LONDON LEGACY DEVELOPMENT CORPORATION

| | |
|---|---|
| **Subject:** | **An Estate Strategy for the Queen Elizabeth Olympic Park – London's new Great Estate** |
| **Meeting date:** | 22 October 2013 |
| **Report to:** | Investment Committee |
| **Report of:** | Rosanna Lawes, Director of Development |

## For Recommendation

**This report will be considered in private**

Subject to the decision of the Investment Committee under Item 9 on the agenda for this meeting, this report is exempt and is therefore not for publication to the public or press by virtue of Part 1, paragraph 3 of Schedule 12A of the Local Government Act 1972 in that it contains information relating to the financial or business affairs of any particular person (including the MDC holding that information).

## 1. Summary

1.1 The Queen Elizabeth Olympic Park is an immensely important public asset with the responsibility residing with LLDC to ensure the long term management and stewardship of the estate. This paper sets out the LLDC current position and next steps and explores some of the possible models for ensuring the long term management of the park, infrastructure and the recreational and sporting facilities (excluding the Stadium Island).

1.2 The Estate Strategy was originally presented to Olympic Park Legacy Company Investment Committee in February 2012, and the principles have been incorporated into the legal agreements for both Chobham Manor and the Press and Broadcast Centre.

1.3 This paper seeks Investment Committee's endorsement to the principles behind the proposed Estate Strategy for the Queen Elizabeth Olympic Park (QEOP) and the land disposal mechanisms associated with that strategy including possible models for the future management of the estate is along with a recommendation on next steps.

## 2. Recommendations

2.1. The Committee is invited to:

2.2. **note** the contents of the Paper and,

2.3. **approve** the principles of the proposed Estates Strategy and **comment** on next steps.

2.4. **approve** the principle of LLDC charging a fixed estate charge, and exploring the appropriate Entity or company structure to manage the Estate in the longer term, the level of the charge with further detail being presented back to the Committee in early 2014.

## 3. Timing

3.1. The Corporation has a planning obligation to submit an Estate Management Strategy as a pre commencement condition to enable Chobham Manor to start on site in early 2014. The Corporation needs to further explore the challenges that this will present in creating a long term sustainable management structure.

## 4. Background

4.1 LLDC has sought to work on the principles of the landed estates of London (e.g. s43 [redacted]), in emphasising the importance of a long term vision to protect amenities and maintain a high quality environment. These estates have had the benefit of the freehold ownership and the model exercises a great deal of control through leasehold structures over design and management quality. They have planned for long term benefit and commercial returns, which has taken time but has been realised through capital value appreciation and increased rents. The revenue generated is in part re-invested in the further improvement and management of their estates.

4.2 Extracted - not relevant to the request

4.3 The aim of LLCD's Estate Strategy is to learn from this model and the legislative changes to ensure that LLDC manages its land assets to create an income stream that contributes to the management of the estate in the long term. It will be essential that LLDC delivers a high quality environment through the development phase to drive values and create a place that is attractive to the market and occupiers. This quality must be then maintained for many years to come.

## 5. Estate Management Structure

5.1 Extracted - not relevant to the request

5.2 Extracted - not relevant to the request

Extracted - not relevant to the request

5.3 Extracted - not relevant to the request

5.4 Extracted - not relevant to the request

## 6. Fixed Estate Charge

6.1 The income derived from the occupiers and residents on the park will be in the form of a Fixed Estate Charge. The principle is that residential and commercial occupiers alone should not and will not pay the full cost of managing and maintaining a publicly accessible park. A variable service charge regime would be neither affordable nor equitable to apportion the actual costs of maintaining the entire Estate. Instead all commercial occupiers and home owners of market homes will pay a contribution towards LLDC's costs of managing and maintaining the Estate in the form of a Fixed Estate Charge.

6.2 A Fixed Estate Charge provides significantly greater operational flexibility than a variable service charge regime, with the ability to generate potential surpluses from development platforms, for example private rented sector housing on our next phase and other trading surpluses from commercial activities on the Park. This income should be ring fenced for the benefit of and investment in the QEOP and its assets. It also takes the Corporation outside of The Landlord and Tenant Act and the requirements of the RICS Service Charge Code for Commercial Property. The payment of the Fixed Estate Charge is captured though the property transfers to home owners and lease structures to occupiers of commercial units.

6.3 Due to the constraints of leasehold legislation if leaseholders exercise their right to acquire their freehold or extend their leases, the ground rent would be extinguished and therefore does not represent a robust revenue mechanism to contribute to the long term management of the Estate. If leaseholder rights were exercised, LLDC would receive a capital premium by way of compensation for the loss of ground rent income, but the sums received would not amount to a viable 'dowry' solution to help pay for the long term management and maintenance of the Estate.

6.4 A variable estate wide service charge regime would raise difficulties in the context of the long term management and maintenance of the Estate because of the administrative burden, by law, of accounting for the benefit and apportionment of the actual costs of estate services. The recovery of costs from tenants and occupiers to maintain the Estate for the use and benefit of the general public may be open to regular commercial and legal challenges.

6.5 In the transfer of an interest in land the Corporation will place obligations by way of covenants on title and obligations in the lease structure to pay the Fixed Estate Charge. The developer through the neighbourhood management company will collect the charge on behalf of the LLDC.

6.6 A Fixed Estate Charge does not place an obligation on the Corporation to account for, and apportion the actual expenditure or service but to provide a well managed Estate. The Fixed Estate Charge can be index linked but by fixing the charge LLDC will have to subsidise any shortfall in the overall management costs of the Estate.

6.7 From a commercial perspective a fixed estate charge will give certainty to both developers and end purchasers. LLDC will still need to ensure the fixed charge is seen to be fair and equitable in order for it to be a robust and defendable cost in all of its tenant/occupier negotiations. In researching other property estates, it was found that basing the charge on Net Internal Area (NIA) of property was seen to be the most fair and equitable basis for charging a fixed contribution towards the cost of maintaining the estate.

6.8 LLDC will explore the legal structures on the transfer of an interest in land to ensure that the covenants on the leaseholder or any land transfer are enforceable and registered on the title. The Corporation will continue to explore the arrangements for the management companies to be established by developer partners for each neighbourhood and its relationship with the overall estate management Entity.

## 7. Income for the Estate

7.1. Contributions towards the cost of maintaining the Estate are proposed to be levied on the basis of a combination of the following:

- Fixed estate charge (from all residential and commercial occupiers), plus small ground rent from all long leasehold interests;
- Occupational rents (on commercial property);
- Event related revenue and charges, to reflect additional costs incurred to support events on the Park e.g. Football matches, music concerts, and charity fun runs.

7.2. The proposed Fixed Estate Charge has been set out as follo*ws:*

- Commercial occupiers will pay £1.50 per square foot per annum of the NIA of their premises from occupation.
- Private residential residents of market (for sale) homes will pay £1 per square foot NIA per annum and
- Extracted - not relevant to the request

7.3. The charge of £1psf is at the upper end of what would be seen as a reasonable. This equates to approximately £500 pa for a 1 bed flat; £750 pa for a 2 bed flat; between £950 – £1,350 pa for 3 and 4 bed flats and houses; and up to £1,500 pa for 5 bed houses. This would be in addition to block service charges for leaseholders. It is proving challenging to Taylor Wimpey/L&Q who have committed to pay £850,000 per annum towards the Fixed Estate Charge. The occupational burden for the residents is perceived to be an issue and have sought to negotiate a reduction. Further analysis will be carried out as part of the next steps and presented back to the Committee.

**Comparing with Market Comparisons**

7.4. The QEOP Estate has no true comparison, however the £1psf fixed estate service charge is comparable to s43 [redacted] (600 homes delivered over 8 years); which maintains a high quality landscape similar in specification to the North Park, but without world class sports facilities. Its high quality landscape nevertheless provides a comparable cost of maintenance on a pro rata basis. The sum of £1psf is approximately double the fixed estate service charge for the s43 [redacted] (2,500 homes over 30 years), which has been set at [redacted] per annum for each residential unit regardless of the size or tenure. [redacted] provides for 150 ha of publicly accessible parklands and playing fields but the residential sales values are very low for East London, resulting in a lower specification, and different purchaser profile than the market housing on the QEOP. [redacted] are proposing a similar fixed estate charge model on their scheme at [redacted], and understand that it is at or around the same range proposed for the Park.

7.5. The general residential market is accustomed to flats being purchased on long leaseholds, and paying average ground rents of [redacted] per annum to the freeholder (in respect of both purpose built blocks of flats). These ground rent sums are usually paid in addition to a variable service charge regime for a block of flats, and without any estate or services being provided in return. The key difference here is that it is unlike the majority of ground rents paid by leaseholders; the fixed estate charge is to be paid by all occupiers of the QEOP and will be ring fenced to contribute to the management and maintenance of the Estate. The fixed estate charge will effectively replace the ground rent and a nominal ground rent charged on long leasehold transfers.

7.6. Developers are adept at marketing a lifestyle for people to buy into, and the QEOP Estate will be able to deliver that. Therefore, without contractually committing to service standards, the sales and marketing strategy developed by LLDC with its developer partners will need to communicate what people will be paying a contribution for, and deliver the services to ensure it is seen as a privilege to be a resident or occupier of the Estate. The residents of East Village operated by QDD (Get Living London) will enjoy the benefits of the venues and parkland, but will not pay a contribution, as will the general public. They do however operate an extensive estate, comprising significant parkland and general public realm. They are experiencing the same challenges and are managing the upkeep of their estate without specific estate revenue generated from residents or Triathlon Homes.

7.7. The level of fixed estate charge proposed for the Estate could affect marketability, and therefore values of residential units. However, the results of market testing and research on comparable schemes suggest there is certainly a strong case to be made that the purchasers of these homes will be buying into a unique experience and high quality environment by living within the QEOP Estate. It is intended that the level of fixed Estate Charge should be tested further with the market and partners.

7.8. The projection for the 20 year Business Plan for the Corporation anticipated an income for Fixed Estate Charges to be up to £8m by 2019 rising to £21m by 2024. The proposals for the E2020 vision will change these projections and further work is required to assess the impact of these proposals will have on the long term revenue opportunities.

7.9. A wholly self financing and sustainable business model is unlikely to be achieved in the long term, when considering management costs and life cycle costs of the assets on the Estate. The balance of management and maintenance costs is likely to continue to be met by the Mayor of London's commitment to fund up to £10 million per annum.

## 8. Establishing a New Entity for the Estate

8.1. Extracted - not relevant to this request

Extracted - not relevant to this request

8.2. Extracted - not relevant to this request

8.3. Extracted - not relevant to this request

8.4. Extracted - not relevant to this request

8.5. Extracted - not relevant to this request

8.6. Extracted - not relevant to this request

8.7. Extracted - not relevant to this request

8.8. Extracted - not relevant to this request

**9. Exit Strategy for LLDC**

9.1. Extracted - not relevant to this request

9.2. Extracted - not relevant to this request

Extracted - not relevant to this request

## 10. Next Steps

10.1. Subject to endorsement of the principles proposed, further feasibility work is required to;

- Assess the appropriate level of fixed estate charge through further market testing, and seek to resolve the challenges faced by Taylor Wimpey;
- Assess the impact the new E2020 vision will have on the revenue generated for the Corporation; and
- Continue to explore the most appropriate Entity to manage the Estate and scope the responsibility, charitable objectives and tax benefits, membership and control (through votes) to ensure it will be fit for purpose.

## 11. Legal and Financial Implications

11.1. LLDC will continue to consider the legal and financial implications in the function and remit of a CLG or other Entity.

## 12. Priority Themes

12.1. The Legacy Company's three priority themes have been a key factor in formulating the Estate Strategy, to support LLDC's proposals for ensuring high quality design and sustainability, promoting convergence and community participation, and championing equality and inclusion.

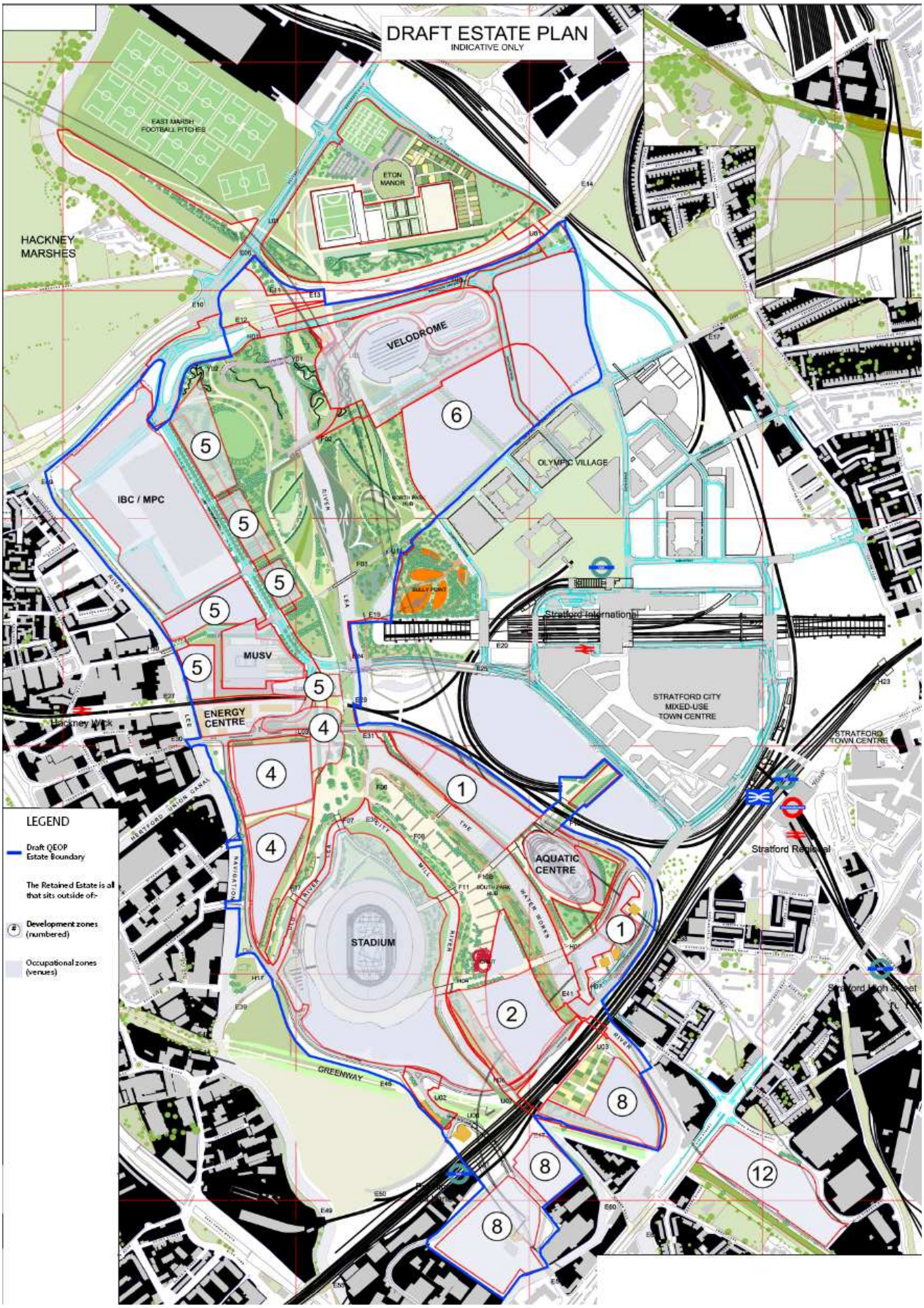
## 13. Appendices

- Appendix 1 Draft Estate Plan
- Appendix 2 A Company Limited by Guarantee (CLG) for the Estate
- Appendix 3 Options for management models for the Estate

| **Background papers** |
| --- |
| None |

**Report originator:** **Rosanna Lawes**
**Email:** **rosannalawes@londonlegacy.co.uk**

**APPENDIX 1:**


DRAFT ESTATE PLAN
INDICATIVE ONLY
HACKNEY MARSHES
EAST MARSH FOOTBALL PITCHES
ETON MANOR
VELODROME
IBC / MPC
MUSV
ENERGY CENTRE
OLYMPIC VILLAGE
Stratford International
STRATFORD CITY MIXED-USE TOWN CENTRE
STRATFORD TOWN CENTRE
Stratford Regional
Stratford High Street
Hackney Wick
AQUATIC CENTRE
STADIUM
GREENWAY
LEGEND
Draft QEOP Estate Boundary
The Retained Estate is all that sits outside of>
Development zones (numbered)
Occupational zones (venues)

**Appendix 2:**

**The Benefits of a Company Limited by Guarantee (CLG) for the Estate**

**The Financial Structure**

1.0 Extracted - not relevant to the request

1.1

1.2

**Tax Considerations**

1.3 Extracted - not relevant to the request

1.4

**Flexibility of the Structure**

1.5 Extracted - not relevant to the request

1.6

**Overview of a Company Limited by Guarantee**

Extracted - not relevant to the request

**Appendix 3:**

**Potential Management Entities**

1. Extracted - not relevant to the request

2.

3.

4.

5.

Extracted - not relevant to the request

6.

7.