CONFIDENTIAL

Affordable
Housing
Solutions

115-119
GOLDHURST TERRACE
LB CAMDEN

Financial Viability Report

August 2017

Confidentiality statement

This indicative report is strictly confidential to the Applicant.

It contains commercially sensitive information.

Accordingly, this report should not be disclosed (in whole or in part) to any person, or used for any purpose, unless consent to such disclosure or such use has been given by the Applicant.

Contents

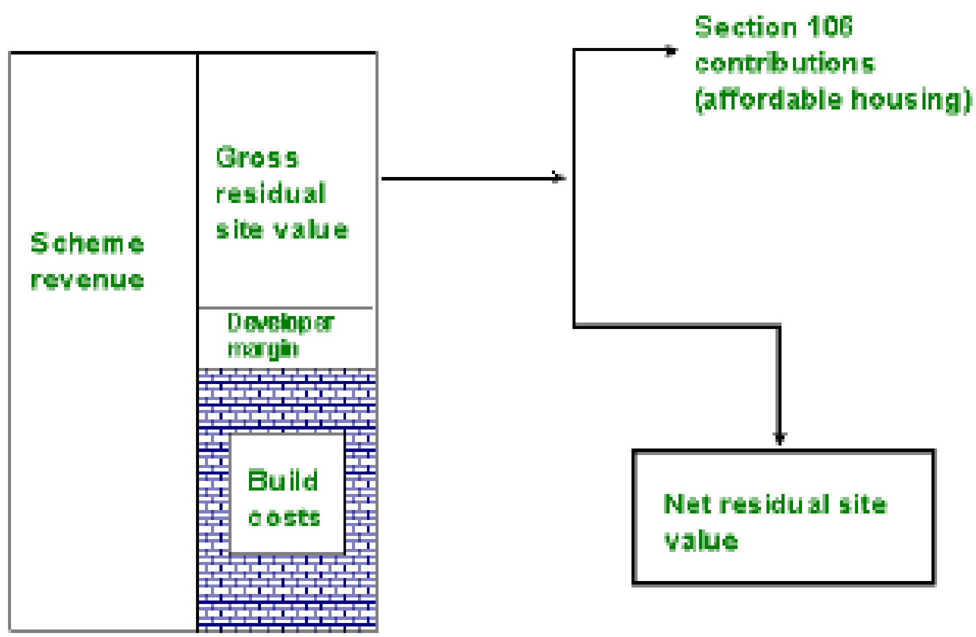
1.0 Introduction.

1.1 Affordable Housing Solutions, (AHS), have been appointed by the Applicant to advise in relation to the affordable housing obligations that can be supported by the proposed redevelopment of the site at 115-119 Goldhurst Terrace LB Camden.

1.2 This explanatory report and the accompanying economic viability assessment, both contain confidential and commercially sensitive information.

1.3 The Proposed Scheme has been appraised employing industry standard GLA Development Control Toolkit software. We understand that this model is acceptable to Camden Council for the purposes of determining the maximum viable quantum of affordable housing that can be supported with regard to proposed scheme, (as well as the maximum s106 contributions), and is, therefore, appropriate for purpose in relation to the subject project.

1.4 The purpose of the report is to provide an easily understandable and detailed review of the cost and revenue implications of the Proposed Scheme which drives the financial viability model. Our intention is to offer full transparency as regards the ability of the project to subsidise affordable housing and other S106 linked obligations generally. The net residual valuation can be expressed as a simple table:



1.5 The financial viability model is founded on the calculation of a net residual land value for the proposed development. Residual valuation is a frequently used method for appraising the financial viability of development schemes, whether new developments, or refurbishment of existing buildings.

1.6 The residual land value (RV) is then compared with a benchmark against which the viability of the scheme can be appraised. In this regard, the comparator should normally be the Existing Use Value of the site plus a suitable land owner's premium (EUV Plus); suitable Alternative Use Values, (AUV), and the Site Value (SV; RICS Viability in Planning).

1.7 The submitted viability assessment identifies the returns for developers and landowner generated by the Proposed Scheme, and provides information to consider whether such returns are competitive in comparison to alternative options, which might include:

- Retention of the site;
- Sale of the sites for on-going existing uses
- Alternative development proposals.

1.8 For current purposes we have employed the Existing Use Value as a suitable viability benchmark, however, we reserve the right to introduce amended or new, viability benchmarks in due course.

1.9 On a project specific basis, the indicative financial viability model, (attached as ***Appendix 1***), demonstrates that the Proposed Scheme cannot support any affordable housing obligations.

2.0 The Proposed Scheme

2.1 The Applicant's intention is to seek a planning consent for redevelopment of the subject site to deliver a residential scheme comprising 11 new homes (C3).

2.2 The existing scheme extends from ground floor to third floor but the proposed scheme extends from basement to third floor.

2.3 It should be noted that there is an existing building on site providing 6 flats. The proposed scheme therefore provides an additional 5 units of residential accommodation. The additional net internal floor space is 6,431sf or 597sm.

3.0 Appraisal Inputs: Proposed Scheme Revenues

3.1 Private Residential Sales Values

The current open market private sales values have been assessed by Carter Jonas. In their professional judgement the private residential element is valued at £10.06m on the basis of a wholly market sale tenure of all 11 new homes. This represents an average market residential value of £938psf NIA. The total proposed residential floor area 10,721sf or 996sm NIA. The Carter Jonas pricing schedule is attached as part of their report at ***Appendix 2***.

3.2 Residential Ground Rents

The ground rents for the market sale residential units have been assessed by Carter Jonas at £400 per unit per annum. The total annual rent has been capitalised at a yield of 4%, in keeping with current market condition. The gross capital value being £110k before purchasers' costs are applied.

3.3 Proposed Affordable Housing Content

No affordable content is proposed as the scheme does not support it.

4.0 Appraisal inputs: Proposed Scheme Costs

4.1 Construction Costs

The construction costs for the Proposed Scheme have been assessed at £4.699m by the project's cost consultants, Trogal Griffin Associates. The Cost Plan for the Proposed Scheme is attached as ***Appendix 3***. The Cost Plan reflects 2017 Q3 costs, and includes a design & Build risk of 2.5% and a contingency of 5%. For the purposes of this appraisal we have reduced the risk to a contingency of 5% and a total build cost of £4.59m.

4.2 Professional Fees

The professional fees have been inputted at 10% of build costs. This is below the default level and we reserve our position to come back on this assumption.

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4.3 Interest Rate

An interest rate at 6.75% has been employed within the viability assessment model. This is also in keeping with the GLA Development Control Toolkit default, and market development interest rates generally. For current purposes we have assumed that this includes arrangement, bank monitoring, and exit fees.

4.4 Land Financing Costs
Land financing costs have been included in line with normal practice over the development period.

4.5 CIL Contributions and Other City Council Costs
The CIL contributions have been assessed at £230k, with the Borough CIL at £209,091 and the Mayoral CIL at £20,909. CIL has been applied to the net increase in floor area on the basis of GLA and Camden Council's policy compliant current rates.

We have not been made aware of any s106 contributions that would apply so these are currently excluded but if any requests are made by the Council these will need to be incorporated into the appraisal.

4.6 Developer's profit
We have applied a profit of 17% of the market sale residential value of the Proposed Scheme. This is lower than the Toolkit default of 20%. It should be noted that many banks and providers of development debt finance currently require a developer's profit to be somewhat higher; normally in the region of 20% to 25% of GDV, in order to secure competitive interests rate commensurate with that assumed within this attached viability model. Once funder's requirements are known we may need to revisit this assumption.

4.7 Purchasers' costs
Costs incurred in the site purchase of 5.8% of the benchmark have been included in this field.

4.8 Marketing and Disposal
We have assumed the industry norms of 3.0% of capital value. This is consistent with the Toolkit default values.

5.0 Viability Assessment Benchmark

5.1 The Existing Use Value of the subject site has been assessed by Carter Jonas at £3.06m. The relevant Valuation Report is attached as ***Appendix 2.***

5.2 In "Ensuring viability and deliverability" the NPPF (para 173) states that:

> *"to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to*

<u>a willing land owner</u> and willing developer to enable the development to be deliverable".
(our underline emphasis)

5.3 The EUV Plus benchmarks is longstanding, and has been accepted and endorsed by the LPAs we have worked with over the past 14 years. Indeed, we note that the publications 'Viability Testing Local Plans Advice for planning practitioners Local Housing Delivery Group Chaired by Sir John Harman (June 2012) is wholly supportive of our approach. It states that:

'*We recommend that the Threshold Land Value is based on a premium over current use values and credible alternative use values'*

5.4 The existing use value of a site (EUV) is the value of the site in its existing use and condition. The EUV Plus is therefore considered according to the current planning land use designation, and disregards any development potential. Within this context it is accepted that EUV is founded on the assumption that the landowner is seeking to optimise the value of the existing use.

5.5 There is a well-established and accepted precedent from Planning Appeals and the Core Strategy examination processes for assessing viability on the basis of an 'EUV Plus' approach, where the return to land owner can be defined and deemed either acceptable or unacceptable .

5.6 The 'EUV Plus' approach has also been endorsed by the Local Housing Delivery Group, established in 2011, to respond to the Government's challenge to boost the delivery of new homes, and to help local authorities and developers find agreed ways in which they can fulfil their obligations under the new National Planning Policy Framework.

5.7 Furthermore, various Planning Appeal decisions have referenced existing use value and provided guidance on the extent to which the residual land value should exceed existing use value to be considered viable:

– <u>Barnet & Chase Farm:</u> "the appropriate test is that the value generated by the scheme should exceed the value of the site in its current use. The logic is that, if the converse were the case, then sites would not come forward for development" (APP/Q5300/A/07/2043798/NWF)

– <u>Bath Road, Bristol:</u> "The difference between the RLV [residual land value] and the existing site value provides a basis for ascertaining the viability of contributing towards affordable housing." (APP/P0119/A/08/2069226)

– Beckenham: "without an affordable housing contribution, the scheme will only yield less than 12% above the existing use value, 8% below the generally accepted margin necessary to induce such development to proceed." (i.e. a premium of 20%) (APP/G5180/A/08/2084559)

– Oxford Street, Woodstock: "The main parties' valuations of the current existing value of the land are not dissimilar but the Appellant has sought to add a 10% premium. Though the site is owned by the Appellants it must be assumed, for valuation purposes, that the land is being acquired now. It is unreasonable to assume that an existing owner and user of the land would not require a premium over the actual value of the land to offset inconvenience and assist with relocation. The Appellants addition of the 10% premium is not unreasonable in these circumstances." (APP/D3125/A/09/2104658)

5.8 The 'EUV Plus' approach incentivises a land owner to release their site for development, although the level of the premium will depend on site specific circumstances. The 'EUV Plus' approach enables a comparison of the potential scheme value with what is there now from the land owners' point of view.

5.9 The premium added to the existing use will vary depending on the circumstances that pertain to the site. Normally, the spectrum of premium is between 10% and 30% of the existing use value, and therefore a prudent mid-point position of a 20% premium might be considered reasonable. We have not at this stage fully concluded the quantum of the premium, and therefore we are content for current purposes to consider the benchmark for the Financial Viability Assessment is £3.06m; however, our position is reserved pending further analysis

6.0 Appraisal Outputs

6.1 The indicative financial model attached as ***Appendix 1*** robustly demonstrate that the resulting Residual Land Value (RV) of the Proposed Scheme is £2.55m. In comparison with the Existing Use Value of sites at £3.06m, In this regard it should be noted that a more typical 20% land owner's premium places the benchmark at £3.67m.

6.2 This output clearly demonstrates that the Proposed Scheme is not capable of supporting any affordable housing on-site or contributions.

6.3 Whilst the RV is below the EUV (and clearly no affordable housing can be supported), we understand that the Applicant remains content to proceed on this basis..

7.0 Conclusions

7.1 The Proposed Scheme has been appraised employing recognised residual valuation methodology expressed through industry standard GLA Development Control Toolkit software. We understand that this approach is acceptable to Camden Council for the purposes of determining the maximum viable quantum of affordable housing and is therefore, appropriate for the purpose in relation to the Proposed Scheme.

7.2 The Applicant has employed independent, suitably experienced, and professional consultants to robustly analyse the cost and value implications of the Proposed Scheme and the Existing Use Value, and thus deliver robust data to populate the economic viability assessments.

7.3 The economics of affordable housing provision, as detailed in the attached appraisal model, provide compelling evidence that the Proposed Scheme is not capable of delivering any affordable housing obligations.

7.4 The resulting Residual Land Value (RV) of the Proposed Scheme is £2.55m. A comparison with the Existing Use Value of the site at £3.06m provides no affordable housing contribution. A more typical 20% land owner's premium places the benchmark at £3.67m.; therefore this clearly demonstrates that the Proposed Scheme is not capable of supporting any further obligations without the Proposed Scheme becoming unviable.

7.5 The Applicant has also made provision for a CIL contributions totalling £230k.

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Appendix 4: Affordable Housing Solutions Ltd.

Affordable Housing Solutions (AHS) is a leading, independent, affordable housing and regeneration advisor to developers and land owners. Established in London in 2002, the company has followed the expansion of affordable housing practice and policy across the U.K.

Affordable Housing Solutions is currently delivering services in London and the Home Counties, Bristol and the South West, Manchester and the North West, Yorkshire and the Leeds/Sheffield corridor.

AHS are resourced to engage with the issues attached to large scale mixed use/ mixed tenure regeneration projects, where quality and sustainability are crucial outputs.

We possess a wealth of direct experience of developing large, mixed use, affordable housing projects over the last 20 years. We, therefore, know the affordable housing terrain extremely well. Our ability to bridge private and public sector issues is a central feature of our work.

We have developed sound relationships with a wide range of local authority and major developer partners. Our track record demonstrates our in depth knowledge of how affordable housing policy may be interpreted and implemented to create sound commercial solutions. Key areas of expertise include:

<u>Strategic Regeneration Advice.</u>
AHS identify the implications for the client of project specific affordable housing proposals. At project inception we offer strategic guidance, support, and key information concerning the likely economics of affordable housing provision. This is supported by our extensive valuations database. We are resourced to deliver project management, design, and cost consultancy advice, in order to optimise affordable housing outcomes.

<u>Negotiation and Financial Analysis</u>
AHS interface directly and positively with local authority officers and developers. We have significant in-house financial modelling expertise which we will deploy on behalf of our clients in order to clearly demonstrate the commercial realities of affordable housing provision. We also advise in relation to draft S106 Agreements, and thereby minimise development risk.

Disposal Routes and Purchaser Selection.

AHS implement tailored disposal strategies geared to select the most beneficial choice of Purchaser, which leads to timely and low risk, sales. We consider the long term successful management of affordable housing stock is a key determinant of a successful project outcome.

Our Client List Includes:

Ask Developments Ltd
Axa Real Estates Investment Managers
Ballymore Properties Ltd
Barratt Homes Plc
Beetham Organisation Ltd
British Land Plc
Brookfield Plc
Crest Nicholson Plc
Dandara Ltd
Derwent London
Emaar- MGF Land Private Ltd
Gateway to London
Grosvenor Group Ltd
Hammerson Plc
HDG Mansur Capital Group
Joseph Homes Ltd
Land Securities Plc
London Borough of Barnet
London Borough of Tower Hamlets
London & Regional Properties
European Land and Property Ltd
Redrow Plc
Roxylight Ltd
Sager Group Ltd
Salmon Developments Plc
Schroders Investment Management
Telereal
The Crown Estate
Westfield Shoppingtowns Ltd
Parkridge Developments
Yoo Invest Ltd
Z Homes Ltd