



**REPRESENTATIONS TO
BRENT BOROUGH COUNCIL
LOCAL PLAN 2020 – 2041
REG 19 CONSULTATION
POLICY BH5**

1 Policy BH5 – Affordable Housing.

Policy BH5 sets out the affordable housing target for the plan period from a range of development types. The policy identifies the minimum tenure requirements for a range of site types including Build to Rent ('BtR'). These representations consider the approach proposed by the Council particularly in the context of BtR and comment on whether it is effective and justified in the context of this national guidance and is consistent with the need to ensure that housing delivery is significantly boosted ¹

- 1.1 Policy BH5 sets out tenure mixes for affordable housing provision which are considered necessary to comply with the London Plan threshold approach. By implication failure to deliver these identified tenure mixes will prevent projects from meeting the 35% fast track threshold of the London Plan.
- 1.2 It will be recognised that a failure to progress down the fast track route can add significantly to the time needed to secure a planning consent. This has delivery implications across the plan period especially given BtR schemes are playing an increasingly important role in meeting housing need
- 1.3 Supporting text to the policy at 6.2.48 confirms the tenure mix position of the London Plan policy H13. This proposes a requirement for 30% of affordable provision within BtR schemes to be at London Living Rents with the remainder to be determined at local level having regard to need and project viability.
- 1.4 The position proposed by policy BH5 in respect of BtR proposals is for them to deliver a minimum of 100% of any affordable housing provided at London Living Rent levels. Supporting text at 6.2.48 (final sentence) implies however that this only applies to schemes at or above the 35% affordable housing threshold given those below this level are required to deliver a reduced proportion (70%) of Affordable Housing at London Living Rents.
- 1.5 This approach to schemes above and below the threshold of 35% affordable housing creates a level of inflexibility and prescription which is not effective, is not justified and does not accord with national guidance.
- 1.6 The evidence base which is drawn on to support this tenure position for BtR schemes is the London Borough of Brent: Local Plan Viability Study ('LPVS') prepared by BNP Paribas Real Estate ('BNPRE'). This document was originally produced in March 2019 but has been updated to October 2019.
- 1.7 This seeks to follow the direction of National Planning Policy Guidance ('NPPG') by providing a viability review of a range of site typologies with various levels and types of affordable housing provision tested against each option. To inform this analysis the document relies on a number of residual development appraisals with their residual value compared to a range of identified threshold land values.
- 1.8 The NPPG encourages the close cooperation of developers, landowners and other stakeholders² in preparation of these documents. However, this Regulation 19 Local Plan consultation represents the first opportunity for these organisations to comment against the structure and findings of the LPVS.
- 1.9 The LPVS concludes as part of paragraph 1.7 that;

¹ NPPF Feb 2019 paragraph 59

² Paragraph: 002 Reference ID: 10-002-20190509 and 006 Reference ID: 10-006-20190509

Build for rent schemes: we have tested the London Plan requirement in H13C for build to rent schemes to provide 35% affordable housing, at least 30% of which should be at London Living Rents and the remaining 70% at a range of genuinely affordable rents. In general, the appraisals indicate that the viability of build to rent schemes is challenging on sites with high existing use values but the 35% target is viable with 100% London Living Rent on a majority of sites in other existing uses. The best viability outcomes are achieved on sites with low existing use values, including public sector land.

- 1.10 It is clear from this conclusion that even if all inputs and assumptions which underpin the modelling within the LPVS are unchallenged the overall viability conclusion suggests that BtR schemes will find the 35% threshold challenging with the higher existing use sites the most difficult. This would suggest the policy position of BH5 is set at the margins of viability which would be contrary to the guidance in the NPPG at Paragraph: 002 Reference ID: 10-002-20190509 (see also ³) This identifies that;

Policy requirements, particularly for affordable housing, should be set at a level that takes account of affordable housing and infrastructure needs and allows for the planned types of sites and development to be deliverable, without the need for further viability assessment at the decision making stage.

- 1.11 The LPVS appears to recognise this key aspect of the NPPG given it specifically identifies at Paragraph 2.2 that;

Individual site characteristics (which are unique), mean that the conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis

- 1.12 This need for flexibility has not, it appears, been translated into the draft policy which proposes a tenure position on BtR schemes which represents a scenario which can be only generally achieved on sites with good viability with a low existing use value land.

- 1.13 Furthermore, a review of the inputs and assumptions contained within the LPVS identify that there are a number of areas where the viability of potential developments is overstated, and this will place greater pressure on achieving the position identified by the draft policy. The following sections consider a range on inputs and assumptions relied upon in the modelling. Whilst there is a focus on BtR provisions many of the issues raised will also have impacts on the modelling of market sale schemes and the conclusions around their relative ability to support affordable provision as envisaged by policy BH5.

London Living Rent provision - Revenue and Rent Levels

- 1.14 Table 4.10.1 considers the potential revenue from Registered Providers for a range of affordable products. London Living Rent figures are the most immediately relevant for the BtR proposals as this is the form of affordable provision sought in the draft policy and modelled in the LPVS.

- 1.15 However, it is important to recognise that most BtR schemes will not be selling a proportion of the units to registered providers. In accord with the London Plan⁴ provision of BtR affordable housing will be integrated within the whole scheme with unified ownership and management. On this basis the

³ Paragraph: 029 Reference ID: 10-029-20190509

⁴ New London Plan 2019 Policy H13

affordable product is BtR at a rent 'equivalent to the London Living Rent' as opposed to a unit provided as 'London Living Rent in accord with the mayors Affordable Homes Programme'.

- 1.16 This distinction is critical as the latter category of affordable property is a particular affordable product type with deep discounts compared to market rents which is seeking to deliver a route to home ownership for tenants. The terms of that product are that registered providers are required to encourage tenants to buy out their London Living Rent property on shared ownership terms within 10 years of first provision.
- 1.17 This reversion to shared ownership and the ownership of the unit by a registered provider will deliver very different product values compared to a market BtR property 'converted' to an affordable unit by reducing its rent to a level equivalent to the London Living Rent level. Furthermore, there is no opportunity to secure grant funding against these products.
- 1.18 The appraisals relied upon by BNPRE in the LPVS appear to operate on the blended revenue of £228psf as identified within table 4.10.1. The calculation of this blended revenue is not clear as the mix set out in paragraph 4.10 in respect of rented units adds up to more than 100%. This should be corrected and any impacts to the modelling identified.
- 1.19 Furthermore, the modelled unit mix has a significant impact on the potential revenue from a registered provider. This is illustrated within Table 4.10.1 which shows the value per sq ft across each unit type and by tenure. It is evident that larger units typically secure a much lower revenue per sqft than larger properties. A shift in the unit mix towards larger units, which has been a policy and negotiation priority of the council, will significantly reduce the potential revenue from providers. This has a double impact on the viability model as larger properties also cost more overall to construct which accentuates the effects of the lower revenue for these units.
- 1.20 The individual values set out in table 4.10.1 (which inform the blended revenue) for the London Living Rent tenure are high compared to what the market can support. This is for two reasons; firstly, the London Living Rents vary by ward with a broad range of rents applicable across Brent Borough and secondly many registered providers are not now valuing London Living Rent properties as 'exiting' to shared ownership after c.10 years. This second point is suppressing values as providers are uncertain about the potential to encourage tenants to move to a shared ownership option as envisaged by the Mayor. They are therefore modelling units as long term rented accommodation which is typically of lower value than a shared ownership proposition.
- 1.21 In respect of the ward by ward variation of London Living Rent levels this presents a concern for the modelling outcomes. The model relies solely on an average position across the Borough as set out in the LPVA in table 4.7.1. London Living Rents are produced annually by the GLA and are provided for each Ward area across London.
- 1.22 There are twenty one wards in Brent with the one bedroom London Living Rents ranging from £144 pw to £216pw. Around a third of the Borough has one bedroom London Living Rents at between £144 & £155 pw which is a range just below and just above the London Affordable Rent levels which are considered a higher subsidy affordable housing envisaged as a replacement for social rented housing.
- 1.23 In seeking London Living Rent at close to social rent levels the plan proposals would be inconsistent with the London Plan which states at paragraph 13.10.9a:

“The low cost rent affordable housing would contribute towards the relevant threshold required to meet the fast track route, as set out in paragraph 4.13.6. DMR is an intermediate product and is managed and allocated as such, therefore it is not appropriate to seek DMR at or close to social rent levels.”

- 1.24 Furthermore, these lower value areas encompass some key growth areas for the Borough. In running the model on the basis of a simple average London Living Rent position the LPVA does not accurately consider the impact of applying these rent variations across the Borough to actual schemes as they come forward.
- 1.25 A more finely grained review, coupled with a sensitivity on unit mix, would provide greater clarity on how the draft policy may deliver (or fetter) developments of this type over the plan period. The approach to rents adopted by the LPVA further compounds the impact on project viability on schemes in these lower value locations, where housing growth is encouraged by the plan.
- 1.26 The net effect will be to overstate the viability of the projects being modelled by assuming a higher revenue than that which is achievable in schemes coming forward for development.
- 1.27 Net yields from a BtR scheme will typically not fall below c. 3.5% for this type of development in this part of London⁵. In establishing the net yield the adjustment for operating expenditure is critical on these types of properties because the level of these costs will not fall simply because the rent had been reduced to London Living Rent levels. As identified these properties will be integrated within the wider management arrangements for the building and will be to a similar/same standard and have access to all BtR facilities and amenities so operating costs will be comparable to market provision.
- 1.28 The revenues assumed by BNPRE in the LPVS are based on a gross yield of c. 5.1%. Adjusting this yield for operating costs at 25% of market rents (where London Living Rents are assumed at c. 35% of market rents) has the effect of reducing the gross yield to only 1.5% on a net basis. This is an unrealistic return for a project of this type and as a result seeking a large proportion of the scheme, such as 35% to achieve the fast track threshold, would be considered unviable as it would heavily impact the overall project yield. Furthermore, the issues identified above around the use of the average Borough rents for London Living Rent properties will further increase this gap between the gross to net yield.
- 1.29 On the basis of this analysis the level of revenue attributed to the affordable element of the BtR part of the modelling is very significantly overstating the viability of including London Living Rented accommodation within the scheme. This is a significant issue given the already marginal findings of the LPVA in respect of BtR proposals⁶.

Build Costs

- 1.30 The LPVS at section 4.14 identifies that the core model assumption is derived from reference to data from the RICS Building Cost Information Service. These are adjusted to provide an allowance for external works and energy requirements.

⁵ For example see CBRE - United Kingdom Residential Investment Marketview Q3 2019 – page 4

⁶ LPVS Key Findings page 4

- 1.31 The LPVS does not provide additional information and commentary on viability submissions made on sites coming forward in the last plan period and or draw on other sources of data.
- 1.32 The BCIS allowances for apartments equate to £1,932psm to £2,258psm to include all build costs including an element of abnormals⁷. Large scale schemes in London with complex and more significant external works, below ground parking, public realm, district heating systems and quality elevational treatments will significantly exceed the BCIS cost allowances used in the LPVS by at least 40% in most cases (see analysis below). In part this is due to the 10% allowance for external works not being sufficient on these larger more complex 'place making' projects. BNPRE will be aware of schemes which fit these parameters and could draw on that data to improve the modelling contained in the LPVS. Further site specific information, previously agreed with BNPPRE, can be provided to support this position on request.
- 1.33 Data presented in Appendix 2 (page 2 of Appendix) identifies a range of input assumptions across the site typologies. Res 8 and Res 9 are presented as flatted schemes of 9 and 12 stories with unit numbers of 225 and 300 respectively. Both these sites appear to be modelled on the 'below 6 storey' build cost of £1,932 per sqm. This will be significantly understating their cost and overstating their ability to deliver affordable housing either as BtR or market sale proposals. By contrast the smaller Resi7 proposal which is 'only; 4 stories has been modelled at the above 6 storey build cost. A number of other inconsistencies appear in this table with other higher typologies being modelled at low build costs and some typologies representing wholly unrealistic built forms. For example typology 16 - CH1 is modelled as a 60 unit 20 storey building. This type of scheme would not come forward for development.
- 1.34 Notwithstanding the comments above, it is considered the storey height ranges do not accurately reflect the step changes in construction costs of different typologies. The ranges should be under 6 storeys, 6-12 storeys and 12+ storeys. Within the 12+ range, which is prevalent in the Growth Areas of the borough, there are a large number of additional construction costs that need to be included that cannot be delivered within the current cost assumptions. These include sprinklers, dry or wet risers, additional plant and boosted supplies, increased structure, vertical transportation and enhanced amenity provision. Again, further information to support this position can be provided on request.
- 1.35 Furthermore, over 21,000 of Brent's 45,000 homes up to 2041 will be delivered on sites of over 500 units however no consideration appears to have been given to these larger 'masterplan' regeneration schemes where the cost of providing supporting infrastructure to accommodate the development is significant. Quintain have first-hand experience of these costs which have been experienced in the delivery of Wembley Park and agreed by BNPPRE in a number of scheme specific viability studies. It is also more likely that these costs will be experienced in BtR developments as schemes over 500 units are expected to provide a proportion of BtR homes (Policy BH3). These costs include public realm and place making works, utility network upgrades, installation of district CHP networks and off site highway improvements.
- 1.36 Taking into account the above, on its own, BCIS is considered to be a poor and highly sensitive indicator of project cost as the sample of projects used is very small (and even smaller in relation to BtR developments). The benchmarked data included within BCIS includes various projects throughout the country which are rebased to a location factor for the Greater London area to deliver the mean position

⁷ See paragraph 4.35 of the LPVA.

for that location. This includes refurbishment projects, office to residential projects and projects located as far away as Devon and Jersey. The information included within BCIS is subjective and should only be used to benchmark projects on a like for like basis.

1.37 Currently there are only two actual London based benchmarked projects which are included within the BCIS data which fall under the following parameters:

- Located in London (Islington & Westminster)
- Constructed in the last 4 years
- 6+ stories
- New build developments (exclude refurbishment projects and office to residential projects)

1.38 The average (mean) cost across both of these developments is £3,173/m² of GIA or £295/ft² of GIA, between 40-60% higher than the LPVS has allowed for. Further information can be provided to support this analysis on request.

1.39 To address these deficiencies in the BCIS data, the LPVS should also cross reference with other indices published by the large QS firms including Arcadis, Aecom, G&T and F&G in order to get a more accurate build cost figure. These indices are freely available and coupled with discussions with developers and landowners would provide the LPVS with additional evidence base to ensure the assumptions are robust.

1.40 The build costs currently modelled against the BtR proposals will be understating the costs of delivery and overstating the viability of projects which could come forward in the plan period. The inconsistencies in the Appendix 2 suggest the output tables within the LPVS should reviewed and adjusted as necessary.

Benchmark Land Value

1.41 Paragraph 4.39 is assumed to include a typo on the range of benchmark land values adopted in the modelling. The range is reported as being £3.35m to 11.7m per hectare but this is inconsistent with the valuations presented by BNPRE at paragraph 4.40 and 4.41, the evidence presented in table 4.42.1 and the output sheets in Section 6 of the LPVS.

Output Tables

1.42 The LPVS identifies outputs for BtR schemes at section 6.2 – 6.26. The document acknowledges the relative immaturity of the BtR market and identifies that the overall value of the BtR scheme⁸ is based on a simplistic assumption that the value of these proposals is a 20% reduction on the GDV as a sale proposal. No evidence is provided to support this assumption.

⁸ See paragraph 6.23 of the LPVA

- 1.43 The outputs in respect residual land value of scheme typology 8 – Res6 Mid Sized flatted scheme appear entirely at odds with the viability outcomes from the two other typologies modelled. The differential appears very large for what are broadly comparable proposals.
- 1.44 As drafted the LPVS output tables are not consistent in their reporting of the level of affordable housing modelled and the text within the table. Table 6.24.1 is titled as analysis of schemes with 35% affordable housing. The text within the table suggests this is 31%.

LPVS conclusions

- 1.45 A number of items have been identified which require correction further analysis or additional work to ensure the document presents a robust and credible evidence base from which to draft the policy BH5. As currently structured the contents do not provide support to the policy provisions of BH5. Without amendment to the LPVS the policy provisions of BH5 cannot be considered effective and justified.
- 1.46 It is a core part of the viability evidence that the cumulative impacts of draft policy are accurately reflected in the modelling to ensure that overall the policy burden does not prevent sites from coming forward.⁹ The draft plan considers a number of policy areas which will impact development viability and these should all be properly considered and reported on in the LPVS evidence base. These include the provision of family housing, sustainability measures, amenity space provisions as well as the nuances of delivering affordable housing across the Borough.
- 1.47 This level of detail and consideration is critical if the viability evidence set out by the LPVS is to be relied upon to limit the use of site-specific viability testing at application stages. The NPPG sets out provisions¹⁰ to this effect. Where the viability modelling fails to reflect the types of development which will be coming forward or does not include an appropriate assumptions (or sensitivities) within the modelling then the result will be to increase the incidence of application specific viability modelling during the plan period. In accordance with the NPPG, these sorts of submissions would be entirely justified where the plan viability is not reflecting the realities of bringing forward developments.
- 1.48 Furthermore, Quintain and other developers in the Borough should be invited to attend viability workshops with Brent and their advisers to ensure concerns with the current LPVS can be properly discussed and hopefully addressed before the Local Plan hearing sessions take place as hearing sessions are typically not the best forum for detailed viability discussions to be carried out.

Policy Amendments

- 1.49 The wording as drafted is unreasonable, is not effective and is not justified having regard to the viability evidence presented within the LPVS.
- 1.50 A range of amendments are appropriate to ensure that the policy retains sufficiently flexibility to deliver on the provisions of the NPPF to boost housing supply and to ensure that in accord with the

⁹ NPPG - Paragraph: 029 Reference ID: 10-029-20190509

¹⁰ NPPG - Paragraph: 006 Reference ID: 10-006-20190509

NPPG the policy is not set at the margins of viability which may prevent sites from coming forward over the plan period.

- 1.51 As identified above the London Plan provides clear direction on the role of discounted market rented housing in BtR schemes ¹¹ with the provision intended to act firmly as an intermediate product aimed at households on incomes which will ultimately allow them to move into home ownership. Seeking to provide 100% of the affordable provision on BtR schemes as London Living Rent will, due to the low ward level rents applicable in the Borough, not deliver on this provision within the London plan. Furthermore, the reduced value of this type of provision will put significant pressure on the viability of these schemes.

POLICY BH5 AFFORDABLE HOUSING In Brent the strategic affordable housing target that will apply is 50% of new homes in the period to 2041. The threshold approach to affordable housing provision will be applied as part of this policy approach to the delivery of affordable housing in accord with the London Plan policy H6.

The affordable housing tenure split required to comply with the London Plan Policy H6 Threshold Approach to Applications is for:

Non-Build to Rent developments of 10 dwellings or more is:

a) 70 per cent Social Rent/ London Affordable Rent and;

b) 30 per cent intermediate products which meet the definition of genuinely affordable housing, including London Living Rent, affordable rent within Local Housing Allowance limits and London Shared ownership. These must be for households within the most up to date income caps identified in the London Housing Strategy or London Plan Annual Monitoring Report.

Build to Rent developments, a minimum of ~~100~~ 30 per cent at London Living Rent and the balance as a Discount Market Rent affordable housing which is genuinely affordable in accord with the London Plan.

Developments of between 5-9 dwellings will be required to make a financial contribution for the provision of affordable housing off-site.

¹¹ Draft London Plan – consolidated changes version – Clean July 2019 – 4.13.9a and 4.7.5