

Date: 15 October 2013

BPS FINANCIAL VIABILITY INDEPENDENT REVIEW
JOINT BOROUGH INSTRUCTIONS (DRAFT)

Summary List of Instruction Topics:

Benchmark Site value
Enabling costs and development costs
Review and comment on the reasonableness of the DVS conclusions
Sales Values
Growth model rates
Review mechanisms

Request for updated quote, based on this instruction

1. DOCUMENTS PROVIDED TO BPS FOR REVIEW

1.1 The applicant has submitted a suite of documents prepared by Gerald Eve including:

- 1) Position Note One: Introduction, Background, Phasing and Enabling Costs (dated November 2012, covering letter dated 7 February 2013)
- 2) Position Note Two: Phase Two Enabling costs (dated December 2012, covering letter dated 7 February 2013)
- 3) Position Note Three: Site Value (dated February 2013, covering letter dated 19 February 2013)
- 4) Position Note Four: Inputs, Results and Conclusions (dated March 2013, covering letter dated 25 March 2013)
- 5) Supplemental information : 'Further cost and updated information' dated June 2013, covering letter dated 14 June 2013
- 6) Supplemental Information: 'Additional modelling scenarios' provided through DVS by email 3rd October
- 7) Letter from DP9 providing the official Affordable Housing Offer for Mount Pleasant dated 15 October 2013 (attached with this instruction note).

1.2 Information that we are waiting to receive from Gerald Eve / the applicant and will forward on receipt:

- 1) BNP Paribas Existing Use Valuation of the Site;
- 2) Confirmation regarding the developable areas of the Site; and
- 3) Sale and Leaseback 'Alternative Use Valuation' prepared by Gerald Eve.

1.3 Additionally, we are waiting to receive:

The updated independent financial viability review of the Gerald Eve Financial Viability Assessment, which we will forward to you, including any appendices on receipt.

2. INTRODUCTION

- 2.1 In February 2012, Camden and Islington adopted the Mount Pleasant Supplementary Planning Document ("SPD") in which both authorities committed to a joint approach, whereby as a principle, the comprehensive development of Mount Pleasant site across the two Boroughs would be considered as a whole, with costs, benefits and viability assessed accordingly.
- 2.2 Islington and Camden Councils are considering planning applications submitted by DP9 (Planning Consultants) on behalf of the Royal Mail Group (applicant), for the redevelopment of the wider site which is 4.8 hectares in size overall and contains:

Within Islington (2.21 hectares): the Royal Mail building and associated delivery vehicle parking and servicing area directly to its north (which is bounded by Mount Pleasant, Farringdon Road, Calthorpe Street and Phoenix Place) which is 2.21 hectares in size. The estimate of the deliverable / developable area (for EUV purposes, is considered to be less than this, excluding the acoustic roof area of the service yard to be enclosed as part of the 'enabling works'. The estimate therefore of the developable area is 1.79ha, to be confirmed with the applicant.

Within Camden: that part of the site measures 1.04 hectares and is bounded by Phoenix Place, Mount Pleasant, Gough Street and Calthorpe Street, providing staff car parking and including limited B1 buildings (though excluding the multi storey Museum building originally included within the Gerald Eve Position Notes.

Note: We are waiting for a response to a query about the developable site area from the applicant and will provide confirmation of site area in due course.

- 2.3 The agreed approach is for a single financial viability statement to be undertaken that considers the financial viability of the whole development (refer paragraph 4.3.40 of the adopted SPD) with costs, benefits and viability considered across the two applications.
- 2.4 Given the significant level changes across the sites (and the operational requirements of the Royal Mail facility), enabling works to cap / deck over the retained (and remodelled) loading and service yards are required to practicably enable the Islington part of the site to come forward for redevelopment. This must be acoustically robust, ventilated and engineer designed to support the significant distance it needs to span.
- 2.5 The proposals would effectively cap over the entire Islington site to support development above ground, with service vehicle basement levels extending significantly beneath the proposed redevelopment to the north. The ground level loading bays would lie above this basement level, and would also be capped
- 2.6 Further to this, Royal Mail have been consolidating their other sites (Rathbone Place Delivery Office and East London Mail Centre) and bringing those services into the existing Royal Mail building which is currently being refurbished to appropriately accommodate the additional demands. It is the view of both authorities that no external façade works to the Royal Mail building should be included in the enabling costs put forward by the applicant's viability consultants. The applicant has been advised of the need to justify any works purporting to provide acoustic or light attenuation with supporting evidence, and we are not aware of any such justification, or evidence having been provided. We are also not aware of a measurable benefit that may arise, for example to sales values of units within the scheme, of aesthetically improved facades, and if this was the case, where the line would be between benefit to the value of the Sorting Office building and alternatively to the sales values of units within the schemes.

3. PROPOSAL:

- 3.1 The proposed development can be described as: Islington (refs: P2013/1423/FUL & P2013/1425/CAC):

Comprehensive redevelopment of the site following the demolition of existing buildings and structures to construct six new buildings ranging from 3 to 12 storeys in height to provide 38,015sqm (GIA) of residential floorspace (336 dwellings) (Class C3), 4,260sqm (GIA) of office floorspace (Class B1), 1,428sqm (GIA) of flexible retail and community floorspace, (Classes A1, A2, A3, D1 and D2) with associated energy centre, waste and storage areas, vehicle (65 spaces) and cycle parking (523 spaces), hard and soft landscaping to provide public (approx 5,124sqm) and private areas open space, alterations to the public highway and construction of a new dedicated vehicle ramp to basement level to service Royal Mail operations, construction of an acoustic roof deck over the existing service yard (encloses 14,150sqm at basement and ground floor levels) and all other necessary excavation and enabling works. The Camden and Islington applications are accompanied by an Environmental Statement.

The proposed redevelopment will be considered in the context of the proposals on the adjacent site, located on the west side of Phoenix Place (within the London Borough of Camden).

3.2 Camden ref: 2013/3807/P

Comprehensive redevelopment, following the demolition of existing buildings, to construct four new buildings ranging from 5 to 15 storeys (above basement level) in height, to provide 38,724sqm (GIA) of residential floorspace (345 dwellings) (Class C3), 823sqm (GIA) of flexible retail and community floorspace (Use Classes A1, A2, A3, D1 or D2), with associated energy centre, waste and storage areas, basement level residential car parking (54 spaces), the re-provision of Royal Mail staff car parking (approx 196 spaces) cycle parking, residential cycle parking (431 residential spaces) hard and soft landscaping to provide public and private areas of open space, alterations to the public highway and all other necessary excavation and enabling works.

4. PLANNING AND SITE HISTORY

- 4.1 Islington and Camden Councils adopted a Supplementary Planning Document setting out the agreed principles for this site in March 2012. I attach that document for your information. The more recent designation of the site within the Camden Site Allocations DPD is also attached (September 2013).

5. KEY PLANNING POLICY ISSUES

5.1 Islington Policies:

- 5.1.1 Affordable Housing: Policies within the London Plan (2011) in relation to the delivery of affordable housing are relevant.

- 5.1.2 In addition, the Islington Core Strategy 2011 states under policy CS12 that the borough will:

"Provide affordable housing by: Seeking the maximum reasonable amount of affordable housing, especially social rented housing, ... taking account of the overall borough wide strategic target. It is expected that many sites will deliver at least 50% of units as affordable, subject to a financial viability assessment, the availability of public subsidy and individual circumstances on the site."

Note: Counsel opinion on application of AH policy. 50% is a reasonable starting point for application of a 'policy compliant scheme'.

- 5.1.3 Policy CS12 also requires an affordable housing tenure split of 70% social rented and 30% intermediate.

5.2 Camden Policies:

5.2.1 Core Strategy policy CS6 – Providing quality homes

- f. seeking to ensure that 50% of the borough-wide target for additional self-contained homes is provided as affordable housing;
- g. seeking to negotiate a contribution from specific proposals on the basis of:
 - the maximum reasonable amount of affordable housing under the specific circumstances of the site, including the financial viability of the development,
 - an affordable housing target of 50% of the total addition to housing floorspace,
 - guidelines of 60% social rented housing and 40% intermediate affordable housing.

6. REASONS FOR THIS FINANCIAL VIABILITY APPRAISAL

Benchmark

- 6.1 The Local Planning Authorities have concerns regarding the interpretation and application (or lack of) of their affordable housing planning policies. This is in relation to a number of planning applications that

have recently been submitted. Significant differences of opinion has existed between applicants (and their financial viability consultants) and the LPA and therefore a Counsel opinion (Neil Cameron QC) was sought in relation to this.

- 6.2 I attach the Counsel opinion to this instruction for your information. In summary, it confirms that the strategic target of 50% is relevant when determining the maximum reasonable amount of affordable housing to be provided on a site by site basis, and when determining site value, particularly on larger sites such as this one (refer to paragraph 23 for Counsel summary).
- 6.3 The Counsel opinion goes on to comment that (paragraph 24) *'the main issue in dispute appears to be the approach taken to 'benchmark' of threshold land value'*.
- 6.4 The Counsel opinion goes on to consider the various policy and supporting documents in existence around arriving at a benchmark land value. Of particular note is paragraph 34 that refers to the RICS *'Site Value as being market value subject to a specified assumption. The assumption which is to be made when assessing value is that any development will be policy compliant.'*
- 6.5 The LPAs have significant concerns that their affordable housing policies are not being properly taken into account when determining site value as defined by the RICS. If 50% affordable housing provision is not found viable (lower than the current use value) then the policy is abandoned and significant weight is given to market transactions, which do not relate to policy compliant development proposals (i.e. Maximum reasonable amount of affordable housing).
- 6.6 The two LPAs would like to draw your attention to concerns they have with the 'comparable' market transactions put forward by Gerald Eve and the lack of clear comparison that can be drawn between those sites / developments and this one. This is because of the differences in planning policy (levels of affordable housing different authority's policies sought to secure), s106 and CIL changes since those comparable sites were sold (that document is appended to this letter – with the letter dated 31 May 2013).
- 6.7 In accordance with Counsel Opinion, the LPAs request an assessment of the benchmark / site value using the existing use plus a premium methodology. A justification should be provided for the approach taken with reference to a suitable premium having regard to the circumstances of the site.
- 6.8 For completeness the Council also attaches a Counsel opinion provided by the applicant (Russell Harris QC) that addresses the Islington affordable housing policies.
- 6.9 The adopted Mount Pleasant SPD states at paragraph 4.3.44:

"There may be certain abnormal or exceptional costs associated with comprehensive redevelopment which need to be determined and agreed as part of viability assessments. Costs relating to the wider business operations at the existing Royal Mail sorting office at Mount Pleasant will not be considered as development costs in relation to the new development on the remainder of the site"
- 6.10 Moving on from this we will require viability advice on the maximum reasonable affordable housing that the site can afford to deliver.
- 6.11 At present it is Camden and Islington's preference for affordable housing to come forward as social rented and intermediate tenure accommodation. The affordable housing modelling with Gerald Eve's submission document should reflect that requirement.
- 6.12 The scheme will be liable for Crossrail and the Mayor's Community Infrastructure Levy and these costs will need to be factored into appraisals.
- 6.13 Islington and Camden planning obligations will need to be applied to the proposals (each borough will advise you of the amounts respectively).

- 6.14 It is not considered likely that Islington's Community Infrastructure Levy will be adopted during the processing of this application. Islington's CIL is considered likely to be adopted in April 2014, however estimates can be provided for a sensitivity analysis.
- 6.15 Camden is behind Islington in CIL development timescales and therefore it is currently considered unlikely this will need to be factored into proposals.

7. REQUIREMENTS

7.1 LBI /LBC requires BPS consultant/appraiser to:

- a) **appoint an officer** to attend meetings with LBI /LBC officers and representatives of the applicant as required by 'the Councils', and attend the required viability meetings with the applicant and their consultants;
- b) **Verify and test the methodology, assumptions, financial calculations and findings within the 'Financial Viability Assessment' prepared by Gerald Eve** to advise if the proposed development:
 - i. reasonably maximises the level of affordable housing possible across the whole site;
 - ii. can support the Section 106 and Crossrail contributions as well as CIL charges as appropriate (amounts to be advised by LBI officers);
 - iii. advise on phasing proposals and potential impacts on viability;
 - iv. can remain viable in the light of other requirements of LBI / LBC the development
 - v. identify other issues that may affect viability.

- c) **Review the DVS report, conclusions and** appendices to help inform the review of the applicant's FVA and comment on whether the proposal reasonably maximises the amount of affordable housing that the scheme delivers in the context of the 50% strategic target sitting within the borough policies.

- d) **Benchmark**

We request that BPS assess the benchmark:

- assessing and commenting on the relative merits of the range of alternative site value methodologies, including EUV plus a premium approach; and
- to provide a view on the appropriateness of the sale & leaseback approach put forward by the applicant, including commentary on the appropriateness of apportioning value to certain parts of the site.

- e) **Review the DVS conclusions on costs (reasonableness)**

The proposals require significant engineering works to deck over retained service vehicle yards and acoustically treat them to enable / safeguard redevelopment opportunity to the north of that building. Additionally the service yards must be kept operational 24/7 during construction as the Royal Mail operations cannot be disrupted.

The LPAs would like BPS to review the construction costs and enabling costs that have been concluded upon in the DVS report. As the costs represent a significant proportion of the development costs, this is an important area for consideration, however given the timescales involved, we ask that the review be limited to the conclusions within the DVS report and the QS summaries from DVS.

For your information, the previous instruction to DVS stated:

"Viability advice is needed with respect of how much of those 'enabling' works can be disregarded in the costs associated with the redevelopment. This is partly due to the wider business rationalisation that the Royal Mail Group are going through. This has the potential to have very significant viability implications for the proposals and we require advice on these aspects of the proposals which would require early engagement in the pre-application process to ensure the appointed consultant team understand the background and wider issues at play."

f) Sales Values

Please review– noting that a development of this size and in this location may generate its own market value and also having regard to the mid-way location between Farringdon- Crossrail and Kings Cross St Pancras. Also-car parking spaces 0.19 & 0.15 per unit (Islington & Camden respectively). Please undertake a comparison between sales values estimated for the Camden and Islington parts of the scheme. Also – review comparative sales values within Camden.

g) Growth Model

The applicant is pursuing a growth (outturn) model. The LPAs request that the predictions put forward by the applicant be robustly reviewed. There are concerns that the level of growth is lower than what is likely given the unique 'regeneration effect' of this particular site; and its proximity mid-way between Crossrail and Kings Cross St Pancras. Please comment on the appropriateness of applying a review mechanism given the phased nature of the development and also advise on the structure / content of that wording.

The applicant has assumed a 100 unit per year delivery / sales. Please advise on necessity of tying together phases to reflect that, and at what point between permission and implementation, or between phases, a time delay review of FV information should be undertaken.

h) Rights of Light

Comment on the amount quoted would be useful subject to the (to be agreed) timescales.

7.2 Interim and final reports

The borough's request that interim reports be prepared addressing the above matters based on both the applicant's viability information and also the DVS conclusions. A meeting shall be attended after the receipt of the interim report to discuss findings and a final report will be completed addressing any final issues raised on the meeting.

7.3 Commissioning and Fees:

The consultant at BPS will be commissioned by LBI /LBC. The consultant's fee will be invoiced with the final report, or as otherwise agreed in writing by LBI /LBC.

Please can BPS provide an updated quote for carrying out the assessment as per this brief, within the timeframes set out below (to be agreed).

8. STIPULATIONS

8.1 BPS must confirm that it has no other interests in relation to the 'Site' or has any prejudicial interests with persons with interests in the Site or the applicant/agent for this pre-application submission.

8.2 BPS must confirm that it will solely represent the Islington and Camden Councils in relation to the Site and any subsequent planning applications. This could include working for or representing the Councils in relation to any future planning appeals or subsequent applications at the Site.

9. REQUIRED TIMESCALE FOR BPS WORK

9.1 In order to enable a Planning Committee meeting date of 19 December 2013 to remain achievable, the following timetable is critical:

Receive information 16 October;

Provide updated quote for carrying out this assessment

Meeting with officer's from the two boroughs 17 or 18 October 2013;

Interim report due Monday 4 November;

Meeting with Council Officers if necessary (Wednesday 6th November);

Final report due Friday 8th November; and

Other times to be advised by LBI / LBC.

Appendices:

1. Mount Pleasant SPD (2012)
2. Counsel Opinion re: affordable housing policies instructed by Islington Council (Neil Cameron)
3. Counsel Opinion re: affordable housing policies instructed by the applicant (Russell Harris)
4. Letter dated 31 May 2013 sent by the Council's (jointly) to Gerald Eve, including its attachments which includes the site comparables tables and commentary.