

POSITION STATEMENT

NeptuneWharf – LBTH Response

In respect of Session 5
Mid FishIsland – Including Opportunity Sites
Annex 3: Neptune Group - Comments on Viability and
Deliverability Issues

**London Borough of Tower Hamlets
FishIsland Area Action Plan
Local Development Framework
9 July 2012**

This statement provides the Council's response to the issues stated within Neptune Group's Position Statement –Comments on Viability and Deliverability issues. It does not seek to repeat information relating to the Council's position as stated elsewhere.

Issue 1: The BNP Report:

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.

Council's Response:

1.1 In relation to this point we refer back to the Sites Viability Report which concludes that the current viability position should not preclude the allocation of infrastructure to these sites. :

"The least viable sites are located in FishIsland, where values are considerably lower than most other parts of the Borough. However, these sites are currently predominantly industrial in nature, with very little residential accommodation. As is commensurate with their industrial nature, the public realm is relatively unattractive which has a significant impact on potential sales values. As the redevelopment of the area gathers pace and the area develops into a new urban quarter, there is likely to be a step-change in values. Evidence from other sites in London indicates that expectations for such a step-change can be regarded as realistic. Consequently, the current viability position should not preclude the allocation of infrastructure to these sites. Indeed, this infrastructure would be essential in attracting potential residents into the area". (Tower Hamlets Sites and Place Making Development Plan Document – Site Viability Testing, published Feb. 2012)"

Issue 2: Assumptions made in Viability Report

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.

Council's Response:

- 2.1 The Council views the methodology for selecting sites to be sound and of an appropriate level of detail required for the Strategic Policies of a Development Plan Document. The approach, methodology and assumptions uses viability appraisals to determine the development viability of site allocations within the MD DPD and FI AAP.
- 2.2 This method uses a development appraisal package in widespread use in the development industry and by planning authorities. Further, more detailed viability assessments will be required as proposals are brought forward as part of the development management process. The Assumptions relating to the density of development, existing use values, residential sales, planning obligations and other development costs used in the viability testing are described in Chapter 4 of the Sites Viability Test Report.

Issue 3: Conclusion

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.*

Council's Response:

- 3.1 Disagree. The Council's approach to selecting sites in light of viability and deliverability associated with land assembly is stated within the document attached to the letter sent to Austin Mackie Associates on 27 June 2012 and remains unchanged. In addition to this we have responded to issues regarding the testing of viability in the response to issues 1 and 2 above.

Issue 4: 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:

Scenario 1

- 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*

Scenario 2

- 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.*

Scenario 3

- 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.*

Scenario 4

- 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

Council’s Response:

- 5.1 The Position Statement includes a number of scenarios and provides an understanding of what each scenario could deliver in relation to viability. The scenarios suggest that a fully policy compliant scheme (scenario 1), or a scheme which includes the provision of land suggested by the AAP (scenario 4) would make the scheme unviable. Scenario 3 suggests that a scheme which includes a school as part of a mixed use building, in conjunction with a reduced contribution towards other AAP priorities (such as affordable housing, affordable workspace and a reduction in the level of contribution towards the new / enhanced waterways connection), could result in a viable scheme. It is also stated that such a scenario may not be acceptable in policy terms. This analysis concludes that the scheme cannot be policy compliant and remain viable.
- 5.2 The Council recognises this and, as stated in the Primary School site Selection Paper, that it is committed to ensuring viability issues are fully considered as part of the development management process and if necessary will prioritise infrastructure objectives to ensure the development is not overburdened and it is the school which is delivered. This has been recognised in response to the NPPF as well as representations received, and it is proposed that additional wording will be provided to Section 7, ‘Delivering the AAP’ to provide clarification regarding funding and delivering infrastructure.

“The Council will take a proactive approach toward development when delivering the AAP through the development management process, that reflects the presumption in favour of sustainable development as set out in the National Planning Policy Framework. The Council will seek to balance the need for encouraging and promoting redevelopment in Fish Island, with the requirement for contributions towards priorities, as defined by the policies in the AAP and the Implementation Plan in Appendix 2”.

- 5.3 In relation to the form of the school which could be provided, as included in Scenario 3, the Council is flexible with regard to layout and design to ensure the new school will not unduly compromise a developer’s overall aspirations for the redevelopment of their site. As stated above, the Council is also committed to ensuring viability issues are fully considered as part of the development management process and if necessary will prioritise infrastructure objectives to ensure the development is not overburdened and it is the school which is delivered.