



# **Lewisham Local Plan**

**Examination Hearing Sessions**

**Response to Actions**

**Matter 22 Viability**

**Prepared to inform the Local Plan Examination**

**July 2024**

## 1. Introduction

- 1.1 This Paper is one of a series that provides the London Borough of Lewisham's (the Council's) response to specific actions raised, identified, and agreed during the course of the Lewisham Local Plan Examination Hearing Sessions. The actions are agreed with the Inspectors.
- 1.2 The Paper seeks to respond to a specific request for further information made during the Examination Hearing Session that discussed questions raised under Matter 22 Viability. In this case the Actions were raised on Wednesday 17 July 2024.

## 2. LCA SA 05 Conington Road Viability Assessment

**Action 209** - Provide information – the Council have agreed to re-run the viability assessment calculation for the Conington Road site allocation (Policy LCA SA 05) to ensure that it continues to be consistent with other site assessments.

It was agreed to assess the Benchmark Land Value on the same basis as the others (i.e., based on the rateable value of the site, rather than extrapolating from Sainsburys). The Council will not be re-running the appraisals themselves, as they are independent of the benchmark land value.

- 2.1 In response to criticisms from another participant, Astir Living, the Council agreed to revisit the viability assessment calculation for the new Local Plan site allocation Policy LCA SA 5 Conington Road. This exercise specifically sought to ensure that the viability assessment remained consistent in its approach towards similar sites and their uses.
- 2.2 In response, the Council commissioned BNP Paribas, the external viability expert who has informed the plan-making process, to undertake the calculation. This exercise was carried out for the Council by Dr Anthony Lee, a leading expert on development viability, who has led on the whole Local Plan Viability Assessment and represented the Council during the Local Plan Examination. The exercise is as follows.
- 2.3 The Valuation Office Agency Rateable Value for this Property at the time the Viability Study (EB58) was undertaken was £1,440,000. In line with the approach to other sites, BNP Paribas applied an investment yield of 6.5%, deducted purchaser's costs and added a 20% premium. This approach is in accordance with that set out in the Viability Study (EB58) Paragraph 4.42.
- 2.4 The calculation results in the following Benchmark Land Value:

Rateable Value (which is the Valuation Office Agency's assessment of market rent) =  
£1,440,000

Apply investment yield 6.5% (which equates to 15.39 years' rent purchased) = £22,161,600

Deduct purchaser's costs (6.8%) = £1,506,989

Net capital value = £20,654,611

Add premium (20%) = £4,130,922

**Benchmark land value = £24,785,533**

- 2.5 Assuming this benchmark land value is applied, a policy-compliant scheme (using the indicative capacities and yields) generates residual land values of £20.6 million to £64.88 million. With 35% affordable housing (reflecting the 'Fast Track' requirement), the residual land value is £33.96 million, which exceeds the benchmark land value by a considerable margin. A higher percentage of 45% affordable housing would, in principle, be viable but this would exceed the 'Fast Track' requirement.
- 2.6 See appraisal output summary at Table 2 (Annex 1).

### **3. Affordable Workspace**

**Action 210** - The Council will provide the examination with factual information that demonstrates whether the provision of affordable workspace has been raised by developers, through the decision-taking process, as a matter of viability/ whether it has demonstrably proven to be a barrier to delivery.

- 3.1 The new Lewisham Local Plan sets out the approach for securing new affordable employment workspace under its Policy EC4 Low-cost and affordable workspace. This sets out an approach seeks to ensure that provision is made for suitable types and sizes of units, at an appropriate range of rents, particularly to meet the needs of micro, small and medium sized businesses, including start-ups. The Policy's Part D requires that new major commercial development proposals for Class E(g) office and light industrial, Class B2 industrial, Class B8 storage and distribution and similar Sui Generis uses must make provision for affordable workspace.
- 3.2 In order to inform the examination, the Council has agreed to briefly set out its recent decision-taking experiences (through the development management process). Discussions with Officers from the Council's Major & Strategic Projects Team suggest that this is not a matter that developers have raised as an obstacle (to development) during the consideration and determination of planning applications.
- 3.3 The Council's Major & Strategic Projects Manager has stated that upon consultation their Team confirmed that they have not received any resistance from developers in relation to the requirement that their schemes provide 10% affordable workspace on-site. They highlight that, to their knowledge, there are no instances where the requirement has proven a barrier to delivery.
- 3.4 The Council's Major & Strategic Project Team have also provided the examination with a list of consented schemes that have secured affordable workspace provision. To the Council's knowledge and understanding none of these proposals raised development viability during the decision-taking process. The schemes are as follows:

**Table 1: Consented Affordable Workspace Schemes**

<b>Ref</b>	<b>Address</b>	<b>Status</b>	<b>M2 of Commercial space /no. units</b>
DC/17/101909	9-19 Rushey Green, London, SE6 4AZ	Constructed	295sqm
DC/17/101621	Conington Road	Construction almost complete	3 units (270sqm)
DC/18/109972	Axion House (1 SILVER ROAD, LONDON, SE13 7BQ)	Construction almost complete	125sqm
DC/14/89953	KENT WHARF, CREEKSIDE, LONDON, SE8 3DZ	Constructed	1345sqm (100%)
DC/20/118229	SUN WHARF, CREEKSIDE, LONDON, SE8 3DZ	Approved, construction not yet commenced	311sqm
DC/22/127966	Deptford Timberyard (Plot 5)	Approved, construction not yet commenced	384sqm
DC/23/130258	Apollo Business Centre	Approved, construction not yet commenced	10% on-site affordable secured
DC/23/131085	5-9 Creekside	Resolution to approve	Off-site contribution of £130,556
DC/20/117966	Trundleys Road	Construction underway	10% on-site affordable secured
DC/18/106941	Trundleys Road	Not being constructed, proceeded with a more viable PBSA scheme	10% on-site affordable secured

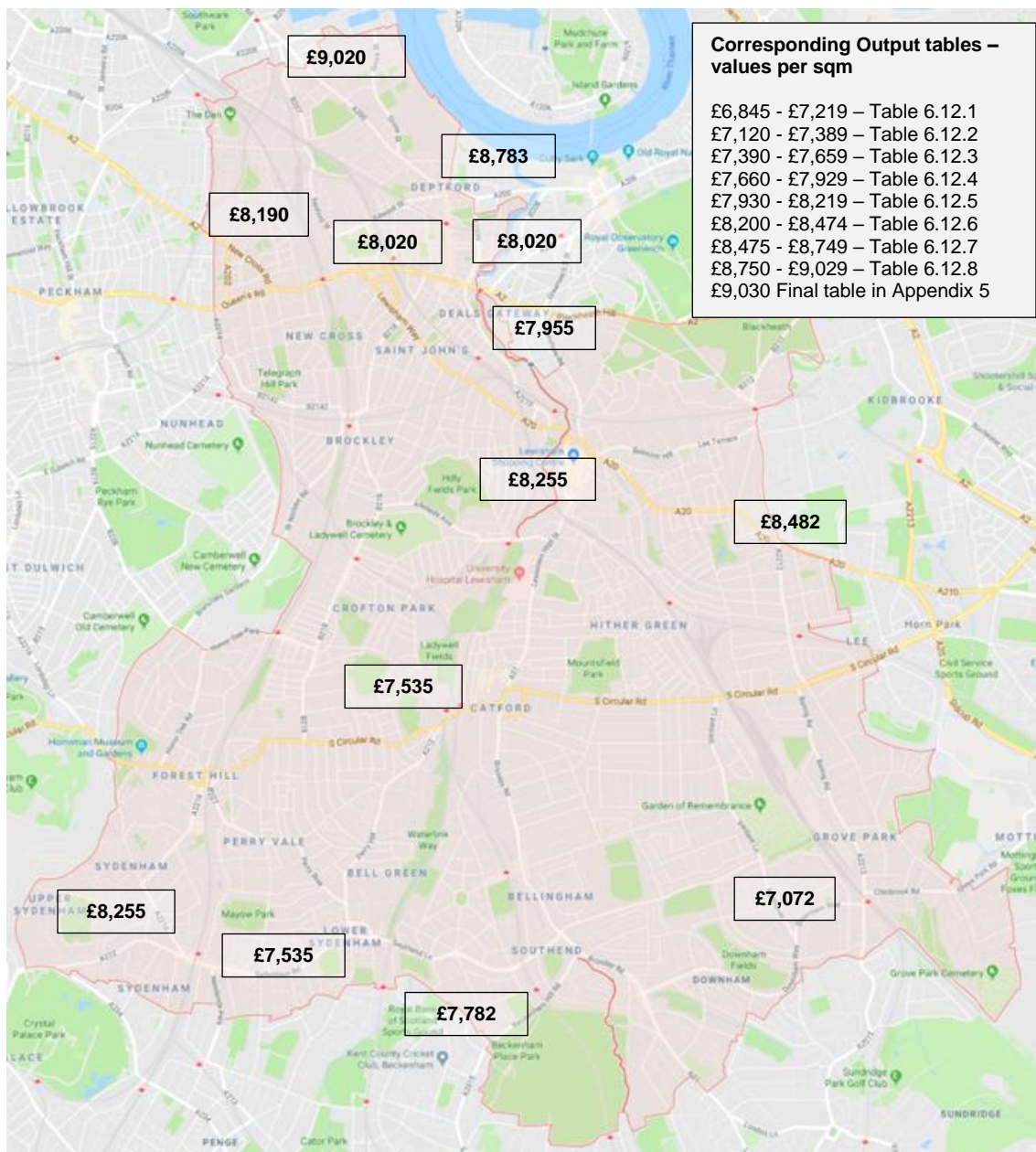
#### 4. Land Values Mapping

**Action 211** - The Council/ BNP Paribas agree to prepare a short addendum on land values by area per sqm. To provide a better understanding of where lower and higher land values are located.

The request was made in relation to the map on Page 11 to be expressed in values per square metre, rather than square feet, so that they can more easily understand which of the results tables (6.12.1 to 6.12.9) are relevant to each area.

4.1 In response to the Inspectors' request, the Council and BNP Paribas have revised the Viability Assessment (EB58) Figure 2.15.1: Sales values in Lewisham (approx. £s per square foot) to provide sales values across Lewisham at £s per square metre.

#### Sales values in Lewisham (approx. £s per square metre)



Sources: Map – Google; Values – Land Registry; Molior London

## 5. Use Class C3 Older Persons' Residential Accommodation

**Action 212** - The Council/ BNP Paribas will prepare a discrete paper/ addendum that assesses the viability of Use class C3 older persons' residential accommodation – to address the comments made by McCarthy & Stone.

- 5.1 The Council's response to Matter 5 Action 29 briefly set out the new Local Plan's approach towards meeting the residential accommodation needs of older residents. It also acknowledged that McCarthy & Stone, a participant in the examination that provide a form of C3 residential accommodation for persons over the age 55 years, stated that *"...no viability appraisals or evidence have appeared to have been undertaken for the specialist older persons' housing typologies – namely Sheltered Housing and Extra Care accommodation and this is disappointing"*.
- 5.2 The Council's response continued by acknowledging that the Viability Study (EB58) assesses the viability of a residential care home, but not C3 housing aimed at older people. In response, BNP Paribas, the Council's external viability experts, modelled a McCarthy & Stone scheme from a neighbouring London Borough (but using ranges of inputs relevant to Lewisham) to establish the viability of this type of housing and its ability to contribute towards affordable housing requirements. That exercise is set out as follows.
- 5.3 In undertaking the exercise BNP Paribas drew upon a McCarthy & Stone scheme developed in an adjacent London Borough. That scheme is comprised of 30 units of housing for older people on a site extending to 0.36 hectares. In the McCarthy & Stone application, the Gross Internal Area of the scheme was 3,018 square metres, and the Net Internal Area was of 2,049 square metres. It is noted that this provides a net to gross ratio of circa 70%, which is at the less efficient end of the range for older person's housing developments. The scheme was configured as 11 x one bed units (55 square metres per unit on average) and 19 x two bed units (75 square metres on average).
- 5.4 The McCarthy & Stone proposal's development programme was 6 months pre-construction; 18 months construction; and 4 months sales period, reflecting 50% off-plan sales.
- 5.5 The other assumptions that the exercise applied are as follows. Where applicable, these are consistent with the approach adopted in the Viability Study, but alternative assumptions are applied where this type of accommodation differs from general-purpose housing:
- Construction costs (BCIS mean cost for *"Supported housing – generally"* - £1,920 per square metre. We have added 10% for external works, which are not included in BCIS costs. This results on a total cost of £1,960 per square metre. This is higher than McCarthy & Stone typically assume in financial viability assessments they have submitted with applications in other local planning authority areas, where they have used 'median' costs, rather than 'mean average' costs.
  - Contingency: 5% of construction costs.
  - Professional fees: 10% of construction costs.
  - CIL and Mayoral CIL at prevailing rates.
  - Marketing budget: 3% of GDV.
  - Sales agent fee: 1% of GDV.
  - Sales legal fees: £1,000 per unit
  - Profit on private housing: 17.5% of GDV.
  - Profit on affordable housing: 6% of GDV.
  - Finance: 7%, which is 1% higher than applied in the wider Local Plan Viability Study.

- 5.6 Reflecting the premium values achieved by McCarthy & Stone type developments, BNP Paribas tested the scheme with sales values of £7,500, £8,250, and £8,750 per square metre. This is in line with the range applied in the wider testing, so arguably the range for housing for older people could secure higher values beyond the top end of this range.
- 5.7 Where affordable housing has been included, BNP Paribas assumed that this is provided as London Affordable Rent and shared ownership, with a blended value of £2,500 per square metre.
- 5.8 It is noted that the modelled site extends to 0.36 hectares, so the Benchmark Land Value will accordingly be circa £1.44 million, based on £4 million per hectare. This is in accordance with the approach outlined in the Local Plan Viability Study (EB58) Paragraph 4.4.1.
- 5.9 The appraisal outputs are summarised in Table 3 and the appraisals are attached as Annex 2.

**Table 2: Testing of older person’s housing scheme (based on McCarthy & Stone development)**

Private sales value £s per square metre	Affordable housing units	Affordable housing per cent (habitable rooms)	Residual land value £ million	Benchmark land value £ million	Surplus/ (Deficit) £ million
£7,500	9	34%	£1.49	£1.44	£0.05
£8,250	12	46%	£1.46	£1.44	£0.02
£8,750	13	49%	£1.51	£1.44	£0.07

- 5.10 These appraisal outputs demonstrate that housing scheme for older people are viable in Lewisham and can contribute towards affordable housing requirements in the new Local Plan. It is noted that BNP Paribas consider that the Policy is applied flexibly, in line with the London Plan ‘viability tested’ route, so any particular scheme-specific issues that might otherwise prevent a scheme from coming forward can be addressed through an adjustment to the affordable housing requirement.

**Action 213** - The Council/ BNP Paribas to provide a comment on McCarthy & Stone's claims that Lewisham experiences lower land values – as suggested by supporting evidence submitted to the previous London Plan examination – which as a consequence harms development viability.

- 5.11 During the course of the Examination Hearing Session that considered Matter 22, it was noted that a participant, McCarthy & Stone, had expressed opinions that parts of Lewisham experience lower land values than other parts of the Capital. The participant had expressed this through their submitted Written Statement (WS 22/ 4). The Council notes and highlights that this matter was considered and discounted through the London Plan Examination (as acknowledged in WS 22/ 4).
- 5.12 In reply to the matter being raised at the hearing session, the Council agreed to prepare a further response to this matter. The following responses speak to the participants position to specific Matters Issues and Questions. These have been prepared in consultation with BNP Paribas, who have provided the Council with independent technical advice on development viability, which has informed the plan-making process.

Commentary on McCarthy & Stone response to MIQ 22.1

- 5.13 It is noted that McCarthy & Stone's Written Statement (WS 22/ 4) contends that the testing of C3 housing for older people *"may, depending on the outcome of the viability work, set a lower, potentially nil, affordable housing target for sheltered and extra care accommodation in the Borough"*.
- 5.14 The Council and BNP Paribas consider that this premise is incorrect, as regardless of the findings of the Viability Study, policy has to be in conformity with London Plan Policies H4 and H5, which set a strategic target of 50% from all sources of housing (subject to the 'Fast Track' threshold of 35% and the 'viability tested' route).
- 5.15 It is highlighted that McCarthy & Stone also incorrectly suggest that unless the omission of specific testing of C3 housing for older people is rectified *"the failure to continue to deliver anywhere near the number of houses required for older people in any tenure, including both market and affordable housing will continue as providers remain unable to develop viably and with sufficient low risk in Lewisham"*.
- 5.16 This assertion is simply incorrect; the Council's affordable housing policies cannot be said to prevent a scheme from being viably developed, as they are applied having regard to site-specific viability. It is not the application of the Council's Local Plan policies that prevents the alleged under-supply of housing for older people; this failure lies entirely with market dynamics and the providers themselves.

Commentary on McCarthy & Stone response to MIQ 22.7

- 5.17 It is noted that the McCarthy & Stone Written Statement (WS 22/4) observes that in the absence of testing in the Viability Study (EB58) of a specific C3 scheme for older people – the Council is relying on the testing of the affordable housing requirement of the London Plan carried out during the examination of that Plan. It is further noted that McCarthy & Stone refer to claims of higher build costs for C3 housing for older people in comparison to general purpose housing.
- 5.18 However, it is noted that McCarthy & Stone have failed to acknowledge that, despite the Inspectors' concerns about the approach to testing older person's housing, "the viability tested route" is available to assess the impact of viability on affordable housing



requirements". That same 'viability tested' route will be available in Lewisham under its emerging affordable housing policies.

- 5.19 Furthermore, it is noted that McCarthy & Stone incorrectly assert that the viability tested route is "*not considered to be consistent with that of the NPPF (2021)*", but it is adopted development plan policy. The 'Fast track' and 'viability tested' routes are consistently applied throughout Local Plans across London and applied on all schemes at the development management stage.
- 5.20 It is noted that McCarthy & Stone quote the London Plan Viability Study Paragraph 14.2.11, which refers to developments of "sheltered housing" in certain value bands not being able to provide 50% or 35% affordable housing, specifically value bands D and E. They then suggest that "*specialist housing for older people will struggle with viability and as such should be exempted from providing Affordable housing in policy HO3 and HO5*". This suggestion and the claim supporting it completely fail to understand how affordable housing policies are applied in London, which requires that schemes provide 35% affordable (if they are following the 'Fast Track' route) or a lower percentage if following the 'viability tested' route.
- 5.21 Finally, contrary to McCarthy & Stone's somewhat partial interpretation of the London Plan Viability Study, a vast majority of the Borough is located in value Band 'C', where affordable housing requirements were found to be viable. Furthermore, even in the parts of the Borough that fall into Band D, the London Plan Viability Study finds that housing schemes for older people can provide 20% affordable housing. This is fact that McCarthy & Stone fail to refer to in their representation. The new Local Plan's Policy does not seek 35% or 50% when scheme cannot viably support these percentages; the 'viability tested' route is available for schemes that can come forward with only lower percentages, which can be from zero per cent upwards.

#### Commentary on McCarthy & Stone response to MIQ 22.8

- 5.22 Again, in their Written Statement (WS 22/4) response to the Inspectors' Matters, Issues and Questions, McCarthy & Stone completely disregard the 'viability tested' route in making their claim that housing for older people will not be delivered due to the new Local Plan's affordable housing policies. This claim fails to withstand the most basic level of scrutiny; how can it be that a policy which can (if demonstrated) require zero affordable housing prevent these forms of residential development from coming forward? The clear answer, and conclusion is that the new Local Plan's emerging policies for affordable housing do not present the barrier to delivery that McCarthy & Stone claims.
- 5.23 It is highlighted that the McCarthy & Stone Written Statement response refers to the low numbers of planning applications for older person's housing over the last few years, but this is simply a reflection of either:
- (a) McCarthy & Stone's preferred locations to develop this type of housing; or
  - (b) their ability to compete for land in a tight land supply market and due to their profit requirements in comparison to other types of residential development.

Given that both London Plan and local plan policies already in place cannot be said to present a barrier to delivery (given the ability to bring forward schemes from 0% affordable housing upwards), McCarthy & Stone's claims regarding the connection between affordable housing policies and supply are incorrect.



## Annex 2: Appraisal of older person's housing scheme (based on McCarthy & Stone development)

### LICENSED COPY

#### McCarthy & Stone scheme

#### £7,500 per square metre private sales values

#### Summary Appraisal for Phase 1

Currency in £

#### REVENUE

##### Sales Valuation Units m<sup>2</sup> Rate m<sup>2</sup> Unit Price Gross Sales

1 bed flats 11 605.00 7,500.00 412,500 4,537,500  
2 bed flats 10 750.00 7,500.00 562,500 5,625,000  
Affordable 2 bed flats 9 675.00 2,500.00 187,500 1,687,500

**Totals 30 2,030.00 11,850,000**

**NET REALISATION 11,850,000**

#### OUTLAY

##### ACQUISITION COSTS

Residualised Price (0.36 Ha 4,140,778.46 pHect) 1,490,680  
Stamp Duty 4.00% 59,627  
Agent Fee 1.00% 14,907  
Legal Fee 0.75% 11,180  
Town Planning 30,000  
1,606,394

##### CONSTRUCTION COSTS

##### Construction m<sup>2</sup> Rate m<sup>2</sup> Cost

1 bed flats 864.29 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 1,825,371  
2 bed flats 1,071.43 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 2,262,857  
Affordable 2 bed flats 964.29 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 2,036,571

**Totals 2,900.00 m<sup>2</sup> 6,124,800 6,124,800**

Contingency 5.00% 306,240  
306,240

##### Municipal Costs

MCIL 1,935.71 m<sup>2</sup> 69.17 pm<sup>2</sup> 133,893  
CIL 1,935.71 m<sup>2</sup> 103.00 pm<sup>2</sup> 199,379  
333,272

##### PROFESSIONAL FEES

Professional fees 10.00% 643,104  
643,104

##### MARKETING & LETTING

Marketing 3.00% 304,875  
304,875

##### DISPOSAL FEES

Sales Agent Fee 1.00% 118,500  
Sales Legal Fee 21.00 un 1,000.00 /un 21,000  
139,500

##### MISCELLANEOUS FEES

Profit on private 17.50% 1,778,438  
Profit on affordable 6.00% 101,250  
1,879,688

##### FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)  
Land 223,435  
Construction 265,460  
Other 23,233  
Total Finance Cost 512,127

**TOTAL COSTS 11,850,000**

##### PROFIT

**0**

##### Performance Measures

Profit on Cost% 0.00%  
Profit on GDV% 0.00%  
Profit on NDV% 0.00%  
IRR 6.49%  
Profit Erosion (finance rate 7.000%) N/A

## LICENSED COPY

McCarthy & Stone scheme

£8,250 per square metre private sales value

Summary Appraisal for Phase 1

Currency in £

### REVENUE

Sales Valuation Units m<sup>2</sup> Rate m<sup>2</sup> Unit Price Gross Sales

1 bed flats 11 605.00 8,250.00 453,750 4,991,250

2 bed flats 7 525.00 8,250.00 618,750 4,331,250

Affordable 2 bed flats 12 900.00 2,500.00 187,500 2,250,000

**Totals 30 2,030.00 11,572,500**

**NET REALISATION 11,572,500**

### OUTLAY

#### ACQUISITION COSTS

Residualised Price (0.36 Ha 4,046,176.46 pHect) 1,456,624

Stamp Duty 4.00% 58,265

Agent Fee 1.00% 14,566

Legal Fee 0.75% 10,925

Town Planning 30,000

1,570,379

#### CONSTRUCTION COSTS

Construction m<sup>2</sup> Rate m<sup>2</sup> Cost

1 bed flats 864.29 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 1,825,371

2 bed flats 750.00 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 1,584,000

Affordable 2 bed flats 1,285.71 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 2,715,429

**Totals 2,900.00 m<sup>2</sup> 6,124,800 6,124,800**

Contingency 5.00% 306,240

306,240

#### Municipal Costs

MCIL 1,614.29 m<sup>2</sup> 69.17 pm<sup>2</sup> 111,660

CIL 1,614.29 m<sup>2</sup> 103.00 pm<sup>2</sup> 166,271

277,932

#### PROFESSIONAL FEES

Professional fees 10.00% 643,104

643,104

#### MARKETING & LETTING

Marketing 3.00% 279,675

279,675

#### DISPOSAL FEES

Sales Agent Fee 1.00% 115,725

Sales Legal Fee 18.00 un 1,000.00 /un 18,000

133,725

#### MISCELLANEOUS FEES

Profit on private 17.50% 1,631,438

Profit on affordable 6.00% 135,000

1,766,438

#### FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)

Land 217,206

Construction 232,146

Other 20,856

Total Finance Cost 470,208

**TOTAL COSTS 11,572,500**

#### PROFIT

**0**

#### Performance Measures

Profit on Cost% 0.00%

Profit on GDV% 0.00%

Profit on NDV% 0.00%

IRR 6.45%

Profit Erosion (finance rate 7.000%) 0 yrs 0 mths

## LICENSED COPY

McCarthy & Stone scheme

£8,750 per square metre private sales value

Summary Appraisal for Phase 1

Currency in £

### REVENUE

Sales Valuation Units m<sup>2</sup> Rate m<sup>2</sup> Unit Price Gross Sales

1 bed flats 11 605.00 8,750.00 481,250 5,293,750

2 bed flats 6 450.00 8,750.00 656,250 3,937,500

Affordable 2 bed flats 13 975.00 2,500.00 187,500 2,437,500

**Totals 30 2,030.00 11,668,750**

**NET REALISATION 11,668,750**

### OUTLAY

#### ACQUISITION COSTS

Residualised Price (0.36 Ha 4,194,494.46 pHect) 1,510,018

Stamp Duty 4.00% 60,401

Agent Fee 1.00% 15,100

Legal Fee 0.75% 11,325

Town Planning 30,000

1,626,844

#### CONSTRUCTION COSTS

Construction m<sup>2</sup> Rate m<sup>2</sup> Cost

1 bed flats 864.29 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 1,825,371

2 bed flats 642.86 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 1,357,714

Affordable 2 bed flats 1,392.86 m<sup>2</sup> 2,112.00 pm<sup>2</sup> 2,941,714

**Totals 2,900.00 m<sup>2</sup> 6,124,800 6,124,800**

Contingency 5.00% 306,240

306,240

#### Municipal Costs

MCIL 1,507.14 m<sup>2</sup> 69.17 pm<sup>2</sup> 104,249

CIL 1,507.14 m<sup>2</sup> 147.00 pm<sup>2</sup> 221,550

325,799

#### PROFESSIONAL FEES

Professional fees 10.00% 643,104

643,104

#### MARKETING & LETTING

Marketing 3.00% 276,937

276,937

#### DISPOSAL FEES

Sales Agent Fee 1.00% 116,687

Sales Legal Fee 17.00 un 1,000.00 /un 17,000

133,687

#### MISCELLANEOUS FEES

Profit on private 17.50% 1,615,469

Profit on affordable 6.00% 146,250

1,761,719

#### FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)

Land 224,859

Construction 224,238

Other 20,522

Total Finance Cost 469,619

**TOTAL COSTS 11,668,750**

#### PROFIT

**0**

#### Performance Measures

Profit on Cost% 0.00%

Profit on GDV% 0.00%

Profit on NDV% 0.00%

IRR 6.44%

Profit Erosion (finance rate 7.000%) 0 yrs 0 mths