DEVELOPMENT VIABILITY ASSESSMENT EXECUTIVE SUMMARY:
WARDS CORNER SITE, LONDON N15
RE: PLANNING APPLICATION HGY\2008\0303
SUBMITTED BY: GRAINGER (SEVEN SISTERS) LIMITED

1. Introduction:

1.1 Grainger (Seven Sisters) Ltd (G) has submitted a planning application on the Wards Corner Site for the:
"Demolition of existing buildings and the erection of a mixed-use development comprising Class C3 residential, Class A1, A2, A3, A4 uses, with access, parking and associated public realm improvements"

1.2 The application scheme comprises a mix of uses including 197 residential units of varying sizes. The application has been brought forward in accordance with the planning brief for the redevelopment of the Wards Corner site. The scheme as submitted departs from the GLA's planning policy requirement for the provision of 50% affordable housing.

1.3 In support of this new planning application G has submitted a viability report prepared by Cluttons (C).

2. Scope of report

2.1 Planning Policy Statement 3 says that grounds for the reduction in provision of affordable housing obligations could be agreed because of the effect these might have on the viability of the development (PPS3 Para 29). In order for this to be demonstrated, the applicant needs to provide a viability study that shows why a policy compliant scheme would render the development unviable. This study needs to be sufficiently detailed with evidence supporting the key inputs into the study.

2.2 My role is to provide a report to you in which I:

a) Appraise the study to consider whether this is based on the correct viability methodology.

b) Assess whether the inputs are properly evidenced and reasonable.

c) Review the toolkit to check it has been correctly applied.

3. Viability methodology.

3.1 Planning Policy Statement 3 (Housing) and Delivering Affordable Housing advise that grounds for the reduction in provision of affordable housing obligations could be agreed because of the effect these might have on the viability of the development

3.2 Advice on the appropriate way to assess viability is provided by the RICS Valuation Information Paper- VIP 12 (Valuation of Development Land). This paper gives clear guidance that:

a) Valuation of development land should be primarily based on market evidence if it can be used to compare the site being valued to the comparison site.

b) It is unusual that a proper comparison can be made and that therefore **the more usual way of assessing land value is through a Residual Land Valuation (RLV) approach.**

c) If assessing on a residual basis, **the actual condition of the property at the date of assessment and current market factors should be taken in to account.**

3.3 Homes and Community Agency (HCA) published a Good Practice Note – Investment and Planning Obligations: Responding to the Downturn. This looks specifically at the issues of development viability and supports the principles on VIP12, both on delivering in the current economic climate as well as recommending how viability should be assessed.

3.4 As a final aid we have a number of planning appeal decisions, many of which comment on viability. These decisions are helpful in clarifying the approach the Planning Inspectorate and Secretary of State adopt in assessing viability. The general principle inspectors seem to adopt is that **viability should be assessed assuming a planning policy compliant assessment.** It should be based on a RLV approach, using current sale values and build costs.

3.5 Having assessed the RLV, the assessor needs to compare this to the market value in its existing planning use, or an alternative use if planning consent can reasonably be expected. If the RLV is in excess of the higher of these values, the scheme is viable. If it is not, the assumption is that the scheme is not viable and in these circumstances, it may be necessary to reduce the s106 or affordable housing requirements.

4. Viability approach adopted:

4.1 The viability report prepared by C is in general terms compliant with the recommended methodology. The assessment is based on a residual appraisal approach in the absence of good market evidence of comparable sites having recently sold. Values and costs are current day, with no inflation or growth assumptions made. The exception to this is build costs, where a 5% inflation figure has been included.

4.2 C has not prepared a viability report showing a policy compliant development. This is because they consider it to be unnecessary in view of the lack of viability even without the provision of viability. C have therefore shown a viability assessment purely based on the application proposals to demonstrate lack of viability on a policy compliant scheme. Whilst this is technically an incorrect way to demonstrate lack of viability, I consider that it is not unreasonable in the circumstances of this application.

5. Applicant's development assessment:

5.1 The proposed scheme provides

a) 197 flats, comprising 5 x Studios, 48 x 1 beds, 107 x 2 beds, 37 x 3 beds

b) 3,736 m2 of commercial floorspace.

5.2 In support of the development, financial assistance is proposed as follows:

a) 'New Deal for Communities' programme grant assistance: £1.5 million.

b) LB Haringey: £500,000 in reduced receipts from their part of the site.

5.3 Development values: C has re-considered the development value of the scheme. These values are slightly lower than the earlier assessment carried out in 2008. I have reviewed the development values and **I agree these development values.**

5.4 There is limited good market evidence of new flats in this type of location. The development is in an area where sales values are relatively low, both for residential and commercial properties. However, there is potential to improve sales levels if the development is carried out well. There may well be a "regenerative" gain resulting in higher development values than are currently assessed. This is speculative at this stage and therefore cannot reasonably be taken in to account.

5.5 Development costs: I have reviewed the market value in existing use. The value assessed by C overall is slightly higher than the 2008 assessment. This increase is based on improved market sales evidence in the area. I understand that some properties not yet acquired may need to be purchased either with CPO powers, or with them "in the background". **I consider this revised estimate to be realistic.**

5.6 Build costs were assessed by COMO was assessed in 4.10. This figure is inclusive of 5% inflation, which should be excluded. There may be duplicated costs included in the preliminary, profits and overheads category, and savings may be achieved through "value engineering". In my opinion, **build costs should be about 5% lower than the updated COMO estimate and may be as much as 12% lower once G has obtained more detailed advice on construction options.**

5.7 Professional fees are about 10% of build costs, which is reasonable**,** taking in to account the abnormal costs in this development, and the need for professional advice to deal with these abnormals.

5.8 Interest costs are shown at 7% and 0% credit rate. I consider that the interest rates for this type of scheme will more typically be about 7% debit rate (Inclusive of fees) but also should include a 2% credit rate.

5.9 Other development costs, such as marketing costs are acceptable.

5.10 Development programme: No specific information has been provided about the estimated development programme. From the submitted viability toolkit, I believe the programme is assumed to be as follows:

Action	Commence (Month)	Finish (Month)
Preliminary	0	36
Build period	36	60
Sale period	60	76

5.11 The site assembly in this type of development is complex and may well involve more time than is usual in sites where there are fewer interests to be acquired. However, there are ways of mitigating the costs of long term holding, such as short term letting, conditional contracts, options etc, all of which can reduce the preliminary stage. In the case of this particular site there has been the additional complication of the judicial review.

5.12 The guide in assessing viability is to assess the situation as it is at the date of valuation, and does not include taking account of activities that may not reasonably have been anticipated. The particular circumstances of this judicial review would not have been anticipated, and should not therefore be taken in to account in this assessment- it is part of the developer risk.

5.13 In my opinion, the development programme would be phased, which would reduce the amount of borrowing required and improve the cash flow of the development.

5.14 A target profit level of 20% of Gross Development Value (GDV) has been assumed, which I agree.

5.15 Conclusion on applicant viability assessment:

a) The general approach adopted by C is broadly correct, excepting the allowance for build cost inflation.

b) I generally agree with most of the inputs, except the build costs, the interest rates and development programme.

5.16 Based on C's assessment, the development as shown provides a development profit of 10.41% of gross development value. This is totally unviable and I question whether a developer would receive funding for a development showing such a low return, taking in to account the risks involved.

5.17 Because of funding problems, I consider a development as shown in the C report would be undeliverable. It could not sustain any affordable housing, and would not be able to contribute towards other s106 obligations, Crossrail subsidy or other public realm requirements.

6. DVS assessment:

6.1 I have carried out an appraisal to look at viability on the assumptions and inputs as assessed by me. I have used the same toolkit as used by C for ease of comparison. Whilst GLA recommend the use of Three Dragons Toolkit, it is not well suited to mixed use developments of this type, nor of calculating complex cash flow interest costs.

6.2 The results of my assessment are as follows:

a) The main difference in addition to the reduced build cost is finance costs which are substantially reduced to £1,311,363. This is a result of altered programming and credit on capital receipts.

b) The residual profit is £15,970,593 compared to the C assessment of £7,771,329.

c) Profit is 21.4% of GDV, which is just above the target profit required of 20% for the scheme to be viable.

6.3 Based on this assessment the scheme is just viable. It cannot viably provide affordable housing, but the scheme is deliverable on this basis.

7 Results and conclusions

7.1 The general methodology approach adopted by C is broadly correct. The appraisal should assess the residual land value and compare this to the higher of Market value in existing use. If the RLV is higher than these, the scheme is viable. If it is lower, the development may not be viable, and consideration would then need to be given to reducing the S106 obligations.

7.2 The development is in an area where sales values are relatively low, both for residential and commercial properties. However, there is potential to improve sales levels if the development is carried out well. There may well be a "regenerative" gain resulting in higher development values than are currently assessed. This is speculative at this stage and therefore cannot reasonably be taken in to account.

7.3 Areas in which I disagree with C are the build cost, where an inflation element has been included, the interest rate and the development programme which affects the cash flow and overall interest costs.

7.4 C show in their Three Dragons Toolkit assessment that the residual value was £6,904,000. This is substantially less than the MV in existing use. Based on these figures the development would be unviable.

7.5 C also show an Argus toolkit appraisal. This is more suited to this type of mixed use development. It shows the profit assuming the site purchase costs are taken in to account. On this basis, the residual profit is about 10.4% of GDV, well below the target profit level usually required of 20%. Based on these figures, the development is clearly unviable, and I would not expect banks to provide finance on this scheme as shown.

7.6 My conclusion on the C viability assessment is therefore that it is generally reasonably based, but with some areas of disagreement.

8. DVS viability assessment:

8.1 My appraisal shows a residual profit of £15,970,593, which makes the scheme just viable, but without including any affordable housing. My appraisal shows that there is a greater likelihood of delivery, particularly if G can carry out “value engineering” that reduces development costs without affecting sales values.

Charles Solomon MRICS
Head of Development Viability, DVS
2 June 2011