

Public Document Pack

Overview and Scrutiny Committee Information Tabled at the Meeting

Monday, 25 January 2016

7.30 pm, Committee Rooms 1 & 2 - Civic Suite

Civic Suite

Lewisham Town Hall

London SE6 4RU

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Part 1

Item		Pages
5.	Response from participating organisations on the recommendations arising from the Public Spending in Lewisham Working Group	1 - 2
6.	Key Planning issues (the Housing and Planning Bill and financial viability) - a presentation from BNP Paribas	3 - 32

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Overview and Scrutiny Committee - Monday 25 January 2016

Item 5 is the response from participating organisations to the recommendations arising from the Public Spending in Lewisham Working Group. Responses from Goldsmiths and the Police were marked to follow.

I have had the update below from **Goldsmiths** in relation to the following recommendation:

Higher Education Institutions offering “high teaching quality” will be able to increase their tuition fees in line with inflation from 2017-18. Goldsmiths is asked to share any plans to increase its fees with the Council at the earliest opportunity, together with information on any schemes it operates to encourage students from deprived backgrounds to apply, including the excellence scholarships available for students from Lewisham.

Response: As the proposals on linking Home/EU fees to a teaching excellence framework are contained in a Green Paper, it is too early to say what we would do at the moment. However, we will inform Lewisham as soon as we have an agreed position (which will not be until there is legislation).

Information on our scholarship schemes is available from the links below:

<http://www.gold.ac.uk/ug/fees-funding/scholarships-2016/>

<http://www.gold.ac.uk/pg/fees-funding/scholarships-2016/>

I have had the update below from the **Lewisham Borough Commander (Met Police)** in relation to the following recommendation:

As soon as specific savings proposals are developed, the Borough Commander is asked to share these with the Council, highlighting the specific impact on the borough. The briefing should be shared with the Overview and Scrutiny Committee.

Response: The Metropolitan Police Management Board is meeting on 2 February to decide on the future operating structure of the Met and how it will look by 2020. These decisions will then be developed for implementation over the next 4 years. I doubt we will have a detailed borough by borough spending plan in the coming months, but we will certainly have an idea as to future plans and what that will mean for the policing of the borough.

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Viability appraisals and planning decisions

Anthony Lee



- How viability is determined
- What are the key drivers in the market?
- The issue of 'static' nature of viability
- Impact of Starter Homes on 'traditional' affordable supply



1

How viability is determined



What are the key drivers for landowners

- ▶ Common ground – LPA and developers need land
- ▶ Landowners therefore need to release it into the market
- ▶ Mayoral candidates *'we are going to enforce AH targets'*



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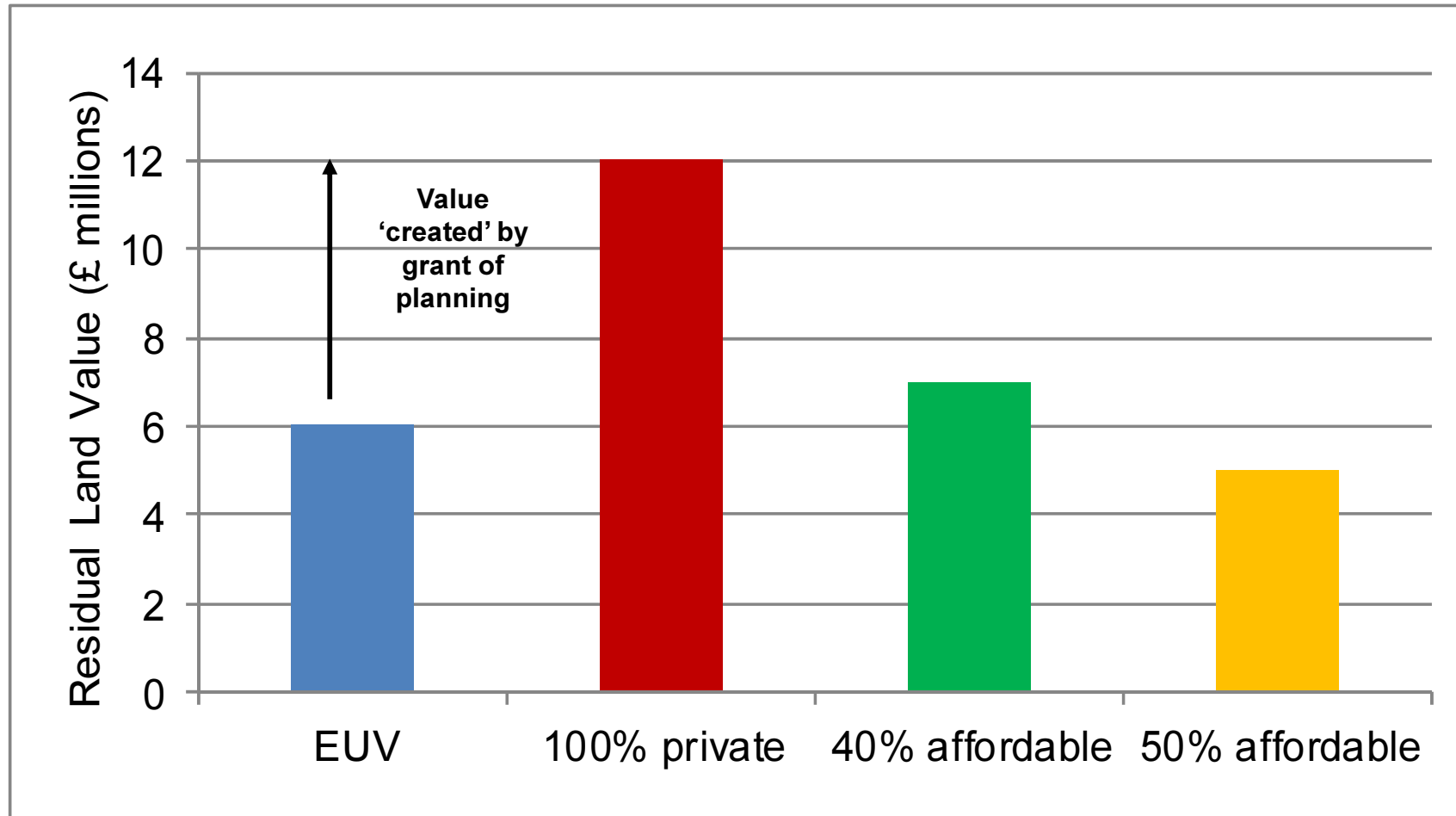


What are the key drivers for landowners

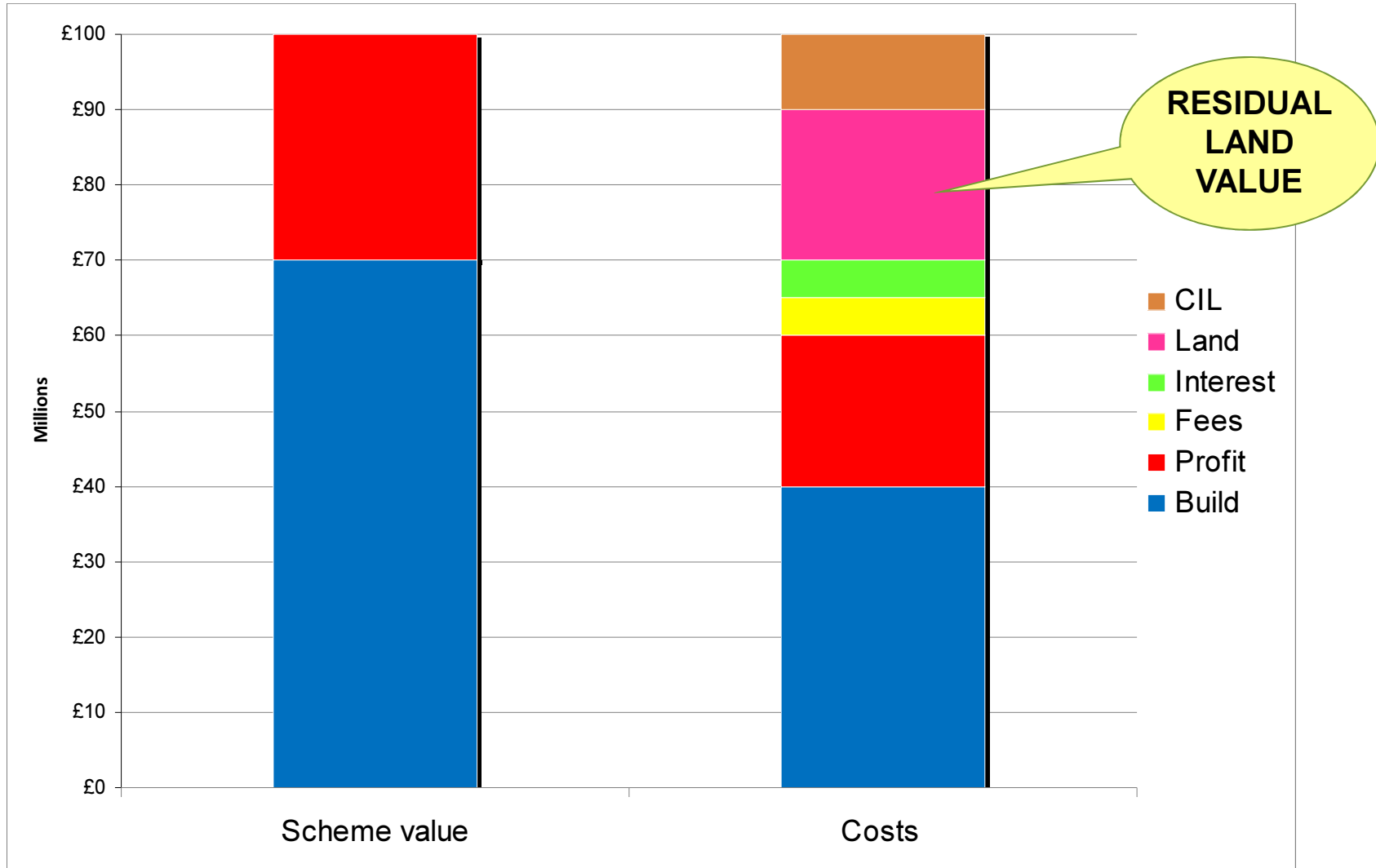
- ▶ Common ground – LPA and developers need land
- ▶ Landowners therefore need to release it into the market
- ▶ Mayoral candidates *'we are going to enforce AH targets'*



Viability and sharing in land value uplift



What information does an appraisal generate?



- ▶ Lewisham Core Strategy policy – 50% AH *subject to viability*
- ▶ Schemes providing less than 50% can be policy compliant
- ▶ Viability ‘caveat’ essential to convince Inspector to accept policy

- ▶ Onus on developer to prove why policy target cannot be met
- ▶ Independent analysis to scrutinise case put forward

► Evidence

- Sales values (unit by unit pricing; average for development)
- Affordable housing values (tenure mix; affordability criteria)
- Commercial rents and yields
- Build costs
- Fees

► Benchmark land values

- Rent levels
- Demand
- Yield
- Premium

► Timing

- Sales and sales rates; off-plan sales
- Affordable housing payments from RP
- CIL – fixed and no scope for varying timing on individual developments
- Section 106 payments and delivery of other obligations

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‘Shelf-life’ of appraisals



➤ **LPAs' negotiating position severely weakened by**

- ▶ NPPF (prioritises delivery)
- ▶ RICS guidance (prioritises returns to landowners over planning)
- ▶ Lack of grant
- ▶ Recovering demand for and value of commercial floorspace

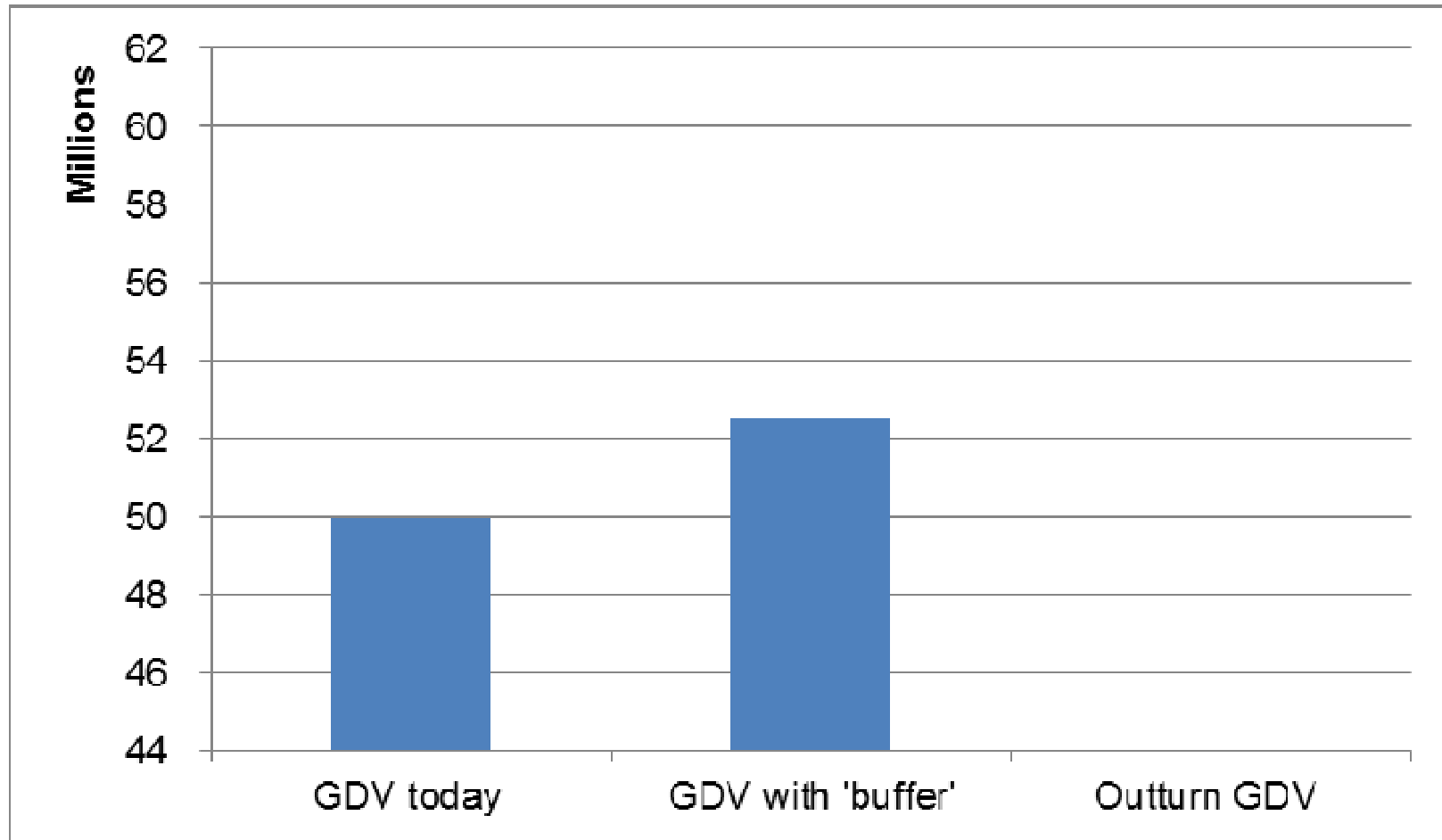
➤ **LPAs increasingly turning to review mechanisms**

- ▶ Members sceptical of viability
- ▶ Perception that developers doing very well 'down-stream'
- ▶ A means of redressing the imbalance

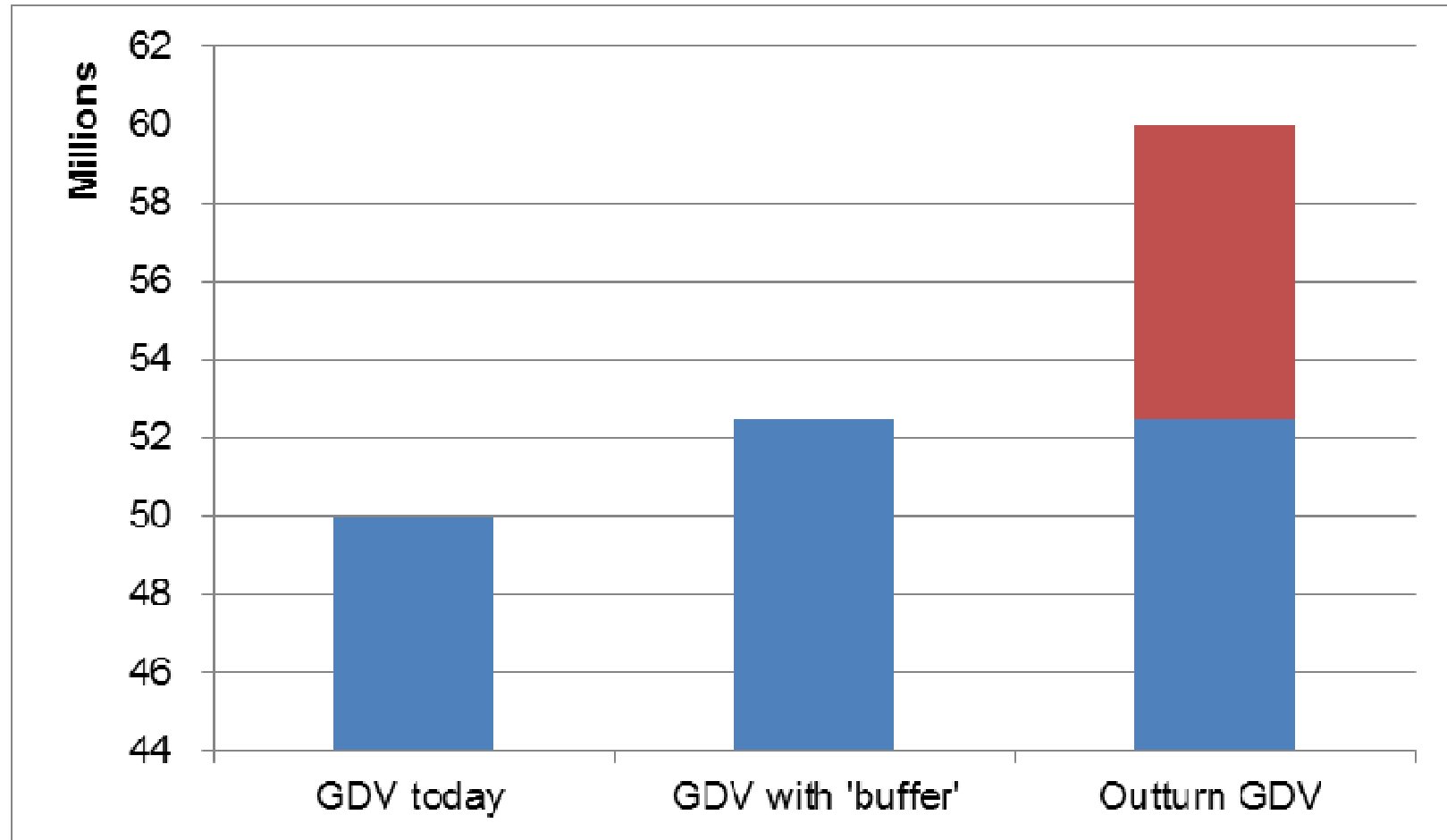
➤ **Growth/sensitivity analysis an alternative**

- **Unpopular with developers but carry no risk**
- **Must be structured to share 'super-profit'**
- **Capped payments – replacing lost AH, not profit share**
- **No funding problems – understanding is key**
- **BUT how open book is the end of scheme appraisal?**
- **Where/how to invest the payment (if any)?**
- **Upwards only now, but will they remain so?**

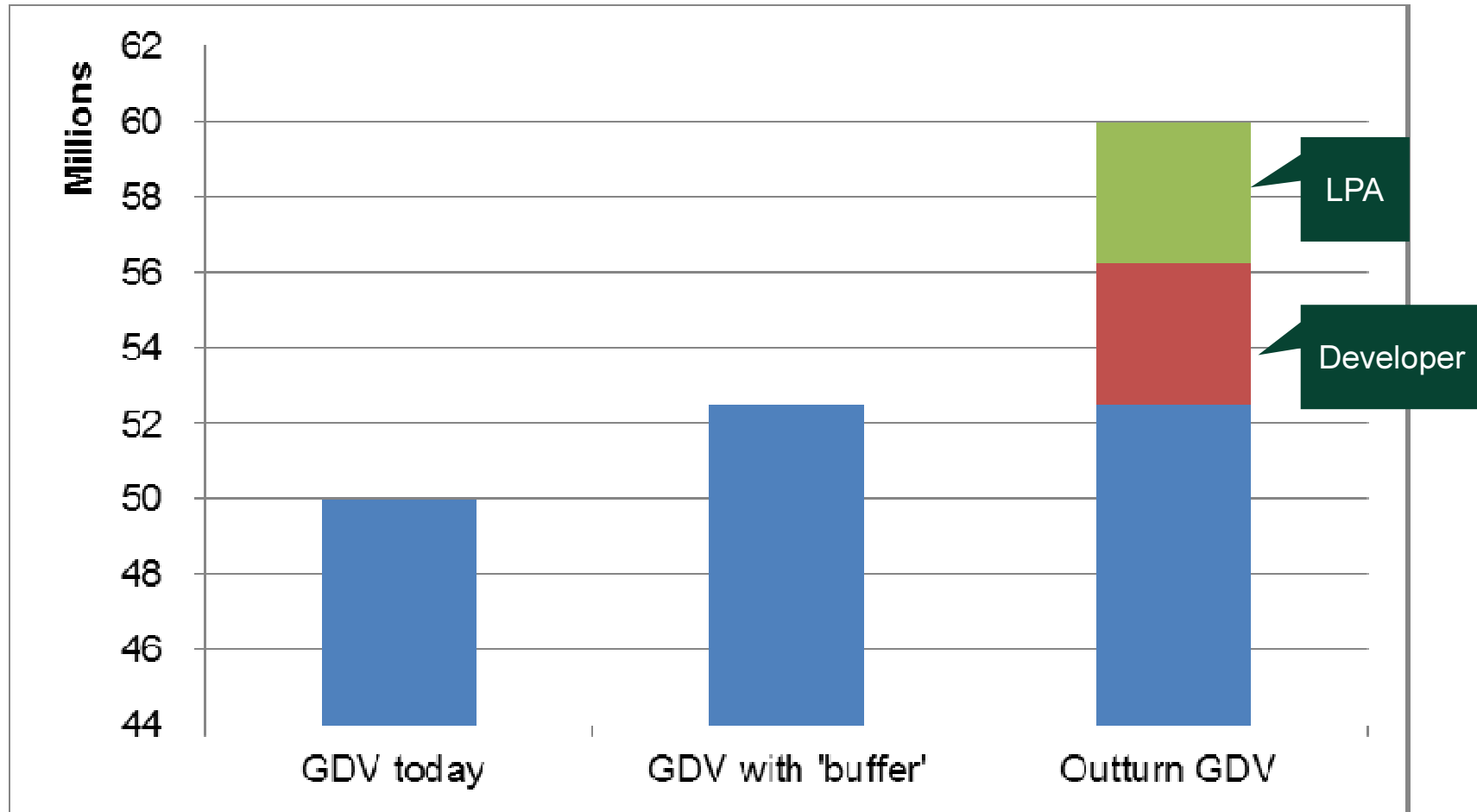
Growth and review mechanisms



Growth and review mechanisms



Growth and review mechanisms



3

The Housing Bill: 'Starter Homes'



➤ Details so far

- Aim to deliver 200,000 Starter Homes for FTBs under 40
- 20% discount with £450k cap in London
- Statutory duty upon LPAs to '*promote supply*' of Starter Homes
 - In Local Plans
 - In decision making on planning applications
- PP can only be granted if Starter Homes included
- Requirements may differ between types of sites/areas
- Compliance directions if LPA does not cooperate

➤ Ministerial comments

- Brandon Lewis
 - Govt still expects delivery of rented and intermediate housing
 - Starter Homes will not replace other tenures
- David Cameron
 - Expects some homes to be available below price caps
 - £150,000 and £200,000, not all at £450,000 / £250,000

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Potential impact of Starter Homes on delivery of 'traditional' affordable housing

What impact will Starter Homes have on viability?

► Key issues:

- Do Starter Homes improve viability?
- Will Starter Homes squeeze out other tenures?
- What impact will affordability have on Starter Homes?



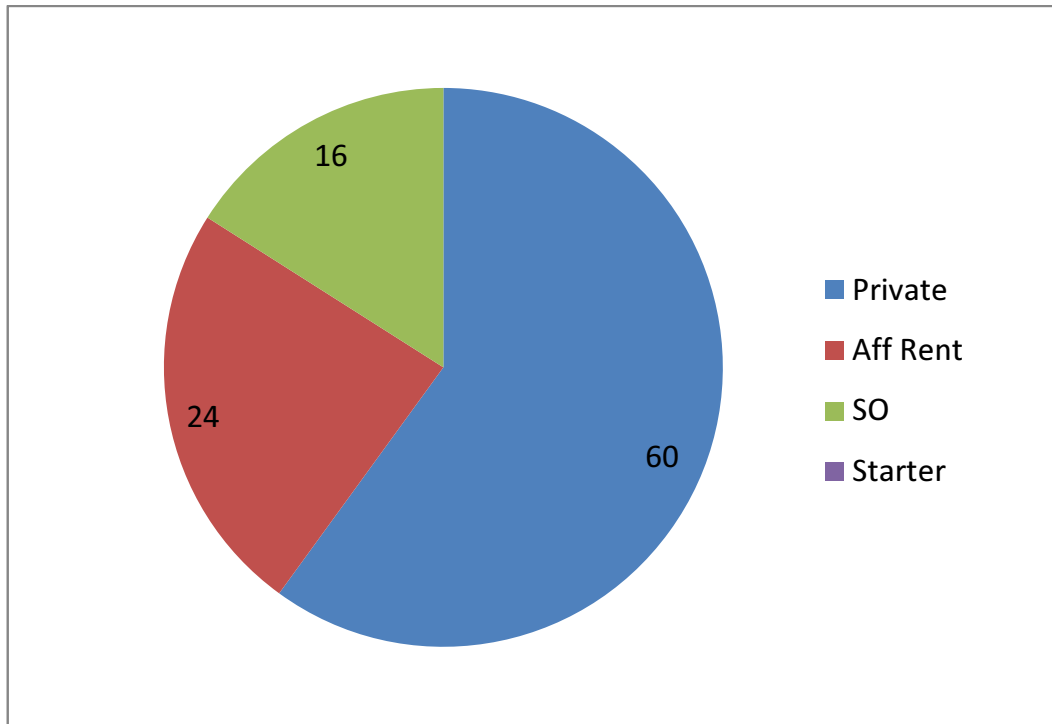
Testing the impact of Starter Homes

- **100 two bed units**
- **Current policy requirement 40% affordable housing**
- **Market values = £800 psf**
- **Affordable rent values = £240 psf**
- **Intermediate = £352 psf**
- **Starter Homes = 80% of MV (just under £450,000)**
- **Benchmark land value = £12.5 million**



Testing the impact of Starter Homes

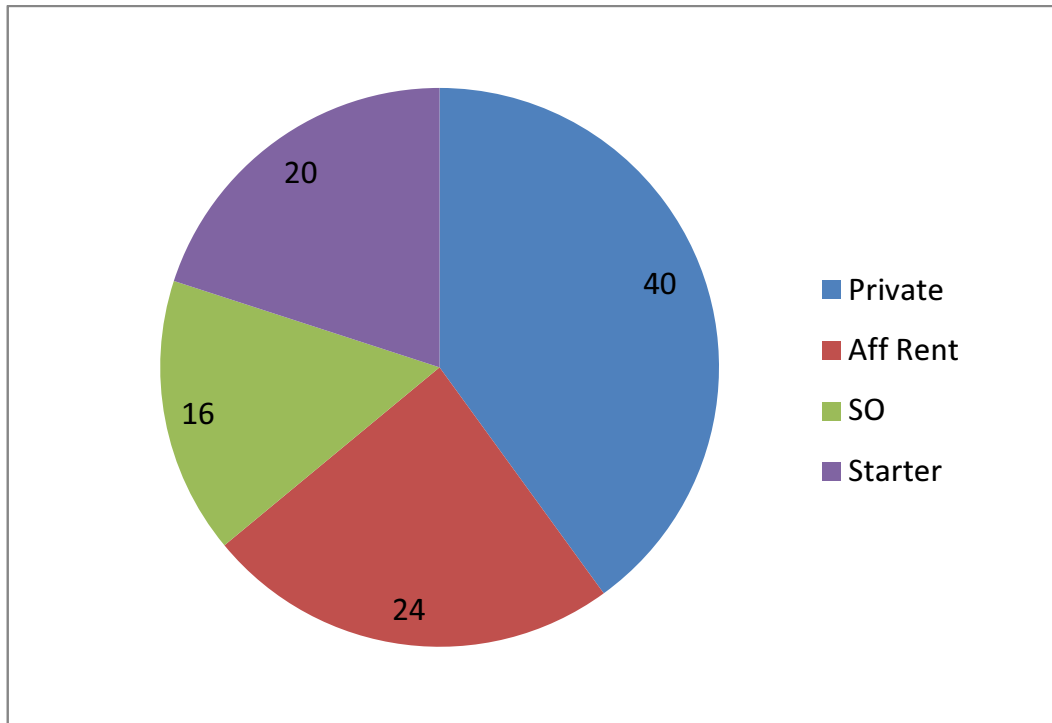
▶ Base viability



Private	33,600,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	-
Total income	41,574,000
Development costs	21,914,751
Profit	7,198,464
Residual	12,460,785

Testing the impact of Starter Homes

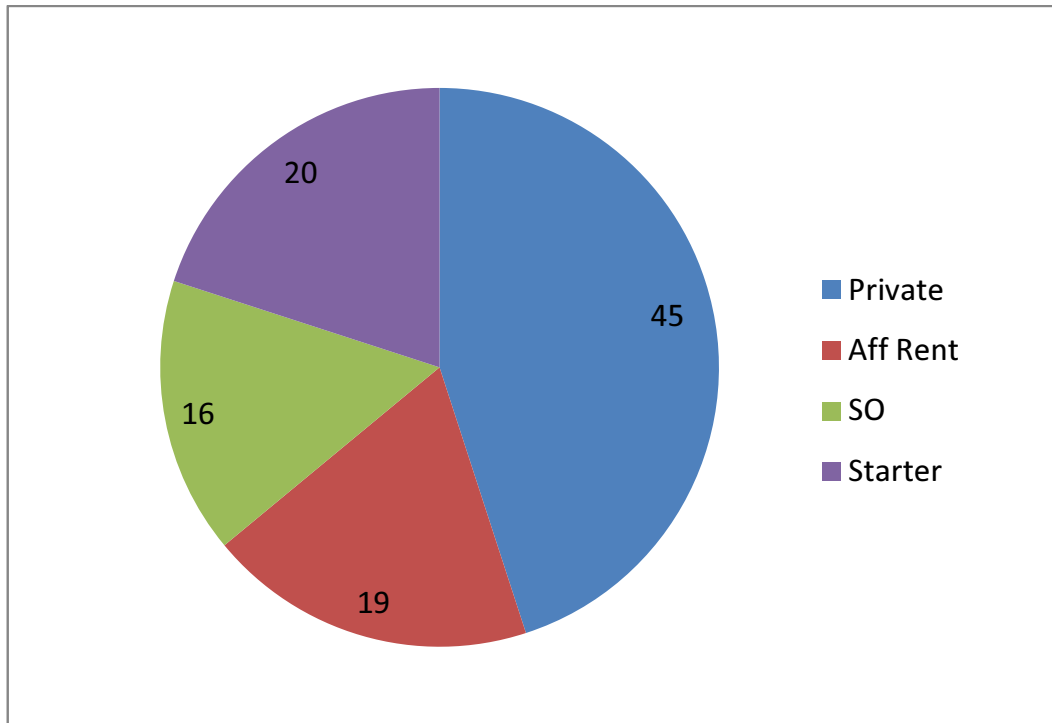
➤ 20 Starter Home units @ £450k cap



Private	22,400,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	8,960,000
Total income	39,334,000
Development costs	21,361,266
Profit	6,750,464
Residual	11,222,670
SHORTFALL	-1,277,330

Testing the impact of Starter Homes

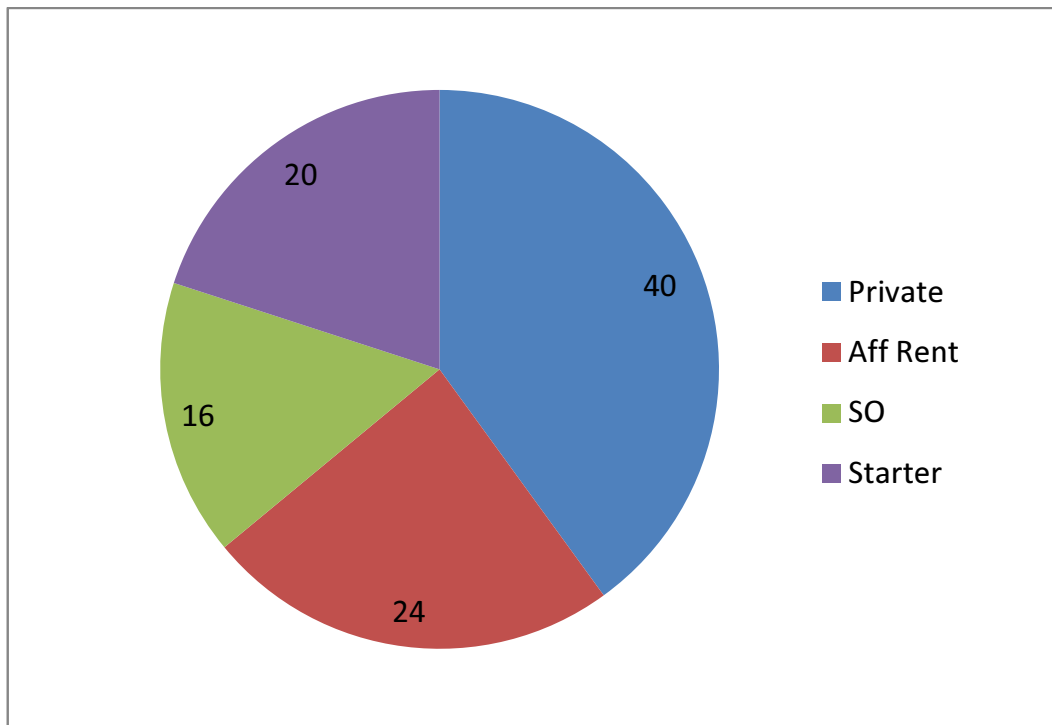
➤ 20 Starter Home units @ £450k cap – reduced AH



Private	25,760,000
Rented	3,024,000
Intermediate	3,942,400
Starter Homes	8,960,000
Total income	41,686,400
Development costs	21,780,861
Profit	7,361,984
Residual	12,543,555
SHORTFALL	n/a

Testing the impact of Starter Homes

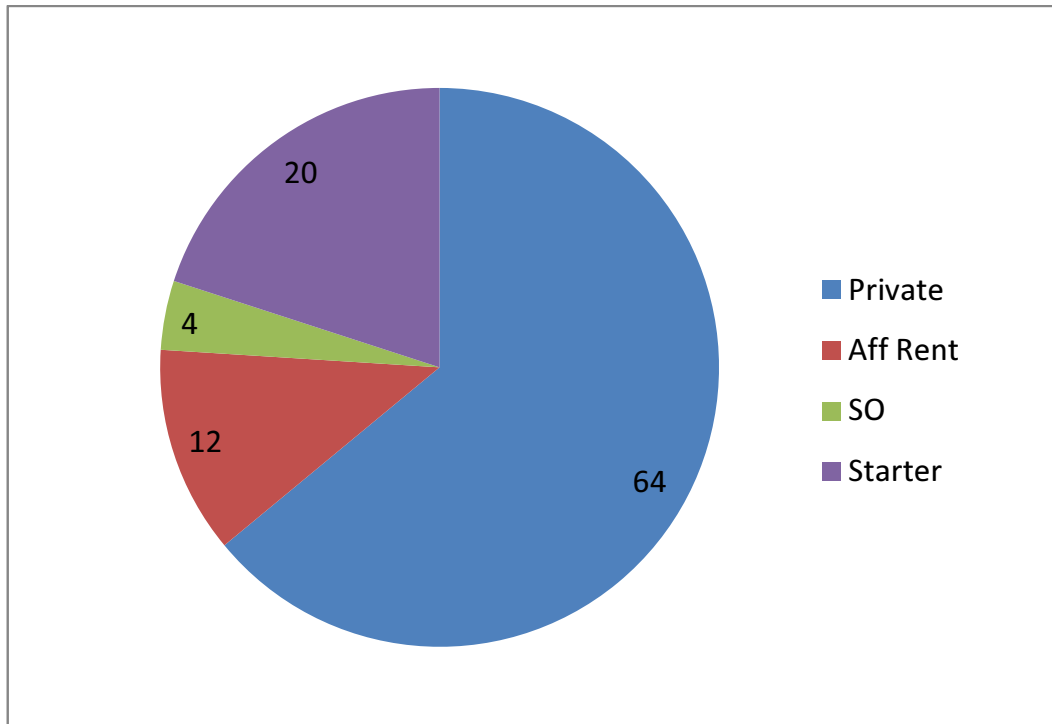
➤ 20 Starter Home units @ £200k cap



Private	22,400,000
Rented	4,032,000
Intermediate	3,942,400
Starter Homes	4,000,000
Total income	34,374,400
Development costs	20,763,408
Profit	5,758,464
Residual	7,852,528
SHORTFALL	-4,647,472

Testing the impact of Starter Homes

➤ 20 Starter Home units @ £200k cap – reduced AH



Private	35,480,000
Rented	2,016,600
Intermediate	985,600
Starter Homes	4,000,000
Total income	42,841,600
Development costs	22,376,035
Profit	8,148,096
Residual	12,317,469
SHORTFALL	n/a

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Key messages



- ▶ Cutting S106 and AH is not the only way of improving viability
- ▶ Planning as an obstacle to growth – land value is also a key factor
- ▶ Considering growth will be increasingly important
- ▶ Delivering Starter Homes AND mainstream AH will be challenging





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