

Housing and Viability Assessment
November 2020





Note

MACBEAN STREET – HOUSING & VIABILITY CONCLUSION

1 Introduction

- 1.1 This note has been prepared on behalf of Legal & General Property Limited ('the Applicant' or 'L&G') to supplement the original Housing & Viability Statement ('original Statement') and the Housing Statement Addendum ('Addendum') that were submitted as part of the current underdetermined planning application (19/2498/F) ('the current Application') in August 2019.
- 1.2 This note supports, and should be read alongside, the original Housing & Viability Statement and the Addendum. Given the limited overall scale of the changes, this note seeks to clarify the housing related scheme amendments, and to finalise the affordable housing and viability position.
- 1.3 It should be noted that Quod do not necessarily agree with all the 'agreed' inputs in the final BPS position. Several inputs have been adopted by Quod in its final appraisal in the interest of finalising the affordable housing and viability discussion.

2 Housing Amendments

- 2.1 Following submission of the revised planning application in May 2019, L&G has been in extended discussion with the Royal Borough of Greenwich ('RBG') regarding the acceptability of the proposals. The following scheme amendments have therefore been proposed by the Applicant:
 - Reduction in number of homes: 595 (-26 homes)
 - Change of the unit mix (refer to latest accommodation schedule) to increase the proportion of family homes
 - Reduction in number of single aspect homes
- 2.2 The affordable housing offer remains unchanged at 20% (by unit) with a tenure split of 30% at London Living Rent Levels and 70% as Discounted Market Rent (c.70% of market rent).

3 Financial Viability

- 3.1 Throughout the scheme application, Quod has been working closely with the Council's independent viability assessor, BPS Chartered Surveyors ('BPS'), to determine the maximum reasonable quantum of affordable housing that the scheme can deliver. Incorporating the minor scheme changes, both Quod and BPS have now concluded that 20% affordable housing (by unit) exceeds the maximum reasonable. An updated financial appraisal is included in Appendix 1 which sets out the final agreed position.
- 3.2 The minor amendments to the scheme do not materially impact the agreed financial inputs and the overall viability position of the scheme. Cast Consultancy has reviewed the elemental cost plan submitted with the Addendum and has confirmed that there has been no impact to the £/sqft build rate.



Note continued

3.3 The table below sets out the initial and agreed positions for each viability input:

Table 1 – Key Viability Inputs

Input	Original Quod Position (Aug 2019)	Revised Quod Position (May 2020)	Final Agreed BPS Position (November 2020)
Build to Rent Value	£646/sqft	£614/sqft	£616/sqft
Commercial Value	£25/sqft rent 7% yield 12 months' rent free	£25/sqft rent 6% yield 6 months' rent free	£25/sqft rent 6% yield 6 months' rent free
Base Build Cost	£280/sqft	£278/sqft	£278/sqft
Contingency	5%	5%	5%
Professional Fees	11%	10%	10%
FF&E	£4,000/unit	£4,000/unit	£4,000/unit
Finance Rate	6.5%	6.5%	6.5%
Developer Profit	Residential Profit – 15% on GDV Commercial Profit – 15% on GDV	Residential Profit – 12.5% on GDV Commercial Profit – 15% on GDV	Residential Profit – 12.5% on GDV Commercial Profit – 15% on GDV
Land Value (Alternative Use)	£9.24m	£9.24m	£3.69m

3.4 The table below sets out a headline summary of the appraisal incorporating 20% affordable housing (by unit):

Table 2 – Summary Appraisal (20% affordable housing)

Scheme Revenue	
Build to Rent Revenue	£191,511,320
Commercial Revenue	£8,811,991
Affordable Housing Revenue	£35,777,332
Purchaser Costs	-£13,621,985
Total Net Value	£222,478,658
Scheme Costs	



Note continued

Construction Costs	£166,760,344
FF&E	£2,380,000
Professional Fees (10%)	£12,102,664
Marketing, Letting & Disposal Fees	£5,408,457
S106 & CIL	£6,187,768
Land Cost	£3,690,000
Land Acquisition Costs	£239,850
Finance	£564,859
Total Scheme Cost	197,333,942
Scheme Profit	£25,144,716
Target Agreed Profit	£27,400,000

3.5 The appraisal concludes that incorporating 20% affordable housing (70% Discounted Market Rent / 30% at London Living Rent Levels) and using the agreed inputs, the scheme generates a deficit of c.£25.14m. This is below the agreed target profit of c.£27.4m (see Table 1). This shows that the scheme cannot provide a typical competitive return for both developer and landowner in accordance with policy. The proposed affordable quantum and tenure split therefore exceeds the maximum reasonable level.

4 Summary & Conclusions

4.1 Quod and BPS have been engaged in detailed / extensive discussion to agree each input in the financial appraisal. BPS (Council's Independent Assessor) now agree that the affordable housing proposal exceeds the maximum reasonable level and that the viability negotiation can now be concluded.

4.2 Whilst the affordable housing proposal exceeds the viable amount based on current day viability, the applicant has confirmed they are willing to commit to the delivery of 20% affordable housing in view of the following factors:

- The applicant's intention to own and manage the completed development which provides an opportunity to build a Built-to-Rent brand in the UK and invest in a secure long-term income stream
- Recognising the local affordable housing need and affordability challenges in the Borough
- A range of commercial considerations

Appendix 1 – Financial Appraisal



Note continued

Appendix 1 – Financial Appraisal

**Macbean Street - Revised Scheme
20% Affordable Housing
Residual Profit**

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Private Rent	476	310,895	616.00	402,335	191,511,320
London Living Rent	36	24,001	380.00	253,344	9,120,380
DMR	<u>83</u>	<u>56,002</u>	476.00	321,168	<u>26,656,952</u>
Totals	595	390,898			227,288,652

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Flexible Commercial	1	21,774	25.00	544,350	544,350	544,350
Amenity	<u>1</u>	<u>69,280</u>		0	0	
Totals	2	91,054			544,350	544,350

Investment Valuation

Flexible Commercial					
Market Rent	544,350	YP @	6.0000%	16.6667	
(6mths Rent Free)		PV 6mths @	6.0000%	0.9713	8,811,991
Total Investment Valuation					8,811,991

GROSS DEVELOPMENT VALUE

				236,100,643
Purchaser's Costs			(13,621,985)	
Effective Purchaser's Costs Rate	154.58%			(13,621,985)

NET DEVELOPMENT VALUE

				222,478,658
NET REALISATION				222,478,658

OUTLAY

ACQUISITION COSTS

Fixed Price	3,690,000			
Fixed Price			3,690,000	3,690,000
Stamp Duty	5.00%	184,500		
Agent Fee	1.00%	36,900		
Legal Fee	0.50%	18,450		
				239,850

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Flexible Commercial	21,774	277.82	6,049,253
Amenity	69,280	277.82	19,247,370
Private Rent	405,289	277.82	112,597,390
London Living Rent	31,171	277.82	8,659,927
DMR	<u>72,732</u>	<u>277.82</u>	<u>20,206,404</u>
Totals	600,246 ft²		166,760,344
Mayoral CIL			1,397,925
Borough CIL			4,789,843
			172,948,112

Other Construction

FF&E	595 un	4,000.00 /un	2,380,000	2,380,000
------	--------	--------------	-----------	-----------

PROFESSIONAL FEES

Professional Fees	10.00%	12,102,664	12,102,664
-------------------	--------	------------	------------

MARKETING & LETTING

Marketing	1.00%	2,003,233	
Letting Agent Fee	10.00%	54,435	
Letting Legal Fee	2.50%	13,609	
			2,071,277

**Macbean Street - Revised Scheme
20% Affordable Housing
Residual Profit****DISPOSAL FEES**

Sales Agent Fee	1.00%	2,224,787	
Sales Legal Fee	0.50%	1,112,393	
			3,337,180

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		299,353	
Construction		265,506	
Total Finance Cost			564,859

TOTAL COSTS**197,333,942****PROFIT****25,144,716****Performance Measures**

Profit on Cost%	12.74%
Profit on GDV%	10.65%
IRR% (without Interest)	17,520.40%