



**Old Kent Road Opportunity Area
Viability Study
Stakeholder Workshop**

2 March 2016

Agenda



1. Introductions
2. Methodology
3. Viability inputs from survey of viability submission received by the Council
4. Proposed appraisal inputs for OKR OA viability study
5. Feedback/questions from Stakeholders

1. Introduction

Introduction

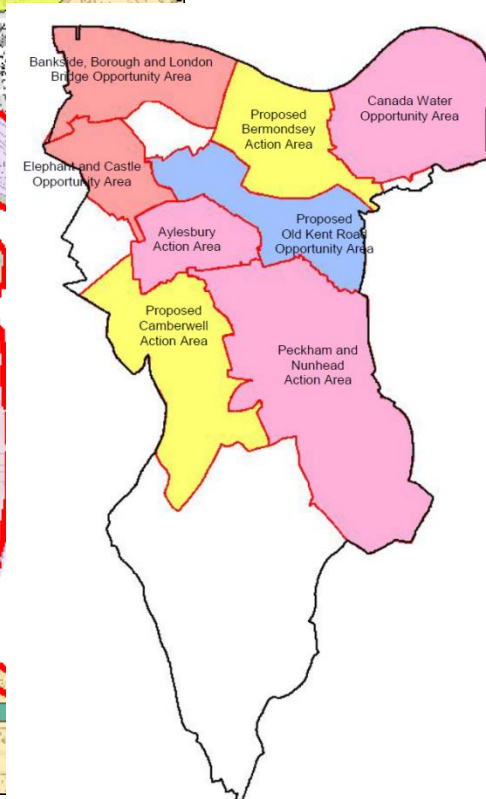
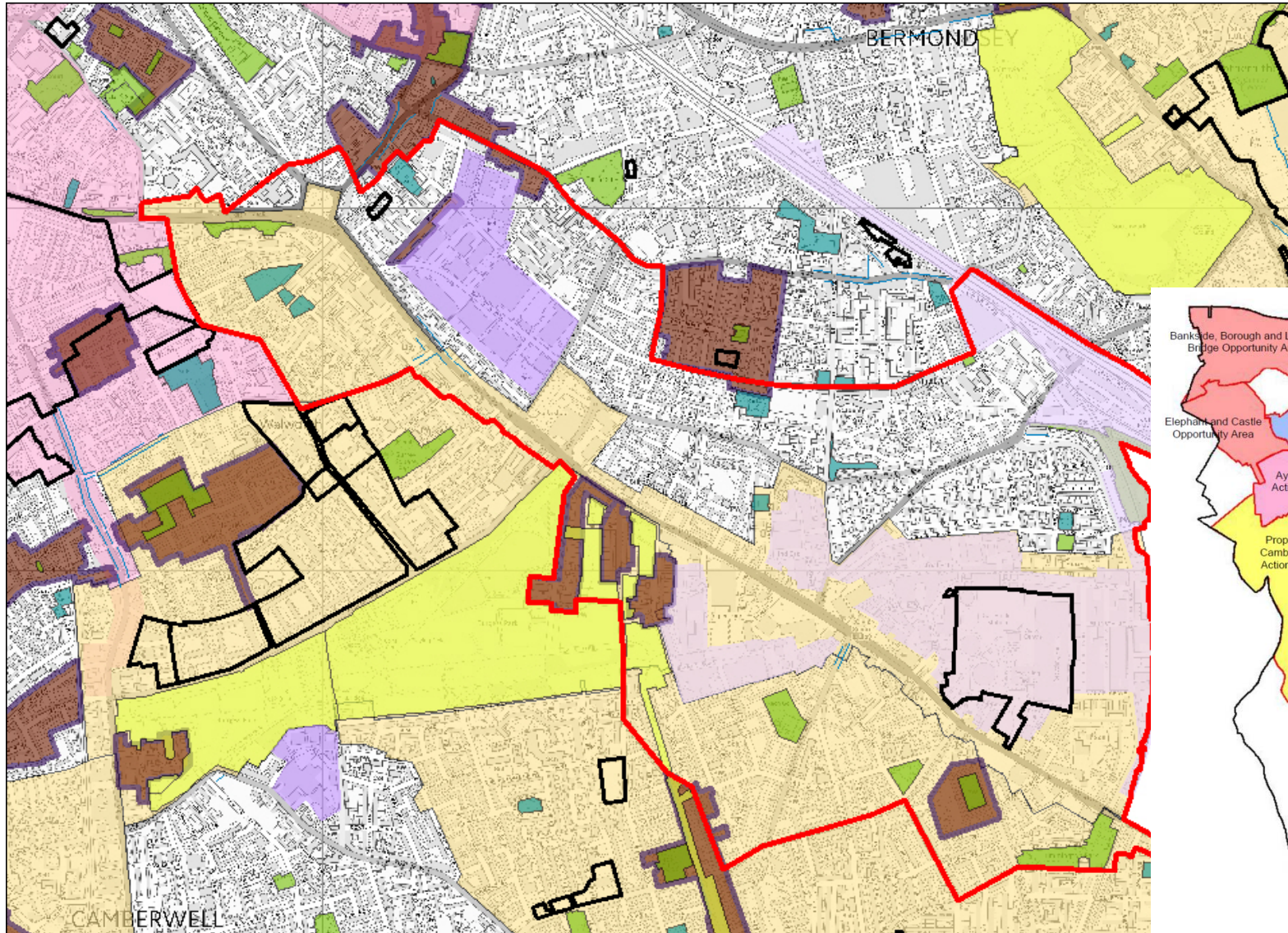
- London plan opportunity area designation March 2015
- Collaborating with GLA and TfL on preparation of plan
- Preparing evidence base
- Engaging local stakeholders through community forum

MAYOR OF LONDON



THE LONDON PLAN
THE SPATIAL DEVELOPMENT STRATEGY FOR LONDON
CONSOLIDATED WITH ALTERATIONS SINCE 2011

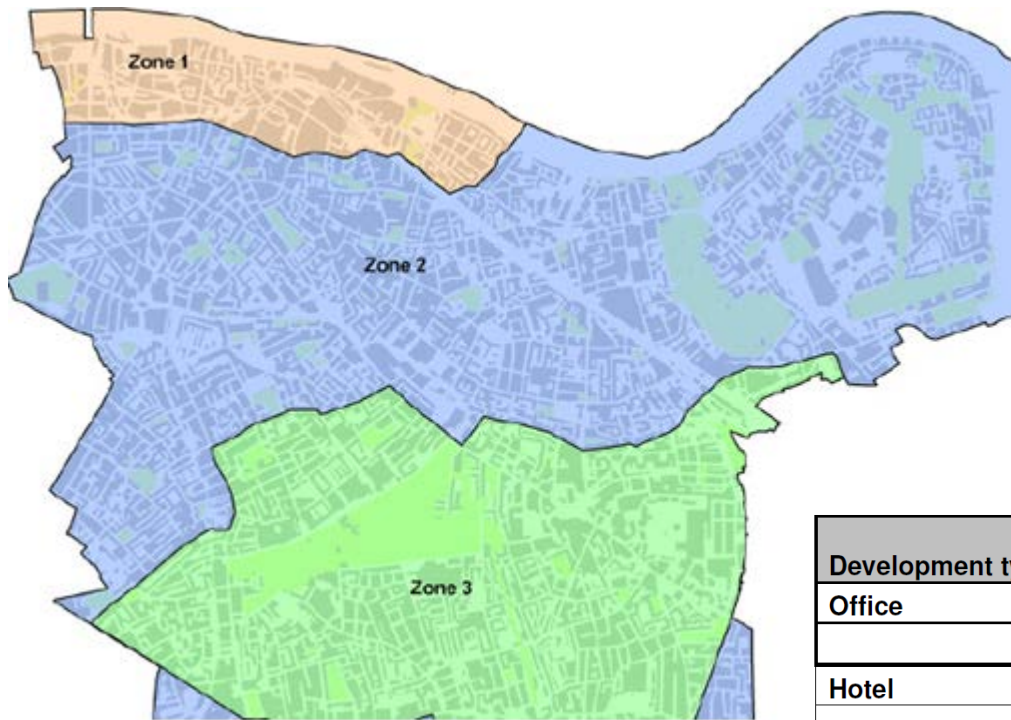
MARCH 2015



Introduction: Emerging proposals



- OKR: part of Central London
- Transition to mixed use neighbourhoods
- Around 20,000 new homes (high growth option explored through community forum)
- Around 5,000 new jobs
- New infrastructure to support growth including schools, health facilities, open spaces and surface transport improvements
- Bakerloo line extension - £2.57bn
- Expectation that growth in homes and jobs will help pay for infrastructure, through mechanisms such as CIL
- Revision of CIL Charging Schedule with focus on OKR opportunity area



BCIS Forecast for
inflation in All in TPI
Index from 2015 –
2017: 4.76%

Development type	Zone *	CIL Rate £ per sq.m.
Office	Zone 1	£70
	Zones 2-3	£0
Hotel	Zone 1	£250
	Zones 2-3	£125
Residential	Zones 1	£400
	Zone 2	£200
	Zone 3	£50
Student housing – Direct let **	Zones 1-3	£100
Student housing – Nomination ***	Zones 1-3	£0
All retail (A1 – A5 & Sui Generis uses akin to retail) ****	Zones 1-3	£125
Town centre car parking *****	Zones 1-3	£0
Industrial and warehousing	Zones 1-3	£0
Public libraries	Zones 1-3	£0
Health	Zones 1-3	£0
Education	Zones 1-3	£0
All other uses	Zones 1-3	£0

Timescales



- May 2016 – Consultation on AAP
- May 2016 – Consultation on Preliminary Draft Charging Schedule and interim s106 tariff
- Late 2016 – Consultation on Draft Charging Schedule
- Early 2017 – Examination of Draft Charging Schedule
- Summer 2017 – Adoption of Charging Schedule
- 2017 – Consultation on Submission AAP

Introduction



BNP Paribas Real Estate instructed by Council to undertake viability testing to understand the cumulative impacts of emerging policy requirements of their emerging:

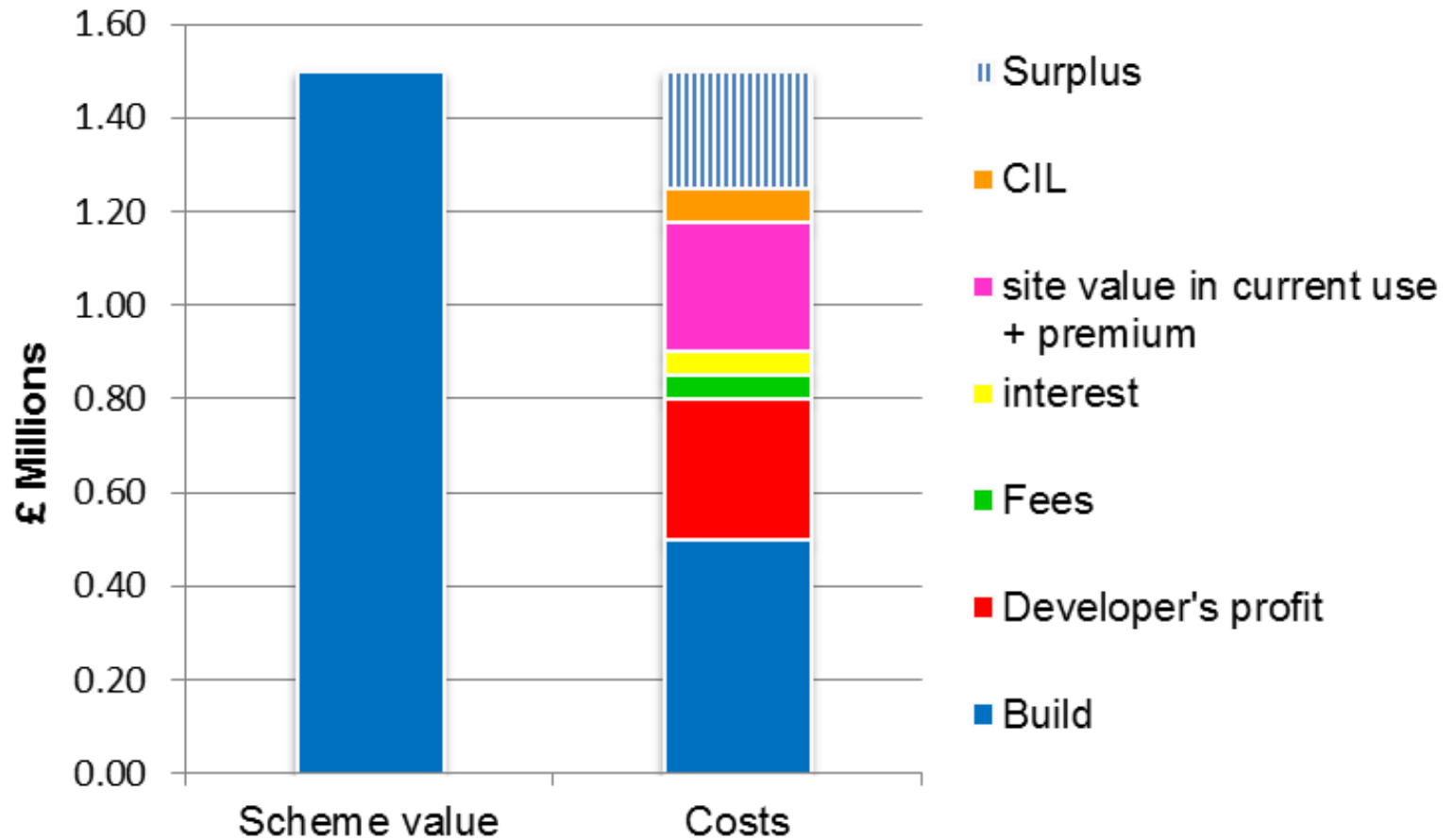
- OKR OAPF & AAP
- Update to the Community Infrastructure Levy Charging Schedule

Purpose of today's meeting:

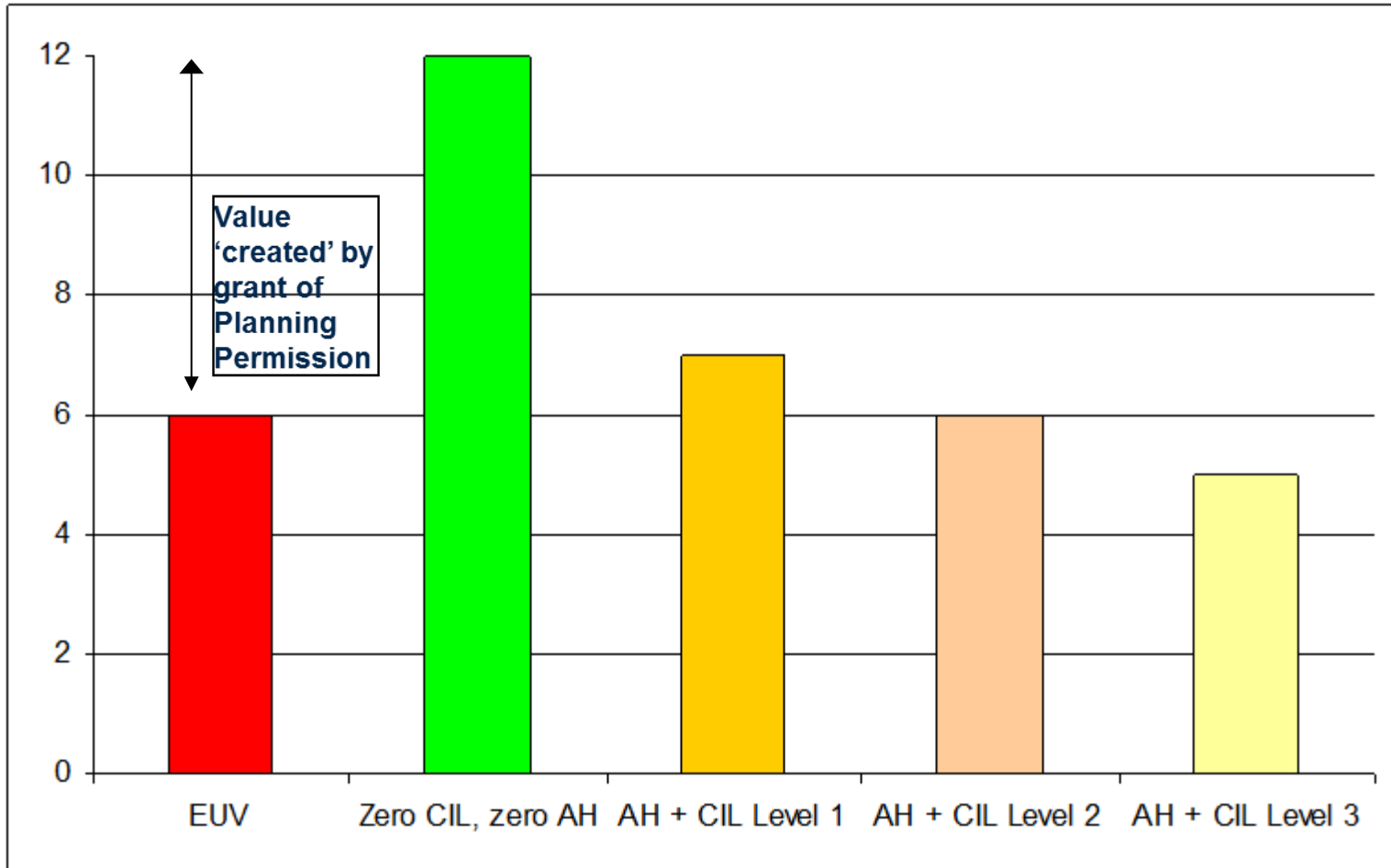
- Engagement with developers and landowners on the range of typologies and sites to be tested and inputs into the appraisals
- Call for evidence

2. Methodology

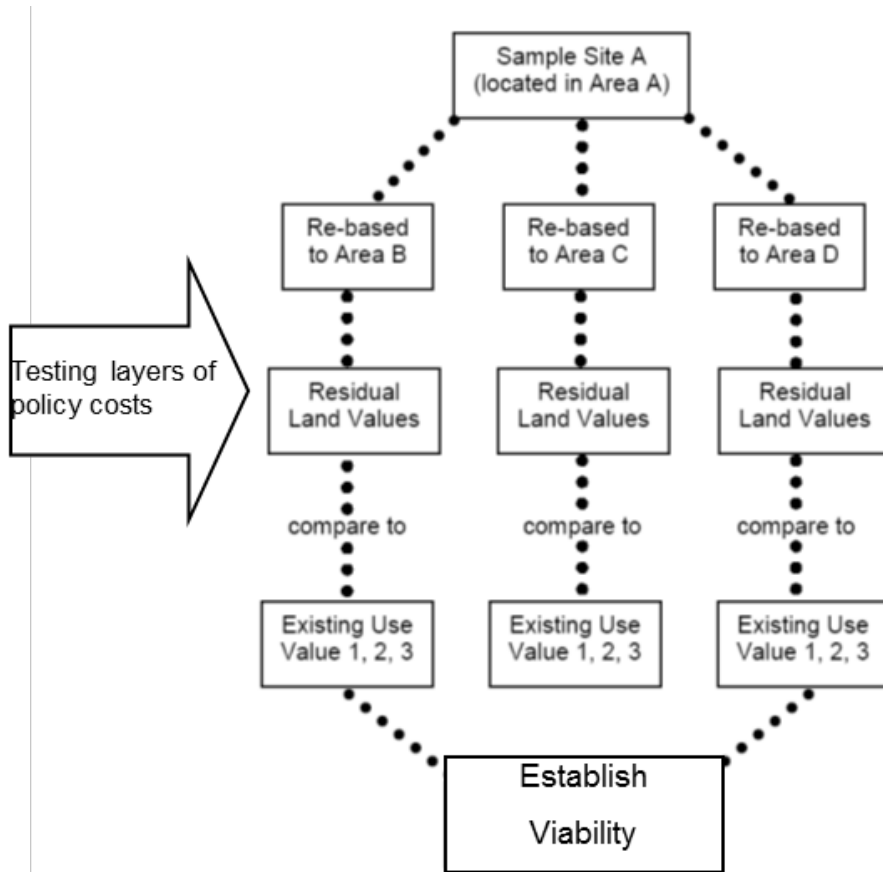
Methodology – Residual Value



Methodology



Methodology



Typologies

No.	No. Resi units	Height	Other uses and floor areas (TBC)	Gross to net of internal floorspace	Gross site area (Ha)
1	11	up to 6 storeys	Retail use: 500 sq m	80%	0.06
2	30	up to 6 storeys	None	80%	0.15
3	65	7 to 13 storeys	None	75%	0.30
4	100	7 to 13 storeys	Retail: 2,000 sq m	75%	0.5
5	180	7 to 13 storeys	Employment use: 2,000 sq m	75%	0.7
6	300	7 to 13 storeys	Employment use: 3,000 sq m	75%	1.1
7	450	14 to 35 storeys	Employment use: 5,000 sq m Retail use: 1,000 sq m Open space/public realm	75%	1.2
8	650	14 to 35 storeys	Retail use: 3,000 sq m Leisure use: 4,000 sq m Open space/public realm	75%	1.7
9	Student housing	7 to 13 storeys	Retail use: 500 sq m	75%	TBC

Methodology

Specific site testing

Site ref	Existing use(s)	Proposed Use(s)	Gross internal Floorspace (Sq m)	Infrastructure and policy requirements	Gross to net	Height of building(s)	Car parking nos and undrgrnd / undrcroft / surface
Large Site 1	B8 (Distribution centre)	Housing Business (B1a) Hotel Retail Health centre	Housing: 32,500 Business: 1,100 Hotel: 5,000 Retail: 700 Health: 1,000	Open space, external space/public realm: measure from plan	72%	7 storeys/30 storeys	25% of resi units to have parking; parking underground
Large Site 2	A1 (Retail warehouse)	Housing Business (B1c) Leisure Retail	Housing: 62,500 Business : 800 Leisure: 4,000 Retail: 2,500	Open space, external space/public realm: measure from plan	72%	Up to 24 storeys	25% of resi units to have parking; retail/leisure 1 space per 30sqm; parking underground
Large Site 3	A1 (Supermarket)	Housing Retail Business (B1c)	Housing: 60,300 Retail: 2,700 Business: 2,500	External space/public realm: measure from plan	72%	7-13 storeys	25% of resi units to have parking; retail/leisure 1 space per 30sqm; parking underground
Large Site 4	A1 (Retail warehouse)	Housing Retail School	Housing: 47,600 Retail: 1,700 School: 10,100	Open space, external space/public realm: measure from plan. Exclude school build costs.	72%	8-20 storeys	25% of resi units to have parking; retail/leisure 1 space per 30sqm; parking underground
Large Site 5	B2, B8 (Trading estate)	Housing Business (B1c) Retail	Housing: 45,600 Business: 3,200 Retail: 1,140	External space/public realm: measure from plan	72%	7-20 storeys	25% of resi units to have parking; parking underground

Methodology

Specific site testing

Site ref	Existing use(s)	Proposed Use(s)	Gross internal Floorspace (Sq m)	Infrastructure and policy requirements	Gross to net	Height of building(s)	Car parking nos and undrgrnd / undrcroft / surface
Small Site 1	B2, B8 (Trading estate)	Housing Business (B1c)	Housing: 18,900 Business: 1,300	External space/public realm: measure from plan	72% (resi)	6/7 storeys	25% of resi units to have parking; parking underground
Small Site 2	B1c, B2, B8 (Industrial buildings serviced from forecourt)	Housing Business (B1c)	Housing: 26,768 Business: 4,700	External space/public realm: measure from plan	72% (resi)	7 storeys	25% of resi units to have parking; parking underground
Small Site 3	B8 (Truck parking)	Housing	Housing: 20,600	External space/public realm: measure from plan	72% (resi)	7-13 storeys	25% of resi units to have parking; parking underground
Small Site 4	B2 (Car repairs)	Housing Retail	Housing: 2,151 Retail: 800	External space/public realm: measure from plan	72% (resi)	4 storeys	25% of units to have parking; all parking at surface level
Small Site 5	B2 (Car repairs)	Student housing	Student housing: 6850	External space/public realm: measure from plan		6 storeys	Car free

Methodology



Cumulative testing of local plan policy requirements including:

- Affordable housing % and tenure split;
- CIL (Mayoral & Borough)
- Residual S106 requirements;
- National space standards for residential units;
- Cycle and car parking standards; and
- Sustainability requirements.

Methodology



Establishing Viability:

- The results of the appraisals will be residual land values (RLV).
- To establish viability the RLV's will be compared to a range of benchmark land values (BLV).
- If the RLV is equal to or higher than the BLVs the scheme is considered to be viable.
- Consistent with methodology which informed adopted CIL charging schedule and considered sound by examination inspector.

3. Viability inputs from survey of viability submissions received by the Council

Survey of viability appraisals



- Sites which submitted viability appraisals to support affordable housing negotiations
- All sites anonymised
- Granted planning permission between 13/11/2012 – 23/12/2015
- Uses assumptions presented in VAs to present developer's starting point in negotiation (Note: some assumptions challenged by LBS/DVS)
- 42 schemes fulfilled the criteria. However, due to inconsistency in the presentation of data each VA did not yield useable data relevant to each assumption. Many of the schemes were mixed use. This evidence only considers residential elements of the schemes.

Survey of viability appraisals



- Developer profit
- Build costs
- Gross to net efficiency
- Contingency
- Abnormal costs
- Sales values
- Benchmark land value
- Landowner incentive

- Data relates to residential development
- Work in progress

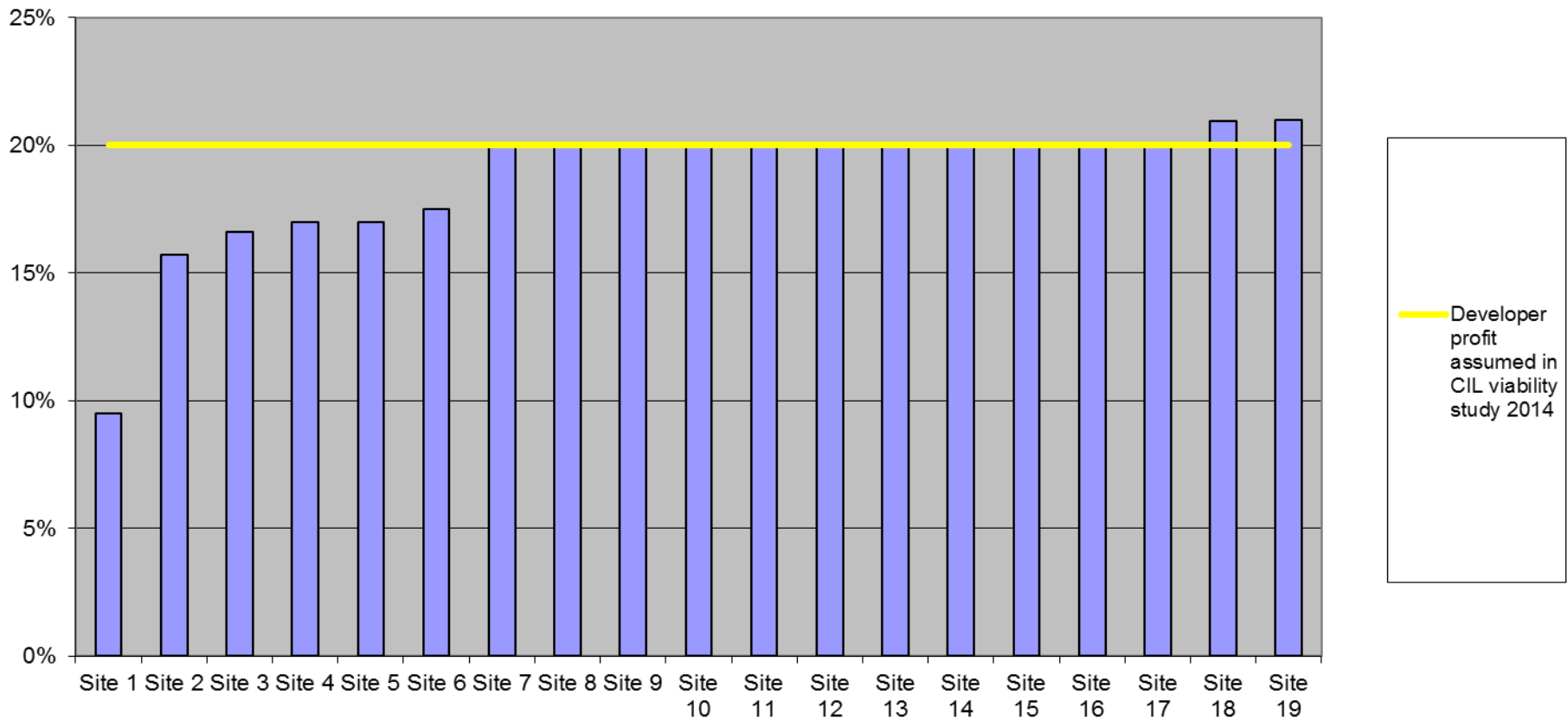
Developer Profit (Private housing)

- On-GDV, on-Profit or IRR

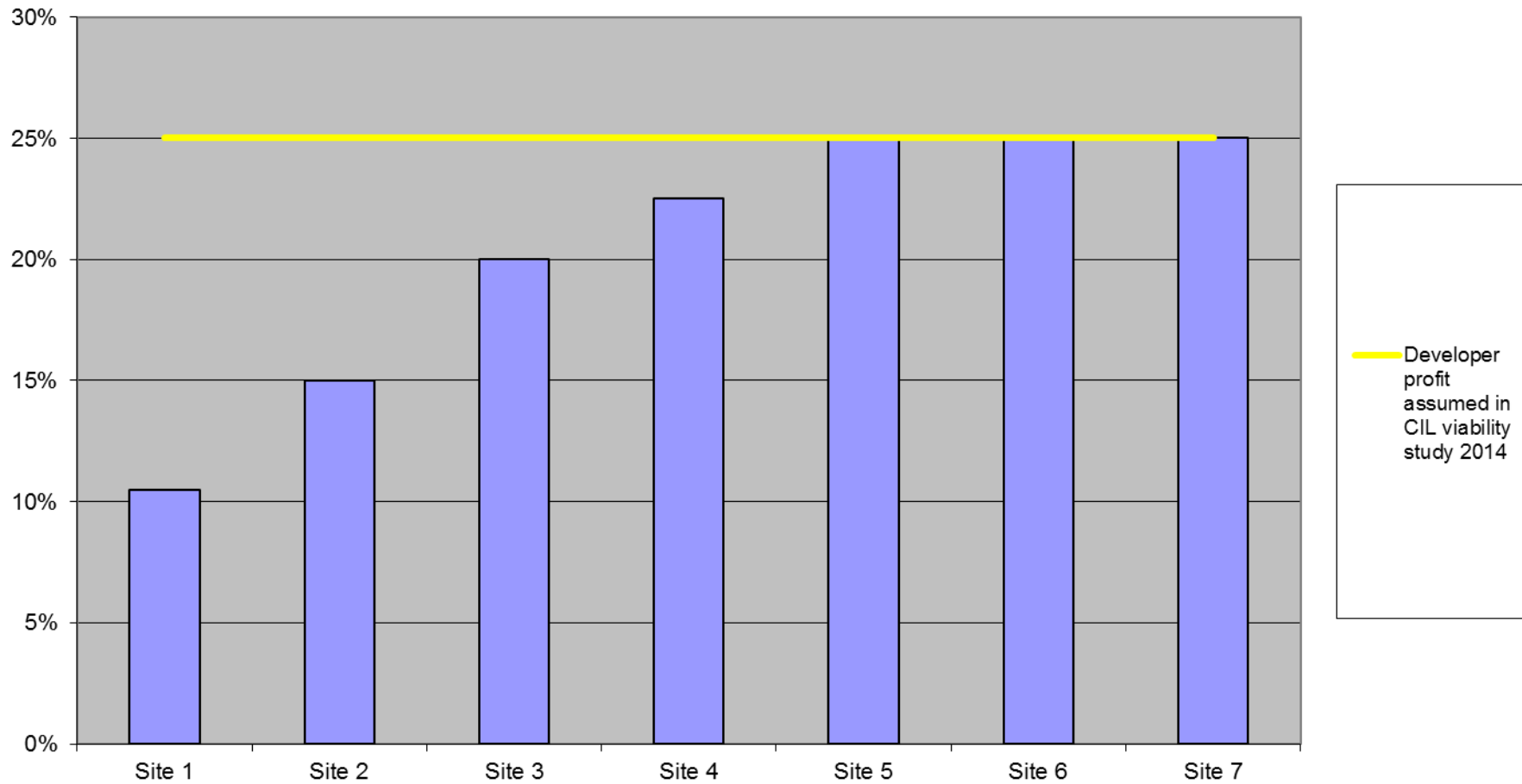
GDV	Cost	IRR
19 schemes	7 schemes	2 schemes

- IRR profit expectation was 20%. One of the schemes which presented profit in IRR used an assumption for profit-on-cost of 25%.
- Some schemes merged profit expectation for private, affordable and commercial – these have been excluded.

Profit Assumption on GDV (Private Residential)



Profit Assumption on-Cost



DVS letter September 2014



CIL VIABILITY STUDY

Over the last two years DVS have undertaken a dozen Financial Viability Assessments concerning developments within LB Southwark.

We would comment about the developer profit margins for the market housing as follows:

- We have never accepted a profit level in excess of 20% of value
- Typically over the last 18 months we have assessed profit on value in the order of 17.5%
- As an alternative, sometimes we have assessed scheme profit on cost and typically in the order of 20%
- The exact % will vary from scheme to scheme

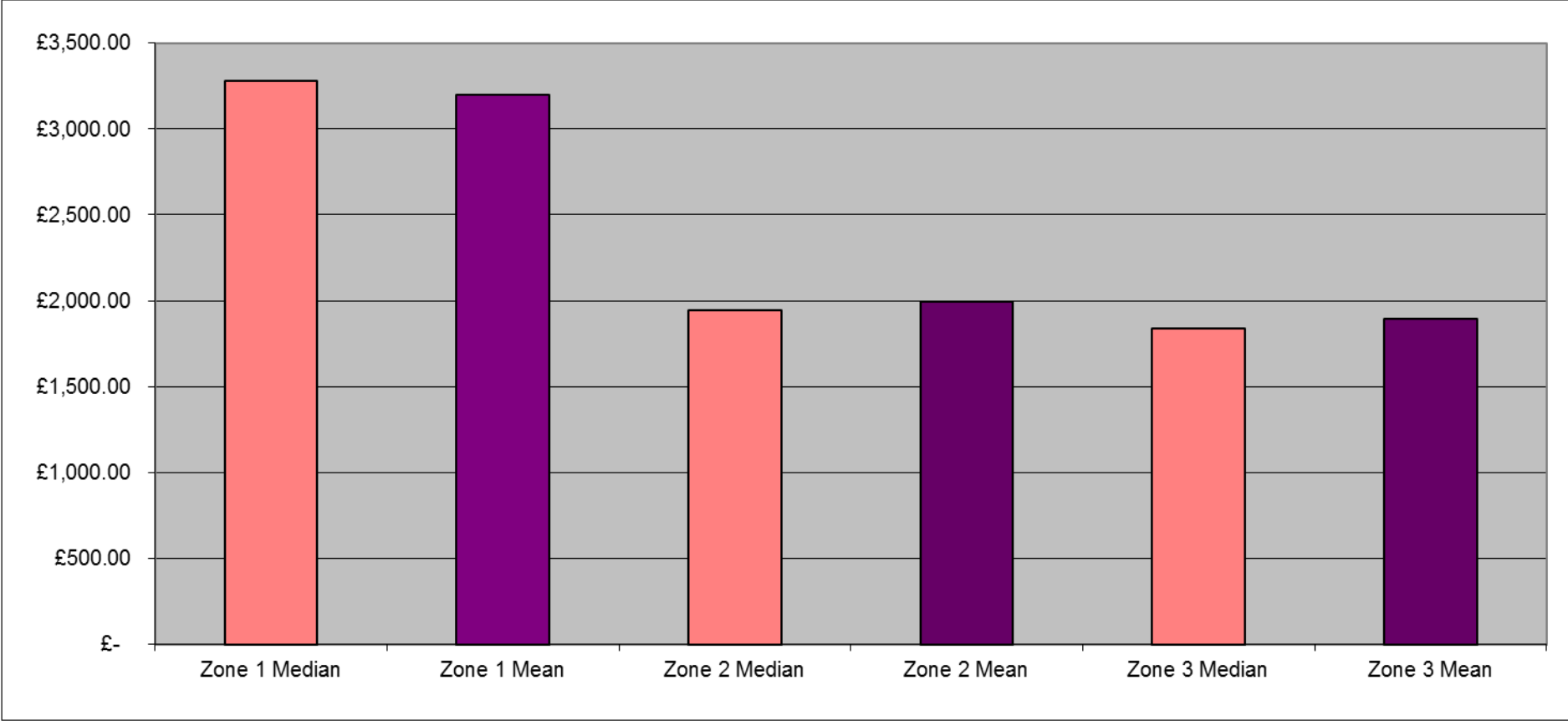
The profit for the affordable housing component has been typically 6% on cost.

It is our opinion that contingency costs are typically appraised at 3 to 5% of cost.

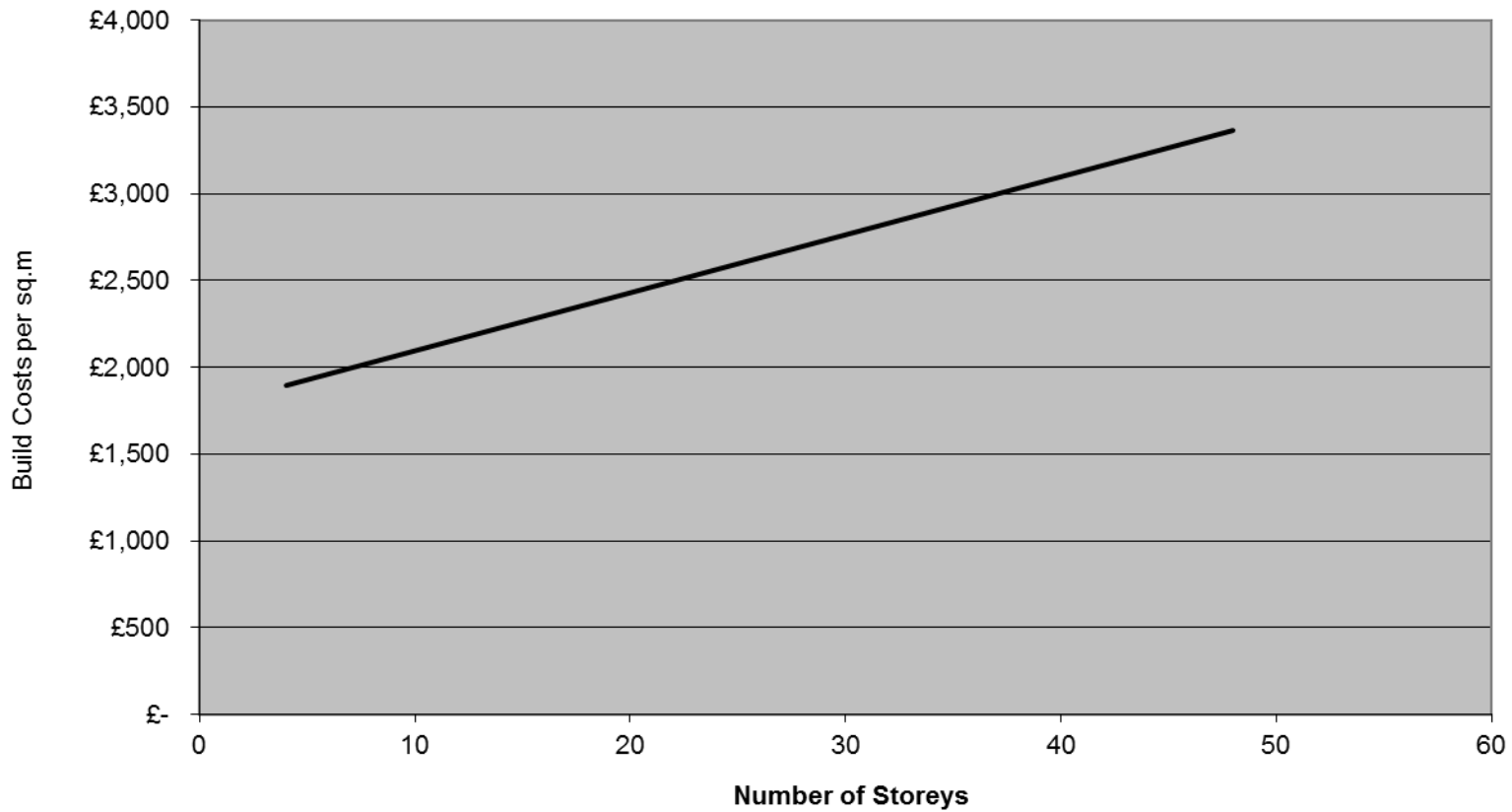
Build Costs

- Twenty four viability appraisals included information on build costs for private housing
- The gross build costs ranged from £1,352 per sq. m to £3,442 per sq. m with a mean of £2,115 per sq. m
- Twenty viability appraisals included information on build costs for affordable tenure housing
- The gross build costs ranged from £1,352 per sq. m to £3,280 per sq. m with a mean of £1,957 per sq. m

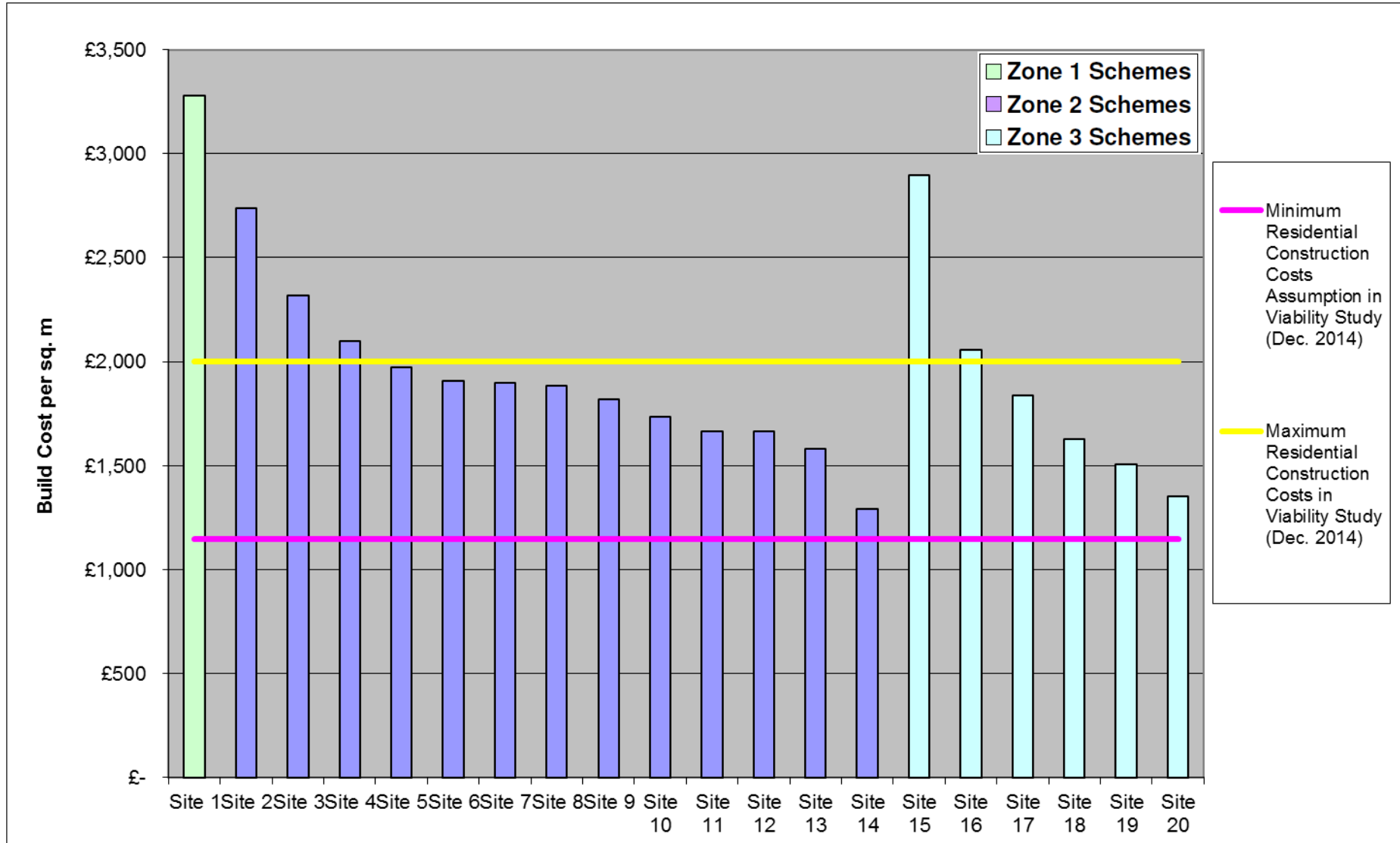
Private Housing Build Costs



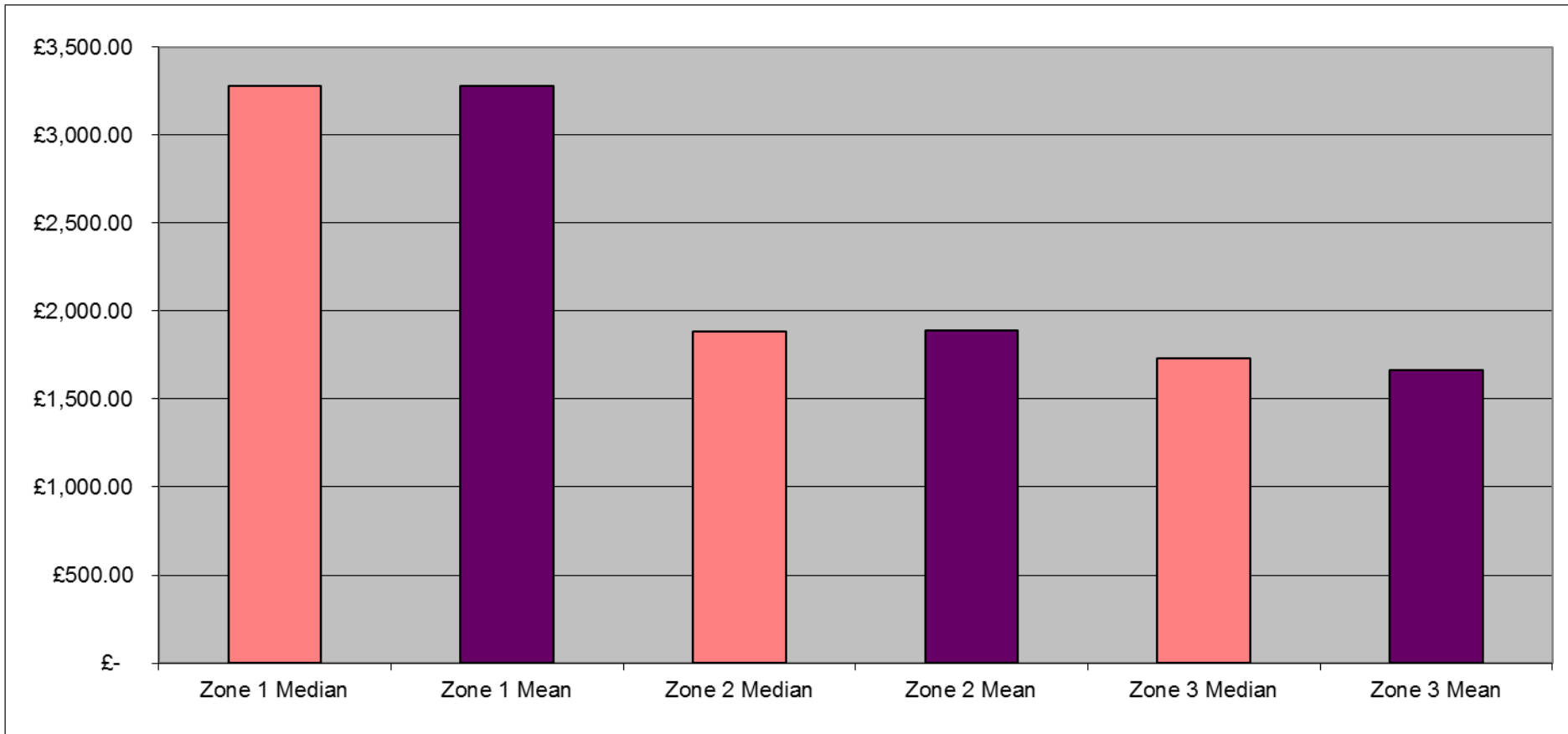
Private Housing Build Costs



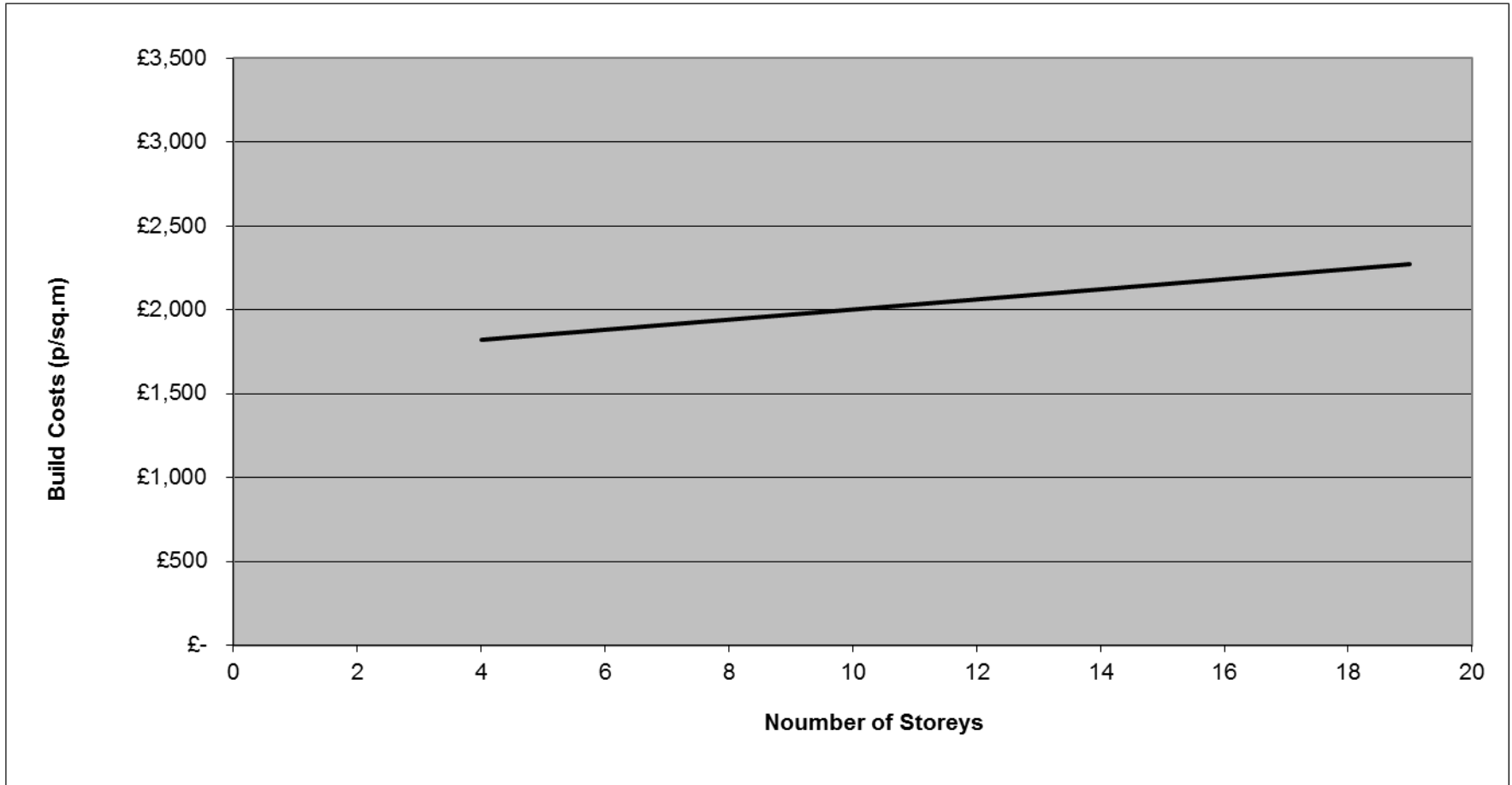
Affordable Housing Build Costs



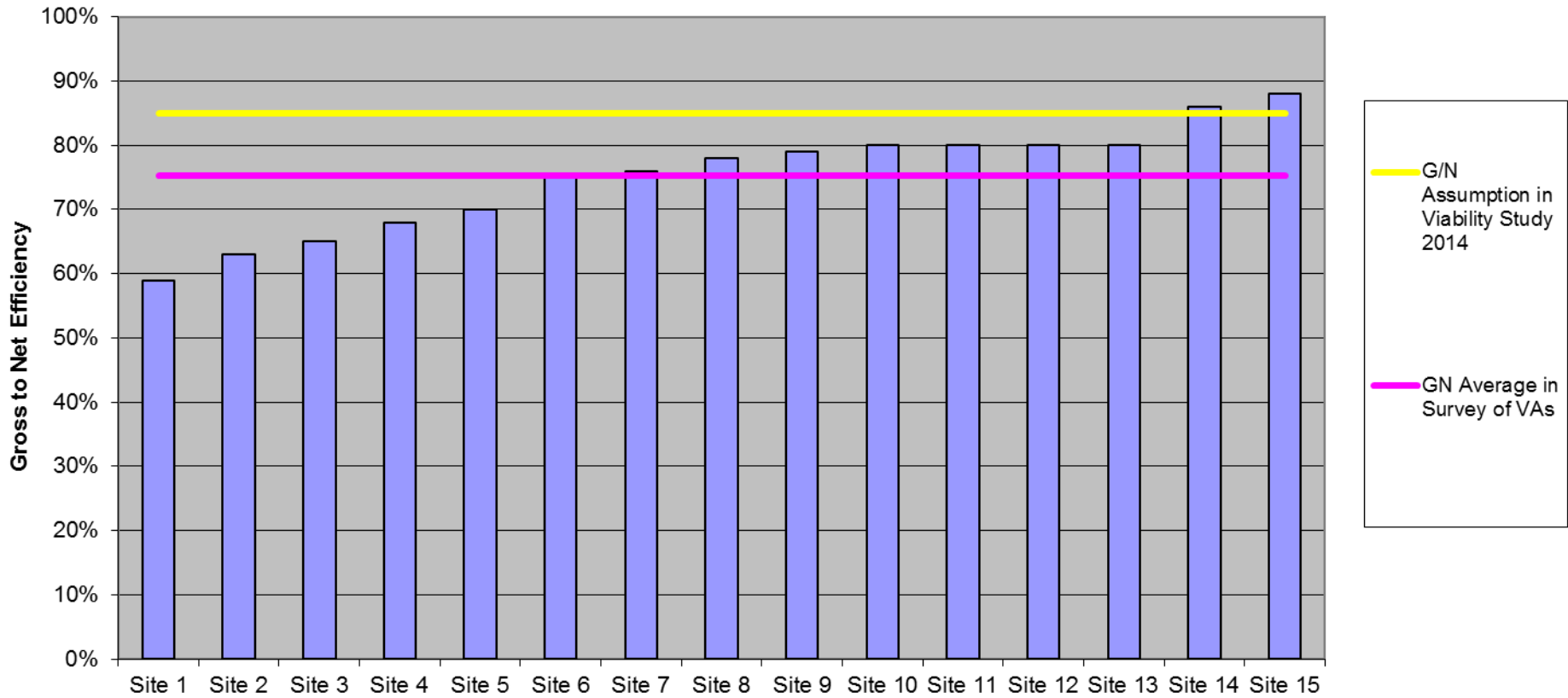
Affordable Housing Build Costs



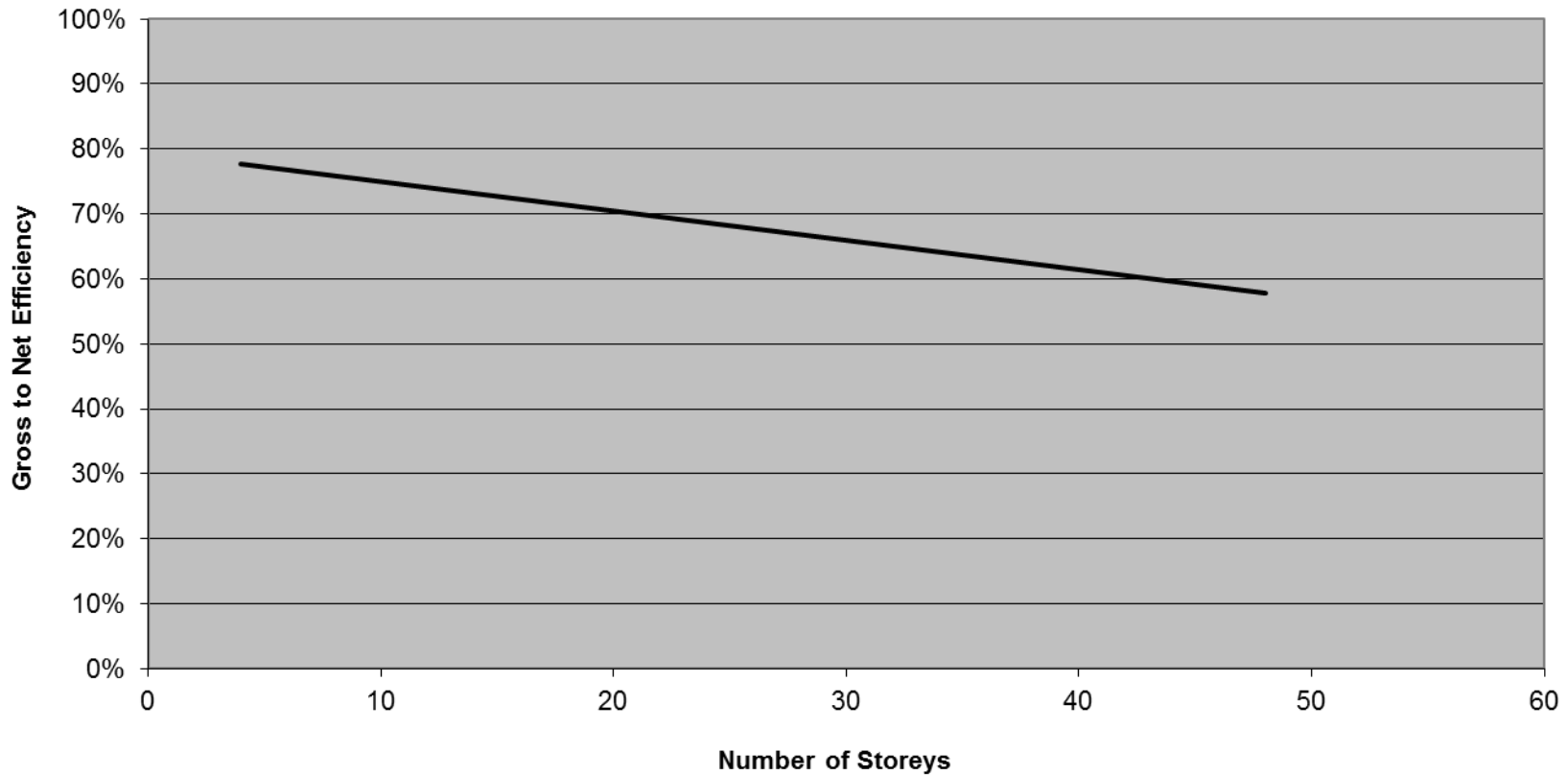
Affordable Housing Build Costs



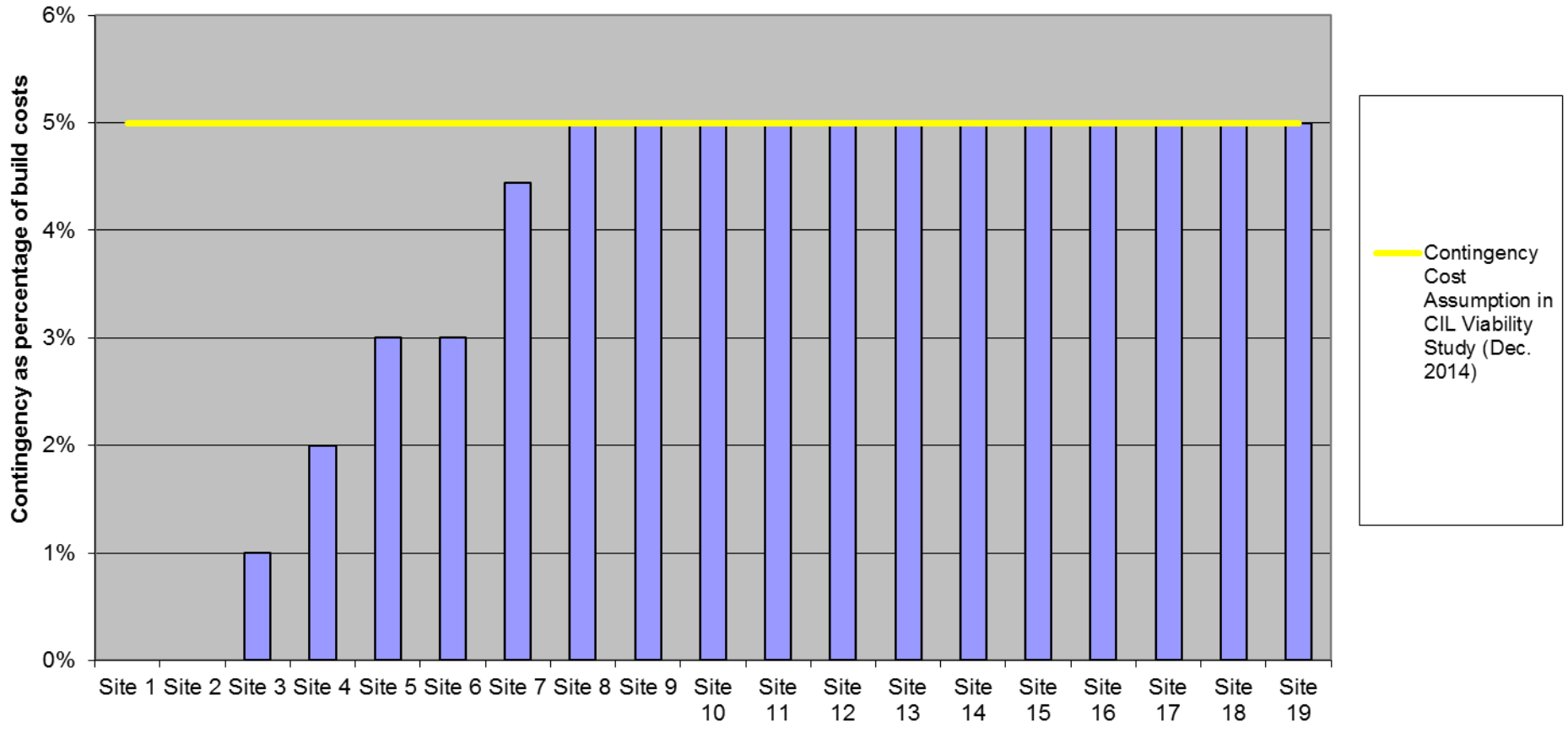
Gross to Net Efficiency



Gross to Net Efficiency



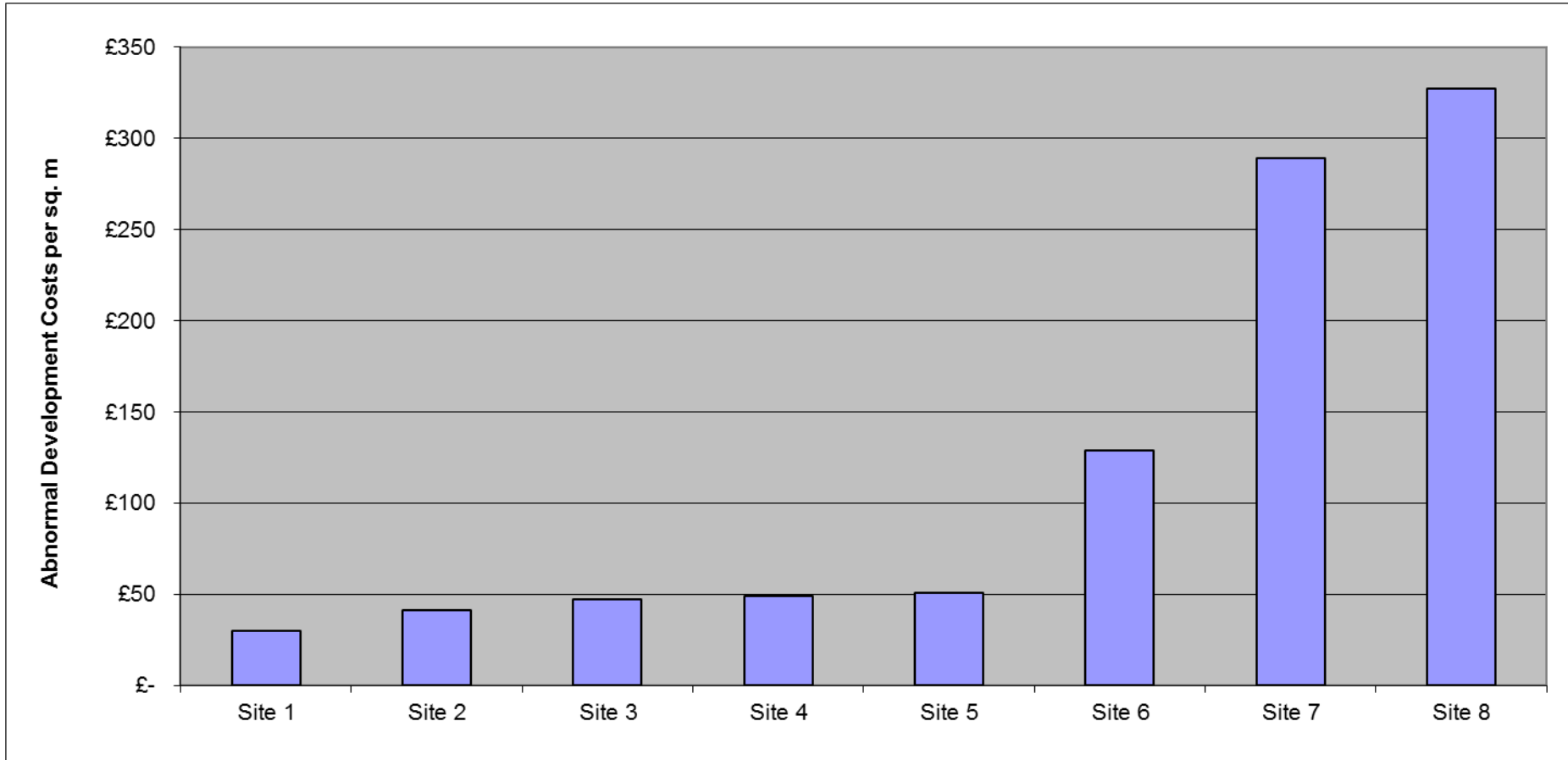
Contingency Costs



Abnormal Costs

- Most schemes' VAs did not present information relating to abnormal development costs.
- Abnormal costs were considerably variable between schemes; ranging from £30 per sq. m to £327 per sq. m

Abnormal Costs



Sales Values



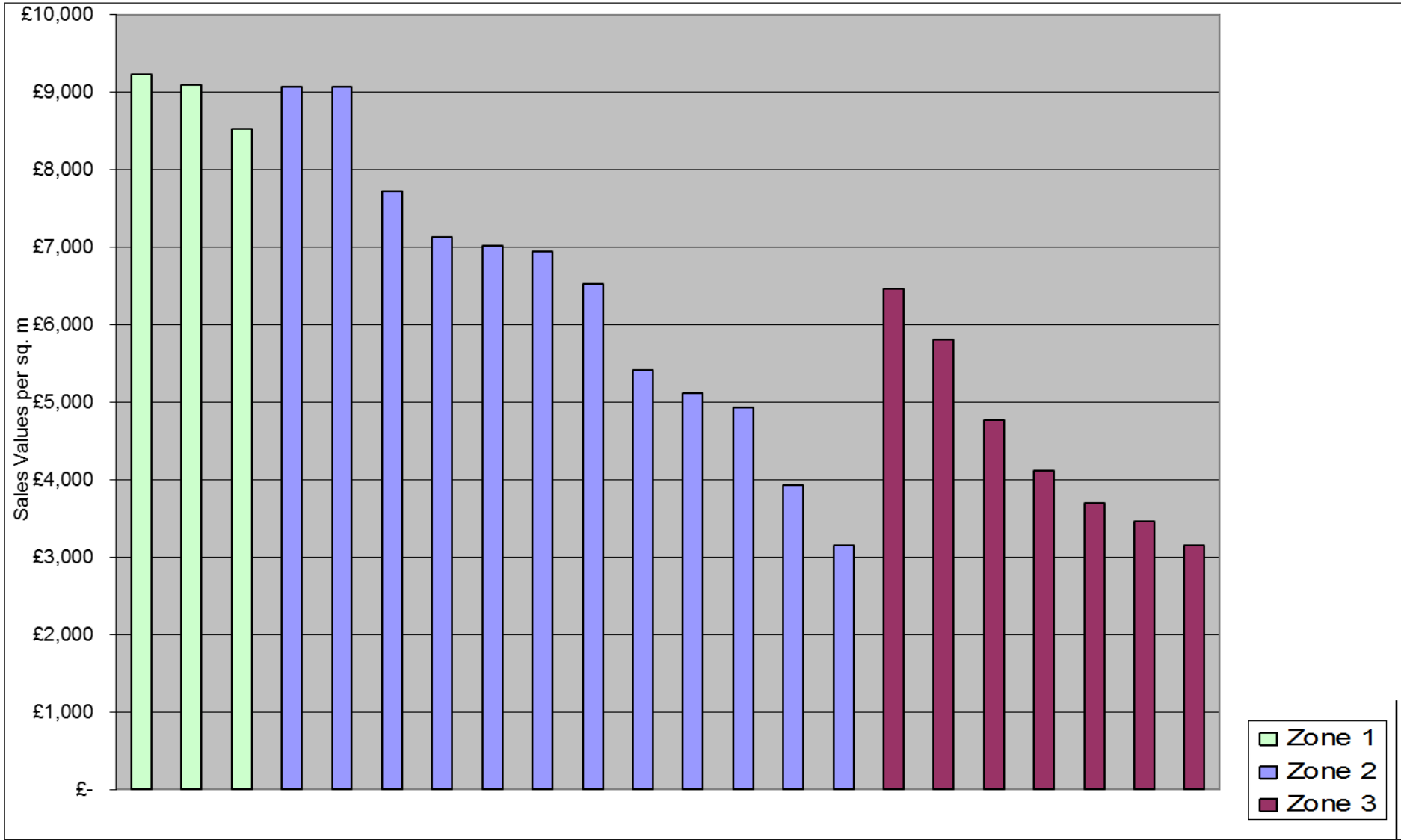
Private Housing:

The Council reviewed 22 viability appraisals which presented assumptions for the anticipated sales values of the market sale residential element of the schemes. These assumptions were often underpinned by the sales values achieved on recently completed comparable schemes. Three schemes were in CIL charging Zone 1, eight were in Zone 2 and four in Zone 3.

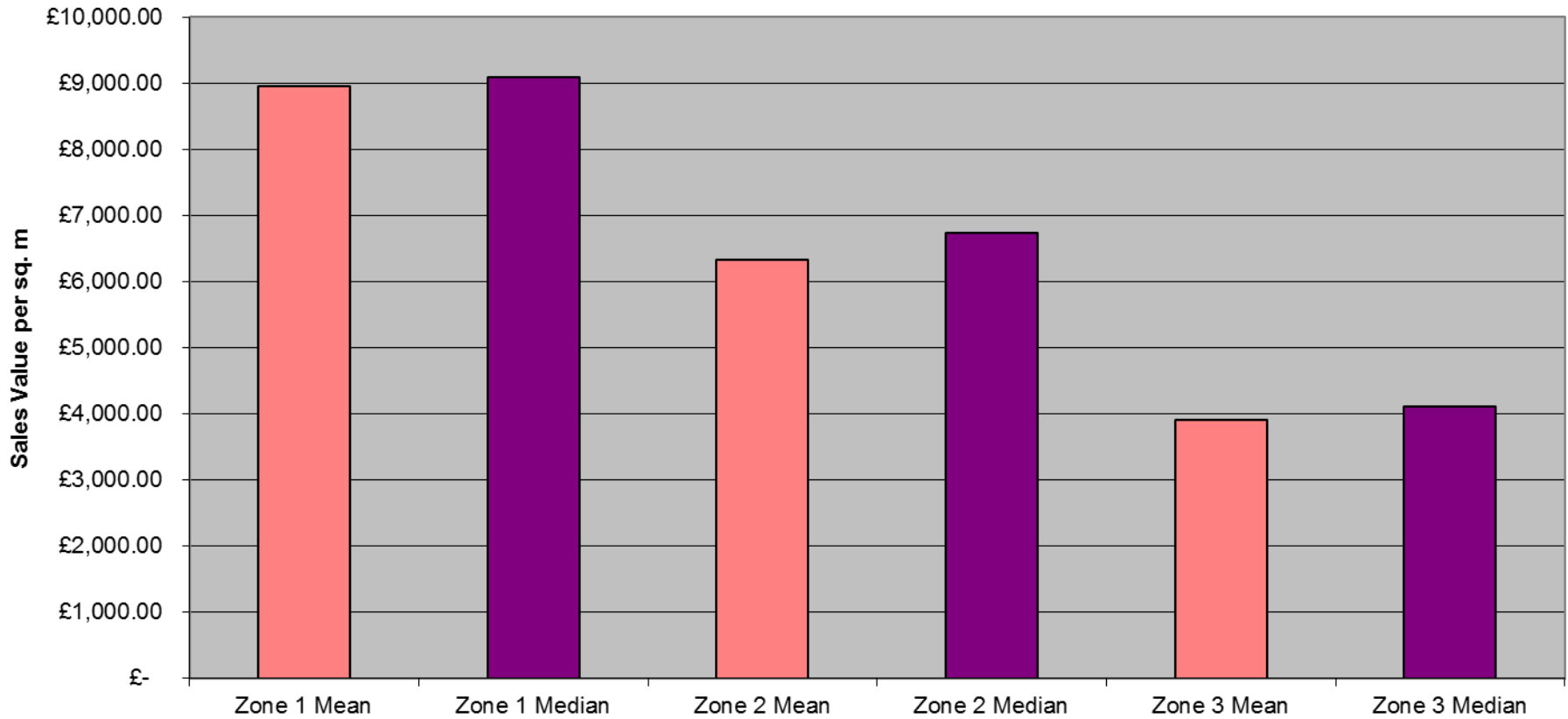
Affordable Housing:

The Council reviewed 20 viability appraisals which contained estimated sales values for affordable housing elements of the scheme. These values were averaged for intermediate, social rented and affordable rent housing.

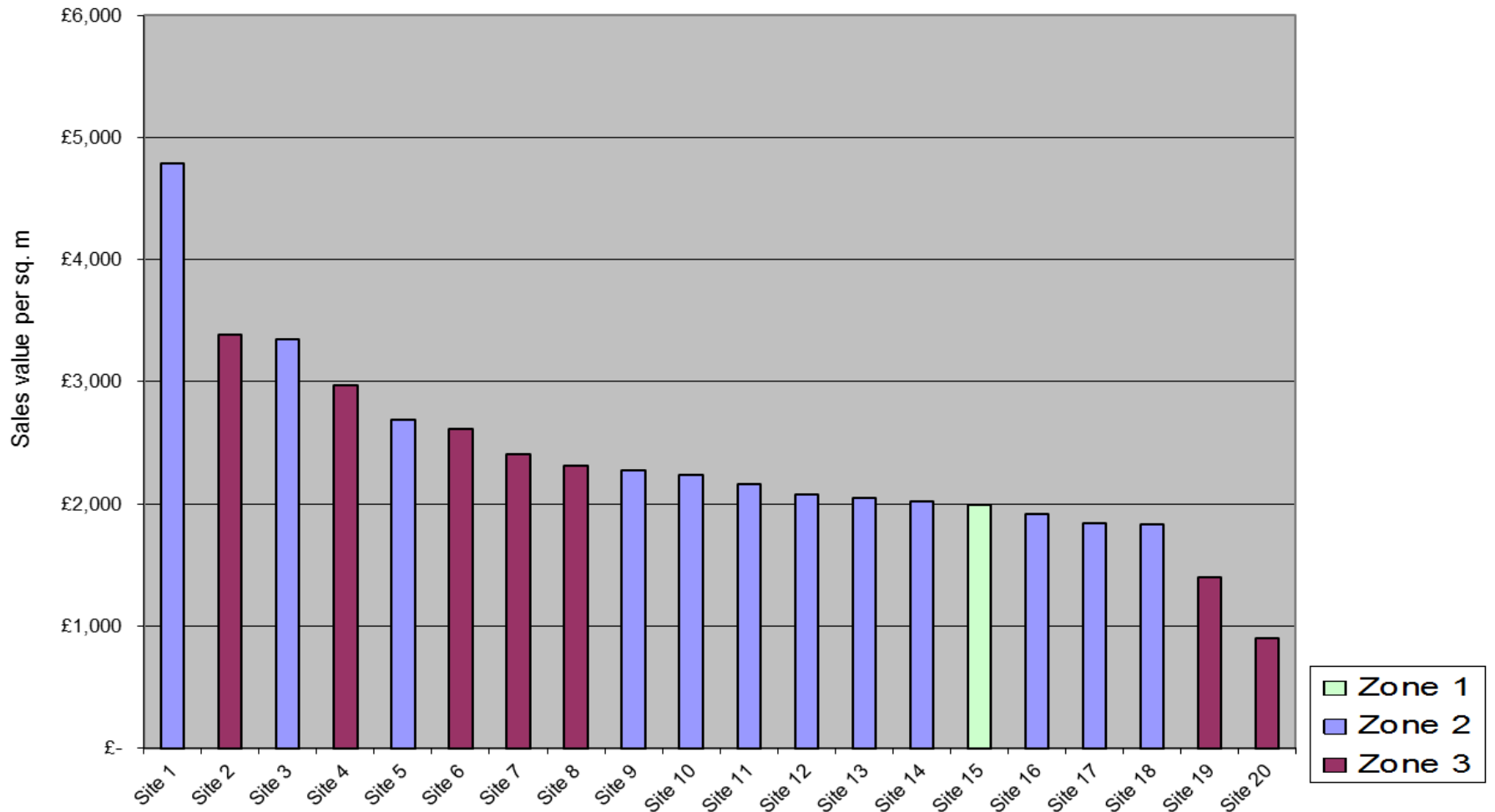
Private Sales Values



Private Sales Values

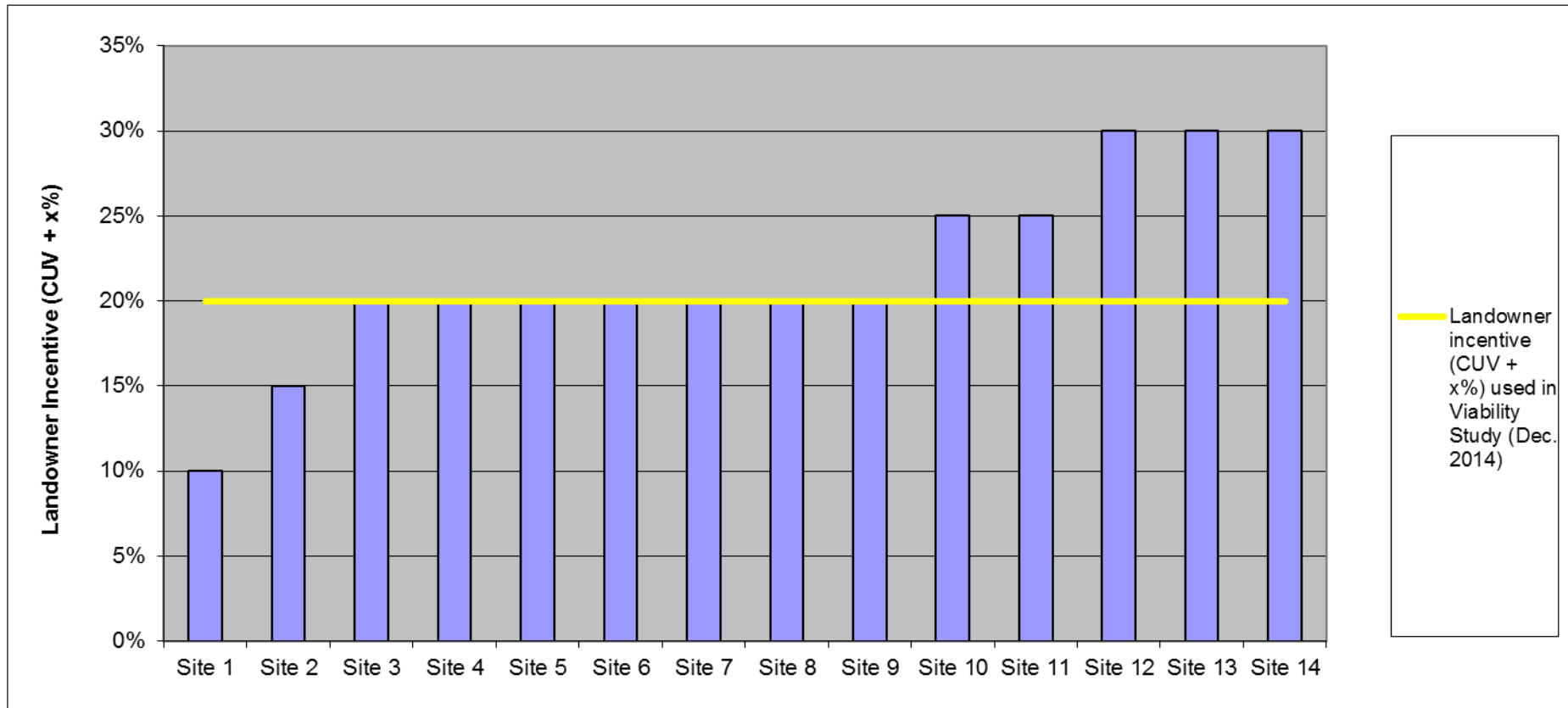


Affordable Housing Sales Values

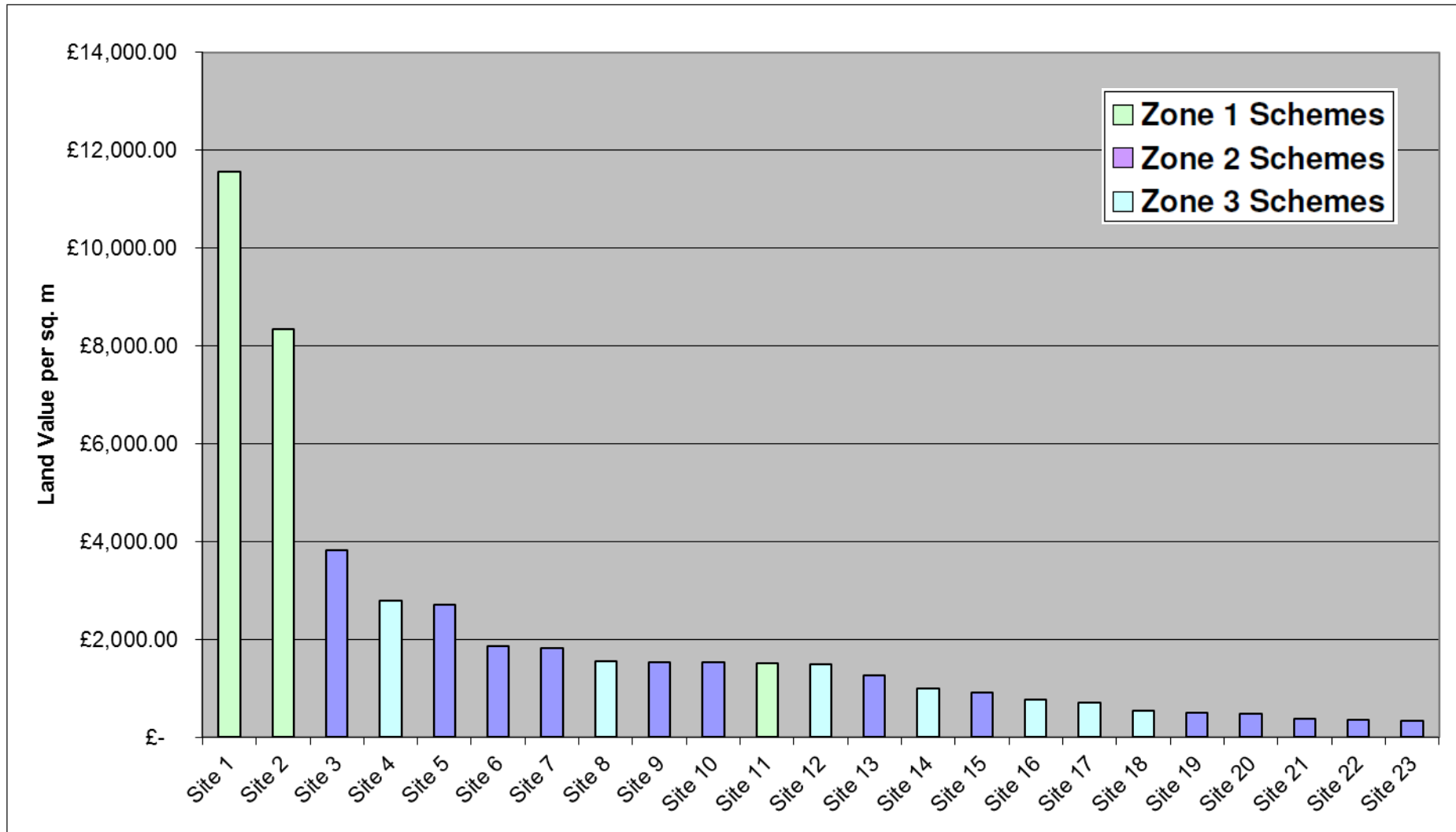


Valuation methodology and Landowner Incentive

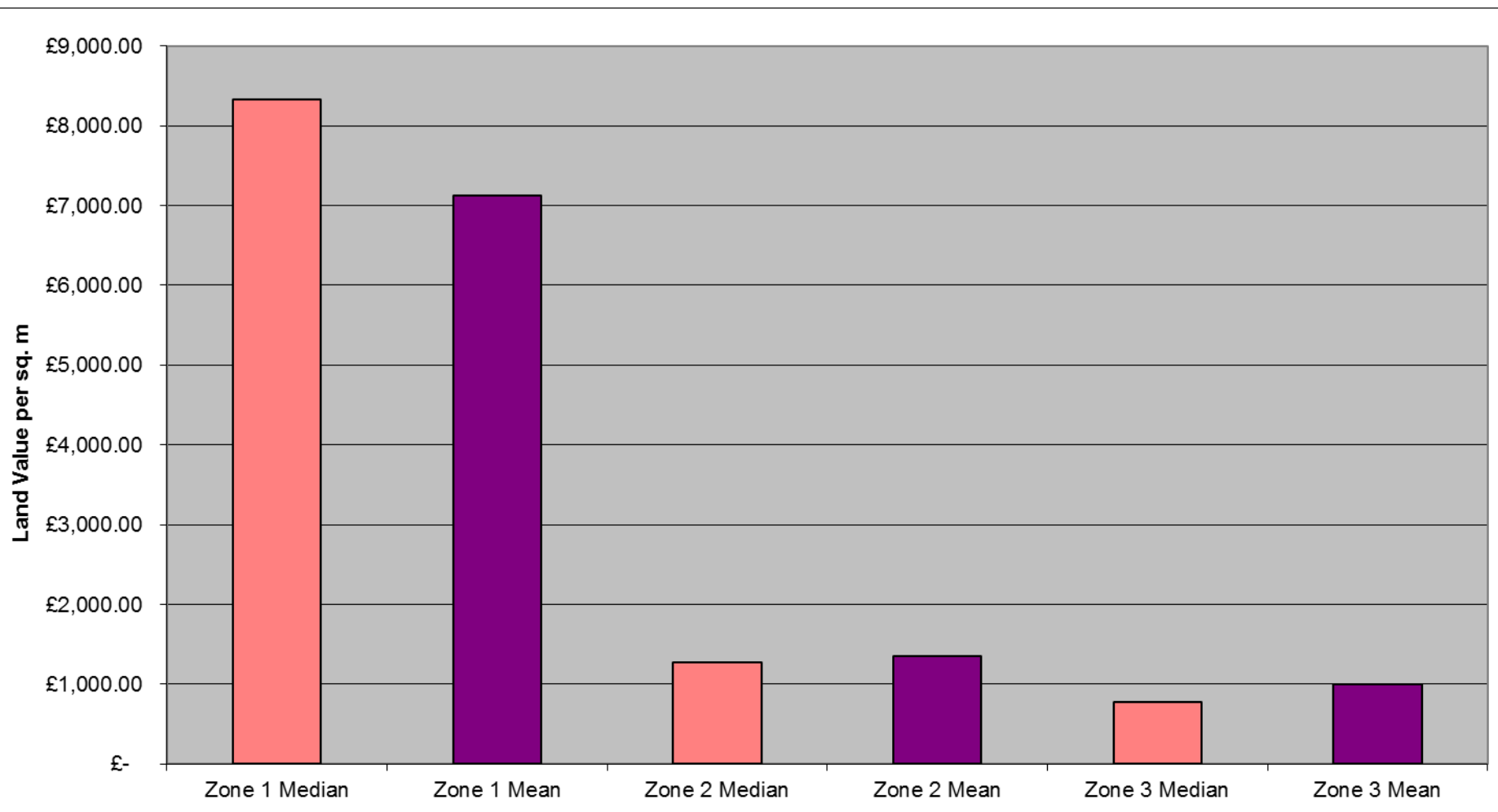
- Most schemes identified the BMLV through valuing the current use value and adding a landowner incentive (CUV+)



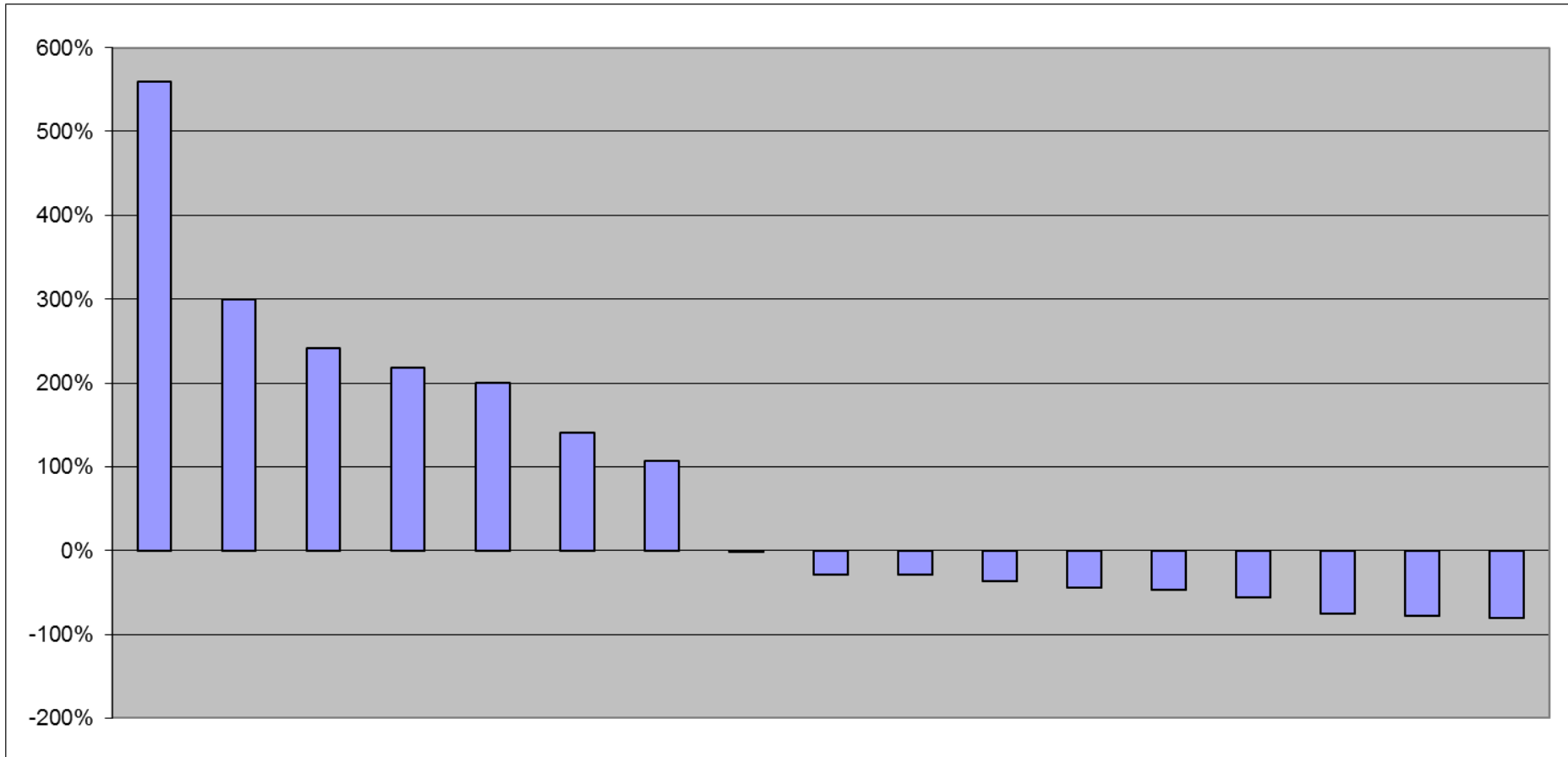
Benchmark Land Value (Whole Site)



Benchmark Land Value (Whole Site)



Land transaction as % of BLV



S106 planning obligations



- 7 schemes approved since adoption of CIL in April 2015
- Range from £1,047 per residential unit to £2,453 per unit, with average of £1,811 per unit
- Range from £13.50 p/sqm to £40.40 p/sqm for commercial space with average of £21.7 p/sqm

4. Proposed appraisal inputs for Old Kent Road OA Study

Proposed appraisal inputs



Build costs adopted will be based on advice from Cost Consultants WT Partnership (WTP)

Using benchmark information as the basis of the construction costs. WTP act for a number of developers and local authorities in the Central London area so have a wealth of information from which to carry out the Assessments. This will be supported by infrastructure budgets from a variety of sources.

As required by viability guidance build costs will be as at the present day with no allowance for future inflation / deflation

Proposed appraisal inputs



Construction cost benchmark drivers

- Use and housing mix and density
- Site size, shape, constraints, existing condition
- Built form and mass, basements
- Energy strategy and sustainability
- Procurement
- Third party influences – party walls, rights of light, Life time homes , secure by design etc.
- Quality and specifications
- Exclusions – demolitions, professional fees, contingency, VAT and the like (most of which included as separate element in appraisals)

Proposed appraisal inputs



Residential

- Flats gross to net ratio 72% - 80%
- Build costs – Based on advice from Cost Consultants WT Partnership:
 - Flats low density (up to 6 storeys) £1,900 per sq m
 - Flats medium density (7-13 storeys) £2,250 per sq m
 - Flats high density (14-35 Storeys) £2,800 per sq m
- Build cost allows for meeting part L of Building Regs and minimum London Plan requirements
- External costs circa 10-15%
- Contingency 5%
- Demolition £85 per sq m

Proposed appraisal inputs

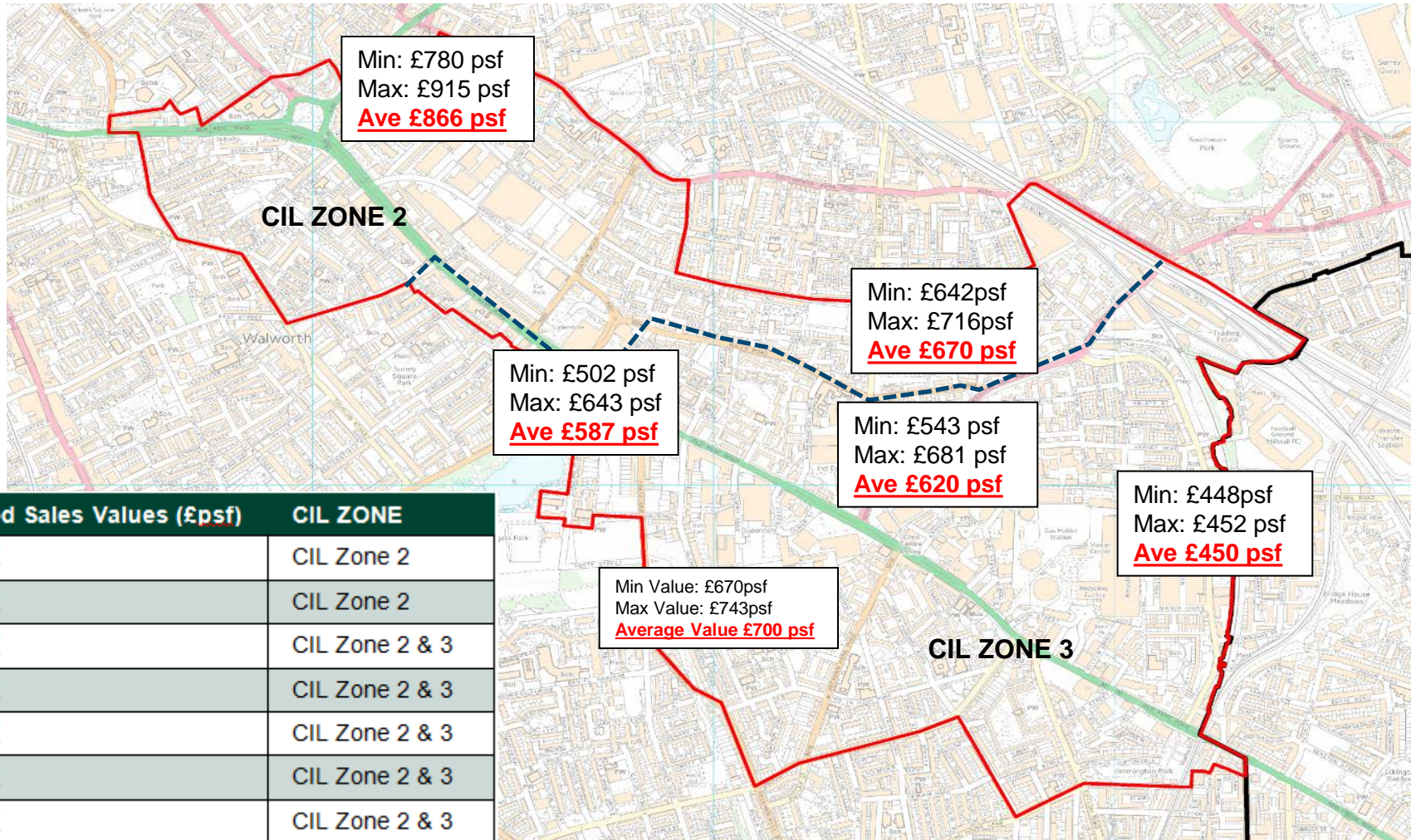


Residential cont.

- Developer's profit: 20% on GDV for Pvt and 6% on AH
- Development finance: 7%
- Fees: 10% - 12% of build costs
- Affordable housing (AH) on sites of 10 or more new dwellings tested at 35%
- 70% social rent and 30% intermediate dwellings
- Sensitivity testing up to 50% and down to 0% AH
- No grant
- Shared ownership: 25% equity sale and max 2.75% rent and max of 40% of income

Proposed appraisal inputs

Residential accommodation



Proposed appraisal inputs



Student accommodation

- Rents:
 - £192-£257 per week direct let (51 week let)
 - £172-£220 per week nomination (51 week let)
 - £114-142 per week en-suite room nomination (40/48 week let)
- Yield: 5%
- Build: £1,850 per sq m (cost includes FF+E.)
- Affordable housing:
 - direct let at market rent provide 35% of GIA as conventional AH; and
 - 27% of student rooms let at a rent that is affordable to students.

Proposed appraisal inputs



Offices:

- Rents: £183 - £215 per sq m
- Yield: 7%
- Build:
 - Air conditioned - Shell and core £1,600 per sq m
 - CAT A fit out £475 per sq m

Community Use:

- Rents: £183 per sq m
- Yield: 7%
- Build: £1,995 per sq m

Proposed appraisal inputs



Retail Warehouse/Retail Park/Convenience based superstore or supermarket:

- Rents: £260 per sq m
- Yield: 4.75%
- Build: £1,400 per sq m

All other retail (A1-A5):

- Rents: £161 - £215 per sq m
- Yield: 5.75% - 6%
- Build: £1,450 per sq m

Proposed appraisal inputs



Leisure use:

- Rents: £215 per sq m
- Yield: 6.5%
- Build: £2,000 per sq m

Other assumptions:

- BREEAM (2014) excellent 2%
- External works 15%
- Contingency 5%
- Demolition £85 per sq m
- Developer's profit: 20% on cost
- Development finance: 7%
- Fees: 10% - 12% of build costs

5. Feedback / Questions

Thank you

- Contact us at: planningpolicy@southwark.gov.uk