# Response to Financial Viability Information

GLA Case Number: 0543h

Scheme Address: Grahame Park Estate, Stage B (Plots A-Q), London Borough of Barnet

Applicant: Notting Hill Genesis

Date: 25th November 2019

Prepared by: [redacted]

## 1. Introduction

1.1 This document represents the opinion of the Greater London Authority's Viability Team in respect of the viability position of the planning application at the date of this report. It considers the following document:

- FVA prepared on behalf of Notting Hill Genesis by Inner Circle consulting, dated October 2019.

1.2 This document is not a Financial Viability Assessment ("FVA"), nor is it a formal review. It is intended to provide advice to the Mayor and will also be provided to the LPA and the applicant to help to determine whether the scheme complies with relevant Development Plan policies and guidance, or whether further work and/ or changes to the scheme are required.

1.3 This document sets out the extent to which the viability assessment submitted complies with the Mayor's Affordable Housing and Viability Supplementary Planning Guidance ("AH&VSPG") and national Planning Practice Guidance ("PPG") and provides comments on the inputs adopted and testing results in the FVA document.

1.4 This document covers the following:

- Proposed development and affordable housing
- Site and context
- Form and methodology of the FVA
- Viability inputs
- Gross Development Value
- Development Costs
- Benchmark Land Value / Site Assembly Costs
- Appraisal results and analysis
- Overall comments and next steps

## 2. Proposed development and affordable housing

2.1 The application scheme is described as follows:

*Hybrid planning application for the demolition of 630 residential units and existing commercial, retail and community floorspace, and the phased redevelopment of Plots 10-12* *of Grahame Park comprising a full planning application for the redevelopment of Plot A and an outline planning application for the redevelopment of Plots B to Q for up to 2,088 residential units and up to 5,950sqm (GEA) of flexible non-residential floorspace.*

*Full planning permission is sought for the demolition of 113 existing homes and the redevelopment of Plot A comprising the erection of 5 buildings between 3 and 11 storeys to provide 209 new homes and 440sq m (GEA) of non-residential floorspace (Use Class A1, A2, A3, B1), landscape, public open space and public realm, associated car parking, cycle spaces and other associated works.*

*Outline planning permission (scale, layout, landscaping and appearance reserved) for the demolition of 517 existing residential units, buildings and structures on Plots B to Q, and the redevelopment of the site in a series of phases to provide up to 1,879 new homes and up to 5,510 sqm (GEA) of non-residential floorspace within classes A1, A2, A3, A4, B1, D1 and D2 including a community centre and children's day nursery in buildings ranging in height from 3 storeys to 15 storeys, with associated public open space, hard and soft landscaping, public realm, car parking spaces, and cycle parking spaces, stopping up and diversion of Lanacre Avenue and associated works.*

2.2 The applicant's FVA states that the current application comprises 13 plots to be delivered in three broad phases. The illustrative scheme includes 196,811 sq m (GIA) of development floorspace comprising of:

- 2,088 residential homes of which 50% will be affordable housing;
- Three energy centres housing air source heat pumps;
- Commercial/retail/flexible workspace units; and
- Community facilities including a Community Centre, children's day nursery, health centre and housing management office.

2.3 The breakdown of floorspace is as follows:

| Proposed Use Class | GIA (sq m) |
|---|---|
| Residential | 184,406 |
| Parking Podiums | 7,669 |
| Commercial | 2,667 |
| Community | 2,069 |
| Total | 196,811 |

<u>Affordable housing</u>

2.4 The applicant's FVA sets out details of the proposed level of affordable housing provision as follows:

*1,045 of the 2,088 homes (subject to grant funding) are proposed to be affordable, which represents more than 50% in terms of units, habitable rooms and floorspace. Of these, 346 are Social Rent/London Affordable Rent which meets the Mayor's emerging policy requirement for no net loss of social rent floorspace. Of the 346, 32 are expected to be let at target rents to existing permanent tenants who will be offered relocation within the scheme (referred to as Social Rent homes from here on). The remainder will be released for General Needs housing at London Affordable Rents.*

2.5 699 shared ownership units are proposed. The tenure split is 33% social rent/ London Affordable Rent: 67% shared ownership.

2.6 52% of the affordable units are 1 beds, 41% 2 beds, 5% 3 beds, 2% 4 beds (there is also one 5 bed unit).

Commercial and community uses

2.7 The FVA assumes an indicative mix of commercial uses comprising 2667 sq m retail, leisure and workspace, which includes 402 sq m of A1, A2, A3 and B1 uses within the detailed application.

2.8 Consent is also sought for a number of community uses that are to be replaced and renewed through the application. These are required through the Principal Development Agreement with between the applicant the council and will be secured through the S106 agreement. This is dealt with through financial contributions within the appraisal reflecting the arrangements set out in the Development Agreement. No income is included for the community facilities as these are expected to be let at peppercorn rents. This should be secured within the S106 agreement.

Construction programme

2.9 An indicative construction programme has been provided as follows:

| | Phase 1 | Phase 2 | Phase 3 |
|---|---|---|---|
| Total homes | 428 | 859 | 801 |
| Start on site (demolition) | Jan 2020 | Sept 2022 | Dec 2026 |
| First Handover | June 2022 | Sept 2024 | Dec 2028 |
| Practical Completion | Aug 2025 | Dec 2028 | Oct 2034 |

2.10 An indicative phasing plan is included at Appendix 1.

## 3. Site and context

3.1 Grahame Park is a housing estate constructed in the 1960s and 1970s and is owned by the London Borough of Barnet.

3.2 Stage A of the redevelopment comprised of the delivery of 685 new homes plus commercial uses. An application for 1083 homes as a part of Stage B plots 10-12 was refused consent following a direction by the Mayor.

## 4. Form and methodology of the FVA

4.1 Inner Circle Consulting’s assessment, prepared on behalf of the applicant, uses the residual valuation method deducting development costs from values to arrive at a residual profit which is considered against a target rate of return.

4.2 The benchmark land value has been assumed to be zero as the council will make the land available at nil cost.

4.3 Argus Developer has been used which is a standard valuation model. A summary of inputs and modelling results has been provided, together with the appraisal summary and model.

# 5. Viability inputs

## Gross Development Value

Residential: Market Tenure

5.1 Inner Circle Consulting has relied on advice from Savills to adopt an average value of £684 psf in their FVA. Values range from £705 psf for studios to £626 psf for a 3B6P flat and £555 psf for 3B6P house.

5.2 Savills have undertaken analysis of the Colindale market and reviewed sales values at six developments, adjusting values of each plot taking account of the circumstances of the proposed development. Asking and achieved prices have been sourced from Molior.

5.3 The closest development is the Barratt scheme at Trinity Square which achieved average values of £586 psf based on transactions from early 2019.

5.4 The next closest scheme is the St George development at Beaufort Park. Savills record average asking prices of £693 psf and achieved prices of £660 psf. More recent data available on Molior indicates a higher average value of £752 psf, however this is for a small number of properties.

5.5 Savills consider that the key comparables are Beaufort Park and Colindale Gardens (Redrow) in terms of scale and location. Average achieved values at Colindale Gardens are lower than those adopted for Grahame Park at £556 psf. They consider that capital values at Beaufort Park are marginally stronger at Beaufort Park reflecting the Berkeley brand and proximity to Colindale Tube station.

5.6 Average achieved and asking prices for the other schemes reviewed are lower than those adopted in the FVA for the application scheme.

5.7 Taking into account the information provided by Savills and a review of up to date asking and achieved prices available on Molior, the current day pricing adopted for the application scheme is considered to be reasonable.

5.8 However, given the long-term nature of the scheme which is due to take nearly 15 years to develop, it would also be appropriate to take into account projected future values and costs over the lifetime of the development when considering the deliverability of the scheme.

Residential: Affordable

5.9 The affordable housing will be purchased by Notting Hill Genesis. The values have been calculated based on their investment criteria which for social rent and London Affordable Rent is based on positive net present value calculated over 60 years from practical completion. Shared ownership values of £442 to £523 psf (ave £487 psf) have been adopted which have also been reviewed by Savills who consider that they are achievable and will meet relevant affordability criteria.

5.10 The adopted values include affordable housing grant based on standard GLA grant rates further to discussions with GLA Housing and Land.

5.11 Capital values per sq ft for social rent and London Affordable Rent have not been specified and neither have assumed values for the three tenures without grant. These should be provided together with further information regarding assumptions and calculations for determining these values.

Commercial Values

5.12 In relation to the 2,667 sq m floorspace, a rent of £16 psf has been capitalised at a yield of 7.5%. A rent free / marketing period of 12 months has been assumed. The value has been rounded up to £200 psf.

5.13 This is in line with recent rental transactions for retail and office uses in the area.

Ground Rents

5.14 No value has been attributed to potential ground rent income. Although legislation relating to the removal of ground rents is proposed, it has not been enacted and given that the viability assessment has otherwise been undertaken on a current day basis, values for ground rents should be included to ensure a consistent approach.

5.15 Furthermore, as far as we are aware ground rents are included within the leases of the properties used to evidence the adopted residential values. If ground rents were not to be included within the leases in the proposal, it would be appropriate to make a reasonable adjustment taking into account the additional purchasing capacity of buyers arising from lower housing costs.

Car Parking Values

5.16 These have been assessed by Savills at £15,000 for undercroft parking and £10,000 for surface parking. Rents have been compared with those achieved at Beaufort Park and other local developments.

5.17 Values have not been assumed for spaces allocated to social and London Affordable Rent properties or for accessible spaces which will be made available free to disabled residents. Provision of free parking for disabled residents should be secured within the S106 agreement.

## Development Costs

Construction costs

5.18 Inner Circle Consulting has relied on a Cost Plan prepared by Arcadis which indicates a total build cost of £556.7m which equates to £2,976 per square metre.

5.19 The construction costs include £19.8m of facilitating works, £41.1m of external works and services and £352.4m of building works. Additional costs for preliminaries (16%), contractor’s design fees (4.5%), overhead and profit (6%) and risk allowance (5%) have been applied.

5.20 These costs are considered to be high, particularly given the high proportion of affordable housing and that the commercial floorspace is included in the overall average £2,976 psm cost figure.

Fees/ Contingency

5.21 Professional fees of 9.8% on build costs have been adopted comprising pre-contract design and planning fees (4%), post-contract design fees (4.5%) and employer's agent and independent certifier fees (1.3%).

5.22 Sales and marketing fees at 3% of private sale GDV have been included.

5.23 A professional fee allowance at 9.8% on build costs and sales and marketing fees at 3% of private GDV are consistent with other schemes that the GLA has reviewed and are considered to be reasonable, subject to removal of the contractor's design fee from the construction costs as referred to above.

5.24 An additional development management allowance of 2% of construction cost has been included to cover the applicant's internal costs in managing the development. The FVA states that this has been applied to the market homes only.

5.25 The inclusion of an additional development management fee as a development cost is not a typical approach as internal costs should be covered by the developer return, which is considered further below.

5.26 An additional client contingency of 1% of construction cost has also been included. This is in addition to the 5% construction contingency which is referred to above. Development risk is already accounted for the in the developer return which is considered below. An additional 1% client contingency is not considered to be necessary and is not accepted.

5.27 An update to the modelling should be undertaken excluding the contractor's design fee, development management fee and client contingency costs and addressing other issues identified by the GLA and provided for further review.

Finance

5.28 A finance rate of 4.5% has been adopted based on the standard Notting Hill Genesis inter-company lending rate. Total finance costs equate to 23.98m which is 3.5% of total scheme costs, which is considered to be reasonable.

Community Infrastructure Levy and Financial Section 106 Planning Obligations

5.29 An allowance of £16.3m with respect to CIL payments and £4.64m for payments relating to financial planning obligations has been assumed. An additional S106 payment of £7.099m has been included to account for the contributions to the be paid to the council for community facilities under the Development Agreement. These amounts should be checked and verified by the LPA and calculations provided to the GLA.

Developer's return

5.30 The applicant considers that a target return of 20% profit on private sale GDV is justified given that this is a long-term estate regeneration scheme with significant upfront costs. The applicant does not have a target profit on affordable housing reflecting that it is a housing association with the purpose of providing affordable housing and is willing to purchase the affordable housing which removes a substantial element of risk on those homes.

5.31 The applicant's target return of 20% on GDV for the for sale element of the scheme is considered to be excessive. This is particularly the case in these circumstances given that this is an estate regeneration scheme being brought forward by a housing association. Estate redevelopment schemes are facilitated and typically delivered by councils or housing associations for the purpose of providing improved housing, environmental conditions and community facilities. Where market housing is provided, this is to cross-subsidise the delivery of affordable housing which should be maximised in addition to the re-provision of existing affordable housing, as required by the Draft London Plan.

5.32 As noted above, housing associations are not-for-profit organisations with the specific purpose of providing affordable housing. As such it is not considered appropriate to target levels of return associated with a speculative private developer model. In the GLA's experience housing associations typically work to a target of c.10% on development costs. In this case, the applicant's assessment indicates that it is prepared to progress with the development on the basis of an 8.1% return on value (8.9% on cost) and 12.7% on private sale GDV. This is considered further under Appraisal Results and Analysis below.

## 6. Benchmark Land Value/ Site Assembly Costs

6.1 As noted above a zero Benchmark Land Value ("BLV") has been assumed given that the council is making the site available at nil cost for regeneration of the estate.

6.2 Site assembly costs of £20.35m have been included which relate to the cost of re-housing existing residents and buying back leasehold properties which were sold under Right to Buy. Payments to the 63 leaseholders are based on the active leaseholder buy backs programme and have been informed by costs from earlier phases of the development of the estate. Home loss and disturbance costs have been based on statutory costs. Some leaseholders will be entitled to an interest free equity loan. This has been included as a cost, however no allowance appears to be made for the repayment of the loan over time. Compensation costs for commercial tenants have also been included.

6.3 A separate allowance for council regeneration costs of £4.75m has been included to cover the costs of re-housing non-secure tenants and for making one or more compulsory purchase orders to secure vacant possession. This is comprised of £200,000 for 20 years based on council costs to date and the allowances in the development agreement, plus a £750,000 allowance for CPO costs.

6.4 An additional cost of £2.4m has also been included to account for the development agreement requirement that £120,000 per annum should be made available for social and environmental regeneration projects on the estate.

6.5 The inclusion of these costs is accepted in principle, however further evidence should be provided to confirm that these costs have been and are likely to be incurred as the levels assumed. The approach to leaseholder equity free loans should also be clarified and an allowance should be included for repayment in an updated appraisal to be provided to the GLA.

## 7. Appraisal results and analysis

7.1 The applicant's assessment generates a residual profit equivalent to 8.1% on Gross Development Value and 12.7% on GDV on private sale (including commercial properties and car parking). This is lower than the applicant's target profit of 20% for private residential and they consider that this results in a viability gap of £35m. However, as noted above, the GLA do not consider that a 20% return is necessary or acceptable for a residential scheme of type or for a council/ housing association led estate regeneration project.

7.2 The assessment indicates that the applicant is willing to proceed on the basis of the returns identified through their development appraisal (8.1% on GDV). As such, it is not accepted that the scheme generates a viability gap/ deficit.

## 8. Overall comments and next steps

8.1 This is a long-term estate regeneration scheme providing 32 homes at target rents to existing permanent tenants, 314 London Affordable Rented and 699 shared ownership homes. Overall the scheme comprises 50 per cent affordable housing which is weighted towards intermediate shared ownership housing.

8.2 The applicant's assessment indicates that the scheme generates a substantial viability gap, however the GLA does not accept all of the adopted assumptions and there are areas where further information is requested.

8.3 An updated report and appraisal which accounts for the comments set out in this document should be provided incorporating the following:

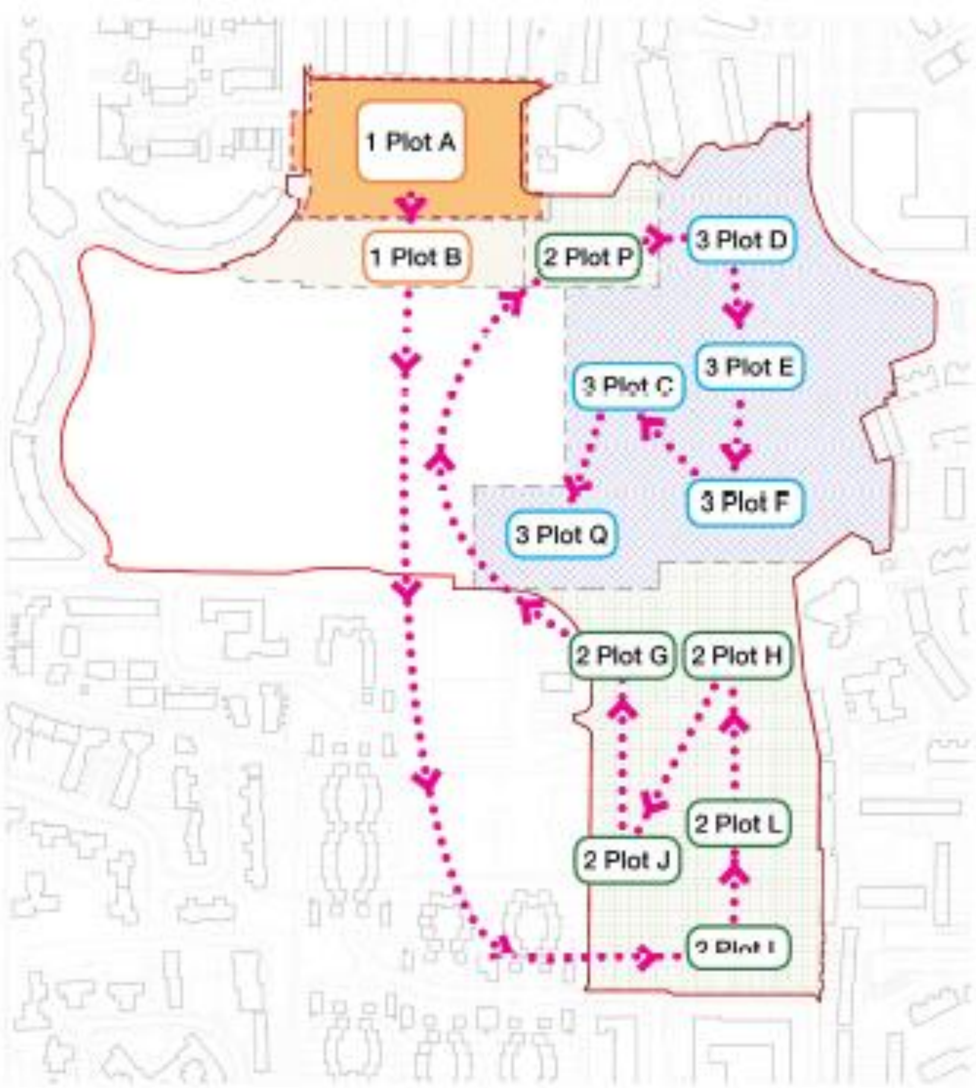
- Capital values per sq ft for social rent and London Affordable Rent and assumed values for the three tenures without grant, together with further information regarding assumptions and calculations for determining these values.
- Capital value arising from ground rent income.
- Exclusion of development management fee and client contingency cost allowance.
- The council's verification of the CIL and S106 costs assumed within the appraisal or updated to reflect any revised costs.
- Further information and evidence regarding site assembly and council regeneration costs.
- Clarification regarding the approach to leaseholder equity free loans and inclusion of an allowance for repayment of loans.
- Assessment of the above on the basis of current day values and costs, and sensitivity testing based on projected values and costs.
- An updated assessment taking into account the comments above to determine whether a greater mix of intermediate tenures to include London Living Rent and a higher proportion of social rent/ London Affordable Rent can be provided.

8.4 The scheme is being assessed under the Viability Tested Route and will be subject to early and late viability reviews as set out in the Mayor's Affordable Housing and Viability SPG and Policy H6 and H10 of the Draft London Plan. A draft S106 agreement should be provided to the GLA at an early stage which incorporates the Mayor's approach to review mechanisms and standard review clauses.

8.5 The S106 agreement should secure the following items referred to the FVA as being provided as a community benefit and for which no value has been included within the appraisal:

- Community facilities let at peppercorn rents.
- Provision of free parking for disabled residents should be secured within the S106 agreement.

## Appendix 1 Indicative Development Phasing Plan



# Update to GLA Viability Comments

## 18th March 2020

### 1. Introduction

1.1 The applicants have provided additional information and an updated viability report (25th February) in response to the GLA's comments. This update considers the revised report and provides conclusions regarding the GLA's consideration of the viability information.

### 2. Affordable Housing values

2.1 Further information regarding the values for the affordable housing units has been provided including capital values for London Affordable Rent and social rent units. These are in line with values applied on other referable schemes that the GLA has reviewed and information regarding Registered Provider purchase prices for affordable housing secured through S106 agreements.

### 3. Ground rents

3.1 The FVA confirms that the Principal Development Agreement between the applicant and LB Barnet requires any ground rent income to be reinvested in community regeneration activities and therefore it has not been counted as income for the scheme. This is a reasonable approach in these circumstances.

### 4. Professional fees

4.1 A professional fee allowance at 9.8% on build costs and sales and marketing fees at 3% of private GDV are consistent with other schemes that the GLA has reviewed and are considered to be reasonable. Contractor's design fees have not been added as an additional fee item in the appraisal to avoid double counting as this is included in the construction cost.

4.2 The applicant has agreed to remove the client contingency cost allowance in accordance with the GLA's comments that any additional contingency over the cost contingency should be accounted for within the developer's return.

### 5. CIL and S106 costs

5.1 These costs have been updated reflecting the applicant's calculation of CIL costs and S106 costs in the draft agreement with the council. The agreement will secure the re-provision of community facilities.

### 6. Site assembly and council regeneration costs

6.1 Further information has been provided regarding site assembly and council regeneration costs. This includes purchase prices for properties and demonstrates that the assumed site assembly costs are closely aligned with actual costs incurred to date.

6.2 Further information has also been provided regarding council costs to be paid under the development agreement to support delivery and towards social and economic regeneration projects. This includes invoices for recent charges made by the council which are in line with the budget allowed for in the FVA and details of funding made available for current regeneration projects which for last year exceeded the allowance in the FVA. The council have confirmed that the costs allowance is reasonable and that costs are expected to continue at a similar rate into the final phases of the project.

6.3 The applicant has also provided further details regarding the approach to leaseholder equity free loans and has included an allowance for repayment of loans which has been deducted from the total site assembly cost figure.

## 7. Updated Assessment

7.1 The applicant has undertaken an updated assessment taking into account the comments provided previously by the GLA and to reflect updated S106 and associated costs. This generates a higher level of return (£66.2m 8.77% of GDV) compared with the previous appraisal (£61.4m 8.1% of GDV).

7.2 The applicant included a target return of 20% on GDV for market housing in its original FVA report which the GLA considered to be excessive, however no return was included for affordable housing. It is appropriate to include a return for the affordable element to allow for project management costs associated with developing this. The applicant has adopted a blended target return of 14% on GDV which is a higher level of return than may be assumed in other registered provider led schemes but is considered to reasonable in this case taking into account the complexity, upfront costs and risk profile associated with this long-term project. On this basis it is concluded that the scheme is delivering the maximum reasonable level of affordable housing and that a deficit arises based on current day values and costs.

7.3 The applicant has also considered the impact on viability of projected values and costs as forecast by sales agents and cost consultants based on available information from 2019 to 2023. This indicates that construction costs may increase at a faster rate than development values and that market conditions are unlikely to improve viability in the short term. Given the long-term nature of the scheme, the applicant has however agreed to the inclusion of two mid-term viability reviews, in addition to an early review (if an agreed level of progress is not achieved within two years of the grant of permission), and a late viability review. These will assess changing values and costs over the lifetime of the development and whether additional low cost rent housing can be provided (switched from intermediate housing), and following this whether additional affordable housing (low cost rent and intermediate) can be provided (instead of market housing).