
Financial Viability Assessment Summary Report

Avondale Drive Estate

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1. Introduction

This Financial Viability Assessment (FVA) has been prepared by Savills (UK) Ltd in support of a hybrid planning application submitted to the London Borough of Hillingdon (LBH) Planning Authority by the London Borough of Hillingdon (hereafter referred to as 'the Applicant') for the redevelopment of the Avondale Drive estate in Hayes (hereafter referred to as 'the Site').

This summary document has been prepared for public issue because at the time of Planning Application Submission the Applicant is in the process of selecting a developer partner for the delivery of the scheme. Making the financial information contained in the full FVA available at this time would therefore risk undermining the Applicant's economic interests. With the Final Tender Stage of the developer partner procurement exercise ongoing at the point of Planning Submission, it is considered critically important to ensure the financial information underpinning the financial modelling produced for this FVA remains confidential.

This report should be read in conjunction with other supporting documents submitted with the planning application, including the Town Planning Statement prepared by Savills and the Design and Access Statement and Design Code prepared by PTEa which explain the Proposed Development in more detail and relate it to the surrounding context and planning policy framework for the Site.

In line with the requirements of the RICS¹ we confirm that through the preparation of this report Savills have acted with objectivity, impartiality, without interference and with reference to all appropriate sources of information required to present our recommendations. We also confirm that there are no conflicts of interest or known risk of conflicts present which would otherwise prevent us from providing advice in this matter.

We confirm that in providing our advice Savills is not retained on a performance-related or contingent fee basis.

Our advice is prepared in accordance with policy and guidance on the preparation of FVAs established in the National Planning Policy Framework (2021), National Planning Policy Guidance, Greater London Authority's Affordable Housing and Viability SPG (2017) and the RICS Assessing viability in planning under the National Planning Policy Framework (2021).

Any advice contained or attached in this report is informal and given purely as guidance unless otherwise explicitly stated. Our views on price are not intended as a formal valuation and should not be relied upon as such. They are given in the course of our consultancy role. No liability is given to any third party and any advice attached is not a formal ("Red Book") valuation. Neither Savills nor the Owner can accept any responsibility to any third party who may seek to rely upon it, as a whole or any part as such. If formal advice is required this will be explicitly stated along with our understanding of limitations and purpose.

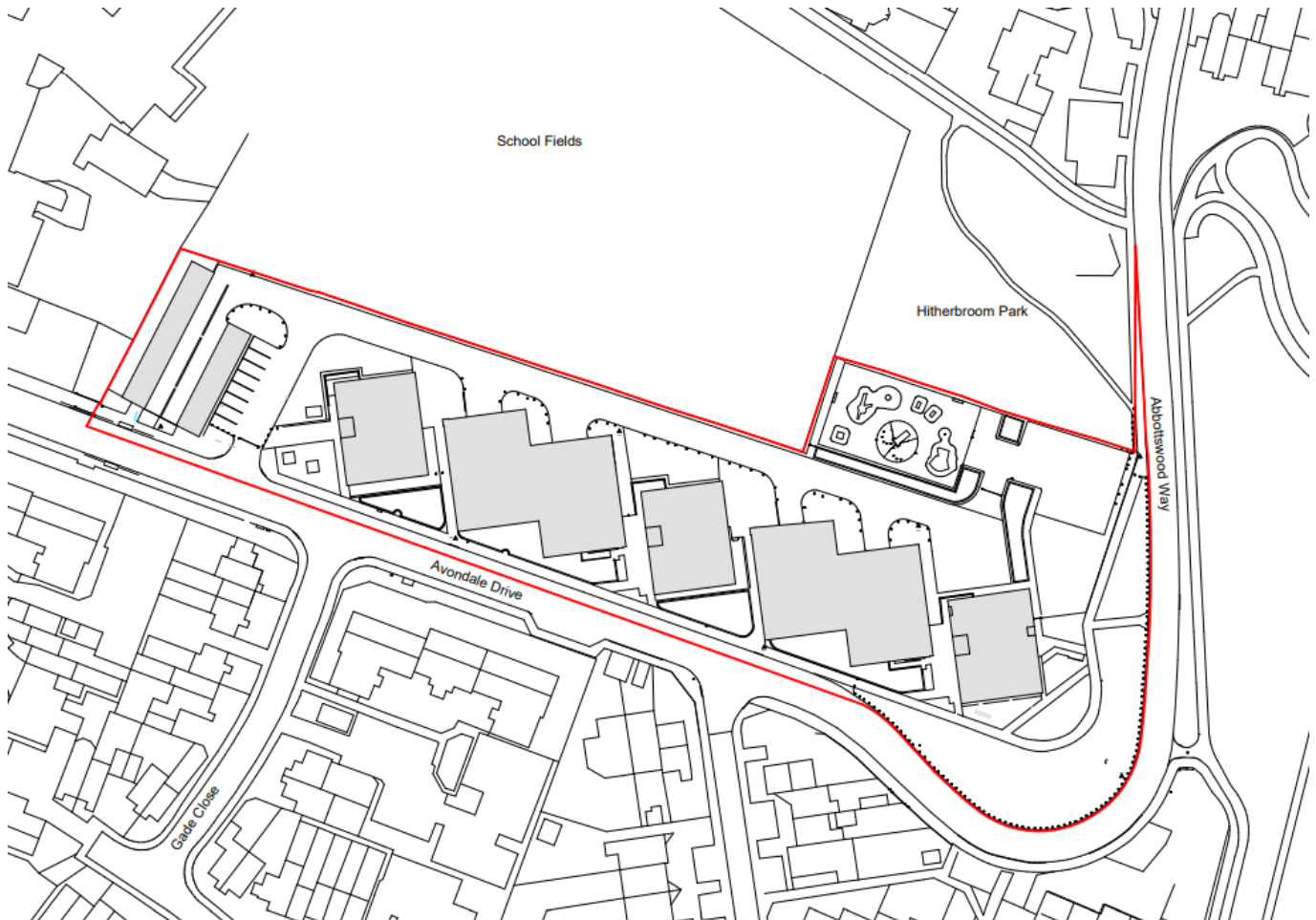
1.1. The Site

The site comprise 1.07 hectares and is occupied by the existing Avondale Drive Estate ("the Estate"). The estate consists of three 13-storey blocks of flats, each containing 48 flats (total 144 homes). Between each tower are large covered car parking areas. To the west of the blocks is an area of garages and additional car parking. All existing dwellings are two-bedroom flats. The blocks were constructed in the late 1960s using a large panel system.

¹ RICS professional statement "Financial viability in planning: conduct and reporting" (May 2019)

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Source: PTEa

The Estate is bound by Avondale Drive to the south and Abbotsway Way to the east. Pedestrian access is provided onto Abbotsway Way from the estate. Both pedestrian and vehicular access is provided onto Avondale Drive to the south. Minet Junior School is located directly to the west, directly to the north of the estate is Hitherbroom Park, which forms part of a Site of Nature Conservation Importance (Borough Grade 1). To the south of the estate is low rise housing.

Beyond Abbotsway Way to the east is the A321, the River Crane and then Minet Country Park. The A312 connects to the A40 and the M4, both of which provide access to the M25. Pedestrian and cycle access is provided to Minet Country Park (0.1 miles from the site) via an underpass which passes under the A321. The estate is approximately 0.4 miles due north-east of Hayes Town Centre.

There is an existing estimated total car parking provision of 88 spaces on-site (equating to 0.61 spaces per unit). Existing spaces are provided predominately in two covered car parking areas in the centre of the estate, accessed via Avondale Drive. Hayes & Harlington station is approximately 1 mile to the south-west of the estate, with direct services to London Paddington, Heathrow Airport and Reading. It is also situated on the Crossrail route, which once completed will provide 10 services per hour facilitating direct travel to Essex and central and southeast London.

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The site has a PTAL score 1B, indicating low public transport connectivity, although the site benefits from a well-connected bus network along Coldharbour Lane to the west, which provides regular services to Hayes Town Centre and associated services including Hayes and Harlington Railway Station. A segregated off road pedestrian and cycle route runs from the west of the estate, via the Grand Union Canal, and into Hayes Town Centre.

1.2. Proposed Development

The description of Proposed Development for this outline planning application is set out below:

“Development in outline (with all matters reserved) for residential floorspace (Class C3) to comprise: demolition of all existing buildings and structures; erection of new buildings; new pedestrian and vehicular accesses; associated amenity space, open space, landscaping; car and cycle parking spaces; plant, refuse storage, servicing area and other works incidental to the proposed development; and

Detailed planning consent for Block A comprising 30 residential units (Class C3); new pedestrian access; associated amenity space and landscaping; cycle parking, refuse storage, and other associated infrastructure.”

For the purpose of the hybrid planning application, a scheme has been prepared comprising the following residential mix:

Unit Type	Private Sale	Social Rent	Shared Equity	Total
1B2P Flat	50	27	2	79
1B2P Flat (wc)	4	2	-	6
2B4P Flat	42	40	-	82
2B3P Flat (wc)	12	2	-	14
2B4P Flat (wc)	6	1	-	7
2B4P Mais	-	12	-	12
3B5P Flat	-	20	-	20
3B5P Mais	-	8	1	9
3B6P Flat	6	-	-	6
4B7P Mais	-	5	-	5
Total	120	117	3	240

The Application is being submitted as a hybrid proposal which seeks permission for development of 240 units overall. It comprises elements in detail (the Detailed First Phase) and in outline (the Outline Area). The detailed element comprises 30 units and the outline component (appearance, landscaping, layout and scale and access reserved) for the development of 210 units including car and cycle parking and open space. These elements are defined on Parameter Plan 1 - Development Zones, whereby the area within the dotted red line comprises the Detailed First Phase and the remainder of the Site, within the solid red line boundary comprises the Outline Area.

The Detailed First Phase is being submitted in full and sits outside the outline parameters. However, the detailed design has been developed in conjunction with the outline parameters and principles to ensure overall a comprehensive approach to the redevelopment of the estate in line with LBH's vision.

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The Outline Area is being submitted with all matters reserved. Notwithstanding this, an illustrative scheme has been prepared across the Outline Area to demonstrate one way in which the outline components could come forward in future in line with the parameters.

Both the Outline Area and the Detailed First Phase combined form "The Avondale Drive Estate Illustrative Masterplan". This has been submitted as part of the application for indicative purposes only and is based upon the proposed parameters. It therefore sits within the envelope of development assessed as part of the application.

Based on the illustrative phasing, the project is expected to be delivered over three or four construction phases within the three broad development phases identified within the HPA. These start at the west of the Site, before jumping to the east with delivery heading back towards the first block thereafter. This sequencing is a product of the programme of vacant possession being adopted, as well as existing residents rehousing needs. The overarching phasing is demonstrated in the diagram below.



Source: PTEa

In terms of the affordable housing offer, 117 homes will be affordable tenure (Social Rent), equating to a 52.5% by habitable room and floorspace. This provision is supported by GLA grant funding provided to the Applicant. This provision is supported by GLA grant funding provided to the Applicant.

1.3. Structure and Purpose of this Report

This FVA summary document has been prepared to provide an overview of the key considerations relating to the full FVA, as well as the approach undertaken and the key outputs from the viability exercise in terms of Residual Land Value and affordable housing offer. The national, regional and local planning policy framework within which the viability exercise has been undertaken is provided as follows:

Development Plan policies contained in:

- London Plan (2021); and
- LBH Local Plan, comprising:
 - LBH Local Plan Part 1;
 - LBH Local Plan Part 2;
 - LBH LPP2 Policies Map (2020).

Material considerations, including:

- National Planning Policy Framework (NPPF) (2021);
- Nation Planning Practice Guidance (NPPG);
- GLA Affordable Housing and Viability SPG (2017);
- RICS Assessing viability in planning under the National Planning Policy Framework 2019 (2021)

The following sections of this FVA provide the following:

- Section 2 – overview of relevant planning policy for the FVA exercise;
- Section 3 – approach to FVA exercise;
- Section 4 – approach to establishing Benchmark Land Value;
- Section 5 – summary of our conclusions and recommendations.

2. Planning Policy

2.1. National Planning Policy

2.1.1. National Planning Policy Framework

The National Planning Policy Framework (NPPF) was updated by the Ministry of Housing, Communities and Local Government in July 2021, and sets out the Government's national planning policy. It does not change the statutory status of the development plan as the starting point for decision making, and states that development which accords with an up to date Local Plan should be approved. It replaces the previous NPPF (which was in place from 2012 and was updated in 2018, and 2019) and retains the presumption in favour of sustainable development. There is a focus towards early engagement with Local Planning Authorities by developers, which the Applicant has sought to prior to the submission of this formal planning application.

Of particular reference is paragraph 58, which states that:

"Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstance since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available."

2.1.2. Planning Practice Guidance for Viability ('PPGV')

The Government's national planning guidance for understanding viability in both plan making and decision taking is set out within National Planning Practice Guidance for Viability ('NPPG').

Detailed guidance is provided with regard to viability assessment in decision-taking upon individual schemes at the application stage. Firstly, it is the responsibility of the Applicant to demonstrate the particular circumstances justifying the need for viability assessment. Whilst not stated as exhaustive, examples stated in NPPG are:

- where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan;
- where further information on infrastructure or site costs is required;
- where particular types of development are proposed which may significantly vary from standard models of development for sale (for example Build to Rent (BTR) or housing for older people); or
- where a recession or similar significant economic changes have occurred since the plan was brought into force.

Paragraph 10 confirms the applicant's viability assessment must be based upon and refer back to the viability assessment that informed the plan, and transparently present evidence of any change in site circumstances since the plan was brought into force. It should reflect the Government's recommended approach to defining key inputs as set out in NPPG.

Paragraph 20 confirms that the inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers. Reports and findings should clearly state what assumptions have been made about costs and values (including gross development value, benchmark land value ('BLV') including the landowner premium, developer's return and costs).

2.2. Regional and Local Planning Policy

2.2.1. London Plan (2021)

At a regional level, the Greater London Authority (GLA) published its new London Plan in March 2021. The plan sets out a strategic target to deliver 522,870 new homes, of which 10,830 are to be delivered in LBH over the 10-year period from 2019/20 to 2028/29.

The London Plan requires that affordable housing is provided on sites which have capacity to provide 10 or more homes. London Plan Policy H4 sets a strategic target of 50% of all new homes delivered across London to be genuinely affordable and advises specific measures to achieve this aim which for major developments should be in accordance with the threshold approach set out under LP Policy H5's Threshold Approach. For estate regeneration schemes specifically, such as the Proposed Development subject to this HPA, Footnote 52 is clear that separate affordable housing requirements as set out under LP Policy H8 are applicable.

LP Policy H8 (Part A) states that: the "loss of existing housing should be replaced by new housing at existing or higher densities with at least the equivalent level of overall floorspace". It resists the demolition of affordable housing unless it is replaced by an equivalent amount of affordable housing floorspace, and affordable housing floorspace is re-provided on a "like-for-like" basis (ie. Social Rent housing replaced with Social Rent housing where facilitating the right to return) and integrated into the development to ensure mixed and inclusive communities (Part D). If not facilitating a right to return, it may be provided as either Social Rent or London Affordable Rent housing. This re-provision is based on affordable floorspace plus unit numbers and habitable rooms to ensure no overall net loss. Policy LP H8 goes on to state that all development proposals that include the demolition and replacement of affordable housing should follow the Viability Tested Route and seek to provide an uplift, where viable, in addition to re-provision (Part E).

With regards to tenure split, LP Policy H6 and the Mayor's Affordable Housing SPG requires: a minimum 30% as London Affordable Rent or Social Rent homes, a minimum of 30% as intermediate products and the remaining 40% to be determined by the local planning authority based on identified need.

2.2.2. LBH Local Plan (2012 and 2020)

The Local Plan is the foundation of how development will be controlled in Hillingdon up to 2026. The two sections of the Local Plan forms LBH LPA's future development strategy for the borough. Together the documents set out a framework and detailed policies to guide planning decisions and it is the starting point for considering whether planning applications should be approved.

The Local Plan Part 1 sets out the overall level and broad locations of growth for the plan period. It comprises a spatial vision and strategy, strategic objectives, core policies and a monitoring and implementation framework with clear objectives for achieving delivery. It was adopted in 2012 and the enclosed policies are supported by more detailed policies and allocations set out in the Local Plan Part 2.

The Local Plan Part 2 comprises Development Management Policies, Site Allocations and Designations and the Policies Map. The Local Plan Part 2 Development Management Policies and Site Allocations and Designations were adopted as part of the borough's development plan at Full Council on 16 January 2020. This replaces the Local Plan Part 2 Saved UDP Policies (2012).

Local Plan Part 1

With regards to affordable housing, Policy H2 outlines the need for range of housing to meet the needs of all types of households and the Council will seek to maximise the delivery of affordable housing from all sites over the period of the Hillingdon Local Plan Part 1. Accepting the complex nature of market conditions in Hillingdon, it is stated that a *"one size fits all approach to tenure provision will not be suitable for all areas in the borough"*. The policy consequently facilitates a degree of flexibility in terms of the application of Policy H2, subject to the provision of robust evidence.

Local Plan Part 2

Policy DMH7 outlines that *"subject to viability and if appropriate in all circumstances, a minimum of 35% of all new homes on sites of 10 or more units should be delivered as affordable housing, with the tenure split 70% Social/Affordable Rent and 30% Intermediate."*

2.2.3. Site Designations and Allocations

As defined by the Development Plan, the Site is located within the "Hayes Housing Zone" (HHZ) designation under the LB Hillingdon LPP2 Policies Map (2020). The HHZ is expected to deliver a significant proportion of the Council's housing requirement; this estate expected to be a significant contributor. The estate's renewal will actively assist in contributing towards the borough's pressing affordable and general housing needs and demands in the short, medium and longer term.

3. Approach to Viability Exercise

The key elements of the viability exercise undertaken are summarised below:

- A comprehensive review of the latest information produced by the technical and design team working on the planning application;
- Liaison with project consultants in relation to key cost assumptions including; Quantity Surveyor, Planning Consultant and Compulsory Purchase Surveyor (in relation to land assembly costs).
- Production of an independent assessment of property market conditions to arrive at opinion of current supply and demand issues to inform financial assumptions on achievable outturn values and market absorption rates;
- Preparation of independent valuations of all relevant market and affordable tenures;
- Establishment of position in terms of Existing Use Values for the subject site, to inform a recommendation on Threshold Land Value, reflecting a “competitive return to a willing landowner” as defined in the NPPF and PPG;
- Preparation of financial analysis using Argus Developer, an industry-standard toolkit for assessing financial performance of development projects and is regularly used when submitting FVAs to planning authorities.

4. Benchmark Land Value

One of the fundamental principles of the planning viability process is to ensure that a determination on project viability takes into account the requirement for both developer and landowner to generate a “minimum return” in the latest National Planning Policy Framework.

In order to meet this requirement, it is necessary to determine a Benchmark Land Value (BLV) for the purpose of planning viability negotiations. Fundamentally the BLV should reflect a value at which a landowner would be prepared to release their asset for development.

NPPG, Paragraph 13, confirms the preferred approach is to establish this on the basis of an Existing Use Value (EUV). Paragraph 16 confirms that a premium should be applied to the EUV as appropriate:

“...The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements”

Alongside this, Paragraph 17 confirms that an Alternative Use Value (AUV) approach may also be used to inform the assessment of BLV. The PPG states:

“If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.”

Importantly, an assessment reflecting an AUV approach must ensure that this would fully comply with up to date development plan policies and demonstrate that there is market demand for that use.

The GLA’s preferred approach to analysing BLV in a planning viability context was outlined in the publication of detailed guidance in 2017. With respect to the assessment of BLV, the SPG states:

“In light of inference to the contrary, either ‘Market Value’, ‘Alternative Use Value’ or ‘Existing Use Value plus’ based approaches can address this requirement where correctly applied; their appropriate application depends on specific circumstances. On balance, the GLA has found that the ‘Existing Use Value plus’ based approach is generally more helpful for planning purposes and supports this approach. The ‘plus’ element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements.”

It goes on to say that the premium applied above EUV should be:

“fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes hope value associated with development on the site or alternative uses”.

Paragraph 3.43 of the SPG states that:

“The premium could be 10 per cent to 30 per cent, but must reflect site specific circumstances and will vary... The level of premium can be informed by benchmark land values that have been accepted for planning purposes on other comparable sites where determined on a basis that is consistent with this guidance.”

From a technical perspective, the Royal Institution of Chartered Surveyors (RICS) published its latest guidance note “Assessing viability in planning under the National Planning Policy Framework 2019 for England” in March 2021. The RICS technical guidance continues to advocate assessing BLV through an EUV plus premium, and an AUV, basis.

In the context of Avondale Drive, given the existing nature of the estate, as well as related local planning policies, we have not given consideration to the AUV approach for establishing a BLV.

The Hayes regeneration programme, within which Avondale Drive is one of two key estates, represents a unique opportunity to undertake the comprehensive regeneration of two housing estates in Hayes. In considering the application of a BLV in relation to an assessment of the financial viability of the projects, it is essential that the context and nature of the existing estates is taken into account.

As covered at the Options Appraisal stage for the project, alternative interventions for estate improvement were considered, and full redevelopment was identified as the most appropriate strategy. In the interest of supporting the deliverability of the scheme, and within the context of challenging viability conditions, for the purpose of this FVA analysis we have not reflected a BLV in our assessment of the estate regeneration project. Further, we also consider that the application of a premium to incentivise the landowner to release the site for delivery inappropriate.

However, as set out later in this report, the cost of assembling the relevant property interests in order to enable delivery is significant, and will form an important cost item for the project. Therefore, from LBH's perspective, the costs associated with acquiring and assembling third party interest across the estate must be accounted for.

5. Conclusion and Recommendations

This financial viability assessment relates to the proposed development of the Avondale Drive estate. The Site represents a strategic opportunity to bring forward major new development. Our assessment considers the delivery of 240 new residential units through the comprehensive regeneration of the estate. Within the residential development, 117 homes will be affordable tenure, equating to a 52.5% by habitable room and floorspace. This provision is supported by GLA grant funding provided to the Applicant.

Our analysis has found that the proposed development of Avondale Drive generates a significant negative RLV on a current day cost/value basis at the time of planning application submission. In the context of a zero BLV, we conclude that, at the time of the planning application submission, the project fails to meet the viability tests that would normally be required to be met in order to justify planning obligations through the form of affordable housing and financial contributions from being deliverable.

Whilst our analysis of the project suggests a significant viability gap is present based on an objective assessment of the project and minimum landowner and developer return requirements, the Applicant remains strongly committed to bringing forward the regeneration and meeting commitments made to existing residents through the Resident Ballot. As such, the Applicant is committed to delivering an equivalent amount of affordable housing by floor area in order to meet commitments made to existing residents living on the estate, and to ensure optimal alignment with the funding agreement entered into with the GLA to bring forward a large amount of new affordable housing. It is clear however that the project cannot justifiably sustain any additional obligations through the form of affordable housing or financial contributions towards additional infrastructure and services.

