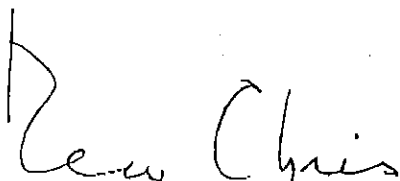


SOUTHWARK LAND REGENERATION PLC

URGENT

22 March 2002

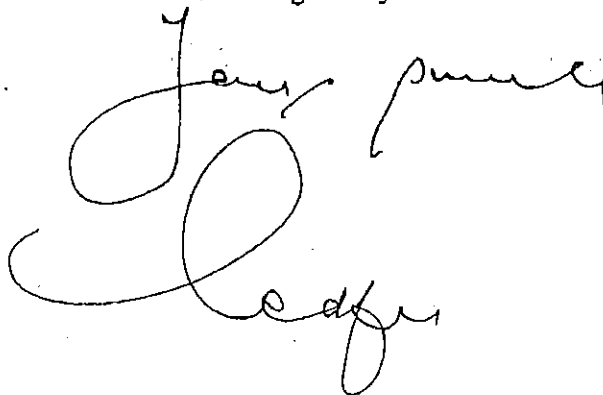
Chris Horn Esq
Director
Elephant & Castle Project Team
London Borough of Southwark
3rd Floor, Coburg House
63-67 Newington Causeway
London SE1 6LS



Elephant & Castle - Comprehensive Regeneration

I refer to our telephone conversation this morning following our meeting last night and my letter to you dated 21 March 2002. As I said over the telephone and have made clear in meetings, Nicholas Taylor and I feel, having been involved in discussions with your Authority for almost four years and having over that period done everything possible to take account of your requirements, that enough is enough and if we are unable to agree terms with you to enable you to provide your recommendation to your members and obtain approval from them to those terms at the meeting of Committee members on Tuesday of next week, we are not prepared to spend any more time or money on this project. This statement, as I said to you, is not expressed in any way with the intention of being provocative nor is it in the nature of an ultimatum, but simply that if after all this time we cannot conclude terms with your Authority which should enable the project to be commercially viable, we have reluctantly come to the conclusion that it is just not possible to do business with your Authority. I understood that you will revert to us this afternoon and hopefully you will be in a position by that time to approve our compromise proposal as set out in our letter to you of yesterday's date.

Nicholas Taylor and I look forward to hearing from you.



Godfrey Bradman

SOUTHWARK LAND REGENERATION PLC

19 March 2002

Chris Horn Esq.
Director
Elephant & Castle Project Team
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63-67 Newington Causeway
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Dear Chris

Elephant & Castle

At our meeting late on Friday 15 March 2002 you raised with me two points on line 1.1 of schedule B, "Summary of Results", attached to our draft letter "for discussion" of that date. You suggested that all LBS responsibility for carrying out 100% reprovision of social housing units to replace the Heygate Estate should be limited to the 706 units modelled and programmed to be provided on the early housing sites and should not extend to include full 100% replacement either at all, since this might not be necessary, or if a further approximately 413 units were to be re-provided within the Heygate Estate band, as has always been planned and committed, they would not be provided by the consortium of RSLs proposed by you, but by the house builders purchasing the individual plots for development as private housing for sale, in effect therefore becoming a cost burden on plot developers which would reduce the price per sq ft net achievable from disposal of the plots to the plot purchasers, the disposal proceeds and therefore the likely overall surplus. You also suggested that the refurbishment of the surrounding, retained estates should be included as a project cost in the appraisals.

The Chief Executive's letter of 10 December 2001 is probably the best starting point in addressing your suggestions and I quote:

"Social Housing

If SLR is to undertake a value-added project management role for the social housing then a reasonable management fee might be included as an equity input.

Recent discussions with SLR regarding the delivery of new social housing units, the decanting and demolition of the Heygate and the refurbishment of the surrounding estates have led both SLR and LBS to conclude that there is significant merit in developing alternative approaches to procure these works (away from the original SLR route where SLR procures all elements of the project).

With this in mind we now believe, that given your recent indication that SLR agrees that new social housing units should be procured directly via one or more RSLs and house builders, that LBSs Officers undertake market testing to ensure the robustness of this proposal.

If this route is robust, as it currently appears, then LBS agrees with SLR's proposal that the social housing works should be removed from the larger development project. Any ongoing SLR role in such an arrangement needs to be justified and if SLR could tangibly demonstrate the value of its involvement then perhaps a project management role may be appropriate.

If the social housing elements were to be undertaken via a non-SLR route, then SLR would be released from a major investment obligation and would find the risks associated with the development process substantially reduced. In fact, from your estimates of costs the removal of the social housing works would release SLR from £283 million worth of costs alone.

The effects of the possible removal of the social housing costs and proceeds should also be examined as part of this exercise".

This letter followed a personal statement by you in October 2001 to the effect that the social housing procurement/financing strategy and structure put forward by SLR in the bid and developed in the Social Housing Statement agreed between us in December 2000 would only ever be acceptable to you as a matter of last resort and, as a result of this clarity of approach on the part of LBS, SLR agreed to go along with LBS assuming the social housing responsibilities with SLR having only "a wide ranging project management role in the event that the Council's preferred social housing procurement route is followed" - as set out in our letter of 18 December 2001 to Bob Coomber. We also said in that letter "It is not SLR's proposal that the social housing works should be removed from the larger development project. We do not approach the social housing in this way at all - on the contrary we regard the social housing component as an integral and essential component of the larger development project - in terms of programming, delivering the social inclusion strategy, securing quality environment and opportunity for all, securing and supporting the continuing vitality of the local community, engaging their support, correctly positioning the whole project and underpinning its commercial viability.

You have said to us that you cannot support our approach to the procurement of the social housing and we understand why in that if the approach you are developing works and is robust, clearly, as our financial analysis demonstrates, this will have a materially beneficial impact upon the Council's residual land value. However, all the other objectives referred to earlier must also be secured and it is imperative that we keep the support of the community.

Within days of your informing us unambiguously recently that our social housing procurement strategy was unacceptable to you save as a matter of last resort, SLR provided

you with a proposed way of delivering your preference for the RSL route. It was and is not envisaged that house builders would be involved in the provision of the new social housing and indeed it begs the question as to what possible advantage this could provide. Market testing is important, since, as you know, our social housing advisers have expressed doubts about the deliverability of a route which relies upon RSLs. The manner of market testing is clearly very important, since in the essential commercial interests of the project and of us both as partners, and in the interests of having a real chance of engaging community support, the RSLs will have to sign up to defined requirements which we have discussed – including commitments to ring-fencing, agreed form tenancy agreements, protections for tenants, quality and sustainability requirements, the role the tenants can perform within the Association and a programming commitment to secure the timing of the availability of the Heygate Estate. It is also important that the Heygate Estate does not see itself as being parcelled up among several different organisations.

We understand it is your intention that the RSLs will carry out the social housing works funded by a combination of the value of social housing and the income there from, the value generated from the sale of private residential accommodation on the early housing sites and any funds they utilise from their own resources”.

You tried to suggest on Friday that it would be extraordinary after so many commitments made by SLR to holistic regeneration, including refurbishment of the retained estates for SLR to resist including provision in the appraisals for refurbishment of the estates as a cost albeit at a capped level. Our commitments were made prior to the change LBS itself required in social housing procurement away from SLR, prior to the removal from the appraisals of all costs relating to social housing to reflect the change required by LBS and in any event remain undiminished because we have consistently made it clear to you that under the new structure it is down to LBS, aided by the wide ranging project management role of SLR referred to earlier, to deliver, to quality, to programme and in accordance with the tenant orientated initiatives prepared by SLR and referred to earlier in this letter and in our letter of 18 December 2001.

The change in social housing procurement methods was required by you after long discussion in October 2001. The appraisals, cashflows etc were immediately altered to remove all social housing costs and proceeds as suggested by you. You will also recall that we removed from the appraisals the benefit of the receipts from disposals of land with planning permission on the early housing sites for approximately 500 units of private housing for sale which had under the SLR approach, formed part of the receipts to the project and therefore contributed to the projected surplus. We removed this source of income because we understood and accepted that receipts to RSLs from the disposal of this, or more, private housing for sale on the early housing sites would be an important component in procuring an RSL consortium to undertake the social housing strategy. The revised figures were immediately provided to you and have provided the consistent foundation for the negotiations ever since your decision on social housing procurement.

At every stage since then, over a period of five months, in the many structures and financial analyses provided to you by SLR, the responsibility of LBS in respect of replacement social housing and refurbishment has always been made clear, including for example in my letter to

you of 16 January 2002 setting out the proposed structure of the transaction between us. When you tabled a revised structure of the transaction in the meeting on 31 January 2002, we immediately pointed out to you in the meeting without challenge that the paper omitted, and should include, reference to LBSs responsibility for refurbishment.

It has also always been clear that the option is to be given to the Heygate tenants either to choose a new home on one of the early housing sites, with the benefit of only one move, or to return to a new home on the Heygate Estate land. Although we have believed that most would want to take advantage of a new home early on nearby sites, with only one move, we have always believed that some would want to return to the Heygate. It has also always been clear that it was essential to make 100% reprovion both as a result of a policy decision by LBS and for wider policy/political reasons. It has been our clear expectation that the RSL procurement route would deliver a 100% replacement including the units on the Heygate Estate and that this would be delivered by the combination of the value to the RSL of the social housing it secured on transfer, the proceeds that could be realised by the RSL from disposal of private housing for sale on the early housing sites and as you believed from resources invested by the RSLs in order to secure the opportunity.

As we have made plain to you, we do not expect the proceeds from disposal from the core project to be diminished, with resulting adverse impact on the projected surplus and our share of it to be diminished by putting the cost of replacement social housing on the Heygate Estate upon plot developers instead of upon the RSL consortium, when we have already removed from the project appraisals, receipts from private housing for sale on the early housing sites and have assumed, as you know, that the RSLs also receive the necessary land on the Heygate for the c413 units.

It will not be lost upon you that all the negotiations between us on the core commercial terms since the Council's decision on social housing procurement in October have proceeded on the basis of the revised appraisals removing social housing costs and income as well as removing income from private housing for sale on the early housing sites. You have always been at pains to establish clarity over the costs of the project to be born by SLR and have challenged those where you thought them inadequate or inflated. You have not at any stage challenged the revised appraisals with regard to the removal of the social housing costs. The profit share discussions and related financial terms have proceeded in good faith based on the structure underlying the appraisals. It is extraordinary to think at this point at the very last moment you should be proposing something which in combination - reduces the projected receipts from the project - reduces the projected SLR return - increases the costs - increases the SLR risk - increases the responsibilities of SLR - and reduces the responsibilities of LBS;

Yours sincerely

Nicholas Taylor

SOUTHWARK LAND REGENERATION PLC

9 April 2002

Chris Horn Esq
Head of Regeneration & Strategy
London Borough of Southwark
Elephant Links Project Team
3rd Floor Coburg House
63-67 Newington Causeway
London SE1 6LS



Elephant & Castle – Comprehensive Regeneration

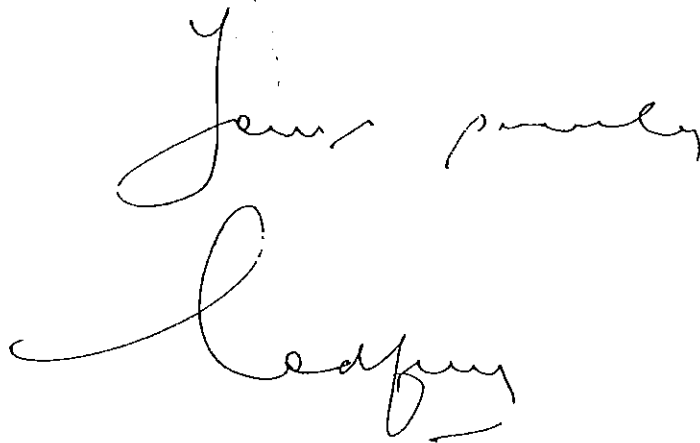
1. We thought it appropriate and helpful to summarise our position since you have been unable to speak or meet following the last meeting of the Ratification Committee a fortnight ago.
2. SLR is willing to work within any commercial structure which meets your Council's requirements and makes the regeneration commercially viable and deliverable by the private sector. We have at no stage made a particular structure a pre-condition of our involvement and commitment; all we have stipulated is that the commercial terms we agree must reflect market norms and therefore be commercially viable, since deliverability is critical to you, the community and us.
3. Considerable progress has been made in negotiations between us. In response to your wish for a true partnership we have promoted and agreed the side-by-side arrangement under which the surplus is shared between us. We have accepted that an early and substantial payment could be made to the Council as part of its share of the surplus as soon as possible after satisfaction of conditions precedent, even though this is before it is certain what the surplus will be. We have accepted your Council's requirement to use the RSL procurement route, blended with a management role for SLR on social housing in partnership with the Council. As you know, and as set out later in this letter, we have been working successfully

over the last fortnight to make the structure and profit sharing framework you proposed to us on 20 March 2002 commercially viable so that we could work with it.

4. This is a complex and ambitious project where both sides have been willing to seek to establish innovative partnership structures – this was bound to be demanding of both parties.
5. Projected surplus from the regeneration is significant. There is enough to be able to make a deal between us work for both parties. The last offer we put to you before the meeting of your Committee two weeks ago provided the Council with 70% of the surplus. This amounted to cash of over £200m for the Council, in addition to the regeneration benefits provided by SLR, valued at c.£250m. The present value of the cash element alone is more than £87m, ignoring the substantial regeneration costs and benefits which is vastly in excess of any possible present value of the Heygate Estate and leisure centre as stand alone development sites.
6. Following our last meeting with you on 20 March 2002, we have been working to review how we could make the structure and commercial deal proposed by you in that meeting, a commercially viable proposal. As we informed you immediately after that meeting, as it stood your proposal provided far too low a return to the private sector to make the project viable. No doubt you reported this and your proposal to your Committee. We have addressed this over the last fortnight by working with our design team to reassess the amount of development achievable within the masterplan. We believe that we can achieve additional floor space within the central area of the masterplan and trust that you will welcome this since you have been consistent in encouraging us to achieve higher densities. The additional receipts, in the absence of any additional requirements by the Borough imposed on the project, enable us to work within your proposed commercial framework.
7. Under this arrangement, the Council is projected to receive cash of approximately £250m from its share of the enhanced surplus in addition to the regeneration benefits of c.£250m which we deliver at a cost to SLR of over £180m.
8. Both the proposals referred to in this letter are structured in such a way that LBS provides its land in return for a share of the surplus. This brings the huge benefit of not giving rise to any set aside in respect of proceeds received by LBS from their right to a share of the surplus allowing more resources to be ploughed back into the regeneration.
9. The SLR regeneration proposals and this commercial structure represent a superb opportunity for the Borough and the community which are not capable of being even remotely achieved in any stand alone redevelopments of the Heygate and the leisure site, which may be the likely alternative if the regeneration proposals are not seized and taken forward quickly now.
10. We now have to get on quickly and in a business like manner with this deal and the regeneration. Neither of us should countenance another protracted period of negotiation or

periods such as we have experienced where it has not been possible to even meet or speak to progress the deal. A clear timetable should be imposed.

11. With the key elements of the commercial relationship in place, the more difficult and innovative issues will have been resolved and speedy progress will then be possible, and is necessary, on the development agreement, so that commercial momentum can be recreated, delays made good wherever possible, confidence in the project within the community strengthened, the SRB programme retained for the benefit of Elephant & Castle and the thousands of jobs created by the SLR masterplan delivered. We suggest that it should be our joint requirement to have all aspects of the core commercial terms fully agreed by the end of April and then fully drafted ready for signature by the date of the first meeting of the Ratification Committee after the Borough elections.
12. A copy of this letter also goes to Councillor Stephanie Elsy as Chair for this evenings meeting, Councillor Steve Lancashire and to all other members, non-voting members of the Ratification committee and reserves. I enclose a copy of my letter to Councillor Elsy.



Godfrey Bradman

c.c. Bob Coomber
Paul Evans

SOUTHWARK LAND REGENERATION PLC

ELEPHANT AND CASTLE

PRESS STATEMENT

The Southwark Land Regeneration Plc (SLR) proposals for the Elephant and Castle are visionary, committed to quality, founded on rigorous commercial and technical analysis by an outstanding team and deliverable. They bring together all the essential elements for successful regeneration, including creative participation of the local Community and wide ranging proposals to ensure that the Community benefits, is involved throughout and takes more control over its own future. The proposals are a superb opportunity for Southwark and the Community.

SLR remains committed to this vision. SLR invited the Council, jointly with SLR, to set a swift and early timetable within which agreement of key commercial terms should be finalised so as to be ready for approval by the new Council immediately after the local elections – so that the momentum could be regained, the Elephant Links Partnership Board Single Regeneration Budget Programme fulfilled for the benefit of the Elephant and Castle and the thousands of jobs created by the SLR masterplan delivered. SLR did not withdraw from this important regeneration project.

Considerable progress had been made in the negotiations between Southwark and SLR. In response to the Council's wish for a true partnership structure with us, SLR promoted and agreed a side-by-side arrangement under which the consideration for the Council's land was to be a share of the surplus generated from the regeneration so that the Council would benefit fully from the increased values we created. SLR also accepted that a very substantial early payment could be made to the Council from early proceeds as part of the Council's share of the surplus once the project got underway, even though this would be before it was certain what the surplus would be.

Both parties have been willing to establish innovative partnership structures. This was bound to be demanding. SLR remains willing to work with the Council in any commercial structure which meets the Council's requirements and makes the regeneration commercially viable and deliverable by the private sector. SLR has at no stage made a particular structure a precondition of our involvement and commitment; all SLR has consistently asked is that the commercial terms must reflect market practice, be based on a prudent foundation, and be commercially viable for the private sector, since deliverability of the project is critical to the Council, the Community and the private sector.

The proposed share of surplus on offer to the Council amounted to approximately £250 million, in addition to the regeneration benefits provided by SLR, also valued at £250 million. We were committed to £180 million for new physical and social infrastructure.

The Elephant and Castle will not be transformed, and the hopes of the Community will not be met, by piecemeal development of individual sites and by a reduced role for the private sector. SLR remains committed both to the vision and to the delivery of the vision.

17 April 2002