THE LONDON BOROUGH OF HARINGEY (HIGH ROAD WEST PHASE A) COMPULSORY PURCHASE ORDER 2023

DOCUMENT CD 9.11

WITNESS 6: PASCAL LEVINE, DS2

OVERVIEW PROOF OF EVIDENCE

TABLE OF CONTENTS

<u>APPENDICES</u>

1 INTRODUCTION

1.1 This proof of evidence has been prepared by Pascal Levine. I have been a Member of the Royal Institution of Chartered Surveyors ("**RICS**") since 2008 and I am a RICS Registered Valuer.

1.2 I am a Partner and part owner of DS2 LLP ("**DS2**"), formed in 2012, which is a market leader in the delivery of development viability and valuation services as well as affordable housing advisory and transactional services. DS2 is regulated by the RICS.

1.3 I have worked in a Planning and Development capacity in London for 25 years. Prior to setting up DS2, I was previously employed at London Residential Research, King Sturge, Drivers Jonas and Deloitte Real Estate.

1.4 I advise a wide range of private and public sector clients including private developers, housebuilders, property companies, investors, funding institutions, Registered Providers and local authorities.

1.5 At DS2, I am responsible for a team of a dozen Chartered Surveyors and the delivery of development viability advice for a range of projects across the country, albeit focusing on London and the southeast. Projects range from single large dwellings through to large scale strategic mixed-use development projects comprising thousands of homes and commercial uses such as is proposed at High Road West.

1.6 I have advised on a significant number of estate regeneration proposals across the capital and have a thorough appreciation of the complexity and economics of such projects.

1.7 I provide other development advisory services and undertake Red Book valuations[1]. I have a significant amount of experience in valuing affordable housing for Registered Providers and developers as well as disposing of affordable housing delivered by developers to Registered Providers.

1.8 In 2021 I completed a Real Estate Economics and Finance course at the London School of Economics. I am currently engaged with a range of professional and business organisations such as the RICS, British Property Federation and Business London on a range of planning viability and affordable housing related matters.

[1] *"Red Book" refers to RICS Valuation – Global Standards, 2022*

My Involvement with High Road West to date

1.9 The London Borough of Haringey ("**the Council**") made The London Borough of Haringey (High Road West Phase A) Compulsory Purchase Order 2023 ("**the Order**") on 26 January 2023.

1.10 The Order has been made to enable the Council to acquire the land and new rights (the "**Order Land**") in order to facilitate the delivery of Phase A of the comprehensive residential-led mixed use regeneration of the High Road West area (the "**Regeneration Scheme**"). The scheme to be carried out on the Order Land will deliver Phase A of the Regeneration Scheme ("**Scheme**").

1.11 A planning application for the Regeneration Scheme, including Phase A, was submitted in October 2021 to the Council in its capacity as local planning authority.

1.12 The Council granted planning permission reference HGY/2021/3175 (the "**Planning Permission**") on 31 August 2022.

1.13 The Planning Permission grants consent for the Regeneration Scheme (the "**Development**"). As the scheme to be carried out on the Order Land forms Phase A of the Regeneration Scheme, the Planning Permission also grants consent for the Scheme (the "**Consented Scheme**").

1.14 In July 2021, I was instructed by Lendlease (High Road West) Limited ("**Lendlease**") to prepare a Financial Viability Assessment in support of the planning application.

1.15 A Financial Viability Assessment dated October 2021 (the "**Planning FVA**") was submitted alongside the planning application and considered the financial viability of the Development. The Planning FVA assessed the ability of the Development to deliver a range of planning benefits including the maximum level of affordable housing. The Planning FVA did not consider the viability of Phase A in isolation.

1.16 The Planning FVA and related correspondence with the Council's assessor BNP Paribas Real Estate ("**BNPPRE**") are included at [**CD 4.33 to 4.36]**.

Scope of Evidence

1.17 I have been instructed by Lendlease to provide an assessment of the viability of the Development and the Consented Scheme. The contents of my proof of evidence are in accordance with Section 35.10 of the Experts & Assessors (Rules & Practice Directions) and Practice Direction 35.

1.18 The Department for Levelling Up Housing and Communities ("**DLUHC**") published 'Guidance on Compulsory purchase process and The Crichel Down Rules' dated July 2019 ("**the 2019 Guidance**").

1.19 As a statement of fact, I note that the Council, as set out within its Statement of Case, at paragraph 1.17 states that it is "*satisfied that there is a compelling case in the public interest for a compulsory purchase of the Order Land and rights to deliver the Scheme on the basis that the Scheme fits in with the planning framework for the area and will make a significant contribution to the achievement of the promotion or improvement of the economic, social and environmental wellbeing of the area, and satisfies the other matters set out in Paragraph 106 of the 2019 Guidance*".

1.20 The 2019 Guidance contains a series of matters in respect of viability that the Secretary of State will consider when deciding whether to confirm a compulsory purchase order ("**CPO**") under paragraph 226(1) of the Town and Country Planning Act 1990.

1.21 In respect of viability, paragraph 106 of the 2019 Guidance states that the Secretary of State will consider: "…*the potential financial viability of the scheme for which the land is being acquired. A general indication of funding intentions, and of any commitment from third parties, will usually suffice to reassure the Secretary of State that there is a reasonable prospect that the scheme will proceed. The greater the uncertainty about the financial viability of the scheme, however, the more compelling the other grounds for undertaking the compulsory purchase will need to be. The timing of any available funding may also be important. For example, a strict time limit on the availability of the necessary funding may be an argument put forward by the acquiring authority to justify proceeding with the order before finalising the details of the replacement scheme and/or the statutory planning position*".

1.22 In the light of paragraph 106 of the 2019 Guidance, my evidence assesses the viability of the Development and the Consented Scheme.

1.23 As set out in further detail in the evidence of Peter O'Brien [**CD 9.1**] and Selina Mason [**CD 9.3**] the Regeneration Scheme is to be delivered pursuant to the terms of a Development Agreement entered into between the Council, Lendlease and Lendlease Corporation Limited on 20 December 2017 (the "**DA**"). In preparing this evidence, I have had sight of the redacted version of the DA.

1.24 I have been advised that the DA provides for the Regeneration Scheme to be delivered in phases. Prior to the Council granting a lease of a phase to Lendlease, certain conditions are required to be satisfied.

1.25 In respect of any phase that contains market housing (other than Phase 1), Lendlease is required to satisfy the "Pre-Planning Viability Condition" and the "Post-Viability Condition". Those conditions require Lendlease to show that the relevant phase of the Regeneration Scheme as well as the Regeneration Scheme in its entirety are "Viable".

1.26 I have been advised that "Viable" is a defined term within the DA and requires Lendlease to illustrate that the relevant phase of the Regeneration Scheme, and the Regeneration Scheme in its entirety, meet an agreed Required Return. This metric is confidential to both the Council and Lendlease and the appraisals I have carried out have been undertaken without reference to that metric specified in the DA.

1.27 As set out in further detail in the proof of Selina Mason [**CD 9.3**], in the event the agreed Required Return is not met, the DA enables the parties to agree steps to allow the Regeneration Scheme to proceed. These steps are referred to as Mitigation Matters in the DA.

1.28 Considering the above, in addition to assessing the viability of the Consented Scheme in the context of paragraph 106 of the 2019 Guidance, my evidence also considers the viability of the Development (being the Regeneration Scheme as consented by the Planning Permission) in the context of the "Pre-Planning Viability Condition" and the "Post-Viability Condition" contained within the DA.

1.29 This proof of evidence has also addressed viability related matters that are contained within the representations of those objecting to the Council's application for the Order.

1.30 In the context of the viability considerations set out in paragraph 106 of the 2019 Guidance, my evidence considers viability from a market facing perspective which, as I shall explain, differs from the planning viability process in several distinct ways.

1.31 My evidence is structured as follows:

- Section 1 – I list my qualifications and experience in providing a proof of evidence on viability matters, list the scope of evidence and provide a concise summary in respect of my involvement on the Development to date;
- Section 2 – I provide a summary of the Financial Viability Assessment provided in support of the planning application;
- Section 3 – I have undertaken an assessment of the financial viability of the Consented Scheme in isolation and the Development and the methodology and approach to the major cost and value inputs are considered;
- Section 4 – the appraisal results are tabulated and summarised in the context of the 2019 Guidance for viability;
- Section 5 – I have addressed the viability related matters that have been raised in the objections to the Council's application for the Order;
- Section 6 – comprises a summary of the conclusions from the viability exercise in the context of paragraph 106 of the 2019 Guidance and with reference to the DA;
- Section 7 – contains my Declaration and Statement of Truth.

1.32 I understand my duties in this Expert role are in accordance with Section 35.3 of the Experts & Assessors (Rules & Practice Directions) which states that '(1) *it is the duty of experts to help the court on matters within their expertise and (2) This duty overrides any obligation to the person from whom experts have received instructions or by whom they are paid*'.

1.33 My evidence has also been prepared in accordance with the RICS Practice Statement and Guidance Note 'Surveyors Acting as Expert Witnesses', 4th Edition, amended February 2023.

References

1.34 References are made to the core documents, by the abbreviation, for example, [**CD 1**]. Other proofs are referred to by their core document number, for example [**CD 9.1**].

2 FINANCIAL VIABILITY ASSESSMENT FOR PLANNING PURPOSES

2.1 The Planning FVA was prepared and submitted in October 2021 in accordance with planning policy and professional guidance and provided an impartial and objective economic assessment of the Development.

2.2 The Planning FVA allowed stakeholders in the planning process, most notably Lendlease, the Council (in its capacity as local planning authority and landowner) and the Greater London Authority ("GLA"), in its capacity as strategic planning authority, to ensure that the level of planning obligations being proposed, most notably in the form of affordable housing, was the maximum viable amount.

2.3 Following submission, the Planning FVA was scrutinised by the Council's viability consultant, BNPPRE. BNPPRE assessed the reasonableness of the development appraisal inputs and accompanying evidence, and stress tested the results ensuring that the proposed planning obligations were the maximum viable amount. The Planning FVA was also assessed by the GLA's Viability Team.

2.4 Despite some initial differences of opinion (as is normal in the planning viability process) the methodology and inputs were agreed, and the planning obligations proposed were deemed to be the maximum in accordance with the relevant policy tests.

2.5 The agreed position was captured within a letter submitted to the Council from DS2 dated July 2022 ("July Letter") included as a Core Document [**CD 4.36**].

2.6 The Planning FVA included a series of fixed Benchmark Land Values[2] for each phase of the Development and derived a residual developer return[3] in the form of an Internal Rate of Return ("IRR"). Essentially, in the case of the Development, the test of viability for planning was made by comparing the residual developer return against a target developer return.

2.7 As defined in planning policy and professional guidance for planning viability matters where the residual developer return is less than the agreed target developer return, then the project is deemed to be over delivering in respect of planning obligations. Similarly, where the residual developer return is in excess of the target developer return, then the project can in theory justify a greater level of planning obligations.

[2] *Benchmark Land Value is the pre-planning value of the land in its existing use prior to planning consent being granted and as defined by NPPG paragraph 13.*

[3] *Developer return is defined in the NPPG paragraph 18.*

2.8 The final agreed planning viability position, as identified in the July Letter, for the Development was as follows:

- An IRR of 13 percent was agreed as the target developer return;
- The financial appraisal concluded a present-day IRR of 11.62 percent demonstrating that the affordable housing offer was in excess of the maximum viable amount.

2.9 As is often the case with the viability of long-term projects, Lendlease deemed that the relatively small deficit, the difference in financial terms between the target 13 percent developer return and the residual 11.62 percent developer return, was reasonable.

2.10 Lendlease deemed that this was manageable from a risk perspective given a range of factors including the propensity for market growth over the long term. The affordable housing proposal was therefore agreed as the maximum viable amount and included in the Section 106 agreement dated 31 August 2022 entered into alongside the Planning Permission ("Section 106 Agreement").

2.11 The Planning FVA was provided for the planning related reasons set out above. My evidence now focuses on the viability appraisal that I have been asked to carry out at today's date in respect of the Order and in light of the 2019 Guidance. This differs from that considered as part of the Planning FVA process which has been included in this evidence for contextual purposes only – and as it is used as the basis of the objector's viability representations which I consider in Section Five of this evidence.

3 VIABILITY ASSESSMENT METHODOLOGY & INPUTS

The Viability Appraisal

3.1 Paragraph 106 of the 2019 Guidance seeks to examine 'the potential viability of the scheme for which the land is being acquired'.

3.2 I have therefore provided a development appraisal and supporting evidence that considers the viability of the Consented Scheme (i.e. the redevelopment of the Order Land consented by the Planning Permission). I have also provided a development appraisal and supporting evidence that considers the viability of the Development.

Methodology

3.3 I have appraised both the Consented Scheme and the Development. My appraisals are included in my proof of evidence at Appendices **[CD 9.12.1]** and **[CD 9.12.2]**. A summary of the appraisal inputs is included as Appendix **[CD 9.12.3]**. The residual valuation methodology adopted is in accordance with that identified in the RICS Professional Standard 'Valuation of Development Property', 1st Edition, October 2019.

3.4 I have taken a market facing approach that is aligned with the methodology that Lendlease and other experienced and specialist regeneration developers and funders would use to evaluate the viability of complex mixed-use long-term projects. The methodology incorporates growth and inflation on the revenues and major costs to assess the potential viability of the Consented Scheme and the Development over the long term.

3.5 The development appraisal consists of a range of costs and values. The major inputs are:

- the private and affordable housing values and the commercial values (which when aggregated derive the Gross Development Value);
- the cost of the land to be acquired to enable the development to proceed; and
- the construction costs and associated professional fees.

3.6 A summary of my approach to each is provided below with additional supporting evidence, where referenced, in the appendices.

3.7 For all other development appraisal inputs, excluding the major items listed above, I have assessed the inputs with reference to available evidence and my current market experience, the inputs have also been shared with and assessed by BNPPRE acting on behalf of the Council.

Market Facing Viability vs. Planning Viability

3.8 There are two key areas where the approach adopted within the planning viability process differs from a market facing methodology, these being as follows:

- Firstly, planning viability in respect of the Benchmark Land Value (the pre-planning value of land), dictates an "Existing Use Value plus" approach[4]. In reality, in my experience this can underestimate the land acquisition costs where multiple assets need to be acquired over time on a Market Value basis. The land acquisition costs in the market facing appraisal are higher than the Benchmark Land Value presented in the Planning FVA.

- Secondly, planning viability is in the main undertaken on a present-day objective basis. From a commercial perspective, Lendlease (with a track record of delivering complex urban regeneration schemes such as the Consented Scheme and Development) will assess the possible outturns on an escalated basis that incorporates growth and inflation on the major revenues and costs.

The Illustrative Scheme

3.9 The Consented Scheme and Development appraisals reflect the Illustrative Scheme as included in the Planning Permission. The Illustrative Scheme shows the potential location of buildings, uses and open spaces.

The Developer Return

3.10 I have collated the appraisals adopting fixed land values for each phase with a residual developer return for the Consented Scheme and the Development.

3.11 In the market facing appraisal, the residual development returns assessed are on an IRR basis. A developer / funder will need to evaluate on a project-by-project basis whether the risk adjusted developer returns are commensurate with the risks being assumed.

3.12 The RICS in their research paper '*Performance metrics, required returns and achieved returns for UK real estate development*' dated September 2019, defines IRR as a 'Discount rate that makes the NPV of all cash flows from a project equal to zero'.

3.13 Essentially, the IRR is a discount rate expressed as a percentage that when applied to all future cashflows in an appraisal calculates the Net Present Value ("NPV") as zero or expressed another way, the IRR is an annualised rate of return.

[4] *EUV + is summarised at paragraph 13 of the National Planning Practice Guidance as "To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner."*

3.14 IRR can be adopted for larger development projects as the measure of financial return and allows the user to identify the potential returns alongside a range of other assets on a like for like basis. IRRs adopted for the purpose of appraising development opportunities are largely quoted "ungeared", being prior to debt financing costs being deducted.

3.15 The use of growth, assuming the difference between value growth and cost inflation is positive, will have a beneficial impact on the developer returns. Lendlease's approach to managing risk is explained in Selina Mason's evidence [**CD 9.3**].

The Phasing of the Development

3.16 The development appraisal has been informed by a phasing plan provided by Lendlease which is an updated proposal to that reflected within the Planning Permission Scheme Phasing Plan [**CD 5.9**]**.**

3.17 It is common on large estate regeneration projects for programmes and phasing plans to evolve over time and Lendlease has revised its previous proposal in order to accelerate the delivery of affordable housing and minimise disruption to local residents and businesses through a carefully considered rehousing strategy. The updated phasing plan was approved by the Council in September 2023 **[CD 4.37]**.

3.18 The revised phasing means that the first three plots (being plots A/B/C1) contain 100% affordable housing. This will result in all the affordable housing within the Scheme being provided by 2029 with all existing residents of the Love Lane Estate rehomed by 2028.

3.19 Whilst this phasing delivers significant public benefit, it also means that sales revenue from the market sale homes is not realised until later in the development programme. This is a benefit to the Development as affordable housing is delivered upfront. It also provides Lendlease with the opportunity to realise more long-term value growth for the private sale homes.

3.20 The premise is that the delivery of the later phases with a higher proportion of private housing will cross-subsidise the earlier phases where there is an upfront financial burden. However, the level of market for sale cross subsidy required is lower due to the £21.2 million of Mayor’s Land Fund and £70.3 million of affordable housing grant.

Gross Development Value – Private Residential

3.21 In assessing the Gross Development Value of the Consented Scheme and the Development I have had regard to the available comparable evidence. I visited all the developments listed in Appendix **[CD 9.12.4]** on 15 August 2023 to ensure that the evidence is appropriately weighted with regard to the Development in accordance with the RICS Professional Standard ‘*Comparable evidence in real estate valuation*’ (1st edition, October 2019).

3.22 The private residential values applied in the appraisals are £730 per sq ft on the project's private residential Net Internal Area.

3.23 In assessing the current day residential values, I have had regard to a range of residential development projects in the vicinity of the Development. Vabel is a smaller development of high architectural and design merit located to the south of the Development, in a comparable location albeit without the immediate proximity to a major transport hub and without the extensive public realm proposed at the Development.

3.24 Current asking and achieved pricing is in excess of those adopted for the Development. Sales rates at Vabel are relatively slow reflecting the current economic environment, and the Development has a significantly higher quantum of private homes and sales absorption is a consideration in my pricing exercise.

3.25 Meridian Water is a large masterplan to the immediate northeast of the Development. The first affordable housing phase at Meridian Water is nearing completion. Current sales rates for private homes are constrained and pricing for the limited number of private homes available is at a discount to the Development. In my opinion the Development is in a superior location to Meridian Water.

3.26 Tottenham Hale is an established regeneration area to the southeast of the Development with good connectivity. However, the interchange between the station and the related Argent scheme will be inferior to that envisaged at the Development which proposes a high quality pedestrianised public realm. Values are at a premium to the Development and recent sales have also been relatively slow albeit there has been limited market for sale phases launched.

Gross Development Value – Affordable Housing

3.27 The DA requires the Council to acquire the completed social rented homes from Lendlease for agreed values. I have reflected these values within the appraisal.

3.28 The calculation of the affordable housing value also includes the affordable housing grant from the GLA's Affordable Homes Programme that has been secured by the Council to support the delivery of the affordable homes. The grant has been included in the appraisal as a separate item.

3.29 In addition to ensuring replacement homes are provided as early as possible for existing Love Lane Estate residents, the benefit of front loading the affordable housing is that the majority of private homes are delivered later in the development and with the benefit of residential value growth, the potential financial return can be optimised**.** This is also explained from Lendlease's perspective in Section Seven of Selina Mason's evidence [**CD 9.3**].

Gross Development Value – Commercial

3.30 The nature of the commercial tenants is currently unknown. As such, the rents and yields applied are based on assumptions of the likely nature of the occupant in terms of covenant strength, the lease type, length, the void periods and tenant incentives in the future.

3.31 In my experience, on larger development projects it is common for commercial value to be balanced alongside placemaking opportunities, for example, lower rents and weaker covenants secured through leases to local independent traders which creates significant value but in a non-financial sense. This approach can have a positive impact on private residential values where the bulk of the development value lies. This concept is discussed further in section 4 of Selina Mason's evidence **[CD 9.3].**

3.32 Appendix **[CD 9.12.5]** presents the evidence for the commercial property values. In preparing this element of the evidence I have also had regard to information collected from my visit to a range of local regeneration projects undertaken on 15 August 2023 and subsequent discussions with developers and agents.

Land Acquisition Costs

3.33 The viability appraisal has considered the cost of land acquisition for the Consented Scheme by reference to the agreed Property Cost Estimate between the Council and Lendlease. The Property Cost Estimate reflects deals agreed to date and market information on acquiring the residential and commercial leases and freeholds.

3.34 This information is confidential as much of the data relates to negotiations in progress and those anticipated in the future. However, I have assessed this data and aggregated per phase the agreed and forecasted land costs which are illustrated on a phase-by-phase basis in the appraisal summary. The aggregation of the land costs in the appraisal summary provides the Council and Lendlease a required level of confidentiality in regard to what are ongoing commercially sensitive negotiations.

3.35 As noted above, this is a key difference when compared to the Planning FVA where an EUV plus approach to land acquisition was adopted.

Construction Costs incl. Infrastructure Costs

3.36 Cost advisors Rider Levett Bucknall have provided an updated cost budget for the Development and the Consented Scheme based on the agreed costs from the Planning Permission reflecting the Illustrative Scheme.

3.37 In summary, Rider Levett Bucknall have indexed the 2021 agreed construction budget by reference to the RICS Building Cost Information Service All-In Tender Price Indices and an index comprising a composite of leading cost advisors.

3.38 Further to discussions with Rider Levett Bucknall on the methodology, I have adopted an average of the two indexed cost estimates. The Rider Levett Bucknall advice is included at Appendix **[CD 9.12.6]** of my evidence.

Growth & Inflationary Measures

3.39 The Planning FVA was informed by planning and professional guidance and undertaken on a present-day basis. It therefore did not include growth or inflationary assumptions, aside from a modest regeneration premium applied per phase.

3.40 However, for the market facing appraisal and to assess a potential range of viability outcomes in the context of paragraph 106 of the 2019 Guidance, I have sought to include reasonable growth and inflationary assumptions based on the available data but also with the benefit of Lendlease's experience of delivering multi phased urban regeneration projects. Lendlease's evidence on this is contained in Selina Mason's evidence [**CD 9.3**].

3.41 Forecasting value growth is inherently difficult, and most forecasts do not go beyond a short time period. I have therefore examined the value growth which has been achieved on several projects of a similar nature to the Development and these are provided at Appendix **[CD 9.12.7]**.

3.42 The data examines value growth for estate regenerations between the first phases sold and the most recent sold/or being marketed. For example, Lendlease's Elephant Park project has demonstrated annualised growth of 9.3 percent since the first market sale phase was completed.

3.43 As demonstrated within Appendix **[CD 9.12.7]** the developments examined demonstrate annualised growth of between 1.64 to 9.8 percent, with an average across the developments of 6.2 percent. I have then examined the residential value growth of these projects against Land Registry UK House Price Indices to examine how wider house prices have performed over the same period.

3.44 To aid this task, I also refer to a CBRE research report entitled '*The Effect of Regeneration on Local Residential Property Values (March 2023)*' a copy of which is attached at Appendix **[CD 9.12.8]**. The CBRE report provides helpful additional analysis in relation to the value growth achieved in significant regeneration areas in London, demonstrating the 'regeneration premium' which outpaces ordinary market value growth. The CBRE research report analyses the positive impact on house prices in the locality of large-scale urban regeneration projects whereas the research I have undertaken looks at the increase in property values of the new build homes that are being delivered as part of the projects. However, the two exercises complement one another and have informed the growth rate adopted in the market facing appraisal.

3.45 In respect of historic market performance, as a guide to the future in the long term, house prices in Haringey have risen by 7.08 percent on an annualised basis according to Land Registry house price data in the 25 years between July 1998 and July 2023. Over the last 10 years, values in Haringey have risen on average by 5.95 percent. This is at a lower rate than the 25-year average albeit the annualised rate over the last decade has been suppressed by the pandemic and recent affordability related pressures because of a challenging macroeconomic environment. The Land Registry index illustrates that average house prices in Haringey have increased by 2.9 percent between the date the Planning FVA was submitted in October 2021 and July 2023 (the latest available date for UKHPI data).

3.46 The Bank of England is forecasting that the inflation rate will be back down below the long-term target of 2 percent by 2025. There is a linear relationship between the UK base rate and mortgage affordability and an improvement in mortgage costs and availability will have a positive impact on the housing market.

3.47 I have also reviewed a range of short to medium term forecasts from Jones Lang LaSalle, Knight Frank, Savills and CBRE. These forecasts are inherently volatile and dependent on a range of external economic factors. However, they are aligned insofar as the forecasts for 2023 are negative, and those for 2024 are in some cases positive but below the UK inflationary forecast and with positive house price growth factored in from 2025 onwards. This market improvement aligns with a reduction in the rate of UK inflation and a reduction in the Bank of England base rate.

3.48 Having considered the evidence, I have applied a growth rate of 5.25 percent per annum to the market sale homes in the Development. The growth rate incorporates normal market growth and a regeneration premium. Sensitivity analysis has also been applied to this input and the impact on the developer return is illustrated below.

3.49 I have also assessed the cost inflation metric. Similarly, it is inherently difficult to forecast future inflation. I have therefore examined BCIS all in Tender Price Indices to examine their construction forecasts and discussed the matter with Rider Levett Bucknall.

3.50 Cost inflation has been applied at a rate of 3 percent per annum as informed by the Rider Levett Bucknall third quarter 2023 tender price forecast.

4 APPRAISAL RESULTS & VIABILITY SUMMARY

4.1 The appraisal results are presented in Table One. The development appraisals for the Consented Scheme and the Development are included at Appendix **[CD 9.12.1]** and **[CD 9.12.2]**.

Table One: High Road West, Consented Scheme and Development Appraisal Outturns, October 2023		
Scenario	**Internal Rate of Return**	**£ Return**
Consented Scheme	*11.59 %*	*£169 million*
The Development	*14.23 %*	*£346 million*

4.2 The outturns, with the central growth and inflationary measures, illustrate that the Consented Scheme and Development generate a significant positive cashflow.

4.3 The key output from Table One when considering paragraph 106 of the 2019 Guidance relates to the Consented Scheme (i.e. Phase A as permitted by the Planning Permission). The Consented Scheme delivers an 11.59 percent IRR and a gross ungeared developer return of £169 million.

4.4 The sensitivity analysis below illustrated in Tables Two and Three (Consented Scheme and the Development) assesses the changes to the developer return on a range of iterations on the residential value growth and construction cost inflation measures.

Table Two: Consented Scheme Sensitivity Analysis October 2023 – Impact on the IRR								
		Residential Value Growth per annum						
		4.50%	**4.75%**	**5.00%**	**5.25%**	**5.50%**	**5.75%**	**6%**
Construction Cost Inflation per annum	**2%**	12.45%	13.66%	14.95%	16.36%	17.95%	19.90%	22.98%
	2.25%	11.38%	12.50%	13.69%	14.95%	16.33%	17.87%	19.70%
	2.50%	10.38%	11.45%	12.56%	13.73%	14.97%	16.32%	17.81%
	2.75%	9.44%	10.46%	11.52%	12.62%	13.77%	14.99%	16.31%
	3%	8.54%	9.53%	10.54%	11.59%	12.68%	13.82%	15.02%
	3.25%	7.69%	8.64%	9.62%	10.63%	11.67%	12.74%	13.87%
	3.50%	6.86%	7.79%	8.74%	9.72%	10.71%	11.74%	12.81%
	3.75%	6.07%	6.98%	7.90%	8.85%	9.81%	10.80%	11.83%
	4%	5.29%	6.18%	7.09%	8.01%	8.95%	9.91%	10.90%

Table Three: The Development Sensitivity Analysis October 2023 – Impact on the IRR								
		Residential Value Growth per annum						
		4.50%	**4.75%**	**5.00%**	**5.25%**	**5.50%**	**5.75%**	**6%**
Construction Cost Inflation per annum	2%	15.35%	16.97%	18.73%	20.74%	23.23%	-	-
	2.25%	13.92%	15.43%	17.03%	18.76%	20.70%	23.07%	27.12%
	2.50%	12.59%	14.02%	15.51%	17.09%	18.79%	20.69%	22.94%
	2.75%	11.33%	12.70%	14.12%	15.60%	17.16%	18.83%	20.68%
	3%	10.12%	11.46%	12.82%	14.23%	15.69%	17.23%	18.88%
	3.25%	8.95%	10.26%	11.58%	12.94%	14.34%	15.79%	17.31%
	3.50%	7.81%	9.09%	10.39%	11.71%	13.06%	14.45%	15.89%
	3.75%	6.70%	7.96%	9.23%	10.53%	11.84%	13.18%	14.56%
	4%	5.60%	6.85%	8.11%	9.38%	10.66%	11.97%	13.31%

4.5 As explained in Section Three of my evidence, I would expect the earlier phases of an estate regeneration project to have a lower return when compared to the overall project return. The returns indicated for the Consented Scheme provide Lendlease with a significant financial incentive to proceed.

4.6 It is important to note as explained in Section 10 of Peter O'Brien's evidence [**CD 9.1]** that the Consented Scheme benefits from £70.3 million in affordable housing grant and £21.2 million of Mayor's Land Fund. This reduces the amount of external funding that is required for the project which reduces risk and subsequently lowers what can be judged to be a reasonable rate of return, as similarly discussed within Section 7 of Selina Mason's evidence **[CD 9.3]**.

4.7 The Consented Scheme will deliver a significant quantum of public benefits up front, however much of the financial value is created in the long term. It is anticipated that value growth on regeneration projects will outperform the general market and evidence illustrates that the most deprived areas benefit from higher levels of growth once regeneration projects are implemented.

4.8 This growth is supported by residential values starting at a low level by comparison to much of London and the Scheme's location adjacent to Tottenham Hotspur Football Club's ("**THFC**") new world class stadium.

4.9 The delivery of the affordable housing (which is a key public benefit) is frontloaded. Lendlease will have a significant incentive to proceed given the need to deliver the bulk of the private housing in the later phases of the Consented Scheme which will have been enhanced by market growth and the significant benefit of placemaking delivered through the early phases.

4.10 The phasing is principally driven by the need to ensure that the rehousing strategy for existing residents and businesses causes as little disruption as possible. In the case of High Road West, the affordable housing grant funding offsets some of the cumulative cashflow burden of the Consented Scheme and the Development without which the affordable housing could not be front loaded.

4.11 Selina Mason's evidence [**CD 9.3**] provides examples of where Lendlease's development expertise has been utilised to deliver a range of positive outcomes for stakeholders. Many of these outcomes have been achieved through the creation of significant financial value, a by-product of the regeneration process but one that is essential to delivery.

4.12 The appraisal for the Development has been undertaken in the context of the pre-planning and post planning viability conditions contained within the DA. As set out in the evidence of Selina Mason, the viability condition is not due to be triggered until 2027 [**CD 9.3**].

4.13 The outturn for the Development is a 14.23 percent IRR equating to an ungeared return of £346 million.

4.14 The RICS Professional Standard 'Valuation of Development Property', 1st Edition, October 2019, states that when adopting IRR '*although the IRR is a truer measure of the required return of a development project taking the timing into account, it is usual to express profit within a basic residual valuation as a capital profit expressed as a percentage of the total development cost (including finance) or of GDV'.* I have therefore assessed the residual project IRR (as illustrated in Table One) against Profit on Value, which is a traditional profit metric.

4.15 Profit on Value is defined in the RICS Valuation of Development Property Professional Standard as '*the profit of the project expressed as a percentage of the project's net development value (NDV)'.* The Development yields a 15.14 percent Profit on Value.

5 RESPONSE TO OBJECTIONS

5.1 Several objectors to the Order have raised objections in respect of the financial viability of the Development within the context of paragraph 106 of the Guidance. I set out below a response to those objections below.

The Planning FVA demonstrated viability challenges (Reference: THFC Statement of Case, June 2023, paragraphs 5.10 & 5.11)

5.2 The Planning FVA concluded a present-day IRR of 11.62 percent. This confirmed the Development was profitable.

5.3 In planning terms, the 11.62 percent demonstrated that the affordable housing offer was more than that which the Planning FVA indicated to be the maximum viable amount. Nevertheless, the Planning Permission was granted subject to the planning obligations committed to by Lendlease in the s.106 agreement, which include the affordable housing offer.

No evidence has been provided to show that the Consented Scheme is viable in isolation (Reference: THFC Statement of Case, June 2023, paragraphs 5.13)

5.4 I have undertaken a market facing appraisal of the Consented Scheme. The appraisal is attached at Appendix **[CD 9.12.2]** and the results summarised within Section Four of this evidence. The appraisal demonstrates that the Development produces a positive developer return.

Changes to sales and build costs since the Planning Permission was granted are likely to have a negative impact on viability (Reference: THFC Statement of Case, June 2023, paragraph 5.14)

The sales values adopted within the Planning FVA are no longer likely to be appropriate and should be reduced (Reference: THFC Statement of Case, June 2023, paragraphs5.15)

The Office for Budget Responsibility expects house prices to fall by a further 10% (Reference: THFC Statement of Case, June 2023, paragraphs 5.15)

The BCIS General Building Cost Index indicates that there was a 7.3% year on year increase up to March 2023 (Reference: THFC Statement of Case, June 2023, paragraph 5.16)

5.5 As my evidence explains, planning viability is undertaken within a policy and professional guidance framework. This differs from the way in which a commercial operator will assess the potential long-term likely financial performance of a project of the nature and size of the Scheme.

5.6 As such, in reassessing the viability at today's date, a commercial market facing approach has been taken which is more realistic when considering viability in a CPO context.

5.7 In any event, the market facing appraisal comprises construction costs that have been updated to reflect the revised estimate across the Development and the Consented Scheme.

5.8 In respect of current sales value forecasts, the figures cited by the THFC group of companies appear to relate to pessimistic national forecasts.

5.9 The market is not in a London new build context, witnessing a reduction in pricing to the extent referenced. Significant undersupply, which is currently being exacerbated by a drop off in housebuilding, is supporting values alongside a reasonable level of UK and international demand in the new build market and values in Tottenham are amongst the lowest in the capital.

5.10 Whilst the current market is subdued in terms of sales growth, largely driven by a rise in the cost of mortgage finance, the longer-term outlook for pricing in the capital remains positive.

Impact of the Building Safety Act 2022, or changes to the Building Regulations. (Reference: THFC Statement of Case, June 2023, paragraphs 5.17)

5.11 The agreed costs from the Planning FVA have been updated by Rider Levett Bucknall through a combination of indexation and benchmarking. The full implications of the Building Safety Act 2022 and updates to Building Regulations have not yet been thoroughly worked through the Development, much of which is in outline and at an early stage of design evolution.

5.12 In my experience on other largescale projects, the impact of the Building Safety Act, can result in a loss of net (saleable) area from within floorplates. However, I have been advised that at this early stage of design for buildings subject to an outline planning consent any resulting loss of revenue is able to be offset by associated cost reductions derived through design solutions.

5.13 These changes will be introduced into the Development by way of Reserved Matters Applications in the future. As the detailed design of the buildings evolves, the impact of reduced efficiencies can be in part mitigated.

5.14 The developer returns illustrated in Table One for both the Consented Scheme and the Development are significant. The Building Safety Act 2022 and updates to Building Regulations may have an impact on the developer returns but design mitigation can manage this.

There is a concern over to what extent the "site wide infrastructure costs" assumed for the Planning FVA should be reflected in any appraisal of the Scheme (Reference: THFC Statement of Case, June 2023, paragraph 5.17)

5.15 The site wide infrastructure costs attributable to the Development and the Consented Scheme are set out within the appraisals attached to this proof. The costs have been cash flowed in line with the latest information available from Lendlease.

The percentage of low value social rented homes for the Scheme is much greater than for the Regeneration Scheme. This will have a negative impact on the viability of the Scheme (Reference THFC Statement of Case, June 2023, paragraphs 5.18 & 5.19)

5.16 As noted within Section Three of this proof, the upfront delivery of affordable housing equates to high upfront costs which will be cross subsidised through open market for sale housing in later phases and a significant amount of secured public subsidy.

5.17 This is a characteristic of estate regeneration and is one of the reasons that a significant amount of affordable housing grant has been agreed. The delivery of affordable housing however is lower risk. There is no sales risk as Haringey are acquiring the bulk of the affordable homes and, as such in respect of the Consented Scheme, a lower financial return is required to compensate for these lower risks. The DA ensures that the Development provides 40 percent affordable housing by unit. This includes over 500 homes as social rent which equates to 87 percent of the affordable homes.

The Planning FVA assumed the cost of acquiring land within the Scheme would reflect its existing use value. No account was taken of the Property Cost Estimate which will have set out the estimated cost of acquisition using compulsory purchase powers (Reference: THFC objection, Statement of Case paragraph 5.20)

5.18 As noted within Section Three of this proof, the approach to land value has been updated for the Development from an EUV plus methodology as required in planning viability. The land acquisition costs for the Consented Scheme in the market facing appraisal are the values contained within the Property Cost Estimate.

The agreed planning viability appraisal has not been provided by the Council for inclusion in the Inquiry library nor has the BNPPRE review. (Reference: Tryfonos Statement of Case, August 2023, paragraph 44)

5.19 DS2's letter to the Council, on 22 July 2022 [**CD 4.36**], is a statement of the final agreed planning viability position in respect of the Planning Permission.

Absence of viability information.(Reference: Tryfonos Statement of Case, August 2023, paragraph 45, 46 (a) & 47).

5.20 I have undertaken a market facing appraisal of the Development as consented by the Planning Permission. The appraisal is attached at Appendix **[CD 9.12.1]** and the results summarised within Section Four of this evidence. The appraisal demonstrates that the Development produces a positive developer return.

It is irrelevant that £15m has been spent to date, no investor would continue to fund a project that 'was not going to make a return', with reference to paragraph 176 of the Vicarage Field (Barking) CPO. (Reference: Tryfonos Statement of Case, August 2023, paragraph 50)

5.21 The Vicarage Fields reference refers to '*no developer or financial services company would invest in a product that was not going to make a return'.* The gross developer returns on both the Consented Scheme and the Development are positive and provide Lendlease with a substantive financial incentive to proceed.

6 SUMMARY OF CONCLUSIONS

6.1 I have been instructed on behalf of Lendlease to provide an assessment of the viability of the Consented Scheme and the Development.

6.2 In 2021, I prepared and submitted the Planning FVA in support of the application for Planning Permission. The Planning FVA was carried out in accordance with planning policy and professional guidance with the purpose of ensuring that the planning obligations in the Section 106 Agreement were the maximum viable amount. The final agreed planning viability position for the Development (following consideration by BNPPRE on behalf of the Council) was a positive IRR of 11.62 percent.

6.3 In the context of the Order, I have collated development appraisals based on market evidence that seek to appraise the viability of the Consented Scheme to inform consideration of the matters mentioned in paragraph 106 of the 2019 Guidance. I have also collated a development appraisal for the Development as a whole in the context of the terms of the DA.

6.4 The market facing methodology that I have used is different from a methodology that would be adopted in a planning financial viability assessment. It adopts a long-term view, which is appropriate for a project of the longevity and complexity of the Scheme and is consistent with the way in which Lendlease, and others, would appraise such an opportunity. The approach differs from that adopted in a planning viability context in two ways;

- In a planning viability context, the pre-planning value of land is included on an EUV-plus basis. As part of the market facing approach, I have adopted the Property Cost Estimates where available;
- In a planning viability context, assessments are undertaken on a present-day basis. In a market facing approach, and for a scheme of this longevity, long term growth and inflationary measures have been adopted based on the evidence available.

6.5 The appraisal for the Consented Scheme illustrates a financial return of 11.59 percent IRR and a gross return of £169 million.

6.6 The Development financial return is a 14.23 percent IRR with a significant positive cashflow balance and gross return of £346 million. In accordance with RICS professional guidance I have also sense checked the IRR against a Profit on Value measure, a more traditional profit metric which allows for an estimated cost of funding throughout the Development. The Profit on Value return for the Development of 15.14 percent.

6.7 The potential viability of the Consented Scheme has been evaluated and, in my opinion, there is a significant financial incentive to proceed, subject to the Order being confirmed.

7 EXPERT'S DECLARATION

7.1 I confirm that my report has drawn attention to all material facts which are relevant and have affected my professional opinion.

7.2 I confirm that I understand and have complied with my duty as an expert witness which overrides any duty to those instructing or paying me, that I have given my evidence impartially and objectively, and that I will continue to comply with that duty as required.

7.3 I confirm that I am not instructed under any conditional or other success-based fee arrangement.

7.4 I confirm that I have no conflicts of interest.

7.5 I confirm that my report complies with the requirements of RICS Practice Statement 'Surveyors acting as expert witnesses', 4th Edition, February 2023.

Statement of Truth

7.6 I confirm that I have made clear which facts and matters referred to in this report are within my own knowledge and which are not.

7.7 Those that are within my own knowledge I confirm to be true.

7.8 The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

Prepared by:

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