Network Rail Strategic Business Plan - Property Income Forecast Review

Prepared for:

OFFICE OF RAIL AND ROAD

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Contents

STATUS

Cushman & Wakefield has prepared this report for, and on behalf of, the Office of Rail and Road (ORR). The figures reported are subject to various reservations, conditions and assumptions agreed with the ORR. Whilst Cushman & Wakefield 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. Cushman & Wakefield 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 Chartered 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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Executive summary

- We have considered a lower and upper range of property incomes (low and high variations rather than 'limits') based on various scenarios which show £1.49 -£1.66 billion.
- The lower and upper calculations are not based on extreme outcomes.
- Cushman & Wakefield's (C&W) base projection for the beginning of CP6 is 10% higher than Network Rail's (NR's) at £321.3m compared to NR's £291.1m
- NR's projections are based on assumptions that are broadly reasonable.
- Real growth rates assumed by NR are higher than property market return comparators (although there is a limitation as to their fit against such an individual portfolio as NR's)
- The NR team has a pro-active approach to asset managing the property portfolio, particularly in respect of the retail portfolio where both footfall and passenger needs are monitored continuously to enable the team to identify opportunities to enhance footfall and customer experience and therefore income.
- Projections of Development and Sales income are relatively conservative and we consider that there is scope to significantly increase the number of identified schemes coming forward in CP6.
- The biggest single driver of the upper range of property income is the assumption around the Development and Sales portfolio.

C&W assumptions for CP6 are as follows (£'000):

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]							
Managed Station Other Income	[redacted]							
Managed Station Advertising Income	[redacted]							
Managed Station Property Rental Income	[redacted]							
Property Rental Income	[redacted]							
Advertising	[redacted]							
SUBTOTAL	***234,714***	***237,884***	***237,681***	***242,955***	***246,410***	***1,199,644***	***1,175,066***	***2.09%***
Other Income	[redacted]							
Managed Station Concessions	[redacted]							
Telecoms	[redacted]							
SUBTOTAL	***35,162***	***35,454***	***35,581***	***35,678***	***35,900***	***177,775***	***175,506***	***1.29%***
SUBTOTAL Property income *(exc. sales&dev)*	***269,876***	***273,338***	***273,262***	***278,632***	***282,310***	***1,377,420***	***1,350,572***	***1.99%***
Property Sales	51,441	50,394	7,807	15,139	40,782	165,563	125,000	32.45%
TOTAL	***321,317***	***323,732***	***281,070***	***293,771***	***323,093***	***1,542,983***	***1,475,572***	***4.57%***

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]							
Managed Station Other Income	[redacted]							
Managed Station Advertising Income	[redacted]							
Managed Station Property Rental Income	[redacted]							
Property Rental Income	[redacted]							
Advertising	[redacted]							
SUBTOTAL	***236,661***	***242,857***	***245,787***	***254,282***	***261,088***	***1,240,676***	***1,175,066***	***5.58%***
Other Income*	[redacted]							
Managed Station Concessions*	[redacted]							
Telecoms*	[redacted]							
SUBTOTAL*	***35,162***	***35,719***	***36,126***	***36,516***	***37,053***	***180,576***	***175,506***	***2.89%***
SUBTOTAL Property income (excl. sales and	***271,824***	***278,576***	***281,914***	***290,798***	***298,140***	***1,421,251***	***1,350,572***	***5.23%***
Property Sales	76,663	66,354	14,376	24,257	58,967	240,618	125,000	92.49%
TOTAL	***348,487***	***344,930***	***296,290***	***315,055***	***357,107***	***1,661,869***	***1,475,572***	***12.63%***

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]							
Managed Station Other Income	[redacted]							
Managed Station Advertising Income	[redacted]							
Managed Station Property Rental Income	[redacted]							
Property Rental Income	[redacted]							
Advertising	[redacted]							
SUBTOTAL	***234,714***	***236,466***	***234,806***	***238,606***	***240,536***	***1,185,129***	***1,175,066***	***0.86%***
Other Income*	[redacted]							
Managed Station Concessions*	[redacted]							
Telecoms*	[redacted]							
SUBTOTAL*	***35,162***	***35,182***	***35,036***	***34,870***	***34,823***	***175,073***	***175,506***	***-0.25%***
SUBTOTAL Property income (excl. sales and	***269,876***	***271,648***	***269,842***	***273,476***	***275,359***	***1,360,202***	***1,350,572***	***0.71%***
Property Sales	39,477	42,685	4,973	10,954	32,410	130,500	125,000	4.40%
TOTAL	***309,353***	***314,334***	***274,816***	***284,431***	***307,769***	***1,490,702***	***1,475,572***	***1.03%***

1. Introduction

Cushman & Wakefield (C&W) has been commissioned by the Office of Rail and Road (ORR) to undertake a review of the property income assumptions contained within Network Rail's (NR's) Strategic Business Plan for Control Period 6 (CP6).

In undertaking this review, C&W has consulted both NR's property and finance teams, including workshop sessions with the teams responsible for each section of the portfolio including:

- Retail
- Commercial Estate
- Property Services
- Sales & Development
- Scotland

DfT and Transport Scotland have also been consulted as part of the review.

This report sets out Cushman & Wakefield's view of the robustness of NR's assumptions in respect of the income forecasts for CP6 across the following sections:

1. A summary of NR's CP6 Forecasts and Strategy
2. C&W review of the Strategic Business Plan in Relation to Property
3. C&W forecasts for CP6

2. Network Rail strategy for CP6

2.1. Strategy

The purpose of NR's property assets is primarily to enhance customer experience while supporting the primary function of the railway. We set out below the key vision and objectives from Network Rail's Property Strategic Plan for CP6.

Income Generation

Primarily, Network Rail's property assets are a source of income which can be used to reinvest in the railway, to reduce costs and increase productivity, including upgrades to the infrastructure to support wider economic growth, and enhancements to stations in order to create better places and communities to attract businesses and enhance customer experience.

Within CP6, Network Rail's objective is to grow the income from their retained estate, through effective asset management and strategic investment. Where applicable, Network Rail will continue to divest their assets to assist with funding the railway.

Releasing Land for Housing

Network Rail is committed to releasing surplus land to help the government meet their housing targets. Therefore, as part of CP6 Network Rail will be optimising the use of their operational land, to free up land for new homes and using the proceeds from the disposals to reinvest in the railway. The vision for CP6 is for sites to be developed with joint partners, where advantageous, rather than through outright disposals.

Passenger Experience

Network Rail want to 'create great places for customers, businesses and communities'. They plan to do this in CP6 through working in partnership with the routes to enhance customer experience, working in a collaborative way to regenerate stations and areas around the railway and attracting third party investment into improving railway assets.

2.2. Property income forecasts for CP6

Network Rail (NR) has submitted the following property income forecasts for CP6 as shown in Figure 1. Figures are expressed in real terms and do not include inflation:

Figure 1 NR Property Income Forecasts for CP6 (in £000)

	2019/20	2020/21	2021/22	2022/23	2023/24	CP6
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income [redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***229,749***	***232,991***	***232,808***	***238,065***	***241,454***	***1,175,066***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

	2019/20	2020/21	2021/22	2022/23	2023/24	CP6
SUBTOTAL*	***36,829***	***35,162***	***35,224***	***35,121***	***34,999***	***175,506***
SUBTOTAL Property income (excl. sales and development)	***264,911***	***268,215***	***267,930***	***273,064***	***276,452***	***1,350,572***
Property Sales	26,203	29,060	19,693	22,075	27,969	125,000
TOTAL	**291,114**	**297,275**	**287,623**	**295,139**	**304,421**	**1,475,572**

*Income to be deducted from costs (regulatory requirement)

Disaggregated tables for England & Wales and Scotland are at Appendix A.

2.3. Base brought forward from CP5

Figure 2 summarises the forecast base income carried forward from CP5.

Figure 2 Base income carried forward from CP5 (in £000)

	2014/15	2015/16	2016/17	2017/18	2018/19	CP5
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income (including MS PR income)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***248,277***	***273,463***	***292,889***	***303,944***	***316,546***	***1,435,119***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***31,617***	***37,466***	***37,548***	***38,133***	***37,167***	***181,931***
SUBTOTAL Property income (excl. sales and development)	***279,895***	***310,929***	***330,436***	***342,078***	***353,713***	***1,617,051***
Property Sales	33,586	86,677	62,337	42,870	47,965	273,435
TOTAL	**313,481**	**397,606**	**392,773**	**384,948**	**401,678**	**1,890,486**

*Income to be deducted from costs (regulatory requirement)
Note: 2014/15 – 2016/17 Figures are actuals and include inflationary growth. 2017/18 Figures are part forecast/part actuals (to Jan 2018). 2018/19 figures are 100% forecast

Disaggregated tables for England & Wales and Scotland are at Appendix A.

In order to compare NR forecasts for CP6 with performance in CP5, RPI increase/inflation has been deducted from the CP5 figures presented at Figure 2 to enable a comparison on a like-for-like basis. This is summarised at Figure 3.

Figure 3 Actuals Inflation Adjustment (£'000)

	2014/15	2015/16	2016/17	2017/18	2018/19	CP5
CP5 Pre-adjusted income total (excl. sales and development)	***279,895***	***310,929***	***330,436***	***342,078***	***353,713***	***1,617,051***
RPI adjustment	2.40%	1.00%	1.80%	0%	0%	
Adjusted total	***273,178***	***307,820***	***324,488***	***342,078***	***353,713***	***1,601,570***
Property Sales	33,586	86,677	62,337	42,870	47,965	273,435
TOTAL	**306,921**	**394,527**	**386,930**	**384,948**	**401,678**	**1,875,005**

Unless otherwise stated, any analysis in this report relating to CP5, is based on the pre-inflation figures shown in Figure 3**.**

3. CP5 performance and forecasts for CP6

3.1. CP5 performance

In assessing NR's income assumptions, C&W has sought to understand the performance of the property portfolio in CP5 against both initial forecasts for CP5 and current assumptions for CP6.

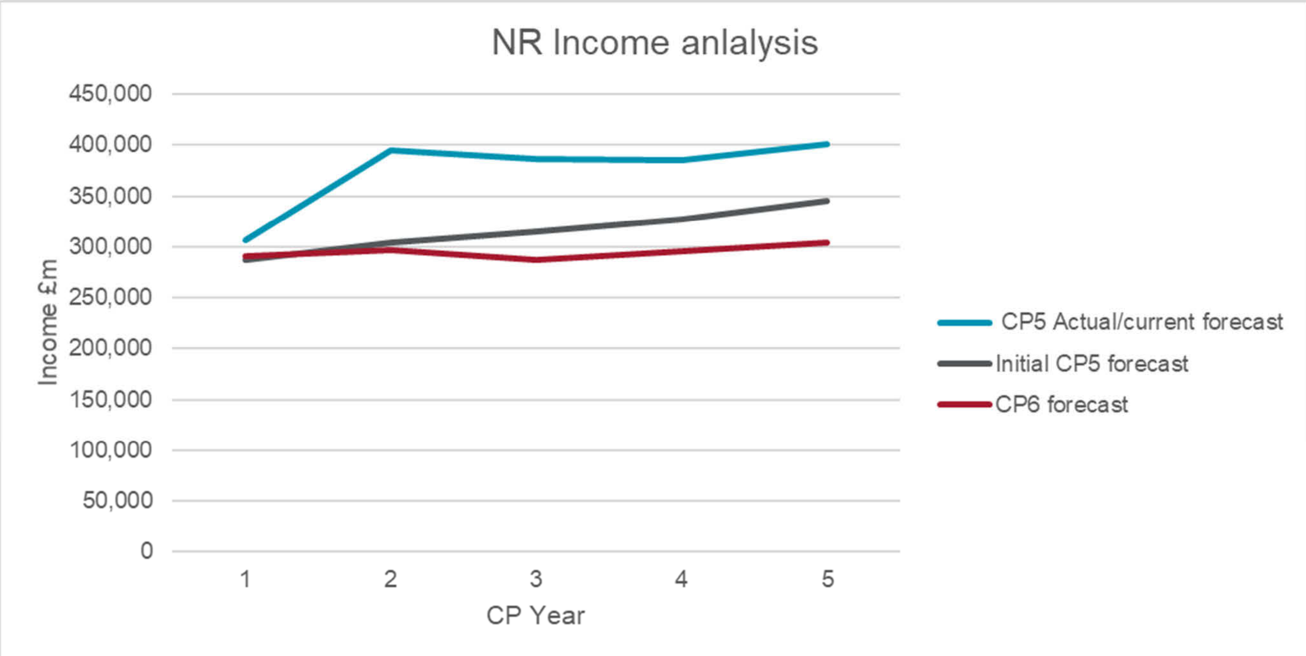
Figure 4 illustrates that the portfolio significantly outperformed forecasts for CP5, due largely to strong performance in 2014/15 and 2015/16 and exceeding the overall target for CP5 by £296.4m (19%) by the end of the control period (after deducting for assumed inflationary growth during the Control Period).

Figure 4 also shows that the starting points for CP5 and CP6 are similar and although there has been income growth throughout CP5, much of this will be lost through the sale of the Commercial Estate in 2018.

It is also clear from Figure 4 that the forecasts for CP6 follow a shallower and much less even trajectory than those for CP5 with income expected to fall in 2021/2022. This mirrors more closely CP5 Actuals albeit with less growth.

The total enhancement spend for CP5 was £416.0m which includes £36.4m for acquisitions and £75.7m for the commercial estate.

Figure 4 NR income forecast analysis for CP5 and CP6



3.2. CP6 forecast

Figure 5 summarises the forecast for CP6 by income line and highlights the relative weighting towards the retail portfolio. This is much more than in previous years due to the loss of rental income from the sale of the Commercial Estate that is expected to have completed by the end of CP5.

Figure 6 shows the NR's growth forecasts for CP6 by income line. This shows that in relative growth terms, the MS advertising portfolio is anticipated to be the best performing. This is largely due to the £18.1m investment NR will be making in upgrading to digital advertising. The telecoms portfolio is forecast to see the greatest decline in income due to the impact of the new Electronic Telecommunications Code. It also highlights the significant fluctuations in income from year-to-year, peaking in year two before falling again in year three. This is a similar pattern to that seen in CP5.

The enhancement spend for CP6 is £300m with the majority of this (£267.9m) falling within the retail portfolio. The assumed benefit of these enhancements is built into the figures explicitly. This is similar to the enhancement spend assumption for CP5 (after making deductions for the Commercial Estate and acquisitions which do not apply to CP6).

Figure 5 CP6 income forecast

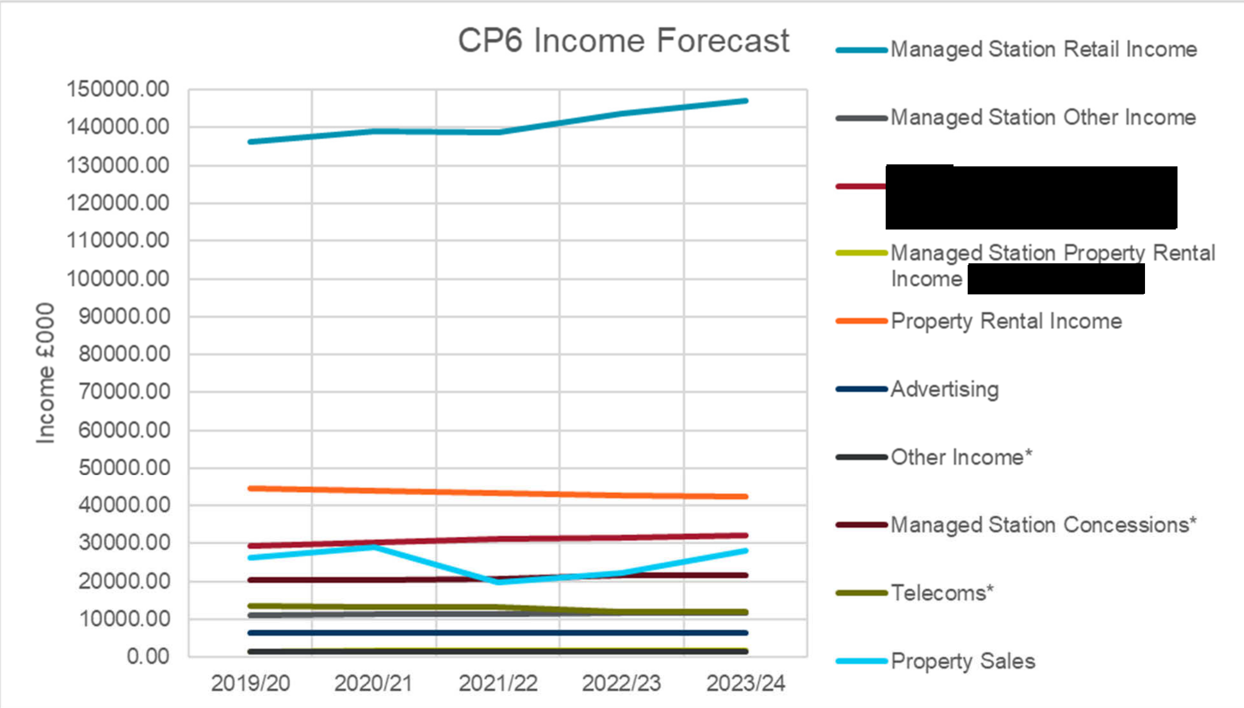


Figure 6 CP6 growth forecast by income line

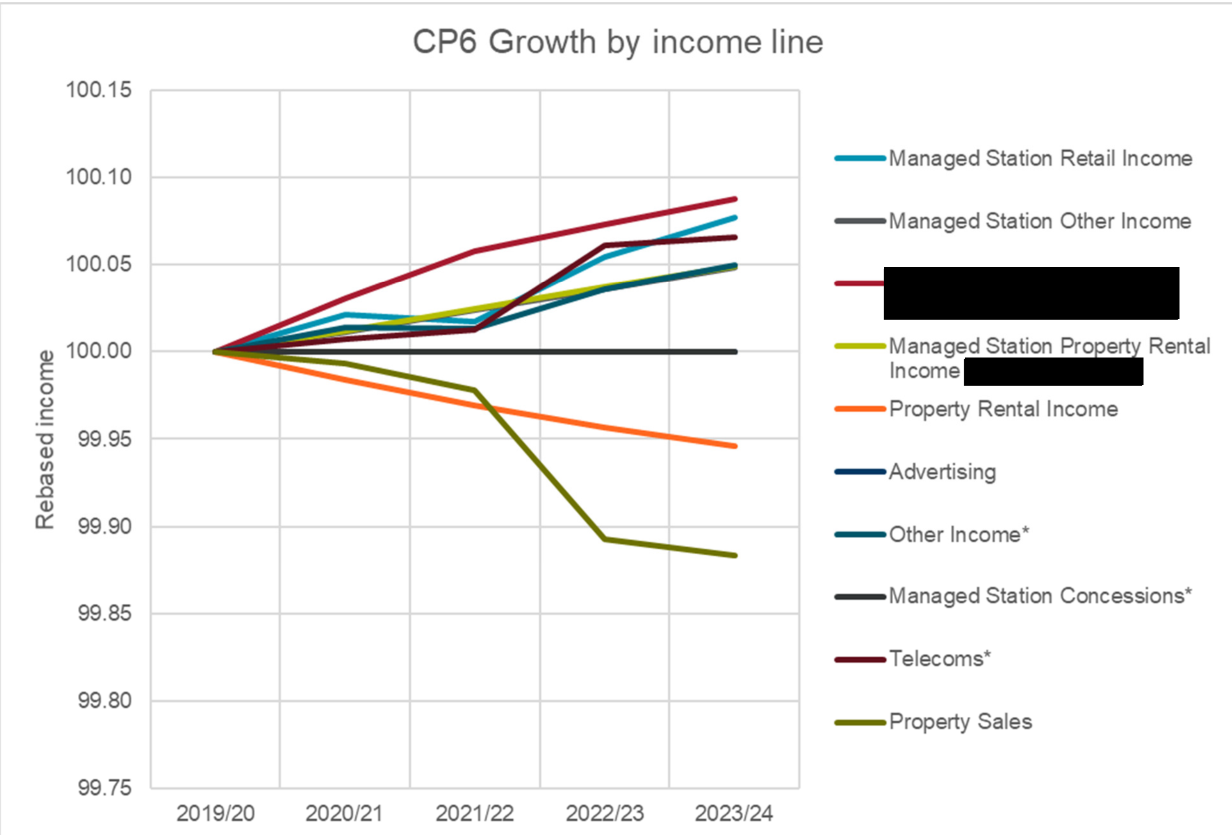


Figure 7shows NR's income from CP5 into CP6. The two areas affected by the sale of the commercial estate are Property Rental Income and Property Sales and Development with both showing a significant drop in income from CP5 to CP6.

Figure 7 CP5 and CP6 income profile

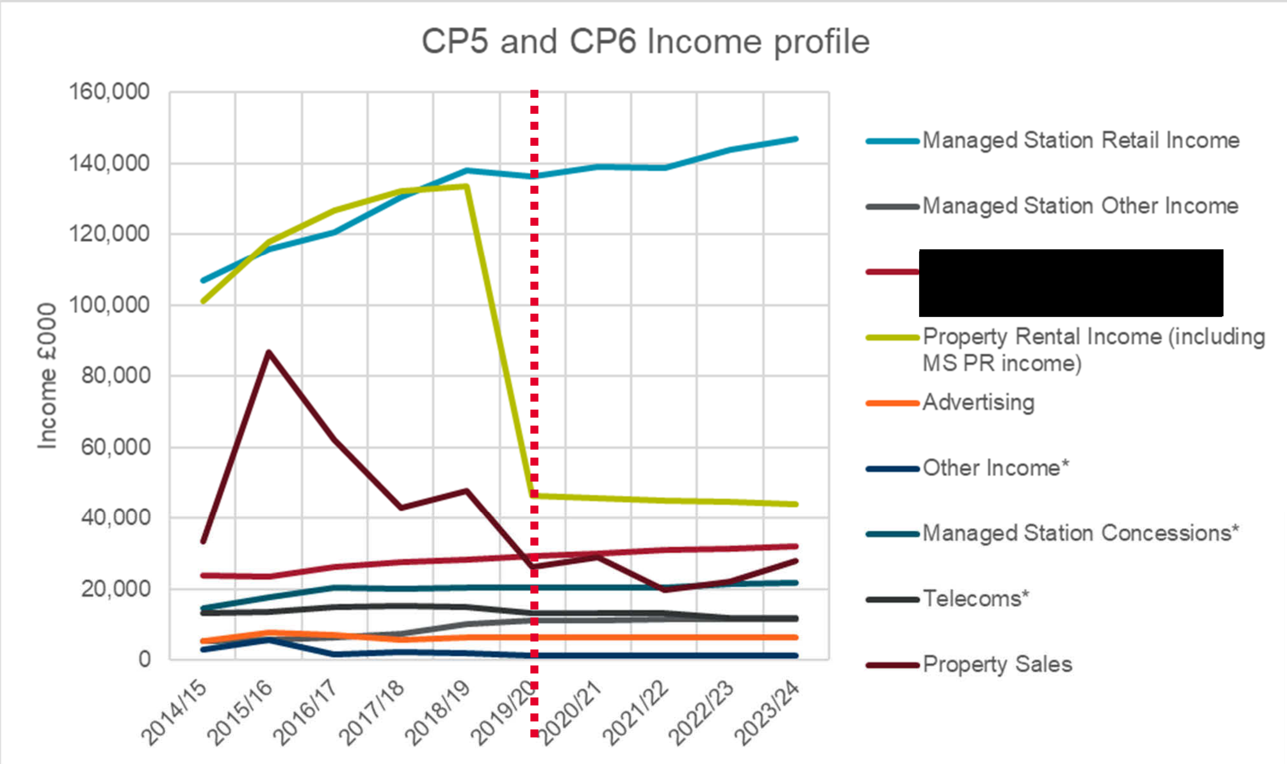


Figure 8 highlights the areas of the portfolio which are forecast to see a decline in income into CP6. In addition to the Commercial Estate and the Sales and Development portfolio, losses in annual income are anticipated between the two control periods for MS Retail, Other income and Telecoms.

Figure 8 Income projections from the end of CP5 into the beginning of CP6

	Income trajectory 2018/19 - 2019/20	% increase/ decrease CP5-CP6
Managed Station Retail Income		-1.30%
Managed Station Other Income		10.61%
[redacted]		
Property Rental Income (including MS PR income)		-65.16%
Advertising		1.08%
Other Income*		-30.31%
Managed Station Concessions*		0.01%
Telecoms*		-9.56%
Property Sales		-45.37%

4. NR forecasts for CP6

This section summarises NR's forecasts and underlying assumptions for each element of the portfolio as follows:

Managed Stations Portfolio

- Managed Station Retail Income
- Managed Station Other Income
- Managed Station Advertising Income
- Managed Station Property Rental Income/Services Offices
- Managed Station Concessions
- Telecoms

Commercial Estate

- Property Rental Income

Property Services

- Property Rental Income
- Roadside Advertising
- Other Income
- Telecoms

Development & Sales

- Property Sales and Development

4.1. Managed stations portfolio

Network Rail's Managed Stations (MS) portfolio currently comprises 17 major stations across the UK rail network.

These stations are:

- London Cannon Street
- London Charing Cross
- London Euston
- London King's Cross
- London Liverpool Street
- London Bridge
- London Paddington
- London Victoria & Victoria Place Shopping Centre
- London Waterloo
- Birmingham New Street
- Bristol Temple Meads
- Edinburgh Waverley
- Glasgow Central
- Leeds
- Liverpool Lime Street
- Manchester Piccadilly
- Reading

During CP5, Reading and Bristol Temple Meads became managed stations while London Fenchurch Street was transferred back to the Train Operating Company (TOC). There are no proposals to take on any additional stations during CP6, however, [redacted]

[redacted] as potential acquisitions although this is unlikely to happen in CP6 and is not factored into NR forecasts.

At time of writing, NR was negotiating to bring Clapham Junction and Guildford into the managed stations portfolio, but this process was incomplete and these stations have not been included in the submission.

The income generated by the MS portfolio is broken down into the following categories:

- MS - Retail
- MS – Other income
- MS – Advertising
- MS – Property Rental Income
- MS – Concessions
- MS – Telecoms

NR's forecasts for each of the above is outlined below:

4.1.1. MS retail

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.

MS Retail income is the biggest single income line within NR's projections and makes up over 50% of NR's total property income forecast for CP6. It is therefore a key driver for the CP6 projections, which NR forecasts will contribute £705m over the control period.

NR's Strategic vision for Retail over CP6 is '*For managed stations to be recognised as destinations in their own right, by creating extraordinary places where commuters, consumers and local communities enjoy unique retail experiences in iconic surroundings.'*

Key elements of NR's strategy for MS Retail income during CP6 include:

- Create a sense of place through proactive asset management initiatives to maximise the commercial value and generate income for investment
- Work in partnership with retailers and business partners to deliver customer service excellence and maximise profit which in turn drives rental income
- Use technology, such as consumer insight tools, to better understand the needs of the consumers to ensure stations are offering the best customer experience
- Use Footfall forecasts and analytics to understand, shape and improve commercial opportunities
- Investment in key stations such as London Victoria and London Liverpool Street

C& W retail market overview

The general outlook for UK retail is unstable; UK consumer confidence remains fragile following a sharp drop in the aftermath of both the EU referendum and more recently, the UK general election. Household finances continue to be squeezed by Brexit-linked inflation and poor wage growth, a trend which is expected to continue in the medium term. However, whilst this has led to lower levels of demand in secondary retail stock, it has driven a concentration of demand in prime locations where demand continues to outstrip supply and rental growth is still achievable.

Although, retail sales volumes grew 1.9% during 2017 (ONS), this was largely underpinned by the continued growth in non-store retailing. Footfall however, remains a challenge for physical retail, as further contractions were recorded in Q4 2017, particularly in high street and shopping centre locations.

The restaurant and leisure market is experiencing decline, especially in the mid-market, with chains such as Jamies Italian and Prezzo announcing closured. However, the largest leisure growth areas are in experiential based leisure, with a significant rise in competitive socialising and food halls which provide the consumer with greater choice and experience. There has also been huge growth in ‘start up’ restaurants, which are seen to offer a USP such as sourdough pizza, vegan and plant based restaurants . Although these successful ‘start up’ restaurants typically operate a portfolio of restaurants, such as Pizza Pilgrim and Rosa’s Thai Café, they are not seen as chain restaurants by the consumer andhave huge brand loyalty. This could be an area which NR could seek to capitalise on, using these popular ‘start-ups’ to attract more non-rail users into their stations.

NR retail overview

During CP5, NR’s retail portfolio exceeded growth forecasts in CP5 by 12% with growth averaging 3.18% pa.

NR is not expecting to see the same levels of growth in CP5 as the majority of opportunties to drive income through asset management initiatives have already been implemented with limited opportuntiy to grow income further through CP6. NR has seen many of its mid-market restaurants struggling whilst high-end and Quick Service Resturants (QSR’s) (i.e. fast food outlets), are growing which is refelcted in the strategy for CP6. This is a trend that C&W has seen thoughout the market.

A key change to NR’s approach to forecasting is the focus on footfall rather than passenger growth projections given that rental income is intrinsically linked to sales. NR tracks footfall across each of its managed stations and has used this data to make projections for CP6. NR’s projections for growth in CP6 therefore reflect the challenges being experienced in the wider market and the decline in footfall. Whilst NR has seen in a decline in footfall in 2017/18, this is not to the same extent as the wider UK market due to commuter footfall which has been more stable and despite a decline in footfall, income levels have been maintained.

There is a key risk for NR for CP6, given that flexible working arrangements are increasing in the wider workforce and could potentially lead to decreased regular commuters. Therefore, it is imperative that NR continue to improve their offering and attract demand from non-rail users alike. A good example of where NR is already doing this is Euston Station, where we understand a large proportion of footfall is generated from the wider area, the university, offices and other non-rail passengers.

[redacted]

C&W consider that NR has a robust and proactive approach to asset management of the retail portfolio across the UK which is evidenced by a strong performance in CP5. NR’s strategy for CP6 is to generate further growth through non-passenger footfall where possible. Key elements af the strategy include:

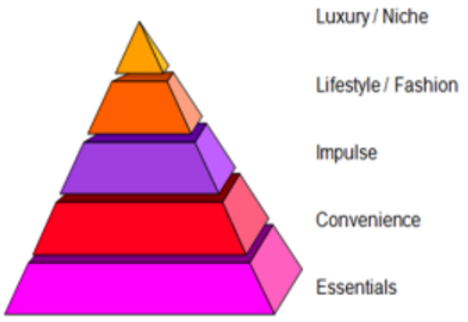
- <u>Tenant Mix</u>

  Given that spaces are let based on turnover rent, maximising income for the retail units is essential to income generation for NR. Therefore, crucial to NR strategy, is being able to attract non-rail users to the retail offering within their managed stations, as well as rail passengers and continue to grow their footfall. Key to this is providing a good tenant mix and creating a destination station..

  As indicated above, NR has stated that they will be using footfall analytics to target and shape their retail offering within the stations throughout CP6.

  While NR utilise a ‘Hierarchy of Needs’, as indicated in Figure 9 to determine the overarching mix of retail categories, they tailor each station to match the location and needs of the consumer.

Figure 9 NR's Hierarchy of Needs



Click & Collect, Health & Beauty (Lifestyle and Make-up)
Clothing, Accessories
Gifting, Health & Beauty, Bakery, Technology, Books
Pubs & Bars, Dining, Quick Service Restaurants (take-aways), Services
Coffee, Bread, CTN, High Street Health and Beauty, Supermarket, Cards and Stationary

NR has set out strategic priorities for the retail offering within each of the managed stations. Figure 10 below shows a comparison in strategic priorities between a Kings Cross and Leeds. As can be seen, at Kings Cross a key priority is the addition of a Quick Service Restaurant (QSR), whereas Leeds is looking to reduce their offering of QSR's.

Figure 10 CP6 retail strategy (KGX v Leeds)

Kings Cross

	CP5					CP6		
Grow	High St Coffee	Gifting	Sweet Bakery			Market	ATMs	
Maintain	Grocery Retail	CTN	Pubs & Bars	Bread	H&B	Bread	Cards & Stationery	Florist
Reduce	C&C	Clothing	Accessories	Bakery				
New						QSR		
No Plan	Technology							

Leeds

	CP5					CP6							
Grow	Pubs & Bars - High St					H&B - High St							
Maintain	H&B - High St	Grocery - High St	Retail Sevices	Fast Food - QSR		Coffee - High St	Bread - High St	Cards & Stationery	Accessories				
Reduce	CTN	Bread-Entry level				CTN	Grocery - High St	Fast Food - QSR					
New	Bread - High St	Coffee - High St	Cards & Stationery	Bakery	Accessories	Gifting - personal	H&B - Premium	Technology - Travel	Dining - Fast Casual / Casual	Retail Services	Coffee - Artisan	Books	

Although we understand that NR is constantly looking to improve their retail offering, we consider it unlikely that there will be a transformative shift in tenants in the short term; instead NR consider there will be a gradual change over time as leases come to an end.

- **Retail income**

  We understand that all leases within the MS Retail Portfolio are based on turnover rent, with turnover accounting for an average of 25% of all rent revievable. It is difficult to find comparable evidence relating to this within the retail market, as landlords are reluctant to share such information; overall we consider it to be a relatively high percentage of turnover compared to a typical high street or shopping centre. However, given NRs unique position and guaranteed commuter footfall they are in a beneficial position, with the ability to grow their income through asset management initiatives aimed at increasing dwell time.

  Figure 11 shows the breakdown of rent per category. It shows that the top five income generating uses are Bread (14.9%), Health & Beauty (12.2%), Fast Food (11.4%), Coffee (11.3%) and Grocery Retail (10.8%) which combined accounts for more than half all income generated.

This is not surprising, and is not expected to change significantly over CP6.

Figure 11 NR income by category (including MGR & turnover rent)

Bread	14.90%
Health & Beauty	12.20%
Fast Food	11.40%
Coffee	11.30%
Grocery Retail	10.80%
Dining	9.30%
Pubs & Bars	8.30%
CTN	8.20%
Gifting	3.30%
Cards & stationery	2.90%
Clothing	2.10%
Accessories	1.50%
Bakery	1.00%
Retail Services	0.80%
Books	0.50%
Click & Collect	0.40%
Financial Services	0.40%
Market Place	0.40%
Technology	0.40%

Figure 12, below, shows NR's top 15 tenants by income. As can be seen below, the top 5 occupiers make up over 50% of total income, [redacted] which operates a number large brand franchise agreements including [redacted].

[redacted]

Figure 13 shows NR's top income generating partners from 2012. As can be seen the top partners are broadly unchanged with the exception of [redacted] which has experienced significant growth over the past 5 years and has entered the top 5 partners, and now generates almost as much income for NR as the new top 2 partners [redacted] combined.

[redacted]

We do not expect there to be any significant changes in the top 5 tenants by income over CP6, as these occupiers have historically remained fairly strong and consistant. However, an area we feel NR could grow and capitalise on is click & collect. According to a study by GlobalData (2017), sales from Click & Collect retailers in the UK are expected to grow by 55.6% to reach £9.6 bilion in 2022, accounting for 13.9% of total online spend. Over the past 5 years, click & collect has experienced double figure growth annually, with clothing & footware being the dominant sector in this channel.

The accessibility and commuter driven footfall within their managed stations mean they are an ideal location for click & collect, where commuters can pick up their items on their commute home. We note that Doddle has been trialled in a number of NR Managed Stations but has not been succesful. However, there are also a wider variety of types of click & collect retailers, from high end retail such as the John Lewis 'Click and commute' store in St Pancras, to more high street brands such as Tesco 'Click & Collect', which could be more suitable. However, NR advises that due to increased security procedures within large city centres and the fact that station locations are relatively expensive, there is limited demand for this type of space.

- **Enhancements & Retail Losses**

In addition to the growth rate, NR has assumed they will be able to generate additional income from general enhancements to their stations.

The largest of their enhancement schemes are at London Victoria and London Liverpool Street which are linked to route led capacity works.

In total, NR has assumed an internal rate of return of 10% for these investments and have a pipeline £267.9m of enhancements expected over CP6. This pipeline investment is comprised of £219.4m for named schemes plus an overlay of £47.6m to account for additional smaller schemes which will likely come forward during CP6 but are, as yet, unidentified.

Furthermore, although a number of these investments will enhance retail income in the long term, NR is forecasting there to be income losses in the short term, while works are completed, which has a significant impact on the income forecast for CP6. The major forecasted rail losses are explored in more detail below. It is noted that at this stage figures are forecasts and may be subject to change over the control period as impacts become known.

London Victoria

Currently Victoria station is highly congested, especially at peak times, which constrains the retail offering and income generated. NR will be undertaking significant works to decongest the station. Works will include the addition of a balcony and relocation of retail to this balcony. NR has assumed that retail income falls to approximately 50% of that received in CP5, during CP6, as a direct result of the decongestion works. This is then inflated over CP6 by a real growth rate of 1.23% pa. NR has further assumed that none of the return from the enhancements at Victoria fall into CP6, with income deferred until the beginning of CP7.

The decongestion works are also assumed to impact on Victoria Place, the shopping centre NR manages adjacent to the station. The shopping centre is forecast to close midway through CP6, with no further income generated until CP7, to allow for these operational and decongestion works.

Liverpool Street

NR is forecasting a £65m investment into Liverpool Street, spread over 2 years, to add a mezzanine level and new retail units. This is due to commence midway through CP6. Although the works are expected to take 2 years to complete, NR has assumed additional income generated from the scheme is deferred by another year thereby commencing in CP7.

C&W consider the additional year delay of income to be reasonable as this will account for any incentives offered to retailers, such as rent free, as well as allowing a 6-month contingency for delayed completion which we consider to be sufficient.

London Euston

Income from Euston is expected to be heavily impacted by HS2. We understand that 2 of NR's units which have been included in CP6 figures have already been acquired through CPO for HS2. The impact of this has been forecast as a loss of £1.0m of income, however during our meetings with NR they have stated this loss is now expected to be closer to £3.0m. However, this is not included in the figures presented and we have not had sight of any evidence to support this.

4.1.2. MS – other income

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

Managed station – Other income comprises a minimal part of the total forecast income for CP6.

NR has assumed an underlying growth of [redacted]. This in line with NR's assumed growth for Retail and Property Rental within Managed Stations and is linked to their footfall projections.

We have sought to understand the scale of the opportunity to grow income from space occupied by TOCs. NR's view is that this is difficult as maintaining this space in its current form is essential to the operation of the railway.

[redacted]

[redacted]

[redacted]

4.1.5. Concessions

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.

This portfolio comprises a small proportion of NR's retail income (1%).

Car Parks

There are 41 car parks included within this item.

24 of NR's car parks are operated by APCOA under a management agreement which is due to expire in March 2019 (re-tender process not yet commenced). [redacted]

C&W understands that APCOA's role is to manage and maintain the Car Parks in accordance with the management agreement with 100% of revenue being returned to NR.

NR state that the car parking tariffs are set in line with industry and local tariffs, and are therefore unable to grow these prices significantly. The majority of car parks are oversubscribed, with more season tickets sold than spaces available.

We understand that a number of car parking spaces are set aside for TOC employees (see Figure 17) and it is unlikely that this will change in the foreseeable future. Therefore, there are limited opportunities to dispose of these sites.

Figure 17 TOC car park occupation

Station	Total Spaces	TOC Spaces	NR Staff spaces	Remainder
Edinburgh Waverley	574	216	148	210
Leeds	745	347	80	318
Manchester Piccadilly	787	305	56	426
Liverpool Lime Street	278	128	0	150
Birmingham Ellis Street	355	338	17	0
London Euston Parcel Deck	98	75	19	4
London Paddington	111	30	0	81
London Victoria	116	28	16	72
London Waterloo	51	28	0	23
Walsall	108	2	0	106
Bristol Temple Meads	385	215	3	167
Manchester Victoria	294	54	0	240
Reading	1653	195	0	1458
TOTAL	**5555**	**1961**	**339**	**3255**

[redacted]

Left luggage

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. NR do not consider there to be any significant growth in this area.

4.1.6. Telecoms

The Telecoms portfolio comprises payphones within Managed stations

Payphones do not contribute significantly to NR's income and are not seen as a growth area given the increased use of mobile devices. Payphones are therefore not seen as a growth area. NR has assumed a 0% growth in income from their payphones.

Given the size of the portfolio we consider there to be little opportunity for a stepped increase in income.

[redacted]

[redacted]

[redacted]

4.3. Property services

The property services portfolio comprises the following:

- ***A variety of easements and wayleave agreements with various utilities and other stakeholders.***
- ***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.***
- ***Income from NR's Telecoms portfolio***

4.3.1. Property rental income - freight

The Network Rail freight estate currently generates some £20m p.a. rental income and can be divided into four categories:

- Sites in active rail freight use by rail using tenants.
- Sites under long lease to FOC's (yards, TMDs etc.).
- Strategic freight sites and Supplemental Strategic freight sites (SFS and SSFS) as defined under the 1994 Agreement held pending freight traffic development and potentially under short term lease to non-rail users.
- Other land let or vacant currently within the freight estate portfolio.

There are no significant disposals forecast in CP6 and growth is anticipated at 0.5% pa.

NR consider growth in this area to be constrained due to the proportion of freight sites which are regulated and for which NR only receive a peppercorn rent. A large proportion of freight sites are also safeguarded for future freight use, this therefore limits the commercial use of the sites, with leases only being able to be granted on a short-term basis (6 months) which then limits the income that can be secured.

NR's key objectives for their Freight sites for CP6 include:

- Identification of sites lacking demonstrable future freight utility (for subsequent release for other non-freight or non-rail development, with a number being released for residential development in support of national governmental housing supply policy).
- Intensification of tenure on existing active tenanted sites.
- Development of new marketable freight sites, development costs funded through part disposal for non-freight or non-rail development.
- Identification of new sites capable of multiple tenure; multiple tenants sharing site rail development costs under a rental concession.
- Exploration of a small number of freight sites for disposal as part of Project Falcon

Although the Freight market is experiencing growth, NR do not consider that income from freight sites is linked to increasing freight traffic. This is because additional freight traffic will be focussed on existing routes and so will not lead to the development of additional freight sites. NR also consider that much of the growth in this area is from private operators where NR does not receive a return.

4.3.2. Roadside advertising

This includes all advertising income generated by NR on its property portfolio outside the Managed Stations. This element is purely the Roadside advertising (primarily billboards) whilst the Railside advertising (primarily advertisements within and around railway stations) is accounted for in MS Advertising income.

NR operates over 2500 advertising panels across its roadside estate which includes bridges, embankments and roadside. The NR portfolio of billboards is estimated to reach 78% of the UK population each year.

A new concession agreement was granted to Primesight in 2017 which is due to expire in March 2024. The agreement includes a [redacted] to NR with a MGR of £4m per annum. NR expect the income generated for 2018 to be in excess of £6m.

NR expect income growth from Roadside advertising to flat line, reflecting longer-term decline of this advertising format. However, their strategy for CP6 includes some investment into digital advertising, including digital conversion of 75 sites and panel upgrades.

The roadside advertising portfolio was one of only two areas of NR's portfolio to perform below forecast in CP5, generating £33.1m against a forecast of £46.7m (-29.06%). Figure 20 sets out the historic and forecast income figures. The losses in income in 2013/2014 and 2014/2015 were a combination of impact from £0.8m adjustment in income from 2012 and a £2.6m impact from additional inspections respectively. NR is expecting a fall in advertising income for 2017/2018 and 2018/2019 before income flat lines in CP6. 2017/2018 figures are comprised of part actual and part forecast figures.

Figure 20 Historic and Forecast Income from Roadside Advertising

2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
8,319	6,996	5,540	8,022	7,326	5,815	6,412	6,481	6,481	6,481	6,481	6,481

4.3.3. Other income

This includes a variety of easements and wayleave agreements with various utilities and other stakeholders.

The portfolio of easements is largely indexed against RPI and NR has assumed a real growth of 0.5% pa based on historic growth rates. This aspect of the portfolio underperformed against forecast in CP5 generating £14.8m against a forecast figure £19.7m (-24.56%).

This makes up a very small proportion of NR total income.

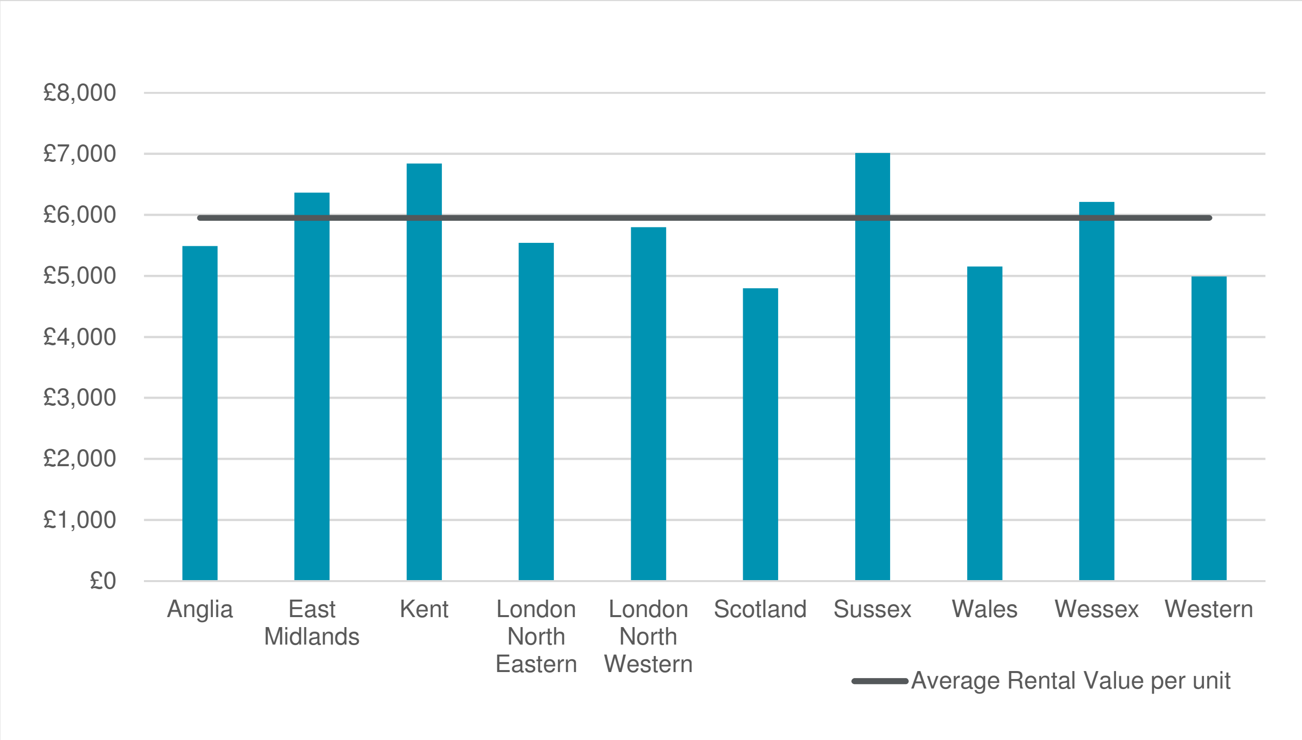
4.3.4. Telecoms

This includes telecoms sites located outside of managed stations, typically masts or cabinets which are leased to telecommunications service providers

NR's Telecoms portfolio comprises a total of 615 sites nationally, of which 66% are located in the South East of England. The largest proportion of the income generated from the portfolio is from the linear cables (69%), followed by Masts (11%).

There are significant differences in rental values on each site, which reflects the diverse asset types contained within the portfolio. Historically, geographic location has not been a material consideration in the rental valuations of sites and it has intead been based on necessity for the telecoms provider, which produces a 'ransom' value; this is reflected in NR's portfolio of masts. Figure 21 Figure 1shows the average rental value per mast across NR's portfolio and demonstrates that there is little variance per geographical region.

Figure 21 Average Rental Values per Mast by Region



NR expects the income generated by their telecoms sites to decrease over CP6. This is due to a significant change in the way that telecommunications sites are valued which will lead to significant rental decreases.

The Digital Economy Act 2017 came into force on 28th December 2017 and reformed the Electronic Communications Code (ECC). The new ECC regulates the legal relationship between landlords and telecom providers and contains a number of changes.

The key issue for NR, coming from the provisions in the new Code, is the changes to the way telecoms sites are valued. Previously sites were valued on the basis of what a 'willing telecoms operator' would pay for the site. This would mean that landowners were able to charge significantly higher rent, when compared to underlying land value, for strategic sites. The code now removes this 'ransom value', and land will be valued disregarding the existence of the telecoms lease. Therefore, sites will be valued by reference to open market value of the underlying land value from the perspective of the landowner only. This means that rental values are likely to be depressed, given that many of these telecoms sites are in rural areas where land values are low.

Given that the Code only came into force in December 2017, there is currently no precedent set or clear analysis undertaken on the impact of the code on Landowners. It is therefore, difficult to accurately forecast the impacts on NR income stream as there is still much uncertainty.

It is likely that the full impacts of the changes in valuation will remain uncertain for some time and so it is difficult to accurately predict, with this area remaining a real 'risk' for NR's income stream. As a major landlord of telecoms sites, it is likely that NR will be one of the first to set the precedent following these new regulations

NR has undertaken some general analysis of their portfolio, and have assumed that on renewal of each telecoms lease, the rental value will [redacted] with the total impact of the new Code being [redacted] over CP6.

4.4. Property development and sales

Within this category there are a variety of income generators to NR through outright sale of assets, Joint Ventures (JV) with third party developers, land CPO'd by Local Authorities and Central Government, major developments and shared value receipts.

Net property sales and development income constitutes 9.6% of NR property income (£125m). This includes a pipeline of £58m with an overlay of £67m. The 'overlay' is a risk adjusted estimate of schemes that NR consider could come forward in CP6 but which are as yet unidentified or are less advanced than those identified in the 'large schemes or JV profit pipeline' income line.This is summarised in Figure 22.

Figure 22 Development & Sales income breakdown

	£m
Large schemes – Pipeline	41
JV profit – pipeline (excl. land value)	17
Large schemes - Overlay	42
Small schemes - Overlay	25
Total Net Sales	**125**

It is noted that there is a significant difference between the CP5 forecast figure of £154m (see Figure 23) and the current estimated total for the Control Period (ending 2018/19) of £273.4m (77% increase on forecast). NR report that this outperformance is largely due to the strong performance of the South East Housing Market over the period. It is noted that the income forecasts for CP5 do not include any amounts relating to the sale of Project Condor which is accounted for separately.

The forecast figure for CP6 is significantly lower than this at £125m which equates to c. 45% of the CP5 total. The average income per annum is £25m which compares to average annual receipts from Development and Sales of £55m in CP5.

It is understood that one of the key differences between CP5 and CP6 is the one-off receipt received in CP5 for the sale of NR's interest in the shopping Centre at Birmingham New St which occurred in 2015 generating a one-off receipt of £62m.

The remaining difference between the Control Periods is largely due to the sale of the Commercial Estate which is considered by NR to particularly impact on the potential for unknown opportunities as the majority of the residual commercial estate has been retained as they have been identified as being required as part of a scheme. This is reflected in the overlay figure for CP6 which is the risk adjusted disposals total plus an additional 15.5%. This compares to the CP5 figure which showed an overlay figure which was 30% higher than the risk adjusted figure.

Figure 23 Development & Sales - CP5 vs CP6 submission

£m	CP5	CP6
Pre Risk Adj	267	230
Post Risk Adj	67	58
Overlay	87	67
Submission	154	125
Overlay / Submission	57%	54%
Post Risk Adj / Submission	43%	46%
Post Risk Adj / Pre Risk Adj	25%	25%

Development and sales schedule

NR has provided C&W with the detailed Development and Sales schedule which details the key projects and income assumptions for CP6. This includes 105 individual 'opportunity sites' with the potential to generate additional revenue for NR through development or sale whilst also being considered suitable to be released from the railway with limited operational risk.

NR's analysis calculates the total estimated net profit or sales receipt should a scheme proceed within CP6. A risk adjustment is then applied to this figure to reflect the likelihood of this scheme coming forward within the Control Period. This is measured against the following criteria:

Figure 24 Development and sales risk adjusted criteria

Risk %	Criteria
12%	• A new project • An authorised pre-feasibility paper and initial budget for exploring the idea • High level advice surrounding, typically, valuations, town planning, engineering and highways is helping to formulate disposal strategy
37%	• Business and Technical Clearance obtained • Valuations continue to support scheme in light of the Clearance conditions and other emerging information • A view that achieving planning consent is considered possible • Evidence of developer interest • Disposal strategy paper approved • On balance, the project is moving forward • Solicitors instructed (some projects may have a conditional contract in place)
62%	• When we have ORR Land Disposal consent approved • When we are confident that Land Disposal Consent will be achieved, subject to resolving an outstanding requirement and we have got a conditional contract in place • A positive view on town planning consent • Key project specific engineering and legal obstacles are satisfied or have solutions • Developer chosen • Solicitors instructed
87%	• Little remaining risk of material change to the disposal strategy • Where disposals are conditional on town planning, then when planning consent has been granted or has been approved at committee subject to conditions or S106 • Contracts approaching exchange

The risk adjustment percentage is applied to the forecast income on a project-by-project basis. As part of our assessment, we have requested sample information to illustrate how NR applies the percentage adjustment to ensure that the scheme is consistent with the figure prescribed to it. This information is contained at **Appendix B.**

The development and sales income for CP6 comprises the following key elements:

- **Developments**

  Developments relate to development on NR land undertaken directly by NR or through a JV arrangement. Unlike CP5, the majority of developments relate to residential sites which are considered to be commercially marginal mixed with added operational complexity. NR considers the majority of its developments to be relatively high risk due to the added complexity associated with being located close to the railway and formerly operational sites. It is NR's view that the most straight forward, high value sites have already been developed and the remaining sites are challenged. This is increasingly impacting on NRs capacity to deliver new development and more so than in CP5.

  In terms of the structure of receipts, NR's preference would be to retain completed assets for revenue generation purposes over taking a capital receipt. Given that most sales in CP6 relate to residential sites which have limited to no value, NR has very little flexibility in this respect. Due to the disposal of the commercial portfolio (Project Condor) and the resourcing impact this will have, NR's capacity to retain and manage assets will be further reduced in CP6. It is therefore anticipated that the majority of identified developments will result in disposal rather than be retained for income.

- **Hypothecated gains**

  NR looks to maximise overall value to the railway, and will accept assets in lieu of cash if this is required.

  NR does not set a target for hypothecated gains vs. cash receipts but continues to capture and report this data. C&W 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 sustainable development remaining and seeks to find the natural level required to achieve stakeholder buy-in. In CP6, decision making will be driven by the over-arching objective to deliver improvements to station infrastructure and arrangements which best deliver this.

  On the basis of information provided to C&W we consider that the balance between land receipts and hypothecated gains is based on a subjective assessment recognising that NR's strategy will always have to balance the need to maximise revenue whilst understanding its position as a quasi-public sector body. This means that it has incentives to work constructively with Local Authorities and get their, and NR Routes', buy-in. Another consideration is the need to maintain operational flexibility and to not hinder and compromise future railway works.

  The total risk adjusted hypothecated gains forecast for CP6 is £9.99m which compares to a figure of £59.4m (gross) for cash receipts. C&W has not looked to make any adjustment to this figure.

- **Disposals for housing**

  NR has a target to release land for the development of 36,000 homes by 2020. Whilst this only covers part of CP6, pressure on NR (along with other government bodies) to release sites is expected to increase during the course of whole of CP6. Many of the remaining sites suitable for housing are more complex and as such, land receipts are not expected to be significant and the assumption for CP6 is that sites released for residential development will largely break-even with the priority being to release sites which also benefit the railway. The case studies provided at **Appendix C** demonstrate the low margins on some of NR's residential sites. This is a different approach to CP5 where residential opportunities were less challenged. That said, over the course of CP6, NR expect 90% of the income generated by the Development and Sales portfolio to relate to residential sites.

NR's strategy as set out in the Property Strategic Plan is to bring residential sites forward through JV partnerships rather than outright disposals.

- **JV strategy**

  NR's strategy for the Development and Sales Portfolio for CP6 will be less focussed on JVs and NR does not intend to pursue any new JVs in CP6. Historically, JVs have been successful for NR as developers have a greater confidence that any issues associated with the railway can be resolved more easily with NR as JV partner. NR currently has three multi-site JVs which can be used to deliver projects. JV projects for CP6 are expected to deliver £17m of income for NR with £135m working capital allocated to deliver these which is to be repaid once developments have completed.

  [redacted]

  [redacted]

  A case study example which highlights the issues concerning JV approval is provided at **Appendix D.**

- **Shared value**

  The Development and Sales income projections include forecast shared value receipts (relating to ransom strips etc.). Opportunities are identified on a site-by-site basis and risk adjusted in the same way as other the opportunity sites identified.

  NR has identified £13.9m of shared value receipts for CP6 (£4.0m risk adjusted). NR considers that opportunities will be limited following the sale of the Commercial Estate which has historically generated a lot of these opportunities.

- **Unforeseen purchases**

  In some cases NR will respond to changes in the markets and purchase assets without prior indication at the start of the Control Period. There were no significant unforeseen purchases in CP5. C&W has not received data in this respect but are advised that a total of c.10 small sites were acquired in CP5 which had not be identified at the start of the Control Period. NR advises that this will have minimal impact on CP6.

- **Small Sites**

  NR has forecast income of £25m for the disposal of small sites during CP6. This is a notional figure for the disposal of small parcels of land not tracked by NR.

5. C&W forecasts for CP6

This section of the report summarises C&W's assumptions for growth for CP6.

Appendix E & F contains a detailed breakdown of the figures which make up C&W's forecasts and also an upper and lower range. For the avoidance of doubt, the commentary and forecasts within this Section relate to the base case scenario unless otherwise stated.

5.1. NR growth assumptions summary

5.1.1. Real Growth

NR's real growth assumptions are summarised in Figure 25.

Figure 25 NR real growth assumptions

Income	Annual Growth Rate pa	Comments
Managed Station Retail Income	[redacted]	[redacted]
Managed Station Other Property Income	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]
Roadside Advertising	[redacted]	[redacted]
Other Income	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]

5.1.2. Enhancement spend and yield assumptions

Figure 26 NR enhancement spend and yield assumptions

Income	Enhancement Spend	Enhancement yield	Comments
Managed Station Retail Income	£267m	10%	[redacted]
Managed Station Other Property Income	£0m	N/A	[redacted]
Managed Station Advertising Income	£18m	10%	[redacted]
Managed Station Property Rental Income	£0m	N/A	[redacted]
Property Rental Income	£5m	4.9%	[redacted]
Roadside Advertising	£0m	N/A	[redacted]
Other Income	£0m	N/A	[redacted]
Managed Station Concessions	£10m	10%	[redacted]

Income	Enhancement Spend	Enhancement yield	Comments
Telecoms	£0m	N/A	No enhancement spend assumed

5.1.3. Inflation

Forecasts provided by NR are expressed in real terms and do not include inflation. All figures presented within this section of the report are net of inflation, including CP5 actuals where the relevant RPI figure has been deducted to allow the analysis of real growth.

Whilst the figures contained within the SBP do not include inflation we understand the inflation figure adopted by NR is 2.75% per annum throughout the Control Period. This is above the Bank of England Target rate of inflation (2%) but below RPI which averages 3.36% pa in the corresponding period.

5.2. C&W Analysis

5.2.1. MS retail Growth forecasts

CP5 Base brought forward

NR has assumed an increase in income of 4.4% in real terms from CP5 to CP6. This represents a decrease in the previous year's growth of 5.86% but due to the decline in footfall, C&W assume this to be a reasonable base case. [redacted]

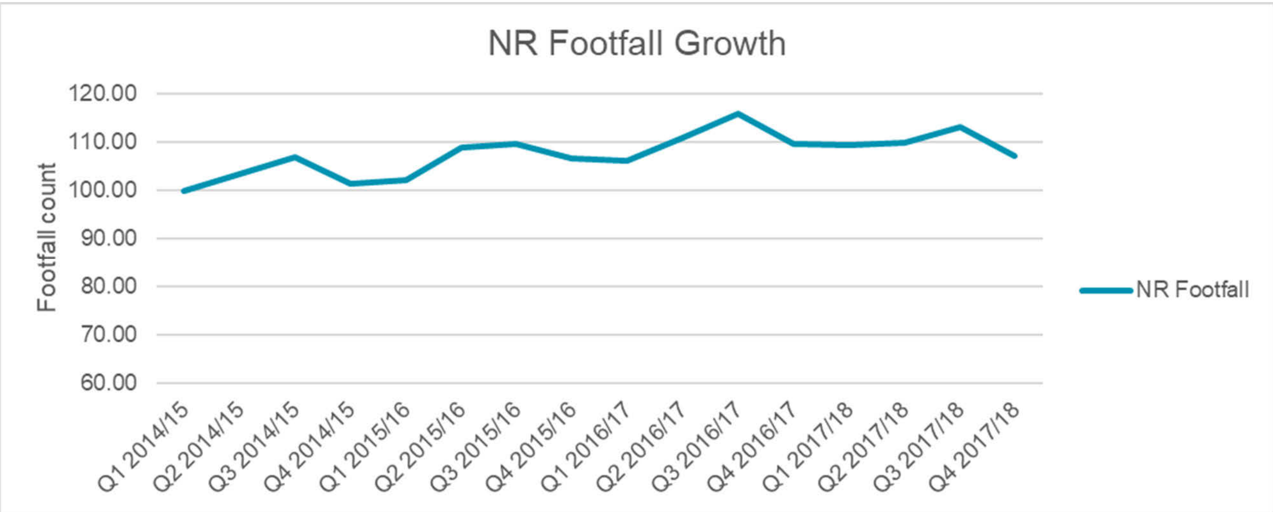
Growth assumption

NR assumption – [redacted]

CP5 performance - In CP5 MS retail income grew by an average of 5.30% pa in real terms, generating £617.5m (£611.6m less assumed inflation) against a forecast figure of £552.5m (10.7% increase). This included an enhancement spend of £272.1m which is comparable the proposed enhancement spend for CP6 of £267.9m.

C&W assessment – Footfall growth is factored into the growth forecasts for all income relating to the managed stations. This figure is assumed to be 0.85% per annum. NR tracks footfall across each of the managed stations. Historic figures over the last 3 years are summarised at Figure 27.

Figure 27 NR historic footfall growth



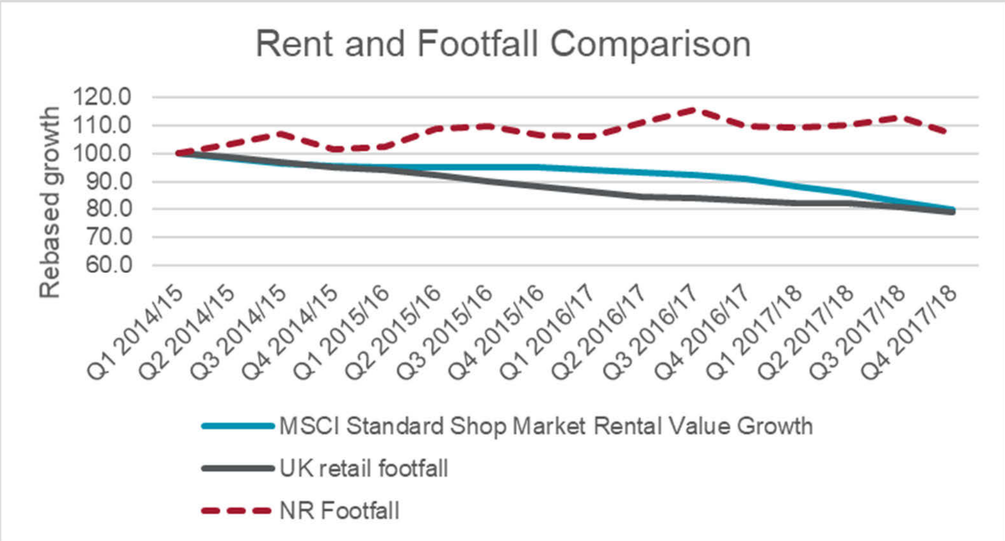
This figure shows an annual pattern of strong performance in Q2 and Q3 with a drop in footfall being experienced in Q1 and Q4.

Over the period 2014 – 2018, NR footfall grew by an average of 2.16% per annum, however, in 2017/18 negative growth of -1% was experienced which NR has factored into its growth assumption.

NR's footfall growth figures have been compared with the wider retail market (excluding retail warehousing) which shows that NR's footfall figures do not follow the national trend. This is shown in Figure 28 which highlights that NR has maintained a relatively strong level of growth compared to the wider UK retail market which has seen a 23.5% reduction over a 3 year period.

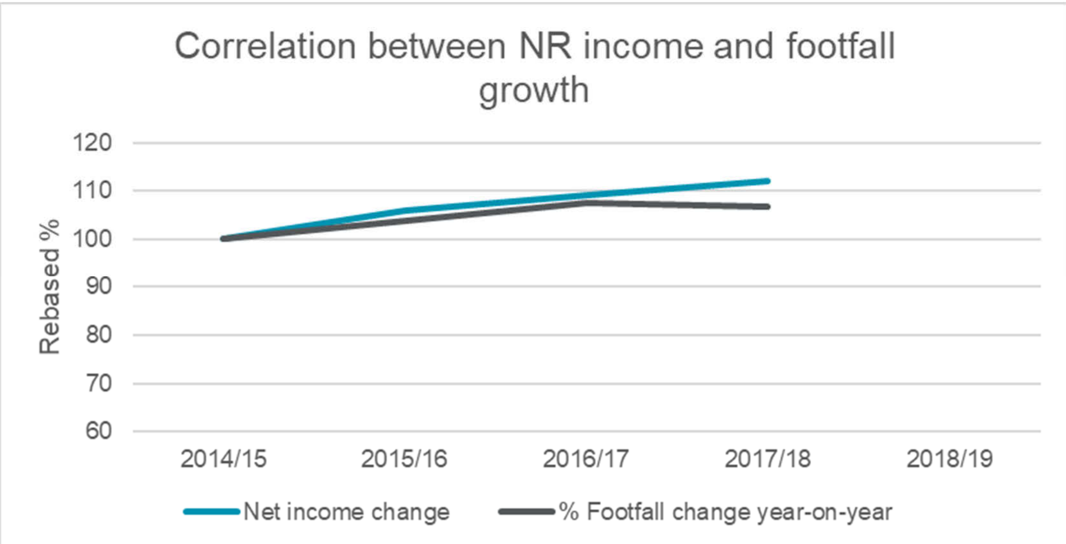
Figure 28 shows the relationship between retail performance and footfall with retail rents in the wider UK market declining at a similar rate to footfall.

Figure 28 UK Retail performance and footfall



When tracking NR's footfall against income growth over the same period, this also shows a strong correlation, with income growth broadly tracking footfall growth and emphasising the weight that should be placed on the footfall forecasts when considering the growth assumptions for the retail portfolio for CP6 (see Figure 29).

Figure 29 Correlation between NR retail income and footfall growth



NR assumed footfall growth is 0.85% pa for CP6. Based on historic performance, there is evidence to suggest an upper-case assumption of 2.24% growth per annum (based on 3-year unweighted average), however, we agree with NR's view that the reduction in footfall in 2017/2018 indicates that a more cautious approach is reasonable as a base case assumption.

Whilst it is accepted that there is a general downwards trajectory in retail footfall figures, historic performance suggests that NR's portfolio will not follow this trend, having maintained income growth throughout 2017. C&W feel that the 0.85% applied is overly cautious and places too high-a weighting on the 2017 negative footfall figure of -0.61% and as such represents a lower-case assumption.

C&W's view is that a figure of 1.52% pa growth is more appropriate as a base case with weightings being applied on a tapered scale as set out in Figure 30, with the greatest weighting being placed on the most recent figure of -0.61%.

Figure 30 NR footfall growth assumption - C&W view

Year	Footfall no.	% Growth pa	Weighting	Weighted %
2014/15	780,909			
2015/16	810,603	3.80%	20%	0.76%
2016/17	839,305	3.54%	30%	1.06%
2017/18	834,157	-0.61%	50%	-0.31%
Average per annum	**816,243**	**2.16%**		**1.52%**

In addition to footfall growth, growth generated through active asset management is also factored into NR's real growth forecast at 0.38% per annum. We are advised by NR that this is based on historic performance but C&W has not had sight of the figures to support this. C&W has assumed that asset management growth is captured within NR's enhancement growth assumptions.

We are advised by NR that many of the opportunities to grow income by enhancing tenant mix etc have already been implemented during CP5. Some potential further opportunities that NR could consider include the below. However, any income growth from these changes are unlikely to impact CP6 figures significantly.

- Opportunity to diversify and introduce more independents and start-ups
- Opportunity to increase rents through digital advertising and Wi-Fi advertising following rollout.

5.2.2. MS other property income

CP5 Base brought forward

NR has assumed continued growth from CP5 to CP6 of 42.2%. Based on the forecast 2018/2019 performance, C&W consider this to be a reasonable base position.

Growth assumption

NR assumption - Real growth of [redacted] with no allowance for enhancement growth.

CP5 performance - In CP5 MS other property income grew by an average 16.24% pa in real terms, generating £35.7m pa (£35.4m less assumed inflation) against a forecast figure of £24.4m (44.87% increase). CP5 included a number of exceptional items including additional income transferred from the Commercial Estate relating to Cannon Street Station and newly allocated TSON accommodation at Waterloo and Liverpool Street. Deducting these one-off items brings the average growth for CP5 to 0.68% pa.

C&W assessment – CP5 performance was driven largely by one-off items. We are advised by NR that there are no further TSON sites coming into the portfolio during CP6 and no enhancements planned. We therefore feel as a base case assumption that the [redacted] adopted by NR is reasonable adjusted in-line with C&W's footfall assumptions to 1.52%. We note however that growth in the last two years of CP5 has been stronger and there is therefore potential for this to continue into CP6. As an upper-case assumption, it has therefore been assumed that 3.07% is reasonable.

[redacted]

5.2.4. MS Property Rental Income

CP5 Base brought forward

NR has assumed a decrease in income of 34.12% from CP5 to CP6. C&W is of the view that the serviced office market is experiencing high growth and as such we have assumed real growth of 8.2% from CP5 to CP6. This is based on C&W's analysis of serviced office rental growth for 2016/2017, which showed rental growth rate of 10%, less an adjustment for RPI in that year.

Growth assumption

[redacted]

C&W assessment – income forecasts are currently linked to footfall and asset management growth as per the MS retail assets. However C&W does not view this to be an appropriate approach to forecasting given that this element of the portfolio relates to serviced offices within managed stations.

C&W considers that there is significant opportunity to grow income from managed workspace/serviced offices given the growth in this market throughout the UK. Rents for central London serviced offices have grown 10% in the last 12 months (C&W Research) and growth in this market is expected to continue.

As a base assumption, C&W has adopted a real growth figure of 4.10% pa. This is based on 50% of the total real growth figure of 8.2% above (10% less RPI).

5.2.5. Property Rental Income

CP5 Base brought forward

[NOTE: C&W has not been provided with an assessment for CP5 which separates MS Property Rental income from Property Rental Income. The analysis for CP5 therefore include c. £2m of income from the managed stations portfolio. This is not thought to have a material impact on the analysis as it equates to c.£2m pa of c, £130pa in CP5. Figures for CP6 do not include the Manged Station Property Rental Income.]

NR has assumed a decrease in income of [redacted] from CP5 to CP6. This is based on the reduction in income as a result of Project Condor. Given that [redacted] of this portfolio is being divested, C&W considers that this is a reasonable assumption. It should be noted that an element of this portfolio relates to freight to which 0.5% growth has been assumed from CP5 to CP6.

Growth assumption

NR assumption - Real growth of 0.5% based on historic growth. Enhancement growth linked to the £5m investment in ad-hoc upgrades (and assumed 4.9% enhancement yield) is also included in NR's analysis. It is assumed that the Commercial Estate in England & Wales will gradually be divested over CP6 resulting in a decrease in income over the Control Period. Although the portfolio significantly outperformed forecasts, based on the information provided, C&W is of the view that this level of growth cannot be expected for the retained estate which is predominantly tertiary and requiring investment in order to generate growth.

It is assumed that the freight estate will grow at 0.5% pa with no enhancement spend assumed.

C&W assessment – NR's forecasts include both losses through disposals as well as incremental growth through investment and real growth at 0.5%. The overall trajectory broadly mirrors IPD forecasts and as such C&W has used this as a base for comparison.

As a high proportion of the income generated relates to industrial premises and is largely located in the South East of England, C&W has considered the IPD index for South East Industrial property as a basis for comparison. Although this is the best performing asset type within the index, real growth is still forecast to be negative at an average of -1.2% pa over the Control Period. C&W has adopted -1.2% as a base case assumption.

5.2.6. Roadside advertising

CP5 Base brought forward

NR has assumed a 1.08% increase in income from CP5 to CP6. This is less than the growth forecast for 2018/19 which shows a 10.27% increase and also less than the CP5 average of 5.74% pa. Whilst it is recognised that there have been significant fluctuations in income from this element of the portfolio, growth in 2018/19 would suggest that the base brought forward from CP5 understates growth. C&W has adopted the average growth rate during CP5 of 5.14% pa as a base case assumption which represents 50% of the growth forecast for 2018/19.

Growth assumption

NR assumption - Real growth of [redacted] and no enhancement growth assumed.

CP5 performance - In CP5 Roadside advertising income fell by an average of -5.82% pa (when the 2014/15 one-off cost of £2.6m is taken into account) generating £35.7m (£32.4m less assumed inflation) against a forecast figure of £46.7m (29.79% decrease). This portfolio underperformed against forecast and showed significant fluctuations in income throughout (see Figure 31).

NR's historic income figures show a downwards trend as illustrated in Figure 31.

Figure 31 Historic NR roadside advertising income

	2012/13	2013/14	2014/15	2015/16	2017/18
Roadside Advertising Income	£8,319	£6,996*	£5,540**	£8,022	£7,326

*£0.8m impact from prior year adjustment
**£2.6m impact from additional inspections

C&W assessment – Based on CP5 historic performance, C&W considers that the 0.0% figure adopted by NR is reasonable as a base case assumption. However, C&W considers that the recent retender of the advertising contract and potential for sites to be upgraded to digital indicate there is potential to increase the income generated. The retendering of NR's roadside advertising portfolio followed a competitive tender process, with the incumbent provider Primesight, winning the contract. As of April 2018, Primesight has also taken on NR's portfolio of bridgeside advertising, further demonstrating demand in this area. As part of the new contract, Primesight has agreed to upgrade a number of sites to digital. It can therefore be assumed that the uplift in advertising income generated by this will be reflected in [redacted]. C&W has assumed real growth of 5.14% per annum as an upper case assumption which assumes 50% of the growth assumed for 2018/19 is captured throughout the control period.

5.2.7. Other income

CP5 Base brought forward

Other income generated falls both into the retail portfolio and property services portfolio.

For property services NR has assumed a decrease from CP5 for CP6 of 14.3%. Whereas within the retail portfolio a decrease of 20.67% has been assumed.

Based on the CP5 performance and significant fluctuations in income, including an overall forecast decrease in 2018/2019 of -20.31% and given the nature of the assets held within this portfolio, which predominantly comprise easements, wayleaves, and licenses within managed stations, we consider this to be a reasonable base assumption.

Growth assumption

NR assumption - Real growth of 0.0% and no enhancement spend assumed.

CP5 performance - In CP5 other property income grew by an average of 9.87% pa in real terms. This portfolio underperformed against forecast and showed significant fluctuations in income throughout.

C&W assessment – CP5 performance demonstrates the difficulty in forecasting income from this element of the portfolio. Given underperformance against forecast in CP5, C&W considers the 0.0% growth figure adopted by NR to be reasonable.

5.2.8. Managed station concessions

CP5 Base brought forward

NR has assumed a 0.01% increase in income from CP5 to CP6. This reflects the previous year's growth forecast and C&W therefore considers this to be a reasonable starting point for CP6.

Growth assumption

NR assumption - [redacted]. Enhancement growth is also assumed based on a £9.5m investment which predominantly relates to investment in the car park at Cardiff Central station (£9m). A [redacted] enhancement yield has been applied to this and is reflected in the income figures.

CP5 performance - In CP5 MS concession income grew an average of 7.71% pa in real terms. This portfolio significantly outperformed its forecast by 55.94%.

C&W assessment – Given the strong performance of this element of the portfolio in CP5, C&W considers that real growth of more than [redacted] can be achieved. However, it is also recognised that much of the growth in CP5 took place in the early years and has slowed significantly in 17/18 and 18/19. C&W has therefore adopted a weighted approach to income forecasting based on historic levels of growth outlined as follows:

Figure 32 C&W weighted growth assumptions for MS Concessions

Year	Growth	Weighting	Weighted %
2014/15	0	0%	0.00%
2015/16	18.19%	10%	1.82%
2016/17	14.51%	20%	2.90%
2017/18	-2.13%	30%	-0.64%
2018/19	0.29%	40%	0.11%
	Average		**0.84%**

C&W has therefore adopted a growth figure of 0.84%.

C&W has considered the potential for the 2019 retender of the car park management contract as a potential driver for growth, however, [redacted] and C&W therefore feel there is limited opportunity to generate growth in this respect.

5.2.9. Telecoms

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

5.2.10. Property Sales and Development

CP5 Base brought forward

NR has assumed a 45% decrease in income from the development and sales portfolio from 2018/19 (CP5) to 2019/20 (CP6). This decrease is to reflect the loss of opportunities through Project Condor.

C&W has not been provided with detailed information on the contribution of the Commercial Estate to the sale and development portfolio in CP5, however on the basis that the Commercial Estate generated 45% of rental income in CP5, C&W has assumed that it also made up roughly 45% of the sales and development portfolio income. Applying a 45% decrease is therefore considered reasonable as a base position.

Growth assumption

NR assumption – NR has assumed £125m income will be generated from sales and developments in CP6 summarised as follows:

Figure 33 NR Development and Sales income breakdown

CP6 NR Forecast	£m
Core disposals	41
JV Profits (excl. land value)	17
Overlay	42
Small Schemes	25
Total Net Sales	**125**

CP5 Performance - Current forecasts for CP5 indicate that the income is expected to exceed the forecast figure ore £154m by 77.56% which indicates that NR's CP5 forecasts were overly pessimistic. Whilst it is accepted that there is always going to be a significant range of outcomes in relation to the Sales and Development portfolio based on wider NR strategy and the vagaries of the property market, C&W feels that the approach to forecasting has not been refined/developed sufficiently to reflect the overperformance against target in CP5.

Analysis of the income forecasts for both Control Periods as shown in Figure 34 highlights the following:

- In both CP5 and CP6 the risk adjusted figure is estimated to be c.25% of the pre-risk adjusted figure.
- The overlay figure is c. 30% of the risk adjusted total in both CP5 (33%) and CP6 (29%).

For the portfolio to outperform forecasts to this extent suggests that both the risk adjustment applied to identified schemes was too low and the overlay assumption was overly pessimistic.

Figure 34 NR Sales and Development Forecasts CP5 and CP6

£m	CP5	CP6
Pre Risk Adj	267	230
Post Risk Adj	67	58
Overlay	87	67
Submission	154	125
Overlay / Submission	57%	54%
Post Risk Adj / Submission	43%	46%
Post Risk Adj / Pre Risk Adj	25%	25%

C&W assessment - Each of the income lines listed in Figure 33 (NR Development and Sales income breakdown) have been considered individually as follows:

Core disposals:

Disposal opportunities classed as 'core disposals' are identified on a case by case basis. Disposals identified for CP6 total £230m of which the risk adjusted total is £41m (£58m when JV profit is added) which is 25% of pre-risk adjusted total. This is the same risk adjustment percentage as applied in CP5 and given that the portfolio significantly over-performed would suggest that the risk adjustment weightings applied by NR should be reviewed.

C&W considers that the risk adjustment percentages applied by NR understate the opportunity value based on the criteria stated and has therefore reviewed the percentages applied. This is largely a subjective judgement, however, based on CP5 performance against forecast there is evidence to suggest that these under represent the likelihood of schemes coming forward. The following adjustments have therefore been applied:

Figure 35 Summary of C&W risk adjustment scenarios

NR	C&W BASE	C&W UPPER	C&W LOWER
0%	0%	0%	0%
12%	20%	30%	15%
37%	45%	60%	37%
62%	65%	75%	65%
87%	87%	87%	87%
100%	100%	100%	100%

[redacted]

Although based on the evidence provided by NR, C&W agrees with the view that bringing JVs forward will be increasingly difficult due to the time taken for approval, NR has not explored alternatives to JV arrangements such as Developer Agreements. Similar organisations such as TfL have appointed a panel of developers to bring forward surplus and small sites within their portfolio. NR's view is that the portfolio is too varied to do this, however, the packaging of sites for developers could provide a solution to this with a single developer appointed to deliver multiple sites.

We are advised by NR that JV profits in CP5 were broadly in-line with target and no over-performance is anticipated. As a base assumption, a 25% adjustment to the total opportunity value of [redacted] is reasonable.

Overlay:

The Overlay figure adopted by NR comprises two parts:

1. Overlay on the risk adjusted total
2. Small schemes – This is a notional figure adopted by NR for the disposal of small parcels of land not tracked by NR. The income from small schemes is estimated to be £5m per annum. We are advised by NR that is consistent with the figure adopted for CP5. Given the overall over- performance of the Development and Sales portfolio in CP5, it is reasonable to assume that this figure is increased by c. 30% as per the adjustment to the Core Disposals total, increasing this figure to £32.5m.

Overlay on the Risk Adjusted Total:

The income generated by Core Disposals is further adjusted by the 'overlay' assumption. On the basis that the development and sales portfolio outperformed forecasts for CP5 by 77.56%, there is evidence to suggest that the overlay figure for CP6 should be increased.

In CP6 the income forecast 'overlay' assumption is £41.8m. This is similar to the risk adjusted total of £41.2m (increase of 1.5%). This is a lower proportion than assumed in CP5 where overlay figure was 11% higher than the post risk adjusted total of £56m (excluding JVs). This is summarised in Figure 36.

Figure 36 CP5 Overlay Analysis

Post Risk Adjusted (£m)	***JV (£m)***	**Net (£m)**
67	11	**56**
Overlay (£m)	***Small Schemes (£m)***	**Net (£m)**
87	25	**62**
Difference		**11%**

Given that the portfolio outperformed forecasts, it is reasonable to expect that a higher proportion of the total risk adjusted figure can be expected as 'overlay'. However, we are advised by NR that this aspect of the income assumption is greatest affected by the disposal of the Commercial Estate.

As all retained asset in England and Wales are already identified projects, there will not be any opportunities to generate significant further income through the identification of additional schemes from this aspect of the portfolio. C&W is therefore of the view that NR's assumption of overlay as a percentage of the total risk adjusted figure is reasonable.

Small Schemes:

The income from small schemes is estimated to be £5m per annum. We are advised by NR that is consistent with the figure adopted for CP5. C&W views a total of £5m pa to be a reasonable base assumption as a proportion of the total overlay in CP6 (44.64%).

C&W Assessment:

Figure 37 summarises the adjustments made by C&W to the sales and development portfolio. An increase of 32% on NR forecasts is assumed bringing the total to £165.56m for CP6. C&W is advised by NR that additional resource would be required to deliver this. The income projections at Figure 38 make no allowance for this.

Figure 37 Summary of C&W assessment of Development and Sales income

BASE CASE	**£m**
C&W Risk adjusted total	**60.20**
C&W JV total	**16.99**
C&W Assumed Overlay	**61.10**
C&W Small schemes	**27.27**
TOTAL	**165.56**

5.3. C&W Forecasts

5.3.1. Summary

CP5 base brought forward

NR has assumed a 31.95% reduction on the 2018/19 income total as a starting point for CP6. The principle reason for this decrease is due to the loss of income resulting from Project Condor. C&W has reviewed this assumption and applied an overall reduction on the 2018/19 figure of 24.99% resulting in a starting point for CP5 of £321.3m.

Figure 38 Summary of C&W base position for CP6 (£000)

	NR Base	C&W Base	Difference
Managed Station Retail Income	136,268	136,268	0%
Managed Station Other Property Income	11,177	11,177	0%
Managed Station Advertising Income	29,326	29,326	0%
Managed Station Property Rental income	1,809	2,971	64%
Property Rental Income	44,685	48,230	8%
Roadside Advertising	6,481	6,741	4%
Other Income	1,343	1,343	0%
Managed Station Concessions	20,360	20,360	0%
Telecoms	13,459	13,459	0%
Sales & development	26,203	51,441	96%
Total	**291,111**	**321,317**	**10%**

Growth Assumption

NR's real growth assumptions have also been adjusted to reflect C&W's view of the wider market and view of performance in CP6.

The adjustments applied to each income stream are shown at **Appendix E.**

C&W has considered a base, upper and lower range of property income, based on various scenarios. These are based on reasonable adjustments to NR's assumptions and do not represent the most extreme outcomes possible, for example we have not assumed that there will be a radical reduction in retail floorspace, beyond the reductions forecast by NR as a result of enhancement works.

Overall, based on the information provided by NR, we have concluded that their overall approach has been robust and its projections are based on assumptions that are broadly reasonable. The only area that C&W has sought to make a more significant adjustment to is the Sales and Development portfolio as forecasts for CP5 were significantly lower than the actuals, suggesting that the approach to forecasting was overly cautious. C&W has therefore reviewed this approach and made reasonable adjustments to reflect this.

Figure 39 C&W Base Case Growth Forecasts

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***234,714***	***237,884***	***237,681***	***242,955***	***246,410***	***1,199,644***	***1,175,066***	***2.09%***
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***35,162***	***35,454***	***35,581***	***35,678***	***35,900***	***177,775***	***175,506***	***1.29%***
SUBTOTAL Property income *(exc. sales&dev)*	***269,876***	***273,338***	***273,262***	***278,632***	***282,310***	***1,377,420***	***1,350,572***	***1.99%***
Property Sales	51,441	50,394	7,807	15,139	40,782	165,563	125,000	32.45%
TOTAL	***321,317***	***323,732***	***281,070***	***293,771***	***323,093***	***1,542,983***	***1,475,572***	***4.57%***

Figure 40 Summary of C&W Upper and Lower cast totals

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***236,661***	***242,857***	***245,787***	***254,282***	***261,088***	***1,240,676***	***1,175,066***	***5.58%***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***35,162***	***35,719***	***36,126***	***36,516***	***37,053***	***180,576***	***175,506***	***2.89%***
SUBTOTAL Property income (excl. sales and	***271,824***	***278,576***	***281,914***	***290,798***	***298,140***	***1,421,251***	***1,350,572***	***5.23%***
Property Sales	76,663	66,354	14,376	24,257	58,967	240,618	125,000	92.49%
TOTAL	***348,487***	***344,930***	***296,290***	***315,055***	***357,107***	***1,661,869***	***1,475,572***	***12.63%***

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]							
SUBTOTAL	***234,714***	***236,466***	***234,806***	***238,606***	***240,536***	***1,185,129***	***1,175,066***	***0.86%***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***35,162***	***35,182***	***35,036***	***34,870***	***34,823***	***175,073***	***175,506***	***-0.25%***
SUBTOTAL Property income (excl. sales and	***269,876***	***271,648***	***269,842***	***273,476***	***275,359***	***1,360,202***	***1,350,572***	***0.71%***
Property Sales	39,477	42,685	4,973	10,954	32,410	130,500	125,000	4.40%
TOTAL	***309,353***	***314,334***	***274,816***	***284,431***	***307,769***	***1,490,702***	***1,475,572***	***1.03%***

Appendix A – NR assumptions disaggregated (Scotland and England and Wales) CP5 & CP6

PLEASE NOTE THE FOLLOWING:

- The apportionment basis has improved for CP6 and also late in CP5, so there may be some inconsistencies due to this
- As Concessions, Other & Telecoms etc are treated as opex for reporting purposes, these are not separately identified within the source data

CP5

Scotland

CP5 Actuals	2014/15	2015/16	2016/17	2017/18	2018/19	CP5 Actual/current forecast
Managed Station Retail Income	[redacted]					
Managed Station Other Income						
Managed Station Advertising Income						
Managed Station Property Rental Income (the Office Group)						
Property Rental Income						
Advertising						
SUBTOTAL	***14,084***	***14,600***	***14,154***	***15,952***	***17,184***	***75,974***
Other Income*	[redacted]					
Managed Station Concessions*						
Telecoms*						
SUBTOTAL*	***0***	***0***	***0***	***0***	***0***	***0***
SUBTOTAL Property income (excl. sales and development)	***14,084***	***14,600***	***14,154***	***15,952***	***17,184***	***75,974***
Property Sales	1,716	513	- 223	- 1,427	1,499	2,078
TOTAL	***15,800***	***15,114***	***13,931***	***14,524***	***18,683***	***78,052***

England & Wales

CP5 Actuals	2014/15	2015/16	2016/17	2017/18	2018/19	CP5 Actual/current forecast
Managed Station Retail Income	[redacted]					
Managed Station Other Income						
Managed Station Advertising Income						
Managed Station Property Rental Income (the Office Group)						
Property Rental Income						
Advertising						
SUBTOTAL	***-11,047***	***-8,861***	***-12,480***	***-13,534***	***-15,257***	***-61,179***
Other Income*	[redacted]					
Managed Station Concessions*						
Telecoms*						
SUBTOTAL*	***282,495***	***310,929***	***330,436***	***342,078***	***353,713***	***1,617,051***
SUBTOTAL Property income (excl. sales and development)	***19,502***	***72,077***	***48,183***	***26,918***	***30,781***	***197,461***
Property Sales	314,365	397,093	392,996	386,375	400,179	1,888,408
TOTAL	***-15,800***	***-15,114***	***-13,931***	***-14,524***	***-18,683***	***-78,052***

CP6

Scotland

	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***17,156***	***17,472***	***18,293***	***19,224***	***19,564***	***91,710***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***0***	***0***	***0***	***0***	***0***	***0***
SUBTOTAL Property income (excl. sales and development)	***17,156***	***17,472***	***18,293***	***19,224***	***19,564***	***91,710***
Property Sales	683	983	1,163	683	1,223	4,733
TOTAL	***17,839***	***18,455***	***19,456***	***19,907***	***20,787***	***96,443***

England & Wales

	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	212,593	215,519	214,515	218,841	221,890	1,083,355
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	35,162	35,224	35,121	34,999	34,998	175,505
SUBTOTAL Property income (excl. sales and development)	247,755	250,743	249,636	253,840	256,888	1,258,860
Property Sales	25,520	28,077	18,530	21,392	26,746	120,267
TOTAL	273,275	278,820	268,166	275,232	283,634	1,379,127

Appendix B – Risk adjustment % Case Studies

12%

- ***A new project***
- ***An authorised pre-feasibility paper and initial budget for exploring the idea***
- ***High level advice surrounding, typically, valuations, town planning, engineering and highways is helping to formulate disposal strategy***

[redacted]

This is a site with residential potential that currently has a viaduct on it but is disused. A strategy paper has been approved, however the Land Disposal Licence Condition consent application has been objected to by DfT as it is felt that the site may be required for stabling of trains. NR has produced a report addressing this issue which has been submitted and we are now awaiting the outcome of the re-assessment of the objection. The scheme cannot progress until the LC7 objection is removed.

[redacted]

This is a project at a relatively early stage of development on which little progress has yet been made. Clearance was obtained and a strategy paper approved. The site is above a cutting and is supported by a retaining wall which in turn is stabilised with Ground Nails. Work is needed to assess the structural potential to build over this without impacting on the stability of the retaining wall. This work has yet to be completed. Until a positive result is obtained the project cannot proceed. There are also Environmental issues with impact on green space and planning issues as it is not allocated for development.

37%

- ***Business and Technical Clearance obtained***
- ***Valuations continue to support scheme in light of the Clearance conditions and other emerging information***
- ***Evidence of developer interest***
- ***Disposal strategy paper approved***
- ***On balance, the project is probably moving forward***

[redacted]

The site comprises a short redundant viaduct spur with arches currently occupied by a fishmonger tenant on low rent. The structure is a liability. A financial deal has been agreed and a strategy approved, the issues holding matters up is a clearance condition that requires a 3M set back of building line from the retained element of the viaduct. More than 1.5m set back would effectively make the land unusable. Whilst the scheme cannot complete without this being agreed, in view of the redundant nature of the viaduct we feel that it is unlikely that the objection will not be capable of being lifted based on previous experience of similar schemes on agreement that allows the developer to draw down the rights, but NR has no ability to insist on the draw down within this financial year. In view of the relative lack of control NR has it was felt that a 37% risk rating was appropriate.

[redacted]

A developer has been selected, clearance is in place and LC7 has been completed. Discussions with the developer have however been very protracted and NR currently does not on balance have the confidence that the scheme will ultimately proceed with this developer to allocate it to 62%.

62%

- ***ORR Land Disposal consent achieved***
- ***Key project specific engineering and legal obstacles are satisfied or have solutions***
- ***Developer chosen***
- ***Solicitors instructed***

[redacted]

This is the sale of geared rental income due under a head lease for which there is uncertainty about how a deed of variation impacts on the disposal. Legal advice has been taken and is not certain and hence there is no certainty about the ability to do the deal that is proposed. It is likely that the uncertainty will be resolved shortly through the usual rent payment processes and hence that a 62% rating is justified as no other significant hurdles exist as far as we are aware.

[redacted]

This is a site adjacent to the station which is allocated for residential use. The site has clearance and LC7 consent and has been marketed. Solicitors are instructed but are at an early stage of agreeing legal contracts. No major obstacles exist as far as we are aware.

87%

- ***Little remaining risk of material change to the disposal strategy***
- ***Contracts approaching exchange***

[redacted]

The site was sold a number of years ago with a restrictive covenant preventing the development of the site for uses other than open space. NR was approached to release the restriction to allow residential development. The clearance and LC7 consent have been obtained and the terms of the deal have been signed off. The contracts are largely agreed subject to a minor side letter issue which is expected to be resolved shortly, at which point the probability will increase to 100%.

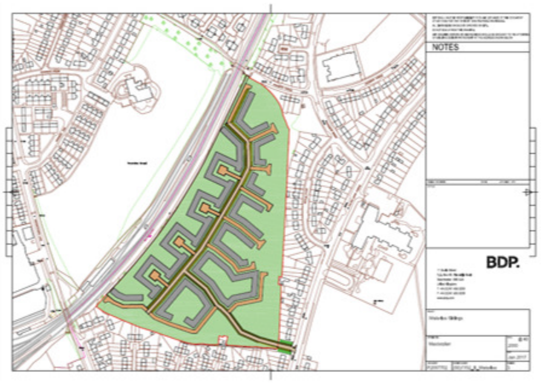
[redacted]

This site was removed from the Condor portfolio and consisted of an industrial yard adjacent to a railway viaduct which had potential for residential development, in conjunction with frontage land owned by a developer. All consent s are in place and heads of terms are agreed. Legals are well advanced but not yet finalised.

Appendix C – Development and Sales Case Study Examples

[redacted]

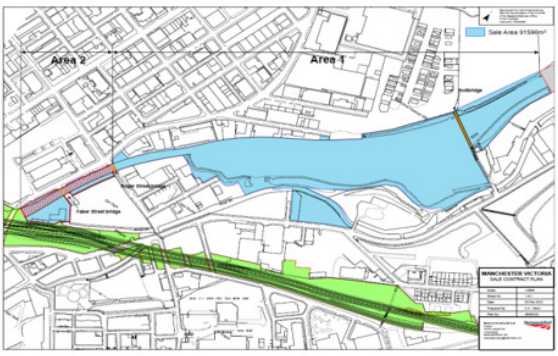
NetworkRail



- Redundant railway land with Clearance and LC7 Consent achieved
- Response to government policy to maximise housing delivery.
- Developable area of circa 5ha and allocated for residential development in Leeds City Council Local Plan with potential for 200 homes
- Access required over land owned by Leeds City Council so ransom payment will be required
- Site proposed for transfer to Homes England but declined due to concerns on financial viability
- Potential site abnormals £3m+
- Initial expressions of interest suggest site value of £0.5m to -£0.5m.
- NR will not sell at negative value but may lose £100k in costs

[redacted]

NetworkRail



- 9ha site located 1km east of Manchester City Centre and to the north of Victoria Station
- Site allocated for residential development within Local Plan with potential for circa 1,200 homes and key element of major Northern Gateway regeneration project
- Negotiations with Manchester City's investment partner indicating value of £13m - £15m
- Internal Clearance obtained together with operational assessment demonstrating that site is not suitable for rail use but objections to LC7 consultation from TOC's and DfT
- Therefore potential that site may not be sold.

[redacted]

Appendix E – Detail Breakdown of C&W assumptions

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***234,714***	***237,884***	***237,681***	***242,955***	***246,410***	***1,199,644***	***1,175,066***	***2.09%***
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***35,162***	***35,454***	***35,581***	***35,678***	***35,900***	***177,775***	***175,506***	***1.29%***
SUBTOTAL Property income *(exc. sales&dev)*	***269,876***	***273,338***	***273,262***	***278,632***	***282,310***	***1,377,420***	***1,350,572***	***1.99%***
Property Sales	51,441	50,394	7,807	15,139	40,782	165,563	125,000	32.45%
TOTAL	***321,317***	***323,732***	***281,070***	***293,771***	***323,093***	***1,542,983***	***1,475,572***	***4.57%***

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***236,661***	***242,857***	***245,787***	***254,282***	***261,088***	***1,240,676***	***1,175,066***	***5.58%***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***35,162***	***35,719***	***36,126***	***36,516***	***37,053***	***180,576***	***175,506***	***2.89%***
SUBTOTAL Property income (excl. sales and	***271,824***	***278,576***	***281,914***	***290,798***	***298,140***	***1,421,251***	***1,350,572***	***5.23%***
Property Sales	76,663	66,354	14,376	24,257	58,967	240,618	125,000	92.49%
TOTAL	***348,487***	***344,930***	***296,290***	***315,055***	***357,107***	***1,661,869***	***1,475,572***	***12.63%***

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***234,714***	***236,466***	***234,806***	***238,606***	***240,536***	***1,185,129***	***1,175,066***	***0.86%***
Other Income*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms*	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL*	***35,162***	***35,182***	***35,036***	***34,870***	***34,823***	***175,073***	***175,506***	***-0.25%***
SUBTOTAL Property income (excl. sales and	***269,876***	***271,648***	***269,842***	***273,476***	***275,359***	***1,360,202***	***1,350,572***	***0.71%***
Property Sales	39,477	42,685	4,973	10,954	32,410	130,500	125,000	4.40%
TOTAL	***309,353***	***314,334***	***274,816***	***284,431***	***307,769***	***1,490,702***	***1,475,572***	***1.03%***

[redacted]

[redacted]

[redacted]

[redacted]

C&W Forecasts for CP6	Scenario	CP5	CP5 -CP6	CP6 Growth pa	CP6						Comments CP5-CP6 'Bridge'	Comments CP6 Growth
		2018/19			2019/20	2020/21	2021/22	2022/23	2023/24	TOTAL		
Development & Sales	Base Case	47,965	45.00%		51,441	50,394	7,807	15,139	40,782	165,563	NR assumption. Assumed to be reasonable base position on the basis that opportunities from the Commercial Estate will be lost. The Commercial estate generated 45% of all rental income in CP5 and it can therefore be assumed that it has also made up 45% of the sales and development portfolio.	Core Disposals: C&W base assumption of risk adjustment percentages Joint Ventures: NR assumption - 25% come forward Overlay: % of Core disposals. NR % adopted Small schemes: % of adjusted overlay. NR % adopted.
	Upper	47,965	45.00%		76,663	66,354	14,376	24,257	58,967	240,618		Core Disposals: C&W base assumption of risk adjustment percentages Joint Ventures: C&W adjustment - 50% come forward Overlay: % of Core disposals. NR % adopted Small schemes: % of adjusted overlay. NR % adopted.
	Lower	47,965	45.00%		39,477	42,685	4,973	10,954	32,410	130,500		Core Disposals: C&W base assumption of risk adjustment percentages Joint Ventures: NR assumption - 25% come forward Overlay: % of Core disposals. NR % adopted Small schemes: % of adjusted overlay. NR % adopted.
Total	**Base Case**	**401,678**			318,346	320,639	277,850	290,420	319,603	**1,542,983**		
	Upper	**401,678**			345,516	341,715	292,811	311,291	353,035	**1,661,869**		
	Lower	**401,678**			306,382	311,314	271,746	281,311	304,598	**1,490,702**		

ADDENDUM: Network Rail Strategic Business Plan - Property Income Forecast Review

Prepared for:

OFFICE OF RAIL AND ROAD

June 2018

Contents

1. Introduction

Cushman & Wakefield (C&W) was instructed by the Office of Rail and Road (ORR) in February 2018 to undertake a review of Network Rail (NR)'s property income assumptions for Control Period Six (CP6).

The findings of this review are detailed within C&W's report dated May 2018 (the "Report"). This Report sets out the income assumptions, methodology and forecast income for CP6 on a National basis across all NR routes.

The ORR has since instructed C&W to disaggregate the income projections for Scotland from England and Wales, the results of which are set out within this Addendum as follows:

1. A summary of NR's income forecasts for Scotland
2. Our Approach to separating the forecast income for Scotland from England and Wales
3. A breakdown of C&W's income projections for Scotland, England and Wales
4. A summary of total forecast income

2. NR Scotland Income Forecast

NR has provided a breakdown of its income forecasts for Scotland which are summarised at Figure 1.

Figure 1 NR Scotland Income assumptions for CP6

	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast
Managed Station Retail Income	[redacted]					
Managed Station Other Income	[redacted]					
Managed Station Advertising Income	[redacted]					
Managed Station Property Rental Income (the Office Group)	[redacted]					
Property Rental Income	[redacted]					
Advertising	[redacted]					
SUBTOTAL	***17,156***	***17,472***	***18,293***	***19,224***	***19,564***	***91,710***
Other Income*	N/A	N/A	N/A	N/A	N/A	N/A
Managed Station Concessions*	N/A	N/A	N/A	N/A	N/A	N/A
Telecoms*	N/A	N/A	N/A	N/A	N/A	N/A
SUBTOTAL*	***0***	***0***	***0***	***0***	***0***	***0***
SUBTOTAL Property income (excl. sales and development)	***17,156***	***17,472***	***18,293***	***19,224***	***19,564***	***91,710***
Property Sales	683	983	1,163	683	1,223	4,733
TOTAL	***17,839***	***18,455***	***19,456***	***19,907***	***20,787***	***96,443***

**C&W is advised by NR that as Concessions, Other & Telecoms etc are treated as operational expenditure for reporting purposes, these are not separately identified within the source data*

C&W has not been provided with a detailed breakdown of the assumptions and calculations which have been used by NR to disaggregate the income assumptions for Scotland, however, we are advised by NR that these figures have been calculated using the following approach:

Directly attributed Income

- When income or costs are directly attributable to a property, these flow through to the specific route
- Income from Managed Stations, is property/station specific and so can be directly apportioned to the Scottish Route
- Income generated from the Scotland portfolio of the Commercial Estate is attributed directly to the Scottish Route
- Property Services which fall within Scotland, with the exception of easements, are directly attributed to the Scottish Route
- Development and Sales – projects falling within Scotland can be directly attributed to the Scottish Route

Apportioned income

- Global contracts and staff costs are central costs which are apportioned to the Routes
- Development and Sales – in addition to the risk adjusted income assumption which can be directly apportioned in line with each project, NR also include an overlay assumption. This overlay is apportioned in line with active cases using the same risk weightings and criteria across the national portfolio.

3. C&W Approach

In order for C&W to disaggregate the income forecasts for Scotland only we have considered the proportion of income attributed to the Scotland Route relative to the national forecasts within NR's forecasts for CP6.

We have worked on the basis that the same income split would apply to C&W's figures and have therefore adopted the same proportion of income per income lines as NR, applying this to the total C&W forecasts contained within the Report. This calculation has been undertaken on a year-by-year and income line basis.

This approach has been adopted as NR's figures include a number of income items that are centralised and for which we have not been provided with details of the apportionment for Scotland. It has therefore not been possible to undertake a review on the same basis as the aggregate figures. However, with the exception of the Development and Sales portfolio, C&W's NR-wide numbers have been calculated by adjusting the growth rates applied to the income by NR rather than building in explicit adjustments and therefore Scotland will make up the same proportion of both NR and C&W's total income forecasts. We therefore consider the methodology adopted to be sufficiently robust.

It should be noted that the Scottish Route apportionments for the Development and Sales Portfolio are approximate only. The income forecasts for this part of the portfolio include a number of variable elements with adjustments applied on a property specific basis and as such, the income split which is applied by NR for the Scottish Route, would not be the same as C&W. Adopting the methodology outlined above therefore provides an approximate number only. Additional information on NR's adjustments will be required in order to disaggregate the figures precisely.

C&W has applied the methodology outlined to the Base, Upper and Lower Case income assumptions included within the main Report.

4. Analysis

Set out below are the income summaries for C&W's Base, Upper and Lower scenarios showing combined income, as well as the split between Scotland, and England and Wales.

4.1. Base Case

Figure 2 outlines C&W's view of the Base Case total forecast income nationally as set out in the main Report. This is disaggregated for Scotland (Figure 3) and England and Wales (Figure 4).

Figure 2 Total C&W CP6 Income Forecast

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*234,714*	*237,884*	*237,681*	*242,955*	*246,410*	*1,199,644*	*1,175,066*	*2.09%*
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*35,162*	*35,454*	*35,581*	*35,678*	*35,900*	*177,775*	*175,506*	*1.29%*

***SUBTOTAL Property income** (exc. sales&dev)*	*269,876*	*273,338*	*273,262*	*278,632*	*282,310*	*1,377,420*	*1,350,572*	*1.99%*
Property Sales	51,441	50,394	7,807	15,139	40,782	165,563	125,000	32.45%
TOTAL	*321,317*	*323,732*	*281,070*	*293,771*	*323,093*	*1,542,983*	*1,475,572*	*4.57%*

Figure 3 C&W Base Case Income Forecast - Scotland

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*17,704*	*17,949*	*18,702*	*19,565*	*19,835*	*93,756*	*91,710*	*2.23%*
Other Income	-	-	-	-	-	-	-	0.00%
Managed Station Concessions	-	-	-	-	-	-	-	0.00%
Telecoms	-	-	-	-	-	-	-	0.00%
SUBTOTAL	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0.00%*
SUBTOTAL Property income (excl. sales and development)	*17,704*	*17,949*	*18,702*	*19,565*	*19,835*	*93,756*	*91,710*	*2.23%*
Property Sales	1,340	1,704	461	468	1,783	5,756	4,733	21.61%
TOTAL	*19,044*	*19,653*	*19,163*	*20,034*	*21,618*	*99,512*	*96,443*	*3.18%*

Figure 4 C&W Base Case Income Forecast - England and Wales

Base	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*217,010*	*219,935*	*218,979*	*223,389*	*226,575*	*1,105,889*	*1,083,356*	*2.04%*
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*35,162*	*35,454*	*35,581*	*35,678*	*35,900*	*177,775*	*175,506*	*1.28%*
SUBTOTAL Property income (excl. sales and development)	*252,172*	*255,389*	*254,560*	*259,067*	*262,476*	*1,283,664*	*1,258,862*	*1.93%*
Property Sales	50,101	48,690	7,346	14,671	39,000	159,807	120,267	24.74%
TOTAL	*302,273*	*304,079*	*261,907*	*273,738*	*301,475*	*1,443,471*	*1,379,129*	*4.46%*

4.2. Upper Case

Figure 5 outlines C&W's view of the Upper Case total forecast income nationally. This is disaggregated for Scotland (Figure 6) and England and Wales (Figure 7).

Figure 5 C&W Upper Case Income Forecast - Total

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***236,661***	***242,857***	***245,787***	***254,282***	***261,088***	***1,240,676***	***1,175,066***	***5.58%***
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***35,162***	***35,719***	***36,126***	***36,516***	***37,053***	***180,576***	***175,506***	***2.89%***
SUBTOTAL Property income (excl. sales and development)	***271,824***	***278,576***	***281,914***	***290,798***	***298,140***	***1,421,251***	***1,350,572***	***5.23%***
Property Sales	76,663	66,354	14,376	24,257	58,967	240,618	125,000	92.49%
TOTAL	***348,487***	***344,930***	***296,290***	***315,055***	***357,107***	***1,661,869***	***1,475,572***	***12.63%***

Figure 6 C&W Upper Case Income Forecast - Scotland

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***17,817***	***18,317***	***19,356***	***20,516***	***21,079***	***97,086***	***91,710***	***5.86%***
Other Income	-	-	-	-	-	-	-	0.00%
Managed Station Concessions	-	-	-	-	-	-	-	0.00%
Telecoms	-	-	-	-	-	-	-	0.00%
SUBTOTAL	***0***	***0***	***0***	***0***	***0***	***0***	***0***	***0.00%***
SUBTOTAL Property income (excl. sales and development)	***17,817***	***18,317***	***19,356***	***20,516***	***21,079***	***97,086***	***91,710***	***5.86%***
Property Sales	1,499	1,997	2,244	849	750	2,578	4,733	-45.54%
TOTAL	***19,316***	***20,315***	***21,600***	***21,364***	***21,829***	***99,663***	***96,443***	***3.34%***

Figure 7 C&W Upper Case Income Forecast - England and Wales

Upper	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***218,844***	***224,540***	***226,431***	***233,766***	***240,009***	***1,143,590***	***1,083,356***	***5.27%***
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	***35,162***	***35,719***	***36,126***	***36,516***	***37,053***	***180,576***	***175,506***	***2.81%***
SUBTOTAL Property income (excl. sales and development)	***254,006***	***260,259***	***262,557***	***270,282***	***277,061***	***1,324,166***	***1,258,862***	***4.93%***
Property Sales	75,164	64,357	12,133	23,408	58,217	238,040	120,267	49.48%
TOTAL	***329,170***	***324,616***	***274,690***	***293,691***	***335,278***	***1,562,206***	***1,379,129***	***11.72%***

4.3. Lower Case

Figure 8 outlines C&W's view of the Lower Case total forecast income nationally. This is disaggregated for Scotland (Figure 9) and England and Wales (Figure 10).

Figure 8 C&W Lower Case Income Forecast - Total

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*234,714*	*236,466*	*234,806*	*238,606*	*240,536*	*1,185,129*	*1,175,066*	*0.86%*
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*35,162*	*35,182*	*35,036*	*34,870*	*34,823*	*175,073*	*175,506*	*-0.25%*
SUBTOTAL Property income (excl. sales and development)	*269,876*	*271,648*	*269,842*	*273,476*	*275,359*	*1,360,202*	*1,350,572*	*0.71%*
Property Sales	39,477	42,685	4,973	10,954	32,410	130,500	125,000	4.40%
TOTAL	*309,353*	*314,334*	*274,816*	*284,431*	*307,769*	*1,490,702*	*1,475,572*	*1.03%*

Figure 9 C&W Lower Case Income Forecast - Scotland

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*17,704*	*17,861*	*18,513*	*19,269*	*19,434*	*92,781*	91,710	*1.17%*
Other Income	-	-	-	-	-	-	-	0.00%
Managed Station Concessions	-	-	-	-	-	-	-	0.00%
Telecoms	-	-	-	-	-	-	-	0.00%
SUBTOTAL	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0.00%*
SUBTOTAL Property income (excl. sales and development)	*17,704*	*17,861*	*18,513*	*19,269*	*19,434*	*92,781*	*91,710*	*1.17%*
Property Sales	1,028	1,443	294	339	1,417	4,521	4,733	-4.48%
TOTAL	*18,733*	*19,304*	*18,807*	*19,608*	*20,851*	*97,302*	*96,443*	*0.89%*

Figure 10 C&W Lower Case Income Forecast - England and Wales

Lower	2019/20	2020/21	2021/22	2022/23	2023/24	CP6 forecast	NR Forecast	% difference
Managed Station Retail Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Advertising Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Property Rental Income (the Office Group)	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Property Rental Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Advertising	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*217,010*	*218,606*	*216,293*	*219,337*	*221,102*	*1,092,349*	*1,083,356*	*0.82%*
Other Income	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Managed Station Concessions	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Telecoms	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
SUBTOTAL	*35,162*	*35,182*	*35,036*	*34,870*	*34,823*	*175,073*	*175,506*	*-0.25%*
SUBTOTAL Property income (excl. sales and development)	*252,172*	*253,788*	*251,330*	*254,207*	*255,925*	*1,267,422*	*1,258,862*	*0.68%*
Property Sales	38,448	41,242	4,680	10,616	30,993	125,979	120,267	4.53%
TOTAL	*290,621*	*295,030*	*256,009*	*264,823*	*286,918*	*1,393,401*	*1,379,129*	*1.02%*