Review of Financial Viability Assessment (FVA): Regeneration of Clichy Estate, comprising: Harriot House, Apsley House, Pattison House, the Redcoat Centre and Redcoat Community Centre, E1 3DR

PA/24/00368

Applicant: London Borough of Tower Hamlets

June 2024

Tower Hamlets Viability (THV)

Status/version: Final Draft

CONTENTS

1 Executive Summary (Non-Technical) 1
2 Context and Preliminaries 3
3 Site Specifics & Development Description 6
4 Affordable Housing Proposal 7
5 Methodology 8
6 Review of Appraisal Inputs 13
7 Benchmark Land Value (BLV) 28
8 Assessment of Viability – Proposed Scheme 32
9 Sensitivity Analysis and Scenario Testing 34
10 Review mechanism 36
11 Conclusions and Further Advice 37

APPENDICES

Appendix 1. Johnson Associates UK Limited Cost Plan Review

Appendix 2. Argus Appraisal Summary (Proposed Scheme)

Prepared by:

Akhlaqul Ambia BSc (Hons) MA – Development Viability Officer

Reviewed by:

Joshim Uddin MRICS – Development Viability Manager

viability@towerhamlets.gov.uk

Tower Hamlets Viability
Planning & Building Control
Tower Hamlets Town Hall
160 Whitechapel Road
London
E1 1BJ

Status/version: Final Draft
Date: June 2024
Prepared for and on behalf of London Borough of Tower Hamlets (Planning Department)

Executive Summary (Non-Technical)

Scope

1.1 This report provides a review of the Financial Viability Assessment (FVA) carried out by Redloft on behalf of the London Borough of Tower Hamlets (Capital Delivery) in respect of planning application PA/24/00368 for the redevelopment of Clichy Estate. It assesses the amount of affordable housing contribution proposed by the Applicant and determines whether this represents the maximum provision viable.

Findings

Total amount of housing within scheme	407 units (1,374 habitable rooms)
Affordable housing proposed (habitable room)	42.2[i]% by habitable room uplift, composed of - 86.5% Social Rented Unit - 13.5% Intermediate Units - 73:27 including re-provision. - 100% of the existing social rented units will be re-provided (amounts to 9.53% of the proposed scheme). - Including the re-provision, the scheme will provide 53.5% AH on site.
Surplus/ deficit found by Applicant's FVA	**A negative residual profit of £40,327,065. £65,523,836 below the benchmark profit target of £25,196,771**
Surplus/ deficit found by THV	**A negative residual profit of £12,851,428. £39,048,031 below the benchmark profit target of £26,196,603**
THV conclusion	Proposal **is** maximum viable

FIGURE 1

Conclusions of review

1.2 THV are of the opinion that the 53.5% affordable housing (including re-provision) as proposed by the Applicant is the maximum viable amount of affordable housing that can be provided.

1.3 Our assessment found that the scheme as proposed delivers a loss of £12,851,428 relative to a target profit of £26,196,603 (14.73%). Representing a deficit of £39,048,031 against the target profit. Therefore, like Redloft, we find that the scheme as proposed not only falls short of the target profit, but results in a net loss to the developer.

[i] This differs from the applicants suggested 40% because it is calculated on the net uplift.

Outstanding Information (Required)

1.4 THV request further information on the following:

- Further clarity on leaseholder buy-backs specifically for Clichy Estate and how this has informed the GDV and EUV for this scheme
- Clarity around Redloft's approach to the commercial element of the BLV (If THV's position is disputed).
- Information relating to the build cost of the scheme. Capital Delivery informed THV an updated cost plan would be issued.
- Confirmation of planning contribution figures and CIL liability.
- Further information is awaited from the Council's finance department with respect to the cost of borrowing.

Other Recommendations

1.5 Due to the large amount of outstanding information required to complete our review in full, we have provided an initial assessment of the viability of the scheme subject to confirmation of the above. However, the following recommendations still apply:

- We would recommend that the Council requests the Applicant to justify how it intends to deliver the scheme in the face of the deficit it has demonstrated (in line with the requirements of its Development Viability SPD);
- We would recommend that an early stage, mid-stages (at the end of phase 1) and the late-stage reviews are included within the Section 106.

1.6 Tower Hamlets Viability (THV) have received financial viability information in support of planning application PA/24/00368 dated March 2024 submitted by Redloft on behalf of the London Borough of Tower Hamlets (LBTH) ("the Applicant") in relation to the development proposals at Harriott House, Apsley House, Pattison House, the Redcoat Centre and Redcoat Community Centre, Tower Hamlets, E1 3DR ("the Site").

1.7 Redloft have noted that *"The present assessment should be considered in the context of viability correspondence in relation to the original planning application - reference PA/21/02703/A1 ('the original application') for the site. It reflects the latest scheme design which has been developed to provide additional stair cores and a standalone Community Centre/Mosque, which has reduced the number of units by 5, from the permitted 412 to 407"*.

1.8 This report provides an objective review of the Applicant's revised viability assessment in order to advise the Council whether the Applicant's contention that the scheme cannot support more than 53.5% affordable housing (including re-provision) by habitable room is correct.

Tower Hamlets Viability (THV)

1.9 THV is an internal Council service providing specialist development viability advice (with respect to affordable housing/developer contributions) to Planning Officers at LBTH by reviewing Financial Viability Appraisals (FVA) submitted to the Council. Viability Officers carrying out reviews of received FVA maintain in-depth background knowledge of financial viability, understanding of inputs and modelling of appraisals. To ensure meticulous analysis of detailed development costs and construction programmes, THV appoint externally sourced experienced Quantity Surveyors (Cost Consultants) to advise on such matters, informing reviews undertaken by THV. In this case, Johnson Associates UK Limited (JA) has been appointed to advise on the development costs. Viability reviews and cost reports are carried out/reviewed by suitably qualified practitioners.

1.10 This report has been prepared by Akhlaqul Ambia BSc (Hons) MA – (Development Viability Officer) and reviewed by Joshim Uddin BSc (Hons) MRICS (Development Viability Manager).

Status of Advice

1.11 This report is not a valuation and should not be relied upon as such. In accordance with PS1 (5.2) of the RICS Valuation – Professional Standards – Global Standards 2017 (the "Red Book"), the provision of VPS1 to VPS5 are not of mandatory application and accordingly this report should not be relied upon as a Red Book Valuation.

1.12 In carrying out this assessment, THV confirm we have acted with objectivity, impartiality, without interference, and with reference to all appropriate

sources of information. We have had enough time to complete this assessment.

1.13 We are not aware of any conflicts of interest in relation to this assessment.

1.14 In preparing this report, no performance-related or contingent fees have been agreed.

1.15 This report is addressed to LBTH Development Management and the Applicant and should not be reproduced without prior consent. Conforming to national, regional, and local transparency policies, THV do not dispute the public disclosure of FVA reviews undertaken.

1.16 We confirm that we are not undertaking an area-wide viability assessment concerning existing and future planning policies against which the Scheme will in due course be considered.

1.17 THV carried out the review of the Applicant's FVA, in order to inform our review, we have relied upon information provided by several other consultants/internal teams, being:

- LBTH Development Management Team (Planning); and
- Johnson Associates UK Limited (Cost Consultant).

1.18 In our review of the FVA, we have set out a full explanation of the evidence provided with reasoned justification. We note the emphasis within the RICS Professional Statement on conduct and reporting in Financial Viability in Planning the need to see to resolve differences of opinion wherever possible if these arise.

1.19 In our review of the FVA, we analysed and, as appropriate, adjusted to reflect existing or emerging planning policy and other relevant considerations when market evidence from other viability assessments and other supporting information were used.

1.20 THV reserve the right to review/amend any inputs/section of this FVA at any given time considering further information/evidence or otherwise.

Policy and Guidance

1.21 In preparing this review, THV have had regard to the following practice statements, policies and guidance documents:

- The National Planning Policy Framework (NPPF) and related Planning Practice Guidance (PPG) 2019;
- RICS Guidance - 'Assessing financial viability in planning under the National; Planning Policy Framework for England' 2019, 2021;
- RICS - Financial viability in planning: conduct and reporting, 2019;
- RICS - Comparable Evidence in Real Estate Valuation, 2019;
- RICS – Valuation of Development Property, 2019;
- The London Plan 2021;
- Tower Hamlets Local Plan 2031: Managing growth and sharing benefits;
- Tower Hamlets Development Viability Supplementary Planning Document, 2017;
- Greater London Authority (GLA) Homes for Londoners – Affordable Housing and Viability Supplementary Planning Guidance (SPG), 2017.
- Better homes for local people – the Mayor's good practice guidance to estate regeneration, 2018.

Site Specifics & Development Description

Proposed Development

1.22 The Applicant is seeking planning permission for the following:

> *"Redevelopment of the site comprising demolition of existing buildings (comprising Harriott House, Apsley House, Pattison House, The Redcoat Centre and Redcoat Community Centre) to provide 412 residential units (Class C3) and 1,192m2 GIA of community use (Class E (e-f), Class F1 (e-f), Class F.2 (b)) provided across buildings ranging in height from 4-8 storeys, together with associated landscaped communal amenity space, accessible car parking, secure cycle parking spaces and refuse/recycling storage facilities"*

1.23 The Site extends to approximately 1.78ha and is situated in the Stepney Green ward of the borough. The neighbourhood centres of Whitechapel, Limehouse, Shadwell, and Stepney Green are all within walking distance of the sites. The site is bound by Stepney Way to the north, Wellesley Street to the east, Aylward Street to the south, and Jamaica Street to the west. The immediate surrounding area is primarily residential in nature, with Stepney Green park to the north providing good access to open space.

1.24 Connectivity is good, with Stepney Green (District, Hammersmith & City), Shadwell (Overground, DLR), Whitechapel (Overground, District, Hammersmith & City), and Limehouse (DLR, National Rail) all within 1KM of the site. Local buses operate nearby providing access to local amenities and onwards into central London.

1.25 Vehicular access is provided by the A13 to the immediate south of the site and the A12 to the east. Both provide access to Essex to the east and onward routes to the rest of the country via linking to the M25.

1.26 Other than having a standalone Community Centre/Mosque and reducing the number of units by 5, from the permitted 412 to 407, THV have assumed the previously illustrated phasing of the Proposed Development has remained unchanged. In line with the previous summary, THV understands the indicative phasing plan can be summarised as follows:

- **Phase 1** involves the demolition of the existing buildings, which will allow the construction of blocks A3, A4 and B2 to begin. These blocks include the reprovision of existing homes, social rent units as well as the standalone Community Centre/Mosque.

- **Phase 2** will commence once Phase 1 in complete and residents of re-provided homes have moved in. The remaining existing buildings will be demolished, making way for the completion of the two new perimeter blocks where social, intermediate and private tenure will be situated. The new inner street and all landscaping elements will be completed in Phase 2.

Affordable Housing Proposal

1.27 The Applicant has sought to provide the following:

AH Quantum (Hab room)	**42% uplift**	**53.5% including re-provision**	**50% on uplift LBTH Target**
Intermediate (Hab room)	**13.5% uplift**	**27%** including re-provision	**30% - LBTH Target**
Social rent (Hab room)	**86.5% uplift**	**73%** including re-provision	**70% - LBTH Target**[i]

FIGURE 2

1.28 The tenure mix within the 42% by habitable room offer consists of a 86.5:13.5 split, social rent and shared ownership units respectively. Our calculation of 42.2% affordable housing is based on 467 habitable rooms (net additional affordable rooms) over 1106 habitable rooms (467 + 639 market rooms).

1.29 The total housing proposed by the Applicant is summarised in Figure 3 below.

		Affordable Housing						Market Housing		
		Social Rent			Intermediate			Private		
Unit size	**Total units in scheme**	**units**	**%**	**LBTH Target %**	**units**	**%**	**LBTH Target %**	**units**	**%**	**LBTH Target %**
Studio	0	0	0%	0%	0	0%	0%	0	0%	0%
1 bed	111	24	19%	25%	5	10%	15.00%	82	35%	30.00%
2 bed	162	24	19%	30%	15	31%	40.00%	123	53%	50.00%
3 bed	106	56	44%	30%	23	48%	45%	27	12%	20%
4 bed	28	23	18%	15%	5	10%		0	0%	
5 bed	0	0	0%	0%	0	0%		0	0%	
6 bed	0	0	0%		0	0%		0	0%	
TOTAL	407	127	100%	**100%**	48	100%	**100%**	232	100%	**100%**

FIGURE 3

1.30 The Applicant has provided an appraisal which seeks to demonstrate that the proposed scheme in its current configuration is the maximum viable provision of affordable housing.

1.31 This report tests whether this is a reasonable assertion and, if not, what provision of affordable housing can be accommodated by the scheme.

[i] 50:50 requirement of Tower Hamlets Living Rent (THLR) and London Affordable Rent (LAR) products.

Methodology

Overview

1.32 FVAs carried out at a decision-taking stage should, in most cases, adopt the residual method of valuation. This method of valuation provides its output in the form of a Residual Land Value (RLV). The RLV represents the portion of money "left over" after all other reasonable costs are deducted from the value generated by a development; this therefore indicates the maximum price a developer can afford to pay for the land.

1.33 The value element is known as the "gross development value" (GDV) and is comprised of all elements which generate value for the developer. The "reasonable costs" include all elements which a developer has to pay for in order to bring the scheme forward. These costs will include the profit the developer takes to compensate it for the risk it takes on, as well as the opportunity cost of not investing its money in an alternative asset. The GDV, costs, and profit are examined individually in the section headed "Establishing the RLV" below; more detailed information can be found in the Council's Development Viability SPD.

GDV – Costs – Developer's Profit = RLV

1.34 Once the residual land value has been calculated, and the maximum amount which the *developer* can *pay* for the land is known, this is compared to a "benchmark land value" (BLV). This value represents the minimum price at which the *existing* landowner would be prepared to *sell* its land for. Therefore, the BLV represents the minimum residual land value that must be achieved by the development in order for the scheme to be viable. The derivation of the BLV is examined further in the section headed "Benchmark Land Value" below.

1.35 When the RLV and BLV are compared, three outcomes are possible:

A. If the BLV exceeds the RLV, the development **is not** viable as currently proposed
B. If the BLV equals the RLV, the development **is** viable as currently proposed
C. If the BLV is below the RLV, the development **is** viable and is potentially not providing the maximum viable planning contributions.

1.36 An alternative approach is to hold the land value as a fixed, with profit being the appraisal output. This profit can then be compared against a target profit level that a developer would reasonably require in order to bring the scheme forward and compensate them for the risk they take on. This is especially useful where a residual land value has been determined as being negative by one or both of the parties.

1.37 The alternative formula is shown below:

GDV – Costs – Land Value = Profit

1.38 This profit is then compared against the benchmark target profit in much the same way as a residual land value would be compared against a benchmark land value (see paragraph 5.4 above).

1.39 The process for assessing the possible outcomes described above is examined further in the section headed “Assessing Viability” below.

Establishing the RLV

1.40 As outlined above, the RLV is comprised of the development’s GDV, less the development costs, planning obligations, and profit. These are examined in turn below.

1.41 **GDV** includes all sources of revenue for the completed development, usually on the special assumption that the development is complete as of the valuation date. Sources of revenue can include, but are not limited to:

- Sales of residential units
- Capitalised rents from commercial units
- Capitalised rents from residential units (e.g., BTR, PBSA)
- Sales of other elements e.g., parking spaces
- Other revenue sources e.g. grant funding

1.42 All assumptions relating to GDV should be fully justified using relevant, up to date market evidence. Where any adjustments have necessarily been made to comparable evidence, these should be robustly justified and analysed such that like-to-like comparisons can be made, as far as is possible.

1.43 **Build Costs** include all costs required to bring the development to completion, as at valuation date prices. Usually these should be evidenced by a full assessment of costs (‘cost plan’), which should be fully justified based on a detailed specification and the intended construction approach. A full breakdown of component parts should be provided. This will generally rely upon the input of specialist cost consultants or quantity surveyors.

1.44 In addition, a number of other development costs will usually be included in an FVA. These include, but are not necessarily limited to:

- Build cost contingency (this must not be double counted if it is included in the cost plan)
- Professional fees (these must not be double counted if it is included in the cost plan)
- Agency, legal, and marketing fees (for letting and/or sales)
- Finance costs
- Other/ abnormal costs

1.45 It should be noted that abnormal costs will not be borne exclusively at the expense of planning obligations; any site with high abnormal costs (e.g.

extensive site remediation) is likely to have a lower value in the first instance, which will therefore be reflected in a lower BLV (see below).

1.46 **Planning obligations** include CIL payments, S106 payments, and affordable housing provision, as well as any off-site or in-lie contribution. All CIL applied should account for any existing floor area, relevant phasing or discounts such as social housing relief.

1.47 **Developer's Profit** is included as one of the costs to be deducted from the GDV to arrive at the RLV. This reflects that a developer is required to facilitate development and provide the initial investment; consequently, the level of profit required for a scheme will broadly relate to the risk involved.

1.48 In most cases, profit is expressed as a percentage of GDV, and can therefore be expressed as a monetary value. The percentage adopted will vary depending on the risk profile of the development. It can also comprise a blended profit target, reflecting differing risk associated with components of the development e.g. built-for-sale residential, affordable residential (which is likely to be sold in bulk to an RP), commercial elements.

1.49 An alternative measure of profit is an internal rate of return IRR approach, typically adopted for longer scale projects set across multiple phases. This provides a time-weighted measure of return which can be used to determine whether to commit capital to a project.

1.50 In cases where a proposed scheme is deemed unviable, but where an Applicant still wishes to proceed despite this, profit assumptions should be adjusted such that the scheme as proposed becomes viable.

Establishing the BLV

1.51 The BLV is the minimum price a landowner would accept to release their property for development; in essence, this means it is a minimum level that the RLV must be at in order for a development to be viable. The preferred method of establishing the benchmark is the Existing Use Value (EUV), to which a landowner premium may be added. In cases where this is not possible, an Alternative Use Value (AUV) may be considered. No premium will be added to an AUV. These are outlined briefly below, with more detailed comment on the approach taken for the subject site in **Section 7**.

1.52 **The EUV** is independent of the proposed scheme and reflects the income-generating potential of the property in its existing use. This should involve reference to evidence on rents and investment yields, adjusted where appropriate, but should exclude any hope value. To be considered as a reasonable EUV, the use must be genuinely possible and realistic. If repair is required, this must be accounted for in the valuation; however, if refurbishment or redevelopment is required then this would be considered to be an alternative use, and AUV would apply (see below).

1.53 **A premium** may be added to the EUV to reflect the incentive that would be required by a landowner to release the land for development purposes. This

should be fully justified where possible. No premium should be applied in cases where the existing use represents a cost or liability for the current owner.

1.54 **Estate Regeneration schemes** are often assessed differently given that the landowner has very specific obligations to the existing tenants, as well as a fixed (and often below market) income stream available. Further, there are often high repair and maintenance costs that a landowner would be liable for. Resultantly, the site can become a liability rather than an asset where these costs exceed the value of the income stream. In these cases, the site attracts a nil benchmark land value.

1.55 Further, where a site represents a liability to a landowner, there would be no reason for a premium to be added, as the landowner would require no further incentive to dispose of the asset. In cases where the value of the units exceeds the current ongoing costs, it may still be that no premium is applicable, as the income stream associated with the asset is unlikely to grow significantly, but the costs may increase as the buildings depreciate.

1.56 **The AUV** approach should only be used in exceptional circumstances, generally where there is no EUV for the site, and should be fully justified by the Applicant. In cases where the approach can be justified, the Applicant must demonstrate that the site value fully reflects planning policy requirements, planning obligations, and site-specific circumstances. It is preferable that there be an existing, implementable permission on which to base this. The Applicant should also fully justify why it has not pursued the alternative scheme and instead is pursuing the scheme as proposed.

1.57 Whatever the approach taken, it is important that the benchmark value is calculated accurately, is grounded in the best available evidence, is fully reflective of planning policy and site-specific issues, and is adjusted to compare accurately with the subject scheme wherever appropriate. For example, an optimal AUV scheme should not be used as a benchmark for an inefficient proposed scheme, as this will unduly reduce any surplus available for planning contributions. Similarly, significant site costs should be accounted for in both valuations, not just the scheme valuation, so as not to unduly penalise the proposed scheme and reduce planning contributions.

Assessing Viability

1.58 Once RLV and BLV are established these can be compared and a surplus or deficit calculated. As described previously, a surplus or zero result indicates viability, whereas a deficit indicates that the scheme is unviable in its proposed configuration.

RLV – BLV = Surplus or Deficit

1.59 Whether the results of the FVA indicate an application should be recommended for approval or refusal on grounds of viability depend on the result of the calculation shown above.

1.60 Broadly speaking, where a deficit is found then the development as proposed is providing the maximum viable affordable housing. Where a surplus is found, the development is not providing the maximum possible, and the planning authority may require an Applicant to provide a revised proposal to address this.

1.61 On a more detailed level, the degree to which a scheme is in surplus or deficit may impact a planning authority's decision. If a scheme is only marginally in surplus, it may be the case that no further affordable *units* can be provided, and therefore in-lieu payments may, at an authority's discretion, be considered.

1.62 A scheme in marginal deficit may be technically unviable but could still potentially come forward if revenue growth and/or cost savings are projected, or if profit levels are adjusted. Conversely, if an Applicant proposes a scheme shown to be in significant deficit the authority may have concerns about its deliverability and may require the Applicant to justify an application for such a scheme.

1.63 Bespoke advice in relation to the site-specific outputs for this application can be found in Section 8 below.

Software Used

1.64 We have used Argus Developer to carry out our appraisals. Argus is a commercially available software package generally used within the property industry for valuing and scenario-testing development projects. It is accepted by both developers and planning authorities for the purpose of viability testing, as well as by commercial banks for secured lending valuations.

Further Information

1.65 Further explanation of the methodology adopted for carrying out viability reviews can be found in the Council's Development Viability SPD, which was adopted in October 2017.

Review of Appraisal Inputs

1.66 In this section, we review the inputs adopted by the Applicant in their appraisal. A summary of each party's assumptions is shown below.

Appraisal Input	Redloft	THV
Gross Development Value		
Private residential values PH2	£792.72 psf	£806.50 psf
Shared Equity PH1	£408.46 psf	£408.46 psf
Social Rent PH1	£129.06 psf	£129.06 psf
Shared Ownership PH1	£496.92 psf	£496.92 psf
S106 Subsidy PH1	£13,940,160	£13,940,160
HRA Capital Receipts PH1	£659,382	£659,382
London Affordable Rent PH1	£218.34 psf	£218.34 psf
THLR PH1	£170.03 psf	£170.03 psf
GLA Grant	£4,772,548	£4,772,548
HRA Capital Receipts PH2	£14,506,404	£14,506,404
THLR PH2	£170.03 psf	£170.03 psf
Mosque Rent	£2,700,000 total value	£16.00 psf
Mosque Yield		6.00%
Ground Rents	Not Included	Not Included
Car Parking space	Nil	Nil
Cycle parking space	Nil	Nil
Development Costs		
Construction Costs	£156,891,077 £308.40 psf	£151,661,375 £298.12
Contingency	5%	5%
Professional Fees	9.00%	9.00%
Planning obligations	CIL - £2,582,000 S106 - £561,662	CIL - £2,582,000 S106 - £561,662
Residential marketing	1.5% of GDV	1.5% of GDV
Residential sales agency	1.00% of GDV	1.00% of GDV
Affordable housing sales legal fee	0.35% of GDV	0.35% of GDV
Residential sales legal fee	£1000 per unit	£1000 per unit
Sales agent fee Mosque	1.00% of GDV	Nil
Sales legal fee Mosque	0.35% of GDV	Letting Legal Fee 5.00% of first year's revenue
Developer profit	Market Housing - 17.50% Commercial space - 15.00% Affordable housing - 4.00%	Market Housing - 17.50% Commercial space - 15.00% Affordable housing - 4.00%
Finance	7.00%	6.00% 'without prejudice'
Others		
Market Off-plan sale	40% beginning 24 months into the construction	60.00% beginning 24 months into the construction

	programme for the second phase, in first 3 months.	programme for the second phase, in first 3 months.
Market Sales Velocity	6 units per month	5/4 units per month
Viability benchmark	£35,637,348 with VP	£30,801,398 without VP
Review mechanism	Policy context noted	Early, Mid, Late to be secured.

FIGURE 4

Gross Development Value (GDV)

Private Sales Units

1.67 Following the previous viability assessment in March 2022, THV estimated a blended market value of the private residential units at £806.50 per sq ft. The blended rate was agreed and adopted by Redloft on a without prejudice basis.

1.68 In their revised viability assessment, Redloft highlight a downward trajectory in house prices across London in 2023 and specify that residential property prices in Tower Hamlets decreased by 1.3% since March 2022. They also point to an increasing number of asking prices being discounted according to Zoopla. Due to the time elapsed from the previous planning application, rather than applying a simple percentage reduction (based on the negative trend), Redloft have sought to re-price the subject development based on its unique characteristics and against recent comparable evidence.

1.69 Redlofts repricing exercise has resulted in an average blended value of £792.72 per sq ft (to a total net internal area of 167,557 sq ft) based on the appraisal summary provided. This provides a gross sales value of £132,825,000 for the private residential element.

1.70 Redloft have relied upon transactional evidence from nearby new build sales and asking prices of comparables to inform their valuation. Their residential comparables is comprised of Botanical Lofts (asking prices), The Silk District (achieved prices), The Kiln Works (achieved prices), Skyline Collection (asking prices), and Corner Place (asking prices). No commentary has been given to the comparable evidence or how Redloft have arrived at their final GDV, other than specifying that the individual unit prices have been considered against these comparables and within the context of the subject location. Redlofts pricing by unit type is as follows:

Unit type	No of units	Average size (m2)	Average size (ft2)	Average price	Average £/ft2
1B2P Flat	82	52	557	£465,000	£835
2B3P Flat	7	64	686	£555,000	£809
2B3P Flat W	12	71	768	£585,000	£762
2B4P Flat	104	73	783	£615,000	£785
3B5P Flat	24	89	956	£725,000	£758
3B6P House	3	108	1160	£810,000	£698
Total	**232**	**15567**	**167557**	**£132,825,000**	**£793**

FIGURE 5

1.71 We have reviewed the comparable units presented by Redloft and do not find the achieved pricing comparables to be totally unreasonable. However,

we are some distance apart from the concluded price point and justification that Redloft have presented. We attach less weight to the asking price comparables on the basis that they have not yet transacted.

1.72 There is limited recent transactional activity for new build sales in the borough. However, we do believe that the comparable evidence for sales in the Silk District and Botanical Lofts provide for reasonable comparison. As a result, we have further scrutinised the pricing within these comparables to substantiate our proposed GDV for the scheme.

1.73 In respect of Kiln Works, the development is newly built and located in a relatively narrow street off Commercial Road. Whilst Kiln Works is offering some similarly sized units, it is in an inferior location next to a train track and the units are predominantly smaller in size. The streetscape and narrow street at Kiln Works do not lend well to its appeal and we believe the subject site offers better natural light and outlook. Therefore, we do not consider Kiln Works to be closely comparable.

1.74 Relative to Kiln Works, THV would expect the units being offered at Clichy Estate to command a significant uplift due to the better residential setting and because of the premium derived through estate regeneration. Redlofts pricing by unit type is generally stronger than Kiln Works and we believe this is a reasonable approach.

1.75 In respect of Botanical Lofts, we feel that it is appropriate to use this comparable to inform the pricing for the proposed (taking stock of the apartments that are in the size-range proposed). The site is only a 2 minute walk from the subject site with a similar public transport accessibility level. Unlike the Silk District we do not believe there would be significant price point adjustments relative to height, between Botanical Lofts and Clichy Estate. As such we would not expect apartments at Botanical Lofts to fetch higher prices than the subject based on floor level or amenity provision.

1.76 Although we do not have details of transacted prices, it has come to our attention that all the units in Botanical Lofts have sold out. Molior lists an average equivalent asking price of £867 per sq ft and we recognise that most of the units in Botanical Lofts are smaller in size (593 sq ft average). However, for context, if we broadly reflect on Redlofts approach, a 2 - bedroom unit on the second floor measuring 694 sq ft was marketed for £575,000, equating to £829 per sq ft. Therefore, we could reasonably contest an average of £809 sq ft for the 2-bedroom 3 person units in the subject site is overly conservative. Furthermore, we also consider Redlofts pricing of the larger 2-bedroom units to be conservative, on the basis that a 2-bedroon unit at Botanical Lofts measuring 714 sq ft was marketed for £625,000.

1.77 Lastly, we have reflected on achieved sales in The Silk District (Whitechapel Central) a 698 residential unit scheme approximately 300m west of the subject site, which we have previously referenced as a good comparable. We previously acknowledged that Whitechapel Central benefits from more scenic views particularly from the towers located in The Jacquard and The Bouchon developments and that there is normally a premium associated with bespoke tower developments. We also specified that *"a discount applied to*

these asking prices would be a good indicator of the values sought at the subject site, and that we recognise that these would not be as reliable as completed sales information".

1.78 According to Molior all of the units in the Silk District have now sold out. Looking at achieved sales, we have observed that: units ranging from 50 to 59 sqm have achieved average sales values of £895 per sq ft, units ranging from 71 to 78 sqm have achieved average sales values of £856 per sq ft, units ranging from 84 to 95 sqm have achieved average sales values of £797 per sq ft and units sized at 108 sqm have achieved average sales values of £726 per sq ft. Collectively these comparably sized units return an average blended rate of £872 per sq ft.

1.79 After accounting for the more established location of the Silk District development as well as any value premium from some of the units sold in the tower buildings, we believe our original value estimation of £806 per sq ft remains very reasonable. We had previously adopted a value £806.50 psf by applying a notional 5% discount on the average achieved sales at Georgette Apartments (£848.95). Taking stock of the updated achieved sales and a blended rate if £872 per sq ft, £806 now reflects an even bigger discount and we could conceivably push for a higher value. However, we understand that defining a good residential setting and level of premium can be quite subjective and for this reason have maintained a blended value of £806.50 on a without prejudice basis.

Estate Regeneration Premium

1.80 As stated in our previous FVA review, Estate regeneration developments set out master plans of the changes that are proposed to renew an entire estate/area. This will usually have a number of other improvements such as landscaping, infrastructure, improved transport and facilities as well as high quality residential/mix use buildings to be constructed. On the basis that Phase 1 will comprise of the affordable element with the private tenure to follow in phase 2, Sales are expected to be strong at the point of realisation due to the regeneration that will have taken place prior.

1.81 Considering all of the evidence, we have adopted a value of £806.50 per sq ft for private units in our viability appraisal. This provides gross sales revenues for the private units of **£135,134,721 (vs £132,825,000)**.

Affordable Housing

1.82 The proposed scheme includes 53.5% affordable housing on habitable room basis. This equates to 9.53% re-provision of the existing social rent homes (by habitable rooms) plus an 42.2% uplift on affordable housing. The tenure split proposed for the uplift is 86.5:13.5 split between social rent and shared ownership units.

Social Rented Units

1.83 Redloft have maintained the social rent values agreed with the Council in 2022. We have not been provided with any additional information to suggest this has changed and have retained this assumption in line with our previous commentary:

"The Applicant has stated that the re-provided affordable housing will consist of social rent units and shared equity units (intermediate housing). For the reprovision of social rent units, Redloft has adopted a rate of £129.06 per sq ft, based on rental income set at target rents, based on Jan 1999 values. We understand that existing social tenants that are being re-provided for will maintain the lower rents they currently benefit from, whilst the uplift (new) in affordable units will attract present social rented values (reflected accordingly within our appraisal). Therefore, we believe £129.06 per sq ft for the reprovisioned social housing is reasonable and have included the value into our appraisal."

London Affordable Rent & Tower Hamlets Living Rent units.

1.84 The uplift in affordable housing is comprised of London Affordable Rent (LAR) & Tower Hamlets Living Rent (THLR) units. The LAR units are valued at £191.11 per sq ft and the THLR units are valued at £160.07 per sq ft. These value inputs were agreed in the 2022 FVA review.

1.85 We had provisionally adopted the same average LAR and THLR values for our assessment. However, following a request to Redloft to provide updated values and their cashflow model in line with updated weekly rental values, we have adopted LAR units are valued at £218.34 per sq ft and the THLR units are valued at £170.03 per sq ft.

Shared equity units

1.86 The new intermediate homes provided through the scheme will be both shared ownership and shared equity housing. In Redloft's report the noted rate for the shared equity units is £445.60 per sq ft, however a rate of only £404.96 per sq ft has been adopted in their appraisal. Redloft subsequently provided an updated appraisal where the 28 shared equity unit have been valued at £12,045,000 (£408.46 per sq ft). This justification Redloft have provided for this is:

"Tower Hamlet's have confirmed the resident leaseholders are not obliged or required to reinvest the home loss payment, at 10% of the existing property's value, into the new shared equity property. Accordingly, and given there is no rent on the unsold equity, the baseline assumption is that the residents' leaseholders would not reinvest their home loss payment into the shared equity property. The revised value for the shared equity units is £12,045,000".

1.87 In 2022 the shared equity units was valued at £16,296,500 (£461.32 per square foot average), we have assumed the change in the average value is the result of changing units from 34 units to 28 social rented units and removal of the home loss payment.

1.88 Although we do not have individual unit prices for the 28 shared equity units and the revenue from home loss payment had previously been included in the unit values, we do not find Redloft justification to be unreasonable. Resultantly, we have adopted the same value of £12,045,000 in our appraisal.

Shared ownership units

1.89 In respect of the shared ownership units, Redloft have adopted a rate of £496.91 per sq ft for 20 units which are now all being delivered in phase 1 (previously this was 14 units in phase 1 and 6 units in phase 2). The residential values for the shared ownership units have been reassessed in line with the updated pricing schedule. We don't consider a rate of £496.91 per sq ft to be unreasonable and have provisionally adopted this value in our appraisal. However, owing to the change in our private sales values to £806.50 per sq ft (as opposed to £792.72 per sq ft), **we would request to Redloft to provide an updated capital value for the shared ownership units after updating their discounted cash flow appraisal.**

Affordable Housing Revenue

1.90 Redloft has modelled the income for the affordable units to be paid over or at the end of the sales period. In the 2022 assessment, Redloft sought to incorporate a six- month delay to reflect a Golden Brick payment structure (based on start on site to Golden Brick date), as well as a monthly cashflow distribution over the construction period. We did not find this approach to be unreasonable and had agreed to adopt the same in our appraisal. On the basis that this approach had previously been agreed, with no explanation for the current change, we have adopted the same cashflow approach (from 2022) in the current (2024) appraisal.

Commercial Use

1.91 The proposed scheme incudes a purpose-built religious place of worship (Mosque). In the previously agreed viability assessment the adopted GDV of the Mosque was £3,136,267. This GDV was based on the Mosque measuring approximately 1,150 sqm (including the plant room, circulation space etc) on the ground floor of block B2 of the newly developed estate, and adopting a rent of £16.00 per sq ft, capitalised at a 6.00% yield and a gross to net ratio of 95%. It was anticipated that a long leasehold interest would be granted to the current tenant.

1.92 In this updated assessment Redloft note the delivery of the replacement Mosque building will take place across both phases with a 3-storey building (900 m2) with mezzanine delivered in Phase 1 and a single storey extension

(114 m2) delivered in Phase 2. Redloft state *"LB Tower Hamlets' Asset Management Team have prepared a valuation for the replacement Mosque. Taking into account the location, use class, build specification (complete fit-out) and size (1,014 m2), they estimated a gross development value for the proposed Mosque of £2,700,000. We have adopted this assumption in our appraisal".*

1.93 THV has not has sight of the valuation that has informed the £2,700,000 value. However, if we apply the same approach used previously (adopting a rent of £16.00 per sq ft, capitalised at a 6.00% yield and a gross to net ratio of 95%) we arrived at a capital value of £2,765,067 (based on a net area of 10,369 sq ft).

1.94 **We have provisionally adopted a GDV for the proposed Mosque at £2,765,067**. However, we would consider reviewing this GDV should additional information be presented to justify Tower Hamlets' Asset Management Team's £2,700,000 valuation.

Car Parking

1.95 The applicants planning statement indicates that there will be 35 wheelchair accessible car parking spaces. Redloft have attached no value to these spaces and the units should be secured for wheelchair users at nil cost in the Section 106 agreement to ensure they are not subsequently sold to purchasers of the private flats. It also remains unclear if there are current parking spaces on site for resident and if they will be re-provided. Should this be the case income from spaces should be accounted for. We ask the applicant to confirm this.

Cycle Parking

1.96 The applicants planning statement indicates that there will be 796 cycle parking spaces overall. Redloft's FVA does not specify whether these cycle spaces will be income generating or details how they will be managed. THV would welcome further clarification on the cycle space provision and reserves the right to review and revise its appraisal pending receipt of additional information that could impact viability.

Additional Revenue

1.97 Redloft's appraisal includes additional sources of revenue in the form of GLA funding, S106 and Housing Revenue Account (HRA) capital receipts spreading across phase 1 and phase 2. The total HRA receipts amount to £15.17m and the s106 income totalling £13.9m. We have included these figures within our assessment. In the 2022 iteration of the scheme £17.28m had been included in the appraisal from Right to Buy (RtB) receipts, Capital Delivery have confirmed that no RTB Receipts are currently being used on the scheme.

1.98 Redloft have not commented on whether their adopted figures for the leasehold units have discounted the already received monies for RtB receipts that LBTH have benefited from following disposal (as far allowable by central government). This would materially impact the Existing Use Value of the site. Furthermore, although, the latest appraisal does not factor in income from RtB receipts, the vacant possession costs included in Redloft's appraisal indicates residents have utilised their RtB. Whilst the decision has been made to not incorporate RtB receipts towards this scheme it does not eliminate the fact that revenue was (at some stage) received from the disposed units. **THV would therefore welcome further clarity on leaseholder buy-backs specifically for Clichy Estate and how this has informed the GDV and EUV for this scheme.**

Summary of Total GDV

1.99 We set out below a comparison of the components of the GDV in each party's appraisal:

Income Source	Applicant values	THV values
PH1 Shared Equity	£12,045,000	£12,045,000
PH1 Social Rent	£4,540,246	£4,540,246
PH1 Shared Ownership	£7,660,000	£7,660,000
PH1 London Affordable Rent	£3,600,000	£3,600,000
PH1 S106 Subsidy	£13,940,160	£13,940,160
PH1 THLR	£543,400	£543,400
PH1 HRA Receipts	£659,382	£659,382
PH1 GLA Grant	£4,772,548	£4,772,548
PH2 Market Housing	£132,825,000	£135,134,721
PH2 THLR	£11,556,600	£11,556,600
PH2 HRA Receipts	£14,506,404	£14,506,404
Commercial Space	£2,700,000	£2,765,067
Car Parking	Nil	Nil
Cycle Parking	Nil	Nil
Total	£209,348,740	£211,723,528

FIGURE 6

1.100 Consequently, THV are of the opinion that Redloft's GDV is undervalued by £2,374,788.

Development Costs

1.101 In the 2022 FVA the overall build costs agreed with the Council and adopted in the assessment was £141,880,145.

1.102 The Applicant has appended an updated cost plan to their FVA, prepared by Potter Raper. Potter Raper have estimated construction costs totalling £156,891,077 equating to £308.40 per sq ft over 508,734 sq ft inclusive of development contingency.

1.103 THV has commissioned Johnson Associates UK Limited (JA) to undertake a cost plan review, a copy of which can be found in Appendix 1. JA's assessment (based on their measurement of the scheme and the compilation of estimates) of the scheme has identified some cost savings.

1.104 JA has consequently provided a lower base construction cost estimate of £151,661,375 at £3,209/m^2 (£298.12 per sq ft) over 46,268m^2. JA's assessment of the cost indicates a proposed reduction in the applicants cost of £5,229,703.

1.105 We have adopted JA's build cost estimate within our appraisal. However, we understand that this is subject review between cost consultants and can only formally be agreed pending the receipt of a detailed cost plan from the applicant, as opposed to the adjusted cost approach which has currently been applied.

Mosque fit out costs

1.106 Redloft have included an additional allowance for fit out costs estimated at £700,000 for the new Mosque within their appraisal. We have provisionally retained this in our appraisal pending further commentary from Redloft relating to specifications of the fit out.

Contingency

1.107 Potter Raper have included provision for Risk Register (contingency) within their estimate at 5%. JA consider this to be within the expected range and have also adopted 5% within their cost estimate. Given the nature of the development and following advice from JA we believe 5.00% to be reasonable.

Professional fees

1.108 The professional fees are typically allowed for as a percentage of construction costs ranging from 8.00% to 12.00%.

1.109 Redloft has applied a total allowance for professional fees of 13%. This includes 9% of construction costs (applied within the viability appraisal) and contract design fees of 4% adopted within the cost plan. JA have advised us that 4% design fees allowance is not unreasonable.

1.110 We believe that 9% professional fees sits within the usual range we would expect for this type of development. Furthermore, JA are also content with including 4% design fees within their cost plan. We have therefore adopted JA's build cost estimate and maintained 9% professional fees in our appraisal.

Planning obligations

Section 106 obligations

1.111 Redloft has included a £561,662 Section 106 liability in its appraisal. This has been assumed to be payable at the start of construction. We have also assumed this timing in our own appraisal however we are aware contributions are often made at various times of a development cycle. Due to the uncertainty of commitments, we have retained the same assumptions as Redloft at this stage.

1.112 We request the Case Officer to confirm the value of the s106 costs. This cost is subject to confirmation and can be amended if applicable.

CIL – Mayoral and Borough

1.113 The Applicant has included a combined CIL liability of £2,582,000, without breakdown of the apportionment for BCIL and MCIL. THV has adopted the same figure, although this is subject to confirmation post-committee.

1.114 Based on the LBTH CIL Instalments Policy, the Applicant will not be required to make the full CIL payment at the commencement of the development. Instead, half the value of the total amount payable within 60 days of commencement of development and remain half within 240 days of commencement. We have made the necessary adjustment in our appraisal and also delayed the 1st instalment until phase 2, since there is not CIL payable in phase 1 where only affordable housing is being delivered.

Total Planning Costs

1.115 The Applicant has adopted a combined CIL, MCIL and S106 payment of **£3,143,662.** THV has adopted the same figure**,** although this is subject to confirmation post-committee.

Developer's Profit

1.116 The NPPG recognises that returns 'will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. **A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible**' [Emphasis added].

1.117 The NPPG suggests "an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers. The Mayor's SPG refers to profit on GDV or profit on Cost, adjusted for risk depending on the nature of the scheme. Guidance is therefore clear that the proposed margin should be a risk adjusted return to reflect the risk attached to a proposed development.

1.118 Redloft has adopted target profit rates summarised in the left-hand column of the table below. The differing rates reflect the different risks associated with each element.

Element	Target Profit (Redloft)	Target Profit (THV)
Market Housing Units	17.50%	17.50%
Affordable Housing Units	4.00%	4.00%
Commercial Units	15.00%	15.00%

FIGURE 7

1.119 These profit assumptions were agreed in the 2022 viability assessment and THV is satisfied that these margins have been retained in the revised viability assessment. Adopting a 4% return on affordable housing aligns appropriately with our previous commentary *"As an estate regeneration development, the subject scheme would very likely be brought forward by, or in partnership with, a RP and/or local authority. It would therefore be unlikely that the developer of this scheme would need to dispose of the affordable element in the open market. This in turn reduces the risk and it would follow that the profit required to compensate for this risk should fall"*.

Finance Costs

1.120 Although in reality a bank would not provide all the scheme's finance and approaches to funding vary between developers, in viability assessments it is standard practice is to assume a 100% debt financed scheme in order to reflect the opportunity costs and real costs of committing capital to the project.

1.121 Whilst, as with the profit assumptions above, we agree that finance rates adopted in viability assessments should not be based on the identity of an individual applicant, the *type* of scheme being tested should again be considered when evaluating this input. THV and Redloft previously agreed to adopt a finance rate of 6% reflecting the reduced borrowing rates likely to be achievable for this *type* of development.

1.122 Redlofts revised assessment adopts a rate if 7%, taking stock of the increasing Bank of England base rates in the last couple of years feeding through to higher borrowing costs for developers.

1.123 THV would again reiterate that estate regeneration projects are generally undertaken with a local authority or registered provider on board, or in some cases, entirely by these entities. Generally, local authorities and RPs have

access to lower rates of finance than those seen in more "general" appraisals. With this in mind, we have retained 6.00% finance costs for our baseline appraisal.

1.124 Further to the above, this scheme benefits from secured funding made available through GLA funding, S106 subsidy and HRA receipts spreading across phase 1 and phase 2. The scheme's financial position is likely to reflect positively on any prospective lender, who would likely consider the reduced risk associated with a Local Authority and its position in undertaking the development. Again, this reflects a detail of the scheme, rather than the individual Applicant.

1.125 With regards to increasing rates feeding through to higher borrowing costs, within Tower Hamlets we have assessed various schemes, notably in 2023, which include finance costs at 6.50%, proposed by developers and their respective consultants. Grimshaw Consulting have suggested 6.50% finance rate for a nine-unit scheme in the Isle of Dogs (429 Westferry Road). Therefore, in a comparative sense, we still believe that an estate regeneration scheme would benefit from a finance rate below 6.50%.

1.126 We are conscious that development finance is dynamic and will vary over time, as well as with different development types, locations, typologies, lenders and developer profiles. It is important to note that lenders of development finance may not always adopt the Bank of England base rate as the benchmark when considering the interest rate passed along to developers, this may vary and in turn impact the overall rate that is provided.

1.127 It should also be noted that following the 2008 global recession, the Bank of England base rate reached historically low levels, resulting in significantly reduced borrowing costs. In the past, FVAs have typically factored in finance rates ranging from 6% to 7%. These rates were assumed to account for the dynamic nature of financial benchmarks and economic conditions, encompassing extended periods of extremely low interest rates since 2009, as well as recent increases. It would be unreasonable to deviate from this practice to the advantage of the developer whilst previously far lower rates were being secured and 6-7% was being proposed as part of planning viability. The rates embedded within FVA assessments are intended to reflect evolving circumstances over time, eliminating the necessity for frequent adjustments, much like how no decreases were made during the period of exceptionally low interest rates.

1.128 We have therefore adopted rate of 6.00%, in line with what was previously agreed for this estate regeneration scheme and the justification provided above.

Marketing, Legal and Sales Agents Fees

1.129 We summarise below Redloft's adopted inputs for marketing and disposal, along with our own inputs.

Cost	Agreed inputs
Residential marketing	1.50% of GDV
Residential sales agency:	1.00% of GDV
Residential sales legal fee	£1,000 per unit
Affordable housing sales legal fee	0.35% of GDV
Letting agency fee (Mosque)	1.00% of GDV -> THV Nil
Letting legal fee (Mosque)	0.35% of GDV -> THV 5.00% of first year's revenue

FIGURE 8

1.130 We consider most of the above assumptions to be reasonable and have retained them in our appraisal however in relation to Redloft's appraisal we have made the following adjustments:

- We have removed the commercial disposal fee since there is already an agreement that the tenants of the Redcoat community centre/Mosque will be able to decant into the new development upon practical completion of the first phase.
- We have removed the commercial letting agency fee for the same reason, although we have retained a letting legal fee recognising that there may be some administrative requirements.

Vacant Possession Costs

1.131 Redloft have sought to include costs that the applicant would incur in obtaining vacant possession of the site and have cited this to be the premium that would be sought after by a reasonable landowner to release the site for redevelopment. This approach is incorrect in practice and should not form part of the Benchmark Land Value as a premium. As a cost to the development, we have assessed the assumptions as such.

1.132 A detailed breakdown of the expenses that may be incurred has been provided for the different tenures that exist on the site at present. We provide our comments to the proposed costs below. £2,821,000 has been suggested for all 34 resident leaseholders, £1,687,350 has been suggested for all 30 non-resident leaseholders and £327,600 for the 36 secured tenants.

Resident Leaseholders

• Home loss payment - 10% of the property's sale value
• Independent valuation - £650 - £1400
• Surveyor negotiation fee - £280 - £550
• Legal fees on sale- £1,500 - £3,180
• Surveyor's, disturbance, and legal fees on purchase - £1,800 - £2,500
• Disturbance allowance - £1,000 - £1,100
• Stamp Duty Land Tax – 5% of the proposed properties' capital value

1.133 Most fees stated above are not deemed unreasonable and are broadly in line with what was agreed previously. We have included this cost as part of our review.

Non-Resident Leaseholder

- Basic loss payment – 7.5% of the property's sale value
- Independent valuation - £850
- Surveyor negotiation fee - £550 - £650
- Legal fees on sale- £1000 - £3,487
- Surveyor's, disturbance, and legal fees on purchase - £2,500 - £8,979
- Removal fees – £583 - £1,000
- Capital Gains Tax: £10,000
- Stamp Duty Land Tax: 5% of the existing properties' capital value

1.134 Most fees stated above are not deemed unreasonable and are broadly in line with what was agreed previously. We have included this cost as part of our review.

Secured Tenants

- Home Loss Payment - £8,100
- Disturbance allowance - £1,500

1.135 Most fees stated above are not deemed unreasonable and are broadly in line with what was agreed previously. We have included this cost as part of our review.

1.136 Whilst THV is content with including the above costs within our review, we fundamentally disagree that they should form any premium for the site. Instead, we have included a total of £4,835,950 as vacant possession costs in our appraisal.

Potential legal easements and insurance costs

1.137 Redloft's report makes reference to likely costs associated with extinguishing easements or putting in place any required indemnity policy that have not been established. Redloft note that when assessments have been completed, they will share the financial impact of these costs with the Council. THV would require evidence of these costs if/when they become available and reserve right to review/adjust these assumptions in light of any potential impact on development viability.

Construction Programme & Disposal

1.138 Phase 1 is 45 months in total, the Applicant has assumed a six-month lead in period with a 39-month construction period and 15 months sales. THV has provisionally adopted this programme for Phase 1 but request further clarity as to why the construction period has increased significantly from the 30-

month construction period adopted in the 2022 assessment. THV reserves the right to change this period unless further information is provided.

1.139 Phase 2 is 42 months in total, the Applicant has assumed a 42-month construction period and 15 months sales. The sales of the private units "*begins 24 months into the construction programme for the second phase, with 40% pre-sales over the course of the first three months and 6 units being sold per month thereafter until the end of the sales programme".*

1.140 THV are of the opinion that the construction programme for phase 2 is reasonable. However, THV considers the sales programme for the private units to be somewhat conservative. Given the fact that phase 1 will be complete and an existing community established, we believe 60% pre-sales over the course of the first three months and 5/4 units being sold per month thereafter to be more reasonable. We have therefore adopted 60% pre-sales in our appraisal, in line with the approach agreed in the 2022 FVA review.

Benchmark Land Value (BLV)

1.141 A development is typically deemed to be viable if the 'residual land value' is equal to or higher than the benchmark land value, as this is the level at which it is considered that the landowner has received a 'competitive return' and will release the land for development. Alternatively, the BLV can be included as a fixed cost in the appraisal, with the profit output compared to the target profit return to determine viability. In either case, the methodology for ascertaining the BLV is the same.

Applicant's Approach to BLV

1.142 The Applicant has adopted an EUV+ approach to determine the benchmark land value which has then been included within their appraisal as a fixed land cost, with profit being the output compared against a target level.

1.143 The EUV has been informed by what is currently on site. The FVA notes that *"the site itself consist of Harriott House, Aspley House, Pattison House, The Redcoat centre, and the Redcoat community centre. The residential dwellings onsite consist of a combination of 34 resident leaseholder units, 30 non-resident leaseholder units and 36 existing secured tenants. The commercial building onsite measure a total of 1091 square metres".*

1.144 Redloft's valuation of the 34 Resident Leaseholder and 30 Non-resident Leaseholder units has been informed through comparable evidence of transacted purpose-built local authority housing in the vicinity of the scheme. Rather than pricing units individually Redloft have priced the different unit types. We note that there will likely be some variation in the achievable values subject to factors such as the state of repair and outlook. The existing 64 leasehold units are assumed to hold a total capital value of £25,756,667.

1.145 The value of the existing social rented units has been derived through the current passing rents, modelled into a discount cashflow forecast. This has provided a capital value of £2,620,000 (£88.80 psf).

1.146 The EUV of the existing community centre and Mosque is assumed to be £2,424,731 and has been determined through a review of comparable evidence (although not directly related) and applying the following assumptions:

- £16sqft
- 6.5% Yield
- GIA to NIA ratio of 90%
- Purchaser's Costs at 6.8%

Redloft also highlight that *"no premium has been applied to the commercial element reflecting the phasing of the development, and that the tenants of the Redcoat community centre/Mosque will be able to decant into the new development upon practical completion of the first phase"*

1.147 Redloft have applied a premium of £4,835,950 to the resultant EUV of £30,801,398. As discussed earlier in paragraph 6.69 the applicant identifies this incentive package in terms of home loss payments and other costs that the existing leaseholder and secured tenants would benefit from as part of the estate regeneration.

THV Approach to BLV:

Leasehold Interests

1.148 The Council will be required to purchase the interests currently held by residents/landlords that have been sold at an earlier date by way of the Right to Buy initiative. It is accepted this will be a cost to the developer in order to obtain vacant possession of the site ahead of any redevelopment taking place (referred to in point 6.33). THV are of the view this is a reasonable cost to bring the site forward as part of the regeneration plans and do not dispute this.

1.149 This should be considered as part of the development cost in gaining vacant possession of the site rather than forming part of the BLV.

1.150 It remains unclear if there have been any discussions with leaseholders to date in acquiring the existing stock. It is often the case with estate regeneration schemes at this stage to have already entered into negotiations to purchase dwellings however as part of this exercise and for the purposes of assessment we have taken a similar approach to that of Redloft in using comparable evidence to derive at the total value. Should negotiations with leaseholders have already evolved we would require this evidence to be provided as they will form the best value indicators.

1.151 In assessing the EUV of 64 leaseholder properties, 30 of which are non-resident (landlords) and 34 owner occupiers an average capital value has been applied across a range of unit types and sizes. The values have been informed through comparable evidence; however, the valuation didn't include any information about the existing condition of these units. Redloft mention they have referred to the JLL existing values schedule to establish the value of the existing leaseholder units.

1.152 THV previously requested further information on the current condition of units to be provided to independently crosscheck the assumed values against comparables available within the market. On the basis of previous information received and a schedule of the lease terms for the existing leasehold properties, a value £27,500,000 had been agreed on a without prejudice basis. Without further detail, THV assumes the updated capital value of £25,756,667 reflects a more accurate account of the condition of the existing units in 2024. Resultantly, we have assumed an EUV of £25,756,667 for the 64 leasehold units.

Social Tenanted Properties

1.153 In assessing the EUV of 36 tenanted properties, Redloft have included the current passing rents into a discount cashflow to calculate the Net Present Value for these units.

1.154 Redloft have previously stated that the existing social rented units are not a liability and are income generating assets, and therefore an appropriate inclusion into the Existing Use Value for the purposes of viability. To provide further evidence on this point the Council have provided Tower Hamlets Homes assets management team's anticipated budget for the major works on existing assets in the instance the estate was not being redeveloped. THV was content with the presented discounted cashflow assessment of the value of the existing social rent units. The assessment budgeted for a sinking fund over a 30 year period of £2,466,930, representing an allowance of £82,231 per annum. Comparatively Redlofts budget allowance within the discounted cashflow was more than sufficient to cover the works costs over a 30 year period while deriving a current day value of £2,620,000. Therefore, we were happy to discard our initial view that the asset no longer had a useful life and had nil value. In the hypothetical scenario that the units were to be transferred to another organisation (as a stock transfer) they would attract a value.

1.155 For clarity, THV has also assumed a capital value of £2,620,000 (£88.80 psf) for the social tenanted properties.

Commercial space

1.156 There remains a degree of ambiguity around the assumptions made as part of Redloft's valuation of the existing commercial space, in particular because the community centre has already been vacated.

1.157 Whilst we remain unconvinced that an EUV of £2,424,731 for the commercial space is fully accurate, we do believe that a blended rental rate of £16/ft2 is not unrealistic or unreasonable across both buildings (the Mosque and vacated community centre) for this site. Further Redloft have previously noted that they reviewed the lease of the Mosque and note that it can be terminated at any point by either party without recourse of costs to secure vacant possession.

1.158 On the basis that we do not consider a blended rent of £16/ft2 and 6.5% yield to be unrealistic or unreasonable for this site, we have adopted the same capital value as Redloft for the commercial space to conclude viability matters.

Premium

1.159 We do not agree with Redloft's approach in applying a £4,835,950 premium to the EUV. Whilst we are not disputing costs will be incurred, we consider these to be vacant possession costs associated with the proposed

development. Not an incentive for the landowner to unlock the site for development.

1.160 We have therefore included £4,835,950 as an additional cost line in our appraisal rather than a product of the BLV.

BLV Summary

1.161 Taking the above points into consideration, we present below a comparison of the components of BLV in each party's appraisal on a 'without prejudice' basis:

Income Source	Applicant values	THV values
Social tenanted properties	£2,620,000	£2,620,000
Leaseholder properties	£25,756,667	£25,756,667 'without prejudice'
Existing commercial space	£2,424,731	£2,424,731 'without prejudice'
Premium	£4,835,950	NIL – moved to VP costs
Total	**£35,637,348**	**£30,801,398**

FIGURE 9

Assessment of Viability – Proposed Scheme

1.162 As outlined in Section 5 above, assessment of viability usually involves comparison between the established residual land value (RLV) and the established benchmark land value (BLV), to determine whether the developer can viably afford to purchase the land given the costs and values proposed, and therefore deliver the scheme.

1.163 An alternative approach is to hold the land value as fixed, either at the benchmark value or, where no BLV is applicable, at zero, and to use profit as the output. The same basic methodology applies, except that the realised profit is compared to the target profit, to determine whether a reasonable developer would proceed with the scheme.

1.164 This is generally shown as a percentage return against GDV but can also be expressed in cash terms. If the realised profit exceeds the target, there is a 'surplus', whereas if the reverse is true, there is a 'deficit'.

1.165 If a surplus is found, this demonstrates the scheme is **not** providing the maximum affordable housing possible. This surplus can either be converted into additional affordable housing or used to fund payments in lieu (depending on the extent of the surplus).

1.166 If a deficit is found, this demonstrates the scheme **is** providing the maximum affordable housing possible. If the deficit is significant, it may be that the scheme is not deliverable in its current configuration. Where this is the case, the developer should fully justify how it intends to reconcile this to deliver the scheme.

1.167 Where schemes are identified as marginally unviable at the proposed level of planning obligations, either growth assumptions should be included or the level of profit allowed for should be adjusted, to the extent that the scheme as proposed demonstrates viability.

1.168 According to Redloft's report, even if the target profit was reduced to nil, the scheme would be delivered at a significant loss.

1.169 We summarise the findings of each party below.

	Benchmark Land Value (BLV)	Target Profit	Development profit	Surplus/ Deficit (% against target profit)
Redloft	£35,637,348	14.46% £25,196,771	-19.38% (£40,327,065)	**£65,523,836 below the benchmark profit**
THV	£30,801,398	14.73% £26,196,603	-6.07% (£12,851,428)	**£39,048,031 below the benchmark profit**

FIGURE 10

1.170 As can be seen in Figure 10 above, Redloft's appraisal does not generate any development profit for the proposed scheme. Redloft's appraisal generates a £40,307,065 loss. THV's appraisal also generates a loss, be it a smaller loss of £12,851,428.

1.171 Comparing these against the target profits, the Applicant's appraisal generates a total deficit of £65,523,836, failing short of its target by 33.84% of the GDV.

1.172 THV's assessment, meanwhile, shows a deficit of £12,851,428, falling short of its target profit by 20.8% of its GDV.

1.173 In summary, both Redlofts and THV's appraisal shows a profit that is below that targeted by a "normal" for-profit developer, whereas Redloft's shows a loss of over £40m which would have to be absorbed or subsidised by any party bringing forward this scheme. THV's assessment shows a smaller loss of c.£12.9m that would need to be absorbed or subsidised.

1.174 We would have some doubt as to the credibility of an appraisal that purports to inflict such a significant financial loss on a developer.

1.175 Although THV's appraisal shows a smaller loss, ultimately it is still a sizable deficit and as such there would need to be significant growth in sales (and/or reduction in costs) before additional Affordable Housing contributions could be feasible. The Council would be able to assess this at a later date through the use of review mechanisms.

1.176 We believe it is important to highlight two key aspects of the above conclusions. Firstly, it is important to understand the implication of an appraisal producing not only a deficit, but also failing to achieve its *target* profit. According to both THV and Redloft's appraisal the applicant will not be making *any profit whatsoever* if it develops the scheme; it will be spending more than it is making. **This casts significant doubt on either the validity of the assumptions made or on the deliverability of the scheme in practice**.

1.177 Secondly, and related to the first point, we feel it is important to highlight that the profile of the applicant is not necessarily a "normal" for-profit developer and the development may only be brought forward by a similar body. Due to its nature as a public body and its objectives being centred on delivery of homes rather than profit-seeking, it is possible that the developers actual profit aspirations may not be aligned with others. Therefore, we consider our appraisal (with a smaller loss) may be considered a scenario that more accurately reflects the council's position and indicates a more optimistic chance of deliverability than Redlofts baseline appraisal shows. It is our view that the scheme is to be delivered on the above notion however would welcome further commentary.

Sensitivity Analysis and Scenario Testing

Sensitivity Analysis

1.178 In cases where a scheme is marginally unviable, it is often possible that changes in the market which cause an increase in sales values and/or savings on build costs can move a scheme from deficit into a surplus.

1.179 This may encourage a developer to bring forward a scheme despite it being technically unviable at a given level of affordable housing. It can also provide comfort to the LPA that the scheme will be delivered despite a deficit.

1.180 We have therefore tested the sensitivity of our appraisals to changes in private sales values and build costs, as these are generally the inputs most likely to change over time and are amongst the most impactful. The outcome of this testing is shown in the Figure 11 below:

Scenario: Proposed Scheme

Sensitivity Analysis – Private Sales Values and Construction Cost

	Sales: Rate /ft²				
Construction: Gross Cost	-10.000%	-5.000%	0.000%	5.000%	10.000%
	725.85 /ft²	766.18 /ft²	806.50 /ft²	846.83 /ft²	887.15 /ft²
-10.000%	-3.78% -7,501,972	-0.13% -260,990	3.28% 6,941,994	6.43% 14,044,312	9.35% 21,052,235
-5.000%	-8.79% -17,417,681	-4.97% -10,176,700	-1.39% -2,935,718	1.97% 4,295,145	5.08% 11,439,221
0.000%	-13.79% -27,333,391	-9.80% -20,092,409	-6.07% -12,851,428	-2.57% -5,610,446	0.72% 1,630,535
5.000%	-18.79% -37,249,415	-14.64% -30,008,433	-10.75% -22,767,452	-7.11% -15,526,471	-3.68% -8,285,489
10.000%	-23.80% -47,166,077	-19.48% -39,925,096	-15.44% -32,684,114	-11.65% -25,443,133	-8.08% -18,202,152

FIGURE 11

1.181 The matrix above shows the impact of changes to private sales values and construction costs on the development profit. The central cell shows the outcome for our baseline appraisal. Moving to the right and upwards shows the impact of increasing sales values and falling construction costs. These both improve the outcome for the scheme. Moving in the opposite directions shows the impact of the opposite changes, which worsens the scheme's output.

Cells in red indicate where a loss would be incurred, whilst cells in green indicate where a profit would be generated. However, none of the cells illustrate a scenario where the target profit (of £26,196,603) would be reached, and therefore a deficit is still present.

1.182 The green cells all show a profit being returned, these outcomes may still be acceptable to the council if its objective is simply to cover its costs rather than achieve significant profits. Therefore, whilst technically in deficit, these outcomes may still be deliverable given the nature of the applicant.

1.183 Notwithstanding this, the outcomes above show that significant rises in value would have to occur in tandem with large decrease in build costs to make the scheme viable against the market-standard benchmarks which would be required by most developers. It would appear unlikely that such an optimistic scenario would be likely in reality.

Review mechanism

1.184 This is a two phased development with one application for full planning permission. As far as we have been made aware there will not be a further RMA for this scheme.

1.185 We have been made aware that a detailed cost plan will be produced later for the £156,891,077 value that Redloft have applied in their appraisal. Naturally, the viability position at the application stage will not be agreed until our cost consultants have reached an agreeable outcome. In addition, any changes to cost assumptions should be picked up as part the early/mid/late-stage reviews as the development progresses.

1.186 Due to the phased nature of this development an early, mid-stage and late-stage review should be included as part of s106 agreement.

1.187 The purpose of review mechanisms is to ascertain whether additional developer contributions can viably be achieved or secured at the point of each review. Review mechanisms should not result in a reduction in already committed contributions agreed with the Council, which is likely to affect the acceptability of a development proposal. Therefore, each review will be upwards only.

1.188 This is to be further discussed with the applicant to agree the appropriate review mechanism structure most suitable for this scheme. Either via a whole scheme appraisal or through the use of formulas the council should seek to agree a suitable position for the purposes of the legal agreement which should include a break even position where possible.

Conclusions and Further Advice

1.189 We have reviewed the Applicant's viability assessment that seeks to demonstrate no further additional affordable housing contribution can delivered as the proposed scheme generates a loss £40,327,065 relative to its target profit of £25,196,771 (14.46%). Representing a deficit of £65,523,836 against the target profit.

1.190 Despite the significant loss, the Applicant proposed moving forward with the scheme. This raises the question of how much incentive the Applicant needs to bring this scheme forward or what level of loss can be accommodated.

1.191 We have undertaken our own assessment of the proposed scheme and our appraisal generates a development loss of £12,851,428 relative to a target profit of £26,196,603 (14.73%). Representing a deficit of £39,048,031 against the target profit.

1.192 Due to the length of the development and using RICS guidance, if we take the assumptions from our sensitivity testing of the scheme, a 10% increase in private sales values and a 10% decrease in construction costs enables the scheme to be delivered at a profit of £21,052,235 (9.35%). This would still be short of the blended profit target of £26,196,603 but may be considered a more reasonable outcome for a prospective developer.

1.193 Both the Applicant's FVA and THV's Appraisal indicates that the proposed development would generate a significant deficit with the level of planning obligations as proposed by the Applicant, even at a lower margin of finance.

1.194 The key differences in approach which have led to a divergence in the respective deficit positions are:

- Benchmark land value
- Level of finance
- GDV – private sales values
- Build costs
- CIL instalments
- Affordable housing cashflow

1.195 The net loss demonstrated by the Applicant raises questions regarding the commercial basis of the proposed scheme and the terms under which development finance is likely to be secured.

1.196 LBTH Viability SPD requires that FVAs cannot demonstrate that schemes as proposed are technically unviable; FVAs that may have previously been submitted showing this must be adjusted so that any deficit is expressed in terms of the impact on the scheme's profit – this will better inform the Council of the position of Applicants where schemes demonstrate a deficit. Alternatively, growth projections can be included in an FVA to account for any deficit.

1.197 An Applicant should demonstrate how their proposed scheme is deliverable, considering their proposed level of planning obligations.

Appendix 1. Johnson Associates UK Limited Cost Plan Review

Appendix 2. Argus Appraisal Summary (Proposed Scheme)