

Ref: EBC-EL-11

Inspector Robert Mellor BSc DipTRP DipDesBEnv DMS MRICS MRTPI
c/o The Programme Officer
Mrs Claire Jones-Hughes
Banks Solutions
6 Brading Road
Brighton
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14th June 2016

Dear Inspector,

The Viability of Office Development in the Town Centre

I write in response to your letter of 18th May and the questions that you identified that further evidence was required to support. The Council commissioned Cushman & Wakefield to undertake the Viability Analysis of the Town Centre sites, and this report is provided as Document EBC-EL-12.

Please find Eastbourne Borough Council's responses to the questions set out below.

a) What level of rent for office floorspace would be needed for commercial office development to be viable in the town centre without cross subsidy and how likely is it that rents would rise to those levels within the plan period, having regard also to changes in construction costs?

- a.1 The Town Centre Viability Report (*EBC-EL-12, p24*) provides an assessment of what rents would be needed for commercial development of office space to be viable in the town centre, based on a 3 storey development totalling 2,250 sqm NIA with surface car parking. Given these development parameters and fixed inputs, a rent of £26 psf is required to reach breakeven. However, it is noted that the adjustment of some inputs including reducing profit on cost, lowering build costs and lowering professional fees, could reduce required rental values to £22 psf. It is noted that determining an exact 'hurdle rent' requires fixing too many variables which are fluid in a similar vein to rents.
- a.2 Evidence from the South Coast office market as described in EBC-EL-12 indicates stimulated rental growth in the south coast area and evidence of increasing demand for new office space. Bilfinger GVA's Spring 2016 business park review forecasted a 3.3% annual rental growth for regional office markets, which is considered to be the most appropriate available figure for rental growth.

- a.3 EBC-EL-12 also identifies a construction cost inflation forecast (*Table 14, p25*), which indicates that to achieve viability, rental growth would need to increase 20% over five years to cover the increase in construction costs.

b) What would be the cost implications of the need to replace the existing station car park on-site in a decked structure?

- b.1 EBC-EL-12 indicates that a decked structure providing 400 parking spaces to replace the existing station car park would cost £4.07 million, based on a cost of £8,600 per space and including professional fees and contingency. The appraisal assumes that this would be provided to Network Rail at nil cost, but in reality this cost will be netted off the land value.

c) What is the scope for cross-subsidy of office development from other forms of development?

- c.1 EBC-EL-12 considers that any cross-subsidy of office development would have to come predominantly from residential uses, which is a required use for both Development Opportunity Sites 2 and 3 in accordance with the Town Centre Local Plan. The Viability Appraisal (*EBC-EL-12*) considers that the amenity value of DO Site 2 is constrained by the railway tracks/ fences to the south and the existing office/ light industrial area to the north but residential is still likely to be the best potential route for cross subsidy given the convenient Town Centre location.
- c.2 Retail is also a mandatory use for both DO Sites. EBC-EL-12 considers that there is reasonable potential for some retail on DO Site 3, and DO Site 2 has potential in terms of an expanded retail offer that links to the existing Enterprise Centre. However, it is concluded that, although both of the sites benefit from strong transport links, both sites are marginal for retail uses given the established higher value retail area being south of the station within the thoroughfare to the seafront.

d) How much office space could realistically be provided on which site (3,000, 4,500, 8,900 sq m or another figure) and in combination with what forms of other development?

- d.1 EBC-EL-12 considers that the total envisaged office space should be provided on one site in order to allow the maximum critical mass in office space. DO Site 2 has the best potential to create a critical mass of offices in a position close to and with good visibility from the railway station, making provision

more attractive for office occupiers. DO Site 3 is considered to be constrained by physical road barriers and limitations of the creation of a critical mass due to the size of the site.

- d.2 EBC-EL-12 appraises the provision of 4,500 sqm (NIA) of office space in the development schemes for DO Site 2 and DO Site 3 based on:

Development Opportunity Site 2	Development Opportunity Site 3
<ul style="list-style-type: none"> • Retail (4,000 sqm GEA) • Office (4,500 sqm NIA) • Residential – 244 units • Retaining the Enterprise Centre • Decked replacement station car park • Surface level parking for residential and office uses • Public Space • No affordable housing 	<ul style="list-style-type: none"> • Retail (1,000 sqm GEA) • Residential – 114 units • Surface level parking for residential • Public Space

- d.3 The appraisal of these schemes results in a residual value of -£0.05 million for DO Site 2 and +£3.5 million for DO Site 3.
- d.4 Taking into account a land value based on values per hectare from the EBC Community Infrastructure Levy Viability Study (2013) and for illustrative purposes, a high level blended assumption of 50% office land and 50% residential land provides an assumed land value of £0.84 million per hectare, which in part reflects the constraints and barriers to development on the two sites.
- d.5 Therefore, the net viability of the two sites after all costs and values are -£1.35 million for DO Site 2, and +£3.0 million for DO Site 3. EBC-EL-12 suggests that in today’s market, the scheme for DO Site 2 is just short of generating a value in excess of the existing potential of the site in order to incentivise a developer. The result for DO Site 3 suggests that it does generate a value in excess of the existing potential of the site (albeit, this surplus would be reduced when affordable housing was provided).
- d.6 EBC-EL-12 also appraised the site on the basis of the original office allocation of 3,000 sqm. In this scenario, with a concurrent drop in car parking provision to 85 spaces, this produces a land value of +£1.7 million for DO Site 2 and a net viability of £0.2 million, which illustrates the potential to deliver this quantum of floorspace.

- d.7 The findings of the appraisals indicate that office use on the Town Centre sites would require significant cross-subsidy. SHL's proposals for the provision of 8,900 sqm of office floorspace on the Town Centre sites contained within the rCOH scheme is not considered to enable the provision of a sufficient quantum of residential space required in order to cross subsidise that amount of office provision.

e) Would the current criteria in the Town Centre Local Plan impede delivery (e.g. the provision that ground floor space be reserved for retail use)?

- e.1 Town Centre Local Plan (*SD/23*) Policies TC19 and TC20 set criteria for the development of DO Sites 2 and 3 respectively. Both policies make requirements for the delivery of A1 retail at ground floor and C3 residential above ground floor.
- e.2 Policy TC19 identifies that other acceptable uses on DO Site 2 would be A3 restaurants and cafés, A4 drinking establishments at ground floor, and B1(a) offices and C1 hotel above ground floor; and Policy TC20 identifies that other acceptable uses on DO Site 3 would be A3 cafés and restaurants at ground floor, and B1 (a) offices, D1 community uses, D2 assembly and leisure above ground floor.
- e.3 It is not considered that it would not be possible to provide all development required on these sites, particularly the residential and office, on upper floors with retail uses below. However it is considered that proposals for development of the DO Sites that included an element of residential or office at ground floor level could be acceptable based on a reasoned justification as to why it would not be possible in design terms to provide a development that would comply with this criteria.

f) What policy changes would be needed to Policy EL3 to require the inclusion of a minimum proportion of office space if it is less profitable than the other forms of development which the policy encourages?

- f.1 In order to deliver office provision on the Town Centre sites through Policy EL3, it is evident from the viability evidence that there is a significant need for cross subsidy which could be at a level which hinders the deliverability of other uses.
- f.2 Based on the appraisal of the development scheme, it is not considered that the provision of 4,500 sqm NIA of office space through Policy EL3 is deliverable. However, the assessment does indicate that 3,000 sqm NIA could be made viable as part of a mixed use scheme.

- f.3 EBC-EL-12 considers the ELLP should acknowledge that cross-subsidy is necessary to deliver office development on the Town Centre sites. Therefore it is proposed that the supporting text is amended (*Modification M-13,EBC-EL-14*) to make reference to planning applications that include office development on DO Sites 2 and 3 and rely on cross-subsidy to be supported by a viability assessment, carried out in accordance with the National Planning Policy Framework and RICS guidance.

g) What would be the implications for the provision of starter homes and other forms of affordable housing that also depend on cross-subsidy?

- g.1 EBC-EL-12 considers that cross-subsidising office floorspace on the DO sites 2 and 3 would have a direct implication for both the quantum of affordable housing deliverable and the types of units (e.g. starter homes, rental and intermediate products).
- g.2 The Eastbourne Core Strategy 2006-2027 (adopted 2013) sets out the policy for affordable housing requirements. Policy D5: Housing requires that development contributes towards the delivery of affordable housing. Developments within the Town Centre neighbourhood (low value market area) are required to make a contribution to affordable housing, equivalent to 30% of the net number of dwellings delivered on the site. This is a starting point and is subject to financial viability which may, if evidenced, reduce the requirement on-site or propose a commuted sum in lieu of on-site delivery. This will ensure that development overall is viable and can be delivered.
- g.3 EBC-EL-12 notes that affordable housing is seldom viable in its own right, with delivery predominantly reliant on Section 106 agreements. These are themselves determined by scheme viability, with reference to an existing or benchmark land value.
- g.4 If greater office floorspace is delivered through cross-subsidy this will result in a decrease in absolute viability, impacting the non-surplus generating elements (i.e. uses other than private residential and retail). Given a fixed benchmark land value, developer profit and fees (and adjusting for the difference in build costs between uses), the only element where there is flexibility to absorb this additional burden on the scheme is through affordable housing.
- g.5 It is considered that, in order to ensure the delivery of office space in the Town Centre, the provision of office space should be the beneficiary of cross subsidy and therefore it is likely that that a lower level of affordable housing than required by existing planning policy could be provided. The viability of

the scheme will need to be tested at the point of application to ensure that the provision of affordable housing is not achievable. This could be considered acceptable under Core Strategy Policy D5: Housing.

h) Would development include the retention or replacement of some or all of the Enterprise Centre on Site 2 and the Post Office building on Site 3?

- h.1 The development schemes subject to viability appraisal in EBC-EL-12 include the retention of the Enterprise Centre on DO Site 2. Comment made in EBC-EL-12 suggests that this would be sensible based on the relatively recent investment which has been made in it and the number of tenants.
- h.2 DO Site 3 is currently occupied by Post Office building, which contains an attractive façade. However, this is not listed and therefore the retention of this should be considered on the basis of a cost/benefit analysis.
- h.3 EBC-EL-12 identifies that retaining facades is expensive and typically has a significant impact on the cost (and viability) of schemes. This will depend largely on the area of residential/ office space that can be achieved with a new scheme. The smaller the area being developed, the larger the impact of the retained facade costs as these are fixed whilst, the larger the area, the more value is created which can support this cost. Ultimately, the costs will be higher with a retained façade and design can be constrained. There are some locations and buildings where the character and amenity value of the façade is such that it adds to achievable rents and capital values which can justify the expenditure.
- h.4 EBC-EL-12 considers that the character and amenity value of retaining the façade is unlikely to add to achievable rents and capital values that would justify the expenditure, due to the relatively low prospective achievable values.

i) Could the Government initiative to support development at railway stations bridge a viability gap?

- i.1 As part of the 2016 Budget, it was announced that the Homes and Communities Agency (HCA) will be working with Councils and Network Rail to help push forward regeneration projects and release land around railway stations for regeneration, including for housing development. This project is hoped to create numerous jobs and up to 10,000 homes across at least 20 local authorities. The scheme is to be locally led, with no Government-imposed targets on affordable housing.

- i.2 Three councils have already come forward with proposals and have railway land sites identified as suitable for housing and other locally-led regeneration. A proposal from City of York Council suggested that up to 2,500 homes and around 100,000 sqm of office and commercial space could be supported on land at York Station. Taunton Deane Borough Council and Swindon Borough Council have also proposed the regeneration of land around their respective stations, to provide homes and commercial spaces.
- i.3 It is worth noting that as Network Rail is now a public body and has housing targets it has an additional incentive to push forward with delivery.
- i.4 In EBC-EL-12, C&W consider that the scheme has the potential to improve viability and in particular, the speed of delivery: for instance, prior to the announcement there was no indication from Swindon that any such development would take place, let alone of such a scale, which is an indication that the initiative is having an effect. In relation to the York scheme, it is understood that the HCA are set to contribute £9-10 million of initial funding to help bring early phases of the development forward. However, it should be noted that this is a large site of 74 hectares which has helped it to attract funding given the scale of potential development.
- i.5 There does not appear to be a 'headline' number for funding or allocations in relation to this scheme, and as such, it is considered allocations are likely to be decided on a case by case basis. It is likely that it will be up to the Local Authority to liaise with HCA to formulate a bid with funding to be provided dependant on the quality of the case put forward based on the potential housing numbers and scale of commercial development.
- i.6 In EBC-EL-12, C&W notes that they have advised on a number of sites adjacent to railway stations and would caution that whilst this initiative (and other funding allocations which have involved the HCA and Network Rail in the past) will assist deliverability and viability, the constraints of developing land which sits adjacent to railway land and stations is considerable:
- Car parking provision: Train Operating Companies will typically have a right for 'no less commodious' car parking if Network Rail and any development partner wants to move station car parking. This can make it expensive to move car parking or to reduce the quantum.
 - Noise and amenity: DO Site 2 is relatively linear and sits alongside the railway station platforms with a degree of noise and limited amenity values. Clearly, this is typical for land adjacent to railway stations but it can have cost implications in terms of acoustic barriers and constrains achievable values.
 - Irregular site configurations: much of the undeveloped land adjacent to railways (and indeed the land at DO Site 2) is awkwardly shaped for

development which constrains masterplanning options and restricts site servicing arrangements.

- i.7 Other options to assist in bridging the viability gap could include the Local Enterprise Partnership providing support for a scheme which delivered a requisite quantum of jobs and/ or homes in terms of a Local Growth Fund grant, or a Growing Places Fund loan.
- i.8 There is currently no open round of applications for Enterprise Zones but there may be the potential for identifying this (or other sites) as Housing Growth Zones; these would allow for the ring-fencing of future Council tax receipts to fund upfront enabling works (so in the case of DO site 2 for example, funding the setting up of the decked car park).

j) When could delivery be expected within the plan period?

- j.1 From the viability appraisal in EBC-EL-12, it is evident that the delivery of office space in the Town Centre will require cross-subsidy from other uses. In EBC-EL-12, C&W consider that office space in the Town Centre could be delivered within the plan period based upon cross subsidy from other uses, a proactive approach from EBC to promote development and flexibility on affordable housing requirements when other 'loss making' elements are being provided. The exact timing of delivery is dependent upon when other office schemes come forward within the area and attractiveness of the site (particularly DO Site 2) to developers in terms of the residential market.
- j.2 EBC-EL-12 indicates that the delivery of 4,500 sqm of office space in the Town Centre over the plan period would require:
 - Residential value growth in excess of cost growth.
 - Proactive EBC involvement in promoting DO Site 2 for development and working with landowner and stakeholders to bring forward a comprehensive scheme with some potential public sector support.
 - Value engineering, particularly in relation to reducing the car parking requirement of the site which uses up significant space and restricts the development potential of DO Site 2 in particular.
- j.3 However, the viability appraisal indicates that a quantum of 3,000 sqm of office floorspace would be viable. Given the uncertainties around the viability of 4,500 sqm NIA of office floorspace being delivered on the Town Centre sites, it is considered that the Employment Land Local Plan should revert to the original allocation of 3,000 sqm in the Town Centre, with the 1,500 sqm that has been displaced from Sovereign Harbour being accommodated elsewhere.

I hope this letter and the accompanying report (EBC-EL-12) addresses your concerns, however we would be happy to provide any further information required.

Yours Sincerely,

A handwritten signature in black ink that reads "L. Rawlinson". The signature is written in a cursive style with a long, horizontal flourish at the end.

Lisa Rawlinson

Head of Regeneration & Planning Policy