



JONES LANG
LASALLE'

Real value in a changing world

DRAFT REPORT

Land at Wilmer Place

**193-201 Stoke Newington High Street
N16 0LH**

London Borough of Hackney

JLL Assessment of GL Hearn's Financial Viability Assessment for LB Hackney

November 2012

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1 Executive Summary

Jones Lang LaSalle has been appointed to consider a viability assessment prepared by GL Hearn which relates to the proposed development at Wilmer Place, 193-201 Stoke Newington High Street. The proposals are for 68 residential units and a foodstore measuring circa 33,000sqft.

As outlined within LB Hackney's Local Development Framework (LDF) Core Strategy, where 10 or more new residential dwellings are proposed, the Council requires 50% affordable housing provision. Of this, 60% of the units should be allocated as rented tenure and 40% as intermediate tenure.

Of the total 68 dwellings proposed, the applicant is offering a total of 19 affordable housing units. This equates to 28% affordable housing provision by unit number, or 32% by habitable room. Of this provision, 12 units are allocated as Affordable Rent (63%) and 7 units are allocated as shared ownership (37%). It should be further noted that of the 12 rented units, 8 are either three or four bedroom units.

JLL has considered GL Hearn's assessment and the appraisal inputs underpinning the affordable housing offer. Whilst there is a difference of opinion in respect of some of the assumptions made, we consider that on balance, the applicant's affordable housing offer and financial S106 contribution equating to £625,000 is reasonable.

2 Introduction and Policy Context

2.1 Instruction

Jones Lang LaSalle ("JLL"), has been instructed by London Borough of Hackney (the "Council" or "LBH"), to review the viability assessment undertaken by GL Hearn relating to the proposed development associated with the land at Wilmer Place, 193-201 Stoke Newington High Street, N16.

The Council has provided JLL with the Affordable Housing Statement, as well as the Financial Viability Assessment and associated appendices relating to the proposals. Both of these documents were prepared by GL Hearn and are dated June 2012.

JLL undertook a site inspection on 16 October and has considered both of GL Hearn's reports in detail. This includes an assessment of the appraisals and associated inputs to inform our view on whether we consider the affordable housing offer to be reasonable.

2.2 Policy Context

JLL's assessment of GL Hearn's report has been considered within the context of the Council's affordable housing planning policy. The Council's policy is outlined within the following documents:

- Local Development Framework (LDF) Core Strategy (adopted December 2010);
- Affordable Housing Supplementary Planning Document (SPD) (adopted 2005); and
- Interim Planning Position and 'Planning Flexibility' on Affordable Housing Note (July 2011).

These documents set out the Council's objective for sites which are proposing 10 or more residential dwellings to provide 50% affordable housing. Of this provision, 60% of the units should be allocated as rented tenure and 40% as intermediate tenure. Of the affordable rented provision, the Council's aspiration is for at least 42% of the units to comprise 3 or more bedrooms.

Following recent changes to the affordable housing sector and the emergence of the new Affordable Rent tenure, the Council has issued an Interim Policy Note. This stipulates the Council's requirement for 25% of the rented units to be allocated as social rent units and the remaining 75% of the rented dwellings to be allocated as the new Affordable Rent tenure.

In respect of Affordable Rent tenure, national guidance states that the rents associated with these units can be charged at the lower of either the relevant Local Housing Allowance (LHA) cap, or up to 80% of Market Rent. In order to ensure the affordability of the rented units within the borough, the Council is seeking to further restrict the weekly rent charged as follows:

- 1 bedroom units – up to 70% of Market Rent;
- 2 bedroom units – up to 60% of Market Rent; and
- 3 and 4 bedroom units – up to 50% of Market Rent.

The Council acknowledges that the Affordable Housing SPD has been superseded by the policy contained within the Core Strategy and the Interim Policy Note. We understand that work is on-going regarding the updated draft.

3 Assessment Input and Assumptions

3.1 Assessment Methodology

We agree with the overall approach of using Argus Developer to determine the Residual Land Value (RLV), and then assessing this against a 'benchmark value'. This is in accordance with standard viability methodology.

We note that GL Hearn has only appraised the viability of the proposed scenario and have not provided their assessment of a counter-factual scenario (i.e. policy compliant scenario), as defined within the RICS Guidance Note.

3.2 Residential Unit Mix

The proposed scheme comprises a mix of 68 residential units, all of which are flats. A table summarising the proposed unit mix is as follows:

Private Units	No. of Private Units	No. of Affordable Rent Units	No. of Shared Ownership Units	Total
1 bedroom flat	12	1	1	14
2 bedroom flat	27	3	3	33
3 bedroom flat	10	7	3	20
4 bedroom flat		1		1
Total	49	12	7	68

The residential units will be accommodated within two blocks:

- the northern block will accommodate private units only, accessed via a single core; and
- the southern block will accommodate a mix of rented, shared ownership and private units.

It is currently proposed that eleven of the twelve Affordable Rent units will be accessed via a single core and be situated on the first and second floor. A second core will provide access to the shared ownership units which will be situated on the third floor, with private units on the fourth and fifth floor.

A twelfth rented unit will be accommodated above the retail unit and accessed from Stoke Newington High Street.

We note that 30% of the total number of dwellings are family units (i.e. 3+ bedrooms). Of those which are allocated as rented tenure, two thirds comprise 3+ bedrooms. This amount exceeds the Council's aspiration for 42% of the rented dwellings to be allocated as family units.

We also note that three of the seven shared ownership units are 3 bedroom flats. In our experience, RP's typically do not favour larger units being allocated for this tenure. This is typically because the higher unit values make them less likely to be affordable to those eligible to buy the units. That said, GL Hearn has obtained expressions of interest from RP's and this does not appear to have been raised as a potential issue. However, we recommend that the Council satisfy themselves that they are happy with the proposed shared ownership unit mix.

The residential units will benefit from seven disabled car parking spaces which will be accessed via Stoke Newington Church Street and Wilmer Place.

3.3 Private Residential Unit Values

The table below summarises GL Hearn's opinion of the residential unit values:

Private Units	No. of Private Units	Area (sqft)	Market Value	£psf
1 bedroom flat	12	533 – 818	£290,000 - £335,000	403 – 557
2 bedroom flat	27	699 – 868	£387,500 - £417,000	472 – 560
3 bedroom flat	10	932 – 1,391	£495,000 - £575,000	413 - 536

The total GDV assumed in respect of the private units equates to an average of £500psf.

We have considered the comparable evidence provided within their report, as well as undertaking our own research into the local market. In accordance with GL Hearn's report, it is acknowledged that the number of new build schemes within the vicinity is relatively limited. As such, it is necessary to have regard to modern resale properties.

Having had regard to the evidence, we are of the opinion that the market values assumed by GL Hearn are reasonable.

3.4 Residential Ground Rent

GL Hearn has assumed ground rent in respect of the 49 private units. We consider the assumption that ground rent equates to £350 per annum which is then capitalised at 6%, to be reasonable.

However, we do not consider the application of purchaser's costs (equating to 4.8%) to the total ground rent to be appropriate. The ground rent is capitalised at a gross yield and it is therefore not necessary to apply purchaser's costs in addition to this. We have therefore omitted this from our version of the appraisal.

3.5 Income from Tenants

GL Hearn has accounted for an income of £15,721 within the appraisal. GL Hearn has confirmed that this relates to private residential ground rent income which Circle has added on the basis that some of the units are income producing before the end of the construction period.

3.6 Affordable Housing Unit Value

GL Hearn state they have contacted five RPs in respect of the proposed affordable housing units. These are as follows:

- A2Dominion;
- Family Mosaic;
- Islington and Shoreditch Housing Association;
- Network Housing Group; and
- One Housing Group.

As outlined within their report, GL Hearn subsequently received four offers. They add that, subject to various caveats, the indicative offers received equated to a blended £psf range between £114psf and £223psf. The most recent offer equates to £226psf from One Housing Group.

Following a request from JLL, GL Hearn has since provided an indicative offer letter from One Housing Group. As set out in the letter (attached at Appendix 1), this offer equated to £5,100,000 and related to a total of 25 affordable housing units (of which 12 are allocated as Affordable Rent tenure and 13 are shared ownership tenure). No further details were provided which explained how this offer was broken down on a tenure or unit basis.

Based on the feedback received, GL Hearn has extrapolated a value equating to £160psf for the rented units and £300psf in respect of the shared ownership units. This results in a total package price for the 19 proposed affordable housing units which equates to £3,748,539.

As it is not clear how GL Hearn has determined the assumed £psf rates for each tenure, we have undertaken our own assessment on the indicative affordable housing package price. Our methodology is as follows:

Shared ownership – Assuming the relevant market value for the proposed unit type, we assumed that 25% of the equity is sold; 2.5% rent is charged in respect of the unsold equity; and the rental income is capitalised at an appropriate rate. This provided an indicative unit value.

Affordable Rent – Following changes to the affordable housing sector, the value of the rented units have been assessed on the basis of the new Affordable Rent tenure. National guidance states that the rent charged on these units should be the lower of up to 80% Market Rent or the relevant Local Housing Allowance (LHA) cap. As outlined within LB Hackney’s interim Affordable Rent policy, they are seeking to restrict the rents.

The table below compares the GL Hearn and JLL package price for both affordable housing tenures. As demonstrated, JLL’s assessment is very similar to GL Hearn’s assumed package price.

Tenure	GL Hearn	JLL	Difference between GLH and JLL
Shared Ownership	£1,866,300	£1,779,826	-£86,474
Affordable Rent	£1,882,239	£2,036,076	+£153,837
Total	£3,748,539	£3,815,902	+£67,363

It is noted that all of the rented units have been allocated as Affordable Rent tenure. This is not in accordance with the Council’s preferred position outlined within the Interim Policy Note, which sets out the aspiration for 25% of the rented units to be allocated as social rent and 75% to be allocated as Affordable Rent.

We recommend the Council satisfy themselves that they are happy with the proposed rented provision. In the event that the Council requires any units to be allocated as social rent, this will have a negative impact on the land value which may impact on the overall amount of affordable housing which the applicant is able to provide.

3.7 Foodstore Value

The proposed development includes a foodstore which extends to 33,143sqft.

GL Hearn has provided a commentary setting out how they have formed their opinion of value for this unit. This is attached at Appendix C of the Financial Viability Assessment.

They have assumed that the unit would be occupied by J Sainsburys and that the annual rent would equate to £500,000 (circa £17psf) and a Net Initial Yield of 5%, assuming full costs at 5.8%.

As such, the completed foodstore has a value of £10,000,000, which after deduction of standard purchaser's costs (5.8%), equates to a net value of £9,450,000.

Within the note prepared by GL Hearn, they state that a reversionary rent equating to £17psf has been assumed, as opposed to a market rent of £22psf. Following a request for clarification, GL Hearn confirmed that they have valued the lease terms which have been agreed in an arms-length negotiation.

We have undertaken an assessment of the assumptions made and overall, consider these to be reasonable. The site means that the unit is compromised compared to the standard layout for stores of this size. In addition to this, the store will not benefit from any on-site parking and will therefore be reliant on pedestrians using the shop. A third consideration is the number of other foodstores, including other Sainsbury's stores within relatively close proximity of the site.

That said, for completeness, it would be helpful to have written confirmation from the landowner or Sainsbury's which confirms the assumptions underpinning the value attributed to the foodstore are reflective of the lease terms.

3.8 Acquisition Costs

GL Hearn has assumed standard inputs with regard to stamp duty (4%); agent fees (1%) and legal fees (0.5%).

3.9 Construction Costs

The applicant has appended a detailed cost plan to the report which has been prepared by Davis Langdon. The key costs are as follows:

- £15,624,000 - base build cost;
- £400,000 - demolition;
- £1,483,000 - foundations; and
- £1,308,000 - services and renewables.

When considering the total cost of £18,815,000 in relation to the total area of 123,044sqft, this equates to blended rate equating to £153psf.

The Building Cost Index Service (BCIS) states that the mean average base build cost and associated prelims for flats in LB Hackney equates to £96psf; and shops equate to £84psf. However, it is acknowledged that this is an average for the borough and it does not take account of demolition, fixtures and fittings or any abnormal costs. Whilst the proposed build cost is generous when compared to the BCIS average, we are of the opinion that on balance, they appear reasonable.

3.10 Contingency

An allowance of 3% has been made in respect of contingency. We would generally expect an allowance for contingency between 3% - 5% on new build schemes such as the one proposed. We therefore consider their assumption to be reasonable.

3.11 Professional Fees

An allowance of 10% has been made in respect of professional fees. We would generally expect professional fees to range between 8% - 12% depending on the scale, complexity and stage of the project. We therefore consider 10% to be a reasonable assumption.

3.12 Mayoral CIL and Section 106

The appraisal includes an allowance of £625,000 for Section 106 costs. We recommend that the Council satisfy themselves this is in accordance with their policy.

GL Hearn explicitly states within their report that the appraisals do not account for Mayoral CIL. We further understand that the applicant did not submit a CIL Certificate with the planning application.

We have subsequently been informed by the Council that Turley Associates has advised them of the following:

- 5,356sqm of residential floor space is proposed *plus*
 - 4,142sqm of retail floor space *less*
 - 4,315sqm of existing floor space *equals*
 - 5,183sqm of chargeable floor space.
-
- 5,183 x £30psm = £155,490 CIL contribution.

We note that the Mayoral CIL rate applicable to LB Hackney equates to £35psm. Assuming the floor areas are correct, the Mayoral CIL contribution should therefore equate to £181,405.

As stipulated within the relevant guidance, the Community Infrastructure Levy is applied to the gross floor space of most new buildings or extensions to existing buildings.

However, CIL will not normally be charged on the floor space resulting from a change of use or any floor space lost through the demolition of buildings as part of a development. Deductions in respect of the demolition or the change of use of existing buildings will only apply where the existing building has been in continuous lawful use for at least six months in the 12 months prior to the development being permitted. As noted in paragraph 3.33 of GL Hearn's report, not all units have been regularised with a Certificate of Lawfulness.

In addition to this, subject to certain criteria, units allocated as affordable tenure are also exempt from CIL.

As we have not been provided with a comprehensive schedule of floor areas in respect of the existing or proposed units, we are unable to comment on whether the floor areas informing the CIL calculation are correct.

3.13 Marketing, Letting and Disposal Fees

Private Residential Units - Typically, we would expect a total of 3% of private GDV to be spent on disposal costs associated with private residential units. This includes marketing (1%); agency fees (1.5%) and legal fees (0.5%).

GL Hearn has assumed a total of 4.5%. This comprises 4% on agency fees; 0.5% on legal fees; and no allowance in respect of marketing. The total costs are therefore higher than we would typically expect and GL Hearn has not provided any justification for this. Within our appraisals, we have therefore applied costs which equate to a total of 3%, in accordance with the paragraph above.

Affordable Residential Units - An assumption of 1% has been made in respect of both agency and legal fees. We consider this to be a reasonable input associated with the disposal of the affordable units to an RP.

Foodstore - An allowance of £50,000 (10%) and £25,000 (5%) has been made in respect of letting agency and legal fees.

In addition to this, an allowance of 1% has been made in respect of both sales agent and legal fees. Assuming that the unit is let to Sainsbury's, we do not consider it appropriate to also account for disposal fees. As such, we have omitted these from our assessment.

3.14 Finance Rate

Finance rates may typically be within the range of 6.25% and 7%. We are therefore of the opinion that the assumed rate of 7% in respect of debt finance and 0.5% in respect of credit finance is reasonable in this instance.

3.15 Profit

GL Hearn has made different profit assumptions in respect of the different uses. Their assumptions are as follows:

- 20% on private residential GDV;
- 6% on affordable housing GDV; and
- 15% on commercial GDV.

This equates to a blended rate of 21.69% on total cost, or 17.54% on GDV.

In accordance with current lending practices and market conditions, we consider these assumptions to be reasonable.

3.16 Development Programme

The following assumptions have been made in respect of development programme:

- 1 month purchase period;
- 18 month build period;
- 12 month sales period (49 private units) commencing on practical completion of the units. This equates to an average sales rate of 4 units / month;
- Receipt of equal monthly payments in respect of the affordable housing units over the 18 month construction period; and
- The supermarket will let at the end of the 18 month build period.

We note that the construction period commenced two months after the site's purchase. As no reason is given for this, the development programme has been brought forward two months.

3.17 Benchmark Value

GL Hearn's Benchmark Value - GL Hearn has assumed a benchmark value of £3,525,000. This is based on an Existing Use Valuation (EUV) of the site prepared by Colliers CRE. Appendix F of the report submitted by GL Hearn provided a table of numbers informing this valuation.

Following a request for further information, we were provided with a full valuation report for the site, by Colliers CRE (dated March 2010). They assessed the Market Value of the site subject to the existing leases, as at March

2010, to equate to £6,000,000. Unfortunately, this does not provide clarity on the assumptions underpinning their assumed benchmark value of £3,525,000.

National Planning Policy Framework (NPPF) and RICS Guidance – When considering the assumed benchmark value, we have had regard to the Government’s Planning Policy Framework (NPPF) (2012). This document places an emphasis on deliverability and the ‘provision of competitive returns to willing landowners and developers to enable sustainable development to come forward’.

In addition to this, we have also considered the recently published RICS Guidance Note (1st edition, 2012). This states that the benchmark value should reflect the level at which a landowner would be willing to sell the land. Appendix E of this document states that as Existing Use Value does not necessarily reflect competitive returns, it is not appropriate to assess the site value on this basis alone.

JLL’s Approach to Benchmark Value - We have therefore had regard to recent transactions of development land within Stoke Newington and wider Hackney area. This assessment enables consideration of the value which land for mixed use development is typically sold for within the locality, thereby providing an indication of the point at which development sites in the area are considered to become viable.

Please refer to Appendix 2 for a schedule of evidence used to inform our assessment of the benchmark value. To enable comparison, an average value per residential dwelling has been calculated.

It should be noted that a number of the examples were sold with the benefit of planning permission and therefore will sell for more than they might otherwise. It is acknowledged that whilst a planning consent for a mixed use scheme for the site was submitted in 2009, this was refused consent (planning ref: 2009/1264). With this in mind, we are of the view that based on the comparable evidence, the site value equates to at least £50,000 per residential unit. When this rate is applied to the total number of proposed residential units, this provides an indicative benchmark value which equates to at least £3,400,000.

Whilst we don't necessarily agree with how GL Hearn has determined the benchmark value, we are in broad agreement with the value assumed.

3.18 Summary

We have undertaken our own appraisal associated with the proposed scheme. This reflects our opinion of the appraisal inputs where we differ from those assumed by GL Hearn. Please refer to Appendix 3 for a copy of JLL’s assessment of the proposed scheme.

The table below provides a comparison of the results:

	Residual Land Value	Benchmark Value	Difference
GL Hearn	£2,880,000	£3,525,000	-£645,000
Jones Lang LaSalle	£3,350,000	£3,525,000	-£225,000

As illustrated by the table, GL Hearn’s assessment of residual land value equates to less than the benchmark value (on the basis this equates to the EUV). We consider that our assessment of the residual land value associated with the proposed scheme is broadly reflective of the market value of the site (on the basis this equates to Site Value, in accordance with the RICS guidance).

4 Conclusions

4.1 Summary

Having undertaken a detailed review of GL Hearn's report and accompanying appraisals, we are generally in agreement with the approach that has been undertaken and the associated conclusions.

4.2 Areas of Difference

As discussed in detail within Section 3 of this report, the main areas on which we disagree are as follows:

- purchasers costs on the ground rent; and
- agency and marketing costs associated with the disposal of the private residential units;

In addition, it would be helpful to have written confirmation from the landowner or Sainsbury's confirming the assumptions underpinning the value attributed to the foodstore.

4.3 Areas Requiring Review by the Council

As highlighted within Section 3 of the report, we recommend the Council satisfy themselves they are happy with the following:

- number of three bedroom shared ownership units;
- assumption that all of the rented units are allocated as Affordable Rent tenure (and none are social rent);
- assumed S106 contribution equating to £625,000; and
- calculation of Mayoral CIL.

Having considered all of the appraisal inputs, our assessment of the residual land value equates to £3,350,000. This equates to £470,000 more than the land value GL Hearn reported within their report (£2,880,000).

Whilst GL Hearn's land value is less than their assumed benchmark (assessed on the basis of EUV); JLL's land value broadly reflects the site value (assessed in accordance with RICS guidance).

That said, the landowner submitted an appraisal which indicated they are willing to accept a land value which equates to £2,880,000. Subject to confirmation on the above issues, we have concluded the land value is higher. As such, subject to confirmation on the required level of Mayoral CIL, we consider the landowner should be able to make this payment in addition to the £625,000 financial Section 106 contribution accounted for within their appraisal.

4.4 Conclusion

Having reviewed GL Hearn's report, we are broadly in agreement with their assessment of the viability of the scheme associated with the land at Wilmer Place, 193-201 Stoke Newington High Street.

The applicant is offering a total of 19 affordable housing units (28%) and a financial S106 contribution equating to £625,000. Of this provision, 12 units will be allocated as Affordable Rent tenure (63%) and 7 units will be allocated as shared ownership tenure (37%). We are of the view this represents a reasonable offer, subject to the points raised within paragraph 4.3 above, in particular the point relating to Mayoral CIL.



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