Addendum to position on financial viability information

GLA Case Number:	2624b
Scheme Address:	Trocoll House, Wakering Road, Barking, IG11 8PB
Local Planning Authority:	Barking and Dagenham
Applicant:	Trocoll House No. 1 Sarl
Local Planning Authority Reference:	18/01927/FUL
Date:	15th June 2020
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1. Introduction

1.1 This document constitutes an Addendum to the positions of the Greater London Authority's Viability Team ("GLAVT") dated 19th November 2019, 20th March 2020 and the 19th May 2020.

1.2 This Addendum has been prepared in response to the letter by HEDC dated 3rd June 2020 ("HEDC letter").

2. Market Rent Levels

2.1 The HEDC letter provided an updated schedule of accommodation which took account of the recently updated affordable housing offer. The rents proposed by HEDC remain principally based on the 360 Barking scheme which is not a specialist Build to Rent scheme.

2.2 The GLAVT remain of the position that 360 Barking clearly doesn't provide the extent of amenity facilities as those proposed in Trocoll House scheme and is therefore not an appropriate comparable to rely upon, without clear and appropriate adjustment. The rents adopted by HEDC are likely to be pessimistic.

2.3 The new floor area schedule provided by HEDC shows that 4.790 sq. ft of residential amenity floorspace will be provided in the Trocoll House scheme, including two residential amenity rooms, two social hubs, a coffee hub, a movie room and a home office. As far as the GLAVT can tell, neither the 360 Barking, nor even the Abbeville Apartments schemes provides this much residential amenity space. It is difficult to see why an efficient developer would deliver this level of residential amenity if it were to not positively impact rental values.

2.4 According to marketing particulars, a 2 bed, 2-bathroom unit on the 11th floor of the 360 Barking Scheme has an estimated service charge of £150 per month. Given the rent is likely in the region of £1,600 per month, the allowance to cover the cost of delivering the amenity provisions within 360 Barking is less than 10% of gross rents. This demonstrates how much smaller the cost of delivering residential amenities is for the 360 Barking scheme and why it is not appropriate to rely upon without clear and appropriate adjustment.

3. Arrangements with JD Wetherspoon

3.1 In order to reduce the areas of disagreement between the parties, the GLAVT may be prepared to accept the compensation and fit out allowances made, on the following basis:

- Profit: The profit allowance for the re-provision of the pub should be nominal as there is no market risk of securing an occupier.

- Premium on the pub element of the Benchmark Land Value: The compensation allowances act as the incentive for the pub occupier to vacate the premises.

4. Benchmark Land Value

4.1 Notwithstanding the comment around the application of a premium to the pub element of the BLV (see section above), the only area of disagreement relates to HEDC's application of a value derived from an alternative scheme that assumes permitted development rights.

4.2 The GLAVT is not able to accept this approach, for reasons previously set out.

5. Operating Costs

5.1 The additional information provided by the applicant in relation to the communal facilities is welcome.

5.2 The applicant's position on the impact of Covid-19 on operational costs is noted, however, it is too early to define the scale of this impact on the viability of Build to Rent proposals.

6. Investment Yield

6.1 The GLA have engaged extensively with the development industry since the Covid-19 outbreak and have found that it is considered that Build to Rent development is well-placed to cope with its impacts, particularly compared to other types of development.

6.2 It is understood that interest from Institutional Investors is as strong as ever and the relatively low risk and long-term nature of Build to Rent development makes it an attractive investment prospect relative to other asset classes.

6.3 The GLAVT remain of the position that 3.5% is a more reasonable yield to apply to the proposed scheme. The applicant hasn't provided sufficient evidence to support their assertion that a yield of 3.75% is more appropriate.

7. The Affordable Housing Offer

7.1 HEDC describe that "viability appraisals are always expected to reflect current day costs and values". The GLAVT agree that most primary appraisals reflect current day costs and values, however, it is normal for sensitivity testing to be carried out that might reflect the effects of growth. The latest version of the Viability PPG moved away from the need for all viability appraisals to reflect current day costs and values and paragraph 3.11 of the Mayor of

London's Affordable Housing and Viability SPG describes that "growth assumptions should be included as a scenario test". Research is available and regularly published on growth in values and costs which could be used to inform an appraisal which assumes growth.

7.2 HEDC's position on the viability of the scheme is such that the applicant must be assuming growth in values. In accordance with paragraph 3.11 of the Mayor of London's Affordable Housing and Viability SPG, these assumptions should be provided.

7.3 The GLAVT have also previously recommended that, in accordance with paragraph 19 of the Viability Planning Practice Guidance, an appraisal of an alternative build for sale scheme is carried out. This matter has not been addressed by HEDC.

8. Conclusions

8.1 The GLAVT does not consider that the applicant has demonstrated that the affordable housing offer represents the maximum level deliverable and that limited weight should be applied to the applicant's viability assessment. In summary, this is for the following reasons:

- The primary evidence relied upon by HEDC to form the residential rental values is not appropriate given it is not based upon a specialist Build to Rent scheme, nor has it been appropriately adjusted to reflect one.

- The Benchmark Land Value is, in part, based on the valuation of permitted development rights (conversion from office to residential). This is not an approach that the GLAVT can support.

- The investment yield adopted by HEDC is considered pessimistic.

- HEDC have not carried out any appraisals which assume growth.

- HEDC have not carried out an appraisal of an alternative build for sale scheme, in accordance with paragraph 19 of Viability Planning Practice Guidance.

8.2 It is noted that BNP Paribas Real Estate's latest review on the applicant's viability position concludes that the scheme can support 35% affordable housing.