LOCAL PLAN EXAMINATION – MATTER 3 – VIABILITY OF DEVELOPMENT

CRITIQUE OF OPDC RESPONSE TO INSPECTOR'S QUESTIONS IN RELATION TO VALUATION FEASIBILITY STUDY OF CARGIANT SITE

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On behalf of Old Oak Park Ltd

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GLOSSARY

OOP	Old Oak Park Ltd
OPDC	Old Oak & Park Royal Development Corporation
HIF	Housing Infrastructure Fund
CPO	Compulsory Purchase Order
BNPP	BNP Paribas Real Estate
NPPF 2012	National Planning Policy Framework (2012)
PPG 2014	Planning Practice Guidance (2014)
GEA	Gross External Area
GIA	Gross Internal Area
NSA	Net Saleable Area
NIA	Net Internal Area
CIL	Community Infrastructure Levy
SPG	Supplementary Planning Guidance
RP	Registered Provider
BLV	Benchmark Land Value
EUV	Existing Use Value
GDV	Gross Development Value
VP	Vacant Possession

1 INTRODUCTION

1.1 This report has been prepared in relation to the Old Oak & Park Royal Development Corporation ("OPDC") Local Plan independent examination, specifically in relation to Matter 3 of the Local Plan Hearing sessions; viability of development.

1.2 This report has been prepared by DS2 on behalf of Old Oak Park Ltd ("OOP"), a partnership between Cargiant Limited and London & Regional Properties. Cargiant Limited own[1] and occupy an 18.6-hectare (45.9 acre) site which forms the majority of the 'Old Oak North' area as defined by the draft Local Plan. The Cargiant site has capacity for 6,200 homes and 2,920 jobs and is identified as accommodating primary infrastructure including new roads, new public open spaces and new social infrastructure.

1.3 A hearing session for Matter 3 was held on 03 April 2019. At the hearing session representations were made by OOP that the viability of the Cargiant site should be explicitly tested as part of the Local Plan viability assessment. This position is supported by national planning guidance. Given the Plan's reliance on the likelihood of the Cargiant site coming forward, OOP's representations queried whether, in light of serious doubts about viability, the Plan itself was deliverable or effective.

1.4 In response, the Inspector requested that the OPDC prepare a site-specific viability appraisal of the Cargiant site and that this was to consider long term trends for key values and costs.

1.5 The OPDC has subsequently provided a document titled 'OPDC response to Hearing Actions (Matter 3 – viability of development)'. This is comprised of two parts; i) a site-specific viability appraisal and accompanying report prepared by the OPDC's viability consultants, BNP Paribas Real Estate ("BNPP") and ii) an overarching commentary from the OPDC on the development opportunity at Old Oak generally, the Cargiant site specifically, and the OPDC's role in facilitating development, including some general information on 'Phase 1A'.

1.6 The purpose of this report is to provide a detailed review of the BNPP site specific appraisal and conclusions. Where relevant to the assessment of viability for plan making we have commented on the OPDC's overarching narrative, however please refer additionally to the covering note prepared by Town Legal and DP9 which addresses the comments made by the OPDC.

1.7 This report is structured as follows

- **Review of OPDC's commentary** – review and response to the commentary provided by the OPDC;
- **Background** – summary of BNPP's results and conclusions, and commentary on the approach to viability adopted and the relevant planning policy and guidance;

[1] Cargiant is the freehold owner of the entire site with the exception of Site 3 (the Triangle Business Centre), for which it has a long leasehold interest

- **The Cargiant site** – a description of the site and summary of the notional 'scheme' being tested as part of the viability appraisal with reference to the information provided by the site allocations;
- **Appraisal model assumptions** – a review of the individual appraisal assumptions adopted by BNPP;
- **Land value** – commentary on BNPP's approach to land value, considering the unique circumstances presented by Cargiant's ownership and commercial position;
- **Results & analysis** – summary of the results of DS2's viability testing; and
- **Viability model conclusions** – summary of the key conclusions of the viability appraisal and what this means in terms of the effectiveness of the Local Plan.

2 RESPONSE TO OPDC COMMENTARY

2.1 As a general comment, the OPDC make a number of points relating to the importance of the opportunity area in meeting strategic spatial targets, the importance of the recent Housing Infrastructure Fund ("HIF") funding and the nature of the indicative Phase 1A (the emerging proposals being developed by the OPDC's delivery function for the first phase of regeneration at Old Oak North). Whilst this narrative is useful contextually, it is important not to conflate matters relating to the OPDC as a delivery body and those to plan making, and as such there are a number of comments made by the OPDC that are not relevant to the assessment of viability for plan making. We have commented using the numbered paragraphs contained within the OPDC's note.

2.2 Paragraph 2.5 refers to London Plan targets for the Old Oak Opportunity Area and general housing delivery. It notes that "The London Plan in part relies upon the regeneration of Old Oak to meet its housing and employment requirements". This is not relevant to the assessment of viability. First and foremost, the Plan must be informed by the evidence base.

2.3 Paragraph 2.6 and 2.7 note that meeting these targets is only achievable with the release of Strategic Industrial Land within Old Oak, including Old Oak North. Again, the implication is that the Local Plan should defer to strategic requirements without reference to the evidence base. This ignores the implications for sites which are wholly unviable and undeliverable, which by definition, would not be meeting housing targets. It is for this very reason that the OPDC has been asked to consider site specific viability at the Cargiant site, to determine whether the Plan would be effective in meeting these targets.

2.4 Paragraph 3.2 notes that "it is entirely likely that a 'normal' developer appraisal undertaken at a single point in time prior to their [Opportunity Areas] regeneration would have identified significant challenges to their delivery." This does not negate the need to demonstrate the deliverability of the Cargiant site and the long-term nature of it as a development opportunity is why the Inspector has requested that the appraisal model include long term growth and inflation measures.

2.5 Paragraph 3.2 describes the recent HIF award to the OPDC and its role in helping kick start the regeneration of Old Oak North. This is not directly relevant to the assessment of viability of the Cargiant site as it describes the OPDC's role as a delivery body. In any event, OPDC should not in fairness be permitted to make assertions or rely on the availability of the HIF funding without disclosing the basis upon which it was sought and granted and the conditions to which it is subject since, without these, the assertions it makes cannot be tested or even verified.

2.6 Paragraph 3.5 states that "Not supporting the Local Plan vision for Old Oak North would critically undermine this government investment decision. Progress with the Local Plan is important to the delivery of this clear government priority." This is not relevant to the assessment of viability.

2.7 Paragraph 4.3 notes that the Local Plan test for sites identified in the plan as coming forward after the first five year period is whether the Cargiant site is 'developable' not 'viable'. This

comment is addressed in more detail within this report, however in short, it is not considered that the Cargiant site is 'developable' because it would not become 'available' unless the OPDC used Compulsory Purchase Order ("CPO") powers.

2.8 Paragraph 4.7 concludes that redevelopment is likely to be viable during the plan period. It further states that in arriving at these conclusions the appraisal has taken a cautious approach compared to a developer's approach, citing a number of examples, including that "it adopts a density assumption that could be exceeded in practice given the exceptional transport accessibility of the location". The inference is that higher density would make development more viable, indeed this is reiterated within the BNPP report.

2.9 However, during the hearing session for matter 3 this point was explicitly discussed; in respect of the pre-application scheme which OOP were working up, the OPDC commissioned a report by GL Hearn which concluded that the Cargiant site was not viable. This was referenced in both our representations and at the hearing. In response the OPDC noted that the scheme tested by GL Hearn was of higher density than that envisaged to come forward under the site allocation, and that in this instance higher density didn't necessarily mean better viability because of increasing construction costs at higher densities. This directly contradicts the OPDC's statement that there could be a benefit, in viability terms, through denser development.

Phase 1A

2.10 Section 5 describes the proposals for Phase 1A and the role of the OPDC in bringing this forward, potentially including the use of CPO powers. Insofar as it describes the OPDC's role as a delivery body this section is not relevant to the assessment of viability of the Cargiant site. However, within the BNPP report the implication is that the 'regeneration premium' applied to residential values is, in part, based on the delivery infrastructure and homes that are as a direct result of Phase 1A.

2.11 The OPDC and BNPP refer to the National Planning Policy Framework 2012 ("NPPF 2012") which requires sites which are planned to come forward in years 6-15 to demonstrate that they are developable, in contrast to sites planned to come forward in years 0-5, which must demonstrate that they are 'deliverable'. The NPPF 2012 (footnote 11) states:

> *"To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans."*

2.12 In the first instance, the land currently earmarked for Phase 1A (notwithstanding the OPDC's comment that the plan is indicative) is, categorically, not 'available now'. As previously set out in our representations Cargiant is not a willing developer and is not proposing to release their land for residential redevelopment. The only feasible way the Phase 1A land (assuming it

continues to include Cargiant land) could become available is through the use of the OPDC's CPO powers, in which case it cannot be said to be available 'now'.

2.13 Notwithstanding the comments above, if the OPDC are relying on regenerative growth as a result of Phase 1A, as part of the Cargiant viability appraisal, then they need to demonstrate that Phase 1A is viable. As noted within the Town Legal and DP9 covering note there is a lack of clarity as to which homes are envisaged to come forward in Phase 1A and how this relates to the Cargiant Site Allocation. The OPDC has also made reference to the HIF award, however, none of the conditions of the award have been disclosed, so its true viability cannot be demonstrated.

2.14 This point is addressed in more detail within the covering Town Legal and DP9 note. We suggest that the conditions of the HIF award are disclosed to the Inspector so that the likelihood of delivery can be ascertained, and in turn, the potential impact on this viability assessment. Such disclosure would be in accordance with the Inspector's request for greater detail on Phase 1A to fully understand the proposals in the context of the Local Plan and its deliverability, and without this it is considered to adversely affect the ability to subsequently accurately determine the soundness of the Local Plan.

2.15 Whilst we have noted the importance of separating the OPDC's delivery functions from plan making, where actions being carried out by the delivery arm are directly influencing the plan making viability assessment, these either need to be explained through full disclosure, or omitted from the viability assessment.

Infrastructure funding

2.16 Paragraph 6.1 refers to the delivery of infrastructure, initially as part of Phase 1A, but more generally across Old Oak North as further development is brought forward by landowners. The OPDC state "there will be a need to deliver additional infrastructure in the future in order to complete the masterplan for Old Oak North. However, this is not required for the initial delivery of development within the envisaged Phase 1A". We have already commented on Phase 1A and the reliability (or otherwise) of relying on HIF monies to demonstrate deliverability, but more generally, if the OPDC consider there to be additional infrastructure delivered after Phase 1A (presumably on the Cargiant site) how is this to be funded?

2.17 The BNPP report concludes that "the OPDC does not expect that the [Cargiant] Site Allocation will bear the full burden of the infrastructure provision required and that as a Mayoral Development Corporation it has and will continue to seek alternative funding mechanisms to deliver the infrastructure….". This statement accords with BNPP's approach to infrastructure funding which is to assume that a developer of the Cargiant site would only be required to make contribution to the Community Infrastructure Levy ("CIL"). There are no other costs related to the delivery of infrastructure. As will be set out within this report, as part of the pre-application process there were a number of 'primary' pieces of infrastructure (e.g. bridges, major access improvements, viaduct etc) that would need to have been paid for and constructed in order to fully meet the aspirations of the OPDC for the area. As set out in in our original Regulation 19 representations it is not considered reasonable for a developer of a site the size of Cargiant to avoid any obligation to deliver any of these major pieces of infrastructure.

2.18 However, in removing any cost associated with the delivery of infrastructure BNPP support the OPDC's narrative that infrastructure delivery will be primarily paid for by alternative funding mechanisms. The OPDC refers to the "successful" HIF bid in support of this funding strategy. The reliance that can be attributed to the HIF bid is addressed in the Town Legal and DP9 note, however, for the purposes of this viability assessment, it is not considered realistic for a site of this size and infrastructure requirements, to bear no cost other than through CIL.

3 BACKGROUND

3.1 The BNPP report correctly notes paragraphs 005 and 006 of the 2014 national Planning Practice Guidance ("PPG 2014") in regard to viability at plan making stage (the underlining is our own). Paragraph 005 states:

> *"Evidence should be proportionate to ensure plans are underpinned by a broad understanding of viability. Greater detail may be necessary in areas of known marginal viability or where the evidence suggests that viability might be an issue – for example in relation to policies for strategic sites which require high infrastructure investment"*

3.2 Paragraph 006 then states:

> *"Assessing the viability of plans does not require individual testing of every site or assurance that individual sites are viable; site typologies may be used to determine viability at policy level. Assessment of samples of sites may be helpful to support evidence and more detailed assessment may be necessary for particular areas or key sites on which the delivery of the plan relies"*

3.3 In accordance with the PPG guidance the Inspector requested that the viability of the Cargiant site be considered in greater detail. At paragraph 1.2 of their report BNPP note that their appraisal provides a high-level assessment in the sense that it uses standardised inputs and broad assumptions for the notional scheme being tested when compared to a specific scheme being brought forward through planning. We do not disagree in relation to general 'scheme' parameters, but whilst a balance needs to be struck between additional detail and the higher level nature of viability assessments at plan making level, the explicit purpose of this exercise is to consider the viability of the Cargiant site and as such, we must strive, wherever possible, to reflect the specific circumstances of the site in question. This point is particularly pertinent in regards land value and what is considered to be a reasonable return to a landowner in this instance given the unique characteristics of the site's current use.

3.4 At paragraph 1.11 BNPP state that the OPDC needs to ensure that their policy requirements do not threaten the viability of a scheme and are not required have regard to "factors outside its control, such as prevailing sale values and build costs, and underlying land values, all of which are determined by the market". This statement is not correct; the very fundamental inputs that must be included within a plan making viability assessment, indeed any viability assessment, are precisely those items that BNPP state should be disregarded. It is only through a plan level viability assessment that the policy requirements can be tested, and moreover within their own OPDC Whole Plan Viability Study ("WPVS"), BNPP do consider these very items, based on their own research (see Section 4 Appraisal assumptions).

Developable vs viable

3.5 A key tenet of the BNPP report is the differentiation set out in the NPPF 2012 of what is required to be demonstrated for Local Plans, between sites coming forward in the first 5 years of the Plan and those coming after.

3.6 As set out within the covering Town Legal and DP9 note, the NPPF 2012 tests that BNPP rely on are in the context of local authorities boosting housing supply. There are a number of more relevant NPPF tests required in paragraphs 154, 158, 173, 177 and 182.

3.7 We have nevertheless responded to BNPP's approach. As previously set out at paragraph 2.12 of this report for sites coming forward in the first five years the NPPF 2012 (footnote 11) states:

> *"To be considered deliverable, sites should be available now, offer a suitable location for development now, and be achievable with a realistic prospect that housing will be delivered on the site within five years and in particular that development of the site is viable. Sites with planning permission should be considered deliverable until permission expires, unless there is clear evidence that schemes will not be implemented within five years, for example they will not be viable, there is no longer a demand for the type of units or sites have long term phasing plans."*

3.8 For sites coming forward after year five (years 6-15) a site needs to be 'developable'. NPPF 2012 states

> *"To be considered developable, sites should be in a suitable location for housing development and there should be a reasonable prospect that the site is available and could be viably developed at the point envisaged."*

3.9 BNPP and the OPDC conclude that the Cargiant site therefore need not demonstrate viability, but developability. The BNPP report concludes that the Cargiant site demonstrates a viable scheme at between 25% and 30% affordable housing with all other policy requirements, and that "it is clear there is a reasonable prospect of the site coming forward with a viable scheme". As such, BNPP consider the site 'developable'.

3.10 The Site Allocation 2 (Cargiant) which BNPP have appraised within their report includes the Apex Estate and Gateway Industrial Estate, but also the SMART repair facility,the Prestige Car Feeder Land and the in-transit area (referred to within the BNPP report as the 'Premium Car Storage Area' and the 'Remaining Finishing Area'). The draft Local Plan shows Site Allocation 2 as being delivered in years 0-21+ (see Figure 3.16), whilst Table 3.1 spreads the site's housing supply across both 'the first ten years of the plan period' and 'years 11 to 20 of the plan period'. Whilst the Development Capacity Study does identify 4,000 homes to be delivered in years 0-5 and 7,000 in years 6-10, it does not identify what sites provide these units. As such it is not clear within the Submission documents that the Cargiant site is wholly within the 6-20 year window which must meet the 'developable' test. The information provided by OPDC on its Phase 1a (which the OPDC allude to in their overarching commentary) indicates that a critical part of the Cargiant site is required within years 0-5 of the Plan, and as such, it must meet the relevant tests of the NPPF 2012 for sites to be 'viable' and 'available now'.

3.11 In respect of 'viability' this goes back to our comments made in section 2 of this report that requests full disclosure of the HIF award conditions in order to establish whether Phase 1A is viable. In respect of 'availability' it is not realistic to say that the Phase 1A land is available now given the need for CPO powers, and the length of such a process.

3.12 Notwithstanding the paragraphs above, in considering whether the Cargiant site is 'developable' as defined by the NPPF 2012 we have considered the various tests set out. Whether the site can be viably developed at the point envisaged is the entire purpose of the site-specific, growth-based, viability appraisal exercise that the OPDC have been asked to prepare. We comment more fully on this point later within this report when reporting the results of our own appraisal model.

3.13 In determining whether there is a 'reasonable prospect' that the site is 'available' we must consider the background to Cargiant's relocation. As set out in the representations made on behalf of OOP, they had been previously working up a planning application. At paragraph 1.8 BNPP suggest that this background "strongly suggests that the landowner had themselves considered the site to be developable". BNPP state that OOP were actively engaging with the OPDC in regards the planning application up until January 2019. This last statement is incorrect and further detail is provided within the Town Legal and DP9 covering note to this report.

3.14 Nonetheless, any previous pre-application discussions were, firstly, initiated by Cargiant as a response to a threat to the business, but foremost, solely predicated on Cargiant finding a suitable relocation site. The Cargiant site is a broadly contiguous 18.6 ha site which is owner occupied and, as might be expected when considering an inner London location, such sites are not readily available. Cargiant did initiate and actively pursue the search for and assembly of a new site for a number of years, starting in 2014. It had to cease this exercise when it became unfeasible. The search for a relocation option has been further compounded by the significant increase in industrial land values in Park Royal. As such it has not been possible to relocate the Cargiant business at commercially acceptable terms. This is a fact of history, not a theoretical position based on a set of assumptions.

3.15 The key question is, therefore, is there a reasonable prospect of finding a relocation site in the future? The 'future' being defined as within the next 6-10 years, at the latest, in order for the housing within the Cargiant site to be delivered within the period for which it is allocated by the Local Plan (noting that because of the site's indivisibility, the entire site needs to be available for any part of it to be available). The answer is partly due to physical constraints and logistics, and partly the value of industrial land.

3.16 In respect of physical constraints, there are a number of key, non-financial milestones that would need to occur for Cargiant to be able to relocate the business:

- Source 45.9 acres of available industrial land in an area where supply has already been materially reduced (see HS2 reference in CBRE report)
- Secure Vacant Possession (e.g. terminating leases) of new land on a co-terminus basis

- Apply and secure planning permission for a new, major industrial and retail development on the new land (this cannot be done until new land is acquired/ assembled)
- Apply and secure planning permission for the redevelopment of the Cargiant land in Old Oak North
- Construct and deliver the new industrial facility on the new land (the business cannot be relocated until this is done)
- Relocate the business and dispose of the old site

3.17 Each of the steps above do not reflect actions that can be achieved quickly, or which can happen concurrently. Under a relocation scenario all must happen sequentially, adding further time.

3.18 In respect of the value of industrial land, when Cargiant were preparing for relocation (between 2014 and 2016) industrial land values were between £2m and £3m per acre. As acknowledged by BNPP, industrial land values have risen significantly (see Table 2.2.1 of Appendix 4 of the BNPP report) since this time. As set out later within this report, we have been advised by CBRE that industrial land values in Park Royal are now £6m per acre.

3.19 Furthermore, as set out in the BNPP report industrial values are forecast to continue growing; BNPP have themselves referred to a report published by JLL titled 'Western Corridor Industrial and Logistics Market Report' published in autumn 2017 which predicts rental growth (a driver of capital growth) of 7.1% per annum for the following five years (2018-2022), albeit also reference agent advice from Savills which suggests more muted growth of 3.4% per annum. Either way, whilst we cannot wholly predict the future market, there is no evidence to suggest that industrial land values will reduce back down to the levels that would make relocation commercially feasible, notwithstanding the matter of finding a suitably sized site, or series of sites that could be assembled to form one contiguous site.

3.20 In conclusion, if there is no prospect of a commercially feasible relocation, it cannot be considered that there is a reasonable prospect that the Cargiant site is 'available'. In this respect it fails the test set out in the NPPF 2012.

3.21 BNPP and the OPDC do not even consider the test of availability. Throughout the BNPP report there is a presumption that relocation of the Cargiant business will occur, however no further detail has been provided as to how this might occur or the cost of doing so; for example, no information has been provided on the availability of suitable land/sites or costings provided which might demonstrate whether a relocation is a) feasible or b) whether such costs have been factored into the viability assessment, thereby demonstrating both key tests of 'availability' and 'viability'.

3.22 OOP have stated that relocation is not possible, now or in the future. The OPDC have not demonstrated how relocation might be feasible. Therefore, availability of the Cargiant site can only be secured through CPO powers as noted at paragraph 3.11 in relation to land falling into Phase 1A within the 0-5 year window, or the rest of the site within the 6-20 year window. We

consider the likely costs of CPO in more detail later within this report, however the underlying principle is that in order to demonstrate 'availability' such CPO costs need to be factored into this viability assessment. As noted within the Town Legal and DP9 covering note, when questioned by members of the London Assembly, Liz Peace of the OPDC confirmed that the OPDC did not have the money to CPO Cargiant.

GL Hearn report

3.23 Within the representations made on behalf of OOP reference was made to a report prepared by GL Hearn (February 2018) in relation to a specific scheme being promoted by OOP. At paragraph 1.9 BNPP dismiss the relevance of the GL Hearn report, stating that it was not commissioned to test the OPDC's policy requirements but instead was prepared in relation to a specific scheme. At the hearing session it was noted by the OPDC that the scheme tested by GL Hearn was of a higher density than the 'scheme' envisaged under Site Allocation 2 (Cargiant).

3.24 As stated at paragraph 3.3 the express purpose of this exercise is to consider the Cargiant site in greater detail so as to more accurately inform the Inspectors determination of the deliverability/ developability of the site. As such, there are a number of conclusions made within the GL Hearn report that are a material consideration to this assessment.

3.25 In particular, the GL Hearn report recognises that an Existing Use Value-based level of return to a landowner may not be appropriate when considering the viability of redevelopment of an operational business such as Cargiant, and as a result, relocation costs would form a reasonable element of the benchmark land value. This statement is made in relation to the unique circumstances of the site itself, not any proposed 'scheme', and as such it, a) falls directly under the remit of 'greater detail' as requested by the Inspector, but also b) is un-affected by any differences there might be between a specific scheme previously tested at pre-application stage and a notional scheme tested when considering the Site Allocation.

4 THE CAR GIANT SITE

4.1 Section 2 of the BNPP report sets out that in testing the viability of the Cargiant site they have considered the housing and employment targets identified by the OPDC under the site allocation. BNPP have subsequently tested the identified targets that Site Allocation 2 (Cargiant) will deliver, with reference to the Local Plan site allocations map shown below.

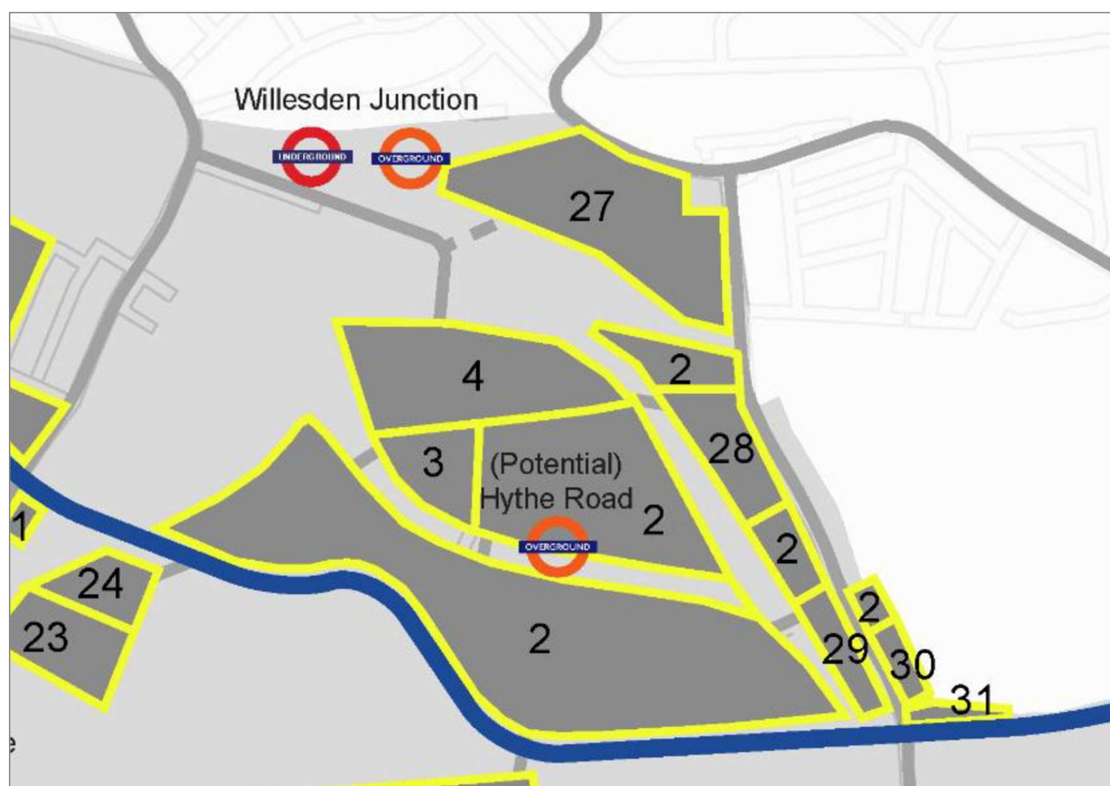


Figure 4.1: Extract from Draft Local Plan site allocations map (Source: OPDC)

4.2 Within Table 2.4.1 of the BNPP report it notes that the Cargiant site allocation identifies 5,300 housing units, 48,800 sq m of commercial floorspace and 2,650 new jobs. In the first instance we note that within Table 3.1 'Site Allocations' of the OPDC's Draft Local Plan (2nd Regulation 19 version) it refers to only 2,650 sq m of commercial floorspace. This is the same as the number of jobs, so we presume it is an error within the draft Local Plan. We have therefore adopted the figure proposed by BNPP however we request clarification from the OPDC as to the employment targets under the Cargiant site allocation.

4.3 Whilst we do not disagree with the approach adopted in referring to the Local Plan Site Allocations to arrive at a notional 'scheme' to viability test, the Inspector requested greater detail in relation to the viability of the Cargiant "site". There was no express direction to only use Site Allocation 2. We consider that Site Allocation 2 a good starting point, but the assessment of site-specific viability must also include other land that forms part of Cargiant's operation and ownership. In this respect, both the Triangle site (Site Allocation 3, held on an 89-year lease) and the majority of the Cumberland Business Park (Site Allocation 28) are owned

by Cargiant and leased out to third party tenants, in the same way as the Gateway Trading Estate (which is included within Site Allocation 2).

4.4 Included at **Appendix 1** is a map showing the extent of the Cargiant operational land (shaded yellow) and the land which is leased out to third party tenants (shaded blue). On the plan it shows that the roadways within both the Triangle and Gateway sites are shaded yellow. This is because they are used as an internal quality control test track and external customer test track respectively, and were purchased specifically for this purpose. The leases to third party tenants reflect these operational requirements. Therefore, as both owner and user of the Triangle and Gateway sites, and owner of the Cumberland Business Park, it is not considered unreasonable to include these sites within the notional scheme being tested as part of this assessment (we note that Gateway is already included within Site Allocation 2).

4.5 We have therefore updated the housing and employment targets as identified by the respective site allocations.

Table 3.1: Relevant Site Allocation details

Site Allocation	Housing units over the first 10 years	Housing units during the 11-20 years of the plan period	Minimum commercial or industrial floorspace over the plan period	New jobs
2 Cargiant	5,300		48,800	2,650
3 Triangle Business Centre	600	-	2,800	160
28 Cumberland Business Park	300	-	1,800	110

4.6 We note that the housing delivery timeframes for the Cargiant site allocation set out in Table 3.1 and illustrated on Figure 3.16 of the draft Local Plan are inconsistent with what the OPDC and BNPP have stated at the hearing session; that Cargiant is not envisaged to come forward in the first 5 years of the plan.

4.7 As noted at paragraph 3.10 of this report, Site 2 includes the Apex Estate, Gateway Industrial Estate, the Prestige Car Feeder Land and the in-transit area (referred to within the BNPP report as the 'Premium Car Storage Area' and the 'Remaining Finishing Area'), whilst Site 3 includes the SMART repair facility. All of these areas are included within the OPDC's indicative Phase 1A boundary, which is required to come forward in the first 5 years by virtue of the HIF bid time constraints. As noted, this has wider implications when determining the relevant NPPF 2012 test, but also in regards the scheme being tested and the timeframes within which it is coming forward.

5 APPRAISAL MODEL ASSUMPTIONS

5.1 We have reviewed the assumptions adopted by BNPP and our comments are set out below. In reviewing the BNPP appraisal we have prepared our own viability model and within the following commentary we set out where we have adopted different assumptions, and why.

Proposed development

5.2 BNPP have referenced a total commercial floorspace of 53,400 sq m as set out in the draft Local Plan site allocation information which is then split between retail and B1 uses. BNPP have referred to this figure as Net Internal Area ("NIA"), which in our experience would be strange as planning floorspace requirements are typically set out in terms of Gross External Area ("GEA"). We request clarification from the OPDC as to the correct basis of measurement for the commercial floorspace, however for the purposes of our model we have assumed BNPP are correct in using NIA.

Unit sizes and mix

5.3 We have adopted the same unit sizes and mix within our model.

Residential sales value and growth

5.4 We have sought specialist advice from Knight Frank in relation to the assumptions made for residential sales values, growth and sales rates. Knight Frank have prepared a letter which is attached at **Appendix 2**.

5.5 Knight Frank make the following conclusions:

- In respect of the sales values, Knight Frank consider that BNPP's average, current day value of £750 per sq ft is reasonable, reflecting the scale of the project and the requirement for competitive pricing in order to drive sales rates.

- In relation to short term value growth, Knight Frank agree that the most appropriate way to arrive at growth forecasts is to consider an average of forecasts by market-leading firms.

- They consider long term value growth based on predicted inflation in disposable income to be optimistic as this assumes disposable income is solely linked to property. Knight Frank suggest a more objective measure of 2%, being the current estimate for long term inflation, ensuring property remains neutral in real terms over this period. The more cautious approach to future growth is made in a new political, economic and taxation environment which is not comparable to the previous economic cycle, meaning that past performance cannot be used as a basis for predicting future growth.

- Regeneration premiums which are themselves based on the differential between an area-wide index and scheme specific data include an element of double counting. When

comparing the performance of new build developments against area-wide house price improvements, the difference cannot be entirely put down to regeneration, but to the 'new build premium' that is widely accepted by the industry. This new build premium is already factored in to the adopted sales value of £750 per sq ft. Therefore, in applying a regeneration premium (which itself is partly made up of the new build premium) as part of growth being applied to the current day value (which inherently already includes the new build premium), double counting is occurring.

- Knight Frank have analysed sales data from schemes they have been involved with and have sought to separate out normal new build growth from regeneration growth. They conclude that an explicit regeneration premium of 2% is considered to be more realistic, when applying this on top of average growth rates.

5.6 Within our model we have therefore accepted both the proposed values of £750 per sq ft and the short-term growth forecasts. However, on Knight Frank's advice we have applied a lower, explicit regeneration premium of 2% over years 2022-2027 and a more cautious long term growth rate of 2% thereafter.

Residential sales rate

5.7 BNPP notes that the Local Plan expects residential units to come forward between years 6-21+ of the plan. As previously highlighted, this is inconsistent with the Plan which includes phasing of the Cargiant site allocation from year 0, as well as the Phase 1A proposals which envisage homes coming forward on the Cargiant site, which by virtue of the HIF bid time constraints must be coming forward in years 0-5.

5.8 Nonetheless, BNPP have assumed off-plan sales equivalent to 35% of units, with sales thereafter at 12 per month (6 units per sales outlets). When considered in isolation, we do not disagree with an off-plan assumption of between 35% and 60%, or sales of 6 units per month from a given outlet.

5.9 However, BNPP have not considered how such a rate would work across the entire scheme. At paragraph 3.17 BNPP state that in line with the Local Plan their model assumed delivery of residential units between 2023 and 2038 (years 6-21 of the Plan), or 15 years in total. We must assume that marketing and sales of residential home occurs prior to first delivery, typically starting in advance of commencement of works. We have assumed that the construction period for each phase would be 18 months, therefore we have assumed that residential sales would first start 6 months in advance of this, so 2 years prior to first delivery (2021). On this basis, this equates to a total of 17 years of sales. We have subsequently analysed whether this time period is aligned with long term annual absorption rates for sales of private homes.

Table 5.1: Absorption rates (17-year sales period)

% of affordable housing	No. of private homes	Required sales absorption per annum
0%	6,200	365
5%	5,890	346
10%	5,580	328
15%	5,270	310
20%	4,960	292
25%	4,650	274
30%	4,340	255
35%	4,030	237

5.10 We would refer the Inspector to the OPDC's Absorption Rate Study (2018) which is included within the Local Plan evidence base. This is included for reference at **Appendix 3**. The study notes that for a medium value product the OPDC would expect a maximum of 3 developers (across the Plan area) delivering a maximum of 100 units each per annum, or 300 in total. BNPP have noted that they expect 2 sales "outlets", which would equate to an annual absorption of 200 units per annum. However, based on the total project programme being assumed by BNPP and the level of private homes that need to be absorbed over that period, the required absorption rate is significantly higher than this.

5.11 Within their letter Knight Frank comment that they do not consider an annual absorption rate above 200 units to be realistic. This is supported by comparable evidence. Taking 200 units per annum as the upper end of an acceptable range we have analysed how long it would take to sell the respective amounts of homes in the scenarios listed in table 5.1 above.

Table 5.2: Absorption time (@ 200 units per annum)

% of affordable housing	No. of private homes	Total time required to sell
0%	6,200	31 years (2021-2052)
5%	5,890	29.5 years (2021-2050)
10%	5,580	28 years (2021-2049)
15%	5,270	26 years (2021-2047)
20%	4,960	25 years (2021-2046)
25%	4,650	23 years (2021-2044)
30%	4,340	22 years (2021-2043)
35%	4,030	20 years (2021-2041)

5.12 As illustrated above, in all cases the time required for the market to absorb the number of homes far exceeds the project programme adopted by BNPP. We therefore suggest that the BNPP appraisal model is adjusted to more accurately reflect the actual timescales required. Given the relationship between long term forecasts for residential and cost inflation we would expect this to reduce the viability of the scheme.

5.13 Within our appraisal model we have assumed 200 sales per annum, and that these come forward in average phases of 300 units. On this basis, a residential phase reaches practical completion every 18 months. Subject to the amount of affordable housing being tested, this then determines the level of private homes that must be sold, how many phases, and ultimately the length of the project as a whole.

5.14 Within the Absorption Study the OPDC make reference to the delivery of Private Rented Sector ("PRS") helping to improve absorption rates. We do not disagree with this; however, the trade-off is that PRS, otherwise known as Build to Rent ("BTR") is not typically worth as much as its market sale equivalent. The different economics of BTR are recognised within national and regional planning guidance.

Affordable housing values

5.15 The assumptions made by BNPP in respect of rent levels and shared ownership criteria are reasonable and we have reflected these within our model.

5.16 BNPP refer to the GLA's affordable homes programme and the 'Approved Provider' route which allows Registered Providers ("RP") to secure grant funding at £60,000 per London Affordable Rent homes and £28,000 per Intermediate home. BNPP conclude that because the Cargiant site is of such a scale, "it would not be unreasonable to allow grant under the Approved Provider route."

5.17 The Approved Provider route is open to all providers of affordable housing who meet the following criteria:

- *Ensure that at least half of their London housing starts between April 2015 and March 2021 are affordable homes;*
- *Deliver their programme on sites controlled by them or by joint-ventures in which they have at least a 50 per cent share; and*
- *Intend to, either as themselves or as part of a consortium, own the completed affordable homes.*

5.18 For BNPP to assume that every affordable home can attract grant under this route is not considered to be reasonable. The current terms only apply to housing starts before 2021 – there is no certainty of application post 2021. It assumes that every single affordable home is being brought forward by an RP themselves. This must assume that all affordable homes are being brought forward in discrete affordable 'phases', which would not be aligned with the London Plan's aspirations for mixed and balanced communities. It also does not take into account those phases which will be delivered by a traditional developer who will sell the affordable homes to an RP in the traditional manner, in which circumstances grant might be available under the 'Developer route'. However, in accordance with the funding prospectus, grant under the developer route is only provided where affordable housing is being provided 'above the nil grant

level (i.e. what is viable) and is provided at a lower rate of £28,000 for every affordable unit regardless of tenure.

5.19 Within our model we have reduced the grant levels in line with the 'Developer route'.

Commercial revenue

5.20 The commercial revenue assumptions are considered to be reasonable.

Build costs and inflation

5.21 We have sought specialist advice from Core 5 in relation to the assumptions made for build costs and inflation. Core 5 have prepared a review of the BNPP costs which is attached at **Appendix 4**.

5.22 Core 5 make the following conclusions:

- They consider the build cost rates for the residential components to be marginally overstated. They do however consider the commercial build cost rates to be significantly understated. Benchmarking data for both residential and commercial schemes is provided to corroborate their findings

- They consider the allowance made for 'external works' to be broadly reasonable when considering the cost of 'secondary infrastructure', e.g. utilities, internal roads, remediation, drainage, open space etc. They arrive at a marginally higher figure of 8%, albeit reference benchmarking data which suggests an average of 11.5%.

- They consider the demolition allowance to be understated.

- They advise that the allowances for SUDs and attenuation, Wheelchair accessibility, Carbon requirements are incorporated within their overall build cost rates

- They consider the contingency allowance of 5% to be understated considering the stage of the project and the high-level nature of this study. They advise a higher allowance of 10%

- Their forecasts for short term and long-term cost inflation are broadly aligned with BNPP.

5.23 In summary, we have updated our appraisal model in line with the advice provided by Core 5. It should be noted that Core 5 have advised of lower build costs in relation to the major cost heading, being residential construction costs.

Primary infrastructure

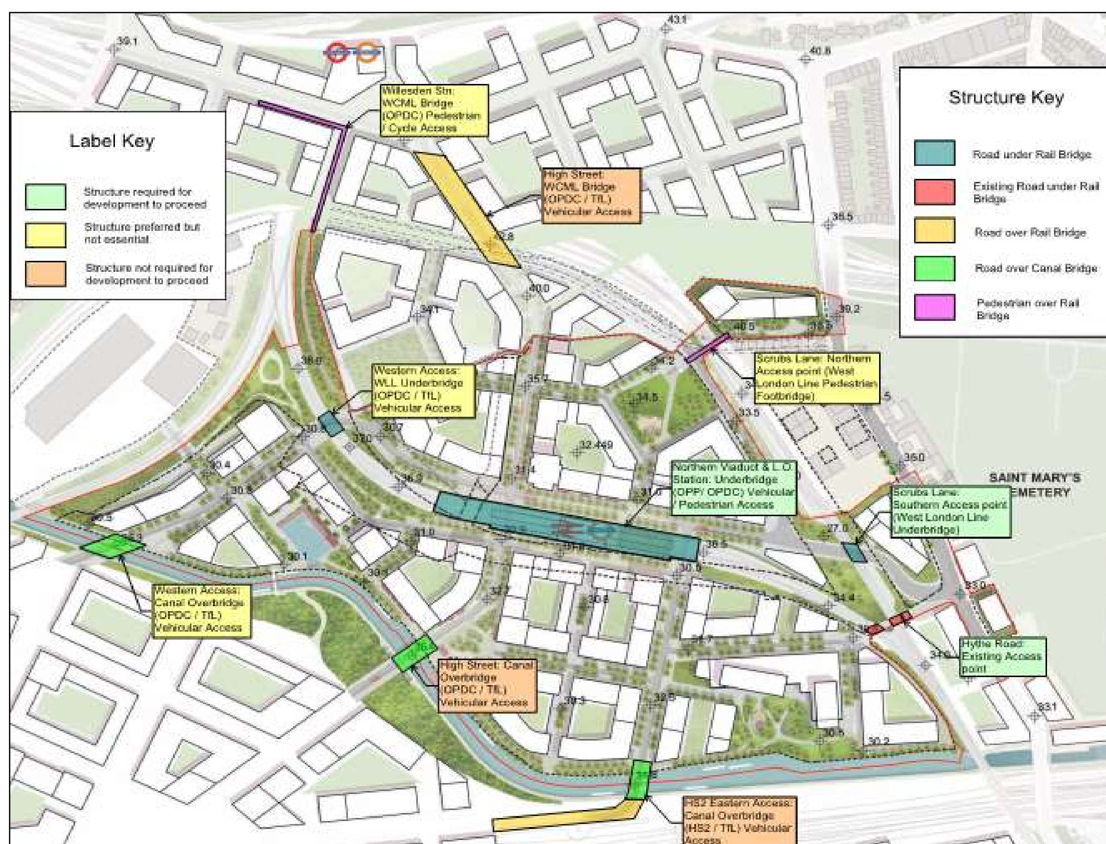
5.24 As we highlight at paragraph 2.17, the OPDC's expectations around 'primary infrastructure' are that a developer of the Cargiant site would only be required to make contribution to the Community Infrastructure Levy ("CIL"). There are no other costs that have been allowed for related to the delivery of infrastructure. As set out in in our original Regulation 19 representations it is not considered reasonable for a developer of a site the size of Cargiant, which accounts for 25% of all homes to be delivered in the Plan, to avoid any obligation to deliver any of these major pieces of infrastructure. Indeed, the OPDC state within their covering commentary that "Development specific section 106 contributions will be sought on a case by case basis". Given the requirement for key pieces of infrastructure on the site, it is not unreasonable to assume that the (part) cost of this infrastructure burden would be secured through site specific section 106 contributions. This assumption is even more appropriate given the impending abolition of Regulation 123 of the CIL Regulations, whereby section 106 is likely to be a better route for delivering infrastructure in a timely manner linked to the regeneration of major sites.

5.25 As part of the previous pre-application discussions OOP were advised by Arup who identified those essential 'primary' works as follows:

- Scrubs Lane southern access point (now replaced under the OPDC's Phase 1A plans for a new bridge at 24 Scrubs Lane)
- Enhancement to the existing Hythe Road Bridges
- Extra over cost for the northern viaduct (over and above the railway embankment cost)

5.26 The figure below illustrates where those essential Primary Infrastructure works are located within the Cargiant site (shaded green). The cost of these essential works was estimated by Aecom to be approximately £100,000,000.

5.27 As reflected within the list of infrastructure identified by the OPDC's Infrastructure Development Plan there are a range of other primary infrastructure works that may be required as part of the wider regeneration of the Old Oak North area. The figure below includes those relevant works which are either preferred but not essential (shaded yellow) and those which are not technically required for development at the Cargiant site to proceed.



5.28 We have subsequently adopted a cautious assumption that 25% of this primary infrastructure cost would need to be met directly by the developer of the Cargiant site and that the remainder of the cost would be met by other sources. This figure has subsequently been apportioned across each of the plots.

CIL

5.29 Because of the scale and delivery timescales of the Cargiant site, it is likely that planning permission would be secured either in one 'masterplan' phased planning permission, or through a series of staged permissions over the course of the delivery period. This means that development will be exposed to any future increases in CIL rates. We cannot predict what these rate increases may be but would note that future increases are not accounted for in the model.

Professional fees

5.30 The professional fee assumptions are considered to be reasonable.

Development finance

5.31 The finance assumptions are considered to be reasonable.

Market & disposal costs

5.32 These assumptions are considered to be reasonable.

Developer's Profit

5.33 These assumptions are considered to be reasonable.

6 LAND VALUE

6.1 This section of our report sets out our position is in respect of the benchmark land value adopted within the viability appraisal model. In justifying OOP's position, this section directly responds to the various comments within the BNPP report.

Planning Policy & guidance

6.2 Paragraph 214 of the recent update to the National Planning Policy Framework ("NPPF 2019") states that:

> *"The policies in the previous Framework will apply for the purpose of examining plans, where those plans are submitted on or before 24 January 2019".*

6.3 As such references to the NPPF 2019, and therefore to the 2019 update to the Planning Practice Guidance ("PPG 2019") are not applicable to this assessment of viability. Our comments in relation to planning policy and guidance are therefore focused on the NPPF 2012 and the PPG 2014.

6.4 At paragraph 3.51 BNPP refer to paragraph 014 of the PPG 2014, however before considering this in further detail it is useful to first note that Paragraph 004 of the PPG 2014 sets out the underlying principles for understanding viability in planning, which it states as:

> *"Evidence based judgement: assessing viability requires judgements which are informed by the relevant available facts. It requires a realistic understanding of the costs and the value of development in the local area and an understanding of the operation of the market"*

6.5 Moving onto land value, PPG infers that there is no 'one size fits all' approach and that "the most appropriate way to assess land or site value will vary", however it sets out common principles at paragraph 014:

- *"reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;*
- *provide a competitive return to willing developers and land owners (including equity resulting from those building their own homes); and*
- *be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise"*

6.6 The requirement for a "competitive return" is a key consideration, as set out at paragraph 173 of the NPPF 2012 to enable the delivery of development. Paragraph 015 of the PPG 2014 expands on the principle of a competitive return to a landowner:

"A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy"

6.7 BNPP have added emphasis under the reference to the current use value of the land, inferring that this is the determining consideration when assessing land value (also referred to as Existing Use Value). Furthermore, they add that in their experience the 'competitive return' is reflected within the premium over and above the Existing Use Value ("EUV").

6.8 In respect of the premium BNPP note at paragraph 3.54 that the premium above EUV should:

"…enable a developer to recover their moving costs. This follows the logic that a landowner will not be incentivised to sell their site unless the additional value over the existing use can cover their relocation costs. However, the premium over the existing use value should not reflect a return from trading the land as well as covering their costs."

6.9 We do not disagree with this statement. BNPP have however simply applied an arbitrary premium of 20% to their assessment of EUV concluding that this reflects a reasonable assumption to incentivise a landowner to bring forward a site and meet the requirements of the NPPF 2012 and PPG 2014. BNPP have not sought to demonstrate whether the level of premium they propose does actually cover Cargiant's relocation costs, and as a result whether this does provide a financial incentive for the business to relocate. Whether the premium does in fact provide an incentive is a fundamental consideration for this assessment. BNPP's approach is symptomatic of a generic, high level approach to viability, which, whilst acceptable when considering generic site typologies, does not consider the specific circumstances of the Cargiant site, contrary to the express requests of the Inspector and the whole purpose of this assessment.

6.10 Their approach here is also inconsistent with the approach they set out in the OPDC Local Plan WPVS, where they state at paragraph 3.5 that:

"Ultimately, the landowner will make a decision on implementing a project on the basis of return and the potential for market change, and whether alternative developments might yield a higher value. <u>The landowner's 'bottom line' will be achieving a residual land value that sufficiently exceeds 'existing use value' or another appropriate benchmark to make development worthwhile. The margin above existing use value may be considerably different on individual sites, where there might be particular reasons why the premium to the landowner should be lower or higher than other sites."</u> (our emphasis)

6.11 It should be noted that the OPDC have also not sought to attempt to understand the true costs of relocation, despite their HIF bid and Local Plan relying on the site to come forward. This is evident from the exchange of emails referred to within the Town Legal and DP9 covering note where key questions about relocation were only asked in May 2019.

6.12 We have considered the potential high-level costs of relocation later on within this section of the report.

6.13 BNPP also reference the Greater London Authority's ("GLA") supplementary viability planning guidance, noting the following:

> *"Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary."*

6.14 The site is occupied by a significantly valuable, profit making business that, in a redevelopment scenario, would require relocation. The GLA refer to a range of premiums between 10% and 30%, which at the very least, raises questions as to why BNPP have adopted a figure of 20% when the circumstances of the Cargiant site fall precisely within those quoted by the GLA in describing the two 'ends' of the range. More pertinently however, the GLA note that the premium must reflect site-specific circumstances. In this regard, whether the premium covers the costs of relocation is a material consideration.

6.15 Furthermore, it should be noted that Cargiant are no longer a 'willing' landowner as envisaged by the NPPF 2012. As previously stated their position is that relocation is no longer a feasible option and as such are not proposing to bring forward residential-led development on their site. The only way to secure the site for redevelopment would be through either i) relocation, only where the costs of relocation are covered, and a suitable site could be found, or ii) through a CPO. In respect of relocation costs, as we will demonstrate, the premium proposed by BNPP is wholly insufficient to incentivise Cargiant as the landowner to release their site, and as a result, at this level they cannot be considered to be a 'willing' landowner, failing the NPPF 2012 test.

6.16 BNPP consider an EUV based approach as the principal assessment of land value when considering the 'options available' to a landowner. However, in instances where the landowner is also the occupier, and the occupying business is highly profitable, another option available to the landowner (when comparing whether the price provides an incentive) is doing nothing and remaining in occupation. The PPG 2014 does not preclude this.

6.17 In this instance the Cargiant business generates gross profits of approximately £60m per year. If the value of the business is greater than the underlying value of the land 'use' then this must be a material consideration, either through the assessment of reasonable relocation costs, or when determining an appropriate extinguishment cost under a CPO scenario. As previously set out, there is no feasible relocation option, in which case the only way to make the site 'available' and therefore 'developable' is through CPO powers. The cost of this extinguishment would, in turn, need to be factored into the viability assessment to determine whether the site is 'viable'.

6.18 Ultimately, the PPG 2014 says options may include current use value of land, but in this instance, it is not the determining consideration. As we have demonstrated there is a clear policy-based

reasoning to consider either the true cost of relocation or the cost of extinguishing the existing Cargiant business, as part of this site-specific viability assessment.

6.19 Considering these options as part of this assessment does not reflect favourable treatment for the Cargiant business, which BNPP note might give rise to questions of state aid. These options are simply the culmination of considering the 'relevant available facts' as set out in the PPG 2014 at paragraph 004.

Existing Use Value

6.20 Notwithstanding the comments made above, a key part of our approach to this viability assessment is to consider an entire range of appraisal scenarios, even where those scenarios are considered to carry limited weight. In this instance, this applies to the use of an Existing Use Value based benchmark land value.

6.21 OOP is advised by CBRE in respect of industrial values. They have considered the commentary and justification provided by BNPP at paragraphs 3.58 to 3.63 and Appendix 4 of their report, and their findings are included at **Appendix 5**.

6.22 In summary, CBRE arrive at the following conclusions:

- In Park Royal prime rents now stand at £17.50 per sq ft and are now above the peak recorded prior to the global financial crisis. Rental growth is being determined by a lack of supply.
- Rental evidence from within the Cargiant site where properties are leased out show rents of up to £22 per sq ft at Triangle Estate, up to £17 per sq ft at the Gateway Estate and up to £31 per sq ft at Cumberland. In comparison, within the Whole Plan Viability Study ("WPVS") BNPP valued Benchmarks 2 and 3 at rents of between £8 and £9 per sq ft
- Prime yields stand at 4%, with a wide range of comparable evidence to support growing capital values. In comparison, within the WPVS BNPP valued at a yield of 8%.
- CBRE have considered the value of the actual Cargiant land and buildings and arrive at the following assessment of Existing Use Value:
  - Site Allocation 2 (Cargiant): £222,123,000
  - Site Allocation 3 (Triangle): £24,955,000
  - Site Allocation 28 (Cumberland): £13,530,000.

6.23 CBRE arrive at a total EUV of £260,608,000, or £5.67m per acre. This is in comparison to the current day figure provided by BNPP of between £3.48m and £3.74m (depending on whether WPVS benchmarks 2 or 3 are used).

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6.24 The CBRE report clearly demonstrates that the underlying rents and yields that have informed the WPVS benchmarks 2 and 3 are flawed when compared to first hand evidence, in particular the rental evidence from Triangle, Gateway and Cumberland. For example, the rationale for an 8% yield within the WPVS was based upon secondary industrial property of high vacancy/ low demand. In comparison the actual rates of occupancy at Triangle and Gateway stands at 100%, and 97% at Cumberland.

6.25 Furthermore, the transactional evidence provided within the report demonstrates that the resultant price per acre of benchmarks 2 and 3 are not reflective of the Cargiant site. In turn, this further demonstrates that BNPP generic approach to viability testing is not, in this instance, reasonable in that it is not reflective of the site in question being tested.

6.26 Whilst BNPP have applied a 30% increase to the original WPVS benchmark land values to reflect the growth in the industrial market since the time that study was published, ultimately the starting point has been demonstrated to be too low, so any 'grown' value is similarly too low and not reflective of the available evidence. Whilst the difference in the per acre values might appear to be a marginal, when applied across the Cargiant site it equates to a total capital difference of between £60.6m and £45.9m in the overall EUV.

6.27 At paragraph 3.61 BNPP inflate their current day industrial benchmark values to 2021, reflecting the delivery timescales proposed for the Cargiant site. As set out at paragraph 3.14 of this report BNPP refer to a report published by JLL titled 'Western Corridor Industrial and Logistics Market Report' published in autumn 2017 which predicts rental growth (a driver of capital growth) of 7.1% per annum for the following five years (2018-2022), albeit also reference agent advice from Savills which suggests more muted growth of 3.4% per annum. CBRE have considered these growth rates and consider the more cautious growth measure proposed by Savills to be more realistic.

Premium/ Relocation costs

6.28 BNPP have adopted a 20% premium over and above the EUV. As previously stated we don't consider an arbitrary premium to reflect the specific circumstances of the Cargiant site, however, in the first instance, with regard to the GLA's SPG (which BNPP reference) the site is occupied by a valuable, profit making business, and therefore if we were to adopt an EUV plus arbitrary premium, at the very least it should be at the upper end of the GLA's stated range of 30%.

6.29 On the basis of the above, we have provided an amended version of table 3.61.1 provided by BNPP to illustrate the divergence in EUV-based benchmark levels. It should be noted that this is based on an 18.6 ha site, not the 17.22ha identified by BNPP in their report.

Table 6.1: Analysis of Benchmark Land Values (EUV Plus approach only)				
	BLV 2019 (no premium)	BLV 2021 (no premium)	BLV (inc. 20% premium	BLV (inc. 30% premium)
Benchmark 2	£166.8m	£191.4m	£229.6m	
Benchmark 3	£178.9m	£203.4.m	£244.1m	
CBRE	£260.6m	£278.6m		£362.2m

6.30 The table above demonstrates that under an EUV plus (arbitrary) premium approach, the difference in benchmark land values is between £118.1m and £132.6m.

6.31 At paragraph 3.54 BNPP acknowledge that the premium "should enable a developer to recover their moving costs" but have not sought to demonstrate whether the level of premium they propose does actually cover Cargiant's notional relocation costs, and as a result whether this does provide a financial incentive for the business to relocate. We have considered the potential high-level costs of relocation in more detail, included at **Appendix 6**, and summarised below.

- Cargiant require at least 45.94 acres of operational land in order to replicate the current scale of operations.
- Geographically, any new site would need to be located within Park Royal. A key USP of Cargiant's business is its London location so its is easily accessible for both customers and workforce. A move to outside the M25 would remove this selling point and threaten the profitability of the business.
- As BNPP have acknowledged within their report at paragraph 3.59 the value of industrial land in Park Royal is more valuable than the value of the Cargiant site as industrial. CBRE estimate the EUV at £5.67m per acre, whilst the value of land at Park Royal is £6m per acre.
- We have added a premium of 5% to reflect either the need to secure a contiguous site, or the added cost of land assembly.
- Landowners of the land at Park Royal would themselves need to be incentivised to release their land to Cargiant. Given the shortage of supply in industrial land (as noted by CBRE) and the fact that many are occupied by successful businesses, a premium of between 20% and 30% has been assumed (based on a generic/ arbitrary approach to incentivising landowners, which as we have established, is not always appropriate)
- Stamp Duty Land Tax ("SDLT") and land acquisition costs (agents, legals and VAT) have been assumed at the normal rate of 6.8%
- In addition to securing new land, we must assume that not all of the new land is fit for Cargiant's specific purposes. We have assumed that the new land has a plot coverage of 65% and that of the existing buildings, 50% need to be demolished and replaced with new buildings to accommodate Cargiant's range of specialist operations. We have

subsequently applied a build cost rate for new build industrial development to arrive at a total construction cost and then the standard rate of professional fees.

- The EUV of the current site is then deducted from the total costs. This responds to BNPP's comments about not reflecting a return from trading the land as well as covering the costs, which we agree with.

6.32 In summary, even assuming a suitable site is secured, we arrive at total costs of relocation of at least £422m. This is the cost of providing a 'like for like' replacement, however whilst this may cover the cost of moving, it doesn't actually provide an 'incentive' for the business to relocate; it is simply maintaining the status quo.

6.33 If we deduct the EUV of the site then the net cost of moving the business, i.e. what the premium needs to cover, is £161.5m. When this is compared to the 20% premium applied by BNPP which equates to between £38m and £41m, it is considered woefully inadequate to cover the costs of relocating the Cargiant business. Consequently, it demonstrates that the arbitrary approach to premium does not incentivise the landowner to release their site in this instance.

6.34 The approach taken in regard to the calculation of relocation costs seeks to strike a balance between providing a greater level of detail (as requested by the Inspector) and a plan making exercise. As such, there are multiple cost headings that have been omitted as they would require significant, detailed consideration. These include the cost of new plant and machinery, fixtures and fittings, loss of profits as a result of disturbance, the cost through loss of staff, and loan financing required to acquire and hold new land before the business can move and the old site sold.

CPO/ Extinguishment

6.35 Whilst we have considered the hypothetical cost of relocation, as highlighted throughout this report the only realistic scenario under which the site can be considered to be 'available' is through the use of the OPDC's CPO powers.

6.36 As noted at paragraph 3.9 the Site Allocation 2 (Cargiant) which BNPP have appraised includes the Apex Estate, Gateway Industrial Estate, and sections of the SMART repair facility, Prestige Car Feeder Land and the in-transit area. As such a critical part of the site is within the 0-5 year window by virtue of the HIF bid time constraints, and as such, it must meet the relevant tests of the NPPF 2012 for sites to be 'viable' and 'available now'. In respect of 'availability' it is not realistic to say that the Phase 1A land is available now given the need for CPO powers.

6.37 OOP have consistently stated that due to the intensively used nature of their existing site, the business cannot continue to operate if 25% of the site is compulsorily acquired by the OPDC. A site visit was undertaken with the Inspector and the OPDC to demonstrate the nature of the operational processes that take place across the site. Each part of the site is intrinsically linked to the rest of the site given the highly efficient use of land. Under a CPO scenario in respect of Phase 1A, the OPDC would be consequently required to extinguish the entire business.

6.38 If the commercial and timescale implications of Phase 1A are ignored and the site is considered more generally within the 6-20 year window the necessary test is for a 'reasonable' prospect of availability. We have established (both through Cargiant's actions and our evidence) that there is no likelihood of relocation occurring at commercially acceptable terms. The OPDC has not demonstrated how any relocation might be feasible. As such, the only way for the site to be considered available, and therefore 'developable', is through CPO of the whole site. Consequently, in order to demonstrate 'availability' such CPO costs need to be factored into this viability assessment. The costs of a CPO are considered below.

6.39 In the absence of a suitable relocation option we must consider the potential for compensation for the extinguishment of the business. DS2 are not CPO experts however we understand that it is a capitalised sum reflecting the loss of future anticipated profits from the business. There are differing methods for arriving at a capitalised figure, but the starting point is an appropriate multiplier to the average profits of the business looking back from the date possession is taken (which is an uncertain date in the future). The scale of the multiplier reflects the certainty of the profit stream. Cargiant's annual accounts are publicly available on Companies House. We summarise the profits set out in the accounts over the last five years:

Table 6.2: Cargiant gross profits

Year end	Gross profit
2013	£45,577,000
2014	£53,710,000
2015	£66,253,000
2016	£63,915,000
2017	£59,735,000

6.40 As can be seen from the table above, Cargiant is a highly profitable and stable business. Indeed, were it not for the threat of compulsory purchase hanging over it, nor the associated immense distraction for key management, it would be growing even more strongly and looking for opportunities to intensify its activities on site.

6.41 Based on an EUV of £260.2m as reported by CBRE, and on an adjusted maintainable EBITDA (earnings before interest tax depreciation and amortisation) of £30.22m with a profit multiplier of 12 (£362.64m) and a £27.16m contingency representing the loss associated with winding down the business (i.e. redundancy, loss on discounted stock and the gradual decline in sale), we arrive at a figure of at least £650m (£260.2m + £362.64m + £27.16m) for extinguishment of the business.

Summary

6.42 We set out below a summary of our findings in respect of land value:

Table 6.3: Benchmark Land Value summary

Approach to Land Value	£	Probability	Comments
Existing Use Value (BNPP – Benchmark 2), +20%	£229,600,000	Very low	Doesn't cover relocation costs
Existing Use Value (BNPP – Benchmark 3), +20%	£244,100,000	Very low	Doesn't cover relocation costs
Existing Use Value (CBRE) + 30%	£362,240,000	Very low	Doesn't cover relocation costs
Relocation	£422,150,000	Low	Cargiant not a willing landowner. No evidence to suggest relocation is feasible and still no incentive to Cargiant
Extinguishment	**£650,000,000**	**High**	**Only way to secure 'availability' as per the NPPF 2012 test.**

7 RESULTS

7.1 The results of our review of BNPP's study are set out below.

7.2 Note that in all of the scenarios tested, the site would need to first become available through the use of CPO before viability even becomes a consideration.

BNPP model

7.3 In the first instance we have made a major assumption that the BNPP appraisal model is acceptable in all areas (notwithstanding the comments made in this report) and have tested only changes in land value that it is being compared to. We have therefore taken the residual land value figures provided by BNPP in their report and compared these to the following different land values.

7.4 Firstly, we show the results when the residual land value is compared to BNPP's Existing Use Value Benchmark 2 plus a 20% premium of **£229,600,000**. As is illustrated the viable level of affordable housing is between 25% and 30%

Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	440,840,000
	5%	£	400,340,000
	10%	£	359,595,000
	15%	£	318,670,000
	20%	£	277,587,000
	25%	£	236,315,000
	30%	£	194,740,000
	35%	£	152,803,000

7.5 Secondly, using BNPP's Existing Use Value Benchmark 3 plus a 20% premium of **£244,100,000**. The affordable housing outputs are the same as before.

Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	440,855,000
	5%	£	400,355,000
	10%	£	359,611,000
	15%	£	318,685,000
	20%	£	277,604,000
	25%	£	236,330,000
	30%	£	194,755,000
	35%	£	152,819,000

7.6 Next, we compare to CBRE's Existing Use Value plus a 30% premium of **£362,240,000**. The viable level of affordable housing reduces significantly to between 5% and 10%.

Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	440,840,000
	5%	£	400,340,000
	10%	£	359,595,000
	15%	£	318,670,000
	20%	£	277,587,000
	25%	£	236,315,000
	30%	£	194,740,000
	35%	£	152,803,000

7.7 When compared to estimate relocation costs of £422,150,000 the scheme is only viable at between 0% and 5% affordable housing.

Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	440,840,000
	5%	£	400,340,000
	10%	£	359,595,000
	15%	£	318,670,000
	20%	£	277,587,000
	25%	£	236,315,000
	30%	£	194,740,000
	35%	£	152,803,000

7.8 Finally, when compared to the estimated extinguishment costs of **£650,000,000** the scheme is wholly unviable, even at 0% affordable housing.

Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	440,840,000
	5%	£	400,340,000
	10%	£	359,595,000
	15%	£	318,670,000
	20%	£	277,587,000
	25%	£	236,315,000
	30%	£	194,740,000
	35%	£	152,803,000

DS2 model

7.9 We have then run the same scenario testing in respect of land value but using our own viability model which incorporates our comments made at section 5 of this report. However, in order to present an objective assessment of scheme viability, within each scenario we have tested different residential growth levels which we consider to be a key driver of scheme viability within the model. We have tested the growth proposed by Knight Frank, but also a 'middle ground' growth forecast reflecting the midpoint between Knight Frank and BNPP's position. The results are included in full at **Appendix 7** and summarised below.

7.10 Firstly, the results when the residual land value is compared to BNPP's Existing Use Value Benchmark 2 plus a 20% premium of **£229,600,000**. As is illustrated under Knight Frank's growth assumptions the scheme is not viable at 0%, whereas between 10% and 15% is viable under the midpoint growth scenario. It should be noted that these results are the same when using BNPP's Existing Use Value Benchmark 3 plus a 20% premium of **£244,100,000**.

KNIGHT FRANK GROWTH		
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2
30% LAR, 70% SO	0%	£ 136,540,000
	5%	£ 96,983,000
	10%	£ 51,721,000
	15%	£ 13,415,000
	20%	-£ 28,868,000
	25%	-£ 93,735,000
	30%	-£ 146,245,000
	35%	-£ 240,087,000

MIDPOINT GROWTH		
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2
30% LAR, 70% SO	0%	£ 349,581,000
	5%	£ 303,082,000
	10%	£ 250,515,000
	15%	£ 199,698,000
	20%	£ 156,342,000
	25%	£ 98,925,000
	30%	£ 58,412,000
	35%	-£ 4,247,000

7.11 Next, we compare to CBRE's Existing Use Value plus a 30% premium of **£362,240,000**. No scheme is viable under either growth scenario.

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KNIGHT FRANK GROWTH/			
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	136,540,000
	5%	£	96,983,000
	10%	£	51,721,000
	15%	£	13,415,000
	20%	-£	28,868,000
	25%	-£	93,735,000
	30%	-£	146,245,000
	35%	-£	240,087,000

MIDPOINT GROWTH			
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	349,581,000
	5%	£	303,082,000
	10%	£	250,515,000
	15%	£	199,698,000
	20%	£	156,342,000
	25%	£	98,925,000
	30%	£	58,412,000
	35%	-£	4,247,000

7.12 When compared to estimate relocation costs of **£422,150,000** and the extinguishment costs of **£650,000,000** no scheme is viable.

KNIGHT FRANK GROWTH			
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	136,540,000
	5%	£	96,983,000
	10%	£	51,721,000
	15%	£	13,415,000
	20%	-£	28,868,000
	25%	-£	93,735,000
	30%	-£	146,245,000
	35%	-£	240,087,000

MIDPOINT GROWTH			
Tenure	% AH	Base costs, planning contributions, 10% WC, SUDs, Atten & CO2	
30% LAR, 70% SO	0%	£	349,581,000
	5%	£	303,082,000
	10%	£	250,515,000
	15%	£	199,698,000
	20%	£	156,342,000
	25%	£	98,925,000
	30%	£	58,412,000
	35%	-£	4,247,000

Summary

7.13 The results are summarised below when BNPP's own model is used:

Table 7.1: Results summary (BNPP model)

Approach to Land Value	£	Probability	Viable level of affordable housing
Existing Use Value (BNPP – Benchmark 2), +20%	£229,600,000	Very low	25-30%
Existing Use Value (BNPP – Benchmark 3), +20%	£244,100,000	Very low	25-30%
Existing Use Value (CBRE) + 30%	£362,240,000	Very low	5-10%
Relocation	£422,150,000	Low	0-5%
Extinguishment	£650,000,000	High	Scheme not viable

7.14 The results are summarised below when DS2's model is used, but using two different long-term growth forecasts:

Table 7.1: Results summary (DS2 model)

Approach to Land Value	£	KNIGHT FRANK GROWTH	MIDPOINT GROWTH
		Viable level of affordable housing	Viable level of affordable housing
Existing Use Value (BNPP – Benchmark 2), +20%	£229,600,000	Scheme not viable	10-15%
Existing Use Value (BNPP – Benchmark 3), +20%	£244,100,000	Scheme not viable	10-15%
Existing Use Value (CBRE) + 30%	£362,240,000	Scheme not viable	Scheme not viable
Relocation	£422,150,000	Scheme not viable	Scheme not viable
Extinguishment	£650,000,000	Scheme not viable	Scheme not viable

8 CONCLUSIONS

8.1 The results at section 7 of this report clearly demonstrate that it is not viable to redevelop the Cargiant site. The OPDC's own evidence does acknowledge the potential for such a scenario. Within the BNPP WPVS at paragraph 4.41 it states:

> *"We would not expect a building which makes optimum use of a site and that is attracting a reasonable rent to come forward for development, as residual value may not exceed current use value in these circumstances."*

8.2 The report has demonstrated that the only way to secure the reasonable prospect of availability and meet the NPPF 2012 test, is through the use of CPO powers. Under such a scenario the costs of extinguishing the Cargiant business would need to be factored into the viability of the scheme. In no scenarios tested using the necessary extinguishment costs is the scheme remotely viable, even at zero percent affordable housing.

8.3 This report does not seek to present only a single, polarised position in contrast to the conclusions of the BNPP report. This report has therefore considered a range of scenarios to present a considered 'picture' of the site's overall viability.

8.4 Using DS2's model there is no scenario which generates a viable level of affordable housing. These conclusions are consistent across all land value scenarios.

8.5 Recognising that long-term residential growth is one of the key drivers of scheme viability, we have tested a 'mid-point' scenario between the respective positions of Knight Frank and BNPP. Using this growth measure the site is only viable at between 10 and 15% affordable housing when tested against BNPP's Existing Use Value plus 20% benchmark land value.

8.6 If CBRE's adjusted Existing Use Value plus a premium is used as the benchmark land value, even BNPP's own viability model only generates a viable level of affordable housing at between 5-10%. The OPDC has made clear its strict adherence to Mayoral policy and housing objectives. In this sense, whilst a scheme may be technically viable, in a deliverability sense, such a level of affordable housing would be politically unacceptable.

8.7 This report has demonstrated that the approach adopted by BNPP in respect of benchmark land value is not acceptable as it takes no account of the specific circumstances of the site. Whilst we have commented on an EUV approach, indeed arrived at our own figure through CBRE's valuation, the application of an arbitrary premium does in no way incentivise Cargiant as landowner to relocate the business. If an estimate of relocation costs is used, again using BNPP's own model, the viable level of affordable housing drops to between 0% and 5%.

8.8 in accordance with the Inspector's request to consider the feasibility of the Cargiant in more detail, the conclusions of this report show that when a site-specific approach to land value is applied, the site is unable to be viably delivered, even at zero percent affordable housing.

8.9 Coupled with the comments made within this report about the lack of a reasonable prospect of 'availability', this report therefore demonstrates that the site fails both the viability and availability tests set by the NPPF 2012.