29 New End
Hampstead
London NW3 1JD

Appeals against Refusals by Camden Council of Planning Permission
and
Conservation Area Consent

(Camden refs 2012/3089/P and 2012/3092/C)

Proof of Evidence
October 2014

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HOUSING & ECONOMIC DEVELOPMENT CONSULTANCY

Appeal ref: APP/X5210/A/14/2218243

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1 Background and qualifications

1.1 I graduated from Lancaster University in 1971 with a BA (Hons) degree. I have worked in the field of housing since 1975, including full time employment as follows:

- 1975 – 1983: housing advisor and then housing research officer for two Shelter-funded non-statutory organisations;
- 1983 – 1987: Principal Housing Development Officer for the London Borough of Islington;
- 1987 – 1989: New Initiatives Manager for New Islington & Hackney Housing Association;
- 1989 – 1991: Development Director for New Islington & Hackney Housing Association;
- 1991-1998: Special Services Director for South London Family Housing Association.

1.2 Since January 1998 I have been a freelance housing specialist. Commissions have included work for the Office of the Deputy Prime Minister, the Housing Corporation, six local authorities in London and a large number of Registered Social Landlords and private developers. I work regularly with a number of the leading planning consultancies in London and the South East.

1.3 Most of my workload since 2001 has been in relation to the inclusion of affordable housing within private developments, almost entirely as a consequence of planning obligations introduced from 1998 onwards. I usually advise such clients on all aspects of affordable housing.

1.4 I have specialised in financial viability appraisals that assess the amount of affordable housing and/or other planning obligations that can reasonably be offered without rendering the proposed scheme undeliverable. I have produced over 250 such viability appraisals since 2003, for schemes ranging from small high value developments in central London to large scale, mixed use regeneration projects including 3,500 or more homes in the London Docklands and elsewhere. The projects have mainly been within Greater London.

1.5 The viability appraisals that I have produced have been based on the various models made available for this purpose including:

a) the GLA "Three Dragons" Affordable Housing Development Control Toolkit model (the "GLA Toolkit")
b) the Economic Assessment Tool (EAT). The EAT was first issued in 2007 by the Housing Corporation and was updated and re-issued in July 2009 by the Homes and Communities Agency (HCA)
c) Argus Developer, a commercially produced development appraisal programme available for purchase under licence.

2 Role in the current application / appeal

2.1 I have acted as a consultant to the Appellant on proposals to redevelop the site of 29 New End since 2010, as design proposals were developed in consultation with officers of Camden Council and other parties.

2.2 In May 2012 I produced a set of viability appraisals in support of the planning application submitted to Camden council in that month. I subsequently responded to queries from BPS Surveyors who were engaged by the Council to advise on the validity of the viability submission.

2.3 As a result of my previous involvement in this matter, the Appellant has instructed me to provide this statement and to attend the Appeal Inquiry as required.

2.4 My advice and evidence relates to one of the reasons for refusal, namely the alleged failure to provide a sufficient quantum of affordable housing on site within the proposed development. The evidence that I have prepared and provide for the Appeal in this proof of evidence is true to the best of my knowledge and I can confirm that the opinions expressed are my true and professional opinions.

2.5 In view of the passage of time since the May 2012 viability submission and subsequent discussions with BPS Surveyors, I have prepared updated appraisals consistent with national guidance. These take account of changes in market conditions and are based on revised inputs from Gardiner & Theobald and Knight Frank in respect of build costs and residential values respectively. The updated appraisals also take account of minor design changes made to the scheme between May 2012 and its presentation to Camden's Development Control Committee in November 2013.

3 The viability appraisal process

3.1 As in May 2012, the updated viability appraisals have been prepared using the Economic Assessment Tool model referred to above. The model works back to a land value for the proposed scheme. This is on a residual basis, reached by deducting build costs, fees and all other costs including developer's profit from the gross values generated by the proposed scheme. The other models referred to in paragraph 1.5 above also work on the same principles to show a Residual Land Value as the output. This approach to measuring viability in relation to RLV was adopted for the GLA in 2002, following research carried out for the GLA by the consultants who produced the GLA's 'Affordable Housing Development Control Toolkit' model. Other models have since adopted a similar approach.

3.3 The residual land value reached by the viability appraisal for a proposed development is normally compared either with the value of the site for any existing uses or with its ‘Benchmark Land Value’ (BLV) for an alternative use that has planning consent or that could reasonably be expected to obtain consent. The guidance on viability issues published by the RICS in August 2012 included the proposal that this Benchmark Land Value could be based on the market value of the building or land concerned, provided that such value took account of Development Plan policies.

3.4 The London Borough of Camden has adopted planning policies that acknowledge the relevance of viability information in its consideration of proposed developments that would normally trigger an affordable housing requirement. The underlying proposition is that the imposition of an obligation to subsidise the provision of affordable housing should encourage and not constrain the delivery of much needed housing. The principal concept in considering the viability of a proposed development is that if its Residual Land Value based on estimated current day costs and values is less than the Benchmark Land Value as a result of the proposed planning obligations, then the proposed scheme is unlikely to be deliverable.

3.5 Mr Sharpe’s proof of evidence has considered the Council’s policy in some detail in the context of the National Planning Policy Framework, the London Plan and other relevant guidance.

4 <u>The viability of the Appeal scheme in 2012</u>

4.1 In May 2012 I prepared an assessment of the viability of the Appeal scheme using the EAT model and based partly on supporting information from Gardiner and Theobald on build costs and from Knight Frank on sale values for the private apartments. Other inputs to the appraisals (including professional fees, sale and marketing costs, interest rates etc) were included at levels consistent with other submissions that I had prepared and that had generally been considered as reasonable by local authorities and their advisers.

4.2 One appraisal **(2012/C attached)** illustrated the viability of the scheme as proposed with 17 apartments for private sale.

4.3 Two alternative appraisals **(2012/A and 2012/B attached)** were included at the request of officers in earlier discussions. These illustrated the effect of affordable housing on site at two different proportions, based on notional alternative sketch schemes prepared by KSR Architects and with the affordable housing at the required space standards and in a self contained part of the building with its own entrance, lift and stair core.

4.4 Alternative appraisal **2012/A** showed a total of 32 units with 23 of these as affordable housing, giving approximately 50% of the floor area as affordable housing. The other version **(Appraisal 2012/B)** showed the affordable housing as 13 units in a total of 26, equating to approximately 25% of the floor area.

4.5 Gardiner and Theabould and Knight Frank provided amended build cost estimates for both alternative appraisals and Knight Frank provided values for the private sale units. I estimated values for the affordable units as a policy compliant ratio of social rented and intermediate housing for shared ownership sale.

4.6 The outcome of these appraisals was compared with the value of the existing building as estimated by Montagu Evans if it were to be reinstated to Sui Generis hostel use instead of being redeveloped. KSR prepared a sketch scheme to illustrate how it could potentially be converted to prove 75 bedrooms with en suite shower facilities and communal amenities in a style similar to how other hostels in the Borough have been operated. Conversion costs were estimated by Gardiner and Theabould. Rental income and operating costs were estimated in conjunction with the Bravo Group's housing management and finance staff who have been appointed by Karawana Ltd to advise as asset managers, drawing on their experience in managing similar hostels. **Appraisal 2012/D** showed an estimated capital value of just under £5.8M for the building based on a yield considered appropriate at the time by Montagu Evans.

4.7 The result of the above appraisals in terms of the Residual Land Values can be summarised as follows in comparison with the Benchmark Land Value above:

EAT appraisal	**RLV**	**BLV**	**Surplus over BLV**
2012/A: Proposed scheme	£0.840M	£5.8M	**Minus £4.5M**
2012/B: 50% affordable	minus £7.3M	£5.8M	**Minus £13.1M**
2012/C: 25% affordable	minus £4.8M	£5.8M	**Minus £10.6M**

4.8 BPS Surveyors Limited were commissioned by the London Borough of Camden to assess the viability appraisals and the supporting information provided.

4.9 BPS sought further clarification on several points of detail and a response on these was provided in July 2012. BPS subsequently issued their advice to the London Borough Camden. The report broadly agreed with the content of the viability appraisals and supporting information. It confirmed that the inclusion of affordable housing on site would not be financially viable.

4.10 The advice from BPS was reflected in the report to the Council's Planning Committee meeting in November 2013, taking account of BPS' own updating of the 2012 figures to reflect estimated increases in residential sale values and build costs based on Land Registry and RICS data. The Committee report outlined the process undertaken to assess viability and concluded that "on financial viability reasons alone, the scheme cannot provide affordable housing either on or off site and that it would be unreasonable to require such a provision, given that the applicant's viability study has been rigorously tested and endorsed by the Council's own surveyors".

5. **The updated appraisals**

5.1 The appraisals for the Appeal scheme have also now been updated with the revisions needed to the appraisal inputs to reflect changes in market conditions and the minor design changes made to the proposed scheme between May 2012 and the Committee decision in November 2013.

5.2 An updated set of EAT appraisals and supporting information are attached as Appendix 4***.*** These are:

a) **2014/A**: scheme as proposed with 17 private sale apartments

b) **2014/B:** scheme with approx 50% of gross floor area as affordable housing

b) **2014/C:** scheme with approx 25% of gross floor area as affordable housing

5.3 The dwelling mix for the affordable housing has been amended to reflect KSR's further work on the design. Knight Frank and Gardiner and Theobald have provided updated sale values and build costs to reflect the significant improvement in the central London housing market since 2012 and the increase in build costs over the same period.

5.4 As in the 2012 submissions, the rented housing is assumed to be at the 'Affordable Rents' promoted by current Government and GLA policy. The intermediate units are assumed as being for shared ownership sale on terms affordable to purchasers with gross household income levels within current GLA criteria.

5.5 The appraisal **2014/D** for the reinstatement of the existing building as a refurbished hostel has also been updated to take account of estimated increases in rent levels and operating costs as well as Gardiner and Theobald's updated cost estimate. This appraisal now indicates a capital value for the building of approximately £7.3 million, or approximately 6.9 million net of Stamp Duty and typical acquisition costs.

5.6 The results of the updated appraisals can be summarised as follows:

EAT appraisal	RLV	BLV	Surplus over BLV
2014/A: Proposed scheme	£4.9M	£6.9M	**Minus £2M**
2014/B: 50% affordable	Minus £4.16M	£6.9M	**Minus £11M**
2014/C: 25% affordable	Minus £0.75M	£6.9M	**Minus £7.6M**

5.7 As with the viability appraisal submitted in 2012, the updated appraisals reflect Knight Frank's estimated values for the private apartments without making any assumptions about the impact on these in the appraisals for the inclusion of 25% and 50% affordable housing within the scheme. It is acknowledged that this is a subjective issue and one that is hard to evidence as the inclusion of affordable rented units within a small development of this nature is extremely unusual. However, if any impact were to be assumed it would clearly make the result of the appraisals 2014/B and 2014/C even less viable than shown above.

6 Additional appraisal

6.1 In addition to the above, a further appraisal has been carried out to reflect the potential conversion of the existing building to residential apartments. This is largely in response to proposals from the Rule 6 parties that this would be a viable alternative to the proposed redevelopment.

6.2 KSR have considered a notional scheme showing the potential for conversion to 13 private apartments within the basic constraints of the existing floor plans and floor to ceiling heights.

6.3 The primary concern identified by KSR is that the existing floor to ceiling height is only 2.42 metres, and that if new services, sound insulation, floor finishes and ceiling for lighting, comfort cooling, under floor heating and other services expected in high quality private apartments are to be accommodated, the remaining clear floor to ceiling is likely to be less than the minimum of 2.3 metres. This would not meet current requirements in Building Regulations, would be well below the standards required by the GLA In the Mayor's London Housing Design Guide, and would not be marketable as high quality new apartments.

6.4 Nevertheless, a notional viability appraisal has been carried out on the assumption that a conversion scheme could achieve the minimum necessary floor to ceiling height of 2.3 metres albeit to a lower standard of internal fit out.

6.5 Appraisal **2014/E** reflects this notional alternative, based on the provisional and outline dwelling mix indicated by KSR, the build cost estimated by Gardiner and Theobald and Knight Frank's estimate of sale values. The latter are provisional as Knight Frank's clear advice is that the apartments indicated would not meet the expectations of typical purchasers and would be difficult to sell. Comparable sales evidence from schemes that have met higher standards is therefore largely irrelevant.

6.6 In addition, the existing site would not provide any off street parking for cars. In Knight Frank's opinion this shortcoming would make the apartments indicated by KSR even more difficult to sell.

6.7 The appraisal 2014/E for this notional option shows a negligible Residual Land Value of approximately **£0.1** million, with a much reduced amount of developer's profit in monetary terms compared with that shown in the appraisal 2014/A for the proposed scheme. This version thus shows a 'surplus' of approximately **minus £6.8 million** compared with the Benchmark Land Value.

6.8 In reality, this notional alternative of the conversion of the existing building to residential apartments is clearly not a viable commercial option. No developer would take the risk of undertaking a conversion that would not meet basic market expectations and potentially not meet building regulation standards. In addition, any such apartments would not meet the standards required in the London Plan for good quality accommodation for the future. The appraisal included here is therefore not considered to represent a realistic, practical alternative to the Appeal scheme's proposed redevelopment of the existing building.

7 Conclusion

7.1 The inclusion of affordable housing within the proposed redevelopment of 29 New End was shown not to be viable in 2012. This position was examined and accepted by the Council's external consultants in 2012 and this conclusion was reinforced in BPS' advice to the Council at the time of the Committee decision in November 2013.

7.2 Although the housing market in central London has recovered significantly since that time, it has not improved to the extent necessary to change this fundamental conclusion. This is illustrated by the updated viability appraisals and the supporting information from Knight Frank and sale values and Gardiner and Theobald on build costs.

7.3 In addition, the possibility of converting the existing building to residential apartments has been considered and has been found to be neither financially viable nor commercially practical due largely to the constraints of the existing building. It is these constraints that led to the decision to seek planning permission for redevelopment.

7.4 The clause sought by the Council in a legal agreement referring to a Deferred Affordable Housing Contribution is considered more contentious. Such a requirement is not supported by Government guidance in respect of a relatively small development that can only be implemented and carried out in a single phase. The arrangement understood to be proposed would potentially lead only to an additional payment by the developer, and not to any like reimbursement of an initial contribution if the scheme's financial results were worse than initially projected. Such a clause would therefore add to the commercial risk from the developer's point of view and potentially hinder the development of the new housing proposed rather than encourage it.