PART 2 – CONFIDENTIAL FACTS AND ADVICE

DD2721
Plot N0202 Disposal (The Hub Building) – Greenwich Peninsula

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.

This information is not suitable for publication until the stated date because:

This paper contains commercially sensitive information.

Date at which Part 2 will cease to be sensitive or when this information should be reviewed with a view to publication: 30 October 2025

Legal adviser recommendation on the grounds for not publishing information at this time:

The contents of Part 2 include sensitive information related to GLAP's commercial interests, the disclosure of which would prejudice their interests. For those reasons, it is considered that the information is exempt from publication in reliance upon the exclusions contained in section 43(2) (Commercial Interests) of the Freedom of Information Act 2000, and because public interest in withholding the information outweighs the public interest in releasing it.

Legal Adviser – I make the above recommendations that this information is not suitable for publication at this time.

Name: TfL Legal **Date:** 22/10/2024

Decision and/or advice:

1. Structure of the deal

1.1. Under the Land Disposal Agreement (LDA), GLA Land and Property (GLAP) can dispose of land to Knight Dragon (KD). This enables KD to bring forward plots for development.

1.2. GLAP disposes of land via a headlease for a term of 999 years, less 10 days from and including 17 June 2024, in respect of the relevant plot.

1.3. GLAP is seeking to dispose of Plot N0202 at Greenwich Peninsula. Plot N0202 is included in the 2015 masterplan for Greenwich Peninsula. The development occupies the plot in the form of two buildings linked by a canopy structure; together, this development is informally referred to as the Hub Building.

1.4. GLAP entered into a lease for these buildings, with KD, in 2014 for 20 years (up to 2034). This has allowed one building to operate as the marketing and sales suite, with an art gallery; and the other building to operate with retail uses (food and beverages). This lease period supported the thinking at the time, that the Hub Building was temporary, to support place making at the Peninsula. Key commercial terms in the lease included a net profit payment percentage of 50 per cent; and the ability to credit this to the common cost account (see 1.15, below, for details of common costs). To date, no receipts have been received by GLAP.

1.5. However, as the masterplan developed The Hub Buildings have become a key aspect of the scheme. As a result, both parties agreed that a long-term lease of this land was required. It was negotiated that the existing lease for Plot N0202 would be surrendered, and a re-grant entered for 999 years.

1.6. The disposal of Plot N0202 allows KD to underlet the premises and grant longer-term sub-leases to prospective tenants.

1.7. The Heads of Terms for the disposal of the plot have been agreed, and GLAP's external lawyers for this matter have advised on them. Key terms include:

- permitted use: Class E (other than use as a fast-food restaurant) and sui generis
- forfeiture: exercisable if the novation payment or Minimum Land Value (MLV) payments are unpaid for 40 working days
- operational costs: are excluded from eligible common costs, although a waiver of three years is agreed for the art gallery, located in the marketing suite building
- premises: does not include the airspace; additional minimum land value (MLV) is triggered if the gross external area is greater than agreed in the HoT
- premium: in the form of novation payment and MLV, see 1.10 for further detail.

1.8. The documentation for the disposal will be reviewed by officers and GLAP`s external lawyer prior to being entered.

1.9. GLAPs investment in this project is in the form of its Minimum Land Value (MLV), payable to GLAP under the terms of the LDA as amended for this particular transaction.

<u>Minimum land value</u>

1.10. The MLV will be paid over 10 years, initially from a 50 per cent share in rental income generated from the buildings on Plot N0202. The outstanding balance is to be paid within 30 days of the 10th anniversary of the lease.

1.11. The current lease for Plot N0202 concludes in 10 years (2034). GLAP has not received payments as per the commercial terms of this lease, and there is a high likelihood that this would continue under the current lease arrangement. However, this decision provides certainty to GLAP that it will receive its MLV payment within 10 years; and ensures steady cashflow via instalments over the period. KD has provided GLAP with an indicative example of the repayment (indexed) it will receive.

1.12. GLAP's MLV is calculated by a formula as contained within the LDA. The formula is:

A x B x C

where:

A = £20 per square foot of gross external area until 7,000,000 square feet of gross external area in aggregate has been disposed of; and £25 per square foot above that aggregate area

B = the index multiplier

C = the gross external area of the building to be built on the relevant site.

The index multiplier is x over y where x is the Retail Price Index (RPI) (excluding mortgage interest) for the month preceding completion; and y is the RPI figure from April 2002.

1.13. On that basis, the MLV inflated to September 2024 is £44 per square foot. The total gross external area of the development is 29,183.4 square foot. Therefore, GLAP's MLV will be a minimum of £1,284,068 plus VAT, subject to indexation from day one.

1.14. The MLV will be paid up for to ten years, from a 50 per cent share in the rental income (net of costs) generated from the buildings on Plot N0202. Upon the tenth year, the outstanding MLV balance (with indexation) will be payable to GLAP by KD within 30 days of the 10th anniversary of the lease.

<u>Common costs</u>

1.15. KD, as the master-developer, is responsible for delivering site-wide infrastructure and managing the overall programme for development. Site-wide project expenditure incurred by KD in this function is identified as "common costs", to which all plots are required to contribute upon draw-down.

1.16. KD applies a common costs payment rate of £79.80 per square foot across all upcoming plots. The common costs rate is determined by dividing the amount of historic and forecast common costs by the total amount of planned floorspace across all remaining plots yet to be delivered.

1.17. Under the LDA, common costs are:

- debited against the common cost account when incurred in relation to the development of the Peninsula.

- credited against the common cost account by KD following disposal of a plot (either following disposal to a third party or via KD intra-group novation payment).

1.18. GLAP underwrites the common costs. As each plot is drawn down, a share of the costs based on the gross external area of the development are allocated to that plot. Therefore, as plots are drawn down GLAP's contingent liability is reduced.

1.19. Throughout the development of the Peninsula, the common costs account balance fluctuates, showing a deficit (unrealised common costs) when project expenditure is incurred and debited before (and faster than) the delivery and disposals of Plots. KD is responsible to ensure that, upon completion of development at the Peninsula, all accounts are breaking even.

1.20. KD will provide a deemed novation payment of £79.80 per square foot for the drawdown of Plot N0202. This equates to payment of approximately £2,328,832, from the lease start date, towards the common cost account.

1.21. In addition, operational costs for the Hub Building will become excluded from the eligible common cost account upon entering the lease. A waiver for operational costs in relation to the art gallery, located in the sales and marketing suite building, has been agreed for the first three years (to 2027) to allow continued programming; and to give KD time to identify methods to commercialise the use, as it is not generating income.

2. Finance comments

2.1. Granting a 999-year lease, in place of the current 20-year lease, provides GLAP with some income by way of MLV receipts from the site, totalling £1,284,068 (net of VAT) which is unbudgeted. This receipt is expected to be received over 10 years and could be higher with indexation as stipulated in the LDA between the contracting parties.

2.2. The expected MLV receivable also includes the Ministry of Housing, Communities and Local Government's share with 50 per cent payable. As such the net benefit to GLAP is around £0.6m over the period. In comparison to the current lease which, has not generated any income to GLAP, this provides good value to the company.

2.3. Furthermore, a novation payment of £2.3m from KD will be made to the common costs, which are over £280m. This reduces the balance by the amount so novated to the cost pool.