

LB MERTON HOUSING VIABILITY STUDY



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26 November 2020



**BNP PARIBAS
REAL ESTATE**

Real Estate for a changing world

Agenda Item 4

Introduction

- Concepts and approach to testing
- Merton delivery in wider London context
- Study results
- Policy approaches
- Discussion / questions

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CONCEPTS AND APPROACHES

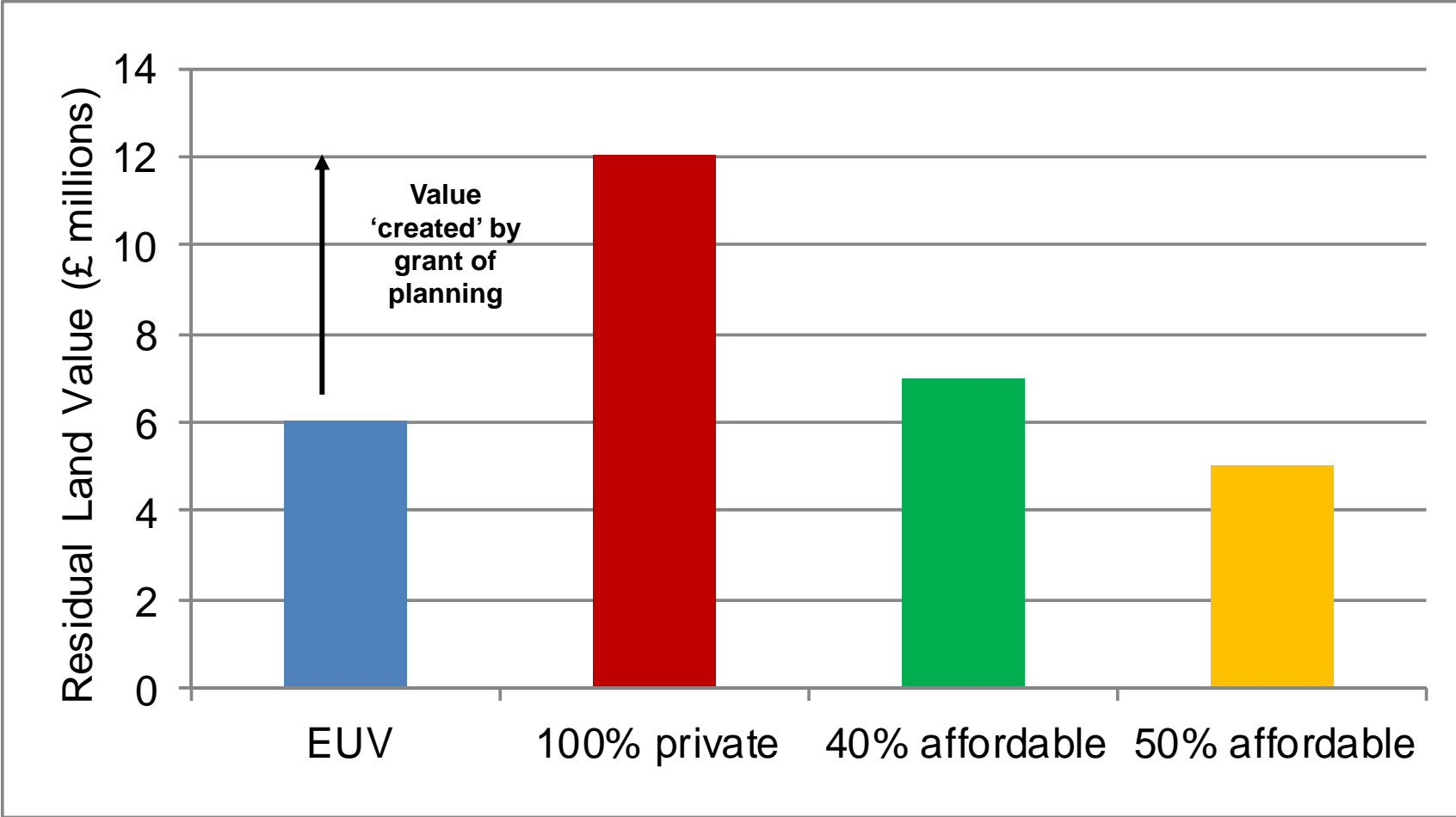


Why do LPAs need to viability test their policies?

- Local Plan vision relies on private sector bringing sites forward
- Need to ensure development can generate adequate returns
- Housing land supply vs other land use options
- Requirement of national policy and guidance
- Examination of the Plan by PINS

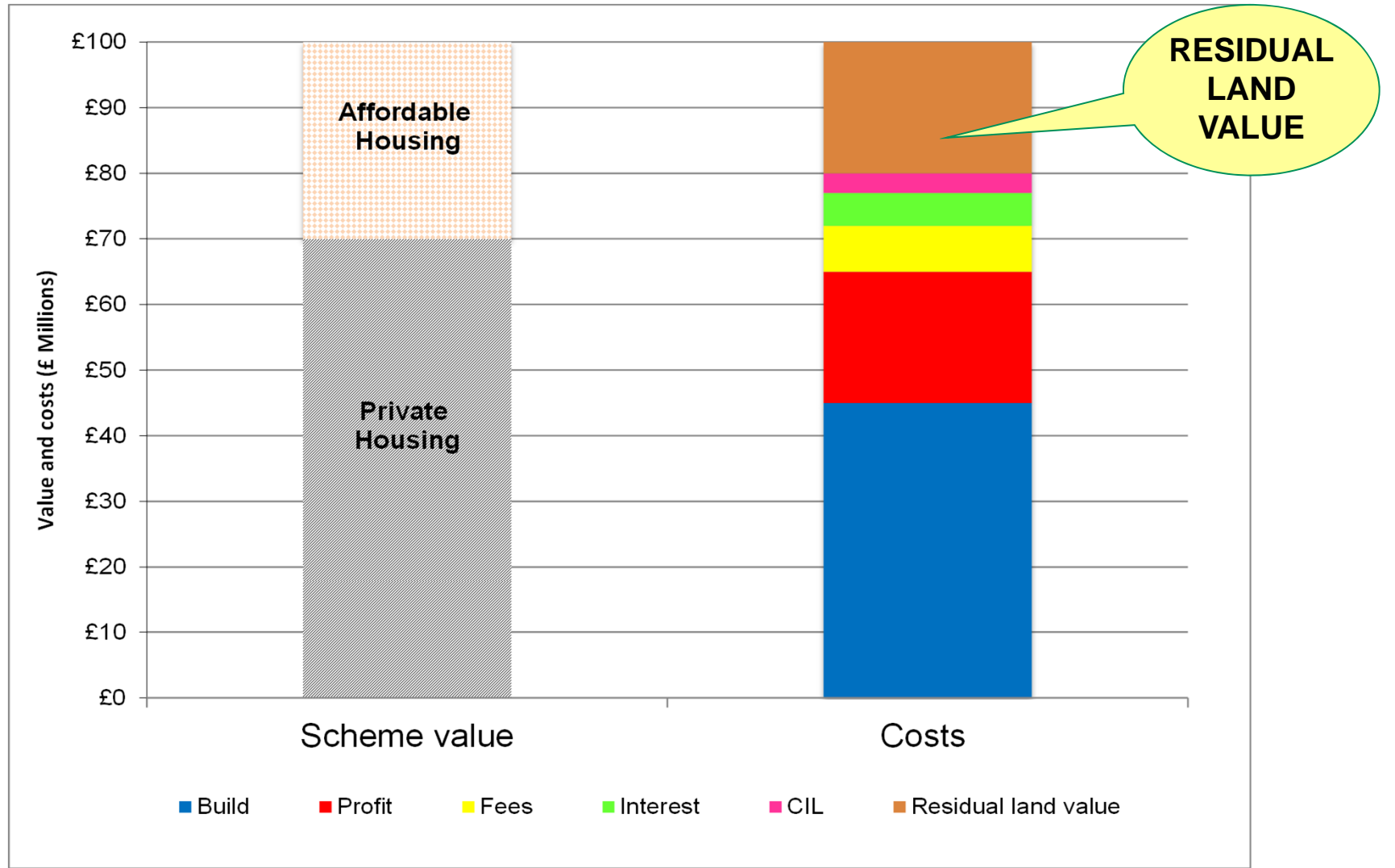
Mediating between public and private interests

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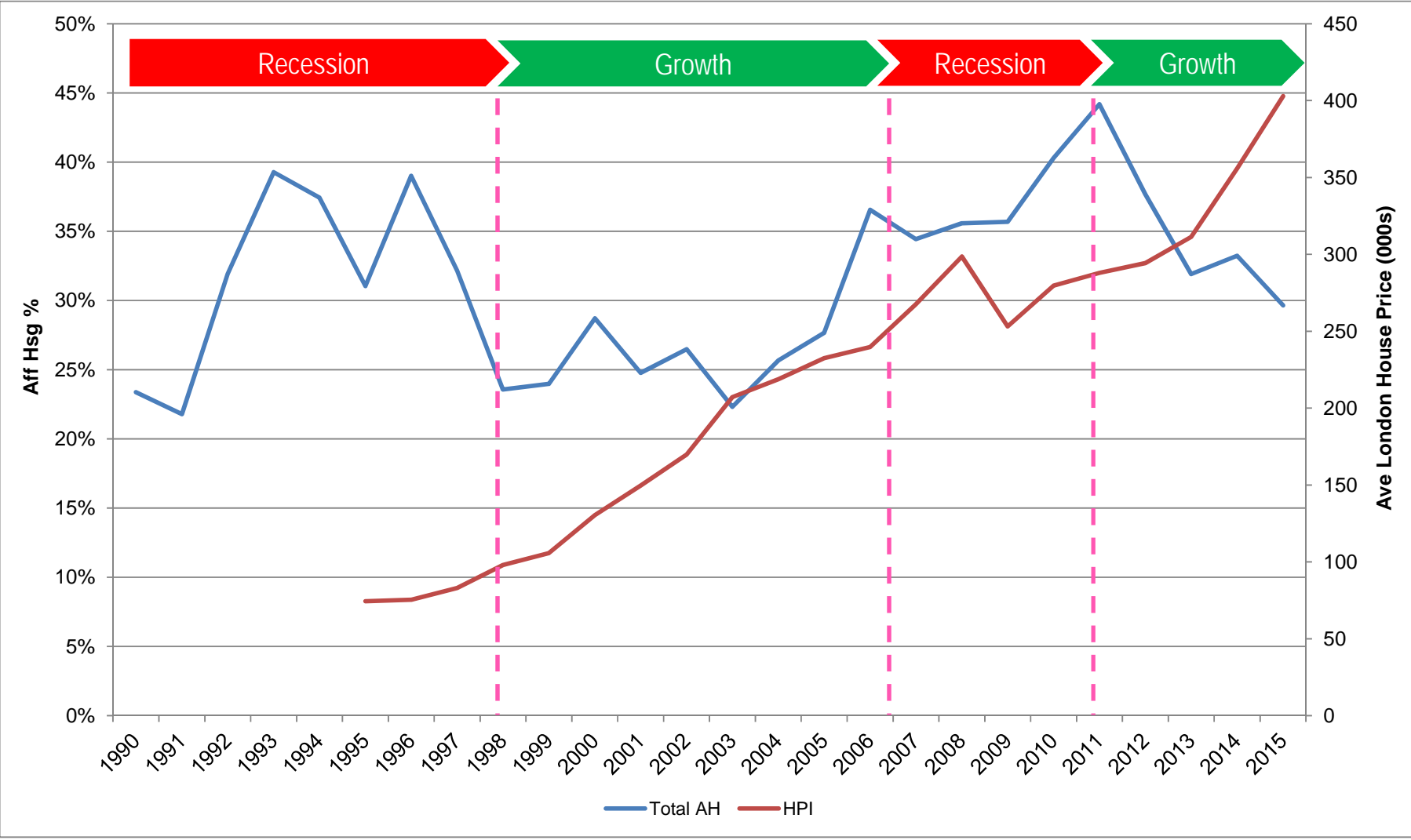
Residual Land Value methodology

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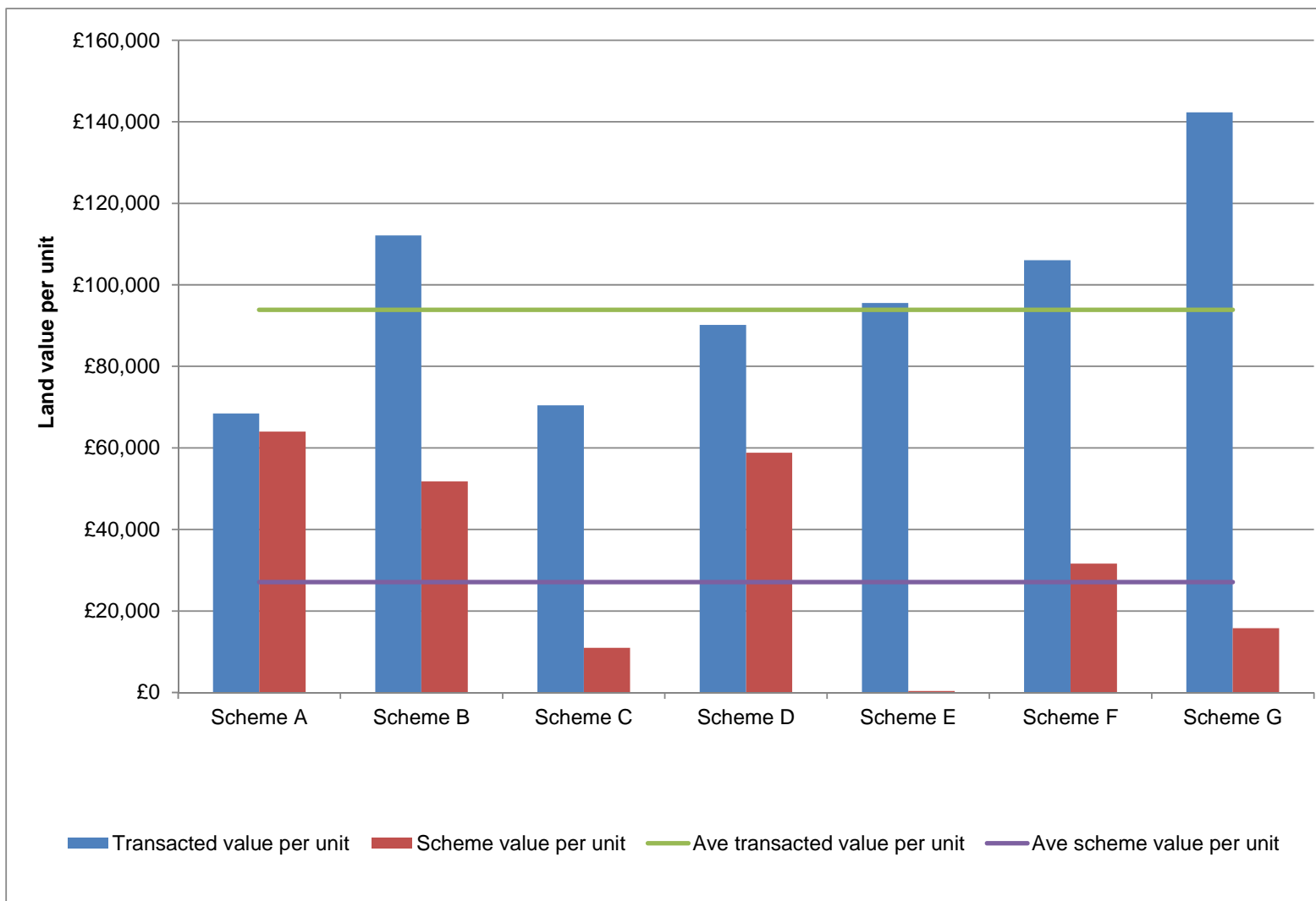
What has gone wrong in the recent past

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What has gone wrong in the recent past

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2019 Planning Practice Guidance resets the rules

PPG Viability Para 014 – revised May 2019

- Benchmark land value to be based upon existing use value
- Alternative use value also acceptable, but policy compliant
- Moves away from market value or prices paid for sites

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AFFORDABLE HOUSING DELIVERY – MERTON IN WIDER LONDON CONTEXT



Merton delivery in wider London context

Borough	Total Net Conventional				Affordable as % of Total Net			
	2015	2016	2017	Total	2015	2016	2017	All
Waltham Forest	670	307	151	1,128	69%	30%	21%	42%
Barking and Dagenham	325	199	191	715	41%	32%	32%	36%
Tower Hamlets	886	1,164	566	2,616	36%	27%	28%	30%
Havering	601	52	7	660	35%	9%	3%	26%
Hounslow	172	251	244	667	22%	22%	27%	23%
Greenwich	827	-29	523	1,321	33%	-1%	28%	20%
Hackney	246	232	261	739	17%	20%	23%	19%
Kensington and Chelsea	67	23	73	163	20%	12%	22%	19%
Islington	222	99	72	393	21%	14%	19%	19%
Ealing	236	339	146	721	22%	27%	10%	19%
Camden	184	140	252	576	19%	11%	27%	18%
Southwark	120	552	183	855	9%	23%	22%	18%
Haringey	62	148	253	463	10%	20%	21%	18%
Enfield	52	302	-11	343	8%	34%	-3%	18%
London	7,018	6,894	4,703	18,615	20%	17%	15%	17%
Redbridge	98	52	122	272	19%	7%	26%	16%
Lambeth	138	192	294	624	10%	17%	19%	16%
Barnet	205	470	341	1,016	12%	21%	14%	16%
Lewisham	237	303	47	587	15%	19%	9%	16%
Wandsworth	519	378	202	1,099	18%	17%	10%	15%
Newham	423	365	76	864	29%	15%	4%	15%
Hammersmith and Fulham	35	148	237	420	9%	14%	15%	14%
Merton	91	86	83	260	13%	19%	13%	14%
Croydon	383	331	248	962	19%	12%	12%	14%
Richmond upon Thames	99	41	41	181	18%	9%	11%	13%
Westminster	180	156	82	418	20%	12%	7%	12%
Hillingdon	118	59	66	243	13%	7%	8%	9%
Brent	52	281	-147	186	5%	21%	-21%	6%
Kingston upon Thames	-7	15	29	37	-2%	5%	13%	5%
Sutton	9	10	37	56	2%	2%	5%	3%
Bromley	10	45	7	62	1%	5%	1%	3%
Bexley	-148	180	0	32	-136%	22%	0%	3%
City of London	0	0	0	0	0%	0%	0%	0%
Harrow	-94	3	27	-64	-10%	0%	4%	-3%

3 STUDY RESULTS

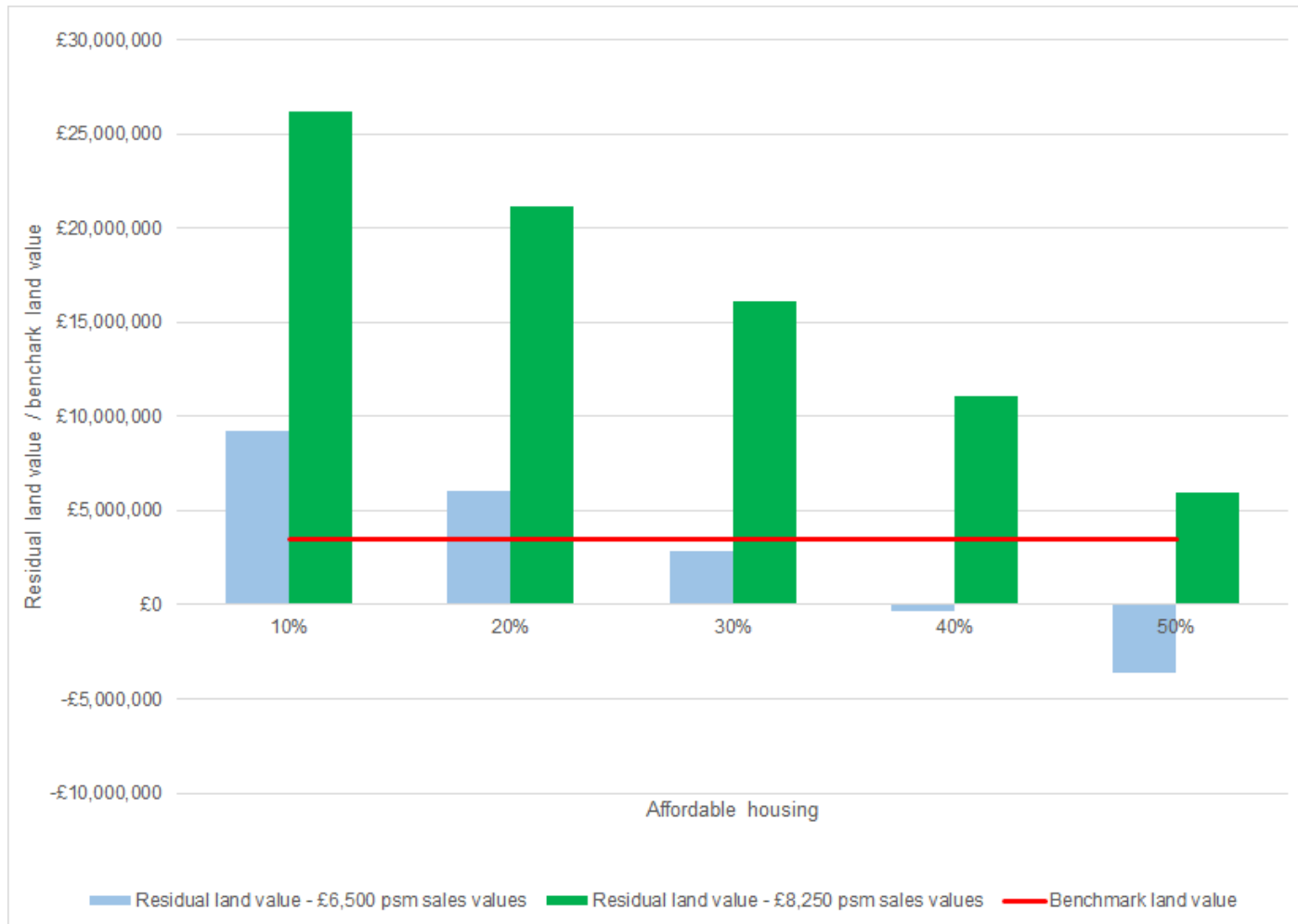


What we did

- Testing of 30 development typologies:
 - 10 small schemes (9 or fewer units: houses, flats)
 - 12 medium schemes (10 to 75 units: houses, flats, mixed)
 - 8 large schemes (100 to 1,000 units: flats)
 - Some schemes with retail on ground floor to reflect location
- Reflecting variation in sales values (£4,850 - £10,300 per sqm)
- Five different benchmark land values (including 20% premium):
 - Existing residential: variable £21.6 million to £49.4 million per ha
 - Secondary offices: £29.25 million per ha
 - Secondary industrial: £9.4 million per ha
 - Community uses: £3.45 million per ha
 - Garden and other undeveloped land: £0.5 million per ha

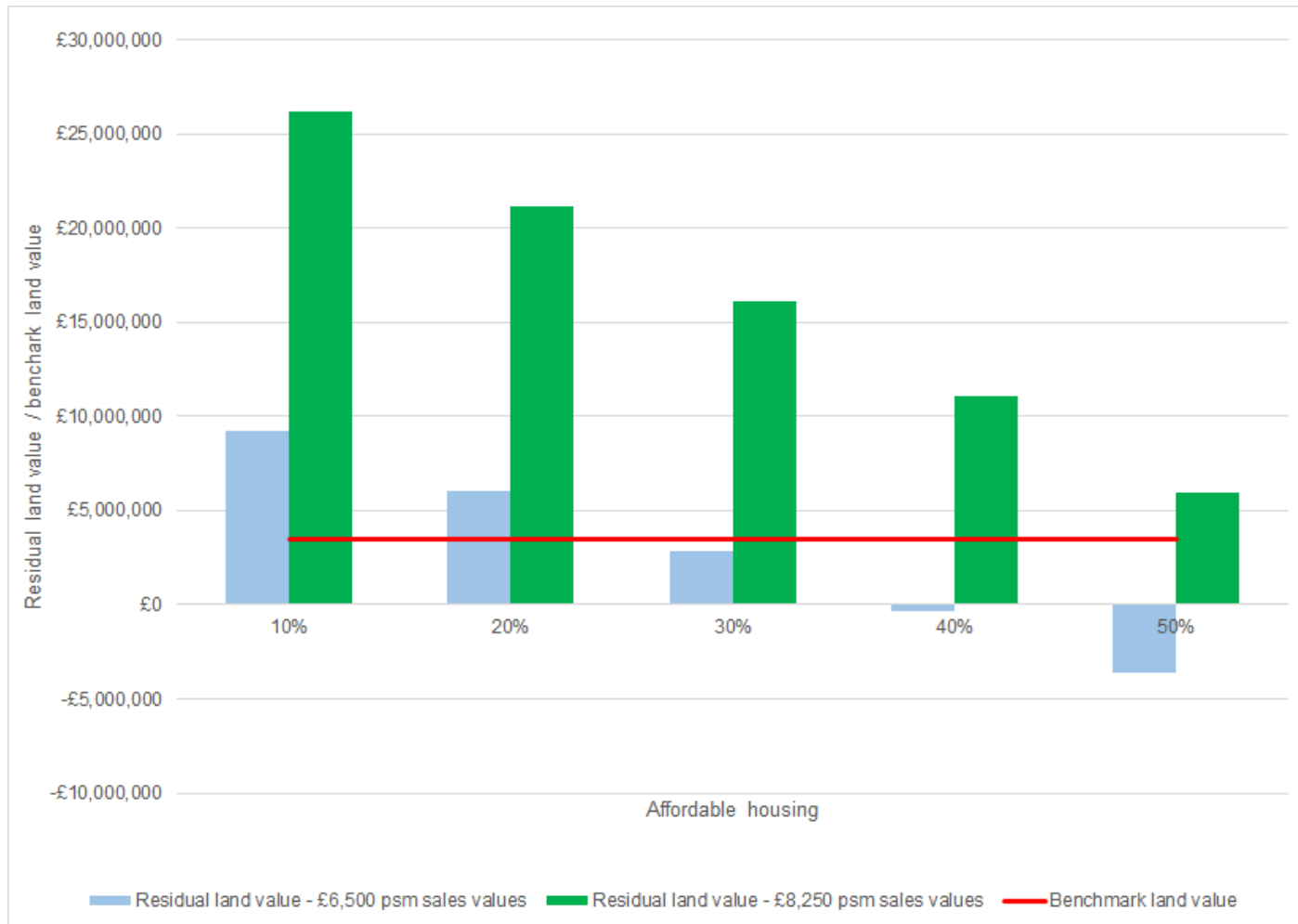
Sales values and benchmark land value are critical

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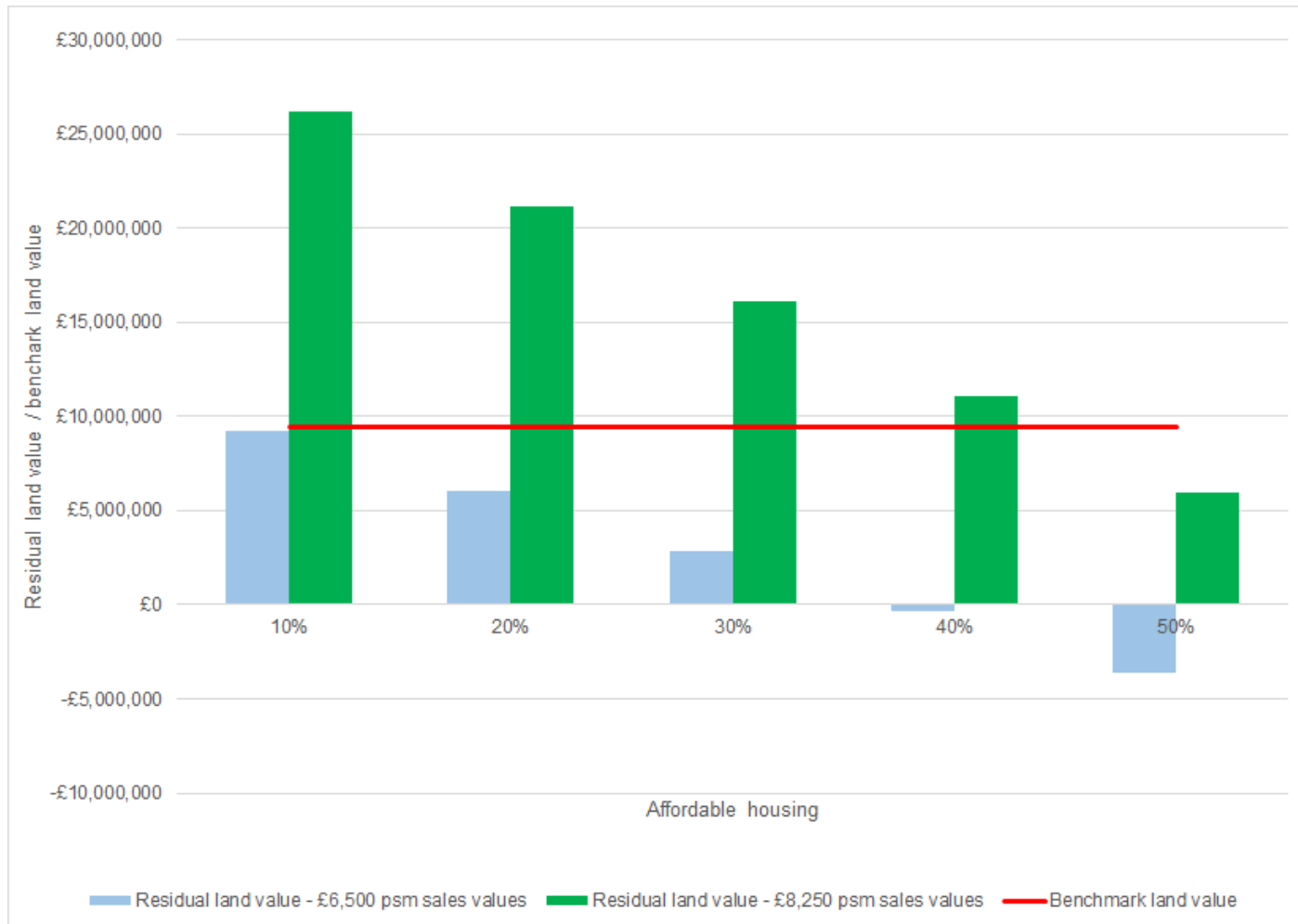
Sales values and benchmark land value are critical

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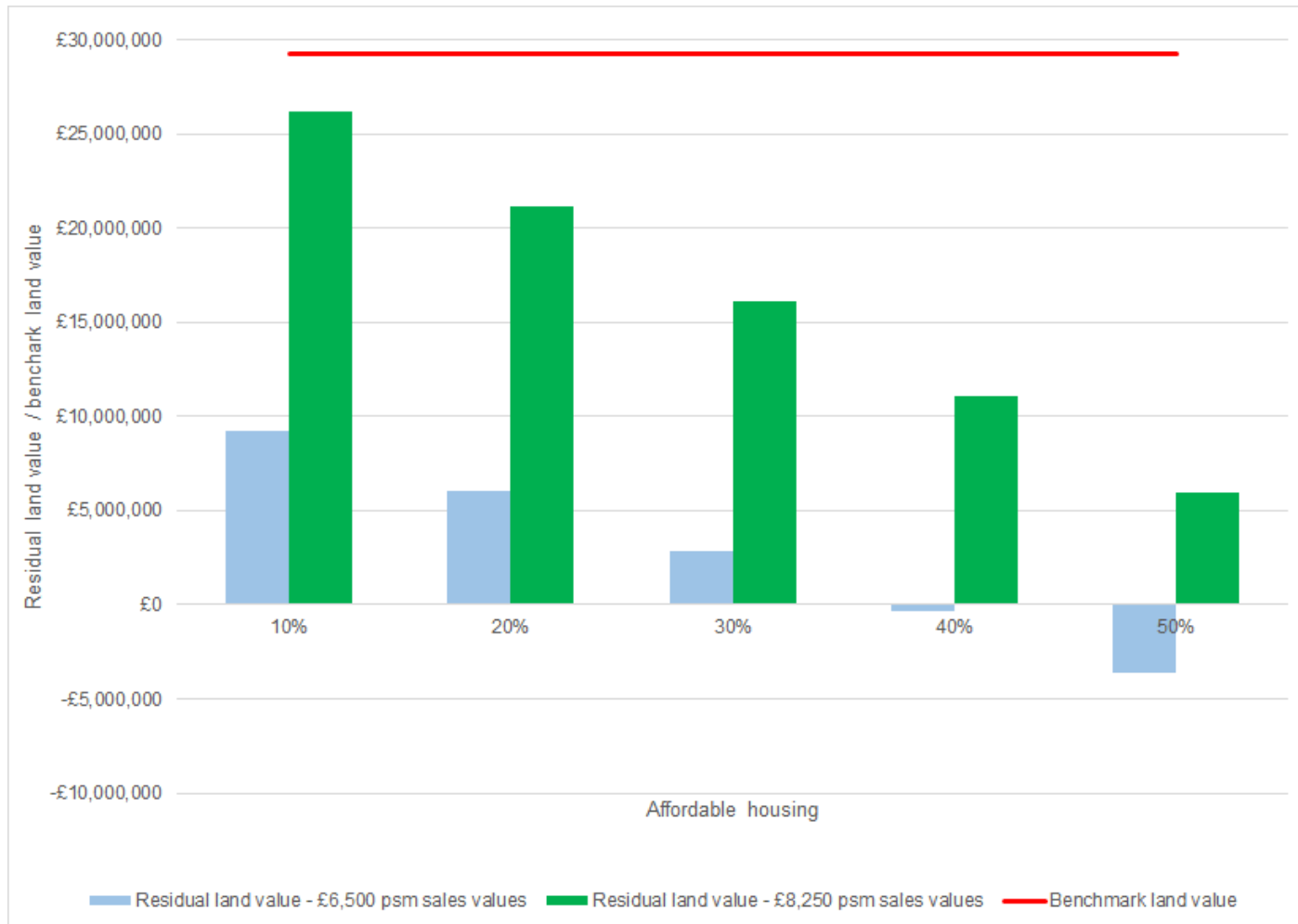
Sales values and benchmark land value are critical

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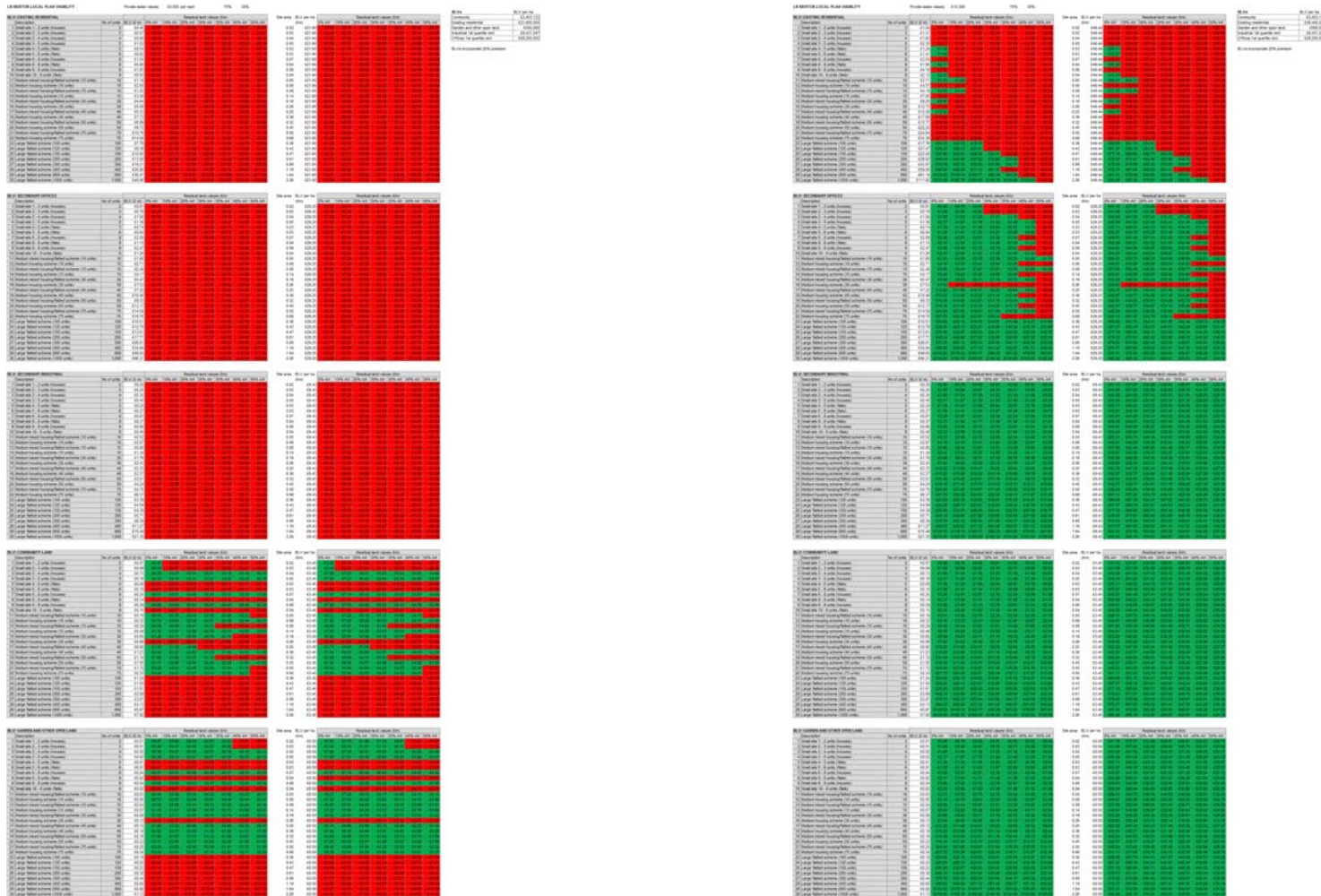


Sales values and benchmark land value are critical

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Range of results - lowest to highest sales values



Small sites (low sales values)

LB MERTON LOCAL PLAN VIABILITY

Private sales values: £4,500 per sqm 70% 30%

BLV: EXISTING RESIDENTIAL		Residual land values (£m)							
Description	No of units	BLV (£ m)	0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH
1 Small site 1 - 2 units (houses)	2	£0.45	£0.07	£0.06	£0.04	£0.03	£0.02	£0.01	-£0.01
2 Small site 2 - 3 units (houses)	3	£0.57	£0.09	£0.07	£0.05	£0.03	£0.02	£0.01	-£0.01
3 Small site 2 - 4 units (houses)	4	£0.80	£0.30	£0.27	£0.24	£0.21	£0.19	£0.16	£0.15
4 Small site 3 - 5 units (houses)	5	£1.03	£0.38	£0.34	£0.31	£0.27	£0.25	£0.23	£0.19
5 Small site 4 - 5 units (flats)	5	£0.54	-£0.01	-£0.03	-£0.06	-£0.09	-£0.10	-£0.11	-£0.14
6 Small site 5 - 6 units (flats)	6	£0.62	-£0.01	-£0.04	-£0.07	-£0.10	-£0.12	-£0.13	-£0.16
7 Small site 6 - 8 units (houses)	8	£1.54	£0.57	£0.51	£0.46	£0.40	£0.37	£0.35	£0.29
8 Small site 8 - 8 units (flats)	8	£0.85	-£0.01	-£0.06	-£0.10	-£0.14	-£0.16	-£0.18	-£0.22
9 Small site 9 - 9 units (houses)	9	£1.83	£0.66	£0.60	£0.53	£0.47	£0.43	£0.40	£0.34
10 Small site 10 - 9 units (flats)	9	£0.93	-£0.03	-£0.07	-£0.11	-£0.16	-£0.18	-£0.20	-£0.25
11 Medium mixed housing/flatted scheme (10 units)	10	£1.18	£0.45	£0.39	£0.34	£0.28	£0.26	£0.23	£0.17
12 Medium housing scheme (10 units)	10	£2.00	£0.72	£0.65	£0.58	£0.51	£0.46	£0.44	£0.37
13 Medium mixed housing/flatted scheme (15 units)	15	£1.83	£0.58	£0.49	£0.41	£0.33	£0.28	£0.24	£0.18

Site area	BLV per ha (£m)	Residual land values (£m)						
		0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH
0.02	£21.60	£3.55	£2.76	£1.98	£1.20	£0.81	£0.42	-£0.37
0.03	£21.60	£3.48	£2.70	£1.91	£1.13	£0.73	£0.34	-£0.45
0.04	£21.60	£7.99	£7.20	£6.41	£5.63	£5.24	£4.85	£4.06
0.05	£21.60	£7.99	£7.21	£6.42	£5.64	£5.25	£4.86	£4.07
0.03	£21.60	-£0.34	-£1.39	-£2.44	-£3.50	-£4.02	-£4.55	-£5.60
0.03	£21.60	-£0.38	-£1.43	-£2.49	-£3.54	-£4.07	-£4.59	-£5.65
0.07	£21.60	£7.97	£7.19	£6.40	£5.62	£5.22	£4.83	£4.04
0.04	£21.60	-£0.35	-£1.40	-£2.46	-£3.51	-£4.04	-£4.57	-£5.62
0.08	£21.60	£7.82	£7.05	£6.29	£5.52	£5.14	£4.76	£3.99
0.04	£21.60	-£0.62	-£1.65	-£2.67	-£3.70	-£4.21	-£4.73	-£5.78
0.05	£21.60	£8.21	£7.20	£6.18	£5.17	£4.66	£4.15	£3.14
0.09	£21.60	£7.82	£7.05	£6.28	£5.52	£5.13	£4.75	£3.98
0.08	£21.60	£6.80	£5.81	£4.83	£3.84	£3.35	£2.86	£1.87

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BLV: GARDEN AND OTHER OPEN LAND		Residual land values (£m)							
Description	No of units	BLV (£ m)	0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH
1 Small site 1 - 2 units (houses)	2	£0.01	£0.07	£0.06	£0.04	£0.03	£0.02	£0.01	-£0.01
2 Small site 2 - 3 units (houses)	3	£0.01	£0.09	£0.07	£0.05	£0.03	£0.02	£0.01	-£0.01
3 Small site 2 - 4 units (houses)	4	£0.02	£0.30	£0.27	£0.24	£0.21	£0.19	£0.16	£0.15
4 Small site 3 - 5 units (houses)	5	£0.02	£0.38	£0.34	£0.31	£0.27	£0.25	£0.23	£0.19
5 Small site 4 - 5 units (flats)	5	£0.01	-£0.01	-£0.03	-£0.06	-£0.09	-£0.10	-£0.11	-£0.14
6 Small site 5 - 6 units (flats)	6	£0.01	-£0.01	-£0.04	-£0.07	-£0.10	-£0.12	-£0.13	-£0.16
7 Small site 6 - 8 units (houses)	8	£0.04	£0.57	£0.51	£0.46	£0.40	£0.37	£0.35	£0.29
8 Small site 8 - 8 units (flats)	8	£0.02	-£0.01	-£0.06	-£0.10	-£0.14	-£0.16	-£0.18	-£0.22
9 Small site 9 - 9 units (houses)	9	£0.04	£0.66	£0.60	£0.53	£0.47	£0.43	£0.40	£0.34
10 Small site 10 - 9 units (flats)	9	£0.02	-£0.03	-£0.07	-£0.11	-£0.16	-£0.18	-£0.20	-£0.25
11 Medium mixed housing/flatted scheme (10 units)	10	£0.03	£0.45	£0.39	£0.34	£0.28	£0.26	£0.23	£0.17
12 Medium housing scheme (10 units)	10	£0.05	£0.72	£0.65	£0.58	£0.51	£0.46	£0.44	£0.37

Site area	BLV per ha (£m)	Residual land values (£m)						
		0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH
0.02	£0.50	£3.55	£2.76	£1.98	£1.20	£0.81	£0.42	-£0.37
0.03	£0.50	£3.48	£2.70	£1.91	£1.13	£0.73	£0.34	-£0.45
0.04	£0.50	£7.99	£7.20	£6.41	£5.63	£5.24	£4.85	£4.06
0.05	£0.50	£7.99	£7.21	£6.42	£5.64	£5.25	£4.86	£4.07
0.03	£0.50	-£0.34	-£1.39	-£2.44	-£3.50	-£4.02	-£4.55	-£5.60
0.03	£0.50	-£0.38	-£1.43	-£2.49	-£3.54	-£4.07	-£4.59	-£5.65
0.07	£0.50	£7.97	£7.19	£6.40	£5.62	£5.22	£4.83	£4.04
0.04	£0.50	-£0.35	-£1.40	-£2.46	-£3.51	-£4.04	-£4.57	-£5.62
0.08	£0.50	£7.82	£7.05	£6.29	£5.52	£5.14	£4.76	£3.99
0.04	£0.50	-£0.62	-£1.65	-£2.67	-£3.70	-£4.21	-£4.73	-£5.78
0.05	£0.50	£8.21	£7.20	£6.18	£5.17	£4.66	£4.15	£3.14
0.09	£0.50	£7.82	£7.05	£6.28	£5.52	£5.13	£4.75	£3.98

Small sites (high sales values)

LB MERTON LOCAL PLAN VIABILITY

Private sales values: £10,300 70% 30%

BLV: EXISTING RESIDENTIAL		Residual land values (£m)								
Description	No of units	BLV (£ m)	0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH	
1 Small site 1 - 2 units (houses)	2	£1.04	£0.86	£0.78	£0.69	£0.61	£0.56	£0.52	£0.44	
2 Small site 2 - 3 units (houses)	3	£1.31	£1.09	£0.98	£0.87	£0.78	£0.71	£0.66	£0.55	
3 Small site 2 - 4 units (houses)	4	£1.83	£1.69	£1.54	£1.38	£1.23	£1.16	£1.08	£0.93	
4 Small site 3 - 5 units (houses)	5	£2.35	£2.17	£1.97	£1.78	£1.58	£1.49	£1.39	£1.20	
5 Small site 4 - 5 units (flats)	5	£1.24	£1.39	£1.24	£1.09	£0.94	£0.87	£0.79	£0.65	
6 Small site 5 - 6 units (flats)	6	£1.41	£1.58	£1.41	£1.24	£1.07	£0.99	£0.90	£0.73	
7 Small site 6 - 8 units (houses)	8	£3.54	£3.26	£2.97	£2.67	£2.38	£2.24	£2.09	£1.80	
8 Small site 6 - 8 units (flats)	8	£1.95	£2.17	£1.94	£1.71	£1.48	£1.36	£1.24	£1.01	
9 Small site 9 - 9 units (houses)	9	£4.18	£3.80	£3.46	£3.12	£2.78	£2.61	£2.44	£2.10	
10 Small site 10 - 9 units (flats)	9	£2.12	£2.33	£2.08	£1.83	£1.58	£1.46	£1.33	£1.08	
11 Medium mixed housing/flatted scheme (10 units)	10	£2.71	£3.31	£3.00	£2.70	£2.39	£2.24	£2.08	£1.78	
12 Medium housing scheme (10 units)	10	£4.57	£4.16	£3.78	£3.41	£3.04	£2.85	£2.67	£2.29	
13 Medium mixed housing/flatted scheme (15 units)	15	£4.19	£4.90	£4.44	£3.97	£3.51	£3.28	£3.05	£2.59	

Site area	BLV per ha (£m)	Residual land values (£m)							
		0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH	
0.02	£49.44	£41.15	£37.07	£32.99	£28.91	£26.87	£24.83	£20.74	
0.03	£49.44	£41.09	£37.00	£32.92	£28.83	£26.79	£24.75	£20.66	
0.04	£49.44	£45.58	£41.50	£37.42	£33.33	£31.29	£29.25	£25.17	
0.05	£49.44	£45.59	£41.50	£37.42	£33.34	£31.30	£29.26	£25.18	
0.03	£49.44	£55.11	£49.22	£43.33	£37.45	£34.50	£31.56	£25.67	
0.03	£49.44	£55.07	£49.18	£43.29	£37.40	£34.46	£31.52	£25.63	
0.07	£49.44	£45.57	£41.49	£37.41	£33.32	£31.28	£29.24	£25.15	
0.04	£49.44	£55.09	£49.21	£43.32	£37.43	£34.49	£31.54	£25.66	
0.08	£49.44	£44.91	£40.89	£36.87	£32.84	£30.83	£28.82	£24.80	
0.04	£49.44	£54.24	£48.44	£42.64	£36.85	£33.95	£31.05	£25.25	
0.05	£49.44	£60.31	£54.73	£49.16	£43.58	£40.80	£38.01	£32.43	
0.09	£49.44	£44.91	£40.88	£36.86	£32.84	£30.83	£28.82	£24.79	
0.08	£49.44	£57.85	£52.40	£46.95	£41.49	£38.77	£36.04	£30.59	

BLV: GARDEN AND OTHER OPEN LAND		Residual land values (£m)								
Description	No of units	BLV (£ m)	0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH	
1 Small site 1 - 2 units (houses)	2	£0.01	£0.86	£0.78	£0.69	£0.61	£0.56	£0.52	£0.44	
2 Small site 2 - 3 units (houses)	3	£0.01	£1.09	£0.98	£0.87	£0.78	£0.71	£0.66	£0.55	
3 Small site 2 - 4 units (houses)	4	£0.02	£1.89	£1.54	£1.38	£1.23	£1.16	£1.08	£0.93	
4 Small site 3 - 5 units (houses)	5	£0.02	£2.17	£1.97	£1.78	£1.58	£1.49	£1.39	£1.20	
5 Small site 4 - 5 units (flats)	5	£0.01	£1.39	£1.24	£1.09	£0.94	£0.87	£0.79	£0.65	
6 Small site 5 - 6 units (flats)	6	£0.01	£1.58	£1.41	£1.24	£1.07	£0.99	£0.90	£0.73	
7 Small site 6 - 8 units (houses)	8	£0.04	£3.26	£2.97	£2.67	£2.38	£2.24	£2.09	£1.80	
8 Small site 6 - 8 units (flats)	8	£0.02	£2.17	£1.94	£1.71	£1.48	£1.36	£1.24	£1.01	
9 Small site 9 - 9 units (houses)	9	£0.04	£3.80	£3.46	£3.12	£2.78	£2.61	£2.44	£2.10	
10 Small site 10 - 9 units (flats)	9	£0.02	£2.33	£2.08	£1.83	£1.58	£1.46	£1.33	£1.08	
11 Medium mixed housing/flatted scheme (10 units)	10	£0.03	£3.31	£3.00	£2.70	£2.39	£2.24	£2.08	£1.78	
12 Medium housing scheme (10 units)	10	£0.05	£4.16	£3.78	£3.41	£3.04	£2.85	£2.67	£2.29	
13 Medium mixed housing/flatted scheme (15 units)	15	£0.04	£4.90	£4.44	£3.97	£3.51	£3.28	£3.05	£2.59	

Site area	BLV per ha (£m)	Residual land values (£m)							
		0% AH	10% AH	20% AH	30% AH	35% AH	40% AH	50% AH	
0.02	£0.50	£41.15	£37.07	£32.99	£28.91	£26.87	£24.83	£20.74	
0.03	£0.50	£41.09	£37.00	£32.92	£28.83	£26.79	£24.75	£20.66	
0.04	£0.50	£45.58	£41.50	£37.42	£33.33	£31.29	£29.25	£25.17	
0.05	£0.50	£45.59	£41.50	£37.42	£33.34	£31.30	£29.26	£25.18	
0.03	£0.50	£55.11	£49.22	£43.33	£37.45	£34.50	£31.56	£25.67	
0.03	£0.50	£55.07	£49.18	£43.29	£37.40	£34.46	£31.52	£25.63	
0.07	£0.50	£45.57	£41.49	£37.41	£33.32	£31.28	£29.24	£25.15	
0.04	£0.50	£55.09	£49.21	£43.32	£37.43	£34.49	£31.54	£25.66	
0.08	£0.50	£44.91	£40.89	£36.87	£32.84	£30.83	£28.82	£24.80	
0.04	£0.50	£54.24	£48.44	£42.64	£36.85	£33.95	£31.05	£25.25	
0.05	£0.50	£60.31	£54.73	£49.16	£43.58	£40.80	£38.01	£32.43	
0.09	£0.50	£44.91	£40.88	£36.86	£32.84	£30.83	£28.82	£24.79	
0.08	£0.50	£57.85	£52.40	£46.95	£41.49	£38.77	£36.04	£30.59	

Policy trade offs

- Tenure and overall Aff Hsg percentage – 70/30 vs 50/50
- Climate change mitigation increases costs by 1.5% to 6.5%:
 - High value areas: circa 2% reduction in affordable housing
 - Low value areas: circa 10% reduction in affordable housing
 - Precise impact will vary, depending on existing use values

4

POLICY APPROACHES



Policy approaches

- Fine grain policy approaches with different targets
 - Benchmark land value
 - Sales value
 - Type of scheme
- PPG approach – a target that is achievable in almost all cases
- ‘Maximum reasonable’ approach – high target, not always met
- 15 year policy – longevity of approaches
- Heterogeneity of study outcomes points to ‘max reasonable’
- Policy target of up to 40% is supported by the evidence base

Payments in lieu for small sites

- Significant proportion of new housing supply from small sites
- Emerging policy – payment equivalent to 20% on-site AH
- Ability to contribute varies – largely driven by existing use on site
- ‘Maximum reasonable’ approach – high target, not always met

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QUESTIONS AND DISCUSSION

