Complete control

Developers, financial viability and regeneration at the Elephant and Castle

Jerry Flynn. 6.6.16

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

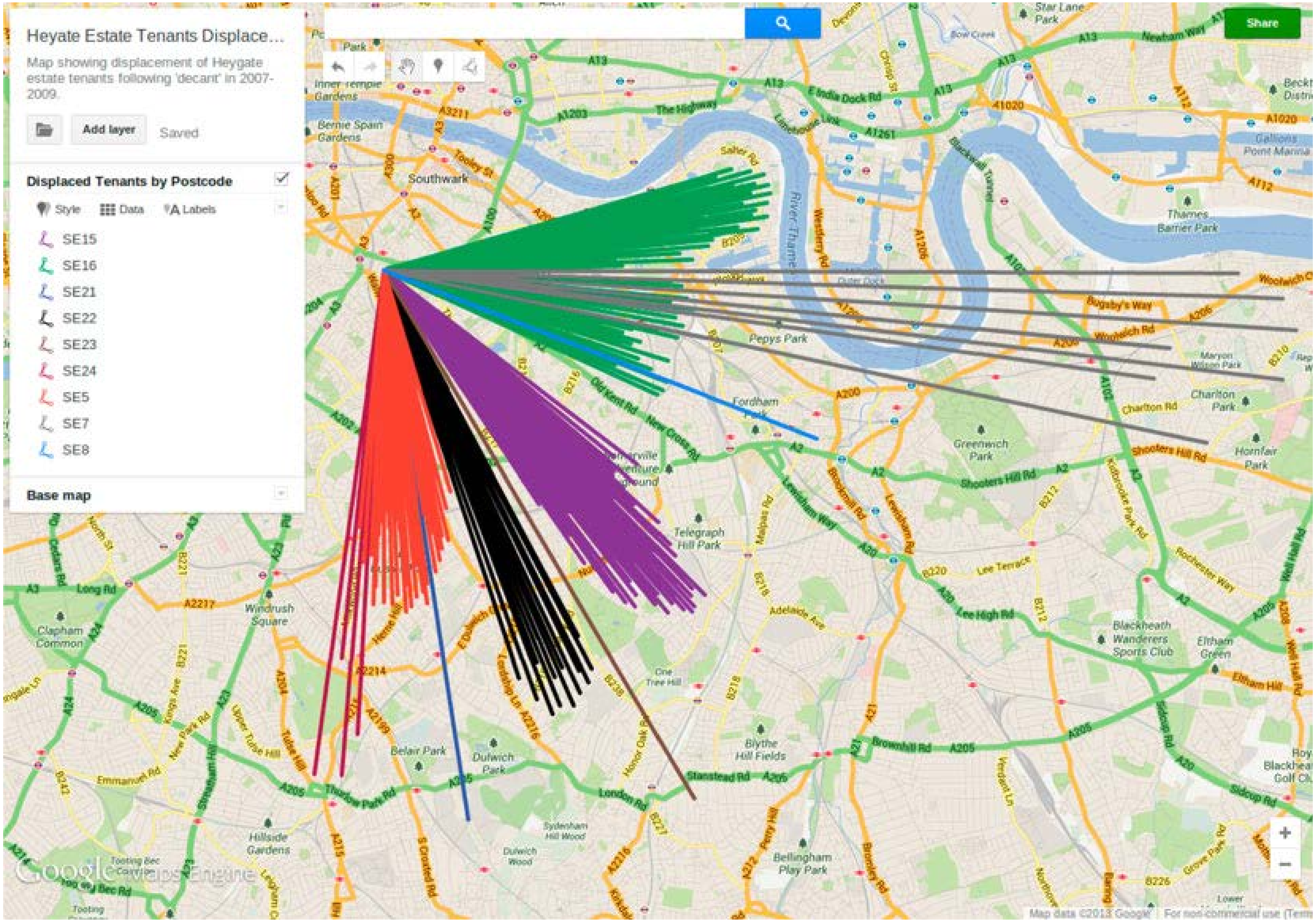
5.12% affordable housing , by value terms (Sources; planning documents, media real estate reports)

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


Heyate Estate Tenants Displace…
Map showing displacement of Heygate estate tenants following 'decant' in 2007-2009.
Add layer
Saved
Displaced Tenants by Postcode
Style
Data
Labels
SE15
SE16
SE21
SE22
SE23
SE24
SE5
SE7
SE8
Base map
Share
Google Maps Engine
Map data ©2013 Google
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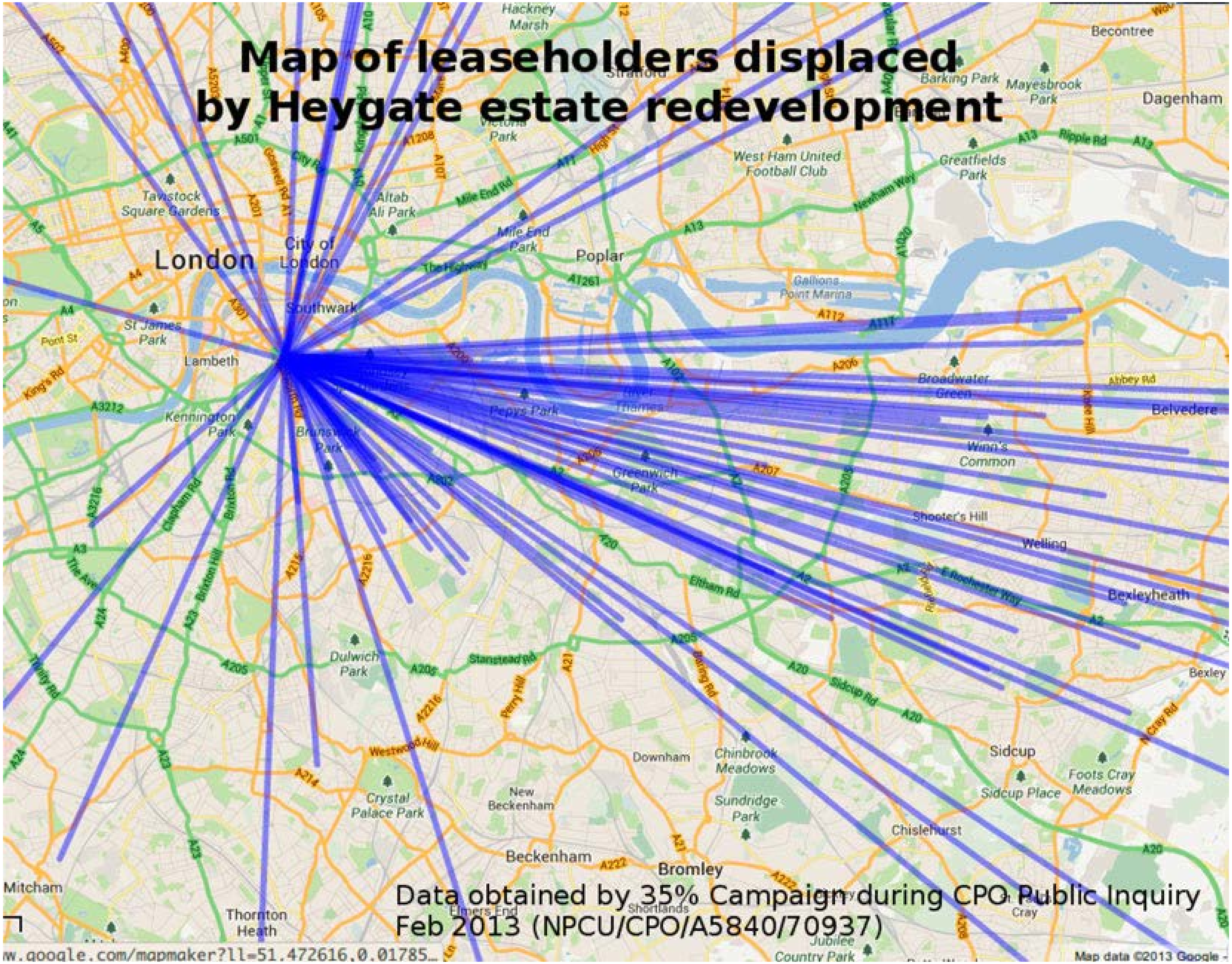
Map of leaseholders displaced
by Heygate estate redevelopment
Data obtained by 35% Campaign during CPO Public Inquiry
Feb 2013 (NPCU/CPO/A5840/70937)
London
City of London
Southwark
Lambeth
Kennington Park
Poplar
Stratford
Dagenham
Becontree
Belvedere
Bexleyheath
Bexley
Welling
Shooter's Hill
Sidcup
Chislehurst
Bromley
Beckenham
New Beckenham
Downham
Dulwich Park
Crystal Palace Park
Thornton Heath
Mitcham
Greenwich Park
Map data ©2013 Google

The New Heygate

- 2007 – Regeneration Agreement with Lend Lease for 25% affordable housing

- 2012 - Planning permissions granted
  2400+ units
  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)
- <u>9.4% 'indicative viable level of affordable housing'</u> (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)

RESTRICTED

Scenario Analysis

Scenarios	1	2	3	4	5	6	7	8	9	10	11	12	13	14
INPUTS	Base													
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%	0.00%
Costs	-2.50%	-2.50%	-2.50%	-2.50%	-2.50%	-2.50%	-2.50%	-2.50%	-2.50%	-3.25%	-3.25%	-3.25%	-3.25%	-3.25%
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%	7.50%
Land Value	£48,000,000.00	£48,000,000.00	£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	£48,000,000.00	£48,000,000.00	£26,400,000.00	£26,400,000.00	£48,000,000.00
[redacted]														
	0	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000
Escalation	Base +2%	Base +2%	Base +2%	Base +2%	Base +2%	DVS	DVS	DVS	DVS	Base +2%	Base +2%	Base +2%	Base +2%	DVS
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%	25.00%
Intermediate Value	225	225	225	225	225	225	225	225	225	225	225	225	225	225
Social Value	99	99	99	99	99	99	99	99	99	99	99	99	99	99
OUTPUTS														
Scheme Profit £	[redacted]													
Scheme Profit on Cost %														
Scheme IRR														
H4 Profit £														
H4 Profit on Cost %														
H4 IRR														

Scenarios	15	16	17	18	19	20	21	22	23	24	25	26	27	28
INPUTS														
Residential	0.00%	0.00%	0.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	0.00%	0.00%
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	£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	£48,000,000.00	£48,000,000.00	£26,400,000.00	£26,400,000.00	£26,400,000.00	£48,000,000.00	£48,000,000.00
PF	[redacted]													
PM														
DM														
CIL	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	9040000	0	0
Escalation	DVS	DVS	DVS	Base +2%	Base +2%	Base +2%	Base +2%	DVS	DVS	DVS	DVS	DVS	Base +2%	DVS
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	225	225	225	225
Social Value	99	99	99	99	99	99	99	99	99	99	99	120	99	99
OUTPUTS														
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	£364,067,717	£227,275,314	-£32,509,663	£10,666,615
Scheme Profit on Cost %	20.84%	22.94%	24.07%	22.40%	23.58%	25.51%	26.60%	25.59%	26.73%	28.71%	29.81%	18.74%	-2.37%	0.78%
Scheme IRR	[redacted]													
H4 Profit £														
H4 Profit on Cost %														
H4 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.