



GL Hearn

# Financial Viability Assessment

Newmark Properties (SN) LLP

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

February 2013

## **Prepared by**

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Mr Steve Fraser-Lim  
Planning Officer, North Area Team  
London Borough of Hackney  
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**Strictly Private & Confidential**

13 February 2013

Dear Steve

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

Further to provision of our original Financial Viability Assessment (FVA) dated June 2012, and as a result of feedback from the Council, our client has decided to submit an amended scheme. As you are aware the principal change has been the reduction in residential unit numbers from 68no. units to 54no. units. We have therefore revised our appraisals in order to reflect the resubmitted scheme.

Our original FVA was reviewed by Jones Lang LaSalle (JLL) who reported to you in draft in a report dated November 2012. We have been provided by you with a copy of the body of their report, though not the appendices.

JLL state in their Executive Summary '*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*'.

**Revised Scheme**

The retail element of the scheme proposals remains unchanged. The residential element of the scheme has been reduced by a storey so the fourth floor is now the top floor of the block. The residential element now comprises 54no. units. A full unit schedule is attached as **Appendix A**.

**Affordable Housing**

In order to maintain the viability of the scheme, as you are already aware, the proportion of affordable housing has consequently had to reduce. The affordable housing element of the scheme will now comprise 6no. affordable rent units and 3no. shared ownership units, with the following mix:-

Tenure	Type	No. of Type
Rent	1 bed, 2 person	1
Rent	2 bed, 3 person (wheelchair)	1
Rent	2 bed, 4 person	2
Rent	3 bed, 5 person	1
Rent	4 bed, 6 person	1
<b>Rented Total</b>		<b>6</b>

S/Ownership	1 bed, 2 person	1
S/Ownership	2 bed, 3 person (wheelchair)	1
S/Ownership	2 bed, 4 person	1
<b>S/Ownership Total</b>		<b>3</b>
<b>Affordable Total</b>		<b>9</b>

It should be noted that original affordable housing tenure mix submitted in mid-2012 was discussed post-submission with Stephen Kersley in the Council's Housing Department. Stephen asked for fewer family units (3+ bed) to be provided in order to ensure that the units were more affordable to occupiers. The revised mix also addresses this concern.

The revised scheme provides 9no. affordable housing units out of a total of 54no. units which equates to 16.7% on a unit basis (17.2% on a habitable room basis).

The split within the affordable housing element is 67%:33% affordable rent: shared ownership on a unit basis (71%:29% affordable rent: shared ownership on a habitable room basis).

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 (in accordance with the Council's interim position statement on the Affordable Homes Programme 2011-2015):-

Beds	% of Market Rent	Gross Market Rent pw	Adjusted Gross Rent pw	LHA Feb 2013 pw
1	70%	£325	£228	£240
2	60%	£425	£255	£290

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

The 3 and 4 bed units (i.e. 33% of units) will be let at Target Rents. This is in excess of the Council's stated guidance of having 25% of units let at Target Rents.

We have not yet received an updated offer from One Housing Group, our client's Registered Provider partner for this project; this is awaited. Nevertheless we have re-run our own appraisals on the basis of the revised mix and with the mix of Target Rent and affordable rent units outlined above.

In our opinion the affordable housing values equate to £155psf for the rented units and £290psf for the shared ownership units.

By way of comparison, JLL's figures on the original mix were £173psf for rented units (all units being let at affordable rent levels with none at lower Target Rents), and £286psf for shared ownership units.

### Private Residential Values

We have not altered the private sales values in our model as we have not been able to find any evidence of a substantial change in the local market. Indeed, some asking prices appear to have reduced.

### Foodstore Value

The foodstore remains as per the original scheme and we are of the opinion that its value has not changed. We have therefore not included any further analysis and our original assessment was also confirmed by JLL in their recent report.

## Build Costs

Davis Langdon have updated their Cost Summary to reflect the revised scheme. As the foodstore element of the scheme remains unchanged, the only adjustments are to the residential floor areas. Their revised build cost is £16,449,000. Their Cost Summary is attached as **Appendix B**.

## Section 106 Contributions & Mayoral CIL

We have been asked by our client's Planning Consultant to include an amount of £625,000 for Section 106 contributions and Mayoral CIL as these are yet to be negotiated/calculated.

Higher costs would adversely impact on the scheme's viability.

## Points raised by Jones Lang LaSalle

Jones Lang LaSalle raised several points of difference in their draft report and we refer to each in turn.

- Residential ground rents – Although JLL agreed with our ground rent and yield, they considered it inappropriate to deduct purchaser's costs. In our opinion it is standard practice to deduct purchaser's costs nevertheless the amount is fairly de minimus (c£12,000). We have therefore excluded these costs from our revised appraisal.
- Foodstore lease terms – JLL suggested that confirmation of the lease terms from our client would be helpful. A copy of the lease will be sent under separate cover, on a strictly confidential basis, to JLL.
- Mayoral CIL – The precise level of Mayoral CIL is yet to be agreed/calculated.
- Agency fees – JLL suggest that our allowance of 4.5% in respect of the residential sales and marketing is too generous. We have been instructed by our client to reduce this allowance to 3.0% to align with JLL's approach.
- Foodstore fees – We consider it standard practice to model the sale of commercial space at the end of the cashflow (by capitalising the rental income) and therefore the costs of sale (agency and legal fees) are a legitimate cost to the applicant. These have been retained in our revised appraisal.
- Development programme – A 2 month period has been allowed for pre-construction to allow for the discharge of pre-commencement conditions which will attach to the planning permission. This allowance should be considered reasonable as in reality, discharge of conditions on schemes such as this can take considerably longer.

## Development Appraisal Summary

Based on the above inputs, we have re-run our development appraisal and a copy of this is attached as **Appendix C**. This shows the residual land value is £3,015,000. This is still significantly below the Existing Use Value figure reported in our original report of £3,525,000. It is also significantly below the benchmark value reported by JLL of 'at least £3,400,000'.

We are therefore of the opinion that our client's revised affordable housing offer is the maximum that the scheme can sustain, indeed a lower offer is again justifiable in viability terms.

This letter should be read in conjunction with our original Financial Viability Assessment dated June 2012.

**Next Steps**

We assume that you will re-appoint Jones Lang LaSalle to review the updated appraisal and on receipt of this confirmation we can engage with them and send them copies of our appraisal, plans etc.

We look forward to hearing from you as soon as possible.

Kind regards.

Yours sincerely



**Barry Rea**  
Affordable Housing Director

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**APPENDIX A**  
**UNIT SCHEDULE**

Wilmer Place, Stoke Newington - Feb 2013

Tenure	Type	Floor	Beds	Persons	sqm	sqft	Comments
Rent	C9	1	2	4	75	807	
Rent	B8	1	2	3	79	850	wheelchair
Rent	A11	1	1	2	52	560	
Rent	C1	1	2	4	76	818	
Rent	D1	1	3	5	89	958	
Rent	E1	G-1	4	6	133	1,432	
S/O	A4	2	1	2	58	624	
S/O	C9	2	2	4	74	797	
S/O	B8	2	2	3	77	829	wheelchair
Private	D1	1	3	5	89	958	
Private	C1	1	2	4	77	829	
Private	C2	1	2	4	75	807	
Private	B7	1	2	3	67	721	
Private	D7	1	3	5	87	936	
Private	C1	1	2	4	77	829	
Private	A2	1	1	2	75	807	
Private	A11	2	1	2	51	549	
Private	C1	2	2	4	77	829	
Private	C1	2	2	4	77	829	
Private	C3	2	2	4	76	818	
Private	B12	2	2	3	92	990	wheelchair
Private	C2	2	2	4	78	840	
Private	C1	2	2	4	77	829	
Private	C1	2	2	4	77	829	
Private	C2	2	2	4	75	807	
Private	B7	2	2	3	67	721	
Private	D7	2	3	5	87	936	
Private	C1	2	2	4	77	829	
Private	A2	2	1	2	75	807	wheelchair
Private	A3	2	1	2	52	560	
Private	B12	3	2	3	91	980	wheelchair
Private	A4	3	1	2	58	624	
Private	C9	3	2	4	74	797	
Private	C12	3	2	4	84	904	
Private	D3	3	3	5	108	1,163	
Private	D4	3	3	5	109	1,173	
Private	A17	3	1	2	50	538	
Private	B11	3	2	3	63	678	
Private	D4	3	3	5	109	1,173	
Private	D3	3	3	5	107	1,152	
Private	B14	3	2	3	78	840	
Private	A3	3	1	2	50	538	
Private	A5	3	1	2	52	560	
Private	B13	4	2	3	71	764	
Private	C13	4	2	4	79	850	
Private	D4	4	3	5	108	1,163	
Private	D3	4	3	5	109	1,173	
Private	A17	4	1	2	50	538	
Private	B11	4	2	3	62	667	
Private	D4	4	3	5	109	1,173	
Private	D3	4	3	5	107	1,152	
Private	B14	4	2	3	78	840	
Private	A3	4	1	2	50	538	
Private	A5	4	1	2	52	560	
					<b>4206</b>	<b>45,273</b>	

**APPENDIX B**  
**DAVIS LANGDON COSTS**



## 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:-

				£	£
<u>Site Preparations &amp; Demolition Works</u>					
- Allowance for demolitions and general site preparation		item		400,000	
					<b>400,000</b>
<u>Below Ground Works</u>					
- Foundations / Below Ground Works		item		1,483,000	
					<b>1,483,000</b>
<u>Retail</u>					
- Retail Shell & Core Works	GIA	44,588 sq.ft @ £	67	2,986,000	
- Retail Fit Out Works	NIA	29,300 sq.ft @ £		Excluded	
		<b>44,588 sq.ft @ £</b>	<b>67</b>		<b>2,986,000</b>
<u>Residential</u>					
- 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	
		<b>64,293 sq.ft @ £</b>	<b>160</b>		<b>10,272,000</b>
<u>Site Wide External Works &amp; Services</u>					
- 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	
					<b>1,308,000</b>
<b>Total Construction Costs (at 1<sup>st</sup> Quarter 2013 Prices)</b>	GIA	<b>108,881 sq.ft @ £</b>	<b>151</b>		<b>£ 16,449,000</b>
	NIA	<b>74,574 sq.ft @ £</b>	<b>221</b>		

## 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 Rea (GL Hearn) email - summary of changes (Option 2)	25/Jan/13
- All assumptions, basis and exclusions are as per the 27 <sup>th</sup> 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 £/ft <sup>2</sup> 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.	

**APPENDIX C**  
**DEVELOPMENT APPRAISAL**

**APPRAISAL SUMMARY** **GL HEARN**

Wilmer Place, Stoke Newington  
Newmark Properties

Summary Appraisal for Merged Phases 1 2 3

REVENUE	Units	Rate ft <sup>2</sup>	ft <sup>2</sup>	Unit Price	Gross Sales	Initial MRV
Sales Valuation						
45 private flats	1	£500.00	37,599	£18,799,500	18,799,500	15,750
6no. Rent Units	1	£165.00	5,425	£840,875	840,875	500,000
3no. S/Ownership units	1	£290.00	2,250	£652,500	652,500	515,750
<b>Totals</b>	<b>3</b>		<b>45,274</b>		<b>20,292,875</b>	

Rental Area Summary	Units	Rate ft <sup>2</sup>	ft <sup>2</sup>	Initial MRV/Unit	Net Rent at Sale	Initial MRV
45no. private ground rents	45	£17.06	29,300	£350	15,750	15,750
Sainsbury's	1		29,300	£500,000	500,000	500,000
<b>Totals</b>	<b>46</b>		<b>29,300</b>		<b>515,750</b>	<b>515,750</b>

Investment Valuation	Units	YP @	Rate ft <sup>2</sup>	Initial MRV/Unit	Net Rent at Sale	Initial MRV
45no. private ground rents	15,750	6.0000%		16.6667	262,500	
Sainsbury's	500,000	5.0000%		20,0000	10,000,000	
<b>Totals</b>					<b>10,262,500</b>	

GROSS DEVELOPMENT VALUE	Rate ft <sup>2</sup>	ft <sup>2</sup>	Value
Purchaser's Costs	5.80%	(548,204)	
<b>NET DEVELOPMENT VALUE</b>			<b>30,007,171</b>

Income from Tenants 13,125

**NET REALISATION 30,020,296**

OUTLAY	Rate ft <sup>2</sup>	ft <sup>2</sup>	Value
Acquisition Costs			
Residualised Price	3.015,641		
Stamp Duty	4.00%	140,361	
Agent Fee	1.00%	35,240	
Legal Fee	0.50%	17,620	
<b>Totals</b>			<b>3,209,463</b>

CONSTRUCTION COSTS	Rate ft <sup>2</sup>	ft <sup>2</sup>	Cost
Construction			
Sainsbury's	£66.97	44,588	2,986,000
45 private flats	£161.20	53,408	8,609,389
6no. Rent units	£150.60	7,706	1,160,503
3no. S/Ownership units	£157.68	3,196	503,956
<b>Totals</b>		<b>108,998</b>	<b>13,259,848</b>

Contingency	3.00%	397,795	
Demolition		400,000	
Statutory/LA		625,000	
<b>Other Construction</b>			<b>1,422,795</b>

Foundations		1,483,000	
Services/Renewables		1,308,000	
<b>Totals</b>			<b>2,791,000</b>

PROFESSIONAL FEES	Rate ft <sup>2</sup>	ft <sup>2</sup>	Value
Architect	10.00%	1,405,764	
<b>Totals</b>			<b>1,405,764</b>

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**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
<b>Totals</b>		<b>75,000</b>

DISPOSAL FEES	Rate ft <sup>2</sup>	ft <sup>2</sup>	Value
Sales Agent Fee	2.50%	476,550	
Sales Agent Fee	1.00%	114,934	
Sales Legal Fee	0.50%	95,310	
Sales Legal Fee	1.00%	114,934	
<b>Totals</b>			<b>801,728</b>

FINANCE	Debit Rate	Credit Rate	Rate
	7.00%	0.50%	(Nominal)
Total Finance Cost			1,524,159
<b>TOTAL COSTS</b>			<b>24,489,757</b>

PROFIT	Value
<b>PROFIT</b>	<b>5,530,539</b>

Performance Measures	Value
Profit on Cost%	22.58%
Profit on GDV%	18.10%
Profit on NDV%	18.43%
Development Yield% (on MRV)	2.11%
Equivalent Yield% (Nominal)	5.03%
Equivalent Yield% (True)	5.19%
IRR	26.59%

Rent Cover	Value
Rent Cover	10 yrs 9 mths
Profit Erosion (finance rate 7.000%)	2 yrs 11 mths

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