# OPDC AFFORDABLE WORKSPACE STUDY – ADDENDUM



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# 1 INTRODUCTION

## OPDC draft SPD requirements and contribution for affordable workspace

1.1 The OPDC draft Planning Obligations Supplementary Planning Document (SPD) was published for consultation in 2022. It included affordable workspace requirements and a formula for calculating contributions. The formula is displayed in Table 1.

1.2 The draft SPD contains the following requirements for affordable workspace contributions:

- 5% of net uplift in floorspace at 80% discount on market rent for office and industrial schemes; and
- 10% of gross floorspace at 80% discount on market rent for residential-led mixed use schemes.

1.3 These requirements were informed by the recommendations in the 2022 Affordable Workspace Study (the 'original study'), drafted by REDO and Volterra. There are three strands to the justification of the contributions: market evidence, best practice and a viability assessment.

### Table 1 Current draft SPD formula for calculating contributions for affordable workspace

| Value of Affordable Workspace discount | Unit | Step calculation | Notes |
|---|---|---|---|
| **Total floorspace** | NIA (sqft) | (1) | Gross uplift for mixed use properties. Net uplift for office and industrial |
| **Proportion of floorspace which is affordable** | (%) | (2) | Office: 5% Industrial: 5% Mixed use: 10% NB: the percentage floorspace should only be applied to the employment floorspace. |
| **Total affordable floorspace** | NIA (sqft) | (3) = (1)*(2) | |
| **Market rent** | £ per sqft | (4) | Market rent that would have been achieved for the discounted space. The applicant should include evidence. |
| **Income multiplier = Length of affordable workspace term** | Years | (5) | 15 |
| **Affordable discount** | (%) | (6) | Office: 80% Industrial: 80% Mixed use: 80% |
| **Value of affordable workspace** | (£m) | (7) = (3)*(4)*(5)*(6) | |

1.4 The consultation on the draft SPD closed in November 2022. Many consultation comments stated that the SPD requirements were too stringent. Specifically, the consultees were concerned that the market has worsened since the original study, with many assumptions now out of date including higher build costs, higher yields and lower rents and that this would decrease the viability of a lot of schemes.

## Aim of this addendum

1.5 This addendum seeks to consider issues raised in the consultation responses. Firstly, this addendum revisits the viability work and uses updated assumptions which reflect the change in

the market since the original study. The addendum also considers the impact of these changes on the recommendations contained in the original study.

1.6 Next, recommendations are provided on how to adjust the formula to make it more deliverable whilst also ensuring that it's easy to use.

1.7 The original study considered affordable workspace provision in both OPDC and Ealing. This note only considers the implications for the OPDC.

## 2 SUMMARY OF VIABILITY FINDINGS AND RECOMMENDATIONS FOR AFFORDABLE WORKSPACE REQUIREMENTS

2.1 The full, updated viability assessment is contained in the Technical Appendix. This section provides a summary of the viability findings and the recommendations for affordable workspace requirements.

2.2 The viability assessment makes a number of assumptions to present the viability of hypothetical scenarios for development. Such scenarios are intended to be indicative of typical typologies that are likely to come forward, acting as a guide for what might be expected in general. However, they cannot be considered reflective of all schemes that will come forward in the area. In reality, schemes should be assessed on a case-by-case basis.

2.3 The appraisals are not in accordance with the RICS red book and should not be relied on for future valuations.

### Summary of viability findings

2.4 The changes to the outputs since the original study are mainly driven by higher costs and higher yields which has negatively affected viability for all typologies.

2.5 For office and large industrial schemes, rent assumptions tested for the central case have decreased relative to the original study, harming viability even more. Testing suggests that office developments that achieve rents that are under £40 per sqft are less likely to be able to provide much in way of an affordable workspace contribution. However, there is the potential that a prime new office location around the HS2 station might achieve premium rents of £40 - £55 per sqft if there is comprehensive placemaking redevelopment, including a significant amount of new office floorspace, delivered in a specified area around the new transport hub. These prime rents are in line with the mature office markets of central Ealing and the lower end of prime rents in White City. The range of achievable rents used in this study takes this into account and, at these prime rents, all affordable workspace variations are viable.

2.6 For large industrial schemes, there is mixed viability. Only some of the variations are viable at central case rents (£22.50 per sqft) when compared to the OPDC – Open Storage benchmark land value (BLV), but no variations are viable at central case rents in the OPDC – Secondary industrial (low density) BLV.

2.7 By contrast, small and medium industrial schemes have higher rents than the original study, at £38 per sqft for small and £35 per sqft for medium units. These rent increases have been advised by BNPP. This has more than compensated for the cost and yield impacts, rendering these typologies more viable than in the original study. All the variations of affordable workspace tested are viable for small and medium-sized industrial units at central case rents.

2.8 For the new multistorey typology which is made up of small industrial units, all affordable workspace variations are viable at central case rents. However, for the new multistorey typology which is made up of large industrial units, all variations are not viable at central case rents.

2.9 For the residential-led with industrial mixed use schemes, viability is still good, with all affordable workspace variations demonstrating viability at central case market residential sale values of £750 per sqft. For the residential-led office mixed use scheme, viability requires residential market sale values higher than the central case but still within the range of evidenced rents (below £850 per sqft).

2.10 Data centres still perform well on viability, and so are expected to be able to be able to provide a contribution to affordable workspace.

### Recommendations

2.11 The original study recommended that OPDC require 5% of net uplift in floorspace at 80% discount on market rent for office and industrial schemes and 10% of gross floorspace at 80% discount on market rent for residential-led mixed use schemes.

2.12 Despite the reduced viability for office and large industrial schemes, the recommendations from the original study are retained.

Table 2 Recommendations for affordable workspace requirements

| Typology | Original Study | Addendum |
|---|---|---|
| Office and industrial schemes | 5% of the uplift in office floorspace at 80% discount to market rent (or 20% of market rent | Retained |
| Residential-led mixed use schemes | 10% of gross commercial floorspace at 80% discount to market rent (or 20% of market rent | Retained |

2.13 The aim of these parameters is to provide a starting point to inform planning policy, guidance and s106 negotiations. They are intended to be strategic targets for the whole OPDC area, over the whole plan period.

2.14 There could be some developments that are not viable at these strategic levels and will have to depart from the recommendations. In these instances, the viability of schemes will be considered on a case-by-case basis.

2.15 The viability has been undertaken based on specific typologies and assumptions at a specific point in time but with sensitivity testing to understand the implications if things were to change. The purpose of the recommendations is not just to consider what is viable at a given point in time but what might be viable longer term, over the plan period.

2.16 The key drivers of viability are likely to change over this time as the economy, local development market and infrastructure changes. The recommendations for the parameters consider the conclusions of the viability assessment but they are also based on two other key factors:

- *The evidence from the original study* – affordable workspaces are often not affordable after accounting for operator costs, business rates and service charges. The evidence indicates that a deeper discount is often required to provide a space that is actually affordable for the intended users.
- *Best practice* – what has been done and what works elsewhere.

2.17 Whilst some typologies are less viable based on today's macroeconomic conditions, the recommendations should be retained to give OPDC the best chance of future proofing delivery of affordable workspace at the highest discounts possible so that end use occupiers can benefit and small businesses can be supported. The recommendations are a strategic starting point, from which a specific scheme can develop their own viability considerations for delivery.

## 3 ADJUSTMENTS TO THE SPD FORMULA AND RECOMMENDATIONS

3.1 Adjustments to the formula have been considered in order to make the contribution more deliverable for developers whilst also minimising additional complexity.

3.2 One way of decreasing the contribution required would be to change the affordable workspace requirements. However, as explained in the section above, Volterra and REDO recommend that the discount to market rent should be protected. This is in line with extensive market evidence that large discounts are required to make the space affordable for target businesses, particularly when including business rates and other business costs. REDO and Volterra also recommend that the percentage of affordable workspace requirements are not changed as this is likely to reduce the chance of affordable workspace being delivered onsite if minimum size thresholds are applied.

3.3 This section therefore considers other changes that could be applied to the formula to make it more deliverable for developers whilst keeping the formula as simple as possible.

### What the formula is currently calculating and what is missing

3.4 The formula in the draft SPD is intended to be a simplistic way of calculating the value of the affordable workspace contribution. It is by no means a full appraisal; rather, a basic way of valuing the increase in gross development value (GDV) when the affordable workspace is valued as market floorspace.

3.5 Since the formula is simplistic, it does not take into account standard developer considerations such as:

- rent free / void (RFV) periods (years): a rent free period represents an offer by a landlord to a tenant for reduced or zero rent element to their contract. A void period is a period when the space is not let such as between completion and occupation when the space is being fitted out, or periods throughout the operational phase where floorspace is not let. Both are forms of 'income foregone' and so are considered together here for simplicity. Once market rent is adjusted for RFV periods, it can be expressed at 'net rent'. The draft SPD formula uses 'market rent' (row 4 of Table 1) rather than a net rent value; and
- purchasers costs: stamp duty, stamp duty legal fee and stamp duty sales agent fees, which are typically a percentage of income (6.8%).

3.6 In reality, developers are likely to incur these costs and they would impact the developer's return. The costs change the realised 'value' of the floorspace to something lower than income.

3.7 The formula also doesn't account for yield. Before purchasing a property, a developer understands the expected rental income in one year based on their rents and floorspace. However, many factors could change this annual income over the life of the asset, such as expectations for changing market conditions in the property's location (which may affect rents achievable onsite) or other risk factors such as the security of income (how likely is it that the tenant(s) will be able to pay the rent every year? If the tenant cannot pay, how easily and quickly can the developer lease the space to another tenant?). The yield factor accounts for these risks, where lower yields reflect lower risk. Yield is used to understand the total expected income, given these risk levels. It can inform how much the developer is willing to pay for the property

and can affect a developer's viability. Yield is annual income expressed as a percentage of how much the property cost.

3.8 Row 5 of Table 1 demonstrates how the draft SPD formula uses an 'income multiplier' equal to the policy payment term of 15 years. Other boroughs incorporate yield into their SPD formulas through this 'income multiplier' variable. In particular, the London Borough of Islington have adopted an income multiplier which depends on a fixed payment term as well as the yield. The income multiplier allows the payment term to act as a 'maximum' income multiplier, with the yield factor adjusting the income multiplier down from this maximum.

3.9 Having a formula which depends upon yield is a key benefit. By including a yield factor, the contribution will reflect different market conditions over the course of the plan period. Contributions will be lower in difficult macro economic conditions but the formula is flexible so that contributions can increase in more buoyant times.

3.10 Developers will typically consider RFV, purchasers costs and yield, among other factors, in their own viability assessments for specific schemes. These factors are also considered in the viability assessment in this report. Overall, it is recommended that these factors be included in the SPD formula. This will bring the contribution calculation more in line with the 'valuation' approach that developers themselves take when considering viability. It should be noted that there are many other factors that would be included in a development appraisal. These are some simple adjustments to make the formula more realistic; they are not a comprehensive appraisal.

### Accounting for RFV, yield and purchasers costs in the SPD formula

3.11 Introducing all of these adjustments (RFV, yield and purchasers costs) generate discounts compared to the draft SPD formula calculations.

3.12 As noted earlier, there is a need to keep the formula as simple as possible. The inclusion of additional or more complex calculation steps for RFV, yield and purchasers costs may make the formula more confusing.

3.13 The counter argument to this is that the formula might be considered too bullish as it currently stands when it comes to most fairly capturing appropriate contributions – there is a trade-off between simplicity and accuracy.

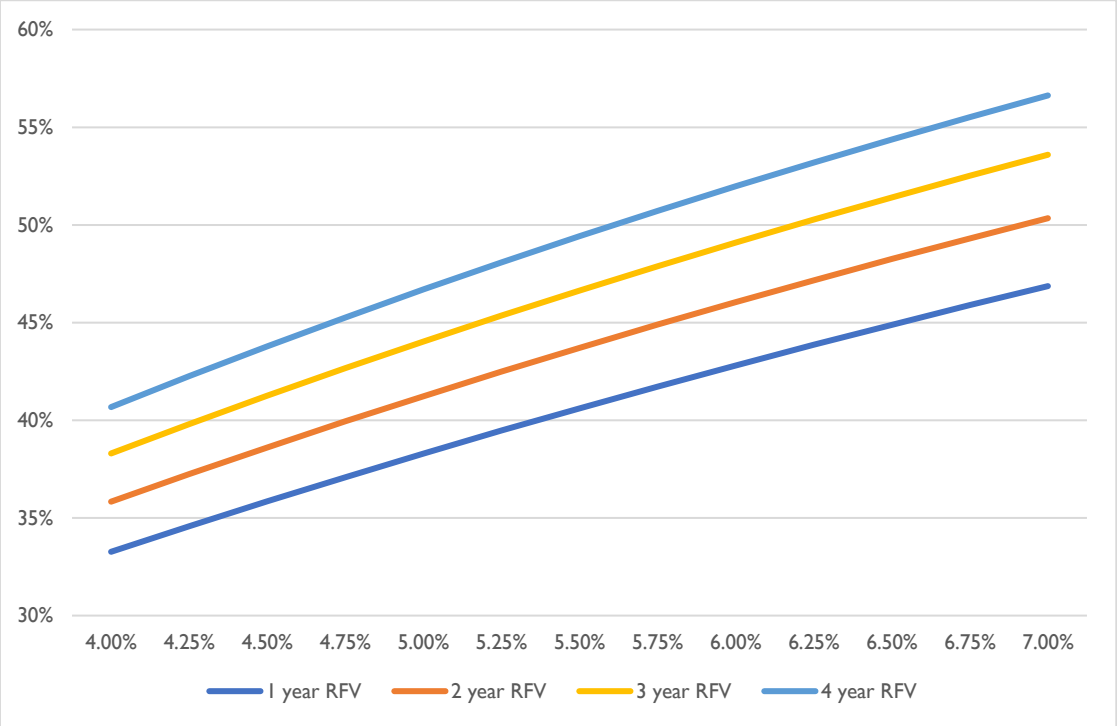
3.14 With a view to keeping the formula as simple as possible, OPDC suggested a simple percentage reduction of contributions to reflect these adjustments, with the potential to change it later on if market conditions improve.

### Defining a simple factor to add to the SPD formula which accounts for RFV, purchasers costs and yield as far as possible

3.15 The figure below shows the percentage discount on the draft SPD contribution after accounting for RFV, purchasers costs and yield adjustments. The discount is shown across different yields and RFV periods, assuming that purchasers costs is 6.8% for all yields and RFV periods (a standard assumption in viability modelling).

3.16 At lower yields of 4.00%, the adjustments equate to a 33%-41% discount. At higher yields of 7.00%, the adjustments equate to a 47%-57% discount.

Figure 1 Discount on SPD contribution after accounting for all adjustments, displayed over varying yields and for different RFV periods




3.17 To simplify these findings for the SPD formula, OPDC has advised that the base assumptions will be an RFV of two years (or lower) and yields of between 5% and 6%. On average, adjusting the formula for these assumptions equates to an approximate 40% discount on the current draft SPD formula.

### Recommendations for the SPD

3.18 Overall, it is recommended that a 40% discount is applied to the current SPD contribution formula as a starting point. This addition is shown in the final row of the table below.

Table 3 revised draft SPD formula for calculating contributions for affordable workspace

| Value of Affordable Workspace discount | Unit | Step calculation | Notes |
|---|---|---|---|
| **Total floorspace** | NIA (sqft) | (1) | Gross uplift for mixed use properties. Net uplift for office and industrial |
| **Proportion of floorspace which is affordable** | (%) | (2) | Office: 5% Industrial: 5% Mixed use: 10% NB: the percentage floorspace should only be applied to the employment floorspace. |
| **Total affordable floorspace** | NIA (sqft) | (3) = (1)*(2) | |

| Value of Affordable Workspace discount | Unit | Step calculation | Notes |
|---|---|---|---|
| Market rent | £ per sqft | (4) | Market rent that would have been achieved for the discounted space. The applicant should include evidence. |
| Income multiplier = Length of affordable workspace term | Years | (5) | 15 |
| Affordable discount | (%) | (6) | Office: 80% Industrial: 80% Mixed use: 80% |
| SPD calculation discount factor | (%) | (7) | 40% |
| Value of contribution | (£m) | (8) = [(3)*(4)*(5)*(6)] *[1-(7)] | |

3.19 This discount seeks to bring the contribution closer to a valuation approach, taking account of developer costs associated with income and yields. It is by no means a full appraisal – there are many other factors that would be included in a development appraisal. This is not an exact science but aims to be a relatively simple way of providing a more realistic assessment.

3.20 The 40% is based on assuming an RFV of two years or less and yields of between 5% and 6%. If these assumptions are not reasonable for a specific proposal, this can be justified with the OPDC and the percentage discount adjusted, if considered appropriate.

3.21 Similarly, OPDC retain the right to adjust the discount if these assumptions change – for example, if yields decrease in the future. This provides OPDC with the ability to maximise contributions throughout varying macro cycles over the life of the plan.

# 4 TECHNICAL APPENDIX: VIABILITY ASSESSMENT UPDATE

## Methodology and assumptions

4.1 The methodology considers the residual land value (RLV) compared to the benchmark land value (BLV), which is aligned with the original study. This addendum considers additional typologies and updated assumptions.

4.2 The original study tested nine schemes. For the three industrial schemes, single storey industrial schemes formed the central case and multistorey industrial were tested as a sensitivity on the central case. By contrast, this addendum removes multistorey industrial as a sensitivity on the single storey scheme, and tests two multistorey schemes as separate typologies. Based on consultation feedback, a further mixed-use scheme, comprised of residential and office, is tested. Also, the data centre typology has been updated.

4.3 The following table summarises the typologies which have changed for this addendum. Existing floorspaces are allocated based on advice from OPDC on typical schemes in the area, where the proportional increase in floorspace is between two- and five-fold (as per the original study).

### Table 4 Scheme typologies and viability test variations

| | Original study | | Addendum | |
|---|---|---|---|---|
| | Typology | Variation applied to gross versus uplift | Typology | Variation applied to gross versus uplift |
| **Multistorey industrial 1** | None | | Existing: 20,000<br>Proposed: 40,473 | Gross and uplift |
| **Multistorey industrial 2** | None | | Existing: 5,000<br>Proposed: 12,495 | |
| **Mixed use residential office** | None | | Existing: 2,000<br>Proposed: 9,112 | |
| **Data centre** | Small: 25,000<br>Large: 50,000 | *None* | Proposed: 38,500 | *None* |

4.4 The benchmark land values (BLVs) for OPDC have been updated as described in the table below. The BLVs include a 20% uplift as per government guidance[1] to reflect an incentive for the landowner to release the land. The new multistorey industrial typologies are tested against secondary industrial (low density) and open storage. The new mixed-use typology (residential-office) is tested against all BLVs as per the other mixed use typologies.

### Table 5 Benchmark land values (£ per ha)

| Existing use | Location | Original study | Addendum |
|---|---|---|---|
| **Secondary industrial (low density)** | OPDC | 12,100,000 | 12,580,000 |
| **Secondary industrial (medium density)** | | 14,100,000 | 14,960,000 |
| **Open storage** | | 9,300,000 | 9,430,000 |

1 DLHC & MHCLG, 2014. Viability Guidance. Retrieved from Viability - GOV.UK (www.gov.uk).

| Existing use | Location | Original study | Addendum |
|---|---|---|---|
| Secondary office and industrial (high density) | | 17,500,000 | 17,520,000 |

### *Central case assumptions*

4.5 The table below describes the assumptions used in the central case for each viability test with the right hand column describing any changes since the original study. The key changes are decreases in office rents and increases in commercial yields. These assumptions are informed by BNP Paribas who are authoring the Community Infrastructure Levy Viability Study (2023).

Table 6 Central case assumptions

| | | Variable | Metric | Central case – Original study | Central case – Addendum changes |
|---|---|---|---|---|---|
| GDV | Rent foregone | Construction period | Start of demolition to end of sale | 24 months | *No change* |
| | | Rent free/void period | - | Office: 24 months<br>All other uses: 15 months | *No change* |
| | Income | Commercial rent | £ per sqft (NIA) | Office: 45<br>Small industrial space: 28<br>Medium industrial space: 26<br>Large industrial space: 24 | Small office: 36;<br>Large office: 38<br>Small industrial space (including multistorey industrial 2): 38<br>Medium industrial space: 35<br>Large industrial space (including multistorey industrial 1): 22.50 |
| | | Commercial yield | - | Office: 6%<br>Small and medium industrial space: 4.25%<br>Large industrial space: 4.00% | Office: 6.75%<br>Small and medium industrial space (including multistorey industrial 2): 5.25%<br>Large industrial space (including multistorey industrial 1): 4.75% |
| | | Residential value | £ per sqft (NIA) | Market: 750<br>SO: 400<br>Affordable: 250 | *No change* |
| Developer Costs (including profit) | Construction costs | Plot ratio | Floorspace (GEA): development plot | Office: 2<br>All industrial (including industrial space in mixed use schemes): 0.65 (i.e., single storey)<br>All residential: 4<br>Data centre single storey: 0.5<br>Data centre multi-storey: 1.86 | All office, industrial and residential: *no change*<br>Multistorey industrial 1: 1.23<br>Multistorey industrial 2: 1.82<br>Data centre: 2.2 |

| | | Variable | Metric | Central case – Original study | Central case – Addendum changes |
|---|---|---|---|---|---|
| | | Build costs | £ per sqft (GIA) | Office: 245<br>Small industrial: 115<br>Medium industrial: 105<br>Large industrial: 95<br>Market residential: 280<br>SO and affordable residential: 260 | Office: 270<br>Small industrial: 125<br>Medium industrial: 115<br>Large industrial: 105<br>Multistorey Industrial 1: 200<br>Multistorey Industrial 2: 210<br>Data centre: 215<br>Market residential: 310<br>SO and affordable residential: 290 |
| | | Build cost inflation | - | 3.5% | *No change* |
| | | External works | % of build costs | All office and industrial: 10.0%<br>All residential: 8.0% | All office, industrial and residential: *no change*<br>Multistorey industrial 1: 25%<br>Multistorey industrial 2: 20%<br>Data centre: 12% |
| | | Contingency | % of build costs | 5.0% | *No change* |
| | | Professional fees | % of build costs | 10.0% | *No change* |
| | | BREEAM excellence | % of build costs | 0.0% | Residential: N/A<br>Commercial: 1.0% |
| | | CO2 requirements | % of build costs | [not included] | Residential: 1.5%<br>Commercial: 3.25% |
| | | Finance costs | % of build costs | 7.0% | 6.5% |
| | | MCIL | £ per sqm (GIA) | 60.36 | Market residential: 64.55 |
| | | Draft borough CIL | £ per sqm (GIA) | [not included] | Commercial: 35<br>Market residential: 80 |
| | | S106 | £ per sqm (GIA) | Office and all residential: 70<br>All industrial: 35 | Commercial: 30<br>Residential: 17[2] |
| | Fees | Purchaser costs (stamp duty 5%, stamp duty legal fee 1%, stamp duty agent sales fee 0.8%) | % of GDV | 6.8% | *No change* |
| | | Sales, marketing and legal fees | % of GDV | 3.0% | 1.5% |
| | | Letting agent and letting legal fees | % of first year's rent | Office and industrial: 15.0% | *No change* |
| | Profit | Profit | % of GDV | Office and industrial: 15.0% | Market residential: 17.5% |

[2] The assumption in the CIL work is £1,500 per residential unit. The weighted average sqm per residential unit is 66 sqm NIA and it is assumed that the GIA to NIA utilisation is 75% for residential. This equates to £17 per sqm GIA for residential uses.

| | | Variable | Metric | Central case – Original study | Central case – Addendum changes |
|---|---|---|---|---|---|
| | | | | Market residential: 18.0%<br>SO and affordable residential: 6.0% | Commercial, SO and affordable residential: *No change* |
| General assumption | | Sqm (NIA) per residential unit | | 71.8 | 66[3] |
| | | Affordable residential unit split | | OPDC: 35% of units delivered as affordable, at a 70/30 split of shared ownership versus social provision. | *No change* |
| | | RLV per ha (GIA) for data centres | | £24,710,500 | The revised approach considers capital value and costs separately. These assumptions are contained in this table (Table 5) and the methodology is explained further in paragraph 4.21 |
| | | Capital value (per sqft) for data centres | | NA | £1,300 |

## Range of rental evidence

4.6 The outputs present the rents or market residential sale values required for schemes to be viable against a range of evidence for what these values can be in reality. The table below presents the range of evidence for each use and the drivers of these ranges.

### Table 7 Range of rental and residential market sale values (£ per sqft)

| Use | Central case | Range | Description of evidence for assumption |
|---|---|---|---|
| Office | £36 | £34 to £38<br>*And*<br>£40 to £55 for prime areas around the HS2 Station which undergo significant regeneration | Advised by BNPP |
| Small single storey industrial | £38 | £35 to £42 | |
| Medium single storey industrial | £35 | £32 to £38 | |
| Large single storey industrial | £22.50 | £20 to £32 | |
| Multistorey Industrial 1 | £22.50 | £20.25 to £35 | Based on space being let as large industrial units with the range representing discounts to upper floors or the space including both medium and large units. |
| Multistorey Industrial 2 | £38 | £32 to £38 | Based on space being let as small industrial units with the range |

[3] This is a weighted average based on the unit mix and sizes from the OPDC Local Plan Viability Assessment.

| | | | |
|---|---|---|---|
| | | | representing discounts to upper floors. |
| Residential-led mixed use | £750 | £750-£850 | *No change from the original study* |

### *Sensitivity test assumptions*

4.7 The recommended affordable workspace variations are then tested in sensitivity tests. The table below describes the sensitive assumptions tested. As above, the right hand columns only state changes relative to the original study.

Table 8 Sensitivity test assumptions

| Typology | Assumption | Original study Central case | Sensitivity test | Addendum changes Central case | Sensitivity test |
|---|---|---|---|---|---|
| Office | Plot ratio and build cost | 2; £245 | 5; £260 | 2; £270 | 5; £285 |
| | BREEAM excellence | 0% | 2% | 1% | None |
| | Profit | 15% | 20% | *No change* | |
| | Yield | 6.00% | None | 6.75% | 6.25%, 7.25% |
| Industrial | Plot ratio and build costs and external works (small units) | 0.65; £115; 10% | 1; £185; 25% | 0.65; £125; 10% | None – this sensitivity is presented separately through the new Multistorey Industrial typologies. |
| | Plot ratio and build costs and external works (medium units) | 0.65; £105; 10% | 1; £165; 25% | 0.65; £115; 10% | |
| | Plot ratio and build costs and external works (large units) | 0.65; £95; 10% | 1; £155; 25% | 0.65; £105; 10% | |
| | BREEAM excellence | 0% | 2% | 1% | None |
| | Profit | 15% | 20% | *No change* | |
| | Commercial yield (large units) | 4.0% | 3.0% | 4.75% | 4.25%, 5.25% |
| | Commercial yield (small and medium units) | 4.25% | None | 5.25% | 4.75%, 5.75% |
| Multistorey Industrial 1 | Commercial yield (large units) | *Not applicable* | | 4.75% | 4.25%, 5.25% |
| | Profit | | | 15% | 20% |
| Multistorey Industrial 2 | Commercial yield (small and medium units) | *Not applicable* | | 5.25% | 4.75%, 5.75% |
| | Profit | | | 15% | 20% |
| Mixed use | Plot ratio and build cost and external works (market units) | 4; £280; 8% | 7; £320; 5% | 4; £310; 8% | 7; £350; 5% |
| | Plot ratio and build cost and external works (affordable units) | 4; £260; 8% | 7; £300; 5% | 4; £290; 8% | 7; £330; 5% |
| | BREEAM excellence (residential) | 0% | 2% | None | |
| | Affordable housing split (OPDC only) | 35% affordable (70% SO; 30% affordable) | 50% affordable (70% SO; 30% affordable) | *No change* | |

## Central case outputs

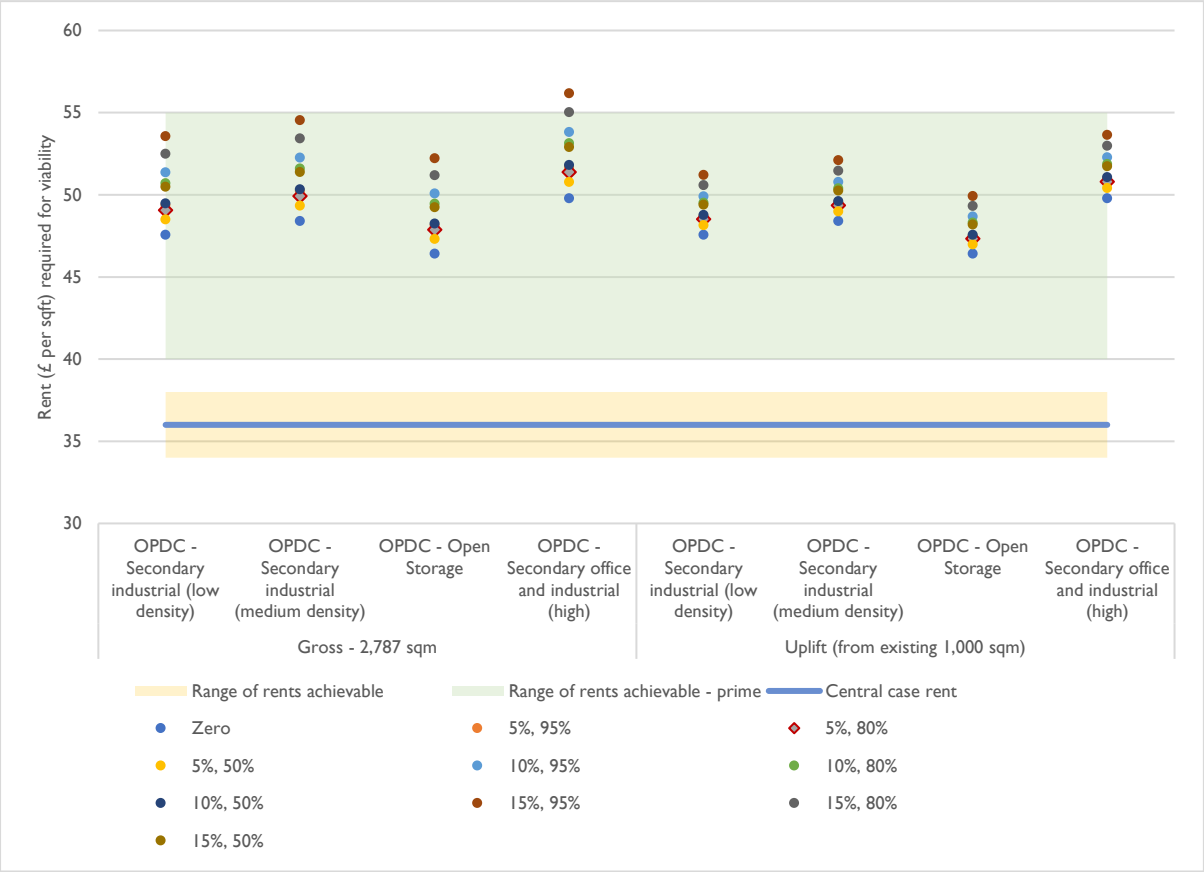
### *Office*

4.8 The original study found that, for both the 2,787 sqm and the 20,000 sqm office typologies, many affordable workspace variations were not viable in the gross scenario. In the uplift scenario, most variations were viable. The 5% of floorspace at 80% discount to market rent (or 20% of market rent) variation was identified as the most generous viable variation which could offer the highest discount across both office schemes.

4.9 The revised assumptions suggest that viability is challenging for office developments achieving central case rents (£36 per sqft, ranging from £30 to £45 per sqft) The changes are driven by the lower central case rent and higher yield (6.75% compared to 6.00% in the original study). However, where developments are able to achieve higher rents (£40 to £55 per sqft) – typically in the prime areas of OPDC around the HS2 station where significant placemaking is taking place– then affordable workspace is more viable to deliver.

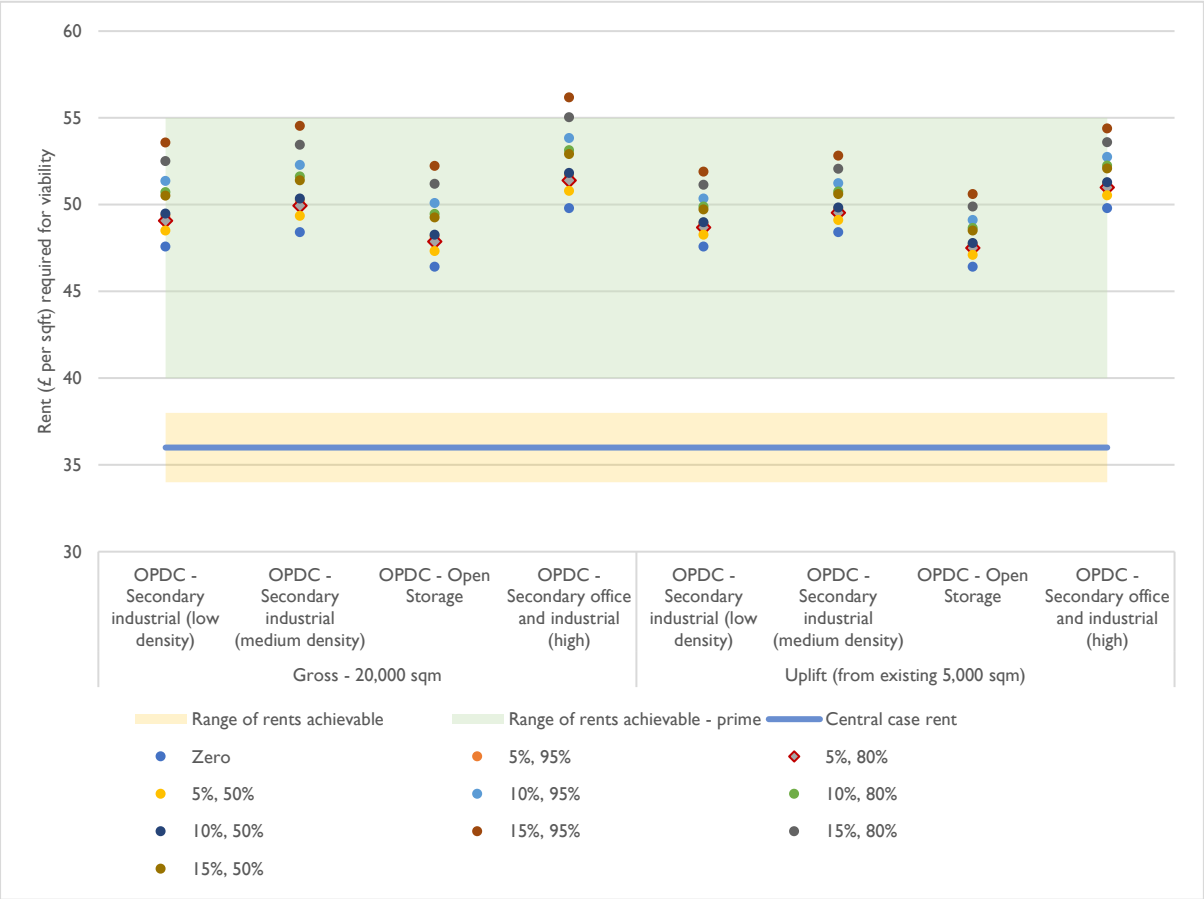
4.10 The figure below summarises the results for the smaller office scheme. As a reminder, the figure shows the rents at which the scheme is viable for different variations of affordable workspace and across different BLVs. The position of the various dots relative to the shaded area and central case rent (represented by the blue line) demonstrate viability. For example, in the uplift scenario, office schemes would need rents of between £47 and £51 per sqft (depending on the BLV) in order to be viable at the proposed variation: 5% of floorspace and 80% discount to market rent.

Figure 2 Office 2,787 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs




4.11 The next graph shows the same results for a larger office scheme of 20,000 sqm. This is in line with the results for the smaller office scheme.

Figure 3 Office 20,000 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs




### *Industrial*

4.12 The original study found high viability for industrial schemes at almost all uplift variations. However, as with office, the evidence for rents achievable is highly varied. The 5% of floorspace at 80% discount to market rent (or 20% of market rent) variation was recommended in the original study..

4.13 The revised assumptions result in better viability for small and medium industrial schemes. The yields are higher (5.25% for small and medium units compared to 4.25% in the original study). However, the rents are also much higher (£38 per sqft compared to £28 per sqft for small and £35 per sqft compared to £26 per sqft for medium). The increase in rents is enough to outweigh the impact of the increased yields and build costs.

4.14 The graphs below show that the industrial typologies tested are viable in all scenarios.

Figure 4 Small industrial 2,520 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs

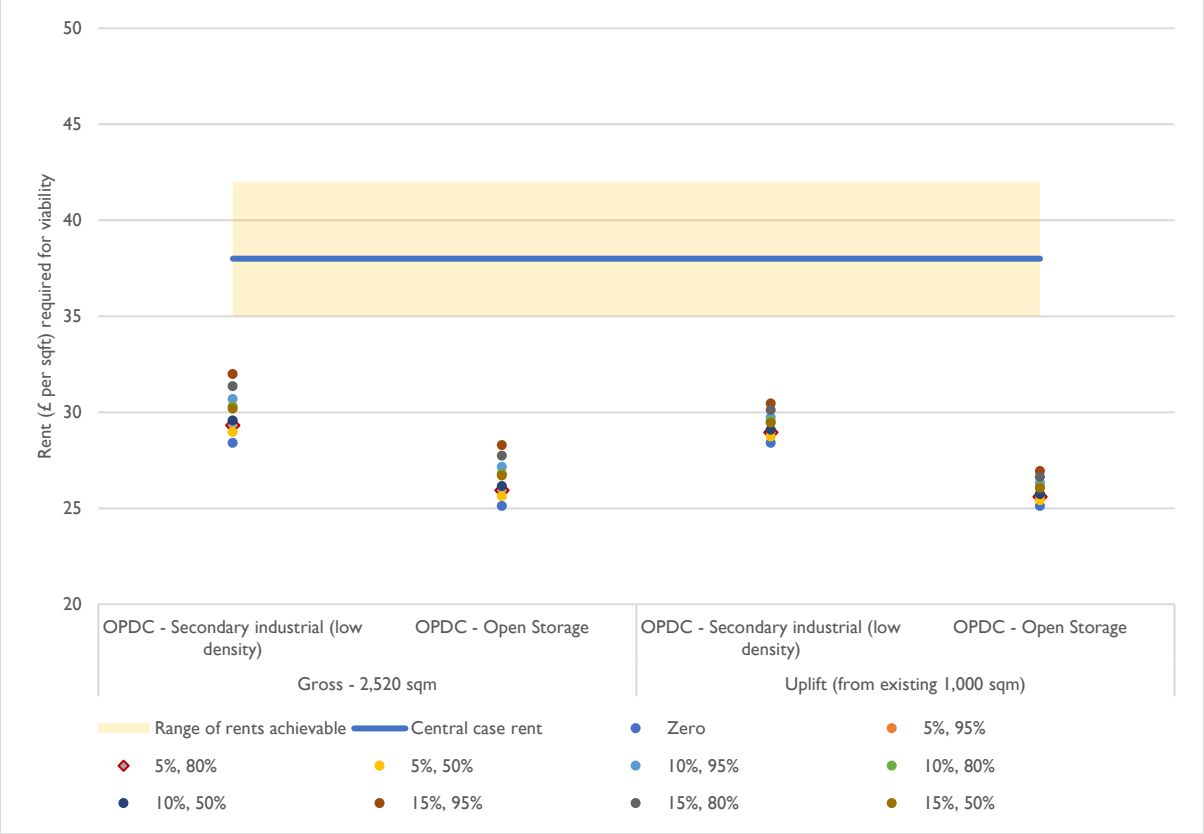
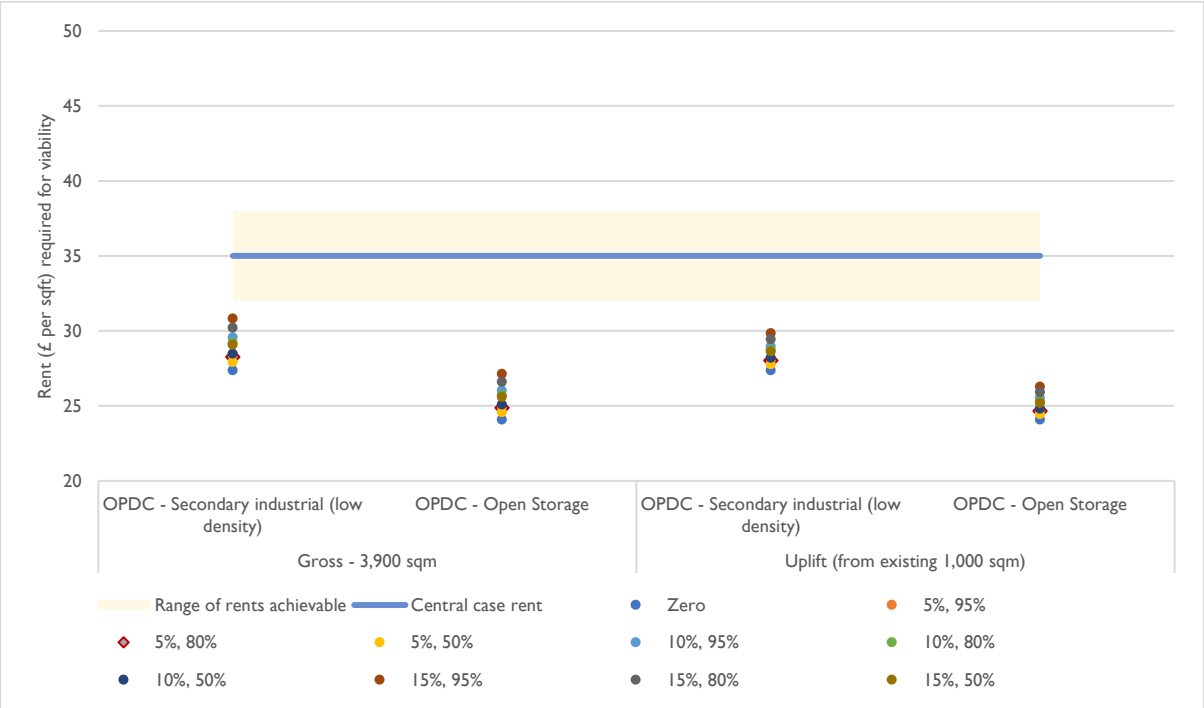
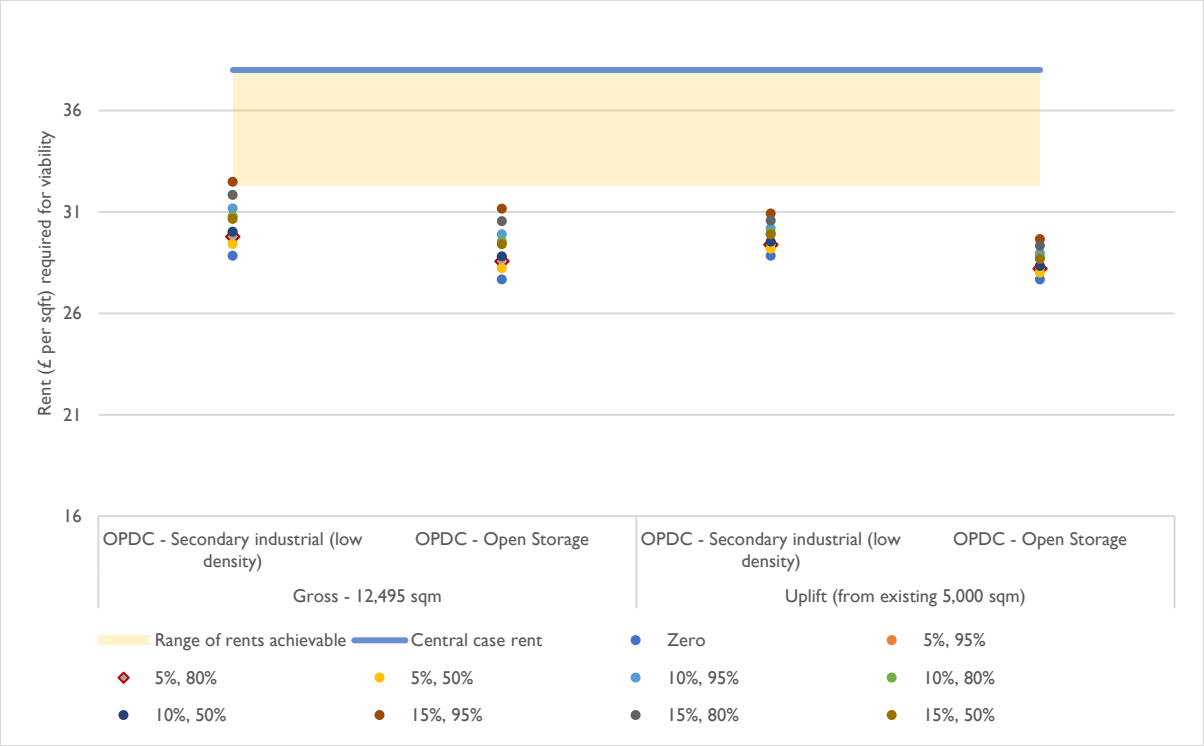



Figure 5 Medium industrial 3,900 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs



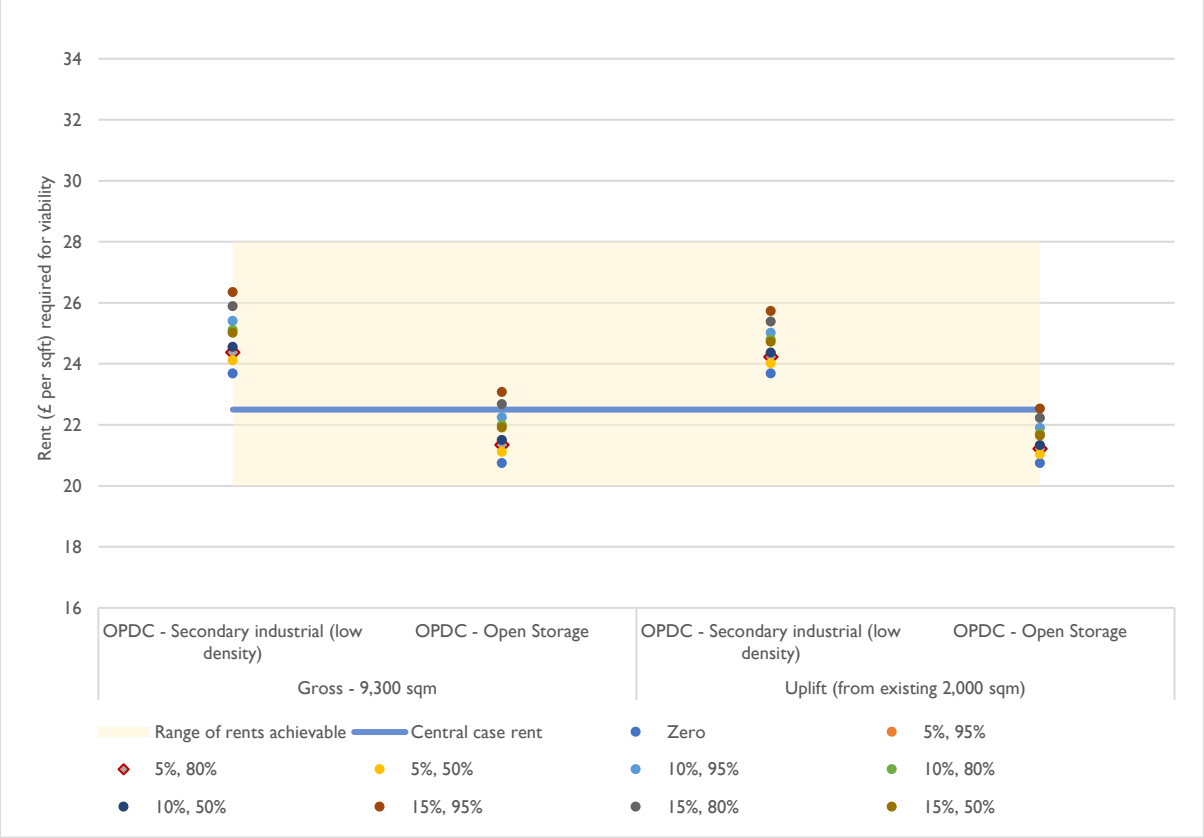
4.15 The figure below displays the outputs for multistorey industrial 2, which is made up of small units. In the central case, all units at all floors have a central case rent of £38 per sqft. The low end of the rents range reflects scenarios where upper floors have a discount on central case rents (reflecting the idea that rents on upper floors may be lower). Overall, all affordable workspace variations are viable, even at lower rents that are expected to be achieved.

Figure 6 Multistorey industrial 2 12,495 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs



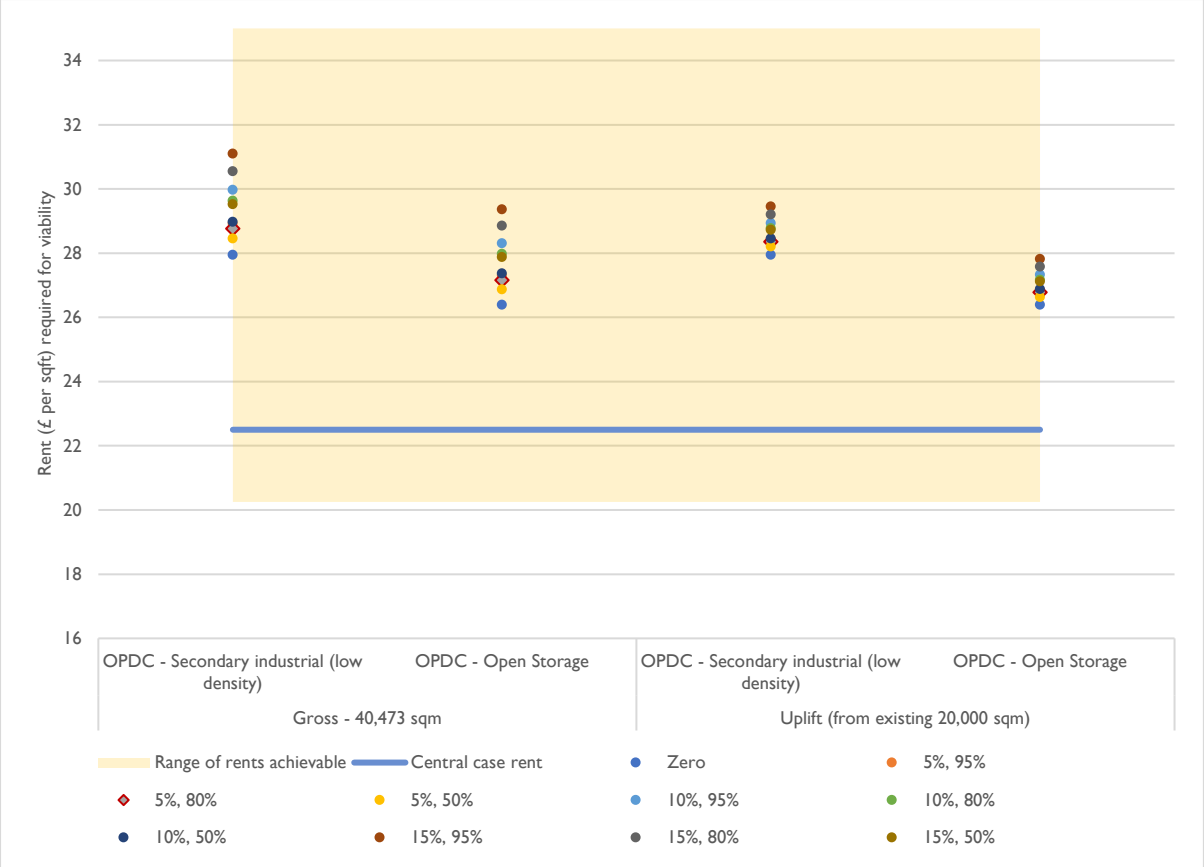

4.16 By contrast, rents for large industrial units has decreased slightly compared to the original study (£22.50 per sqft compared to £24 per sqft). Combined with higher yields (4.75% compared to 4.00%) and higher build costs, viability is slightly worse for large units. Most affordable workspace variations (gross and uplift) require rents below the central case rent in the OPDC – Open storage BLV. However, all variations require rents above the central case rent in the OPDC – Secondary Industrial (low density) BLV.

Figure 7 Large industrial 9,300 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs




4.17 The figure below displays the outputs for the new typology multistorey industrial 1. The central case rent for large units is conservatively set, with the range of rental evidence covering scenarios where some medium units are also provided in the building at rents of £35 per sqft and scenarios with rental discounts for upper floors. Overall, for the multistorey industrial 1 typology, the viability of delivering affordable workspace is challenging at the conservative central case rent of £22.50 per sqft. However, if rents of £30 per sqft were achieved then all uplift variations would be viable.

Figure 8 Multistorey Industrial 1 40,473 sqm – rents (£ per sqft) at which variations are viable for relevant BLVs




### *Mixed use schemes*

4.18 The original study found high viability for the industrial and residential mixed use schemes, which was predominately due to the strong viability of the market residential units. As a result, only gross scenarios were presented.

4.19 The updated assumptions generate similar findings: whilst build costs and yields are higher, rents for small and medium industrial units have increased and overall viability is good.

Figure 9 300 residential units and small industrial 2,000 sqm – residential market sale value (£ per sqft) at which variations are viable for relevant BLVs

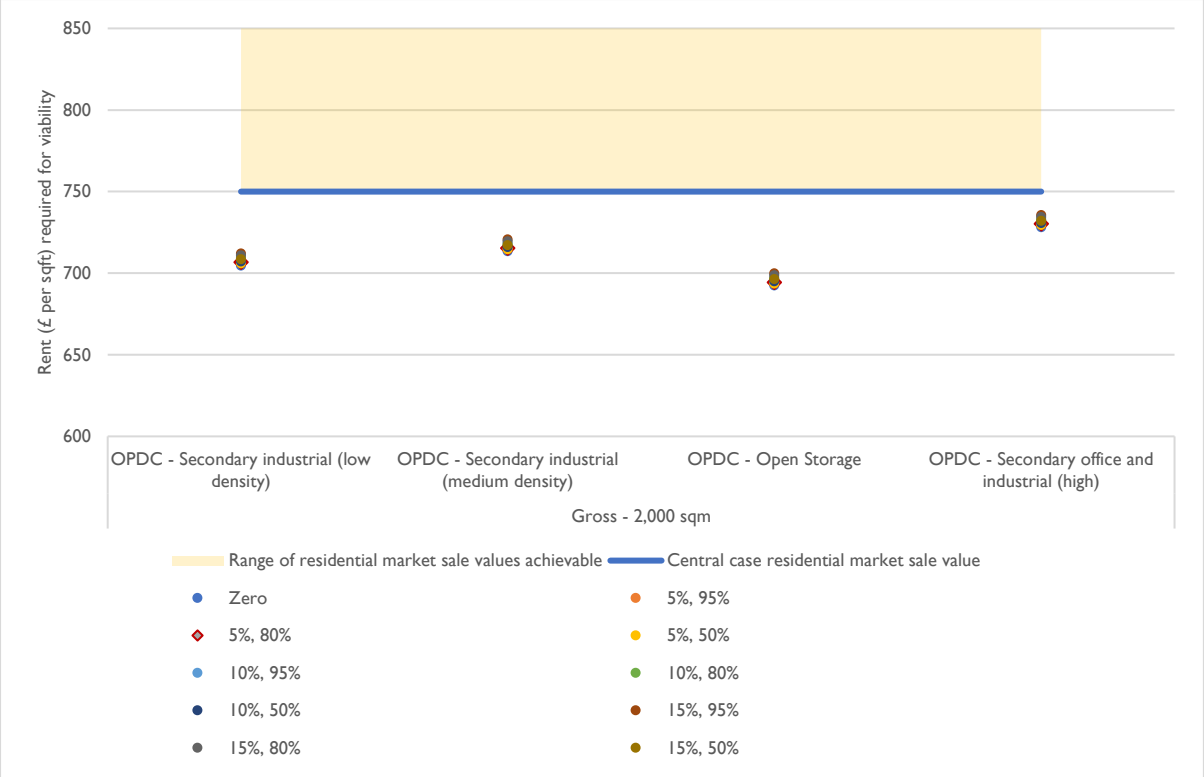
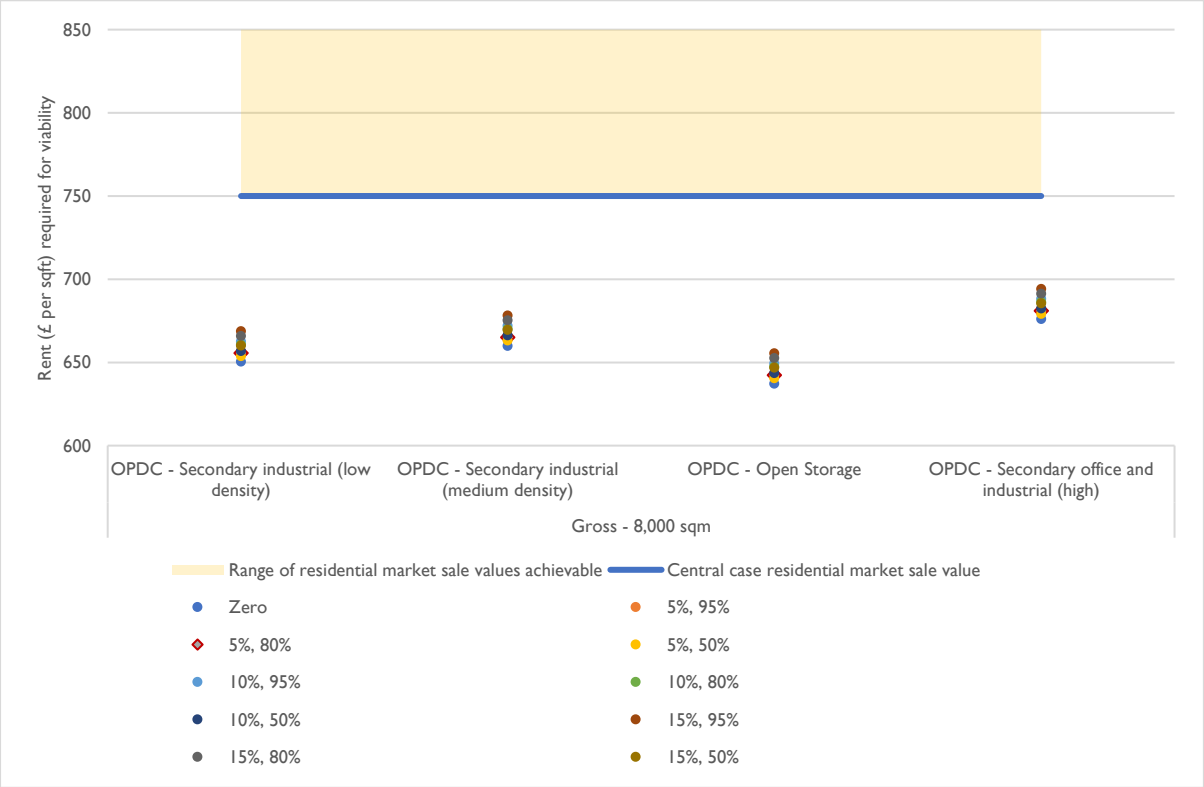


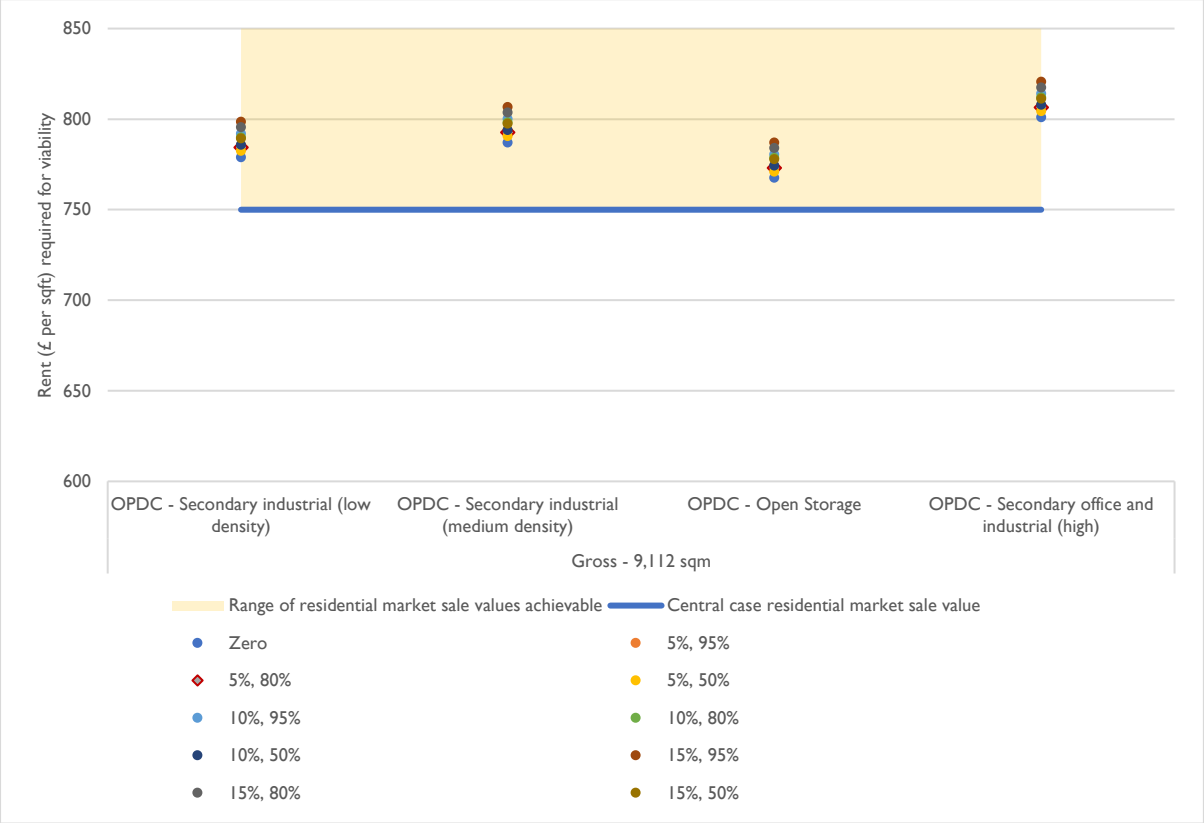

Figure 10 450 residential units and medium industrial 8,000 sqm – residential market sale value (£ per sqft) at which variations are viable for relevant BLVs




4.20 A new mixed use typology – office and residential – is presented in this addendum. This typology is less viable than the industrial mixed use typologies due to the lower viability of office.

No affordable workspace variations are viable at the central case residential market sale value of £750 per sqft. However, all variations are viable once residential market sale values reach £800 – £850 per sqft, which is within the range of rents achievable.

Figure 11 405 residential units and office 9,112 sqm – residential market sale value (£ per sqft) at which variations are viable for relevant BLVs




### *Data centres*

4.21 This assessment is based on information from the Community Infrastructure Levy Viability Study (2023). Based on this, data centres in OPDC might be expected to achieve a capital value of £1,300 per sqft. Applied to 38,500 sqm, this equates to a GDV of just under £539m in the zero affordable workspace provision scenario. The costs (also advised by BNPP, contained in Table 6) equate to £255m and therefore the RLV is £284m.

4.22 This alternative way of estimating GDV means that any changes to the RLV based on affordable workspace provision cannot be explicitly modelled. However, for context, in the other typologies presented, the highest affordable workspace variation requirement tested (15% of floorspace at 5% of market rent) represents a discount on the GDV of up to 10% compared to when there is no affordable workspace provision. A reduction of this size would equate to £485m GDV for the data centre which, compared to costs, would also have a large positive RLV.

4.23 In the scenario tested, where there is no affordable workspace onsite, the data centre has a RLV of £284m. The table below presents the BLVs required for the scheme based on the site

area of 1.95 ha. Overall, there is shows strong viability because £284m is far larger than all BLVs required. This would also be true if the GDV were reduced by 10%, implying that the data centre typology will be able to viably deliver affordable workspace.

Table 9 Data centre viability (with no affordable workspace provision)

| | BLV (based on site area of 1.95ha) |
|---|---|
| OPDC - secondary industrial (low density) | 26,544,160 |
| OPDC - secondary industrial (medium density) | 30,931,624 |
| OPDC - open storage | 20,401,709 |
| OPDC - secondary office and industrial (high) | 38,390,313 |

## Sensitivity tests

### *Office*

4.24 Compared to the central case, the sensitivity tests on the office schemes cover a lower yield (6.25%), a higher yield (7.25%), a higher profit (20%) and a higher multistorey scenario (with a plot ratio of 5 and higher build costs).

4.25 In all sensitivity tests on the two office schemes, the viability of affordable workspace contributions is challenging at central case rents but viable at prime rents. As expected, higher profit and higher yield require higher rents for viability (over £50 per sqft) and lower yield requires a lower profit for viability. For the higher multistorey sensitivity, the build costs are higher but the higher plot ratio outweighs this effect, resulting in slightly lower rents being required for viability.

Figure 12 Office 2,787 sqm - sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 1,000 sqm)

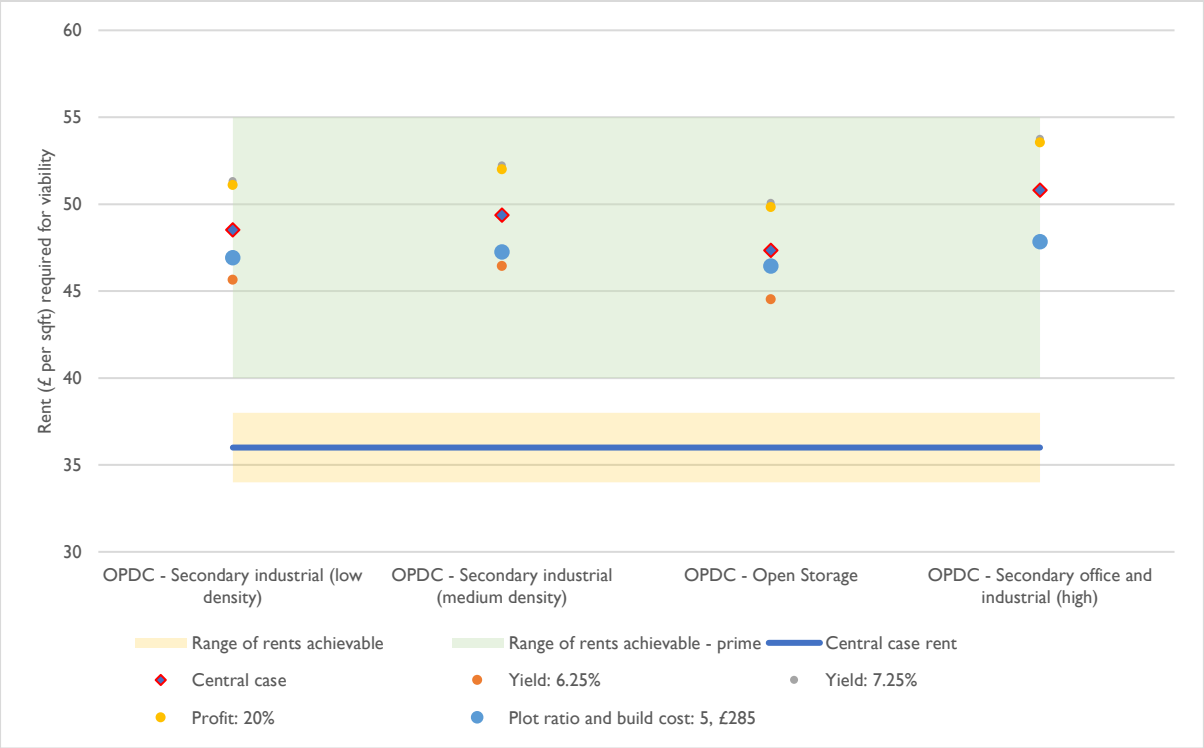
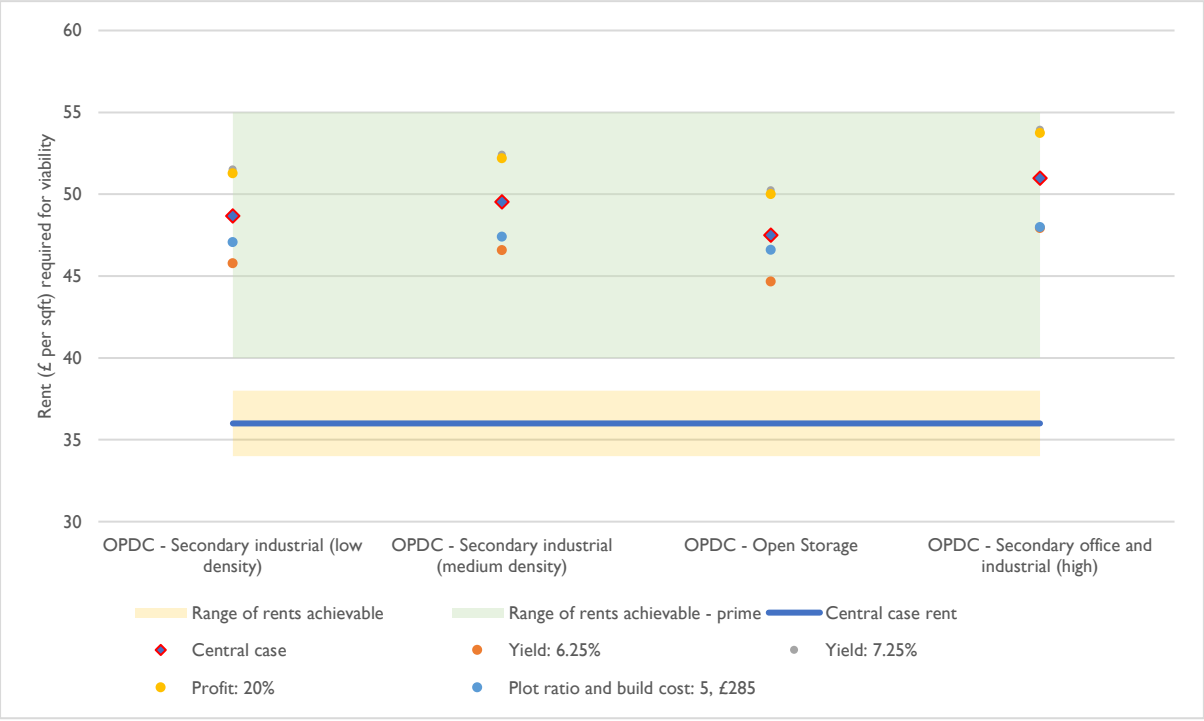



Figure 13 Office 20,000 sqm - sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 5,000 sqm)




***Industrial***

4.26 Compared to the central case, the sensitivity tests on the small and medium industrial schemes cover a lower yield (4.75%), a higher yield (5.75%) and a higher profit (20%).

4.27 As with office, higher profit and higher yields require higher rents for viability and lower yields require lower rents for viability.

4.28 For the small and medium industrial schemes and the multistorey industrial 2 typology, all sensitivity tests still require rents below the central case.

Figure 14 Small industrial 2,520 sqm - sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 1,000 sqm)

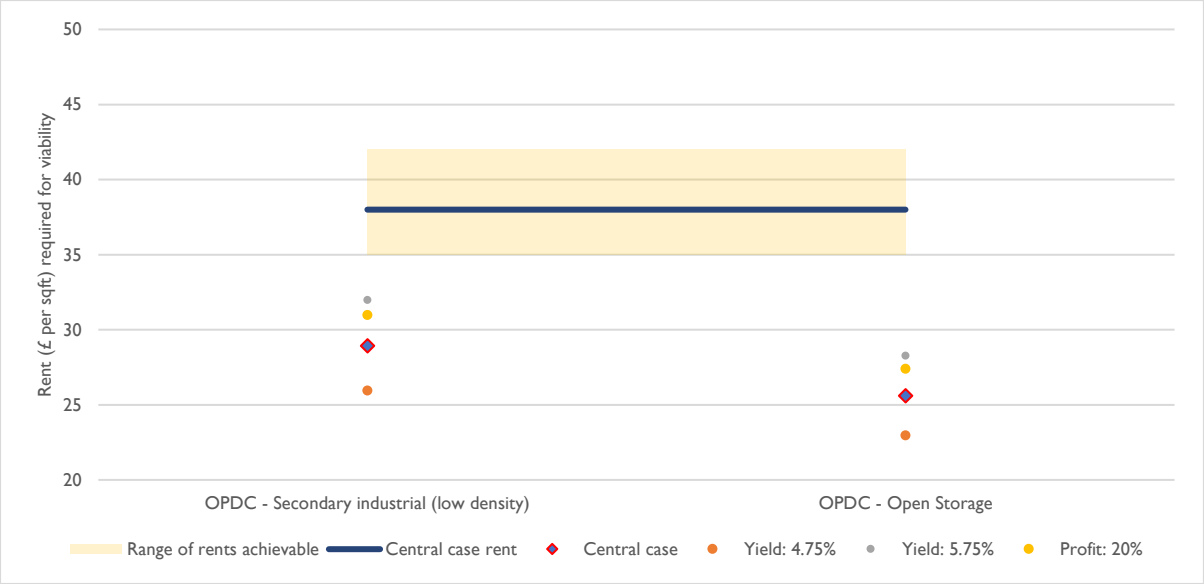



Figure 15 Medium industrial 3,900 sqm - sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 1,000 sqm)

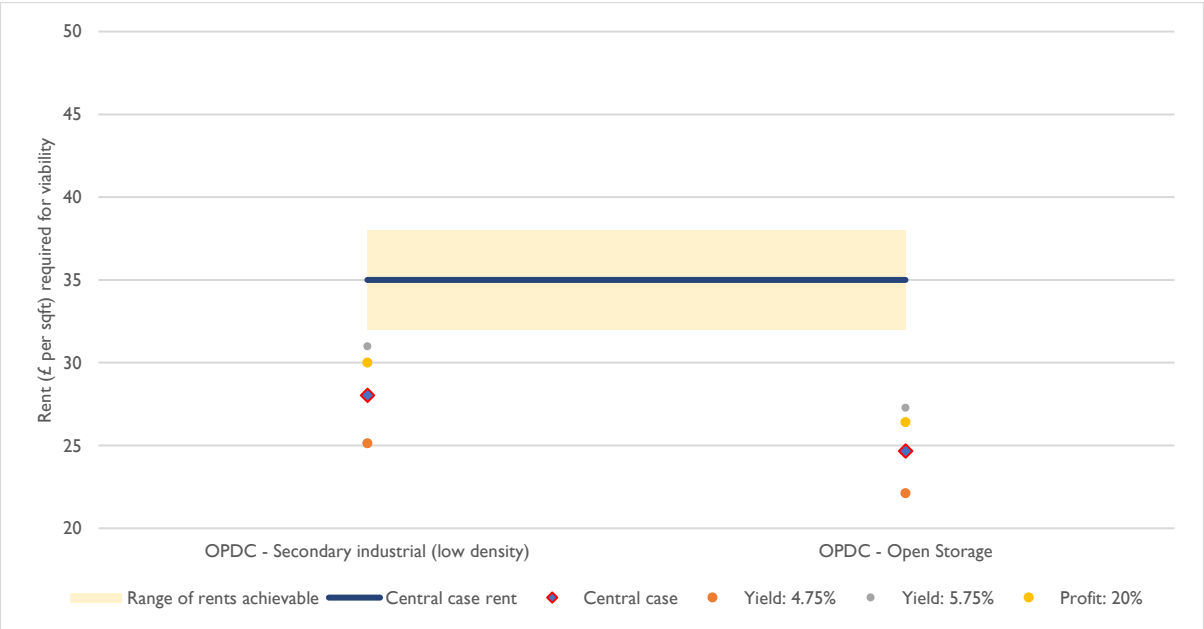
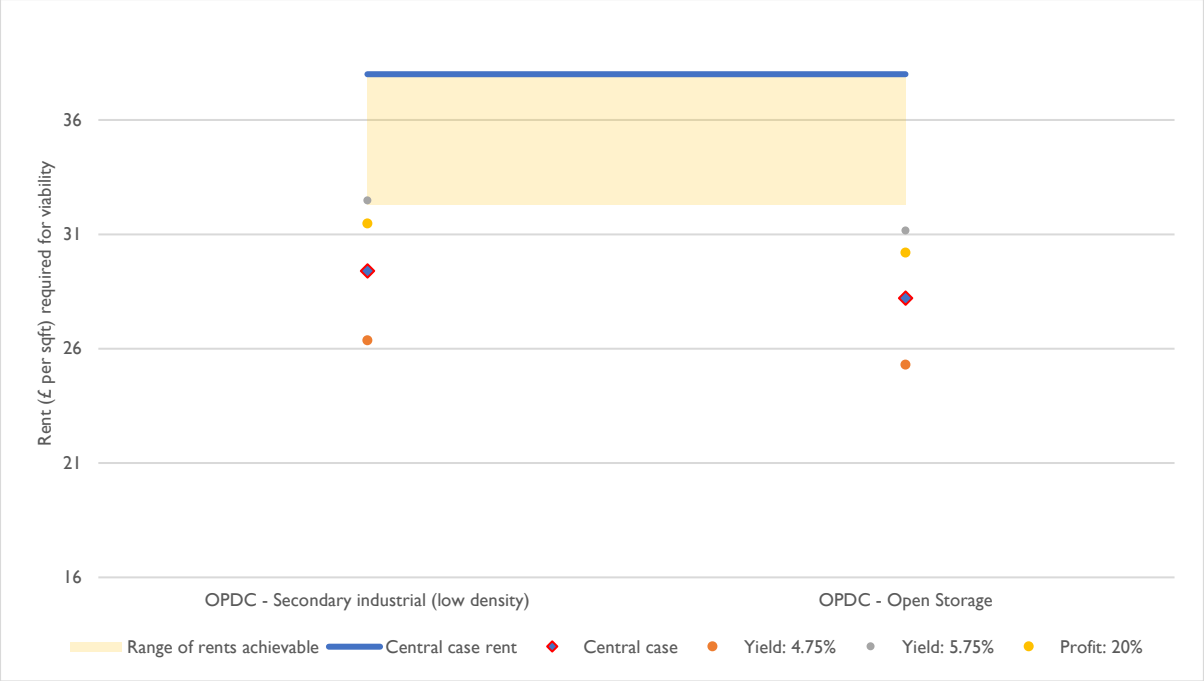


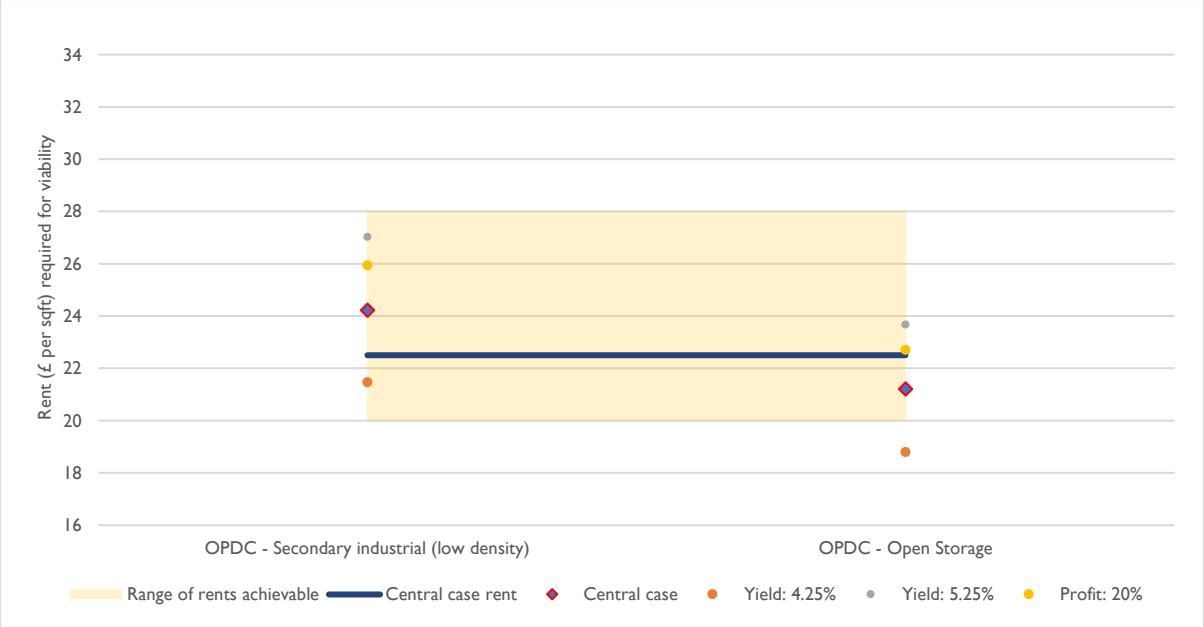
Figure 16 Multistorey industrial 2 12,495 sqm - sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 5,000 sqm)




4.29 Compared to the central case, the sensitivity tests on the large industrial schemes cover a lower yield (4.25%), a higher yield (5.25%) and a higher profit (20%).

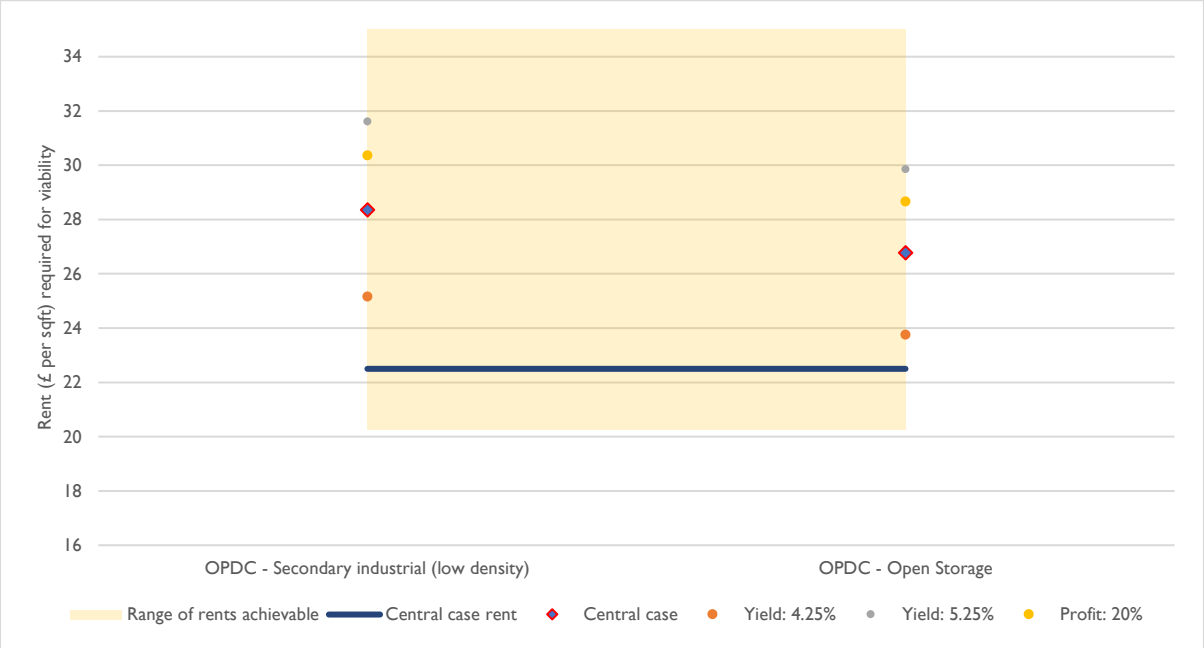
4.30 For the large industrial scheme, rents required all still lie below the top range of the rental evidence (£28 per sqft) but only the low yield assumption brings rents required for viability to below the central case (22.50 per sqft).

Figure 17 Large industrial 9,300 sqm – sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 2,000 sqm)



4.31 For the multistorey typology 1 typology, rents required for viability are still below the top end of the range of rents achievable (35 per sqft) but are still above central case rents.

Figure 18 Multistorey Industrial 1 40,473 sqm – sensitivity tests on 5% floorspace, 80% discount market rent affordable workspace provision on net uplift in floorspace (from existing 20,000 sqm)




### *Mixed use schemes*

4.32 Compared to the central case, the sensitivity tests on the mixed use schemes cover a higher multistorey scenario (with a plot ratio of 7 and higher build costs) and a higher proportion of affordable housing (50%).

4.33 For the 300 residential unit small industrial scheme, both sensitivity tests (50% affordable housing and the higher plot ratio, build costs and external works) require the scheme to achieve residential market sale values above the central case but below the top end of the range of evidence (£850 per sqft). For the 450 residential unit medium industrial scheme, both sensitivity tests still require residential market sale values at or below the central case in all BLVs.

Figure 19 300 residential units and 2,000 sqm small industrial space - sensitivity tests on 10% floorspace, 80% discount market rent affordable workspace provision on gross floorspace

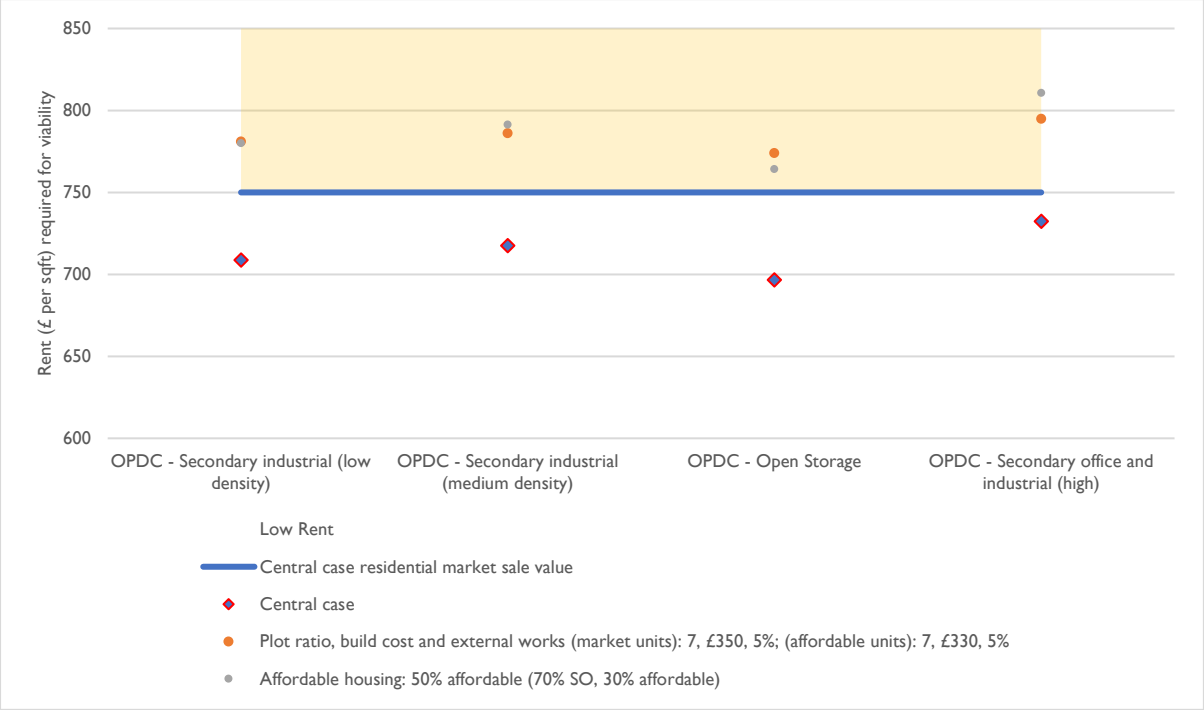
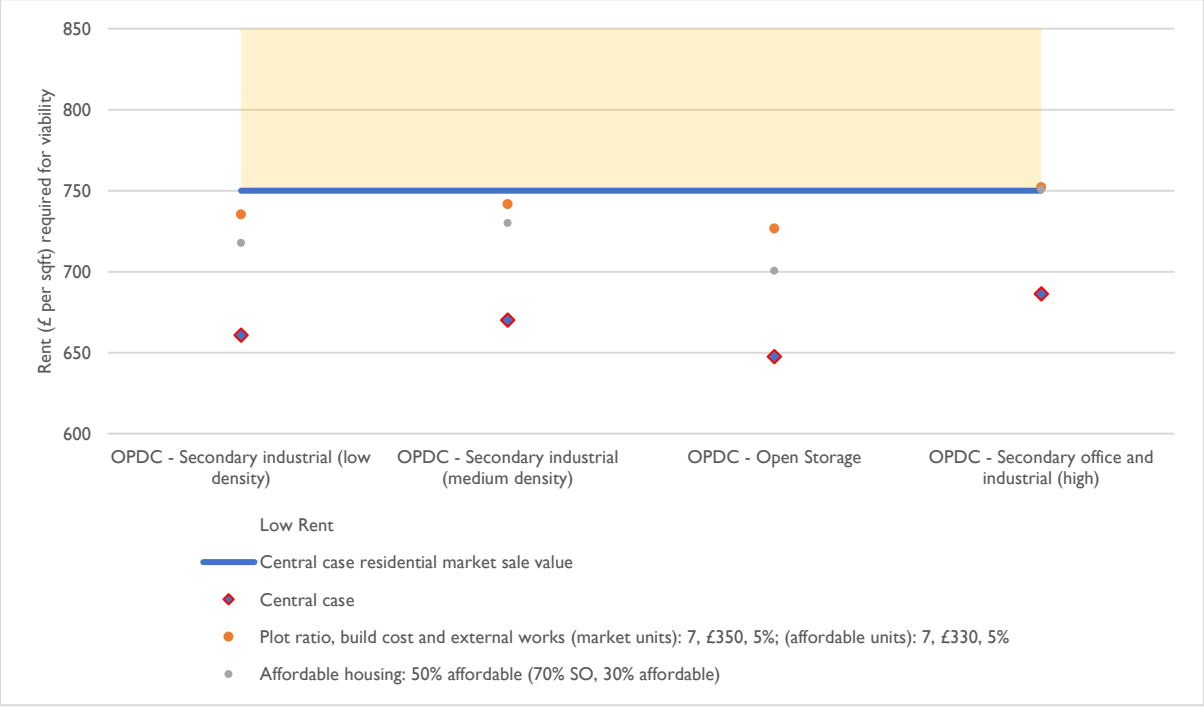



Figure 20 450 residential units and 8,000 sqm medium industrial space - sensitivity tests on 10% floorspace, 80% discount market rent affordable workspace provision on gross floorspace




4.34 For the office / resi mixed use scheme, viability requires residential market sale values to be above the top end of the range achievable in all BLVs.

Figure 21 405 residential units and office 9,112 sqm – sensitivity tests on 10% floorspace, 80% discount market rent affordable workspace provision on gross floorspace