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28 November 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.

The scheme was subsequently amended and accommodated a total of 54 residential units and a foodstore. JLL undertook a second assessment of the viability in March 2013.

The proposals were then further revised; however JLL was not instructed to comment on these. However, we do not consider the revisions were of a nature that materially affected the conclusions we provided in our assessment in March 2013. This updated proposal was considered at a planning committee in August 2013 and the Council resolved to grant planning consent. The associated Section 106 was signed on 8 August 2013. However following this, the decision has been challenged and a Judicial Review is required. As such, the applicant has re-submitted the application to the Council, but addressed the three grounds which form the basis of the Judicial Review claim.

LB Hackney has instructed JLL to review the viability of the proposed scheme which accommodates 53 residential units and a foodstore, as at today. We have been provided with a Financial Viability Assessment and Affordable Housing Statement prepared by GL Hearn (both dated May 2013).

This letter constitutes an update to our previous assessments and should therefore be read in conjunction with our report and letter written in November 2012 and March 2013 respectively.

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 in November 2012.

Residential Mix – Further to the scheme which JLL considered in March 2013, the scheme has been amended to accommodate a total of 53 residential units. A table summarising the revised mix is as follows:

Private Units	No. of Private Units	No. of Affordable Rent Units	No. of Shared Ownership Units	Total
1 bedroom flat	13	1	2	16
2 bedroom flat	17	3	1	21
3 bedroom flat	14	1		15
4 bedroom flat		1		1
Total	44	6	3	53

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 16 (30%) of the total number of dwellings are family units (i.e. 3+ bedroom). Of those which are allocated for rented tenure, two units (13%) 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. Following a request, they confirmed they did not consider that values have changed since May 2013 and provided a schedule of comparable evidence and a plot by plot schedule of values.

Having undertaken our own research in the local market, we consider that property values have increased since our previous assessment in March 2013 and that the residential GDV now equates to £19,555,000 (£534psf).

Residential Ground Rent – GL Hearn has assumed ground rent in respect of the 44 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 £12,833 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 March 2013 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 subsequently provided JLL with email correspondence between the applicant and One Housing on a strictly private and confidential basis. 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 was not set out formally on letter headed paper, in the context of their offer for the original scheme, we previously considered this provided sufficient comfort of the value which can be attributed to the affordable housing units subject to the Council being satisfied with the rents being charged in respect of the different rented tenure units.

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Further to a request, I have been provided with the signed Section 106 pertaining to the application which was consented in August 2013. I note that the rent levels within this document are in accordance with LB Hackney's policy – as opposed to the basis on which either GL Hearn or One Housing Group assessed the units in March 2013.

As such, the affordable housing units have been re-assessed in accordance with the agreed Section 106 (dated 8 August 2013). A summary of the restrictions are as follows:

- 1 bedroom rented tenure units – 70% of Market Rent;
- 2 bedroom rented tenure units – 60% of Market Rent;
- 3 and 4 bedroom rented tenure units – 50% of Market Rent;
- Shared ownership units – the affordability criteria associated with the units are not explicitly stated, so therefore assume the income levels detailed within the GLA London Plan are assumed.

If assessing the affordable units on the basis of the rents set out in the Section 106 and the increased market values associated with the shared ownership units, the indicative package price that an RP would pay for the units equates to £1,690,000 (a blended average of £236psf).

Foodstore Value – The value attributed to the foodstore is unchanged from that set out within GL Hearn's original appraisal. Following comments in our report dated November 2012 that it would be useful to have written confirmation from the landowner or Sainsburys, we were provided with relevant legal documentation on a strictly confidential basis in March 2013. This confirmed 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 were clearly in draft.

Following a request, GL Hearn has confirmed the terms as at November 2013 are unchanged from those provided to us previously, and we have been re-provided with the draft lease documents. As Sainsbury's is still involved with the site as they are a signatory to the Section 106 (dated 8 August 2013) and given the approach to assess the reversionary rent, as opposed to the market rent, it would be helpful to have a statement which confirms the terms within the draft lease are current, as at today.

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 - £9,933,922
- Site wide external works and services - £1,308,000

The total cost equates to £16,110,922. Based on a total GIA of 106,756sqft, 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 residential flats in Greater London equates to £109psf, and in LB Hackney, the average equates to £111psf. The base build cost associated with supermarkets which measure more than 1,000sqm but less than 7,000sqm typically equate to £122psf in Greater London and £124psf in LB Hackney.

However, it is acknowledged that these are average numbers and they do 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 planning contributions. We note that the financial contributions set out within the Section 106 (dated 8 August) equates to £483,976. This comprises contributions towards the following:

- £125,000 – Abney Park Cemetery contribution;
- £5,000 – relocation of car club bays;
- £2,500 – green travel plan monitoring;
- £82,696 – libraries and education;
- £180,000 – highways and public realm;
- £18,750 – NVQ training;
- £2,662 – open space;
- £50,000 – Stoke Newington town centre management; and
- £17,365 – Council costs.

We note that an allowance for Mayoral CIL has not been included within the appraisal. In the event this equates to less than £141,024, we are of the opinion that the difference should be paid to the Council in the form of an additional S106 contribution.

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% on total cost; or 18% 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 an average of 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 their assumption, GL Hearn's assessment of the residual land value associated with the proposed scheme equates to £2,940,000.

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However, given JLL consider that the value which can be attributed to the private and affordable units have increased, we are of the opinion that the residual land value associated with the proposed scheme equates to £4,030,000.

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 EUV (£3,525,000).

In accordance with standard viability methodology, if using the EUV as the basis of the benchmark, it is appropriate to assume an uplift. This reflects the incentive the developer would be required in order to encourage them to dispose of the site. This can typically equate to 15% - 20%.

Assuming an uplift of 15%, the benchmark value would equate to **£4,054,000.**

Result
JLL has updated the appraisal to reflect the position in relation to private and affordable values. The table below summarises how the residual land value compares to the benchmark value.

Scenario	RLV associated with the proposed scheme	Benchmark (EUV + 15% developer's incentive)	Surplus
GL Hearn Appraisal	£2,940,000	£4,054,000	-£1,114,000
JLL Appraisal	£4,030,000	£4,054,000	-£24,000

Conclusion
We have undertaken a comprehensive review of GL Hearn's revised report which reflects 53 residential units (17% by unit number).

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Assuming the total costs within the original S106 (August 2013) remain unchanged (£483,976), and the Mayoral CIL contribution equates to less than £141,000, we consider the Council request that the difference forms an additional financial S106 contribution.

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,

CCollins

Claire Collins
Associate Director