Maitland Park Estate, London, NW3
Financial Viability Assessment

London Borough of Camden

February 2020

Beacon Partnership

Camden

Limitation

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1. EXECUTIVE SUMMARY

1.1. The council regeneration team will be submitting an MMA for Maitland Park Estate, which will amend the extant planning permission to provide an addition 7 dwellings (119 in total) and a TRA hall. The proposed amendments to the scheme would provide 43% affordable housing based on units (46% in terms of NIA) in the form of 100% social rent.

1.2. This report considers two viability approaches: 1) Standard developer approach; 2) Council approach.

1.3. The following table summarises the viability position:

	Standard Developer Approach to Viability	Council Approach to Viability
TOTAL GDV	**£49,183,518**	**£45,910,000**
TOTAL COST & PROFIT	**£59,514,633**	**£46,813,430**
SURPLUS DEFICIT	**-£10,331,115**	**-£903,430**

1.4. This report concludes that this level and type of proposed affordable housing is only viable based on the Councils approach to viability and that 43% is the maximum level based on the assumptions made.

2. Introduction

2.1. Beacon Partnership LLP have been asked to undertake a Financial Viability Assessment (as part of their financial modelling service to Camden) to support a Minor Material Amendment application that seeks changes to an extant permission (ref 14/5840/P as amended by 15/6696/P) for the redevelopment of two sites within the Maitland Park Estate, NW3.

2.2. This report assesses and considers the financial viability of the proposed development and seeks to demonstrate the maximum level of affordable housing that can be provided as part of the development.

2.3. This assessment approaches viability from the perspective of both a standard developer and the approach of Camden Council. The differences of approach are outlined in the methodology section.

2.4. Planning History

2.5. The following gives a summary of the recent planning history of this scheme:

- A planning application (ref: 2014/5840/P) for the redevelopment of Maitland Park Estate to provide "112 residential units and a replacement Tenants and Residents Association hall across two sites with associated multi-use games area, landscape and associated works following demolition of Aspen House, gymnasium and garages at Maitland Park Villas and TRA Hall and garages on Grafton Terrace" was granted 31 March 2015.

- This principal application was subsequently amended by the S73 application (ref: 2015/6696/P) granted 14 April 2016 to allow for the earlier completion of the multi-use games area ('MUGA') and for pre-commencement details to be submitted, in some cases, after site clearance and preparation, relocation of services, utilities and public infrastructure and demolition.

2.6. Proposed MMA Application

2.7. An MMA application is being submitted to vary the schedule of units to the following:

Aspen Court - Social Rent

Unit Type	NIA	No. of Unit
1 Bed 2 Person Flat	51.1	4
1 Bed 2 Person Flat	50.6	4
1 Bed 2 Person Flat	50.6	4
1 Bed 2 Person Flat	53.7	1
2 Bed 4 Person Flat	73.7	8
2 Bed 4 Person Flat	75.0	2
2 Bed 3 Person WC Flat	75.8	2
2 Bed 4 Person Flat	76.0	8
2 Bed 4 Person Flat	77.8	8
2 Bed 4 Person Flat	86.0	1
2 Bed 4 Person WC Flat	86.7	1
2 Bed 4 Person Flat	92.6	2
3 Bed 5 Person Flat	92.1	6
Total		**51**

Aspen Villas - Private

Unit Type	NIA	No. of Unit
1 Bed 2 Person Flat	50.6	10
1 Bed 2 Person Flat	50.7	10
2 Bed 2 Person Flat	50.6	2
2 Bed 4 Person Flat	75.3	5
2 Bed 4 Person Flat	75.3	8
2 Bed 4 Person - Adapt	75.3	4
Total		**39**

Grafton Terrace - Private

Unit Type	NIA	No. of Unit
1 Bed 2 Person Flat	50.4	4
1 Bed 2 Person Flat	53.3	1
1 Bed 2 Person Flat	56.2	1
1 Bed 2 Person Flat	50.6	2
2 Bed 3 Person	68.4	3
2 Bed 4 Person Flat	71.5	1
2 Bed 3 Person WC Flat	71.6	2
2 Bed 4 Person Flat	71.6	1
2 Bed 4 Person Flat	71.6	1
2 Bed 4 Person Flat	71.8	2
2 Bed 4 Person Flat	72.6	2
2 Bed 4 Person Flat	73.4	1
2 Bed 4 Person Flat	73.8	2
2 Bed 4 Person Flat	74.3	2
2 Bed 4 Person Flat	75.1	1
3 Bed 5 Person Flat	89.1	2
4 Bed 6 Person House	138.4	1
Total		**29**

2.8. The scheme currently provides 43% affordable housing based on units (46% in terms of NIA) – all in the form of social rent.

2.9. The development also includes the provision of a 3,325 sqft (309 sqm) TRA hall (GIA).

2. Methodology

2.1. The financial viability assessment is a tool used by developers and local authorities to determine the level of affordable housing and other contributions which can be reasonably and viably provided by a development.

2.2. The assessment of viability is the residual approach which uses the following calculation:

Gross Development Value	Minus	Total Costs	Equals	Residual Land Value	Compared to	Benchmark Land Value
Residential Sales Values		Build Costs				Existing Use Land Value
Commercial Sales Values		Professional Fees				Land Owner Premium
Capitalised Affordable Values		Community Infrastructure Levy				
Ground Rents		Sales & Marketing				
Public Subsidy		Cost of Finance				
		Contingency				
		Developer's Profit				

2.3. This approach takes the Gross Development Value (GDV) of a site and deducts the total scheme costs along with profit to establish the Residual Land Value (RLV). This value is then compared against a Benchmark Land Value - the value of the land plus premium. If the value of the Residual Land Value is higher than the Benchmark Land Value, then the level of contribution will be viable.

2.4. The Residual Land Value for this scheme site has been calculated using the Optimix Development Appraisal Toolkit. Optimix is an Excel-based financial viability toolkit, developed by Beacon Partnership LLP, which is used by several Housing Associations and Local Authorities.

2.5. We have not used a benchmark land value in this assessment due to the outcomes that the model currently produces.

2.6. As identified in the introduction, this assessment will approach viability from both a standard developer approach and the approach of Camden Council. The following table outlines the difference of approach:

		Standard Developer Approach to Viability	Council Approach to Viability
Income	Sale Income	Open Market Values.	Included.
	Social Rent – Capitalised Value	Based on discounted cash-flow approach.	Not included.
	Intermediate – Capitalised Values	Based on discounted cash-flow approach and capped based on cost to value.	Based on a set cost per unit.

	Non-residential Income	Based on a rental yield of rental income.	Not included for community use but included for commercial.
	Ground Rents	Based on discounted cash-flow approach.	Not included.
	Grant Funding	Not included.	Included.
Costs & Expense	Land Value	Residual land value as an output.	Not included.
	SDLT	Included in residual land value calculation.	Not included.
	Leaseholder Buyback Costs	Included as an enabling cost.	Included.
	Decant Costs	Included as an enabling cost.	Included.
	Build Costs	Included.	Included
	Professional Fees	Included.	Included.
	Community Infrastructure / Section 106	Included.	Included.
	Sales & Marketing Fees	Included.	Included.
	Contingency	Included in build cost.	Included in build cost.
	Development Allowance (Capitalised Salaries)	Not included.	Included.
	VAT	Included.	Not included.
	Finance Cost	Included.	Not included.
	Outputs	Residual Land Value <> Benchmark Land Value	Surplus / Deficit

3. Gross Development Value Assumptions

3.1. This section of the report outlines the assumptions that have been used to calculate the Gross Development Value.

3.2. The National Practical Planning Guidance states:

Gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary. (Paragraph: 021 Reference ID: 10-021-20140306)

3.3. The following table gives an overview of the Gross Development Values:

	Standard Developer Approach to Viability	**Council Approach to Viability**
Residential Sales Values	£40,810,000	£40,810,000
Capitalised Ground Rents	£218,700	£0
TRA Hall	£930,000	£0
Capitalised Value of Affordable Housing	£7,224,818	£0
Public Subsidy	£0	£5,100,000
TOTAL	**£49,183,518**	**£45,910,000**

3.4. **Residential Sales Values**

3.4.1. A formal red book valuation has been undertaken and provided a range of values used in this modelling and the total capital value for the 68 private residential units is £40,810,000.

3.5. **Ground Rents**

3.5.1. Where we are making an assessment of ground rents on the private residential sales, we have assumed the following:

- 1 Bed Flats: £150 per annum
- 2 Bed Flats: £250 per annum
- 3 Bed Flats: £350 per annum

3.5.2. The ground rents have been capitalised at 6% over a 45-year period.

3.5.3. The capitalised value of the ground rents is £218,700.

3.5.4. Ground rents have not been included within the council approach to viability, as these will not be charged by the council.

3.6. **Community TRA Hall**

3.6.1. The TRA hall has been valued at £930,000.

3.6.2. The TRA hall has not been included in the council approach to viability, as this will be an asset for community use.

3.7. **Capitalised Value of Affordable Housing**

3.7.1. The affordable units will all be for rent. For the purpose of the council approach to viability this will be social (target rent) and the capitalised value has not been included due to the council not capitalising the value of the affordable units.

3.7.2. For the standard developer approach we have capitalised the value of the rents and modelled this on the basis of London Affordable Rents (projected to April 2021). The rents are as follows (excluding service charge):

- 1 Bed Flat: £164.58
- 2 Bed Flat: £174.24
- 3 Bed Flat: £183.93

3.7.3. In order to calculate the capitalised value of the affordable rented units the following assumptions have been used:

- Discount Rate: 6%
- Discount Period: 45-years
- Service Charge: £20 per week
- Rent Inflation: 3%
- Management Cost: £500 per unit per annum
- Management Cost Inflation: 2.5%
- Maintenance Cost: £700 per unit per annum
- Maintenance Cost Inflation: 2.5%
- Sinking Fund: 0.8% of Rebuild Costs based on £2,330 sqm starting in year 6
- Sinking Fund Inflation: 2.5%
- Voids & Bad Debt: 3%

3.7.4. The capitalised value of the rented units is £7,224,818.

3.8. **Public Subsidy**

3.8.1. For the council approach to viability we have assumed public subsidy at £100,000 per unit, which is in line with what we believe current Greater London Authority funding levels are for Local Authorities.

4. Cost & Profit Assumptions

4.1. This section of the report outlines the assumptions that have been used to generate the total cost.

4.2. The National Practical Planning Guidance states:

Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Costs include: build costs; abnormal costs; site-specific infrastructure costs; the total cost of all relevant policy requirements; Community Infrastructure Levy charges; general finance costs; professional; project management; sales; marketing and legal. (Paragraph: 022 Reference ID: 10-022-20140306)

4.3. The following table gives an overview of the cost and profit assumptions:

	Standard Developer Approach to Viability	**Council Approach to Viability**
Leaseholder Buyback / Decant Costs	£1,599,521	£1,599,521
Build Costs	£37,170,000	£37,170,000
Professional Fees	£4,652,343	£6,106,385
Section 106 / CIL	£685,324	£685,324
Sales & Marketing	£1,252,200	£1,252,200
Cost of Finance	£4,691,308	£0
VAT	£1,180,909	£0
Profit	£8,283,028	£0
TOTAL	**£59,514,633**	**£46,813,430**

4.4. **Leaseholder Buyback / Decant Costs**

4.4.1. In order to enable this development there are a number of leaseholders that have needed to be brought out and decants that need to be undertaken. The leaseholder buybacks total to £1,351,866 and the decant costs total to £247,655.

4.5. **Build Costs**

4.5.1. A cost plan has been provided by Arcadis.

4.5.2. The cost plan gives a total construction cost of £37,170,000, which equates to £3,581 sqm.

4.5.3. This cost plan includes :

- Design development contingency (2%)
- Construction contingency (Included in work packages – 4%)
- Inflation of works costs

- Provisional sum for ground conditions

4.6. **Professional Fees**

4.6.1. We have applied professional fees at a rate of 12% of works costs for the standard developer approach to viability, which equates to £4,652,343 – an assumption of non-specific professional fees usually ranges from 10 to 15%.

4.6.2. For the council approach to viability we have included £6,106,385, which includes the council's historic sunk costs and security costs.

4.7. **Section 106 / Community Infrastructure Levy (CIL)**

4.7.1. We have included the existing section 106 commitment of £467,512 and the Mayoral CIL commitment of £217,812 from the original planning application. It should be noted that this is an estimate.

4.8. **Sales & Marketing Fee**

4.8.1. We have applied sales and marketing fees at a rate of 3% of GDV – this is in line with industry standard assumptions.

4.9. **Cost of Finance**

4.9.1. The appraisal toolkit has profiled the costs and incomes from April 2019 to August 2021, with sales profiled at 4 month post practical completion. This generates a capitalised interest figure, based on an interest rate of 6%, of £4,691,308.

4.10. **Contingency**

4.10.1. A contingency has been included in the build cost and within the works packages.

4.11. **Profit**

4.11.1. We have based the profit for the standard developer approach to viability at 17.5% of GDV private sale and community, and 6% of costs on the affordable housing.

5. Residual Land Value / Surplus Deficit

5.1. The table below summarises the Residual Land Value / surplus deficit for both of the approaches.

	Standard Developer Approach to Viability	Council Approach to Viability
TOTAL GDV	**£49,183,518**	**£45,910,000**
TOTAL COST & PROFIT	**£59,514,633**	**£46,813,430**
SURPLUS DEFICIT	**-£10,331,115**	**-£903,430**

5.2. The above table demonstrates that following the standard developer approach to viability the scheme would be considered unviable. A developer would look to reduce the affordable housing element of the scheme and readjust the affordable housing mix to provide a portion of intermediate housing.

5.3. Our modelling indicates that at 35% affordable housing and a 60/40 split in terms of London Affordable Rent and Shared Ownership (25 rented units and 16 intermediate units) would bring the scheme closer to becoming viable.

5.4. It should be noted that 36 social rented units were demolished in order to enable this development, and therefore a minimum of 36 social rented units would need to be provided – a viable developer approach would not provide these units.

5.5. The above table demonstrates that following the council approach to viability the scheme is almost viable. The council is also able to use reserves to bridge any viability gap.

5.6. Therefore we would deem that the scheme is achieving the maximum level of affordable housing.

ABOUT BEACON PARTNERSHIP LLP

Beacon is a housing, development and regeneration consultancy that offers a wide range of products and services to Housing Associations, Local Authorities and developers.

We have extensive knowledge and experience in the development, regeneration and affordable housing sector.

Our services cover the entire development process and can start from the early conceptual stage through to post-completion.

Our products include a number of Excel-based, Development Financial Viability toolkits and we also build bespoke toolkits for our clients.

Our development services include:

- Development of Bespoke Viability Toolkits
- Financial Viability Modelling, Analysis and Review
- Independent Financial Viability Assessments
- Development and Regeneration Support
- Interim Development Placements from Project Officer through to Strategic Director
- Strategies, Policies & Procedures
- Research, Bids, and Training
- HCA / GLA Pre-Audit Assessments
- Fire Safety Strategy, Fire Safety Processes, and Fire risk Assessments

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