



FINANCIAL VIABILITY ASSESSMENT

HWK-DOC-INF-VIA-02

Update Report March 2017

HACKNEY WICK CENTRAL
OUTLINE PLANNING APPLICATION

 **Hackney**

LEGACY
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Hackney Wick Central Outline Planning Application Financial Viability Assessment

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1. Purpose of the Report

1.1 This report provides an update on the work undertaken following the submission of the planning application and original Financial Viability Assessment in April 2016, which proposed a minimum of 0% affordable housing, subject to review at Reserved Matters Approval (RMA) stage for individual plots.

1.2 The advice in this report must only be regarded as an indication of potential value, and does not represent a formal valuation.

2. Background

2.1 The Outline Application seeks permission for a range of quantum of residential and commercial land uses to be delivered within clear development parameters, and includes an Illustrative Masterplan, which sets out one way in which these parameters could be implemented. The purpose of the Financial Viability Assessment (“FVA”) is to assess the financial viability of the Illustrative Masterplan alongside the maximum parameters of the proposed development required to enable a comprehensive yet financially viable master plan to be realised.

2.2 It should be noted that the financial assumptions are based on the maximum parameter plans within the Outline Application. Subsequent RMAs for individual plots, which may propose alternative scheme designs, will need to be reflected in the viability assessment at RMA stage for individual plots.

2.3 The original FVA submitted with the outline planning application proposed a minimum of 0% affordable housing, with the priority for the Scheme being the re-provision of affordable workspace. Following discussions with the Planning Policy and Decisions Team (PPDT) case officer and GLA, the viability assumptions have been reviewed and a revised minimum provision of 20% affordable housing is proposed (based on habitable rooms), in accordance with advice provided by PPDT’s viability consultants. The minimum affordable housing threshold is applicable to each plot.

3. Methodology

3.1 The approach to planning viability for this project remains rooted in the fact that this is an outline planning application and provides a suitable framework for the re-assessment of viability at Reserved Matters Stage (“RMS”) as individual development plots are brought forward, subject to the minimum affordable housing threshold of 20% being achieved.

3.2 The FVA at RMS will be based upon the RMA proposals, reflecting land values, construction costs, residential and commercial revenues and other market based

assumptions prevailing at that time. The FVA for the outline application is based on current market values and costs (as at the time of the planning submission).

- 3.3 The valuation methodology to assess the benchmark land value continues to adopt the higher of the Existing Use Value (“EUUV”) or Alternative Use Value (“AUV”) where there is an existing planning consent for redevelopment, with the aggregate value of each plot being applied to establish a site wide land value.
- 3.4 Following PPDT’s feedback on the original FVA and the proposed level of affordable housing (at 0%) a review of the market evidence has been carried out in order to reach agreement on a viable level of affordable housing.
- 3.5 The outcome of the review has also been sense-checked against planning permissions that have already been granted within the masterplan area, including the levels of affordable housing.
- 3.6 Adjustments have also been made to the unit mix, tenure mix, and affordability criteria for the affordable housing tenures in order to improve viability and optimise affordable housing provision. As such these assumptions must be reflected in the planning permission.

4. Financial Appraisal Inputs

Development Proposal

- 4.1 The development proposals remain as set out in the original FVA. However, in response to concerns about the height of some tall buildings within the Masterplan, there has been a targeted reduction in height on plot EF and K. Whilst this does not change the floorspace applied for (and fully assessed by the Environmental Statement), for the purposes of robustness a reduction in residential floorspace has been applied for as part of this updated FVA. Furthermore the unit mix has changed with a greater proportion of 1 and 2 bedroom units, and lower proportion of 3 bed units. The revised proposals are summarised in the following tables:

Summary of Masterplan Floor Areas by Use Class			
Use	Use Class	Proposed GIA m2	% of Total Scheme
Retail / Food and Beverage	A	4,493	4%
Employment (offices)	B1a	19,053	16.5%
Employment (light Industrial)	B1c	2,948	2.5%
Employment (studios)	B1c Low Cost	8,439	7%
Leisure / Cultural	D	2,318	2%
Residential (c.900 units)	C	77,519	68%
Total		114,770	100%

Unit Mix Summary		
Unit size	April 2016 application	Current proposal
1 bedroom	37%	40%
2 bedroom	43%	48%
3 bedroom	20%	12%
Total	100%	100%

- 4.2 Within the current proposals it is assumed that 5% of the private units would be 3 bedroom units, and the affordable units would be split 50% 2 bedroom and 50% 3 bedroom units.

Market Information

Private Residential Market

- 4.3 As stated in the original FVA, residential sales values have been assessed taking into account new build comparable evidence, alongside re-sales from modern developments within the vicinity of the proposed scheme. In light of discussions with PPDT's viability consultants the evidence has been reviewed and an uplift in average sales values from £603/sqft to £628/sqft has been agreed.
- 4.4 A further uplift of £6/sqft has been applied to reflect the lower proportion of private 3 bedroom units as proposed in section 4.1, resulting in an overall blended sales value of £634/sqft.
- 4.5 Based on this revised blended £/sqft sales value, average unit prices are shown in the following table together with the unit price uplift in comparison to the original FVA:

Unit	£/sqft	size sqft	Price	Uplift
1b	£633	592	£375,000	£20,000
2b	£640	743	£475,000	£20,000
3b	£594	926	£550,000	£15,000

Commercial Market

- 4.6 The assumptions remain the same as the original FVA with estimated rental values between £8-£20/sqft, and All Risks Yields of between 7% to 9%.

Affordable Housing

- 4.7 The original viability assessment reflected the split of capped and discounted rents as per the GLA 2015-18 programme. The current assessment applies Local Housing Allowance figures, increasing the average rents by approximately £70 per week.

4.8 Furthermore the tenure mix assumption has been adjusted from a 60/40 split between rented and intermediate tenures to a 40/60 split.

4.9 The net impact of these changes has increased the blended £/sqft value of the affordable housing from £269/sqft to £334/sqft.

Benchmark Land Value

4.10 The site currently consists of a number of disparate ownerships and so, due to the complexities of bringing the proposed masterplan forward, it has been assumed any hypothetical market developer would bring forward the masterplan scheme as a single development.

4.11 The valuation methodology adopts the higher of the EUV or AUV for each identifiable land interest. The aggregate value of each plot has then been taken to determine an appropriate site-wide value.

4.12 Following further discussions with PPDT’s viability consultants, the site-wide land value has been reduced by £3m to £50m, which equates to £4.9m/acre (reduced from £5.1m/acre).

Other financial inputs

4.13 Other financial inputs that have been agreed with PPDT’s viability consultants are summarised in the following table:

Item	
Residential affordable values	Average value increased to £334/sqft
Ground rents	£400 per unit capitalised at 4.5%
Car parking	No value
Construction costs (excl contingency, demolition and external works)	£220m(c.£1,900/m ²) blended rate
Demolition	£10.5m
External Works	£24.5m
Development cost contingency	5%
S.106	£2.6m
CIL	£5.1m
Professional fees	10%
Finance	6%
Developers’ return	19.5% profit on cost for private residential, 6% on GDV for the affordable residential and low cost employment space
Residential sales costs	1.5%
Private residential legal costs	1.5%
Private residential marketing costs	1%
Commercial sales costs	2%
Commercial letting costs	15% of rental income

5. Conclusion

- 5.1 Based on the financial inputs highlighted in the report a minimum affordable housing threshold of 20% of habitable rooms is proposed for the Outline Application site, in accordance with the advice from PPDT's viability consultants.
- 5.2 This minimum affordable housing threshold will apply to each individual plot. All the financial assumptions underpinning the viability assessments submitted with the RMA for each plot will be reviewed to reflect development proposals and market assumptions prevailing at the time the applications are submitted, whilst maintaining the minimum affordable housing threshold of 20%.