



DRAFT VIABILITY REPORT

For the Project

At

CRESSINGHAM GARDENS – PEOPLE'S PLAN
INFILL

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

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VIABILITY REPORT FOR THE REDEVELOPMENT OF CRESSINGHAM GARDENS ESTATE



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1. INTRODUCTION

The residents of Cressingham Gardens Estate have published the People's Plan. A proposal developed by the residents that proposes alternative approaches for refurbishing and developing new homes on the estate.

The following summarises the outputs from a high-level review of the Infill approach described, adopting key principles that are identifiable from the published plan.

1.1 Delivery from the proposed options

An Infill option with an energy/sustainability enhancement has been proposed. This can be summarised as:

- **Option 2 Small Partial Redevelopment and Infill**

This scenario proposes:

- Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
- Development of a small number new homes

Details of the Small Partial Redevelopment and Infill

- Demolition of 12 properties in Crosby
- Of which 12 tenants
- Replaced with 14 new homes
- Conversion of existing under-croft parking to provide 23 new homes

1.2 Delivery Aspirations

In assessing the People's Plan, the key assumptions and principles stated have been interpreted and incorporated into this assessment of viability. The model is consistent with the approach that has been applied in the review of the Council options and reported separately.

1.3 Programme and Decanting

The programme for the development options is based on a sequenced decant strategy that is aligned to the construction programme. It is acknowledged that the Council may deviate from this timeline, securing properties as and when they become available.

Broadly, development is proposed to take place in a continuous phase with site preparation concluding in the first quarter of 2017. Construction and conversion work will commence in the second quarter 2017 with work taking approximately:

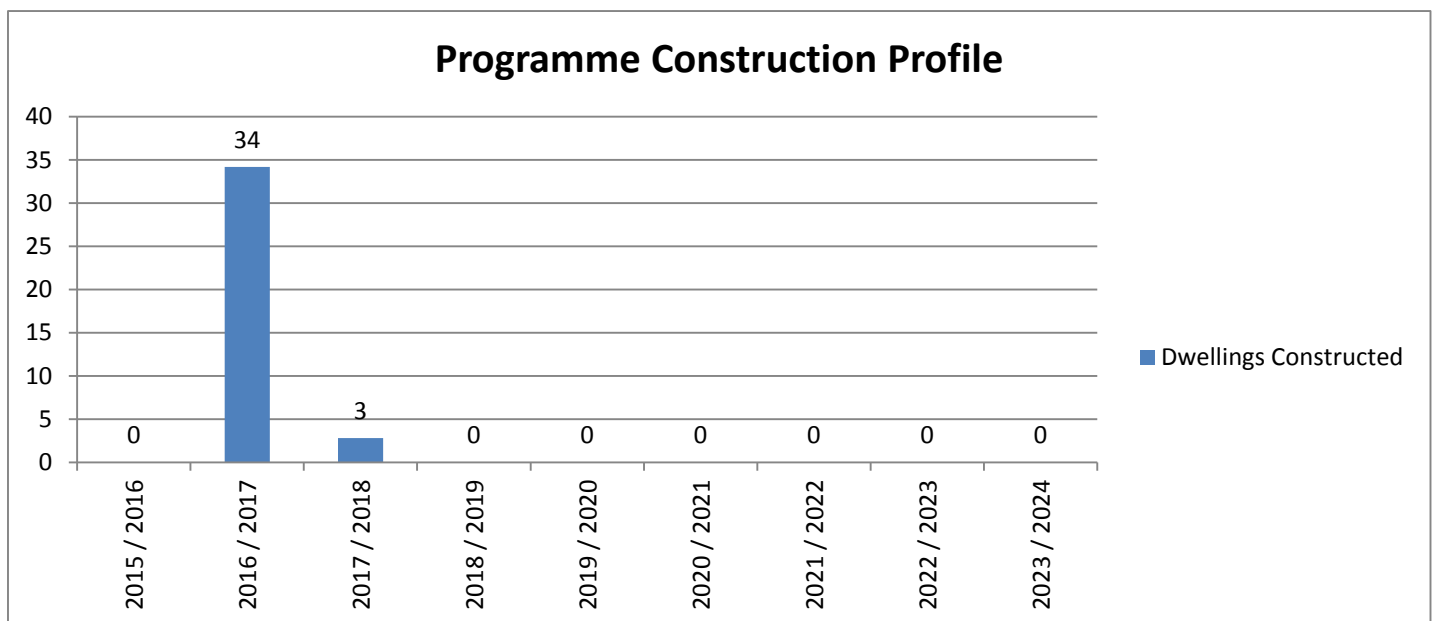
- People Plan Option > 52 weeks

Note: this is quicker than the People Plan model that indicates that dwellings will be delivered at approximately x8 dwellings per year.

The delivery profile is illustrated below for the base options:

People Plan

Delivery Profile



2. FINANCIAL VIABILITY ANALYSIS

The purpose of this financial viability analysis is to establish whether the options proposed to bring about estate regeneration at Cressingham Gardens could be viable and deliverable, providing the Council and HfL with an acceptable risk profile and a positive net present value ("NPV"¹).

To seek to maintain consistency with the Council options, the following common data sets were applicable:

- Finance Costs (annual rate)
 - Loans at 3.58% pa (fixed)
 - Commercial uplift 0.42% pa (fixed)

¹ NPV is a measure of how profitable a future cashflow is by comparing the value of a pound today to the value of that pound at a future point, taking inflation into account. If the NPV of a prospective project is positive, the project stands to provide an increased return on investment and would be considered acceptable. However, if NPV is negative, the project probably should be rejected because the cost of implementing will not be recovered in the future.

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- Private Sale
 - Open Market Value £588.00 sqft

- Assumed rents
 - Private Rent (£pw)

Beds	
1	£354.21
2	£453.96
3	£605.62
4	£757.29

- New Build Council Rent (£pw)

Beds	
1	£204.08
2	£265.29
3	£144.00
4	£158.00
5	£166.00

- Replaced Council Rent (£pw)

Beds	
1	£94.62
2	£108.12
3	£124.43
4	£143.69
5	£157.34

- Assumed number of leaseholders remaining on estate:
 - Remaining @ 80%
 - Leaseholder Buy Out @ 20.00%

- Percentage of gross rent assumed for capitalisation purposes:

	Beds	1	2	3	4	
Private		71.25%	71.25%	71.25%	71.25%	Gross:Net Rent
Replaced AH		76.00%	76.00%	76.00%	76.00%	Gross:Net Rent
New Build AH		80.75%	80.75%	80.75%	80.75%	Gross:Net Rent

- For the purpose of assessing the People’s Plan the following has been included:
 - Prelims @ 15%
 - Contractor Overhead and Profit @ 5.00%

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3. PEOPLE'S PLAN OPTION

An infill option has been considered for the People's Plan proposal. This option reflects the Residents objectives and an aspiration detailed earlier in their initial proposal and determines the extent to which these ambitions can be achieved.

The base option delivers the following outcomes:

Infill Option

No. of dwellings proposed by People's plan (37)	Achieved
No. of net gain dwellings	25
Housing Size Mix	Not Achieved - 2 Beds proposed
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved - 1 and 2 bed are at LHA rates.
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Not applicable
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£721k
Gross development value (60yr)	£31.55m
% Affordable housing on whole estate	100%
Leaseholder s20 Payments	£0m
Pre Finance NPV	£717k
Finance Cost	£13.1m
Breakeven Pre Finance	2057

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
People Plan			23			14		
			62%			38%		

4. SCENARIO TESTING

It is recognised that it is preferable for the Council to achieve as many of its ambitions as possible, within the most acceptable risk profile.

To assess and provide visibility of some of the potential options available to the Council to secure improvements, Airey Miller Partnership has tested a number of viability scenarios. Using the base option as the starting point, sequential alterations have been made to the principle assumptions to capture and articulate the potential scope for enhancement.

4.1 Outcomes of Scenario Testing

The outputs are summarised over the following pages.

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People's Plan 1.2

Applying the new build construction rate in the People's Plan to the under-croft construction the following output is generated:

No. of dwellings proposed by People's plan (37)	Achieved
No. of net gain dwellings	25
Housing Size Mix	Not Achieved - 2 Beds proposed
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved
Net gain 1 and 2 bed affordable homes meet Tenancy Strategy	Achieved – 1 and 2 bed are at LHA rates.
Net gain 3 bed (or more) affordable homes meet Tenancy Strategy	Achieved
Net Gain Private delivered as Private Rent	Not applicable
Nil pump priming investment from LBL	Achieved
Finance at Council Rate	Achieved
Grant Levels	£721k
Gross development value (60yr)	£31.75m
% Affordable housing on whole estate	100%
Leaseholder s20 Payments	£0m
Pre Finance NPV	-£2.15m
Finance Cost	£21.01m
Breakeven Pre Finance	N/A

	Private Rent	Private Sale	Replaced Council Rent (LBL/RP Owned)	Shared Equity (% of Replaced Leaseholders)	NB Discount Rent (Net Gain)	NB Council Rent (Net Gain) Tenancy Strategy	NB Council Rent (Net Gain)	Commercial area
People Plan			23			14		
			62%			38%		

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Notes and Exclusions

- Numerous input data remains to be refined by the client and other advisors, the current model output is therefore not representative of the final scheme position.
- Indicated finance costs will not be accurate where the scheme does not reach a positive position.
- The finance structure is indicative and will need to be agreed with the eventual funder.
- This model has been prepared at an early stage in the project development based on limited information; the results of the model may therefore change in line with scheme / financial development. A further iteration of the model will be undertaken in due course.
- The gross and net rent cashflow is intended to be indicative only. A full business plan including major repair and replacement should be produced to inform cashflow.
- Airey Miller accepts no liability for the accuracy of input data other than that provided by Airey Miller Partnership. In particular, no liability is accepted in respect of values or income or operational/management costs. At present, the model uses affordable values as advised by the Council and those set out in the Local Housing Allowance for Inner South East London, June 2015. The Open Market Sales and Rental Values reported to the Council are provided by Lambert Smith Hampton and Hamptons International. These will need to be checked for a more location specific value weightings going forward.
- Airey Miller Partnership accept no liability for user changes to the model, any proposed changes should be referred to Airey Miller Partnership for checking.
- Airey Miller Partnership has produced its own Order of Costs to inform the cost assumptions for some proposed redevelopment options. It is intended that these OoC's provide a consistent and up to date base date. The detail is based on the previous design work and it is assumed that the design will work around the existing infrastructure layout. If there is a need to re-route services etc. then this will incur additional cost.
- All figures reported are illustrative only. Cost and values will fluctuate during the development period and it is recommended that the financial position is constantly monitored to ensure financial performance is maintained.
- There may be minor discrepancies between the figures presented owing to rounding in the calculations within the financial model.
- Funding for any refurbishment through the HRA is not considered as part of the financial viability testing.
- The position does not reflect any proposed or emerging changes to the draft Housing Bill currently being progressed by Government.