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Covenant of Mayors Investment Forum

Land value capture and Crossrail 1 - London (UK)

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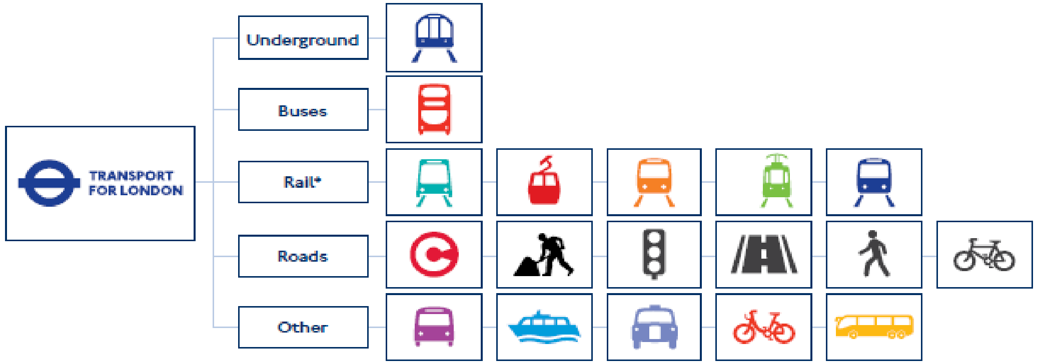
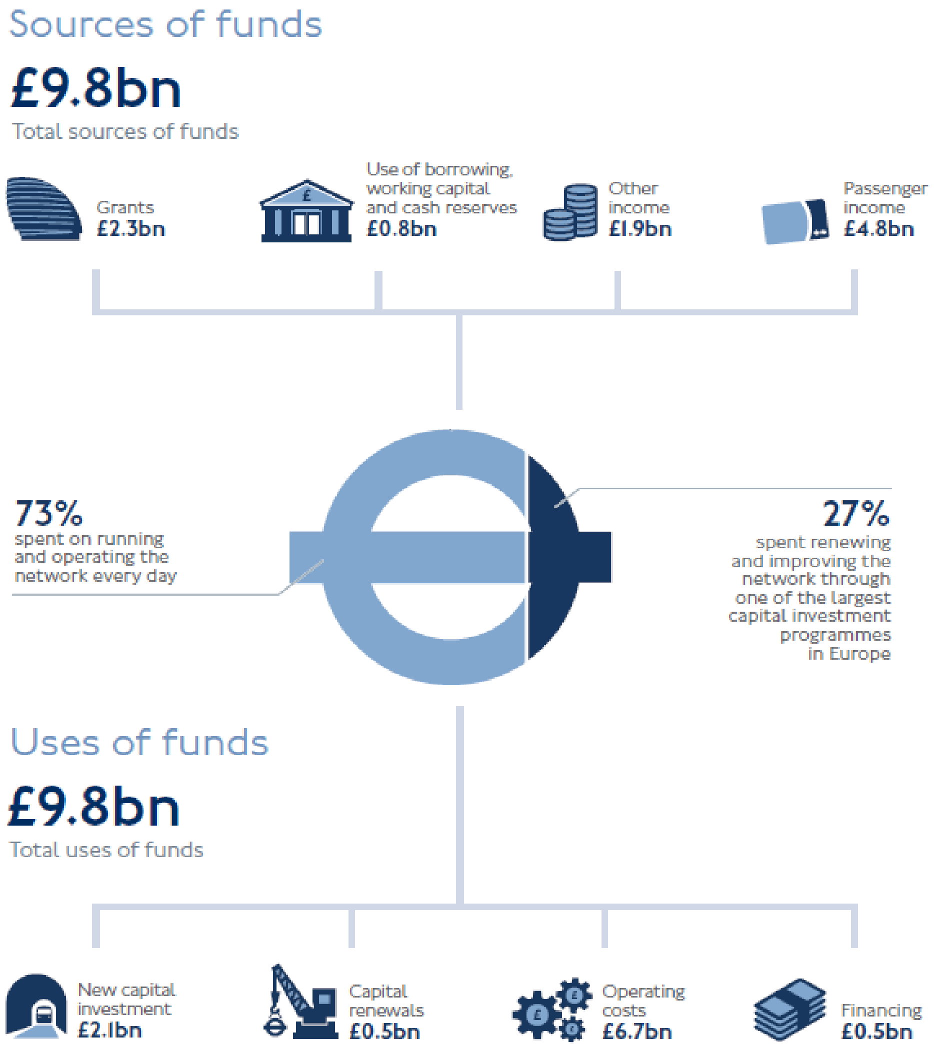
Transport for London

EVERY JOURNEY MATTERS

TfL at a glance

- Integrated transport authority responsible for most transport in London
  - Underground, DLR, London Overground, Trams, Buses, River Services, Dial-a-Ride, Victoria Coach Station, Cycle Hire and the Emirates Air Line
  - Regulate taxis and private hire vehicles; implement congestion charging scheme and ULEZ; manage 580km main roads; encourage cycling; operate all of the Capital's 6,300 traffic signals
- Not responsible for most heavy rail, airports, and local roads and parking



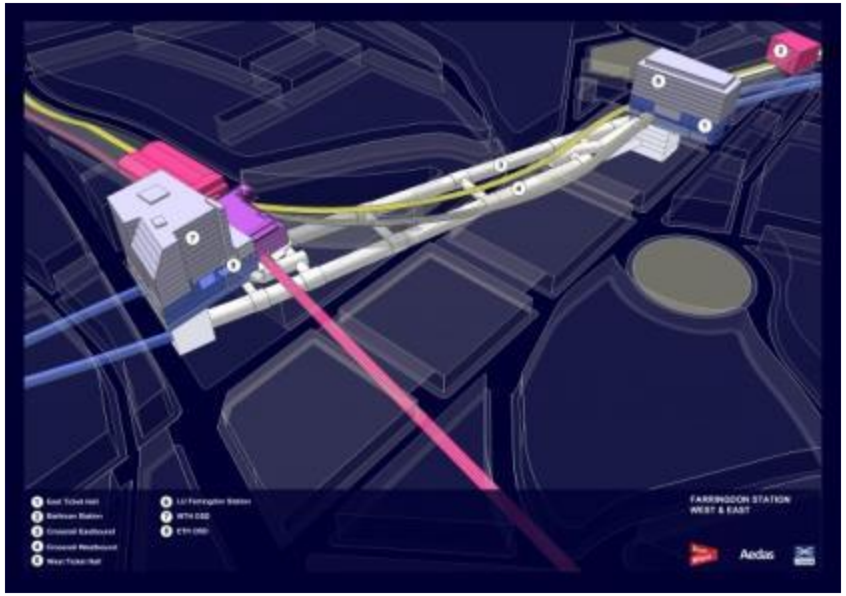


Transport for London Budget 2018/19

Crossrail 1

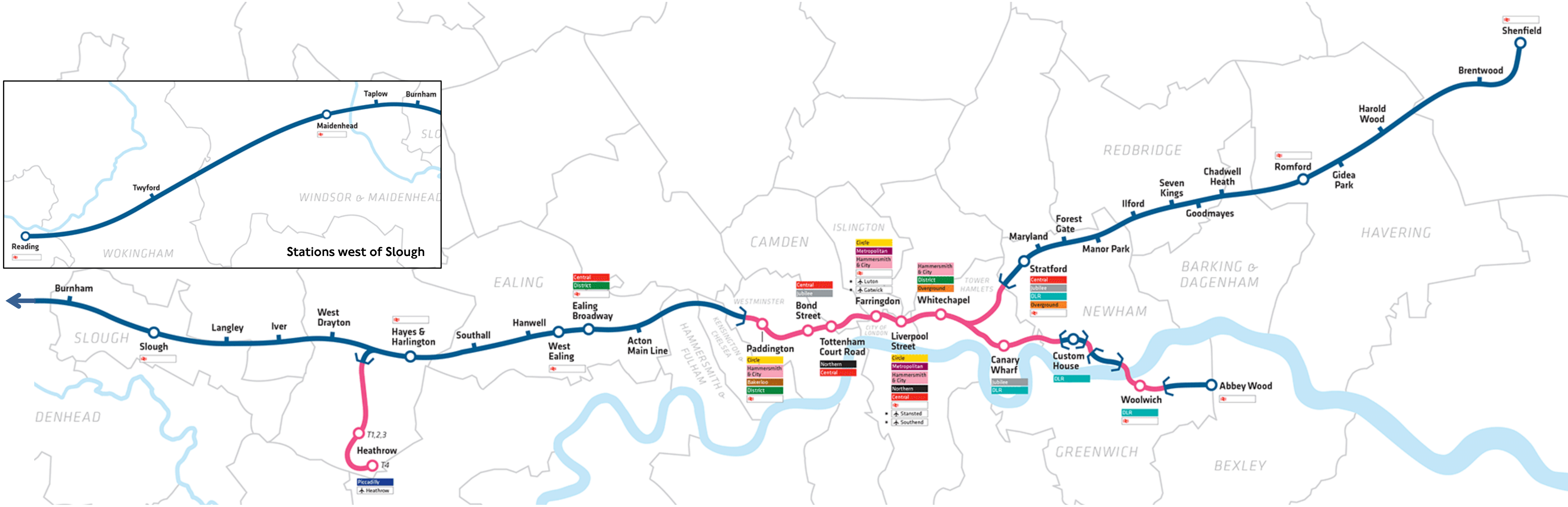
Crossrail – Key Facts

- First cross-city suburban rail link in London: will increase total rail capacity by 10%
- 8 new stations, plus 28 others upgraded
- 24 trains per hour at peak times in each direction
- Due to open in 2021, issues with stations and signalling.



Crossrail – Route

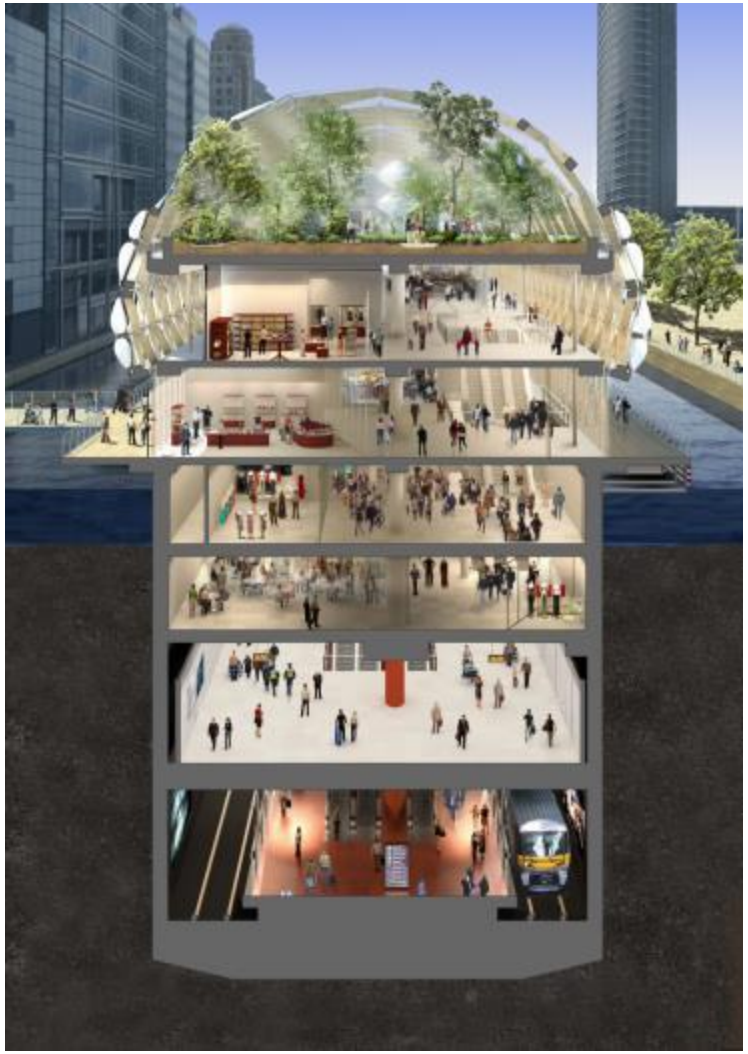
- Will link shopping districts (West End), financial districts (City of London, Canary Wharf) and Heathrow Airport



Crossrail – Funding summary

	£ billion
• Central Government	4.7
• Business	
• Business rates supplement	4.1
• Developer contributions	1.1
• Fare payer	4.6
Total	14.5

December 2018 - Additional £1.3 billion of GLA borrowing from BRS and developer contributions, plus £0.1 billion of GLA cash. £0.75 billion contingency loan available to TfL. TfL to absorb revenue losses.



Crossrail – Funding - notes

- Business Rates Supplement
    - 2p in the £ incremental increase in Business Rates for the construction period
- Developer and specific contributions – £1 .1 billion
    - Community Infrastructure Levy
      £0.3 billion
    - Developer contributions
      £0.3 billion
    - City of London / BAA
      £0.5 billion
- Plus over station development, say £0.5 billion treated as reduced costs

Business Rates Supplement (BRS)

- UK business property tax is business rates, paid by occupier based on assessed rental value – at 40% - 50%. Revaluations about every five years. A national tax, collected locally, though since 2010 with some devolution
- Supplement introduced in April 2010 (BRS Act 2009)
- Applies to existing commercial developments with rateable value (annual rental charge) of originally more than £55,000, now £70,000
- Charged at 2 pence per £1 of rateable value (2%)
- GLA is the collecting authority, not TfL. Income now about £280 million a year
- All original £4.1bn received
- Contributes to Crossrail in three ways:
  - Repays GLA borrowing for the project (£3.5bn)
  - Made direct contributions to the project (£0.6bn)
  - Supports additional GLA borrowing for additional spending (with Mayoral Community Infrastructure Levy)

Crossrail – Financing summary

Fare payer	£ billion
• TfL Borrowing	1.9
• Network Rail works	2.3
• Canary Wharf station	0.2
• Other	0.2
Total	4.6

TfL Borrowing: paid back through interest and principal payments

Network Rail: paid back over 30 years through access charges

Financed 'on balance sheet'

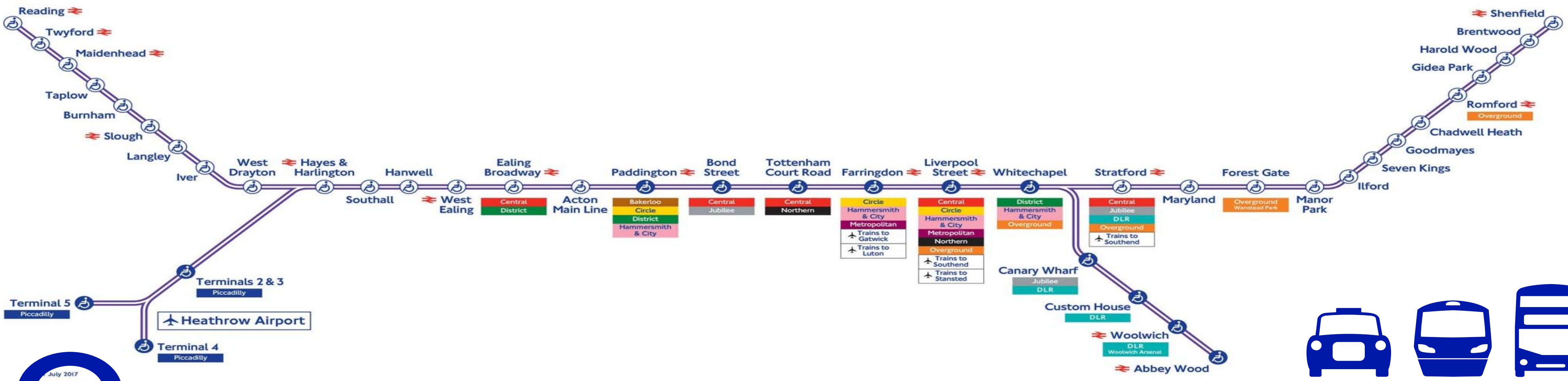
Sale of surplus land less residual costs

In addition: £0.6bn of the Business Rates Supplement has been raised during the construction period – the Greater London Authority has financed £3.5bn of capital works against the remaining BRS income due after the end of construction. Monies now paid to project.

Crossrail: timetable

A revised opening timetable was announced in April 2019

- **Present –** TfL rail services between Shenfield & Liverpool Street and Paddington and Heathrow terminal 4
- **Dec 2019 –** Services between Paddington and Reading commence
- **Mid 2021 –** Central section between Paddington and Abbey Wood opens
- **TBC -** Full services from Reading and Heathrow through to Abbey Wood and Shenfield begin

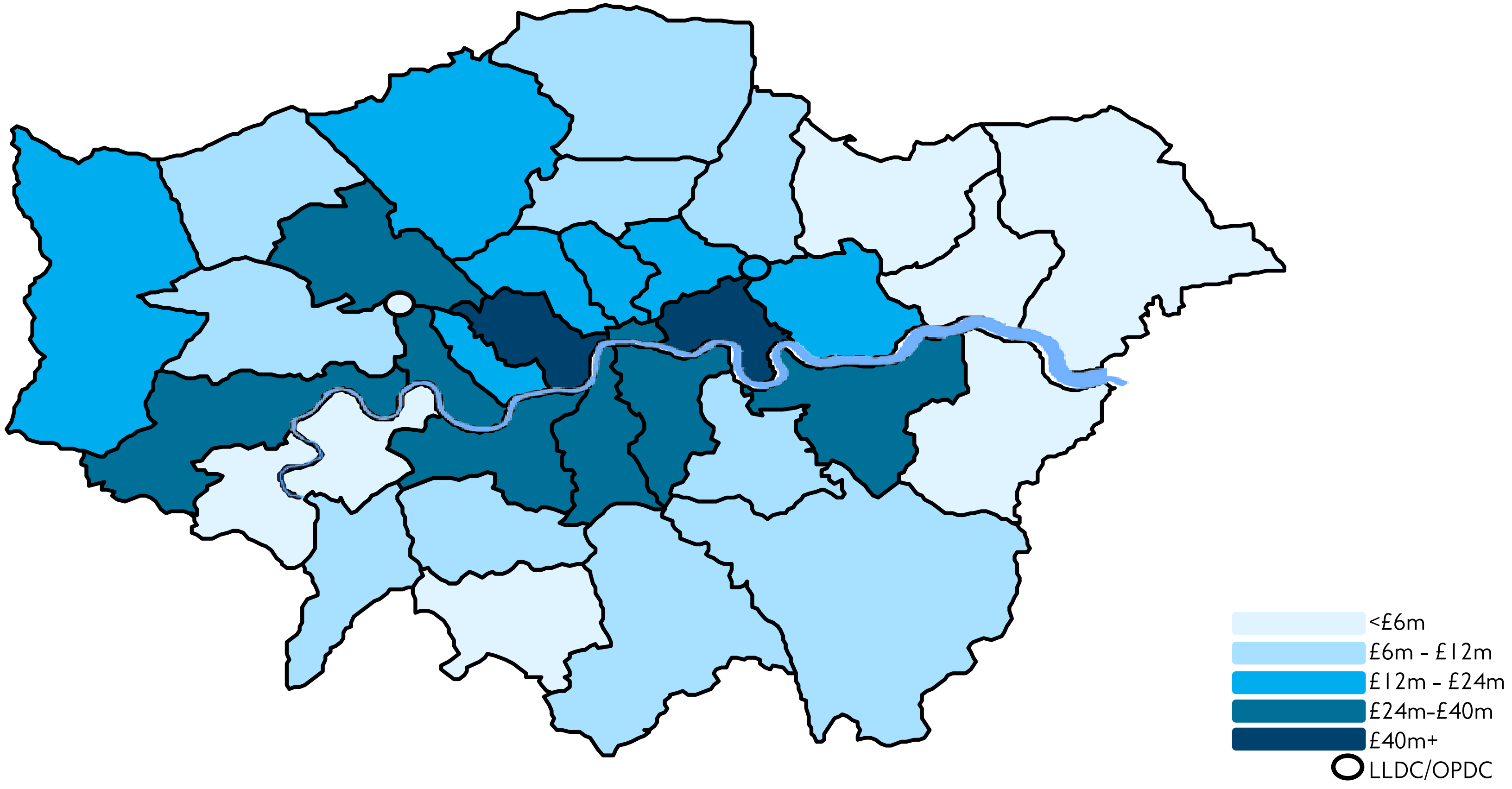


Crossrail: funding

New funding was agreed with UK Government in December 2018

- Summer 2018 - £600 million
- December 2018 - £2.15 billion
  - DfT providing Greater London Authority (GLA) with a loan of **£1.3bn** which the GLA will repay through London's Business Rate Supplement (BRS) and Mayoral Community Infrastructure Levy (MCIL)
  - GLA will provide a **£100m** cash contribution (from BRS)
  - DfT will loan TfL up to **£750m** in the event that further finance is required for the project
- Looking for a further **£600m** of funding and finance

MCIL 1: Total contributions 2012/13 to 2018/19

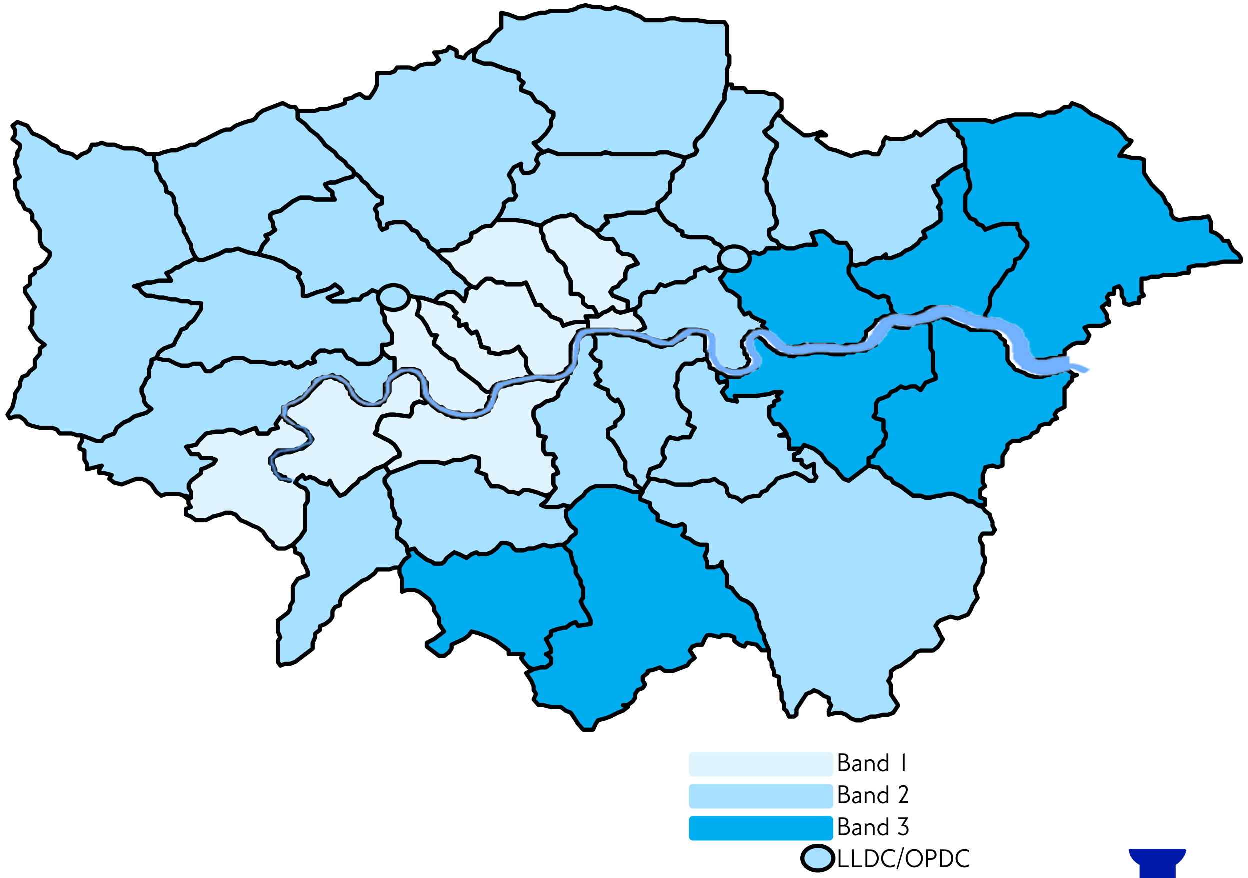


*Figures are **draft**

MCIL 2: Rates

MCIL2 Charging band	Development Type	MCIL2 rate (£ per sq. m)
Band 1	All	80
Band 2	All	60
Band 3	All	25
Central London/ Isle of Dogs	Office	185
	Retail	165
	Hotel	140
All	Health/education	nil

MCIL 2 Borough banding



Land value capture

What kind of city approaches are there?

No planning

Cities grow in unplanned way with informal settlements and piecemeal provision of infrastructure

No uplift

City growth is planned and controlled but the property market does not respond to new transport

Uplift but no capture

City growth is planned and property prices increase due to new transport, but all the value growth accrues to the landowner

Uplift captured - different beneficiary

Value growth is catalysed by new transport and some can be captured, but it's captured by others or used for non-transport purposes

Uplift capture for transport

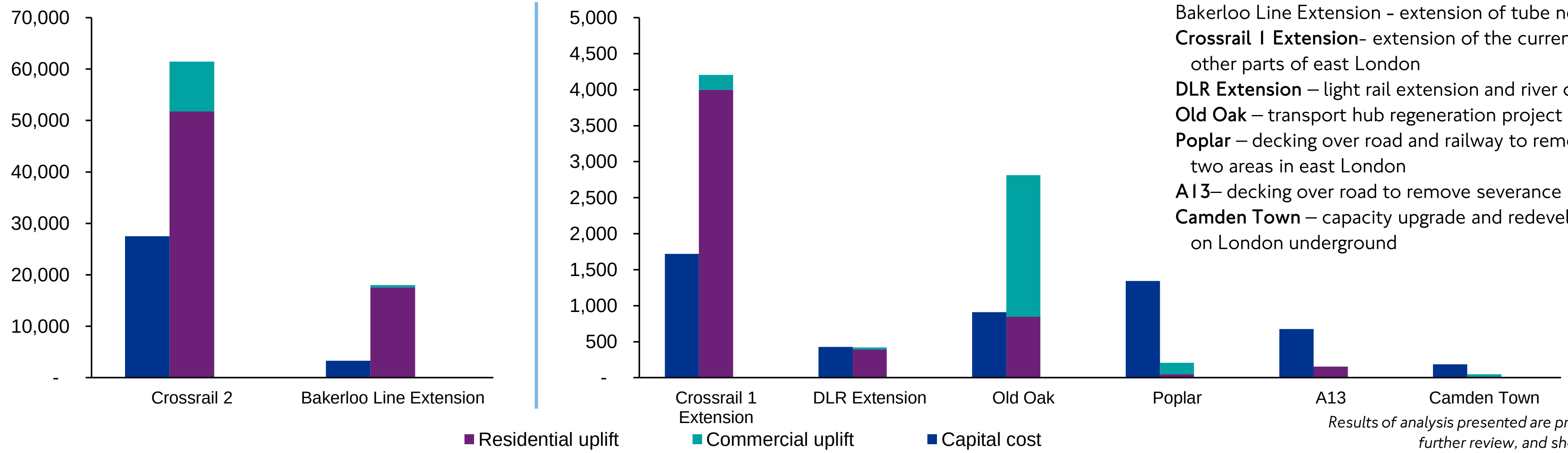
Value growth is catalysed by new transport and some is captured and used to help fund new transport

Significant uplift potential from potential future TfL projects

Approximately £87 billion of value uplift on sample of projects

- KPMG/Savills estimate total value uplift over 30 year period from FY19 to FY48 of £87.3 billion (PV in FY17 prices) on a sample of potential future TfL projects (compared to total estimated capital cost of £36 billion (NPC, FY17 price))
    - £74.8 billion from residential properties, £12.5 billion from commercial; £63.3 billion from existing stock, £24.0 billion from new stock

Comparing total uplift (FY2019 to FY2048) with capital cost (£m, PV in FY2017 prices)



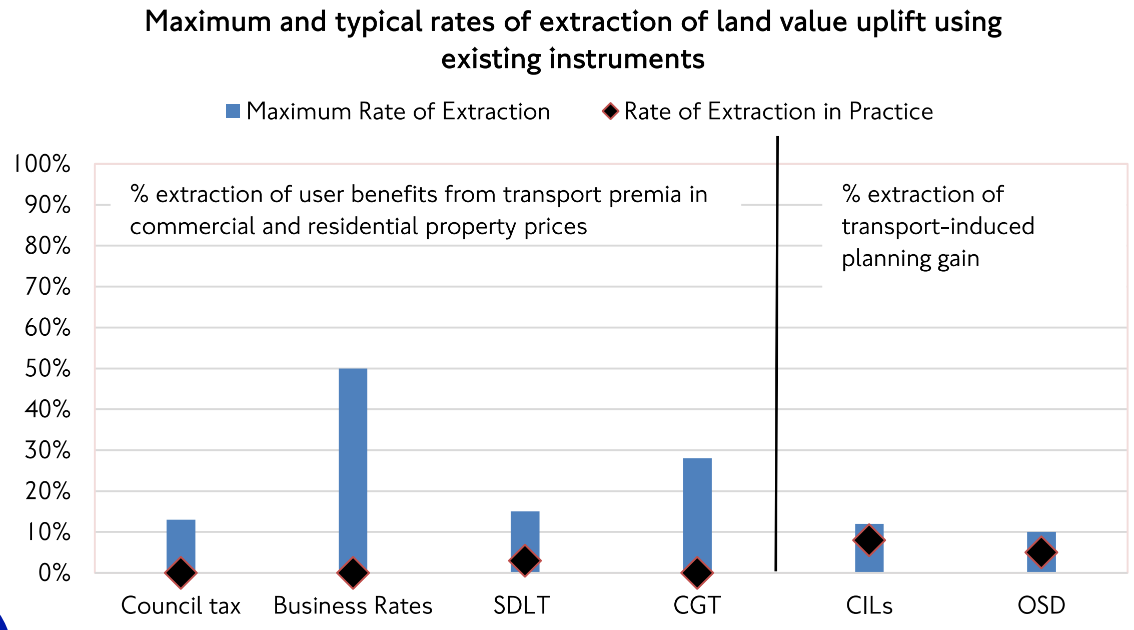
Crossrail 2 – major new north-south tunnel through central London
Bakerloo Line Extension - extension of tube network in south London
Crossrail 1 Extension- extension of the current Crossrail 1 project to other parts of east London
DLR Extension – light rail extension and river crossing in east London
Old Oak – transport hub regeneration project in west London
Poplar – decking over road and railway to remove severance between two areas in east London
A13– decking over road to remove severance in east London
Camden Town – capacity upgrade and redevelopment of major station on London underground

Results of analysis presented are preliminary and subject to further review, and should not be relied upon.

Most of the value created flows untaxed to landowners

Current mechanisms don't capture land value uplift effectively

- There are few taxes on existing stock respond well to increases in land or property values, and limitations to capturing value from new development
- Of the estimated £61.5 billion of uplift estimated to be generated by Crossrail 2, only ~2% of this can be captured through over station development (OSD) and Mayoral CIL



General description of mechanisms

- Council tax – tax on residential properties, collected by local authorities
- Business rate – tax on non-residential properties, based on rateable values (subject to revaluation every ~5 years) and subject to equalisation
- Stamp Duty Land Tax (SDLT) – tax on property transactions, based on transaction value
- Community Infrastructure Levy (CIL) – tax on new development, on a square metre basis
- Over station development (OSD) – development by transport authorities (eg TfL) on land owned or acquired for transport development

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Contact

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