Assessment of robustness of property income forecasts of Network Rail in the Initial Industry Plan (IIP)

Prepared on behalf of

Office of Rail Regulation

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Status

DTZ has prepared this report for, and on behalf of, the Office of Rail Regulation (ORR). The figures reported are subject to various reservations, conditions and assumptions agreed with the ORR. Whilst DTZ has formed its own opinions on the scale of the potential property income, we have relied on certain information received from Network Rail as being correct and having been provided in good faith. DTZ expressly disclaims any liability for any loss or damages of any kind to any third party resulting from reliance on the information this document contains.

Nothing contained within this report comprise opinions of Value as described by the Royal Institution of Surveyors (RICS) and whilst we consider the analysis to be sufficient to meet the agreed objectives, the figures and the assessment are not suitable for publication in any other context and should not be used for any other purpose.

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Control Period 5 (CP5) Forecasts

Network Rail CP5 forecasts

1.1. Network Rail (NR) has provided the following property income forecasts for CP5:

Table I – NR forecast property income for CP5 (in 2011/2012 prices)

NR Projections - with real growth (£000s)	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Managed Station Retail Income	125,095	132,858	140,936	148,587	156,232	703,709
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Property Income	5,100	5,383	5,714	6,081	6,477	28,756
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental income - Easements	7,915	7,993	8,065	8,128	8,185	40,286
Property Rental income - Business Space	80,759	80,720	80,576	80,510	80,520	403,083
Property Rental income - Freight	8,410	8,410	8,410	8,410	8,410	42,048
Property Rental income - Hotels	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	13,154	13,354	13,546	13,731	13,909	67,694
Sub total income excluding sales& non PR income	*283,909*	*294,048*	*304,625*	*315,109*	*325,911*	*1,523,601*
Net Property Sales & Developments	29,468	30,835	33,779	33,149	35,883	163,114
Non PR Income	8,104	12,776	18,311	24,573	34,572	98,336
Total	321,481	337,660	356,716	372,830	396,365	1,785,051

1.2. DTZ has reviewed NR's 2014/15 starting estimate for CP5 and its annual growth forecasts during CP5. DTZ has assessed the growth potential of each income stream having regard to the potential impact of specific asset management initiatives (incremental growth) and the potential for the income stream to outperform background economic growth (real growth factors). We discuss each of these below.

Managed Stations

This incorporates all property rental income derived from the Managed Stations (MS) portfolio.

MS Retail Income

This includes all retail rental income (shops, cafes, pubs) from inside the 18 MS. Retail units outside the railway station 'envelope' are not included within this category.

1.3. NR expects to invest further in these stations over CP5 and also to benefit from previous investment. The GVA analysis (Appendix 1) and NR's strategy implies that the MS are well managed and outperform reasonable benchmarks but that the retail offer and mix is 'subordinate' to the station in which it sits (for clear historical reasons) rather than being a retail and leisure destination in its own right. DTZ concurs with this view. NR proposes to shift the nature of its MS into leisure and retail destinations through a combination of influencing the tenant mix and further investment.

1.4. DTZ considers that this gives some opportunity to unlock additional incremental growth (for example by creating new space and driving performance through rent reviews) as well as market outperformance. DTZ considers that NR's forecasts broadly reflect the scale of the opportunity but we have added back currently unrecovered tenant costs from 2017/18 onwards.

MS Advertising Income

This includes all advertising income generated by NR at its MS. The remainder of the advertising portfolio income is contained within the Commercial Estate (CE).

1.5. NR has an existing contract in place with JC Decaux at its MS (see 'Advertising Income' section for additional commentary) to be retendered in 2015.

1.6. Traditionally, advertising spend generally rises at a faster rate than GDP although industry spend has been partly diverted towards on-line media. Given the nature of the NR advertising portfolio DTZ would expect advertising spend to be closely related to GDP but with opportunities for NR to grow this through new advertising space and better use of technology. As per Appendix 7 it is anticipated that MS will see a significant increase in footfall. We have adjusted the forecasts accordingly to allow for an increase in real growth post renegotiated contract.

MS Concessions

This income stream incorporates MS rental income from car parking and left luggage facilities. It also incorporates all car parking income that NR generates from its portfolio (NR have combined this to ensure the most efficient management structure).

Car Parking

1.7. NR's car parks have been subject to investment during CP4. Its car park charges are unregulated and it projects that additional income will be generated through price increases and higher utilisation rates.

1.8. Total car park income is currently circa £8m (of which approximately £7m is from the MS car parking and £1m the non MS). NR envisages that its new car park developments will be mainly related to non MS, outside the Train Operating Companies (TOCs) station boundaries, and as such new income would form part of the Facility Charge income and not Periodic Review (PR) income. All non PR MS concessionary income for CP5 relates to additional car parking facilities.

1.9. DTZ considers that NR has the capacity to create additional revenue streams from new car parking. There is a target in Better Rail Stations (DfT, 2009) for an additional 10,000 spaces per annum. This is an aspirational target and in our view it is not a reasonable assumption that this level of new spaces will be income producing for CP5. DTZ anticipates that NR will be able to generate additional car parking spaces but has assumed that this income will form part of the facility charge income.

Left Luggage Facilities

1.10. There have been no recent changes in left luggage facilities. Fenchurch Street, which has comparatively low passenger volumes and caters mainly to local commuter traffic, is currently the only MS with no facility. The new facility proposed at Cannon St for use during the Olympics may be retained if there is sufficient ongoing demand (traditionally this has been mainly a commuter terminal). Conversely the temporary facility at London Bridge will not be retained as higher rental uses, such as food outlets, have been given priority over left luggage facilities (this station also has a comparatively lower proportion of long distance, tourist or airport traffic).

1.11. At the majority of MS left luggage facilities are sited in secondary areas which are less attractive to retailers but within the station envelope and typically on the concourse level. It may be feasible therefore for some additional revenue to be generated by moving these facilities at some locations to free up concourse space. Whilst this additional concourse space would not typically be prime it is likely to provide a higher rental income than left luggage facilities. Any change with regards to the positioning of left luggage would have to be balanced against the wider service provided by NR and the inconvenience of left luggage not being on concourse level (likely to require lift access).

1.12. There is very limited opportunity for NR to increase left luggage income from non MS as to be useful it is likely to have to reside within the TOC's station lease boundaries. Total income is circa £4 million per annum for the 14 Facilities in place.

MS - Other Property Income

This income stream incorporates all other MS rental income outside the above categories and includes offices, storage facilities and space used by TOC's.

1.13. We consider that NR's assessment of additional income through price increases and the increased take-up of existing capacity to be reasonable.

Advertising Income

This includes all advertising income generated by NR on its property portfolio outside the MS. This is split into Railside (primarily advertisements within and around railway stations) and Roadside advertising (primarily billboards).

1.14. NR has existing contracts in place with JC Decaux (Railway side) and Primesight (Roadside).

1.15. NR will be retendering these contracts in 2015 and 2016 respectively. It believes that this will give rise to "the potential for uncapped income in the event of outperformance as well as the security of a minimum guaranteed return."

1.16. As stated earlier, DTZ would expect advertising spend to be closely related to GDP but with opportunities for NR to grow this through new advertising space and better use of technology. We have adjusted the forecasts accordingly.

Commercial Estate Property Rental Income

This income relates to NR's CE which consists of all rental income generated from NR's property portfolio apart from at MS's and from car parks.

Easements and wayleaves

This consists of a variety of agreements, the majority with various utilities and other stakeholders.

1.17. Where NR's easements and wayleaves are non-statutory, it proposes to simplify agreements and renegotiate charges when existing agreements expire. This process has commenced during CP4 and NR proposes to continue this during CP5. NR considers that CP5 will only be subject to contractual growth and the vast majority of benefits will be accrued in CP4.

1.18. DTZ considers that there are opportunities to continue to improve the income during CP5 by taking advantage of the efficiencies accrued during CP4 and we have adjusted the forecasts accordingly with small additions to both incremental and real growth.

Business Space

The business space income consists mainly of the portfolio previously known as Spacia. The most significant use is industrial and storage purposes but the portfolio also includes offices, retail and leisure and some residential.

1.19. NR expects to continue to outperform market comparators. NR also proposes to extend the use of its 'Solutions' product which offers tenants flexible terms and which has contributed to outperformance. NR believes that income growth will be "less pronounced when the wider market enjoys a recovery."

1.20. NR has not made any specific allowance for any additional income that may be achieved from new parkways. NR have confirmed that the income from the new drop-in office initiative (NR announced a Joint Venture agreement in December 2011) is already within the forecasts.

1.21. DTZ considers that NR should be able to match or outperform the market and but that incremental income will not be greater than NR's projections. DTZ has adjusted the forecasts accordingly with real growth rates as per the Market Comparator Index for industrial property.

Freight

This incorporates all income from freight sites as well as miscellaneous asset portfolio income from access rights, garden extensions and other minor items which NR retains for operational reasons.

1.22. NR anticipates a steady return in real terms from its freight portfolio over CP5. NR has advised that currently circa £6 million of revenue is derived from freight and similar sites offering rail access. Within this category there is additionally circa £2 million income from the miscellaneous asset portfolio.

1.23. There is some limit to the ability to improve income through asset management due to the proportion of freight sites which are regulated and for which NR receives only a peppercorn rent.

1.24. Where sites are retained for future freight use they are let for other purposes. However, these sites are usually let on a short term basis to safeguard future freight use and this limits the income that can be secured.

1.25. NR has not provided DTZ with freight traffic forecast figures but we understand that the first quarter of 2011 saw a 16% increase in traffic and that the general trend is for freight traffic to increase at a rate significantly above GDP growth. This is due to rising fuel prices and improvements to cargo infrastructure which are accelerating the shift from road to rail. The Financial Times reported that NR considers that freight traffic could increase by more than 140% over the next decade whilst the Rail Freight Group has calculated growth over the last ten years of almost 50%.

1.26. NR considers that its ability to convert freight traffic to income is constrained by the ability of other property owners with assets adjacent to the network to develop freight sites by paying an access charge (regulated). Additionally, NR considers that income from freight sites is not directly related to freight traffic, in particular because it predicts that freight traffic will be concentrated on the same routes (i.e. existing freight assets being used more efficiently) as opposed to a growth in freight sites across all routes.

1.27. DTZ believes that the freight portfolio should perform in line with the wider CE and that the predicted significant growth in railway freight should bring some uplift in revenue. We have adjusted our forecasts accordingly particularly considering the relative strength of industrial assets in the current property market.

Hotels

This relates to hotels owned by Network Rail from which it receives a rent from operators.

1.28. NR anticipates a reasonably flat return from its hotel portfolio over CP5.

1.29. [redacted] There are a number of hotels close to stations which are developed by NR or a development partner, let to an operator and then sold to an institutional investor; therefore, the return from this is within the 'Net Property Sales' section.

1.30. DTZ has assumed that the growth rate for hotel income will match the historical Market Comparator Index average rate for leisure assets with a small amount of incremental income.

Telecoms

Telecoms income consists largely of mast sites and linear easements.

1.31. NR expects some growth in real terms over CP5 due to renegotiated renewal terms and the rollout of 4G technology. DTZ considers NR's assumptions to be reasonable.

Property Sales & Developments

Within this category there are a variety of income generators to NR.

1.32. NR has provided estimates for its anticipated development and sales programme over CP5. Its forecast is broken down as follows:

Table II – NR Property Sales and Development Projections for CP5

£000s	post risk adjusted (submitted)	
	Cash	Hypothecated
Disposals	[redacted]	[redacted]
Joint Venture 2	[redacted]	[redacted]
Solum Joint Venture profit	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
Regional Station Developments	[redacted]	[redacted]
Sub total	***156,000***	***90,000***
Indexation	4,000	-
Total	160,000	90,000

1.33. As part of its management process, NR maintains a record of 683 projects across the UK which are broken down into four categories:

- Strategic Development across the whole estate (e.g. residential joint ventures)
- Sites (both operational sites with no sale being foreseeable and potential development sites) split on a geographical basis
- Compulsory Purchase Order Sites
- Sites to be sold

1.34. The methodology followed by NR in relation to each site has been to apply a percentage likelihood of completion prior to the end of the CP5 period; this percentage has been used to calculate risk adjusted output figures for every financial year.

1.35. DTZ has reviewed the development and sales database and an analysis is attached in Appendix 6. This analysis has assisted in our assessment of the range of potential sales and development income during CP5.

Site sales

1.36. The forecasts are calculated as gross anticipated sales less hypothecated gains less costs of sales. This includes developments and joint ventures.

1.37. NR has not forecast any definite freight site disposals in CP5; however some possible sales are noted in the Development & Sales schedule [redacted]. NR's current ability to release value from Strategic Freight Sites is impaired by the restrictions of the Freight Cessation Notice regulations which require it to obtain industry approval to freight sites being released. A recommendation of the McNulty review was that there should be a greater emphasis of disposing of surplus sites and the ability of NR to dispose of surplus freight sites may be improved.

1.38. Contained within this category is 'Shared Value' which relates to ransom strips and other low value assets. In terms of Shared Value figures, NR has not been able to provide DTZ with site specific projections as far forward as the next Control Period due to the 'windfall' nature of this income stream. NR considers that the historic volume of transactions may not necessarily provide a proper indication of future performance due to the depressed state of the development market. Nevertheless, in the absence of other projections being proposed by NR, DTZ has sought to understand the historic trend of Shared Value income and the information provided by NR is attached in Appendix 5.

1.39. DTZ has made an allowance for freight sales and Shared Value income in its forecasts as well as an increased probability of site sales being undertaken. This increased probability is based on DTZ's view of the market and the breadth of NR's portfolio.

National Centre, Milton Keynes

1.40. This is a significant asset and, unlike the majority of NR's portfolio, clearly has no direct operational link. It can therefore be evaluated on a purely financial basis in terms of whether ownership should be retained or sold subject to a leaseback to NR from the new freeholder.

1.41. We have included some analysis in Appendix 8. Our conclusion is there is not currently a case for a sale and leaseback to be undertaken but that this should be reviewed regularly. On occupancy, there may be opportunities to sub let space.

Hypothecated gains

Hypothecated gains – assets that pass over to NR, typically to the operational side of the business, as a by product of development – are excluded from the CP5 projections. The redevelopment of Victoria Station is an example of where NR will extract railway improvements from development.

1.42. DTZ has sought to understand the rationale behind the split applied between hypothecated gains and income and the process followed for such decisions. NR examines each project on a case by case basis and follows the rationale of delivering best value overall for NR, whilst still ensuring that there is a sustainable development remaining. On the basis of information provided to DTZ we consider that the balance between land receipts and hypothecated gains is based on a subjective assessment. Although this could give rise to decisions being artificially weighted towards increasing the Regulatory Asset Base, DTZ is not aware of any such instances where this has occurred and we are advised that the decisions are based on open discussions between NR Property, NR Route and the relevant TOC.

Developments

1.43. NR has a minimum required regulatory IRR of 4.75%. For the purposes of investment appraisal of property refurbishment projects and developments fully controlled by NR, a slightly higher hurdle rate of [redacted] is used to allow for commercial risk. Joint developments with third parties, where NR has less control over the outcome, have a hurdle rate of [redacted].

1.44. Developments are related to direct property development on NR land or air rights (sometimes involving adjacent land owners) and undertaken either by NR directly or with one or more third party developers. Such developments may be supported by a combination of pre-let and speculative letting deals. NR classifies its developments as being of comparatively high risk as they are likely to involve significant additional commercial, construction and funding risks ranging from more complex planning, design, commercial, funding and disposal risks.

1.45. NR contends that its most straightforward, high value sites have already been developed and the majority of the remaining sites have challenges in terms local market appetite and/or delivery constraints from the operational railway.

1.46. NR do not envisage that CP5 enhancement schemes will require any external funding, although joint ventures may require this.

1.47. We are advised that it is NR Corporate, not NR Property, that deal with the TOCs in relation to the Investment Framework and this is not included in NRs assessment.

1.48. Major development in and around the railway stations in CP5 are Victoria, Waterloo, Birmingham New Street and London Bridge. The London Bridge development is predominantly rail related and creates disruption until 2018. The property benefits of this are primarily through the opening up of some railway arches and vaults; the majority of the land (around Borough Market) which has been compulsory purchased for the development will be sold back if acquired for access purposes (at the same price plus compensation for disruption etc). NR will permanently retain around six rental units as their close proximity to rail infrastructure requires them to maintain control for asset protection purposes. NR has confirmed that it has no residual financial interest in the Shard development.

1.49. Major developments at Waterloo are heavily dependent on discussions (currently ongoing) between NR and BRBR / DfT which may or may not lead to NR acquiring additional platform and potentially retail space as well. None of this potential additional income is in the CP5 submission, but will be added should discussions conclude.

1.50. NR stated that there is no forward breakdown of regional station development beyond CP4 as they tend to be smaller projects which cannot be forecast.

Capital expenditure (capex)

1.51. NR has supplied a capex breakdown for property projects in CP5 although not with specific scheme details apart from very large capex programmes such as London Bridge arches and Paddington Bomb site. The projected return from these property projects will become part of non PR income for CP5 and NR has not provided a project by project breakdown of the total return that they anticipate.

1.52. Whilst the purpose of this review is to focus on PR income, this CP5 non PR income will obviously become part of PR income in CP6 and is therefore a consideration for the Office of Rail Regulation (ORR). Most importantly, there is the requirement for NR to demonstrate that the capex allowance it is seeking in CP5 (£453 million, of which £362 million is for enhancement expenditure as opposed to renewals) is producing sufficient returns.

Non PR Income

1.53. This relates to income which is anticipated to be generated within CP5 following investment within this period split between the Managed Stations, Advertising Income, the Commercial Estate and Telecoms. This is separate to any development and sales income as NR will continue to control the developed asset and derive revenue from it, whether it is the refurbishment of arches, improvements in advertising infrastructure, reconfiguration of retail units or cost saving investments.

1.54. NR have not provided DTZ with a detailed breakdown of the headline figures for each income stream. NR have supplied the breakdown for the 2010/2011 financial year in terms of the enhancement expenditure on NR sponsored income generating schemes and NR sponsored cost saving schemes.

1.55. DTZ have used the historic information provided in order to project future potential incremental revenue based on NR's typical return on investment and wider market rates of return. As the investment framework income is made up of the same categories as the PR income (apart from Development and Sales), the growth rate applied to the PR income has been applied to these assets.

DTZ Assessments

1.56. DTZ considers that NR's 2014/15 starting estimate for CP5 is a robust baseline to which we have then applied adjustments where appropriate as follows:

- Changes in the assumptions to incremental growth through asset management initiatives; and
- Changes to NR's 'real' growth forecasts as an assessment of where NR is expected to outperform economic growth.

1.57. We have considered NR's property income forecasts against NR's passenger journeys forecast and this analysis is within Appendix 7.

1.58. The adjustments that we have made to each income stream are shown overleaf, referenced to NR's assumptions as a comparison.

1.59. **Our projections are moderately higher than NR's (NR: £1.785 billion; DTZ: £1.848 billion) but overall, based on the information provided by NR, we have concluded that NR's approach has been robust and its projections are based on assumptions that are broadly reasonable.**

1.60. DTZ has considered a lower and upper range of property income based on various scenarios which is £1.779 - £1.964 billion. The basis of our assessment of the lower and upper ranges is set out overleaf. These are based on reasonable adjustments to the core assumptions and do not represent the most extreme outcomes possible – for example we have not envisaged a wholesale disposal of the commercial estate or a separation of the property function and we have assumed that there will not be a radical reduction in the amount of retail space at the MS to reduce passenger congestion. We have not taken into account the full impact of changes that might arise from recommendations in the McNulty report.

1.61. DTZ's projections are summarised in Table III below:

Table III – DTZ summary forecast property income for CP5 (in 2011/2012 prices)

DTZ Projections - with real growth (£000s)	2014/15	2015/16	2016/17	2017/18	2018/19	Total
Managed Station Retail Income	125,095	132,858	140,936	151,636	162,336	**712,861**
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Property Income	5,100	5,383	5,714	6,081	6,477	**28,756**
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental income - Easements	7,902	7,972	8,095	8,229	8,374	**40,572**
Property Rental income - Business Space	81,162	80,961	81,178	81,391	81,841	**406,533**
Property Rental income - Freight	8,460	8,479	8,544	8,609	8,674	**42,765**
Property Rental income - Hotels	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	13,154	13,354	13,546	13,731	13,909	**67,694**
Sub total income excluding sales	*284,359*	*294,529*	*305,618*	*319,482*	*333,908*	*1,537,896*
Net Property Sales & Developments	34,468	35,835	38,779	45,149	47,883	**202,114**
Non PR Income	8,316	14,727	21,386	28,215	35,238	**107,882**
Total	327,143	345,091	365,783	392,845	417,029	1,847,892

1.62. DTZ's assessment for each income stream is shown overleaf and this analysis forms the basis of the summary projections contained within Table III.

Table IV – DTZ forecast property income analysis for CP5

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Managed Station Retail Income - CP5 start	122,073					
	Incremental growth		8,199	8,135	10,782	10,393	
BASE	*sub total*	*122,073*	*130,272*	*138,406*	*149,188*	*159,581*	
	Real Growth	2.5%	2.0%	1.8%	1.6%	1.7%	
	DTZ Forecast	125,095	132,858	140,936	151,636	162,336	712,861

Incremental growth as per NR but reflect 100% recovery of staff costs from tenants from 2017/18 onwards (£3m pa); real growth as per NR.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Managed Station Advertising Income - CP5 start	[redacted]					
	Incremental growth		[redacted]	[redacted]	[redacted]	[redacted]	
BASE	*sub total*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Real Growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	DTZ Forecast	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Incremental growth as per NR; real growth 5% per annum from 2015/16 onwards anticipating an uplift from the contract re-tender.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Managed Station Concessions - CP5 start	[redacted]					
	Incremental growth		[redacted]	[redacted]	[redacted]	[redacted]	
BASE	*sub total*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Real Growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	DTZ Forecast	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Incremental growth as per NR projections (additional car parking income assumed to be recieved as part of facility charge); real growth as per NR.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Managed Station Other Property Income - CP5 start	4,964					
	Incremental growth		261	311	338	376	
BASE	*sub total*	*4,964*	*5,225*	*5,536*	*5,874*	*6,250*	
	Real Growth	2.8%	3.0%	3.2%	3.5%	3.6%	
	DTZ Forecast	5,100	5,383	5,714	6,081	6,477	28,756

Incremental growth as per NR; real growth as per NR

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Advertising - CP5 start	[redacted]					
	Incremental growth		[redacted]	[redacted]	[redacted]	[redacted]	
BASE	*sub total*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	Real Growth	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	
	DTZ Forecast	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Incremental growth as per NR; real growth 5% per annum from 2016/17 onwards anticipating an uplift from the contract re-tender.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Property Rental income - Easements - CP5 start	7,855					
	Incremental growth		62	70	80	90	
BASE	*sub total*	*7,855*	*7,917*	*7,987*	*8,067*	*8,157*	
	Real Growth	0.6%	0.7%	1.4%	2.0%	2.7%	
	DTZ Forecast	7,902	7,972	8,095	8,229	8,374	40,572

Incremental growth progressively increased by £10k pa to reflect expected effect of increased efficiency and collection through standardisation; real growth as per Market Comparator Index for Industrial.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Property Rental income - Business Space - CP5 start	80,678					
	Incremental growth		-280	-303	-303	-69	
BASE	*sub total*	*80,678*	*80,398*	*80,095*	*79,792*	*79,722*	
	Real Growth	0.6%	0.7%	1.4%	2.0%	2.7%	
	DTZ Forecast	81,162	80,961	81,178	81,391	81,841	406,533

Incremental growth as per NR; real growth as per Market Comparator Index for industrial property

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Property Rental income - (Freight) - CP5 start	8,410					
BASE	Incremental growth		10	10	10	10	
	sub total	*8,410*	*8,420*	*8,430*	*8,440*	*8,450*	
	Real Growth	0.6%	0.7%	1.4%	2.0%	2.7%	
	DTZ Forecast	8,460	8,479	8,544	8,609	8,674	42,765

Incremental growth as per NR but with an additional £10k per annum (but see Property Sales for freight sales); real growth as per Market Comparator Index for industrial property

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Property Rental income - (Hotels) - CP5 start	[redacted]					
BASE	Incremental growth		[redacted]				
	sub total						
	Real Growth						
	DTZ Forecast						

Incremental growth as per NR; real growth as per ipd leisure income growth average 1981-2010.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Telecoms - CP5 start	12,894					
BASE	Incremental growth		260	174	152	170	
	sub total	*12,894*	*13,154*	*13,328*	*13,480*	*13,651*	
	Real Growth	2.0%	1.5%	1.6%	1.9%	1.9%	
	DTZ Forecast	13,154	13,354	13,546	13,731	13,909	67,694

Incremental growth as per NR; real growth as per NR

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
BASE	**Net Property Sales & Developments per Annum**	34,468	35,835	38,779	45,149	47,883	
	DTZ Forecast	34,468	35,835	38,779	45,149	47,883	202,114

Incremental growth to increase from £163m to £202m (mid point between 100% sales and developments undertaken and risk adjusted figure), spread towards end of CP5 apart from £5m per annum for Shared Value receipts throughout; no real growth.

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	Non PR Income - CP5 start	7,927					
BASE	Incremental growth		6,586	6,586	6,586	6,586	
	sub total	*7,927*	*14,513*	*21,099*	*27,685*	*34,272*	
	Real Growth	2.0%	1.9%	2.1%	2.3%	2.5%	
	DTZ Forecast	8,085	14,793	21,550	28,318	35,138	107,884

Incremental growth of £26 million spread evenly over the control period; real growth as per the average growth rate for PR income in CP5 (base range).

	DTZ Forecast	2014/15	2015/16	2016/17	2017/18	2018/19	
	CP5 start (net of sales)	278,781					
	Incremental growth		10,174	10,276	13,112	13,333	
	sub total	*278,781*	*288,955*	*299,231*	*312,343*	*325,676*	
BASE	Real Growth	*5,578*	*5,574*	*6,387*	*7,139*	*8,232*	
	Real Growth %	*2.0%*	*1.9%*	*2.1%*	*2.3%*	*2.5%*	
	Net Property Sales & Developments per Annum	*34,468*	*35,835*	*38,779*	*45,149*	*47,883*	
	Non PR Income	*8,085*	*14,793*	*21,550*	*28,318*	*35,138*	
	DTZ Forecast	326,912	345,157	365,947	392,948	416,929	1,847,893