# Co-operation can kick start development

## Circumstances call for 'Section 601' Agreements

**The burden** of section 106 agreements has had a deleterious effect on several important London projects in recent years; we had the grotesque example of Land Securities being required to produce £220 million to improve public transport and rail facilities at Victoria, resulting in an inevitable over-development of the site, planning rejection, and eventually a more modest scheme which has now been approved. Of course there is a much more modest contributions to the public purse; meanwhile millions of pounds and two years has been wasted on a non-runner hobbled by the planning gain handicap.

The credit crunch may have changed all this. It is not entirely fanciful to imagine that Section 106 will be transformed into (for the sake of argument) Section 601. This would set out the requirements of the developer in terms of waived planning fees, contributions to public realm improvement, and the donation of land in order to make much needed regeneration economic.

More importantly, public/private co-operation of this sort could be the only way to attract serious funding for certain sorts of projects in the current climate. For example there are workable housing schemes where banks are unwilling to lend more than 50 per cent on a risk basis. Throw into the equation some assets, such as a site or existing buildings, and the sums can begin to look realistic.

What is said to be the first local authority example of this sort of co-operation was exhibited on the London stand at MIPIM, by the London Borough of Croydon. The council has created a special purpose vehicle with John Laing into which the council is transferring assets and some seed money, while John Laing matches 40 per cent of the value with funding. The vehicle has enough petrol in its tank to start the development journey, with appropriate safeguards and benefits for each of the parties. Croydon will end up owning the property assets at the end of the special purpose vehicle's life, when the end value is divided between the parties.

When finance is short, it is time for ingenuity on the part of the public sector, which will have to take more of a lead if it wants development to take place to the advantage of local economies and employment prospects. In other words, unlocking assets is not simply a question of selling brownfield sites, but thinking seriously about how to extract value from all its assets in the creation of long-term value.

Incidentally, these SPVs have one other advantage: since they are private sector, they do not have to grind through the bureaucracy of OJEU procurement procedures in order to appoint their consultants and suppliers. A profound relief.

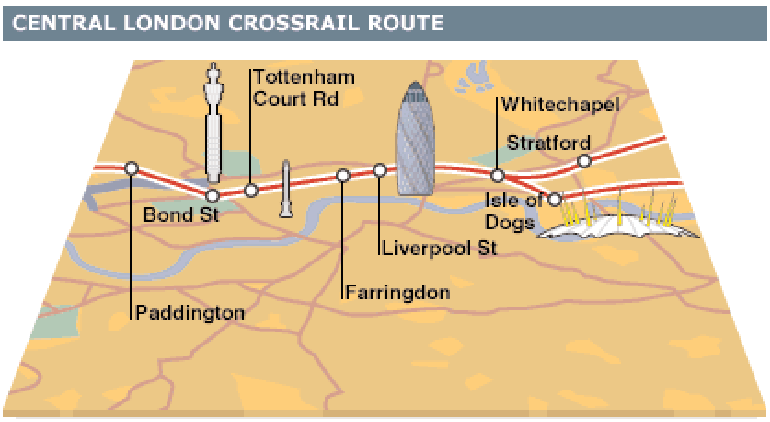
# A *faux pas* by Boris

## Premature attempts to collect contributions for Crossrail have earned Boris the permanent distrust of the commercial property market.

**And while we're on the subject** of planning gain, it seems absurd at this moment that the Conservative Mayor, should be blind to the adverse effects of trying to extract a paltry £200m towards the £15bn cost of Crossrail through a special levy at a point when virtually all development, apart perhaps from student housing, is no longer viable.

This is a *faux pas* by Boris whose advisers appear to have got him in a hole which it is now too difficult or embarrassing to extract him, hence, presumably, the Mayor's acceptance of paltry sums from those afflicted instead of the £19.80 a sq ft for every extra square foot of office space consented he is seeking.

Rather than earning the permanent distrust of the commercial property market, Boris would have been wiser to wait until he'd been through the public consultation on the Crossrail levy and then simply added the £200m to whatever public funding raising exercise will be used to pay for Crossrail, as that amount is really neither here nor there on such a big project. But the goodwill of the property industry, we suppose, is a mere trifle compared to the votes that politicians can garner by caning it instead of listening to it.




The more important point is that at a time when the economy needs people to invest in new projects, developers are being discouraged at precisely the most painful point of the cycle from doing that. And they are – ludicrously - having to pay empty rates on buildings that no-one wants, whilst seeking to renegotiate S106 agreements which as we point out above are just not viable.

Croydon may be innovating, but plus ça change in other areas of the public sector it would seem.

*Image © BBC*