Date of the Document
18 November 2019

Purpose of Statement
This statement has been produced to clarify the Council’s approach to viability evidence as part of the Regulation 18 consultation on the London Borough of Barking and Dagenham's new Local Plan.

Requirements
Under the National Planning Policy Framework, the Council is required to assess in viability terms the cumulative impacts of proposed policies to the extent that the evidence supporting the assessment is proportionate and appropriately available.

Approach and Next Steps
The Council wants to ensure the new Local Plan and its evidence base accounts for the evolving planning context of the borough and, in particular, the requirements of adopted and emerging documents including:

- The Planning Practice Guidance, September 2019;
- The draft New London Plan;
- The Greater London Authority’s (‘GLA’) Affordable Housing and Viability Supplementary Planning Guidance

The Council is in the process of producing its viability evidence to account for this changing context.

The Council, with its appointed viability consultant, BNP Paribas Real Estate, has undertaken testing on its existing Local Plan policies in the context of current market conditions. This testing will inform the emerging draft Local Plan.

Methodology
BNP Paribas Real Estate’s viability assessment is based on the residual valuation methodology to determine the ability of a range of development typologies - reflecting the types of scheme expected to come forward over the life of the plan – to absorb emerging policy requirements. This takes into account the Council’s existing and emerging planning policies; indicative planning obligations requirements; and previous viability assessments commissioned by the Council.

Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing (the hatched portion) and the payment from a Registered Provider (‘RP’) (the chequered portion) for the completed affordable housing units. For a commercial scheme, scheme value equates to the capital value of the rental income after allowing for rent free periods and purchaser’s costs. The model then deducts the build costs, fees, interest, CIL and developer’s profit. A ‘residual’ amount is left after all these costs are deducted – this is the land value that the Developer would pay to the landowner. The residual land value is represented by the brown portion of the right hand bar in the diagram.
The Residual Land Value is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value (in excess of existing use value, discussed later), it will be implemented. If not, the proposal may not go ahead, unless there are alternative funding sources to bridge the ‘gap’. For Local Plan testing purposes, the appropriate starting point for the assessment (as outlined in the PPG 2019) is the existing use of sites. Appropriate existing use values have been established by:

- Identifying the typical current uses of sites that the Council has identified in its Strategic Housing Land Availability Assessment and housing trajectory, as well as those identified in the other viability studies produced on behalf of the Council;
- For each use type, collating evidence on rents and yields of existing buildings to establish capital values of commercial sites; and
- Using variances in current use values established through the process above, determine appropriate benchmark land values across the borough.

The methodology is founded on a comprehensive set of Residual Valuations taking into account of residential values and capital values of commercial floorspace, costs (including additional costs associated with sustainability/carbon zero and BREEAM standards), densities, gross to net floorspace and profit margins on developments that provide comprehensive representations across the Council area.

Base build costs are derived from the BCIS database and have been cross checked with costs adopted in the Council’s recent viability studies.

Sensitivity analysis will be undertaken to reflect a recovery in the economy and a deterioration in market conditions.

**Building Typologies & the Borough’s Value Areas**

BNP Paribas Real Estate is testing a range of development typologies across five different value areas which have been identified from research of sales values. These areas are: Barking Town Centre; Chadwell Heath; Dagenham and Beam Park; Barking Riverside; and Becontree and Valence Park. This testing is ongoing as the evidence base evolves, with typologies comprising residential (both for sale and Build to Rent), and mixed use development.
**The Borough Position**

Historically, Barking and Dagenham has not been an area of rapid housing growth. A large proportion of the borough’s housing supply has been reliant on large strategic sites which tend to come forward more slowly and require considerable implementation and improvements to infrastructure.

Viability in the borough is known to be challenging.

BNP Paribas Real Estate’s base viability testing is based on the current residential sales values that have already been achieved within the Borough to date. Therefore, the viability testing that is being undertaken by BNP Paribas Real Estate does not reflect the Council’s anticipated growth within the Borough over the life cycle of the plan. Given the scale of the growth and infrastructure delivery anticipated in the Borough over the life of the plan sales values are anticipated to grow as a consequence of significant place making and improved facilities and infrastructure. This future growth will be considered by BNP Paribas Real Estate in their viability testing.

The Council is taking a positive and proactive approach to growth. In October 2017, the Council established its regeneration company, Be First, with a mission to accelerate regeneration in the borough. Be First are:

- Taking action to support the market to deliver;
- Developing the planning policy framework, including masterplans, to unlock the Borough’s underutilised industrial land, to provide new homes and new jobs;
- Working with partners to provide the infrastructure needed to support development growth;
- Being proactive about attracting inward investment to deliver development; and
- Stimulating demand through effective place-making, marketing and promotion.

BNP Paribas Real Estate, in conjunction with Be First, will be holding a stakeholder workshop in January 2020 to discuss the assumptions being used in viability testing. As the Local Plan and accompanying evidence base evolves, this process will help Be First and LBBD understand the likely cumulative impact of planning policies, planning obligations and CIL having regard to development typologies, location, current and projected market trends and expert evidence relating to assumptions and inputs that impact on viability.