

DVS Property Specialists
for the Public Sector

**PRIVATE & CONFIDENTIAL
COMMERCIAL SENSITIVE**

**West Southall
Viability Assessment Report**

September 2009

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REVIEW OF DEVELOPMENT APPRAISAL: WEST SOUTHALL, LONDON

EXECUTIVE SUMMARY

1.0.1 The London Plan is clear in its intention to try and secure the maximum reasonable amount of affordable housing taking account of the strategic 50% affordable housing target and any site specific circumstances. The applicant's offer is 20% and may therefore be deemed to be non-compliant unless justified by site-specific circumstances.

1.0.2 Thus, in addition to the normal planning and other considerations that both the GLA and London Borough of Ealing (and indeed London Borough of Hillingdon) will have to take into account, there are two significant questions:-

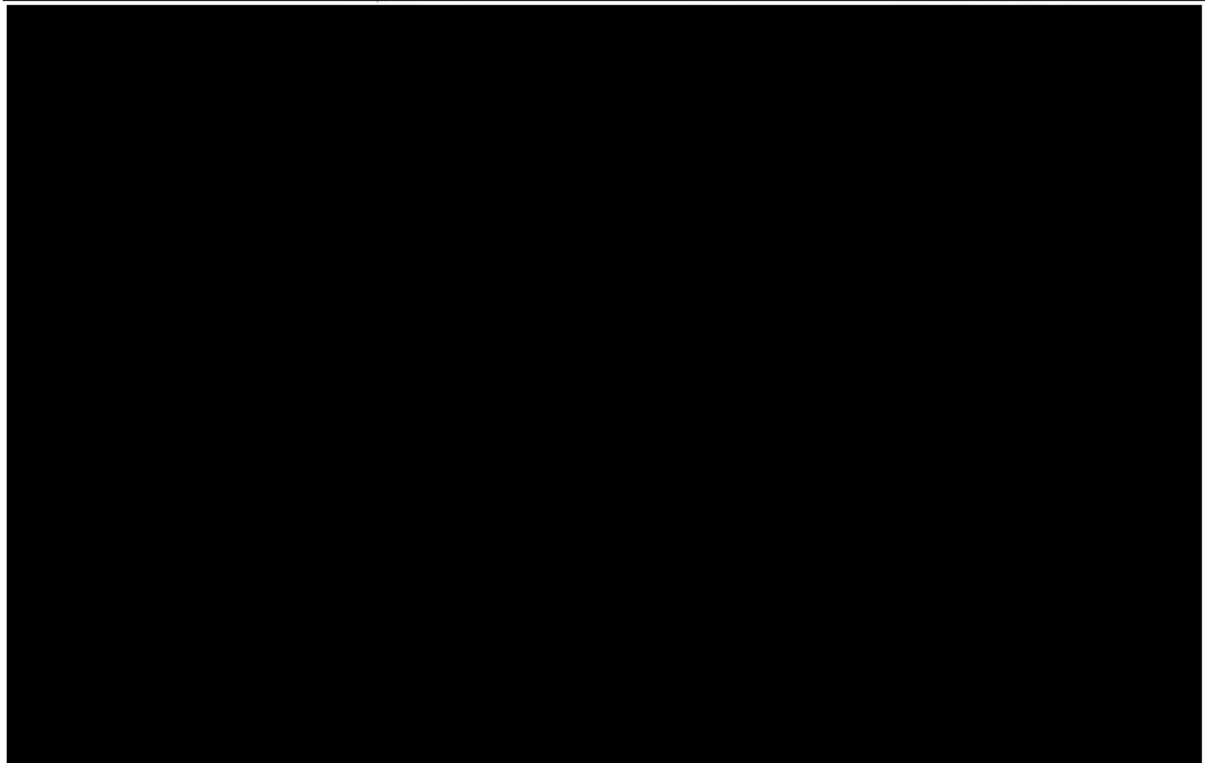
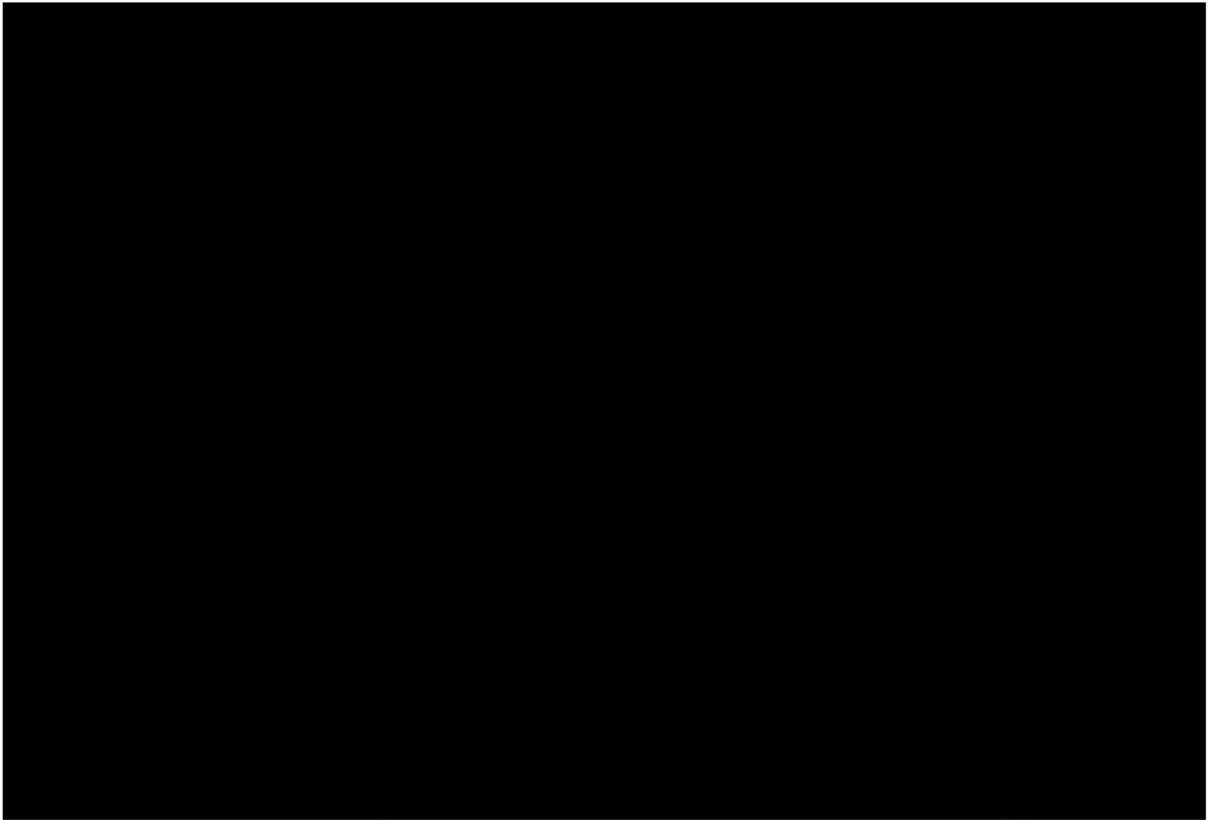
- *Are there site-specific circumstances to justify less than an overall 50% affordable housing provision?*
- *If so, then should this percentage be fixed for the whole twenty years of the project?*

The justification being put forward for such a departure by the developer is that the scheme can not afford to provide greater than 20% affordable housing provision. The applicant's assessment of the scheme, generates a developers profit on cost of 16.75%.

1.0.3 Although RPS have stated that their figures represent the "best position over the lifetime of the project", we do not think it is possible to predict values, costs or other assumptions with any certainty over such a period.

1.0.4 We note that the scheme appraisal is very sensitive to relatively small changes in sales values and some of the other key variables.

1.0.5 RPS notes that the financial assessment provides no allowance for a return to the landowner applicant (National Grid) "which would be commercially unacceptable" and "scheme-wide viability is at best marginal". It therefore seems unlikely that a prudent developer would implement the scheme without further detailed design development, appraisal and value engineering work in order to enhance profitability and mitigate development risks in the normal manner.



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Instruction:

- 1.1.1 We refer to Charles Solomon's letter and fee quote to Dominic Mallinder dated 9th February 2009 with regard to the undertaking of a report on the development viability report as provided by the applicant.
- 1.1.2 The site was inspected in April 2009 in conjunction with key consultants from the applicant's professional team.
- 1.1.3 The applicant's information that we have reviewed is as follows:
 - (a) Cyril Sweet's West Southall, Infrastructure and Site Developments, Order of Cost Estimate Nr 2d - Rev 5, dated 15 May 2009.
 - (b) Phasing plan, White Young Green ref:E00357/40/ENV/SKPH01/Rev H, dated 13/2/08.
 - (c) DTZ's financial model undated.
 - (d) RPS' 3 dragons toolkit appraisal dated February 2009.
 - (e) RPS' Toolkit submission report dated 12.02.09.
 - (f) All planning submission documentation from 8th October 2008.
 - (g) Land ownership plans & schedules supplied by DTZ.
- 1.1.4 Due to the Confidentiality Agreement, we are limited in what we can set out by way of detailed financial information in this report. However, we set out our observations on the approach that the applicant has adopted, the issues that this generates and our view of the ability of the proposed development scheme to meet the planning obligations for affordable housing provision. This should allow you to make an informed judgement on your response to this application.

2.0 The development site:

- 2.1.1 The existing property is mainly comprised of surface car parking for Heathrow airport together with a number of operational and disused gas holders and totals some 45 ha.
- 2.1.2 The site is bordered to the south by the main line railway, to the north west by the Grand Union Canal, to the east by South Road and to the north by the residential areas along Beaconsfield Road. At this time, the site is effectively land locked.
- 2.1.3 We understand that there is a long history of gas works use across this site reaching back to the mid 1800's and prior to this, extensive clay extraction for brick making occurred in many areas of Southall, possibly including this site.

3.0 The proposed scheme by National Grid:

- 3.1.1 The developer's scheme as proposed is for a maximum of 320,000 sq m gross of residential floorspace in c.3,475 units (the application indicates a range of between 3,400 and 3,750 units), 14,200 sq m of non-food retail, 5,850 sq m of food retail, plus offices, hotel, conference and banqueting facilities, healthcare, education and parking

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accommodation.

- 3.1.2 The scheme involves the provision of major new infrastructure, including a new access road from Hayes to the west and the creation of a new access route from South Road to the east involving a widening of the bridge over the main line railway.
- 3.1.3 The scheme as detailed in the planning application is undoubtedly substantial and offers the prospect of a major regeneration of a large area that has long been neglected. As a twenty-year plus project offering some 3,500 new homes, major new commercial stock and important new infrastructure, its potential reach and impact are welcome.
- 3.1.4 The applicant is proposing affordable housing content of 20% by numbers of units. It is proposed that these are split with 60% social rented and 40% intermediate tenures.
- 3.1.5 At the heart of the scheme is a new retail High Street together with other leisure and commercial uses. This is proposed as a key component of the building of the vision for West Southall and lies at the heart of establishing a large new community and destination. We fully endorse this as part of the overall "placemaking" approach.
- 3.1.6 The retail offer is to be supported by a new large convenience store as anchor. The new retail offer is, we understand, to be targeted at the national multiple retailers notably absent from the town at present. Given that the existing retail offer is primarily orientated towards speciality retailers, the new retail offer is stated by the applicant to be complimentary and we would generally support this view.
- 3.1.7 At the western end of the retail high street, a new waterside leisure destination is proposed taking advantage of the canal side location. This is an excellent opportunity to create an evening environment that extends economic activity over a longer period of the day/evening. Its success will be dependent on accessibility both from within the development area and the remainder of the town and also upon a suitable mix of restaurant/café and bar offer. The management of this location will be important to ensuring that the leisure destination enhances surrounding residential values.
- 3.1.8 The proposed new access eastern and western access points into the development are critical to its success. The eastern vehicular access will offer a major improvement upon the existing highways layout. It is dependent upon not only the acquisition of 21 residential units but also securing agreement with both Network Rail and the train operators.
- 3.1.9 Control of development phasing through the planning process is critical to ensure that the scheme is delivered as proposed, i.e. the new retail/leisure offer is an early phase. This will help to ensure that not only are the anticipated sales values met or exceeded but also to prevent any cherry-picking of the more profitable sites.
- 3.1.10 The scale of the development reflects its regenerative ambitions which are welcomed. It is clear from a simple glance at the Masterplan proposal and the Design & Access Statement that there are large distances arising between say Southall Station (and the proposed new Crossrail station) and the western areas of the sites, especially the new waterside cafes/bar environment and some of the residential stock. This distance becomes very apparent on visiting the site itself. The vibrancy of the retail link from east to west, the arrangement of the buildings and the quality of the public environment are all vital to ensuring the east/west connection functions properly to ensure the success of the waterside environment and that the south west residential

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is not considered to be "out on a limb".

4.0 Review of market valuation of existing site

- 4.1.1 The use of the site as a gasworks has led to contamination on site. The applicant has submitted a remediation strategy for the proposed scheme and this provides a good understanding of the issues on the site and needs to be reflected in the valuation of the existing site.
- 4.1.2 The valuation supplied by the applicant is their own internal report and is dated 3rd May 2007 and consequently is not current. It states a valuation figure for the land held within National Grid (or Birch Sites Limited).
- 4.1.3 This valuation is based on the then current income from three short term cotermminus car park lettings, all subject to review as at 31/3/2008. The leases are restricted by the existing planning consent that limits use to temporary parking.

5.0 Review of applicant's approach and methodology

- 5.1.1 The applicant's financial assessment is made up of the RPS Toolkit and DTZ's financial model. DTZ's model itself is based upon Cyril Sweett's cost report and Savills residential market research. This approach is typical and reflects the limitations of the Toolkit to provide a thorough financial assessment of such complex schemes on its own.
- 5.1.2 To understand the appropriateness of the applicant's approach and methodology, it is necessary useful to place it into context.
- 5.1.3 The London Plan is clear in its intention to try and secure the maximum reasonable amount of affordable housing taking account of the strategic 50% affordable housing target and any site specific circumstances. The applicant's offer is 20% and may therefore be deemed to be non-compliant unless justified by site-specific circumstances.
- 5.1.4 Thus, in addition to the normal planning and other considerations that both the GLA and London Borough of Ealing (and indeed London Borough of Hillingdon) will have to take into account, there are two significant questions:-
 - *Are there site-specific circumstances to justify less than an overall 50% affordable housing provision?*
 - *if so, then should this percentage be fixed for the whole twenty years of the project?*
- 5.1.5 The justification being put forward for such a departure by the developer is that the scheme can not afford to provide greater than 20% affordable housing provision.
- 5.1.6 RPS' report on the Toolkit submission suggests the figures are an "interpretation of

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what market conditions would need to be for the scheme to come forward (my use of bold). In other words, the assumptions relate to a trigger point rather than being a reflection of what might happen over the lifetime of the project. This approach is perfectly reasonable as an assessment for the developer's own needs but can not reflect the potential of the scheme to fund affordable housing provision up to policy targets over the development period of 20 years.

- [REDACTED]
- 5.1.8 Although the Design & Access Statement submitted as part of the planning application is quite detailed in its portrayal of the quantum and mix of the uses together with the building typology across the site, numbers of storeys of each building and so forth, this level of detail does not appear to follow through into the financial model and its inputs. We would have expected a greater level of detail to be defined at this stage of the process.
- 5.1.9 The cost consultant's report adopts benchmark build cost rates (at current or today's levels) and is based on Gross External areas. There appears to be no detailed cost budget by reference to individual buildings (though building typologies are shown in the Design & Access Statement) and clearly further value engineering through the design development process will be targeted in order to maximise cost efficiencies..
- 5.1.10 The design development process that any developer will take forward will take into consideration the opportunity to substitute materials or to consider the opportunity to re-design in order to reduce costs and improve value. Ultimately this will reflect a balance of financial, design and planning objectives of the various stakeholders. Conversely, there may be additional risks and costs, which could potentially increase development costs across the site. However, a method of change control needs to be established, even at this early stage.
- 5.1.11 In DTZ's financial model, general assumptions have been made on Gross to Net efficiencies of the buildings areas in order to generate the capital or sale values of the stock. In particular we would note that the residential efficiencies of the flats at 82% sits within a range to be expected at this stage of the project (80% to 85%) but we would expect the developer to target higher efficiencies going forward in design development. Given that it is anticipated that the site is developed by one or more national and local specialist residential developers, this is an important issue.
- 5.1.12 We are advised that the developer's financial assessment has overall residential sales values at [REDACTED]. We are further advised that this "takes a view" on the future value performance of the scheme, given the fall in property market values that have recently occurred.
- 5.1.13 We note though that a significant regeneration scheme like this has the potential, due to its scale, to create its own momentum and values ie the regenerative effect. Indeed this was noted in Savills' research report supplied by the applicant. It would be reasonable to expect to secure the benefits of this the regenerative effect over a twenty year development period and also that developer expertise would target improvements to the returns over the period.
- 5.1.14 This major scheme carries with it the need at early stages to undertake large improvements to infrastructure with the attendant risks and costs. This has major

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impacts on scheme viability and timing, especially, is important. It is vitally important that the developer and the other stakeholders (planning authorities) work closely to target the most efficient and effective phasing of these works and the value generating phases.

- 5.1.15 It is unlikely that any developer would implement the scheme in the present market conditions, but rather defer this until there is an increased confidence in the market conditions improving. This would give further opportunity between planning consent and scheme implementation to secure improved financial performance.
- 5.1.16 The make up of the financial model inevitably means that the assessment of the overall financial performance of the development is high level and indicative only and based on a whole raft of assumptions. Any prudent developer bringing forward development here will be working very hard to improve upon not only the gross to net efficiencies but also to drive down costs and build into an improved market.
- 5.1.17 In our view therefore, DTZ's financial model at this stage can only be regarded as a 'snapshot in time' in terms of offering one view of potential financial performance and is only suitable to an early day assessment suitable to a developer's more immediate needs. It certainly can not be seen to be a complete picture of potential financial performance over twenty years and given a range of possible development scenarios. As inevitably design changes will occur in response to changing market demand.

6.0 Review of financial information:

RPS Toolkit

- 6.1.1 We have reviewed the general methodology of RPS' 3 dragons toolkit appraisal and compared this to appraisals reviewed on similar schemes to ensure consistency of approach.
- 6.1.2 Overall, the basic methodology adopted, using 3 Dragons as an appraisal toolkit is standard practice though it is generally recognised that this toolkit has some limitations, in particular when undertaking the appraisal of large complex schemes such as this. The principal financial calculations have been undertaken in DTZ's financial model. This model seems to handle the large volume of data inputs satisfactorily (subject to a number of points noted below) although we consider its format more suited to investment sales rather than as a formal appraisal model.
- 6.1.3 The affordable housing provision proposed by the applicant is 20% by numbers of units with a split of 60% social rented and 40% intermediate tenures. This represents 694 units from a total of 3,475 units across the site, of which 416 are social rented and 278 are of intermediate tenure.
- 6.1.4 RPS state in their Housing Strategy Report dated 8th October 2008 (para 2.6) that the application proposals meet the requirements of PPS1. They also highlight elsewhere in the report (paras 2.18 and 2.23) however that the London Plan has a target of 50% and a split of 70%/30% between social rented and intermediate tenures.
- 6.1.5 Although we have not been instructed to review the social/intermediate split, we would note that at present we are seeing a shift towards 100% social rented accommodation being provided reflecting the non-availability of finance for prospective purchasers. Over the twenty year period of the project, we would expect the intermediate tenures to return but it is difficult to assess the detail of this at this stage.

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- 6.1.6 RPS also note (para 2.27) that the Ealing UDP will also "have regard to the economics of provision" and notes the need to consider other planning objectives.
- 6.1.7 RPS have stated that the assumed Grant funding for the affordable housing element is based on actual allocations for the London Borough of Ealing from the previous round bid at:
- £122,816 per unit – social rented
 - £30,417 – intermediate tenure.
- This results in a total assumed grant of c.£59.5m.
- 6.1.8 We understand from LB of Ealing that these assumed grant levels are acceptable in today's terms.
- 6.1.9 According to RPS' Toolkit, an average unit size of 75m² has been adopted. At the average unit size suggested, the total residential area amounts to c.260,000m² net. The Design & Access Statement states that up to 320,000m² gross of residential floorspace is to be built representing between 3,400 and 3,750 units. This is quite a wide range and could have a major influence of viability.
- 6.1.10 As is the case with changes to market values noted in 5.1.32 below, changes to the market housing mix could lead to a greater ability to fund affordable housing.
- 6.1.11 It is expected that there will be some movement around the total number of residential units ultimately provided given the scale of the project, the long timescale involved and the inevitable market changes that will occur over the period. However, the market housing mix is critical to the assessment of values and therefore the ability of the development to provide affordable housing in accordance with policy and needs.

Land Assembly

- 6.1.12 National Grid are the major landowner within the development site but there are a number of other land parcels and properties to be acquired along with the need to acquire relevant rights over other land. DTZ's financial model includes allowances to assemble land outside the ownership of National Grid and have been provided with some information on how these allowances have been arrived at. For the purposes of this assessment, we have relied upon the information supplied.
- 6.1.13 Of the land outside National Grid's ownership, key to the scheme will be (1) the residential units and (2) the deal with Network Rail necessary to provide the eastern access and (3) the land to the west to provide the Hayes Bypass link in the ownership of LB of Hillingdon. We are advised by the applicant's team that Network Rail have indicated they will only enter in dialogue after receipt of planning consent and that there is no agreement in place with LB of Hillingdon. It is important to recognise that acquiring these interests are vital to the implementation of the scheme.
- 6.1.14 Though such agreement may ultimately be concluded, very significant time delays (and costs) could be incurred that impact upon the ability to deliver other areas of the development scheme. This would particularly be the case if the statutory acquisition process is necessary.
- 6.1.15 RPS notes that the financial assessment provides no allowance for a return to the landowner applicant (National Grid) "which would be commercially unacceptable" and

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"scheme-wide viability is at best marginal". It therefore seems unlikely that a prudent developer would implement the scheme without further detailed design development, appraisal and value engineering work in order to enhance profitability and mitigate development risks in the normal manner.

Construction costs

- 6.1.16 We have reviewed Cyril Sweett's construction budget report. A summary review of build costs is attached in Appendix 1.
- 6.1.17 Cyril Sweett's costs are current at 1Q2008 and exclude any allowances for deflation/inflation up to start on site and during the construction periods. This is consistent with DTZ's financial appraisal approach.
- 6.1.18 We have reviewed Sweett's cost report and conclude that to the extent that it was intended to be high-level, it captures the broad range of costs but does not provide a detailed cost budget on a building by building basis that can be used for value engineering purposes. Where there are cost risks, these should be identified and a risk reduction strategy put in place in the normal manner.
- 6.1.19 This high level approach inevitably leaves wide scope for specialist developers to target improvements to save costs and drive values and therefore should be treated accordingly.
- 6.1.20 We understand that the proposals include works requiring an agreement with Network Rail eg the new Crossrail station. Dependent on timing, there are clearly potential cost savings benefits to be secured by relevant parties working together. This will also be an issue in mitigating disruption in the area.
- 6.1.21 The applicant has prepared a Remediation Strategy Report as part of its submission which has been reviewed. In general terms, the budget costs included in Cyril Sweett's report (and based on White Young Green's inputs) indicate a cost of [REDACTED]. Our view is that this is within the range we would expect to see, though at the lower end but we have assumed this reflects National Grid's greater familiarity with this particular site based on their own usage.
- 6.1.22 No allowance has been made for the potential to claim Land Remediation Relief for these remediation works. The relief is offered against 150% of the costs as is designed to act as an incentive to developers to remediate brownfield sites.
- 6.1.23 Cyril Sweett have assumed a medium quality build for the residential accommodation and Code 3 Sustainable Homes specification. Specialist residential builders would target improvements to the costs of delivering this as part of the design development process.
- 6.1.24 By way of example, in isolation from any other changes, we have considered what impact a 2% improvement to gross/net efficiencies on the residential stock could have and this would suggest some [REDACTED] extra of value would be available. This could fund a notable improvement in the affordable housing provision.
- 6.1.25 The building type and design efficiencies will determine the quantity of space to be constructed and sold. Any developer's design team will target this to drive profitability and this would have a direct impact on the ability to fund affordable housing.
- 6.1.26 In our review of Sweett's costings, it is apparent that the build cost rates adopted fall

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both below and above our own. Sweett's average cost of affordable residential provision and retail provision based on broad types is:-

Type	Cost (£m2)	DVS cost range (£m2)
Social housing (houses & flats)		
Retail		
Primary school		
Pre-school		
Health centre		

6.1.27

6.1.28 Car parking provision across the site is split between some 1,170 spaces in a multi-storey facility for shoppers and some 1,124 spaces for residents. Residents spaces are provided via a range of courtyard surface spaces (35), semi-basement (653) and basement (436). It seems surprising given the large land take of the scheme (c.45ha) that any semi-basement parking is included, let alone basement. The costs of creating these types is substantially higher than for surface spaces eg basement spaces at £30,000 each, semi-basement at £17,400 each versus surface spaces at £923 each. In total, these types of spaces cost the development some £24.4m and we consider that it should be possible to make major savings through a different approach.

6.1.29 We are advised that this car parking design reflects the current position of discussions between the stakeholders but we would strongly advise that in view of the cost implications, further consideration is given to this matter to explore what cost savings might be achieved.

6.1.30 The construction costs have a general 5% contingency on all costs as well as contingency sums of to 20% against a number of items in the cost build up. We understand that this reflects the particular extra risks carried by these cost items.

Development phasing

6.1.31 The phasing of the development is unclear beyond a general overview. DTZ have supplied a phasing plan which though broadly according with Sweett's cost report, does vary and in fact highlights some 8 changes in programme that occurred in a 6 month period at the end of 2007. Programme can significantly impact on financial performance and we consider that further detailed review between the stakeholders should occur to identify the scope for improvements.

6.1.32 We have not been able to reconcile the phasing plan from Sweett's report with the development phasing within DTZ's financial model. If the financial model is to be meaningful, it is important that it marries up with a development programme and phasing drawing to enable the planning authority to understand how the development is to be implemented, what housing and housing types are to be provided and when and ensure that critical placemaking development such as the new retail offer/waterside leisure are provided at the time and in the manner expected. Failure to do this could result in a cherry-picking approach to development that suppresses the

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potential of the development to both create a good quality environment and maximise the potential to meet affordable housing targets.

- 6.1.33 We have assumed that the planning authorities will ensure that there is an agreed phasing programme that the developer implements.

Residential sales values

- 6.1.34 Savills have undertaken a review of the residential potential for the scheme. Based on their work, they state that comparable locations have seen residential values of up to £440psf (£4,736m²). The applicant has however adopted an overall rate of [REDACTED] in their appraisal though Savills note that the scheme will have the ability to set its own new market levels.
- 6.1.35 Two of the schemes referred to by Savills are the Great West Quarter (Barratts) and High Point Village (Ballymore). We would note that these are much different in scale and neither form such a significant regeneration project as is proposed in West Southall. We believe that this constrains the usefulness of these in considering the potential of the West Southall project.
- 6.1.36 Savills research contained within the Design & Access Statement seems to indicate a detailed understanding of the potential demand for residential types, unit sizes and environment, so we would expect to see a detailed market housing mix for this scheme and a more detailed evaluation of the potential to fund affordable housing and to satisfy planning policy on how the scheme creates a balanced community.
- 6.1.37 The supply of units into the market over a twenty year period will be carefully considered and should aim to ensure that premium values can be generated through the quality of the environment on offer and type and arrangement of residential product that is supplied.
- 6.1.38 We consider that it is not possible to provide any certainty of the anticipated sales values over the 20 year lifetime of this scheme.
- 6.1.39 It should also be noted that the appraisal is very sensitive to small changes in the sales values adopted. By way of example, in isolation from any other changes, we have explored what impact a single 1% improvement in total net returns could mean over the development period. This suggests that at least another [REDACTED] of value might be available to assist in supplying the affordable housing provision.

DTZ financial model

- 6.1.40 DTZ's financial model indicates a Developer's Profit on Cost of c.16.75% based on the provision of 20% affordable housing content.
- 6.1.41 The profit level is broadly comparable with what we would expect to see for a project of the scale and complexity.
- 6.1.42 We note that DTZ have used a 7% finance rate in their model. We have examined the finance costs to the scheme and would like DTZ to clarify how their model works in this regard to ensure that the calculations and cost of finance are correct.
- 6.1.43 Although the scheme includes c.200,000m² of retail plus leisure and other uses and are key to the quality and success of the scheme as a whole, the principal driver of value is the residential element.

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- 6.1.44 A sum of £22.13m has been allowed in the appraisal to meet planning obligations under s.106 requirements. We understand that this is still a matter of discussion between the applicant and the planning authorities, but have assumed that it is broadly fixed. Clearly, any major change to this will impact on the financial performance of the scheme and its ability to fund affordable housing.
- 6.1.45 No allowance appears to have been made for any net income from the multi-storey car park (MSCP) that we would expect to be charged for shoppers. Even if this is subject to a tariff regime, we would still expect this to generate some positive income back into the development. The applicant has indicated in discussion that there may be some limited amount of net income to be derived from the parking, but we would expect better returns to be targeted given the construction costs involved in their provision and the need of the scheme to generate improved returns.
- 6.1.46 DTZ's financial model uses high level cost and value inputs as we have noted above and which they apply to the areas generated from more MAKE's Masterplan and other plans. This approach can therefore only generate an high level assessment of the financial performance of the proposed scheme as a "snapshot in time", rather than the more detailed assessment that would be considered appropriate to the needs of the planning authorities to assess affordable housing potential.
- 6.1.47 It is not possible to predict with any certainty the levels of costs and sales values over the 20 year programme of this project.
- 6.1.48 The table below emphasises the sensitivity of the development appraisal to small changes in just two of the many key variables. Though adopting a simplistic approach in looking at just the impact on developer's profit return, we regard it as helpful in reflecting both the potential and the risks to the project.

		Residential sales values (£psf)									
Residential building efficiency											
	81%										
	82%										
	83%										

Nb/ Output measured as Profit on Cost (£m and %) and all based on existing 20% affordable housing provision.

- 6.1.49 DTZ's model while therefore suitable to a developer to give a "snapshot in time", does not provide an adequate basis to assess the potential of the scheme to fund affordable housing over the 20 year development period.

7.0 Conclusions

