Session 5 – Neptune Group - Annex 3
Comments on Viability and Deliverability Issues - GL Hearn

The draft AAP states that the London Borough of Tower Hamlets intends to work with landowners to safeguard a site for provision of a 3 form entry primary school as part of the comprehensive development of site(s) adjacent to the Hertford Union Canal (specifically Neptune Wharf, designated as Opportunity Site 3 in Chapter 7).

GL Hearn has undertaken a significant amount of work in testing the emerging proposals on the Neptune Site to ensure that any scheme for which planning is sought on the site is viable and deliverable. The authority has commissioned its own report on the viability of potential sites where infrastructure may be considered on site and cites reliance on this report to support its assertion that a school would be both viable and deliverable.

We will firstly make comment of this report by BNP Paribas titled – *Tower Hamlets Sites and Place Making Development Plan Document – Site Viability Testing*. We will then consider our own viability work carried out in connection with the site and what other sites in the vicinity have been able to bring forward by way of planning benefits.

<u>The BNP Report:</u>
The report runs high level generic appraisals for 10 sites in order to consider whether they can viably incorporate certain requirements for community infrastructure.

The report specifically considers only the provision of land and not any associated costs of providing either the landscaping for a park or building of a school. The conclusion in respect of the Neptune site is that the site cannot viably incorporate either the loss of 1.4 ha. for a park and school or the lower loss of 1 ha.

The report also includes a sensitivity analysis which suggests that residential values would need to increase from the base level of £403psf to either £600psf or £710psf to become viable. It is not clear but it is assumed that the build costs need to remain constant to achieve viability at these levels.

It is unlikely that if values grow build costs will not grow in tandem and even if there is growth in values we believe it highly unlikely that the levels stated would ever be reached and therefore **it has to be concluded from the report that it will never be a viable proposition to provide a school and/or park on the Neptune site.**

However we do have some serious doubts about the assumptions made within the report to arrive at the conclusions. In particular the level of density of development seems unrealistically low at 70 units per hectare. This would produce a low density housing scheme not the type of scheme which is already in evidence adjacent to the site and which the site clearly has capacity for and indeed the density of development that the AAP seeks to encourage. At this level it is unsurprising the scheme is unviable even without the provision of infrastructure – indeed it produces a value of £173,000 per acre which compares with a level of £2m per acre at which land without permission is currently being traded in the vicinity.

We also note the EUV adopted, even with the addition of a premium to reflect hope value for alternative development, is also woefully short of the open market value currently envisaged by valuers who have recently carried out a valuation of the site for bank's purposes.

We would also suggest that the levels of private residential sales value adopted are optimistic and that the values placed on parking are certainly too high when combined with the base rate adopted for the residential. Further we note that the levels of costs do not change between a 70 unit per ha scheme and a 390 unit per ha scheme – this cannot be correct. Again a broad brush approach to decontamination is taken at £5,000 per unit – this will not be correct. Finally there is no mention of the mayoral CIL which needs to be allowed for and is a considerable cost in the order of £2.5m for the schemes which have been discussed with the planning authorities. This will further reduce viability from that suggested in the BNP report.

We would also note that the appraisals contained in the appendices do not appear to match the values quoted in the report. The appraisals only include £4,000 per unit of section 106 costs as opposed to the discounted charge as set out in the LTGDC Planning Obligations Community Benefits Strategy of £10,000 but even at this level the scheme is not viable.

In reality, the BNP report offers no sound basis upon which to conclude that a school on the Neptune site would be viable. The conclusions which can be drawn from this report are as follows:

- The Neptune site is one of the least viable of the sites considered by the BPN Report
- The Neptune site cannot support any additional infrastructure unless there is an unrealistic step change in values – a wholly unrealistic prospect
- With zero affordable housing and no section 106 payment the residual land value would only just achieve the viability benchmark figure which we have pointed out is too low.

Site Viability

We have given advice to the site owners in relation to the level of planning benefits that this scheme can afford if it is to remain viable and deliverable. We have used the same methodology as used by BNP Paribas in their viability report which under section 3 states " In order to assess whether a development scheme can be regarded as being economically viable, with a given level of planning obligations, it is necessary to compare the RLV that is produced with a benchmark land value."

In section 5 the report notes that the viability benchmark value has been arrived at by estimating existing use values and adding a 20% premium to encourage landowners to bring sites forward for development. In the subject case the site has recently been valued for bank purposes and we have adopted this value plus a premium to arrive at a viability benchmark value. We have then tested the RLV or residual land value produced by various schemes against this value.

The advice given has been used to shape the scheme. What is clear is that the scheme cannot be policy compliant and remain viable and therefore deliverable – it can however deliver significant planning benefits and as it is likely to be the first major mixed use scheme to come forward on Fish Island will be a catalyst for further development which as suggested by BNP Paribas will lead to an increase in values which will allow the planning authority to benefit from further planning benefits resulting from later development on surrounding sites.

We set out below some options to assist in an understanding of what this site can and cannot deliver:

<u>Scenario 1</u>

- A policy compliant scheme including circa 35% affordable housing, CCI space, bridge link, open space together with Mayoral CIL and £10,000 per unit discounted standard charge s106 payment
- This option delivers a significantly negative land value in the region of -£15 million and is not viable and is not deliverable

<u>Scenario 2</u>

- A scheme along the lines being discussed with the planning authorities to include approx. 10% affordable housing, CCI space, a new bridge link, open space together with Mayoral CIL but no further contribution towards the discounted standard charge – Delivers an RLV which is similar to the viability benchmark value – it therefore breaks even.

<u>Scenario 3</u>

- A scheme including a 2 or 3 form entry school of a flexible format on circa 0.24 ha footprint with residential levels over the school accommodation, ie, a mixed-use building.
- This option would result in a further cost of circa £4-£5m over the previous scenario in terms of loss of development floorspace and increased costs. This is a significant deficit which would make the scheme unviable and prevent its delivery
- To address this impact, it would be necessary to seek a significant reduction in other benefits in order to seek to create a viable platform. Such impacts would be significant as they would be identified as AAP or development plan priorities. There is no certainty that such reductions would be acceptable in terms planning policy or other local policy priorities. We estimate that a further reduction by half in the affordable housing (to circa 5% - 7.5% of the scheme as a whole) and a reduction in the level of contribution towards the new bridge / enhanced crossing (a key AAP priority) and a reduction in affordable CCI space would be necessary.

<u>Scenario 4</u>

- Provision 0.4ha of land as suggested by the AAP – we estimate that this would make the scheme unviable even allowing for a reduction to zero affordable housing, the level of deficit being too large for ‘adjustments’ in the s106 / policy elements to manage.

- It might be suggested that the north-south enhancement could be excluded from the scheme however this would impact badly on the regeneration strategy for the area, undermine the value of the scheme and surrounding FI sites and deter from investment in the site and surrounding area. Therefore in our opinion a loss of 0.4ha of land for a school would make the scheme unviable and prejudice AAP and development plan objectives to an

Planning Benefits delivered by other schemes locally

In support of the viability appraisals that we have carried out which show that delivery of planning benefits is not easy in the current market we would refer to two other cases:

The first of these is the LTGDC’s own application at Hackney Wick Railway Station. In this case the LTGDC carried out their own viability assessment in support of their application which showed that the scheme in addition to 130 private residential units and CCI space was unable to deliver any affordable housing and could only deliver a contribution to the tariff of £1.3m. Alternatively it could have delivered 4% affordable on site and no tariff. In addition the rents for the CCI space is to be limited to £15psf. In our view based on offers received from CCI operators this level of rent is not viable for affordable tenants and is on a level with commercial levels likely to be achievable generally in the area.

Also the scheme was granted permission before the requirement to contribute to Mayoral CIL. This scheme therefore contributes significantly less planning benefits than the subject Neptune scheme which even before any cost of providing a school contributes over £20m by way of affordable housing, the bridge and CIL payments, this being in addition to the CCI space delivered at affordable rents.

The second example is the Landprop scheme at Strand East, Sugar House Lane where GL Hearn provided a viability submission as part of the planning application. This submission has been validated by the LTGDC’s own independent financial expert who has agreed with the findings of our report. In this case a significantly larger scheme of 1,200 residential units can only provide 8% affordable assuming no grant funding.

In conclusion it is our opinion based on both the BNP Paribas work and our own that the inclusion of a 0.4 ha site for a 3 form entry primary school on the Neptune Wharf site would render it unviable and undeliverable.
