DS2

DS2 LLP
Brock House
19 Langham Street
London W1W 6BP
www.ds2.co.uk

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Robbie McNaugher
London Borough of Haringey
Civic Centre
255 High Road
Wood Green
London
N22 8LE

By email only

Dear Robbie

HIGH ROAD WEST, TOTTENHAM – FINANCIAL VIABILITY ASSESSMENT FINAL POSITION

DS2 write to provide clarification in regard to the assumptions within the Financial Viability Assessment. This letter is submitted on behalf of the Applicant, Lendlease (High Road West) Limited ('the Applicant'), in order to clarify final assumptions to the proposed scheme viability following on from negotiations between the London Borough of Haringey Council's (hereafter 'the Council') viability assessor BNP Paribas Real Estate (hereafter 'BNPPRE') and the Greater London Assembly's (hereafter 'GLA') viability assessors.

The development proposals submitted for HRW remain the same and this note does not include any changes to the Proposed Scheme or new information. This letter provides a summary of the final agreed position in regard to assumed inputs within the financial viability appraisal following negotiations with Haringey, their viability advisors BNPPRE and the GLA.

The information provided within this letter and the accompanying attachments reflects the agreed position between the Applicant, the Council and the GLA on viability matters further to 9 months of discussions. The position has informed the affordable housing proposal that is being presented to Planning Committee Members, by officers, on 21 July 2022.

The FVA is based upon an Illustrative Scheme showing the potential location of buildings. The Illustrative Scheme lies within the Outline Proposal parameters and comprises the proposed scheme on which the FVA is based. The Illustrative Scheme is not a design template or submitted for approval; it represents one possible way the principles as defined in the submitted planning documents could be interpreted, achieved, and developed into a design. The Illustrative Scheme remains unchanged from the original October submission. Any changes to the outline element of the scheme will be picked up through a series of viability review mechanisms, details of which are noted below.

The approach to the Benchmark Land Value (BLV) remains unchanged from that contained in the FVA albeit this has also been updated following dialogue and correspondence with BNPPRE and the GLA.

This FVA process has been undertaken in accordance with planning policy, guidance and professional best practice guidance. DS2 can confirm that our instruction is not on a contingent fee or success related basis. The FVA is an objective and impartial view on the development viability of the Proposed Development.

This report has been prepared to accompany the planning application for the purposes of Section 106 discussions and should only be used for the consideration of these matters.

Development Value and Cost Amendments

Following the submission of the FVA in October 2021, BNPPRE have provided two responses in December 2021 and March 2022 in regard to the Illustrative Appraisal. DS2 has also been in discussions with the GLA.

We provide a summary of the agreed assumptions at Appendix 1 which reflect the final position agreed between the Applicant, the Council and the GLA.

Appraisal Results

The results of the FVAA are presented below.

Table 1: Revised FVA Results, HRW, July 2022			
Scheme	**Residual Return (% IRR) Ungeared**	**Target Return**	**Surplus/deficit**
Proposed development	11.62%	13%	-1.38%

As is evident from the results above, when comparing the Internal Rate of Return (IRR) of the Proposed Development to the target return there is a deficit. This indicates that the Illustrative Scheme proposals with 35% affordable housing (on a unit basis) and a wide range of other community and public benefits is in excess of the maximum quantity on a present day basis.

The Applicant however has committed to the affordable housing proposal and other regeneration benefits and the current deficit is deemed to be a reasonable risk given the long-term nature of the project.

The parties have been in discussions regarding Heads of Terms for a viability review process and it is agreed and there will be an early stage review, three mid-stage reviews and a late stage review. Through these reviews should the development returns improve there is a mechanism for additional contributions towards affordable housing to be secured.

Conclusions

DS2 has been instructed by the Applicant to provide this note to provide clarity of the final assumptions agreed in regard to the financial viability of the subject proposal. This note should be considered alongside the original FVA dated October 2021.

In assessing the residual profit of the Illustrative Scheme in relation to the revised benchmark IRR of 13%, the viability appraisal demonstrates that the Proposed Development currently generates a deficit however the applicant is committed to the affordable housing offer as a minimum provision and a series of viability reviews that could improve the quantum of affordable housing over the lifetime of the development.

Appendices

Appendix 1 – Summary of agreed inputs

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Revised Viability Assumptions, HRW, July 2022			
Input	**Assumption as per October 2021 Submission**	**Updated assumption as at July 2022 Committee Date**	**DS2 Comment**
RESIDENTIAL GDV			
Private Residential GDV	£700 psf	£700 psf with 2.5% growth	DS2 have assumed £700 psf as the base value for residential units in the scheme. BNPPRE assumed that there would be a 2.5% cumulative regeneration premium for each new group of private sale blocks coming forward. DS2 have adopted this within our revised viability assessment.
Shared Ownership GDV	£420 psf	£380 psf	DS2 have amended our assumption of shared ownership values in order to ensure affordability of the shared ownership units in accordance with LBH Intermediate Housing Policy Statement ("IHPS") 2018 income caps. In accordance with the S106 Heads of Terms the 1 and 2 bedrooms units will be affordable at gross household incomes of £40,000 per annum and larger units up to £60,000 for 6 months prior to and up to 3 months prior to completion of each block. After 3 months of marketing all units are then subject to £60,000 income caps. At practical completion the GLA cap of £90,000 incomes applies. The Shared Ownership units must be affordable to households such that housing costs, including mortgage costs, rent charged and service charges, must represent less than 40% of a household's net income, where net household income is 70% of gross household income. A rate of £380 psf reflects these assumptions.
Social Rent GDV	£110 psf	£124 psf	DS2 have amended our assumption in order to reflect that some social rented units will be provided above the reprovision of existing units on the Estate. The units provided as reprovision must be reprovided at existing rents, which are currently let below or at target rent levels. However, social rent units provided over and above reprovision will not be let at existing rents and therefore will likely achieve a higher value. We have therefore amended our assumption of social rent values to reflect this.
Total Residential GDV	**£948,080,800**	**£974,438,389**	

COMMERCIAL GDV							
Commercial GDV (Retail)	£25 Rent	7% Yield	18 month rent free	£25 Rent	6.75% Yield	18 month rent free	BNPPRE adopted a 6.75% yield within their assessment of the scheme and DS2 have adopted this within our updated viability assessment as a reasonable assumption.
Commercial GDV (Offices)	£27.50	5%	18 month rent free	£27.50	5%	15 month rent free	DS2 have revised our assumption regarding the office rent free period following negotiations with BNPPRE.
Commercial GDV (Sports facilities)	£15	7%	18 month rent free	£16.50	7%	18 month rent free	DS2 have revised our assumption regarding the commercial sports facilities following negotiations with BNPPRE.
Total Commercial GDV	**£37,849,673**			**£38,882,188**			
COSTS							
Construction Costs	£728,290,563 (incl. contingency) (As advised by RLB)			£715,646,928 (incl contingency) (As advised by CDM)			BNPPRE's cost advisors CDM reviewed the costs submitted as part of the FVA and provided a revised estimate. DS2 have adopted these as part of our revised viability assessment.
Site Wide Infrastructure	£73,233,798 (As advised by Gleeds/Lendlease)			£74,414,082 (As advised by CDM)			Following discussions between BNPPRE's cost advisors and the Applicants cost advisors, Gleeds/Lendlease, costs have been revised and this has been adopted within our revised viability assessment.
Residential sales legal fee	£1000 per unit			£800 per unit			In undertaking a review of the submitted FVA appraisal BNPPRE reduced the residential sales legal fee. As this is within an acceptable tolerance DS2 have adopted this within our updated viability assessment.
Commercial marketing fee	£2.50 psf			-			In undertaking a review of the submitted FVA appraisal BNPPRE removed the commercial marketing fee. As the commercial agency fee has increased this adjustment is within an acceptable tolerance. DS2 have adopted this within our updated viability assessment.
Commercial sale agency fee	0.5% of GDV			1% of GDV			In undertaking a review of the submitted FVA appraisal BNPPRE removed the commercial marketing fee, DS2 have adopted this within our updated viability assessment.
Homeloss & Compensation Costs	£8,306,575			£7,009,425			

Total Costs	**£1,009,499,322**	**£987,047,183**	(Before finance)
IRR	6.6%	11.62%	The above amendments to the appraisal assumption have adjusted the overall scheme IRR to 11.62%
Profit Expectation	14%	13%	Following discussions with the GLA and BNPPRE in regard to precedent from other planning decisions, an IRR of 13% was considered more appropriate. DS2 have therefore adopted 13% as the target profit return for the Proposed Development.