EcoWorld London
Creating Tomorrow & Beyond

Poplar HARCA

Financial Viability Assessment

ABERFELDY VILLAGE MASTERPLAN

DS1558

DS2

ABERFELDY NEW MASTERPLAN, LONDON, E14

FINANCIAL VIABILITY ASSESSMENT

Prepared by DS2 LLP
100 Pall Mall, SW1Y 5NQ
Tel: 0207 004 1765
www.ds2.co.uk

On behalf of Aberfeldy New Village LLP

October 2021

RICS

CONTENTS

APPENDICES

EXECUTIVE SUMMARY

This Financial Viability Assessment ("FVA") has been prepared by DS2 LLP and is submitted in support of a hybrid planning application for the Aberfeldy Village Masterplan. The hybrid planning application is made in relation to the land to the north of East India Dock Road (A13), east of the Blackwall Tunnel Northern Approach Road (A12) and to the south west of Abbot Road (the "Site") on behalf of The Aberfeldy New Village LLP (the "Applicant"), which consists of a joint venture between EcoWorld International and Popla Harca. The determining planning authority is the London Borough of Tower Hamlets ("LBTH").

This FVA follows the submission of a draft FVA ("Draft FVA") in October 2020 as part of the pre-application process promoted as best practice by the LBTH Development Viability SPD. The Draft FVA was submitted and subsequently assessed by LBTH's independent viability assessor, BNP Paribas Real Estate ("BNPPRE"). Following extensive discussions, the vast majority of individual appraisal inputs in this FVA are those that have been agreed between BNPPRE and DS2 on a without prejudice basis, including the major components of the Benchmark Land Value.

The hybrid planning application is formed of detailed development proposals in respect of Phase A for which no matters are reserved ("Detailed Proposals"), and outline development proposals for the remainder of the Site, with all matters reserved ("Outline Proposals"). The Detailed Proposals and Outline Proposals together are referred to as the "Proposed Development".

The FVA has been collated in accordance with National Planning Policy Framework, 2021 as revised ("NPPF"), National Planning Practice Guidance, (which was last updated in 2019 in respect of viability) ("NPPG"), the Homes for Londoners: Affordable Housing and Viability Supplementary Planning Guidance, 2017 ("Affordable Housing and Viability SPG"), LBTH's Development Viability Supplementary Planning Document, 2017 ("Development Viability SPD") as well as professional best practice guidance, including the RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting' (1st Edition, adopted September 2019) and the RICS Guidance Note 'Assessing Viability in Planning under the National Planning Policy Framework 2019 for England' (1st Edition, adopted July 2021).

Site Location and Description

The Site is located in Poplar, East London, around one mile away from Canary Wharf. The Site is bounded on all three sides, located to the north of East India Dock Road (A13), east of the Blackwall Tunnel Northern Approach Road (A12) and to the south west of Abbot Road.

East India DLR station is located within walking distance to the south of the Site, with Canning Town Underground and DLR station located within walking distance to the east of the Site.

The Site is included within the Poplar Riverside Housing Zone and the GLA have identified this area as having potential to unlock and accelerate housing delivery in London. The Housing Zone is identified as an area encouraged to provide housing and improved connectivity.

The Site is 8.14 hectares (approx. 20 acres) in total and contains 330 existing residential properties of which 252 are tenanted properties let at social rent levels with the remaining 78 leaseholder properties. The floorspace of the existing 252 social rent homes equates to 194,956 sq ft (NIA). The Site also contains commercial premises comprising a number of ground floor retail and community use units.

The majority of the Site is occupied by a series of linear, 3 and 4 storey housing blocks, a single storey neighbourhood centre, a parade of ground floor retail units, church, public open space and recently constructed affordable workspace.

Proposed Development

The Proposed Development consists of a hybrid application which seeks a detailed first phase and flexibility on future phases. The Detailed Proposals relate to Phase A of the Proposed Development and the Outline Proposals relate to Phases B, C and D.

The Description of Development for the Proposed Development is shown below:

Hybrid application seeking detailed planning permission for Phase A and outline planning permission for future phases, comprising: Outline planning permission (all matters reserved) for the demolition of all existing structures and redevelopment to include a number of buildings (up to 100m AOD) and up to 141,014.4sqm (GEA) of floorspace comprising the following mix of uses:

- *Residential (Class C3);*
- *Retail, workspace, food and drink uses (Class E);*
- *Car and cycle parking;*
- *Formation of new pedestrian route through the conversion of the existing vehicular underpass;*
- *Landscaping including open spaces and public realm; and*
- *New means of access, associated infrastructure and highways works.*

In Full, for residential (Class C3), retail, food and drink uses and a temporary marketing suite (Class E and Sui Generis), together with access, car and cycle parking, associated landscaping and new public realm, and private open space.

The Outline element seeks to establish the principles within which future Reserved Matters Applications ("RMAs") will be considered, in terms of both the general scale of development and the land uses considered appropriate.

In order to test and validate the Proposed Development, an Illustrative Scheme showing the potential location of buildings, uses and open spaces has been produced. This Illustrative Scheme provides a vehicle for examining the possible architectural, environmental, operational and social impacts of the Proposed Development. This FVA uses the Illustrative Scheme to determine the viability position for the Proposed Development.

Benchmark Land Value

DS2 and BNPPRE have been engaged in extensive and substantive discussions since submission of the Draft FVA in October 2020 on the pre-planning existing use value for the Site, which the NPPG refers to as the Benchmark Land Value ("BLV").

DS2 have provided a valuation on an Existing Use Value-Social Housing ("EUV-SH") basis for the low cost rented homes and open market basis for the leaseholder buy-backs in the Draft FVA, reflecting the value of the existing homes. The valuation can be disaggregated into tenanted properties and leaseholder properties. The valuation of the former is aided by a recent Red Book loan security Savills' valuation undertaken across the entirety of the existing estate.

Since negotiations commenced with BNPPRE regarding the BLV there has been a series of information exchanges which has resulted in the following updated position:

- £17,375,904 for the tenanted properties (£68,952 per unit);
- £30,599,910 discounting the 21 Right to Buy receipts that Poplar Harca have benefitted from since the date of the Large Scale Voluntary Transfer; and
- £3,639,400 to secure vacant possession of the commercial property on the Site.

We note that as at today's date, there is no formal agreement on the value of the commercial property component however BNPPRE and DS2 agree regarding the EUV-SH and leaseholder elements of the BLV. The above elemental values equate to a total BLV of £51,615,214.

Affordable Housing Proposal

The Proposed Development includes proposals for 35% affordable housing by habitable room. The affordable housing tenure proposed is at 88% social rent and 12% intermediate which in terms of low cost rented homes, is weighted in excess of the Council's 70 / 30 weighting as required by Policy D.H2 and reflects the need to replace the existing low cost rented homes that are on the Site.

Appraisal Results

The appraisal results for the Proposed Development are provided in the table below and assume a BLV of £51.62m based upon an EUV plus approach in accordance with policy and professional guidance in the form of the value of the existing site. This has been inserted into the Proposed Development appraisal as a fixed site value, with the residual profit output being measured.

APPRAISAL RESULTS, ABERFELDY VILLAGE, OCTOBER 2021					
Scheme	GDV	Total development cost	Profit on GDV	Profit Target	Surplus / Deficit
Application scheme	£624,844,112	£644,851,365	(0.02%)	16.03%	(16.05%)

The FVA illustrates that on a present-day basis, the Proposed Development is extremely challenged financially. The profit return on a present-day basis is below the target rate of return and growth in values or cost savings are required to deliver a technically viable scheme in accordance with the NPPG.

The outputs have been sensitivity tested. This is undertaken in accordance with the RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting' (2019). Further detail is provided in Section 10 of this FVA.

In summary, the economics of estate regeneration projects as recognised in policy, are challenging. The above summary provides an indication of some of the financial challenges faced. However, the Applicant is a long-term stakeholder in LBTH and will remain so after the regeneration is complete. The wellbeing of the existing and future community is paramount, and the design has evolved to ensure the best possible outcomes for all stakeholders.

The Applicant will seek to deliver replacement new homes and an uplift in affordable housing as part of the Proposed Development as well as a range of other community facilities and public realm improvements and there will be a commitment to reassess viability during the development programme in order to maximise the public and social benefits. However, clearly this needs to be balanced with the challenging economics and the requirement to attract investment that will cross fund the project.

1 INTRODUCTION

1.1 This Financial Viability Assessment ("FVA") has been prepared by DS2 LLP and is submitted in support of a hybrid planning application for the Aberfeldy Village Masterplan. The hybrid planning application is made in relation to the Land to the north of East India Dock Road (A13), east of the Blackwall Tunnel Northern Approach Road (A12) and to the south west of Abbot Road (the "Site") on behalf of The Aberfeldy New Village LLP' (the "Applicant"). The determining planning authority is the London Borough of Tower Hamlets ("LBTH").

1.2 The hybrid planning application is formed of detailed development proposals in respect of Phase A for which no matters are reserved ("Detailed Proposals"), and outline development proposals for the remainder of the Site, with all matters reserved ("Outline Proposals"). The Detailed Proposals and Outline Proposals together are referred to as the "Proposed Development".

1.3 The Proposed Development comprises the comprehensive redevelopment of the Site. The Proposed Development will deliver, up to 1,628 new homes, new workspace, a new high street, new and improved open space and the pedestrianisation of the A12 Abbott Road vehicular underpass.

1.4 DS2 is instructed to test the maximum level of affordable housing and additional S106 obligations secured in accordance with paragraphs 55 to 58 of the National Planning Policy Framework, July 2021 as revised ("NPPF") alongside LBTH Community Infrastructure Levy ("CIL") and Mayoral CIL – that can be supported by the Proposed Development, without impeding the viability of the Proposed Development and the prospects of delivery.

1.5 The FVA has been collated in accordance with the NPPF, National Planning Practice Guidance, (which was last updated in 2019 in respect of viability) ("NPPG"), the Homes for Londoners: Affordable Housing and Viability Supplementary Planning Guidance, 2017 ("Affordable Housing and Viability SPG"), LBTH's Development Viability Supplementary Planning Document, 2017 ("Development Viability SPD") as well as professional best practice guidance, including the RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting' (1st Edition, adopted September 2019) and the RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' (1st Edition, adopted July 2021).

1.6 DS2 have undertaken similar exercises on a range of estate regeneration projects across the capital where we have also had regard to the GLA's '*Good Practice Guide for Estate Regeneration'* dated February 2018.

1.7 This FVA follows the submission of a draft FVA ("Draft FVA") in October 2020 as part of the pre-application process in accordance with LBTH's Development Viability SPD.

1.8 The Draft FVA was submitted and subsequently assessed by LBTH's independent viability assessor, BNP Paribas Real Estate ("BNPPRE"). Following extensive discussions, a number of individual appraisal inputs set out in this FVA have been agreed between BNPPRE and DS2 on a without prejudice basis.

1.9 The table below briefly summarises the appraisal inputs agreed between the two parties during the pre-application process. DS2 have conceded on some inputs on a without prejudice basis for the purposes of this FVA to align with BNPPRE's most recent position as set out in their last response dated 11th August 2021.

TABLE 1: DS2 BNPPRE APPRAISAL INPUT POSITIONS, ABERFELDY VILLAGE, OCTOBER 2021

Appraisal Input	October 2021 DS2 Assumption	BNP Paribas Assumption
Gross Development Value		
Private residential values	£675 psf	£675 psf
Social rent residential value	£175 psf	£175 psf
Intermediate residential value	£400 psf	Tbc
Retail space	Rental value: £30 psf Yield: 6% Void period: 6 months Rent free period: 12 months	Rental value: £30 psf Yield: 6% Void period: 6 months Rent free period: 12 months
Workspace	Rental value: £30 psf Yield: 6% Void period: 6 months Rent free period: 12 months	Rental value: £30 psf Yield: 6% Void period: 6 months Rent free period: 12 months
Development Costs		
Construction costs	£416,175,671	Tbc
Contingency	5%	5%
Professional fees	10%	10%
Off-site utility	£13,635,000	Tbc
Japanese knotweed	£48,000	Tbc
Unexploded ordnance	£250,000	Tbc
Equity gift	£1,000,000	Tbc
Home loss and removal costs payment	£2,520,000	Tbc

Compulsory purchase and fees	£925,000	Tbc
Other development costs	£4,104,900	Tbc
Asbestos	£1 - to be picked up at viability review	Tbc
Placemaking	£1 - to be picked up at viability review	-
Planning obligations	Borough CIL: £4,238,280 Mayoral CIL: £5,406,122 S106: £4,400,000	Tbc
Finance	6.5%	6.5%
Disposal fees	Residential marketing: 1.5% of GDV Commercial marketing: £10,000 fixed fee Residential sales agency: 1.5% of GDV Affordable housing sales agency: £50,000 fixed fee Residential sales legal fee: £1,000 per unit Commercial sales agency fee: 1% of GDV Letting agency fee: 10% of first year's revenue Letting legal fee: 5% of first year's revenue Commercial sales legal fee: 0.5% of GDV	Residential marketing: 1.5% of GDV Commercial marketing: £10,000 fixed fee Residential sales agency: 1.5% of GDV Affordable housing sales agency: £50,000 fixed fee Residential sales legal fee: £1,000 per unit Commercial sales agency fee: 1% of GDV Letting agency fee: 10% of first year's revenue Letting legal fee: 5% of first year's revenue Commercial sales legal fee: 0.5% of GDV
Profit	Profit on private residential: 17.5% of GDV Profit on commercial space: 15% of GDV	Profit on private residential: 17.5% of GDV Profit on commercial space: 15% of GDV Profit on affordable housing:

	Profit on affordable housing: 6% of GDV	6% of GDV
Programme timetable	Pre-construction period: 9 months Construction and sales period: See breakdown in Section 6	Pre-construction period: 9 months Construction and sales period: Previously agreed but programme has subsequently been updated
Benchmark Land Value	£51,615,214	Tenanted and leaseholder unit values agreed
Review mechanism	Recommended	Recommended

The agreements above have been carried forward into this FVA where relevant. We acknowledge that BNPPRE's positions on the below may be subject to final verification when this FVA is reviewed.

The Applicant

1.10 The Applicant is a joint venture ("JV") between Poplar Harca and EcoWorld London. The JV has successfully delivered 901 homes to date in phases 1 to 3a of the consented Aberfeldy New Village Masterplan, which has an outline planning permission to deliver 1,176 homes.

1.11 Poplar Harca are a local Registered Provider who provide housing, management and community services in Poplar with responsibility for 9,000 homes. EcoWorld are a private developer who partnered with Poplar Harca in delivering phases one to three of the estate regeneration and have a track record of delivery across the capital.

1.12 In partnership, and working collaboratively with the other key stakeholders, the JV are seeking to bring forward the Proposed Development consisting of an exemplary mixed-use development, that, in accordance with the local planning policies and the GLA's estate regeneration principles, replaces the existing low cost rented homes with new accommodation that meets and exceeds the space standards and provides a high quality of sustainable accommodation in an enhanced public realm that will improve the living environment for the local and wider community.

The Challenge

1.13 The Site forms part of the wider Aberfeldy Estate regeneration project and is broadly triangular in shape, located to the north of East India Dock Road (A13), east of the Blackwall Tunnel Northern Approach Road (A12) and to the south west of Abbot Road.

1.14 An element of the Site benefits from a planning consent for residential development, part of which consists of an area to the south of the Site, that has either been delivered by the JV or is currently under construction.

1.15 The Site consists of existing residential and community uses and public open spaces. The Applicant recognises the need to deliver replacement high-quality accommodation for existing tenants and the decant strategy for the Site, to a large degree, informs the future phasing.

1.16 The Applicant also recognises the clear policy requirement to deliver like-for-like replacement housing with a right to return for incumbent residents and optimise the affordable housing on the uplift. This, however, must be achieved in an economically sustainable manner alongside the wide range of additional benefits that the proposed development is seeking to deliver, which include:

- Improved east west connections (pedestrianisation of underpass, improvement to existing pedestrian underpass);
- New employment workspace and the creation of new jobs;
- A new Neighbourhood Town Centre;
- New public realm (Highland Place and a new Town Square);
- Improvements to the existing green spaces (Leven Road Open Space and Braithwaite Park);
- New and enhanced public realm;
- The prioritisation of pedestrians and cyclists and a car club facility;
- The reconfiguration of Abbott Road;
- The delivery of new affordable and private homes;
- New faith centre and civic hub;
- Meanwhile use strategy to benefit existing residents and tenants.

1.17 The economics are, unsurprisingly, challenging.

Instructions

1.18 In accordance with the Applicant's instructions, DS2 have prepared on an independent and objective basis a viability assessment which tests the maximum level of affordable housing and additional financial obligations that the Proposed Development can viably support in accordance with planning policy and guidance. Our instruction is on a non-performance or contingent related basis.

Conflict of Interest

1.19 DS2 can confirm that there are no conflicts of interest in accordance with the RICS Professional Statement Conflicts of Interest, 1st Edition, that came into effect on 1st January 2018.

Financial Viability in Planning: Conduct & Reporting

1.20 This FVA has been prepared by DS2 in accordance with the latest RICS Professional Statement titled 'Financial Viability in Planning: Conduct and Reporting' which became effective from 1st September 2019.

1.21 This FVA has been prepared on an objective and impartial basis, without interference, and in full accordance with the planning policy and professional best practice requirements. DS2 can also confirm that in collating this report we have complied with the RICS Professional Statement (2) Ethics, Competency, Objectivity and Disclosures.

1.22 DS2 can confirm that in undertaking this exercise we have been reasonable, transparent, fair and objective as required by Section 4 of the Professional Statement.

1.23 ARGUS Developer has been used to demonstrate the Proposed Development's financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer is commonly accepted by LBTH for viability testing.

1.24 The viability test has been undertaken by comparing the residual profit to an appropriate target return.

Information & Structure

1.25 To inform the FVA, information prepared by the following consultants has been relied upon:

- Levitt Bernstein – Architect – Outline Proposals;
- Morris & Company – Architect – Details Proposals;
- DP9 – Planning Consultants;
- Circle Development – Cost Consultants; and
- Poplar Harca – Site Value/Benchmark Land Value.

1.26 This FVA has been structured as follows:

- **Site Description** – summary of the location and nature of the existing asset;
- **Development Proposals** – review and description of the Proposed Development and Illustrative Scheme;

- **Planning Policy** – review of the key national, regional and local planning policies concerning the delivery of affordable housing and financial viability;
- **Viability Methodology** – description of the methodology employed within the wider context of best practice for FVAs;
- **Development Timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;
- **Development Value** – review of the commercial values alongside any additional revenue streams that comprise the scheme Gross Development Value (GDV);
- **Development Costs** – review of the development costs for the Proposed Development including analysis of the appropriate developer's return for the development at the Site;
- **Site Value** – analysis in relation to the proposed Site Value / Benchmark Land Value for the financial appraisals;
- **Appraisal Results and Conclusions** – summary of the financial appraisal outputs and conclusions.

1.27 The appraisals and figures in this FVA do not represent formal 'Red Book' valuations. This report has been prepared on an objective basis to accompany the application for the Proposed Development for the purposes of Section 106 discussions and should only be used for consideration of these matters.

1.28 The FVA has been prepared by Pascal Levine MRICS, Liam Janusz and Joe Crossley MRICS, who have considerable experience in preparing viability assessments of large-scale, mixed-use developments across LBTH and the capital.

2 SITE DESCRIPTION AND LOCATION

Site Location

2.1 The Site is located in Poplar, East London, around one mile away from Canary Wharf. The Site is bounded on all three sides, located to the north of East India Dock Road (A13), east of the Blackwall Tunnel Northern Approach Road (A12) and to the south west of Abbot Road.

2.2 The surrounding area is currently undergoing significant regeneration. There are several recent planning applications that have obtained resolution to grant planning consent including:

- St William's Poplar Riverside development which is situated to the north of the Site. The hybrid application was consented on the 30th October 2019 and will provide up to 2,800 homes.
- The Poplar Bus Depot development which is situated to the north of the Site. The detailed application achieved resolution to grant on the 21st July 2020 with the S106 agreement signed on 9th October 2020. The development will provide 530 homes.
- SN Development's Islay Wharf development which is situated to the north of the Site (north of the Poplar Bus Depot development). The detailed application achieved resolution to grant on the 21st May 2020 with the S106 agreement signed on 9th November 2020. The development will provide 133 homes.
- Country Garden's Ailsa Wharf development which is situated to the north of the Site (north of Islay Wharf). The detailed application achieved consent on the 16th January 2020. The development will provide 785 homes.

2.3 East India DLR station is located within walking distance to the south of the Site, with Canning Town Underground and DLR station located within walking distance to the east of the Site.

2.4 The Site is included within the Poplar Riverside Housing Zone with the GLA identifying this area as having potential to unlock and accelerate housing delivery in London.

2.5 Poplar Riverside lies south of the Olympic Legacy Supplementary Planning Guidance area, and between the Isle of Dogs & South Poplar and Royal Docks Opportunity Areas ("OA"'). The new OA designation incorporates parts of the Lower Lee Valley area that are outside the Olympic SPG and LLDC areas. It contains the Poplar Riverside Housing Zone on the Tower Hamlets side of the River Lea. This has the potential for 9,000 new homes and improved connectivity in a part of the borough with significant infrastructure challenges.

2.6 The OA crosses the boundary of the River Lea into the London Borough of Newham, where there are opportunities to provide both intensified employment uses and residential development. Cross-boundary working is required to maximise investment of the Housing Zone funding and the development potential of upgrades to Canning Town station and the arrival of the Elizabeth line at Custom House. Significant local transport improvements are needed to allow better pedestrian and cycle accessibility over the River Lea via footbridges and to remove the severance effect of major infrastructure such as DLR lines and the A12 at Gillender Street.

Site Description

2.7 The Site is 8.14 hectares (approx. 20 acres) in total and comprises:

- Abbott Road;
- Aberfeldy Street;
- Balmore Close;
- Blairegowrie House;
- Heather House;
- Jura House;
- Tartan House;
- Thistle House;
- Kilbrennan House;
- Blairgowrie House;
- Nos. 33-35 Findhorn Street;
- Nairn Street Estate; and
- Leven Road Open Space and Braithwaite Park are included for their enhancement.

2.8 The majority of the Site is occupied by a series of linear, 3 and 4 storey housing blocks, a single storey neighbourhood centre, a parade of ground floor retail units, church, public open space and recently constructed affordable workspace.

2.9 The Site contains 330 existing residential properties of which 252 are tenanted properties let at social rent levels with the remaining 78 leaseholder properties.

2.10 The floorspace of the existing 252 social rent homes equates to 194,956 sq ft (NIA).

2.11 The existing residential property unit mix is summarised in the table below.

TABLE 2: EXISTING HOMES, ABERFELDY VILLAGE, OCTOBER 2021				
Dwelling Size	Social Rent		Leaseholders/Freeholders	
	Homes	Hab Room	Homes	Hab Room
1 bed	39	78	8	16
2 bed	71	213	21	63
3 bed	123	492	45	180
4 bed	15	75	4	20
5 bed	2	12	0	0
6 bed	2	12	0	0
Total	**252**	**882**	**78**	**279**

2.12 The Site also includes the following:

- The new Poplar Works development adjacent to the A12;
- Land at Lochnager Street to the north of Bromley School;
- Abbott Road and the existing green spaces of Braithwaite Park and Leven Road Open Space;
- Land along Blair Street, adjacent to Braithwaite Park, which will complete the courtyard building within the built phase of Aberfeldy Village; and
- The existing vehicular underpass, land parallel to the A12 and the pedestrian underpass at Dee Street.

2.13 A red line plan of the Site is provided below which illustrates the Masterplan site boundary with the adjacent built out and permitted phases of an existing planning consent, which is detailed below. The built-out phases of the existing consent are shaded in pink and unimplemented phases are shown in orange.

Figure 1

<u>Planning History</u>

2.14 In 2012, outline permission (ref: PA/11/02716/P0) was secured for the demolition of all existing dwellings (297 units), the retail units fronting Aberfeldy Street, and the Neighbourhood Centre (hereafter "the Extant Scheme"). The consent proposed up to 1,176 dwellings, in 15 blocks between two and 10 storeys, and commercial floorspace for retail, community, faith and a health centre. Permission was granted on 20th June 2012 for the following development:

'Outline planning application (all matters reserved) for the mixed-use redevelopment of the existing Aberfeldy estate comprising: Demolition of 297 existing residential units and 1,990 sq m of non-residential floorspace, including shops (use class A1), professional services (use class A2), food and drink (use class A3 and A5), residential institution (use class C2), storage (use class B8), community, education and cultural (use class D1); and Creation of 1,176 residential units (Use Class C3) in 15 new blocks between 2 and 10 storeys in height plus 1,743sqm retail space (Use Class A1), professional services (Use Class A2), food and drink (Use Classes A3 and A5) and 1,786 community and cultural uses (Use Class D1) together with a temporary marketing suite (407sqm), energy centre, new and improved public open space and public realm, semi-basement, ground and on-street vehicular and cycle parking and temporary works or structures and associated utilities/services'.

2.15 Since permission was granted there has been several applications for non-material amendments under s.96A of the Town and Country Planning Act (1990) and minor material amendments under s73 of the Town and Country Planning Act (1990), alongside associated reserved matters applications.

2.16 Reserved matters applications have been submitted for phases 1 to 3 out of a total 6 phases. Phases 1 to 3 of the Extant Scheme have each had reserved matters applications approved and implemented. Phase 1, 2 and 3a have been constructed and Phase 3b is currently under construction.

- Phase 1 – 338 residential homes (263 private sale, 67 social rent and 8 shared ownership) plus retail floorspace.
- Phase 2 – 219 residential homes (194 private sale, 21 social rent and 4 shared ownership).
- Phase 3 – 344 residential homes (262 private sale, 69 social rent, 13 shared ownership) plus a community centre, health centre, retail floorspace and new energy centre.

2.17 Phases 1 to 3 will deliver 901 residential homes in total of which 719 are private sale and 182 affordable. This equates to 29% affordable housing by habitable rooms (9.18% on uplift) or 20% affordable housing by unit (8% on uplift).

2.18 Phases 4 to 6 which fall within the Proposed Development planning application red line are yet to be subject to reserved matters applications. Subject to the receipt of a new planning consent, phases 4 to 6 of the Extant Scheme will not be delivered. Phases 4 to 6 comprise 275 new homes, retail floorspace and a faith centre. The affordable requirement for these remaining phases is 21% by habitable rooms or 11% by units. This would require the provision of 31 affordable homes.

Site Ownership

2.19 The majority of the land within the red line is under the ownership of Poplar HARCA. LBTH own a small number of parcels of land across the Site, and TfL own the land associated with the underpass area of the Site. Negotiations are underway between the Applicant and LBTH in connection with acquiring their land for development.

3 PROPOSED DEVELOPMENT

Context and Planning Application Structure

3.1 The Draft FVA submitted in October 2020 tested two illustrative scenarios referred to as Scenario A and Scenario B. The two schemes presented different options for the Culloden Primary School, with Scenario A retaining the existing school in its current location and redevelopment of the rest of the Site, and Scenario B proposing relocation of the school along with redevelopment of the rest of the Site. The Proposed Development assessed in this FVA closely aligns with Scenario A which excludes redevelopment of the existing school. The school does not fall within the red line plan for this application.

3.2 The Proposed Development consists of a hybrid application which seeks a detailed first phase and flexibility on future phases. The Detailed Proposals relate to Phase A of the Proposed Development and the Outline Proposals relate to Phases B, C and D. Site wide floorplans for the entire masterplan are attached at **Appendix A**.

3.3 The Description of Development for the Proposed Development is shown below:

Hybrid application seeking detailed planning permission for Phase A and outline planning permission for future phases, comprising: Outline planning permission (all matters reserved) for the demolition of all existing structures and redevelopment to include a number of buildings (up to 100m AOD) and up to 141,014.4sqm (GEA) of floorspace comprising the following mix of uses:

- *Residential (Class C3);*
- *Retail, workspace, food and drink uses (Class E);*
- *Car and cycle parking;*
- *Formation of new pedestrian route through the conversion of the existing vehicular underpass;*
- *Landscaping including open spaces and public realm; and*
- *New means of access, associated infrastructure and highways works.*

In Full, for residential (Class C3), retail, food and drink uses and a temporary marketing suite (Class E and Sui Generis), together with access, car and cycle parking, associated landscaping and new public realm, and private open space.

3.4 The outline element seeks to establish the principles within which future Reserved Matters applications will be considered, in terms of both the general scale of development and the land uses considered appropriate.

3.5 The hybrid planning application includes three Control Documents which define the Specified Parameters for the Proposed Development. These Control Documents are (1) the Parameter Plans; (2) the Development Specification; and (3) the Design Guide:

- The Parameter Plans are a series of drawings that establish rules for the Proposed Development, controlling the layout and scale of future development plots;
- The Development Specification defines and describes the principal components of the Proposed Development (akin to an elongated description of development including minimum and maximum development quantum and uses); and
- The Design Guide is a set of Design Guidelines that establish binding standards for how buildings will form streets and give enclosure to public spaces.

3.6 Together, these documents set out the information required to allow the impacts of the Proposed Development to be identified with sufficient certainty as future Reserved Matters Applications (RMAs) will be required to demonstrate compliance with the Specified Parameters and controls in these Control Documents.

Illustrative Scheme

3.7 In order to test and validate the Proposed Development, an Illustrative Scheme showing the potential location of buildings, uses and open spaces has been produced. This Illustrative Scheme provides a vehicle for examining the possible architectural, environmental, operational and social impacts of the Proposed Development, and was used to inform the Environmental Impact Assessment. It remains schematic but it conforms to the specified parameters as defined in the Development Specification, Parameter Plans and Design Guidelines.

3.8 The Illustrative Scheme has been essential in testing these specified parameters. The Illustrative Scheme is not a design template or submitted for approval; it represents one possible way the principles as defined in the above Control Documents could be interpreted/achieved and developed into a design. This FVA uses the Illustrative Scheme to determine the viability position for the Proposed Development.

3.9 The Illustrative Scheme comprises four phases consisting of 25 buildings, ranging from single to 26 storeys in height with a range of uses including residential, retail, workspace and a marketing suite.

3.10 The Illustrative Scheme incorporates 35% affordable housing by habitable room. The submitted area schedule currently shows 34.5% affordable housing by habitable room, although the Applicant is committed to guaranteeing 35% at the point of RMA. The area and unit schedule for the Illustrative Scheme, which includes both Detailed Proposals and Outline Proposals, is attached at **Appendix B**.

3.11 A lower ground floor plan of the Illustrative Scheme is provided below.

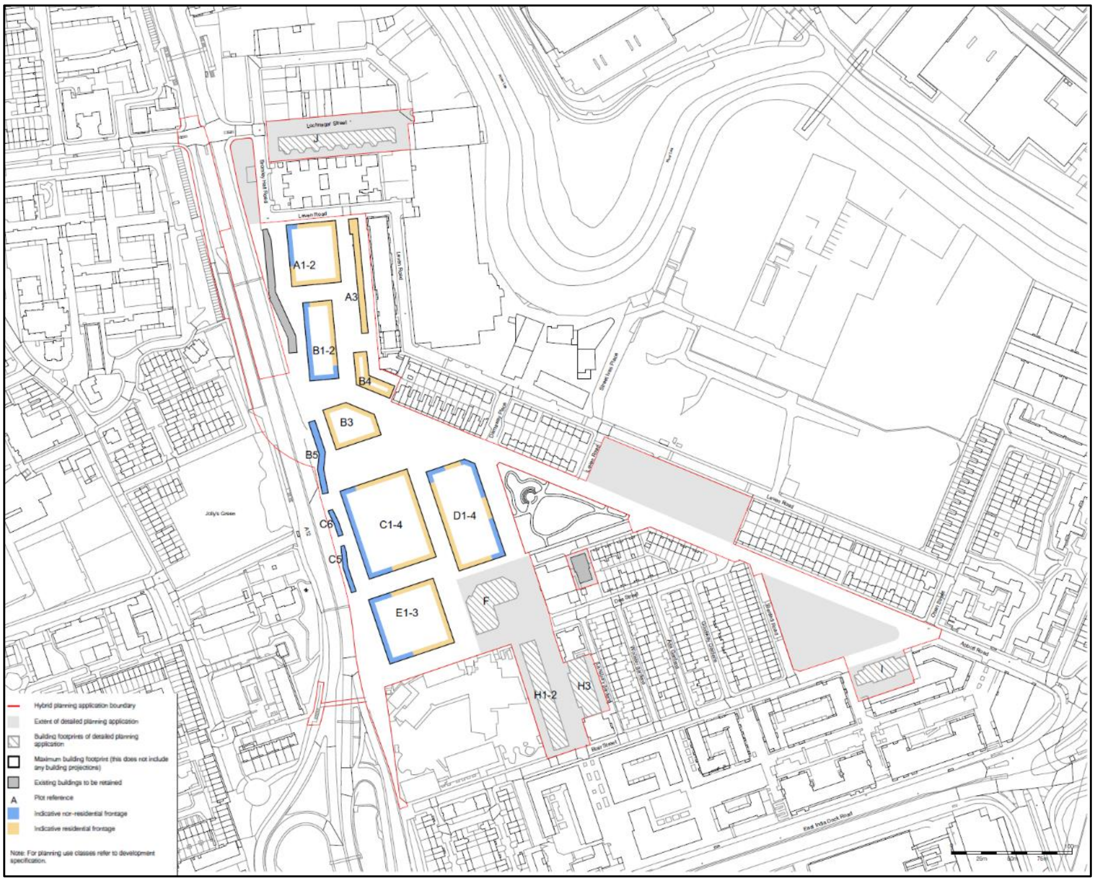


Figure 2

3.12 The Illustrative Scheme is a residential led mixed use scheme which includes retail, workspace and a marketing suite. All floorspaces are within the maximum parameters of the Proposed Development.

3.13 The Illustrative Scheme floorspace areas are reflected in the table below. The floorspace areas provided below include the floorspace areas for the Detailed Proposal.

TABLE 3: ILLUSTRATIVE SCHEME FLOOR AREAS, ABERFELDY VILLAGE, OCTOBER 2021		
Land Use	**Floorspace (GIA – sq ft)**	**Floorspace (NIA – sq ft)**
Residential (C3)	1,544,436	1,149,992
Workspace (E)	25,501	20,401
Retail (E)	25,470	20,267
Total	**1,595,407**	**1,190,660**

3.14 The total site wide floorspace for the Illustrative Scheme is 1,641,222 sq ft (GIA), which includes other non-residential uses in addition to those listed in the table above, including residents' hub, car park and a marketing suite.

3.15 In respect of phasing, the Illustrative Scheme is divided into four phases. The indicative phasing plan can be summarised as follows:

- **Phase A** – This phase forms the detailed component of the hybrid planning application and will be the first phase to be delivered. This is the key linking phase between the last phase of the original Aberfeldy Village Masterplan (phase 3), and the new masterplan. Phase A includes the development of the majority of the Aberfeldy Street, The Square, the redevelopment of Blairgowrie House, Lochnagar Street site, Braithwaite Park and Leven Road Open Space. This phase also sees the demolition of the Meanwhile[1] buildings along Aberfeldy Street, the Aberfeldy Neighbourhood Centre and Blairgowrie House.

- **Phase B** – This phase forms part of the Outline Proposals and is envisaged to be the second phase to be delivered. This phase involves the demolition of the Nairn Street Estate, in the north of the masterplan, and the construction of a variety of homes, including family houses along Nairn Street, and new workspace along Enterprise Yard. This phase also includes the upgrade of Millennium Green, the development of Highland Place, the Slip Road, the re-purposing of the vehicular underpass and the delivery of the neighbourhood landmark tower, which is home to the Resident Hub and Concierge.

- **Phase C** – This phase forms part of the Outline Proposals and is envisaged to be the third phase to be delivered. Phase C includes a large proportion of residential development, in the form of two large urban courtyard buildings with raised podium gardens and car parks beneath. This phase also delivers a large quantum of the new workspace to be delivered as part of the masterplan and the improvements to the Dee Street underpass. The buildings demolished in the phase include the buildings along the western portion of Balmore Close, Kibrennan House and Tartan House.

- **Phase D** – This phase forms part of the Outline Proposals and is envisaged to be the last phase to be delivered. Phase D construction sees the completion of the remainder of the High Street with a residential courtyard building at the heart of the masterplan. The buildings demolished in the phase include the buildings along the eastern portion of Balmore Close and Jura House.

[1] Further information contained in the DAS.

Residential Component

Residential space in the Illustrative Scheme is proposed across all phases within 25 buildings. The majority of units will be flats, although the Illustrative Scheme comprises a small number of houses in Plots J and A3, all of which are affordable. The net and gross areas are summarised in the table below.

TABLE 4: ILLUSTRATIVE SCHEME RESIDENTIAL FLOOR AREA, ABERFELDY VILLAGE, OCTOBER 2021

C3 Space	Phase A	Phase B	Phase C	Phase D	Total
GIA (sq ft)	297,773	526,604	546,689	173,370	**1,544,436**
NIA (sq ft)	227,979	397,397	393,185	131,432	**1,149,992**

3.16 The Illustrative Scheme proposes 1,595 homes, of which the Applicant is proposing 35% affordable housing by habitable room. This equates to the re-provision of the existing social rent homes (by floorspace) plus 18% affordable housing on the uplift in residential homes.

3.17 The affordable housing tenure proposed is at 88% social rent and 12% intermediate.

3.18 The table below illustrates the breakdown in greater detail.

TABLE 5: ILLUSTRATIVE SCHEME SUMMARY RESIDENTIAL PROVISION, ABERFELDY VILLAGE, OCTOBER 2021

C3 Summary	Market Housing	Affordable Housing		Total
		Social Rent	Intermediate	
Unit split	1,175	420		**1,595 units**
Affordable units		344	76	
Habitable Rooms	2,874	1,327	188	**4,389 HRs**

3.19 The table below illustrates the proposed unit mix by tenure, displayed by unit and percentage.

TABLE 6: ILLUSTRATIVE SCHEME SUMMARY RESIDENTIAL UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Tenure	Studio	1B	2B	3B	4B	5B	6B	TOTAL	Hab Rooms
Private	117	446	583	29	0	0	0	1,175	2,874
Social	0	72	109	130	29	0	4	344	1,327
Intermediate	0	40	36	0	0	0	0	76	188
Total	**117**	**558**	**728**	**159**	**29**	**0**	**4**	**1,595**	**4,389**

TABLE 7: ILLUSTRATIVE SCHEME SUMMARY RESIDENTIAL UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Tenure	Studio	1B	2B	3B	4B	5B	6B	TOTAL	Hab Rooms
Private	10%	38%	50%	2%	0%	0%	0%	73.7%	65.5%
Social	0%	21%	32%	38%	8%	0%	1%	21.5%	30.2%
Intermediate	0%	53%	47%	0%	0%	0%	0%	4.8%	4.3%
Total	**7%**	**35%**	**46%**	**10%**	**2%**	**0%**	**0%**		

3.20 Further details related to design, tenure, mix and affordability will be provided by way of an updated FVA and affordable housing statement that will accompany future RMAs.

Commercial Component

3.21 Commercial space will be delivered through flexible use workspace and retail space. The workspace will be located in a series of 'plinths', set in double height corner units at ground floor level with mezzanine level workspace above if required by occupiers. There will be additional workspace adding to the Poplar Works buildings which offer small individual workspace units for occupiers. The workspace will be Class E so benefits from flexibility for occupiers.

3.22 The retail space will be located along Aberfeldy High Street and at Highland Place at ground floor level. It is intended that occupiers will consist of small and local retail businesses rather than large commercial chains.

3.23 The commercial space areas are summarised in the table below. The NIA figures for the commercial space in the Outline Proposals have been calculated by DS2 assuming an 80% net to gross adjustment, as advised by the architects. This approach was adopted in the Draft FVA and agreed with BNPPRE.

TABLE 8: ILLUSTRATIVE SCHEME SUMMARY COMMERCIAL NIA, ABERFELDY VILLAGE, OCTOBER 2021

Use	GIA (sq ft)	NIA (sq ft)
Workspace	25,501	20,402
Retail	25,470	20,268
Total	**50,971**	**40,670**

Car Parking

3.24 The Proposed Development will comprise 106 car parking spaces across the Site, as shown in the following table. All spaces are allocated to returning residents and will not be sold with the market sale units. No value has therefore been attributed to the parking spaces within this FVA.

TABLE 9: ILLUSTRATIVE SCHEME PARKING SPACE SUMMARY, ABERFELDY VILLAGE, OCTOBER 2021

Phase	Accessible	Standard	Car club	Total
A	10	18	2	30
B	9	15	2	26
C	23	23	2	37
D	3	8	1	12
Total	**45**	**53**	**7**	**105**

Summary

3.25 The Proposed Development will deliver a residential led mixed-use scheme which comprises residential, workspace, retail and a marketing suite. The delivery of the exact mix of uses will be dependent on the prevailing market conditions at the time, the detail of which will be provided in subsequent RMAs.

3.26 The Proposed Development includes 35% affordable housing measured on a habitable room basis, which is modelled in the Illustrative Scheme and has been modelled in this FVA. This equates to the re-provision of the existing social rent homes (by floorspace) plus an 18% affordable housing on the uplift in residential homes. The tenure split proposed is at 88% social rent and 12% intermediate.

4 PLANNING POLICY

4.1 The following section of this FVA provides a summary review of the key national and local planning policy that guides the delivery of affordable housing, and other planning obligations, with reference to the importance of considering financial viability and balancing the requirements of obtaining planning obligations with the risks of non-delivery.

National

National Planning Policy Framework

4.2 The NPPF (2021) sets out the Government's planning policies for England and how they should be applied.

4.3 At the heart of NPPF is a presumption in favour of sustainable development, which should be seen as a golden thread running through both the plan-making and decision-taking process. This means "*approving development proposals that accord with an up to date development plan without delay*", and "*where there are no relevant development plan policies, or the policies which are most important for determining the application are out-of-date*" granting permission unless "*any adverse impacts of doing so would significantly and demonstrably outweigh the benefits, when assessed against the policies in this Framework taken as a whole*". Furthermore, there is a social objective to support strong, vibrant and healthy communities, by ensuring that a sufficient number and range of homes can be provided to meet the needs of present and future generations (paragraph 11).

4.4 Paragraph 63 states that where there is a need identified for affordable housing, the affordable housing should be provided on-site, except in justified circumstances.

4.5 The definition of affordable housing included within the Glossary (Annex 2) of the NPPF states:

"*Housing for sale or rent, for those whose needs are not met by the market (including housing that provides a subsidised route to home ownership and/or is for essential local workers*)"

4.6 This includes social rented, affordable rented and intermediate tenure housing i.e. housing provided to eligible households whose needs are not otherwise met by the market.

National Planning Practice Guidance

4.7 The NPPG provides guidance on viability for the purposes of plan making and individual application site's development management. The guidance covers several areas including standardised inputs to viability assessments and approaches to benchmark land value. The viability section of the NPPG was most recently updated on the 1st September 2019.

4.8 Paragraph 8 of the NPPG states that where a viability assessment is submitted to accompany a planning application this should be based upon and refer back to the viability assessment that informed the plan; and the application should provide evidence of what has changed since then.

4.9 The NPPG states that any viability assessment should be supported by appropriate available evidence informed by engagement with developments, landowners, and infrastructure and affordable housing providers.

4.10 The viability assessment should be proportionate, simple, transparent and publicly available. The viability should assess whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

Regional

The London Plan (March 2021)

4.11 The London Plan recognises that affordable housing is central to allowing Londoners of all means and backgrounds to play their part in community life. Providing a range of high quality, well-designed, accessible homes is important to delivering 'Good Growth', ensuring that London remains a mixed and inclusive place in which people have a choice about where to live.

4.12 The 2017 London Strategic Housing Market Assessment (SHMA) identifies that London needs 66,000 new homes each year, for at least twenty years and evidence suggests that 43,000 of them should be genuinely affordable.

4.13 Policy GG4 seeks to ensure that more homes are delivered and supports the delivery of the strategic target of 50% of all new homes being genuinely affordable. Furthermore, there is emphasis to create mixed and inclusive communities, with good quality homes that meet high standards of design and provide for identified needs, including for specialist housing.

4.14 The London Plan sets out the ten-year targets for net housing completions which each local planning authority should plan for. Boroughs must include these targets in their Development Plan documents. This sets a ten year housing target of 34,730 new homes for LBTH, or 3,473 per annum.

4.15 Policy H4 sets a strategic target of delivering 50% of all new homes delivered across London to be affordable. The affordable housing should be delivered as genuinely affordable housing. Footnote 53 states that the NPPF defines affordable housing for planning purposes. Within this broad definition, section 4.6.3 – 4.6.9 of the London Plan sets out the Mayor's preferred affordable housing tenures and other genuinely affordable housing products.

4.16 Paragraph 4.6.3 sets out the Mayor's preferred affordable housing tenures which are set out below:

- Homes based on social rent levels, including social rent and London Affordable Rent;
- London Living Rent;
- London Shared Ownership.

4.17 Paragraph 4.6.7 states that other affordable housing products may be acceptable if, as well as meeting the broad definition of affordable housing, they also meet the London Housing Strategy (dated 2018) definition of genuinely affordable housing, and are considered by the borough to be genuinely affordable.

4.18 For dwellings to be considered affordable, annual housing costs, including mortgages, rent and service charge should be no greater than 40% of net household income.

4.19 Policy H5 of the London Plan sets out the Threshold Approach to planning applications, whereby a development must meet 35% affordable housing in order to qualify for the Fast Track Approach, whereby viability testing is not required. This target increases to 50% for sites on public sector land where there is no portfolio agreement with the Mayor, or for Strategic Industrial Locations, Locally Significant Industrial Sites, and Non-designated Industrial Sites.

4.20 The following criteria must be met to follow the Fast Track Route:

- Meet or exceed the relevant threshold level of affordable housing on site without public subsidy;
- Meet relevant tenure split requirements;
- Meet other policy requirements to the satisfaction of the Mayor where relevant;
- Demonstrate they have taken account of the strategic 50% target and have sought grant to increase the level of affordable housing.

4.21 Where a development does not meet the above criteria, it must follow the Viability Tested Route, which requires detailed supporting viability evidence to be submitted in a standardised and accessible format as part of the application.

4.22 Policy H5 states that viability review mechanisms should be applied to all viability tested applications at early and late stages in the development process (and mid-term reviews in the case of longer phased schemes) to ensure that affordable housing deliver is maximised as a result of any future improvement in viability.

4.23 Policy H8 of the London Plan states that for Estate Regeneration schemes or redevelopment of existing housing schemes, the Viability Tested Route must be followed as explained in the Homes for Londoners: Affordable Housing and Viability Supplementary Planning Guidance 2017 ("Affordable Housing and Viability SPG") to demonstrate that the scheme has maximised the delivery of any additional affordable housing. For the purpose of this policy, existing affordable housing floorspace includes both occupied and vacant floorspace regardless of the current condition of the stock.

4.24 Policy H8 states that loss of existing housing should be replaced by new housing at existing or higher densities with at least the equivalent level of overall floorspace.

4.25 Furthermore, Policy H8 states that loss of existing affordable housing should not be permitted unless it is replaced by equivalent or better-quality accommodation, providing at least an equivalent level of affordable housing floorspace on an identical or equivalent basis.

4.26 The existing affordable housing floorspace must be replaced on an identical basis where a tenant has a right to return. Where there is no right of return affordable housing may be provided as either Social Rent or London Affordable Rent housing.

4.27 Policy H6 states that the Mayor is committed to delivering genuinely affordable housing. The following split of affordable products should be applied to development:

- A minimum of 30% low cost rented homes, allocated according to need and for Londoners on low incomes (Social Rent/London Affordable Rent).

- A minimum of 30% intermediate products which meet the definition of affordable housing, including London Living Rent and London Shared Ownership.

- 40% to be determined by the relevant borough based on identified need, provided they are consistent with the definition of affordable housing.

4.28 For the purposes of the Proposed Development, the above split would be provided to the additional affordable housing only should it be viable to provide an uplift in affordable housing.

4.29 Intermediate rented products such as London Living Rent and Discounted Market Rent should be affordable to household incomes of up to £60,000. Intermediate ownership products such as London Shared Ownership and Discounted Market Rent should be affordable to households on incomes of up to £90,000.

London Housing Strategy, May 2018

4.30 The Housing Strategy sets out the Mayor's strategy for tackling London's housing shortage. This is underpinned by five priorities, one of which is delivering genuinely affordable homes.

4.31 The London Housing Strategy recognises that delivering significantly more new homes, including affordable housing, will require higher densities in many locations and that every development needs to make optimum use of land. This would mean using land more efficiently and developing new homes at densities that will often be higher than those in the surrounding area. Paragraph 3.22 states that when compared to many of its major international peers, London is a relatively low density city.

4.32 The Mayor is determined to make housing more affordable to Londoners on low and middle incomes. The 2017 London SHMA states that substantially more affordable housing should be built, and over two thirds should be for low cost rent.

4.33 Policy 4.1 of the London Housing Strategy states that the Mayor will:

- Support homes based on social rent levels, allocated according to need to Londoners on low incomes.
- Support intermediate rented homes for Londoners on middle incomes who do not have enough savings to access mainstream or affordable home ownership.
- Build on the success of the shared ownership model by supporting affordable home ownership aimed at Londoners who cannot afford to buy on the open market.

4.34 The Mayor is promoting three types of affordable homes, these being:

- Homes based on social rent levels (which includes London Affordable Rent);
- Homes for London Living Rent; and
- Homes for London Shared Ownership.

4.35 The Mayor will also support innovation through a flexible approach to supporting different types of affordable homes. These must however meet the three tests set out at paragraph 4.13 of the Housing Strategy.

Homes for Londoners: Affordable Housing and Viability Supplementary Planning Guidance 2017 ("Affordable Housing and Viability SPG")

4.36 The Affordable Housing and Viability SPG was adopted in August 2017. The Mayor's guidance is, therefore, a material consideration in the determination of planning applications.

4.37 The Affordable Housing and Viability SPG represents the new Mayoral administration's policy objectives in relation to the delivery of new homes, including affordable housing. The overarching objectives of the Affordable Housing and Viability SPG are clear in seeking to enhance housing and economic opportunities for all persons across the capital.

4.38 The Mayor wants to lead the way in openness and transparency in the planning system. As such, the Mayor will treat information submitted as part of, and in support of, a viability assessment transparently unless there is an exceptional circumstance that justifies the reason to keep certain information private and confidential.

4.39 The Affordable Housing and Viability SPG is clear that existing affordable housing should be replaced on a like-for-like basis, meaning that, for example, homes at social rent levels should be replaced with homes at the same or similar rent levels, or that specialist types of affordable housing should be replaced with the same type of housing.

4.40 The Fast Track Route does not apply in these circumstances, and all estate regeneration schemes should follow the Viability Tested Route to deliver the re-provision of the existing affordable floorspace on a like-for-like basis and maximise additional affordable housing.

The Mayor's Good Practice Guide to Estate Regeneration (February 2018)

4.41 The Mayor's Good Practice Guide to Estate Regeneration states that where proposals include the demolition and replacement of existing homes, those social rent tenants affected should be guaranteed full rights to return, and leaseholders and freeholders must be offered a fair deal. If demolition is chosen as a way to proceed, then the affordable homes should be at least be replaced on a like for like basis, and increased wherever possible.

4.42 The Mayor supports the principle of mandatory ballots as part of estate regeneration schemes where demolition is involved. Therefore, proposes to encourage the wider use of ballots by requiring them as a condition of GLA funding.

4.43 Section 4 of the Mayor's Good Practice Guide to Estate Regeneration states that estate regeneration schemes that involve the demolition of existing homes should provide:

- An increase in affordable housing;
- Full rights to return or remain for social tenants; and
- A fair deal for leaseholders and freeholders.

4.44 As set out at Policy H8 of the London Plan, replacement of affordable homes during estate regeneration should be on the basis of floorspace, rather than units. In adopting this approach, councils and housing associations may consider altering the mix of homes. For example, if an estate has a high proportion of one-bedroom homes that are being demolished, the landlord may choose to replace some of them with the same or greater floorspace arranged as fewer, family-sized homes.

4.45 The homes must be replaced on a like-for-like basis. Homes at social rent levels must be replaced with homes based on the same rent levels.

4.46 Social tenants who have to move as a result of estate regeneration plans should have a full right to a property on the regeneration estate of suitable size, at the same or similar level or rent, and with the same security of tenure.

4.47 The Mayor's Good Practice Guide to Estate Regeneration states that landlords should seek to offer the maximum home loss compensation permitted by legislation to tenants who meet the statutory criteria and who are displaced from their homes due to estate regeneration.

4.48 Landlords should pay for the 'disturbance costs' of moving home. This means paying the reasonable costs of moving, such as removal costs, telephone and utility connection costs, and the provision of new carpets and curtains.

4.49 Leaseholders and freeholders affected by estate regeneration should be treated fairly and fully compensated if their homes are to be demolished. Market value (plus home loss payments where appropriate) should be offered in good faith in the first instance. Where compulsory purchase is required, the rights of resident and non-resident leaseholders and freeholders are set out in legislation.

4.50 The Mayor's Good Practice Guide to Estate Regeneration states that councils and housing associations should offer resident leaseholders and freeholders the right to a new home on the regenerated estate through the following options:

- A shared equity basis, where the resident leaseholder or freeholder owns a proportion of the new home equivalent to the market value of the property that they gave up, with no rent payable on the remaining 'unsold' share. The resident leaseholder or freeholder should be allowed to retain any uplift in the value of their share of the new property between the point of purchase and any eventual sale; or

- A shared ownership basis, where the resident leaseholder or freeholder owns a share of a new affordable home, is able to increase the share owned over time, and may pay rent on the remaining share to the council or housing association in the meantime.

Opportunity Areas

4.51 The Site is located within the Poplar Riverside Opportunity Area which is identified in the London Plan as a focus for the delivery of at least 9,000 new homes and improved connectivity in a part of the borough with significant infrastructure challenges.

4.52 Policy SD1 of the London Plan identifies opportunity areas as being significant locations with development capacity to accommodate new housing, commercial development and infrastructure.

Housing Zone

4.53 The Site is located within the Poplar Riverside Housing Zone, which is part of Central Government and the GLA's commitment to support the delivery of housing in particular areas.

4.54 Poplar Riverside is identified to deliver 3,923 homes and 645 affordable homes. This equates to circa 16% affordable housing (by units).

London Plan Annual Monitoring Report 16 2018/19, dated March 2021

4.55 Table 2.6 of the Annual Monitoring Report states that for 2018/19, LBTH delivered a total of 995 homes, but 350 were all long-term vacant homes returning to use. Therefore, the net provision was 645 homes compared to the London Plan target of 3,931 which equates to 16% of the Councils target.

4.56 Table 2.7 indicates that for 2018/19 there was a total of 247 net conventional affordable completions, equating to 16% affordable housing as a percentage of total net conventional supply. The three-year average from 2016 to 2019 was circa 25% affordable housing.

Local

LB Tower Hamlets Local Plan 2031: Managing growth and sharing the benefits (January 2020) ("Local Plan")

4.57 LBTH's a LBTH's affordable housing policy is contained within their Local Plan which was adopted by the Council in January 2020.

4.58 Section Nine of the Local Plan identifies policies that seek to maximise the delivery of new private and affordable homes over the lifetime of the Plan within the context of a London Plan which significantly increased the ten-year housing supply target in 2016 to 39,314 homes (marginally under 4,000 new net additional homes per annum). Subsequent iterations of the Draft London Plan present higher targets and the council have estimated that 45% of all need is within the affordable housing sector over the Plan period.

4.59 Policy S.H1 sets an overall target for 50% of all new homes to be affordable and requires the provision of a minimum of 35% housing on sites providing 10 or more new residential units (subject to viability).

4.60 Policy S.H2: Affordable housing and housing mix states among other points the following:

- Development is required to maximise the provision of affordable housing in accordance with a 70% rented and 30% intermediate tenure split.
- Affordable housing calculations will be based on habitable rooms.

  Development is required to provide a mix of unit sizes in accordance with local housing needs, outlined below which is calculated by units:

TABLE 10: LBTH UNIT MIX REQUIREMENT SUMMARY, ABERFELDY VILLAGE, OCTOBER 2021

Unit Size	Market	Intermediate	Affordable rented
1 bed	30%	15%	25%
2 bed	50%	40%	30%
3 bed	20%	45%	30%
4 bed			15%

4.61 Strategic Policy H2 (5) states that estate regeneration schemes are required to:

- Protect existing quantum of affordable and family units, with affordable units re-provided with the same or equivalent rent levels.
- Provide an uplift in the number of affordable homes.

4.62 Further information is provided in so far that the Local Plan states that Policy H2 recognises that additional homes may be provided through estate regeneration schemes and seeks to secure that any net additional homes are also subject to the affordable housing requirement in Policies S.H1 (Part 2) and D.H2 (Parts 1 and 2).

4.63 Parts 1 and 2 of D.H2 require a minimum of 50% to be provided, subject to viability, in accordance with a 70% rented and 30% intermediate tenure split.

4.64 The Local Plan targets 58,965 net new homes over the plan period to 2031, equating to 3,932 units per year.

Development Viability Supplementary Planning Document (October 2017) ("Development Viability SPD")

4.65 The Development Viability SPD was adopted in October 2017. This SPD provides additional guidance on the approach to viability through the planning process.

4.66 Development Viability SPD seeks to align its approach to viability with the regional guidance provided by the GLA.

4.67 The Development Viability SPD strongly encourages the submission of a draft FVA when seeking pre-application advice and where viability is likely to be a relevant consideration.

4.68 The Council requires that an executive summary report, full Application FVA and an appraisal inputs summary sheet must be submitted alongside planning applications.

4.69 The Development Viability SPD states that a viability review mechanism will be required to be incorporated within S106 agreements for all application schemes that do not propose to provide a policy compliant level of planning obligations, such as affordable housing, due to viability. This potentially include pre-implementation reviews, mid-term reviews and advanced stage reviews.

Summary

4.70 In summary, national, regional and local affordable housing policy support the delivery of the maximum amount of affordable housing that can be viably delivered, alongside other forms of planning gain and local CIL. The policy intent however also seeks to encourage rather than restrain delivery, so development proposals must remain commercially viable.

4.71 The Proposed Development re-provides the existing affordable housing by floorspace and habitable rooms, and provides an uplift in affordable housing, equivalent to 18 per cent (by habitable rooms) as supported by the Financial Viability Assessment.

5 VIABILITY METHODOLOGY

5.1 The methodology adopted in producing this FVA has been framed by national, regional and local adopted planning policy as well as non-adopted best practice guidance.

Methodology

5.2 The most common method for valuing development land is the Residual Valuation Method, set out in the RICS's 'Valuation of development property' (2019). This concept underpins the planning viability process.

5.3 The Residual Valuation method is based on a relatively simple concept, under which the gross value of the completed development is assessed, and then the cost of building the development along with professional and disposal fees, finance costs and developer's profit are deducted. This is illustrated in the table below.

TABLE 11: RESIDUAL ANALYSIS METHODOLOGY
Gross Development Value
Residential sales income
Affordable sales income
Commercial sales income
Less
Costs
Build costs
Exceptional development costs (where applicable)
Professional fees
Planning obligations
Marketing costs and disposal fees
Finance costs
Planning gain costs
Less
Developer's Profit
Equals
Residual Land Value

5.4 The output is the Residual Land Value (RLV). Simply, if the RLV produced by a scheme is lower than an appropriate Benchmark Land Value (BLV) then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and / or planning obligations can be reduced. If the RLV is higher than the BLV then the scheme can, in theory, provide additional affordable housing and / or other planning obligations.

5.5 Alternatively, the BLV can be inserted into the appraisal as a fixed cost and the level of return generated by the scheme becomes the benchmark by which viability is measured. If a sufficient level of return is generated the scheme is deemed to be viable. This approach has been adopted for the purposes of this FVA.

Benchmark Land Value / Site Value

Existing Use Value Plus (EUV+)

NPPG

5.6 Paragraph 13 of the NPPG states that a BLV should be established based on the EUV of the land, plus a premium for the landowner.

5.7 The premium to the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should therefore provide a reasonable incentive, in comparing with other options available, for the landowner to sell the land for development.

5.8 Paragraph 14 of the NPPG states that a BLV should;

- Be based upon EUV;
- Allow for a premium to landowners;
- Reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees; and
- Be informed by market evidence including current uses, costs and values wherever possible. Where recent evidence is used to inform assessment of BLV this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and Applicants' should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic BLV of non-policy compliant developments are not used to inflated values over time.

5.9 Paragraph 15 of the NPPG defines what is meant by EUV in a viability assessment. This states the following:

"Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development)."

5.10 The approach to BLV must be assessed independently of the scheme for which planning permission is sought. It must also be assed objectively i.e. irrespective of who the Applicant is for the planning permission.

5.11 The EUV is the first component of calculating BLV. The second component is the premium, or as stated at paragraph 16 of the NPPG the 'plus' in EUV+.

5.12 This is the amount above the EUV required to provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.

5.13 The premium should be informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. The NPPG states that for any viability assessment data sources to inform the establishment of the landowner premium should include market evidence and can include benchmark land values from other viability assessments.

Affordable Housing and Viability SPG

5.14 The Affordable Housing and Viability SPG defines EUV as the current use value of a site plus an appropriate site premium. The Affordable Housing and Viability SPG states that a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development. The Affordable Housing and Viability SPG considers that the EUV Plus approach is the most appropriate for planning purposes.

5.15 The Affordable Housing and Viability SPG states at paragraph 3.46 the following when determining the EUV Plus benchmark;

5.16 The EUV is independent of the Proposed Development. The EUV should be fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes any hope value associated with development on the site or alternative uses. This evidence should relate to sites and buildings of a similar condition and quality or otherwise be appropriately adjusted. Where an existing use and its value to a landowner is due to be retained in a development (and not lost as is usually the case), a lower benchmark would be expected. Where a proposed EUV is based on a refurbishment scenario, or a redevelopment of the current use, this is an alternative development scenario and the guidance relating to AUV will apply.

5.17 Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower or no premium would be required. The premium could be 10% to 30%, but this must reflect site specific circumstances and will vary.

The level of premium can be informed by BLVs that have been accepted for planning purposes on other comparable sites were determined on a basis that is consistent with this guidance.

5.18 As set out in NPPG, in all cases land or site value should reflect Development Plan Policies, planning obligations and CIL. When determining a level of premium that would be sufficient to incentivise release of a site for development and ensure that a landowner receives a 'competitive return', this should take into account the overarching aim of delivering sustainable, policy compliant development and that an uplift in land value is dependent on the grant of full planning consent.

Development Viability SPD

5.19 Paragraph 6.29 of the Development Viability SPD states that in most cases the BLV will be assessed with reference to EUV, plus a financial incentive, that would ensure the release of the land from its existing use. The premium above EUV that is applied will generally not be expected to exceed 20% but will be considered on a site by site basis.

Alternative Use Value (AUV) Approach

NPPG

5.20 The NPPG recognises that an AUV is acceptable and states;

"For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its current permitted use, and other potential development that requires planning consent, technical consent or unrealistic permitted development with different associated values. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which have an existing implementable permission for that use. Where there is no existing implementable permission for that use, plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be doubled counted".

Affordable Housing and Viability SPG

5.21 The Affordable Housing and Viability SPG recognises that an alternative approach will only be considered in exceptional circumstances which must be robustly justified by the Applicant.

5.22 In this scenario, the Applicant must demonstrate that the site value fully reflects policy requirements, planning obligations and CIL charges, and takes account of site-specific circumstances. Generally, the Mayor will only accept the use of AUV where there is an existing implementable permission for that use.

5.23 Where there is no existing implementable permission, the approach should only be used if the alternative use would fully comply with development plan policies, and if it can be demonstrated that the alternative use could be implemented on the site in question and there is market demand for that use.

Development Viability SPD

5.24 Paragraph 6.30 of the Development Viability SPD states that a realistic alternative scheme (commonly referred to as an AUV) may be used to form a BLV, particularly where the site in question has no EUV. It is not necessary that a planning permission for the alternative use must be in place, however the application of a particular alternative use will need to meet a number of criteria, such as;

- The alternative use would be policy compliant and would secure permission;
- There would be no additional costs or delay in securing that permission – or those additional costs and delays are assessed;
- The alternative proposal is required to be worked up to an appropriate level of detail;
- There is a real-world demand for the alternative at the values assumed; and
- In the real world the landowner could really develop out the alternative rather than use it as a negotiating lever to force down affordable housing.

5.25 All proposals that intend to use an AUV to form the BLV must be accompanied by;

1) A statement that sets out;
    a) A description of the alternative scheme including floor areas;
    b) Why the Applicant considers that the alternative use would be policy compliant and would secure permission;
    c) Evidence to demonstrate there is a real-world demand for the alternative use scheme at the values proposed in the accompanying appraisal;
    d) In instances where there is a public benefit test to be applied (pursuant to Section 66 or 72 of the Planning (Listed Building and Conservations Areas) Act 1990 and Chapter 12 of the NPPF) the public benefits for the alternative scheme and details of how they compare with the Proposed Development that the application is the subject of;
    e) Anything else the Council considers relevant in the context of the particular application.

2) A set of floor plans and elevation drawings (or elevation massing diagrams) for the alternative scheme proposed.
3) A site layout plan including basic servicing and transportation details.
4) An appraisal that demonstrates the residual land value of the alternative use scheme, prepared in accordance with the principles described in the SPD, incorporating realistic current day costs and values that are back up by evidence.

Market Value

NPPG

5.26 Paragraph 14 of the NPPG states that market evidence can be used as a cross-check of BLV but should not be used in place of BLV. There may be divergence between BLVs and market evidence; and plan markers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

5.27 The evidence used should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and Applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic BLVs of non-policy compliant developments are not used to inflate values over time.

5.28 Where a viability assessment is used to inform decision making under no circumstances will the price paid for the land be a relevant justification for failing to accord with relevant policies in the plan.

Development Viability SPD

5.29 Paragraph 6.30 of the Development Viability SPD states that the Council will only accept purchase price or the Market Value as the BLV of the scheme where these figures fully reflect policy requirements, planning obligations and planning contributions.

Summary

5.30 Ultimately the aim of the NPPF and NPPG, in respect of planning viability, is to create a balance so that the Benchmark Land Value is not simply included at the expense of planning obligations and conversely, planning obligations are not so onerous as to render a site undeliverable.

5.31 The BLV should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land while allowing a sufficient contribution to fully comply with policy requirements and taking into consideration the circumstances of the site.

5.32 The approach to BLV is set out in Section 9 of this report which sets out a valuation of the existing Site on an EUV basis, which aligns with the approach adopted in the Draft FVA and that agreed with BNPPRE.

6 DEVELOPMENT TIMINGS

6.1 The following section sets out the adopted pre-construction, construction and sales timings applied within the ARGUS appraisal of the Proposal.

6.2 In accordance with best practice principles, this assessment assumes that the Proposed Development has a notional resolution to grant planning permission and therefore, the cash flow commences October 2021.

Pre-construction

6.3 The development programme is estimated from October 2021. A copy of the indicative development programme is attached at **Appendix C**. A 9-month pre-construction period has been adopted within the proposed programme and includes an allowance for the following;

- Signing of the Section 106 agreement;
- Expiration of the Judicial Review period;
- Discharging of pre-commencement conditions;
- Securing necessary development funding;
- Tender period for build contract package (s)
- Mobilisation; and
- Preparation of a sales and marketing campaign.

6.4 A 9-month pre-construction period aligns with BNPPRE's position.

Construction

6.5 The Applicant has drawn up a construction programme for the Proposed Development, a brief summary of which is provided below:

TABLE 12: PROPOSED DEVELOPMENT CONSTRUCTION PROGRAMME, ABERFLEDY VILLAGE, OCTOBER 2021			
Building	**Construction**		
	Start	**End**	**Duration**
Pre-Construction	October 2021	June 2022	9 months
Phase A Construction (Buildings F1, H1, H2, H3, I1, J1)	July 2022	August 2024	26 months
Phase B Construction (Buildings A1, A2, A3, B1, B2, B3, B4, B5)	October 2023	July 2027	38 months
Phase C Construction (Buildings C1, C2, C3, C4, C5 E1, E2, E3, E4)	April 2027	August 2030	41 months
Phase D Construction (Buildings D1, D2, D3, D4)	November 2031	December 2033	26 months
Entire Scheme	October 2021	December 2033	147 months

Residential sales timings

Market Sale

6.6 The sales programme assumes that 60% of the residential units will be sold prior to practical completion.

6.7 The revenue from the pre-sale of the private units will be received at practical completion. It is assumed that the remaining un-sold units would be purchased at a rate of circa 5 units per month. This is consistent with evidence from phase three of the Aberfeldy development to the immediate south.

Affordable

6.8 The affordable revenue is cash flowed as follows; 20% of the value is assumed up-front to reflect when the affordable provider takes a legal interest in the building (up-front meaning commencement of construction). The remainder of the affordable payments are cash flowed on a quarterly basis through the construction period, assumed to be on certification of the RP's Employer's Agent (EA).

Commercial timings

6.9 The Proposed Development will deliver commercial floorspace situated across the site comprising retail space and workspace. A 6-month letting void has been assumed for the commercial space starting from practical completion. This has been assumed in the appraisal to take into account the current market conditions and our experience on other schemes within LBTH and London.

6.10 This is particularly relevant for retail uses due to the current headwinds the commercial sector is currently facing. A 6-month letting void is considered optimistic in the current market especially due to the location of the development which is unlikely to experience significant footfall and therefore may take longer to attract a tenant unless incentives are offered as part of the letting strategy.

Summary

6.11 Each of the above positions was adopted within the Draft FVA and has been agreed with BNPPRE although is subject to final verification from BNPPRE.

7 DEVELOPMENT VALUE

7.1 The following section provides a summary of the residential, affordable and commercial values that have been incorporated into the appraisal of the Proposed Development.

Market Sale

7.2 DS2 have considered the value of the market sale units in detail and previous residential evidence supplied with the Draft FVA is attached at **Appendix D**. We recognise the need to ensure that market values are up to date and relevant and as such, this appendix supplements the information previously issued. Of most relevance to the market sale values within the Proposed Development are the values of the completed phases within the delivered phases of the Extant Scheme.

7.3 In arriving at an appropriate value for the market sale residential units, we have had regard to exchanges and completions of market sale units in completed phases of the Extant Scheme.

7.4 The following sales figures have been provided by EcoWorld and were included within the Draft FVA.

- Phase 1 - £458 psf
- Phase 2 - £558 psf
- Phase 3A:

  Launch - June 17

  69/82 Completed @ £611 psf
- Phase 3B:

  Launch – Sep 18

  78/180 Exchanged @ £677 psf

7.5 Since the previous data was provided, there have been further sales of the completed units within the Extant Scheme. Since February 2021, there have been 17 sales, which over an 8 month period, equates to c. 2 units per month. This demonstrates that the 5 units per month assumption in the FVA is optimistic. The blended average sale value, net of incentives agreed with purchasers, is £679 psf. This demonstrates that the existing **£675 psf** value agreed with BNPPRE remains robust. It is worth noting the wider market context and the impact of the pandemic on the London housing market which further supports the retention of the agreed value. The pandemic has increased the demand for home working space and private gardens, and lateral units without outdoor space are now considered relatively less desirable.

7.6 £675 psf has therefore been retained for the purposes of this FVA.

Affordable housing values

Social Rent

7.7 The re-provided affordable homes valued for the purposes of this FVA will be social rent. In arriving at a value for the social rent units we have had regard to our experience on other schemes. We have adopted a rate of £175 psf for the social rent units in our assessment of the Proposed Development, as agreed with BNPPRE.

Intermediate

7.8 The intermediate tenure affordable homes will provide shared ownership housing. In arriving at a value for the intermediate units we have had regard to our experience on other schemes. We have adopted a rate of £400 psf for the intermediate units in our assessment of the Illustrative Scheme.

Commercial values

Retail

7.9 The Proposed Development includes an element of retail space, providing 20,268 sq ft NIA (1,883 sqm) of retail space located on the ground and basement levels of five of the plots.

7.10 In the Draft FVA, DS2 adopted a rental value of £20 psf, capitalised at 7.5%, with a 6-month letting void and 18-month rent free period applied. BNPPRE initially agreed with this approach but with a keener yield of 6.75% and a shorter rent free period of 12 months.

7.11 In their most recent correspondence, BNPPRE are of the opinion that the increased flexibility afforded by Class E space should be reflected in its valuation. The space will be brought forward as retail space which generates a lower value than assumed by BNPPRE. DS2 have undertaken comparable research which confirms the original assumptions adopted in the Draft FVA remain reasonable, as originally agreed with BNPPRE. However, in the interest of reaching an expedient agreement, a rental value of £30 psf, capitalised at 6% with a 12 month rent free period has 6 month void has been adopted.

7.12 This aligns with BNPPRE's position.

Workspace

7.13 The Proposed Development includes an element of workspace, providing 20,402 sq ft NIA (1,895 sqm) of retail space located on the ground and mezzanine levels of nine of the plots.

A rental value of £30 psf, capitalised at 6%, with a 12-month rent free period and 6 month letting void has been applied. This reflects the agreed position with BNPPRE.

Grant Funding

7.14 Grant funding has been agreed with the GLA for Phase A and Phase B at the following amounts:

- Phase A: £7,004,000
- Phase B: £14,149,200

7.15 This has been phased 50% at start on site and 50% at practical completion for the relevant phases.

7.16 In accordance with the policy test we have sought to examine impact of grant on provision of affordable housing, and the additionality that it affords. This is explored in further detail in Section 10.

8 DEVELOPMENT COSTS

Development Costs

Construction costs

8.1 The Applicant's cost consultant, Circle, have provided a cost estimate for the Proposed Development. The total base build cost is £416,175,671 on a fixed present-day basis. This includes preliminary costs and overheads and profit and reflects an overall cost rate of £254 psf on the gross (GIA) area. The construction cost figures exclude design fees, inflation and contingency.

8.2 A detailed plot-by-plot cost plan has been drawn up for the Detailed Proposals, which is attached at **Appendix E**. A separate cost plan for the Outline Proposals is attached at **Appendix F.** It is worth noting that the GIAs cited in the cost plans exclude any car park GIA.

8.3 A summary of the base build costs provided by Circle is shown in the table below. The figures shown below are taken from the Circle cost plans, noting that any design fees, contingency and inflation are removed to ensure no double counting.

TABLE 13, PROPOSED DEVELOPMENT CONSTRUCTION COSTS SUMMARY, ABERFELDY VILLAGE, OCTOBER 2021

Phase	Plot	Cost
Phase A	Plot H	£32,491,860
	Plot F	£25,895,020
	Plot I	£14,901,120
	Plot J	£8,779,560
Phase B	All plots	£149,647,413
Phase C	All plots	£140,432,186
Phase D	All plots	£44,028,512
Total	All phases	**£416,175,671**

8.4 The above construction costs have been profiled to align with the construction programme attached at Appendix C, with Phase A costs profiled on a plot by plot basis and the remaining phases profiled on a phase by phase basis to reflect the outline nature of these later phases. All construction costs have been S-curved within the DS2 appraisal.

Construction contingency

8.5 A 5% construction contingency has been assumed in this FVA. This is in line with what is typically assumed for the purposes of viability assessments and aligns with the position agreed with BNPPRE in the Draft FVA discussions. Any contingency within the Circle cost plan has been disapplied by DS2 in favour of a more typical viability norm albeit the outline nature of much of the Application would support a higher contingency.

Professional fees

8.6 Professional fees have been included at 10% of the total construction costs. This is at the lower end of the range of 10-12% which is generally acceptable.

Other development costs

8.7 The following additional development costs have been advised by the Applicant.

- **Off-Site Utility:** £13,635,000. Estimated cost of reinforcing the power network required to service the new development. A budget quote provided by UK Power Networks is provided at **Appendix G**. The Applicant has confirmed that this cost is not covered within the Cost Plans.

- **Japanese Knotweed (JKW):** £47,200. JKW has been encountered and treated on every delivered phase to date. The expectation is that this will continue in future phases of the Masterplan requiring ongoing treatment plans over 10 years. Given BNPPRE's request for evidence, a conservative approach has been followed in arriving at the adopted figure, which is to use the insurance cost incurred for Phase 3 of the existing permission. In reality, the cost will be greater given the scale of the Proposed Development in relation to Phase 3 of the existing permission. Evidence of the cost incurred on Phase 3 is attached at **Appendix H**. We recommend the actual cost incurred should be picked up in the review mechanism through expansion of the construction costs definition within the review calculation

- **Unexploded Ordnance (UXO):** £250,000. The masterplan is located in a high risk area for UXO. This cost allowance covers continued site assessment and safe removal of any UXO encountered throughout the development period. Evidence of the high risk level of encountering UXO is attached at **Appendix I**, which summarises the site specific risk level of encountering UXO as 'high', noting that the Site requires further action to reduce the risk to 'as low as reasonably possible' during intrusive activities.

- **Equity gift**: £1,000,000. A cost of £1,000,000 was adopted in the Draft FVA and upon review, BNPPRE retained it on a 'subject to confirmation' basis. Given detailed discussions with existing tenants are not concluded, this cost has not been finalised and as such cannot yet be evidenced. If BNPPRE do not recognise this as a real cost, we recommend the actual cost should be picked up in the review mechanism through expansion of the construction costs definition within the review calculation.

- **Home loss payments:** £2,520,000. A cost of £10,000 per unit, totalling £2,520,000 based on 252 existing units, was adopted in the Draft FVA and upon review, BNPPRE stated that this cost would be removed unless it can be evidenced. This is a statutory cost required to cover home loss payments (£6,500 per unit) and moving expenses (£3,500 per unit).

  The Mayor's Good Practice Guide to Estate Regeneration states that landlords should seek to offer the maximum home loss compensation permitted by legislation to tenants who meet the statutory criteria and who are displaced from their homes due to estate regeneration. Landlords should pay for the 'disturbance costs' of moving home. This means paying the reasonable costs of moving, such as removal costs, telephone and utility connection costs, and the provision of new carpets and curtains. These costs are therefore retained in the DS2 appraisal.

- **Compulsory Purchase Order and VP**: A cost of £925,000 was adopted in the Draft FVA to cover costs relating to CPO management fees, some leasehold buy-backs, land referencing services, payments to LBTH, disconnection fees, security, and legal fees including payments to solicitors, conveyancers, and counsel. Upon review, BNPPRE retained this cost on a 'subject to confirmation' basis. Given these costs have not yet been incurred due to the current early stages of the development process, these costs cannot yet be evidenced. If BNPPRE still do not recognise this as a real cost, we recommend the actual cost should be picked up in the review mechanism through expansion of the construction costs definition within the review calculation.

- **Other Development Costs:** £4,104,900. Evidence can be provided upon request on a confidential basis.

- **Asbestos:** £1. A cost of £500,000 was adopted in the Draft FVA to cover the removal of asbestos from the Site. Upon review, BNPPRE stated that this cost would be removed unless it can be evidenced. At this stage in the development process, it cannot yet be evidenced given the cost has not yet been incurred, so it has been removed. A £1 placeholder has been retained in the appraisal to allow the actual cost to be picked up in the review mechanism through expansion of the construction costs definition within the review calculation.

- **Placemaking:** £1. A cost of £2,500,000 was adopted in the Draft FVA to cover meanwhile uses over the development period, place activities, community events and offer ongoing annual local business support. Upon review, BNPPRE stated that this cost would be removed unless it can be evidenced. At this stage in the development process, it cannot yet be evidenced given the cost has not yet been incurred, so it has been removed. A £1 placeholder has been retained in the appraisal to allow the actual cost to be picked up in the review mechanism through expansion of the construction costs definition.

Sales, letting disposal and marketing costs

8.8 The following sales, letting disposal and marketing costs have been adopted in this assessment in line with industry norms for a development of this type.

- Residential marketing – 1.5% (of residential GDV)
- Commercial marketing - £10,000 fixed fee (adopted on a without prejudice basis to align with BNPPRE)
- Residential sales agent fee – 1.50% (of residential GDV)
- Affordable housing sales agent fee – £50,000 fixed fee (adopted on a without prejudice basis to align with BNPPRE)
- Residential sales legal fee – £1,000 per unit (adopted on a without prejudice basis to align with BNPPRE)
- Commercial sales agent fee – 1.0% (of commercial GDV)
- Commercial sales legal fee – 0.5% (of commercial GDV)
- Letting Agent Fee – 10% (of 1st year's annual rental income)
- Letting Legal Fee – 5% (of 1st year's annual rental income)

8.9 Each of the above allowances are within a reasonable and generally accepted range and are agreed with BNPPRE.

Planning Obligations & CIL

8.10 The following indicative figures have been included within the appraisal model.

Community Infrastructure Levy

8.11 DS2 have included draft Section 106 requirements at this stage for the Proposed Development proposed on a without prejudice basis and it is anticipated that the scale of these obligations will be identified in more detail through the determination period.

8.12 The Applicant has been advised by DP9 in respect of the level of planning obligations to assume at this stage. The following indicative figures have been included within the ARGUS appraisal of the Proposed Development.

8.13 Please note that both the Mayoral and Borough CIL figures are based on assumptions provided by DP9. The CIL figures are approximate and based on assumptions related to indexation. These figures can only be finalised once planning permission has been granted.

8.14 The Mayoral and Borough CIL figures have been profiled on a phase by phase basis, apportioned based upon GIA of that particular phase. This approach is to be agreed with LBTH.

8.15 The figures have also been profiled in accordance with LBTH's Instalment Policy. This being 50 per cent payable within 60 days of commencement of the development and the remainder within 240 days of commencement of the development. The S106 is assumed to be payable at the start of construction, however, the timings are to be discussed with the Council.

8.16 The following estimates of liability have been adopted for the Proposed Development:

- LBTH CIL - £4,238,280
- Mayoral CIL - £5,406,122

8.17 The above figures have been advised by DP9 based on the area schedule for the Proposed Development. The CIL figures are reflective of relief for existing floorspace and Social Housing relief in accordance with the CIL Regulations.

Section 106 contributions

8.18 S106 contributions totaling £4,400,000 have been adopted as advised by DP9. This covers costs including the carbon offset payment and Skills and Training Contributions. This estimation is yet to be formally concluded with LBTH so DS2 reserve the right to amend once discussions have concluded.

Finance

8.19 A 6.5% finance cost has been included in the appraisal of the Proposed Development. The adopted finance rate is an 'all in' rate, which includes the basic margin (3-4%), commitment fees, arrangement fees (2-3%) and exit fees (0.5-1%), as well as a bank management/monitoring cost.

8.20 It is assumed that the development is 100% debt financed. However, in the pre Covid-19 lending environment, many of the most traditional lenders were generally only lending senior debt at a maximum 50-60% loan to cost ratio.

8.21 Developers therefore have to revert to equity or mezzanine finance to secure full development funding, both of which are considerably more expensive than senior debt, typically at 10-15% and potentially higher. Alternatively, developers can source debt from niche operators, who are by their nature, more expensive than the traditional lenders.

8.22 As a result, whilst senior debt can be secured at anywhere between 6% and 8%, in reality to secure full funding the blended finance rate may be significantly higher than this. Notwithstanding this, 6.5% has been adopted.

Profit Expectation

8.23 The requirement for a reasonable development return is by reference to NPPG 2019, as amended. Developer return is deemed to be a key component of the viability process as defined in paragraph 10.

8.24 It should be noted that developer return is not a net profit position but a gross profit from which there are invariably deductions to be made, some of which can be significant (for example, paying back equity costs). Paragraph 18 states in relation to plan making, which states:

'For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development. A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types'.

8.25 Paragraph 21 states that where a viability assessment should refer back to the evidence base that underpins the Local Plan and summarise what has changed since then. In that regard, the Council's evidence base that underpins the adopted affordable housing policy, refers to 20% on GDV for private residential, 6% for affordable and 15% on commercial.

8.26 Following rapid growth as Covid restrictions ended in the UK, economic growth is continuing albeit at a slower rate of 0.4% as recorded in August 2021 meaning GDP remains 0.8% lower than its pre-covid level in February 2020.

8.27 Inflation is currently higher than the government's long-term objective of 2%; as of September 2021 (the most up to date figures at the time of writing) it is at 2.9%. Clearly, with interest rates at an all-time low and significant upwards pressure on inflation, the Bank of England are reported to be imminently considering increases to interest rates to maintain inflation stability.

8.28 Risk has clearly increased over the last 12 to 18 months and particularly since March 2020. Despite this, we have adopted an optimistic profit target of 17.5% for the Market Sale residential elements of the Proposed Development. DS2 had originally adopted a profit target of 20% on GDV in the Draft FVA, however this has been revised to align with BNPPRE's position.

8.29 A summary of the profit targets adopted by DS2 is as follows.

- 17.5% profit on GDV for the Market Sale residential element;
- 6% profit on GDV for the affordable housing element;
- 15% on GDV for the commercial element.

8.30 This derives a blended site-wide profit target of 16.03% For the Proposed Development.

8.31 A second measure of return sometimes used for large multi-phased schemes is Investment Rate of Return, or IRR, which for a scheme such as the Proposed Development would target circa 14% on an ungeared basis.

9 SITE VALUE/BENCHMARK LAND VALUE

9.1 In arriving at a Site Value for the subject Site regard has been given to the approach set out in Section 5 of this FVA. The approach accords with planning policy and best practice guidance, including the NPPG, Affordable Housing and Viability SPG and Development Viability SPD.

9.2 The NPPG states that BLV should usually be established on the basis of the EUV of the land, plus a premium for the landowner. It stipulates that the premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land.

9.3 The Affordable Housing and Viability SPG and Development Viability SPD states that a EUV Plus approach is usually the most appropriate for planning purposes.

9.4 The principle of this approach is that a landowner should receive at least the value of the land in its current or 'pre-permission' use, otherwise there is no incentive for a landowner to release their land for redevelopment and in doing so extinguish the value of the existing use. Furthermore, it is considered that a premium is added to provide the landowner with an additional incentive to release the site, having regard to site circumstances. The Affordable Housing and Viability SPG refers to a range of between 10% and 30% albeit noting that the premium must reflect site specific circumstances and will vary. LBTH's Development Viability SPD states that premiums are generally not expected to exceed 20%, though should be considered on a site by site basis.

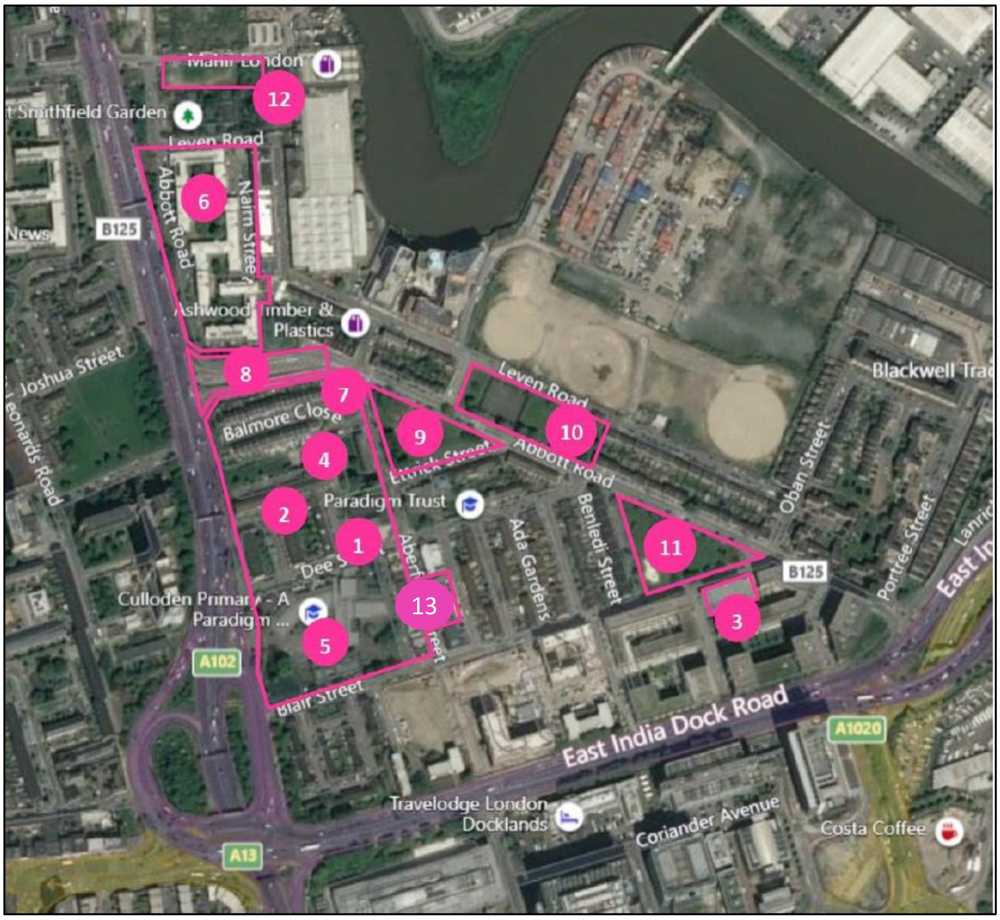
9.5 DS2 and BNPPRE have been engaged in extensive and substantive discussions since submission of the Draft FVA in October 2020 and this has included discussions with the Council and Poplar Harca. Over a period of 11 months, there have been several meetings and written responses exchanged between the two parties in order to support the BLV and reach an agreement. Details of the latest position regarding the BLV are outlined toward the end of this section.

Existing Use Value (EUV) Plus Approach

9.6 The Site has been broken down into the following sections in order to help give better context;

1) Aberfeldy OPP Phases 4,5 and 6
2) Kilbrennan House, Heather House, Tartan House and Thistle House
3) Blairgowrie House
4) Number 33-35 Findhorn Street and Jura House
5) Nairn Street Estate

6) Balmore Close
7) Abbot Road A12 intersection
8) Millennium Green
9) Leven Road Green space and MUGA
10) Braithwaite Park
11) Lochnagar Street
12) Aberfeldy High Street



1) Aberfeldy OPP Phases 4,5 and 6

9.7 Part of the Site benefits from an outline consent that has been delivered in part. Phases One to Three are either completed or under construction and are located adjacent to the East India Dock Road and to the south of the new application area. The remaining undelivered component of the outline consent is located within the triangular block outline in pink with Blair Street to the south, Balmore Close to the north and Aberfeldy Street to the east.

9.8 The remaining part of the outline consent consists of 275 new homes, retail floorspace and a faith centre. The affordable requirement for these remaining phases is 21% by habitable rooms or 11% by units. This would result the provision of 31 affordable homes.

2) Kilbrennan House, Heather House, Tartan House and Thistle House

Kilbrennan House

Source – Google Maps

9.9 Kilbrennan House is a four-storey building providing 32 existing properties of which 18 are tenanted properties let at social rent levels and 14 are leasehold properties.

Tenanted properties

9.10 Of the 18 tenanted properties, 17 are 2-bedroom maisonette properties with a 3-bedroom maisonette property also provided within the building.

9.11 Poplar Harca have the obligation to rehouse 13 of the 18 tenants.

Leasehold properties

9.12 Of the 14 leasehold properties all are 2-bedroom maisonette properties.

Heather House, Tartan House and Thistle House

9.13 Heather House, Tartan House and Thistle House are three storey buildings which provide 50 existing properties of which 39 are tenanted properties let at social rent levels and 11 are leasehold properties.

9.14 From west to east is Thistle House, Heather House and Tartan House. The properties consist of maisonettes and flats.

9.15 Poplar Harca have the obligation to rehouse 15 tenants. The unit mix is provided below.

Tenanted properties

TABLE 14: HEATHER, TARTAN AND THISTLE HOUSE TENANTED UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Beds	Number
Total 1 bed	14
Total 2 bed	-
Total 3 bed	25
Total 4 bed	-
Total	**39**

Leasehold properties

TABLE 15: HEATHER, TARTAN AND THISTLE HOUSE LEASEHOLDER UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Beds	Number
Total 1 bed	4
Total 2 bed	-
Total 3 bed	28
Total 4 bed	4
Total	**41**

Community Centre

9.16 Situated within this area is the Aberfeldy Neighbourhood Centre which is located to the north of Dee Street and west of Aberfeldy Street.

9.17 The Aberfeldy Neighbourhood Centre comprises a part one, part two-storey building used as a community centre, and also incorporates ancillary offices, a café and other facilities. To the rear of the building is an external, floodlit multi-use games area. The GIA of the building is c. 513 sqm (or 5,522 sq ft).

9.18 It is understood that LBTH are the freeholders.

3) Blairgowrie House

Source – Google Maps

9.19 Blairgowrie House is a six-storey building which was constructed circa 20 years ago. The building provides 30 residential apartments which are let at social rent levels. The apartments are all two bedrooms.

9.20 Poplar Harca have the obligation to rehouse 5 of the 30 tenants.

4) <u>Number 33-35 Findhorn Street & Jura House</u>

Source – Google Maps

<u>Number 33-35 Findhorn Street</u>

9.21 The properties are let at social rent levels. Number 33 is a 2-bedroom house, number 34 is a 3-bedroom house and number 35 is a 4-bedroom house.

9.22 Poplar Harca have the obligation to rehouse the tenants.

Source – Google Maps

Jura House

9.23 Jura House is a four-storey building which provides 12 existing residential properties of which 9 are tenanted properties let at social rent levels and the remaining 3 are leasehold properties.

9.24 All of the properties are 3-bedroom maisonettes.

9.25 Poplar Harca have the obligation to rehouse the tenants.

5) Nairn Street Estate

9.26 The Nairn Street Estate provides three buildings rising to four storeys. The Nairn Street Estate provides 142 existing residential properties of which 98 are tenanted properties let at social rent levels and 44 are leasehold properties.

9.27 The Nairn Street Estate area also provides recently constructed affordable workspace. This is provided in the form of 13 studios totalling 265 sqm (or 2,847 sq ft) and 27 = workshops totalling 583 sqm (or 6,276 sq ft).

9.28 Poplar Harca have the obligation to rehouse 92 tenants. The unit mix for the Nairn Street Estate is provided below.

Tenanted properties

TABLE 16: NAIRN STREET ESTATE TENANTED UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Beds	Number
Total 1 bed	25
Total 2 bed	18
Total 3 bed	50
Total 4 bed	5
Total	**98**

Leasehold properties

TABLE 17: NAIRN STREET ESTATE TENANTED UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Beds	Number
Total 1 bed	4
Total 2 bed	7
Total 3 bed	29
Total 4 bed	4
Total	**44**

6) Balmore Close

Source – Google Maps

9.29 Balmore Close provides 39 existing residential properties of which 37 are tenanted properties let at social rent levels and 2 are leasehold properties. The properties include flats, maisonettes and houses.

Tenanted properties

9.30 The unit mix for the 37 tenant properties let at social rent levels is contained in the table below;

TABLE 18: BALMORE CLOSE TENANTED UNIT MIX, ABERFELDY VILLAGE, OCTOBER 2021

Beds	Number
Total 2 bed	5
Total 3 bed	19
Total 4 bed	9
Total 5/6 bed	4
Total	**37**

9.31 Poplar Harca have the obligation to rehouse all of the tenants.

Leasehold properties

9.32 The leasehold properties are provided in the form of a 3-bedroom house and 3-bedroom maisonette.

7) Abbot Road A12 intersection

9.33 For the purposes of this FVA this does not have an impact on the EUV.

8) Millennium Green

9.34 This is public open green space which for the purposes of this FVA this does not have an impact on the EUV.

9) Leven Road Green space and MUGA

9.35 This is public open green space containing a hard-surfaced court. For the purposes of this FVA this does not have an impact on the EUV.

10) Braithwaite Park

9.36 This is public open green space which for the purposes of this FVA this does not have an impact on the EUV.

11) Lochnagar Street

9.37 This is situated to the north of the derelict Bromley Hall School site and is identified as wasteland.

12) Aberfeldy High Street

Source – Google Maps

9.38 The properties situated on Aberfeldy High Street are situated in three storey buildings with retail provided on the ground floor. The Aberfeldy High Street area provides 22 existing properties of which 18 are tenanted properties let at social rent levels and 4 are leasehold properties.

Tenanted properties

9.39 All of the 18 tenanted properties are 3-bedroom maisonette properties.

9.40 Poplar Harca have the obligation to rehouse 8 of the 18 tenants.

Leasehold properties

9.41 All of the 4 leasehold properties are 3-bedroom maisonette properties.

Retail

9.42 Situated at the ground floor are 19 retail properties. At the time of preparing this FVA, eight of the retail units are generating a passing rent. The remaining retail units are let to community groups at a peppercorn rent.

Summary

9.43 In summary the Site provides the following residential homes which have been valued in order to arrive at an EUV for the Site.

TABLE 19: EXISTING RESIDENTIAL HOMES, ABERFELDY VILLAGE, OCTOBER 2021

Location		Tenanted Homes	Leaseholder Homes	Total
2	Kilbrennan House	18	14	32
	Heather House, Tartan House and Thistle House	39	11	50
3	Blairgowrie	30	-	30
4	Number 33-35 Findhorn Street and Jura House	12	3	15
6	Nairn Street Estate	98	44	142
7	Balmore Close	37	2	39
13	Aberfeldy High Street	18	4	22
	Total	**252**	**78**	**330**

9.44 This differs slightly from the existing schedule previously provided by DS2 because the following three units are now understood to be leaseholder homes rather than tenanted:

- 243 Abbott Road
- 65 Nairn Street
- 75 Nairn Street

9.45 There are therefore three fewer tenanted homes and three more leaseholder homes in the summary table above.

9.46 In arriving at an EUV for the purposes of this FVA the value of the existing retail floorspace and affordable workspace has also been considered.

Valuation

9.47 DS2 have worked with Poplar Harca in collating the EUV. A key component of the valuation is attributing a value to the various uses situated within the existing site. DS2 can confirm that a site inspection took place on the 6th August 2020 and have visited the Site on numerous occasions since.

9.48 DS2 provided a valuation on an EUV-SH and open market basis in the Draft FVA, reflecting the value of the existing homes. The reported figure in the Draft FVA was £40,934,033.

9.49 Since negotiations commenced with BNPPRE regarding the BLV there has been a series of information exchanges which has resulted in the following updated position, as outlined in DS2's note dated 25th June 2021:

- £17,375,904 for the tenanted properties (£68,952 per unit);
- £30,599,910 discounting the 21 RtB receipts that Poplar Harca have benefitted from since the date of the LSVT; and
- £3,639,400 to secure vacant possession of the commercial property on the Site (we recognise that BNPPRE have raised a question regarding the market value and whether there is a discrepancy when compared to the EUV plus approach).

9.50 This is a total BLV of £51,615,214.

9.51 The above elemental value has been inputted into the DS2 appraisal as a fixed land cost. It has been profiled as follows:

TABLE 20: EXISTING RESIDENTIAL HOMES, ABERFELDY VILLAGE, OCTOBER 2021	
Phase	**Sum**
Phase A	£8,684,476
Phase B	£23,686,476
Phase C	£16,503,614
Phase D	£2,740,648
Total	**£51,615,214**

10 APPRAISAL RESULTS

10.1 The results of the FVA are included in the table below. The Proposed Development appraisal is provided at **Appendix J**.

TABLE 21: PROPOSED DEVELOPMENT ILLUSTRATIVE SCHEME APPRAISAL RESULTS, ABERFELDY VIILLAGE, OCTOBER 2021

Scheme	Profit Target	Profit Output	Surplus/(deficit)
Illustrative Scheme	16.03%	(0.02%)	(16.05%)

10.2 The FVA illustrates that on a present-day basis, the Proposed Development is extremely challenged financially. The Draft FVA previously submitted demonstrated that the Proposed Development could only financially support reprovision of the existing affordable housing quantum.

10.3 Since this assessment, grant funding has been secured totalling £21,153,200, and the Applicant has increased the affordable proposal to 35% by habitable room. The finances underpinning this proposal remain challenging, even with grant funding. The economics of this are explained sequentially below.

10.4 With grant removed, and affordable housing remaining at 35%, this results in additional loss equating to 6.6% on GDV. Our calculations show that the grant therefore provides an additional 99 affordable units which equates to c. 6.2% by unit and 8.1% by habitable room.

10.5 For the scheme to become financially viable, the affordable housing must be reduced to c. 6.9% by unit and 9% by habitable room[2]. This and the above grant figures are both an approximate affordable housing quantum calculated by DS2 without architect input, but they demonstrate broadly where the break-even point is.

<u>Sensitivity analysis</u>

10.6 Whilst the results set out above demonstrate the scheme is currently unviable, DS2 has undertaken sensitivity analysis to reflect variations in both the build costs and the expectation of residential revenue to illustrate how the scheme is deliverable. DS2 has varied the sales values by +/- 5% increments and varied the construction costs by +/- 5% increments which produces the following results.

[2] These approximate calculations include the existing secured grant funding.

TABLE 22: PROPOSED DEVELOPMENT SENSITIVITY ANALYSIS, ABERFLEDY VILLAGE, OCTOBER 2021					
Market Residential Sales Value					
Con. Costs	**-10%**	**-5%**	**0%**	**+5%**	**+10%**
-10%	0.43%	6.01%	10.62%	14.75%	18.54%
-5%	-6.88%	0.19%	5.60%	10.07%	14.06%
0%	-14.24%	-6.81%	-0.03%	5.21%	9.56%
+5%	-21.59%	-13.85%	-6.76%	-0.24%	4.85%
+10%	-28.95%	-20.88%	-13.49%	-6.70%	-0.44%

10.7 This demonstrates that considerable cost savings and value growth would be required for the 35% affordable housing to become viable.

11 CONCLUSIONS

11.1 This FVA assesses the viability of the Proposed Development which consists of a hybrid application seeking a detailed first phase and flexibility on future phases. The Detailed Proposals relate to Phase A of the Proposed Development and the Outline Proposals relate to Phases B, C and D.

11.2 In order to test and validate the Proposed Development, an Illustrative Scheme showing the potential location of buildings, uses and open spaces has been produced. This Illustrative Scheme provides a vehicle for examining the possible architectural, environmental, operational and social impacts of the Proposed Development, and has been assessed for the purposes of this FVA. The Illustrative Scheme includes proposals for 35% affordable housing by habitable room.

11.3 The appraisal outputs of the FVA are illustrated in Section 10 and demonstrate that the economics of the Proposed Development are extremely challenging and that the 35% affordable housing proposal within the Proposed Development is in considerable excess of the viable provision and is being delivered by the Applicant as a commercial decision recognising the need for affordable housing in LBTH.

11.4 This FVA has been undertaken in full accordance with the planning policy framework, including the PPG and Development Plan documents and professional best practice in the form of the RICS Professional Statement 'Financial Viability in Planning: Conduct& Reporting' (2019).

11.5 A summary of key points from this report are listed below:

- Viability testing has been carried out on the basis of an Illustrative Scheme which comprises a detailed first phase and three following outline phases;
- Viability testing includes any agreements made with BNPPRE during the pre-application process where possible, with additional adjustments made in this FVA to reflect BNPPRE positions;
- The Illustrative Scheme comprises a residential led estate regeneration development comprising affordable housing equating to 35% by habitable room with grant funding secured;
- The value of each element of the Illustrative Scheme has been assessed by DS2. The total GDV concluded by DS2 is £624,844,112 on a present day basis;
- The total cost of the Proposed Development is constituted mainly of construction cost as advised by cost consultant Circle. The total development cost is £644,851,365;
- The Proposed Development delivers a profit of -0.03% on GDV. This is against a profit target of 16.03% which is derived from 17.5% on residential value, 15%

on commercial and serviced apartment value, and 6% on affordable housing value;

- The sensitivity analysis conducted in Section 10 demonstrates that cost savings over c. 10% in conjunction with value growth of c. 10% would generate a viable scheme. While the current property market and macro-economic environment is challenging, the Applicant is committed to the delivery of this key strategically important Site subject to the receipt of a satisfactory planning consent.

Challenges of Estate Regeneration

11.6 The economics of estate regeneration projects as recognised in policy, are challenging. This is the case with the Proposed Development. The commonly encountered challenges associated with estate regeneration, which are applicable to this scheme, are listed below:

- The lead in period for estate regeneration projects is often significant in terms of timings and the requirement for comprehensive community engagement;
- Prior to undertaking estate regeneration, landowners are tasked with fully establishing whether there are alternatives to achieve the vision and objectives of estate regeneration. This can take time and significant financial resource;
- The delivery of new homes, in accordance with planning policy, will be to a significantly higher design and environmental standard as well as being, in the main, to a size in excess of the existing homes;
- Estate regeneration involves a like for like replacement (full right to return on the same rent and with the same security of tenure) of existing low cost (social) rented homes (on a floorspace rather than unit basis) plus the optimisation of affordable housing on any net uplift in housing. Commonly, the first phases of any regeneration project involve the delivery of a high proportion of social rented accommodation in the first phases in order to re-house those displaced. Clearly, this takes time and is delivered at a significant financial cost to a project;
- Those displaced temporarily by estate regeneration will be offered home loss compensation permitted by legislation and policy in London seeks that the maximum payments are offered;
- Site assembly in preparation for regeneration is time consuming and expensive and policy requires a 'fair deal' for social tenants but also other leaseholders and freeholders;
- The costs of formulating and executing a decant strategy for existing residents is costly and can be challenging given the limited availability of empty homes elsewhere required whilst the regeneration takes place;

- The replacement of existing low cost rented homes and the optimisation on the uplift is acknowledged in policy as being economically challenges. Those tasked with delivering such schemes are encouraged to seek gap funding where possible, as is the case with the Proposed Development.

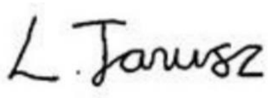
11.7 The above summary provides an indication of some of the financial challenges faced in delivering estate regeneration projects such as the Proposed Development. However, the Applicant is a long-term stakeholder in LBTH and will remain so after the regeneration is complete. The wellbeing of the existing and future community is paramount, and the design has evolved to ensure the best possible outcomes for all stakeholders.

11.8 The Applicant will deliver replacement new homes and an uplift in affordable housing as part of the planning consent as well as new workspace, a new high street and public realm improvements and there will be a commitment to reassess viability during the development programme in order to maximise the public and social benefits. However, clearly this needs to be balanced with the challenging economics and the requirement to attract investment that will cross fund the project.

11.9 DS2 look forward to meeting with LBTH and their advisors to discuss this submission and the supporting documentation.

Prepared by:

Joe Crossley MRICS
Senior Surveyor
Email: joe.crossley@ds2.co.uk
Direct: 020 7004 1769



Liam Janusz
Associate
Email: Liam.janusz@ds2.co.uk
Direct: 0207 004 1778

Reviewed by:

Pascal Levine MRICS
Partner
Email: Pascal.Levine@DS2.co.uk
Direct: 020 7004 1762

DATE: 27 October 2021

ECOWORLD LONDON
CREATING TOMORROW & BEYOND

POPLAR HARCA