Summertown St Margaret's Neighbourhood Forum

Wolvercote Neighbourhood Forum

Oxford Civic Society

Joint Submission on Oxford North. November 2019

Introduction

This submission on the viability of the Oxford North development is made jointly by the Summertown St Margaret's Neighbourhood Forum, the Wolvercote Neighbourhood Forum, and the Oxford Civic Society. The two Forums have previously submitted written objections to the Oxford North planning application for a number of reasons, one of those being the lack of affordable housing.

The submission focuses on the case for more affordable housing in the Oxford North scheme. It challenges the viability assessment of the scheme made by Savills for Thomas White Oxford (TWO) and by Jones Lang LeSalle (JLL) for the Council. It concludes that the Oxford North scheme as submitted is viable at a level of 50% affordable housing of which 80% is social rent.

Our analysis is based upon consultation with viability expert Professor Neil Crosby , Henley Business School at Reading University, Professor Stephen Walker a real estate expert at Oxford Brookes University, and experts in the housing and community planning sector who have extensive experience of interrogating developer viability statements. All of these experts have had the opportunity to look at the viability reports submitted by Savills and JLL.

This submission focuses on FOUR aspects of the viability of the Oxford North planning application: the Benchmark Land Value; the level of developer profit; the future value of the scheme; and the review mechanism

The Benchmark Land Value (BLV)

The BLV is a fundamental value in the calculation of viability. It is the level at which a landowner would be prepared to sell the land for development. It is a portion of the Residual Land Value (RLV); the RLV being the difference between scheme value and scheme cost. If the BLV is a large part of the RLV it is likely the scheme cannot meet affordable housing obligations; if the BLV is a smaller proportion of the RLV, there is more value available to meet affordable housing obligations.

This means that the correct calculation of the BLV is critical in the estimate of viability. If the BLV is incorrectly calculated, the scheme will appear unviable when in fact it is viable.

Government guidance on viability has changed since viability assessment was introduced in the NPPF in 2012. The calculation of BLV at that time was based upon comparable market values or the price paid for the site. Latest guidance has changed this largely as a result of the landmark Parkhouse Road case in Islington in 2018 which ruled that the use of market values should not be the basis of BLV calculations but instead they should be based upon Existing Value and a Premium. The Inspector in the Islington case reached the important conclusion that "an inflated land value should not be subsidized by a reduction in affordable housing."

Latest Government guidance on Viability (2018 and 2019) asserts that the Benchmark Land Value should be not include hope value for development but should be a 'minimum return for a reasonable landowner'. The Oxford North site, according to the Savills report for TWO is described as 'open fields'. The Existing Use Value for this land is estimated by Homes England at £628,000 for 26.07 Ha.

The benchmark land value of £12.4m in the Savills and JLL reports appears to be based upon a premium multiplier of EUV of around 22. The source for the use of this premium is a report written for the DCLG in 2011 by Turner Morum. It was produced shortly after the property crash in 2008-2010 when Government was worried about risks facing landowners and developers. Since then as research by the Real Estate department at Reading University has shown both values and profits of developers have risen steadily (Daveney et.al, 2018). This makes the Turner Morum report out of a date in terms of its evidence base, and also not relevant to current Government Viability Guidance which does not rely upon Turner Morum report of 2011.

The Homes England valuation for the site is £628,000. The difference between this figure and the TWO/JLL valuation, along with the other factors discussed below, provides the opportunity for much more affordable housing.

Developer Profit

The developers profit on cost is another key factor in viability analysis. Clearly, the higher the developer profit taken from the scheme, the lower the amount of RLV available to meet planning obligations. The assumption in the JLL report is that the developer profit target should be close to 20%. Affordable housing options with profit on cost of less than 18% are marked in the JLL report as not viable yet there is no evidence put forward to justify the 20% profit target.

The developer profit according to Government viability guidance is an estimate of risk. There has been extensive research on developer profits showing that the risk of development schemes varies very widely and the use 'industry standard profit' targets can be misleading (Crosby et al, 2017).

Research by Henley Business School has shown that an estimate of risk of 20% for schemes in London and the South-East is particularly inflated compared with schemes elsewhere in the country. Where demand is high with development values rising and where housebuilder industry profits are very healthy, there is a lower risk than in more economically depressed parts of the country (Daveney et al, 2018).

The Oxford North site is a case in point. It is located in an exceptionally profitable part of the UK property market which has shown a sustained high values and growth over many years. The site has excellent road access and proximity to employment (both on and off-site elsewhere in the City) , and complementary services and amenities. It is located in sought-after North Oxford, adjoining the Cotswolds, on the A40, and within one mile of Oxford Parkway rail station a one hour rail journey to London.

Thus, the risk of scheme failure or a decline in the values of the housing or commercial units over the life time of the build out and beyond is very low. Infrastructure funds from Government are being provided for road connections and Homes England is putting in £10m towards affordable housing reducing risk even further. Under these circumstances there is no evidential justification for a 20% profit target, and none has been offered.

Indeed, since their first discussions with the Council, and following the Savills report, TWO have conceded that the scheme can generate a higher level of affordable housing. Their first estimate was a profit of £122m based upon a 25% Affordable housing. A year later, TWO were willing to accept a profit of £68m for 30% affordable housing. A policy compliant level of 50% AH (80:20 social rent to intermediate rent) would generate £52m developer profit on cost. Our view is that this difference of £16m can be found by looking again at the growth in values and profits and this should not wait until the review mechanism takes effect.

Furthermore, the assessment of the profit target for the developer is complicated in this case by the situation of St John's College being the landowner, developer and partial long-term landlord. Under these circumstances where there is no 'typical' developer or 'typical' landowner, the level of profit for the developer, and the assessment of developer risk, is quite different in the viability calculation since the land price to the developer is effectively zero and his profit is correspondingly higher.

In summary, there is, in reality, more flexibility in the profit target than the applicants are suggesting. It is also important to point out that 2018 Government viability guidance and recent Planning Inspectors decisions demonstrate that an across- the-board target of 20% is no longer justifiable; a level of 15-20% across a Plan area is suggested in the most recent

Government guidance on viability; and lower levels can be justified depending on risk (GOV.UK, 2019).

Undervaluation of the scheme

Since Oxford North is a very large scheme with a long development period located in the prosperous North Oxford property market, values will rise throughout the development period, and over time well beyond completion.

JLL have been asked by the Council to undertake a forecast of values. However, in their latest report, the JLL forecast is based upon average residential growth values for the South-East of England and on national commercial yields. This approach fails to recognize the exceptionally high residential values in North Oxford (which are also growing over the medium and long term). Similarly the commercial yields are likely to be lower than in many other sites in the South-East because the Oxford science-based/knowledge industry market is one of the most attractive in the country and hence holds higher value. Given these exceptional characteristics of the Oxford property market, this means the JLL forecast using average South-East values undervalues the scheme and thus hides the amount of value available for affordable housing.

Undervaluation of development schemes is not unusual in developer viability assessment. It is commonplace for viability consultants to produce viability assessments for clients that 'game the system' by undervaluing schemes in order to reduce planning obligations. In June 2019, a House of Commons Public Accounts Select Committee report on Planning and the Broken Housing Market concluded that; 'The system to get contributions from developers to the cost of infrastructure is not working effectively, and too often favours developers at the expense of local communities' (House of Commons Select Committee, 2019).

The Review Mechanism

A large scheme like Oxford North requires a review mechanism because it will come on stream in phases over many years. Yet the review proposal offered by TWO and JLL is entirely insufficient. It is very sketchy and has no legally binding content. It could be read as giving developers the veto on providing more affordable housing depending on their own 'profit target'.

A thorough review mechanism with detailed trigger points and an independent assessment mechanism is essential to protect the public interest as suggested in Government viability guidance. The review process needs to have clear time lines and trigger points at which viability is re-appraised using up to date prices, rents, yields and use the BCIS Tender Price Index, to monitor costs. The review mechanism needs to be an integral element of a S106 legal agreement which is signed in advance of the planning committee, so that it is an input into their decision making and not an output.

Conclusions

These four factors – the overvaluation of the Benchmark Land Value (BLV) by TWO; the profit target which overestimates risk; the underestimation of future residential and commercial values; and the inadequacy of the Review Mechanism, are each separately sufficient reasons to refuse the application on the grounds that it provides insufficient affordable housing. But the overvaluation of the BLV, the underestimation of values, and the incorrect estimate of profits, have a cumulative effect on the viability of the scheme. With a lower BLV combined with a higher valuation of the development, and a profit target that reflects the low risk to the development, the scheme is much more viable, and thus there is adequate land value to meet affordable housing obligations.

If this departure from council policy due to inadequate viability analysis is allowed, it will set a precedent for other housing sites in the City where viability assessment is used to challenge council affordable housing obligations, and will undermine the affordable housing policies in the current and emerging revised Oxford Local Plan.

We therefore urge the Council to refuse the planning application on the grounds that given the sufficient viability of the Oxford North scheme, it fails to meet council policy of 50% affordable housing or which 80% is socially rented.

References

Daveney,S., Crosby,N., and Wyatt,P. (2018) *Residual Land Values: Measuring Performance and Investigating Viability.* Report for International Property Forum, April 2018.

Crosby,N., Daveney,S. and Wyatt,P. (2017*) The implied rate of return in conventional residual valuations of development sites.* Working Paper on Real Estate and Planning 03/17, University of Reading.

GOV.UK (2019). *Viability Guidance.*

House of Commons Public Accounts Select Committee (2019), *Planning and the Broken Housing Market.*