

Harrow Strategic Development Partnership Peel Road – revised design proposal

1 Introduction

- 1.1 Savills has been asked to comment on revised proposals put forward by Wates (in their role as development manager for the Harrow Strategic Development Partnership JV) for the Peel Road site which was conceived as a civic led site at the tender stage of the JV partner selection process. We have reviewed a document authored by Wates 'Update on Peel Road Affordable Housing 23rd November 2020'. A clarification meeting was held with Robert Pert of Savills and Kate Ives of Wates.
- 1.2 We understand that the Council's requirements for their Civic Centre have changed between bid stage and now. Previously the civic building was 6,828m² and in the proposed revised scheme it is 1,778m².
- 1.3 The footprint has shrunk considerably with land now being available for alternative development. The current proposal is that additional residential development is delivered. We understand the spatial plan for this, and other options, has been tested with Harrow planning authority. The additional residential block will provide 46 homes although we understand this has been assessed on a volumetric and massing approach only; therefore detailed testing will be required.
- 1.4 It is not known whether this is a pure saving or whether some of this capital may need to be spent on the enhancement or adaptation of other Council civic/office buildings in order to achieve the optimized scheme.

- 1.5 In the original scheme the PRS residential element was due to be taken to the market as a forward fund opportunity with the joint venture taking a development margin on this. Therefore for the joint venture as developer the reduction in civic space delivery does not change the commercial position on the basis that the PRS element remains the same.

2 Options

- 2.1 The key questions are around what the joint venture should do with the proposed new residential block and, separate to that, does the Council wish to take a position as purchaser/investor in the new block and the PRS block.
- 2.2 The first consideration is whether a significantly reduced civic/office element is an appropriate strategy. We understand that the Council has done analysis of its occupational requirements and that is what has driven the revised floorspace target. On this basis, a further consideration is therefore whether building a significant quantum of office space speculatively is a reasonable option. This is not considered an office market and therefore our advice would be that developing any significant level of office floorspace, without a pre-let with significant covenant strength, would not be in the Council's commercial interests.
- 2.3 We understand that the joint venture will be content to deliver (via Wates as contractor) the additional residential block as an affordable block for the Council. In this scenario the Council will be buying this at cost which is currently estimated to be £12m. Given the 'savings' being made on the civic element this is an affordable decision without breaching the cost neutrality position that the Council have sought to lock into the overall deal. We understand no other elements of the overall deal are subject to change as a result of the Civic requirements changing; therefore the change is limited to the Peel Road site. So the additional £12m cost of the new residential block can be paid for from the £27m savings. The timing of the 'savings' and 'new expenditure' will need to be understood to assess whether there are any cashflow (and therefore borrowing requirement) implications for the Council. Additionally the Council will need to ensure that the new residential block can deliver the required outputs in terms of tenure, unit sizes, design and specification.
- 2.4 The Council is also considering whether to purchase the PRS block for affordable housing purposes. This block is comprised of one and two bedroom properties and provides 134 homes overall.
- 2.5 As a unit mix for 100% affordable we would question its appropriateness. There may be a rationale for the Council to invest (or co-invest with Wates through the JV, or another funding partner) in this block to deliver PRS homes or sub-market homes. With the right management regime this would seem a more appropriate end use for a block of this scale. Clearly this would be meeting a different need both in terms of returns/outputs for the Council and end consumer need. Such investment would therefore require strategic justification for Council investment and a clear understanding of the funding requirements and anticipated returns.

2.6 It should also be noted that the purchase of both the PRS and new residential block would result in greater expenditure by the Council than in the original scheme where the Council was buying the Civic Centre at a cost of £42.1m. The table below shows this difference:

PEEL ROAD ELEMENTS	TOTAL COST £
Civic Centre	£14,816,188
New affordable block	£12,067,656
PRS block	£31,051,788
TOTAL	£57,935,632
Original cost of Civic Centre	£42,172,353
Additional costs by purchasing aff and PRS blocks	£15,763,279

2.7 The joint venture (including the Council as a shareholder/member) will also need to consider the best course of action. We understand it has already been established, through design work and planning consultation, that a residential block (broadly as currently conceived) is the most appropriate alternative land use. Taking this course of action does not diminish the returns to the joint venture because the development returns on this site were always being derived solely from the PRS block.

2.8 Delivering an affordable block to the Council provides certainty on the exit strategy and could provide some planning benefits in terms of the affordable delivery; for example if the new block provided 100% affordable this could satisfy planning requirements across this site and therefore remove the need for the PRS block to provide affordable housing which is the current position. This may produce benefits in terms of attractiveness to funders/operators if the block is mono-tenure.

2.9 The joint venture will also need to consider that if the Council purchases the PRS block at cost what does this do to overall returns to the JV as it is assumed that the joint venture has been assuming more than simply a cost plus margin.

3 Affordable housing – value and affordability to the Council

3.1 To provide an indication of the likely subsidy levels required we have assessed the average value of a dwelling (based on the 46 unit block with the same values applied to the PRS block) for three tenures: social rent, London Affordable Rent, and shared ownership.

- 3.2 A mono-affordable tenure scheme is unlikely to be desirable across both blocks. A mixed-tenure scheme is likely to be more desirable and financially viable albeit considerable thought will need to be given to how different housing products will be designed in just two blocks.
- 3.3 Consideration should also be given to the optimum grant subsidy mix. The new GLA prospectus does not support grant for LAR which might provide an opportunity for the Council to maximise social rent delivery utilizing GLA grant whilst deploying RTB receipts into affordable rented products at higher rents.

4 Summary of considerations for the Council as investor/purchaser

1. Are the costs for the revised Civic element justifiable given the cost per sqm has risen significantly?
2. If the Council was due to spend £42.1m on the civic element and is now forecast to only spend £14.8m, what are the priorities for those savings?
3. Can the proposed new residential block deliver what the Council requires in terms of affordable housing and is the purchase price (the cost) affordable to the Council?
4. Is purchase of the PRS block viable and fundable either as an affordable block or as a PRS block?

5 Summary of considerations for the Council as a shareholder/member of the JV

1. Is a forward sale of the new residential block to the Council at cost in the overall interests of the JV?
2. Is a forward sale of the PRS block to the Council at cost in the overall interests of the JV?

6 Conclusion

- 6.1 The site is not considered suitable for a speculative office-led development. This, alongside with revised Council occupational requirements and potentially viable alternative land uses (subject to planning), mean that the proposed strategy is considered appropriate.
- 6.2 The principle of the proposed change in approach and land-use appears reasonable and affordable housing is likely to be a key priority for any savings that are produced as a result of the reduced civic element. The costs of the affordable housing provided by Wates are not out of kilter with other London schemes we see.
- 6.36 The Council will need to further satisfy itself of the appropriateness of the blocks for affordable housing and value for money. This can only be achieved through further work by the JV to establish the viability and deliverability of the revised scheme, and the Council should not feel it needs to make a firm decision now based on only preliminary information.