

Barton AAP

Note by JR - 11 November 2010

Comments by JR are shown *[thus]*

[A major report on the Barton AAP development was presented to the City Executive Board yesterday. The full report is available on the web at:

http://www.oxford.gov.uk/Direct/8_Item%204a.pdf

It is 39 pages long. Here are a few highlights]

To: City Executive Board

Date: 10th November 2010

Report of: Head of Corporate Assets

Title of Report: Development of Land at Barton/Next Steps

Summary

5. Our consultants, having analysed the project in great detail, advise that due to the abnormal costs involved, the lack of grant for social housing, together with a normal S106 package and 50% affordable housing result in the site having a negative development value. They further advise that to make the scheme viable either a reduced level of affordable housing (40% which will be 100% social rented), a much reduced S106 package (potentially prejudicing the community facilities provided) is agreed, or a retail or other higher value use is permitted on the site. They conclude that of these the key variable is the level of affordable housing as it is understood that the majority of the S106 requirements are necessary for the regeneration benefits associated with the site, and the Council is not able, at this time, to commit to a significant retail or other high value use on the site.

6. Therefore, unless the Council commits to a minimum level of affordable housing of 40% or to a district centre anchored by a supermarket (which could drastically reduce the amount of housing available), there will be very limited interest from the market, and what interest there is will be highly caveated on achieving viability through a prolonged negotiation around affordable housing levels. This will significantly delay the delivery of housing on the site.

7. Unless the Council approach the market on the basis of a viable proposal, delivery of the project will be compromised. This, in short, means proposing to the market a project with 40% affordable housing provision or alternatively incorporating retail provision at a significant scale (over and above local retailing provision), which although helpful to overall scheme viability reduces by a significant proportion the number of residential dwellings the site can deliver. On the assumption of an 8 acre land take for retail provision, this would reduce the number of residential units by around 160.

Background . . .

17. Through the preparation of the project brief, six options were selected by the development team, on the basis that they represented a broad range of potential development scenarios, requiring different levels of intervention and delivering a range of possible development outcomes. The costs in terms of access arrangements and site servicing were considered by PBA and Knight Frank, providing an initial view on anticipated development costs and revenues, as well as housing mix and types. LDA assessed site capacity for each option, based upon

18... The principal options tested were as follows:

| Option | Description | Council Land Available for Housing | Possible number of residential units |
|----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------|--------------------------------------|
| A | Retain sports pitches and allotments; access only through the Barton estate to the Green Road Roundabout | 16.43 ha | 822 |
| B | Relocate both sports pitches and allotments and remove substation; access only through the Barton estate to the Green Road Roundabout | 23.08 ha | 1,154 |
| C | Relocate sports pitches and retain allotments; access through an at-grade junction on the A40 and secondary access through Barton | 19.62 ha | 981 |
| D | Relocate both sports pitches and allotments; access through an at-grade junction on the A40 and secondary access through Barton | 19.33 ha | 966 |
| E | Relocate sports pitches and retain allotments; access through a left in, left out junction, a bus bridge to Northway with secondary access through Barton | 18.82 ha | 941 |
| F | Retain sports pitches and relocate allotments; access through a left in, left out junction and a bus bridge to Northway with secondary access through Barton | 15.33 ha | 766 |

19. Three of the options were essentially discounted because they would have required disruption and relocation of the existing allotments, and more detailed appraisal work has continued based on a variant Option A (which additionally allows for access onto the A40) and which retains the existing sports pitches and allotments left in situ, and Option C that retains the allotments but would require a relocation of the sports pitches. Elected members have made it clear they would expect that the sporting facilities available would need to be enhanced were such a relocation to take place, bringing a benefit to the local football clubs. Elected members and especially ward members have emphasised the undesirability of moving pitches and

Highway/Access Issues

25. As part of the initial and ongoing appraisal work PBA were commissioned to consider and advise on preferred and achievable highway and access solutions. This has been an extremely technical piece of work, which has been undertaken in part with the County Council as Highway Authority.

26. PBA initially modelled six potential solutions as set out below:

| | |
|---|----------------------------------------------------------|
| 1 | An at-grade signal controlled junction to the A40 |
| 2 | An at-grade left in left out junction to the A40 |
| 3 | An at-grade signal controlled roundabout |
| 4 | An all-vehicle access bridge across the A40 |
| 5 | A bus-only access bridge across the A40 |
| 6 | An access via Barton Estate |

27. The final PBA technical note concludes Option 1 to be the preferred Option, as it would deliver more benefit than the others “in terms of the extraction of existing and development generated trips from the Barton estate and the Headington roundabout, and in terms of potential to provide further pedestrian and cycle connections across the A40, promoting non-car accessibility to Northway”. This option has now been “signed off” by the County Council highway authority and will factor into the AAP process appropriately. This highways related aspect appears for information only and will not figure further in this Report.

Delivery of Code for Sustainable Homes (CSH)

52. Since 1st May 2008 it has been mandatory to have a code rating for all new homes in England. The code is a sustainability standard above and beyond building regulations for all new domestic property. The objective is to reduce CO2 emissions resulting from fuel usage in domestic housing for lighting, heating and power. Compliance with the code minimises impact on the environment. A star rating of code levels 1-6 determines the overall sustainability of a new home, each representing a decrease in carbon emissions and an increase in sustainability standards across 9 areas, leading to a “zero carbon home” at code for sustainable homes level 6.

53. At present the standard is set to a mandatory CSH level 3 for all new development increasing to CSH level 4 in 2013. The goal currently is to achieve zero carbon dwellings by 2016 (albeit further guidance is awaited in this respect). Members will be aware that the City Council’s approach to the Council house new build development that is currently in construction, and which was supported by HCA funding, is to achieve CSH level 4.

54. The cost of providing level 6 over and above level 4 is estimated to be in the order of £20k per unit, which is significant, and with there currently being little market evidence of a “green premium” i.e. a willingness for people to pay more to live in and/or own such properties, it is a major drain on scheme viability. For the purposes of the King Sturge model it has been assumed that CSH level 4 will

apply for the period 2013-16 and CSH 6 from 2016 onwards. This adds a total additional cost of c £6.2m over and above constructing purely to CSH level

Property Market issues

57. "The recession has brought an end to the long property investment boom that has helped revitalise many cities and challenging sites across the UK over the past decade. The boom was fuelled by cheap credit, a bubble in the property market and significant and readily available public funding. Property development and regeneration over the next ten years is expected to be very different and cities will need to step up and play a more significant role alongside the private sector in bringing difficult sites forward.

58. Despite the comparative strength of the Oxford market to other areas of the UK, it is not immune from the national pressures of:

.1 **Affordability** – where residential prices will in the future be constrained by informal and regulatory controls of mortgage lenders with a greater emphasis upon income multipliers and loan to value ratios.

.1 **Consolidation of mortgage providers** – where there will be reluctance amongst lenders to commit to more than a minority of mortgages in individual projects. The consolidation of the mortgage lenders, for example Santander, will exacerbate this problem.

.1 **Turnover/Volume of residential sales** – as buyers are more cautious there has been a knock on affect on scale and phasing of development. The phasing of large scale projects such as Barton is critical in terms of holding costs.

.1 **Reluctance from banks to lend on speculative developments** - where banks will seek to ensure that developers have sufficient profit margins within their appraisals, typically around 25%, to protect their loan. Profit levels of this scale will impact negatively upon residual land values and those parties who have equity will be looking for significant returns on their investments.

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.3 59. Recovery of the economy will not remove the fundamental shifts of the housing finance market which will put a short, medium and long term pressure on the viability of large scale projects such as the site at Barton.

*[Section 65 is a table of viability concerns
Section 68 - 70 covers "delivery structure options"]*

81. Using the above base assumptions the model, under all scenarios returns a negative land value. It is only when these base assumptions are varied, i.e. through reducing the amount of affordable housing, reducing S106 contributions and/or introducing higher land values, that the appraisal starts to go positive. It is clear from the viability analysis that introducing a food store into the scheme to assist the delivery of upfront infrastructure costs shows a positive position, which would enable the delivery of 50% affordable housing. The land take for such a

proposal though would have the effect of reducing the number of affordable units by between 50 to 75. As described earlier in the report it would be impossible to confirm that aspect with any certainty in the required timescale.

82. Alternatively, the reduction in the amount of affordable housing content within the scheme from 50% to 40% (100% social) assists in the surplus/deficit position, enabling the potential of additional receipts to be recycled back into the scheme and also the delivery of the full S106 package. The same is the case for the reduction in the S106 contributions. If the S106 contributions are reduced to zero the scheme is capable of delivering 50% affordable housing

Conclusions

The conclusions to be drawn from the qualitative and quantitative analysis undertaken by King Sturge and Eversheds are as follows:

1 It is clear that the approach that the Council needs to consider to adopt is one that minimises the substantial costs associated with delivering required upfront infrastructure on the sites.

2 To meet the objectives of the Council the preferred vehicle is a co-investment joint venture partnership for infrastructure only. It is considered possible for this structure to be delivered by way of a bespoke competition and without a need for a full OJEU process.

2 Before the market is approached on this basis the proposition needs to be presented as commercially viable and the position with regards to affordable housing etc made as clear as possible:

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4 a. The Council as land owner should ask the Local Planning Authority to accept a minimum 40% affordable housing on the site and this must be set out in the marketing document. This would be on the basis that there are appropriate mechanisms in place to enable the recycling of profits, and any future grant, back into the project, to enable delivery of 50% or more affordable housing

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6 b. The Council as land owner should ask the Local Planning Authority to accept that it may not be possible to meet all S106 contributions that might be suggested, and to provide a statement setting out key priority S106 contributions which will be required.

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8 c. The Council should ask the Local Planning Authority to make a statement as to the acceptability of retail uses within the marketing documentation, subject to retail capacity studies being undertaken by the joint venture.

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10 d. The position that residential units will be constructed to the code of sustainable homes level 4, and after 2016 to level 6 should be confirmed.

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12 e. It should be noted that in going to the market in this way the Council is not committing to any firm position, and that further approvals from CEB will be sort once the exact details of market offerings are known. It can be anticipated that it will also be possible to test some of the viability issues through this procurement process.

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