ELEPHANT AND CASTLE TOWN CENTRE, LONDON, SE1

FINANCIAL VIABILITY ASSESSMENT EXECUTIVE SUMMARY

Prepared by DS2 LLP
100 Pall Mall, SW1Y 5NQ
Tel: 0207 004 1765
www.ds2.co.uk

On behalf of Elephant and Castle Properties Co. Limited

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EXECUTIVE SUMMARY

This Financial Viability Assessment has been prepared in support of an application for a minor material amendment under Section 73 of the Town and Country Planning Act 1990 to planning permission 20/AP/3675, submitted by planning consultants DP9, on behalf of the Elephant and Castle Properties Co. Ltd.

The Site is located within the administrative boundary of London Borough of Southwark comprising the Shopping Centre Site, Elephant and Castle, 26, 28, 30 and 32 New Kent Road, Arches 6 and 7 Elephant Road, and London College of Communications Site, London SE1..

DS2 is instructed to test the maximum level of affordable housing and potential additional financial liabilities in accordance with paragraphs 54 to 57 of the National Planning Policy Framework, The London Plan March 2021, Southwark's Core Strategy April 2011 and Southwark's Draft New Southwark Plan – Proposed Changes (August 2020) alongside Southwark's Community Infrastructure Levy and Mayoral Community Infrastructure Levy – that can be supported by the proposed development, without impeding the viability of the project and the prospects of delivery.

In preparing this Financial Viability Assessment, consideration has been given to the viability work undertaken in regard to the January 2019 consented scheme (planning reference 16/AP/4458) including the parameters set out in the S106 agreement for undertaking viability reviews. Consideration has also been given to updated comparable market evidence and an updated build cost assessment in the intervening period.

Site Description

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 (the East and West Sites respectively). The site is within Elephant and Castle town centre.

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 on the East Site and the London College of Communication on the West Site.

The East Site comprises a three-storey building plus basement (the Shopping Centre) and a central sixteen storey office building, Hannibal House. The Elephant and Castle Shopping Centre permanently closed on 24th September 2020, with all traders vacating the premises. Demolition works commenced on the East Site on 25th January 2021 and are ongoing.

The West Site consists of a four-storey building and a central sixteen storey administrative building and a small area of car parking located to the north of the LCC adjacent to St George's Road.

Consented Scheme

The Site has the benefit of a residential-led mixed use planning consent (planning reference: 16/AP/4458). The consented scheme was presented to Southwark Planning Committee on 3 July 2018 and planning consent was secured following the completion of the accompanying S106 agreement on 10 January 2019 and the grant of the Castle Square permission (reference 18/AP/2108) on 9 January 2019.

In summary, the consented scheme delivers a new shopping centre, new leisure space, food and beverage options, a new campus for LCC, a new headquarters for UAL and 979 residential units as well as cycle storage, disabled parking, servicing, plant areas, new landscaping, new public realm and other public benefits including a new entrance ticket hall for London Underground and other associated works. In total, the buildings will range in height up to 35 storeys.

The affordable housing component is secured in perpetuity. The affordable housing component for the consented scheme equates to 35% of the total number of habitable rooms. This equates to 330 homes with the following tenure composition:

- 116 social rented homes to be delivered on the West Site;
- 53 London Living Rent Level homes (intermediate tenure) to be delivered across both East and West Sites; and
- 161 Discounted Market Rented homes (intermediate tenure) also to be delivered across both East and West Sites.

An application for minor material amendment (ref: 20/AP/3675) to the Consented Scheme was granted by LBS on 12th March 2021. The S73 LUL Permission secured consent for the enlargement and reconfiguration of the consented LUL station box, including the provision of an additional basement level and minor elevational changes to the station entrance.

The S73 LUL Permission has not been implemented. For the purposes of this Financial Viability Assessment, the relevant consent, as implemented, is planning consent reference 16/AP/4458, i.e. the Consented Scheme, and this forms the underlying site value for planning viability purposes, commonly referred to as the Benchmark Land Value.

Development Proposal

Under the s73 application, permission is sought for the following changes when compared to the Consented Scheme:

- Office accommodation within Building E2;
- Reduction in cinema area and provision of additional leisure area at basement level;
- Reduction in retail area on the east site, offset by an increase in retail area on the west site;

- Provision of 4 additional residential units (representing 0.4% increase overall);
- Reconfiguration of residential unit mix to provide additional 2-bed and 3-bed units;
- Amendments to residential communal amenity space;
- Provision of additional University of the Arts London floorspace;
- Minor alterations to building heights (up to 670mm) and positioning (up to 700mm);
- Alterations to pedestrian routes and walkways; and
- Reconfiguration of internal layouts and elevational changes.

The description of development as detailed within the planning application is as follows:

> *'Minor material amendment under s73 of the Town and Country Planning Act 1990 (as amended) to planning permission 20/AP/3675 to amend office, leisure, retail, and educational floorspace areas, amendments to residential unit mix, alterations to residential communal amenity space, minor alterations to building heights, elevations and positioning, alterations to pedestrian routes and walkways, and associated and ancillary works.'*

The development proposals seek to enhance the public benefits secured in the Consented Scheme by providing 35% affordable housing on the uplift in habitable rooms and 10% affordable workspace on the commercial and retail floorspace in line with the Consented Scheme. The development proposals are for the provision of a Build to Rent scheme with the ability to bring forward the West Site as market sale, consistent with the Consented Scheme S106.

The development proposals provide an additional 4 residential homes when compared to the consented scheme. The unit mix has been amended to provide additional two and three bedroom units in place of studio and 1 bedroom units.

The West Site habitable room count remains as per the consented scheme as the unit mix is not being amended. However, the East Site habitable room count increases from 1,603 habitable rooms to 1,680 habitable rooms because of the amendments to the East Site unit mix. This results in an additional 77 habitable rooms when compared to the Consented Scheme.

Elephant and Castle Properties Co. Ltd has committed to providing 35% of the uplift in habitable rooms as affordable housing. This results in the provision of an additional 27 affordable habitable rooms, or 7 affordable homes. The tenure split is being provided in accordance with the Consented Scheme which results in an additional 8 London Living Rent Level habitable rooms (intermediate tenure), or 2 units and 19 Discount Market Rent habitable rooms, or 5 units which will be eligible to household incomes up to £90,000 in accordance with the consented scheme.

In summary, the development proposal provides the following affordable housing provision:

- 35% affordable housing (by habitable rooms) resulting in the provision of 337 affordable homes.

- 116 social rented units situated on the west site in Block W3 which will be owned and managed either by Southwark or a Registered Provider.
- 221 intermediate homes which will be tenure blind, provided in perpetuity and delivered alongside the private homes with shared amenities unlike most other market for sale schemes.
- 158 of the intermediate homes would be available at a 20% discount to market for households earning up to £90,000 per annum.
- The remaining 55 intermediate homes would be available at London Living Rent Levels.

Financial Viability Assessment

An Alternative Use Value approach to the Benchmark Land Value in the form of the Site's existing consent has been adopted. This has been included in the appraisal as a fixed land price. The test of viability is therefore assessed on the Internal Rate of Return. This is consistent with the way in which the Consented Scheme viability was assessed and agreed.

If the proposed development appraisal produces a profit amount lower than the target return, then the scheme is deemed to be unviable and there is scope to reduce the level of planning obligations. If the profit is higher than the target return then the scheme can, in theory, provide additional affordable housing and /or other planning obligations.

The assumptions used in the Financial Viability Assessment can be summarised below:

Elephant and Castle Town Centre, Financial Viability Assessment Inputs, April 2021	
Assumption	**Amount**
Gross Development Value	£1,101,649,756
Acquisition Costs	£3,779,588
Construction Costs	£704,397,079
Other Development Costs	£30,500,274
Professional Fees	£84,527,649
Marketing and Letting	£8,931,489
Disposal Fees	£12,487,100
Finance	N/A
Developer Profit (Internal Rate of Return, ungeared)	10.23%
Contingencies	Included in construction costs figure
Residual Land Value	N/A
Benchmark Land Value	£55,582,183
Developer Target Profit (Internal Rate of Return, ungeared)	11.00%

The results demonstrate that the proposed development appraisal on a present-day basis derives a deficit against the target developer return of 11% (IRR). As such, this demonstrates that the affordable housing offer of 35% (by habitable rooms) is the maximum amount of affordable housing the scheme can provide.

The Financial Viability Assessment includes grant funding however the affordable housing is unconditional and is not subject to receiving grant funding. If grant funding is not received, then this negatively impacts the viability of the development.

The full Financial Viability Assessment will be subject to thorough scrutiny by the Council's appointed Surveyors and will be processed in accordance with the Council's Development Viability Supplementary Planning Document March 2016.

The results derive a return that is in excess of that agreed in the Consented Scheme appraisal in 2018. It therefore appears that scheme viability has increased significantly. However, planning viability seeks to assess the viability of development by comparing the pre-planning value of the Site with the value subject to planning being granted. The key difference in the viability position in 2021 when compared to 2018 is that the Site Value has been eroded significantly. In 2018 the Site Value was agreed as £142 million consisting of £92 million for the East Site shopping centre and office and £50m for the West Site campus. Whilst the latter remains, the East Site value has been eroded by way of the demolition programme, initiated to expedite delivery. Had the demolition not commenced, the East Site value would in any event have been reduced as a result of the reduction in retail values in the intervening period caused by the pandemic and the general decline in High Street retailing.

Therefore, in reality, values in the intervening period have stalled, and indeed there is evidence to suggest they have indeed fallen. Construction costs have increased. Viability in real terms has been squeezed. The improved viability is as a direct result of the write-down in land cost. It is notional and should not be seen as a significant upturn in the development economics which remain extremely challenging and have only worsened in real terms as a result of the economic conditions the UK is enduring as a result of the last 12-month pandemic.