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15 March 2013

Dear Steve,

Re: JLL Assessment of GL Hearn's Affordable Housing Viability Report associated with land at Wilmer Place, 193-201 Stoke Newington High Street, N16 0LH

In November 2012, Jones Lang LaSalle ("JLL") was instructed by London Borough of Hackney to consider a viability assessment prepared by GL Hearn in relation to the proposed development at Wilmer Place. The proposals were for 68 residential units and a foodstore.

Following further pre-application discussions between the applicant and the Council, the scheme has been revised to take account of the feedback which has been provided. The amended scheme accommodates a total of 54 residential units and a foodstore. JLL has been instructed by the Council to consider an updated viability assessment pertaining to this reduced scheme.

This letter constitutes an update to our original review and should therefore be read in conjunction with our report dated November 2012.

Policy Context – Please refer to Section 2 of JLL's November 2012 report for details of the policy context to which we have had regard when assessing GL Hearn's assessment.

Assessment Methodology – JLL has adopted the same methodology as that detailed within paragraph 3.1 of our initial assessment.

Residential Mix – Following pre-application feedback from the Council, the applicant has reduced the overall number of residential units in order to address Officer concerns associated with scale and massing. A table summarising the revised mix is as follows:

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Registered in England & Wales Number 1188567
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Private Units	No. of Private Units	No. of Affordable Rent Units	No. of Shared Ownership Units	Total
1 bedroom flat	11	1	1	13
2 bedroom flat	23	3	2	28
3 bedroom flat	11	1		12
4 bedroom flat		1		1
Total	45	6	3	54

The majority of the residential units will be accommodated within two blocks:

- the northern block will accommodate private units only and will be accessed via a single core;
- the southern block will accommodate a mix of rented, shared ownership and private tenure units and will be accessed via two cores. The rented units benefit from a single core and are situated on the first floor; the shared ownership and private units will be situated on the second – fourth floor and accessed via the second core; and
- a single rented unit (4 bedroom), will be accommodated above the retail use and accessed from Stoke Newington High Street.

We note that 24% of the total number of dwellings are family units (i.e. 3+ bedroom). Of those which are allocated for rented tenure, 33% comprise 3+ bedrooms.

As GL Hearn has advised that the scheme has been reviewed in response to the Council's feedback, we assume that you are happy with the revised unit mix.

The residential units will benefit from six disabled car parking spaces.

Private Residential Unit Values – Within the appraisals, GL Hearn has assumed an average value of £500psf and applied this to the total net private floor area.

Whilst it is acknowledged this was the average rate associated with the previous scheme, we have not been provided with an updated plot by plot breakdown of the proposed residential units or updated comparable exercise. That said, given the evidence and conclusions reached previously, we consider the approach to be broadly reasonable in this instance.

Residential Ground Rent – GL Hearn has assumed ground rent in respect of the 45 private residential units. We consider the assumption that ground rent equates to £350per annum which is then capitalised at 6% to be reasonable.

Income from Tenants – GL has accounted for an income of £13,125 within the appraisal. GL Hearn has confirmed this relates to private residential ground rents collected prior to the end of the construction period.

Affordable Housing Unit Value – At the point that GL Hearn prepared their revised appraisal, they had not received an updated offer from One Housing Group. As such, the value of the affordable housing units was assessed on the following basis:

- Rented 1 bedroom unit – 70% Market Rent (Market Rent - £325pw);
- Rented 2 bedroom unit – 60% Market Rent (Market Rent - £425pw);
- Rented 3 and 4 bedroom units – Target Rent;
- Shared ownership units equate to £290psf; rented units equate to £155psf; and
- Total GDV equates to £1,493,375.

GL Hearn has provided JLL with email correspondence between the applicant and One Housing on a strictly private and confidential basis, which was sent post completion of GL Hearn's recent assessment. This sets out the RP's offer for the nine affordable housing units (six rented tenure units; 3 shared ownership tenure units) of £1,475,000 – circa £18,000 lower than that assumed within the appraisal. It is understood that One Housing Group has a policy not to let larger units at levels lower than those charged on the smaller properties. As such, they have valued the units on the following basis:

- Rented 1 bedroom unit – Target Rent;
- Rented 2 bedroom unit – Target Rent;
- Rented 3 and 4 bedroom unit – 50% Market Rent; and
- Total GDV equates to £1,475,000.

Whilst this offer has not been set out formally on letter headed paper, in the context of their offer for the original scheme, we consider this provides sufficient comfort of the value which can be attributed to the affordable housing units.

Further to this, JLL's previous assessment of the affordable housing package price equated to a blended rate of £212psf. Based on the inclusion of social rent tenure units, we therefore consider the revised package price, which equates to a blended rate of circa £193psf, to be reasonable.

We recommend that the Council satisfy themselves of the level of rent which will be charged in respect of the different rented tenure units.

Foodstore Value – The value attributed to the foodstore is unchanged from that set out within GL Hearn's original appraisal. Following comment in our previous report that it would be useful to have written confirmation from the landowner or Sainsbury's, we have been provided with relevant legal documentation on a strictly confidential basis. This confirms the assumptions underpinning the value attributed to the foodstore are reflective of the lease terms. It should be noted however that the documents have not been signed or dated and are clearly in draft.

That said, as noted within our previous report, based on our own research, we consider the assumptions made in this regard to be broadly reasonable.

Acquisition Costs – As per their previous appraisal, GL Hearn has assumed standard inputs with regard to stamp duty (4%); agent fees (1%); and legal fees (0.5%).

Construction Costs – The applicant has appended an updated cost plan prepared by Davis Langdon. The key costs are as follows:

- Site preparation and demolition works - £400,000
- Below ground works - £1,483,000
- Retail (including fit out) - £2,986,000
- Residential - £10,272,000
- Site wide external works and services - £1,308,000

The total cost equates to £16,449,000, which represents a reduction of £2,366,000 from that assumed in respect of the 68 unit scheme. Based on a total GIA of 108,881 sqft, this equates to a blended build cost which equates to £151psf.

The Building Cost Index Service (BCIS) states that the mean average base build cost and associated prelims for flats with shops equate to £110psf. For residential use only, the mean average equates to £96psf and for supermarkets only this equates to £106psf. However, it is acknowledged that this is an average for the borough and does not take account of demolition, fixtures and fittings and other infrastructure requirements. Whilst the proposed build cost is generous when compared with the BCIS average, we are of the opinion that, on balance, they appear reasonable.

Contingency – In accordance with their initial appraisal, an allowance of 3% has been made in respect of contingency. We consider this to be a reasonable assumption.

Professional Fees – In accordance with the initial appraisal, an allowance of 10% has been made in respect of professional fees. We consider this to be a reasonable assumption.

Mayoral CIL and Section 106 Contributions – The appraisal includes an allowance of £625,000 for contributions associated with Section 106 and Mayoral CIL. We recommend that the Council satisfy themselves this is in accordance with their policy.

Please refer to paragraph 3.12 of JLL's November 2012 report for further comment in respect of the Mayoral CIL calculation.

Marketing, Letting and Disposal Fees – Comment in respect of the rates applied to the different uses is as follows:

- **Private residential units** – Following comments made within JLL's November 2012 report, GL Hearn has made an allowance which reflects 3% of the private GDV. We consider this to be a reasonable assumption.
- **Affordable residential units** – In accordance with their previous appraisal, an allowance of 1% has been made in respect of both agency and legal fees. We consider this to be a reasonable assumption.
- **Foodstore** – An allowance of 1% in respect of sales agent and 1% in respect of sales legal has been made. We consider this to be reasonable assumption.

Finance Rate – In accordance with their initial appraisal, GL Hearn has assumed 7% finance rate. We consider this to be a reasonable assumption.

Profit – GL Hearn has made profit different assumptions in respect of different uses. These 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 22.58% on total cost; or 18.10% on total GDV. We consider this assumption to be in accordance with current lending practices and market conditions.

Development Programme – The following assumptions have been made in respect of the development programme:

- 1 month purchase period;
- 2 month period in which to discharge planning conditions;
- 18 month build period;
- 11 month sales period (which equates to 4 private units/month);
- Affordable housing package price received in staged payments over the construction period; and
- Supermarket let at the end of the build period.

Residual Land Value – Based on the above assumptions, the residual land value associated with the proposed scheme equates to £3,015,000. On the basis that we broadly agree with the appraisal inputs, we therefore consider the residual land value to be reasonable.

Benchmark Value – In accordance with their initial appraisal, GL Hearn has assumed a benchmark value equating to £3,525,000. As noted within JLL's previous report, this is based on an Existing Use Value (EUV) of the site prepared by Colliers CRE. Appendix F within the original 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 of the site (prepared by Colliers; dated March 2010). They assessed the Market Value of the site subject to existing leases and valued it at £6,000,000. Unfortunately however, this did not provide clarity on the assumptions underpinning their assumed benchmark value of £3,525,000.

Following a further request for details on the assumptions underpinning the EUV, GL Hearn has since provided additional supporting information prepared by Colliers International pertaining to the assumed benchmark value. Having reviewed this information, we are satisfied that the residual land value of the proposed scheme has been compared to an appropriate benchmark (£3,525,000).

Conclusion

We have undertaken a comprehensive review of GL Hearn's revised report which reflects 54 residential units (17% by unit number) and consider they have addressed the comments JLL made within our previous assessment.

We recommend that that the Council satisfy themselves they are happy with:

- the assumed S106 contribution and Mayoral CIL calculation which equates to £625,000; and
- the rental levels to be charged in respect of the rented tenure units.

Subject to the above, we are of the view that the applicant's offer to provide a total of 9 affordable housing units (17% by unit), of which 6 are allocated as rented tenure and 3 as shared ownership tenure (67%:33%) represents a reasonable offer.

Yours sincerely,

Claire Collins
Associate Director