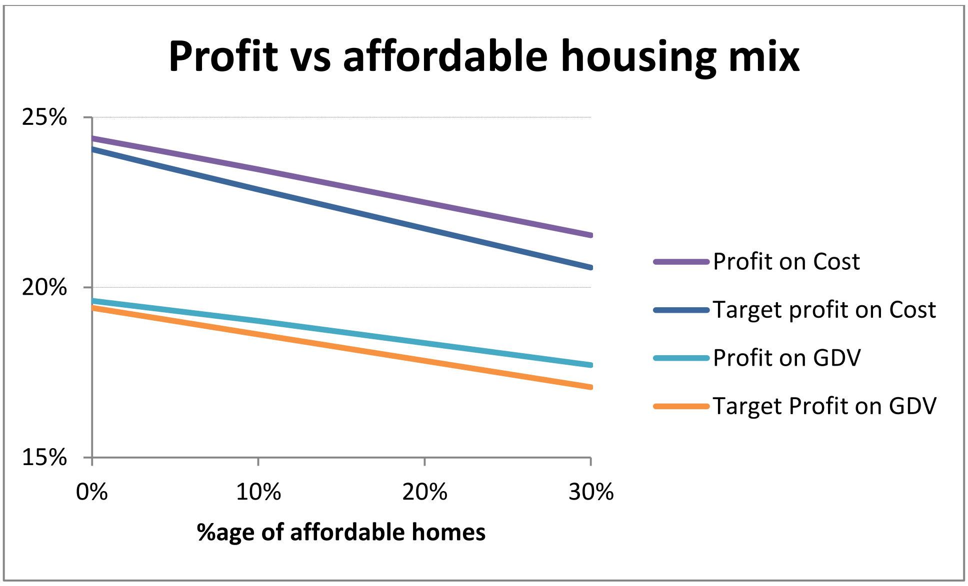
<u>Spenhill Application N6/2015/0294/PP Former Shredded Wheat Factory</u>

Executive Summary

This short report summarises the reasons the Committee should reject the argument that affordable homes damage the viability of the overall scheme.

In short:

- The analysis by Colliers International demonstrates that including affordable housing actually improves the viability – increasing the margin by which the expected profit passes the hurdle rate. (table 6.2.3)
- The analysis by Colliers International is, in any case, conservative in its estimate of value – by a significant amount. Using the arguments put forward in the text, it is very hard to understand why they have used a value of £550psf for residential sales when the logical conclusion of their assessment is that it should be at least £592psf
- This change is equivalent to an increase in value, and in profit, of £30million.
- Even taking Colliers' analysis as written, the project is more viable with 4% affordable housing than without any, and there is no reason to believe that it will be any less viable with 30% affordable housing.
- It is for the developer to demonstrate that a scheme is not viable in order to escape the requirement for affordable homes – they have clearly failed to do so and the proposal should be rejected on those grounds.
- That said, I would hope that a revised scheme, including the participation of a reputable RSL, could be brought back to the committee in short order, as there is much to commend in what is proposed and this site has lain dormant for long enough.



Source – Colliers International - extrapolated from 4% estimates

Introduction

Firstly thank you Mr Chairman for allowing me to speak today. As a councillor 10 years ago I was involved both in the master planning process for this site, and in discussions with the applicant over the sort of aspirations they should take into account when submitting their proposals.

This was the result as summarised in the Broadwater Road West Supplementary Planning Document (SPD) for the site in 2008:

Summary of Key Elements

Broad land use arrangement:
- Mixed use blocks
- New residential community
- Employment hub next to station

Respects Garden City design:
- Acknowledges the industrial heritage
- Echoes the spirit of the Garden City
- Promotes Eco-city ideas

Provision for the local community:
- Affordable housing
- Leisure opportunities
- Community facilities
- Youth facilities

Achieve sustainable design:
- Aim for Code Level 4
- Maximise energy efficiency
- Promote water efficiency measures
- Balanced approach to car parking

Retain and refurbish listed structures:
- Former Roche building
- CPUK silos & block structures

Enhance links to/ from the site:
- New bridge link to town centre
- Encourage east-west links

Permeable block layout promoting:
- Grid form
- Hierarchy of routes

Sustainable resource management:
- Promote a site wide CHP
- Provide an on site recycling centre

Provide open space and landscape:
- Tree-lined avenues
- Public green space
- Community parks
- Young people's play
- Provision for older youth groups and teenagers

Of particular concern was the opportunity to provide significant affordable housing on a strategic site which offered a rare opportunity to make a real impact on social housing provision. The SPD sought to deliver 35% affordable homes – ahead of the current District Plan minimum of 30% (5.28 of SPD)

The other key aspiration was the provision of better facilities for young people, and a particular requirement for a swimming pool to be included, something that I note Sport England have raised again in their objection to this proposal.

A recession and partial recovery later I think these aspirations remain much the same. And the proposed development meets some of those very well for which Spenhill and their designers are to be congratulated. However, I would contend that there are serious areas where they are deficient, and the chief of these is the lack of affordable homes being proposed. It was hoped that this site would be a major provider of much needed affordable homes and to have a proposal in front of you today that essentially tries to avoid this requirement is more than 'disappointing' (10.298 of the report).

This lack of affordable homes relies on the developer's case that to include them would make the project unviable. But the data provided does not support this contention; indeed it supports the opposite view as I will explain below.

Viability Test

The use of viability assessments has become notorious in recent years (see reports by [Bureau of Investigative Journalism](), and by [OurCity.London]()) as developers have used it to avoid affordable housing or s106/CIL payments and a cottage industry has emerged to justify high cost estimates and low value estimates.

In essence the process of a viability report is simple, but it involves a considerable amount of work and many assumptions. It boils down to a very simple sum – the Gross Development Value (GDV) minus the Projected Costs, all of which are carefully calculated and discounted back to today's money, which equals the projected profit. This is then compared to a 'Target Profit' to determine whether the project meets this target and is therefore viable. The setting of the Target is not defined in law – Colliers suggested in 2015 a 20% profit on cost, or a 16.6% profit on GDV was a 'fair' return.

The evidence in the report before Councillors summarises the report of Colliers International (henceforward 'Colliers'), which found serious disagreement with the viability assessment carried out for the applicant by Savills, as the report acknowledges (10.250). But if one reads the Colliers report in detail additional discrepancies come to light.

GDV Calculation

On the valuation of GDV, Colliers note that the Savills report is wrong in its assessment of just £502psf, which is based on the values of homes in the Taylor Wimpey development, which has 'underperformed' to date. Colliers are very clear that this is not a valid comparison and even if it was, the recent uplift in market values would imply higher values than Savills propose.

In 3.1.2 Colliers review the possible comparators that can be used:

1. their market movement assessment suggests values of £557-598psf;
2. comparing to neighbouring towns notes that St Albans achieves £650-750psf, rejects this as being a premium location compared to WGC (but won't this development be just as sought after if it is built as proposed?) and instead looks at other towns around Hertfordshire. All of these are in the range £550-620psf;
3. they then note that a 7.6%-10.5% premium due to the proximity of the train station would be reasonable.

They then, bizarrely in my view, conclude that £550psf would be an appropriate value to use despite their work suggesting that this is the lowest number in all their comparisons and one that ignores the train station premium. If one simply took the lowest comparable number from neighbouring towns and added the lowest 7.6% train premium the number would be £592psf which would still be within the ranges quoted for Kings Langley, Hemel Hempstead and Potters Bar. Given a total square footage of residential property in the scheme of 733,226 sf this equates to a difference of £30.8million – which would increase the calculated profit in the scheme to £117M.

In 3.2.1 there is a discussion of rental values. Again Colliers have been very conservative – they note that 'the offices…are in a new custom-built block adjacent to the train station. This is likely to achieve greater rents than have been achieved elsewhere in the town.' And yet they have used the £17.50psf average for WGC rather than the considerably higher £20-25psf that they observe in other towns in the area.

Cost estimates

Section 4 addresses costs – except it doesn't! Colliers note that this is a high level review only and a detailed review was not part of the scope of work. But they recommend this is reviewed by a suitably qualified professional, and note that 'the costs of £247psf appears to be a high cost from broad experience of development projects – perhaps this is something that should be reviewed in more detail' – in a scheme of this importance I would have thought it clearly does warrant investigation especially given the known proclivity for developers to overstate this element.

Viability

I hope that it is clear by now that the calculation of value is at best conservative and that the costs have not been seriously reviewed by the Council, despite a clear steer to do so from Colliers. So it is at least debateable that the scheme is as marginal as is suggested – although a 25% profit on cost (20% on GDV) does not sound at all marginal to me, and Colliers used 20% profit on cost in 2015, equivalent to 16.66% profit on GDV.

However, even accepting the figures we have, it is still impossible to support the case that affordable housing would make the project less 'viable'. In fact the figures presented by Colliers imply the opposite. So the conclusions of the report in front of you in 10.267 and 10.298 are flawed, and I will explain why.

Colliers note that there is no 'evidence' for a target rate of 25% return on investment, which is what the developer proposes as the hurdle for viability. Wouldn't we all like to invest only in projects that expect that level of return?

Colliers put forward a blended benchmark commensurate with the risk of that part of the project – they express it in profit on GDV:

- For the private residential market they propose 20% on GDV – 25% on cost
- For the commercial accommodation 15% on GDV – 17.6% on cost
- And for affordable housing 6% on GDV – 6.4% on cost – because the risk is much much lower, and the developer is effectively working as a contractor for an RSL.

This results in a 'target' profit on GDV of 19.4% in the nil affordable housing case, still significantly above the 'target' of 16.66% they used in 2015, and one that **equates to a 24.4% profit on cost**. Their analysis is that the project will clear this hurdle by 0.21%.

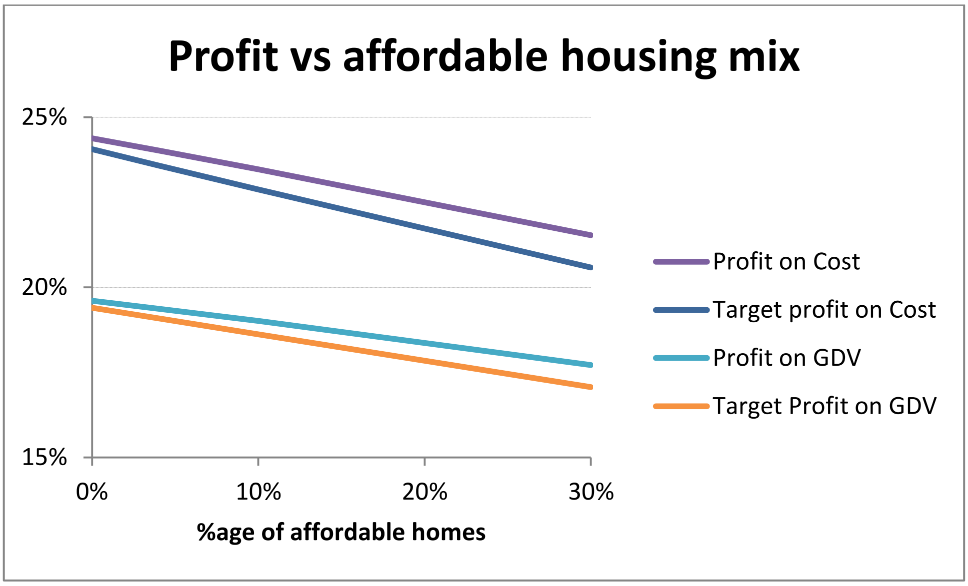
And yet, the modified scheme including 35 affordable units beats the target profit figure by a greater margin than the nil scheme, by 0.29%. Yes it is a small margin, but it is not the difference between success and failure, just whether a hurdle has been met that ensures a very good return on investment.

Unfortunately Colliers have not been asked to run a case for the 30% affordable housing the Council would like to see in this scheme (or 35% in the SPD remember), but by extension of this analysis it should provide an even bigger margin above the target. Both numbers will be lower, but so will the risk be. Given the available data all one can do is to assume a linear relationship going from zero to 4 to 10 to 30% affordable units, and one can construct the following table:

`	**% Affordable Housing**			
	0%	**4%**	**10%**	**30%**
Gross Development Value (GDV)	**443.4**	**438.4**	*430.9*	*405.9*
Total Construction Costs	**356.5**	**353.5**	*349*	*334*
Profit	*86.9*	*84.9*	*81.9*	*71.9*
Profit on Cost	*24.38%*	*24.02%*	*23.47%*	*21.53%*
Profit on GDV	*19.60%*	*19.37%*	*19.01%*	*17.71%*
Target Profit on GDV	**19.39%**	**19.08%**	18.62%	17.07%
Delta	0.21%	0.29%	0.39%	0.65%

Figures in bold from table 6.2.3, in italics calculated by formula assuming linear relationship

In graphical view this looks like this:



So Colliers' data suggests that adding the affordable housing component actually makes the project more, not less, affordable for the developer.

Extrapolating in this way is acknowledged to be simplistic, but **suggests that for a 30% affordable mix the overall profitability would still be 20.5% on cost – a massive return and a profit of £72M**, on a project that would carry significantly reduced risk given the involvement of an RSL. And that ignores the underestimate of value referred to above which would add an additional £20M or so of profit.

Conclusion

At the very least this needs further evaluation by the Council but based on the data in front of you I would have to say that the case for less than the 30% affordable housing has not been made.

The developer has drawn up its plans as being blind to the tenure of the homes, and it therefore should not be difficult to ensure that a larger proportion are affordable and will be owned by an RSL. This reduces the project risk and makes this project what it should be – consistent with the SPD.

I would submit to the Committee that the proposal should be accepted in outline but rejected subject to the inclusion of at least 30% affordable housing. I would suggest that the developer is told to come back when they have a scheme that meets the SPD objectives of affordable housing and preferably with an RSL as partner.

Nigel Quinton

30.3.17