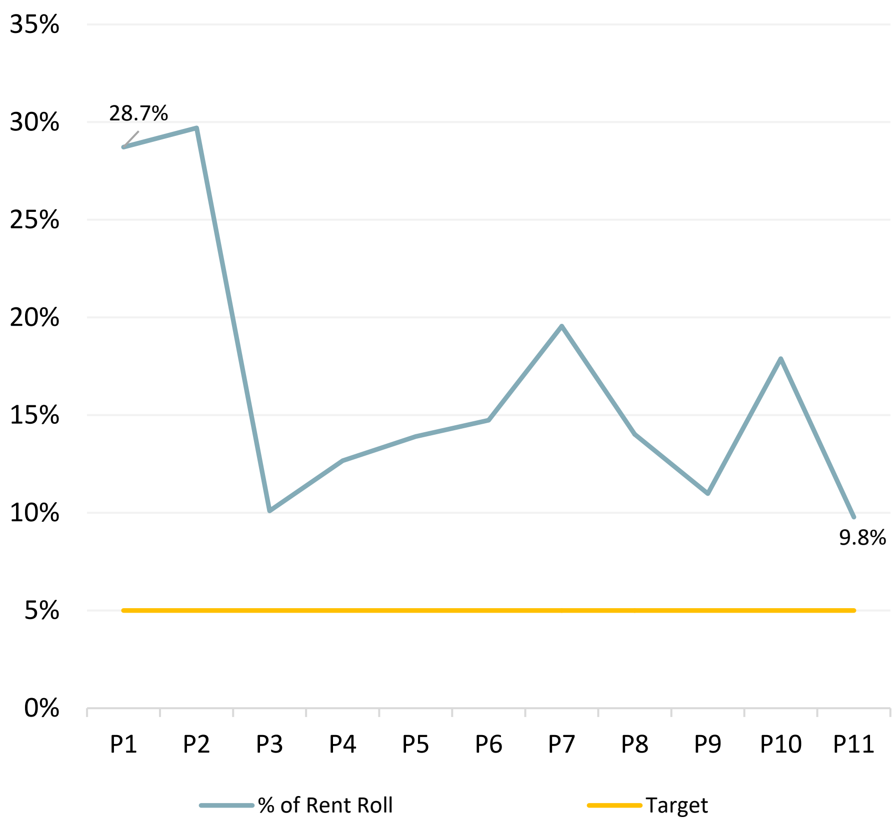
Daniel Lovatt

Director of Asset Management

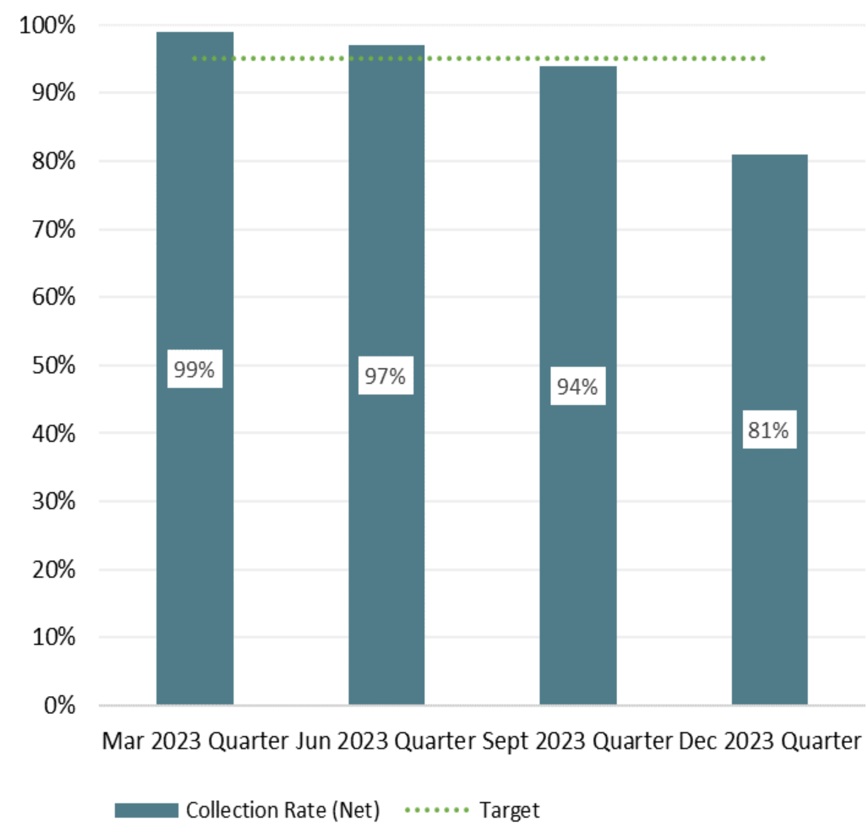
Places for London
The TfL Property Company

Places for London is making progress towards collections and arrears targets

Arrears (% of rent roll) at 31 Jan



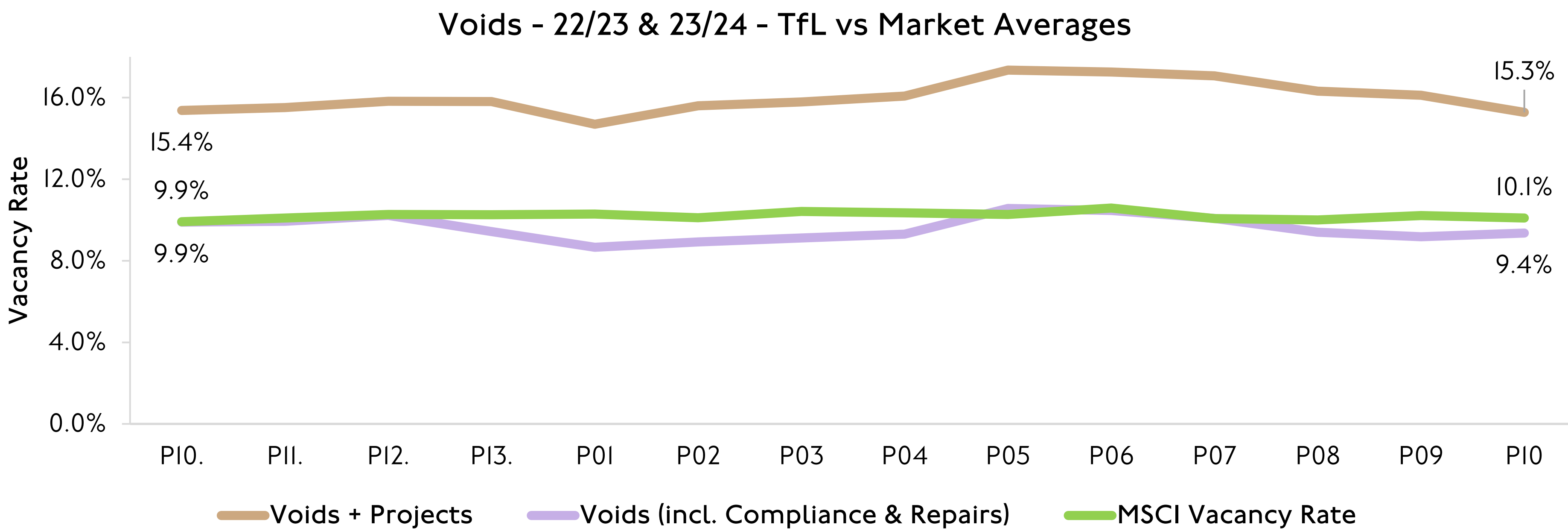
Collection rate – as at 31 Jan



Places for London is making progress towards collections and arrears targets

- Arrears reduced to £5.5m pre-December quarter day.
- At Period 11, our total arrears were £6.1m, post December quarter day and 1 January monthly rents. Collections for the current quarter were 81 per cent (91 per cent excluding a single account)
- A single account owes £1.4m following a historical rent review – payment has been agreed and documented by end of financial year. A further £0.5m subject to a payment plan. Excluding these, arrears were £4.2m at period 11.
- Two new Credit Controllers have joined, and the Retail team now has a full complement of property managers. We are making good progress in addressing unallocated cash and arrears.
- Arrears target: five per cent of rent roll. Period 11 is 9.8 per cent (6.6 per cent excluding Single Account and Payment Plans) See arrears graph on the previous slide.
- Focus on over £50k debtors – weekly meetings and actions are making a difference.

Voids



- Our void rate is 9.4 per cent, 0.7 percentage points better than the leading industry benchmark
- Thirty three units are under offer at a rental value of £1.5m
- A further 99 units with an Estimated Rental Value (ERV) of £2m are being marketed
- There are 97 units with an ERV of £2.4m require works before a lease is completed
- We have a further 5.9 per cent of properties where we are undertaking major projects to drive more revenue from the estate
- We have been cleaning the data and have better visibly of total opportunity cost (holding costs + ERV) enabling prioritisation of work

New homes update

Lester Hampson

Director of Property Development

Places for London

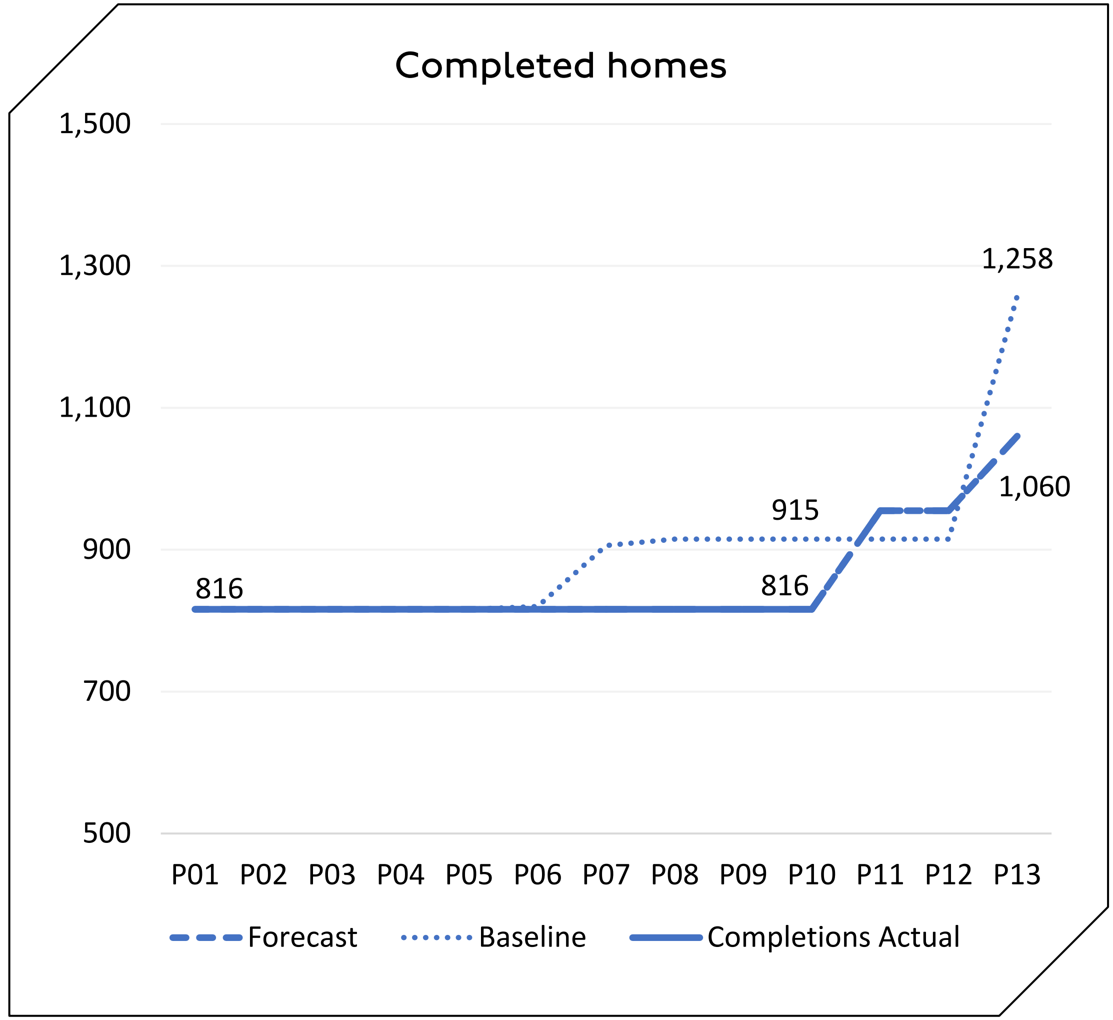
The TfL Property Company

Places for London

5 New homes updates

Places for London completions at period 10

- To date, we have cumulatively completed 816 homes compared to a target of 915.
- Several issues are impacting specific sites which has resulted in a cumulative year end forecast of 1,060 Completed Homes compared with a Target of 1,258:
  - Kidbrooke may now only deliver 145 out of the 343 homes planned for March 2024, with the remainder to follow early in 2025.
  - Woodside Park (86 homes) delayed to Period 11.
  - Aylesbury Street (nine homes) - issues on site with a wayleaves agreement.
  - Albany Road (four homes) delayed to March 2024 - practical completion slipped due to supply issues.
  - It is anticipated that 244 homes will be completed on site by FY 23/24, mainly at Kidbrooke and Woodside Park.



Places for London
The TfL Property Company

5 New homes updates

By the end of March 2024, we anticipate completion of more than 1,000 new homes

Site	Number of homes	Percentage affordable
Blackhorse View*	350	50%
A40 Sites*	180	51%
Kidbrooke Phase 1a*	145	30%
Beechwood Avenue*	97	51%
Woodside Park*	86	100%
Aylesbury Street*	9	100%
Dean Street (TCR West)	92	0%
Holloway Road	86	0%
Bond Street OSD	11	0%
Albany Road	4	0%
Total	1,060	43%

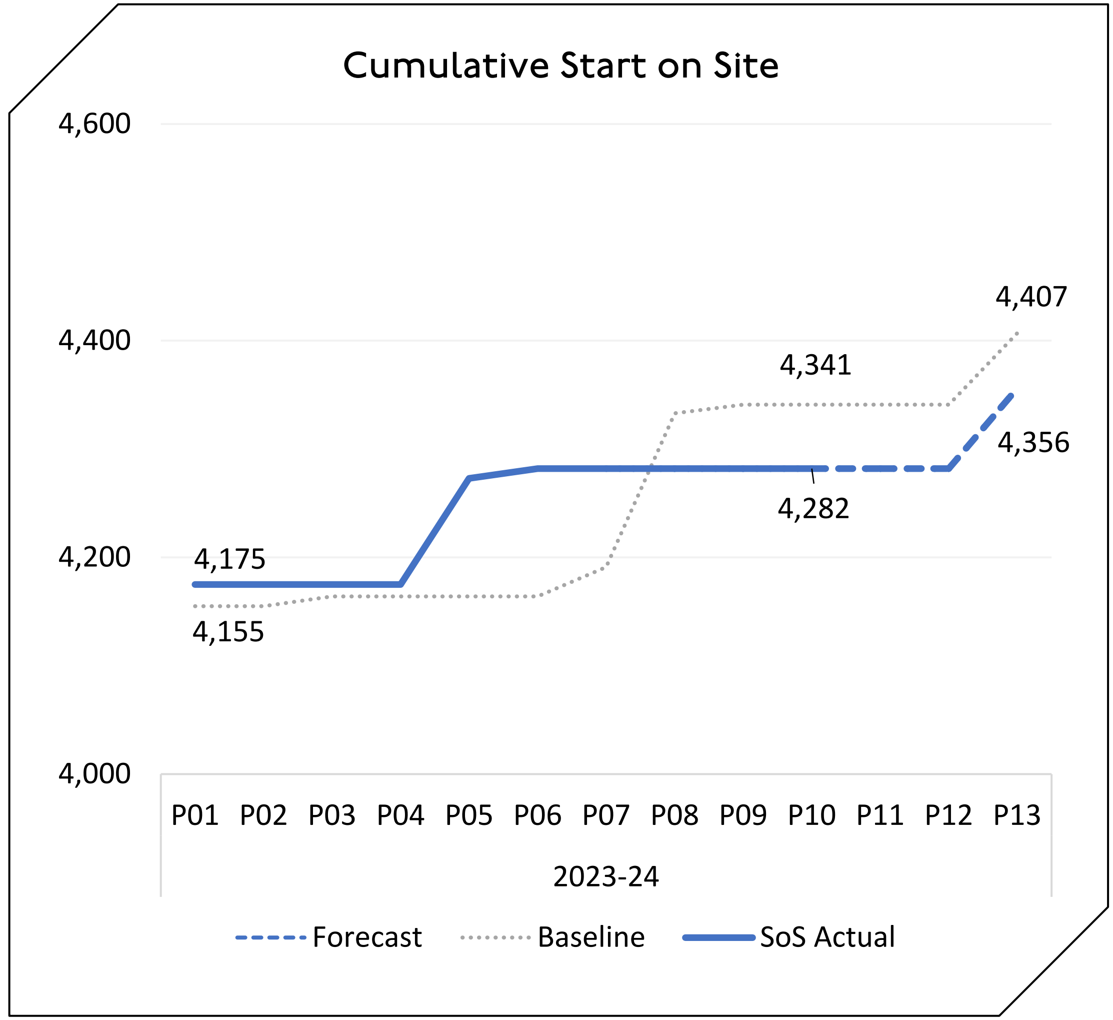
1,060
Homes

43%
Affordable all sites

52%
*Affordable with planning post-2016

Places for London cumulative starts on site at Period 10

- To date, our cumulative start on site total is 4,282, compared to a target of 4,341
- Our development programme is significantly challenged, and we anticipate a cumulative end of year start on site figure of 4,356, below our year-end target of 4,407
- The following projects were baselined to start in 23/24, but have been delayed to 24/25:
  - 12-22 Finchley Road (66 homes) due to engineering issues
  - Western Avenue (44 homes) - requires agreement with adjoining landowner
  - Upper Richmond Road (six homes) resubmitted to planning for amendments
- Snaresbrook (74 homes) has been brought forward and will help to contribute to our overall target



Milestone updates:

Key achievements:

- Woodside Park (86 homes, 100 per cent affordable) - practical completion - 02/02/24

Further Updates:

- Aylesbury Street (nine homes) - practical completion – 29/02/24
- Snaresbrook (74 homes, 100 per cent affordable) – start on site enabling works – 29/03/24
- Kidbrooke Phase 1 – 413 homes, 50 per cent affordable) – blocks B and E anticipated to complete by March 2024 (145 homes)
- Fenwick (46 homes, 100 per cent affordable) – Construction progressing well. Brick works to both blocks, installation of the lifts and the internals walls, first fix electricals underway.
- Bollo (657 homes, 50 per cent affordable) – approval of minor amendment to planning permission – 26/01/24
- Wembley Park (454 homes, 40 per cent affordable) – 84 homes exchanged to date and 13 reserved. Further progress on construction of Blocks A, B and E (due to complete May 2025)
- Limmo up to 1,500 homes – launch to market for joint venture partner - 29/01/24

Small Sites Progress:

- Portree Street (nine homes) – onsite pre-works have now been completed and Thames Water is engaged to begin pipe relocation works.
- Long Lane (1 home) – private developer has submitted planning to Council, decision expected February.
- Wapping (45 homes, 42 per cent affordable) – contract exchange anticipated February 2024
- 108-112 Palmerston Crescent (31 homes, 35 per cent affordable) – planning submitted and validated, awaiting decision, due in March.

Wembley Park update:

Progress
The frames are nearly complete on Blocks A and B with windows being installed. Mechanical and electrical, drylining and brick works have commenced on both blocks. On Block E, the stair core and lift shaft have been poured to level 7. Barratt are performing very well from a health and safety perspective recently achieving a 100 per cent compliance across the site.

Train Crew Accommodation
A new train crew accommodation will be located at the bottom of Block E and will be ready for occupation later this summer. This will enable Crown House to be demolished and Phase 2 to commence. The train crew accommodation design, construction and fit out will cost around £4-5m once complete.

Construction Completions
Block A – Oct-24
Block B – Dec-24
Block E – May-25
Block C – Dec-26
Block D – Feb-27

Back up control facility
Prior to any construction activities starting on site, The back up control facility at Burrows House was relocated into Wembley Park Station at a cost of £1.5m

Understanding our impact

Mark Farrow

Director of Strategy and Planning

Places for London

The TfL Property Company

Scorecard

	Measure	YTD Actual	YTD Target	YTD Floor Target		Full Year Forecast / Actual	Full Year Target	Full Year Floor Target	Weighting	Year End
Safety and Risk	Inspections Completed vs Planned	105%	95%	90%		105%	95%	90%	10%	10%
	Killed or Seriously Injured (KSI)	0	0	0		0	0	0	10%	10%
Colleague	Total Engagement	61%	64%	61%		61%	64%	61%	10%	1%
	All Staff Representativeness									
	-Gender	47.5%	45.3%	45.0%		47.5%	45.3%	45.0%	1.25%	1.25%
	-Ethnicity (BAME)	27.7%	27.9%	25.1%		27.7%	27.9%	25.1%	1.25%	1.24%
	-Disability	6.4%	9.4%	8.9%	R	6.4%	9.4%	8.9%	1.25%	0%
	-Minority Faith / Belief	14.6%	15.8%	13.8%		14.6%	15.8%	13.8%	1.25%	1.10%
Homes	% Affordable Start on Sites	47%	47%	47%		48%	47%	47%	10%	10%
	Start on Sites (Cumulative)	4,282	4,341			4,356	4,407	4,314	5%	2.5%
	Housing Completions (Cumulative)	816				1,060	1,258	915	5%	2.4%
ESG	Complete carbon literacy training (Band 4 and above)	94%	77%	58%		100%	100%	75%	5%	5%
	Customer Satisfaction Survey	-	-	-		58%	70%	65%	5%	0%
	Achieve ESG Milestones	4/5 achieved	5/5	3/5		4/5	5/5	3/5	5%	4.5%
	-Complete EPCs by Mar 24	91%	-	-		100%	100%	100%	1%	1%
	-GRESB 5* Rating	Achieved	-	-		Achieved	31/03/2024	31/03/2024	1%	1%
	-Publication of BBP compliant NZC roadmap	Achieved	-	-		Achieved	31/12/2023	31/03/2024	1%	1%
	-TCFD (Task force on climate related financial disclosures)	Achieved				Achieved	30/08/2023	30/08/2023	1%	1%
	-EV out to tender	Achieved 28/11/23	-	-		Achieved	30/09/2023	31/03/2024	1%	0.5%
Finance	Total Revenue	£68.6m	£63.2m	£56.9m		£85.0m	£82.9m	£74.6m	10%	10%
	Operating Surplus	£30.5m	£18.9m	£17.0m		£40.5m	£24.3m	£21.9m	5%	5%
	Asset Disposals	£34.1m	£23.5m	£18.8m		£36.2m	£23.5m	£18.8m	5%	5%
	Asset Investment	£(32.7)m	£(32.1)m	£(25.7)m		£(42.8)m	£(40.0)m	£(32.0)m	5%	5%
	Dividend					£9.4m	£9.4m	£9.4m	5%	5%

Scorecard commentary

Safety and Risk

The completion of more inspections than planned has allowed us to have a more detailed risk profile of our estate. This will allow us to have a more targeted metric to reduce compliance risk for next year's scorecard.

ESG

We published our Net Zero Carbon Roadmap on the Better Buildings Partnership (BBP) website ahead of the 31 December deadline. This is in line with the Climate Change Commitment we made in 2019 to the BBP – the Commitment has been signed by 35 leading property companies and sets out how they will transition their estates to Net Zero Carbon.

Customer Satisfaction Survey results fell seven percentage points from last year with indication that results were impacted by:

- Difficult market conditions
- Impact on tenants of our work to professionalise the estate
- Elements of our service are not meeting customer needs
- Areas of portfolio remain underinvested

Further analysis is underway and we will create a plan to address these issues.

Colleague

Work around the people plan continues and will help improve our diversity scores.

Finance

All measures are on course to be achieved, we are reviewing our underlying plans to ensure this happens.

Homes

Despite challenging market conditions, starts on site and completions are both on target to hit their floor targets.