DRAFT FEASIBILITY REPORT

For the Project

At

CENTRAL HILL ESTATE

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

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Contents

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 feasible scenarios 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 Central Hill 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 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 viability scenarios 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:

Scenario 1

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of the Redevelopment option
— Provides circa 961 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 505

Scenario 2

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 961 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 505

Scenario 3

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 1061 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 605

Scenario 4

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 1061 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 605

Scenario 5

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 1201 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 745

Scenario 6

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 1062 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 606

Scenario 7

This scenario proposes:
— Redevelopment of the entire site
— Provision of new homes, flats and houses

Details of Redevelopment option
— Provides circa 1061 new homes (mix to be determined)
— Phased redevelopment (to be determined)
— Net gain homes 605

1.2 Delivery Aspirations

Within the scenarios considered, it is 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 scenarios 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 Resident Homeowners with an equivalent new home
  - Buying back Non-Resident Homeowners

- To consider scenario's where upfront financial support is provided with an expectation that it would be recouped in the future through Homes for Lambeth. Such scenarios demonstrate how initial capital injection can significantly increase the number of affordable homes that could be built.

- To set the rent for existing tenants to the equivalent of a social or target rent (i.e. homes at council rent levels)

- To seek 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% at Council Rent levels)
  - 60% private rent

- Rents - Net gain affordable homes to be provided at council rent levels (otherwise known as Target Rent)

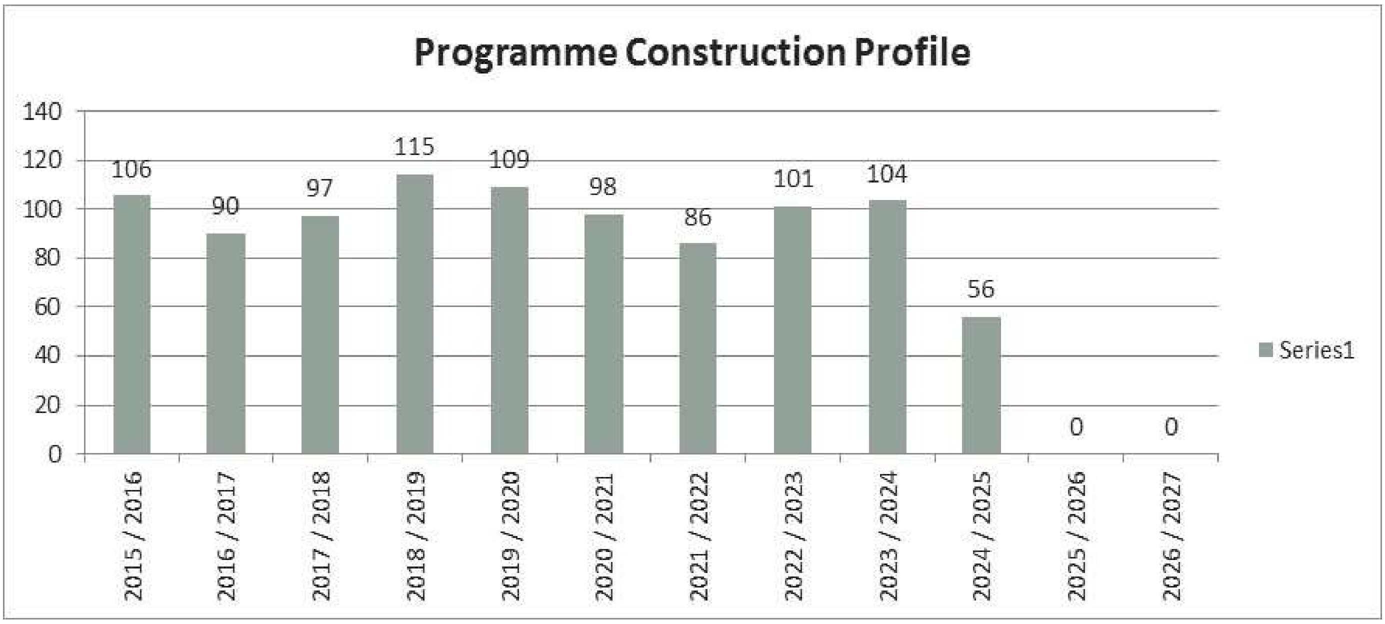
The scenarios draw on the massing and dwelling mix studies that have been undertaken by PRP Architects on behalf of the Council.

In relation to the output tables in Section 4, 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; if 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.

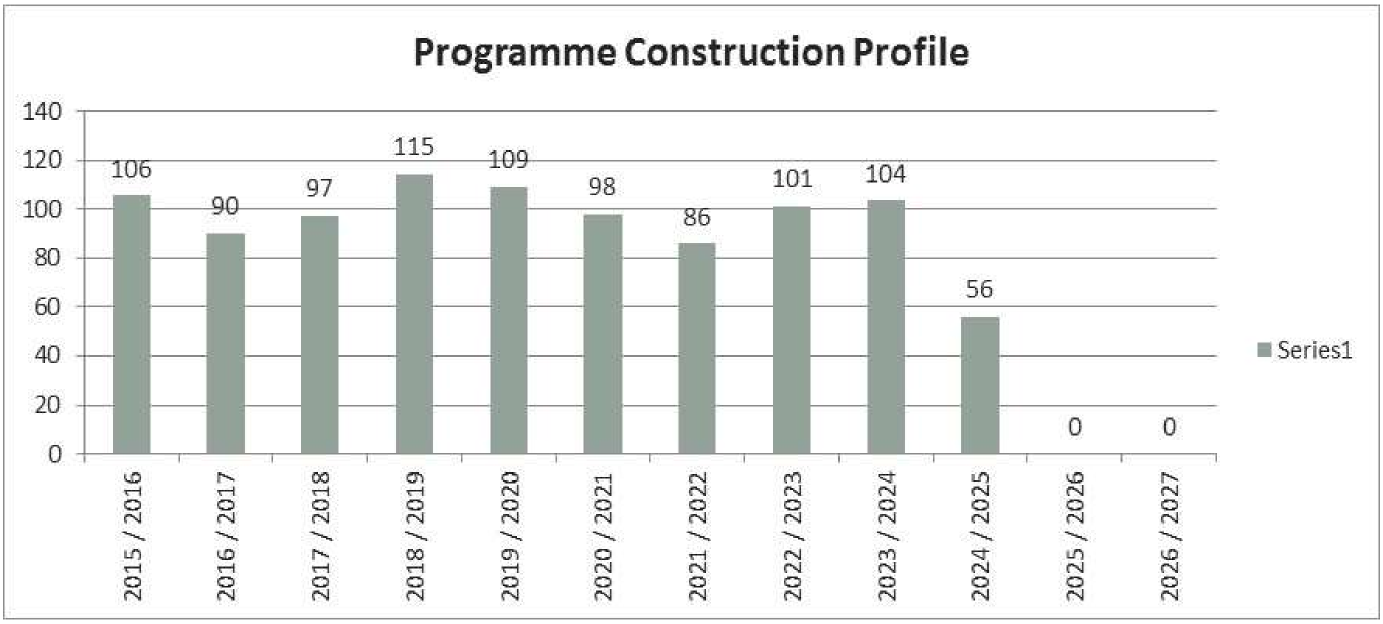
1.3 Programme and Decanting

The delivery profile is illustrated below for the options:

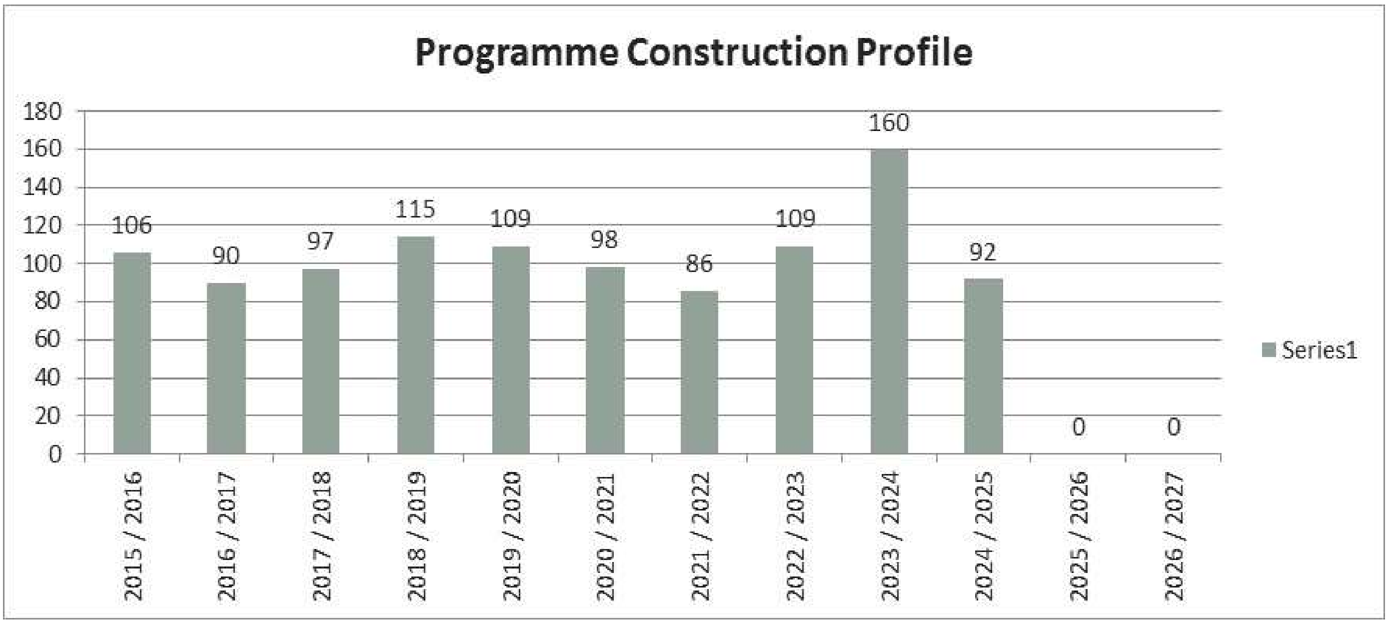
Scenario 1



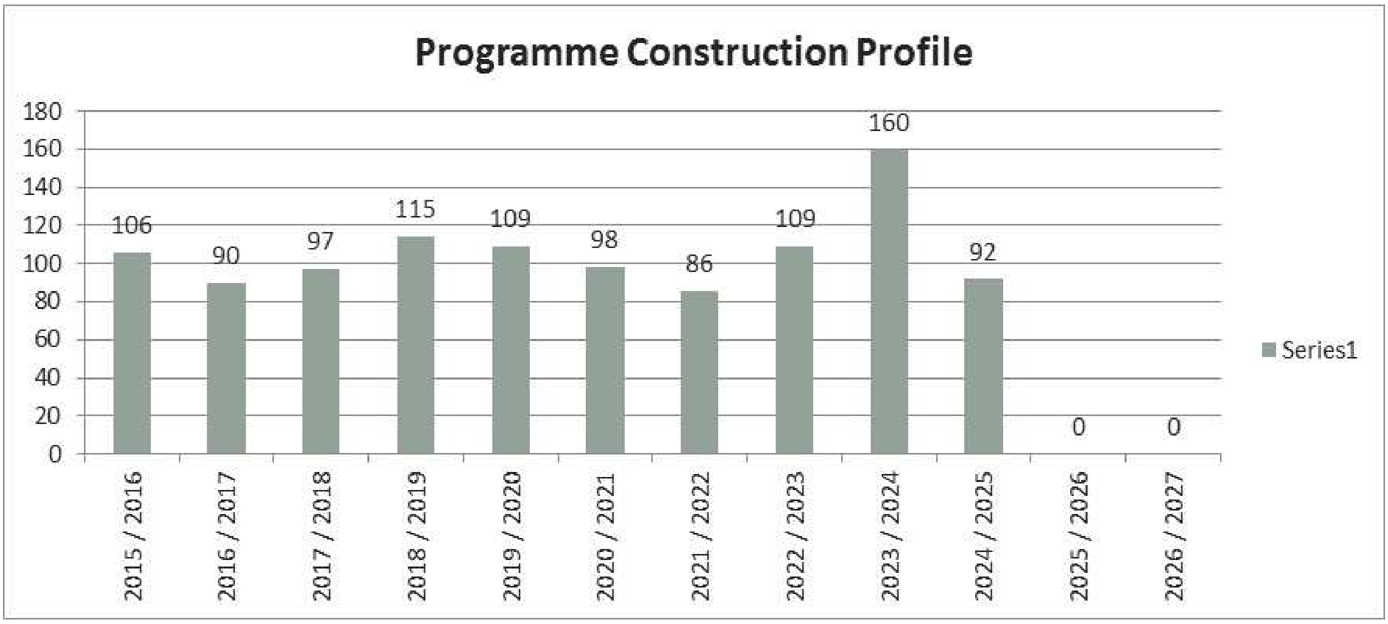
Scenario 2



Scenario 3



Scenario 4



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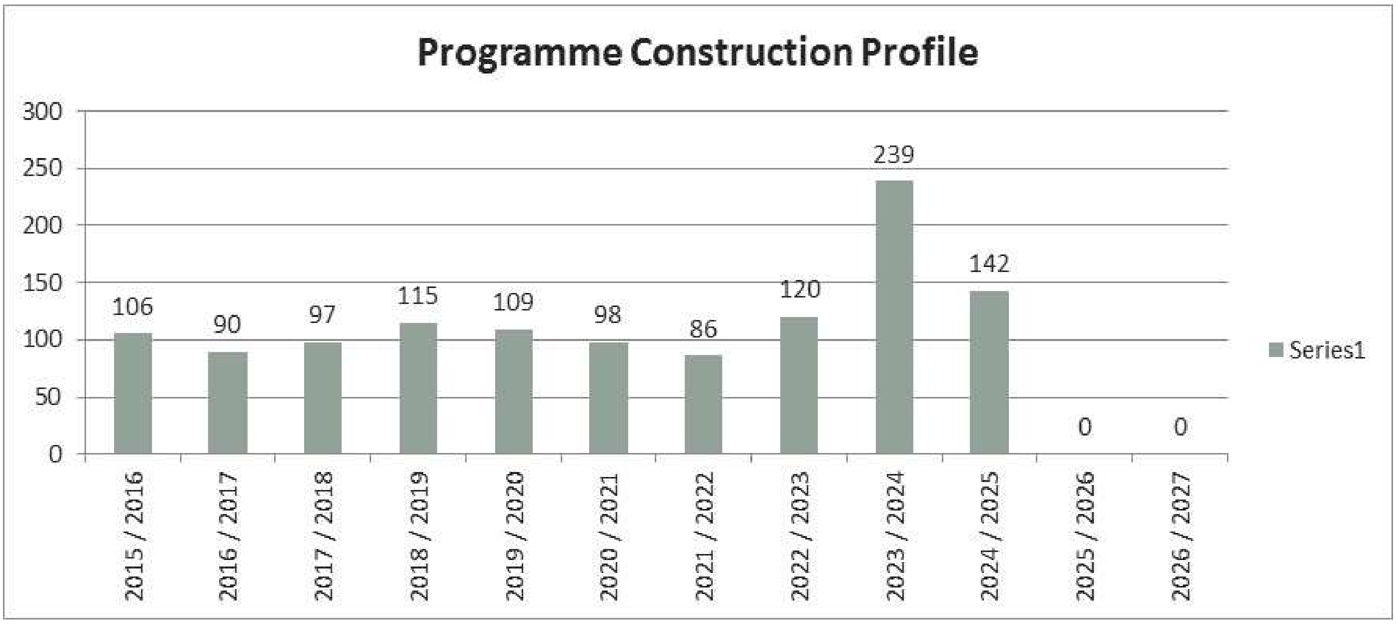
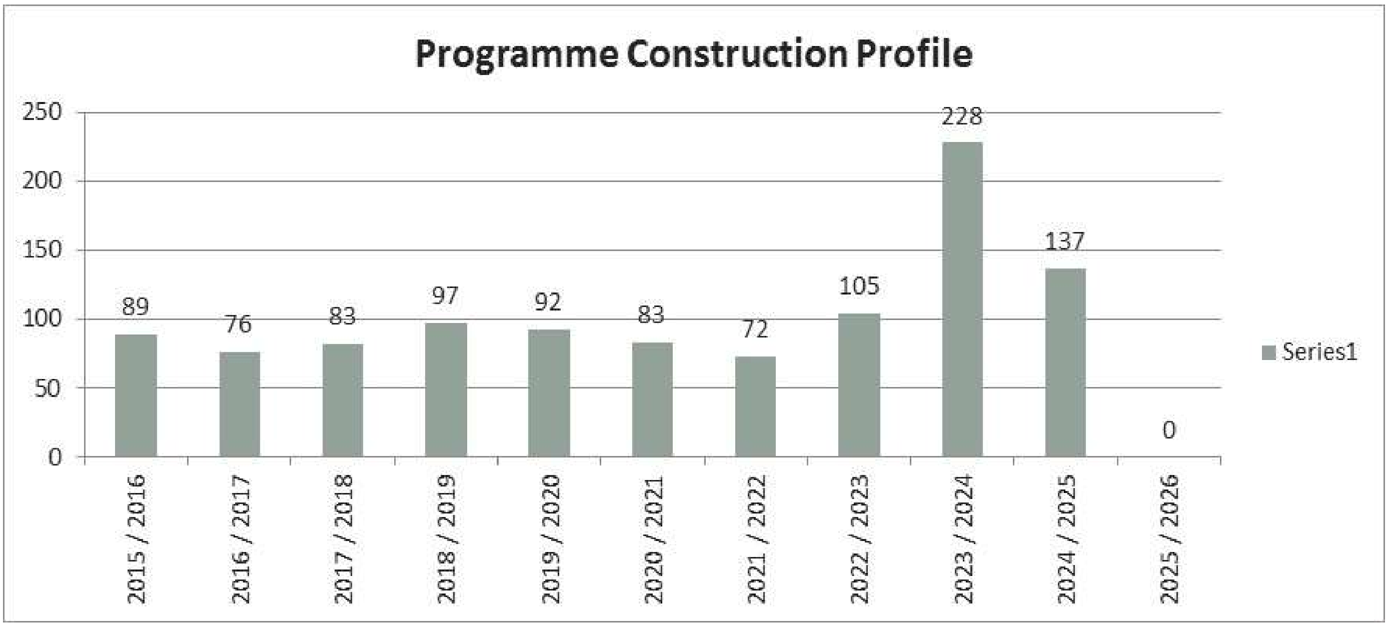
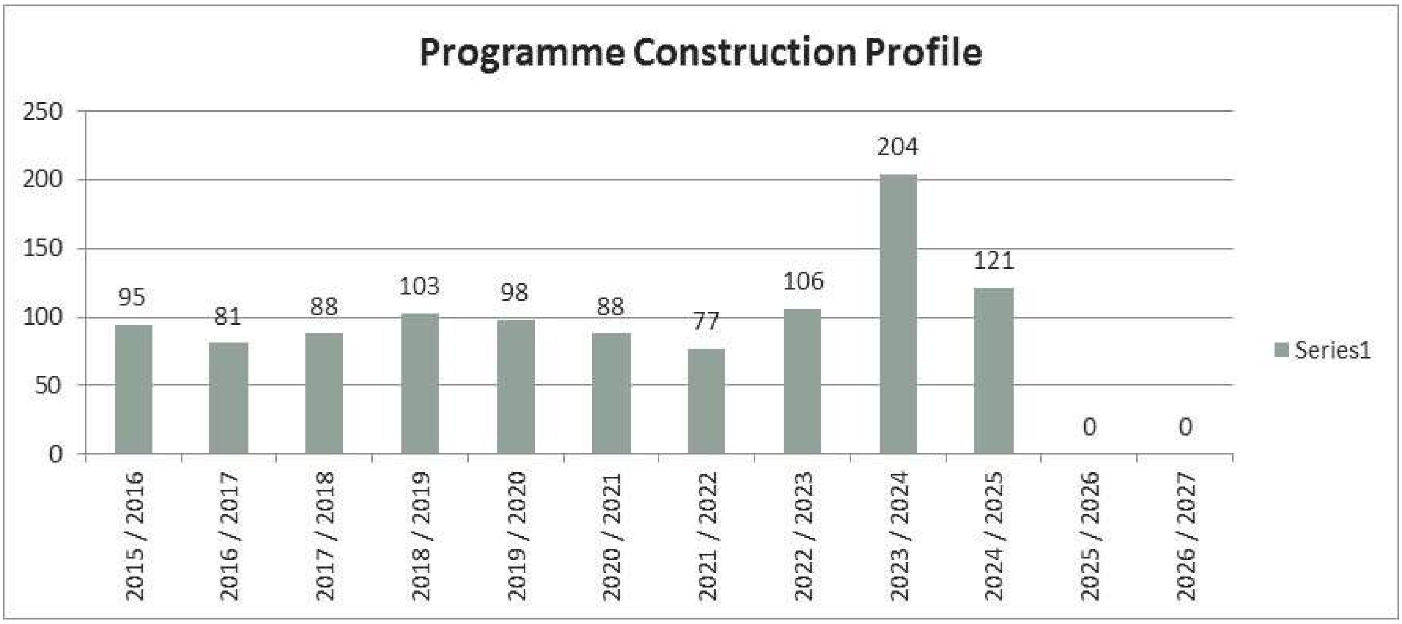


Scenario 6



Scenario 7


Programme Construction Profile
250
200
150
100
50
0
95
81
88
103
98
88
77
106
204
121
0
0
Series1
2015 / 2016
2016 / 2017
2017 / 2018
2018 / 2019
2019 / 2020
2020 / 2021
2021 / 2022
2022 / 2023
2023 / 2024
2024 / 2025
2025 / 2026
2026 / 2027

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"[1]).

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 assessing scenarios before and after finance. Where finance is being considered, a prudential borrowing funding structure is being assessed. 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 NPV calculation was determined through use of a conservative discounting rate of 6.09%. This report only includes scenarios that deliver a positive NPV. These outputs must be treated as indicative at this time, given that only limited design work has taken place. Once further design work has been carried out, then it will be possible to explore, for example, lower density scenarios that may prove feasible when more specific input data and interest rates can be used and the financial requirements of HFL are better understood.

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)

[1] 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.

- Private Sale
  - Open Market Value £624.00 sqft

- Assumed rents
  - Private Rent (£pw)

Beds	
1	£253.00
2	£333.50
3	£364.00
4	£460.00

  - New Build Council Rent (£pw)

Beds	
1	£117.00
2	£135.00
3	£144.00
4	£158.00
5	£166.00

  - Replaced Council Rent (£pw)

Beds	
1	£117.00
2	£135.00
3	£144.00
4	£158.00
5	£166.00

- Assumed number of resident homeowners remaining on estate:
  - Remaining @ 80%
  - Resident-Homeowner Buy Out @ 20.00%

- Percentage of gross rent assumed for capitalisation purposes against the net rent which will cover the operational and management costs:

Beds	1	2	3	4	
Private	70.53%	76.69%	78.31%	82.01%	Gross: Net Rent
Affordable	39.90%	47.38%	50.42%	54.47%	Gross: Net Rent

3. FEASIBILIY SCENARIOS

A range of scenarios 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:

Scenario	Assumptions	£ Position
1	Flexed	£11,303,737
2	Flexed	£1,659,449
3	Flexed	£9,801,800
4	Flexed	£551,199
5	Flexed	£11,377,923
6	Flexed	£223,422
7	Flexed	£9,095,543

Scenario 1 (6 Phases)

Includes a 2% uplift to Sale values

No. of dwellings proposed	961
No. of net gain dwellings	505
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 0% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 100% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£0
% Affordable housing on whole estate	33%
Resident-Homeowner payments	£26.08m
Pre Finance NPV	£11,303,737

Tenure Split

	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	0 0%	561 58.4%	320 33.3%	80 8.3%	0 0%	370 -

Scenario 2 (6 Phases)

Includes a 2% uplift to Sale values

No. of dwellings proposed	961
No. of net gain dwellings	505
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 0% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 91.5% Private Sale / 8.5% Private Rent
Finance at Council Rate	Achieved
Grant/Investment Levels	£0
% Affordable housing on whole estate	33%
Resident-Homeowner payments	£26.08m
Pre Finance NPV	£1,659,449

Tenure Split	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	48 5%	513 53.4%	320 33.3%	80 8.3%	0 0%	370 -

Scenario 3 (6 Phases)

100 Net Gain affordable homes are delivered within the last phase of construction.
No Sales value uplift.

No. of dwellings proposed	1061
No. of net gain dwellings	605
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 15% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 100% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£0
% Affordable housing on whole estate	39.6%
Resident-Homeowner payments	£25.65m
Pre Finance NPV	£9,801,800

Tenure Split

	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	0 0%	561 52.9%	320 30.2%	80 7.5%	100 9.4%	370 -

Scenario 4 (6 Phases)

100 Net Gain affordable homes are delivered within the last phase of construction.
No Sales value uplift.

No. of dwellings proposed	1061
No. of net gain dwellings	605
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 15% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 77% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£0
% Affordable housing on whole estate	39.6%
Resident-Homeowner payments	£25.65m
Pre Finance NPV	£551,119

Tenure Split	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	48 4.5%	513 48.4%	320 30.2%	80 7.5%	100 9.4%	370 -

Scenario 5 (6 Phases)

240 Net Gain affordable homes are delivered within the last phase of construction.
No Sales value uplift.

No. of dwellings proposed	1201
No. of net gain dwellings	745
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 32% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 100% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£0
% Affordable housing on whole estate	47.5%
Resident-Homeowner payments	£25.65m
Pre Finance NPV	£11,377,923

Tenure Split

	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	0 0%	561 46.7%	320 26.6%	80 6.7%	240 20%	370

Scenario 6 (6 Phases)

Financial investment of £20M is provided at the start of the programme, which should be recouped through HFL in the future.

No. of dwellings proposed	1062
No. of net gain dwellings	606
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Achieved (41% affordable housing)
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 100% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£20m
% Affordable housing on whole estate	54%
Resident-Homeowner payments	£25.65m
Pre Finance NPV	£223,422

Tenure Split	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	0 0%	412 38.8%	320 30.1%	80 7.5%	250 23.5%	370 -

Scenario 7 (6 Phases)

Financial investment of £20M is provided at the start of the programme, which should be recouped through HFL in the future.

No. of dwellings proposed	1061
No. of net gain dwellings	605
Housing Size Mix as per PRP layout	Achieved
Re-provide existing homes at Target Rent	Achieved
Net gain homes meet Planning Policy (40% affordable housing)	Flex – 30% affordable housing
All affordable at council rent or meets tenancy strategy	Tenancy strategy
Net Gain Private delivered as Private Rent	Flex – 100% private sale
Finance at Council Rate	Achieved
Grant/Investment Levels	£20m
% Affordable housing on whole estate	48.8%
Resident-Homeowner payments	£25.65m
Pre Finance NPV	£9,095,543

Tenure Split	Private Rent	Private Sale	Replaced Council level Rent	Resident-Homeowner (LH) Key Guarantee	New Build @ LHA Rent	Commercial area (GIA/m²)
Central Hill	0 0%	463 43.6%	320 30.2%	80 7.5%	198 18.7%	370 -

SUMMARY

Through the financial assessments of the development scenarios, it is evident from the outputs presented that the Central Hill 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 approaches to achieve more of the Council's aspirations or to achieve a greater NPV.

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.