Complete control

Developers, financial viability and regeneration at the Elephant and Castle

Elephant Amenity Network /35% campaign

Aim – to maintain local plan policy requiring a minimum of 35% affordable housing on developments with 10 or more units

Strategic policy 6 Southwark Core Strategy

Our obstacle - viability assessments (VA)

 Applicants are required to submit a financial appraisal to demonstrate why the policy requirement amount or mix of affordable housing cannot be delivered on-site.

Southwark's Draft Affordable Housing policy 2011

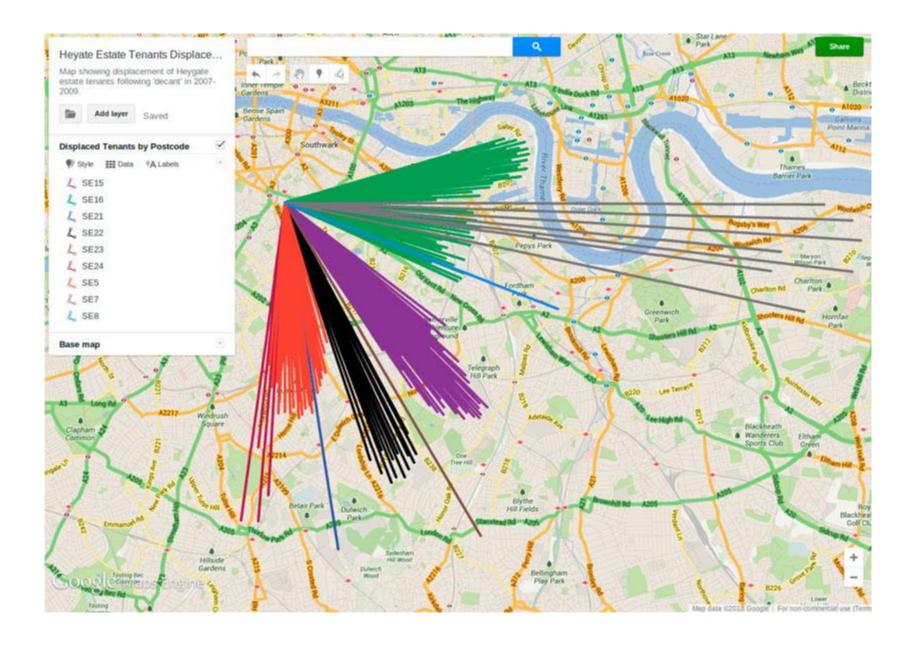
The attraction of VAs for developers - seven viability assessed developments (north Southwark):

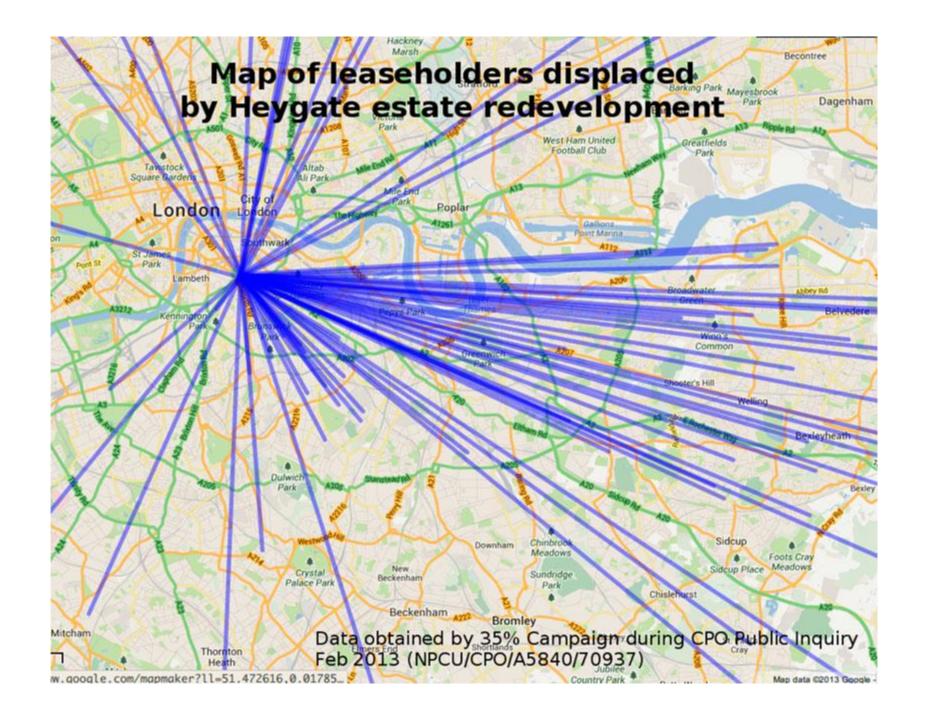
| | Estimated Gross Development value (GDV) £ million | Affordable Housing Offer £ million | % of Total | Total Units | | |
|--------------------|---|---------------------------------------|------------|-------------|--|--|
| One Blackfriars | 700 | 29 | 4 | 274 | | |
| Baby Shard Trilogy | 300 | 18.8 | 6 | 148 | | |
| Tribeca Square | 250 | 1 | 0.4 | 273 | | |
| Bankside Quarter | 1000 | 65 | 6.5 | 500 | | |
| 185 Park Street | 300 | 30 | 10 | 163 | | |
| South Bank Tower | 620 | 27 | 4 | 173 | | |
| One the Elephant | 230 | 3.5 | 1.5 | 284 | | |
| TOTAL | 3400 | 174.3 | 5.12 | 1320 | | |

5.12% affordable housing, by value terms (Sources; planning documents, media real estate reports)

Case study – the Heygate estate

- Built 1972- 1974
- Earmarked for redevelopment 1998
- Decanted and demolished 2007-2008
- 580 secure tenants
- 278 insecure tenants
- 106 leaseholders
- 45 Heygate households rehoused in new homes





The New Heygate

- 2007 Lendlease adopted as regeneration partner
- 2010 Regeneration Agreement with Lend Lease for 25% affordable housing
- 2012 Planning permissions granted
 2400+ units
 25% affordable housing
 79 social rented units
 social rented homes replaced by
 affordable rent (50% market rent)

The Heygate Viability Assessment (VA)

- Private and confidential not to be seen by planning committee
- Appraised by District Valuers Service (DVS)
- 9.4% 'indicative viable level of affordable housing' (Planning Officer's report para 154)
- Released May 2015 after FOI request May 2012
- Two redacted DVS reports also released

The problem with the viability assessment

- The latitude it allowed for value judgements
- It tested Lend Lease's chosen scheme of 25% affordable housing, not a 35%, policy compliant scheme
- The testing was done by the LL's appointed agents, Savills
- Savills chose the measure of viability- the benchmark – '25% profit on cost/20% IRR based on a fixed land value of £48m' (5% higher than that agreed in the Regeneration Agreement)

Lend Lease's virtuous profit circle

 The higher the profit....the higher the benchmark....the more 'unviable' the scheme....the less affordable housing can be built....the higher the profit

The DVS agrees

'the scheme...is clearly unviable..'

...but disagrees....

- 'profit benchmark' is too high; 'average is 15%'
- residential revenues are too low; suggests 5% 'improvement'
- (residential values estimated at £598psf; sold for £1012psf)

The more the developer pays for land, the less affordable housing the community gets The five viability assessment estimates;

- £37.3m (existing use as housing estate)
- £48.5m (existing use with premium)
- £72m (based on sales of comparable sites)
- £48m (the actual price paid by Lend Lease)
- £26.4m (the DVS estimate)

Scenario Analysis

| Scenarios | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 1 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-------------------------|----------------|----------------|-----------------------|---------------|
| NPUTS | Base | | | 10000 | | | | 2010 | | | | | | |
| Residential | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% | 0.009 |
| Costs | -2.50N | -2.50% | -2.50% | -2.50% | -2.50% | -2.50% | -2.50% | -2.50N | -2.50% | -3.25% | -3.25% | -3.25% | -3.25% | -3.255 |
| Finance | 7.50% | 7.50% | 7.00% | 7.50% | 7.00% | 7.50% | 7.00% | 7.50% | 7.00% | 7,50% | 7.00% | 7.50% | 7.00% | 7.505 |
| Land Value | £48,000,000.00 | £48,000,000.00 | £48,000,000.00 | £26,400,000.00 | £26,400,000.00 | 648,000,000.00 | £48,000,000.00 | £26,400,000.00 | £26,400,000.00 | £48,000,000.00 | £48,000,000.00 | £26,400,000.00 | €26,400,000.00 | £48,000,000.0 |
| 2 | | | | | | | | | | | | | | |
| | 0 | 9040000 | 9040000 | 9040000 | 9040000 | \$040000 | 9040000 | 9040000 | 9040000 | 5040000 | 9040000 | 9040000 | 9040000 | 904000 |
| Escalation . | Base +2% | Base +2% | Base +2% | Base +2% | 8ase +2% | DVS | DVS | DVS | DVS | Base +2% | Base +2% | Base +2% | Base +2% | DV |
| Affordable % | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25,00% | 25.00% | 25.009 |
| intermediate Value | 225 | 225 | 225 | 225 | 225 | 225 | 225 | -0200 225 | 225 | 225 | 225 | 225 | 225 | 22 |
| Social Value | 99 | 99 | 99 | 99 | 99 | 99 | 99 | h5ccQ 99 | 99 | 99 | 99 | 99 | 99 | . 9 |
| | | | | | | 52109QL | | 936 | | | | | | |
| OUTPUTS | | | | | | 34,4335 | | 1985 | | | | | | |
| Scheme Profit £ | - | | | | | | | | | The same of the same of | | | | |
| Scheme Profit on Cost % | A comment | | _ | | | | | | | | - | | | and. |
| Scheme IRR | 1 | | | | - | | | | | | | | | |
| H4 Profit £ | - | | | | | | | | | | | | | |
| H4 Profit on Cost % | | | | | | | | | | | | | | |
| H4 IRR | | | | | | | | | | | | | | |
| Scenarios | 151 | 16 | 17 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 2 |
| INPUTS | | | | 1200 | | - | NOT. | | | | | 100000 | | |
| Residential | 0.00% | 0.00% | 0.00% | 5.00% | 5.00N | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 0.00% | 0.005 |
| Costs | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -3.25% | -2.50% | -2.50 |
| Finance | 7,00% | 7.50% | 7.00% | 7.50% | 7.00% | 7.50% | 7.00% | 7.50% | 7.00% | 7.50% | 7.00% | 7.00% | 7.50% | 7.50 |
| Land Value | | £26,400,000,00 | | £48,000,000,00 | 648,000,000.00 | £26,400,000.00 | £25,400,000.00 | £48,000,000.00 | £48,000,000.00 | €25,400,000.00 | £26,400,000.00 | £25,400,000.00 | £48,000,000.00 | £48,000,000.D |
| P.F. | - | | - | - | | | | | | | | | - | |
| PM | | | | | | | | | | | | | | |
| DM | | | -25 P | | | | | | | | 2.00 | | - 5x - 1 | |
| CIL | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 9040000 | 0 | |
| Escalation | DVS | DVS | | Base +2% | Base +2N | Base +2% | Base +2% | DVS | DVS | DVS | | | Base +2% | DV |
| Affordable % | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 25.00% | 35.00% | 35.00% | 35.00 |
| Intermediate Value | 225 | 225 | | 225 | 225 | 225 | 225 | 225 | 225 | | - | 225 | 225 | 22 |
| Social Value | 99 | 99 | | 99 | 99 | 99 | 99 | 99 | 99 | 99 | | 120 | | 9 |
| avair venes | | | - | | 10 LLC | | | | | | | | | |
| OUTPUTS | | | | Alberta Li | 32 | | | Section 1 | | | | | Same and the same and | |
| Scheme Profit £ | £261,821,132 | £283,248,342 | £294,456,614 | . £282,785,805 | £294,845,296 | £314,109,476 | £324,725,513 | £322,983,596 | £334,303,364 | £353,543,799 | £354,067,717 | £227,275,31A | -£32,509,663 | £10,666,61 |
| A COLUMN TO LANGE TO | 20.84% | 22,94% | 24.07% | 22.40% | 23.58N | 25.51% | 26.60% | 25.59% | 26.73% | 28.71% | 29.81% | 18.74% | -2.37% | 0.78 |
| Scheme Profit on Cost % | 50.00776 | 100 | 2.20776 | | | | | | - | | | 1000 | | |
| Scheme Profit on Cast % | 400 | | | | | | | | | | | | | |
| Scheme IRR | | | | | | | | | | | | | | |
| | | | | | _ | | | | | | | | | |

The DVS's 28 scenarios

- 14 redacted outputs (scheme profit £; scheme profit on costs %)
- 14 unredacted outputs
 - 11 give 20% profit
 - 6 give 25%profit
 - 12 give profits between £261m £364m
 - All have at least 25% affordable housing; three have 35% affordable housing

[NB 9.4% 'indicative viable level of affordable housing' (Planning Officer's report para 154)]

Scenario 26

- Profit on cost 18.74%; £227.275m
- 35% affordable housing (some reduction in social rented)
- 5% improvement in residential sales values
- Lower land value £26.4m

DVS's second conclusion 'after a series of meetings...to reach consensus'

- no 5% improvement
- higher benchmark land value £48m
- affordable rent at 50% market rate instead of social rent
- higher thresholds for intermediate housing
- £65m profit gap but no further input changes (eg higher residential values) to address this
- 'the scheme as currently composed does not provide a policy compliant affordable housing provision'
- no mention of 9.4% 'indicative viability level'
- recommends a review mechanism

Summary of our views

- Main purpose of VA to demonstrate 25% not viable; 35% not tested and was not an option.
- Viability was measured by profit and it was the failure to reach this 'benchmark' that made the scheme unviable, not financial loss
- The inputs (land value, sales value) could have been varied and the profit reduced to deliver more affordable housing
- The unredacted DVS scenarios show that 25% affordable housing, including social rent, could have been delivered.
- Scenarios showed profits between £260m and £364m; all exceeded 20% profit in Regeneration agreement, six exceeded 25% profit in VA
- There was no reasonable justification for not implementing the recommended review mechanism, that may have increased the amount of affordable housing or made it cheaper.

Conclusion

- Heygate VA shows how the process of determining viability is contingent on contested facts, opinions and argument
- It shows how a secret part of planning process has become the determining factor in planning decisions and has fallen under the control of developers.
- But there has been a reaction Shell centre, Greenwich Peninsula, Bishopsgate's Goodsyard all thrust VA's centre stage
- Islington, Greenwich Southwark toughened viability policies; GLA to follow?
- Some campaigning gains, but no victories next battle. Serious challenge against developer assumption that they are due whatever they can claim.

Post Script - Overage

Elephant Park (Heygate estate)

6.2 The Council shall be entitled to Profit overage equal to 50 per cent of the Net Profit.

Regeneration Agreement for Elephant & Castle 23 July 2010

"Lend Lease have informed the Council that no overage is forecast at the end of phase 1(Trafalgar Place)"

Response to FOI request ref:570320

20 April 2016

One the Elephant

"The council will receive a minimum £12.248m overage payment from the One the Elephant scheme".

Response to FOI request ref: 757786

NB

- One the Elephant has 284 units, but no affordable housing.
- A tariff payment in lieu of affordable housing would have been £33.2m
- Lendlease paid Southwark £6.5m for the land and made a £3.5m s106 contribution towards a leisure centre.
- Scheme revenues £209m (\$AD345) (Lendlease 2016 Half Year Results 17 Feb 2016)