

# GREATER LONDON AUTHORITY

[REDACTED]  
(By email)

Our Ref: MGLA220719-8168

25 September 2019

Dear [REDACTED]

Thank you for your request for information which the GLA received on 22 July 2019. Your request has been dealt with under the Environmental Information Regulations (EIR) 2004.

Our response to your request is as follows:

- *Please provide me a copy of your independent appraisal which scrutinises Delancey's viability assessment and any associated documents, communications and meeting minutes.*

Please find attached the information within scope of your request. Please note that some names of members of staff are exempt from disclosure under Regulation 13 (Personal information) of the EIR. This information could potentially identify specific employees and as such constitutes as personal data which is defined by Article 4(1) of the General Data Protection Regulation (GDPR) to mean any information relating to an identified or identifiable living individual. It is considered that disclosure of this information would contravene the first data protection principle under Article 5(1) of GDPR which states that Personal data must be processed lawfully, fairly and in a transparent manner in relation to the data subject.

- *Also please confirm whether Delancey (or its RP 'T3 Residential Ltd') has applied for grant funding for affordable housing in respect of the above scheme and provide a copy of any such grant funding bid along with any associated documents, communications and meeting minutes.*

Delancey have not applied for grant funding, however terms have been offered on a conditional basis including the requirement for submission of a formal bid.

If you have any further questions relating to this matter, please contact me, quoting the reference at the top of this letter.

Yours sincerely

[REDACTED]  
**Information Governance Officer**

If you are unhappy with the way the GLA has handled your request, you may complain using the GLA's FOI complaints and internal review procedure, available at:

<https://www.london.gov.uk/about-us/governance-and-spending/sharing-our-information/freedom-information>

**Subject:** FW: D&P/3654 Elephant and Castle shopping centre - Viability Repor... 16AP4458

**From:** [REDACTED]

**Sent:** 27 October 2017 14:01

**To:** [REDACTED] <[REDACTED]@london.gov.uk>

**Subject:** RE: D&P/3654 Elephant and Castle shopping centre - Viability Repor... 16AP4458

[REDACTED] I have now reviewed the FVA prepared by DS2, their addendum of 10 July and the GVA review for LB Southwark dated August 2017.

Both the FVA and the review are broadly compliant with both PPG and the AH SPG. They assess viability based on current day values and costs and assess benchmark on an EUV approach. The FVA and review are detailed and thorough. Both are commended for the quality of work. GVA generally agree with much of the FVA assessment and I agree with this. The principle areas of disagreement are matters of opinion and are as follows:

1. Retail and office rent levels. The retail difference is more significant than the B1 use in overall terms- A difference of 11%. I agree with the GVA opinion in this assessment.
2. Build cost: DS2 cost is £333.58psf compared to GVA at £320.98. The difference is 4% which is negligible for a complex scheme of this nature. I note the BC include a contingency of 5% and an additional design contingency of 2.5%. I consider this additional contingency is not typical and should be excluded.
3. Benchmark:
  - a) DS2 assess benchmark at £175m, being £100m for the E&C shopping centre and £75m for the LCC site. They consider this to be an EUV assessment and have not sought to add any premium uplift.
  - b) GVA assess the benchmark at £133m, being £83m for the E&C shopping centre and £50m for the LCC site.
  - c) The DS2 assessment of the E&C shopping centre assumed a refurbishment and reletting which is more of an alternative approach (ie an AUV) than value in existing condition and use. As such, no uplift would be expected. In addition, no consideration was given to the risk/ reward requirement that would be required in purchasing the property with a refurbishment necessary. For this reason, I consider the GVA valuation to be more realistic.
  - d) The DS2 assessment of the LCC site ignored the actual quantum of value for a planning use which has limited demand. GVA recognised this limitation and considered evidence more widely to give a more evidenced opinion. Again, I think their approach more reasonably reflects the likely value.

Looking at the overall viability GVA conclude that the delivery of 35% AH that is DM4 compliant is viable, based on a profit of 14.24% of GDC, 12.11% of GDV. This reflects an IRR of 6.03%, which is below the assessed IRR target of 10-12% proposed by DS2.

Profit assumption in this development is unusual because of the forward sale to LCC/ UAL of their new college facility. I consider profit assessed on an IRR approach is appropriate, but that this needs to be sense checked against other profit measures. This is what GVA has done, and DS2 has shown in their Argus assessments. What is unclear in these Argus assessments is when the assumed land purchases took place and UAL payments were made. The west site will not be required for 5-6 years, so this should not be shown as acquired at day 1. Clarification on these points would be helpful.

I consider at this stage that the GVA position is reasonable- 35% AH, DM4 compliant should be viable.

[REDACTED]  
Development Viability (Expert) Advisor

**GREATER LONDON AUTHORITY** | 4th Floor, City Hall, The Queen's Walk, London SE1 2AA  
Tel: 020 7983 4687 | Email: [REDACTED]@london.gov.uk | Web: [www.london.gov.uk](http://www.london.gov.uk)

[REDACTED]

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**From:** Kut, Jacob (GVA) <[REDACTED]>  
**Sent:** 30 October 2017 17:58  
**To:** [REDACTED]  
**Cc:** [REDACTED] (GVA)  
**Subject:** D&P/3654 Elephant and Castle shopping centre - Viability Repor... 16AP4458

Dear [REDACTED]

[REDACTED] has asked me to email you and clarify the position in regard to the treatment of the timing of land purchases/land purchase assumptions.

I confirm that we did not put the LCC site value in at day one, but rather at a later date – in July 2023. This was in accordance with the developers construction programme.

The shopping centre site value was adopted now, to reflect that this site has to be developed to facilitate relocation of the LCC in 2013.

I hope this is of assistance.

Regards

Jacob

**Jacob G Kut MRICS**  
Senior Director  
RICS Registered Valuer

**GVA**

[REDACTED] | [www.gva.co.uk](http://www.gva.co.uk)

65 Gresham Street, London EC2V 7NQ

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**GVA**  
An **APLEONA** company



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**To:** [REDACTED]  
**Subject:** RE: Elephant and castle

**From:** [REDACTED]  
**Sent:** 17 July 2018 13:41  
**To:** [REDACTED] <[REDACTED][\[REDACTED\]@london.gov.uk](mailto:[REDACTED]@london.gov.uk)>  
**Cc:** [REDACTED] <[REDACTED][\[REDACTED\]@london.gov.uk](mailto:[REDACTED]@london.gov.uk)>; Lucy Owen <[REDACTED][\[REDACTED\]@london.gov.uk](mailto:[REDACTED]@london.gov.uk)>  
**Subject:** RE: Elephant and castle

[REDACTED] Subject discussing this with Lucy, the following are my initial comments.

**GVA review:**

GVA review of the FVA (dated 170906) considered that 35% AH, DM4 compliant, was viable; This showed a profit on cost of 14.24% and on value at 12.11%. The IRR, which is relevant in this lengthy development, is 6.03%. GVA considered that a modest 1% increase in values over costs during the development period would lift the IRR level to 7.5%, which is considered to be a suitable target for BtR schemes. Whilst I agree with the IRR target on BtR, we should bear in mind that this is a largely commercial and mixed use development. However, I broadly agree that a 7.5% IRR in this particular case would be viable.

The GVA overall value for the AH element was ~£111.63m. The review identified a number of costs in the FVA that were considered inappropriate, particularly the benchmark (~£10m overstated.) and the design contingency at 2.5%. I agree with this.

**DS2 June 2018 assessment:**

This is an Argus toolkit with no supporting dialogue and so there are aspects of this that are unclear. The Social Rent value (~£26.64m) equates to £2917/m<sup>2</sup> which is well in excess of typical SR values (Normally ~£1500/m<sup>2</sup>). It implies a level of grant funding is included, but this has not been specifically shown. In my opinion, the excess of value is ~£13m.

The Intermediate rents equate to £275-327/m<sup>2</sup>. I assume the lower rate includes the LLR and DMR tenures and the higher rates only DMR. The rents for the DMR tenure would be in excess of the £60k income cap. The total values of all AH tenures is ~£147.826m. This is about £36m higher than the GVA AH value (Above.)

I do not consider that this assessment fairly reflects viability. The differences on benchmark and contingency, together with a lower profit in the GVA assessment total ~£31m. Taking in to account the possible grant assumption in the SR value, I consider that the proposals in the DS2 assessment are excessive and that a DM4 compliant AH offer could be provided at 35%. This includes DMR at rent levels capped by the £60k income ceiling.

**Increasing AH to 40%**

You have asked for a consideration of increasing the AH level to 40%, with the additional AH all being DMR. There are a number of factors that come in to play in this scenario, particularly cash flow and implications on market rent levels. Consideration of specification/ services etc in comparison to a more market dominated scheme would be required. However, assuming that all the additional DMR units were at the maximum income cap of £60k, the difference in value between these DMR units and market rent units is £5780/m<sup>2</sup>. 5% additional AH, all at DMR would be ~3,450m<sup>2</sup>, and the loss to the development value would be ~£20m. This may be facilitated by use of grant but should be assessed in detail using an Argus toolkit to confirm the correct level.

I hope this is helpful at this stage.

[REDACTED]  
Development Viability (Expert) Advisor

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**From:** [REDACTED]  
**Sent:** 17 July 2018 11:53  
**To:** Lucy Owen [REDACTED]@london.gov.uk>  
**Cc:** [REDACTED] <[REDACTED]@london.gov.uk>; [REDACTED] <[REDACTED]@london.gov.uk>  
**Subject:** RE: Elephant and castle

Morning Lucy- I've been asked by [REDACTED] to scenario test the offer on the E&C scheme as it is now proposed. I wanted to check with you what your assumptions are and whether they are similar to my comments below.

I initially looked at viability in October 2017 at which time the values for the Social Rent, LLR and DMR averaged £2700/m2. No grant was assumed in this. DMR was for 9% of the AH total and was therefore not particularly significant. Neither the FVA nor the review of it broke down the AH values in to component tenure elements, but assuming the SR values at £1500/m2 (Which is typical in viability assessments.) the LLR/DMR figure equated to £3318/m2. This was broadly in line with typical values and would be compliant with GLA income caps at £60k gross max, but tapered to that level.

I've been going through the latest DS2 viability assessment (13 June 2018), attached for your information. This shows:

1. SR at £2917/m2 which is very full unless grant is assumed. In my view it is ~£13m over the expected non grant value.
2. Intermediate (ie LLR and DMR) at an average of £8083/m2. Bearing in mind the initial FVA level at ~£3318/m2, this looks to be unaffordable. The capital value is based on average rents of £275-327/m2. This means that an average 2 bed flat of 65m2 would be let at ~£410 per week, an annual rent of £21,255. This implies an average assumed income of ~£76k.

Have I got this right? [REDACTED] wants me to advise on:

1. What AH % is viable up to £60k income cap.
2. What level of grant would be required to get the AH level to 40% assuming the same AH tenure compliance.

I'm working from home at the moment, but will be in the office for a 3pm meeting. Can I come and discuss with you after 3- say 3.30?

[REDACTED]  
Development Viability (Expert) Advisor

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

DRAFT

**TIMESCALE AND PHASING**

**DS2**

**Elephant & Castle - Delancey**  
**Build to Rent Scheme - 35% AH**  
**Provision of 116 Social Rent**

**Timescale (Duration in months)**

Project commences Mar 2017  
Phase 1: West (LCC) Site

| Stage Name           | Duration | Start Date | End Date | Anchored To          | Aligned | Offset |
|----------------------|----------|------------|----------|----------------------|---------|--------|
| Phase Start          |          | Jul 2023   |          |                      |         |        |
| Purchase             | 1        | Jul 2023   | Jul 2023 | Phase Start          | Start   | 0      |
| Enabling, Sub & Base | 31       | Jul 2023   | Jan 2026 | Phase Start          | Start   | 0      |
| Construction         | 23       | Oct 2025   | Aug 2027 | Enabling, Sub & Base | End     | -4     |
| Sale                 | 1        | Feb 2028   | Feb 2028 | Income Flow          | End     | 5      |
| Phase End            |          | Feb 2028   |          |                      |         |        |
| Phase Length         | 56       |            |          |                      |         |        |

Phase 2: East - Basement & Externals

| Stage Name           | Duration | Start Date | End Date | Anchored To    | Aligned | Offset |
|----------------------|----------|------------|----------|----------------|---------|--------|
| Phase Start          |          | Mar 2017   |          |                |         |        |
| CPO                  | 12       | Mar 2017   | Feb 2018 | Phase Start    | Start   | 0      |
| Enabling Works       | 9        | Mar 2018   | Nov 2018 | CPO            | End     | 0      |
| Demolition           | 11       | Nov 2018   | Sep 2019 | Enabling Works | End     | -1     |
| Substructure & Basem | 28       | Sep 2019   | Dec 2021 | Demolition     | End     | -1     |
| External Works       | 15       | May 2021   | Jul 2022 | None           | Start   | 0      |
| Phase End            |          | Jul 2022   |          |                |         |        |
| Phase Length         | 65       |            |          |                |         |        |

Phase 3: East - E1 (N)

| Stage Name   | Duration | Start Date | End Date | Anchored To      | Aligned | Offset |
|--------------|----------|------------|----------|------------------|---------|--------|
| Phase Start  |          | Jun 2020   |          |                  |         |        |
| UAL          | 20       | Jun 2020   | Jan 2022 | Purchase         | End     | 0      |
| Construction | 15       | Jun 2020   | Aug 2021 | Phase Start      | End     | 0      |
| Letting      | 6        | Sep 2021   | Feb 2022 | Post Development | End     | 0      |
| Phase End    |          | Mar 2022   |          |                  |         |        |
| Phase Length | 21       |            |          |                  |         |        |

Phase 4: East - E4 (E)

| Stage Name   | Duration | Start Date | End Date | Anchored To      | Aligned | Offset |
|--------------|----------|------------|----------|------------------|---------|--------|
| Phase Start  |          | Jun 2020   |          |                  |         |        |
| Construction | 15       | Jun 2020   | Aug 2021 | Pre-Construction | End     | 0      |
| Letting      | 6        | Sep 2021   | Feb 2022 | Construction     | End     | 0      |
| Phase End    |          | Mar 2022   |          |                  |         |        |
| Phase Length | 21       |            |          |                  |         |        |

Phase 5: East - E3 (S)

| Stage Name   | Duration | Start Date | End Date | Anchored To      | Aligned | Offset |
|--------------|----------|------------|----------|------------------|---------|--------|
| Phase Start  |          | Jun 2020   |          |                  |         |        |
| Construction | 23       | Jun 2020   | Apr 2022 | Pre-Construction | End     | 0      |
| Letting      | 6        | Sep 2021   | Feb 2022 | Construction     | End     | -8     |
| Phase End    |          | Apr 2023   |          |                  |         |        |
| Phase Length | 23       |            |          |                  |         |        |

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Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent  
Timescale (Duration in months)

Phase 6: East - E2 (W)

| Stage Name   | Duration | Start Date | End Date | Anchored To      | Aligned | Offset |
|--------------|----------|------------|----------|------------------|---------|--------|
| Phase Start  |          | Jun 2020   |          |                  |         |        |
| Construction | 29       | Jun 2020   | Oct 2022 | Pre-Construction | End     | 0      |
| Letting      | 6        | Nov 2021   | Apr 2022 | Construction     | End     | -12    |
| Phase End    |          | Apr 2023   |          |                  |         |        |
| Phase Length | 29       |            |          |                  |         |        |

Project Length                    132    (Merged Phases - Includes Exit Period)

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APPRAISAL SUMMARY

DS2

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

Summary Appraisal for Merged Phases 1 2 3 4 5 6

Currency in £

REVENUE

| Sales Valuation                  | Units | ft²     | Sales Rate ft² | Unit Price  | Gross Sales |
|----------------------------------|-------|---------|----------------|-------------|-------------|
| West - Car parking               | 34    | 0       | 0.00           | 60,000      | 2,040,000   |
| West - Building W3 (Social Rent) | 116   | 98,392  | 271.00         | 229,864     | 26,664,232  |
| Additional Revenue               | 1     | 352,432 | 547.62         | 193,000,000 | 193,000,000 |
| Totals                           | 151   | 450,824 |                |             | 221,704,232 |

Rental Area Summary

|   | Units | ft²     | Rent Rate ft² | Initial<br>MRV/Unit | Net Rent<br>at Sale | Initial<br>MRV | Net MRV<br>at Sale |
|---|-------|---------|---------------|---------------------|---------------------|----------------|--------------------|
| West - W1 Tower 1 (Open Market)           | 81    | 62,754  | 47.50         | 36,800              | 2,295,228           | 2,980,815      | 2,295,228          |
| West - W2 Tower 2 (Open Market)           | 99    | 75,304  | 47.50         | 36,131              | 2,754,244           | 3,576,940      | 2,754,244          |
| West - W3 - Mansion Block (Office)        | 1     | 23,822  | 50.00         | 1,191,100           | 1,191,100           | 1,191,100      | 1,191,100          |
| West - W1 (Retail)                        | 1     | 2,424   | 44.00         | 106,656             | 106,656             | 106,656        | 106,656            |
| West - W2 (Retail)                        | 1     | 5,985   | 44.00         | 263,340             | 263,340             | 263,340        | 263,340            |
| West - W2 Tower (Music Venue)             | 1     | 11,743  | 44.00         | 516,692             | 516,692             | 516,692        | 516,692            |
| West - W2 Tower 3 (Open Market)           | 153   | 119,616 | 47.50         | 37,136              | 4,374,955           | 5,681,760      | 4,374,955          |
| West - Commercialisation                  | 1     |         |               | 500,000             | 500,000             | 500,000        | 500,000            |
| West - W3 - Affordable Office Space       | 1     | 2,647   | 50.00         | 132,350             | 55,587              | 132,350        | 132,350            |
| West - W1 Affordable Retail Space         | 1     | 934     | 44.00         | 41,096              | 22,416              | 41,096         | 41,096             |
| West - W1 Tower 1 (Intermediate)          | 15    | 11,315  | 25.63         | 19,334              | 223,303             | 290,003        | 223,303            |
| West - W2 Tower 2 (Intermediate)          | 17    | 13,435  | 25.63         | 20,255              | 265,141             | 344,339        | 265,141            |
| West - W2 Tower 3 (Intermediate)          | 17    | 13,092  | 25.63         | 19,738              | 258,372             | 335,548        | 258,372            |
| East - E1 (Retail)                        | 1     | 14,328  | 44.00         | 630,432             | 630,432             | 630,432        | 630,432            |
| East - E1 Affordable Retail space         | 1     | 6,694   | 44.00         | 294,536             | 160,656             | 294,536        | 294,536            |
| East - E4 (Retail)                        | 1     | 14,865  | 44.00         | 654,060             | 654,060             | 654,060        | 654,060            |
| East - E3 (Retail)                        | 1     | 46,952  | 44.00         | 2,065,888           | 2,065,888           | 2,065,888      | 2,065,888          |
| East - E3 (Open Market) - Tower 3         | 90    | 63,115  | 47.50         | 33,311              | 2,308,431           | 2,997,963      | 2,308,431          |
| East - E3 (Open Market) - Tower 2         | 65    | 47,497  | 47.50         | 34,709              | 1,737,203           | 2,256,108      | 1,737,203          |
| East - E3 - Tower 3 (Intermediate Market) | 56    | 43,591  | 30.41         | 23,671              | 1,020,714           | 1,325,602      | 1,020,714          |
| East - E3 - Tower 2 (Intermediate Market) | 60    | 42,535  | 30.41         | 21,558              | 995,987             | 1,293,489      | 995,987            |
| East - E2 (Open Market) - Tower 1         | 161   | 129,332 | 47.50         | 38,157              | 4,607,453           | 6,143,270      | 4,607,453          |
| East - E2 (Retail)                        | 1     | 51,042  | 44.00         | 2,245,848           | 2,245,848           | 2,245,848      | 2,245,848          |
| East - E2 (Leisure)                       | 1     | 24,175  | 20.00         | 483,500             | 483,500             | 483,500        | 483,500            |
| East - Commercialisation                  | 1     |         |               | 1,000,000           | 1,000,000           | 1,000,000      | 1,000,000          |
| East - E2 (Intermediate) - Tower 1        | 49    | 37,213  | 30.41         | 23,095              | 871,368             | 1,131,647      | 871,368            |
| Totals                                    | 877   | 864,410 |               |                     | 31,608,573          | 38,482,982     | 31,837,896         |

Investment Valuation

|                                    |           |            |         |         |            |
|------------------------------------|-----------|------------|---------|---------|------------|
| West - W1 Tower 1 (Open Market)    |           |            |         |         |            |
| Current Rent                       | 2,295,228 | YP @       | 3.2500% | 30.7692 | 70,622,386 |
| West - W2 Tower 2 (Open Market)    |           |            |         |         |            |
| Current Rent                       | 2,754,244 | YP @       | 3.2500% | 30.7692 | 84,745,963 |
| West - W3 - Mansion Block (Office) |           |            |         |         |            |
| Market Rent                        | 1,191,100 | YP @       | 5.0000% | 20.0000 |            |
| (6mths Rent Free)                  |           | PV 6mths @ | 5.0000% | 0.9759  | 23,247,892 |
| West - W1 (Retail)                 |           |            |         |         |            |
| Market Rent                        | 106,656   | YP @       | 5.0000% | 20.0000 |            |
| (6mths Rent Free)                  |           | PV 6mths @ | 5.0000% | 0.9759  | 2,081,712  |
| West - W2 (Retail)                 |           |            |         |         |            |
| Market Rent                        | 263,340   | YP @       | 5.0000% | 20.0000 |            |
| (6mths Rent Free)                  |           | PV 6mths @ | 5.0000% | 0.9759  | 5,139,871  |
| West - W2 Tower (Music Venue)      |           |            |         |         |            |

WITHOUT PREJUDICE

APPRAISAL SUMMARY

DS2

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

|  |           |            |         |         |                  |
|--|-----------|------------|---------|---------|------------------|
| Market Rent                                      | 516,692   | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 10,084,795       |
| <b>West - W2 Tower 3 (Open Market)</b>           |           |            |         |         |                  |
| Current Rent                                     | 4,374,955 | YP @       | 3.2500% | 30.7692 | 134,614,006      |
| <b>West - Commercialisation</b>                  |           |            |         |         |                  |
| Current Rent                                     | 500,000   | YP @       | 6.0000% | 16.6667 | 8,333,333        |
| <b>West - W3 - Affordable Office Space</b>       |           |            |         |         |                  |
| Market Rent                                      | 55,587    | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 1,084,947        |
| Reversion  | 76,763    | YP @       | 5.0000% | 20.0000 |                  |
|  |           | PV 5yrs @  | 5.0000% | 0.7835  | 1,202,916        |
|  |           |            |         |         | <b>2,287,864</b> |
| <b>West - W1 Affordable Retail Space</b>         |           |            |         |         |                  |
| Market Rent                                      | 22,416    | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 437,516          |
| Reversion  | 18,680    | YP @       | 5.0000% | 20.0000 |                  |
|  |           | PV 5yrs @  | 5.0000% | 0.7835  | 292,725          |
|  |           |            |         |         | <b>730,241</b>   |
| <b>West - W1 Tower 1 (Intermediate)</b>          |           |            |         |         |                  |
| Current Rent                                     | 223,303   | YP @       | 3.0000% | 33.3333 | 7,443,422        |
| <b>West - W2 Tower 2 (Intermediate)</b>          |           |            |         |         |                  |
| Current Rent                                     | 265,141   | YP @       | 3.0000% | 33.3333 | 8,838,036        |
| <b>West - W2 Tower 3 (Intermediate)</b>          |           |            |         |         |                  |
| Current Rent                                     | 258,372   | YP @       | 3.0000% | 33.3333 | 8,612,398        |
| <b>East - E1 (Retail)</b>                        |           |            |         |         |                  |
| Market Rent                                      | 630,432   | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 12,304,773       |
| <b>East - E1 Affordable Retail space</b>         |           |            |         |         |                  |
| Market Rent                                      | 160,656   | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 3,135,684        |
| Reversion  | 133,880   | YP @       | 5.0000% | 20.0000 |                  |
|  |           | PV 5yrs @  | 5.0000% | 0.7835  | 2,097,970        |
|  |           |            |         |         | <b>5,233,654</b> |
| <b>East - E4 (Retail)</b>                        |           |            |         |         |                  |
| Market Rent                                      | 654,060   | YP @       | 4.7500% | 21.0526 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 4.7500% | 0.9771  | 13,453,862       |
| <b>East - E3 (Retail)</b>                        |           |            |         |         |                  |
| Market Rent                                      | 2,065,888 | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 40,322,005       |
| <b>East - E3 (Open Market) - Tower 3</b>         |           |            |         |         |                  |
| Current Rent                                     | 2,308,431 | YP @       | 3.2500% | 30.7692 | 71,028,650       |
| <b>East - E3 (Open Market) - Tower 2</b>         |           |            |         |         |                  |
| Current Rent                                     | 1,737,203 | YP @       | 3.2500% | 30.7692 | 53,452,393       |
| <b>East - E3 - Tower 3 (Intermediate Market)</b> |           |            |         |         |                  |
| Current Rent                                     | 1,020,714 | YP @       | 3.0000% | 33.3333 | 34,023,793       |
| <b>East - E3 - Tower 2 (Intermediate Market)</b> |           |            |         |         |                  |
| Current Rent                                     | 995,987   | YP @       | 3.0000% | 33.3333 | 33,199,560       |
| <b>East - E2 (Open Market) - Tower 1</b>         |           |            |         |         |                  |
| Current Rent                                     | 4,607,453 | YP @       | 3.2500% | 30.7692 | 141,767,769      |
| <b>East - E2 (Retail)</b>                        |           |            |         |         |                  |
| Market Rent                                      | 2,245,848 | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 43,834,465       |
| <b>East - E2 (Leisure)</b>                       |           |            |         |         |                  |
| Market Rent                                      | 483,500   | YP @       | 5.0000% | 20.0000 |                  |
| (6mths Rent Free)                                |           | PV 6mths @ | 5.0000% | 0.9759  | 9,436,954        |
| <b>East - Commercialisation</b>                  |           |            |         |         |                  |
| Current Rent                                     | 1,000,000 | YP @       | 6.0000% | 16.6667 | 16,666,667       |

WITHOUT PREJUDICE

APPRAISAL SUMMARY

DS2

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

|                                    |         |      |         |         |             |
|------------------------------------|---------|------|---------|---------|-------------|
| East - E2 (Intermediate) - Tower 1 |         |      |         |         |             |
| Current Rent                       | 871,368 | YP @ | 3.0000% | 33.3333 | 29,045,615  |
|                                    |         |      |         |         | 870,552,075 |

GROSS DEVELOPMENT VALUE1,092,256,307

|                                  |       |              |              |  |  |
|----------------------------------|-------|--------------|--------------|--|--|
| Purchaser's Costs                |       | (55,599,528) |              |  |  |
| Effective Purchaser's Costs Rate | 6.39% |              | (55,599,528) |  |  |

NET DEVELOPMENT VALUE1,036,656,780

Income from Tenants

|                                    |           |  |  |            |  |
|------------------------------------|-----------|--|--|------------|--|
| West - W1 Tower 1 (Open Market)    | 1,912,690 |  |  |            |  |
| West - W2 Tower 2 (Open Market)    | 1,377,122 |  |  |            |  |
| West - W2 Tower 3 (Open Market)    | 364,580   |  |  |            |  |
| West - W1 Tower 1 (Intermediate)   | 186,086   |  |  |            |  |
| West - W2 Tower 2 (Intermediate)   | 132,571   |  |  |            |  |
| West - W2 Tower 3 (Intermediate)   | 21,531    |  |  |            |  |
| East - E3 (Open Market) - Tower 3  | 2,116,062 |  |  |            |  |
| East - E3 (Open Market) - Tower 2  | 1,592,436 |  |  |            |  |
| East - E2 (Open Market) - Tower 1  | 2,303,726 |  |  |            |  |
| East - E2 (Intermediate) - Tower 1 | 435,684   |  |  |            |  |
|                                    |           |  |  | 10,442,486 |  |

Additional Revenue

|                       |            |  |  |            |  |
|-----------------------|------------|--|--|------------|--|
| East - LUL TfI Credit | 17,500,000 |  |  |            |  |
|                       |            |  |  | 17,500,000 |  |

NET REALISATION1,064,599,266

OUTLAY

ACQUISITION COSTS

|                   |            |             |  |             |  |
|-------------------|------------|-------------|--|-------------|--|
| Fixed Price       | 50,000,000 |             |  |             |  |
| Fixed Price       | 92,000,000 |             |  |             |  |
| Total Acquisition |            | 142,000,000 |  |             |  |
|                   |            |             |  | 142,000,000 |  |
| Stamp Duty        | 5.00%      | 7,100,000   |  |             |  |
| Agent Fee         | 1.30%      | 1,846,000   |  |             |  |
| Legal Fee         | 0.50%      | 710,000     |  |             |  |
|                   |            |             |  | 9,656,000   |  |

Other Acquisition

|                         |            |  |  |            |  |
|-------------------------|------------|--|--|------------|--|
| Other Development Costs | 15,158,000 |  |  |            |  |
|                         |            |  |  | 15,158,000 |  |

CONSTRUCTION COSTS

| Construction                                  | Units | Unit Amount | Cost        |  |  |
|---|-------|-------------|-------------|--|--|
| West - Block W3 (Mansion Block) - Residential | 1 un  | 32,873,639  | 32,873,639  |  |  |
| West - Block W2 - Residential                 | 1 un  | 107,449,586 | 107,449,586 |  |  |
| West - Block W1 - Residential                 | 1 un  | 33,467,980  | 33,467,980  |  |  |
| West - Demolition & Enabling                  | 1 un  | 4,810,000   | 4,810,000   |  |  |
| West - Kiosk*                                 | 1 un  | 101,010     | 101,010     |  |  |
| West - External Works (Incl services)         | 1 un  | 3,088,982   | 3,088,982   |  |  |
| West - Utilities                              | 1 un  | 4,329,000   | 4,329,000   |  |  |
| West - PV Installation                        | 1 un  | 240,500     | 240,500     |  |  |
| West - Basement                               | 1 un  | 27,759,472  | 27,759,472  |  |  |
| West - Sewer Connections                      | 1 un  | 529,100     | 529,100     |  |  |

WITHOUT PREJUDICE

APPRAISAL SUMMARY

DS2

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

|   |                       |             |             |             |
|---|-----------------------|-------------|-------------|-------------|
| West - Block W3 (Mansion Block) - Office    | 1 un                  | 5,626,851   | 5,626,851   |             |
| West - Block W2 - Retail                    | 1 un                  | 548,087     | 548,087     |             |
| West - Block W2 - Music Venue               | 1 un                  | 6,680,757   | 6,680,757   |             |
| West - Block W1 - Retail                    | 1 un                  | 654,160     | 654,160     |             |
| East - Basement                             | 1 un                  | 36,648,352  | 36,648,352  |             |
| East - Demolition & Enabling Work           | 1 un                  | 5,772,000   | 5,772,000   |             |
| East - Services & Connections               | 1 un                  | 6,531,980   | 6,531,980   |             |
| East - Sewer Connections                    | 1 un                  | 663,780     | 663,780     |             |
| East - External Lighting / Power / Security | 1 un                  | 1,038,960   | 1,038,960   |             |
| East - PV Installation                      | 1 un                  | 240,500     | 240,500     |             |
| East - Relocate London Cycle*               | 1 un                  | 96,200      | 96,200      |             |
| East - Relocate TFL Bus Stop*               | 1 un                  | 96,200      | 96,200      |             |
| East - External Works                       | 1 un                  | 3,254,446   | 3,254,446   |             |
| East - Basement (Retail)                    | 1 un                  | 22,328,020  | 22,328,020  |             |
| East - Basement (LUL)                       | 1 un                  | 12,606,048  | 12,606,048  |             |
| East - E1                                   | 1 un                  | 79,430,416  | 79,430,416  |             |
| East - E1 (Retail)                          | 1 un                  | 3,981,718   | 3,981,718   |             |
| East - E1 (LUL)                             | 1 un                  | 491,582     | 491,582     |             |
| East - E4 (E) (Retail)                      | 1 un                  | 5,503,602   | 5,503,602   |             |
| East - E3 (S) Residential Tower 3           | 1 un                  | 89,767,491  | 89,767,491  |             |
| East - E3 (S) Retail                        | 1 un                  | 7,658,482   | 7,658,482   |             |
| East - E2 (W) Retail                        | 1 un                  | 15,275,598  | 15,275,598  |             |
| East - E2 (W) Residential                   | 1 un                  | 74,811,277  | 74,811,277  |             |
| Totals                                      |                       | 594,355,775 | 594,355,775 |             |
| Design Contingency                          | 2.50%                 | 14,858,894  |             |             |
| Construction Contingency                    | 5.00%                 | 29,717,789  |             |             |
| West - CIL / MCIL                           |                       | 4,565,000   |             |             |
| West - Other Development Costs              |                       | 1,000,000   |             |             |
| East - CIL / MCIL                           |                       | 8,638,000   |             |             |
| Est.S106                                    |                       | 4,411,000   |             |             |
| East - Other Development Costs              |                       | 700,000     |             |             |
| East - Utilities connections                |                       | 2,840,000   |             |             |
|   |                       |             |             | 66,730,683  |
| PROFESSIONAL FEES                           |                       |             |             |             |
| Professional Fees                           | 12.00%                | 76,671,895  |             |             |
|   |                       |             |             | 76,671,895  |
| MARKETING & LETTING                         |                       |             |             |             |
| West - Open Market Marketing                | 1.00%                 | 2,899,824   |             |             |
| Commercial Marketing                        | 195,336 ft² 2.00 /ft² | 390,672     |             |             |
| East - Open Market Marketing                | 1.00%                 | 2,662,488   |             |             |
| Letting Agent Fee                           | 10.00%                | 796,855     |             |             |
| Letting Legal Fee                           | 5.00%                 | 398,428     |             |             |
|   |                       |             |             | 7,148,266   |
| DISPOSAL FEES                               |                       |             |             |             |
| Sales Agent Fee - PRS & Commercial          | 1.00%                 | 9,219,596   |             |             |
| Sales Legal Fee                             | 0.50%                 | 5,183,284   |             |             |
|   |                       |             |             | 14,402,880  |
| MISCELLANEOUS FEES                          |                       |             |             |             |
| NwR Arches Refurb                           |                       | 1,300,000   |             |             |
|   |                       |             |             | 1,300,000   |
| TOTAL COSTS                                 |                       |             |             | 927,423,500 |
| PROFIT                                      |                       |             |             |             |
| WITHOUT PREJUDICE                           |                       |             |             |             |

Elephant & Castle - Delancey  
Build to Rent Scheme - 35% AH  
Provision of 116 Social Rent

137,175,766

Performance Measures

|                                     |              |
|-------------------------------------|--------------|
| Profit on Cost%                     | 14.79%       |
| Profit on GDV%                      | 12.56%       |
| Profit on NDV%                      | 13.23%       |
| Development Yield% (on Rent)        | 3.41%        |
| Equivalent Yield% (Nominal)         | 3.62%        |
| Equivalent Yield% (True)            | 3.70%        |
| IRR                                 | 6.96%        |
| Rent Cover                          | 4 yrs 4 mths |
| Profit Erosion (finance rate 0.000) | N/A          |

DRAFT

WITHOUT PREJUDICE

## **Elephant and Castle shopping centre – GLA Viability report review. D&P/3654**

### **Background:**

The residential part of this development will comprise 979 flats, with 481 included within the east side of the development and 498 in the west side. This latter development will be constructed following the substantial completion of the east side scheme. Housing is proposed to be BtR on the east side and may be either BtR or for sale on the west side.

The applicant has submitted a viability assessment (13 June 2018.) which shows an affordable housing provision of 35%- 330 flats, of which 116 are Social Rent, 95 LLR and the rest (161 flats) are Discounted Market Rents. It is not clear whether this is the new proposed AH split, but the following should be noted:

1. The assessment appears to be inclusive of grant. Housing and Land agreed this at £60k (SR) and £20k (Intermediate), being a total of £11,240,000
2. The DMR units are valued at a level which implies an income of £90k on all DMR units.

### **Viability variation between applicant and LB Southwark:**

This was considered in 2017 and generally valuation levels were agreed. Main differences were:

1. Additional contingency assumed by the applicant of £14,858,894. This is not agreed by LBS. This extra contingency sum is typically not accepted in viability reviews and, unless the applicant can specifically justify what the costs relate to, should be excluded.
2. Benchmark is assessed by the applicant at £142m and by LBS at £133m. The difference of £9m also has significant interest cost implications. No clarification has been provided by the applicant for this increased benchmark in comparison to the review land value. The review benchmark assessment was well justified in the review report.
3. Profit assumed by the applicant is ~£6m more than that considered appropriate by LBS. The LBS profit was the residual result of the viability review assessment and was considered sufficiently close to the viable target to be acceptable. However, it is below the target profit level and is therefore less justifiable as a cost saving.

The development is expected to be in excess of 10 years which is generally considered to be a multi-phase development where growth modelling should be considered as part of the assessment. LBS has done this, albeit with growth assumptions at 1%- substantially lower than most market expectations for BtR. There is potentially greater scope for showing improved viability on growth modelling, However, this is inevitably more of a 'guestimate' given the uncertain market conditions.

**In summary**, of the three main costs differences, the applicant's inclusion of additional contingency and level of benchmark appear excessive. Their adoption of a higher profit is justified on a current day approach. However, if growth assumptions are taken in to account, which is reasonable in this multi-phase development, additional AH should be viable.

### **Provision of additional AH:**

The review for LBS concluded that 35% AH could viably be provided compliant with LBS housing policy DM4. This assessment included 5% of AH at income cap of £70k and 4% at income cap of £80k. No further comment has been provided regarding the latest tenure proposals. Clarification on this should be provided. In particular, it is unclear if the differences in costs and values identified in the viability assessments in 2017 are properly reflected/ agreed in the revised (June 2018.) assessment.

However, calculations have been carried out to assess the cost of providing additional AH or changing the tenure proposals. These calculations are high level and need to be properly tested through viability toolkit assessments. The following are the approximate cost implications for additional housing/ tenure variations:

1. **Provision of 40% AH: Increasing AH from 35% by an additional 5% Social Rent: £36m. This equates to £750k/flat.**
2. **Provision of 40% AH: Increasing AH from 35% by an additional 5% LLR: £30m. This equates to £625k/flat.**
3. **Provision of 40% AH: Increasing AH from 35% by an additional 5% DMR all at income cap of £60k: £20m. This equates to £410k/flat.**
4. **Provision of 50% AH: Increasing AH from 35% by an additional 15% DMR all at income cap of £60k: £60m\*. This equates to £410k/flat.**
5. **Changing current DMR assumptions of £90k income to £60k income: £25m. This equates to £155k/flat.**

\*This cost may be potentially significantly more as the specification and amenities available for the residential development changes if AH is at 50% in a high value area.

#### **Additional testing following Deputy Mayor briefing on 25 July 2018:**

Following the briefing provided for DMs, additional calculations have been carried out to assess reductions in value in providing 35% AH with varied tenure splits. The results are as follows:

1. **35% AH, split 50% SR; 50% LLR: Reduction in value is £14.575m.**
2. **35% AH, split 38% SR; 62% LLR: Reduction in value is £10m.**
3. **35% AH LB Southwark policy DM4 compliant with DMR not exceeding £60k income cap. LBS viability assessment considered that 35% AH compliant with policy DM4 with 5% AH at income cap up to £70k and 4% up to £80k was viable. Reduction in value to an income cap of £60k is £3.23m.**

31 July 2018



[REDACTED]

---

**From:** [REDACTED]  
**Sent:** 10 October 2018 13:46  
**To:** [REDACTED]  
**Subject:** RE: Elephant & Castle Shopping Centre - Affordable Housing Viability Summary  
**Attachments:** Re: Rom Valley Way

[REDACTED] Yes, I have. I mentioned earlier that there were three areas of inputs that DS2 & GVA disagreed on- build cost, profit share and benchmark. The overall cumulative difference if GVA's position was correct was about £30m. These differences have now been resolved- applicant's build cost and profit are accepted (Which is probably right given the increase in build costs in recent months.) and the LBS benchmark accepted.

Overall, the end result is that the offer submitted by the applicant is the maximum reasonable without any grant funding for additional AH.

I have not seen the s106 agreement on late stage VRMs. These should be considered once prepared.

[REDACTED]

---

**From:** [REDACTED]  
**Sent:** 02 October 2018 10:50  
**To:** [REDACTED] <[REDACTED]@london.gov.uk>  
**Subject:** RE: Elephant & Castle Shopping Centre - Affordable Housing Viability Summary

Hi [REDACTED]

Have you had a chance to consider the below? It would be helpful for me to understand whether we have any outstanding concerns on the viability at this stage.£

Happy to discuss. Many thanks,

[REDACTED]

[REDACTED] | Team Leader – Development Management | Development Management | Development, Enterprise & Environment  
**GREATER LONDON AUTHORITY** | 4th Floor, City Hall, The Queen's Walk, London SE1 2AA  
Tel: [REDACTED] | Email: [REDACTED]@london.gov.uk

---

**From:** [REDACTED]  
**Sent:** 19 September 2018 12:58  
**To:** [REDACTED] <[REDACTED]@london.gov.uk>  
**Subject:** FW: Elephant & Castle Shopping Centre - Affordable Housing Viability Summary

---

**From:** [REDACTED]@ds2.co.uk>  
**Sent:** 17 September 2018 15:23  
**To:** [REDACTED] <[REDACTED]@london.gov.uk>  
**Subject:** Elephant & Castle Shopping Centre - Affordable Housing Viability Summary

[REDACTED]

Further to our conversation last Wednesday please see below a summary of the affordable housing component in relation to the Elephant & Castle Shopping Centre. The project now has a resolution to grant planning consent subject to the signing of the S106.

DS2 worked with Southwark and their advisors, GVA, in order to get an agreed position on all matters pertaining to development viability and the delivery of affordable housing & other obligations.

### **Summary**

The scheme proposes 35% affordable housing , by habitable rooms, consisting of the following tenures;

- ☐. 116 Social Rent homes (38%)
- ☐. 53 London Living Rent homes (15%)
- ☐. 161 Discount Market Rent Homes (47%)

The provision deviates away from Southwark's draft Build to Rent policy and guidance in that the affordable housing component includes the provision of Social Rent. The decision to deliver Social Rent was a decision made following the deferral of the application from Planning Committee in early 2018. The Applicant is however still offering a 30 year covenant on the site despite this.

The above affordable housing provision is subject to Grant Funding totalling £11.24m. This enables the provision of an additional 42 Social Rent homes, up from the agreed 74 Social Rent homes.

This affordable housing provision is supported by the attached agreed 'base' appraisal between DS2 and GVA. This derives an ungeared IRR of 7.51% vs an agreed target IRR of 11%.

The Applicant has made a commercial decision to commit to providing 35% affordable housing even though the returns fall short of what a reasonable developer would require to bring forward the scheme on a current day basis. The Applicant feels that through Value Engineering and growth in the rental values that in the future an IRR target of 11% can be achieved. It is worth noting that the affordable housing meets the requirements of the draft London Plan in respect of Build to Rent 'FastTrack' i.e. no viability reviews required.

However, the Applicant and the Council are currently in discussions regarding the S106 which will include a Non-Implementation review mechanism and a Late Stage review mechanism. This work has been underway as part of the wider S106 discussions for c. 12 months and the structure and timing of the VRs is agreed with much of the detail also now also tied down.

### **Viability**

DS2 submitted a Financial Viability Assessment in November 2016 which was independently assessed by GVA over a period of c. 18 months.

GVA's initial viability report, dated June 2017, indicated that the Scheme could viably provide 35% affordable but at more 'affordable' levels (60% at LLR or lower / 40% DMR). Their supporting appraisal, based upon their views on costs and values, derived an IRR of 6.52% vs a target of 7.50% which they indicated was generally accepted to enable the scheme to come forward. One of the ways in which the 35% affordable housing has been maintained is by some of the DMR homes being at household income caps of up to £90,000. Southwark have tested the additionality that is created by this approach, and clearly this was deemed to be acceptable to Officers and Members.

The key areas of disagreement between DS2 and GVA at that time were;

- ☐. Construction costs
- ☐. Site Value
- ☐. Target IRR

Since that date, the Applicant's advisors worked with GVA in order to a) provide evidence to support their view on costs/values b) reach a conclusion in order to enable the scheme to reach planning committee.

In summary, the Applicant and the Council reached an agreement on the following matters;

- ☐. Construction costs
- ☐. Site Value – The Applicant accepted GVA's position in order to reach an agreement
- ☐. Target IRR – It was agreed that an 11% IRR target was reasonable in order to bring forward a scheme based on the nature of the project, Build to Rent with a mix of other uses, the capital commitment required, the

location, the scale and so on. Given the fundamental impact that the target IRR would have on the outcome of the affordable housing provision this point was discussed in detail over a number of months with GVA. The Applicant entered into discussions with some of the largest institutions to seek external advice as to what return is required to enable a Build to Rent scheme to come forward. The underlying responses was that institutions would not commit to a project with an IRR not less than 10% and in many instances a higher IRR would be required. A copy of our response to GVA can be provided if required.

In reaching an agreement on all inputs, the Applicant and the Council concluded that the affordable housing provision was the maximum reasonable amount of affordable housing that the scheme could viably provide and this was reported by Officers to Members.

If you require any more information, please let us know.

Regards

[Redacted]

Partner

[Redacted]

[ds2.co.uk](http://ds2.co.uk)



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# MEETING MINUTES

[Agenda items not relevant to the request are redacted]



100 Pall Mall  
London  
SW1Y 5NQ

|                                    |  |   |            |
|------------------------------------|--|---|------------|
| <b>Attendees:</b>                  | <div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> <div></div> </div> Liam Janusz | GLA<br>GLA<br>GLA<br>Delancey<br>Delancey<br>G&T<br>DP9<br>DS2<br>DS2 |            |
| <b>Date &amp; Time of Meeting:</b> | 18 <sup>th</sup> October 2018 @ 2pm  | <b>Location:</b>  | <b>GLA</b> |
| <b>Subject</b>                     | Elephant & Castle Shopping Centre & UAL  |   |            |

| Item |  |
|------|--|
| 1    | [REDACTED]   |
| 2    | <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>  |
| 3    | <p><b>Affordable Housing</b></p> <p>[REDACTED] gave an overview of the progression of the affordable housing offer and status of the viability assessment.</p> <p>[REDACTED] noted that the intention has always been to provide 35% AH and this has not changed. Given the offer is at 35% he did not believe the scheme should be providing a covenant or a review mechanism but the applicant has agreed to both.</p> <p>[REDACTED] questioned if a BTR operator would accept the agreed 30 year covenant (exceeds GLA policy by 15 years).</p> <p>[REDACTED] confirmed that it had been reluctantly accepted to reach an agreed position with LBS.</p> |



|   |   |
|---|---|
|   | <p>████ advised that LBS are likely to formally refer the scheme back to the GLA for Stage 2 approval during the early part of November.</p> <p>████ confirmed that the GLA then have a 14 day period to issue their Stage 2 response, and that weekly Mayoral/Deputy Mayoral meetings are in the diary from now until 17th December.</p> |
| 6 | ████████████████  |