BACTON LOW RISE REDEVELOPMENT

Phase 2 MMA Financial Viability Report

NOVEMBER 2016

Incorporating

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Executive Summary

1. This report details the financial viability of the Minor Material Amendment (MMA) that has been submitted for the Bacton Low Rise (BLR) Redevelopment Scheme on behalf of London Borough of Camden (LBC).
2. The document provides a summary of outputs of the viability appraisal and the overall conclusion of the assessment.
3. The basis of the development viability appraisal is:
    - 196 Market Sale units
    - 107 Social Rent units
    - 11 Intermediate units
    - CIL and S106 Contributions
    - Other industry standard inputs and assumptions
4. The appraisals evidence that based on present day costs and current values, the delivery of 107 social rent units and 11 Intermediate units exceeds the maximum reasonable contribution to Affordable Housing the scheme can support in accordance with national, regional and local policy
5. Based on today's current costs and values, the proposed Scheme's Financial Position with No Inflation generates a loss, this reflects a challenging scheme viability.
6. Based on LBC's Community Investment Programme (CIP) guidance, the Scheme's Financial Position with Inflation generates a surplus.
7. Notwithstanding this, the applicant has confirmed that they are willing to accept a mechanism within the S106, which would trigger an additional Affordable Housing Contribution subject to future scheme viability.
8. In order to deliver the scheme, LBC requires the scheme to fund itself through the cross subsidisation of the affordable units through the provision of private sale units.
9. In order to demonstrate that the maximum amount of additional AH is currently being proposed, a separate residual land value (RLV) model has been prepared to test whether additional AH could be delivered by adopting a 'typical' developer's approach.
10. A typical developer's approach tests whether a scheme can deliver a 'competitive' land value to a reasonable land owner whilst also ensuring a 'competitive' return to a reasonable developer.
11. Based on this approach the current scheme results in a negative RLV before finance costs.
12. The typical developer approach highlights that the scheme would be significantly more unviable if it were to be undertaken by a reasonable developer and that the current level of AH proposed by LBC is the maximum that can reasonably be achieved.
13. LBC is a Borough Council that is not commercially driven and therefore not considered a typical developer that would require both a 'competitive return' as a land owner and as a developer.
14. It is because of this that LBC would still be willing and able to proceed with the development as submitted, unlike a typical developer.
15. Without the success of this MMA application the BLR scheme would be at risk from a viability perspective.

1 Introduction

This viability report seeks to demonstrate that the maximum amount of Affordable Housing achievable on site is being proposed by LBC.

The report should be read in conjunction with the rest of the MMA application documentation, in particular the Design and Access Statement submitted by Karakusevic Carson Architects (KCA) and the Planning Statement submitted by Quod. These documents detail the planning policies relevant to the scheme and how the scheme complies with those policies. Further detailed explanation is given on the evolution of the design, throughout the various public consultation exercises, to reach the submitted scheme.

1.1 History of the Scheme

The regeneration of BLR began in May 2012 and seeks to bring social and economic betterment to the Gospel Oak area and the LBC.

- The principle aim of the proposed development is to provide significantly enhanced replacement properties for existing tenants of the estate.
- Along with the reprovision of existing tenants, another key principle is to ensure that there is a clear and coherent community spirit within the scheme whilst ensuring minimal disruption to the existing resident's through a single decant strategy.
- LBC seeks to meet housing targets by the provision of additional housing units that are high quality and of a variety of sizes and tenures.
- The demolition of the BLR site results in the loss of 99 existing residential units. Other buildings being demolished include the District Housing Office (DHO), which contains 16 employment units.
- The consented scheme provides 8 additional social units on top of the 99 existing units, totalling 107 social rent units. The scheme also provides an additional 10 intermediate units and 177 market units, resulting in a total of 294 units for the scheme.
- The planning permission was first granted for the development in April 2013 and the original application reference is '2012/6338/P'.
- An MMA application for the removal and replacement of four trees on Vicar Road was approved in March 2015, the planning application reference '2015/1189/P'.
- Another MMA application was submitted for four additional residential units for Phase 1, which was approved in March 2016, the planning application reference is '2014/3633/P'.

1.2 Subject Application

The proposed MMA application that this report is submitted with, seeks the following amendments:

- To provide 20 additional residential units (19 market and 1 intermediate units).
- To reconfigure the employment floor space.
- To deliver the outstanding parts of the development as a single phase, various external alterations and reconfigurations.
- To revise the on-site car parking provision and the amount of cycle storage as well as any associated works.

2 Scheme Details

2.1 Accommodation Schedule

Detailed below is a breakdown of the scheme's accommodation schedule including the additional 20 MMA application units.

2.1.1 Number of Units

2.1.1.1 Detailed Proposed Private Accommodation Schedule

	1B2P Apartment	2B3P Apartment	2B4P Apartment	3B4P Apartment	3B5P/6P Apartment	1B2P Duplex	2B4P Duplex	4B6P/7P Duplex	2B4P House	3B4P/5P Houses	4B5P/6P House	4B8P House	Total
Phase 1	7	0	11	0	1	0	0	0	1	0	0	0	20
Phase 2	37	2	30	0	11	1	1	0	0	3	0	4	89
Phase 3	42	10	24	0	1	0	0	0	0	8	0	2	87
Total	**86**	**12**	**65**	**0**	**13**	**1**	**1**	**0**	**1**	**11**	**0**	**6**	**196**

2.1.1.2 Net Detailed Proposed Social Rent Accommodation

	1B2P Apartment	2B3P Apartment	2B4P Apartment	3B4P Apartment	3B5P/6P Apartment	1B2P Duplex	2B4P Duplex	4B6P/7P Duplex	2B4P House	3B4P/5P Houses	4B5P/6P House	4B8P House	Total
Phase 1	2	9	11	0	0	0	5	13	0	2	4	0	46
Phase 2	15	6	11	1	2	0	0	0	0	12	4	0	51
Phase 3	2	2	0	0	0	0	0	0	4	2	0	0	10
Total	**19**	**17**	**22**	**1**	**2**	**0**	**5**	**13**	**4**	**16**	**8**	**0**	**107**

2.1.1.3 Detailed Proposed Intermediate Accommodation

	1B2P Apartment	2B3P Apartment	2B4P Apartment	3B4P Apartment	3B5P/6P Apartment	1B2P Duplex	2B4P Duplex	4B6P/7P Duplex	2B4P House	3B4P/5P Houses	4B5P/6P House	4B8P House	Total
Phase 1	1	0	0	0	0	0	0	0	0	0	0	0	1
Phase 2	0	0	10	0	0	0	10	0	0	0	0	0	10
Phase 3	0	0	0	0	0	0	0	0	0	0	0	0	0
Total	**0**	**0**	**10**	**0**	**0**	**0**	**10**	**0**	**0**	**0**	**0**	**0**	**11**

2.1.1.4 Proposed Scheme Tenure Summary

Tenure	Nr. Of Units	%	GIA m2	%
Private Sale	196	62%	19,536	58%
Intermediate	11	4%	1,260	4%
Social Rent	107	34%	12,696	38%
Total	**314**	**100%**	**33,491**	**100%**

3 Different Redevelopment Approaches

Currently the scheme is to be delivered with LBC acting as developer. Due to accounting treatments and requirements relating to the Housing Revenue Account, the Council's financial model differs from that of a typical developer.

In order to demonstrate that the Affordable Housing delivery is being maximised by the Council acting as developer, rather than a typical developer, a viability exercise has been undertaken on the scheme from both a Council's perspective and a typical developer's.

Detailed below is a breakdown of the differences in approach between a typical private developer and the Council.

3.1 Income Approach

Item	Council's model input	Typical developer's approach
Private Sale Income	Open Market Value of Private Dwellings based on Savills Values.	No differences.
Social Rent Revenue	No Capital Receipts are included, the council do no capitalise future revenue streams.	A capitalised value is included based on a typical Registered Provider offer price.
Intermediate Revenue	A percentage of private sale income.	No differences.
HCA Grant	HCA has granted a sum for each unit in Phase 1.	No differences.
Non-Residential Income	Non-Residential Income is excluded; the council has not yet decided on the occupancy of the non-residential area.	A capitalised value is included based on a rental value and yield.
Ground Rents	No ground rent values capitalised as LBC retain the freehold of their stock.	Ground rents are capitalised and sold off at completion.

3.2 Expenditure Approach

Item	Council's model input	Typical developer's approach
All-in-Build Cost (all tenures, non-residential and other build costs)	Build costs are included based on Arcadis cost plan for the scheme.	No differences.
Build Cost Contingency	A percentage has been applied to build costs in regards to LBC's Guidance.	A percentage has been applied to build costs in regards to a typical developer's own contingency profiling.
Community Investment Costs	These costs are provided by Quod.	No differences.
Decanting/Disturbance Costs and Buy-outs	These costs are included and were advised by Developing Projects.	No differences.

Statutory Costs	The costs included were advised by Quod.	No differences.
Sales and Marketing Fees	A percentage has been applied to the Private Sales and Intermediate Income for show homes, sales agent's fees, marketing costs etc.	No differences.
Professional Fees	A percentage based sum is included on the residential build cost excluding demolition to reflect the further professional input required to deliver the scheme.	No differences.
Developer's Margin	No margin is included.	A percentage of developer's margin is applied to each tenure.
Development Management Fee	A percentage based sum is included on the private sale and car parking values.	No differences.
Finance Costs	The Council does not allocate a project cost in respect of funding work in progress; therefore no finance cost is included.	A finance cost is included based on a typical 50/50 debt/equity split and an achievable cost of finance.
SDLT	The Council pays no SDLT as it is already the landowner.	The developer would pay SDLT on any land purchase.

3.3 Model Output Approach

	Council's Model Output	Typical developer's approach
Output	The model output represents the position after all revenue, expenditure and Council's contributions. A position of zero or better indicates viability.	The model output represents the position after all revenue, expenditure and developer's profit but not land cost. The output is therefore the residual land value which would need to be acceptable to the Council (or any reasonable landowner) in respect of its current land interests in order for the scheme to be viable.

4 Development Appraisal Inputs

4.1 Income Items Summary

Item	Council's model input	Typical developer's approach
Private Sale Income	The sale of 196 Private Sale units are based on Savills Valuation.	No differences
Social Rent Revenue	No Capital Receipts are included, the LBC do no capitalise future revenue streams.	The sale of 107 social rent units at an average of £ per ft2.
Intermediate Revenue	The sale of 11 intermediate units at an average of £ per ft2, calculated by applying a percentage to the OMV.	No differences.
HCA Grant Investment	A grant has been approved for all affordable units in Phase 1 only.	No differences.
Non-Residential Income	No Income.	No differences
Ground Rents	No ground rent values capitalised as Camden retain the freehold of their stock.	A yield is applied to the rent per annum on each unit and less purchaser's costs and vendor's costs on private sale apartments only.

4.2 Expenditure Items Summary

Item	Council's model input	Typical developer's approach
All-in-Build Cost (all tenures, non-residential and other build costs)	The base build costs applies a £ per m2 rate on a GIA basis.	No differences
Contingency	A percentage has been applied to the build cost to reflect the risk of the scheme.	No differences
Financial S106 Contributions	A sum for S106 Contributions is calculated based on Quod's advice.	No differences
Decanting/Disturbance Costs and Buy-outs	Confidential	No differences.
Statutory Costs	A sum for Statuory Cost is calculated based on Quod's advice.	No differences.
Sales and Marketing Fees	A percentage has been applied to Private Sales and Intermediate income.	No differences.

Professional Fees	A percentage applied to all-in residential build costs exc. Demolition.	No differences.
Developer’s Margin	No margin is included.	A percentage of Developer’s Margin is applied to private sales.
Development Management Fee	A percentage applied to the private sales and car parking values.	No differences.
Finance Costs	No finance included	A Fixed Annual Rate (%) applied.
SDLT	The Council pays no SDLT, as it is already the landowner.	A percentage of SDLT applied on any positive land value.

4.3 Model Output Summary

The full model's output summary has not been provided as they contain commercially sensitive information.

4.3.1 Scheme's Financial Position with No Inflation

The Scheme's Financial Position with No Inflation produce a loss under the council's modelling approach and a typical developer's approach.

4.3.2 Scheme's Financial Position with Inflation

The Scheme's Financial Position with Inflation excluding finance costs produce a surplus under both Modelling Approaches.

The Typical Developer's Approach including finance and inflation generates a loss.

NOTE – The inflation assumptions follow Camden's Community Investment Programme (CIP) guidance.

NOTE – Phase 2 and 3 are being inflated in the financial model from Q4 2016 onwards. Phase 1 omits inflation.

4.3.2.1 Inflation Assumptions

Inflation Assumptions	Approach
Income	Inflation has been applied as per Savills' Inflation advice.
Build Costs	Inflation has been applied as per BCIS All-in-TPI indices.
Decanting / Disturbance Costs and Buy-outs	Inflation has been applied as per RPI.
Statutory Costs	Inflation has been applied as per RPI

5 Development Appraisal Position

These appraisals contain commercially sensitive information; therefore has not been included in this report.

5.1 Council's Financial Model – Financial Position with No Inflation

5.2 Council's Financial Model – Financial Position with Inflation

5.3 Developer's Financial Model – Financial Position with No Inflation

5.4 Developer's Financial Model – Financial Position with Inflation

6 Conclusion

- Based on the above, this report demonstrates that a typical developer would be unable to provide the same level of AH as LCB whilst also providing a competitive return to both the land owner and developer.
- Due to LBC's position as a Borough Council they are not considered a typical developer that would require both a 'competitive return' as a land owner and developer. It is because of this that LBC would be willing and able to proceed with the development as submitted thus maximising the level of Affordable Housing being provided on site.
- LBC is seeking to improve their existing assets through the provision of AH. In order to deliver the scheme, LBC requires the scheme to fund itself through the cross subsidisation of the affordable units through the provision of private sale units.
- The current permitted scheme is unviable and the inclusion of the additional 20 residential units as part of this MMA application will help to improve viability for LBC.
- We have not included a review of Benchmark Land Value as the scheme is clearly unviable from a typical developer perspective.

APPENDICES

The appendices shows the figures used in the development appraisal, such as Market Sale Pricing Schedule, Construction Cost Summary, Inflation Assumptions and Statutory Costs.

The figures and data supplied contain commercially sensitive information therefore cannot be provided in this report.

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