

Lendlease

(Deptford Wharves) Compulsory Purchase Order 2016

Town and Country Planning Act 1990

Funding Statement

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1.0 Executive Summary

This Funding Statement summarises the following matters:

1. Lendlease's track record;
2. Their approach to the delivery of the Scheme; and
3. Their ability and commitment to fund the acquisition of outstanding land interests and construction.

2.0 Introduction

The Scheme that Lendlease is proposing to develop on the Order Land, and which will be facilitated by the Order is fully described in the Statement of Reasons.

In summary, Lendlease proposes to deliver a residential-led mixed use redevelopment scheme on the Site comprising:

- (A) the phased demolition of remaining existing buildings and site remediation;
- (B) the construction of up to 1,132 residential units;
- (C) the provision of flexible commercial floorspace (Use Class B1);
- (D) complementary retail floorspace (Use Classes A1 to A5);
- (E) leisure and community facilities (Use Classes D1/D2);
- (F) landscaping/public realm, parking and associated works,
(together, the **Scheme**).

As part of the process of justifying the use of compulsory purchase powers, the Council is required to satisfy themselves (as would a confirming minister), that the scheme in respect of which they propose to exercise compulsory purchase powers is:

- Financially viable; and
- Capable of being funded.

3.0 The Developer

Who are Lendlease?

Lendlease was founded in 1958. With over 50 years of experience, the company has expanded across the globe from Australia to Asia, Europe and the Americas. The company employs more than 12,400 people around the world and manages an extensive portfolio of assets. Lendlease is known as one of the world's leading fully integrated property solutions providers.

Lendlease has developed a unique integrated developer/contractor model. The organisation can draw on specialist expertise within the various business units throughout the development, design and construction process. This enables the company to deliver cost efficiencies through their integrated model by utilising a supply chain based on long-term relationships, build economies of scale and ensure the efficient use of resources. Critically, this model allows Lendlease to apply a high degree of expertise and experience throughout the development process, thereby reducing risk and improving programme as well as delivering cost efficiencies.

Track Record

Lendlease has an extensive track record of delivering large scale regeneration projects worldwide. The company has 12 large-scale urban regeneration projects globally, including The Wharves, Deptford.

By way of example, schemes that Lendlease is currently delivering include:

- **Elephant Park, London (under construction)**

Lendlease is working in partnership with Southwark Council to deliver a £2 billion regeneration programme on 28 acres of land in the centre of Elephant & Castle, Zone 1 London.

The regeneration comprises three sites:

- Elephant Park Masterplan: Almost 2,500 new homes on the site of the former Heygate Estate. Received outline planning permission in 2013 and will be completed in phases between now and 2025. The first two phases South Gardens and West Grove are in construction.
- Trafalgar Place: 235 new homes, including 25% affordable housing and a local café. Completed May 2015.
- One The Elephant: 284 homes in a 37-storey tower and four storey pavilion building, adjacent to the council's new Leisure Centre. Completed May 2016.

The regeneration will include over 11-acres of significantly enhanced public realm, with 10 new routes through the development to create a safer and more open environment for pedestrians and cyclists, and to encourage people out of their cars.

- **International Quarter London (under construction)**

One of the UK's largest mixed-use sites, this £2.1 billion project is being delivered by Lendlease on behalf of Stratford City Business District Ltd, a 50/50 joint venture between Lendlease and London and Continental Railways, the owner and operator of Stratford International station, along with much of the surrounding land.

The 22-acre site will be a vibrant, new urban quarter providing:

- Four million sq. ft. of Grade 'A' office accommodation, 333 new residential units and community facilities within a 22-acre (c.9 hectare) site
- Almost one million sq. ft. is already pre-let
- Over 25,000 people will work in the area when complete
- The FCA and TfL will occupy the first two buildings totalling c.800, 000 sq. ft.
- Investments from Deutsche Bank and Legal & General totalled more than £615m of forward sales for the first two commercial buildings on site
- The innovative workspaces are designed by world class architects, Rogers Stark Harbour + Partners.

- **Barangaroo South, Sydney Australia (under construction)**

Lendlease was selected in December 2009 as the developer for the A\$6 billion Barangaroo South project by the Barangaroo Delivery Authority on behalf of the New South Wales Government.

Barangaroo South is a vital new development of Sydney's central business district and will provide benefits for Sydney and the state of New South Wales. It is a 'once in a 200-year opportunity' to create a new place to live, work and visit - creating new jobs, stimulating growth and boosting the economy. It also returns a previously private industrial space to the community, including a new harbour park.

Barangaroo South will have a mix of uses, with commercial and residential buildings as well as shopping, dining, hospitality and public places.

4.0 About the Scheme

Scheme Background

The Scheme comprises the development of 1,132 residential units and 10,413 sq. m (GEA) of non-residential floorspace, on a site of 11.6 acres (4.7 hectares). The development is planned in six plots, across three phases, and is likely to be developed over a 5-year period, assuming stable market conditions. Development of the first phase of development is due to commence in 2017 with completion of the overall Scheme due in 2022.

Planning permission was granted for the Scheme in March 2016, some 18-months after Lendlease acquired the site in August 2014. During this period, the company has undertaken a significant amount of work in order to develop a scheme that it considers is financially deliverable against the internal investment criteria set by the Board of Lendlease. Furthermore, since its acquisition of the site, the Company has continued to invest in the acquisition of further land interests within the site.

Delivery Strategy

Plots 1 to 6 will be developed and released to the market as demand dictates. The current timetable/phasing for the Scheme, assuming stable market conditions is anticipated to be as follows:

Plot	Indicative start on site (piling works)	Indicative PC
2	Qtr. 2 2017	Qtr. 3 2019
1	Qtr. 3 2017	Qtr. 2 2020
3	Qtr. 4 2017	Qtr. 1 2020
4	Qtr. 1 2018	Qtr. 3 2020
5	Qtr. 4 2018	Qtr. 1 2022
6	Qtr. 1 2019	Qtr. 1 2021

Capital drawdown for Plot 2 has been authorised and, although the above timetable set's out Lendlease's preferred programme, construction will not commence on Plot 2 until all of the interests in Phase 1 have been secured, and on Plots 4 to 6 until reserved matters have been obtained and all outstanding interests in Phase 2 have been secured. As plots within the various phases of development are completed and sold, the revenue generated will be recycled into the project and serve to offset the funding requirements of the development.

Scheme costs were provided as part of a viability report to enable the Council to determine the planning application. Further financial information has been provided to PWC.

These costs will be funded by the developer in the manner set out above.

Viability

Lendlease have provided their own cash flow model of the scheme, based upon the viability assessment prepared by Urban Delivery (Viability Report, 2015) as part of the planning application. The scheme

currently is assessed as being viable and capable of being delivered, and currently all of the plots are predicted to meet the financial criteria required by the Lendlease Board to authorise drawdown of capital as and when future plots come forward. This criterion is discussed later in this Statement. Capital drawdown for Plot 2 has already been authorised and work is due to commence in 2017.

Marketing Strategy

Lendlease have advised the Council that their proposed delivery and high-level Sales Strategy for the Scheme is as follows:

Residential Sales Strategy

Plots will be released first to UK residents in line with the Mayor's Concordat. The Lendlease Sales Team and local agents' will market the Scheme from an on-site Sales & Marketing Suite.

This will be complemented by an international sales programme across regions including (but not limited to) Hong Kong, Singapore, China and Malaysia.

Non-residential Uses

Offices/Commercial Space

Deptford is not currently an established office location. Previous developments such as Marine Wharf West have not sought to provide B1 accommodation. Newer developments such as Cannon Wharf, however, are delivering significant office space, targeting existing small businesses in the area. Take-up has been slow at significantly higher rents than previously seen in this locality, however, this site is not fully benefiting from the regeneration taking place around it.

The supply risk is mitigated by the macro conditions of the London market. Current London demand for office space significantly outweighs the available supply and this has driven growth in markets such as Shoreditch, Farringdon and Southbank where creative companies have sought cheaper rents and an increasingly footloose workforce who have the skills to drive forward their business. Over time, and with this new supply, Deptford can emerge as an alternative office location outside the established boundaries of core and "fringe" London.

Lendlease is confident of the viability of the commercial elements of the Scheme and its ability to deliver them, which is underpinned by a vibrant local business community and constrained supply in central London, alongside an evolving and dynamic office demand profile.

Office Leasing Strategy

Lendlease will adopt a flexible strategy that will target to pre-let the whole building to a single occupier or alternatively to let on a floor-by-floor basis.

Specific strategies include:

Target List & Marketing

Develop a list of target tenants to actively pursue to acquire the whole or minimum whole floor of the office buildings. The eventual strategy, marketing and design will reflect market requirements.

Occupier Interviews

Cultivate targets and review internal connections within target sectors, i.e. co-working and serviced office providers. A flexible strategy will be pursued to adapt as the market for this space is realised.

Trend Analysis

Identify and track growth sectors, seek early adopters to target and pursue.

Business Incubator Activation

Pursue a temporary business incubation hub to activate the site and foster local business and SME demand.

Competitive Review

Identify competitive positioning for The Wharves offer and how this aligns with requirements from the target sector(s) and channel messaging to reflect this focus.

Retail Space

The local retail market is at present limited, with a varied, tertiary provision arranged sporadically along Lower/Evelyn Street. The area is dominated by local independent retailers with limited presence of national multiple occupiers. Due to this existing occupier profile, the retail element of the Scheme will be carefully curated to ensure that it caters for both residential and office users that will be attracted to the development.

Retail Leasing Strategy

Specific leasing strategies include:

Pre-letting Strategy:

Target to pre-let retail units to local independent retailers to create a vibrant and unique offer to service local residents and commercial offices. A flexible strategy will be pursued and adapted as the actual market for this space is realised.

Target List

Compile list of target tenants from local area, those with desire to expand, relocate or start up.

Occupier Interviews

Cultivate targets and review connections with target retailers, (e.g. cafes, service retail, etc.).

Marketing

Identify tenant requirements and channel messaging for the Scheme accordingly.

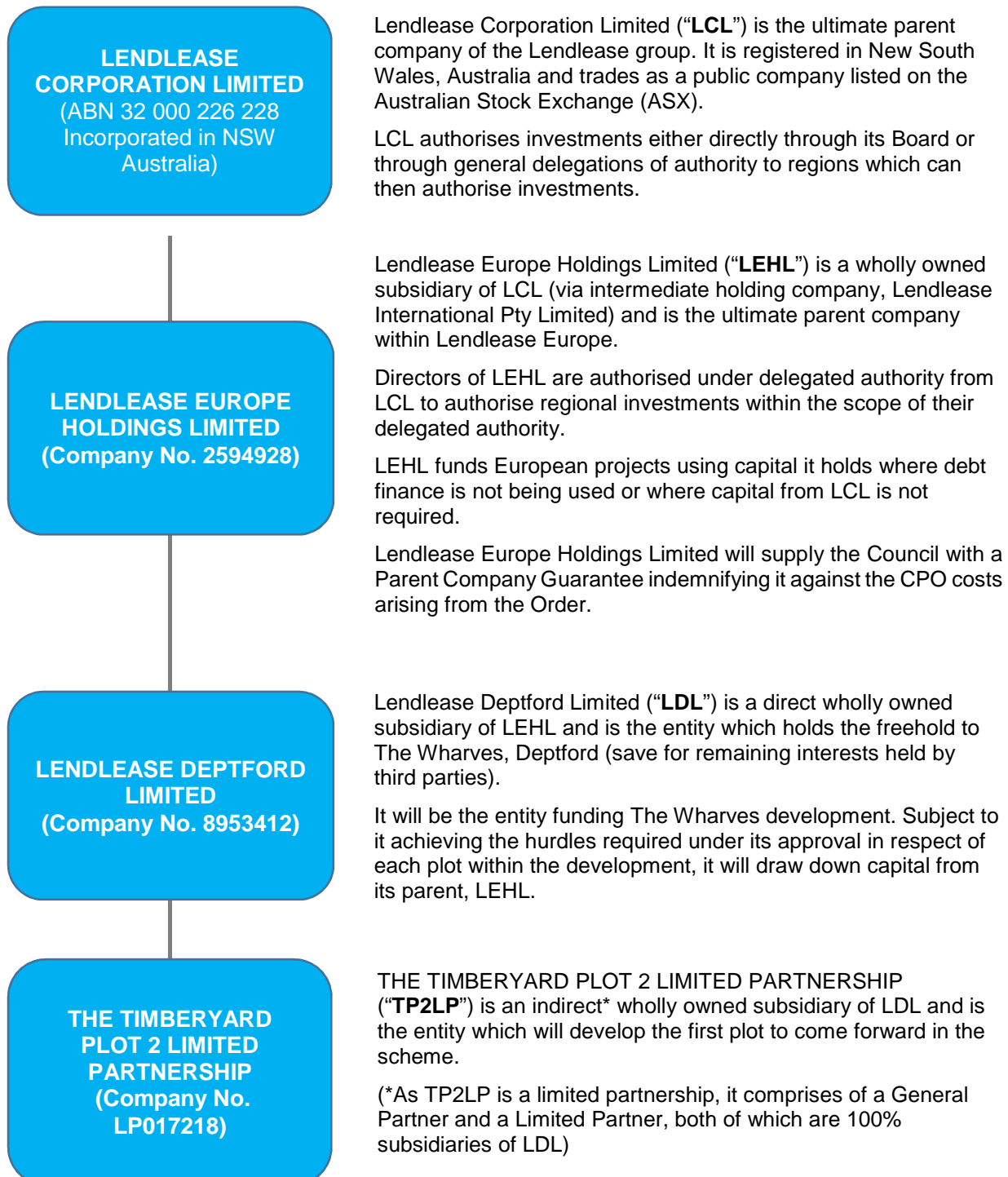
Business Incubator Activation

Pursue a temporary business incubation hub to activate the site and foster demand for a café/licensed premises.

5.0 Financial Capability

Company Structures & Ability to Fund

The Scheme will be developed by Lendlease Deptford Ltd and funded by its ultimate parent company (Lendlease Corporation Ltd) using their existing funding sources. Lendlease Corporation Limited (LLC) is listed on the Australian Stock Exchange and has a current market capitalisation of circa A\$8 billion. The legal structure and funding arrangements between the entities involved in delivering the scheme are set out below,



It is currently anticipated that there will be no direct external funding arrangements and the project will be fully funded by Lendlease Corporation Ltd.

The information regarding this is contained in the Viability Report that has been provided to PwC, who have used it to provide their own assessment of Lendlease's capability and commitment to fund and deliver a comprehensive scheme. Further documents have been reviewed by PwC in the form of a Statement of Commitment from Dan Labbad (Chief Executive Officer of Lendlease) dated 30th November 2016, Board Minutes of relevant decisions and a copy of an inter-company loan agreement, which PwC have been provided to help evidence Lendlease's commitment to delivering the scheme.

Lendlease Corporation's recently released full year results show that as at 30 June 2016, Lendlease had cash and cash equivalents of A\$1,008.4 million, gearing of 6.5 per cent and undrawn capacity of A\$2,172.6 million, further supporting Lendlease's capacity to fund the development.

The Lendlease Group has long-term stable BBB- / Baa3 credit ratings and has successfully raised funding in the UK, US Reg D, Australian and Singapore bond markets. Lendlease's debt investors include some of the world's major institutional fixed income investors. Refer to Note 17 Borrowings and Financing Arrangements (page 153) and Note 19 Capital Management (page 155) in the Lendlease Corporation Limited 2016 Annual Report for further details.

A link to the Lendlease Corporation Limited 2016 Annual Report – including Consolidated Financial Report 30th June 2016 can be found in Appendix I.

Having regard to its overall development programme and unutilised facilities, Lendlease is satisfied that it can fully fund the construction programme of the Scheme.

Commitment to Fund & Deliver a Comprehensive Scheme

The Lendlease Corporation Board approved the acquisition of the site to develop a residential-led mixed use development scheme in February 2014. The Lendlease Corporation Board approved the overall project and the project team were also given the approval to complete due diligence on the site to progress contracts to exchange as well as initial development costs. Copies of these Board Minutes have been reviewed by Council Officers and PwC.

In line with Lendlease's standard procedure for development projects of this nature, it was agreed separate Board approvals would be required at the commencement of each phase to start construction; and such drawdown will be authorised subject to the returns remaining materially in line with the required financial returns of the project and an agreed level of pre-sales per plot. Evidence of these financial requirements have been reviewed by the Council and PwC in the Statement of Commitment dated 30th November 2016.

The funding between the entities above are created through inter-company loans and repaid when capital is generated from the Scheme. The inter-company loans are agreed through delegated authority, provided by the relevant Board (or delegated) approval.

An inter-company loan agreement is in place for the drawdown of funding to progress site wide development activities, the completion of land assembly and site remediation works and the build costs of the first phase of development (Plot 2) subject to achieving pre-sales of 50% of Gross Development

Value (including the affordable housing component). Authority for this drawdown of funds was given by the Lendlease Corporation Board in November 2015. A copy of this loan agreement and the Board Minutes which support the decision have been reviewed by the Council and PwC.

Subject to stable market conditions, it is Lendlease's intention to develop the Scheme out in full, without a break in construction. Currently, all plots are forecast to meet the required financial criteria for the project and further capital drawdown requests will be made as further build phases are brought forward, in line with the overall programme. The capital costs will remain to be funded through the Lendlease balance sheet.

Lendlease is committed to the comprehensive redevelopment of The Wharves, Deptford site and the delivery of over 1,000 new homes in the Borough.

APPENDIX I Lendlease Corporation Limited 2016 Annual Report – including Consolidated Financial Report 30th June 2016

The Lendlease Corporation Limited 2016 Annual Report can be found here:

<http://www.lendlease.com/content/annualreport/files/assets/common/downloads/publication.pdf>