

ORGANISATION	LONDON FIRST
ID	1588
MATTER	M92 VIABILITY AND DELIVERING THE PLAN

M92. Would the cumulative cost of the policy requirements set out in the Plan, along with any other national and local requirements, threaten the economic viability of development and put implementation of the Plan at serious risk?

1. The viability evidence base for the draft Plan comprises:
 - London Plan Viability Study (LPVS);
 - Technical Report (LPTR); and
 - LPVS Addendum Report (LPVS Addendum).
2. In addition, a summary of consultation comments on the LPVS and response was issued by the Mayor in August 2018 (LPVS Response).
3. By way of context, following the issuance of the LPVS and LPTR and consultation comments on these documents, the revised National Planning Policy Framework (NPPF) of July 2018 (Updated February 2019) and the National Planning Guidance (NPG) on Viability of July 2018 have been issued by the MHCLG. The LPVS Response and LPVS Addendum were issued after the revised NPPF and the new NPG. The NPPF (Paragraph 57) and NPG (Paragraph 007) placed the emphasis for viability assessments as primarily at the plan-making stage.
4. NPPF 2012 (against which the draft Plan is being assessed) is clear (at paragraph 173) that the burdens imposed by plan policy requirements should not make development unviable. NPPF paragraph 174 further requires that the cumulative impact of these burdens should not put implementation of the Plan at serious risk, and should facilitate development throughout the economic cycle. Evidence supporting the assessment should be proportionate, using only the appropriate available evidence.
5. It follows that significant scrutiny should be undertaken in considering the evidence base of the Plan, and policies formulated as a result, to determine whether these may threaten the economic viability of development and put

implementation of the Plan at serious risk. London First provides further commentary on the status of the evidence base and reliance upon it in their written statement pursuant to M93.

6. London First's initial response to the LPVS and LPTR of February 2018 demonstrated the shortcomings of the evidence base of the draft Plan. Given the complexity of the Greater London area, the LPVS does not adequately provide a methodologically sound and comprehensive evidence base for the draft Plan for the following reasons:
 - i. the typologies selected do not reflect the diversity of development coming forward across the London boroughs;
 - ii. supporting evidence is limited, superficial and in some cases non-existent, and is therefore not representative of the geographical spread of costs and values across the complex urban area of London;
 - iii. development varies considerably both within and across London boroughs in terms of massing, quality, and timing of delivery; and
 - iv. it does not reflect the changing dynamics of the various submarkets (including the Central Activities Zone) around London and different levels of growth experienced during the market cycle for both residential and non-residential uses.
7. Notwithstanding the general criticism of the LPVS approach, London First financially modelled all typologies and scenarios as set out in the LPVS. This model explicitly, and transparently, sets out cash flows for all scenarios and market practice. Each base appraisal was provided with the London First initial consultation response. These appraisals exhibited significant variance from the output of the LPVS appraisals, with considerably less schemes being considered as viable (60.9% achieving 35%affordable housing provision).
8. London First, through the initial consultation response, requested the actual LPVS financial Toolkit models to be released so that the source of this variance could be identified. The models have not been provided. This lack of transparency is disappointing; it was not addressed in either the LPVS Response or Addendum, and therefore is not in accordance with national policy and guidance.
9. Furthermore, under a sensitivity test undertaken, applying reasonable adjustments to the inputs, about two thirds of the typologies tested would need to progress via the Viability Tested Route of the draft Plan if they were to come forward as actual schemes, as they would not achieve the 35% affordable housing threshold. Indeed, London First Members advise that a significant proportion of planning applications in London – as evidenced in accompanying financial viability assessments – would not be able to deliver 35% affordable

housing and therefore proceed via the Fast Track Route. It should be expected, contrary to the LPVS and LPVS Addendum conclusions, that many schemes coming forward will not viably deliver 35% affordable housing and will therefore need to proceed with planning applications that include a scheme-specific viability assessment under the Viability Tested Route so that the maximum reasonable amount of affordable housing can be secured. Therefore, this also does not accord with the change in emphasis in national viability guidance going forward.

10. For the most part, the LPVS Response merely sought to restate the position set out in the LPVS and LPTR. **Annex A** sets out London First's comments to the LPVS Response concerning viability and deliverability related issues. In many cases, more detail on the issue is comprehensively set out in the London First initial response to the LPVS and LPTR.
11. The LPVS Addendum provides very limited additional information. **Annex A** refers to the LPVS Response and its Addendum together with the overriding criticisms set out in paragraph 5 above, which remain the London First position.
12. In light of the evidence submitted by London First, the cumulative cost of the policy requirements set out in the draft new London Plan threatens the economic viability of development and puts implementation of the Plan at risk based on analysis of the LPVS. Annex A demonstrates that this applies to all types of development, not just residential.
13. **Annex B** summarises the policies, in addition to those set out in Annex A, which have been highlighted by London First throughout the Examination process as causing concern in terms of their contribution to the cumulative impact of the Plan on development viability and thus delivery.
14. In conclusion, London First remains concerned that the additional constraints on delivery arising from the policies in the draft new London Plan cumulatively make it harder to deliver schemes in London, despite the Plan's overall ambition for significant growth, and that this will ultimately impact on the future economic success of London. A review of the policies listed in Annexes A and B, and the policy changes London First has requested in respect of the related Matters, are necessary as part of the viability assessment of the draft Plan to ensure it is deliverable.

Annex A

Comments below relate to the response by the Mayor on the Summary Consultation Comments on the London Plan Viability Study (LPVS) submitted by London First. London First comments relate principally to viability and deliverability in this Annex. Reference should be made to London First Viability submission, which was appended to the London First consultation response in March 2018.

<u>Draft London Plan Policy (LPVS)</u>	<u>London First Comments</u>
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H6 Threshold approach to applications	
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	Notwithstanding the amendments proposed to Policy H6 (and Policy H7) set out in the response, the strategic target of 50% affordable housing and the 35% threshold will remain difficult to achieve in many London boroughs. The LPVS Addendum does not revisit the viability retesting notwithstanding worsening market conditions. Given the emphasis placed by Paragraph 57 of the NPPF and Paragraph 007 of the NPG on the evidence base of the Plan, this remains a concern for deliverability of residential schemes against the draft Plan.
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H15 Specialist older person's housing	
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	Extra care schemes in general are not viable when tested against the 35% threshold. Given the emphasis placed by Paragraph 57 of the NPPF and Paragraph 007 of the NPG on the evidence base of the Plan, this remains a concern for deliverability of these schemes against the draft Plan.
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H17 Purpose-built student accommodation	
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	The assumptions adopted in the LPVS are too generic in order to produce a credible and robust evidence base in accordance with the NPG, notwithstanding standardised inputs. No evidence has been provided to support the claim in respect of competitor bids and offsetting this through high land prices. Deliverability in accordance with the NPPF therefore remains a concern with the draft Plan.
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E1 Offices (cumulative impact)	
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	The cumulative impact of policies on office development in the CAZ in particular remains of critical importance for London so as not to impede future delivery. The LPVS and LPVS Addendum do not adequately address different office typologies, particularly in the CAZ (see also LPVS Non-Residential Values). Therefore, the draft Plan's evidence base is deficient in this respect, and is in sharp contrast to the requirements set out in the
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	NPPF and NPG for appropriate and proportionate testing.
E3 Affordable workspace	This type of use has a clear and acknowledged impact on viability in almost all cases and will risk deliverability (see London First's written statement for M60).
LPVS (Abnormal Costs)	The LPVS has both significantly underestimated the costs associated with redeveloping brownfield sites and has made no attempt to vary, in any meaningful way, the assumptions adopted in testing the typologies. This remains a significant concern for the deliverability of complex brownfield sites in London, which are numerous.
LPVS (Affordable Housing Delivery)	The LPVS has not demonstrated that most development types can meet the policy requirements of the draft Plan. The range of evidence provided in the main report, Technical Report and LPVS Addendum has been criticised as not being reflective of the market and, most importantly, too generic. This, in turn, has made the viability testing within the LPVS of limited value (see LPVS Viability Model below). This does not accord with the NPPF and NPG on viability or other relevant guidance, in terms of up-to-date and relevant market-based information. As a result, deliverability of affordable housing across London in accordance with the draft Plan is questioned over the plan period.
LPVS (Affordable Housing Values)	The LPVS makes assumptions that have no evidential basis, do not reflect expectations and affordability across London, and discounts inappropriately in higher-value areas. The LPVS does not reflect the reality of differing affordable requirements in boroughs across London. It also disregards evidence of what Registered Providers pay for affordable housing.
LPVS (Non-Residential Values)	The limited approach adopted by the LPVS to commercial values by banding remains inadequate as a proxy for testing viability across London. The approach adopted by the LPVS is not proportionate to the significance of non-residential development across London. Viability varies considerably from the CAZ to Outer London development.

LPVS (Finance Costs)	The categorisation of the De Montfort (now Cass) report in the Mayoral response is incorrect. The evidential base within the LPVS is inadequate and does not reflect the reality of financing development across London, whether it be residential or commercial.
LPVS (Professional Fees)	No attempt has been made to vary professional fees in accordance with the complexity of the typology and location across London in the LPVS.
LPVS (Build to Rent)	The LPVS provides no evidence to demonstrate that the rental market for residential operates in the same way as for sale. Whilst consistency is important, oversimplification makes the analysis inadequate and unreliable.
LPVS (Developer Return)	It is inappropriate to seek to derive returns from the accounts of housebuilders and then apply these to development. These are backward-looking following development, subject to a number of in-built assumptions, and do not reflect forward-looking, risk-adjusted required returns appropriate for the typologies adopted. Notwithstanding this, no underlying evidence has been provided for this analysis or the “typical levels of return adopted in assessments of London development projects”. The NPG at Paragraph 018 suggests 15% to 20% of gross development value may be appropriate. No attempt in the LPVS has been made to vary the returns adopted (15%) to examine the effect of a higher rate of return in accordance with the range within the NPG.
LPVS (Development Programme)	No evidential basis has been provided in the LPVS for development programmes for each of the typologies adopted. Programme testing is entirely appropriate and relatively easy to undertake, subject to the appraisal modelling adopted. As a result, the LPVS is inconsistent with market reality, the NPG, and the need to robustly test viability for area-wide assessments.

LPVS (Development Value)	No evidential justification has been provided in the LPVS for the value bands adopted. There is considerable literature ¹ on intra-regional convergence of house prices based on clustering according to common factors over time. Convergent and divergent sub-groups can be identified in complex metropolitan areas which may span boroughs, according to housing type, affordability, crime and congestion. Therefore, drivers of convergence and formation of sub-areas throughout London would provide a more robust basis for typology analysis. An increased number of bands would provide a more robust basis for viability testing, given the acknowledged complexity of development across London. The LPVS Addendum makes no attempt to provide further methodology justification. As a result, the LPVS analysis as a whole (given this starting point) is questionable as a basis for supporting the draft Plan.
LPVS (Ground Rents)	For typologies that are marginal in terms of viability, the inclusion of ground rents would be misleading. No attempt has been made to consider the variance of removing ground rents from the LPVS.
LPVS (Land Values)	The BLV analysis remains inadequate in terms of informing the typologies adopted and geographical spread of development when the draft Plan deals with detailed aspects of viability. The BLV analysis remains inconsistent with the NPG, other relevant guidance and the realities of bringing forward land for development in London.

¹ Mark J. Holmes, Jesús Otero, Theodore Panagiotidis, *Property Heterogeneity and Convergence Club Formation among Local House Prices*, *Journal of Housing Economics* 2018
Abbott, A. and G. De Vita (2012). *Pairwise convergence of district-level house prices in London*. *Urban Studies* 49 (4), 721–740.
Holly, S., M. H. Pesaran, and T. Yamagata (2011). *The spatial and temporal diffusion of house prices in the UK*. *Journal of Urban Economics* 69(1), 2–23.
Holmes, M. J., J. Otero, and T. Panagiotidis (2018). *Climbing the property ladder: An analysis of market integration in London property markets*. *Urban Studies* forthcoming.
Hou, Y. (2017). *Traffic congestion, accessibility to employment, and housing prices: A study of single-family housing market in Los Angeles county*. *Urban Studies* 54 (15), 3423–3445.
Jones, C. and C. Leishman (2006). *Spatial dynamics of the housing market: An interurban perspective*. *Urban Studies* 43(7), 1041–1059.
Montagnoli, A. and J. Nagayasu (2015). *UK house price convergence clubs and spillovers*. *Journal of Housing Economics* 30(C), 50–58.
Nemov, P. T., E. R. Larsen, and D. E. Sommervoll (2016). *Thick-market effects, housing heterogeneity, and the determinants of transaction seasonality*. *Economic Journal* 126 (598), 2402–2423.

LPVS (Viability Model)

In the responses to the comments on the LPVS, the Mayor acknowledges the limitations of the GLA Development Appraisal Toolkit. It does not provide a transparent analysis of the development typologies and cannot perform sensitivity analysis appropriate for area-wide testing; as such, the model exacerbates the deficiencies found elsewhere in the LPVS.

LPVS (Typologies)

The typologies adopted (notwithstanding the additions in the LPVS Addendum) do not reflect the diversity and complexity of development coming forward across London. The selection process was inappropriate for viability purposes, policy formation, and inconsistent with the NPG. The case studies are actually based upon a very small number of typologies, which are only artificially increased due to the banding and scenarios adopted, which in themselves have been subject to criticism.

LPVS (Sensitivity Analysis)

The sensitivity analysis undertaken overall is very limited and within limited parameters which appear to be randomly selected. The analysis remains inadequate and disproportionate as part of an evidence base for the draft Plan. It is also inconsistent with the NPG and requirements of the NPPF.

Annex B

Summarised below are the policies in addition to those set out in Annex A, which have been highlighted by London First throughout the Examination process as causing concern in terms of their contribution to the cumulative impact of the Plan on development viability and thus delivery.

Draft London Plan Policy

London First Summary Position

H5: Delivering affordable housing

The approach to providing 50% affordable housing on public land carries uncertainty, and therefore financial risk, because there is currently no timescale on the policy. As currently drafted, land transferred from public ownership prior to the introduction of the policy could still be caught.

(Reference: written and oral submissions for M24)

H6: Threshold approach to applications

H6B sets a higher threshold level of 50% affordable housing on industrial land, despite the additional costs such as contamination remediation.

H6E proposes Late Stage Viability Reviews. Slowing or stopping lower-value development projects across the capital will have a greater impact on both the delivery of housing and affordable housing than the small, evidenced benefits of their inclusion in high-value pockets of London. Late reviews also disproportionately affect SME developers.

(Both references: written submission for M24)

H13: Build to Rent

Setting the threshold level for BTR at 35%, despite acknowledging the different economics of BTR and the 20% DMR expectation in the NPG, is unrealistic. The Mayor's Minor Suggested Change to encourage a proportion of affordable housing for BTR as low-cost affordable rent will also impact on viability and delivery.

(Reference: written and oral submissions for M29)

E7: Industrial intensification, co-location and substitution

The GLA have calculated that this will account for 8% of new housing supply, yet it is an untested concept, carries significant financial risk, and remains unviable for most developers

(Reference: written submission for M62)

G5: Urban greening	In densely developed locations, site coverage tends to be high and also plant and machinery often need to be located at roof level. Allocating a proportion of internal accommodation for plant and machinery, to allow a green roof on top of the building, will worsen the net to gross ratio and significantly impact on the viability of the scheme. (Reference: written submission for M64)
SI1: Improving air quality	There is ambiguity around the term 'Air Quality Positive' and the cost implications for development (Reference: written submission for M74)
SI2: Minimising greenhouse gas emissions	The costs of achieving zero-carbon on non-residential development through a borough offsetting payment are substantial and have not been accurately assessed. (Reference: written submission for M67)