

Elephant & Castle Town Centre, London, SE1

Financial Viability Assessment - Executive Summary Update

1. DS2 LLP have been instructed by Elephant and Castle Properties Co. Ltd to provide a Financial Viability Assessment (FVA) in support of the application for the redevelopment of Elephant and Castle Shopping Centre and London College of Communication (the “Site”). The Site is located within the London Borough of Southwark (LBS).
2. The FVA, and this Executive Summary, were provided to LBS in accordance with the planning policy including the LBS Development Viability SPD and guidance on such matters.
3. The purpose of the FVA was to robustly test the maximum reasonable amount of affordable housing and other financial obligations that the proposals can viably support so that the development remains deliverable, in accordance with planning policy.
4. The FVA is an objective and impartial view on the development viability of the proposed scheme using DS2’s professional judgement and experience and accompanied by a range of information from other property professionals all of which is provided on an objective basis.
5. This Update Summary is provided following 12 months of discussions on development viability and related s106 matters, including the delivery of 36% affordable housing by habitable room count. The information provided in this Executive Summary Update reflects the Applicant and Council’s agreed position as at November 2017. The Council have been advised by GVA.

Site Description

6. The Site is located within Southwark. The Site is positioned immediately south of the main Elephant and Castle roundabout comprising the Shopping Centre to the east of the A3 and the London College of Communication (LCC) buildings to the west (East and West Phases respectively). The Site is within Elephant and Castle town centre.
7. The Site extends to approximately 3.56 hectares in area. At present, the Site is occupied by two large singular prominent buildings, namely the Elephant and Castle Shopping Centre site and the London College of Communication site.
8. The East Site comprises a three-storey building plus basement, and includes a central sixteen storey office building, Hannibal House.
9. The West Site is a four-storey building, and includes a central sixteen storey administrative building and includes a small area of car parking located to the north of the LCC adjacent to St George’s Road.

Development Proposal

10. In summary, the development, designed by Allies and Morrison, will deliver new shops, new leisure, food and beverage outlets, a new building for LCC and 979 residential homes as well as cycle storage, disabled parking, servicing, plant areas, new landscaping, new public realm, other public benefits including a new entrance and ticket hall for London Underground and other associated works.
11. The description of development is as follows:

“Phased mixed use redevelopment of the existing Elephant and Castle Shopping Centre and London College of Communication sites comprising the demolition of all existing buildings and structures and redevelopment to include buildings ranging in height from single storey to 34 storeys (with a maximum building height of 124.5 m AOD) above basement (and additional space at mezzanine level within basements) to provide a range of uses including residential units (Use Class C3), retail (Use Class A1-A4), office (Use Class B1), education (Use Class D1), assembly and leisure (Use Class D2), and a new Station Entrance and Station Box for use as a London Underground operational railway station. The proposed development will also include new means of access, highway works, public realm and landscaping works, parking and cycle provision, plant and servicing, and a range of other associated and ancillary works and structures.”
12. The Applicant is seeking to deliver and operate all the residential tenures in the development as Build to Rent. The proposal meets with national, regional and local adopted and emerging planning policy on such matters.
13. The homes will be owned and managed by the Applicant.
14. The affordable homes will be available on a Discounted Market Rent basis available to a wide range of household incomes.
15. There is significant support for large-scale Build to Rent projects because they are a means by which overall housing supply can be dramatically increased, at the same time as improving the quality of rented housing living and management standards.
16. Build to Rent also contributes to genuine housing diversity, improving choice in local housing markets which in turn stimulates economic growth.

Financial Viability Assessment

17. The assumptions agreed as at November 2017 in the FVA can be summarised below:

Elephant & Castle Agreed FVA Inputs, November 2017	
Assumption	Amount
Gross Development Value	£1,111,947,604
Acquisition Costs	£ 9,656,000
Construction Costs	£ 594,355,775
Professional Fees	£ 76,671,895
Marketing and Letting	£7,157,252
Disposal Fees	£14,165,727
Other Development Costs	£20,998,000
CIL and S106 (non-affordable housing)	£17,614,000
Finance	FVA includes no finance as profit return is measured on an ungeared IRR
Developer Profit	The profit return is 7.15% IRR against a target rate of return of 11%
Contingencies	£44,576,683
Residual Land Value	FVA has been carried out on a residualised profit basis
Benchmark Land Value	£142,000,000

18. The figures above represent the final agreed position between the Council and the Applicant. The residual profit return is a 7% Internal Rate of Return which is compared to a target rate of return of 11%.
19. Clearly, there is a present-day shortfall against the target rate of return however the Applicant is prepared to retain the 36% affordable housing offer on the assumption that a full target return can be achieved over the lifetime of the development. In making this assessment, market forecasts have been adopted from residential and commercial agents as well as cost advisors. This is not an unusual scenario for a strategic site of this scale.
20. It has been agreed that the legal agreement accompanying any planning consent, will incorporate a Viability Review Mechanism, that, depending on the outputs from the updated valuations at the relevant time, will allow the affordable housing subsidy to be increased by the developer at the end of the development. This ensures that Southwark will benefit from any market improvements and / or cost savings that improve the development economics over the lifetime of the development.

Affordable Housing

21. The Application proposes 36% affordable housing equating to 342 intermediate affordable homes in total. The homes will be delivered across the Site as Social Rent Equivalent, London Living Rent and Discounted Market Rent.

Elephant & Castle / LCC Affordable Unit Mix, November 2017						
	Social Rent Equiv.	London Living Rent	£50k-£60k	£60k-£70k	£70k-£80k	£80k-£90k
West Site						
1 bed	3	10	3	3	15	-
2 beds	13	40	13	13	20	32
3 beds	1	2	1	1	-	-
Sub-total	17	52	17	17	35	32
East Site						
1 bed	6	10	10	6	32	-
2 beds	8	26	8	8	13	23
3 beds	2	8	4	2	2	4
Sub-total	16	44	22	16	47	27
Total	33	96	39	33	82	59

22. A significant proportion of the affordable homes are targeted at a range of households whose earnings do not qualify them for traditional social housing but who are commonly unable to afford open market accommodation at this price point. These households represent a significant number of Southwark residents whose housing options are limited.
23. The Discounted Market Rented homes will be delivered as one, two and three bed accommodation, with shared entrances and access to communal facilities with the private homes.
24. The Discounted Market Rented leases will be offered on a term of up to three years with a tenant only option to break therefore improving the security of tenure, which is a key policy objective.
25. The proposal seeks to maximise the number of residents and those employed in the borough, who can access new housing. The proposal will be accessible to a far greater number of households than would be made available by a traditional open market development.

DRAFT