Former Walthamstow Greyhound Stadium

Introduction Dated 25/4/2012

1.1 BPS Chartered Surveyors are a firm of consultant Chartered Surveyors retained by Waltham Forest Council under a term contract to provide advice to the Council regarding development viability.

1.2 In the context of the redevelopment of the former stadium, the applicant London and Quadrant (L&Q) has indicated through their agents Jones Lang LaSalle (JLL) ,that the scheme is not sufficiently viable to meet in full the Council's Section 106 requirements and provide a policy compliant level of affordable housing. BPS has been asked to test the viability material provided by the applicant and their agents and other advisors and to assess whether the proposed level of S106 contributions and affordable housing is justified on the grounds of scheme viability.

1.3 The discussions regarding viability have been ongoing since the application was submitted in July 2011. The applicant has also sought more recently to re-balance the planning obligations provided by the scheme to deliver a S106 package but has achieved this through a reduction in the level of affordable housing being offered. We have now reached an agreed position with JLL regarding the scheme's viability.

1.4 It should be noted that the appraisal material provided to BPS is viewed as being of a confidential nature by the applicant due to it being commercially sensitive. We have consequently not referred to any figures in this report which may give rise to a breach of that confidentiality.

Description of Development

2.1 The proposed development comprises the demolition of existing (unlisted) buildings, conversion, alterations and extensions to the retained listed buildings (comprising the Tote board and the dog kennels) for leisure and community uses, residential accommodation (comprising a total of 294 dwellings for a mix of private and affordable housing), open space provision (public, private and communal), car, motorcycle and cycle parking and access through the existing Chingford Road entrance. The residential accommodation includes a mix of unit sizes, including a significant number of family houses, and the height of the proposed new buildings will range between 2 and 8 storeys.

2.2 The applicant is proposing to make S106 contributions totalling £4,148,260 which equates to £14,110 per unit

2.3 The scheme will deliver a total of 60 affordable housing units which represents 20% of the scheme by unit number and 25% by habitable room. The affordable housing is provided in the form of 24 units of affordable rent and 36 low cost home ownership units.

Recommendations and Conclusions

3.1 After considerable discussion and adjustment of figures we have now arrived at an agreed appraisal for the scheme. We have also agreed to benchmark the development against a site value of £7,000,000.

3.2 The residual value of the scheme shows that at the proposed level of affordable housing and S106 contributions the applicant will make an expected profit of 12.45% of gross development value of the private residential and commercial elements. This represents a shortfall on target profitability of 7.55%.

3.3 The applicant is willing to consider a re-appraisal of the scheme on a phase by phase basis such that if target profitability is achieved by reference to the agreed land value benchmark, a proportion of any sum over this level will be allocated towards the delivery of additional affordable housing.

3.4 It will be noted from the body of the report that we are concerned that the grant expectations assumed by the applicant appear to be below current programme allocations for other schemes. The site currently has no allocation and the applicant regards securing grant as a development risk which we accept. The applicant is willing to seek to maximise any grant allocation and for any additional grant to be applied directly to the provision of additional affordable housing outside of the provision for re-assessment.

3.5 In conclusion we believe the scheme is providing a higher level of planning obligations than can be justified by the scheme's current viability.

3.6 We are also satisfied that we have an agreed basis from which to work in reviewing viability based on outturn costs and values as the scheme progresses and that this will ensure that should the profitability of the scheme exceed the applicant's target level of profitability there would be the opportunity for the scheme to deliver additional affordable housing.

Process

4.1 BPS was initially supplied with a viability report prepared by JLL in July 2011. We considered this document did not provide adequate information in relation to the detailed assumptions on which the appraisal was based and a series of detailed information requests were made of the applicant and their advisor.

4.2 A number of meetings have subsequently taken place between us, Council Officers and the applicant and their advisors where our information requirements were discussed.

4.3 We have subsequently been provided with a number of supplementary documents including:

a) A revised appraisal of the application scheme

b) An appraisal of a policy compliant scheme

c) A sensitivity analysis

d) Schedules of area and valuation breakdown for the affordable housing for both the application and policy compliant scenario

e) A schedule of proposed values of the private residential units

f) A schedule of comparable evidence of residential sales

g) A breakdown of the proposed affordable rents and their relative discount to market rent

h) An outline development programme

i) An assumptions paper

j) Various e-mail exchanges providing further corroboration

More recently

k) A revised affordable housing offer

l) A S106 proposal

m) A revised appraisal to reflect the changes to the level of affordable housing and S106 contribution

n) A revised unit mix for the affordable element

4.4 This information has been provided to us on an incremental basis and wherever possible our analysis of this information has been shared with the applicant to provide a basis for further discussion and where possible clarification and agreement.

4.5 The initial cost plan of the proposed scheme was produced on behalf of the applicant by Martin Arnold. A more detailed cost plan was subsequently requested and provided which was then analysed by our retained Quantity Surveyor. This was achieved through producing a detailed benchmark against relevant BCIS data at an elemental level. Our initial findings required further clarification and these issues were addressed through a third report also prepared by Martin Arnold. Based on the analysis of these documents we now have an agreed cost estimate for construction of the scheme.

Approach

5.1 In common with the majority of development proposals we examine for our local authority clients, the approach taken by the applicant's advisors is to assess viability through using the Residual Value method of appraisal.

5.2 JLL have used a commonly used developed appraisal package termed Argus Developer (formerly Circle Developer) to model the viability of the scheme.

5.3 The Residual Value Appraisal uses the basic calculation principles set out below to establish what is termed a residual value. The residual value is then compared to an appropriate viability benchmark to establish whether the scheme is in surplus or deficit.

Total value of the proposed development		£GDV
Less		
Total development costs	£A	
Professional fees	£B	
Development finance	£C	
Developers profit	£D	
Total Costs		£TC

£GDV - TC = Residual Value

5.4 If the residual value is equal to or greater than the adopted viability benchmark then the scheme is deemed to be viable. Where a scheme demonstrates a significant surplus there is an argument to suggest the scheme should deliver a higher level of planning obligations.

5.5 The choice of valuation benchmark is therefore a key factor in determining the viability of the scheme.

5.6 There is no mandatory approach to establishing an appropriate valuation benchmark.

5.7 The London Plan Guidance notes produced to accompany the use of the 3 Dragons Development Appraisal model suggest that the existing use value (EUV) or where appropriate Alternative Use Value (AUV) should be adopted. There is also a suggestion that under some circumstances it would be reasonable to allow a premium on this benchmark as an incentive to release the land for development. These guidance notes do not form planning policy.

5.8 More recent advice from the Royal Institution of Chartered Surveyors suggests that an appropriate benchmark should be the Market Value of the site. However this view is tempered by the assumption that Market Value should have due consideration of relevant planning policy. This approach does not achieve the desired clarity of approach as it does not give clear guidance as to whether price paid or planning policy should take primacy. This guidance does not represent a mandatory valuation approach.

5.9 Evidence of rulings from Planning Inquiries and from regional planning policy suggest that the price paid for a site is of interest but is unlikely to be useful as a benchmark figure. In this instance the price paid for the site is not shown on the title held at the Land Registry. We have concluded that this can only be because the price paid was in some way variable such that a fixed figure was not capable of identification for listing on the register.

5.10 Throughout our discussions about an appropriate valuation benchmark with JLL it has not been suggested that the price paid for the site should be adopted as the relevant benchmark figure. It is therefore of no relevance to our assessment of viability.

5.11 The site's former use as a Greyhound Stadium ceased some three years ago and we understand the final year of its trading showing a net loss. JLL accept that the existing use value as a stadium is effectively zero on this basis.

5.12 Therefore the value of the site hinges on its ability to secure planning consent for a higher value use. At the point the application was submitted the site was identified in the Council's emerging Core Strategy, the relevant extract is quoted below:

5.13 The Waltham Forest Core Strategy 4.23

During the plan period, it is expected that a number of key sites will come forward for redevelopment, including Walthamstow Dogs Stadium, Chingford Municipal Offices and some underused land at Whipps Cross Hospital. Redevelopment at these sites is expected to contribute to overall housing, employment and leisure provision.

5.14 We consequently accept that prior to grant of a planning consent there was a reasonable expectation that the site would be deemed suitable for redevelopment to a higher value use. This intended allocation gives rise to what is generally termed "hope value".

5.15 This allocation of the land to a higher value use does not in our view provide grounds for overriding the requirement for the site to make relevant contributions towards planning obligations and affordable housing.

5.16 Were the site to have no existing use value or alternative use value we would normally expect the value of the site to be determined by the residual value generated by a policy compliant scheme.

5.17 As apart of the process to establish viability consideration has been given to the viability of a benchmark scheme. This is based on the same development density, costs and values as the application scheme but with a fully policy compliant level of S106 and 50% affordable housing.

5.18 The policy compliant appraisal suggests that the site would have a negligible or even negative land value. We believe it would be unrealistic to expect the site to come forward for development if a land receipt of this order was all that was achievable.

5.19 JLL suggest that site value should reflect the tone of other land sales in the area. The land sales provided to us by JLL do not explore the circumstances surrounding each of these sales and consequently we do not agree that a purely comparable approach is adequate to accurately assess the value of the site given its own unique circumstances. The four land sales provided by JLL indicate a sales value range from £2.5m per hectare to £4.5m per hectare (£1m to £1.9m per acre).

5.20 We have also explored the benchmark land values adopted for a number of planning viability assessments we have recently undertaken for the Council. We believe these figures relate not so much as to what the market might pay for land but what underlying value land typically has in the borough which is partly based on existing use value and the figure considered a by the applicant as a minimum return on land. This analysis suggests a land value per hectare towards the lower end of the range indicated by JLL.

5.21 We are of the opinion that land value should reflect a combination of factors including:

a) Viability of the proposed redevelopment

b) Viability of the site for a policy compliant development

c) Relevant planning policy

5.22 We also recognise that site value will also be a product of competition within the land buyer market and this is a prominent site with a clear expectation that development is a possibility.

5.23 Based on our analysis of benchmark land values and JLL's suggested price range for sites in the Borough we believe that an appropriate benchmark value should be at the lower end of the land price band to reflect hope value but otherwise based on development maximising its policy contributions.

5.24 A figure of £7,000,000 has been adopted which reflects a land value of £2,135,00 per hectare (£865,000 per acre)

5.25 It is in our opinion a realistic benchmark value to adopt for the purposes of assessing viability. In making this statement we acknowledge that land buyer market may choose to bid at a higher level, however we believe it represents a prudent balance between an acknowledgement of the site's undoubted "hope value" and the requirement to as far as possible meet planning policy requirements.

Residential Values

Private Sales Revenue

5.26 We have been provided with a detailed schedule of anticipated sales revenues for the private housing within the scheme. Based on our analysis of the limited number of new build schemes in the locality and the borough as whole we are largely satisfied that the proposed average sales values are reflective of the local market.

5.27 We believe the suggested range of values anticipated on units which are otherwise identical due to issues such as location within the scheme, daylight and height is too wide. However the appraisal is reliant upon average unit values which we are willing to accept therefore the impact of this issue on overall viability is consequently negligible.

Affordable Rent Levels

5.28 We have reviewed the levels of proposed market rents and the level of discount proposed by JLL and confirm that the proposed rental discounts match the Council's rent level guidance in terms of the levels of discount proposed. We are of the opinion the proposed market rents for 4 bed units reflects the upper end of expectations but given the limited evidence of new build larger family homes we have concluded that there are no substantive grounds for disputing the figures proposed.

Value of affordable rent element

5.29 We have agreed with JLL the basis of the valuation to be applied to the affordable rent element in terms of the explicit assumptions and our calculations concur.

Value of shared ownership element

5.30 We are in broad agreement with the private unit values on which the shared ownership values have been based. It should be noted that in general the units selected for this tenure reflect the mid to lower value expectations for the equivalent private sale units. We accept that in practice this is a logical approach to maximising scheme revenue and consequently we accept the market values that have been proposed for the shared ownership units.

5.31 Following discussions as to the approach taken in valuing the unsold equity the applicant has adopted our suggestions regarding staircasing assumptions which reflect what is considered to be the market norm of 75% of the equity will be staircased over a 20 year period with a rent ranging from 2.75% to 2.5% on the balance.

Grant

5.32 Based on our knowledge of current grant allocations we would have anticipated a higher level of grant being assumed on the affordable rent units and approximately 50% of this rate assumed for the shared ownership units.

5.33 The applicant has confirmed that the scheme is not within its current programme and as such has not received a grant allocation. Consequently any sum included in the appraisal is effectively a risk for the applicant to ensure it is delivered.

5.34 We accept that without an allocation there can be no assurance of grant therefore the applicant has agreed to seek to maximise the grant it seeks for this scheme and to apply this grant to delivering as much affordable housing as possible irrespective of the findings of any subsequent re-appraisal.

Value of commercial element

5.35 The commercial element of the scheme is located within the listed buildings and is focussed around beneficial re-use of these structures and to offset the costs involved. The appraisal suggests that the value generated is below the overall costs. Given the location and the nature of the proposed uses this conclusion appears realistic.

Scheme Costs

Construction costs

5.36 It can be seen from the earlier part of our report that an exacting process has been followed to arrive at an agreed cost for the scheme. This is supported by an elemental cost benchmarking exercise with BCIS data.

Other development costs

5.37 Allowances for other normal development costs have been made in the scheme appraisal are in line with our expectations for a scheme of this size. We believe the allowance for marketing costs may prove to be light if sales prove difficult to achieve but the budget represents a realistic starting point.

Developers profit

5.38 The target profit sought by the applicant on the private residential and commercial element is 20% of gross development value. This is a typical minimum return sought by developments across London and is in part a reflection of the funding market where lenders require a significant anticipated profit as security for the development.

5.39 We would not anticipate a profit being sought on the affordable housing element of the scheme. However we accept that RSL based developments would typically seek to cover their internal costs associated with managing the development process and 6% of build costs for this element appears to be a realistic figure.

S106 Contributions

5.40 The appraisal has factored in a S106 contribution of £4,148,260 which includes an allowance for Mayoral CIL.

<u>BPS Chartered Surveyors – April 2012</u>