

Central Somers Town CIP

Viability and Affordable Housing Statement

DECEMBER 2015





Central Somers Town

Financial Viability & Affordable Housing Assessment

Prepared for:

London Borough of Camden

December 2015

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1 Executive Summary

- 1.1 Savills (UK) Ltd has been appointed by London Borough of Camden ('the Applicant') to prepare a financial viability assessment to support the Central Somers Town mixed-use redevelopment project.
- 1.2 The Applicant is promoting a number of sites within the Somers Town area with the aim of delivering a major package of community infrastructure including a new primary school, open spaces, public realm works, and community facilities.
- 1.3 The Applicant also has an aspiration to maximise the amount of affordable housing, specifically housing to be let at social rents, within the residential elements of the scheme. This is in the context of the residential development being enabling development, without which the community infrastructure would not be deliverable.
- 1.4 The total cost of delivering the community infrastructure package is estimated at This represents the target receipt from enabling residential development in order to make the scheme viable.
- 1.5 The proposed scheme includes 159,393 sqft GIA of residential floorspace. The table below illustrates scheme viability at differing levels of social rented housing:

SCHEME VIABILITY SUMMARY						
SCENARIO	No. of homes	Floorspace (sqft GIA)	Affordable housing (% GIA)	Scheme expenditure (£)	Scheme incomes (£)	SURPLUS / DEFICIT (£)
10 units for social rent at Plot 1 (Chalton St) and 10 units for social rent at Plot 6 (Purchase St South)	20	22,315	14			219,911
10 units for social rent at Plot 1 (Chalton Street) and 34 units for social rent at Plots 5 & 6 (Purchase St Blocks North & South)	44	47,813	30			-9,485,496

- 1.6 The viability assessment concludes that the affordable housing deliverable within a break-even scheme is 20 units, representing 14% of the residential floorspace.
- 1.7 The Applicant proposes to deliver in excess of this amount through the use of additional subsidy to bring the total affordable housing provision to 44 units, representing 30% of the residential floorspace.

2 Introduction

- 2.1 The Central Somers Town project comprises three adjacent sites and the network of streets that link them. The three sites are: the Edith Neville Primary School and Children's Centre sites; Polygon Road open space; and the Purchase Street open space. Collectively these are known as the Central Somers Town masterplan area. Within the overall area there are a series of plots that have been identified for development.
- 2.2 The project is part of the Somers Town strategy adopted by the Council to address key issues in the neighbourhood. Delivery of community infrastructure is at the heart of the project with the following anticipated outputs:
- Rebuilding the Edith Neville Primary School and Children's Centre on the existing school site
 - Community facilities including community play
 - St Aloysius Nursery
 - Improving open spaces including Polygon Road and Purchase Street
- 2.3 The Applicant is seeking to fund this community infrastructure through receipts gained from land sales for residential development. Housing development is central to the masterplan, and a number of suitable plots have been identified across the masterplan area:
- Plot 1 – Chalton St
 - Plot 2 – Charrington St (west side)
 - Plot 3 – Charrington St (east side)
 - Plot 5 – Purchase St (north)
 - Plot 6 – Purchase St (south)
 - Plot 7 – Brill Place
- 2.4 In September 2012, the Council's Cabinet agreed to undertake consultation on a strategy for Somers Town. Central to this strategy is the rebuilding of Edith Neville Primary School which is in poor condition and identified as needing replacement. The Council's Cabinet subsequently agreed the strategy in December 2013 including the outline business case based on delivering the school and other community infrastructure through capital receipts from the sale of land for residential development.
- 2.5 The reduction in government funding, including the money no longer available for schools, means that the Council has to be more innovative and make better use of buildings and land to improve facilities. The Central Somers Town proposals are coming forward as part of the Community Investment Programme (CIP) which is a strategic programme to use Council owned assets to improve, shape and transform key places and services within Camden, whilst simultaneously addressing a critical capital funding gap. The programme includes a significant number of regeneration schemes across the Borough and the disposal of 'surplus to requirements' property assets to unlock funding that will be reinvested in schools, the Better Homes programme and other supporting community infrastructure.

- 2.6 Delivery of the community infrastructure is the Applicant's primary aim and the first call on revenue generated by land sales will be for these purposes. The Applicant also wishes to maximise the amount of affordable housing that might be delivered as part of the residential plots.
- 2.7 The purpose of the viability assessment is therefore to establish how much affordable housing can be delivered within the context of what is enabling residential development, without which delivery of the community infrastructure would be unviable. The cost of delivering the community infrastructure provides the viability benchmark by which the proportion of affordable housing is arrived at. This approach is consistent with the approach taken by the Planning Authority in respect of the Liddell Road development.

3 Scheme Proposals

3.1 The Applicant is seeking a detailed planning permission for a mixed-use scheme comprising a major package of community infrastructure including a new primary school, park/landscape package, and community facilities together with enabling residential development.

3.2 The design team is as follows:

- Masterplanning & Landscape Architect – DSDHA
- Plot 1 Chalton St community facilities and residential – Adam Khan Architects
- Plot 2 Charrington St (west) – Duggan Morris Architects
- Plot 3 Charrington St (east) – Hayhurst & Co. Architects
- Plot 4 Edith Neville Primary School – Hayhurst & Co. Architects
- Plot 5 Purchase St (north) – Duggan Morris Architects
- Plot 6 Purchase St (south) – Duggan Morris Architects
- Plot 7 Brill Place residential – dRMM Architects

3.3 The elements of community infrastructure are as follows:

COMMUNITY INFRASTRUCTURE OUTPUTS	
Plot	Output
Community Facilities (Plot 1)	787 sqm community facilities and nursery
Community Facilities (Plot 5)	192 sqm community hall
Edith Neville Primary School (Plot 4)	2189 sqm Primary School & Childrens Centre
Site Infrastructure	Utilities infrastructure across masterplan area
Public Realm / Open Space	15,548 sqm public open space
Highways	2000 sqm of new and improved highways

3.4 The enabling residential elements comprise the following:

RESIDENTIAL OUTPUTS				
Plot	Units	Net Sales Area (sqft)	Gross Internal Area (sqft)	% of Scheme (GIA)
Plot 1 - Chalton St Housing	10	8,848	11,421	7
Plot 2 - Charrington St Housing	35	27,125	36,942	23
Plot 3 - Charrington St Terraced Housing	3	3,277	4,069	3
Plot 5 - Purchase St Housing North	20	16,027	21,140	13
Plot 6 - Purchase St Housing South	14	9,505	15,253	10
Plot 7 - Brill Place	54	48,455	70,569	44
Total	136	113,237	159,393	100

4 Planning Policy

- 4.1 The National Planning Policy Framework (NPPF) was published on 27 March 2012 and sets out the Government's planning policies for England and how these are expected to be applied. A key principle within the NPPF is the presumption in favour of sustainable development with a requirement for authorities to plan for new development and identify a five year land supply. Planning applications for housing should be considered in the context of the presumption in favour of sustainable development.
- 4.2 The London Plan is the overall strategic plan for London, setting out an integrated economic, environmental, transport and social framework for the development of London over the next 20–25 years. Alterations to the London Plan published in 2013 outlined a 10-year housing target from 2015 of 424,000, with an annual delivery target of 42,000 homes. The plan directs planning authorities to negotiate affordable housing with regard to a number of factors including the type of affordable housing needed in particular locations and the specific circumstances of the site.
- 4.3 The Council's objectives for future development in the borough are set out in its Local Development Framework Core Strategy (adopted 2010) and accompanying Camden Planning Guidance.
- 4.4 The Core Strategy sets out in broad terms how the Council plans to deliver housing growth over the period up to 2025. CPG 2 provides guidance on the application of affordable housing policies in the Core Strategy to secure the provision of an appropriate level, mix and size of affordable housing units, identifying housing needs for the community.
- 4.5 The Council aims to deliver 12,250 additional homes across the borough between 2010/11 and 2024/2025, at a rate of 815 homes per year. Of these, 60% of the additional homes are expected to come from identified growth areas set out within the core strategy, which includes Kings Cross and Euston areas between which Somers Town is located.
- 4.6 The Council expects that the opportunities and benefits from growth areas will be maximised (within the context of the full range of policies and objectives) with the intention of boosting jobs, housing and facilities within the local area.
- 4.7 The Core Strategy seeks to maximise affordable housing, taking into account specific circumstances including the financial viability of the development.
- 4.8 Policy CPG2 of the Council's adopted Core Strategy makes provision for all residential and mixed use developments with 10 or more additional dwellings or an additional 1000 square metres to make a contribution towards the supply of affordable housing. The sliding scale is a simple straight-line scale, where every increase of 1 home in site capacity should provide an additional 1% in affordable housing floorspace. Sites with capacity for 10 additional homes should normally provide 10% affordable housing floorspace; sites with capacity for 50 additional homes should normally provide 50% affordable housing floorspace.

- 4.9 Camden's Core Strategy (policy CS6) sets out guidelines that 60% of affordable housing should be social rented housing (now treated as social-affordable rented housing) and 40% should be intermediate housing. However these guidelines will be applied flexibly and the Council may prioritise social rented housing above intermediate affordable housing where a development is unable to provide more than 30% affordable housing floorspace in total.

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5 Viability Methodology

- 5.1 Project viability has been assessed by parcelling up the community infrastructure package as a cost to be borne by LBC. The total costs of this package provide the target land receipt to be achieved from the residential land plots in order to secure a viable scheme without any recourse to other funding sources.
- 5.2 The assessment of land value for the residential plots has been completed using the residual method of valuation. The method works on the following basis:

$$\begin{array}{r}
 \textbf{Total Revenues} \\
 \text{(Gross Development Value of residential/commercial units} \\
 \text{on site plus any other capital contributions)} \\
 \\
 \text{MINUS} \\
 \\
 \textbf{Total Costs} \text{ (Construction costs, professional fees, marketing costs, finance)} \\
 \\
 = \\
 \\
 \textbf{Residual Land Value} \text{ (value payable to LB Camden for the land)}
 \end{array}$$

- 5.3 This calculation is produced in the “Argus Circle Developer” package which is a standard property industry appraisal tool.
- 5.4 The value of the affordable housing has been assessed using industry standard assumptions typical of those adopted by Registered Providers of affordable housing.
- 5.5 The viability testing then produces a surplus/deficit depending on whether the Residual Land Value is greater or less than the costs of delivering the community infrastructure package.
- 5.6 Drawings and schedules have been provided by the design team and delivery costs have been provided by Sweet Group, the Applicant's cost consultants.
- 5.7 Savills has provided an assessment of the likely sales values for each of the residential units, and undertaken an appraisal of the likely value of any affordable housing packages within the scheme.
- 5.8 Supporting information that has informed the financial appraisals is contained within the appendices to this report.

6 Viability Assessment

- 6.1 The Applicant is not seeking to make a profit from the land, but to produce a 'break-even' scheme where costs of the community infrastructure package are met.
- 6.2 The Applicant's priority is for any affordable housing provision to be provided at social rents. This strategy is being pursued in light of affordability issues with this site being centrally located in a high value area.
- 6.3 The Central Somers Town strategy, as approved by the Council's Cabinet in December 2013, was based on presumption that affordable housing would be for social rent and that any potential additional value in the scheme (after allowing for provision of the core community infrastructure) would be utilised to increase the number of affordable homes.
- 6.4 This strategy is supported by the local consultation that has been carried out at each stage of the development of this scheme. The consultation reports note calls for more social housing and comments around the need for affordable housing for local people.
- 6.5 The total costs of delivering the community infrastructure package are as follows:

COMMUNITY INFRASTRUCTURE COSTS	
Plot	Cost (£)
Edith Neville Primary School	
Community facilities	
Site infrastructure	
Public Realm	
Highways	
Applicant costs up to Planning	
Total	

- 6.6 The target land value from the enabling residential development is therefore in order for the scheme to be deliverable.
- 6.7 The project falls within the Council priority spend for Community Infrastructure Levy receipts. Pre-application discussions between the Applicant and the Planning Authority have resulted in an agreement to re-invest 75% of CIL payable back into the scheme. This is in recognition that this is a community infrastructure led scheme. This re-investment is expressed within the viability calculations as an income to the scheme.

- 6.8 The proposed scheme produces 159,393 sqft GIA of residential floorspace. An assessment of scheme viability has been made with different levels of affordable housing as follows:

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- 6.9 The Applicant's benchmark for viability is a break-even scheme. The viability calculations summarised above support an assessment that 14% affordable housing is the most that can be delivered within the context of self-financing scheme that will deliver considerable community benefits. Any increase in affordable housing, without subsidy to support it, would threaten the deliverability of the community infrastructure package which is the primary aim of the scheme.
- 6.10 Affordable housing at social rents is being proposed. This is in line with the Core Strategy (policy CS6) that supports an approach to prioritise social rented housing above intermediate affordable housing where a development is unable to provide more than 30% affordable housing floorspace in total.
- 6.11 The Applicant also wishes to maximise the affordable housing, to be let at social rents, within the scheme. As such it proposes to include a further subsidy (up to £10.63m) in order to fully convert the blocks at Purchase St (Plots 5 & 6) to social rented housing. This will bring the overall percentage of affordable housing within the scheme to 30%.

A note on this report

Any advice contained or attached in this report is informal and given purely as guidance unless otherwise explicitly stated. Our views on price are not intended as a formal valuation and should not be relied upon as such. They are given in the course of our consultancy role. No liability is given to any third party and any advice attached is not a formal ("Red Book") valuation. Neither Savills nor our client can accept any responsibility to any third party who may seek to rely upon it, as a whole or any part as such. If formal advice is required this will be explicitly stated along with our understanding of limitations and purpose.

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