GL Hearn

Financial Viability Assessment

Newmark Properties (SN) LLP

Land at Wilmer Place,
193-201 Stoke Newington High Street
London
N16 0LH

May 2013

Prepared by

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1. INTRODUCTION

1.1. GL Hearn has been instructed to provide a Financial Viability Assessment (FVA) on behalf of the Applicant, Newmark Properties (SN) LLP.

1.2. The purpose of the FVA is to demonstrate that the affordable housing being offered is the maximum which can reasonably be provided in accordance with planning policy due to the viability of the scheme.

1.3. This report should be read in conjunction with the Planning Statement and Affordable Housing Statement which have been submitted as part of the planning application.

1.4. This report does not constitute a valuation and it therefore is exempt from the current RICS Professional Standards (the 'Red Book').

1.5. The Applicant proposes to redevelop the existing properties on the site to provide a mixed use development comprising a foodstore, 53no. residential units, and associated disabled car parking and servicing.

2. DETAILS OF PROPOSED DEVELOPMENT

2.1. The subject site is located in Stoke Newington, North London, close to the junction with Stoke Newington Church Street.

2.2. The site has an area of 0.511 hectares (1.263 acres).

2.3. The current proposals are for a foodstore at ground floor level with additional plant areas at part lower ground and part mezzanine. Above this, a podium will be constructed providing access to 53no. residential units with the following mix:-

Beds	Private	Affordable Rent	Shared Ownership	Total
1	13	1	2	16
2	17	3	1	21
3	14	1	-	15
4	-	1	-	1
Total	44	6	3	53

2.4. The scheme will therefore comprise 17.0% affordable housing based on unit numbers (16.9% based on habitable rooms).

2.5. The residential units will be built over first to fourth floors.

2.6. The northern block will be 100% private accessed through a single core.

2.7. The southern block will have two cores. One core will provide access to the rented units on the first floor. A second core will provide access to shared ownership and private units on the second floor, with the remaining private units on the third and fourth floors.

2.8. A 4 bed rented unit will be created over mezzanine and first floor levels, accessible from its own private entrance.

2.9. An individual unit schedule is attached as Appendix A. There will be 6no. disabled car parking spaces for residential occupiers accessible from Stoke Newington Church Street/Wilmer Place.

2.10. The foodstore will have a NIA of 2,722sqm (29,300sqft). There will be no car parking for the foodstore.

2.11. The following sections of this report detail our approach to assessing the viability of the proposed development.

3. VIABILITY METHODOLOGY

3.1. In accordance with established viability methodology, we have undertaken a residual appraisal of the proposed development. This involves making an assessment of the completed development value (Gross Development Value) and then deducting the costs of development, including profit and other Section 106 contributions, in order to arrive at a residual land value.

3.2. The residual land value is then compared to a benchmark figure.

Viability Background

3.3. The current planning application is a new application following the recent refusal of application 2012/2228.

3.4. A Financial Viability Assessment (FVA) was submitted with that previous planning application. The FVA was reviewed on behalf of the Council by Jones Lang LaSalle (JLL) just prior to the Planning Committee meeting on 3 April 2013. JLL confirmed to the Council that the assumptions contained within our FVA were reasonable and that the affordable housing offer of 6no. rented units and 3no. shared ownership units (17% affordable housing) was also reasonable.

3.5. Given that only around six weeks have passed since JLL undertook their assessment, we have adopted the same assumptions in this updated FVA, subject to some minor amendments to reflect the scheme changes.

3.6. We set out in the following sections the principal changes we have made to our development appraisal.

Private Residential Values

3.7. We have adopted a rate of £500psf in respect of private sales values and this has previously been agreed with JLL. Arguably this could reduce given that the Applicant has increased the proportion of family units within the development to deal with one of the reasons for refusal given in respect of application 2012/2228.

3.8. As commented above, a full unit schedule is attached as Appendix A.

3.9. Based on the above values, our GDV for the private sale units is £18,309,500. In addition we have included private ground rental income at an average rate of £350 per unit per annum which we have capitalised at a yield of 6%. As agreed with JLL previously we have not deducted any purchaser's costs in respect of these ground rents.

Affordable Housing Values

3.10. The value of affordable housing is determined by a number of factors including the tenure, rent policy and the availability (or not) of grant funding.

3.11. The proposed affordable housing units will be secured under a Section 106 Agreement. The Homes & Communities Agency (HCA) has stated that affordable housing units being provided under a Section 106 Agreement will not be eligible for grant funding as the subsidy should be coming from the developer. We have therefore not included any grant funding within our appraisals.

3.12. The scheme will include 6no. affordable rent units comprising 1 to 4 bedrooms and 3no. shared ownership units comprising 1 and 2 bedroom flats.

3.13. We have liaised with the Council's Housing Department (Stephen Kersley) over several months with regard to the scheme and we have been provided with a copy of the Council's updated interim position statement on the Affordable Homes Programme 2011-2015 (updated January 2012).

3.14. In respect of the affordable rent units we have assumed that an RP would let the units to occupiers based on the following rent policy:-

Beds	% of Market Rent	Gross Market Rent pw	Adjusted Gross Rent pw	LHAMay2013 pw
1	70%	£325	£228	£245
2	60%	£425	£255	£296.38

3.15. Rents at this level are well below the Local Housing Allowance levels as detailed above.

3.16. The 3 and 4 bed units will be let at Target Rents.

3.17. The completed affordable housing units will be transferred to a Registered Provider (RP) in the usual manner. We have previously market-tested the affordable housing element of the development with the following local RPs:-

A2Dominion Housing Group

Family Mosaic

Islington & Shoreditch Housing Association

Network Housing Group

One Housing Group

3.18. As previously discussed with the Housing Department and with JLL, the Applicant is in advanced discussions with One Housing Group in respect of selling them the completed affordable housing units.

3.19. We have appraised the affordable housing element of the scheme using SDS Proval and arrived at values of £155psf for the rented units and £290psf for the shared ownership units taking into account the above rent policy.

3.20. One Housing Group made an offer on the affordable housing element of the recent 2012/2228 scheme. Their offer of £1,493,375 was slightly lower then our own valuation figures. We therefore consider that the ~~figures we have~~ adopted in our model are robust.

Foodstore Value

3.21. The foodstore element of the scheme remains unchanged from the 2012/2228 scheme. Again our valuation of this element of the scheme has recently been confirmed as reasonable by JLL.

3.22. A copy of the lease has been sent to JLL as part of their review.

3.23. In summary the foodstore has a completed value of £10,000,000, which after deduction of standard purchaser's costs gives a net value of £9,450,000.

3.24. The total GDV of the development (net of standard purchaser's costs) is c£29.4million.

Build Costs

3.25 A full cost plan in respect of the 2012/2228 scheme was provided by our client's Quantity Surveyor, Davis Langdon. This was reviewed by JLL and confirmed as reasonable.

3.26. We attach as Appendix B the Davis Langdon cost plan in respect of the 2012/2228 scheme which totals £16,449,000.

3.27. The current scheme proposals have changed to address concerns of Members with the result that the scheme mix has changed and the number of residential units has reduced from 54no. units to 53no. units. The development has also been pulled further back from the cemetery boundary. The retail element is unchanged.

3.28. We have therefore adjusted the Davis Langdon cost plan to reflect the revised floor areas and our updated build costs are attached as **Appendix C.**

3.29. The total build cost has reduced slightly to c£16,110,000 as at Quarter 1 2013. No allowance has been made for inflation from this point to start on site. The figures do not include a contingency or professional fees so these have been added separately.

Other Costs

3.30. In addition to the base build costs we have allowed for the following at standard market rates:-

Item	Rate	Comment
Professional Fees	10%	
Contingency	3%	
Finance	7%	
Profit	20% on private sale; 6% on affordable housing; 15% on foodstore	In line with market practice and Three Dragons toolkit benchmark for affordable housing. Reduced profit on foodstore to reflect pre-let to Sainsbury's.
Sales Agent & Legal	Standard market rates	

Section 106 Contributions & Mayoral CIL

3.31. We have been advised by our client's Planning Consultant to include an allowance of £625,000 for Section 106 contributions at this time however these are still to be negotiated between the parties.

3.32 The Mayor of London has introduced a Community Infrastructure Levy (CIL) to help fund Crossrail.

3.33. CIL came into effect at the beginning of April 2012 and in LB Hackney it applies at a flat rate of £35psm. CIL is not payable on affordable housing units.

3.34. At this stage we have not deducted the cost of CIL in our appraisals, however this will adversely impact on the scheme viability.

Development Appraisal Summary

3.35. We have undertaken our development appraisal using Argus (Circle) Developer which is an industry standard development appraisal package which is commonly used for viability studies such as this.

3.36. A copy of our development appraisal is attached as Appendix D.

3.37 This shows that the residual land value of the proposed development is £2,940,000

3.38 As mentioned earlier in this report, it is standard practice to compare the residual land value of the proposed development to a benchmark figure and this is normally the Existing Use Value.

Existing Use Value (EUV)

3.39. Our client has provided us with a copy of their Existing Use Valuation prepared by Colliers CRE. This gives an Existing Use Value for the current accommodation on the ~~site of £3,525,000.~~

3.40. Again, the EUV has previously been reviewed by JLL and they consider the assessment to be reasonable.

3.41. It should be noted that some of the existing units on the site have been used as residential for several years albeit these have not been regularised with a Certificate of Lawfulness as of yet.

3.42. Colliers CRE also prepared an EUV on the basis of these units being valued as residential and the EUV on that basis is £5,000,000.

3.43 Notwithstanding the established residential use at the site, we have relied upon the appraisal on the basis of the current accommodation as employment use.

3.44. The Colliers CRE valuation summary is attached as Appendix E.

3.45 It is acknowledged in standard viability methodology that there is a difference between scheme viability and site viability. In other words just because a scheme's end value is sufficiently high to enable the developer to make a reasonable profit, the residual land value also needs to be high enough to encourage the land owner to bring the site forward for development.

3.46 There is no hard and fast rule as to the level of uplift required from an Existing Use Value to encourage a landowner to sell however the previous version of the toolkit guidance notes to the Three Dragons model considered a range of 20-30% was normally appropriate.

3.47. If the demands placed on a development are too great (in the form of Section 106 contributions/CIL, affordable housing requirements etc), then the development will not come forward.

3.48. In the case of the subject development, the residual land value of £2,940,000 is £585,000 lower than the Existing Use Value. It would therefore be justifiable ~~in viability terms for a lower~~ affordable housing provision to be offered and still remain policy compliant.

Nevertheless our client recognises the importance of affordable housing to the Council and in the interests of promoting a mixed and sustainable community, they are prepared to make their affordable housing offer of 17% as set out within this report.

4. CONCLUSIONS

4.1. The scheme will comprise 17% affordable housing based on unit numbers (16.9% based on habitable rooms), with 6no. affordable rent units and 3no. shared ownership units.

4.2. The preceding sections of this report have demonstrated that our client's affordable housing offer is the maximum level of affordable housing that the scheme can sustain; indeed a lower offer is justifiable in viability terms.

4.3. We have adopted standard viability methodology in our approach and provided a fully evidenced report to back up our assumptions. In our opinion the development proposals are therefore policy compliant in terms of affordable housing level as planning policy requires viability to be taken into account as part of the decision making process.

4.4. It is also worth noting that the level of affordable housing at 17% was not a reason for refusal in the case of the 2012/2228 scheme and that this level of affordable housing has been maintained in this application despite the loss of a private unit.

APPENDIX A

UNIT SCHEDULE

Wilmer Place, Stoke Newington - May 2013

Tenure	Floor	Beds	Persons	sqm	sqft	Comments
Rent	1	2	4	71	764	
Rent	1	2	3	75	807	Wheelchair
Rent	1	1	2	50	538	
Rent	1	2	4	70	753	
Rent	1	3	5	86	926	
Rent	G-1	4	8	131	1,410	
S/O	2	1	2	50	538	
S/O	2	1	2	55	592	
S/O	2	2	3	76	818	Wheelchair
Private	2	2	4	71	764	
Private	2	2	4	71	764	
Private	2	1	2	57	614	
Private	2	2	3	92	990	Wheelchair
Private	2	1	2	58	624	
Private	1	3	5	90	969	
Private	1	3	5	90	969	
Private	1	1	2	56	603	
Private	1	2	3	67	721	
Private	1	3	5	87	936	
Private	1	2	4	77	829	
Private	1	1	2	75	807	Wheelchair
Private	2	1	2	59	635	
Private	2	3	5	89	958	
Private	2	3	5	89	958	
Private	2	1	2	56	603	
Private	2	2	3	67	721	
Private	2	3	5	87	936	
Private	2	2	4	77	829	
Private	2	1	2	75	807	Wheelchair
Private	2	1	2	52	560	
Private	3	2	4	74	797	
Private	3	2	4	80	861	
Private	3	3	5	99	1,066	
Private	3	2	4	93	1,001	
Private	3	1	2	50	538	
Private	3	2	3	63	678	
Private	3	3	5	109	1,173	
Private	3	3	5	107	1,152	
Private	3	2	3	76	840	
Private	3	1	2	50	538	
Private	3	1	2	52	560	
Private	3	2	3	91	980	Wheelchair
Private	3	1	2	58	624	
Private	4	2	4	75	807	
Private	4	3	5	99	1,066	
Private	4	2	4	93	1,001	
Private	4	1	2	50	538	
Private	4	2	3	62	667	
Private	4	3	5	109	1,173	
Private	4	3	5	107	1,152	
Private	4	3	5	95	1,023	
Private	4	3	5	95	1,023	
Private	4	2	3	71	764	
				4066	43,766	

Appendix A - Accom Summary Wilmer Place 020513.xlsx

APPENDIX B

DAVIS LANGDON BUILD COSTS – SCHEME 2012/2228

Project : Wilmer Place, Stoke Newington
Estimate : Updated Cost Summary
Price Date : 11-Feb-2013

Davis Langdon
An AECOM Company

1.0 Cost Summary

The following is our indicative estimate of the current day Construction Costs for the amended Wilmer Place, Stoke Newington Scheme for planning and has been based upon the information as listed below in section 2.0:-

					£	£
Site Preparations & Demolition Works						
• Allowance for demolitions and general site preparation			Item		400,000	
						400,000
Below Ground Works						
• Foundations / Below Ground Works			Item		1,483,000	
						1,483,000
Retail						
• Retail Shell & Core Works	GIA	44,588	sq.ft @ £	67	2,986,000	
• Retail Fit Out Works	NIA	29,300	sq.ft @ £		Excluded	
		44,588	sq.ft @ £	67		2,986,000
Residential						
• Residential Shell & Core	GIA	64,293	sq.ft @ £	107	6,879,000	
• Private Fit Out	NIA	37,599	sq.ft @ £	77	2,895,000	
• Intermediate Fit Out	NIA	2,250	sq.ft @ £	72	162,000	
• Social Rented Fit Out	NIA	5,425	sq.ft @ £	62	336,000	
		64,293	sq.ft @ £	160		10,272,000
Site Wide External Works & Services						
• Allowance for External Works Generally			Item		850,000	
• Allowance for Incoming Services / Utility Connections			Item		285,000	
• Allowance for Sustainability / Renewable Energy Solutions (PV's etc.)			Item		173,000	
• Allowance for Section 106/278 works			Item		Excluded	
						1,308,000
Total Construction Costs (at 1st Quarter 2013 Prices)	GIA	108,881	sq.ft @ £	151	£	16,449,000
	NIA	74,574	sq.ft @ £	221		

2.0 Basis and Assumptions

Information Used	Rec'd
AHMM Drawings	
• dwg 11050-SK-247	04/Feb/13
• dwg 11050-SK-240	04/Feb/13
• dwg 11050-SK-249	04/Feb/13
• dwg 11050-SK-250	04/Feb/13
• Barry Rae (GL Hearn) email - summary of changes (Option 2)	25/Jan/13

- All assumptions, basis and exclusions are as per the 27th June 2012 Cost Plan Nr 1 Issue including the target savings adopted and should be read in conjunction with the above
- The above cost summary is an update based only on area utilising average £/ft² rates from the Cost Plan Nr 1 Issue. No detailed review of the revised architectural drawings and layouts have been carried out, except GIA and NIA areas. The above residential NIA areas are based on GL Hearn's advice

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APPENDIX C

ADJUSTED DAVIS LANGDON BUILD COSTS – CURRENT SCHEME

Wilmer Place Build Costs May 2013

					Cost	Totals
Site preparations & demolition works					£400,000	£400,000
Below ground works					£1,483,000	£1,483,000
			sqft			
Retail		GIA	44588	£67	£2,986,000	£2,986,000
		NIA	29300		Excluded	
			sqft			
Residential	Shell & core	GIA	62168	£107	£6,651,665	
	Private fitout	NIA	36619	£77	£2,819,663	
	Intermediate fit out	NIA	1948	£72	£140,256	
	Rented fit out	NIA	5199	£62	£322,338	£9,933,922
Site wide external works & services					£1,308,000	£1,308,000
Total construction costs at 1st quarter 2013 prices						£16,110,922

Appendix C - Wilmer Place Build Costs May 2013.xlsx

APPENDIX D

DEVELOPMENT APPRAISAL

APPRAISAL SUMMARY | GL HEARN

Wilmer Place, Stoke Newington
Newmark Properties

Summary Appraisal for Merged Phases 1 2 3

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales	
44 private flats	1	36,619	£500.00	£18,309,500	18,309,500	
6no. Rent units	1	5,199	£155.00	£805,845	805,845	
3no. S/Ownership units	1	1,948	£290.00	£564,920	564,920	
Totals	3	43,766			19,880,265	
Rental Area Summary	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
44no. private ground rents	44			£350	15,400	15,400
Sainsbury's	1	29,300	£17.06	£500,000	500,000	500,000
Totals	45	29,300			515,400	515,400

Investment Valuation					
44no. private ground rents					
Current Rent	15,400	YP @	6.0000%	16.6667	256,667
Sainsbury's					
Current Rent	500,000	YP @	5.0000%	20.0000	10,000,000
					10,256,667

GROSS DEVELOPMENT VALUE			29,936,932
Purchaser's Costs	5.80%	(548,204)	
NET DEVELOPMENT VALUE			29,388,728
Income from Tenants			12,833
NET REALISATION			29,401,561

OUTLAY

ACQUISITION COSTS				
Residualised Price			2,939,134	
Stamp Duty		4.00%	139,523	
Agent Fee		1.00%	34,881	
Legal Fee		0.50%	17,440	
				3,130,978
CONSTRUCTION COSTS				
Construction	ft²	Rate ft²	Cost	
Sainsbury's	44,588	£66.97	2,986,000	
44 private flats	52,016	£161.20	8,385,109	
6no. Rent units	7,385	£150.64	1,112,495	
3no. S/Ownership units	2,767	£157.68	436,318	
Totals	106,756		12,919,922	12,919,922
Contingency		3.00%	387,598	
Demolition			400,000	
Statutory/LA			625,000	
				1,412,598
Other Construction				
Foundations			1,483,000	
Services/Renewables			1,308,000	
				2,791,000
PROFESSIONAL FEES				
Architect		10.00%	1,370,752	
				1,370,752

APPRAISAL SUMMARY **GL HEARN**

Wilmer Place, Stoke Newington
Newmark Properties

MARKETING & LETTING			
Letting Agent Fee	10.00%	50,000	
Letting Legal Fee	5.00%	25,000	
			75,000
DISPOSAL FEES			
Sales Agent Fee	2.50%	464,154	
Sales Agent Fee	1.00%	113,708	
Sales Legal Fee	0.50%	92,831	
Sales Legal Fee	1.00%	113,708	
			784,400
FINANCE			
Debit Rate 7.00% Credit Rate 0.50% (Nominal)			
Total Finance Cost			1,494,840
TOTAL COSTS			23,979,490
PROFIT			
			5,422,071

Performance Measures

Profit on Cost%	22.61%
Profit on GDV%	18.11%
Profit on NDV%	18.45%
Development Yield% (on MRV)	2.15%
Equivalent Yield% (Nominal)	5.03%
Equivalent Yield% (True)	5.19%
IRR	26.59%
Rent Cover	10 yrs 6 mths
Profit Erosion (finance rate 7.000%)	2 yrs 11 mths

APPENDIX E

COLLIERS CRE EXISTING USE VALUATION SUMMARY

Summary

Stoke Newington										
EXISTING USE VALUE (ASSUMING COMMERCIAL USE OF REAR BUILDING INSTEAD OF RESIDENTIAL)										
IN ACCORDANCE WITH THE APPROVED PLANNING STATUS										
EXISTING USE VALUE (ASSUMING CURRENT USES)				Less running costs						
Commercial	Annualised Rent	199,889	@	49,046	150,843	@	8.50%	1,774,629		
Former Resi NOW Commercial	Annualised Rent	155,325	@	38,112	117,214	@	8.50%	1,378,987		
Existing Resi	Annualised Rent	52,340	@	12,842	39,497	@	7.00%	564,250		
		407,555		100,000	307,555			3,717,865	10.96%	8.27%
Outgoings	100,000					Less costs	5.80%	203,815	Gross	Net
								3,514,050		
						But Say		3,525,000		
						Overall Size	45,289	77.83	psf	