Proposed development of

Vauxhall Sky Gardens
143 – 161 Wandsworth Road
London SW8

Affordable Housing Viability Submission

Explanatory Notes

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Introduction

In August 2010 Frasers Projects Limited (Frasers) obtained planning permission from the London Borough of Lambeth to redevelop land at 143 – 161 Wandsworth Road SW8 as a mixed use scheme with 239 residential units along with offices and cafe/restaurant, to be located within a 36 storey tower and an adjoining 8 storey building, including basements.

The location, background and context of the proposed scheme were set out in the Planning & Design Statement submitted with the planning application in December 2009. The land was previously occupied by a building let for data storage but this had been vacant for several years and was demolished in 2010.

Planning consent for a broadly similar scheme design including a 36 storey tower had previously been granted by Lambeth Council in 2008. That scheme included a significantly higher proportion of office space which became increasingly financially unviable in the market downturn. The revised scheme granted consent in 2010 included a reduction in the office content and a revised arrangement for the residential content of the scheme. The revised consent for the tower included 180 apartments for private sale and 24 apartments as affordable housing for shared ownership, above ground floor commercial uses and offices on floors 1 to 8. 35 social rented units were to be located in the lower rise building adjoining the main tower.

The financial viability submission presented to the local authority in February 2010 in support of the revised scheme made it clear that the provision of the affordable housing was subject to the receipt of Social Housing Grant totalling £4.550M towards the social rented units and £1.080M towards the shared ownership, with the remaining subsidy coming from Frasers.

The section 106 agreement completed in August 2010 acknowledged the significance of the level of Grant assumed in the viability submission. It included a provision to enable Frasers to resubmit a viability appraisal prior to implementation of the planning permission in the event of there being less Grant available in practice than was assumed in 2010, including no Grant at all.

Since the General Election in 2010, severe restrictions in public expenditure have led to a greatly reduced Grant budget for 2011-2015. In particular, Grant towards affordable housing required under s106 agreements is excluded from Grant support unless there are exceptional circumstances.

An updated evaluation of the viability of the revised development proposal has been prepared by HEDC in conjunction with other consultants engaged by Frasers, on the basis that no Grant will be available to support the inclusion of affordable housing. As in February 2010, the appraisal is presented using the Economic Assessment Tool (EAT) revised and re-issued in July 2009 by the Homes & Communities Agency (HCA). The figures are then shown in the GLA Affordable Housing Development Control Toolkit, also for consistency with the 2010 submission.

The appraisals are based on design, build cost and valuation information provided by the professional consultants appointed by Frasers. These are:

- Carey Jones (architects);
- Burnley Wilson Fish (cost consultants);
- Savills (residential private sale and commercial values).

In 2010 the viability of the proposed scheme was compared with the potential value of the existing industrial buildings assuming they were refurbished and relet. In the current updated appraisal the residual land value emerging from the results of the appraisal for the proposed development has been compared with the investment value for the site that could currently be generated by development of the site for warehouse, distribution or an alternative use consistent with the scale of the previous building.

The next part of these notes describe how the updated appraisal is set out in the EAT model. They then summarise how the same inputs on costs and values are reflected as closely as possible in the GLA Toolkit format.

Residential element

The EAT and Toolkit appraisals summarise the net saleable areas, average unit sizes, dwelling mix and proposed tenure mix for the residential element of the proposed scheme.

Private residential mix and sale values

The updated appraisal illustrates the effect of designating all of the apartments as private sale, and demonstrates that the affordable housing included in the August 2010 planning permission is no longer viable within the proposed development in the absence of Grant funding towards its cost.

The 239 apartments have been priced by Savills at current day levels for private sale. Savills' report, schedule of accommodation and supporting information including relevant recent comparables is enclosed with this submission as Appendix 4. The price attributed to each unit takes account of location in the two buildings including height, aspect and outlook.

The overall average value is £612 per square foot or £6,593 per square metre of net saleable floor area. However, there is a significant difference between the value of the apartments in the smaller building, which includes 13 spacious family units, and those in the main tower which are one and two bedroom units. Savills' pricing for the latter ranges from £532 per square foot on the 9th floor up to £905 per square foot.

The average for the 180 apartments designated for private sale in the 2010 consent is now shown as £721 per square foot, an increase of 13% over the average £638 per square foot in the February 2010 submission reflecting the improvement in market conditions in the area since that time.

Private sale	Units	Av NIA m2 / f2	Av value	Av value £ m2 / f2
36 storey tower				
1 bedroom	100	50.0	£395,000	£7,901 / £734
2 bedrooms	104	65.2	£486,780	£7,470 / £694
Totals/averages	***204***	***11,780 / 126,799***	***£90,125,000***	***£7,653 / £711***
8 storey building				
1 bedroom	7	51.0	£300,000	£5,882 / £546
2 bedrooms	15	77.1	£396,667	£5,147 / £478
3 bedrooms	6	94.0	£500,000	£5,319 / £494
4 bedrooms	7	108.7	£550,715	£5,066 / £471
Totals/averages	***35***	***2,838 / 30,548***	***£14,905,000***	***£5,252 / £488***
Overall totals/averages	***239***	***14,618 / 157,347***	***£105,030,000***	***£6,593 / £612***

The cash flow for this updated appraisal assumes over 50% of sale receipts within 3 months of practical completion. No discount has currently been assumed to Savills' pricing to achieve sales off plan, although with the current uncertain market outlook this would arguably be a reasonable assumption to make.

Ground rents are included in the EAT as receivable for the private sale units only, based on £250 for 1B units and £325 for 2B units in the main tower and £250 to £400 for the 2B – 4B units in the smaller building. Capitalised at a yield of 5.5% this produces a gross capital value of £1.277 million. The EAT model does not allow for typical purchaser's costs or for any developer's profit on ground rents, so this capital sum is therefore slightly overstated in terms of its contribution to the land value for the scheme.

The value of 18 parking spaces available for sale with the private sale units (from a total of 23 spaces in the basement) is shown separately at £25,000 per space, a capital value of £450,000. The EAT model does not deduct developer's profit from this figure so in reality this receipt is also slightly overstated.

<u>Development costs</u>

The updated build cost estimated by Burnley Wilson Fish at rates for Quarter 4 of 2012 totals £69,722,608. The summary sheet included with this submission shows the key elements of this cost estimate and the detailed cost breakdown shows how it is apportioned between the residential and commercial elements of the scheme. This apportionment can be summarised as follows:

Residential	£58,854,162
Offices	£10,382,460
A1/A2/A3/D1	£485,986
Total:	£69,722,608

The cost of demolition of the previous building and clearance and preparation of the site is shown in BWF's estimate at £166,250 which has been apportioned between the uses and included in the figures above. These costs take account of those incurred in 2010 when the previous was demolished and also the anticipated cost temporary weather protection and works to party walls with adjoining buildings.

Input Section 2 of the EAT model requires build costs for the residential element to be inserted at a rate per square metre of Gross Internal Area, including common parts such as entrance lobbies, stair cores, internal corridors etc. It then calculates the total build cost by taking account of the ratio of the GIA to the total of the Net Internal Areas entered for the individual dwellings in Input Section 1.

In this submission the build cost per square metre has been inserted with the approximate net to gross ratio and adjusted to show a total for the residential element that is almost identical to that provided by BWF.

Professional fees are included in the EAT appraisal at 12.5% of the build cost to reflect the complexity of the scheme and the range of consultants required. This includes the cost of obtaining planning permission including planning application fees and section legal costs, viability submission costs, site security, insurance, NHBC cover and other fees apart from those shown separately in the appraisal for site acquisition and marketing.

Profit is included in the EAT appraisal at 20% of the Gross Development Value of the private residential units, although as mentioned above, no profit is shown in the EAT model on the value of parking spaces and ground rents. This level of profit is consistent with the 2010 viability submission and is a level consistently accepted as the appropriate level in view of the need to take account of the increased risks to developers and funders in the current uncertain economic climate.

Commercial elements

Input Section 3 of the EAT model allows for the value and cost of the commercial elements of a development to be calculated. It takes account of:

- the Gross Internal Area of the commercial space for build cost purposes;
- the Net Internal Area than can be let;
- the rent per square metre and the yield assumed;
- a deduction for purchaser's costs;
- an allowance for void and/or rent free periods following practical completion of the building;
- build costs;
- professional fees;
- letting costs;
- developer's profit.

In this case the commercial elements are a significant part of the scheme. The proposed offices are 3,283 square metres (35,338 square feet) of lettable office accommodation on the 1st to 7th floors, along with 1,442 square feet net (134 square metres) of ground floor entrance and reception area. The gross internal area allocated to the offices is 4,830 square metres including a proportion of the basement area.

Savills have advised on the value of the office accommodation regarding anticipated demand, rent, yield and void/rent free period. Their advice is included as Appendix 5. It takes account of the common difficulty in securing financially robust tenants for commercial premises in secondary office locations such as this.

For the purposes of the EAT, it is assumed that the offices would be unlikely to be let to a single occupier. The ground floor reception area has not therefore been included as part of the net lettable element for rental purposes. The lettable area is shown in the EAT as 3,283 square metres as referred to above, let at an average annual rent of £22.50 per square foot (£242 per square metre) as advised by Savills. Savills also advised a yield of 8.0%, giving a slight improvement in capital value compared with the 2010 submission. Savills suggest a void period of 12 – 18 months for the offices with a further rent free period of 12 – 18 months depending on the length of leases. In the EAT appraisal a possibly optimistic total combined void/rent free period of 24 months has been shown.

Taking account of typical purchaser's cost of 5.8%, the above figures give a capital value in the EAT model of £9.387 million for the offices before profit shown at 20% of value. This is a substantial improvement on the £7.952 million shown in the February 2010 submission, as a result of the more optimistic yield and initial void/rent free period now assumed. The interest costs associated with void and rent free periods are included separately within the overall interest cost shown in the EAT's Summary section, reducing the net capital from the figure shown above.

In addition the ground floor of the building includes a small area of 2,637 square feet (245 square metres) for A3 café or similar use. This is shown in the EAT as being let at a rent of £15 per square foot (£161 per square metre) at a yield of 8%. This unit is shown as being let in month 60, allowing for a void and rent free period of 24 months from practical completion of the building, giving a capital value of approximately £466,000 for this unit net of purchaser's costs but before profit at 20% of value.

The build costs apportioned by BWF are £10.382 million for the offices, including fit out to Cat A standard, and £486,000 for the ground floor commercial unit, net of professional fees, interest etc. These elements of the scheme are therefore still loss-making in the updated appraisal in spite of the improvement in value suggested by Savills' advice.

Planning obligations

The planning obligation section in the EAT includes a total provision of £3,223,170 in section 106 contributions.

The payment headings are as detailed in the section 106 agreement that was completed in August 2010. These are shown in the table attached as Appendix 8. Clause 17 of the agreement requires most of the payments to be updated in line with any increase in the BCIS All-In Tender Price Index (also shown in Appendix 8). This shows a reduction of just under 1% over the period from Quarter 3 of 2010 to Quarter 4 of 2012, so the current appraisal maintains the payments at the August 2010 level. In addition £42,660 has been included to meet the cost of membership of a car club for residents for an initial two years, as required in the s106 agreement. This is based on the current membership rates of Zip Car, assuming two members per apartment.

The payment for the local authority's monitoring costs has not been amended, in accordance with clause 18 of the section 106 agreement. The cost of highways and other works to Wyvil Road, referred to in part 4 of schedule 13 to the section 106 agreement, have not yet been included within BWF's updated cost estimate (apart from a cross over for access to the new basement), pending further liaison with the local authority over the detail of its potential requirements.

The timing of payments shown in the updated EAT appraisal reflect the requirements of the s106 agreement, in which the majority of the payments are due prior to the first occupation of the new dwellings. The payments have not been projected to the future to reflect further inflation or deflation in BCIS rates beyond December 2012.

Scheme development programme

Unlike the GLA Toolkit, the EAT model includes a cash flow facility to calculate interest costs, taking account of the receipt of payments as well as expenditure.

The assumptions made in this appraisal are shown in Input Sections 2 and 3 of the EAT but the main points can be summarised as follows:

- start on site 6 months after planning consent, to allow for design development, tendering, contract arrangements, approval of planning conditions and contractor's lead in period;
- 30 months on site including demolition of the existing buildings and site clearance;

- payment of the s106 contributions as outlined above;
- sale receipts of the private housing sales credited between 12 months before practical completion and 18 months after practical completion, to represent a significant (and possibly optimistic) degree of off plan sales that are assumed as being paid on practical completion and also the assumption that the 8 storey building will be completed and ready for occupation before the tower.
- sale of the ground rent rights 6 months after the last private apartment is sold;
- void and rent free periods for the retail and office units as referred to above, at the optimistic end of the range advised by Savills.

Interest is shown in the EAT at a rate of 7%, representing the continuing relatively high cost of raising development finance for a large speculative mixed use scheme of this design in which costs cannot realistically be phased in conjunction with sales, and taking account of typical bank arrangement, commitment and exit fees. The model assumes 100% debt funding at this rate, which does not reflect the typical requirement to secure mezzanine and equity investment to supplement the limited bank funding available, at a higher rate of return than the principal bank loan. The EAT Summary section shows finance costs (including lenders' fees) totalling £7.956 million for the project.

Existing use value

In a similar way to the GLA Toolkit, the EAT model works back to a residual land value for the proposed scheme. It reaches this by deducting all costs including planning obligations and developer's profit from the gross development value of the proposed scheme, including the receipt from the provision of any affordable housing.

This net land value is normally compared either with the value of the site for any existing uses or with its value for an alternative use that either has planning consent or could reasonably be expected to obtain consent.

Savills originally assessed the value of the site with its existing buildings at £1 million in July 2008. This valuation has been revised in early 2010 and was at that time considered to be in the region of £900,000. Since then these buildings have been demolished, but it is considered that the value of the site remains approximately at the same level. Land in the area is in demand in the context of the wider regeneration of the wider Vauxhall and Nine Elms area. The site is in a prominent main road location opposite a Sainsbury supermarket and would be suitable for a small scale redevelopment on a similar scale to the previous buildings for employment or similar uses. An initial development appraisal carried out by HEDC on this assumption indicates a current site value in the region of £850,000.

The residual land value arising from the EAT appraisal for the proposed scheme is just over £336,000, a similar level to the £485,000 shown in the viability submission in February 2010. This indicates that the scheme remains marginally viable and that the replacement of the affordable housing included in the 2010 permission with private sale apartments is necessary to compensate for the loss of the £5.63 million in Social Housing Grant shown in the February 2010 appraisal, along with the cost adjustments shown in the current appraisal.

It will be apparent from the figures that the office element of the revised scheme remains loss – making. This is another major factor in limiting the capacity of the residential element to support the cost of subsidising affordable housing in addition to making over £3 million (over £12,500 per apartment) in payments towards other planning obligations.

GLA Affordable Housing Development Control Toolkit

As in February 2010, the key figures from the EAT appraisal have been reflected in the GLA "Three Dragons" Toolkit appraisal also enclosed, as this model was referred to in the August 2010 section 106 agreement.

The GLA model was updated in October 2012, and includes various "default" assumptions that are now increasingly out of date and which have not been used in this submission. The variations to the 2009/10 edition used for the February 2010 viability submission are very minor.

The GLA Toolkit's methodology does not include a cash flow facility and it significantly underestimates the interest costs arising from larger mixed use schemes. It assumes a build period for the residential element of 12 months, regardless of the size of project. It fails to calculate interest on any abnormal costs, on the build cost and fees for any commercial elements, on the void and rent free periods normally expected from letting commercial premises, and on any section 106 payments paid on implementation of the consent.

The GLA Toolkit also seems to assume in its internal workings that all of the receipt from private sales and affordable housing is received at practical completion of construction, so it does not take account of either the benefit of receipts on practical completion from sales off plan, or of the effect of the balance of private sales taking place over a period following practical completion.

As with the February 2010 submission, the interest cost shown in the EAT has therefore been reflected in the GLA Toolkit as a combination of the Toolkit's internal calculation and a balancing figure inserted in the Development Costs page.

In other respects the figures entered in the GLA Toolkit mirror as closely as possible the source material on values and costs and the inputs and results of the EAT appraisal.

The GLA Toolkit model also requires residential build costs to be entered as a rate per square metre of Net Internal Area (saleable space) for the 239 apartments. This inevitably appears as a very high rate per square metre because the cost has to include communal parts of the building, basement, external works, the provision of new services, renewable energy and all other works apportioned to the residential element. The total cost shown matches as closely as possible the total cost estimate provided by BWF and shown in the EAT model.

The gross value of ground rents and parking spaces for the private sale units is shown on the Capital Contributions page and for consistency with the EAT model the value has not been reduced to take account of developer's profit.

The retail and office units are shown on the Contribution from Commercial Elements page. To compensate for the factors referred to above in the Toolkit's methodology, the yield shown in each case has been adjusted to a higher level to show a capital value as close as possible to the figure more accurately calculated by the EAT taking account of typical purchaser's costs of 5.8%. The figure for professional fees is also shown in the Toolkit to reflect the letting costs and legal fees also taken into account in the EAT (and which it shows as part of professional fees in the EAT's Summary section).

With these adjustments the result in the GLA Toolkit model is a residual land value of £333,000. This is only some £3,300 different to the result of the EAT appraisal. A table comparing the sets of figures in the GLA Toolkit and EAT models is included with Appendix 3.

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