REPORT

Network Rail Strategic CP7 Business Plan - Property Income Forecast Review

Prepared for The Office of Rail and Road

27 May 2022

savills

INTRODUCTION

A. Savills were instructed by the Office of Rail and Road (‘**ORR**’) to examine the robustness of the Network Rail (‘**NR**’) property income forecast for Control Period (‘**CP**’) 7 from April 2024 to March 2029.

B. NR have provided a CP7 income forecast, with some of the information being provided by the devolved regions and some from the central property group.

C. The equivalent study for CP6 was carried out much later in the preceding CP, and against a more stable economic backdrop with data and trends available to model forwards.[1]

D. Since the beginning of CP6, there have been substantial internal and external changes and shocks which mean that comparison with previous CP periods is challenging.

E. Savills has structured this report in sections as follows:

- Recommendations
- The Brief and how Savills have executed the work
- Principal Findings
- Contents
- A Scotland-specific Report
- A Detailed Appendix of Figures and Charts from which the Principal Findings were drawn
- ESG Review – although not explicitly part of the brief, this is likely to play an ever bigger part in CAPEX and the ability to obtain rental income during CP7 and immediately afterwards.

F. The CP7 Income forecast is set out in Table 1 below:

Total Income Forecast	**CP7**				
(£000’s)	2024/25	2025/26	2026/27	2027/28	2028/29
Managed Station Portfolio Income					
Managed Station Retail Income	[Table Redacted]				
Managed Station Other Property Income					
Managed Station Advertising Income					
Managed Station Concessions					
Property Services					
Property Rental Income					
Roadside Advertising					
Other Income					
Telecoms					
Operating Cost					
Development & Sales					
Total Income	**254,133**	**258,158**	**262,895**	**268,841**	**275,701**

Table 1 – CP7 Income Forecast

SOURCE: NR CP7 Forecast Data – Round 4.5

[Redacted]

[1] CP6 Report: https://www.orr.gov.uk/sites/default/files/om/network-rail-strategic-business-plan-property-income-forecast-review.pdf

RECOMMENDATIONS

1. Since the beginning of CP6, there has been a devolution of NR into 5 regions; there has been the implementation of Brexit, leading to an economic shock, followed in quick succession by the Covid-19 pandemic.
2. Whilst the NR figures are not, in the round, out of line with expectations, there is little or no indication that the Regions have formed their own localised view of assumptions and markets that feed into either their income projections or their specific estate management activities.

> **Recommendation 1**
> **The devolved regions should be more obviously pro-active in the management of their estates, and there should be a regular flow of data from region to group (in a common format but with localised inputs) which, for an exercise such as this, would make it easier to interrogate and interpret the information and test for variances and robustness.**

3. The information provided was broadly robust – testing assumptions in the round and carrying out weighted analyses confirmed that the NR CP7 forecast was likely to be robust if neither aspirational nor unduly defensive.
4. The absence of granular information was disappointing, as was the lack of definition and distinction between the regions and the central property group. This meant that the use of blanket rates was the apparent default for all regions. Analysis shows that no single region was in line with the Savills forecasts but, taken as a whole, the NR retail growth forecast was in line with expectations
5. As the regions develop their own approaches to property matters, the underlying assumptions need to evolve too. This will be an important part of devolution. At the same time, there is expertise in the central property group which may not be economically or effectively replicated in the regions (such as, perhaps, development and sales support).

> **Recommendation 2**
> **NR should re-evaluate the respective roles of regional property teams and the central team – in terms of data gathering, benchmarking, unlocking opportunities, etc., to ensure the best use is made of scarce human resources, that continuity is maintained as staff change, and that central knowledge is combined efficiently and effectively with regional management and the regional operations.**

6. In February 2019 – immediately before the start of CP6 – NR sold its railway arches in England & Wales which, whilst bringing in a capital receipt, reduced the rental income from non-station properties. This has not yet been repeated in Scotland and Savills have not accounted for the revenue and capital implications of any disposal of the Scottish arches before or during CP7.
7. The combination of the sale of the arches at the end of CP5 and the turbulence in the markets in CP6 means that for NR and for Savills, the forecasting of future revenues based on previous periods is somewhat challenging.
8. Savills have considered other sources of comparable data to find reliable indicators from within NR and the transportation sector and within the wider economy against which to benchmark the CP7 forecast.

> **Recommendation 3**
> **Consider the impact of any sale of the Scottish arches; would this deliver sufficient capital to make up for the lower income in future CPs? By implication, this should be measured using an appropriate hurdle rates of return - a lower hurdle in a fiscally-constrained environment. *See Recommendation 5.***

9. The most surprising element of the data provided was the relative lack of development pipeline in CP7 when compared to previous CPs, and, indeed, a substantial reduction against CP6 development & sales income.

(£m)	CP5-1	CP5-2	CP5-3	CP5-4	CP5-5	CP6-1	CP6-2	CP6-3	CP6-4	CP6-5	CP7-1	CP7-2	CP7-3	CP7-4	CP7-5
Net Sales	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Table 2: Development Sales Receipts (Actual and Forecast)

SOURCE: NETWORK RAIL
[Redacted]

10. Savills were told that all the 'low hanging fruit' had already been picked, and that it is now much more difficult to unlock development opportunities across the NR estate.
11. This may be the case but we would have expected to see more initiatives to get to the more difficult opportunities – whether by expressing a budget forecast for more cost to identify and deliver development sites or to consider other mechanisms or partnerships to release housing land (for example with the Housing Infrastructure Fund or Homes England).
    a. All public bodies (including those operating separately but benefiting from government funding) are required to do more with their land;
    b. Most public land is included in the One Public Estate ('**OPE**') initiative to try to encourage government landowners to work together.
    c. NR has worked closely with OPE in the past – including in London Borough of Brent and in Plymouth.
    d. It may be worthwhile for NR to consider placing some of its property assets into the OPE initiative to help focus minds on collaborative regeneration of adjoining public sector sites.
12. The total CP7 proceeds before risk-adjustment would be £175.7m and it may turn out that many of the unresolved risks can be overcome, resulting in a significant improvement to forecast over the CP.

> **Recommendation 4**
> **Focus hard on managing the risks to ensure sales returns on existing projects are maximised. Consider new partnerships and collaborations – including with Government agencies and OPE – to unlock difficult sites, to deliver gap funding where sizeable housing schemes are otherwise not viable, and to work with local authorities to help deliver community projects where they require access across NR operational sites.**

13. Broadly, whatever has not already been identified might not be deliverable by the end of CP7 unless progress has already been made.
14. There needs to be a steady stream of sites, and there may need to be a clearer RASIC (Responsible, Accountable, Supporting, Informed, Controlling) structure between the central property team and the regions.
15. In other similar organisations, there has been a historic tendency for operations to resist sales of land (or alternative/parallel uses) and for the default position to be to not release land for development. A new approach may grade operational sites in such a way that some sites do not have a 'default no' status.

> **Recommendation 5**
> **Consider new ways of working between Operations and Property to enable value to be unlocked from sites which may not currently contribute much to the operations of the railway, whether socially (for the benefit of passengers and society at large), economically (financially directly or indirectly), or environmentally (delivering on NR's and wider environmental objectives).**

16. The use of hurdle rates seems to be somewhat arbitrary – not based on the ORR hurdle rate for NR set in the PR18 round for CP6. There is no indication that these rates have changed much in recent years, nor that they have any particular variation according to different types of projects or scenarios.

	Real CPI	Real RPI (for comparison)
Vanilla WACC	3.8%	2.8%
Pre-tax WACC	4.15%	3.15%

Table 3 – Final Determination WACC (Weighted Average Cost of Capital) for CP6

SOURCE: ORR PR18 Final Determination Financial Framework; Table 5.2

The WACC figures illustrate what a blended return on investments should be to meet overall target returns for NR and are not likely to be applied universally across all CAPEX for all of NR's activities.

	Income Generating Renewals Yield
Managed Station Portfolio Income	
Managed Station Retail Income	[Redacted]
Managed Station Other Property Income	[Redacted]
Managed Station Advertising Income	[Redacted]
Managed Station Concessions	[Redacted]
Property Services	[Redacted]
Property Rental Income	[Redacted]
Roadside Advertising	[Redacted]
Other Income	[Redacted]
Telecoms	[Redacted]
Operating Cost	[Redacted]
Development & Sales	[Redacted]

Table 4 – Revenue Generating Renewals Average Yield

SOURCE: NETWORK RAIL as part of the information provided

17. The yield rate adopted by NR for Revenue-Generating Renewals was at 9% - an assumed return operating in forecasting terms as an average annual rate of return for CAPEX employed.
18. Where developments and sales are to be considered, a high hurdle rate can operate as a barrier to sale (or to incurring pre-sale costs).
19. Where there is a fiscally-constrained model – with a restriction on capital for investment – a high hurdle rate should be used to ensure that operational CAPEX that will deliver the greatest operational cashflow, capital release or cost reduction – or solve other issues – in NR's overall operations is prioritised over property expenditure.
20. A typical manufacturer may well operate with one hurdle rate for 'core' activities – say, manufacturing and sales activities – and another rate for 'non-core' activities such as property. The rates for non-core activities are usually designed to ration cash or deflect the majority of cash towards investments in core activities.
21. There did not appear to be any distinction for strategic reasons between the rates used by NR at group level, which was a one-size-fits-all rate. There was no explicit separation of options and approach between a Business-As-Usual ('**BAU**') and a Fiscally-Constrained scenario.

Recommendation 6
NR should have a separate set of hurdle rates for the respective BAU and Fiscally-Constrained models. These models should be further cast with differing types of investments attracting different rates according to their expected outcome as a contribution to NR's overall operations, and whether they are core or non-core investments.

22. Other sources of regular income may derive from enabling (and perhaps participating in) community projects such as bridging over or under the railway to connect settlements.[Redacted]

Recommendation 7
NR could consider a tariff-based system where there would be a set fee to put a connection across each railway line in addition to the physical cost of construction, and where there would be an agreed operations and maintenance protocol and set or formulaic approach to the engineering specification and construction methodology. This might free up tens of millions of pounds each year for NR whilst helping to deliver connected communities.

23. It is important to provide a realistic backdrop to the CAPEX and investment strategy of NR in CP7 alongside the requirement of NR to receive substantial support from the Treasury, at least until the business recovers from the COVID-19 hiatus.
24. One particular area of concern would be the expectation that the Government would insist on sustainable development and investment strategies in return for financial support.
25. A key point in CP7 will be the implementation of the Minimum Energy Efficiency Standards ('**MEES**') Regulations and the tightening of legal restrictions relating to the energy performance of buildings – in particular restrictions on letting commercial space below an Energy Performance Certificate rating ('**EPC**') of E (currently), of C (2027) and B (2030). The let estate should be assessed according to its current EPC ratings, the expiry of leases and the work that might need to be done simply to be allowed to let it to third parties.
26. EPCs are not the only focus. The overall Environmental, Social and Governance ('**ESG**') landscape is changing fast. NR may need to make investments in the circular economy, emissions of CO_2 and other Greenhouse gases ('**GHG**'), measures to increase diversity, equity and inclusiveness, and perhaps a clear focus on renewable energy generation and use.
27. In its CP7 forecast, NR makes no explicit provision for upgrading its properties to comply with regulations, and this may come without an incremental return over and above current income forecasts.

Recommendation 8
NR should explicitly identify investments it expects to (have to) make in ESG-related projects which do not necessarily generate a cash return on investment.

28. Aside from the capital receipts and associated costs, the income profile for CP7 shows a substantial reliance on revenues generated from the Managed Stations portfolio.
29. Network Rail's Managed Station (MS) portfolio currently comprises 19 major stations across the UK rail network. These stations are: **Birmingham New Street** , **Bristol Temple Meads**, **Cannon Street (London)**, **Charing Cross (London)**, **Clapham Junction (London)**, **Edinburgh Waverley**, **Euston (London)**, **Glasgow Central**, **Guildford**, **Kings Cross (London)**, **Leeds City**, **Liverpool Lime Street**, **Liverpool Street (London)**, **London Bridge (London)**, **Manchester Piccadilly**, **Paddington (London)**, **Reading**, **Victoria (London)**, and **Waterloo (London)**.
30. The font colours above highlight the different regions: **Eastern**, **North West & Central**, **Scotland,** **Southern**, and **Wales & West**.
31. As a result of the high proportion of CP7 revenues coming from Managed Stations, Savills identified that it was important to investigate the relationship between footfall and retail sales. Savills also considered whether COVID-19 made a difference to this relationship – which stations over or under-performed against statistical expectations.
32. The stations that over-performed against expectations typically provided a wider retail offering for both the travelling public and the local communities (for example, the Sainsbury's Local supermarket at Euston Station, sitting outside the station concourse). Stations which performed less well either had relatively little retail (such as Guildford and Clapham Junction) or significant portions of the retail was beyond the ticket gates (such as at London Bridge).
33. At a station such as Birmingham New Street, the NR retail sales may be substantially depressed by the presence above the station of a shopping centre where passengers may get whatever they need for their journeys before even setting foot into the NR Managed Station.
34. The overperformance of stations such as Kings Cross, Euston and Paddington could also be explained by the proportion of leisure passengers and journeys beginning there, relative to other stations (such as Cannon Street).

35. It is clear that a better understanding of the needs of the local area and the needs of the travelling public would benefit NR with the scope to drive additional revenues from the retail estate which is expected to make up 60% of the NR income by the end of CP7.

Recommendation 9
Carry out a detailed analysis of the retail footprint and the potential to enhance other parts of the stations in support of the retail income. This may identify opportunities to partner with a retail investor/developer and/or to contract out to a retail property manager for some or all of the stations, but with careful controls to ensure the passenger's experience is enhanced through active management.

36. The forecasting process is made difficult by the extraneous events and issues of our time (BREXIT, followed by COVID-19, followed by the Russian invasion of Ukraine).
37. Internal changes, in the recent past and projected forwards, also make comparison difficult between, say, CP5 (non-COVID) actual results and CP7 forecasts (such as the sale of the arches portfolio, the incorporation of Guildford and Clapham Junction into the Managed Station Portfolio, and the devolution of the property group and NR into five regions (Eastern, North West & Central, Scotland, Southern, and Wales & West).
38. Any impact from the planned creation of Great Britain Railways ('**GBR**'), the confirmation of intent for which was set out in the Queen's Speech in May 2022, has not been taken into account by NR or by Savills.

Recommendation 10
ORR may wish to seek parallel financial modelling – forecasts should be expressed both with target scenarios switched on and off for easier comparison. Such an approach would have resulted in CP5 income revenue being expressed both including and excluding the rents from railway arches, which would have illustrated consistently, allowing comparison of the data between and across CPs.

THE BRIEF AND SAVILLS APPROACH

The Brief

Savills were asked to review and assess the forecast information provided by Network Rail. The review was to cover the following requirements:

Services	Orientation: Heading in Savills Report	Pages
On a top-down basis, assess the consistency of the forecasts with exogenous market factors e.g. expected growth in the overall market, GDP, expected growth in commercial property rents, change in property prices; availability of suitable sales sites; and rail-specific factors e.g. changes in patterns of service and resulting income.	References throughout the report. Recommendations, Principal Findings, Appendices (particularly Economic Background)	 P3 P9 P78

Services	Orientation: Heading in Savills Report	Pages
Assess the suitability of the modelling approach used by Network Rail for forecasting property income in CP7 given the uncertainty created by Covid-19.	References throughout the report. Recommendations, Principal Findings, Appendices (particularly Economic Background) Network Rail CP7 Forecasts	 P3 P9 P78 P82
Assess the changes to the contractual model Network Rail has adopted with its tenants due to Covid-19, and the appropriateness of continuing with this approach or returning to its prior model.	Network Rail CP7 Forecasts	P82
Identify and assess the appropriateness of the method by which Network Rail decides between retaining property for long-term rental income and monetising the asset through releasing property for sale e.g. does the plan maximise the whole life income of assets in the portfolio. This should include consideration of the cost implications of the conversion of retail space to generate revenue. In addition, assess the extent to which this strategy is applied in the CP7 forecasting relation to the current portfolio.	Development & Sales	P16 P74
Explain how Network Rail's property strategy, including how it manages commercial risks and uncertainties, compares to the rest of the property market, in particular compared to standard industry benchmarks e.g., ground rent to turnover ratio in a station retail offering. This should include reference to the structure of contracts. A further example would be to compare Network Rail retail to various benchmarks of retail at UK airports and service stations. The explanation should consider the extent to which retailers' enjoyment of a 'captive market' in some Network Rail properties is reflected in rent levels. Assess NR's current and proposed investment appraisal hurdle rates in comparison to similar investors in comparable assets.	Managed Station Retail income	P10 P44
Assess the rationale for transactions where assets are provided in lieu of cash.	Development & Sales	P16 P74
Assess the extent to which Network Rail has worked in collaboration with the train operating companies (TOCs) to maximise whole life income from property.	No information provided	
Take due account, where appropriate, of the relevant professional and accounting standards, including, where applicable, the guidelines contained in the RICS red book.	Implicit throughout the Report	

Table 5 – Summary of Services comprising the Savills work and this report

SOURCE: ORR Instruction to Savills

The purpose of this table is to assist in finding the analysis and comment relating to each specific aspect of the instruction.

PRINCIPAL FINDINGS

1. The quality of information provided was somewhat patchy and information was very slow to flow through to Savills.
2. The forecasting was at an early stage of preparation, a full two years before the beginning of CP7, and had been assembled using previous group-wide templates and methodologies, often without any specific regional flavour.
3. There were few people in the NR Property organisation (centrally or regionally) who had first-hand experience of the forecasting process and there is a risk as the Voluntary Separation Scheme ('**VSS**') is rolled out that corporate memory is lost and monitoring and management processes are even more difficult to execute.
4. Growth rates were universally applied – despite regional differences – mostly explained away by reference to the notion that all regions (excluding Scotland) had both regional stations and at least one London hub.
5. Much of the data related more to the Managed Stations than the remainder of the portfolio, but the revenue from Managed Stations accounted for more than 82% of the net CP7 property income in any one year.
6. NR manages its property portfolio on a bespoke MRI Horizon database which is capable of generating reports in multiple formats for many different purposes. A data extract would have been reasonably easy to provide and would be helpful in analysing the granular data behind the big numbers.

Principal Finding 1
The NR forecast is not very detailed and allows only a higher level review of data against a generic market background. This does not provide NR management with a particularly useful tool for planning, nor does it give ORR a clear impression of both the state of the portfolio and the art of the possible.

7. The amount of income anticipated to be received from development and sales is expected to be substantially lower in CP7 than in the two preceding control periods.
8. [Redacted]
9. The majority of Managed Station Income is derived from Retail Rents and Advertising Charges – all related to footfall.
10. Predicting footfall with effect from the beginning of CP7 is very difficult because there is no absolute clarity about the extent to which passenger numbers will have recovered by 1st April 2024 after the COVID-19 hiatus.
11. NR working estimates are that passenger numbers will be at 85% of pre-COVID levels by the beginning of CP7, and that the passenger numbers will grow thereafter in increments of 1% through CP7:

YEAR	2024/25	2025/25	2026/27	2027/28	2028/29
Passenger Numbers	85%	86%	87%	88%	89%

Table 6 – NR Forecast for Passenger Numbers Expressed as a Percentage of Pre-COVID Levels

SOURCE: NETWORK RAIL CP7 Assumptions

The NR working assumption of passenger numbers is that they will recover to 85% of Pre-COVID levels in 2024/25 and then grow in intervals of 1% of Pre-COVID levels in each subsequent year

12. If this assumption is correct and, assuming a strong linkage between footfall and retail sales, this would imply a declining retail income growth rate through CP7 of 1.18% (from FY 2024 to FY 2026) falling to 1.14% (from FY 2027 to FY 2028). This is not consistent with the NR global retail income growth rate of 1.7% per annum employed in its forecast.

> **Principal Finding 2**
> **There is a disconnect between the NR assumption of growth in passenger numbers and its assumed retail growth rate of 1.7% per year. Where there is a close relationship between two datasets, it would be reasonable to assume that the modelling would be consistent between the two datasets. The rate should not, however, be applied to each region, where there are clear differences in anticipated retail growth.**

13. To test whether the discrepancy in growth rates (see 12 above), and the adoption by all regions of the same global rate of 1.7% per annum, Savills modelled and analysed the separate retail rental income streams for each station and compared the overall figures to the NR growth assumption.

Managed Station Retail

14. The Managed Station Retail portfolio includes all retail rental income (shops, cafes, pubs) located within Network Rail's Managed Stations ('MS'). Retail units outside the railway station 'envelope' are not included within this category.
15. MS Retail income is the biggest single income line within Network Rail's projections, accounting for over 60% of the total income in each year during CP7. It is therefore the key driver of the CP7 income forecast, with nearly £773 million income projected in total over the control period.
16. [Redacted]
17. The growth of Managed Station Retail Income is assumed to be largely dependent on the station footfall.
18. Savills analysed the station footfall data from the ORR website against retail sales and against NR Retail Income to assess the strength of the relationship between footfall and retail sales.
19. Savills first tested the assumption of a tight relationship between station footfall and retail sales.
20. There was a 90% correlation between passenger numbers and retail sales at managed stations in 2019-20, and an 85% correlation in 2020-21 where footfall was affected by COVID.

> **Principal Finding 3**
> **The correlation between Retail Sales and Passenger Numbers is tight enough to conclude that there is, indeed, a strong relationship and that the NR approach is based on sound reasoning.**

21. Anecdotally, the average spend per commuter is a small fraction of the average spend per leisure customer, and yet the data does not permit a definitive analysis of these two subsets to inform the precise relationship and to act as a predictor of future income according to traveller mix.

> **Principal Finding 4**
> **Going forward it would be useful to extract data from the passenger numbers to identify leisure passenger numbers separately from commuter numbers at each station and to compare the data sets to see whether the strong relationship across all passenger types is indeed stronger for leisure passengers. This would enable strategies to be put in place to target each type of passenger with suitable retail offerings in the appropriate places.**

22. Retail income and advertising at managed stations is forecast to constitute 72.3% of overall operating income in 2024/25, rising to 73.9% in 2028/29. Understanding the productivity of the footfall is an important part of predicting (and enhancing) income for CP7.
23. The footfall across London is somewhat variable (as shown below in Figure 1, where the size of the bubble represents the 2019-20 footfall).
24. The importance of the retail revenue from London Stations is highlighted by its circa two thirds of total retail income – around a third of overall Network Rail property income.

25. Analysis shows that some of the London Stations (notably Euston and Kings Cross) may be acting partly as a community amenity in addition to the retail offerings for rail passengers.
26. Further demographic analysis highlights that there may be propensity to provide more local support services (including retail floorspace) for those local communities if (and only if) this can be accommodated alongside rail operations and anticipated station/rail regeneration and renewal projects.

> **Principal Finding 5**
> **NR could, working with local communities, provide valuable amenities for both the travelling public and for the communities in which its stations sit. The regional teams should work with their local communities to help NR whilst helping their local areas.**

27. Southern Region has the greatest reliance on Footfall for income of all regions.
28. Elsewhere, across the regions in England & Wales, the reliance on retail income from the regional managed stations is difficult to judge but analysis demonstrates that it is much more closely related to footfall levels (96% correlation for 2019/20) illustrating, perhaps, that the underlying property values in the local areas is much less important than the amount of footfall and the attractiveness of that retail offering to rail passengers.

Figure 1 – Bubble Chart showing the relative passenger numbers by location of stations

SOURCE: ORR Website – Passenger Numbers

This 'Bubble' Chart showing the relative footfall in 2019-20 across the London stations – the size of the 'bubble' illustrates the relative passenger footfall per station. Waterloo, Victoria, Liverpool Street and London Bridge have the largest footfall of all the Managed Stations in London.

29. [Redacted]
30. The footfall numbers through Glasgow Central Station significantly outweigh those at Edinburgh Waverley Station, whereas the retail income is broadly similar (See Table 7).

Station	Retail Income	2019-20 Footfall	£/passenger
Edinburgh Waverley	£3.643m	23.9m	1.524p
Glasgow Central	£3.460m	32.9m	1.052p

Table 7 – NR Retail Income and Passenger Footfall Data for Scottish Stations in 2019-20

SOURCE: NETWORK RAIL data and ORR Passenger Numbers

This table illustrates a discrepancy between the footfall and retail income (as distinct from retail sales). The overall revenue per passenger for Edinburgh is half as much again as that for Glasgow..

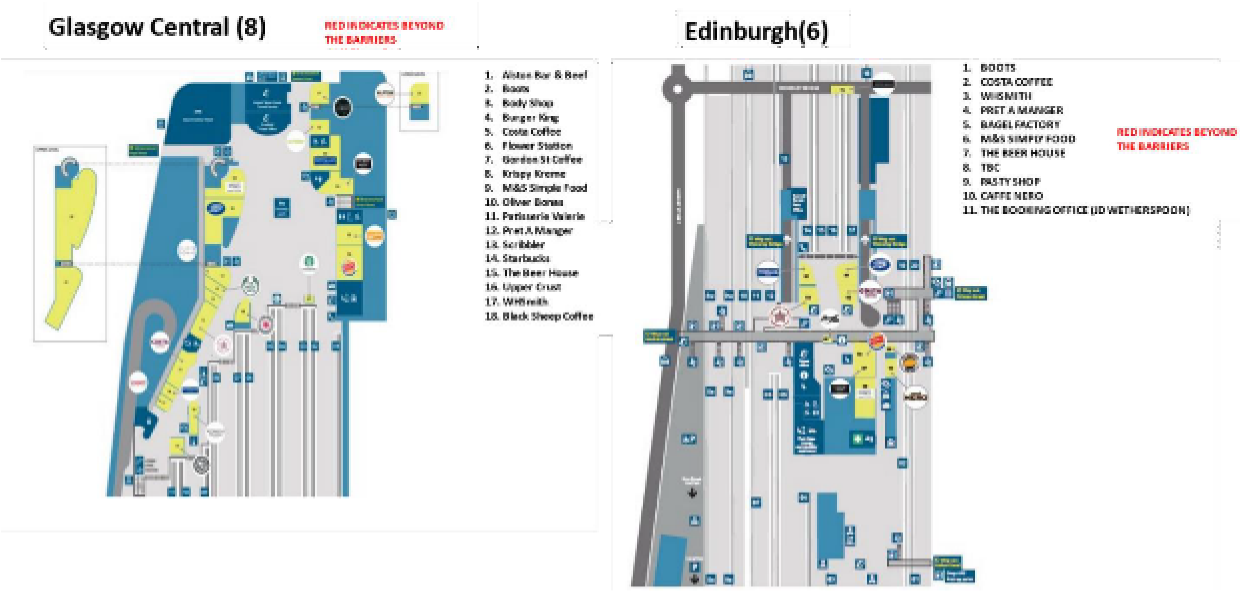


Figure 2 – Station Layouts for the Scottish Managed Stations

SOURCE: Network Rail Website

These station plans identify Glasgow Central as having the larger, more wide-ranging retail offering, and the ORR data identifies that it has the higher passenger numbers, when compared to Edinburgh.

Principal Finding 6
The amount of retail in a station does not necessarily translate proportionately into a proportionate amount of retail income per passenger – in other words, despite the correlation of passenger numbers to retail income, simply adding more retail outlets may not necessarily lead to a similar increase in the amount of revenue received.

31. Savills obtained regional retail rental growth projections from 2022 to 2026 from a variety of sources and identified the relevant markets in which the managed stations sit. A trend line was created to project forward the local growth rates from 2023-2026 to the remaining years of CP7.
32. The retail sales revenues for each station were then projected forward to allow Savills to generate an approximation of the overall portfolio growth rate.

Station	2019-20 sales	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Birmingham New Street	£ 35,860,349	£ 35,424,485	£ 35,424,423	£ 35,520,140	£ 35,746,681	£ 36,104,481	£ 36,502,760	£ 37,038,801	£ 37,688,717	£ 38,457,900	£ 39,352,844
Bristol Temple Meads	£ 6,654,995	£ 6,529,856	£ 6,545,778	£ 6,600,354	£ 6,651,582	£ 6,704,869	£ 6,748,371	£ 6,791,054	£ 6,830,410	£ 6,866,374	£ 6,898,889
Edinburgh Waverley	£ 25,004,625	£ 23,035,212	£ 22,579,181	£ 22,734,998	£ 22,996,538	£ 23,338,079	£ 23,667,914	£ 24,096,500	£ 24,593,195	£ 25,161,719	£ 25,806,400
Glasgow Central	£ 22,809,291	£ 21,113,297	£ 20,545,400	£ 20,415,516	£ 20,392,868	£ 20,447,562	£ 20,485,754	£ 20,616,242	£ 20,806,029	£ 21,056,569	£ 21,369,843
Guildford	£ 5,292,063	£ 4,617,264	£ 4,435,583	£ 4,418,918	£ 4,452,900	£ 4,512,022	£ 4,576,638	£ 4,681,160	£ 4,816,073	£ 4,983,683	£ 5,186,941
Leeds	£ 33,533,572	£ 33,187,168	£ 33,132,680	£ 33,127,145	£ 33,212,148	£ 33,411,572	£ 33,617,804	£ 33,929,047	£ 34,319,366	£ 34,791,247	£ 35,347,748
Liverpool Lime Street	£ 10,442,593	£ 10,134,341	£ 10,089,729	£ 10,129,974	£ 10,197,048	£ 10,269,801	£ 10,339,421	£ 10,425,776	£ 10,522,115	£ 10,628,692	£ 10,745,791
Manchester Piccadilly	£ 42,095,939	£ 42,178,185	£ 42,643,138	£ 43,010,886	£ 43,394,829	£ 43,729,233	£ 43,994,933	£ 44,242,059	£ 44,451,357	£ 44,622,244	£ 44,754,234
Reading	£ 13,067,978	£ 11,985,167	£ 11,746,019	£ 11,817,211	£ 11,947,611	£ 12,109,290	£ 12,270,981	£ 12,480,672	£ 12,724,365	£ 13,003,830	£ 13,321,126
Victoria	£ 93,310,519	£ 88,024,794	£ 87,264,806	£ 88,349,153	£ 89,938,073	£ 91,794,684	£ 93,640,362	£ 95,907,885	£ 98,476,805	£ 101,367,627	£ 104,603,831
Paddington	£ 68,284,131	£ 65,968,485	£ 65,792,970	£ 66,439,033	£ 67,485,660	£ 68,740,298	£ 69,978,886	£ 71,546,702	£ 73,345,926	£ 75,391,614	£ 77,701,189
Charing Cross	£ 18,066,977	£ 16,438,160	£ 16,255,480	£ 16,655,030	£ 17,184,673	£ 17,790,513	£ 18,405,309	£ 19,139,592	£ 19,967,073	£ 20,896,996	£ 21,939,999
Kings Cross	£ 75,994,935	£ 70,416,095	£ 69,974,696	£ 71,535,616	£ 73,595,434	£ 75,901,969	£ 78,139,597	£ 80,796,141	£ 83,737,454	£ 86,987,376	£ 90,572,783
Euston	£ 79,865,582	£ 74,002,595	£ 73,538,715	£ 75,179,137	£ 77,343,868	£ 79,767,882	£ 82,119,479	£ 84,911,328	£ 88,002,451	£ 91,417,900	£ 95,185,924
Cannon Street	£ 4,575,287	£ 4,286,097	£ 4,251,632	£ 4,306,301	£ 4,373,277	£ 4,446,500	£ 4,519,422	£ 4,602,319	£ 4,692,175	£ 4,789,328	£ 4,894,152
Liverpool Street	£ 95,691,747	£ 89,643,365	£ 88,922,542	£ 90,065,924	£ 91,466,732	£ 92,998,184	£ 94,523,342	£ 96,257,128	£ 98,136,445	£ 100,168,403	£ 102,360,785
Waterloo	£ 111,097,091	£ 108,882,981	£ 109,617,841	£ 111,127,049	£ 112,563,427	£ 113,802,774	£ 114,873,031	£ 115,794,961	£ 116,550,533	£ 117,136,144	£ 117,548,929
London Bridge	£ 68,439,502	£ 67,075,537	£ 67,528,235	£ 68,457,957	£ 69,342,813	£ 70,106,293	£ 70,765,606	£ 71,333,546	£ 71,799,003	£ 72,159,759	£ 72,414,048
Clapham Junction	£ 6,942,517	£ 6,804,156	£ 6,850,078	£ 6,944,389	£ 7,034,149	£ 7,111,596	£ 7,178,477	£ 7,236,089	£ 7,283,305	£ 7,319,900	£ 7,345,696
	£ 817,029,693	£ 779,747,242	£ 777,138,926	£ 786,834,732	£ 799,320,312	£ 813,087,601	£ 826,348,088	£ 841,827,003	£ 858,742,796	£ 877,207,305	£ 897,351,150
	Overall Average Growth Rate		1.814%								

Table 8 – Imputed Calendar Year ('CY') Sales per Annum for each Station Area, Based on Anticipated Market Performance

SOURCE: NR Sales Revenues from CP7 Submissions and Regional Retail Growth Rate Forecasts and Trend-line from Savills

This table indicates that, irrespective of regional differences, the overall average retail growth rate is forecast to be 1.814% - not far from the global 1.7% rate adopted by NR across all regions.

Principal Finding 7
Despite substantial regional variations in the Savills forecast growth rates (and trends) – see Figure 2 below – the global rate of 1.7% applied across NR's portfolio appears to be robust and, whilst higher than the assumed underlying passenger growth figure (Principal Finding 2), it is consistent with consolidated national market expectations (for which a weighted model shows 1.8%). Savills, therefore, finds the Managed Station Retail Income forecast in CP7 to be robust if unambitious because it does not suggest any active management measures NR could take to deliver greater revenue from its retail portfolio.

33. The new retail space to be built in Guildford does not appear to be taken into account in the figures, but this may be considered prudent at this stage in the cycle as construction of the new ticket hall and surrounding station development has not yet commenced.
34. The retail forecast does not take any account of impacts on Euston Station retail offerings as major works take place there.

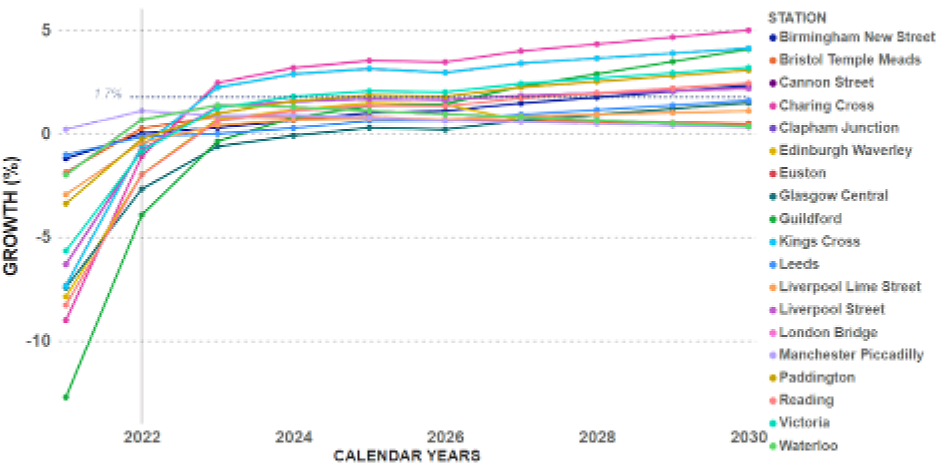


Figure 3 – Separate Growth Rate Projections by Retail Market Closest to the Managed Stations

SOURCE: SAVILLS AND THIRD PARTY DATA

Figure 3 illustrates the relative forecast and trend growth rates for rents in the nearest comparison market to each of the various Managed Stations. The Y-axis shows growth in percentages, with the X axis showing the years. For the years to 2026 inclusive, these represent

Savills forecasts based on locally sourced data. The years from 2027 onwards are projected as a trend line based on the years from 2023 to 2026 inclusive for each market. NR's assumed 1.7% forecast has been overlaid (dotted line) for comparison purposes.

35. No account is taken of retail income at St Pancras Station as that is managed separately by London and Continental ('**LCR**').
36. It is worth noting, however, that LCR are currently completing The Sidings at Waterloo Station in the former Eurostar terminal – described on LCR website as "*LCR's new retail, restaurant and leisure destination located in the heart of London's South Bank" amounting to 130,000 sqft of local, independent and national retail and leisure featuring "forty new glass-fronted prime units and the Waterloo Curve – a new pedestrianised street that will enhance the public space on offer in the area and transform the land and railway arches at Waterloo into an eclectic food, drink, shopping and cultural experience*." This is also not included in the analysis and it is assumed the centre will be owned and operated by LCR and that NR will not receive any rental income from it.
37. Equally, no adverse impact on the existing retail offering at Waterloo Station from the new LCR scheme has been taken into account in this study. The retail sales data does suggest that, for example, The Bull Ring may reduce the retail revenues at New Street Station because passengers have other options immediately available.

Principal Finding 8
Current projects at an advanced stage of delivery (such as The Sidings at Waterloo) do not feature explicitly in the NR CP7 forecast, making it difficult to establish the positive or negative impacts from NR or third party projects. This should be addressed for future such studies to enable ORR to understand the likely budgetary impacts and influences arising from them.

Principal Finding 9
The activities of LCR at St Pancras and at Waterloo highlight that there may be advantages for NR to access finance and development expertise from partners in the property sector rather than compete for scarce resources in NR (particularly in a fiscally constrained scenario). LCR have shown their willingness to create and manage space alongside major stations; there are other shopping centre managers who may be interested in partnering with NR.

38. Perhaps a more significant threat to NR Managed Station Retail Income is the cadence of lease expiries across the retail portfolio.

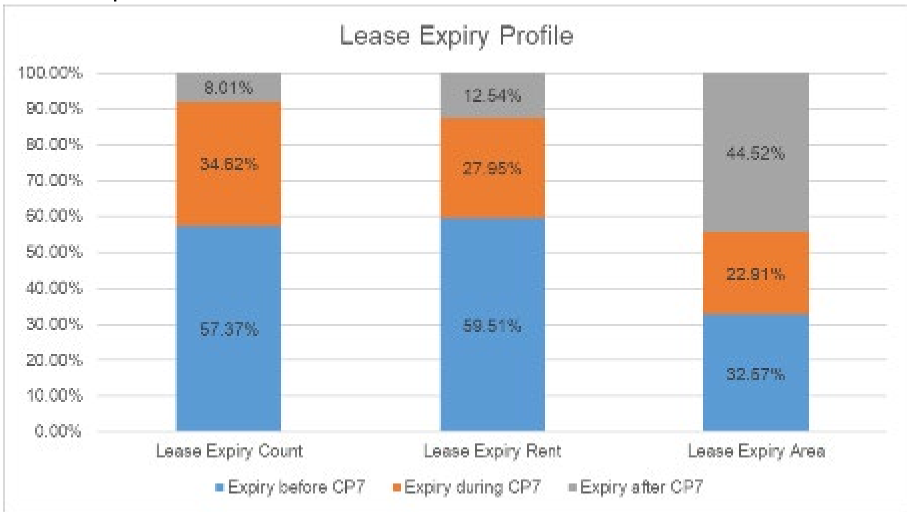


Figure 4 – Profile of Lease Expiries for Network Rail Managed Station Retail

SOURCE: NETWORK RAIL

39. Analysis of lease expiries for the Managed Station retail portfolio highlights that whilst around 12.5% of the MGR (Minimum Guaranteed Rent) is paid for leases that expire after CP7, this relates to more than a third of the overall footprint. This may either be because the largest format retail units mostly renew after CP7 and have the largest footprint, or it may indicate that the most recent transactions were at lower

rental levels per square foot. We know from the evidence that the guaranteed base rent has reduced, putting much more reliance on the active management of the retail offerings to ensure turnover rents are maximised.

39. Analysis illustrates that the most recent lease renewals (estimated based on the expiry date and a broad assumption of similar term lengths of multi-site lease agreements) were accomplished with a lower Minimum Guaranteed Rent (‘**MGR**’) and a higher turnover rent. Whilst this may not make any difference to gross rents if calculated appropriately, this would have the effect of introducing greater risk to the income stream and may have had the effect of lowering the overall portfolio capital value based on standard methods of valuing retail property.
40. Experience from managing shopping centres across the UK, and our experience of prime retail, secondary retail, and tertiary retail, and of stand-alone or clusters of retail units tells us that the active management of the overall retail experience is of paramount importance. The Managed Stations may benefit from pop-up retail pitches outside of commuter hours within large stations catering for substantial numbers of leisure passengers.

41. Where the percentage of total NR income, relative to the proportion of overall space, has become very low in recent lease renewals, this might indicate that NR is coming under pressure from the retailers to reduce the rents across the portfolio. If this is the case, the Managed Station Retail Income may be overstated in the NR forecast.

Principal Finding 10
Care needs to be taken to avoid loss of overall value in the retail portfolio through agreeing to lower MGR levels in the retail leases as they are renewed.

42. We understand from our conversations with NR that rent collection data is limited. NR’s projections are made based on contracted rental income. This is a potential risk, given that if actual rental collection levels fall below the contracted income level (as many landlords have found during the pandemic – with emergency legislation brought in to protect tenants from normal recovery procedures), NR’s income projections may not be met by the actual income received.

Principal Finding 11
Savills have assumed all rents are collected in full, but consider that further study may be required into this topic to ensure the actual revenue received matches the forecast and contracted revenue.

Managed Station Advertising Income

43. Savills were provided only with a headline number per region for Managed Station Advertising which we are informed is directly related to footfall.
44. The annual growth rate for station advertising follows a similar pattern to that of the Managed Station Retail Income discussed above.
45. Managed Station Adverting Revenue accounts for more than 14% of NR’s gross income in 2024-25. Despite the scale of this income stream, there was little information provided by NR to support its CP7 forecast.
46. The advertising revenues are linked to passenger numbers – we do not know whether this is an implicit or explicit link – and the CP7 revenues are modelled to grow at a similar rate of growth as the retail revenues.
47. Emerging technologies may allow NR to tap into new trends and greater digitisation of advertising, at lower cost points, between now and the start of CP7 and during CP7, with active management.
48. There was no specific indication in the CP7 forecast as to whether NR has identified new opportunities to advertise – including using technology to push advertising to passengers when they are at the stations via mobile devices.
49. There may be opportunities to increase the amount of available space for advertising through the use of digital displays beyond the ticket barriers (in much the same way as TfL secures advertising revenues from escalator and platform advertising at underground stations).
50. From an observer’s perspective, there is very little advertising on platforms at main stations, which might offer opportunities to combine passenger information with digital advertising, delivering simultaneously a revenue opportunity and additional customer benefits.

Principal Finding 12
There was no detail provided on Managed Station Advertising; nor was there any indication of projects or ideas that would increase revenues from Managed Station Advertising. Without any major initiatives, given the link between footfall and revenue, there is no reason to assume the CP7 forecast revenues are inappropriate (neither under nor over stated).

Development and Sales

51. The projected capital receipts from land disposals and developments in CP7 is barely at 55% of the overall CP6 sales income forecast, and in 2024/25 is forecast to make up only 7% of gross property income.
52. Anecdotally, NR has already harvested the “low hanging fruit” and there is little more to go after without difficulty or disproportionate expense or risk (of investing working capital into fees for exploring opportunities that later prove to be undeliverable).
53. In practice, NR owns a significant amount of land – estimated at approximately 51,700 hectares (127,800 acres), for the operation and development of railway infrastructure; this includes circa 20,000 miles of track, circa 30,000 bridges, tunnels and viaducts and thousands of signals, level crossings and stations.[2]
54. A material (but not defined) proportion of NR’s land ownership is in areas of high land value and where there is insufficient housing stock and developable brownfield land.
55. Sir Peter Hendy’s review of CP5 identified major challenges in development and sales revenue which still remain critical in CP7.
56. Hendy noted that certain development and sales projects that had been identified would be postponed until later control periods because:
    56.1. there was inadequate planning and scope definition of potential developments and sales in their early phases; and
    56.2. there was poor cost estimating.
57. The absence of a substantial pipeline of developments in CP7 might suggest that Hendy’s criticism has correctly identified obstacles to bringing forward opportunities within NR, and that these may not have been fully overcome.

Principal Finding 13
It is clear that NR owns a large amount of land – albeit much of that is fully operational railway estate, the disposal or alteration of which, will or might severely impact NR’s ability to fulfil its principal purpose of providing rail based transportation services for people and goods across the UK. There may not be easy opportunities, but it is highly likely that NR might be the key to unlocking value for neighbouring land.

58. One reason for NR’s projected historically low rate of development and land sales might also be because NR has focused in CP6 (during challenging times) on delivering as much as possible of its forecast £33m average annual capital receipts rather than in exploring new opportunities.
59. Another reason might be that the devolution programme has fragmented resource and has perhaps altered the internal incentives, management attention or the propensity for NR (at central and regional levels) to release substantial development opportunities.
60. Whatever the reason, where developments are not yet in the pipeline, there may be little or no prospect of securing significant proceeds during the CP7 period, and so attention will need to be given to re-establishing a strong pipeline of sites for CP8. [Redacted]. It should be assumed, therefore, that the CP7 forecast is sufficiently robust.
61. In order to capture multiple development opportunities NR needs to focus on a long term disposal strategy.
62. We believe that the current model means that NR Operations (and maybe the regional organisations) are incentivised to focus on the current cost period.

2 Network Rail Website: about Network Rail – footnote to media stories, e.g., https://www.networkrailmediacentre.co.uk/news/passengers-reminded-of-four-day-closure-ahead-of-commonwealth-games

63. The existing internal budgeting mechanism appears to be flawed as, anecdotally, the region would not receive revenue for a large disposal, with the revenue recycled back into the Group Property, but may suffer adverse budgetary pressure where its finances are not adjusted to at least hold the region harmless and, ideally, to deliver rewards for enabling development or land sales.
64. Commercial developments (such as at Guildford where there will be additional retail units and office space) could provide additional revenues in due course but there might be a hiatus in revenues during implementation.
65. In order to dispose of more complex sites, therefore, it is likely that NR would need to ring fence a significant budget for enabling sites (e.g., taking a development through the planning process).
66. In a fiscally constrained model, it is difficult to undertake high-cost projects for the public sector even though the return might be attractive in the long term, and NR will need to look increasingly towards development partners to make the up-front investment in investigations, designs, planning, etc.
67. It is unlikely that these opportunities could be realised within CP7, given the protracted nature of the planning process, and therefore we consider that NR should focus on early identification of disposal opportunities in order to have a pipeline of sales. This would require expenditure and resourcing in order to assess and identify opportunities.

Principal Finding 14
Where the devolution structure has resulted in fewer development opportunities coming forward, this should be reviewed and any organisational blockages in the pipeline within the property group should be addressed so as to ensure the CP8 pipeline is secured and with some possibility of unlocking sales before the final years of CP7.

68. NR provided Savills with pipeline figures in spreadsheet form which differs from the £18m per year in the Round 4.5 updated forecast. The Round 4.5 figure of £18m is actually higher than the combined risk-adjusted sales figures plus the regional disposal forecasts (ca £13-14m per year).

Development and Sales Forecast	CP7				
	2024/25	2025/26	2026/27	2027/28	2028/29
Network Rail Central Property Sales Proceeds (Unadjusted)	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Network Rail Central Property Sales Proceeds (Risk adjusted)	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Adjusted/Unadjusted	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]
Round 4.5 Forecast Sales Proceeds (All regions and central)	[Redacted]	[Redacted]	[Redacted]	[Redacted]	[Redacted]

Table 9 – Forecast for Development and Sales in CP7 – comparison of gross, net and Round 4.5 forecasts

Source: NETWORK RAIL

Table showing the gross (maximum) anticipated revenues from development sales, and a risk adjusted version that results in 16.21% to 32.13% anticipated receipt against gross proceeds

69. Land sales should provide some of the most significant opportunities for NR moving forwards. There should be greater emphasis on assessing the opportunities presented across the portfolio – not only within the NR estate but as an enabler or key participant in community-led developments.
70. It is not clear, however, that new opportunities identified now would result in sales in CP7 but the CP8 pipeline will be sparse if this is not addressed early.
71. There are opportunities to think on a larger scale in the longer term to unlock sites for residential development, but many of these would be characterised by NR in isolation as unviable because the cost of releasing the opportunity outweighs the likely receipt.
72. An example of this might be a concept such as building on podiums over stations, where the costs would be very high, and may not release significant land value to NR unless twenty to thirty storeys of development could be delivered above.

73. Such opportunities should be explored with Homes England, and where there would need to be some reward for NR for releasing the opportunity but where there is a funding gap, this might be met through grants from the Housing infrastructure Fund ('HIF') or similar which should flow through to NR in return for identifying and unlocking brownfield development opportunities.
74. There may also be opportunities to unlock funds from community budgets where the linear rail infrastructure impedes the logical expansion or connection of settlements and communities on opposite sides of the tracks. This may also apply to seeking development uplifts on land surrounding level crossings replaced by bridges, where a set tariff on development or a fixed price facilitation fee might drive revenues from third party activities.

Principal Finding 15
NR needs to foster more productive partnerships with the housing agencies and communities in order to unlock a steady flow of capital income from seemingly unviable development schemes or perhaps undesirable local aspirations to bridge over or under railway lines.

Managed Station Concessions

75. This income stream incorporates all car parking income that NR generates from its portfolio (NR has combined this to ensure the most efficient management structure) as well as left luggage facilities.

Car Parking Contract

76. APCOA have an agreement with NR whereby they manage, operate and maintain NR car parks across 37 locations with 9,253 spaces in total. This contract commenced on 1st February 2020 and will end in 2025, the second year of CP7.
77. The contract expiry presents risks and opportunities to revenue streams within the CP7 period.
    77.1. APCOA may not want to continue to operate the car parks and/or may demand a significantly higher fee; equally, competition for management of the car parking may lower the costs to NR.
    77.2. APCOA may require capital investment into substantially increasing Electric Vehicle charging points ('**EV**'); this might require CAPEX from NR but equally might be funded by the contractor through a changed financial structure with a car park operator;
    77.3. The tender and re-tender process following the end of existing contract can bring possible changes to the governance structure; this may allow for the segmentation of the agreement into the regions and allow each region to manage its own parking provision;
78. There will be a significant increase in EV charging points installation across the UK, not least because of:
    78.1. the Government's ban on the sale of new petrol and diesel vehicles by 2030 (just a year after the end of CP7), and
    78.2. the Government's removal of some fiscal deterrents from Business Rates – protection which has been extended from April 2022.
79. It will be expected from both an Environmental, Social and Governance ('**ESG**') perspective and to protect car parking as an NR asset class that NR would install increasing numbers of EV points in its car parks.
80. Implementation is likely to deliver on some of NR's four core priorities.
81. NR's sustainability statement identifies that it intends to complete electric vehicle charging roll out (sites that NR operates and its Managed Stations) by 2029 but we have not seen that this has been expressly budgeted for within their forecasts.
82. A further study may be required to understand how this income stream will develop in future, and the CAPEX it will require.

Principal Finding 16
It is likely, however, that station car parking will continue to deliver an attractive revenue stream for car parking operators in the longer term, and that there would be competing operators interested in managing NR's car parking. Renewals of contracts are likely to be combined with an increased roll-out of EV charging points. There does not appear to be provision for this in the CP7 forecasts.

83. Alongside revenues generated directly from car parking activities, ancillary revenue is secured through value-add services such as premium parking, self-service vending, valet services, car washing, MOT and tyre centres.

Site	No. of Spaces	Surface/Multi-Storey Car Park
Birmingham Ellis Street	355	MCSP
Birmingham New Street	35	Surface
Birmingham New Street Taxi Rank	36	Taxi Rank
Blackheath	178	Surface
Bristol Temple Meads	385	Surface
Bristol Temple Meads Taxi Rank	47	Taxi Rank
Cannon Street Station	2	Surface
Chippenham Road	188	Surface
Chislehurst	47	Surface
Clapham Junction	53	Surface
Dartford Car Park	153	Surface
Droitwich Spa	60	Surface
Edinburgh Waverley	574	Mixed
Guildford Car Park	430	Surface
Guildford Car Park Taxi Rank	10	Taxi Rank
Leeds City	745	Mixed
Leeds Swinegate	73	Surface
Letchworth	80	Surface
Liverpool Lime Street	278	Mixed
Llandudno Station	128	Surface
London Charing Cross	2	Surface
London Paddington	111	Surface
London Victoria	116	Surface
London Waterloo	23	Surface/Road
Manchester Piccadilly	1157	Mixed
Manchester Piccadilly Taxi Rank	30	Taxi Rank
Manchester Victoria	294	Surface
Quadrant Milton Keynes	275	MSCP
Railway Avenue, Whitstable	57	Surface
Reading Station	1653	MSCP / Underground
Swindon North Star Street	202	Surface
Swindon Sheppard Street	189	Surface
Uckfield	174	Surface
Walsall Car Park	108	Surface
Welwyn Garden City	411	Surface
Wigan Wallgate	119	Surface
York Commuter	475	Surface
Total	**9253**	

Table 10 – Schedule of Car Parking Spaces

SOURCE: APCOA CONTRACT

This table illustrates the latent potential for development that might exist in the APCOA car parking portfolio, and which, if applied across NR, might unlock substantial amounts of development opportunity

84. From Table 10 above, over 40% of the car park spaces (4,070) are on the surface, suggesting there may be potential for development above them.
85. At Guildford, the Solum development will incorporate a multi-storey car park on the east side of the station, but there is substantial scope for further development on the west side of the station.
86. Working on a land take of approximately 200 spaces per acre, this suggests that there might be 20 acres of development opportunity in the APCOA-managed car parks alone.

> **Principal Finding 17**
> **All surface car parking across the NR networks should be considered a development opportunity due to the scarcity of brown-field land and the sustainability of locating housing near to a transport hub.**

87. Revenues from car parking fell from £16.84m in 2019-20, to £5.33m in 2020-21, and recovered to more than £10m in 2021-22 (full year figures were not yet available).

88. NR's assumption is that income from Managed Station Concessions (most of which is from car parking but other sources include left luggage and similar services) will recover from its slump in 2020-21 and will see a steady rise above the pre-COVID level (see Figure 4 below).

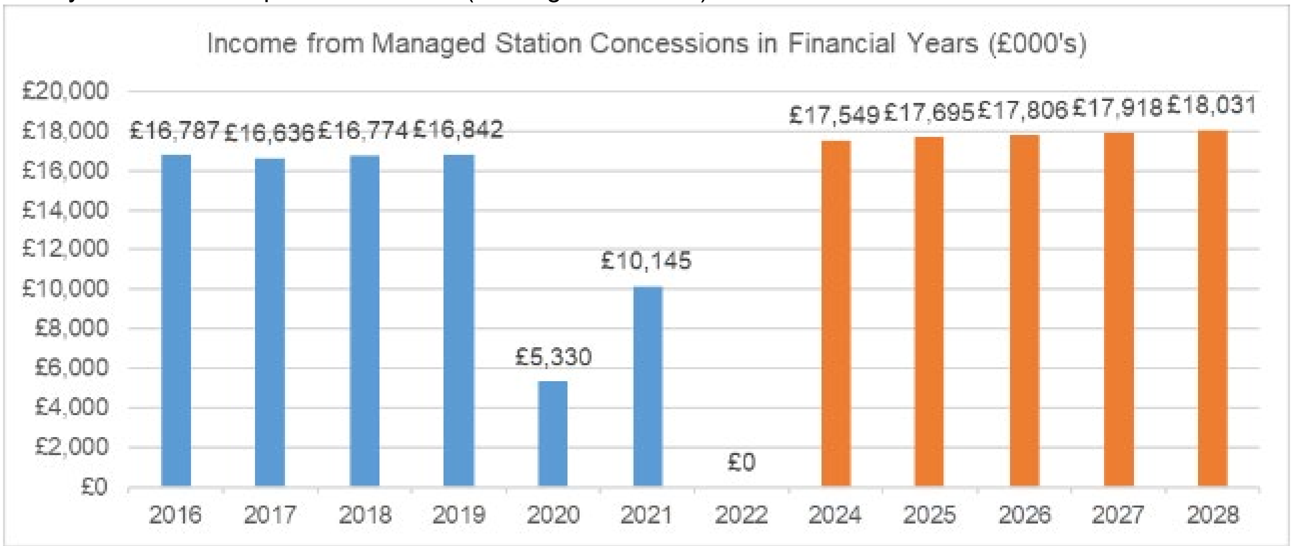


Figure 5 – Income from Managed Station Concessions from 2016 to 2028

SOURCE: NETWORK RAIL

This chart shows the income profile from concession income at Managed Stations – there was no data for 2022-23

89. There may be some data contamination arising from concessions for left luggage facilities (only a modest part of the Managed Station Concessions Income), which affects comparisons. Left luggage facilities, for example, have been incorporated in CP7 along with car parking revenue, whereas prior data excludes it.

> **Principal Finding 18**
> **It seems reasonable to assume there would be some relationship between passenger numbers and income from Managed Station Concessions, and we did not find the NR approach to be out of step with the underlying passenger assumptions.**

90. It is likely that some of the car parking might need to be given over to bicycle storage – although not all stations and locations would require the amount of cycle storage as, say, Cambridge Station.

91. This may change the income profile of the car parking provision but should help to meet some of NR's sustainability objectives There seems no reason to seek to adjust the NR figures to take this into account.

Managed Station Other Property Income

92. This income stream incorporates Managed Station ancillary rental income, which includes retail storage facilities and space used by the Train Operating Companies ('**TOCs**').

93. We were surprised that this comprises a minimal part of the total forecast income for CP7 (circa 2%); limited information has been provided by NR. Back-of-house space may offer opportunities for storage or other uses (e.g., dark kitchens) and other income might be derived from activities such as serviced offices and meeting space. Other areas are in use by British Transport Police which, presumably, attracts a rental income.
94. During the CP6 review, NR suggested limited rental growth in this area on the basis that maintaining this space in its current form is essential for retailer and railway operations.
95. As part of the ESG agenda, NR may need to consider making sufficient space available to support waste handling systems that support the circular economy, although it is not clear whether NR or the Retailers are responsible for managing their commercial waste.

Principal Finding 19
Whilst there may be opportunities for process improvements from ancillary space, NR has no expectations of rental growth from this activity.

96. The LCR activities at Waterloo (see 36 above) highlight that there may well be 'hidden' areas of station estate that could be brought into beneficial use and drive additional revenue streams.
97. Where the areas are not publicly accessible, they might still have applications for, say, dark kitchens which allow for prepared food delivery around the local neighbourhood. This could be combined with pop-up food court activities in the station to attract additional revenue streams.
98. Other areas might be capable of providing serviced office space for passengers – possibly available by the hour – to support business travel and with the potential to encourage additional spending on comestibles, etc.

Principal Finding 20
There may be substantial opportunities to monetise additional areas at stations for a variety of purposes, and this may make up for the low level of development pipeline in CP7 if such activities were commenced or accelerated by the regional property teams.

Other Property Rental Income

99. Other Property Rental Income covers rent from multiple use classes and includes NR's portfolio of Serviced Offices as well as the remaining portfolio of railway arches in Scotland. Together it makes up around 20% of the NR gross revenues in CP7.
100. The separate regional assumptions for CP7 are shown in Figure 5.
101. The Scottish income includes rental from three properties held pending developments and sales, one of which in Inverness is expected to be sold in the early years of CP7 and will result in a reduction of rental income by £0.4m.
102. There was little granular information to illustrate how this portfolio is made up, but we understand a fair proportion of it is in offices.

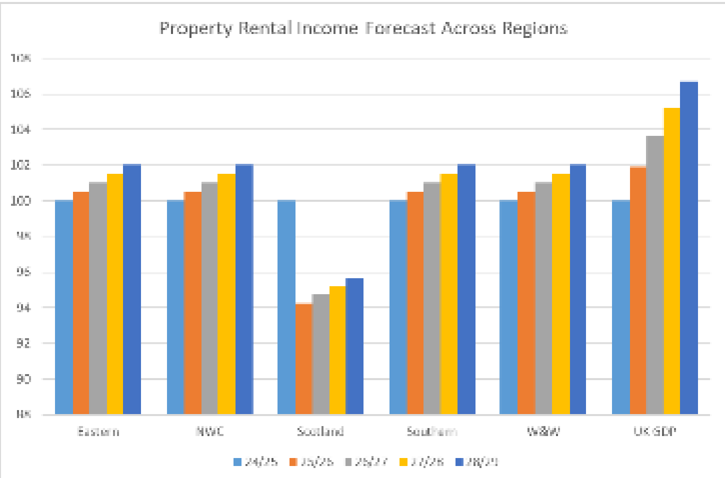


Figure 6 – Property Rental Income Forecast by Region

SOURCE: NETWORK RAIL & OXFORD ECONOMICS

This chart illustrates the growth rates for Other Property Rental Income from Managed Stations and contrasts it with UK GDP. The Scottish income shows a drop in 2025-26 reflecting the disposal of the Inverness property in Scotland

103. Considering an office-weighted portfolio, we have compared NR's real growth rate to national office forecasts. NR's real growth rate is somewhat less than any of the specific markets, but some offices have been slow to recover from the pandemic.
104. NR's conservative growth forecast of 0.5%, below the forecasted growth of offices in all regions. This gives a negative real growth for Network Rail offices.
105. The restricted supply of new office space is driving growth rates higher, and this is similar to the industrial and logistics markets. It is likely that the majority of NR's offices are older and of poorer quality.
106. During CP7, property with an Energy Performance Certificate ('**EPC**') score below a C will not be capable of being let or sold. Equally, in 2030, this threshold becomes a B, and so much of any upgrading work will need to be done in CP7. We did not see any particular reference to this in the forecast but assume this is covered in Revenue Generating Renewals.
107. Taken as a whole across multiple sectors, the all-sector property rental growth forecast for the UK to 2026 (extended forwards as a trend based on 2023 to 2026) shows an overall decline.
108. NR's portfolio weighting between different assets and locations may mean that the NR real growth rate is appropriate, but this is another example of a lack of granular information making accurate analysis (and management) very difficult.

Principal Finding 21
There is insufficient reason to consider NR's approach to not be robust but (despite this category making up circa 20% of the gross forecast revenues for CP7) the absence of granular information about the asset types, geographical split and overall age and quality of space makes proper analysis very difficult.

Roadside Advertising

109. Roadside Advertising includes all advertising income generated by NR on its property portfolio outside the Managed Stations.

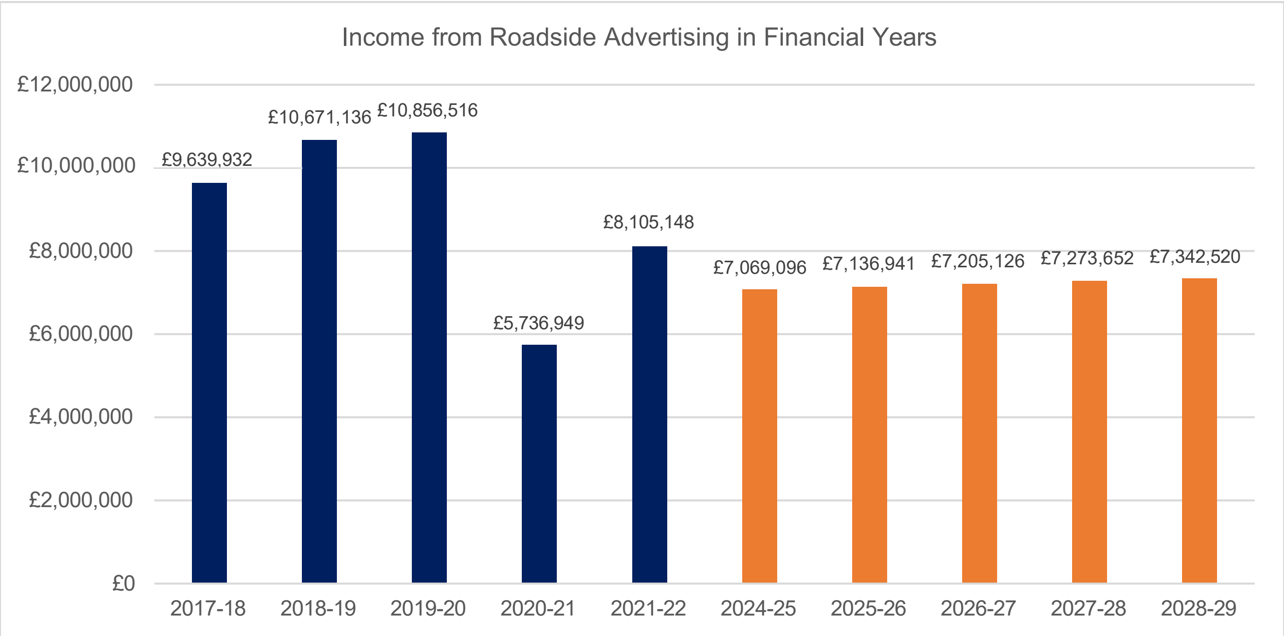


Figure 7 – Income from Roadside Advertising from 2017-18 to 2028-29

SOURCE: NETWORK RAIL

The above chart shows NR's expectations of roadside advertising revenue. This illustrates both the impact of the pandemic and a longer term expectation of reduced revenue.

110. NR has provided us with sight of the contract with Primesight, in which NR has granted the concessionaire a free hand to manage, promote and exploit such advertising space. The contract is dated 12th June 2017 and lasts 7 years (until 2024), after which it automatically terminates. We are not aware of NR's plan and strategy on developing their advertising income beyond this contract termination.
111. The expiry of the contract at the beginning of CP7 may introduce some risk and some opportunity for CP7, which means that there must be some doubt about the NR forecast.
112. From our discussions with NR, we are aware that the roadside advertising income to NR fell significantly during COVID.
113. NR assumes that, although revenues will recover from 2020-21 levels, the CP7 income will be at a lower level than both the pre-covid level and the current year 2022 as shown in Figure 6 above.
114. Recent press articles have suggested there is a recovery of road traffic to around 90% of pre-COVID levels and it is, therefore, unclear why Roadside Advertising Revenues should not recover to pre-COVID levels.
115. Roadside Advertising makes up around 2% of NR's gross income forecast for 2024-25, and the cautious approach is perhaps not material in the overall CP7 forecast.

Principal Finding 22
Whilst the expiry of the current contract gives an opportunity to open future advertising contracts to competition, the outcome is uncertain. As a result, Savills believes NR's cautious approach is probably appropriate in forecasting income from roadside advertising.

Revenue Generating Renewals

116. Revenue Generating Renewals ('**RGRs**'), also referred to as income generating renewals, are investments made in enhancing infrastructure, and any capital expenditure carried out to improve the performance of Managed Station portfolios, rental properties and roadside advertising.
117. These include operational investment to ensure the continued operation of stations, for instance, as a safe and modern hub of the rail network and improve the customer experience, as well as further capital investment in redevelopment and regeneration projects for potential income and wider benefit for the communities that stations serve and not just travelling passengers.
118. Although the NR business plan is broadly focused on Economic Value (whilst seeking to ensure no loss of Operational Value), it is important to also consider Social Value – which might include carbon reduction, but may also build upon the role many of NR's stations play in providing amenities for the communities in which they sit.
119. As part of the overall NR forecast income, RGR income is based on a notional return on capital investment based on CAPEX spending in the current period and that in the immediately preceding period.
120. RGRs conducted within the Managed Station portfolio target at 9.0% yield while those outside of the Managed Station portfolio target at 6.5%. This has considered the impact of COVID-19 with a decrease on the historic return at 10%.
121. NR suggests that the target return would be the hurdle rate to implement the renewals, so any enhancement with a yield below the target rate will not be carried out.
122. In practice, this mechanism for 'rewarding' capital expenditure with a set rate of return is not consistent with property industry practice – assuming there is a guaranteed return – but rather would behave as a threshold or target rate of return which serves as a minimum or average rate of return on capital investment.
123. For our analysis, Savills has adopted this rate as an average rate of return, and we have not sought to dilute the return to take any account of prospective climate-change-related investment.

Principal Finding 23
NR's use of a RGR rate of return does not accord with market practice. Any sense that a CAPEX investment would automatically generate a 9% return would be inappropriate and such a formulaic approach should be used with caution. That the RGR rate bears no relationship to NR's WACC hurdle rate makes interrogation of the suitability of the RGR rate more difficult. It will be important to reflect

that not all NR-required expenditure during CP7, say resulting from legislation, will attract rates of return at or around the forecast RGR rate.

ESG & Sustainability

124. NR have set themselves on a course towards carbon neutrality by 2050 across the UK, and has set some individual priorities and goals:
125. NR stated as its priorities:
    125.1. "We'll cut our carbon dioxide emissions so that the railway is carbon neutral by 2045 in Scotland and by 2050 in the rest of Britain. This also means cleaner air for our passengers, colleagues and neighbours.
    125.2. "We'll continue to look after nature around the railway and help it flourish. By protecting and maintaining their habitats, we'll enhance biodiversity across rail's landscape by 2035.
    125.3. "We'll make our railway more reliably resilient to climate change and severe weather by 2050. We're already the first railway in the word to have set ambitious, science-based targets to help us get there.
    125.4. "We'll waste less and recycle more – slashing the amount of materials we use. To do this, we'll reuse, repurpose or redeploy anything we don't need. By 2035, it'll be business as usual for us to only use materials that are made sustainably, don't pollute, last longer, and can be re-used and recycled."

Principal Finding 24
The CP7 forecast does not explicitly include any CAPEX or cost implication for supporting or delivering on NR's ESG objectives – which may be accounted for elsewhere in NR's budgets.

126. Irrespective of NR's own priorities, the property portfolio will have to comply with increasingly climate-change-driven Government targets, regulations and legislation.
127. A key part of Government Policy is reducing carbon emissions through investment in sustainable technologies.
128. The built environment contributes more than 40% of carbon emissions and this is driving policy decision-making in property matters.
129. The scale of the environmental challenge for NR's property portfolio should not be underestimated. Savills Research undertook a research study in late 2021, which found that approximately 1.4 billion sq ft of retail space across the UK, equating to 83% of all stock, will require improvement by 2030 to meet the minimum standards required for a Grade B Energy Performance Certificate ('**EPC**') set by the Government in its 2021 Net Zero Strategy. It found that 185 million sq ft (17.2 million sq m) of this space may become unlettable as soon as 2023, as the incoming changes to the Minimum Energy Efficiency Standards ('**MEES**') will prohibit commercial buildings with an F or G rating from being let.
130. Given the lease expiry profile of the portfolio it is essential to consider the impact of changing energy performance regulations.
131. Any property which has an EPC of lower than a B will be affected by the MEES regulations by 2030 (only a year after the end of CP7).
132. Under the Regulations, it has been unlawful (subject to limited exceptions) since 1 April 2018 for commercial landlords to grant or renew leases with an EPC below an E rating.
133. Government updates to MEES from April 2023 will make it an offence (subject to limited exceptions) to continue to let or sub-let commercial property with an EPC rating below E. The lease itself will not be affected and will remain valid.
134. These changes form part of the government's Net Zero Strategy which has the aim of meeting carbon reduction targets. Further proposals aim to bring in a minimum EPC C rating for commercial properties by 2027 before an ultimate target of minimum EPC B ratings by 2030.
135. Savills have not undertaken a review of the EPC ratings of NR properties but would anticipate that a significant proportion of the estate will need upgrading to meet MEES regulations during the course of CP7.

Principal Finding 25
NR will increasingly need to take a pro-active approach to future-proofing its let property assets given that around 85% of NR's gross property income comes from rents received for properties across its portfolio. There is no specific provision in the CP7 forecast for upgrading properties, which might be

captured in Revenue Generating Renewals but may not carry the same rate of return as other investments.

Other Income

136. Other Income includes a variety of easements and wayleave agreements with various utilities and other stakeholders. It makes up around a quarter of one percent of NR's overall property income.
137. No specific details of these agreement have been provided by NR at this stage..

Telecoms

138. This category of income includes telecoms sites located outside of Managed Stations, typically masts or cabinets which are leased to telecommunications service providers.
139. [Redacted]
140. Telecoms is run centrally and there is no distinct clarity as to whether the telecoms opportunity is being and will be maximised. This may require a substantial investment in 5G-ready technology to enhance the on-line experience of the travelling public, but may also allow NR to support the distribution of data and voice signals across its network and derive greater income from this important sector of the economy.

Principal Finding 26.
There was no specific data provided for the Telecom revenues and, although it is only around 5% of revenue, it is disappointing that there was no specific plan for growing this income opportunity.

CONTENTS

Network Rail Strategic CP7 Business Plan - Property Income Forecast Review

Prepared for The Office of Rail and Road

27 May 2022

savills

CONTENTS

Contents

LIST OF FIGURES (excluding Appendix)

REPORT – SCOTLAND

Network Rail Strategic CP7 Business Plan - Property Income Forecast Review

Prepared for The Office of Rail and Road

27 May 2022

SCOTLAND

Introduction

S1. This section of the Report focuses specifically on our assessment of the forecast property income for the Scotland region.

S2. The Scotland region's forecast income for CP7 was provided as set out below:

Table S1 – Categories of Income provided for this study [Table Redacted]

SOURCE: NETWORK RAIL CP7 Forecast Data

Comparison of Retail Income for NR versus Passenger Numbers in 2019-20 (pre-COVID

S3. **Principal Finding 2** of the main report identified that there was a disconnect between the NR assumption of growth in passenger numbers and the assumed 'universal' retail growth rate of 1.7% per year. It notes that the use of universal rates across each of the regions (including Scotland) would be inappropriate and that local modelling should be undertaken to understand the appropriate rate for each region.

S4. **Principal Finding 7** found that the universal rate of 1.7%, whilst not proven to be inappropriate as a national figure, would probably be inappropriate for each individual region.

S5. **Principal Finding 6** illustrated the differences between stations (using Glasgow Central and Edinburgh Waverley as an example) where, in terms of retail sales, passenger numbers do not compare well (on a pound passenger basis).

S6. In **Principal Finding 13**, it was noted that, across the devolved NR property group, the pipeline of development sites has slowed and that, if the low hanging fruit has been picked, there needs to be a proactive strategy to unlock opportunities, if not for CP7 then to ensure the pipeline is filled up for CP8.

S7. Of the developments listed in Table A9 of the Appendices Section, there were four Scottish sites: [Redacted]

S8. These four development sites have no anticipated proceeds against them – and, as such, also have no risk-adjusted proceeds attaching to them.

S9. The Scottish team referred to three other developments and/or sales:

[Redacted]

Recommendations

S11. NR has reported forecasts for CP7 based on a national template and 'universal' assumptions – such as growth rates, etc. Whilst nationally, these rates are defensible, they do not travel well to each of the regions.

Scottish Recommendation 1 **The Scottish Region needs to identify its own relevant growth rates based on a combination of overall operational assumptions and its own regional portfolio.**

S12. NR in Scotland has not yet sold the railway arches as it did in England & Wales. This would bring in a capital receipt for the Scottish region, but it would also impact the income forecasts if this were to take place before or during CP7.

S13. It may be helpful for Scotland to report its Property Rental Income in two sections, namely: (a) railway arches and (b) other income. This would aid planning and future comparability of data before and after disposal.

Scottish Recommendation 2 **Record income from Railway Arches separately ahead of any decision to retain or dispose, so as to enable a consistent comparison of income and performance and to aid business planning.**

S14. The projected Scotland development and sales pipeline is relatively constrained and the Scottish entries in the national list have no proceeds against them.

S15. Three specific projects were discussed in Savills discussions with the Scottish property team which are noted in the Principal Findings below.

S16. It may be worthwhile for Scotland to maintain its own opportunity list with a clear risk adjusted forecast.

Scottish Recommendation 3 **Actively manage the development and sales pipeline for Scotland with all known opportunities and work in progress suitably risk-adjusted.**

S17. In common with the main report, we have identified that a presumption on all operating sites that they cannot be released may be inappropriate in a fiscally-constrained model and where revenue from less sensitive sites might need to be accelerated .

Scottish Recommendation 4 **Consider new ways of working between Operations and Property to enable value to be unlocked from sites which may not currently contribute much to the operations of the railway, whether**

socially (for the benefit of passengers and society at large), economically (financially directly or indirectly), or environmentally (delivering on NR's and wider environmental objectives).

S18. The use of hurdle rates should be much more Scotland specific to reflect the operating environment and conditions and to take account of regional priorities

Scottish Recommendation 5
Scotland should have a clearly defined set of hurdle rates for the respective BAU and the Fiscally-Constrained models. These models should be further cast with differing types of investments attracting different rates according to their expected outcome as a contribution to NR's (and Scotland's) overall operations, and whether they are core or non-core investments.

S19. Recommendations in the main document relating to Environmental, Social and Governance ('**ESG**') obligations and tightening regulations should be carried over to Scotland.

S20. This means that there is likely to be investment required to allow property assets to continue to be lettable over the period of CP7 and beyond.

Scottish Recommendation 6
NR should explicitly identify investments it expects to (have to) make in ESG-related projects which do not necessarily generate a cash return on investment.

Principal Findings

S21. The income profile for Scotland is different from the rest of the UK regions (Figures A1, A4 and A5). See also Figure S1 below.

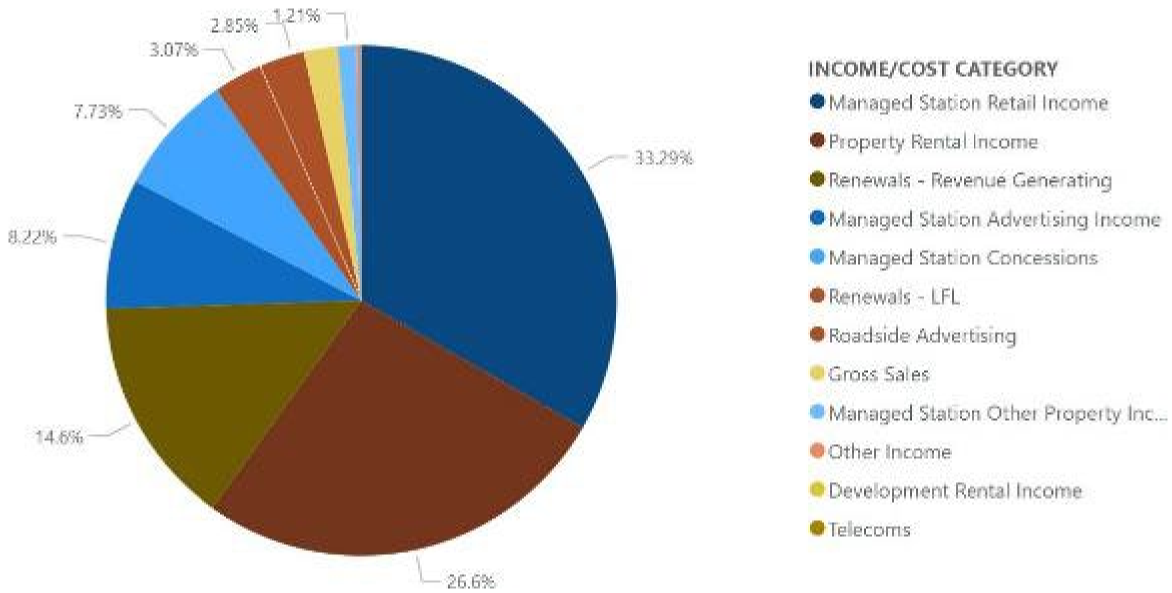


Figure S1 – Segmented income categories from Scottish CP7 forecast

SOURCE: NETWORK RAIL

Illustration of the relative make-up of the forecast Scottish Regional income in 2024-25 – showing the percentages of the categories of income.

S22. Managed Station Income from Edinburgh Waverley and Glasgow Central make up a third of forecast income, with Property Rental Income making up more than a quarter.

S23. Three quarters of the income is forecast to come from those two categories plus Managed Station Advertising (8.22%) and Managed Station Concessions (7.73%).

S24. Gross Sales only makes up 2.16% of the forecast income in 2024-25.

S25. From Figure S2 below, the differential treatment of income through CP7 highlights some points for further consideration:

a. Managed Station Retail income is forecast to increase at 1.7% per year;
b. Property Rental income declines after the first year of CP7 and then rises very gradually;
c. Revenue Generating Renewals shows a substantial increase;
d. Managed Station Advertising Income is shown as growing through the CP, whereas income from Managed Station Concessions is flat.
e. Other income streams are shown as flat in the forecast.

Scottish Finding 1
There is a significantly lower reliance in Scotland on retail income than across England & Wales – this is in part due to the higher proportion of Other Property Rental Income.

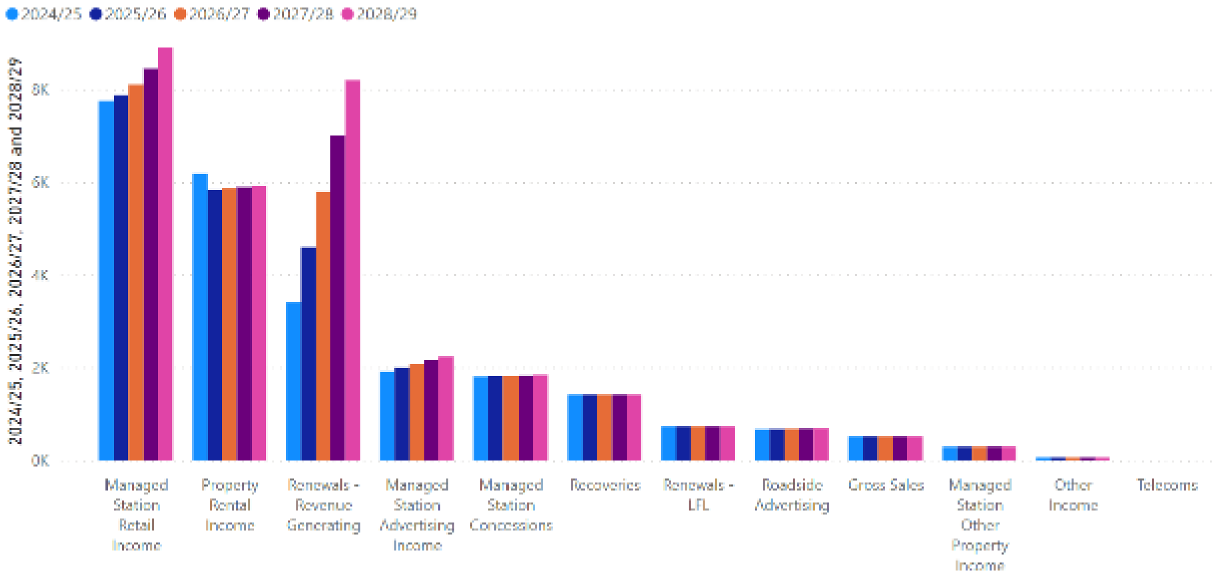


Figure S2 – Comparative amounts and differential growth rates of various sources of forecast CP7 income

SOURCE: NETWORK RAIL

Illustration of rates of change in forecast income categories across the Control Period in Scotland – note, Telecoms income was reported centrally. The figures are shown in £'000s.

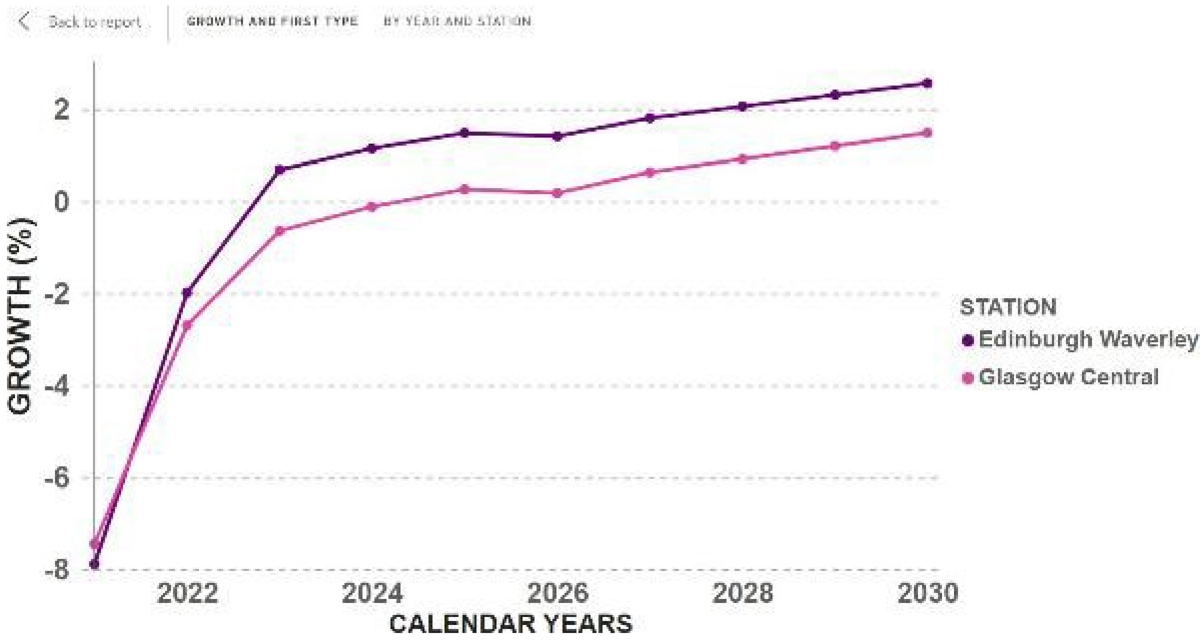


Figure S3 – Retail market background rates of growth for the Scottish Managed Stations

SOURCE: SAVILLS and THIRD PARTY DATA

Illustration of the forecast and imputed trend forecasts for retail growth in the neighbouring markets to Glasgow Central Station and Edinburgh Waverley Station..

S26. The rates of growth in retail for Scotland across the Control Period were modelled (as with the rest of the UK) in the corresponding markets, with a Savills-collated forecast to 2026 and a trend projected from 2023-2026 across the years 2027 to 2030.

S27. In Scotland, because the proportion of income derived from the Managed Station Retail portfolio is lower, there is a much lower relative reliance on footfall or passenger numbers for income when compared to the rest of the UK.

S28. The footfall numbers through Glasgow Central Station significantly outweigh those at Edinburgh Waverley Station, whereas the retail income is broadly similar.

S29. By contrast, Scottish income shows less reliance on Managed Station Retail Income (33.29%) and a greater contribution from Property Rental Income (26.6%).

Station	Retail Income	2019-20 Footfall	£/passenger
Edinburgh Waverley	£3.643m	23.9m	1.524p
Glasgow Central	£3.460m	32.9m	1.052p

Table S2 – Relative retail income, passenger numbers and retail spend per passenger for Scottish Managed Stations

SOURCE: NETWORK RAIL and ORR

Comparison of Retail Income for NR versus Passenger Numbers in 2019-20 (pre-COVID

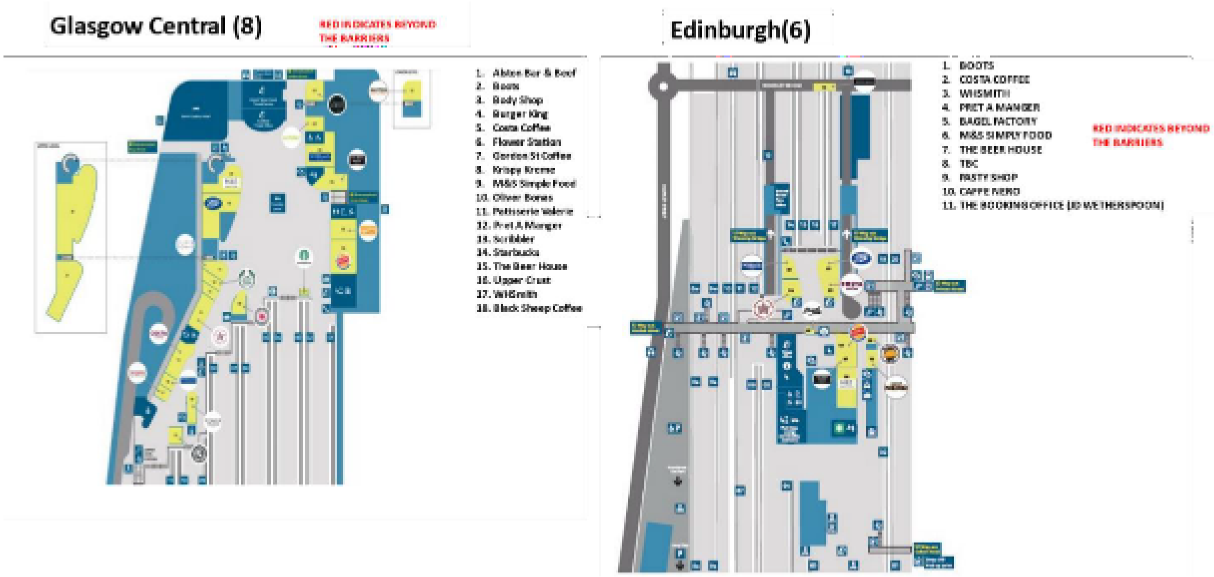


Figure S4 – Station Layouts for Scottish Managed Stations

SOURCE: NETWORK RAIL

Station Plans with Retailers for each of the Edinburgh and Glasgow stations

S30. Using a weighted data set (having regard to the 2019-20 retail sales for each station, the average annual growth rate during CP7 for Scotland can be forecast to be 1.129% on a comparable basis to the 'universal' weighted portfolio average of a little over 1.8%

> **Scottish Finding 2**
> **Adopting the 1.7% rate of retail growth used centrally in NR Group property would be inappropriate for Scotland where a more reasonable expectation would be 1.13% throughout CP7 (about a third lower)**

Property Rental Income

S31. The underlying rate of growth of Property Rental Income (excluding Managed Station Rental Income) is set at 0.5% per year – the same as is used across the other regions.

S32. [Redacted]

S34. Savills Research (taken from various internal and third party sources) indicates a general Scottish industrial property growth rate (total return) of 5.7% from 2022 to 2026 with the growth rate trending down to 5.2% per annum by 2026. The rental forecast is for 3.1% annual growth trending down to around 2.5% by 2026.

S35. For offices in Scotland, the expectation is for around 1.2% annual rental growth in 2025 and 2026.

S36. Without any specific detail of the make up of the other properties – and recognising that much of the estate may be railway arches – the NR expectation may be conservative but is not necessarily out of line.

> **Scottish Finding 3**
> **Whilst the forecast for rental growth in property income outside the Managed Stations is conservative, it may not be inappropriate for the mix of assets in the portfolio.**

S37. Other Property Income includes rental income from the Scottish Arches Portfolio which, unlike the England & Wales arches, has not yet been sold.

S38. The railway arches may be an opportunity to release capital during CP7 but this will bring with it a reduction in Property Rental Income, and it would be helpful to record the arches income separately from the remainder of the other Property Rental Income.

S39. Consequently no capital receipts and no rental income adjustments have been taken into account in the forecast.

Scottish Finding 4
Other Property Rental Income from the Scottish Railway Arches portfolio should be listed separately so as to enable the consequences of any potential disposal to be set out clearly in the CP7 forecast.

Development Sales

Scottish Finding 5
The budget disposal proceeds make up only around 2% of total income in 2024-25 and are flat across CP7. There may be opportunities to unlock greater value from land sales but there is no transparency of this in the numbers provided.

S40. [Redacted]

Revenue Generating Renewals

S58. The implicit rate of growth of Revenue Generating Renewals (‘**RGR**s’) for Scotland is at 24.62% per annum. No specific explanation is given for this but it is consistent with (if a little lower than) the other regions.

S59. The rate applied to RGRs in Scotland is 9% (consistently with the other regions) and we have taken this as being an anticipated average return on CAPEX invested in support of the NR property asset management.

S60. Broadly, the commentary in the main report relating to the use of universal rates applies equally in Scotland where suitable rates for the regional conditions should be adopted.

APPENDICES

Network Rail Strategic CP7 Business Plan - Property Income Forecast Review

Prepared for The Office of Rail and Road

27 May 2022

savills

DETAILED APPENDIX OF DATA AND CHARTS

Savills Approach to the Data

APP 1. Savills received data from NR and ORR – summary at the end of the Appendices Section.

APP 2. The data was mostly provided in summary form – in other words, there was very little granular detail.

APP 3. We considered NR's emerging CP7 Property Strategy.

APP 4. We familiarised ourselves with the data (which took several weeks to arrive) and we identified key data relationships, which we tested.

APP 5. We looked at the spread of NR income, both at group level and separately for each Region (see Figures A1 to A5)

APP 6. We established from an analysis of sources of NR income, that there was a substantial reliance on the Managed Station Retail Income (see separate section on this at **Principal Findings: Managed Station Retail**).

APP 7. To test the robustness of that retail income we

a. considered the footfall data (passenger numbers),

b. sought sources of data on anticipated post-COVID recovery in footfall,

c. we measured the correlation between footfall and retail sales to test the hypothesis referred to in APP 4, and

d. we identified outlier stations (those whose performance was better or worse relative to the norm)

APP 8. We collected macroeconomic and market data from Savills Research and analysed trends which might be used to test NR's income assumptions – set out in **Economic Background**.

APP 9. We held briefing sessions with Digby Nicklin and his colleagues and with several of the regional property leads, and we held regular update calls and meetings with ORR.

APP 10. We prepared a rough draft of the data section (this Appendix) which was presented to ORR, following which, we put together the preceding sections of this report which are designed to stand alone but to reflect the contents of this Appendix.

APP 11. The bulk of the information and analysis is included in the Appendix, leaving the main report to contain **Recommendations** and **Principal Findings**.

[*continued on Appendices Page 42*]

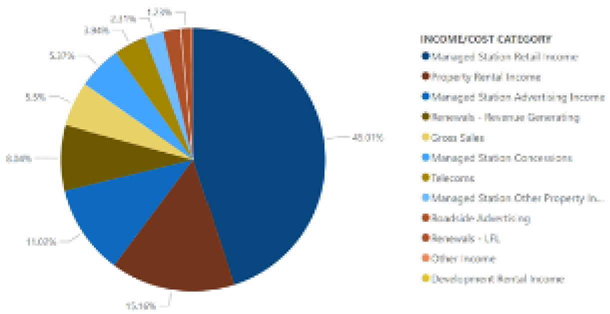


Figure A1

SOURCE: NETWORK RAIL

Aggregation of Network Rail Regional Income Forecasts for 2024/25 in £'000. This graphic highlights that more than 70% of income arises from Managed Station Retail Income (45.01%), Property Rental Income (15.16%) and Managed Station Advertising Income (11.02%)

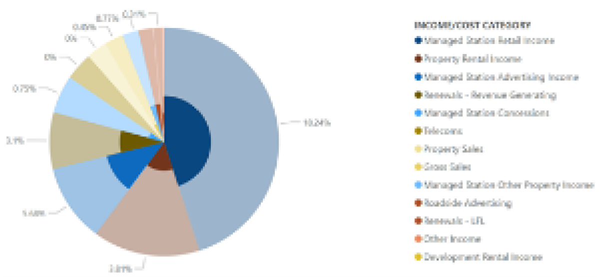


Figure A2

SOURCE: NETWORK RAIL

Income Forecast for 2024/25 in £'000 – **Southern Region** overlaid on Aggregation of Regional Forecasts for Network Rail overall. This graphic and the pie-chart below highlight that Southern is more reliant on footfall for its revenue than the rest of the Network Rail regions. This will have been amplified following the sale of the Railway Arches portfolio during CP6. The chart below shows that Managed Station Retail Income (53.76%), Managed Station Advertising Income (16.74%) and Property Rental Income (11.22%) made up 81.72% of the forecast income for 2024/25 – more than 70% is footfall related.

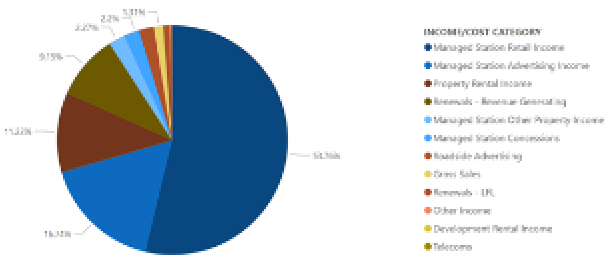


Figure A3

SOURCE: NETWORK RAIL

Income Forecast for 2024/25 in £'000 – **Southern Region**. From this graphic, it is clear that the top four income categories make up 90% of the total income for Southern Region.

Station	Retail Income	Footfall
Edinburgh Waverley	£3.643m	23.9m
Glasgow Central	£3.460m	32.9m

Table A1

SOURCE: NETWORK RAIL

Comparison between passenger numbers and retail sales at the two Scottish Managed Stations

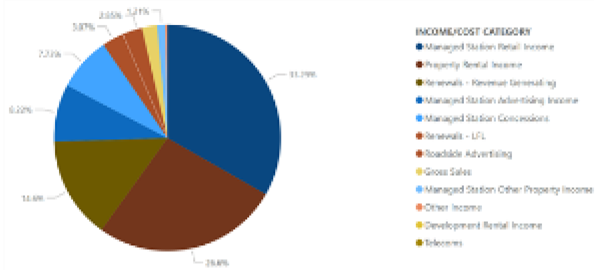


Figure A4

SOURCE: NETWORK RAIL

Income Forecast for 2024/25 in £'000 – Scotland. By contrast, Scottish income shows less reliance on Managed Station Retail Income (33.29%) and a greater contribution from Property Rental income (26.6%)..

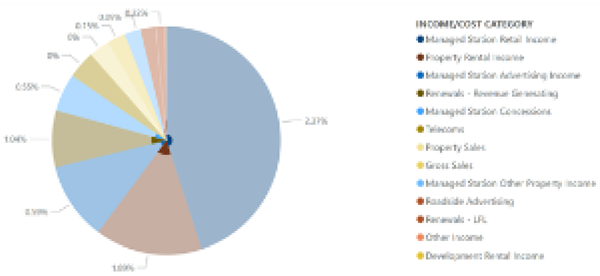


Figure A5

SOURCE: NETWORK RAIL

Income Forecast for 2024/25 in £'000 – Scotland overlaid on Aggregation of Regional Forecasts for Network Rail overall. As a proportion of overall NR income, Property Rental income is relatively high as are revenue generating and like-for-like renewals.

Retail Income from Managed Stations

APP 12. Savills tested the assumption of a tight relationship between station footfall and retail sales, seeking to identify circumstances where the retail offering might perform better than expected if it is part of a local amenity for nearby residents, and where retailers might suffer from their position before or beyond the ticket barriers at key stations.

APP 13. Anecdotally, the average spend per commuter is a small fraction of the average spend per leisure customer, and yet the data does not permit a definitive analysis of these two subsets to inform the precise relationship and to act as a predictor of future income according to traveller mix.

APP 14. Retail income and advertising at managed stations is forecast to constitute 45% of overall operating income in 2024/25 and so understanding the productivity of the footfall is an important part of predicting (and enhancing) income for CP7.

APP 15. For Southern Region, the reliance on Footfall for income is the highest of all regions.

APP 16. Elsewhere, across the regions in England & Wales, the reliance on retail income from the regional managed stations is difficult to judge but analysis demonstrates that it is much more closely related to footfall levels (96% correlation for 2019/20) illustrating, perhaps, that the underlying property values in the local areas is much less important than the amount of footfall and the attractiveness of that retail offering to rail passengers.

APP 17. In Scotland, there is a much lower relative reliance on Footfall for income [Redacted]

APP 18. The footfall numbers through Glasgow Central Station significantly outweigh those at Edinburgh Waverley Station, whereas the retail income is broadly similar.

APP 19. When considering the volume of sales on a comparative, station-by-station basis, and the passenger numbers for each of the managed stations, there is a clear correlation between footfall and retail income, but this does not act evenly across all of the stations.

APP 20. Care needs to be taken in managing the station retail offerings through CP7 (particularly if there is a risk of further disruption due to Covid-19 variants or, perhaps, a new pandemic).

APP 21. The data comparison between 2019/20 and 2020/21 shows that, across all stations, 2020/21 trading (Retail Sales) fell by 80.48%. London Station Retail Sales fell by a broadly similar amount (80.19%). Paddington, which provides more neighbourhood retail amenities fell by 74.68%, suggesting that there is a partial resilience opportunity in those stations where there is scope to also provide community amenities. This will not be practicable for all stations – particularly where closing the station also means closing the retail areas.

APP 22. Anecdotally, there is a much greater spend from leisure passengers than by commuters, and this may also help to explain some of the variances between total footfall and retail sales in the London Stations that cater for more of the leisure passengers.

APP 23. There is no explicit account in the Southern numbers for an increase in retail footprint at Guildford as part of the Solum development. In the overall portfolio, however, this is not likely to have a material impact on overall projections.

APP 24. There is a blanket retail rental growth rate applied by NR across the portfolio. Analysis of individual local markets highlights that the individual rates of growth in the retail centres around the Managed Stations are projected to perform quite differently from each other.

APP 25. Whilst locally these differential rates may make a difference, nationally the aggregated rate is within the range of expectations. Where the NR Retail rental Income is predicated on station footfall, it is reasonable to presume that the combination of base rent and turnover rent will see retail income vary from local background rates, and we see no reason, therefore, to consider the holistic approach to rental growth to be inappropriate.

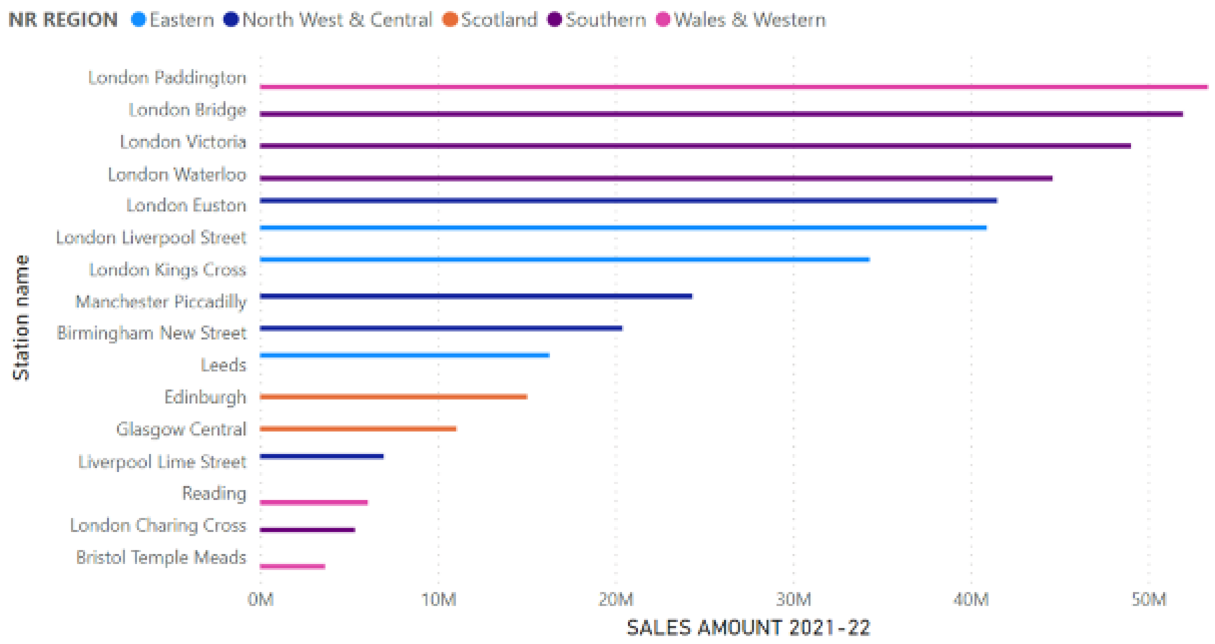


Figure A6

SOURCE: NETWORK RAIL

NR Station by Station Retail Sales Amount for 2021/22. This shows the large difference in retail sales volume between stations and also between regions.

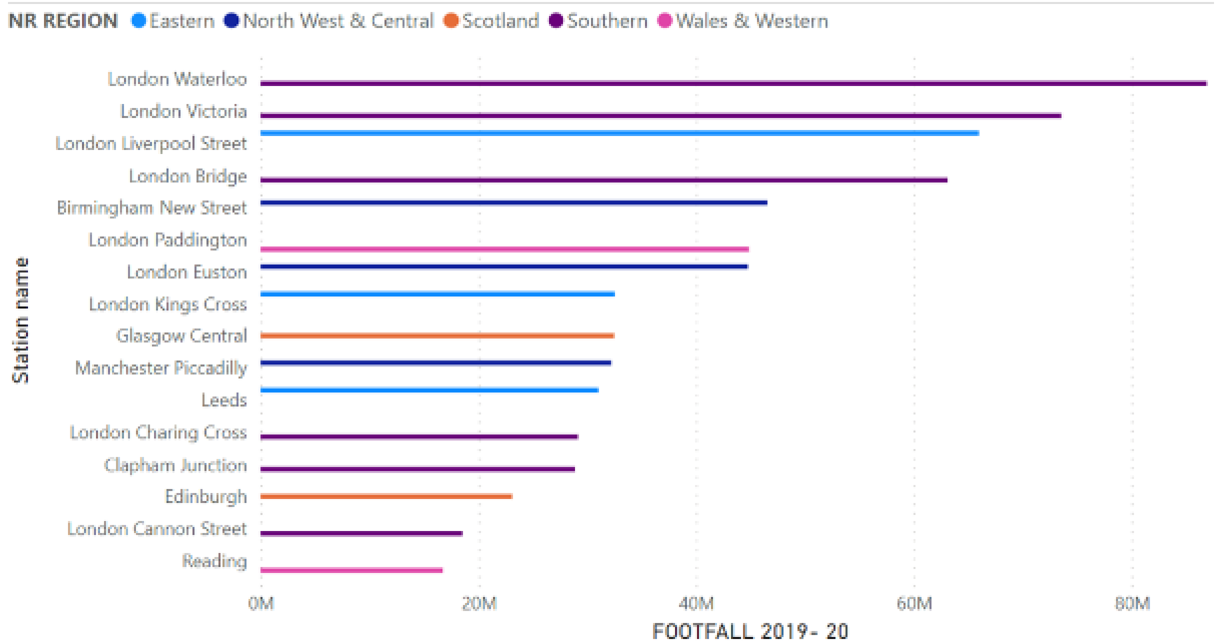


Figure A7

SOURCE: ORR

Network Rail Station by Station Passenger Footfall for 2019-20 (the last year before Covid-19). The above two charts demonstrate the importance of each station both from a footfall and a retail sales income perspective. Because the relative distributions of retail sales and footfall are not visually similar, Savills have modelled the data to confirm the correlation between footfall and passenger numbers as part of the test of robustness of assumptions in the NR forecasts.

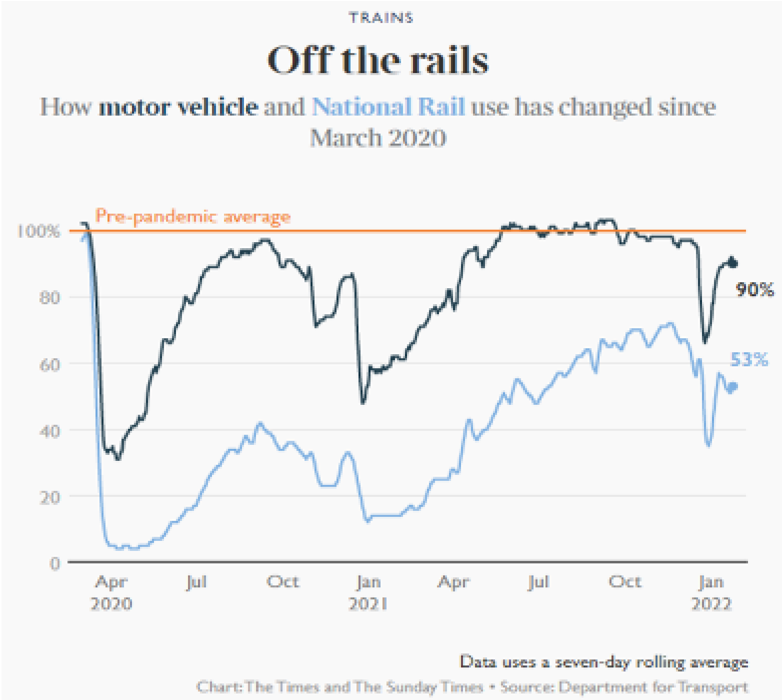


Figure A8

SOURCE: THE TIMES AND SUNDAY TIMES (17th March 2022)

This chart from the Sunday Times illustrates that the rate of recovery of car use far outstrips the recovery of rail passengers. There is potential for the recent spike in oil prices to redress this imbalance, and there would need to be careful monitoring of these data inasmuch as they feed into retail sales.

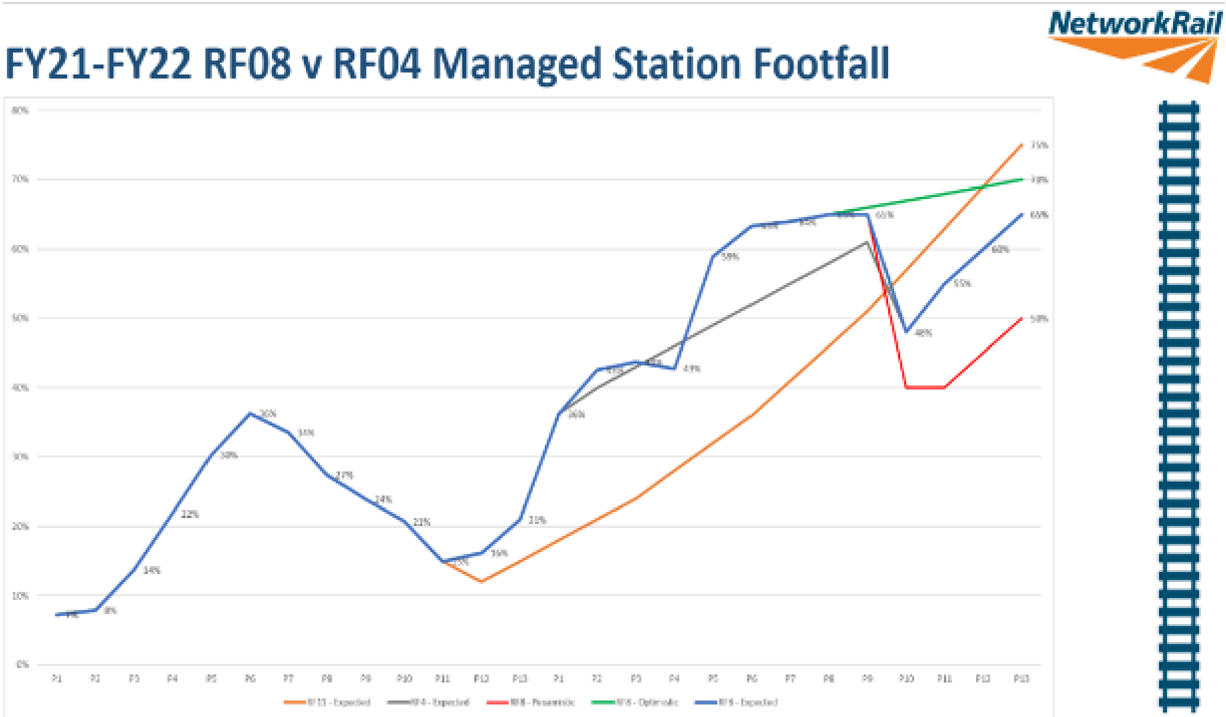


Figure A9

SOURCE: NETWORK RAIL

The above chart illustrates the profile of forecasts of Managed Station Footfall. Clearly this remains a fairly volatile and somewhat unpredictable journey towards recovery of footfall to pre-pandemic levels. On the basis that Managed Station Retail Income is closely linked to footfall, this highlights a potential for unpredictable retail income through to the end of CP6 and, possibly spilling over into CP7

Footfall – Passenger Numbers

APP 26. Retail revenues and station advertising have traditionally made up a substantial proportion of Network Rail's property income. These revenue streams are seemingly closely linked to footfall – testing the 2020/21 data suggested an 85% correlation between Retailer Sales Income and Footfall for managed stations.

APP 27. The decline in Railway usage during Covid-19 was also highlighted in The Sunday Times (Jan 30 2022) in Figure A8, but suggests recovery to only 53% of the pre-pandemic average:

APP 28. We know from ORR's own statistics, for example, the level of Passenger Rail Usage in the quarter from October to December 2021 (report dated 17th March 2022)[3]. This report notes that: "Passenger rail usage continued to be affected this quarter by restrictions relating to the coronavirus (COVID-19) pandemic", but that: "The upward trend in rail usage in 2021-22 continued despite restrictions being put in place due to the spread of the Omicron COVID-19 variant."

APP 29. ORR's figures show rail usage averaged 62% of pre-pandemic numbers between October and December 2021. Estimates published by the Department for Transport show rail use peaked at 72% in November 2021 but fell to around 33% between Christmas and New Year. The most recent stats published by DfT show journeys at around 70% of pre-pandemic figures.

APP 30. The Rail Usage report continues: "Changes in usage continue to vary by ticket type. The 236 million journeys made this quarter using ordinary tickets equate to 77.5% of usage two years ago. By contrast, the 48 million journeys made this quarter using season tickets equate to 30.9% of usage two years ago." On the face of it, this suggests that leisure travel has recovered well so far, although this may reflect the new reality where fewer commuters have season tickets but travel on daily tickets. This means that these data are also not ideal when modelling the relationship between passenger numbers and retail sales volumes.

APP 31. The International Rail Journal (IRJ) reported (4th Feb 2022) that: "The Rail Delivery Group (RDG) told IRJ that by the end of February, service levels should recover to around 85% of pre-Covid levels. This follows recent reductions caused by the Omicron variant where service levels dropped to 78%. There was no specific reference in RDG's report to passenger footfall. [Redacted] The data is non-specific in terms of the rate of recovery of commuting versus leisure travel, and we recognise that the majority of retail income comes from leisure passengers.

APP 32. The Managed Station Footfall during the Covid period (FY21-FY22) is set out in NR's RF08 22 Property Report, which demonstrates the volatility of passenger numbers, and the differing estimates of recovery (Figure A9).

APP 33. Imperial College London research, reported in the Sunday Times (13 Feb 2022), suggested that overall passenger journeys would be just 1.6% down by 2025, and that a reduction in commuter passengers would 'almost' be compensated by the 13.3% increase in leisure travel – suggesting retail income might turn out to be somewhat better than anticipated in NR's forecasts.

APP 34. Reported in The Sunday Times (27 Jan 2022): "The RDG said: "Overall, **the modelling suggests that total passenger journeys will be 4.7 per cent higher in 2025 than before the pandemic**. But all other things being equal, this is 6.6 per cent lower than the amount of passenger journeys that may have been expected in 2025." (the emphasis is ours).

APP 35. The varying forecasts of passenger numbers illustrates how difficult it is, at this stage, to draw a definitive picture of footfall-related property revenues. It is not clear to Savills what the appropriate 2024 passenger footfall will be, and so we adopted the 85% provided by Network Rail. Clearly this is a figure that needs to be kept in mind as CP7 approaches, because **a significant amount of forecast revenue is driven from station footfall numbers**. As a result, our approach includes a fairly broad-brush sensitivity analysis of footfall numbers.

APP 36. Savills has contrasted the national UK retail footfall data to establish whether there is any consistency between the overall retail footfall and the retail footfall level within the Managed Stations.

[3] The Passenger rail usage: Quality and methodology report (17 March 2022) sets out the various ways railway usage is measured - https://dataportal.orr.gov.uk/media/1234/passenger-usage-quality-report.pdf - accessed from ORR website 4th April 2022.

APP 37. Since late summer 2021, UK average footfall levels have largely plateaued between -10% and -30% compared to 2019 equivalent levels for high streets and shopping centres, while retail parks remain slightly more resilient. A recent marginal decline in footfall levels has been driven by the Omicron variant and move to Plan B restrictions. The removal of Plan B restrictions from as of 24th January 2022, however, is expected to support significant growth in footfall supported by a widespread return to the office. The 85% footfall recovery (-15%) forecast by Network Rail (shown in yellow dot-dot-dash line on the chart below) is not outside the wider market retail footfall expectations.

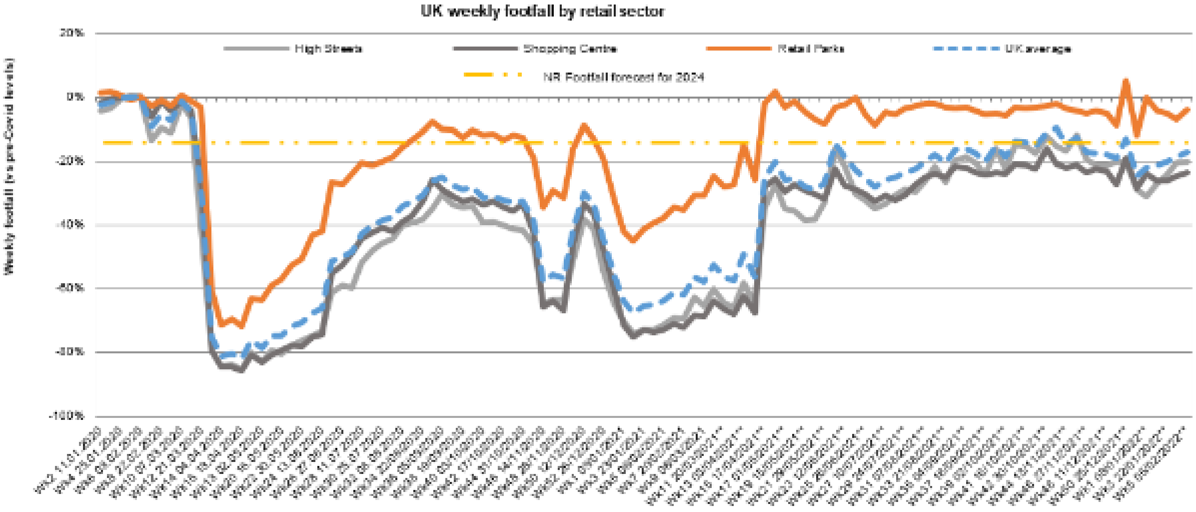


Figure A10
SOURCE: SAVILLS RESEARCH (with NR forecast superimposed in yellow)

The above chart shows the retail footfall over time in the UK relative to pre-Covid levels. Superimposed on this chart is the Network Rail 2024/25 footfall assumption (85% of pre-Covid levels) which sits within the range of footfall expectations which has plateaued since around April 2021.

APP 38. As a result, **Savills found the 85% footfall baseline for the beginning of CP7 to be a rational approach, and whilst opinions may differ, there is no specific alternative footfall forecast that would be any more robust at this stage**.

Analysis of the Relationship between Footfall and Retail Sales

Statistical Analysis of the Sales and Footfall at Managed Stations

APP 39. The Managed Station Retail portfolio includes all retail rental income (shops, cafes, pubs) located within NR's Managed Stations ('MS'). Retail units outside the railway station 'envelope' are not included within this category.

APP 40. NR's Managed Stations are identified in the maps at Figure A11 and Figure A12, and are listed below:

a. Network Rail's Managed Station (MS) portfolio currently comprises 19 major stations across the UK rail network. These stations are: **Birmingham New Street** , **Bristol Temple Meads**, **Cannon Street (London)**, **Charing Cross (London)**, **Clapham Junction (London)**, **Edinburgh Waverley**, **Euston (London)**, **Glasgow Central**, **Guildford**, **Kings Cross (London)**, **Leeds City**, **Liverpool Lime Street**, **Liverpool Street (London)**, **London Bridge (London)**, **Manchester Piccadilly**, **Paddington (London)**, **Reading**, **Victoria (London)**, and **Waterloo (London)**.

b. The font colours above highlight the different regions: **Eastern**, **North West & Central**, **Scotland,** **Southern**, and **Wales & West**.

APP 41. MS Retail income is the biggest single income line within Network Rail's projections, accounting for over 60% of the total income in each year during CP7. It is therefore the key driver of the CP7 income forecast, with nearly £773 million income projected in total over the control period.

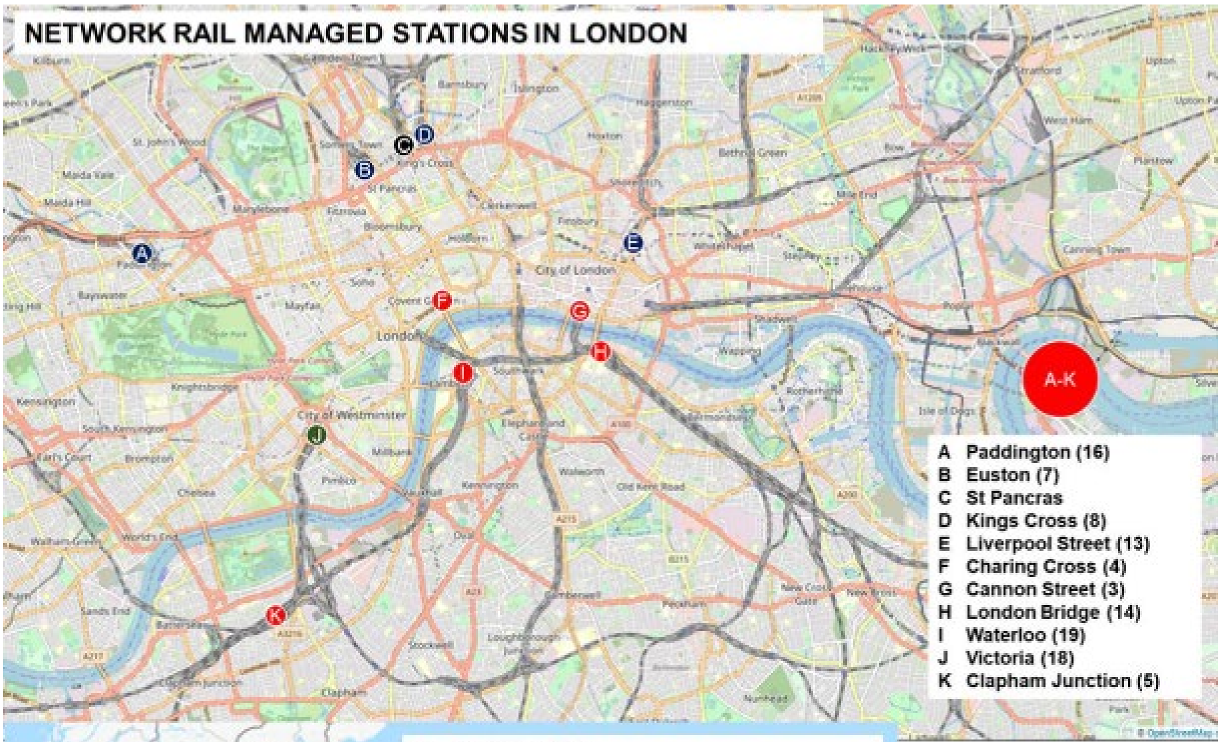


Figure A11 (above)

SOURCE: SAVILLS

The above map indicates the locations of the Network Rail Managed Stations - and includes St Pancras which is not part of this overall report.

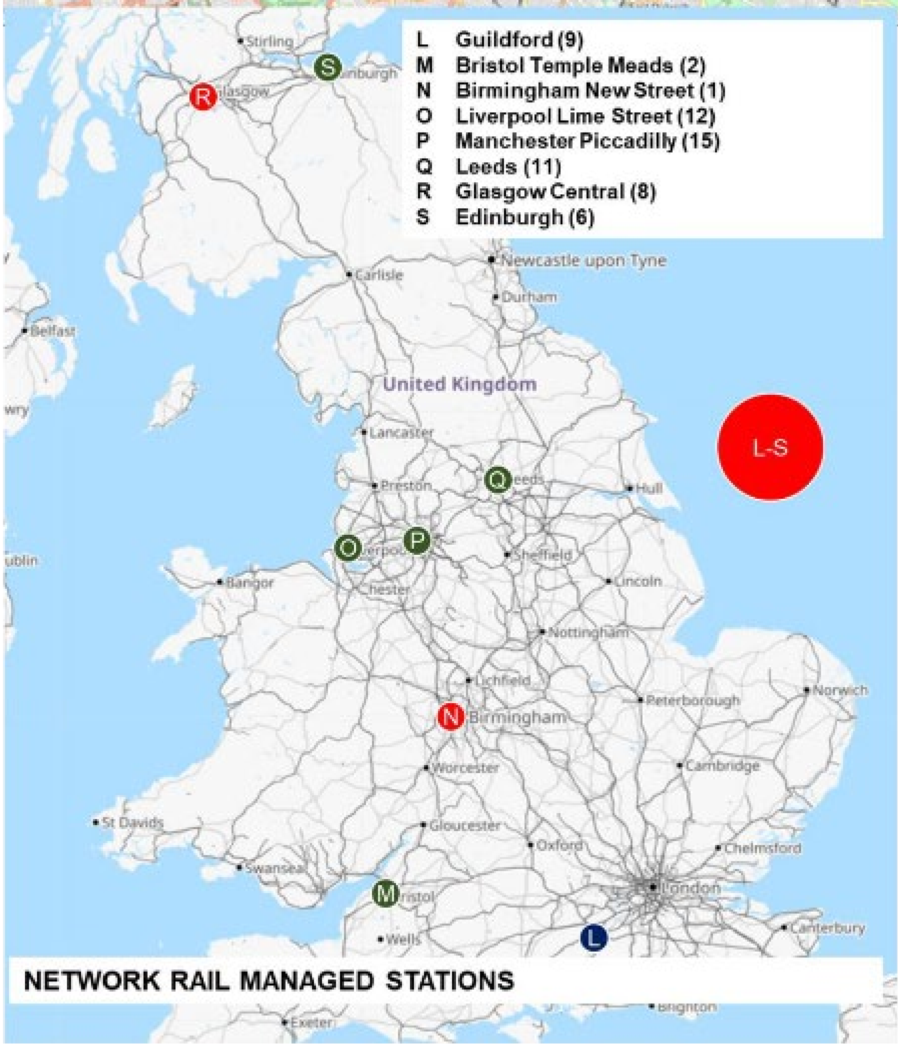


Figure A12 (left)

SOURCE: SAVILLS

The above map shows the locations of the regional Managed Stations. Note that all regions except Scotland have at least one London Station terminus.

APP 42. Retail Units are let based on a combination of Minimum Guaranteed Rent (‘**MRG**’) and turnover rent.

APP 43. The NR income following the COVID-19 hiatus has increasingly been turnover based, and the growth of Managed Station retail income is increasingly expected to be largely dependent on the station footfall.

APP 44. We analysed the station footfall data from the ORR website against the retail revenues from NR to assess the strength of the relationship between footfall and retail sales. *Limited data was available from the combined sources to look at long term trends*.

APP 45. In 2019-20, passenger entries and retail income across Managed Stations are highly correlated with a coefficient at 0.9. This correlating relationship remained strong in 2020-21 with a slightly lower coefficient (0.85). Based on our regression analysis, we believe it is a reasonable assumption to use the passenger number to inform the retail income projections given the correlation between the two factors.

APP 46. However, the extent to which how retail income change in response to passenger entries varies from station to station. For stations with more retail units (King Cross, Euston, Paddington, Victoria, Waterloo), there is larger increase in retail income when station footfall rise. For stations like Clapham Junction, Cannon Street, Charing Cross which are normally seen as transport transit, the station entries would be comparably stable with little impact on the retail income.

APP 47. The graphs at Figures A13, A14, A15 and A16 illustrate the correlation between retail and footfall (both by retail income to NR and by retail sales overall).

APP 48. To each chart we have applied a 95% confidence interval to establish the close relationship between the retail performance at most stations

APP 49. Figure A16 illustrates the correlation between passenger entries and Retail Sales in 2020-21 (affected by the Covid-19 pandemic) and shows a line of ‘best fit’ (the blue dotted line) which predicts where the stations would be if they were perfectly correlated. In this example, there is an 85% correlation between passenger entries as a proxy for footfall and retail sales by tenants of the Managed Stations’ retail units. Here the outliers (on the positive side of the dotted line) are Kings Cross, Euston and Paddington where the retail may well fulfil a role as both passenger and community amenity. Clapham Junction is a clear outlier below the dotted line, indicating that retail spending per passenger was much lower than would be anticipated statistically. Stations between the pale green dashed lines are within a 95% confidence interval of the trend line

APP 50. As noted, the higher than expected performance of Kings Cross, Euston and Paddington (Figure A16) may indicate either that:

a. they generate retail income not only from passengers, but also from the wider community with their retail infrastructure, or that

b. the mix of commuters and leisure passengers leads to a greater average spend per passenger. With revenues mainly driven by the grocery sector, it is interesting to note that there are no big supermarkets within the near neighbourhood.

APP 51. For Paddington, for example, the correlation between passenger numbers and retail income is not as strong and we believe that in part this can be attributed to the nature of retail in this station. The retail units in Paddington serves a purpose as a local amenity to the nearby area, which has a high concentration of hotels. For stations which act as the community hub, it is likely that they become the catalyst for wider economic and social benefits, attracting further investment around the property and rail development.

APP 52. Figure A17 illustrates the contraction of retail income to NR from their managed stations between 2019-20 and 2020-21. This also shows some of the challenge in getting back to a stable and predictable level of revenue for CP7.

APP 53. To summarise, Savills tested the assumption of a tight relationship between station footfall and retail sales, seeking to identify circumstances where the retail offering might perform better than expected if it is part of a local amenity for nearby residents, and where retailers might suffer from their position before or beyond the ticket barriers at key stations.

APP 54. This was an important exercise due to the reliance by NR for circa half of its income on the performance of its Managed Station retail portfolio.

APP 55. Savills found that **there was a 90% correlation between footfall and retail sales at managed stations in 2019-20** versus 85% correlation in 2020-21. It is interesting that **a strong correlation still existed in 2020-21 despite the dramatic reduction in footfall experienced through the Managed Stations** in that period.

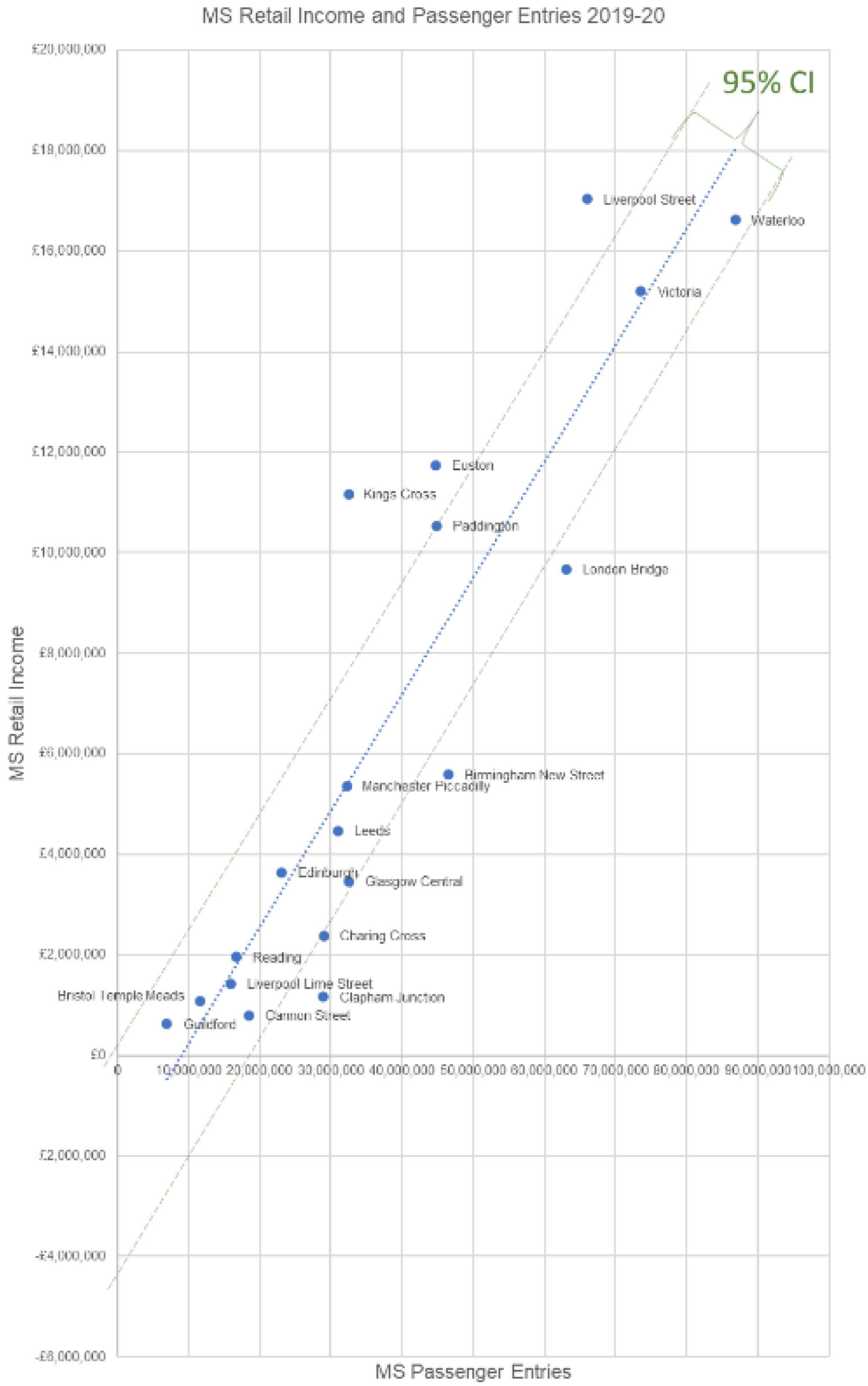


Figure A13
SOURCE: NETWORK RAIL and ORR

Figure A13 illustrates the pre-COVID correlation between **NR Retail Income from Managed Stations** and the Passenger Numbers at those stations in **2019-20**.

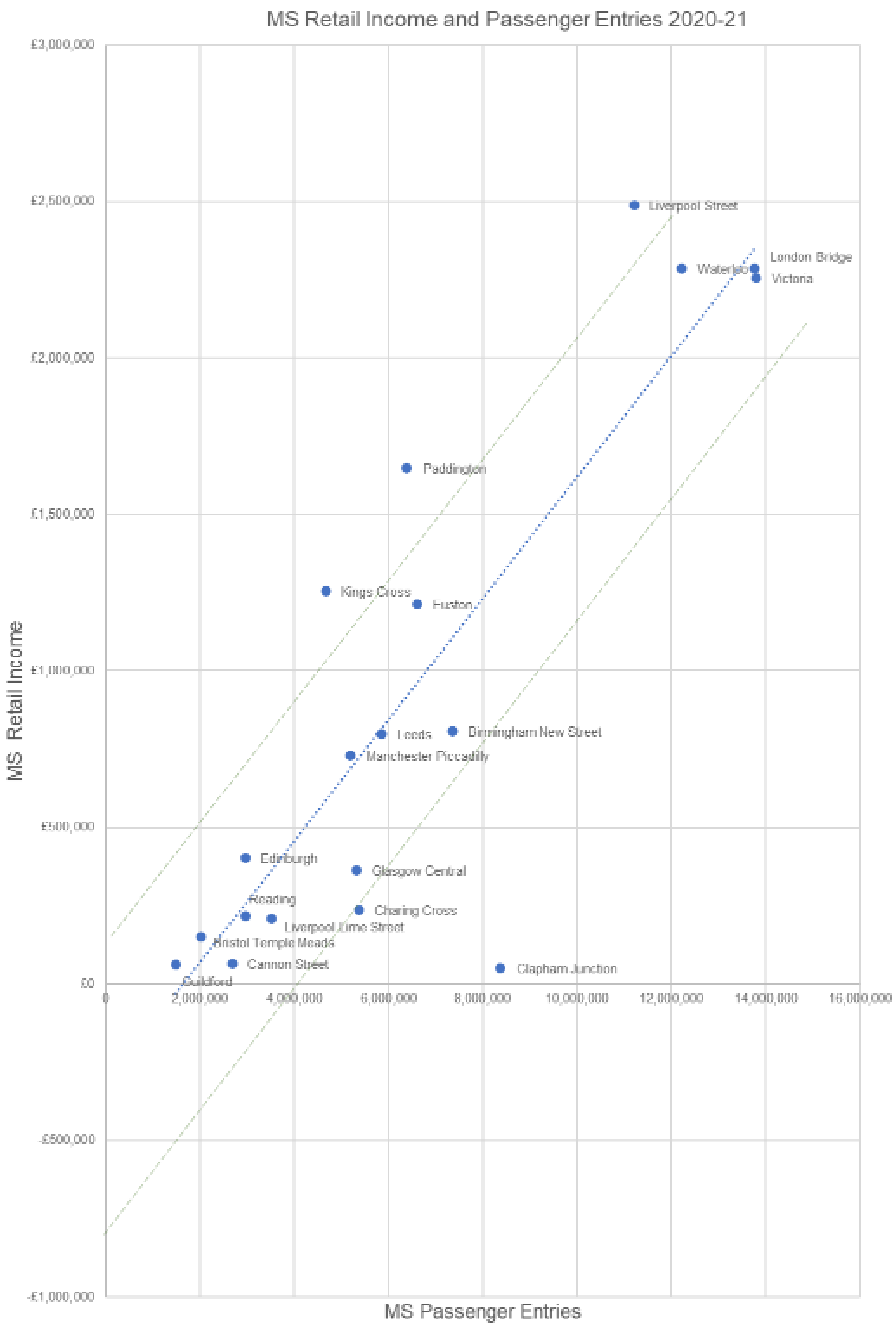


Figure A14
SOURCE: NETWORK RAIL and ORR

Figure A14 illustrates the correlation between **NR Retail Income from Managed Stations** and the Passenger Numbers at those stations in **2020-21** in the first year of COVID.

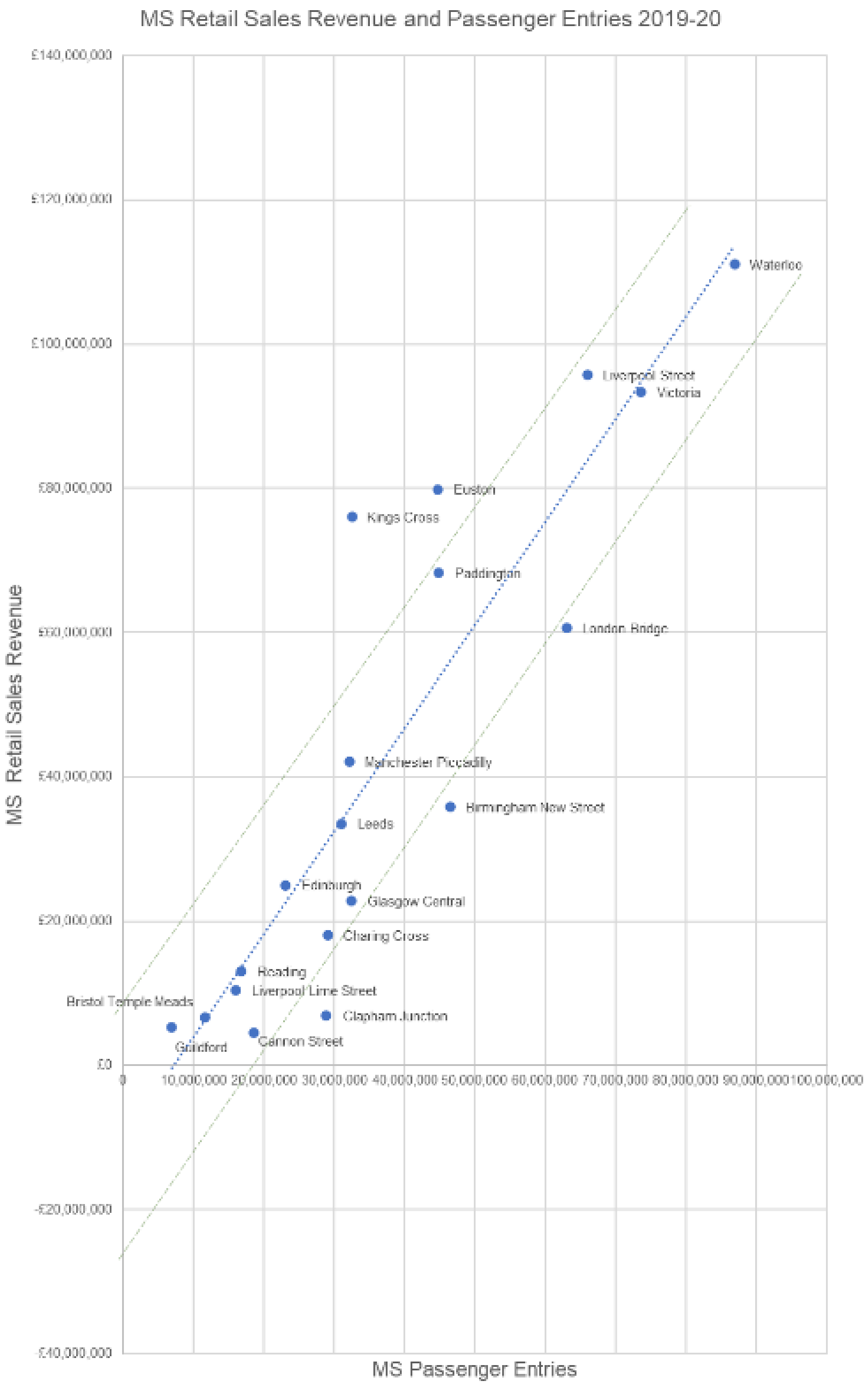


Figure A15
SOURCE: NETWORK RAIL and ORR

Figure A15 illustrates the pre-COVID correlation between **Overall Retail Sales** at Managed Stations and the Passenger Numbers at those stations in **2019-20**.

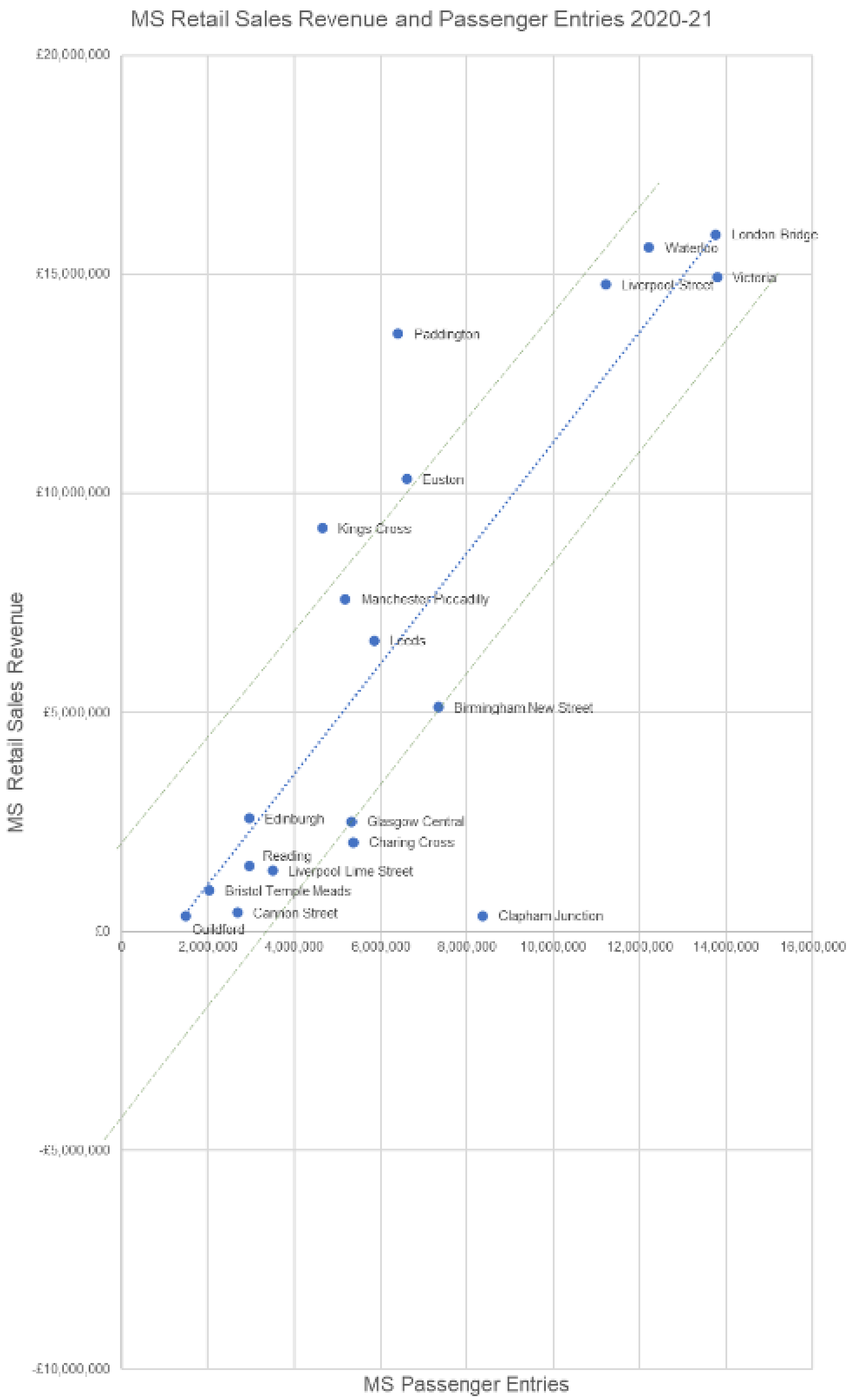


Figure A16
SOURCE: NETWORK RAIL and ORR

Figure A16 illustrates the correlation between **Overall Retail Sales** at Managed Stations and the Passenger Numbers at those stations in **2020-21** in the first year of COVID.

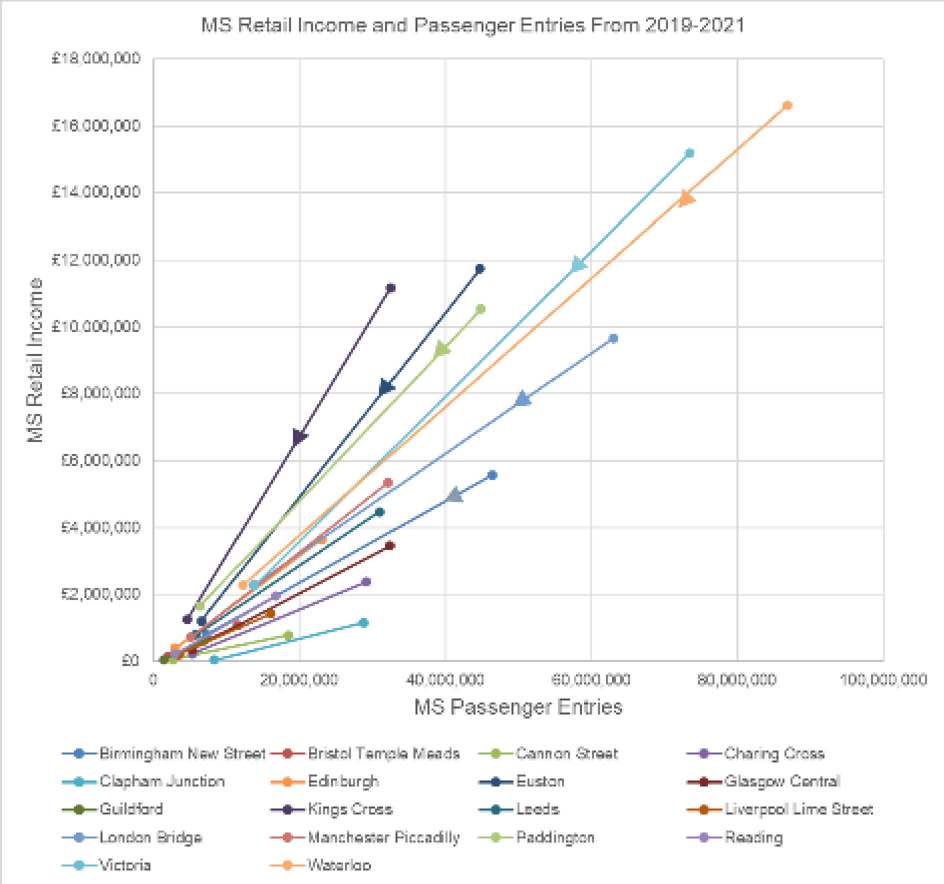


Figure A17
SOURCE: NETWORK RAIL and ORR

The above graph highlights the decrease in passenger entries versus the decrease in retail income between 2019-20 and 2020-21. This illustrates, as much as anything else, the extreme effect of Covid-19 on the retail income for NR. A similar shock in future can reasonably be expected to have a similar outcome for NR's finances.

The Managed Stations

APP 56. As noted above, Savills tested the assumption of a tight relationship between station footfall and retail sales, seeking to identify circumstances where the retail offering might perform better than expected if it is part of a local amenity for nearby residents, and where retailers might suffer from their position before or beyond the ticket barriers at key stations.

APP 57. Anecdotally, NR identifies that the average spend per commuter is a small fraction of the average spend per leisure customer, and yet the data does not permit a definitive analysis of these two subsets to inform the precise relationship and to act as a predictor of future income according to traveller mix.

APP 58. This is particularly the case because of the decline in the number of season-ticket holders and the fact that a substantial proportion of 'commuter' journeys may be made with day return tickets.

APP 59. Savills identified that considering the characteristics of the Managed Station portfolio is an important component of understanding the reliability of 45% of NR's overall income.

APP 60. Savills initially looked at the London stations, considering the retail offering and the footfall.

APP 61. The footfall across London is somewhat variable (as shown below in the 'bubble' chart, where the size of the bubble represents the 2019-20 footfall). The importance of the retail revenue from London Stations is highlighted by its circa two thirds of total retail income – around a third of overall Network Rail property income.

APP 62. This bubble chart should also be interpreted as indicating where the principal sources of retail income to NR are located. The chart also indicates (by colour) the different regions to which those retail revenues contribute.

APP 63. Analysis shows that some of the London Stations (notably Euston, Kings Cross and Paddington) may be acting partly as a community amenity in addition to the retail offerings for rail passengers.

APP 64. Further demographic analysis highlights that there is probably a propensity to provide more local support services (including retail floorspace) for those local communities if (and only if) this can be accommodated alongside rail operations and anticipated station/rail regeneration and renewal projects.

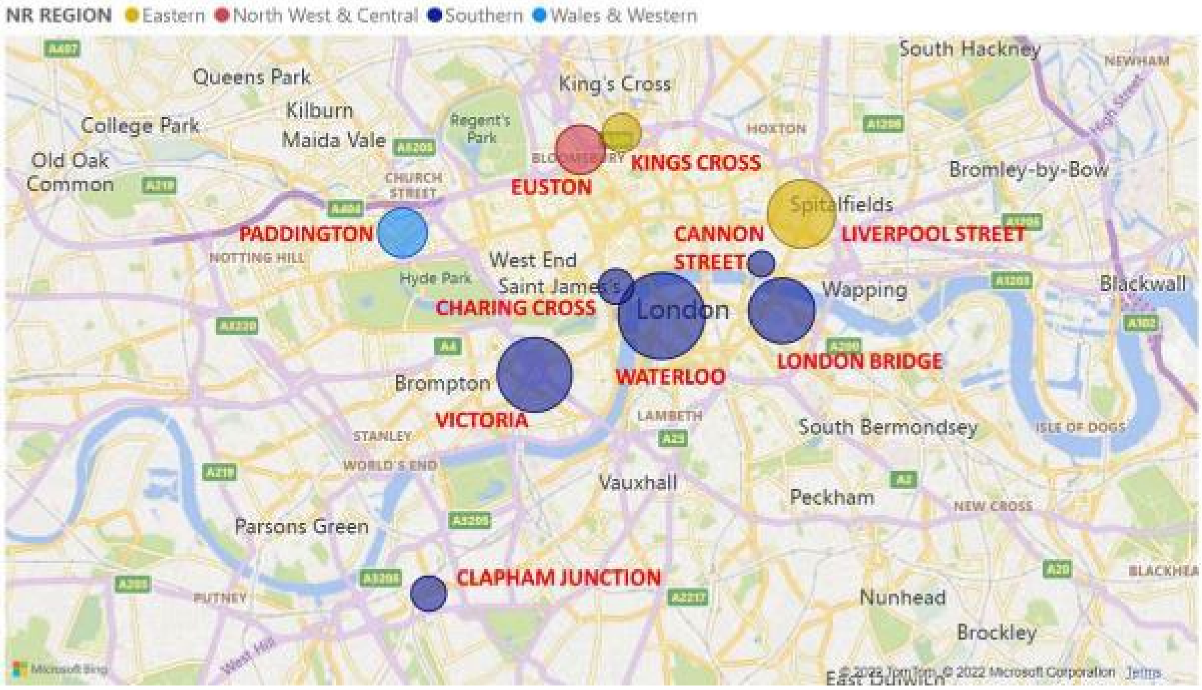


Figure A18
SOURCE: SAVILLS and ORR

'Bubble' Chart showing the relative footfall in 2019-20 across the London stations.

APP 65. Figure A18 illustrates the passenger numbers at each London Managed Station, coloured by Region, and highlights how Waterloo and Victoria (Southern Region) have the highest passenger numbers of all.

APP 66. Elsewhere, across the regions in England & Wales, the reliance on retail income from the regional managed stations is difficult to judge but analysis demonstrates that it is much more closely related to footfall levels (96% correlation for 2019/20) illustrating, perhaps, that the underlying property values in the local areas is much less important than the amount of footfall and the attractiveness of that retail offering to rail passengers.

APP 67. In Scotland, there is a much lower relative reliance on Footfall for income [Redacted]

APP 68. When considering the volume of sales on a comparative, station-by-station basis, and the passenger numbers for each of the managed stations, there is a clear correlation between footfall and retail income, but this does not act evenly across all of the stations.

APP 69. Care needs to be taken in managing the station retail offerings through CP7 (particularly if there is a risk of further disruption due to Covid-19 variants or, perhaps, a new pandemic).

APP 70. The data comparison between 2019/20 and 2020/21 shows that, across all stations, 2020/21 trading (Retail Sales) fell by 80.48%. London Station Retail Sales fell by a broadly similar amount (80.19%). Paddington, which provides more neighbourhood retail amenities fell by 74.68%, suggesting that there is a partial resilience opportunity in those stations where there is scope to also provide community amenities. This will not be practicable for all stations – particularly where closing the station also means closing the retail areas.

APP 71. Anecdotally, there is a much greater spend from leisure passengers than by commuters, and this may also help to explain some of the variances between total footfall and retail sales in the London Stations that cater for more of the leisure passengers.

APP 72. Savills developed a theory which sought to understand the position of retail units and the success of the stations in generating retail sales from their passengers.

APP 73. Observation of some of the stations (e.g., London Bridge) identified that some retail offerings were beyond the ticket barriers and only available to passengers. At other stations (e.g., Birmingham New Street) the presence of a shopping centre at the entrance to the station may mean that passengers have already bought comestibles, books and other travelling goods before even entering the station.

APP 74. The layouts of each station were extracted from NR's website (Figures A19-A37) and the corresponding Goad Plans (where available) were examined to see if there were any predictable anomalies in the retail income data.

APP 75. The retail spend per passenger was analysed by station (Table A2)

Station Name	2019-20 sales		Station Footfall 2019-20	£/Passenger
Birmingham New Street	£	35,860,349	46,510,526	0.7710 p
Bristol Temple Meads Statio	£	6,654,995	11,619,360	0.5728 p
Edinburgh Waverley	£	25,004,625	23,087,646	1.0830 p
Glasgow Central	£	22,809,291	32,465,202	0.7026 p
Guildford Station	£	5,292,063	6,936,796	0.7629 p
Leeds City	£	33,533,572	31,020,744	1.0810 p
Liverpool Lime Street	£	10,442,593	16,021,914	0.6518 p
Manchester Piccadilly	£	42,095,939	32,198,704	1.3074 p
Reading Station	£	13,067,978	16,753,368	0.7800 p
Victoria Station	£	93,310,519	73,559,158	1.2685 p
Paddington Station	£	68,284,131	44,871,096	1.5218 p
Charing Cross	£	18,066,977	29,138,398	0.6200 p
Kings Cross	£	75,994,935	32,532,404	2.3360 p
Euston	£	79,865,582	44,776,804	1.7836 p
Cannon Street	£	4,575,287	18,513,178	0.2471 p
Liverpool Street	£	95,691,747	65,984,786	1.4502 p
Waterloo	£	111,097,091	86,903,518	1.2784 p
London Bridge	£	68,439,502	63,095,300	1.0847 p
Clapham Junction Station	£	6,942,517	28,892,348	0.2403 p
	£	817,029,693	704,881,250	1.1591 p

Table A2
SOURCE: NETWORK RAIL and ORR

This table illustrates the significant differences in terms of **Retail Sales** per passenger between the stations in 2019-20 – indicating that Kings Cross and Euston attract the greatest average retail sales per passenger.

APP 76. This data demonstrates a wide range of average spend per passenger from 0.24p per passenger at Clapham Junction to 2.33p per passenger at Kings Cross.

APP 77. The NR income per passenger was then analysed by station (Table A3) to understand the profile revenue generated to NR from its Managed Stations.

APP 78. The NR income per passenger ranges from 0.04p at Clapham Junction to 0.34p at Kings Cross. This may be explained by the number of passenger changes at Clapham Junction beyond the ticket barrier.

Table A3 [Table refacted]
SOURCE: NETWORK RAIL and ORR

This table illustrates the **NR Retail Income from Managed Stations** in 2019-20, categorised by Minimum Guaranteed Rental ('**MGR**'), Turnover rent and total Network Rail Retail Rental income. This highlights that Cannon Street and Clapham Junction have the lowest average NR income per passenger.

Station Name	NR Income as % of Sales
Birmingham New Street	15.56%
Bristol Temple Meads Station	16.23%
Edinburgh Waverley	14.57%
Glasgow Central	15.17%
Guildford Station	11.66%
Leeds City	13.34%
Liverpool Lime Street	13.64%
Manchester Piccadilly	12.72%
Reading Station	14.95%
Victoria Station	16.29%
Paddington Station	15.43%
Charing Cross	13.16%
Kings Cross	14.69%
Euston	14.70%
Cannon Street	17.27%
Liverpool Street	17.81%
Waterloo	14.96%
London Bridge	15.49%
Clapham Junction Station	16.71%
	15.28%

Table A4
SOURCE: NETWORK RAIL and ORR

This table sets out the proportion of overall retailer sales revenues paid to NR in rent (MGR and Top-Up Rent combined

APP 79. Finally, Savills reviewed the relationship between sales revenues and NR retail income from managed stations which ranges from 11.66% at Guildford to 16.71% at Clapham Junction.

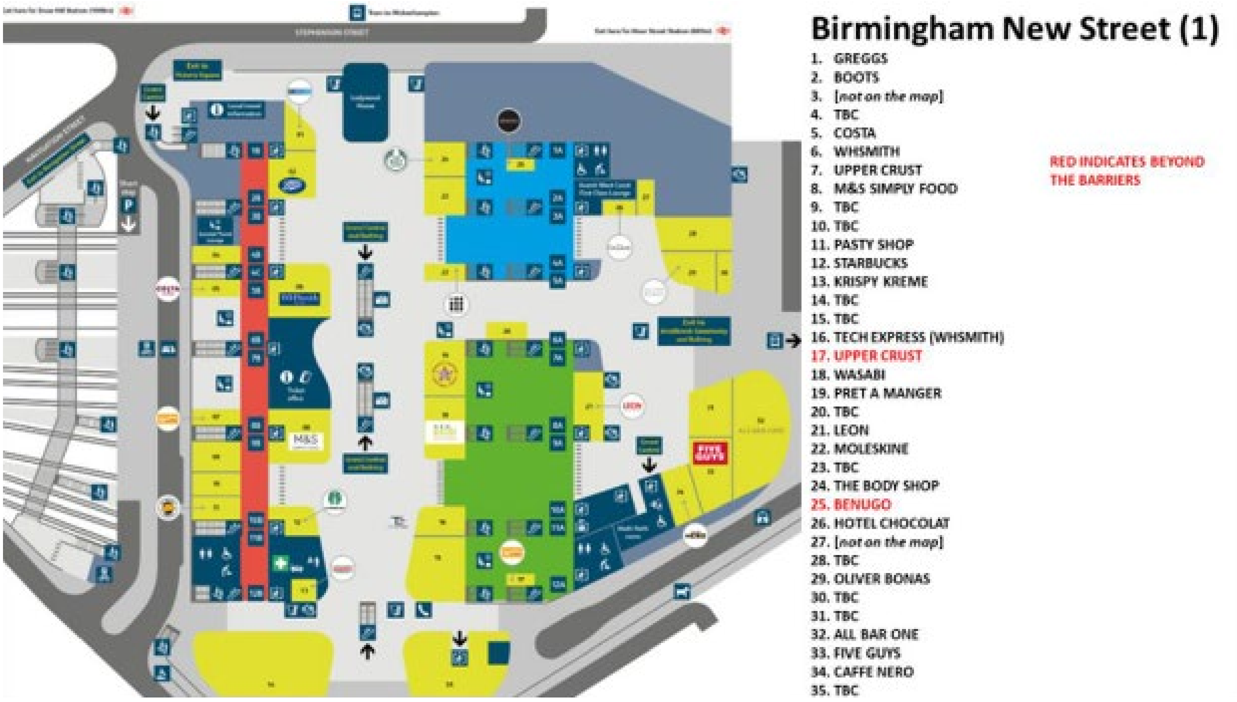


Figure A19

SOURCE: NETWORK RAIL

Station Layout for Birmingham New Street

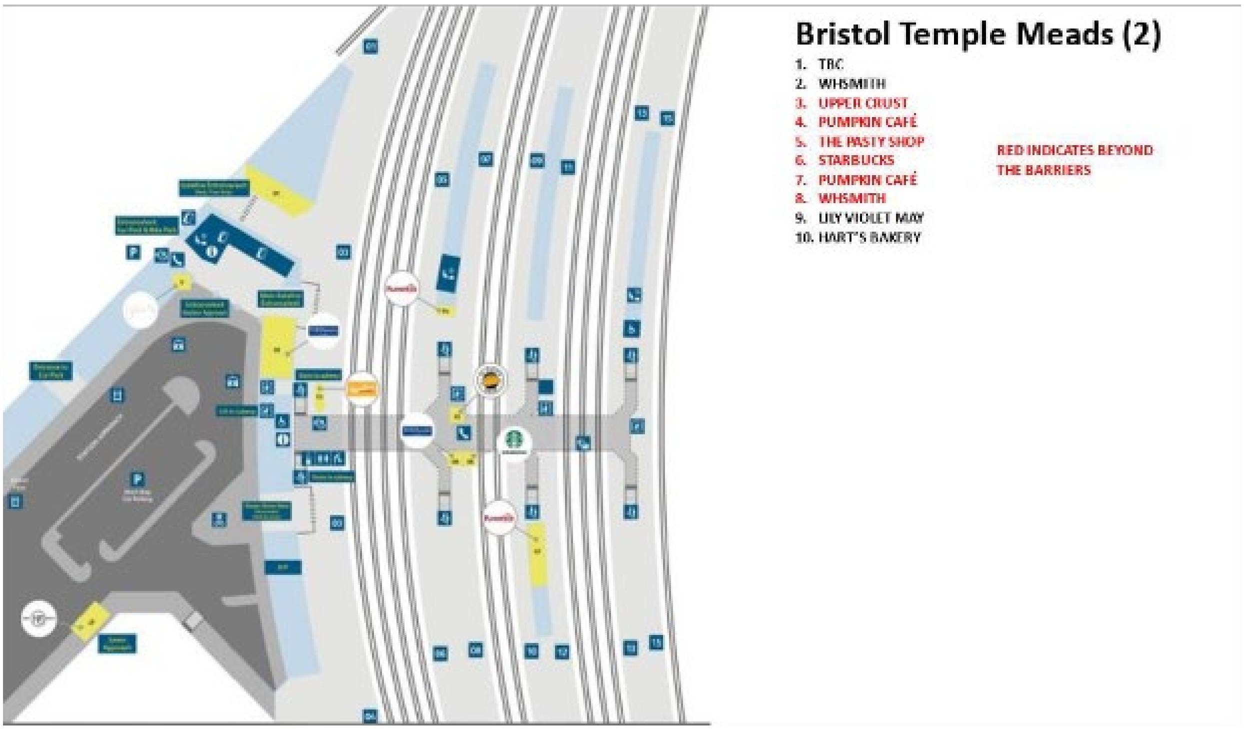


Figure A20

SOURCE: NETWORK RAIL

Station Layout for Bristol Temple Meads

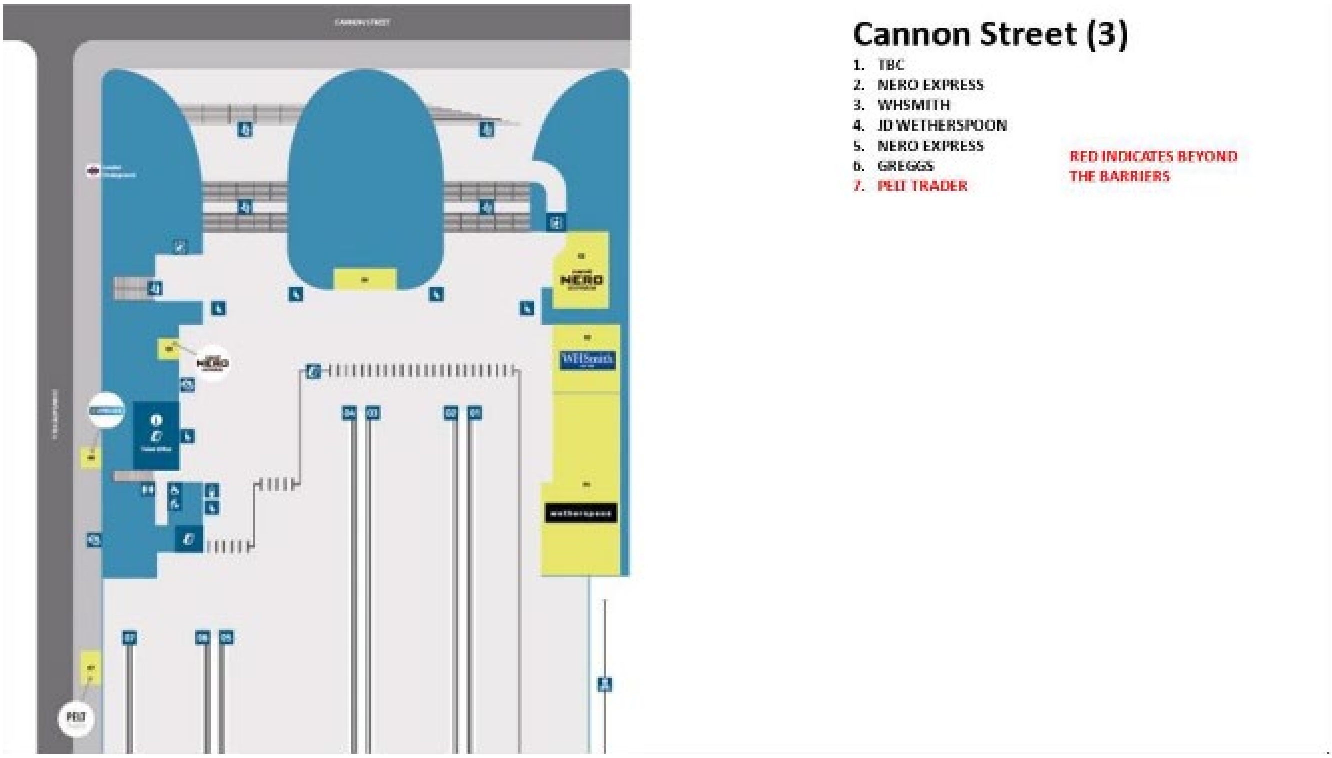


Figure A21

SOURCE: NETWORK RAIL

Station Layout for London Cannon Street

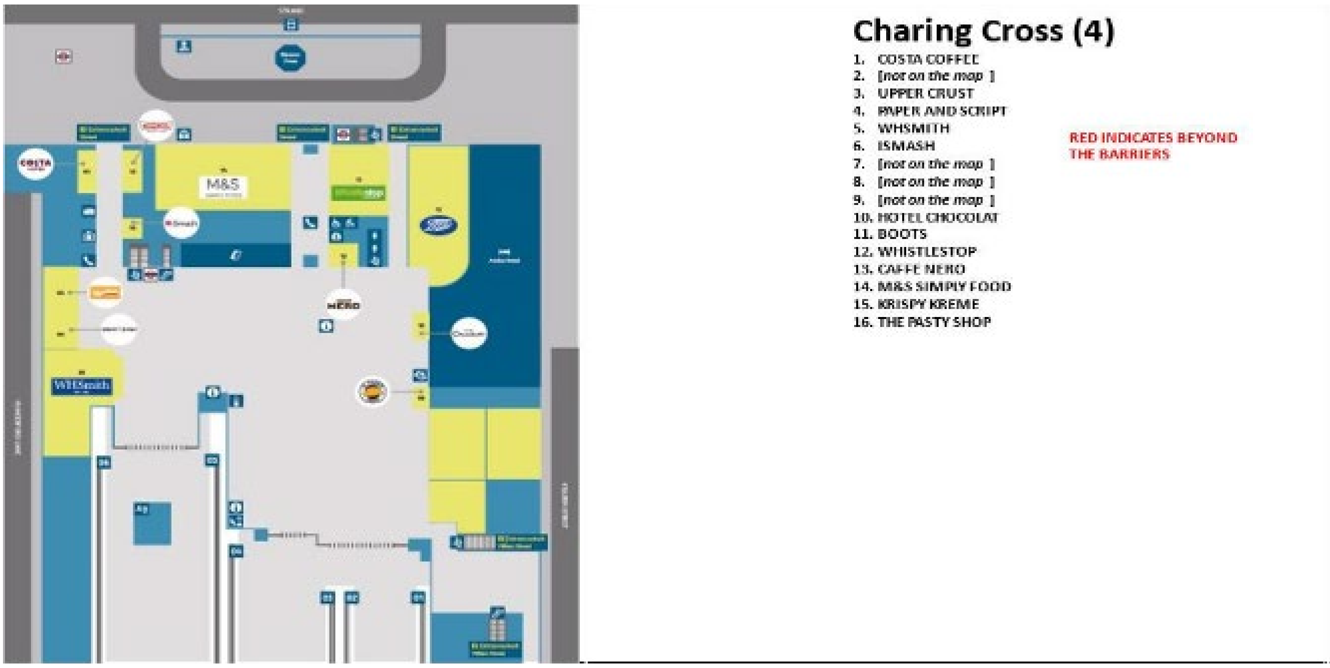
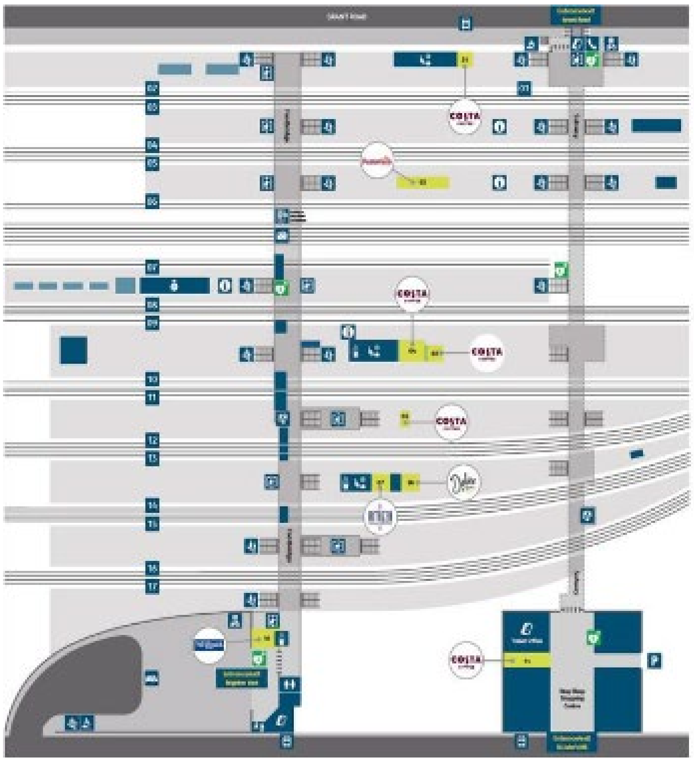


Figure A22

SOURCE: NETWORK RAIL

Station Layout for London Charing Cross



Clapham Junction (5)

1. COSTA COFFEE
2. PUMPKIN CAFÉ
3. COSTA COFFEE
4. COSTA COFFEE
5. COSTA COFFEE
6. DELICE DE FRANCE
7. RITAZZA
8. [not on the map]
9. [not on the map]
10. WHSMITH
11. COSTA COFFEE

RED INDICATES BEYOND THE BARRIERS

Figure A23

SOURCE: NETWORK RAIL

Station Layout for London Clapham Junction

Edinburgh(6)

1. BOOTS
2. COSTA COFFEE
3. WHSMITH
4. PRET A MANGER
5. BAGEL FACTORY
6. M&S SIMPLY FOOD
7. THE BEER HOUSE
8. TBC
9. PASTY SHOP
10. CAFFE NERO
11. THE BOOKING OFFICE (JD WETHERSPOON)

RED INDICATES BEYOND THE BARRIERS

Figure A24

SOURCE: NETWORK RAIL

Station Layout for Edinburgh Waverley

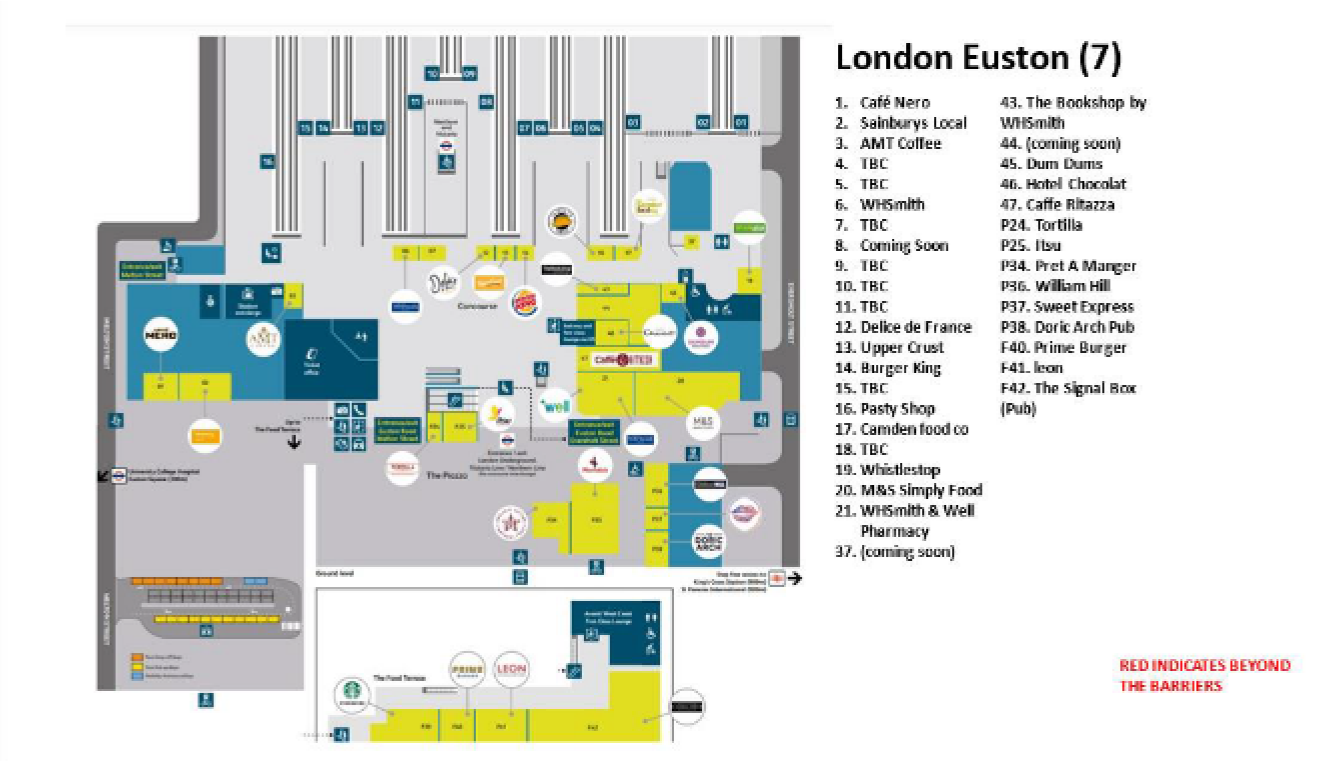


Figure A25

SOURCE: NETWORK RAIL

Station Layout for London Euston

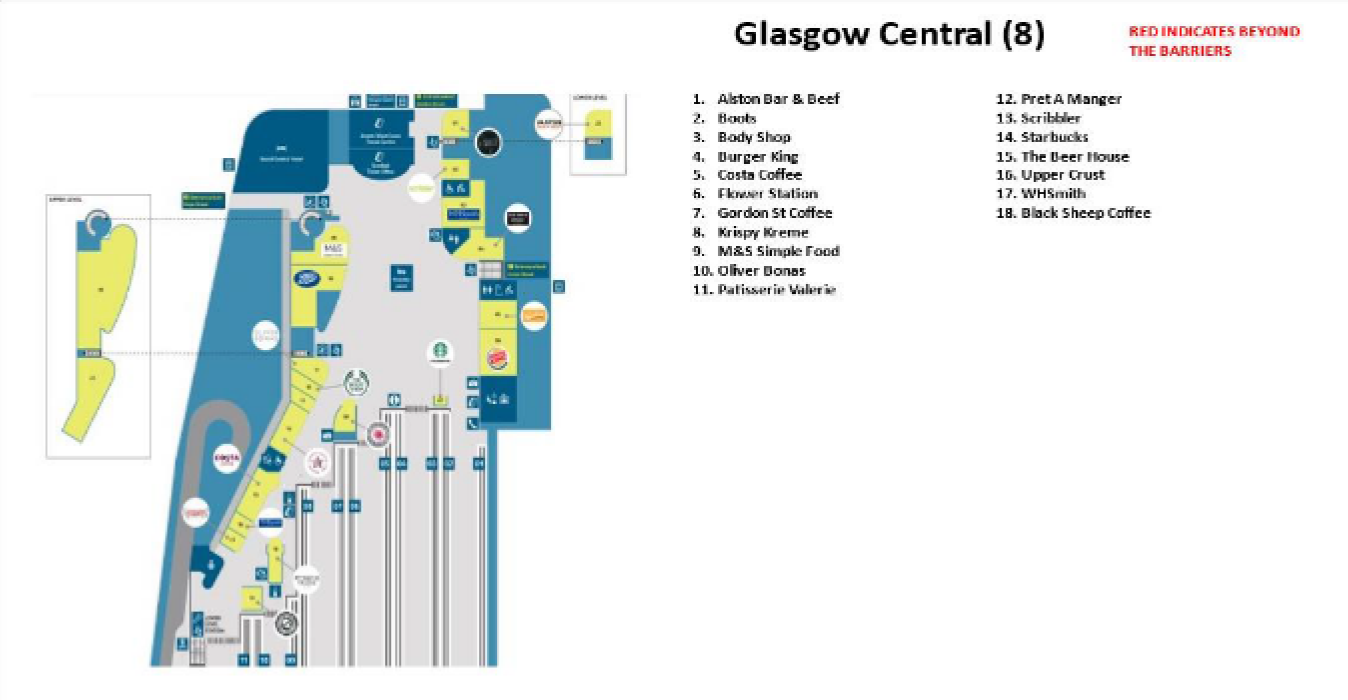


Figure A26

SOURCE: NETWORK RAIL

Station Layout for Glasgow Central

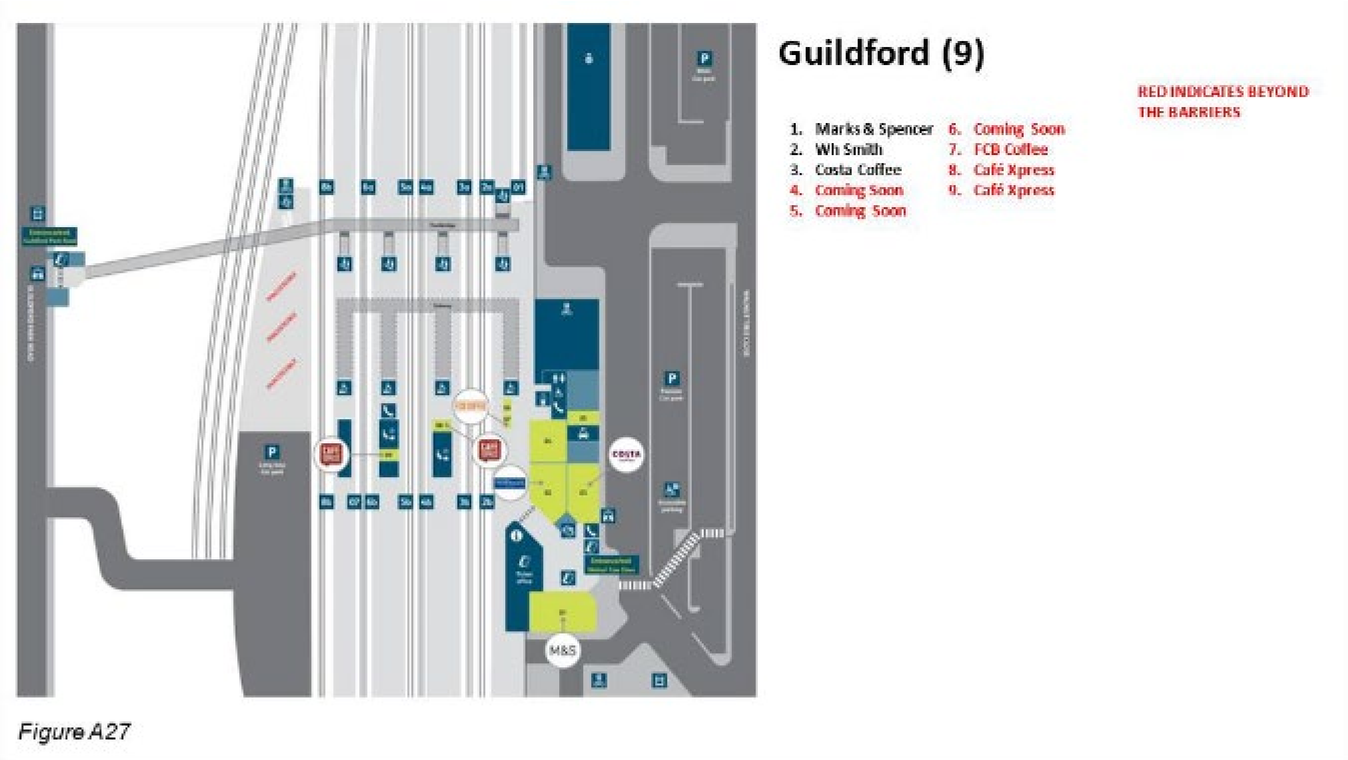


Figure A27

SOURCE: NETWORK RAIL

Station Layout for Guildford

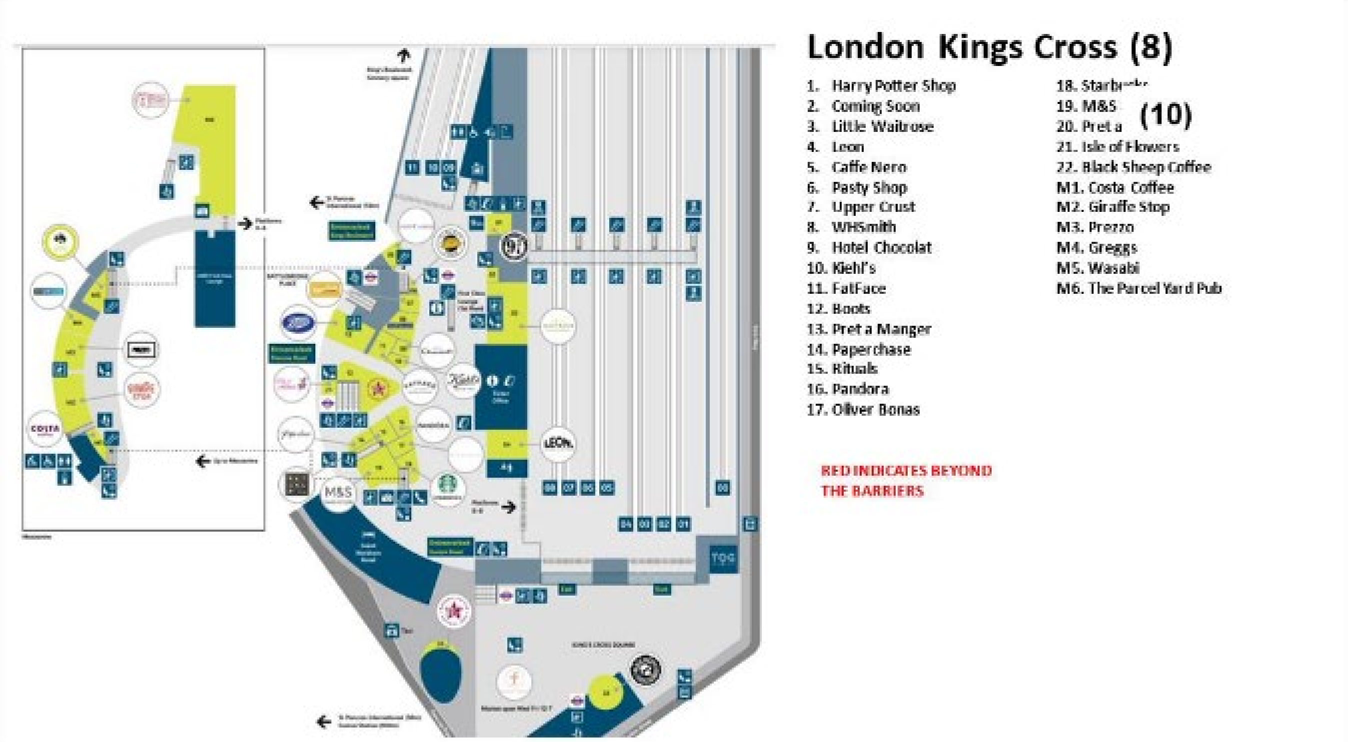


Figure A28

SOURCE: NETWORK RAIL

Station Layout for London Kings Cross

Leeds (11)

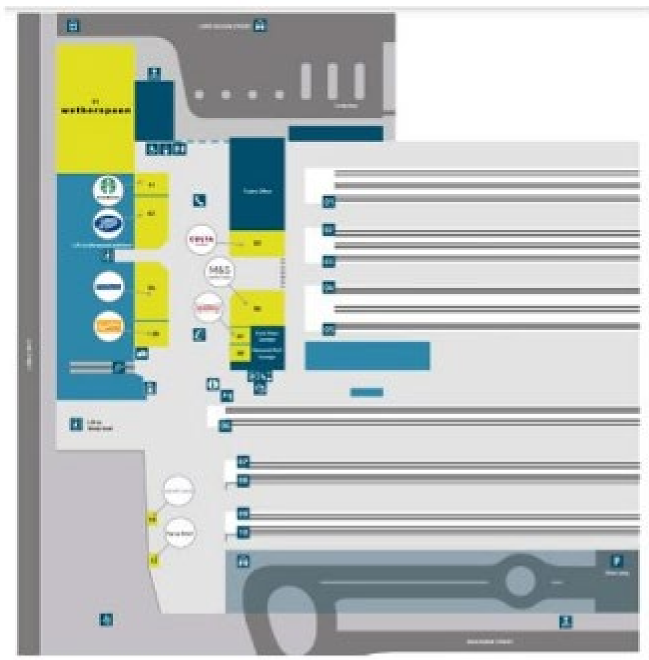
RED INDICATES BEYOND THE BARRIERS

1. William Hill
2. Bagel Factory
3. Coming Soon
4. JD Whetherspoons
5. Pop Up Retail
6. Pop UP Retail
7. Sainsburys
8. Pret a Manger
9. Coming Soon
10. Leon
11. KFC
12. Starbucks
13. McDonald's
14. Upper Crust
15. Boots
16. Caffe Nero
17. (not on map)
18. (not on map)
19. (not on map)
20. WHSmith
21. The Bookshop by WHSmith
22. Pop Up Retail
23. The Beer House
24. M&S Simply Food
25. Delice de France
26. The Pasty Shop
27. Starbucks
28. Coffee Room

Figure A29

SOURCE: NETWORK RAIL

Station Layout for Leeds City



Liverpool Lime Street (12)

RED INDICATES BEYOND THE BARRIERS

1. JD Whetherspoon
2. Boots
3. Costa Coffee
4. WH Smith
5. Upper Crust
6. M&S Simply Food
7. Krispy Kreme
8. Coming Soon (retail)
9. TBC
10. Café Nero
11. Starbucks
12. Bubble Tea

Figure A30

SOURCE: NETWORK RAIL

Station Layout for Liverpool Lime Street

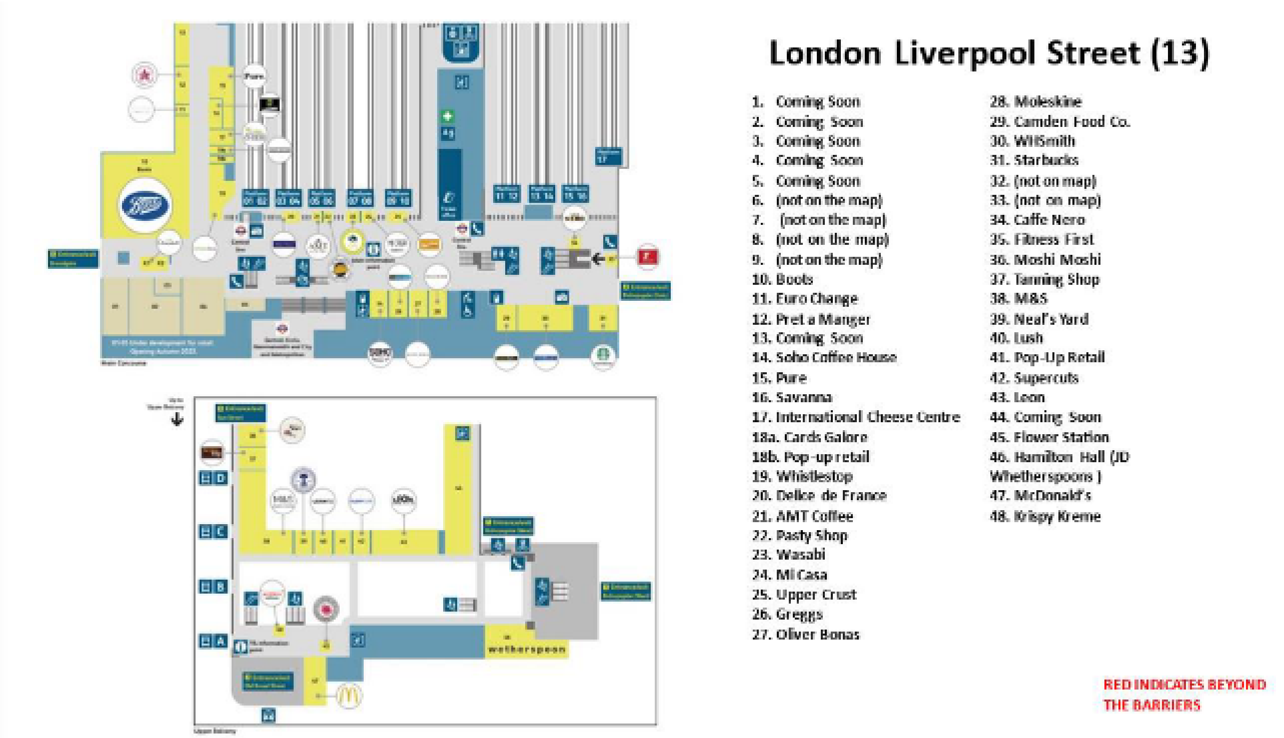


Figure 31

SOURCE: NETWORK RAIL

Station Layout for London Liverpool Street

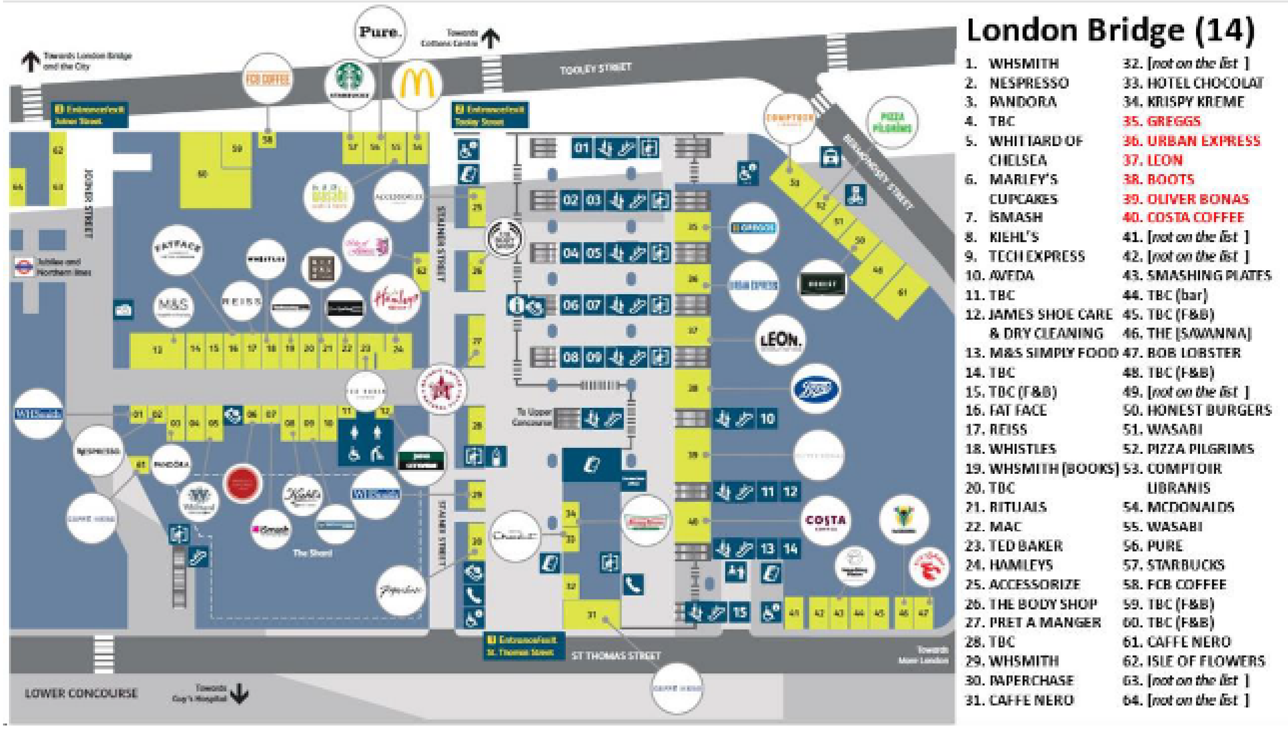


Figure 32

SOURCE: NETWORK RAIL

Station Layout for London Bridge

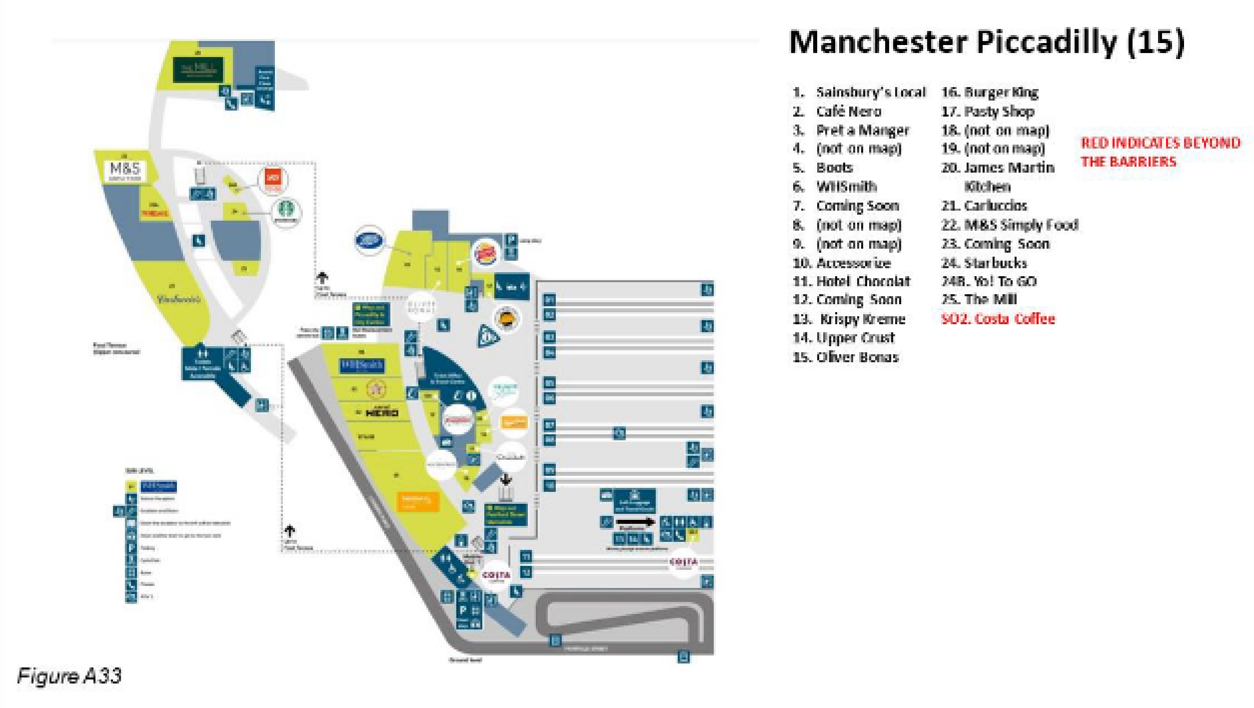


Figure A33

SOURCE: NETWORK RAIL

Station Layout for Manchester Piccadilly

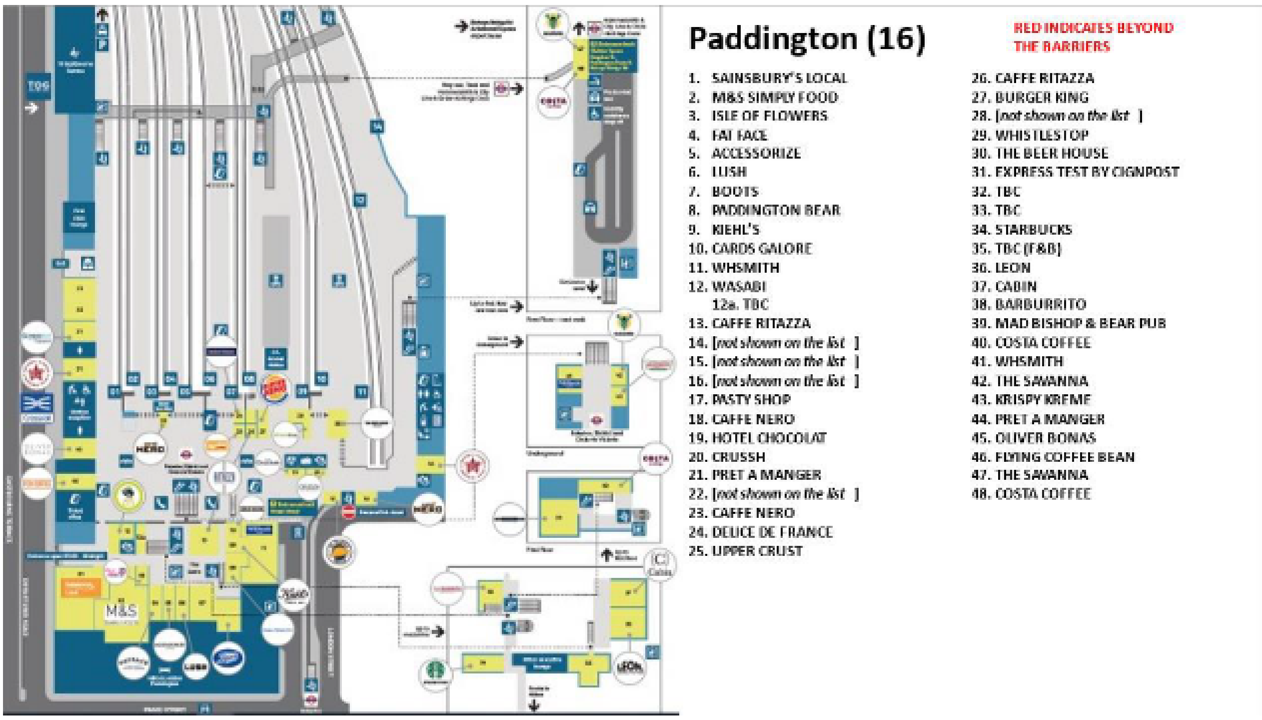


Figure A34

SOURCE: NETWORK RAIL

Station Layout for London Paddington

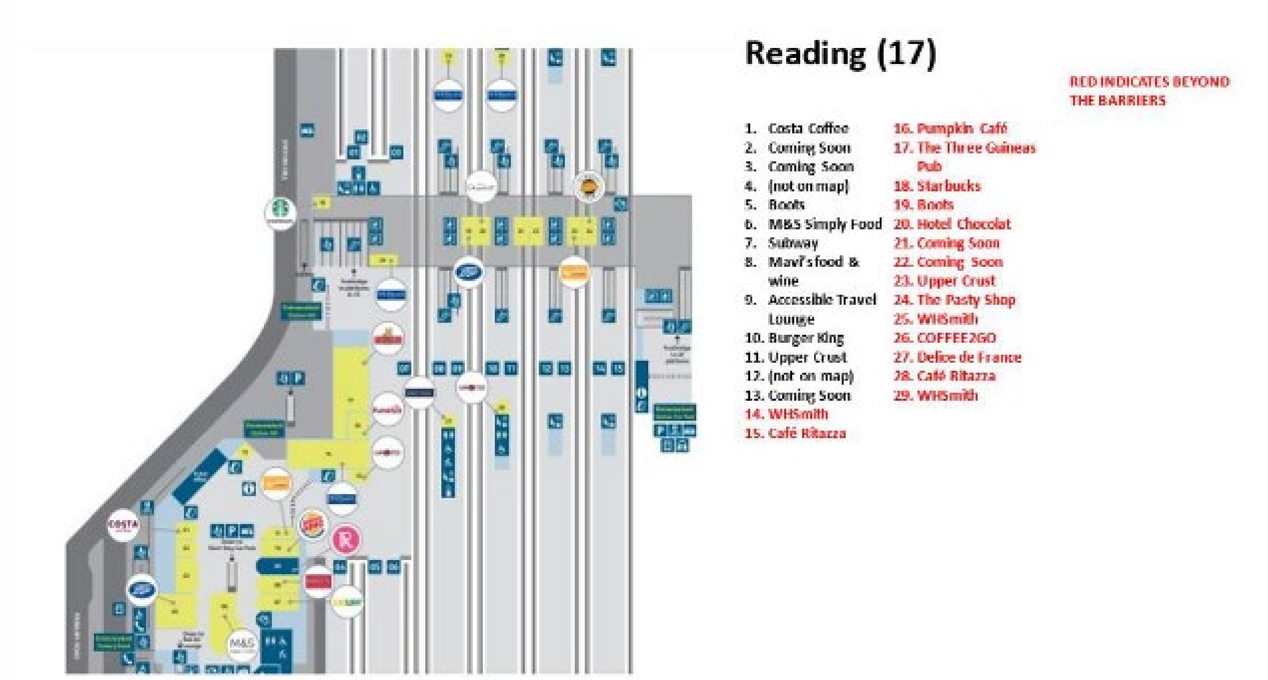


Figure A35

SOURCE: NETWORK RAIL

Station Layout for Reading

Figure A36

SOURCE: NETWORK RAIL

Station Layout for London Victoria

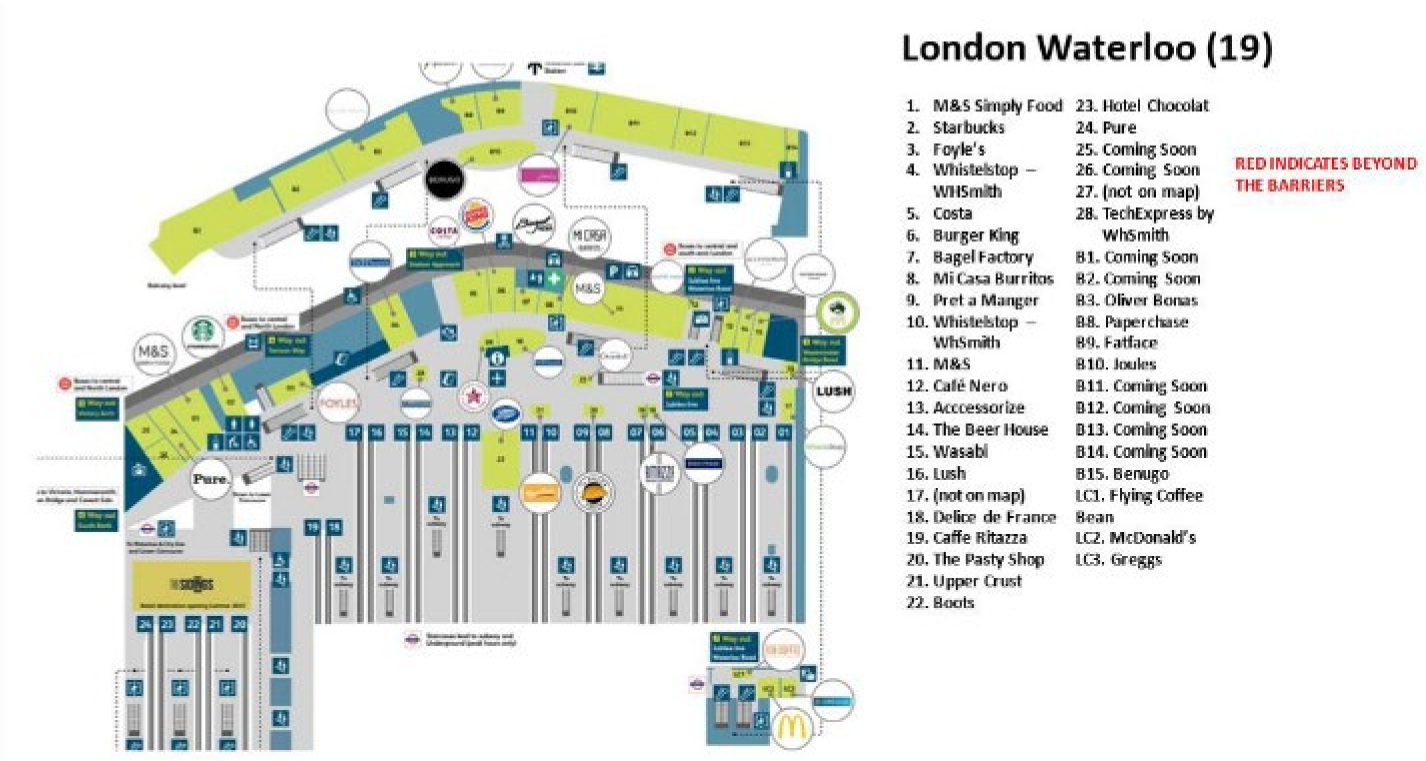


Figure A37

SOURCE: NETWORK RAIL

Station Layout for London Waterloo

APP 80. The differences between the facilities and amenities offered by the various stations and between the revenues generated at each station required further analysis of the respective retail markets closest to each station (or in which the stations are located).

APP 81. [Redacted]

APP 82. On the other hand, NR assumed a passenger number model that recovered to 85% by CP7 and which grew at 1% of pre-COVID numbers per year:

	2024-25	2025-26	2026-27	2027-28	2028-29
Passenger Numbers as a % of Pre-COVID levels (NR Forecast)	85	86	87	88	89
Implied Growth Rates applying to Retail revenues		[Redacted]	[Redacted]	[Redacted]	[Redacted]

Table A5
SOURCE: NETWORK RAIL

This table illustrates the growth rate implicit in NR's passenger numbers coupled with the expectation that retail revenues will be in step with passenger numbers.

APP 83. [Redacted]

APP 84. Savills identified the most relevant retail market for each station and evaluated forecasts from its own research to understand the expected retail growth rate.

Background Retail Markets

APP 85. Savills analysed the individual growth rates per background retail market, taking actual growth rates to calendar year 2021, forecast growth rates to 2026 and then projected a trend line from calendar years 2027 to 2030 based on the 2023 to 2026 forecasts.

APP 86. The overall average of the growth rates suggested an 8.4% rate of growth across the markets, but there were substantial variances.

APP 87. As a result, we created a normalised data set where we applied the growth rates to the 2019-20 sales revenues for each market. This highlighted that some of the lowest growth rates are to be found where NR receives some of its highest per station income.

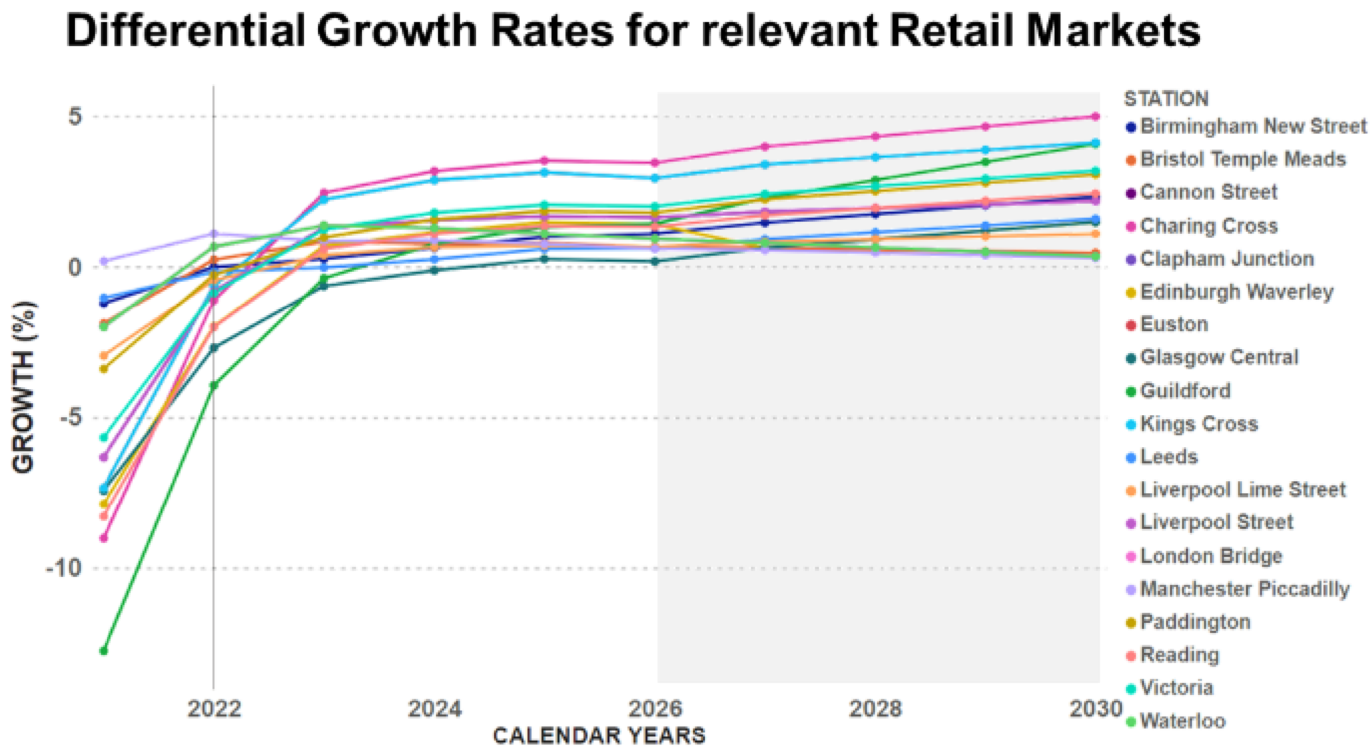


Figure A38

SOURCE: SAVILLS and THIRD PARTY DATA

This chart illustrates the relative forecast and trend growth rates for rents in the nearest comparison market to the various Managed Stations. The Y-axis shows growth in percentages, with the X axis showing the years. For the years to 2026 inclusive, these represent Savills forecasts based on locally sourced data. The years from 2027 onwards are projected as a trend line based on the years from 2023 to 2026 inclusive for each market.

APP 88. On this basis, retail sales are expected to be at around £800m in 2024, rising to almost £900m in 2030.

APP 89. The normalised data highlights an overall annualised portfolio forecast rate of growth of 1.814% per year.

APP 90. The forecast and trend growth rate in sufficiently close to the NR growth rate to allow us to consider the NR universal rate to be robust.

APP 91. When looking at individual stations or regions, this universal rate will be inappropriate – some regions and stations will be higher and some lower.

APP 92. The effective rates per region are:

a.	Southern	1.51%
b.	Eastern	2.185%
c.	North West & Central	2.039%
d.	West & Wales	1.922%
e.	Scotland	1.129%

Station	2019-20 sales	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Birmingham New Street	£ 35,860,349	£ 35,424,485	£ 35,424,423	£ 35,520,140	£ 35,746,681	£ 36,104,481	£ 36,502,760	£ 37,038,801	£ 37,688,717	£ 38,457,900	£ 39,352,844
Bristol Temple Meads	£ 6,654,995	£ 6,529,856	£ 6,545,778	£ 6,600,354	£ 6,651,582	£ 6,704,869	£ 6,748,371	£ 6,791,054	£ 6,830,410	£ 6,866,374	£ 6,898,889
Edinburgh Waverley	£ 25,004,625	£ 23,035,212	£ 22,579,181	£ 22,734,998	£ 22,996,538	£ 23,338,079	£ 23,667,914	£ 24,096,500	£ 24,593,195	£ 25,161,719	£ 25,806,400
Glasgow Central	£ 22,809,291	£ 21,113,297	£ 20,545,400	£ 20,415,516	£ 20,392,868	£ 20,447,562	£ 20,485,754	£ 20,616,242	£ 20,806,029	£ 21,056,569	£ 21,369,843
Guildford	£ 5,292,063	£ 4,617,264	£ 4,435,583	£ 4,418,918	£ 4,452,900	£ 4,512,022	£ 4,576,638	£ 4,681,160	£ 4,816,073	£ 4,983,683	£ 5,186,941
Leeds	£ 33,533,572	£ 33,187,168	£ 33,132,680	£ 33,127,145	£ 33,212,148	£ 33,411,572	£ 33,617,804	£ 33,929,047	£ 34,319,366	£ 34,791,247	£ 35,347,748
Liverpool Lime Street	£ 10,442,593	£ 10,134,341	£ 10,089,729	£ 10,129,974	£ 10,197,048	£ 10,269,801	£ 10,339,421	£ 10,425,776	£ 10,522,115	£ 10,628,692	£ 10,745,791
Manchester Piccadilly	£ 42,095,939	£ 42,178,185	£ 42,643,138	£ 43,010,886	£ 43,394,829	£ 43,729,233	£ 43,994,933	£ 44,242,059	£ 44,451,357	£ 44,622,244	£ 44,754,234
Reading	£ 13,067,978	£ 11,985,167	£ 11,746,019	£ 11,817,211	£ 11,947,611	£ 12,109,290	£ 12,270,981	£ 12,480,672	£ 12,724,365	£ 13,003,830	£ 13,321,126
Victoria	£ 93,310,519	£ 88,024,794	£ 87,264,806	£ 88,349,153	£ 89,938,073	£ 91,794,684	£ 93,640,362	£ 95,907,885	£ 98,476,805	£ 101,367,627	£ 104,603,831
Paddington	£ 68,284,131	£ 65,968,485	£ 65,792,970	£ 66,439,033	£ 67,485,660	£ 68,740,298	£ 69,978,886	£ 71,546,702	£ 73,345,926	£ 75,391,614	£ 77,701,189
Charing Cross	£ 18,066,977	£ 16,438,160	£ 16,255,480	£ 16,655,030	£ 17,184,673	£ 17,790,513	£ 18,405,309	£ 19,139,592	£ 19,967,073	£ 20,896,996	£ 21,939,999
Kings Cross	£ 75,994,935	£ 70,416,095	£ 69,974,696	£ 71,535,616	£ 73,595,434	£ 75,901,969	£ 78,139,597	£ 80,796,141	£ 83,737,454	£ 86,987,376	£ 90,572,783
Euston	£ 79,865,582	£ 74,002,595	£ 73,538,715	£ 75,179,137	£ 77,343,868	£ 79,767,882	£ 82,119,479	£ 84,911,328	£ 88,002,451	£ 91,417,900	£ 95,185,924
Cannon Street	£ 4,575,287	£ 4,286,097	£ 4,251,632	£ 4,306,301	£ 4,373,277	£ 4,446,500	£ 4,519,422	£ 4,602,319	£ 4,692,175	£ 4,789,328	£ 4,894,152
Liverpool Street	£ 95,691,747	£ 89,643,365	£ 88,922,542	£ 90,065,924	£ 91,466,732	£ 92,998,184	£ 94,523,342	£ 96,257,128	£ 98,136,445	£ 100,168,403	£ 102,360,785
Waterloo	£ 111,097,091	£ 108,882,981	£ 109,617,841	£ 111,127,049	£ 112,563,427	£ 113,802,774	£ 114,873,031	£ 115,794,961	£ 116,550,533	£ 117,136,144	£ 117,548,929
London Bridge	£ 68,439,502	£ 67,075,537	£ 67,528,235	£ 68,457,957	£ 69,342,813	£ 70,106,293	£ 70,765,606	£ 71,333,546	£ 71,799,003	£ 72,159,759	£ 72,414,048
Clapham Junction	£ 6,942,517	£ 6,804,156	£ 6,850,078	£ 6,944,389	£ 7,034,149	£ 7,111,596	£ 7,178,477	£ 7,236,089	£ 7,283,305	£ 7,319,900	£ 7,345,696
	£ 817,029,693	£ 779,747,242	£ 777,138,926	£ 786,834,732	£ 799,320,312	£ 813,087,601	£ 826,348,088	£ 841,827,003	£ 858,742,796	£ 877,207,305	£ 897,351,150
		Overall Average Growth Rate		1.814%							

Table A6
SOURCE: NETWORK RAIL, ORR and SAVILLS RESEARCH

This table illustrates the normalised sales revenues per station based on the local growth forecasts identified in Figure A38

Birmingham New Street	£ 35,860,349	£ 35,746,681	£ 39,352,844
Bristol Temple Meads	£ 6,654,995	£ 6,651,582	£ 6,898,889
Edinburgh Waverley	£ 25,004,625	£ 22,996,538	£ 25,806,400
Glasgow Central	£ 22,809,291	£ 20,392,868	£ 21,369,843
Guildford	£ 5,292,063	£ 4,452,900	£ 5,186,941
Leeds	£ 33,533,572	£ 33,212,148	£ 35,347,748
Liverpool Lime Street	£ 10,442,593	£ 10,197,048	£ 10,745,791
Manchester Piccadilly	£ 42,095,939	£ 43,394,829	£ 44,754,234
Reading	£ 13,067,978	£ 11,947,611	£ 13,321,126
Victoria	£ 93,310,519	£ 89,938,073	£ 104,603,831
Paddington	£ 68,284,131	£ 67,485,660	£ 77,701,189
Charing Cross	£ 18,066,977	£ 17,184,673	£ 21,939,999
Kings Cross	£ 75,994,935	£ 73,595,434	£ 90,572,783
Euston	£ 79,865,582	£ 77,343,868	£ 95,185,924
Cannon Street	£ 4,575,287	£ 4,373,277	£ 4,894,152
Liverpool Street	£ 95,691,747	£ 91,466,732	£ 102,360,785
Waterloo	£ 111,097,091	£ 112,563,427	£ 117,548,929
London Bridge	£ 68,439,502	£ 69,342,813	£ 72,414,048
Clapham Junction	£ 6,942,517	£ 7,034,149	£ 7,345,696
	£ 817,029,693	£ 799,320,312	£ 897,351,150

Table A7
SOURCE: NETWORK RAIL, ORR and SAVILLS RESEARCH

This table picks out the imputed sales revenue forecasts for 2019-20, CY 2024 and CY 2030, with the data bars illustrating the relative share of total sales revenue or each station.

Retail Leases

APP 93. Taking into account the forecasts for individual stations, Savills investigated the cadence of lease expiries and renewals.

APP 94. Many of the leases are national agreements and these are likely to follow a national tone.

APP 95. We were not given the granular data that would allow us to drill down into individual leases, but care will need to be taken over renewals.

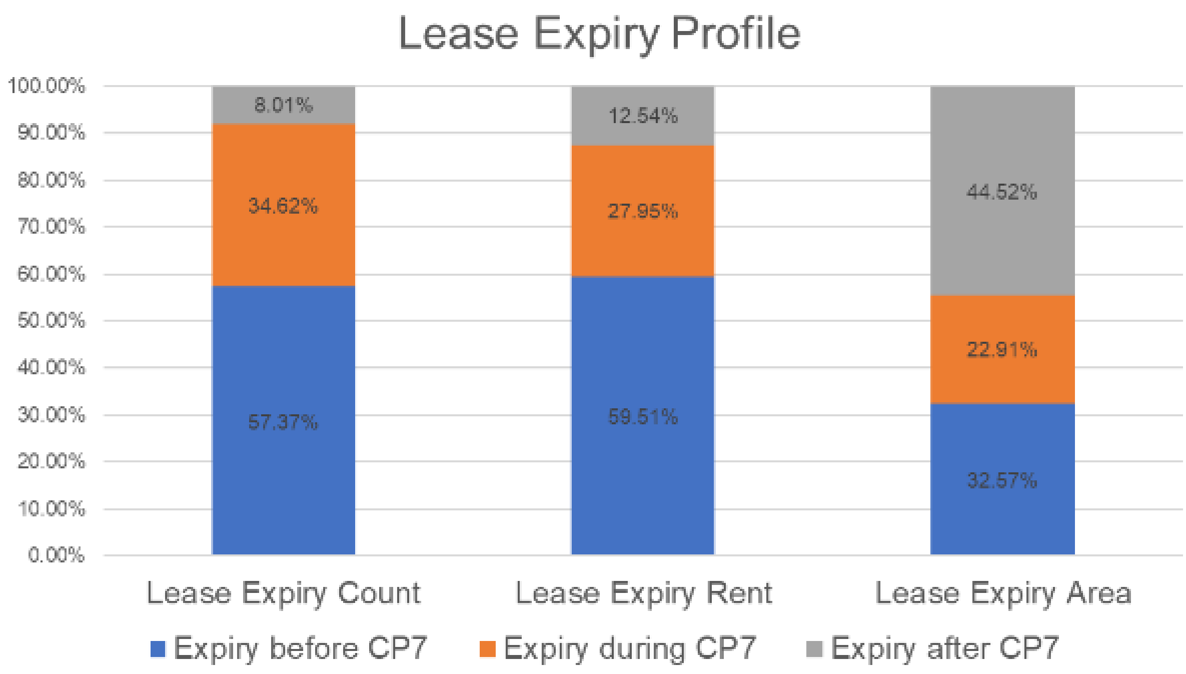


Figure A39

Source: NR

Analysis of lease expiries for the Managed Station retail portfolio highlights that whilst around 12.5% of the MGR (Minimum Guaranteed Rent) is paid for leases that expire after CP7, this relates to more than a third of the overall footprint. This may either be because the largest format retail units mostly renew after CP7 and have the largest footprint, or it may indicate that the most recent transactions were at lower rental levels per square foot. We know from the evidence that the guaranteed base rent has reduced, putting much more reliance on the active management of the retail offerings to ensure turnover rents are maximised.

APP 96. The profile of lease expiries across the Managed Station Retail portfolio suggests (assuming a broadly common average length of lease) that those leases expiring after the end of CP7 were the most recently negotiated agreements.

APP 97. 44.52% of the floorspace is in the post-CP7 expiry category, but this accounts for only 8.01% of leases and 12.54% of minimum guaranteed rent received by NR.

APP 98. That suggests that NR has come under pressure to rely more on turnover than on base rents (or MGR).

APP 99. Care will need to be taken in renewing leases to ensure the renewal rets do not undermine the NR overall income from its Managed Stations.

APP 100. Experience from Shopping centres and prime and secondary retail pitches tells us that active management of the retail experience is of paramount importance to maintaining high levels of retail occupancy and consumer spending – and consequently maximising both base rents and turnover rents.

Summary of Managed Station Retail Analysis

APP 101. The data analysis carried out by Savills demonstrates that the universal rate of 1.7% growth applied to Managed Station Retail Income (circa 45% of overall NR income) is robust as a universal rate, but should be applied with caution for individual regions or stations.

<u>Other Managed Station Income</u>

Managed Station Advertising Income

APP 102. Savills were provided only with a headline number per region for Managed Station Advertising which we are informed is directly related to footfall.

APP 103. The annual growth rate for station advertising was estimated by NR in its CP7 forecast at 1.7% per year – following a similar pattern to that of the Managed Station Retail Income.

APP 104. Savills anticipates that the advertising revenue will emulate the retail sales revenues and, as such, the universal rate is probably appropriate (with the same local and regional caveats as expressed above).

APP 105. Managed Station Advertising Income is expected to make up 11.02% of the overall income in 2024/25.

APP 106. Savills considers that there may be opportunities to increase the amount of available space for advertising through the use of digital displays beyond the ticket barriers (in much the same way as TfL secures advertising revenues from escalator and platform advertising at underground stations), and increase the value of advertising through push-advertising to passengers' mobile phones.

APP 107. There is no such detail in NR's submission and so, in the meantime, given the link between footfall and Managed Station Advertising Income, there is no reason to assume the CP7 forecast revenues are inappropriate (neither under nor over stated).

Managed Station Concessions

APP 108. Income across the NR Managed Stations attributed to Concessions amounts to £15.751m (2.09% of overall income) in the 2024/25 forecast.

APP 109. The majority of concession income comes from car parking, which is managed under an agreement with APCOA.

APP 110. From the data, there is clearly a substantial amount of surface car parking. One car parking space (broadly) equates to around $^{1}/_{200}$ acre – in other words, there are approximately 20 acres of exclusively surface parking (see Figure A40)

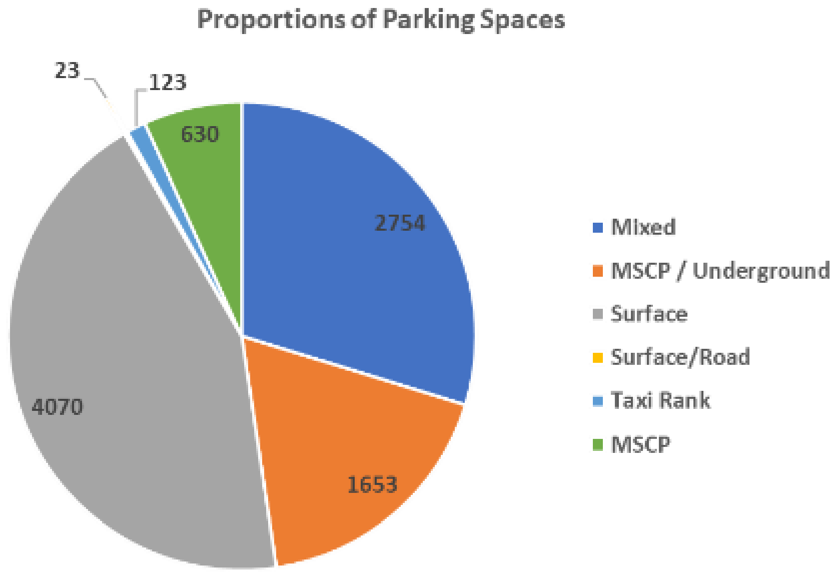


Figure A40

SOURCE: NETWORK RAIL

Numbers of Car Parking Spaces by Type in the APCOA Contract

APP 111. APCOA manage, operate and maintain NR car parks across 37 locations with 9,253 spaces in total. This contract commenced on 1st February 2020 and will end in 2025, in the second year of CP7.

APP 112. The contract expiry presents a risk (and a potential opportunity) within the CP7 period, as there is a possibility that APCOA do not want to renew this agreement, but the opportunity to consider which car parks could accommodate development above ahead of the 2025 renewal.

APP 113. There is likely to need to be an acceleration of the introduction of Electric Vehicle charging points in NR station car parks, and this might be best done in co-operation with (and potentially with capital from) a car parking partner.

APP 114. The tender and re-tender process following the end of existing contract could allow NR to introduce changes to the governance structure.

APP 115. We consider that station car parking will continue to be considered as an attractive revenue stream by car parking operators in the longer term, and we believe that, should APCOA not want to renew this contract, there would be competing operators interested in taking a similar agreement.

APP 116. Alongside revenues generated directly from car parking activities, ancillary revenue is captured via opportunities including premium parking, self-service vending, valet services, car washing, MOT and tyre centres.

Car Park	Region	Net Car Park Revenues 2019-20	Net Car Park Revenues 2020-21	Net Car Park Revenues 2021-22
NR Control		£1,178		
Bham Ellis Street	North West and Central	£566,019	£550,889	£582,148
Bham New Street Taxi Rank	North West and Central	£119,736	£18,862	£61,719
Birmingham New Street	North West and Central	£60,842	£22,978	£80,907
Blackheath	Southern	£276,741	£100,044	£104,842
Bristol TM	Wales and Western	£794,861	£199,819	£365,586
Cannon Street	Southern	£7,000	£7,000	£6,501
Chippenham	Wales and Western	£118,668	£12,891	£42,651
Chislehurst	Southern	£56,872	£3,618	£12,358
Clapham Junction	Southern	£0	£0	£5,398
Droitwich	North West and Central	£28,006	£1,769	£3,547
Edinburgh Station	Scotland	£1,909,637	£931,007	£1,626,988
Euston Parcel Deck		£85,881		
Guildford	Southern	£1,196,878	£198,617	£692,593
Leeds Station	Eastern	£777,440	£505,552	£1,078,743
Leeds Swinegate		£70,277		
Letchworth	Eastern	£144,690	£28,778	£84,604
Liverpool Lime St	North West and Central	£911,361	£430,656	£727,272
Llandudno	Wales and Western	£39,223	£13,527	£39,843
London Euston	North West and Central	£7,755		
London Paddington	Wales and Western	£483,370	£275,532	£355,122
London Victoria	Southern	£444,468	£262,749	£380,826
London Waterloo	Southern	£118,330	£85,390	£99,745
Manchester Piccadilly	North West and Central	£2,398,020	£601,639	£1,126,049
Manchester Victoria	North West and Central	£718,095	£101,008	
Milton Keynes	North West and Central	£147,424	£449	£54,243
North Star - Swindon	Wales and Western	£278,026	£3,065	£27,333
Norwich	Eastern			£54,733
Railway Avenue - Whitstable	Southern	£29,603	£11,542	£17,703
Reading	Wales and Western	£3,373,896	£680,007	£1,767,513
Sheppard Street - Swindon	Wales and Western	£6,761	£1,560	£3,612
Uckfield	Southern	£88,568	£13,340	£25,949
Victoria Road - Dartford	Southern	£118,915	£49,543	£61,635
Walsall	North West and Central	£78,765	£26,480	£54,520
Welwyn Garden City	Eastern	£321,983	£57,212	£135,828
Wigan Wallgate	North West and Central	£74,784	£5,133	£14,985
York Commuter	Eastern	£987,124	£129,645	£449,762
Total		**£16,841,197**	**£5,330,301**	**£10,145,258**

Table A8
SOURCE: NETWORK RAIL

This table compares income from car parking across three years before and during COVID.

APP 117. Network Rail assumes that the income from Managed Station Concessions will recover from the slump in 2021 and but sees a steady increase from the pre-covid level.

APP 118. It is noted that there was limited information from NR in respect of left luggage facilities (which only makes up a small part of the Managed Station Concessions Income). The comparison between car park revenue from the past six years and Managed Station Concession in CP7 may be slightly skewed with income from left luggage facilities incorporated into CP7.

APP 119. Table A8 shows the Total Revenue by Car Park site for the 2019-20, 2020-21 and 2021-22 Financial Years.

APP 120. Table A9 shows the revenue aggregated by Region (filtering out the NR Control from 2019-20):

Table A8
SOURCE: NETWORK RAIL

This table compares income from car parking across three years before and during COVID by region.

APP 121. Overall the assumptions in respect of Managed Station Concessions seem fair but unambitious, as they do not explicitly include provisions for rolling out EV Charging points and they do not overtly consider the potential to develop above car parking.

APP 122. We understand from their sustainability statement that Network Rail aims to complete electric vehicle charging roll out (sites that Network Rail operate and our Managed Stations) by 2029 but we have not seen that this has been expressly budgeted for within their forecasts.

APP 123. A further study may be required to understand how this income stream will develop in future.

Other Managed Station Property Income

APP 124. This income stream incorporates MS rental ancillary income including retail storage facilities and space used by the Train Operating Companies (TOCs).

APP 125. It comprises a minimal part of the total forecast income for CP7 and limited information has been provided by Network Rail.

APP 126. Previously during CP6 review, NR suggested limited rental growth in this area as maintaining this space in its current form is essential for operation of retailers and railway.

Development and Sales

APP 127. In its Round 4.5 updated forecast for CP7, NR set out a figure of £18.0m per year across the regions for receipts from Development and Sales.

APP 128. NR provided a work in progress sheet highlighting anticipated development pipeline with a risk-adjusted figure for proceeds. This is set out in Table A9 (below).

APP 129. Sir Peter Hendy’s review on CP5 identified major challenges in development and sales revenue which still remain critical in CP7. He highlighted that, there was inadequate planning and scope definition of potential developments and sales in their early phases. Secondly, there was poor cost estimating. Thus, certain development and sales projects that have been identified will be postponed until the later control periods.

Table A9 [TABLE REDACTED]
SOURCE: NETWORK RAIL

Development Pipeline filtered for anticipated proceeds during CP7

Year	Region	Project Description	Proceeds	Total Risk Adjusted Proceeds
2024/25	Southern	Earls Court Air Rights drawdown	£ 25,000,000	£ 3,000,000
2024/25	Wales and Western	Plot 6, Bristol Temple Meads	£ 15,000,000	£ -
2024/25	North West & Central	Northampton Station - Resi	£ 6,000,000	£ 720,000
2024/25	Wales and Western	Bath Westmoreland	£ 5,000,000	£ 600,000
2024/25	Wales and Western	Bristol Kingsland Road	£ 5,000,000	£ 600,000
2024/25	Eastern	Gospel Oak Builder's Yard - Overage	£ 5,000,000	£ 1,850,000
2024/25	Eastern	Gospel Oak Builder's Yard - Overage	£ 5,000,000	£ 1,850,000
2024/25	Southern	Woking Downside Goods Yard - Option agreement and completion	£ 5,000,000	£ 600,000
2024/25	Southern	Brighton Colas depot	£ 4,800,000	£ 576,000
2024/25	Southern	Ascot development site	£ 4,000,000	£ 1,480,000
2024/25	Southern	Bromley North Station Dev (Sherman Rd)	£ 3,500,000	£ 1,295,000
2024/25	Southern	Westbourne Park	£ 3,000,000	
2024/25	North West & Central	Horwich: Land at Red Moss Ph 2	£ 2,000,000	£ 1,740,000
2024/25	Eastern	Leeds Hunslet	£ 2,000,000	£ 120,000
2024/25	Eastern	Leeds Station princes Square offices	£ 2,000,000	£ 240,000
2024/25	Southern	Surbiton station	£ 1,395,000	£ 167,400
2024/25	Eastern	Chesterton Sidings Ph 2A (Resi)	£ 1,190,000	£ 142,800
2024/25	North West & Central	Alderley Edge Station - airspace devlp over station car park	£ 900,000	£ 108,000
2024/25	Eastern	Derby Triangle - Phase 5 payment	£ 850,000	£ 314,500
2024/25	Wales and Western	Exeter St Davids	£ 500,000	£ 60,000
2024/25	Wales and Western	Newport Station car park	£ 500,000	£ 60,000
2024/25	Southern	Knollys Yard Development overage	£ 500,000	£ 60,000
2024/25	North West & Central	Wilmslow Station Car Park	£ 1,000	£ 120
2024/25	North West & Central	LCR Cheadle Hulme (GMSA)	£ 1,000	£ 120
2024/25	North West & Central	Bicester Eco Town Bridge 4th Overage payment	£ 1	£ -
2024/25	Wales and Western	Reading Station Brunel Arcade Redevelopment	£ -	£ -
2024/25	Wales and Western	Oxford Station - East side	£ -	£ -
2024/25	Wales and Western	Chippenham Station Gateway	£ -	
2024/25	Scotland	Glasgow Queen Street Car Park Site	£ -	£ -
2024/25	Wales and Western	Swindon Station Masterplan	£ -	
2024/25	Scotland	Brunstane, Edinburgh - bridge access rights		
2024/25	Scotland	Glasgow Queens Street, North Cutting.		
2025/26	Eastern	Chesterton Sidings Office 10 plot (Lab 3)	£ 10,000,000	
2025/26	Eastern	Chesterton Sidings (Office 08 Plot)	£ 5,270,000	£ 632,400
2025/26	Eastern	Pedley St North, Bethnal Green E1	£ 4,000,000	£ 480,000
2025/26	North West & Central	Horwich: Land at Red Moss Ph 3	£ 2,290,000	£ 1,419,800
2025/26	North West & Central	Manchester Deansgate, Land Fronting Stn	£ 2,000,000	£ 240,000
2025/26	Eastern	Upminster Station Car park Scheme	£ 2,000,000	£ 240,000
2025/26	Eastern	Bishops Stortford	£ 1,087,000	£ 130,440
2025/26	Eastern	Weeley Church Lane	£ 1,000,000	
2025/26	North West & Central	Manchester Oxford Road: Land at and adjoining Station	£ 1,000,000	£ 120,000
2025/26	Eastern	Attleborough shared value - Option Fee payment - Part 3	£ 1,000,000	£ 120,000
2025/26	Eastern	Derby Triangle - Phase 6 payment	£ 850,000	£ 314,500
2025/26	North West & Central	Birmingham Snow Hill - Development at/over station	£ 50,000	£ 6,000
2025/26	Scotland	Edinburgh Waverley - East Market St Car Park Site	£ 50,000	£ 6,000
2025/26	North West & Central	LCR Chester: Station Gateway	£ 1,000	£ 120
2025/26	North West & Central	Bicester Eco Town Bridge 6th Overage payment	£ 1	£ 1,200
2025/26	Wales and Western	Fish Dock, Bristol Temple Meads	£ -	£ -
2025/26	Eastern	Coronation Sidings - Wood Green		£ -
2026/27	Eastern	Whitehall Road, Leeds	£ 7,500,000	N
2026/27	North West & Central	Horwich: Land at Red Moss Ph 4	£ 2,290,000	£ 1,340,000
2026/27	North West & Central	Hemel Hempstead station re-development	£ 1,000,000	£ 120,000
2026/27	Eastern	Derby Triangle - Phase 7 payment	£ 750,000	
2027/28	North West & Central	Horwich: Land at Red Moss Ph 5	£ 2,290,000	£ 1,340,000
2027/28	NWC	Wendlebury Shared Value	£ 2,000,000	£ 240,000
2027/28	Southern	Kingston Station Redevelopment	£ 1,000,000	£ 120,000
2028/29	Eastern	Chesterton Sidings Plots comprising land north of Cowley Road	£ 17,500,000	
2028/29	Southern	East Croydon Oversite development	£ 10,000,000	£ 3,700,000
2028/29	Eastern	Leeds - Marsh Lane	£ 2,360,000	£ 283,200
2028/29	North West & Central	Horwich: Land at Red Moss Ph 6	£ 2,290,000	£ 1,340,000
2029/30	North West & Central	Horwich: Land at Red Moss Ph 7	£ 2,290,000	£ 1,340,000
2029/30	Eastern	Attleborough shared value	£ 1,500,000	SV
Total			£ 181,505,002	£ 29,117,600

APP 130. Considering the relationship between gross outturn figures, risk-adjusted net budget figures and the Round 4.5 forecast sales proceeds identifies a discrepancy which has not been explained (see Table A10

DEVELOPMENT & SALES FORECAST	2024/25	2025/26	2026/27	2027/28	2028/29
Network Rail Central Property Sales Proceeds (Unadjusted)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Network Rail Central Property Sales Proceeds (Risk adjusted)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Adjusted/Unadjusted	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Round 4.5 Forecast Sales Proceeds (All regions and central)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Table A10
SOURCE: NETWORK RAIL

Comparison between forecast anticipated proceeds from Development and Sales during CP7

APP 131. The projected capital receipts from land disposals and developments in CP7 is barely at 55% of the overall CP6 sales income forecast, and in 2024/25 is forecast to make up only 5.5% of all income.

APP 132. Anecdotally, NR has already harvested the low hanging fruit and there is little more to go after without difficulty or disproportionate expense or risk (of investing working capital into fees for exploring opportunities that later prove to be undeliverable).

APP 133. In practice, NR was estimated (in a 2018 Government paper for the Treasury) to own a significant amount of land – approximately 51,700 hectares (127,800 acres), for the operation and development of railway infrastructure; this includes circa 20,000 miles of track, circa 30,000 bridges, tunnels and viaducts and thousands of signals, level crossings and stations.

APP 134. A material (but not defined) proportion of NR's land ownership is in areas of high land value and where there is insufficient housing stock and developable brownfield land.

APP 135. NR runs 19 of the UK's largest stations and owns the land on which these and all of the other 2,600 or so stations sit on.

APP 136. There is a mismatch between these latter figures and data from the Land Registry which identifies that NR has about 3,000 hectares of registered owned land with about 2.5% built footprint. This is a somewhat misleading statistic in its own right, but analysis shows that, with support from Government and Local Authorities, it ought to be possible to release development sites at a considerably faster rate than is proposed in CP7.

APP 137. One reason for this historically low rate of development and land sales might be because NR has focused in CP6 (during challenging times) on delivering as much as possible of its forecast £33m average annual capital receipts rather than in exploring new opportunities. Another reason might be that the devolution programme has fragmented resource and has perhaps altered the internal incentives, management attention or the propensity for NR (at central and regional levels) to release substantial development opportunities.

APP 138. Land sales should present a substantial opportunity for NR in the short, medium and long term.

APP 139. If, as NR contend, all of the low hanging fruit has been picked, NR should place even greater emphasis on assessing some of the more complex opportunities across the portfolio.

APP 140. It is not clear that new opportunities identified now would result in sales in CP7 but the CP8 pipeline will be sparse if this is not addressed early.

APP 141. The discussions Savills had with NR suggested that the current corporate model (splitting the property function into regions) may mean that NR (at regional and operational levels) are incentivised to focus on the current Control Period.

APP 142. In order to capture these more complex opportunities, however, NR will need to focus on a long term disposal strategy, which may mean categorising assets so that some would never be disposed, others might be disposed (or at least air rights might be freed up for development) or some assets might be characterised by those which could be disposed of IF AND ONLY IF there is an operational solution.

APP 143. We understand the existing incentivisation mechanism may be flawed inasmuch as the regional manager/operations would not receive the revenue from a large disposal, but that the receipts would be recycled back into the Group Property.

APP 144. In order to dispose of more complex sites, it is also likely that NR would need to spend more money on enabling sites, for example on gaining planning advice or in preparation for entering into a JV with a developer – or even to prove there is no deleterious impact on the operation of the railway or to passengers.

APP 145. In a fiscally constrained model, it is difficult to undertake high-cost projects for the public sector even though the return might be attractive in the long term.

APP 146. It is unlikely that these complex opportunities could be realised within CP7, given the protracted nature of the planning process, and therefore we consider that NR should also focus on the early identification of more straightforward disposal opportunities in order to have a pipeline of sales to support the Round 4.5 forecast. This will require expenditure and resourcing in order to assess and identify opportunities.

APP 147. We would also recommend further analysis is undertaken to quantify the potential opportunities to dispose of assets within the portfolio in the longer term.

APP 148. Commercial developments (e.g.,. extra retail offering) might provide additional revenues for the region but might also carry the added safety risk - say the offering reduced platform width or circulation space.

APP 149. On balance, despite the discrepancies between the Round 4.5 and the risk-adjusted disposal proceeds, we consider it appropriate to ensure there is sufficient incentive and impetus to deliver more than the risk-adjusted proceeds.

Like for Like and Revenue Generating Renewals

Revenue Generating Renewals

APP 150. The budgeting for Revenue Generating Renewals (‘**RGR**’) is different in the Public Sector than would be the case in private business. Ostensibly, there is a presumption that investment in ‘Revenue Generating Renewals’ would not take place if the return were not below a target hurdle rate.

APP 151. NR is using 9% as its Revenue Generating Renewal income – it assumes a level of investment and deduces a level of return at 9%. This was described by NR Group property as if it was a rate they selected from time to time, but there was no obvious science to the selection of the rate.

APP 152. The RGR rate hurdle rate does not seem to have any relationship to the WACC level provided by ORR in the PR18.

APP 153. A comparable current rate in industry would be nearer to 6 to 8% (representing a 1.5% to 2% premium on the weighted average cost of capital).

APP 154. There was no evidence of actual RGR projects – and it may be too early to tell at this stage – so this is simply a budget based on what has gone before.

APP 155. We have identified that, to conform to Central Government obligations to work towards Carbon Neutrality over the next twenty-eight years. On April 20th 2021, UK government announced that it “will set the world’s most ambitious climate change target into law to reduce emissions by 78% by 2035 compared to 1990 levels”. It added that “the government is already working towards its commitment to reduce emissions in 2030 by at least 68% compared to 1990 levels through the UK’s latest Nationally Determined Contribution - the highest reduction target made by a major economy to date”.

APP 156. This will have an impact on spending requirements but will not (in all probability) meet the 9% threshold test. This may result in barriers to investment of public funds where it cannot be shown that it contributes to carbon reduction.

APP 157. For the Southern Region, RGR revenues (i.e., 9% return on CAPEX) amount to £10m, whereas forecasts for Eastern are at a more modest £2.6m. See Figure A41

Like for Like Renewals

APP 158. This operates in a similar way to the Revenue Generating Renewals and attracts a forecast annual income of £3.3m (1.09% of overall budget income) in the 2024/25 forecast.

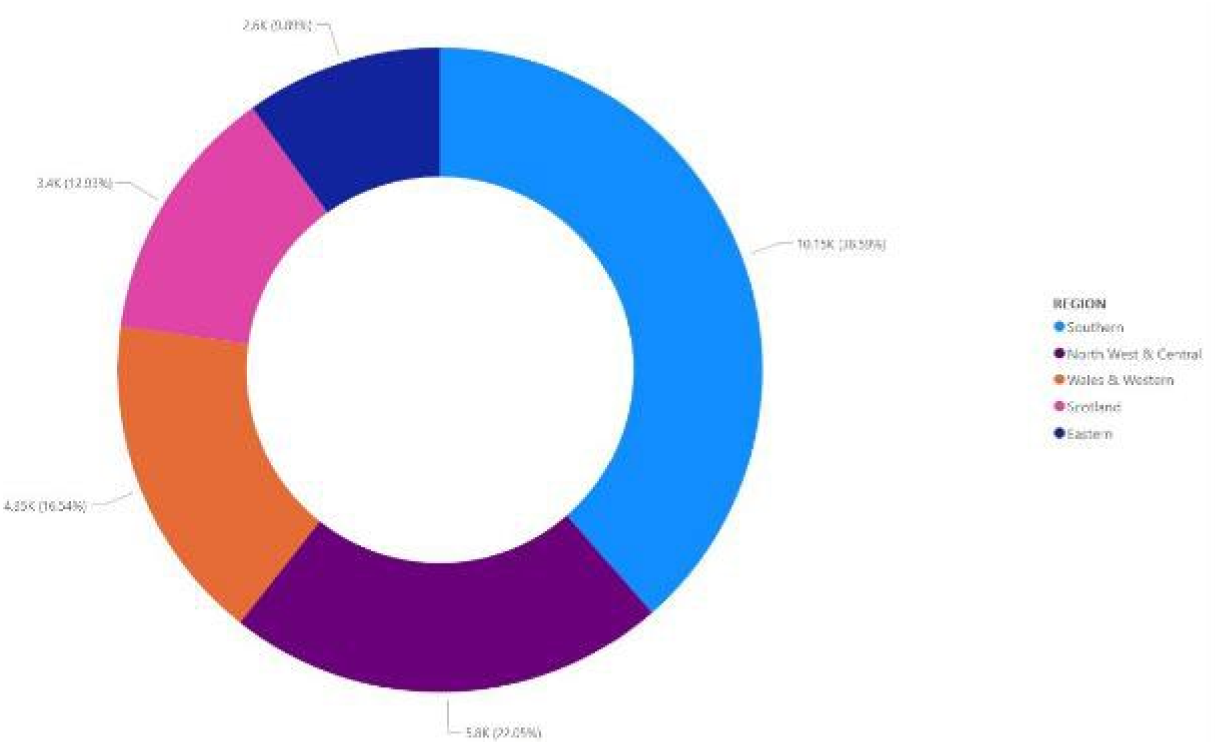


Figure A41
Source: NR

Southern Region (38.59%) is forecasting £10m of income from Revenue Generating Renewals in 2024/25 and, together with Scotland (12.93%) make up around half of the overall RGR budget of £22.9m in 2024/25 – circa 7.54% of forecasted national income.

Telecoms and Other Income

Telecoms

APP 159. Telecoms income was provided centrally at £12.9m per annum, flat, across the Control Period.

APP 160. Telecoms is run centrally and there is no distinct clarity as to whether the telecoms opportunity is being and will be maximised. This may require a substantial investment in 5G-ready technology to enhance the on-line experience of the travelling public.

APP 161. Savills has no specific data or analysis that would suggest this figure is inappropriate for budget purposes.

Other Income

APP 162. Other Income amounts to 0.27% of the overall forecast income in 2024/25 – a little over £800,000.

APP 163. Savills has no specific data or analysis that would suggest this figure is inappropriate for budget purposes.

Economic Background

The Economy

APP 164. Despite the volatility and shocks in the market arising from both Brexit and Covid-19, but without yet knowing the full implications of the unfolding situation in The Ukraine, we have considered analysts' expectations of GDP between 2024 and 2029.

APP 165. The UK Economy was badly hit by Covid-19 in 2020 and saw a recovery in 2021 with 7.49% of GDP growth, up from -9.45% in 2020. A rise in new Covid infections, however, dampened the economic recovery during the final quarter of 2021.

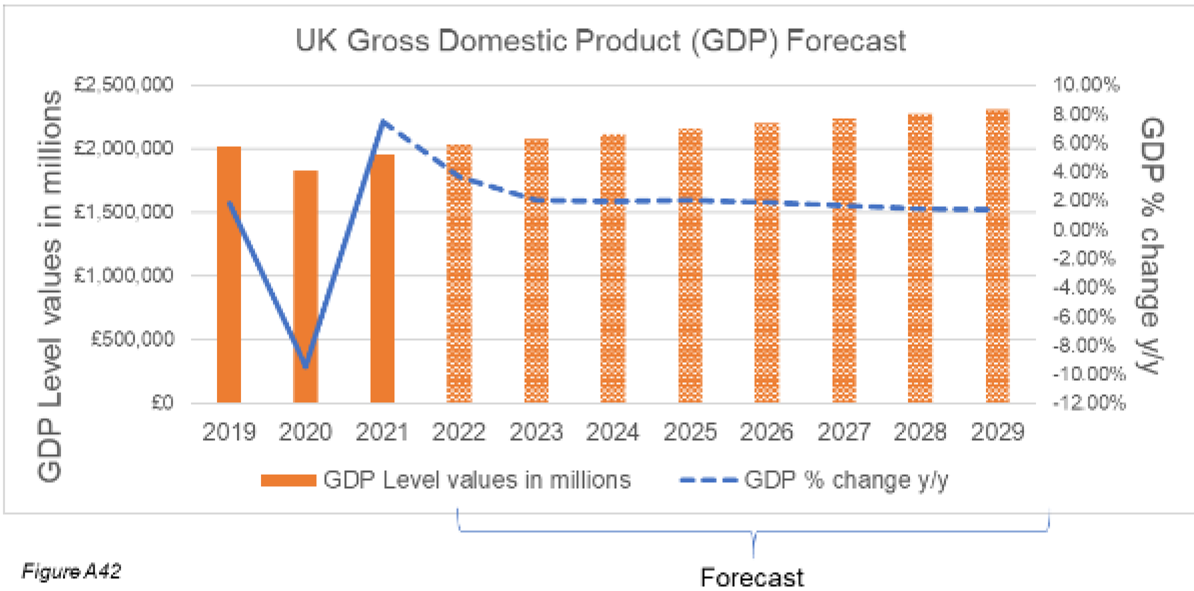


Figure A42

SOURCE: OXFORD ECONOMICS

This GDP chart sets a backdrop of growth against which to consider the Network Rail forecast growth rates. Localised economies may require analysis of Gross Value Added figures to understand how the specific NR regions may perform (notwithstanding that most regions include at least one London Managed Station.

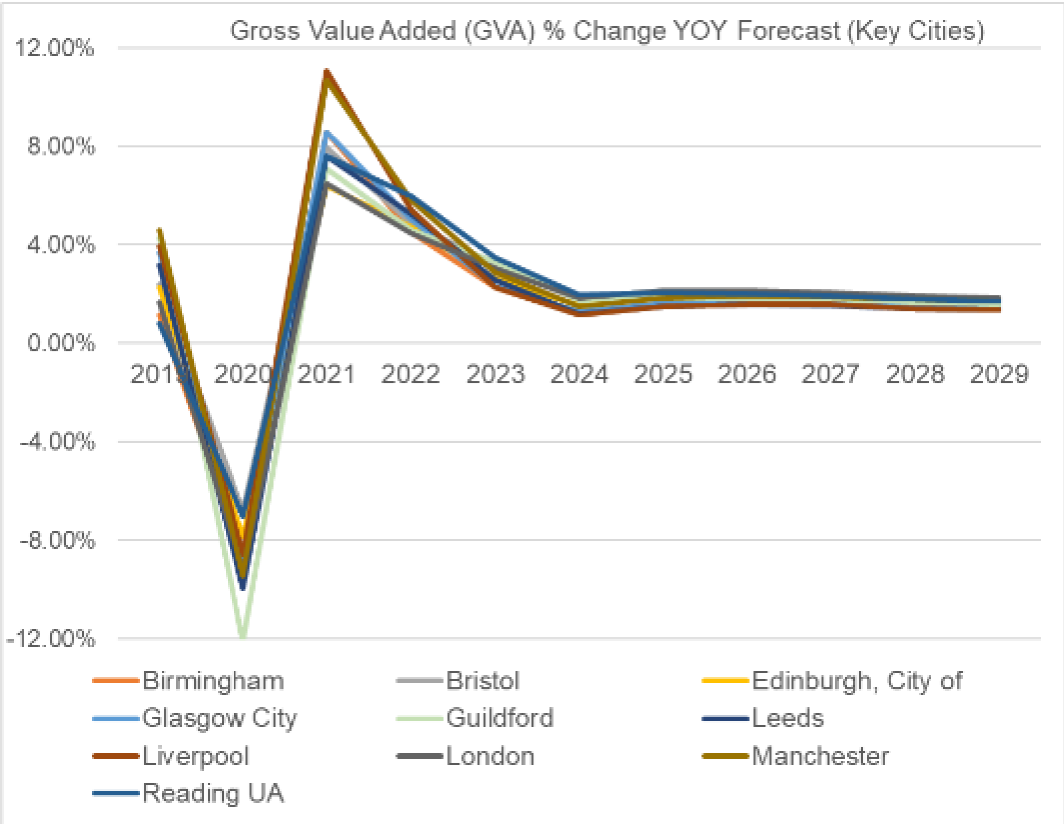


Figure A43

SOURCE: OXFORD ECONOMICS

The above chart illustrates the almost in-step movement of the regions from pre-Covid GVA levels, through the pandemic, to arrive at a somewhat common GVA rate throughout CP7. This allows us to assume that a real growth rate in the range 1.5% to 2.0% would be a fair expectation.

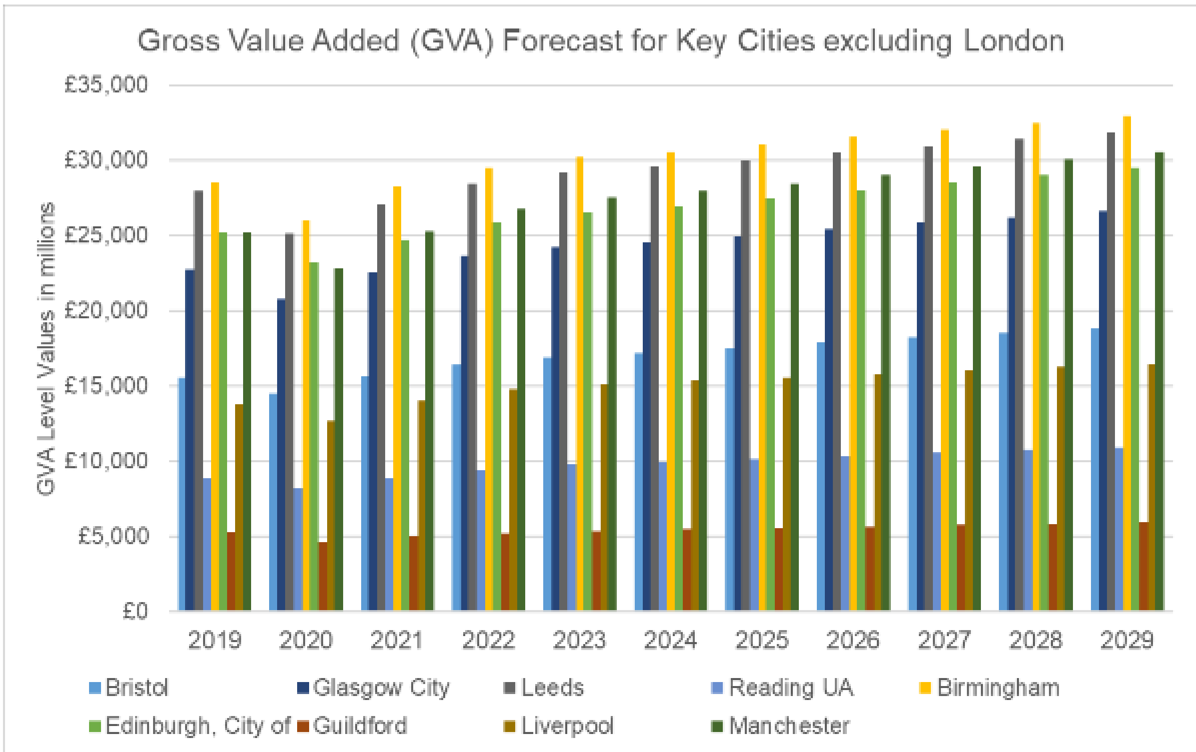


Figure A43

SOURCE: OXFORD ECONOMICS

Variations in Regional GVA (excluding London)

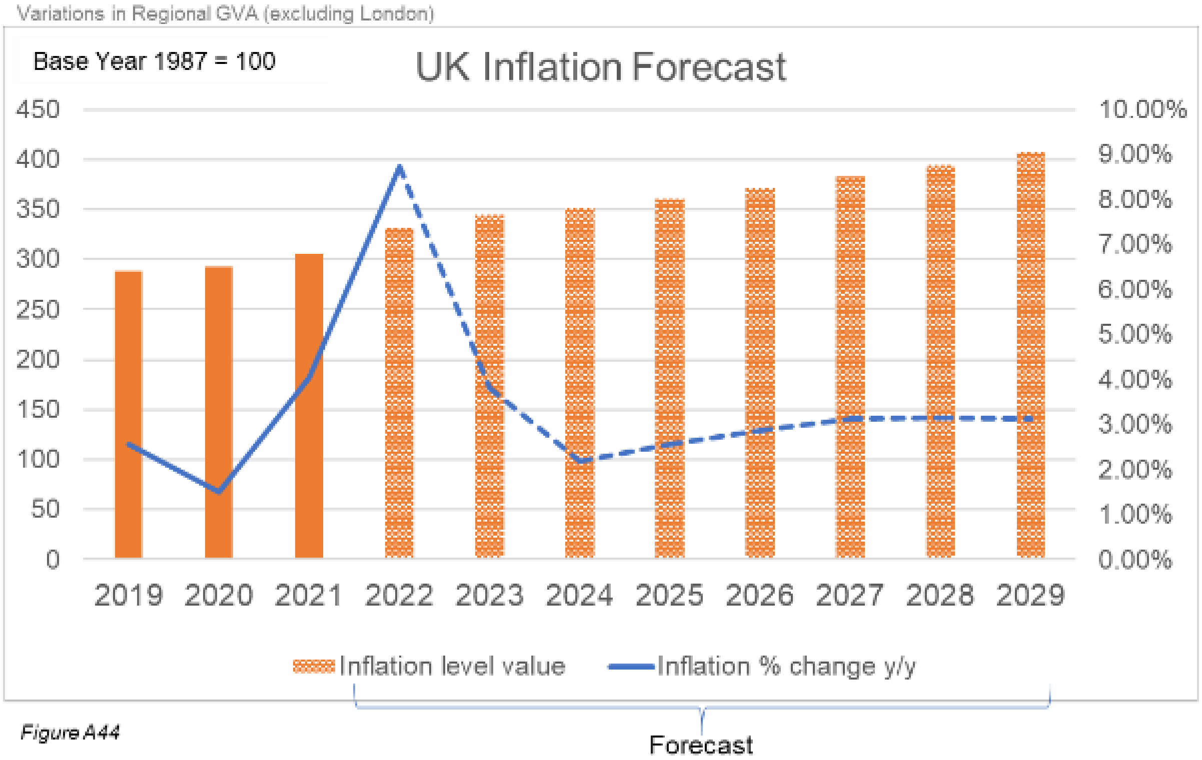


Figure A44

SOURCE: OXFORD ECONOMICS

The above chart illustrates (bars and left hand axis) the level of indexation of prices against a 1987 base of 100, and the rate of inflation (line and right hand access). The expectations for inflation during CP7 are in the range 2.0 to 3.0% throughout the control period.

APP 166. Thus, the economy is expected to slowly recover to pre-pandemic level in 2022 with forecast stabilised real GDP growth at around 1.5% during the CP7 window.

APP 167. Regional economies follow a similar trend as the country. For cities where major Managed Stations are located (London, Birmingham, Bristol, Edinburgh, Glasgow, Guildford, Leeds, Liverpool, Manchester, Reading), their GVA (Gross Value Added) growth rates are expected to average at 1.58% at the end of CP7, slightly higher than the overall national level.

APP 168. Although the differences in growth rate between these cities is expected to be minimal, the highest growth rate is expected in London while the lowest in Liverpool during the period.

APP 169. Nevertheless, levels of GVA can be very different across the key cities. London stands out with the highest annual GVA with over £500 billion from 2023 onwards, more than 16 times higher the second highest GVA in Birmingham. On the other hand, Guildford is expected to experience the lowest annual GVA of all Managed Station locations of under £6 billion during the period.

APP 170. The individual GVA amounts vary substantially between each of the regional cities (largely according to the relative size of the economies and local populations). The following chart illustrates this in a side-by-side comparison. Whilst this does not look at the wider regions around the Cities, it does illustrate part of the premise behind the Government's levelling-up strategy, which we can expect to influence economic activity beyond the macro-economic forecasts.

APP 171. Although this may seem to add uncertainty to an otherwise apparently relatively stable picture, we do not consider that it will have an adverse impact on the outturn and investment will probably take many years to alter the actual economic relationship between the regions and London.

NR Growth Rate and Inflation

APP 172. Network Rail treats all growth rates in its forecast as inflation-implicit (the forecast income and costs is forecast in real terms).

APP 173. At a headline level, UK inflation is expected to spike up in 2022 and ease down in 2024, stabilising at 2-3% by the end of CP7. The NR approach to forecasting makes it difficult to assess its assumptions empirically in cash terms.

APP 174. The rate of inflation has been increasing substantially since 2020 and reached a record high of 8.73% in January 2022 following the Bank of England's base rate increase. Economists expect headline inflation to ease off as energy prices stabilise later in 2022, despite the evolving Russia/Ukraine conflict which might result in a 1.0-1.5% increase in inflation during 2022.

APP 175. During CP7, it is anticipated that the inflation rate will ease to 2.5-3.0%. This is in line with OBR March 2022 CPI Inflation Forecast, which suggests a normalised inflation rate of 1.2 to 1.6% in 2024, 1.7 to 2.0% in 2025 and 2.0% for 2026, 2027 and 2028 – all after a hiatus in 2022 and 202.

Property Market Forecasts

APP 176. With rising commercial property investment levels in the UK seen at the beginning of 2022 and yields beginning to trend downwards again, the market is expecting a positive year in 2022 in terms of capital markets.

APP 177. It is important to keep in mind, however, that political issues, volatile energy costs and rising prices, whilst commentators may assume these are temporary, may result in long-term trends or cause some lasting damage or at least turbulence as we approach CP7.

APP 178. As it stands, general market sentiment is that these transitory issues will be overcome in the near term.

APP 179. In relation to the UK Office Market Rental Values, they peaked in April 2020, but experienced a modest fall of -0.8% in November 2020. As of March 2022, average UK office rental values increased by 1.2%

APP 180. Moreover, according to third parties, the industrial sector is expected to see the highest rental growth between 2022 to 2026, followed closely by office and retail warehouse. While it is expected that industrial rents will grow by 3.4% in this time period, shopping centres and standard retail asset classes are forecast to see negative growth of 0.5% and 0.3% per year.

APP 181. Retail rents have been considered along with NR Retail assumptions earlier in this Appendix.

APP 182. Rents for secondary property have largely been slow to recover – particularly older office stock – because the medium to long term income prospects are challenged by the requirements to comply with MEES Regulations (requiring buildings to move towards an EPC score of A or B by 2030.

Network Rail and CP7

APP 183. As a context for this report, Savills considers it is appropriate to consider some of the restructuring and future shaping of the railway industry which might have a bearing on the NR forecasts. As NR will rely on the Government for funding (including some aspects of the Property budgets such as cumulo rating), the government policies as they relate to both railways and to spending in general will become more rather than less important.

APP 184. In July 2021, DfT's Transport Outcome Report, Rt. Hon. Grant Shapps MP, Secretary of State for Transport, commented in his foreword that:

APP 185. "Delivering on our wider commitments for transport is even more important now as we seek to level up across the country and build back better, fairer, greener and stronger from the COVID-19 pandemic. Over the next year we will make further progress on our priority outcomes:

APP 186. Improving connectivity across the UK and growing the economy by enhancing the transport network, on time and on budget.

APP 187. Building confidence in the transport network as the country recovers from COVID-19 and improving transport users' experience, ensuring that the network is safe, reliable, and inclusive.

APP 188. Tackling climate change and improving air quality by decarbonising transport."

APP 189. This report followed on the heels of The Williams-Shapps Plan for Rail – Great British Railways (May 2021) which set out a new vision for operating the rail network:

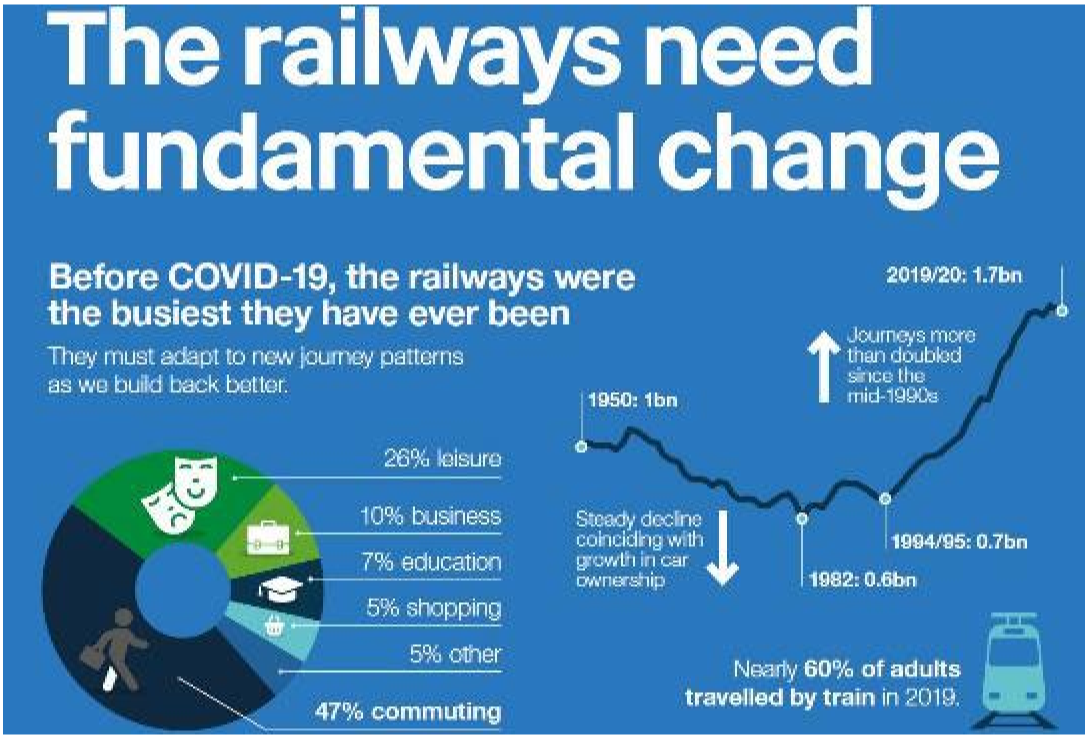


Figure A45
SOURCE: DfT

The above graphic illustrates a starting point for Great British Railways and illustrates the situation prior to the pandemic, highlighting that the pandemic came at a point where the growth in journeys may have been plateauing (in 2019/20), and where almost half of rail journeys were for commuting – which contributes relatively little to the retail rental income for NR Property.

APP 190. On 5th February 2022, DfT announced that "The Headquarters for Great British Railways will be based outside of London and bring high-skilled jobs to the winning location."

APP 191. No account has been taken in this report as to the impact Great British Rail will have on property strategies themselves (whether nationally or in the regions), nor the potential property consequence of a relocated headquarters – whether from exiting current facilities or leasing, buying and/or building a new HQ. This has the potential to reduce the robustness of NR forecasts due to this increased uncertainty.

APP 192. As a result of the third bullet (Tackling Climate Change) and the Government's overall push for carbon neutrality, we have included a section in our report considering some of the investments and operating cost consequences that may be incurred as a result. None of these has been accounted for (explicitly) in the NR central or regional forecasts.

Network Rail Strategy and Objectives

APP 193. We have had sight of the working outline of [Redacted], which provided us with details of the background of the operating structure of NR and the relationship with Train Operating Companies (TOCs).

APP 194. We understand that Network Rail was reclassified as a public sector company on 1 September 2014 following a statistical change by the Office for National Statistics announced in December 2013.

APP 195. We understand that Network Rail owns the vast majority of the stations within the national rail network, and they operate the major 'Managed Stations', however many are managed by TOCs under leases aligned to the length of their franchises. These Managed Stations are typically "located in major cities, have high levels of footfall, are the most complex operationally and have the most significant investment requirements and opportunities".

APP 196. We understand that Project Osprey comprised a "stage of an extensive review of options for delivering better management models for British railway stations."

APP 197. A key objective of Osprey was "to improve stations so they create a great customer experience that benefits all customers, including passengers, visitors and the local community".

APP 198. We believe this remains relevant today as providing an experience to all visitors and local community is critical to the long term management of the railway.

APP 199. In September 2020, NR implemented a key strategic change, where property activities were largely devolved to the regions under auspices of Putting Passengers First (PPF).

APP 200. It is important to note, however, that Group Property [states that it] continues to:

a. Deliver larger scales opportunities which often provide new housing in line with wider public policy and benefits for passengers
b. Manage and grow easement, wayleave and telecoms income streams which are not readily divisible amongst the regions
c. Undertake the role of property manager for Managed Stations Retail activities on behalf of the regions
d. Provide specialist services for the regions where devolution isn't viable e.g. listed building planning
e. Manage the central workplace estate
f. Act as the professional head for all common property activities

APP 201. In putting together its CP7 forecast, NR have largely adopted the same approach as its CP6 budget for continuous activities.

APP 202. NR's approach to CP7 is that it has assumed:

a. Its current working arrangements with the regions e.g., retail role as property manager, remain unchanged.
b. Development & Sales income consists of a series of unique transactions from a reducing pool of disposal opportunities. NR have defined likely receipts taking into consideration opportunities and potential limiting factors.
c. There are no clear cut-opportunities for further efficiencies.

APP 203. In the RF08 22 Property Report, there are unquantified benefits from industry reform strategies where the indicative approach is a more streamlined approach to station redevelopment, national retailer contracts, retail opportunities across the wider station estate and the potential consolidation of operational facilities.

APP 204. None of these factors has been signalled in the forecasts provided by the regions nor the central team, and so Savills has not considered these in detail, but we refer to any such strategy where it might help to unlock value or explain comments on the NR forecast information.

Network Rail CP7 Forecasts

APP 205. Table A11 and Figures A46 and A47 summarise NR's forecast data broken down in Managed Station Portfolio Income, Property Services, Operating Cost and Development and Sales in each financial year during CP7.

APP 206. No account was taken for Cumulo Rates obligations and these have been considered out of scope for the purposes of this report.

APP 207. NR predicts that the total income will be increasing steadily throughout CP7, starting from around £231 million and ending at around £251 million by the end of the control period, with an average implied growth rate at 2.13%.

Total Income Forecast	CP7				
(£000's)	2024/25	2025/26	2026/27	2027/28	2028/29
Managed Station Portfolio Income					
Managed Station Retail Income	147,614	150,453	153,634	158,002	163,264
Managed Station Other Property Income	7,541	7,611	7,680	7,750	7,820
Managed Station Advertising Income	36,185	37,228	38,288	39,366	40,463
Managed Station Concessions	17,549	17,695	17,806	17,918	18,031
Property Services					
Property Rental Income	49,570	49,431	49,678	49,926	50,176
Roadside Advertising	7,069	7,137	7,205	7,274	7,343
Other Income	873	873	873	873	873
Telecoms	12,900	12,900	12,900	12,900	12,900
Operating Cost	-43,169	-43,169	-43,169	-43,169	-43,169
Development & Sales	18,000	18,000	18,000	18,000	18,000
Total Income	**254,133**	**258,158**	**262,895**	**268,841**	**275,701**

Table A11
SOURCE: NETWORK RAIL

The above table is extrapolated from the various data sets provided by Network Rail both centrally and regionally.

APP 208. Comparing NR's income forecast across three control periods, the forecast income patterns are similar between CP6 and CP7 with around £300 million income every year. CP5, on the other hand, showed a substantial increase of nearly £100 million in the Year 2 income to around £400 million and stabilised afterwards. The England & Wales railway arches portfolio disposal was at around the end of CP5 and this may account for the difference between CP5 year 5 and CP6 year 1.

APP 209. Managed Station Retail Income accounts for more than 50% of the total gross income (excluding operation cost) and Property Rental Income makes up about 17% during CP7. A substantial proportion of Savills analysis focuses on assessment of these two categories of income Managed Station Retail Income and Property Rental Income.

APP 210. The underlying growth assumption of Network Rail's income forecast is presented in Table A12. Identical growth rates are adopted across all regions for every year during CP7, with slightly fluctuating nominal growth.

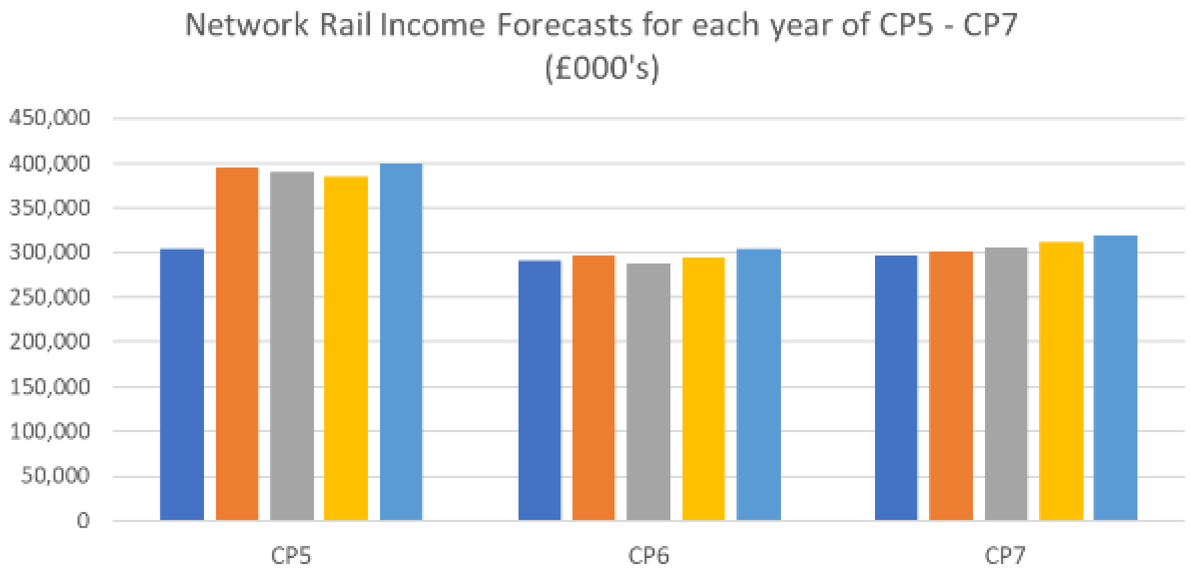


Figure A46

SOURCE: NETWORK RAIL

The above chart illustrates the forecasts for CP6 and CP7 by comparison with CP5. Note that the sale of the railway arches in England & Wales was at around the end of CP5.

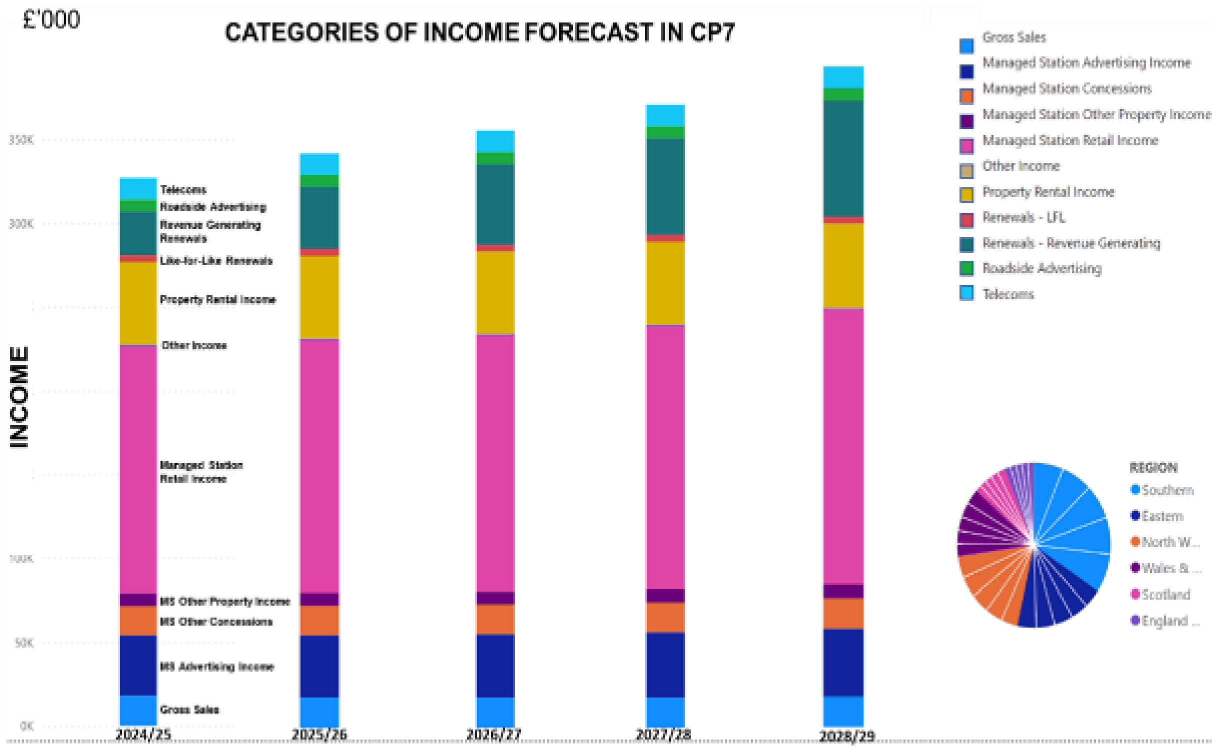


Figure A47

SOURCE: NETWORK RAIL

The above chart illustrates the allocation of sources of income over time through CP7 (the pie chart shows the income per region across the five years of CP7). The annual growth is mostly driven by Revenue Generating Renewals which rise from £26.3m to £68.7m and Managed Station Retail Income (from £147.2m to £162.8m)

	Real Growth	Nominal Growth				
	Annual Rate	2024/25	2025/26	2026/27	2027/28	2028/29
Managed Station Portfolio Income						
Managed Station Retail Income	1.7%	1.51%	1.92%	2.11%	2.84%	3.33%
Managed Station Other Property Income	0.5%	0.92%	0.92%	0.91%	0.91%	0.91%
Managed Station Advertising Income	1.7%	3.11%	2.88%	2.85%	2.82%	2.79%
Managed Station Concessions	0.5%	-2.37%	0.83%	0.63%	0.63%	0.63%
Property Services						
Property Rental Income	0.5%	0.50%	-0.28%	0.50%	0.50%	0.50%
Roadside Advertising	0.5%	0.96%	0.96%	0.96%	0.95%	0.95%
Other Income	0%	0%	0%	0%	0%	0%
Telecoms	0%	0%	0%	0%	0%	0%
Operating Cost	N/A	0%	0%	0%	0%	0%
Development & Sales	N/A	0%	0%	0%	0%	0%
Total Income	N/A	1.58%	1.84%	2.26%	2.55%	2.06%

Table A12
SOURCE: NETWORK RAIL

The above table shows the growth rate in the received income, excluding Revenue Generating and Like for Like Renewals.

APP 211. Network Rail's uniform growth assumptions will, in all probability, be affected by market and wider social shocks.

APP 212. The growth rates of Managed Station Retail Income and Managed Station Advertising Income (1.5%) are heavily dependent on the predicted station footfall, which is by no means certain.

APP 213. Other incomes, not largely dependent on station footfall, are shown with a uniform growth rate (0.5%) are mainly likely to be affected by the general market conditions in CP7.

APP 214. Consequently, Savills have looked to test the footfall assumptions and to challenge whether the linkage between footfall and retail revenues is borne out in practice, and to consider how the other property income forecast might compare with the wider economy.

Information Provided by NR and ORR

APP 215. Savills have been commissioned by the Office of Rail and Road (ORR) to undertake a review of Network Rail's (NR) property income assumptions within their Strategic Business Plan for Control Period 7 (CP7).

APP 216. We have received the following data from Network Rail, that has informed our analysis.

a. Received from Central Property Team:

- Rent Roll for all managed stations and regions
- Rental income data for all stations and regions
- Group Property CP7 Submission approach
- RF11 MS Footfall Data
- Car Parking APCOA Contract
- Car Parking 2019-2022 revenue reports
- Roadside Advertising Concession Agreement
- Roadside Advertising revenue statements 2017-2022

b. Received from the Regions:

- Eastern Rent Roll
- Eastern CP7 income data
- Eastern P12-P11 Capex data
- NWC Property Sales Hypo Gains Tracker
- NWC Freight PRI
- NWC CE PRI
- Scotland Milestone tracker
- Scotland Sales Plan
- Southern Rent Roll
- Southern CP7 income data
- Southern Freight PRI
- W&W CP7 income data
- Scotland CP7 income data

APP 217. We received limited CP6 data – for this control period we only received forecasted not actual figures. Because of COVID-19 and its impacts, however, these figures may be of limited use as a predictor of future outturns. We have, therefore, looked to sense-check the forecasts having regard to market practice and, to this end, we have relied on National Rail's footfall predictions.

ESG COMMENTARY

Network Rail Strategic CP7 Business Plan - Property Income Forecast Review

Prepared for The Office of Rail and Road

27 May 2022

savills

ESG SECTION

Introduction

ESG 1. We have included this section in our report because, although not requested as part of the instruction, Savills considers it is essential to have regard to ESG CAPEX to get towards NR's own sustainability targets, and to understand the emerging requirements of retailers as they aim to become carbon neutral.

ESG 2. The legal and regulatory background is for increasingly challenging targets to be factored into the built environment (and the tax landscape).

ESG 3. An example of this is the introduction of the Minimum Energy Efficiency Standard ('**MEES**') Regulations which, post-COP26, will result in it being unlawful by 2030 to lease any property with an EPC (Energy Performance Certificate) score lower than a B.

ESG 4. To the extent that NR and ORR do not currently make any allowance for ESG in the budgets and forecasts for CP7, this is a substantial risk both to government funding and to the longer-term (beyond CP7) asset value of and income generation from the property portfolio.

Sustainability Overview

ESG 5. This section helps to raise further questions in respect of the increasing significance of ESG expenditure, and the potential to impact on income predictions within the CP7 control period. Essentially, this drills down into the questions: "What impact will climate change have in CP7 and how can NR mitigate risks?"

A low-emission railway

Helping plants and wildlife flourish

A reliable railway service that is resilient

Recycling and reusing everything

ESG 6. NR's own stated priorities are to:

a. "cut our carbon dioxide emissions so that the railway is **carbon neutral by 2045 in Scotland** and **by 2050 in the rest of Britain**. This also means cleaner air for our passengers, colleagues and neighbours."

b. "continue to look after nature around the railway and help it flourish. By protecting and maintaining their habitats, [to] **enhance biodiversity across rail's landscape by 2035**."

c. "make our railway more reliably **resilient to climate change and severe weather by 2050**. [NR is] already the first railway in the world to have set **ambitious, science-based targets** to help us get there."

d. "waste less and recycle more – slashing the amount of materials we use. To do this, we'll reuse, repurpose or redeploy anything we don't need. **By 2035, it'll be business as usual for us to only use materials that are made sustainably, don't pollute, last longer, and can be re-used and recycled**."

MEES Regulations – Potential Impact on NR for CP7 and Beyond

ESG 7. A key part of Government Policy is reducing carbon emissions through investment in sustainable technologies.

ESG 8. The built environment contributes more than 40% of carbon emissions and this is driving policy decision-making in property matters.

ESG 9. ESG will remain a core focus for retailers, who will need to navigate consumer spend pressure and legislation and reporting requirements, alongside internal stakeholders.

ESG 10. Within the CP7 control period, NR have set themselves rigorous ESG targets which will require significant expenditure, yet this cost is not reflected in their income forecasts and so reduces its robustness as this is becoming an increasingly pivotal part of business decision making.

ESG 11. The scale of the environmental challenge should not be underestimated.

ESG 12. Savills Research undertook a research study in late 2021, which found that **approximately 1.4 billion sq ft of <u>retail</u> space across the UK, equating to 83% of all stock, will require improvement by 2030 to meet the minimum standards required for a Grade B Energy Performance Certificate (EPC) set by the Government in its 2021 Net Zero Strategy**.

ESG 13. It found that 185 million sq ft (17.2 million sq m) of this space may become unlettable as soon as 2023, as the incoming changes to the Minimum Energy Efficiency Standards (MEES) will prohibit commercial buildings with an EPC rating of F or G from being let.

ESG Recommendation 1
Given the lease expiry profile of the portfolio NR needs urgently to consider the impact of changing energy performance regulations on its ability to continue to let space in its portfolio.

ESG 14. Our initial (indicative) review of Prêt-à-Manger units across NR managed sites (excluding Scotland) showed that 56% were an E or above (meeting current regulation), whilst 44% were F or G, missing an EPC, or unlocatable. 31% were C or above. Based on the MEES Regulations and Government Announcements, this means that the remaining 68% would require investment by 2027 and 94% by 2030 (including those which need an EPC assessment) to bring them up to the legal requirement. It is not clear whether that investment would achieve the Revenue Generating Renewals hurdle rates but failure to invest may mean the loss of 94% of income from Prêt-à-Manger (which in 2019-20 amounted to £8.56m, 6.85% of the total NR Retail Income for that year).

ESG Recommendation 2
NR should carry out an analysis of the EPC ratings of their major holdings, especially the Managed Station portfolio, in order to quantify the risk to income and value and resultant opportunity presented by this. There is a significant risk of increased spending being required to improve the environmental performance of the assets in order to meet regulatory requirements, however this also presents an opportunity to engage more closely with tenants.

ESG Recommendation 3
In the light of ESG Recommendation 1 (and echoing Recommendation 7 of the main report), NR needs to consider what (if any) impact on CAPEX requirements and what average anticipated returns would be in order to future-proof the NR portfolio during the course of CP7

NR's Own Commitments and Targets

ESG 15. NR has set themselves rigorous targets for net zero carbon across scope 1 and 2 emissions by 2050 (2045) which are approved by the science-based targets initiative (SBTi), and across the following sections. More specifically:

a. Network Rail commits to reduce absolute scope 1 and 2 GHG emissions 46% by FY2029 from a FY2018 base year. Network Rail also commits that 75% of its suppliers by emissions covering purchased goods & services and capital goods will have science-based targets by FY2025. In addition, Network Rail commits to reduce absolute scope 3 indirect use-phase emissions 28% by FY2029 from a FY2018 base year. *The target boundary includes biogenic emissions and removals from bioenergy feedstocks.
b. Achieve agreed science-based targets for scope 1 and 2 net zero by 2050 at the latest (Scotland 2045).

Carbon

ESG 16. NR has the following Carbon Commitments:

a. Network Rail commits to reduce absolute scope 3 indirect emissions by 28% by 2029.

b. Net zero carbon emissions by 2050 (and 2045 in Scotland) and deliver continual improvements to air quality so that our passengers, neighbours, and employees breathe healthier air.
c. Whole life carbon assessments by 2027 to support infrastructure projects.
d. Timetable options for carbon efficiencies developed 2024-2029.
e. Establish an air quality monitoring regime by 2024 for all worksites and depots. We will have an air quality improvement plan for all our Managed Stations and depots in place by 2024.
f. Complete electric vehicle charging roll out (sites that Network Rail operate and our Managed Stations) by 2029 and transition of Network Rail's road vehicle fleet to ultra-low emission by 2035.
g. Transition assets away from the use of natural gas by 2029.
h. Purchase 100% renewable non-traction electricity by 2020, and will aim to feed in 100% of our non-traction electricity from renewable sources by 2030.
i. 42% of the rail network already electrified. Final investment decision for electrification of main line routes by 2029.
j. Widespread trials of bi-mode, hydrogen and battery trains will have begun by 2024
k. Harmful pollutants in Network Rail Managed Stations will be reduced by 25% by 2030

ESG 17. These commitments are well developed and met with interim targets in the run up to net zero 2050. Being approved by the SBTi strengthens their credibility. The inclusion of air quality, electric vehicles, trials of alternatively powered trains, and electrification of routes shows consideration to a variety of carbon related issues.

ESG 18. From a property perspective, however, it would be beneficial to understand:
a. how utilities (and their procurement) are managed across the Managed Station portfolio, and
b. whether retailers are responsible for their own utilities or whether any utilities are inclusive within rental payments.

ESG 19. If there are inclusive agreements, then NR should be cognisant of the risk of rising energy costs.

Waste

ESG 20. NR's waste commitments are not particularly specific in their wording, and there is little detail provided as to how they will achieve their waste objectives. They intend to:
a. Map and prioritise materials and waste streams within supply chain by 2021.
b. Circular economy policy in place for reducing resource use and waste by 2022.
c. Adapt standards to include circular economy aspects by 2023.
d. Embed material reuse and redeployment systems and tools into procurement process by 2024.
e. Embed circularity metrics into decision making by 2024.
f. Reuse, recycle, or redeploy all our non-hazardous infrastructure materials by 2029.

ESG 21. From a property perspective – particularly as it relates to Managed Station Retail – it would be helpful to understand whether the Retailer, the Station Operator or the Property Team is responsible for the management of retailer waste within the Managed Station portfolio. This would help to understand whether there are likely to be any onerous calls on the finances and other resources of the Property Team in CP7 arising from circular economy and waste reduction/management initiatives.

Risk and resilience

ESG 22. NR's commitments in this area suggest NR have considered the long-term impact of climate change on its operations and its business. They have made a clear commitment to develop plans to address the potential adverse effects as follows:
a. Asset polices and standards updated to reflect long-term climate change projections by 2024.
b. Review criticality and vulnerability mapping of all assets for climate change across the network by 2024.
c. Agree level of service in extreme weather conditions with Government and regulators by 2027.
d. Regions develop long term adaptation pathway strategies and identify level of investment required for different scenarios by 2029.

ESG 23. These commitments are non-specific, however, and lack sufficient detail to inform the direction that NR will take to adapt their property assets to climate change across their business.

ESG 24. Whilst the commitments are not currently quantifiable, it would be reasonable to expect that some attention will need to be paid to this topic during CP7.

Nature

ESG 25. The National Biodiversity Standards published in 2021 by NR, alongside the commitment to establish a biodiversity baseline, evidence NR's consideration of their impact on nature and biodiversity. Their stated commitments are:

a. National Biodiversity Standards published in 2021.
b. NR will use the outputs of the Standards to inform guidance to Network Rail asset managers on optimal habitat management interventions for biodiversity and train performance.
c. Establish the biodiversity baseline, map all relevant data and make available to our supply chain by 2024.
d. Increase ecological capability in Network Rail and in our supply chain to 2024.
e. Achieve no net loss of biodiversity across the network by 2024 and net gain by 2035.
f. Be recognised as a leader in land management by 2030.
g. Utilise frequent satellite remote sensing to detect changes in habitat composition, together with targeted ground survey to assess the diversity of species living on the lineside.
h. Establish the biodiversity baseline, map all relevant data and make available to our supply chain by 2024.

ESG 26. Some of these commitments could be more rigorous and progressive, such as (and particularly) the target on biodiversity net loss and gain – which is already enshrined in law (The Environment Act 2021).

ESG 27. Across the UK, new developments must achieve 10-fold biodiversity net gain.

ESG 28. That NR is only committed to reaching this by 2035 suggests they are falling behind best practice.

ESG 29. The commitments also tend to focus on the lineside, missing opportunities to improve biodiversity at managed sites, which can additionally benefit workers and local communities.

ESG 30. Furthermore, identifying opportunities to significantly increase biodiversity net gain ('**BNG**') across the NR landed estate could introduce a new revenue stream by helping developers to meet their BNG targets on NR estate.

> **ESG Recommendation 4**
> **NR should explore opportunities to reinforce its own ESG targets and to attract additional revenue streams at the same time.**

Society

ESG 31. Green Champions will be able to make a difference to their local communities, share good practice and keep momentum on the delivery of NR's plans.

Governance

ESG 32. NR will:

a. Be aligned to Sustainable Development Goals.
b. Have Green Champions in place.
c. Update their procurement model by 2022 to reduce value chain emissions by 2032.

ESG 33. Transparency is important to NR; we will share our baseline, targets and current performance annually with the public, and we will actively encourage scrutiny and challenge of our work.

Diversity and Inclusion

ESG 34. Another aspect that should increasingly be borne in mind in considering the management and use of and investment in retail space is accessibility for and by the general public.

ESG 35. As NR manages public spaces and the common areas associated with retail units, NR will need to accommodate people with a variety of needs, and while spaces may generally comply with existing legislation it is recommended that NR continues to consider how designs can be more inclusive.

ESG 36. Savills expect increasing amount of design guidelines and legislation to be published with regards to inclusive design.

ESG 37. Expenditure on the social accessibility of NR facilities may well not bring a direct financial return in line with the Revenue Generating Renewals threshold returns, but NR will be obliged to provide accessible spaces that provide services for all of society. In this sense, expenditure on inclusive design will result in increased social value.

ESG 38. Greater consideration should be given to features such as colour-use, lighting, furniture, and physical accessibility to improve the experience of individuals with a range of needs including: neurodiversity, partially sighted and other physical impairments.

ESG 39. NR should use access audits to measure how accessible their spaces are, identify and any physical works that may, therefore, be required.

ESG 40. Audit reports may recommend greater capital expenditure focused on inclusive design. Implementing access audits and instructing access consultants to work with project consultants will create a tangible measure of NR's focus on society while redeveloping or refurbishing their sites.

ESG Recommendation 4
It would be worth undertaking access audits and, on specific projects, instructing access consultants to work with the project team. This will help underscore NR's focus on social values while carrying out works on its sites.

TCFD (Task Force for Climate-related Financial Disclosure) Reporting

ESG 41. The Government has adopted TCFD reporting and requires larger businesses to report to TCFD guidelines to ensure their operations have resilience to the impacts of climate change.

ESG 42. In January 2022 new mandatory climate-related financial disclosure requirements were made under the Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2021 and the Limited Liability Partnerships (Climate-related Financial Disclosure) Regulations 2022. These apply to reporting for financial years starting on or after 6th April 2022.

ESG 43. Although this may not directly affect NR, it is highly likely that NR's reporting will contribute to the Government's own TCFD reporting.

ESG Recommendation 5
We recommend NR operate its property portfolio with TCFD-guided reporting. This will require physical risk modelling of sites over different climate scenarios and timelines. Understanding future risks at each asset will be vital in mitigating climate change and consequence costs and loss of lettable area.

ESG 44. Many property companies are becoming aware of the financial risks associated with climate change and are beginning to align their reporting to the recommendations of TCFD. For example, British Land set a commitment to align with TCFD reporting by 2022, with a TCFD Steering Committee established in 2019 to lead the implementation.

ESG 45. In TCFD reporting, risks are categorised as physical or transitional. Depending on which pathway is taken towards climate change, the potential of physical and transitional risks will vary. Physical and transitional risk have an inverse relationship – the more action that is taken to mitigate and adapt to climate change the lower the physical risks but higher transitional risks, whilst if little action is taken the higher the physical risks and lower transitional. Table E1 summarises what risks and impacts could potentially look like for real estate. Understanding this information will help to inform strategic responses to climate-related risk.

Risk Type	Category	Potential Impact
Physical Risks	**Acute - Catastrophic events** Increased frequency and severity of extreme weather events, such as cyclones, hurricanes, wildfires, or floods.	Increased property damages from catastrophic events. Asset impairment and changes in asset valuation, write-offs, and early retirement of existing assets Business disruption from extreme weather Increased insurance premiums or reduced insurance availability. Increased risks in relation to employee health & safety.
	Chronic - Gradual changes in weather patterns Longer-term shifts in weather patterns; which may cause higher temperatures, decreased rainfall and heat waves, changes in precipitation and increasing frequency of heavy rain and wind, rising sea levels.	Increased asset operational costs due to need for more, or alternative resources to operate a building. Increased asset maintenance costs due to increased wear and tear on or damage to buildings. Cost of investment in adaptation measures, such as elevating buildings or incorporating additional cooling methods.
Transitional Risks	**Policy and regulation** Enhanced climate risk disclosures and building standards. Introduction of emissions caps and carbon pricing. Changes in building standards – e.g., new requirements for property. acquisition, development, operation, and disposal. Changes in subsidies and funding policies.	Higher compliance costs due to new disclosure requirements. Increased operating costs and reduced margins. Increased real estate taxes. Loss of subsidies or other funding opportunities. Additional capital investment to comply with stricter regulation.
	Market changes Shifts in consumer preferences for real estate services incorporating climate considerations. Markets vulnerable to climate change becoming less desirable over time. Changes in the availability of key resources such as renewable energy and water.	Reduced demand for properties and real estate services not meeting the new higher environmental standards. Reduced economic activity in vulnerable markets Lower liquidity of assets that have not incorporated climate mitigation. Reduced asset value. Increased operational costs due to higher prices for water and energy. Additional capital expenditures to adapt buildings to operate with reduced/ alternative resources.
	Technology development Substitution of existing products or services with lower emissions options.	Capital investments in technology development and / or costs to deploy new processes.
	Reputation Increased stakeholder concern or negative stakeholder feedback.	Risk to company brand and reputation, leading to reduced revenues.

Table E1 – Types of Climate Change Risks to be reflected in Property Strategies

Green Leases

ESG 46. NR might wish to set minimum standards for retailers to occupy station units (e.g. they must have a SBTi approved target, agreement to improve the EPC in fit-outs, even certification requirements like BREEAM-in-use[4] or B-Corp). These could be included in a green lease, and NR is uniquely positioned (with leases governing multiple retail units) to roll out a market-leading solution.

ESG 47. Leading landlords, especially in urban settings, are beginning to introduce green leases as standard for tenants, such as at the Grosvenor Group in west London.

ESG 48. NR should consider introducing green leases which could include clauses on the provision of 100% Renewable Energy Guarantee of Origin ('**REGO**') certified renewable energy for tenants. Such clauses will help NR achieve their SBTi targets as well as achieve their 'aim to feed in 100% of our non-traction electricity from renewable sources by 2030'.

> **ESG Recommendation 6**
> **We recommend NR considers introducing 'Green Leases' or 'Green' clauses in leases at renewal to ensure the environmental performance of its properties and its occupiers.**

ESG 49. NR should capture its ESG objectives in its leases and the way in which its properties are managed. This might include, for example, a zero-waste-to-landfill initiative, which is considered best practice in waste management. Large numbers of UK commercial landlords consider this as standard.

ESG 50. A green lease refers to a lease of a property, or a supplementary lease document, that includes clauses which are intended to help manage and improve the environmental and social performance of a building by both the landlord and occupier. Furthermore, green leases help mitigate legislative and market risk, fostering improvements in data collection for reporting performances.

ESG 51. At a basic level, a green lease is a declaration of commitment by a Landlord and Tenant to operate the building sustainably, i.e. to reduce energy consumption, emissions, resource use and waste. This requires the sharing of certain data between the Landlord and Tenant (in both directions), such as on energy, water, and waste.

ESG 52. A green lease can be used as a tool to:

a. Manage sustainability compliance
b. Improve the environmental performance of a building
c. Enhance wellbeing and productivity of building occupants
d. Attract and retain talent through shared core values (where they exist)
e. Increase profitability for landlords, where they may be able to gain a competitive advantage and attract tenants, as more and more organisations prioritise action on sustainability
f. Provide assurance for tenants that their ESG priorities will be met and that the building will be well-managed with sustainability in mind

ESG 53. A green lease at its most basic level is a standard form lease which includes additional clauses for the management and improvement of the environmental performance and social impact of a building by both landlord and tenant. Initially a Memorandum of Understanding (or an Agreement in Principle) will take place, during which the Landlord and Tenant may discuss and agree on the exact clauses they would like to include in the lease. Ambitious green leases may include obligations and targets which are formalised through Heads of Terms which become legally binding commitments, with breaches potentially resulting in financial penalties or a dispute resolution process.

> **ESG Recommendation 7**
> **We recommend that NR set a zero waste to landfill commitment for CP7 with year-on-year commitments, it would also be best practice so include a zero-incineration target (energy from waste, is often used in place of landfill). This will involve a large degree of employee and tenant engagement, as well as with waste contractors to establish a shared vision.**

[4] BREEAM is an internationally-recognised environmental accreditation for buildings - https://bregroup.com/products/breeam/

Specific Climate Change Risks for NR's Portfolio

ESG 54. The risks from extreme weather events, such as extreme heat, flooding, storms, drought, or extreme precipitation will vary asset to asset. Climate modelling will be increasingly important to understand the risks fully.

ESG 55. In addition to damaging assets, extreme weather may deter passengers and visitors and impacts (affecting the performance of the retail portfolio) and it could limit the functionality or performance of services.

ESG 56. Supply chain issues arising from both increases in extreme weather and transitional changes in international environment (for example, sanctions might start to be imposed on countries for lack of action; or changes in regulation might cause disruption to supply chains).

ESG 57. Depending on the UK Government's precise route towards tackling climate change, the risks will vary accordingly.

a. If the UK and International governments go for rapid action, with an orderly net-zero approach is taken the physical risks will be greatly reduced but transitional risks will be high (policy & regulation, technological development, reputation, market & social changes), whilst

b. if a 'business as usual approach' is taken then transitional risks will be low but physical risks will be much higher.

ESG 58. As noted above, new minimum energy efficiency standards ('**MEES**') regulations require units to have a minimum Energy performance ('**EPC**') rating of C by 2027 and B by 2030. Those that do not will become unlawful to let out in most cases. It is therefore important to provide some kind of budget for bring units up to this level during CP7.

ESG 59. The intensity of use of Greenhouse Gases ('**GHGs**') in retail is particularly high compared to other asset classes (see Figure E1 below).

GHG Intensity in Properties by Use Type

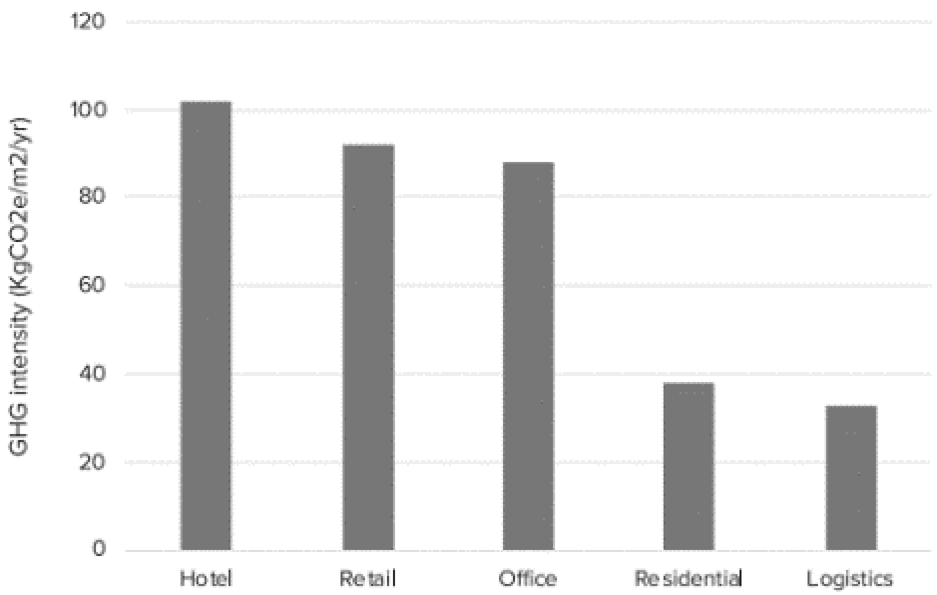


Figure E1

SOURCE: SAVILLS RESEARCH and THIRD PARTY SOURCES

This chart shows the relative GHG intensity of the various uses with Hotels, Retail and Offices being the most significant contributors.

ESG 60. Retail will have significant transitional risks as it trends towards decarbonisation. This will most likely be experienced through more capex spending needed to bring retail assets towards net-zero commitments.

ESG 61. Consumers are already demonstrating their preference to shop at ethical stores, and behaviour change may increasingly impact the specific retailers customers want to see at the stations, i.e., retailers with an environmental focus.

ESG Summary

ESG 62. Whilst ESG may not seem to be a relevant matter in the assessment of robustness of the NR CP7 Property Forecast, it is clear to Savills that there are plenty of moving parts which will require some expenditure (OPEX and CAPEX) to ensure NR complies with the law and regulations; to enable NR to access government finance; and to be able to protect its income (particularly from Managed Stations).

ESG 63. The assessment of robustness has not explicitly covered these areas – in the absence of an explicit plan or commitment from NR Property Group – but we have considered the areas where the implementation of government directives, regulation and legislation might adversely impact the plan and where NR should pay particular attention in finalising its CP7 property budgets.