

PL/LJ  
10 July 2017

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Dear Bridin

**REDEVELOPMENT OF ELEPHANT & CASTLE SHOPPING CENTRE AND LONDON COLLEGE OF COMMUNICATION, SE1  
AFFORDABLE HOUSING UPDATE**

Further to our meeting of 29 March this letter seeks to provide the London Borough of Southwark ('the Council') with further detail and clarification in relation to the affordable housing component of the Elephant & Castle Shopping Centre and London College of Communication ('the Site') planning application, planning reference 16/AP/4458. The application was made by DP9 on behalf of Elephant & Castle Properties Co. Limited ('the Landowner').

The planning application proposes a Build to Rent scheme, with the affordable housing being a 'Discounted Market Rent' product available to a wide range of household incomes.

This letter has been updated considering the Council's Cabinet's decision to progress a new Build to Rent policy in June 2017. Emerging Policy DM4 has been included within the 'New Southwark Plan Preferred Option – New and Amended Policies' document published in June 2017 which is currently being consulted upon.

The structure of the affordable housing offer remains broadly consistent with that submitted although the headline percentage is now 36% rather than the 35% stated in the application.

Original Affordable Housing Offer

The planning application was accompanied by an Affordable Housing Statement which set out the key principles of the Affordable Housing offer. To recap these principles were summarised as follows:

- The planning application proposed 35% affordable housing by habitable room in perpetuity to be secured through the s106 agreement;
- The affordable housing will be tenure blind and affordable homes will share entrances and amenities with private tenants;
- The affordable housing meets national, regional and local definitions;

- The Applicant will work with the Council on an intermediate nominations agreement to ensure that the homes are targeted at those existing households who live and work in the borough;
- The affordable housing offer has been designed to provide housing options for the highest possible number of households many of whom have limited existing options in the private and affordable housing sectors;
- The application proposes a high level of design, amenity and professional management reflecting the requirements of national and regional policy, local emerging policy and Southwark's Housing Strategy;
- Southwark's Private Rental Housing Standard comprising the Rental Standard and the Homes Standard, will be exceeded;
- Gross rents will be inclusive of service charges;
- Residents will be offered a three-year tenancy with a tenant only option to break creating a greater security of tenure.

The Affordable Housing Statement proposed that 40% of the affordable habitable rooms would be available at rents consistent with or below the London Living Rent, with a proportion of these on rental levels consistent with target rents and 60% would be Discounted Market Rent available to households with gross incomes of up to £90,000 and subject always to an overarching cap of 80% of market rent.

#### Policy Context

The GLA's approach to affordable housing within Build to Rent developments has remained consistent since the planning application was submitted. The key principles of the emerging London Plan policies for Build to Rent are contained within the GLA's Affordable Housing and Viability SPG.

The GLA's comments on the affordable housing component of the application have been generally very supportive pending detailed review of the viability position.

As noted, the Council's emerging policy for Build to Rent, DM4, has been fully considered in response to the publication of further detail contained within the 'New Southwark Plan Preferred Option – New and Amended Policies'.

#### London Living Rent / Discounted Market Rent

From a GLA perspective there are essentially two forms of affordable housing product appropriate for Build to Rent developments. These can be defined as follows:

- London Living Rent ('LLR') – as defined by the GLA, these homes are to be provided to eligible households on Assured Shorthold Tenancies with the gross housing cost being no greater than one third of local ward level household incomes. Annual rental increase will be linked to CPI in accordance with the GLA requirements;
- Discounted Market Rent ('DMR') – DMR homes will be available on a variety of discounts to market rent. Eligibility within each of the DMR bands will be based upon gross household incomes.



Southwark's draft policy DM4 recognises the importance of the Private Rented Sector in meeting the housing needs of residents who cannot afford to, or do not want to, buy private homes in Southwark.

The document sets out a preferred way for affordable housing to be incorporated within Build to Rent schemes. The emerging policy encourages a high quality, professionally managed offer in the borough recognising the market demand and the high number of households who could benefit from such accommodation. It includes requirements for Build to Rent schemes in relation to scale, timing, management, unit mix, design standards, longer term tenancies creating security of tenure for residents and affordable tenancies in perpetuity.

Policy DM4 requires 35% of affordable homes to be within the Discount Market Rent range and further refines this into three components comprising:

- i) Social rent equivalent;
- ii) Affordable rent capped at London Living Rent equivalent; and,
- iii) Affordable rent for household incomes between £60,000 and £90,000.

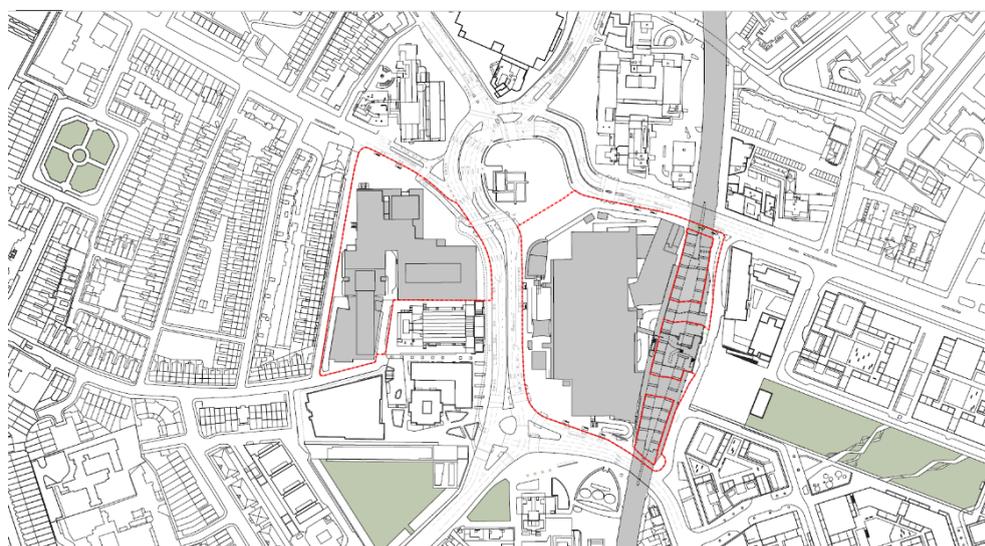
The supporting text to the draft policy sets out the criteria for affordability to be assessed against these three components. The clarification of the Applicant's affordable housing proposal is considered within this new emerging context.

#### Clarification of the Affordable Housing Proposal

The proposed affordable housing component of the planning application consists of 342 homes or 36% of the total number of habitable rooms across the Site. All affordable homes will be delivered as Discounted Market Rent in perpetuity across a wide range of household incomes spanning the three components set out under DM4.

#### Housing Mix

The plan below illustrates the east and west site. The east site, phase one, is the shopping centre site and the west site, phase two, is the existing London College of Communication Building. The affordable housing component consists of 172 dwellings on the east site and 170 dwellings on the west site. The Site and the individual plots are illustrated below.



*Figure One: Red Line Plan illustrating East and West Sites*



Figure Two: Building Outlines for East & West Sites

The affordable homes will be delivered in block E3 (comprising two residential buildings) located in the southern part of the eastern site and in block W2 located within the western site.

The affordable housing proposal is indicative insofar as it is proposed that the s106 will allow for households to move within income bands and unit types and therefore there will be a redistribution of the affordable housing within the buildings over time.

The private and affordable housing mix comprises one, two and three bed accommodation. The affordable unit mix is as follows:

Table One: Elephant & Castle Affordable Housing Mix, May 2017	
East Phase	Units
1 bed	64
2 beds	86
3 beds	22
<b>Total</b>	<b>172</b>
West Phase	
1 bed	34
2 beds	131
3 beds	5
<b>Total</b>	<b>170</b>

### Ownership & Management

The affordable homes will be managed by a single entity in perpetuity as opposed to being delivered to a Registered Provider on a long lease. It is only Affordable Rented homes that must be let by a Registered Provider, as required by the HCA's Rent Standard (section 2.4).



There are several tangible benefits in the retention of the affordable homes by the landowner.

The homes will share the same entrances and general amenities as the open market rented homes. There is no need to separate the homes and service charges as there would be if a separate head lease was being offered to a Registered Provider. This promotes social inclusiveness and meets the intention of Southwark and the GLA’s mixed and balanced communities’ requirements. The affordable homes will benefit from an extremely high level of service and management. This meets the requirements of the emerging policy DM4.

It is also envisaged that there will be flexibility in the location of the affordable homes allowing tenants to move between income bands in the same home or to change unit types dependent on their changing circumstances over time. This could not happen if the homes were simply transferred in defined blocks to a Registered Provider. The tenure blind nature of the scheme meets the requirements of emerging policy DM4.

Proposed Range of Affordable Housing

It is proposed that the 342 units will be offered for rent at levels that reflect a range of household incomes rising in £10,000 increments from £20,000 to £90,000. This full range qualifies as ‘Discount Market Rent’ and has been categorised for illustration purposes as A to G below:

Table Two: Household Income Bands							
	A	B	C	D	E	F	G
Low	Social rent equivalent	London Living Rent (Affordable Rent Equivalent)		£50,001	£60,001	£70,001	£80,001
Mid				£55,000	£65,000	£75,000	£85,000
High				£60,000	£70,000	£80,000	£90,000

When calculating London Living Rent the GLA take a third of average gross household income for the relevant local ward as the rent payable inclusive of service charge. Adopting this approach and taking the midpoint of A equates to a weekly rent that fits within the DM4 range of ‘Social Rent Equivalent’ pricing.

B and C broadly fit within the affordability criteria for ‘Affordable rent capped at London Living Rent equivalent’. E to G fit within the ‘Affordable Rent for household incomes between £60,000 and £90,000 as set out under DM4. Band D fits above fixed London Living Rent level and below the Southwark £60,000 to £90,000 category.

The GLA have updated the London Living Rents since the submission of the Housing Statement that accompanied the planning application. Table Three illustrates the rental levels proposed for the various household income bands at today’s date.

The actual rents will need to be set within the S106 and the first letting in bands D to G will need to reference a requirement for housing costs to be no greater than one third of gross household income and no greater than 80% of market rent. The rents in bands A to C will be set by reference to London Living Rents and Target Rents.

Table Three: Indicative Gross Affordable Rental Levels – July 2017						
W2-T3	A	B / C	D	E	F	G
1 bed	£160	£252	£349	£413	£498	n/a
2 beds	£175	£280	£349	£413	£476	£539
3 beds	£190	£308	£349	£413	£476	£539
E3-T2						
1 bed	£160	£205	£349	£406	n/a	n/a
2 beds	£175	£227	£349	£413	£476	£525
3 beds	£190	£250	£349	£413	£476	£539
E3-T3						
1 bed	£160	£205	£349	£408	n/a	n/a
2 beds	£175	£227	£349	£413	£476	£528
3 beds	£190	£250	£349	£413	£476	£539

#### Affordable Housing Unit Mix & Rental Levels

Table Four illustrates the affordable housing offer by building, unit type and income band.

Table Four: Elephant & Castle, Affordable Housing Unit Mix, June 2017						
	A	B / C	D	E	F	G
W2-T3						
1 bed	3	10	3	3	15	0
2 beds	13	40	13	13	20	32
3 beds	1	2	1	1	-	-
E3-T2						
1 bed	3	10	3	16	0	0
2 beds	4	14	4	4	7	11
3 beds	1	4	1	1	2	1
E3-T3						
1 bed	3	10	3	16	0	0
2 beds	4	12	4	4	6	12
3 beds	1	4	1	1	2	3

This mix maximises the headline provision of affordable housing at 36% and the spread of pricing across the range of household income bands.

The emerging policy DM4 suggests that of the 35% affordable housing provision 34% of affordable tenancies should be available as social rent equivalent, 52% at London Living Rent equivalent and 14% for those with gross incomes of between £60,000 and £90,000.

Whilst the affordable housing proposal on the subject site includes units in all three categories the distribution does not currently meet the policy DM4 distribution. It is not financially possible to meet the DM4 distribution and maintain the 36% offer. The viability of the proposal is considered in the Applicant's Financial Viability Assessment and is currently being reviewed by the Council's consultant.



The Applicant is working closely with the Council and the GLA to explore the availability of grant funding which could move the mix of affordable housing towards the distribution specified under emerging policy DM4. The Section 106 Agreement will allow for flexibility in the distribution if grant funding is forthcoming.

In the meantime, the distribution of affordable housing across the scheme in terms of the number of one, two and three beds can be illustrated as follows:



The table illustrates affordability bands A to G, with bands A being in line with target rents, bands B and C being at London Living Rental levels and bands D to G reflecting gross household incomes in £10,000 tranches of between £50,000 to £90,000.

#### Affordable Housing Flexibility

Tenants will be offered leases for three years with tenant only break clauses. The rents for the Social Rent and Target Rent equivalent tenancies will be linked to CPI. The Discounted Market Rented homes for households with incomes between £50,000 and £90,000 will have a CPI plus 1% annual increase. It is proposed that the household income requirements are also indexed by an appropriate indexation to be agreed.

At the end of each tenancy, each household would be subject to a re-assessment of their eligibility criteria and their requirements for a household unit type and / or their ability to still qualify for the rental subsidy or to pay a rental level may have changed.

A tenant whose income after three years has taken them into either a higher or lower household income band may wish to stay in the same apartment. No tenant will be asked to move from an apartment other than where they wish to do so.



At the end of each three-year period, calculated from the date of the first letting, the occupier of the affordable home will be required to demonstrate their gross household income and as noted, where their household income no longer meets the eligibility criteria, then there would be a change in the rental level counterbalanced elsewhere across the relevant phase (east or west) within a period to be defined.

In this way, the affordable housing offer is flexible and can meet the needs of existing tenants but is also designed so that the unit mix and income band weighting remain consistently distributed, ensuring that the affordable housing proposal benefits the greatest number of households on varying means, over time.

There may also be circumstances where a tenant wishes to stay within the development, but their circumstances have changed and they require a larger or smaller property. Similarly, the S106 agreement should allow for a rebalancing of the tenure and unit mix within an agreed period to preserve the consented housing mix over time. The obligation on managing this will rest with the manager with a requirement to update the Council on a regular basis.

### Eligibility

It is envisaged that the S106 agreement will provide a definitive hierarchy in relation to the identification of households for the affordable homes.

The key criteria for nominations should relate to the household income bands and those households who are economically active and meet the identified household income criteria, and those households who currently live and / or work in the borough with a fall-back position for eligibility to be London-wide in the unlikely event that there is no demand for a particular home.

We understand that the Council is in the process of collating an intermediate housing waiting list comprising economically active households who are in need of a subsidised home. This is likely to form the basis of the nominations for the subject site in the future. The owner shall approve nominated households in line with existing practice.

### Covenants and Clawback

The GLA Draft Viability SPG proposes that because Build to Rent ('BtR') does not have its own use class, the simplest way of securing BtR for a minimum period is through a covenant in the Section 106 agreement that dictates that the homes will be provided as BtR units for a minimum period of 15 years.

The affordable housing component however is offered in perpetuity and this will be secured in the S106 agreement.

The GLA Draft Viability SPG also proposes that S106 agreements should include a clawback mechanism, in the event of units being sold out of the BtR tenure during the covenanted period. The purpose of the clawback mechanism is to allow the Council to clawback reduced planning obligations if the homes are sold out of the BtR sector, and would only be due for payment in the event of the covenant being broken.

In the case of the subject Site, there is no reduction in the affordable housing percentage when compared to the adopted policy position, albeit noting the affordable housing component is 100% intermediate rather than a mixed-tenure offer and when also compared to a comparable for sale scheme.

The proposals being considered on the subject site clearly meet the requirements of DM4 insofar as longer tenancies will be offered, the homes will meet Southwark's Private Rent Standard and a high standard of management and security will be on offer.

Emerging policy DM4 requires a 30-year covenant however, as noted in the respective representations that were made on the emerging policy position, an institutionally acceptable covenant would be as per the GLA approach, in the region of 15 years.

### Summary

The key points of the affordable housing offer are:

- there is no reduction in affordable housing through the provision of a BtR scheme when compared to an open market scheme and this will be demonstrated through the Financial Statement;
- the affordable housing offer is maximised through the provision of 100% intermediate accommodation offered in perpetuity providing a greater quantum of affordable housing to a wider range of households than would be possible under a traditional affordable housing approach;
- there are a range of rents, some of which are equivalent to Social Rent;
- the affordable housing will be available to a range of qualifying households on incomes from £20,000 to £90,000 and broadly in accordance with the Council's emerging policy DM4
- the blended percentage of market rent across all the affordable accommodation is 53% (the s106 will detail the percentage of market rent to be charged on the date of the first letting across each affordability band);
- the affordable accommodation will be truly tenure blind and affordable homes will be within the same buildings as the private homes with shared amenities;
- the affordable housing offer is designed to meet the needs of a significantly greater number of households than would be met by a traditional affordable housing offer;
- the council will retain 100% nominations from their intermediate housing list;
- discussions with the GLA regarding grant funding, may result in a redistribution of the affordability bands, with a higher number of homes provided within the lower household income bands.

We are looking forward to discussing this proposal further with you and the Council's advisors at your earliest convenience. If anything is unclear, please let me know.



Yours sincerely

**DS2 LLP**  
**July 2017**