



## DRAFT FEASIBILITY REPORT

For the Project

At

FENWICK ESTATE

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

Date: 30th June 2016  
Reference: *14/124 Fenwick Version 5*

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE



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|         |            |        |            |          |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE



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## 1. INTRODUCTION

The London Borough of Lambeth (the Council) has committed to a programme of estate regeneration within the Borough to bring about long-term improvements to its housing stock and the quality of living for its residents.

To bring about this change the Council is in the process of establishing Homes for Lambeth (HfL), an independent company that is wholly owned by the Council. HfL will be responsible for actually implementing the regeneration proposals currently being explored by the Council.

Under this arrangement, HfL will operate as a separate commercial entity. It will have its own governance and business planning processes. HfL will be responsible for raising the finances to fund the proposed development proposals.

HfL will be able to raise funding outside of the existing Housing Revenue Account. Where properties remain within the Council's Housing Revenue Account, HfL will not be able to fund future management and refurbishment costs of these homes, which will remain the responsibility of the Council.

In terms of proposals for regeneration, the Council has been looking at viable options to refurbish and extend the lifespan of existing stock to provide good quality housing to meet the needs of residents. It has also been looking at areas within the Borough with development potential, including its own estates, to bring forward additional housing in the Borough to help meet the growing number of households in need of housing.

As part of this programme, the Council has identified the housing stock on the Fenwick Estate ("the site") as being in need of improvement and with the potential for delivering an up-lift in the number of existing homes.

Airey Miller Partnership has been commissioned to complete preliminary financial analysis of the feasibility options being considered by the Council and to report on their relative financial merits to establish whether there could be an implementable proposition for HfL to take on.

The scenarios tested demonstrate how by flexing some of the key priorities underpinning regeneration on the estate, the capital cost, funding requirements and level of cross-subsidy generated to fund additional regeneration objectives or affordable housing interlinks to bring about different outcomes and risk profiles for HfL and the Council.

The purpose of this report is therefore to provide an overview of the extent of financial feasibility for the Estate, summarising design work to date and setting out a series of scenarios for further consideration by the Council and HfL.

An initial feasibility assessment has been carried out on a series of design scenarios to show a range of options that indicate the extent to which the Council's aspirations might be achieved. The aspirations span the design scenarios' ability to cross subsidise the replacement of existing properties, provide the requisite level of affordable housing provision sought under the Council's planning policy and deliver any new build private sector housing.

The design scenarios covered by this report demonstrate that there are a range of approaches that might allow a feasible development to be brought forward, although some may require modest adjustments to the Council's principle objectives and aspirations. In such instances, sensitivity testing has been conducted to assess the effects of changes to these requirements and to present the Council and HfL with a number of options to allow it to make informed decisions on how and where there is flexibility in the proposed development strategy. These options are in Section 3 of this report.

## 1.1 Delivery from the proposed scenarios

The Council is considering a number of development scenarios. The scenarios considered comprise:

### Option A

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 100% Private Rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 804 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 414

### Option B

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 67% Private Sale / 33% Affordable rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 753 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 363

### Option C

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 100% Private Sale
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 667 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 277

### Option D

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 50% Private Sale / 50% Private Rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 842 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 453

## Option E

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 60% Private Sale / 40% affordable rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 855 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 465

## Option F

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 40% Private Rent / 20% Private Sale / 40% affordable rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 1009 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 619

## Option G

This scenario proposes:

- Redevelopment of the entire site
- Provision of new homes, flats and houses
- Net Gain 56% Private Rent / 44% affordable rent
- Net Gain 55 Affordable S106 units

Details of Full Redevelopment option

- Provides circa 1164 new homes (mix to be determined)
- Phased redevelopment (to be determined)
- Net gain homes 774

## 1.2 Delivery Aspirations

Within the options considered, it has been assumed that the regeneration proposals will re-provide the existing stock (re-providing the equivalent unit size mix as currently exists).

For the purpose of the modelling work, it is assumed that the development options are phased and are tested on the basis that they run consecutively. The phases are assumed to re-provide the properties decanted to facilitate the phase. Going forward, further detailed examination of the phasing and decant strategy will be required.

A Right to Buy capital input is assumed against 30% of the net gain affordable housing construction costs. This assumes that the Council can satisfy the funding requirements.

The Council advises Airey Miller that it has set out clear minimum objectives for regeneration.

These are:

- To re-provide homes for all those wishing to remain on an estate. For the purposes of the estate regeneration this means:
  - Re-providing all existing tenants with an equivalent new home (in due course this will be determined according the Council's Key Guarantees to tenants)
  - Re-providing 80% of leaseholders with an equivalent new home
- To set the rent for existing tenants to the equivalent of a social or target rent (i.e. homes at council rent levels)
- As a minimum, to ensure that the net gain additional new homes meet Council policy:
  - Planning Policy requires a minimum of 40% affordable homes
  - Council Rent requires that 1 and 2 bedroom properties be let at maximum of LHA rates and family homes (3 bedrooms and larger) be let at target rents

The Council has also declared its aspirations as set out below:

- Tenure of net gain homes
  - 40% affordable (made up from 100% Council Rent )
  - 60% private rent
- Rents - Net gain affordable homes to be provided at council rent levels (otherwise known as Target Rent)

In terms of scheme composition, all scenarios include the 55 homes to be provided by Transport for London. These homes will be built by Transport for London; they will then be handed over to Homes for Lambeth and the rental income going forwards will be retained by Homes for Lambeth. The rents for these 55 homes will be at council rents.

The scenarios draw on the massing studies that have been undertaken by Karakusevic Carson Architects on behalf of the Council. Where the scenario outputs report "Housing Size Mix as per KCA dwelling Size", this uses the ratios of different sizes of homes as determined by the massing studies that will be necessary to enable re-housing of existing residents.

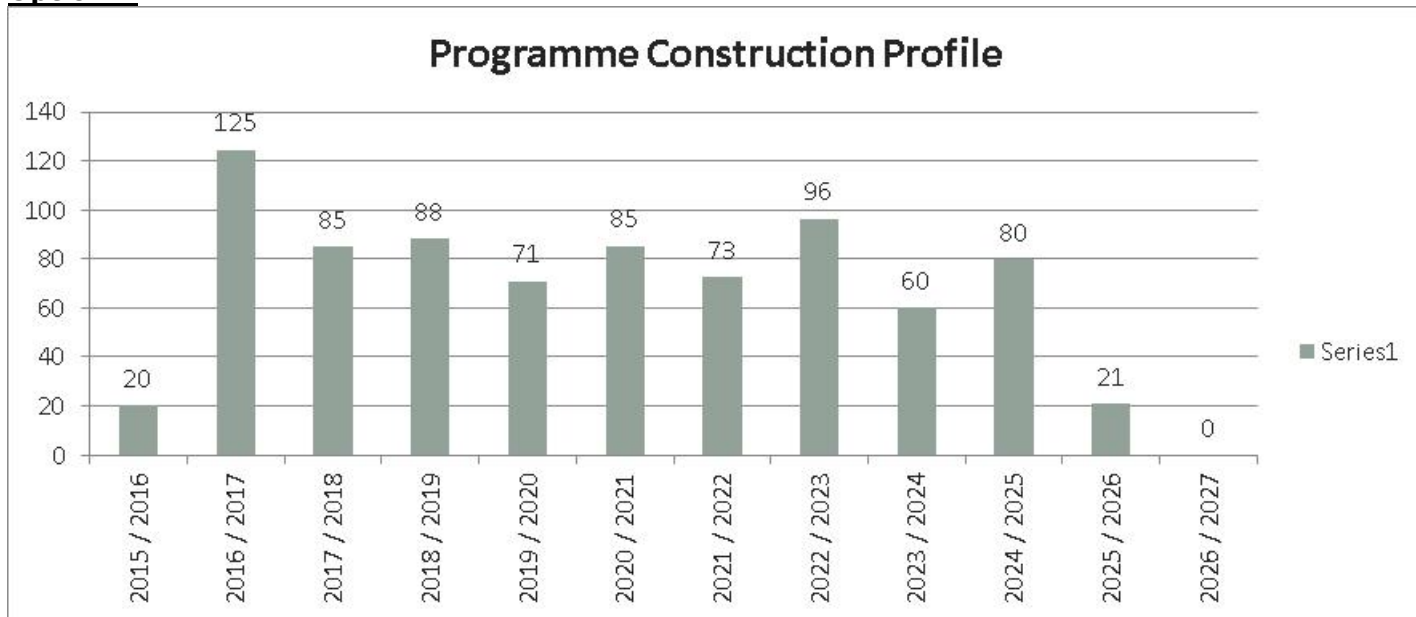
Where it states "All affordable at council rent or meets tenancy strategy", if it responds with Council Rent, then all net additional affordable homes will be at council rent; where it responds with Tenancy Strategy, then 1 and 2 bed properties will be at LHA rents and 3+ bed properties will be at Council Rent.

**1.3 Programme and Decanting**

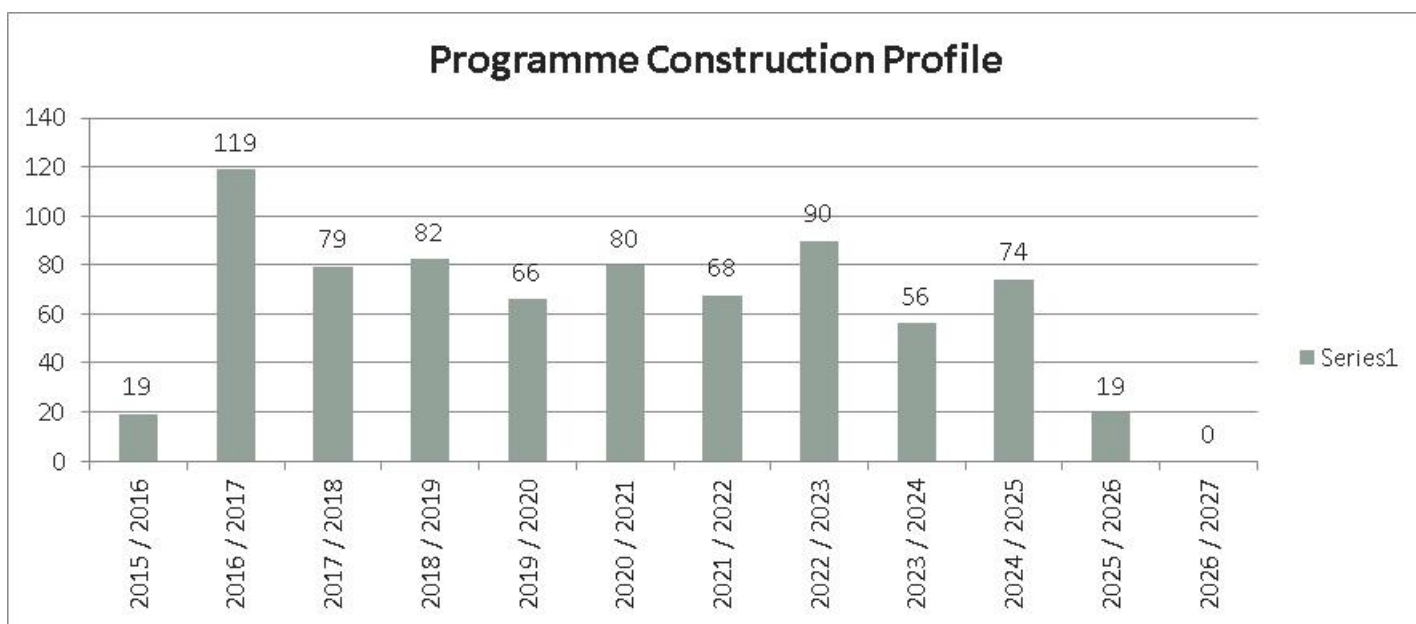
The programme for the development scenarios' is based on a sequence of decants as described above. The phases are aligned to the indicative construction programme. It is acknowledged that the Council may deviate from this timeline, securing properties as and when they become available.

The delivery profile is illustrated below for each scenario:

**Option A**

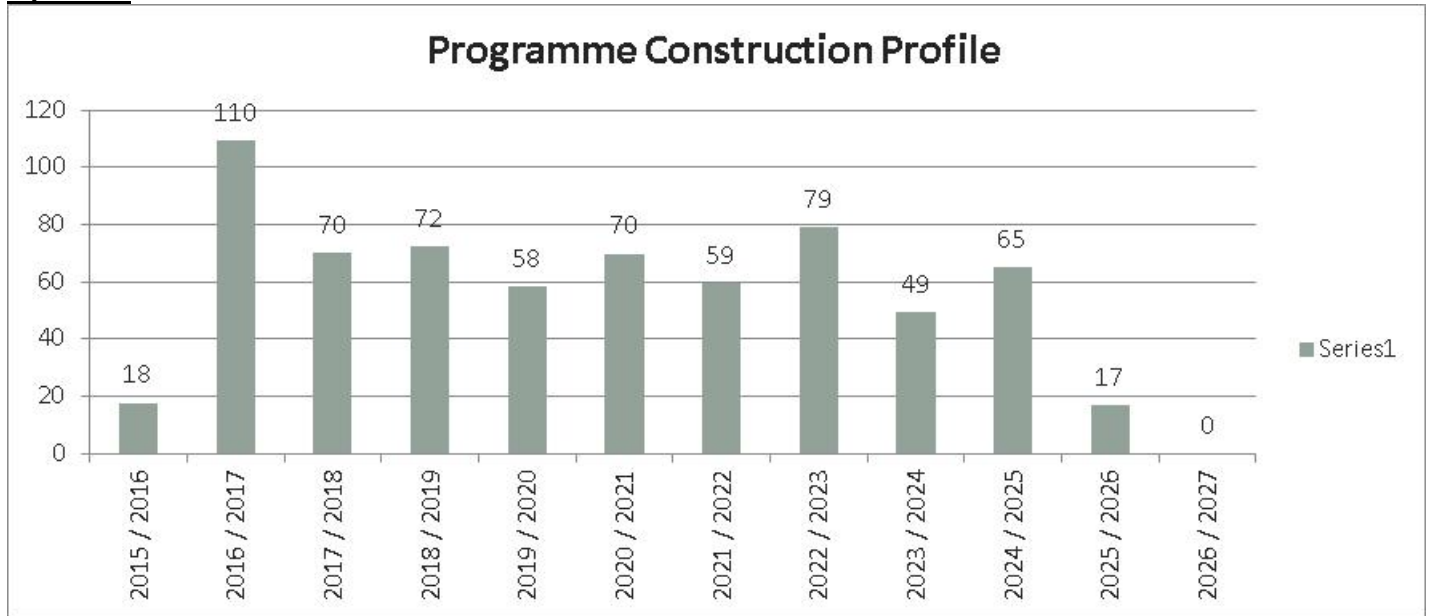


**Option B**

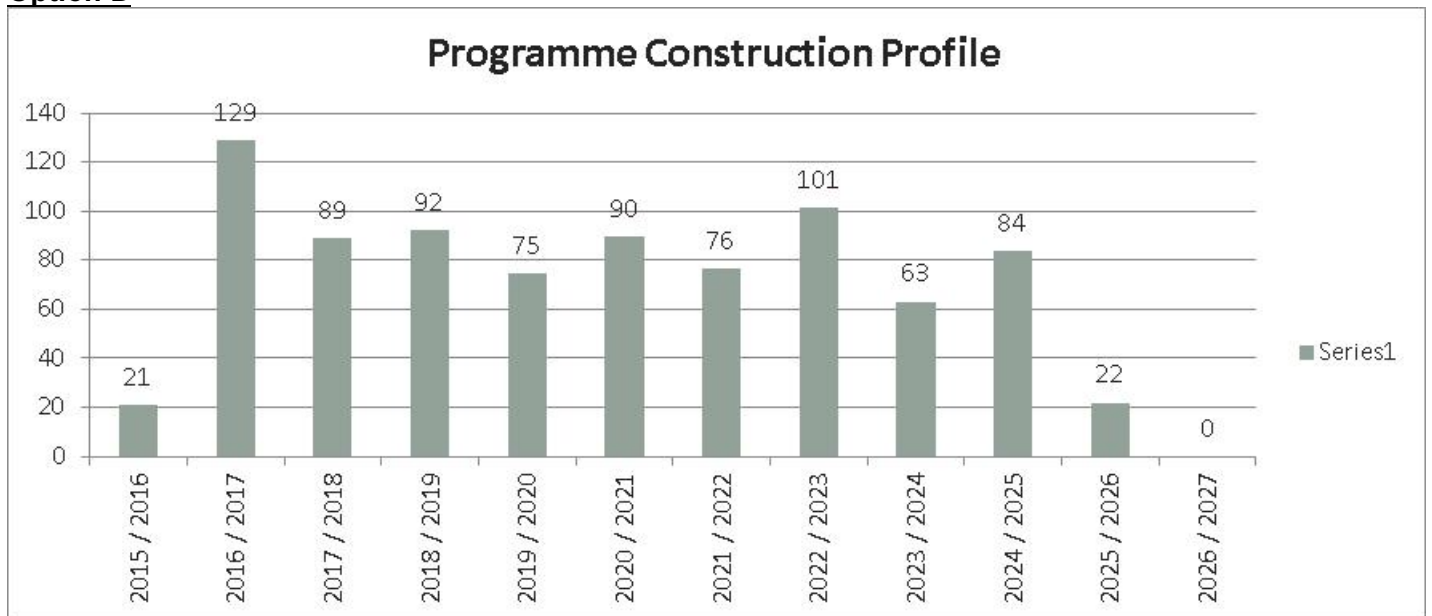




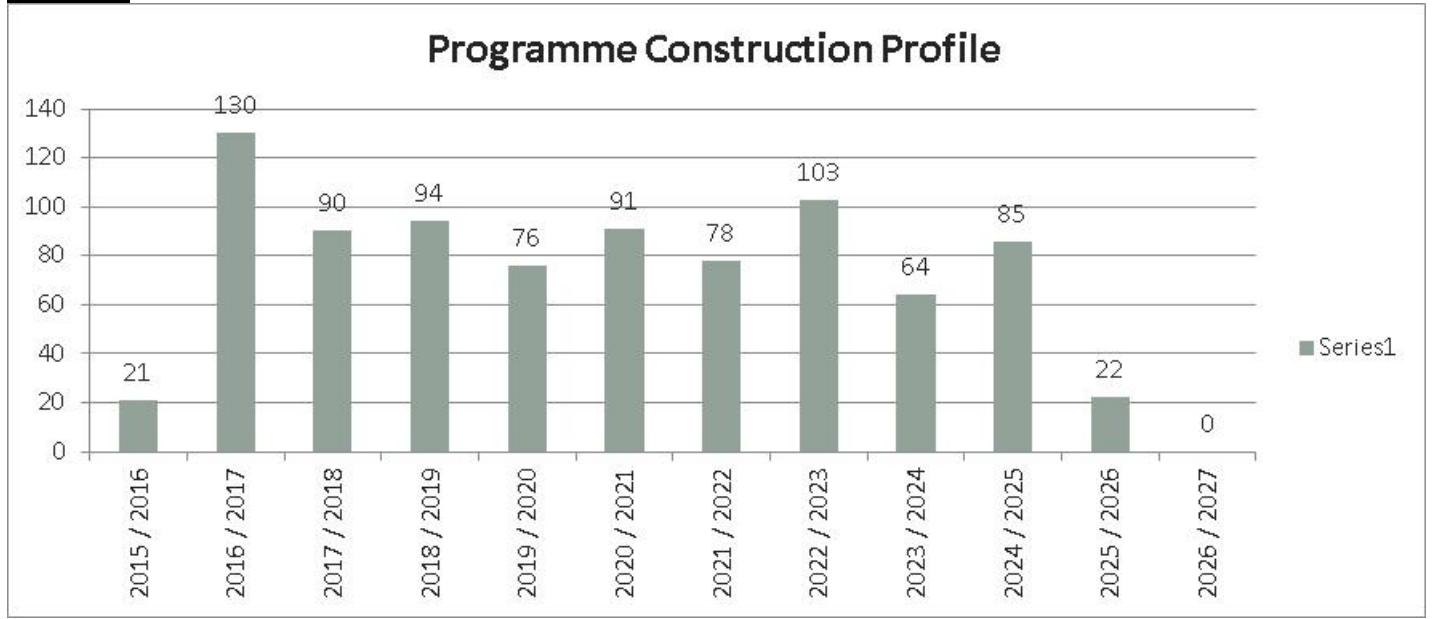
**Option C**



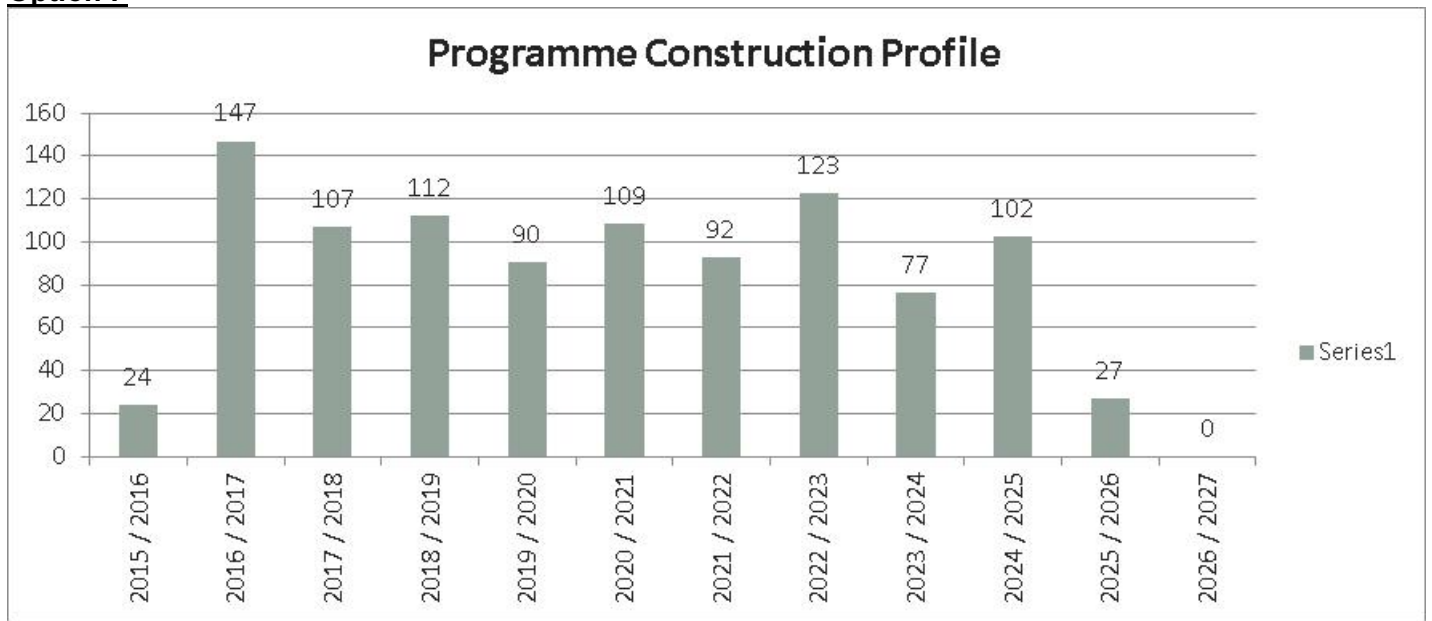
**Option D**



**Option E**

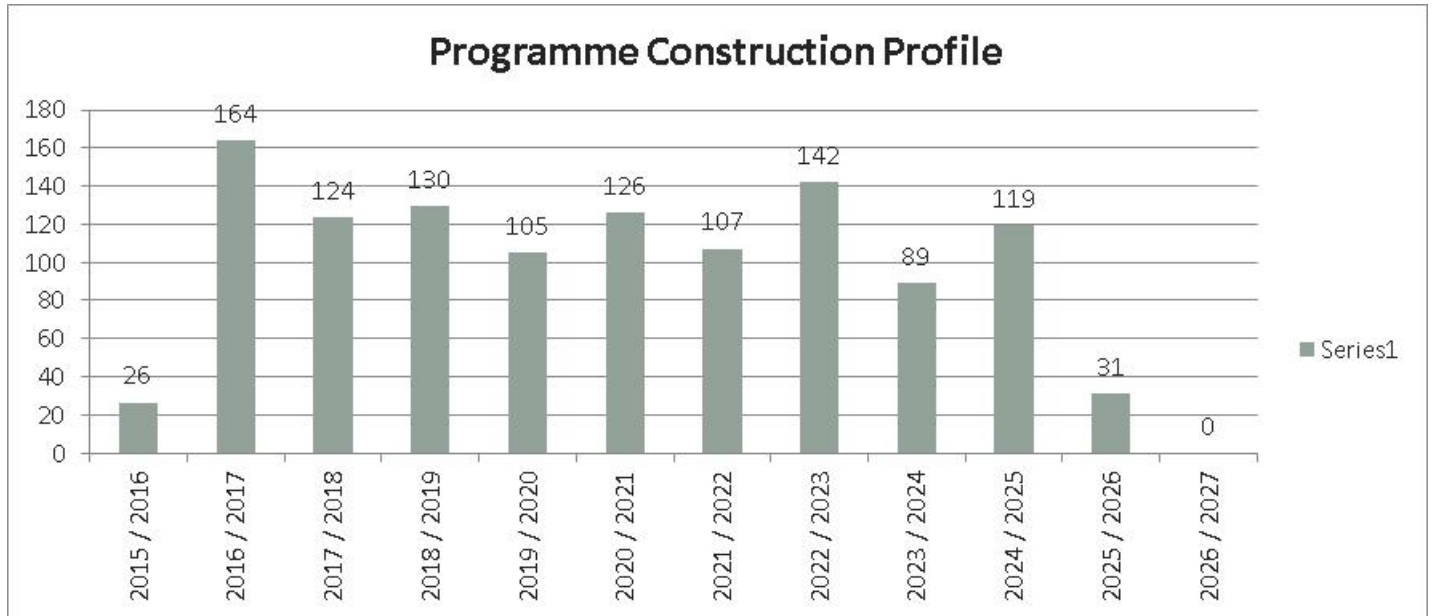


**Option F**



# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Option G



## 2. FINANCIAL FEASIBILITY ANALYSIS

The purpose of this financial feasibility analysis is to establish whether there can be reasonably expected to be a potentially feasible regeneration scheme, providing the Council with an acceptable risk profile and a positive net present value ("NPV"<sup>1</sup>).

In terms of the financial structure, it is recognised that the Council is still considering a number of different finance approaches. For the purpose of this analysis, the feasibility appraisal is operating a prudential borrowing funding structure. In brief, this approach enables:

- Development finance cost to be rolled-up
- Facility covering total expenditure to be available for drawdown.
- Certainty on finance charges for borrowing term.
- Income commences upon occupation under PRS scenario. Private sales enable income to be realised earlier through off-plan sales and earlier hand-over during construction.

To demonstrate the feasibility of the development scenarios, a number of feasibility models and options have been prepared and assessed to ensure that the financial parameters of the business case are satisfied within an acceptable risk profile.

The outputs are based on a notional regeneration approach and was assessed to be feasible when the following criteria were achieved:

- A positive NPV greater than £0 is calculated.
- The ability of the project to be self-financing over the lifecycle of the scheme. Self-financing means having the ability to service its operating costs beyond the construction phase.

The key data inputs of the assumed scenarios are demonstrated in the outputs reported in Section 4. To ensure consistency across the assessment the following common data sets were applicable to all the scenarios tested:

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

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<sup>1</sup> NPV is a measure of how profitable a future cash flow 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.

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

- Private Sale
  - Open Market Value      £785 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    £253.82
    - 2    £302.33
    - 3    £354.46
    - 4    £417.02
  
  - Replaced Council Rent (£pw)
    - Beds
    - 1    £117.00
    - 2    £135.00
    - 3    £144.00
    - 4    £158.00
  
- 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             |      | 77.50% | 81.57% | 85.19% | 87.37% | Gross:Net Rent |
| New Build AH        |      | 70.16% | 74.31% | 77.51% | 80.29% | Gross:Net Rent |
| Replaced Affordable |      | 39.90% | 47.38% | 50.42% | 54.47% | Gross:Net Rent |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE



## 3. FEASIBILITY SCENARIOS

A range of options have been considered. Each development scenario seeks to take account of the Council's objectives and aspirations detailed earlier in this report and determine the extent to which these ambitions can be achieved.

The scenarios for development can be summarised as follows:

| <u>Scenario</u> | <u>Position</u> |
|-----------------|-----------------|
| A               | £3,079,341      |
| B               | £3,246,162      |
| C               | £2,306,067      |
| D               | £423,162        |
| E               | £1,696,692      |
| F               | £973,442        |
| G               | £3,445,001      |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario A

|  |   |
|--|---|
| No. of dwellings proposed                                    | 804   |
| No. of net gain dwellings                                    | 414   |
| Housing Size Mix as per KCA dwelling Size                    | Achieved  |
| Re-provide existing homes at Target Rent                     | Achieved  |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed - 13% Net Gain Affordable / 87% Private Rent |
| All affordable at council rent or meets tenancy strategy     | Council Rent  |
| Net Gain Private delivered as Private Rent                   | Achieved  |
| Finance at Council Rate                                      | Achieved  |
| Grant Levels   | £0  |
| Gross revenue value (60yr)                                   | £1,469m   |
| % Affordable housing on whole estate                         | 42%   |
| Tenant and Leaseholder payments                              | £21.3m  |
| Pre Finance NPV  | <b>£3,079,341</b>                                   |
| Indicative Finance Cost                                      | £611.3m   |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick | 359<br>45%   |              | 280<br>35%            | 110<br>14%    | 55<br>7%     |                |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario B

|  |   |
|--|---|
| No. of dwellings proposed                                    | 753   |
| No. of net gain dwellings                                    | 363   |
| Housing Size Mix as per KCA dwelling Size                    | Achieved  |
| Re-provide existing homes at Target Rent                     | Achieved  |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 34% Net Gain Affordable / 66% Private Sale |
| All affordable at council rent or meets tenancy strategy     | Council Rent  |
| Net Gain Private delivered as Private Rent                   | Flexed – 100% Sale                                  |
| Finance at Council Rate                                      | Achieved  |
| Grant Levels   | £0  |
| Gross revenue value (60yr)                                   | £405.6m   |
| % Affordable housing on whole estate                         | 46%   |
| Tenant and Leaseholder payments                              | £21.3m  |
| Pre Finance NPV  | <b>£3,246,162</b>                                   |
| Indicative Finance Cost                                      | £274.1m   |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick |              | 238<br>32%   | 280<br>37%            | 110<br>15%    | 55<br>7%     | 70<br>9%       |



# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario C

|  |   |
|--|---|
| No. of dwellings proposed                                    | 667   |
| No. of net gain dwellings                                    | 277   |
| Housing Size Mix as per KCA dwelling Size                    | Achieved  |
| Re-provide existing homes at Target Rent                     | Achieved  |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 20% Net Gain Affordable / 80% Private Sale |
| All affordable at council rent or meets tenancy strategy     | Council Rent  |
| Net Gain Private delivered as Private Rent                   | Flexed – 100% Sale                                  |
| Finance at Council Rate                                      | Achieved  |
| Grant Levels   | £0  |
| Gross revenue value (60yr)                                   | £362.2m   |
| % Affordable housing on whole estate                         | 50%   |
| Tenant and Leaseholder payments                              | £21.3m  |
| Pre Finance NPV  | <b>£2,306,067</b>                                   |
| Indicative Finance Cost                                      | £287.9m   |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick |              | 222<br>33%   | 280<br>42%            | 110<br>17%    | 55<br>8%     |                |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario D

|  |  |
|--|--|
| No. of dwellings proposed                                    | 842  |
| No. of net gain dwellings                                    | 453  |
| Housing Size Mix as per KCA dwelling Size                    | Achieved                                       |
| Re-provide existing homes at Target Rent                     | Achieved                                       |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 35% Net Gain Affordable / 65% Private |
| All affordable at council rent or meets tenancy strategy     | Council Rent                                   |
| Net Gain Private delivered as Private Rent                   | Flexed – 50% Rent / 50% Sale                   |
| Finance at Council Rate                                      | Achieved                                       |
| Grant Levels   | £0   |
| Gross revenue value (60yr)                                   | £865.2m  |
| % Affordable housing on whole estate                         | 52%  |
| Tenant and Leaseholder payments                              | £21.3m   |
| Pre Finance NPV  | <b>£423,162</b>                                |
| Indicative Finance Cost                                      | £356.6m  |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick | 146<br>17%   | 146<br>17%   | 280<br>34%            | 110<br>13%    | 55<br>6.5%   | 105<br>12.5%   |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario E

|  |   |
|--|---|
| No. of dwellings proposed                                    | 855   |
| No. of net gain dwellings                                    | 465   |
| Housing Size Mix as per KCA dwelling Size                    | Achieved  |
| Re-provide existing homes at Target Rent                     | Achieved  |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 47% Net Gain Affordable / 53% Private Sale |
| All affordable at council rent or meets tenancy strategy     | Council Rent  |
| Net Gain Private delivered as Private Rent                   | Flexed – 100% Sale                                  |
| Finance at Council Rate                                      | Achieved  |
| Grant Levels   | £0  |
| Gross revenue value (60yr)                                   | £454.7m   |
| % Affordable housing on whole estate                         | 58%   |
| Tenant and Leaseholder payments                              | £21.3m  |
| Pre Finance NPV  | <b>£1,696,692</b>                                   |
| Indicative Finance Cost                                      | £290.7m   |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick |              | 247<br>29%   | 280<br>34%            | 110<br>13%    | 55<br>6%     | 163<br>19%     |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario F

|  |  |
|--|--|
| No. of dwellings proposed                                    | 1009   |
| No. of net gain dwellings                                    | 619  |
| Housing Size Mix as per KCA dwelling Size                    | Achieved                                       |
| Re-provide existing homes at Target Rent                     | Achieved                                       |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 45% Net Gain Affordable / 55% Private |
| All affordable at council rent or meets tenancy strategy     | Council Rent                                   |
| Net Gain Private delivered as Private Rent                   | Flexed – 33% Sale / 67% Rent                   |
| Finance at Council Rate                                      | Achieved                                       |
| Grant Levels   | £0   |
| Gross revenue value (60yr)                                   | £1,188m  |
| % Affordable housing on whole estate                         | 55%  |
| Tenant and Leaseholder payments                              | £21.3m   |
| Pre Finance NPV  | <b>£973,442</b>                                |
| Indicative Finance Cost                                      | £456.6m  |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick | 227<br>22%   | 113<br>11%   | 280<br>28%            | 110<br>11%    | 55<br>5%     | 224<br>22%     |

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE

## Scenario G

|  |  |
|--|--|
| No. of dwellings proposed                                    | 1164   |
| No. of net gain dwellings                                    | 774  |
| Housing Size Mix as per KCA dwelling Size                    | Achieved                                       |
| Re-provide existing homes at Target Rent                     | Achieved                                       |
| Net gain homes meet Planning Policy (40% affordable housing) | Flexed – 44% Net Gain Affordable / 56% Private |
| All affordable at council rent or meets tenancy strategy     | Council Rent                                   |
| Net Gain Private delivered as Private Rent                   | Achieved                                       |
| Finance at Council Rate                                      | Achieved                                       |
| Grant Levels   | £0   |
| Gross revenue value (60yr)                                   | £1,864m  |
| % Affordable housing on whole estate                         | 53%  |
| Tenant and Leaseholder payments                              | £21.3m   |
| Pre Finance NPV  | <b>£3,445,001</b>                              |
| Indicative Finance Cost                                      | £782m  |

## Tenure Split

|         | Private Rent | Private Sale | Replaced Council Rent | Shared Equity | S106 Fenwick | Net Affordable |
|---------|--------------|--------------|-----------------------|---------------|--------------|----------------|
| Fenwick | 433<br>37%   |              | 280<br>24%            | 110<br>9%     | 55<br>5%     | 286<br>25%     |

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#### **4. SUMMARY**

Through the financial assessments of the development scenarios, it is evident from the outputs presented that the Fenwick Estate could be considered feasible for regeneration.

The scenarios assessed recognise the key objectives of delivering within the principle policy requirements of the Council.

The scenarios tested demonstrate the scope for further refinement moving forward and the potential to flex the options to achieve more of the Council's aspirations or to achieve a greater NPV.

# FEASIBILITY REPORT FOR THE REDEVELOPMENT OF FENWICK ESTATE



## 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.
- The initial feasibility structure assembled by Airey Miller is informed by assumptions and advice supplied by the Client.
- 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 financial assessment is advised in due course.
- The gross and net rent cash flow is intended to be indicative only. A full business plan including major repair and replacement should be produced to inform cash flow.
- Construction cost allowances are informed by BCIS cost data. A further cost review should be undertaken as the level of design detail and site information available advances.
- Non residential space has been included to reflect suggested uses by the architect. The assumptions on extent, cost and revenue are to be reviewed by the Client going forward.
- The model uses affordable values as advised by the Client and those set out in the Local Housing Allowance limits dated June 2015. The Open Market Sales and Rental Values reported to the Council are provided by Lambert Smith Hampton and Hamptons International.
- Airey Miller accepts no liability for the accuracy of input data other than that provided by Airey Miller. In particular, no liability is accepted in respect of the accuracy or completeness of the logic and formulae used to create it, any valuations arising from or values and income and operational/management costs projected.
- Airey Miller accept no liability for user changes to the model, any proposed changes should be referred to Airey Miller for checking.
- The model has not been audited or independently tested. Any recipients of the Model must carry out its own due diligence.
- The NPV figures reported are illustrative only and Airey Miller makes no representation, warranty or undertaking (express or implied) as to the adequacy, completeness or accuracy of the Model. Cost and values will fluctuate during the development period and it is recommended that the financial position be 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 feasibility testing.