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
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%
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

- Scheme value
  - Surplus
  - CIL
  - site value in current use + premium
  - interest
  - Fees
  - Developer's profit
  - Build

- Costs

£ Millions
Methodology

Value 'created' by grant of Planning Permission
### Methodology

Testing layers of policy costs

### Typologies

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

- **Sample Site A (located in Area A)**
- **Re-based to Area B**
- **Re-based to Area C**
- **Re-based to Area D**

Establish Viability
## Methodology

### Specific site testing

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

## Specific site testing

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

<table>
<thead>
<tr>
<th>GDV</th>
<th>Cost</th>
<th>IRR</th>
</tr>
</thead>
<tbody>
<tr>
<td>19 schemes</td>
<td>7 schemes</td>
<td>2 schemes</td>
</tr>
</tbody>
</table>

- 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

- Site 1: 10%
- Site 2: 15%
- Site 3: 20%
- Site 4: 25%
- Site 5: 25%
- Site 6: 25%
- Site 7: 25%

Developer profit assumed in CIL viability study 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

Southwark Council

Build Costs per sq. m

- Minimum Construction Costs Assumption in Viability Study 2014
- Maximum Construction Costs Assumption in Viability Study 2014

Zone 1
Zone 2
Zone 3
Private Housing Build Costs

- Zone 1 Median
- Zone 1 Mean
- Zone 2 Median
- Zone 2 Mean
- Zone 3 Median
- Zone 3 Mean

Costs range from £1,000.00 to £3,500.00, with Zone 1 Median being the highest and Zone 3 Median being the lowest.
Private Housing Build Costs

![Graph showing the relationship between build costs per sq.m and the number of storeys. The costs increase as the number of storeys increases.]
Affordable Housing Build Costs

Minimum Residential Construction Costs Assumption in Viability Study (Dec. 2014)

Maximum Residential Construction Costs in Viability Study (Dec. 2014)
Affordable Housing Build Costs

![Bar Chart showing build costs for various zones.](chart.png)
Affordable Housing Build Costs

![Graph showing the relationship between build costs and number of storeys. The x-axis represents the number of storeys, ranging from 0 to 20. The y-axis represents build costs per square meter, ranging from £0 to £3,500. The graph shows a steady increase in costs as the number of storeys increases.]
Gross to Net Efficiency
Contingency Costs

Contingency as percentage of build costs

*Contingency Cost Assumption in CIL Viability Study (Dec. 2014)*
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

Abnormal Development Costs per sq. m

- Site 1
- Site 2
- Site 3
- Site 4
- Site 5
- Site 6
- Site 7
- Site 8

Range of costs from £50 to £350 per sq. m.
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

- Zone 1
- Zone 2
- Zone 3
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

<table>
<thead>
<tr>
<th>Proposed Sales Values (£psf)</th>
<th>CIL ZONE</th>
</tr>
</thead>
<tbody>
<tr>
<td>£865 psf</td>
<td>CIL Zone 2</td>
</tr>
<tr>
<td>£750 psf</td>
<td>CIL Zone 2</td>
</tr>
<tr>
<td>£700 psf</td>
<td>CIL Zone 2 &amp; 3</td>
</tr>
<tr>
<td>£670 psf</td>
<td>CIL Zone 2 &amp; 3</td>
</tr>
<tr>
<td>£620 psf</td>
<td>CIL Zone 2 &amp; 3</td>
</tr>
<tr>
<td>£590 psf</td>
<td>CIL Zone 2 &amp; 3</td>
</tr>
<tr>
<td>£450 psf</td>
<td>CIL Zone 2 &amp; 3</td>
</tr>
</tbody>
</table>

CIL ZONE 2

Min: £780 psf
Max: £915 psf
Ave £866 psf

CIL ZONE 3

Min: £642 psf
Max: £716 psf
Ave £670 psf

Min: £543 psf
Max: £681 psf
Ave £620 psf

Min Value: £743psf
Max Value: £743psf
Average Value £700 psf

Min: £448psf
Max: £452 psf
Ave £450 psf
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