BPS
Chartered Surveyors

Land at 351 & 351A Caledonian Road, London, N1 1DW

Independent Viability Review

Planning Application Reference: P2014/0609/FUL

12th November 2014

1.0 INTRODUCTION

1.1 We were instructed in February 2014 by the London Borough of Islington ('the Council') to review a viability assessment that was prepared by DTZ on behalf of Telford Homes ('the applicant'), in respect of a proposed residential development on land at 351 Caledonian Road, London.

1.2 We provided a review of viability in April 2014 in respect of DTZ's February 2014 viability assessment, in which we concluded that we were broadly satisfied with the cost and value inputs into DTZ's appraisal, with the exception of the viability benchmark.

1.3 DTZ provided a revised viability assessment in September 2014, which incorporated a revised affordable housing offer of 50% (by unit), in contrast to the 29.5% (by unit) offer shown in their February 2014 viability assessment. The rented units in this 50% offer were Affordable Rented tenure. We have reviewed this September 2014 assessment and have since reviewed an October 2014 DTZ assessment in which an alternative affordable housing offer is made. This latest offer is of 38.5% affordable housing (60 units) of which 56 units (93%) are Social Rented tenure and 4 units (7%) are Shared Ownership.

1.4 This addendum considers the cost and revenue assumptions in DTZ's latest (September and October 2014) appraisals, and focusses upon any changes that have been made to the inputs since the previous (April 2014) appraisal, and whether these changes are realistic and supported by suitable evidence.

2.0 CONCLUSIONS & RECOMMENDATIONS

2.1 Since the original viability assessment, in February 2014, the scale of the development has not decreased (remaining at 156 units). Given the previously stated views of Planning Officers regarding the over-density of the scheme, we understand that the scheme may be recommended for refusal on the ground that the density is too high. In addition, the number of 1-beds exceeds the 10% requirement stipulated by Table 3.1 of the Council's Development Management Policy DM3. The reasoning behind the applicant's decision to offer a policy compliant quantum (50%) of affordable housing may have more to do with removing a ground for refusal against which they would need to appeal, rather than indicating a fixed intent to build out with this level of affordable housing.

2.2 The cost and value assumptions adopted in the September 2014 and October 2014 appraisals are mostly in line with those in the previous appraisals, with some minor adjustments, including an increase in sales values to reflect inflation over the intervening period. We therefore remain satisfied that the appraisal inputs are reasonable, with the exception of the benchmark land value.

2.3 We do not accept that the benchmark of £[redacted] currently proposed by Telford is suitable. This figure is the renegotiated purchase price.

2.4 Telford has previously sought to support their benchmark with reference to the residual value of the scheme with 50% affordable housing in which the rented tenure is provided as Affordable Rent. This site valuation assumed that grant funding will be available, but in fact it now transpires that it is *not* available and that the GLA do not in principle support grant funding for this type of scheme. The Council has informed us that the GLA has recently confirmed to them in writing that grant funding will not be available for this scheme because it does not fully meet their funding criteria.

2.5 In our earlier addendum, of 15th September 2014, we accepted a benchmark land value of £[redacted] as we had been informed that grant funding is available for the scheme and that it is appropriate to assume that Affordable Rented tenures can be delivered. The latest correspondence from the GLA changes the situation and therefore leads us to alter our conclusions.

2.6 As we discuss in more detail below, it is in our view not appropriate to predicate the benchmark land value upon a scheme that provides Affordable Rented tenures, given that these are not supported by the Council's policies. We have therefore considered once again the residual value that can be generated by a 50% affordable housing scheme wherein the rented tenure is Social Rent, in line with Islington's policy requirements.

2.7 We have adapted the applicant's 50% affordable housing appraisal (from September 2014) by converting the rented floorspace from Affordable Rent into Social Rented. The resulting residual value can then be adopted as a policy compliant benchmark land value. With 50% affordable housing by *unit* (based on unit sizes shown in Telford's latest appraisal of a 50% affordable housing scheme) and again adopting Social Rented tenures (70:30 split between Social Rented and Intermediate), the result is a £[redacted] benchmark, which is higher than the £[redacted] residual value of the latest (October 2014) appraisal (38.5% affordable housing scenario, 93% social rented), and supports the view that the latest, alternative affordable housing offer is the maximum reasonable level of provision, taking into account the exceptionally high proportion of social rented units in this offer.

2.8 In conclusion, Telford Homes is now offering a level of affordable housing that is broadly on a par with a 50% (policy compliant) level of delivery, in terms of the site value it generates, and we accept the conclusion that this is the maximum level of affordable housing that can reasonably be delivered.

3.0 FURTHER COMMENTARY ON LATEST (OCTOBER 2014) APPRAISAL

Revenues

3.1 Sales values have increased from £[redacted] per sqft (£[redacted] per sqm) in the February 2014 appraisal to £[redacted] per sqft (by 3.8%) in the latest (Oct & Sep 2014) appraisals, in order to account for sales value growth over this period. By comparison, Land Registry's House Price Index (HPI) for Islington increased by 13.1% between February 2014 and September 2014 although this HPI growth has predominantly been centred upon the southern areas of the borough and we do not expect this rate to be applicable to the area surrounding Caledonian Road. Whilst it may be the case that somewhat higher average sales inflation has occurred in this area than is shown in DTZ's revised appraisal, we do nevertheless accept that the sales values remain at a reasonable level.

Development Costs

3.2 Build costs are similar to those in the previous (Feb 14) DTZ appraisal and remain reasonable. The costs have increased from £[redacted] per sqm to £[redacted] per sqm. It is arguable that a larger rise in these costs could have been justified in view of the level of cost inflation shown by the BCIS tender price index over recent months. Marketing fees have reduced from 2.5% to 2.0%, while the other cost assumptions applied in the appraisal are essentially unchanged.

3.3 The latest (Oct 14) appraisal includes Islington CIL but this has not changed the overall planning contributions greatly as they have increased only marginally since the Feb 14 appraisal, from £2.22m to £2.32m.

Benchmark Land Value

3.4 Telford Homes is now offering a level of affordable housing that is broadly on a par with a 50% (policy compliant) level of delivery in terms of the site value it generates. Nevertheless, in view of the Growth and Infrastructure Act which inserts S106BA, BB and BC into the 1990 Town & Country Planning Act, it is still important for the viability inputs to be agreed prior to a decision being made on whether to grant consent, as otherwise in any future renegotiation of the affordable housing obligations contained in the S106 agreement, the developer may successfully seek a reduction in the obligations.

3.5 We note, for example, that benchmark land value for planning purposes is stipulated in the DGLG's "S106 Review and Appeal" as being required to be the figure agreed at the time of the original agreement (provided the site has not been sold in the intervening period), therefore it is important in this particular case that a benchmark figure is agreed now, and at an acceptable level.

3.6 We were previously informed that the applicant purchased the site for £[redacted]m, conditional upon planning consent being secured. The latest DTZ report, however, states that the price has been revised downward to [redacted] following renegotiation with London Continental Railways. It appears that the purchase was conditional upon planning consent being secured, and that the financial transaction itself had not yet taken place.

3.7 As DTZ confirms in its latest (October 2014) report, the latest affordable housing offer (i.e. 38.5%, with Social Rent) is not supported by its accompanying development appraisal. We maintain the view that as there is no value (such as an existing use value) underpinning site value, the benchmark ought to be adjusted downwards to the point where it allows a policy compliant level of affordable housing to be supported, which is consistent with RICS Guidance by having full regard for the cost of meeting planning obligations.

3.8 We understand that the GLA has now confirmed that the scheme does *not* meet its grant funding criteria and that consequently it is not appropriate in this case to assume that grant funding is available. We have therefore proceeded on the assumption of nil grant when assessing what level of benchmark land value is suitable.

<u>Discussion of previous (September 2014) affordable housing offer (50%, with Affordable Rent)</u>

3.9 We provide below some comments upon the previous offer of 50% affordable housing (with Affordable Rent).

3.10 The residual value of the scheme has decreased from £[redacted] to £[redacted]m, principally as a result of the increase in the level of affordable housing from 32% to £51.5% (by area). Against the latest benchmark of £[redacted], this results in the scheme being in deficit and this level of affordable housing not being supported by the associated viability assessment.

3.11 This previous offer included Affordable Rent provision rather than Social Rent. The affordable rent levels are based on Notting Hill Housing Group's own internal rental levels, as was the case with the previous affordable rent appraisal (that was used to determine the viability benchmark). These rents (NHHG Policy Rents – see Table below) range from 39% to 62% of Market Rent, therefore are significantly lower than 80% of Market Rent.

3.12 We have researched local availabilities of rental properties, which indicate that the Market Rents estimated by DTZ (shown in the following table) are realistic.

Unit type	NHH Policy	Service charges	NHH net rent	Inner North	Market Rent	80% Market
	Rent	pw at £3 psf		London LHA cap	comparable Rightmove est	Rent
1 bed/ 2 pers	£243.70	£30.94	£212.76	£258.06	£390	£312
2 bed/4 pers	£250.95	£43.29	£207.66	£299.34	£500	£400
3 bed/ 5pers	£255.10	£53.20	£201.90	£350.95	£600	£480
4 bed/ 6 pers	£255.10	£61.25	£193.85	£412.89	£650	£520

3.13 We note the following comments from the Council in respect of the suitable Affordable Rents that should be applied:

> *"The Mayor's Housing Strategy / Funding Prospectus 2015-2018 sets out the following programme averages to be delivered by RPs who have bid for grant funding from the GLA to deliver Affordable Rented properties:*
>
> - *Half of Affordable Rented properties to be 'discounted ' rent equal to 80% of the median market rent or the maximum Local Housing Allowance for the area, whichever is lower.*
> - *Half of Affordable Rented properties to be 'capped' rent equal to 50% of the lower quartile market rent for an area.*

3.14 The Affordable Rent units' weekly rents, as were proposed by Telford Homes (£243.70 to £255.10 per week), are all lower than those for the Inner London Local Housing Allowance which are cited below:

- One bed: £258.06 per week
- Two bed: £299.34 per week
- Three bed: £350.95 per week
- Four bed: £412.89 per week

3.15 In contrast, the rent levels for the 'capped' affordable rent properties have previously been cited by the Council as:

- One bed: £150.00 per week
- Two bed: £187.50 per week
- Three bed: £232.00 per week

3.16 It is apparent that these rents are lower than those Affordable Rents currently being proposed by Telford Homes, which we understand has led the Council to conclude that these Affordable Rent levels are too high to meet the Council's affordability criteria.

3.17 We previously discussed (in our April 2014 viability review) four criteria that need to be met in order for the Council to be required by the GLA to allow the provision of Affordable Rent. We repeat these four criteria below for reference (as stated in our previous report and discussed by DTZ):

> *"The Council has recently confirmed that if DTZ is to rely on a viability benchmark based on an alternative scheme that delivers Affordable Rent, it will need to evidence the following in order to meet the criteria that are required by the Council's Draft Framework Agreement with the GLA, namely that it must have:*
>
> *a) chosen a Registered Provider (RP) for Affordable Rent and Intermediate units*
> *b) provided evidence that the RP has a Framework Agreement with the GLA*
> *c) provided evidence of an agreement with the chosen RP to provide Affordable Rent rather than Social Rent*
> *d) provided evidence from the chosen RP that the grant funding assumed (£1.88m) has been secured"*

3.18 It is apparent that all of these criteria have not been met, and therefore we understand that the Council is not likely to accept Affordable Rent as being a compliant form of tenure for delivery within the proposed scheme.

Further discussion on the October 2014 alternative affordable housing offer (38.5%, with Social Rent)

3.19 Telford Homes has recently provided an alternative affordable housing offer, of 38.5% affordable housing (60 units), of which 93% (56 units) is social rent and 7% (4 units) is shared ownership.

3.20 The residual value of the scheme with 50% affordable housing was £[redacted], whereas the residual value with the latest (Sep 14, 38.5% affordable) offer is £[redacted], so this latter option generates a lower residual value even than a scheme with a policy compliant (50%) quantum of affordable housing. It is, however, worth noting the 50% affordable housing option includes Affordable Rent which does not comply with the Council's policies including its affordability criteria and also assumes a level of grant which has since been confirmed as not available.

3.21 It is worth reiterating that the residual value of £[redacted] generated by Telford's 50% affordable housing appraisal is no longer accurate as it incorporates grant-funding despite it now having been established that no grant funding is likely to be forthcoming.

3.22 The other inputs into the appraisal are all consistent with those in their earlier (September 2014) appraisal, therefore we do not have any concerns with these aspects of the appraisal. The CIL (Mayoral and Islington) allowance is £539,837 higher in the alternative option (38.5%) appraisal than the 50% affordable housing option, which reflects the exemption affordable housing development from CIL charges.

3.23 The value of the affordable housing averages £[redacted] per sqft, which is a blended figure and the values ascribed to the Social Rented units of £[redacted] per sqft and £[redacted] per sqft for the shared ownership units. We have already agreed that these values per sqft are reasonable, in our April 2014 report.

3.24 In the latest scheme option (38.5% affordable housing), although the number of private units has increased, there has been a loss of shared ownership units and a switch from Affordable Rent to lower valued social rents, and on top of this there is the increase in CIL and in profit (due to larger amount of private revenues, on which a profit of 20% (i.e. profit on GDV) is taken). These factors account for the fall in the residual value relative to the September 2014 option (50% affordable, Affordable Rent). This fall in residual value also reflects the impact of 'losing' grant funding, as grant was not factored into NHHG's offer for the Social Rent option but was included in their offer for the Affordable Rent option.

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