TRANSPORT FOR LONDON

INVESTMENT MANAGEMENT STRATEGY ~~2024/25~~2025/26 FOR NON-FINANCIAL ASSETS

1 SUMMARY

1.1 Non-Financial Assets are defined as assets that the organisation holds primarily or partially to generate a profit. This Investment Management Strategy (IMS) ~~2024/25~~2025/26 describes the objectives of TfL's programme of investment in commercial assets, the associated sources of funding, the approach to managing risks arising from it and the relevant key performance indicators.

1.2 This strategy covers two aspects of non-financial segments of the TfL group. These relate to: TfL's investment through its subsidiary, Places for London Limited (Places for London); and TfL's own investment activities within media and telecommunications space which is covered within TfL's wider strategy and Business Plan.

2 BACKGROUND

2.1 The IMS ~~2024/25~~2025/26 has been prepared having regard to the Local Government Act 2003 and the Local Authorities (Capital Finance and Accounting) Regulations 2003 (as amended), as well as the key recommendations of:

(i) the Prudential Code for Capital Finance in Local Authorities issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) as updated in 2021 (the Prudential Code);

(ii) the Statutory Guidance on Local ~~Authority~~Government Investments issued by the ~~then~~ Ministry of Housing, Communities and Local Government in 2018 (the 2018 Investments Guidance); and

(iii) Treasury Management in the Public Services issued by CIPFA and last updated in 2021 (the Treasury Management Code).

2.2 As recommended by the 2018 Investments Guidance, this strategy will be updated at least annually and submitted for approval.

2.3 The IMS ~~2024/25~~2025/26 will be implemented, operated and administered under delegations of authority established in TfL Standing Orders.

2.4 The Prudential Code and the Treasury Management Code were updated in 2021 and have been fully reflected in this Investment Management Strategy.

3 STRATEGIC OBJECTIVES

Places for London

3.1 TfL ~~owns~~is one of London’s largest landowners, owning over 5,~~660~~500 acres of ~~freehold~~ land ~~and a further 362 acres leasehold~~across the capital. 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 homes and create jobs for Londoners, while generating revenue to reinvest into London’s transport network.

3.2 TfL created a fully owned subsidiary, Places for London Limited, to be a focussed property vehicle to manage its commercial property interests and support delivery of these priorities.

3.3 The objectives underpinning the IMS ~~2024/25~~2025/26 for Places for London, which guide future financial decision making, support investment management processes and risk management activities, are:

(i) deliver an enhanced financial return to TfL to support reinvestment,~~-~~ in the form of cash return and capital appreciation, representative of TfL’s funding contribution, risk and affordability requirements~~;~~

(ii) develop and embed robust financial management practices appropriate for a real estate business of equivalent size, ensuring minimal financial risk back to TfL;

(iii) 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

(iv) align with TfL’s wider objectives; supporting delivery of operational transport enhancement where there are synergies between TfL and Places for London’s capital programmes, as well as full alignment with TfL’s “Colleague”, “Customer” and “Green” objectives.

TfL - Media and telecommunications

3.4 The objectives underpinning the IMS ~~2024/25~~2025/26 for TfL are to:

(i) develop the media and telecommunications activities within TfL generating long-term cash flows, and positive income returns;

~~(ii)~~ ensure investments made by TfL for commercial purposes are proportionate to the financial capacity of TfL and support the generation of long-term cash flows.~~; and~~

~~(iii)~~(ii) ~~confirm compliance with paragraphs 51 to 53 of the Prudential Code.~~

4 INVESTMENT PROGRAMME

4.1 The IMS ~~2024/25~~2025/26 is forward looking with substantial capital expenditure anticipated over a 10-year period. The main programmes of capital expenditure within it are listed in Table 1. Some of these investments aim to deliver capital income returns, while others are set up to deliver an ongoing rental stream and associated asset value.

4.2 The majority of capital expenditure on non-financial assets is allocated to non-financial assets following an annual prioritisation process, published as the Places for London business plan and investment strategy.

4.3 As TfL's commercial property company, Places for London will be the delivery vehicle for items 1~~ to 4~~, 2, 3 and 6 in the table below. Items 4 and 5 ~~and 6 ~~are delivered by~~ the operational businesses of~~ TfL.

Table 1 – Main programmes of capital expenditure ~~2023/24~~2024/25 to ~~2032/33~~2033/34

Capital Plan Ranking by Expenditure (largest to smallest)	
Developing Residential Properties (via Joint Ventures)~~Enhancing existing Commercial Property Estate~~	1
Enhancing existing Commercial Property Estate~~Developing Residential Properties (via Joint Ventures)~~	2
Developing Commercial Office Properties (via Joint Ventures)	3
~~Developing EV Charging Hubs (via Joint Ventures)~~ Digital Media	4
Telecommunications~~Digital Media~~	5
Developing EV Charging Hubs (via Joint Ventures) ~~Telecommunications~~	6

Places for London

4.4 The Places for London investment programme is described in more detail in its annual Investment Strategy as reported to the Land and Property Committee, a summary of which is included below:

Residential

4.5 One of Places for London's primary objectives is to deliver thousands of homes over the next ten years, with a target of 50 per cent affordable housing.

4.6 Places for London's~~s'~~ development land is often in areas well located for residential development, with good transport links. Housing development will be delivered through a mix of ‘Build for Sale’ and ‘Build for Rent’ or Purpose Built Student Accommodation (PBSA) schemes, partnering with established market leading developer in joint venture arrangements. Build for Sale schemes will deliver future profits, providing cashflow to reinvest, while Build for Rent or PBSA schemes will provide access to a long-term, low risk income stream.

4.7 Places for London’s~~’~~ largest and most valuable development site remains Earls Court. Places for London will continue to work with its majority partner Delancey (acting on behalf of its client fund and APG) to progress our investment in Earls Court with the submission of a new masterplan application in summer 2024 with consent and start on site envisaged in 2026. The Earls Court development will deliver around 4,000 homes.

Enhancing the existing Commercial Property Estate

~~4.5~~4.8 Places for London’s~~’~~ existing commercial property estate covers a range of asset classes; retail, arches, offices, car parks and infrastructure. In total this portfolio comprises of over four million square feet of real estate and supports over 2,000 commercial tenancies.

~~4.6~~4.9 Places for London will invest in new retail expansion on our current estate. In line with Places for London’s ~~revised customer experience strategy~~Business Plan and its key assets strategy, investment will be targeted at improving the existing retail portfolio, which will drive rental income increases.

~~4.7~~4.10 Our arches portfolio extends to ~~800~~850 arches and offers iconic, unique commercial spaces, home to restaurants, cafes, gyms and maker spaces and has the potential to do much more to enhance local communities. Investment into the Arches portfolio will provide and future-proof the right spaces for London’s small business entrepreneurs~~, where several~~. Several key arch estates have been identified for repurposing and redevelopment.

~~4.8~~4.11 The offices portfolio includes a number of secondary office buildings, largely located around transport hubs. In the short term, our offices investment strategy will focus investment on development and repurposing of existing offices building in core locations to support the ‘flight to quality’ among London officer occupiers. Where secondary offices assets held are not in a core location or support development, they will be reviewed for disposal.

~~4.9~~4.12 The car park portfolio covers ~~78~~79 car parks and over 10,000 bays, typically located near London Underground stations. Investment will focus on improving the management, maintenance and safety of our car parks. Where appropriate these assets will be repurposed for investment into alternative uses including residential development, EV charging and last mile logistics.

~~4.10~~4.13 The infrastructure portfolio includes: bus garages; utilities; antennae; surplus operational land; air rights and long leases. Investment in these assets is expected to be limited in the short-term, with a medium-term strategy to deliver value-add opportunities, but commercial and operational.

~~4.11~~4.14 Places for London also plans to invest to enhance the environment and sustainability credentials of its existing assets, for example improving the Energy Performance Certificate rates, which will sustain and improve asset attractiveness and long-term income potential.

~~**Residential**~~

~~4.12~~~~1.1~~ ~~One of Places' primary investment objectives is to deliver 20,000 homes over the next ten years, with a target of 50 per cent affordable housing.~~

~~4.13~~ ~~Places' development land is often in areas well located for residential development, with good transport links. Housing development will be delivered through a mix of 'Build for Sale' and 'Build for Rent' schemes, partnering with established market leading developer in joint venture arrangements. Build for Sale schemes will deliver future profits, providing cashflow to reinvest, while Build for Rent schemes will provide access to a long-term, low risk income stream.~~

~~4.14~~ ~~Places' largest and most valuable development site remains Earls Court. Places will continue to work with its majority partner Delancey (acting on behalf of its client fund and APG) to progress our investment in Earls Court with the submission of a new masterplan application in summer 2024 with consent and start on site envisaged in 2025. The Earls Court development will deliver around 4,000 homes.~~

Commercial Office Development

4.15 Places for London is investing to deliver ~~600,000 square feet of~~ new offices developments by utilising over-station-development locations at Bank~~,~~, and Paddington ~~and Southwark. These will be~~, with the potential to add further sites to this portfolio, delivered through a joint venture with Helical.

Electric Vehicle Charging Hubs

4.16 ~~A significant planned investment by Places in the short-term is the creation of an Electric Vehicle Charge Hub joint venture.~~Places for London entered into a new joint venture partnership with Fastned in 2024, to deliver multiple electric vehicle charging hubs across TfL's estate and beyond. This represents an important emerging sector, with the potential to utilise existing land holdings to support London's net zero transition ~~along~~whil~~e~~st also creating a long-term income opportunity.

TfL

Digital Media

4.17 TfL has invested significantly in the upgrade and expansion of its digital advertising assets across the rail estate. This has included the implementation of new formats across London Underground (LU) with the implementation of Digital Escalator Ribbons and large format landmark displays, as well as videowalls and digital screens integrated into the platform edge doors on the Elizabeth line. This investment is in line with wider market developments regarding the move to more digital advertising infrastructure.

4.18 TfL ~~is currently tendering~~has now awarded new contracts for its two largest advertising contracts (the Rail and Underground contract and the Bus Shelter contract), both of which ~~expire in March 2025. As part of these contracts, we expect~~will start in April 2025. Both contracts have been awarded to the current incumbents (Global for the Rail contract and JCDecaux for the Bus Shelter contract) and include significant capital investment in the digital advertising assets as part of a cyclical upgrade and refresh. ~~We will~~Global and JCDecaux have also ~~be looking~~been encouraged to identify opportunities for innovation, and rationalisation of the existing estate.

4.19 Returns across all media (digital and traditional posters) were significantly disrupted by the pandemic, with our rail estate hit extremely hard as initially we directed customers not to travel. Even though the last few years have been volatile, we have continued to rebuild and drive commercial media revenues, including the building of successful commercial partnerships which help to showcase our estate, and we ~~are~~ now ~~almost back at~~expect to exceed pre-pandemic income levels in 2025/26. We have continued to maintain our ability to attract brands to our advertising network and to deliver creative executions that have made national, and even global, headlines.

Telecommunications

4.20 In July 2022, we announced that customers using all four major mobile operators are set to have access to Boldyn Networks Ltd’s 4G and 5G-ready mobile network across LU and the Elizabeth line, including within tunnels.

4.21 We believe that this project will give customers on these networks access to uninterrupted coverage while on the Tube and within the stations. When completed, the network will be the most advanced of any city in the world.

5 SOURCES OF FUNDING

Places for London

5.1 Funding for property and development of existing assets within the Places for London portfolio will come from a mix of external funding and receipts from land sales, asset disposals and development profits. A large proportion of external funding will be from Places for London’~~as~~ committed £200m revolving credit facility. There is no funding requirement from TfL.

5.2 Land sales will in the main be generated from selling land into development joint ventures and using the receipt as part of our reinvestment into the joint venture.

5.3 Asset disposals include both unproductive assets from within the Places for London property portfolio as well as income-generating assets that are considered to have weak long-term income prospects. ~~These~~The identification of these assets ~~are in the~~is a continuous process ~~of being identified~~ and they are included in plans ~~although, as previously noted, the disposal programme has slowed through the pandemic, however it is expected to grow again as a core funding source for Places~~accordingly.

5.4 Due to the relatively illiquid nature of the portfolio of property assets, the timing of receipts is not certain. Due diligence via forecasting will be undertaken to ensure future timings of investment commitments on development sites can be met. If a land sale into a joint venture does not occur, the corresponding capital expenditure will also not occur, so there is a natural risk balance.

5.5 The use of joint ventures as a primary delivery route for significant real estate projects brings in skill sets and market specialisms and ~~limit~~limits risk.

TfL

5.6 TfL will use general sources of funding identified in the latest business plan.

6 RISK MANAGEMENT

Places for London

6.1 The level of risk associated with the non-financial investments described above will vary. This section seeks to address how this risk will be minimised to ensure good stewardship of public funds.

6.2 TfL will not enter into long-term project commitments until funding arrangements are clear, whether through external funding sources, land sales or disposals. Investment will be limited, dependent on funding capacity.

6.3 TfL will seek to minimise risk to assets and loss of capital value. Control will be retained over assets through ownership retention, step-in rights and other contractual protections up to completion and payment. Credit and reputational risks will be assessed and monitored. Long-term contractual commitments will be fully assessed and reviewed.

6.4 Places for London will manage real estate scheme risks through assessments of sustainability of income stream, planning risks, construction risks, stakeholder risks and political risks. In addition, two risks are considered in further detail:

(i) market / sales risk – development value across all joint ventures primarily focuses on the residential sector – Places for London will manage risk levels through prudent assessment of sales values and likelihoods; and through forward sales of affordable housing to Registered Providers who have a strong appetite to purchase stock; office developments will be assessed with regard to demand and future let-ability, with sale retained as an option; and

(ii) credit risk – our joint ventures are expected to raise debt funding independently. There is a risk on availability of such funding initially, on a site-by-site basis plus impacts of prolonged periods of debt and high interest payments if sales or letting demand is weak – Places for London will ensure funding requirements are conservatively assessed in each case and will not progress schemes unless funding sources confirmed.

6.5 Places for London will monitor and set appropriate levels of gearing across the real estate development portfolio to manage risk exposure. Assumptions of 50 per cent gearing within development phases (loan to cost) and 40 per cent within the income-generating investment phase (loan to value) have been set as a benchmark. Alternative funding options will be carefully assessed as needed. Structures will be managed to ensure debt in joint ventures is within overall Places for London borrowing limits. Interest cover ratios (rental income relative to interest to service debt) will be agreed in advance and tested to ensure they can be met prior to finalising any debt packages.

6.6 Measuring and managing forward commitments will be a key part of overall programme management, along with forecasting scheme outcomes regularly and testing for market conditions. Places for London will manage exposures by reducing equity share in joint ventures, thus lowering investment requirements, and will cancel or defer projects as needed, should there be indications of a property downturn.

6.7 We will also review liquidity and make an assessment as to whether a stake in an investment vehicle is likely to be more or less liquid than direct ownership of the properties.

6.8 TfL will have regular reviews of global innovation in terms of new sources of income around transport nodes.

6.9 To ensure that commercial investments made by TfL remain proportionate to financial capacity, TfL will monitor the debt and equity of subsidiary entity Places for London as set out in 6.5 above.

6.10 Places for London will continue to work closely with the Land and Property Committee, which gives strategic guidance and direction.

6.11 Governance structures for Places for London follow the Standing Orders for TfL, and the regular Investment Group chaired by the Chief Finance Officer oversees investment decisions. Governance will continue to be reviewed with input from the Independent Investment Programme Advisory Group and TfL Assurance, to ensure that governance structures are appropriate for the level of risk.

TfL

6.12 TfL will continue to use its existing risk management policies to manage risk.

7 KEY PERFORMANCE INDICATORS

Places for London

7.1 Places for London follows an Investment Strategy, approved by the Land and Property Committee, setting out the scope of investments and return hurdles. Subject to meeting security and liquidity requirements, yields and returns on capital ~~investment~~ will drive all investment decisions.

~~7.1~~7.2 Specific key performance indicators will be used by ~~TfL~~Places for London to assess and monitor investments. ~~These metrics were endorsed by the Land and Property Committee in March 2023 and~~Performance of key investments will be ~~reviewed at least annually.~~reported to the Land and Property Committee Quarterly.

~~(i) all projects will be expected to produce a positive net present value discounted at an appropriate Internal Rate of Return (IRR) hurdle rate;~~

~~(ii) target IRR in a range between seven per cent and 15 per cent. This metric will vary according to the project, taking into account the following considerations:~~

- ~~delivery requirements within the Mayor's Transport Strategy (e.g. step free access as part of a development scheme, delivery of affordable housing) could reduce the IRR on specific schemes; and~~

- ~~different market segments have different risk profiles and the IRR expectation will reflect this; and~~

~~(iii) TfL will measure return on capital employed, showing levels of profit compared to TfL capital invested, and targeted at 20 per cent; and~~

~~(iv) incremental yield on expenditure greater than 3.6 per cent, ensuring that we are allocating capital and generating a return on investment that is aligned with our strategic objective of delivering net income growth.~~

TfL

7.3 TfL will use industry benchmarks in our Bus shelter and Rail and Underground advertising contracts to incentivise our advertising partners to drive gross revenues which in turn will increase TfL revenues.

7.4 TfL will use performance indicators relating to ~~media and~~ telecommunications as set out during~~in~~ ~~Its~~its 2024 b~~B~~usiness p~~P~~lanning process.

8 SUMMARY TABLE

Places for London

8.1 A summary of key investment areas and rationale is set out below.

Investment Area	Overview	Rationale
Residential – For Sale Joint Ventures	Establish joint ventures with private sector companies to deliver capital receipts from land plus profits. This will include a mixture of tenures, locations and price points.	Supports homes target including affordable. Sites typically have best sales potential with good residential values and strong market interest. Revenue from private for-sale homes will provide capital to be reinvested in income-producing opportunities.
Residential – Build to Rent	Major investment on identified sites. We expect to become a leading operator and owner of BtR with a growing residential asset base. This will enable us to focus resource on delivering quality services to our customers where we are best placed to do so.	Will provide a long-term sustainable net income stream back to the business and asset value growth. Demand and supply dynamic favours rented product in London. Includes affordable homes.
Earls Court Development	The largest single development contributing to ~~Places for London ’s~~Places for London’s homes target, working with our joint venture partner. Creating a new district and supporting thousands of jobs.	Largest single contributor to homes target.
Retail Enhancement and Estate Improvement	Create new commercial assets and invest in existing assets through asset management initiatives, including exploiting opportunities of long leasehold interests. Investment plans include enhanced maintenance of existing portfolio.	Delivers rapid increase in net income, makes best use of existing assets, delivers enhanced customer experience and improves community.
Commercial Office Developments	Opportunity to create prime Central London commercial office space with leading environmental sustainability credentials. Options exist to rationalise TfL’s existing office facilities and estate.	Will provide a long-term income stream from assets. Station environment enhancement. Create options for new, high quality TfL head offices in attractive locations.

TfL

8.2 A summary of key investment areas and rationale is set out below.

Investment Area	**Overview**	**Rationale**
Digital Media	~~Replacement of traditional lighting with LED lighting, and future upgrade~~Upgrade and refresh of digital advertising assets in Rail and Underground stations and bus shelters.	To protect and grow revenues with consumer expectation of digital product, in conjunction with traditional media.
Telecommunications	Provide 4G and 5G mobile connectivity to customers within ticket halls, corridors, underground tunnels and on platforms across the Tube in a phased approach.	To give customers a better and connected travel experience throughout the network.