HAM CLOSE

FINANCIAL VIABILITY

ANTHONY LEE
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BNP PARIBAS REAL ESTATE

Real Estate for a changing world

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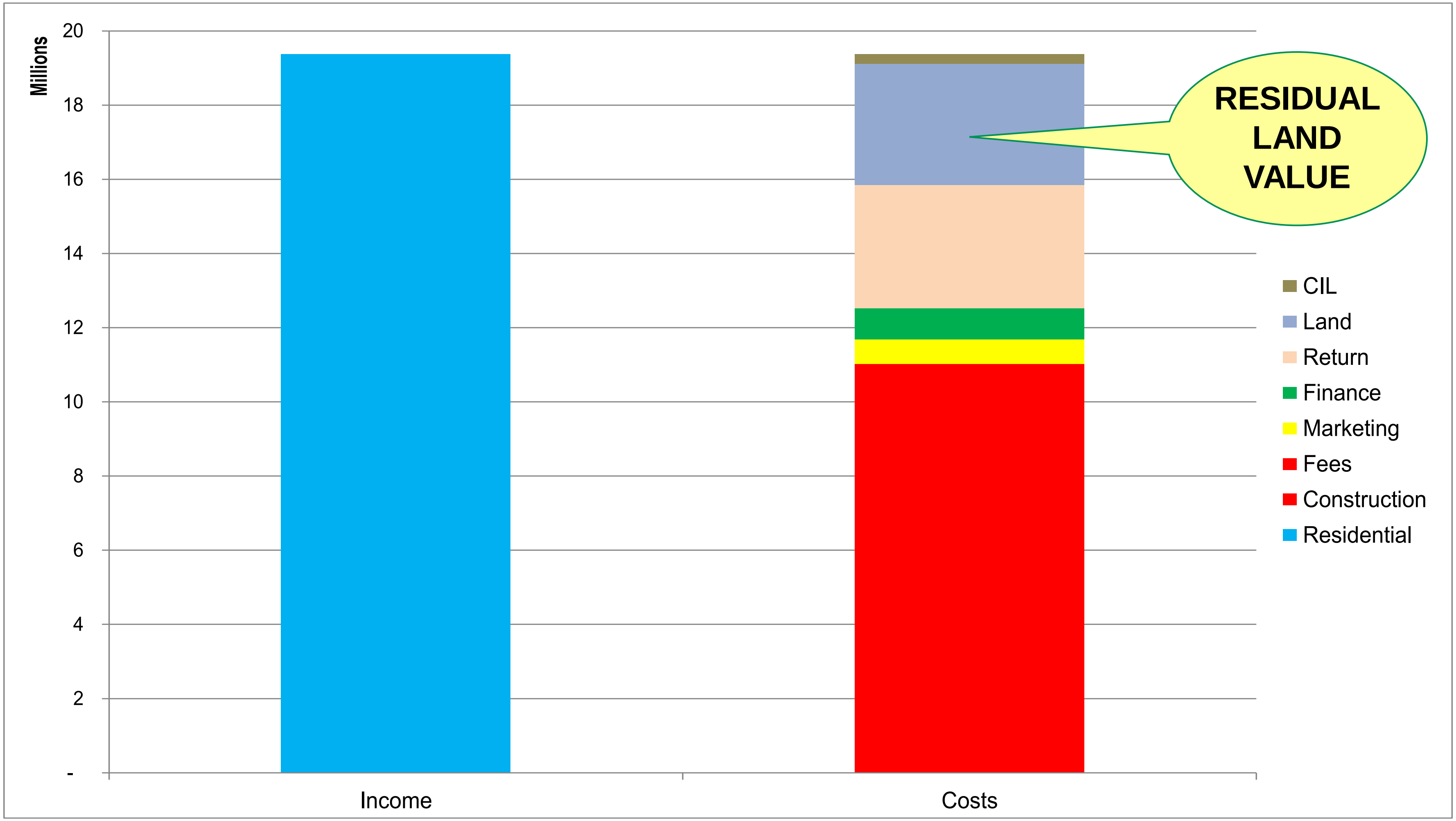
ESTABLISHING VIABILITY

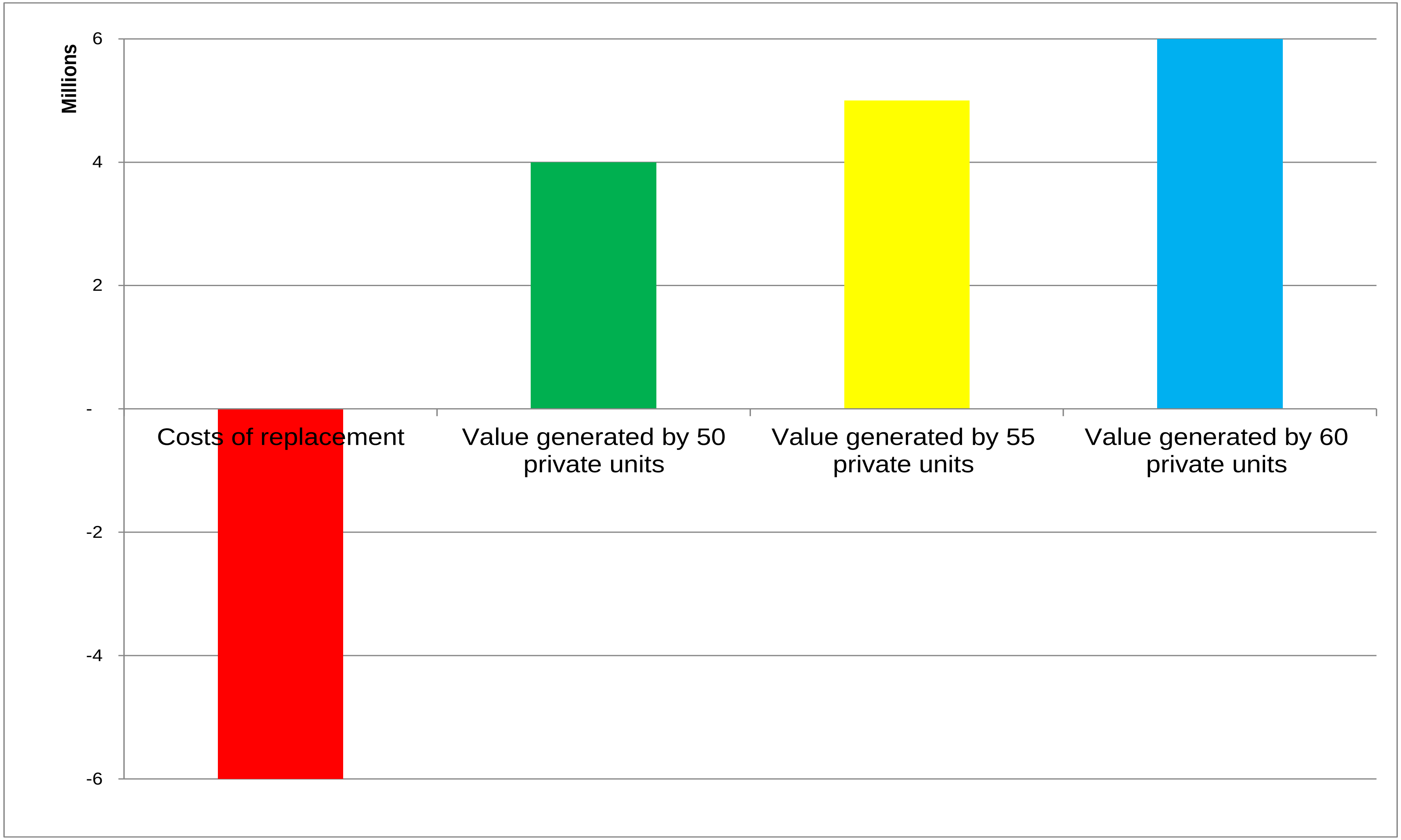
1. APPROACHES ADOPTED

A. In general terms
B. For estate regeneration schemes
C. Finance
D. Risks and returns

Testing viability of a development



Estate regeneration schemes



Estate regeneration schemes – hypothetical example

	A	B	C	D	E
1	**Scenario 1: 100% affordable housing replacement scheme**				
2					
3	GDV	0 private units @	£0	per unit	£0
4		60 affordable units @	£0	per unit	£0
5	LESS				
6					
7	Build	60 units @	£90,000	per unit	£5,400,000
8	Other construction costs		£3,000	per unit	£180,000
9	Contingency			5% of build	£279,000
10	Professional fees			10% of build	£585,900
11	Marketing			3% of GDV	£0
12	Finance			7% of build	£378,000
13	S106 and CIL				£300,000
14					
15	Total costs				£7,122,900
16					
17	Developer's profit	20% on private		17% of GDV	£0
18		6% on affordable		6% of costs	£324,000
19					
20	Residual land value				-£7,446,900

Estate regeneration schemes – hypothetical example

	A	B	C	D	E
1	**Scenario 2: Aff hsg replacement scheme with private cross subsidy**				
2					
3	GDV	20 private units @	£400,000	per unit	£8,000,000
4		60 affordable units @	£0	per unit	£0
5	LESS				
6					
7	Build	80 units @	£90,000	per unit	£7,200,000
8	Other construction costs		£3,000	per unit	£240,000
9	Contingency			5% of build	£372,000
10	Professional fees			10% of build	£781,200
11	Marketing			3% of GDV	£240,000
12	Finance			7% of build	£504,000
13	S106 and CIL				£400,000
14					
15	Total costs				£9,737,200
16					
17	Developer's profit	20% on private		17% of GDV	£1,360,000
18		6% on affordable		6% of costs	£432,000
19					
20	Residual land value				-£3,529,200

Estate regeneration schemes – hypothetical example

	A	B	C	D	E
1	**Scenario 3: Aff hsg replacement with private cross subsidy (higher density)**				
2					
3	GDV	40 private units @	£400,000	per unit	£16,000,000
4		60 affordable units @	£0	per unit	£0
5	LESS				
6					
7	Build	100 units @	£90,000	per unit	£9,000,000
8	Other construction costs		£3,000	per unit	£300,000
9	Contingency			5% of build	£465,000
10	Professional fees			10% of build	£976,500
11	Marketing			3% of GDV	£480,000
12	Finance			7% of build	£630,000
13	S106 and CIL				£500,000
14					
15	Total costs				£12,351,500
16					
17	Developer's profit	20% on private		17% of GDV	£2,720,000
18		6% on affordable		6% of costs	£540,000
19					
20	Residual land value				£388,500

Risks and returns

Developer's criteria for involvement in an estate regeneration scheme

- Developer will typically carry all risk:
  - Construction cost risk
  - Sales risk
- Managing these risks is their core business
- But in return for risk, they require a return
- Typical developer return: 17% to 20% of value
- Developer may or may not achieve target level of return

Finance

Lender's criteria for funding a scheme

- Developers rarely carry sufficient cash to fund a development
- 50% of development costs typically funded by bank loan
- Balance is funded by equity
- Typical rates: bank funding 7%; equity funding 10% +
- Funders will require assurance that scheme will generate a return
- Impact of timing, phasing on cashflow

HAM CLOSE PROPOSALS

1. TESTING VIABILITY

A. **Options tested**
B. **Appraisal inputs**
C. **Results – viable quantum of development**

Options tested

For modelling purposes we have tested schemes of between 300 and 500 units

In addition our appraisals consider the tenure mix of the ‘additional’ housing (33% of units)

300 unit scheme

- **No revenue attributed to 64% of units** (192 replacement units)
- The remaining 108 units have to cover their own costs plus those of the replacement units

400 unit scheme

- **No revenue attributed to 48% of units** (192 replacement units)
- The remaining 208 units have to cover their own costs plus those of the replacement units

500 unit scheme

- **No revenue attributed to 38% of units** (192 replacement units)
- The remaining 308 units have to cover their own costs plus those of the replacement units

Appraisal inputs

Health warnings:

- Appraisals are based on best estimates of values and costs well in advance
- Markets are cyclical
- Costs are vulnerable to labour costs and exchange rate movements
- Scheme design will result in changes, for example:
  - More smaller buildings are less efficient due to increased number of cores compared to larger blocks
  - Inclusion of basement car parking will significantly increase build costs

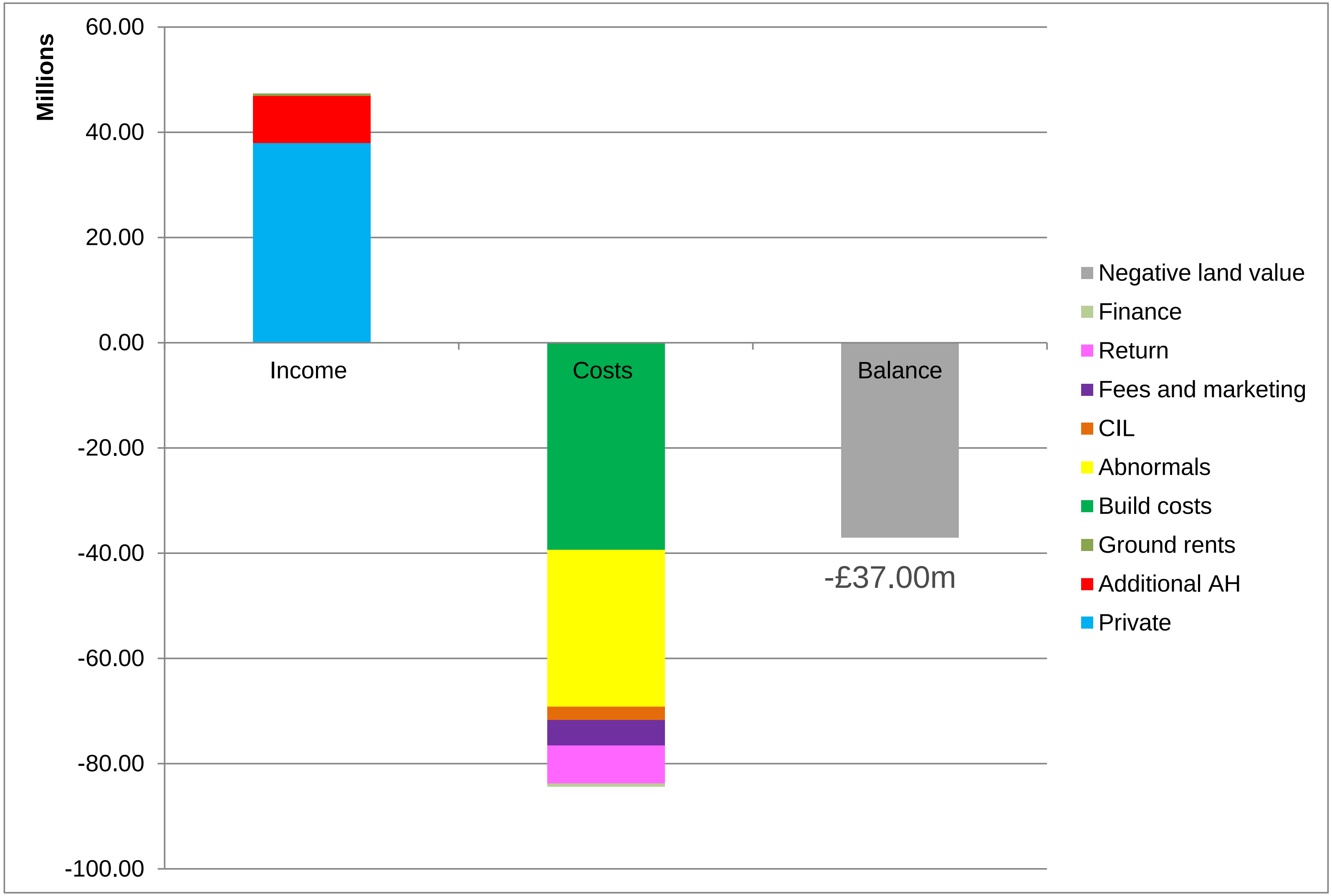
- **The figures that follow are for the purposes of modelling**
- **They are not a proposal**
- **They don't take account of contributions from the Council, RHP or the GLA**

Appraisal inputs

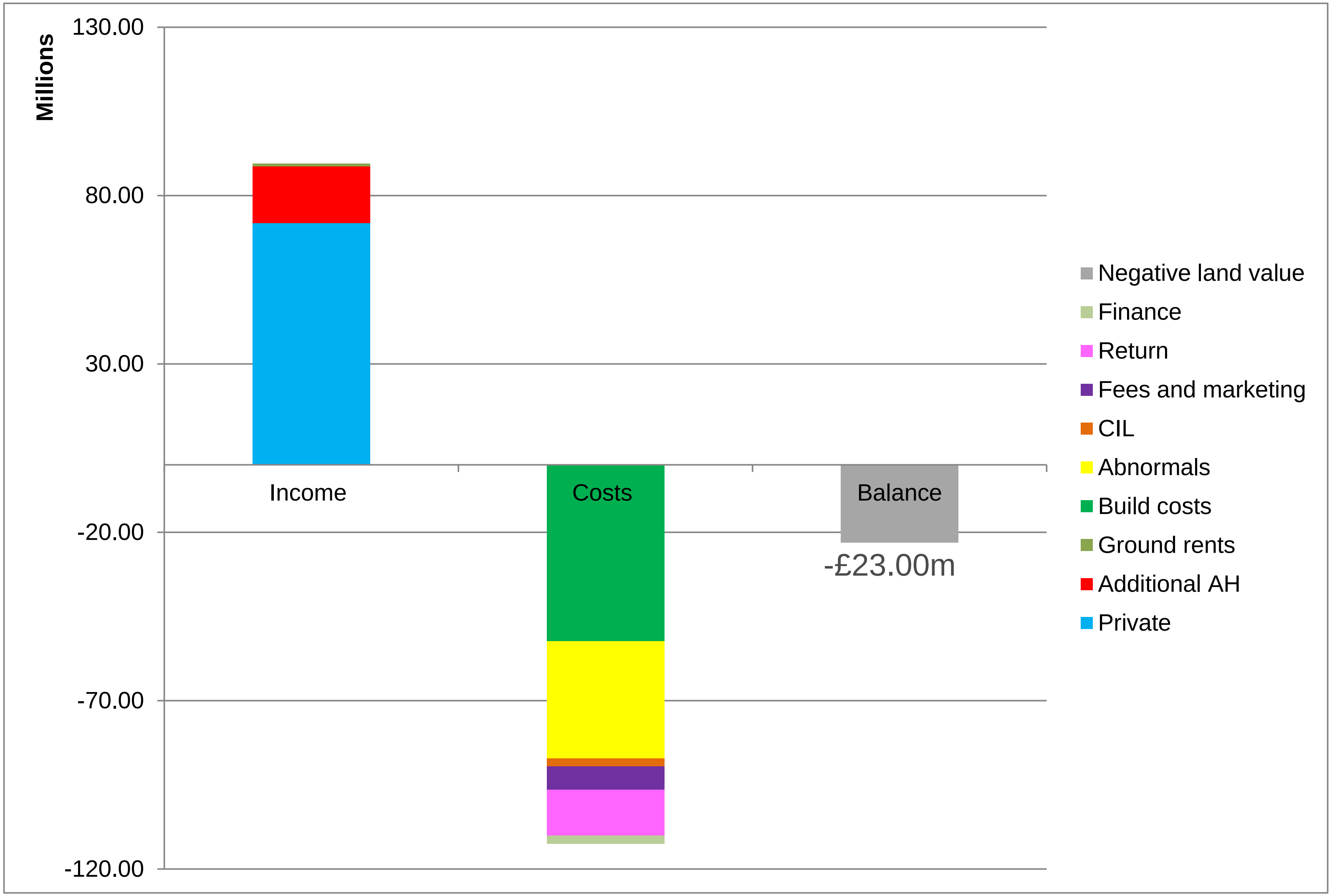
Main appraisal inputs:

- Private sales values: £650 to £850 per sq ft
- Base construction costs: c. £150 per sq ft
- Abnormals, homeloss and disturbance payments: c. £100 per sq ft
- Community Infrastructure Levy: Mayoral CIL: £4.65 per sq ft; LBRuT CIL: £17.65 per sq ft
- Developer’s return 17% - 20% of value
- Finance rate: 6.75%
- Fees: 5% of construction costs
- Sales agent: 3% of value
- Sales legal fee: 0.5% of value

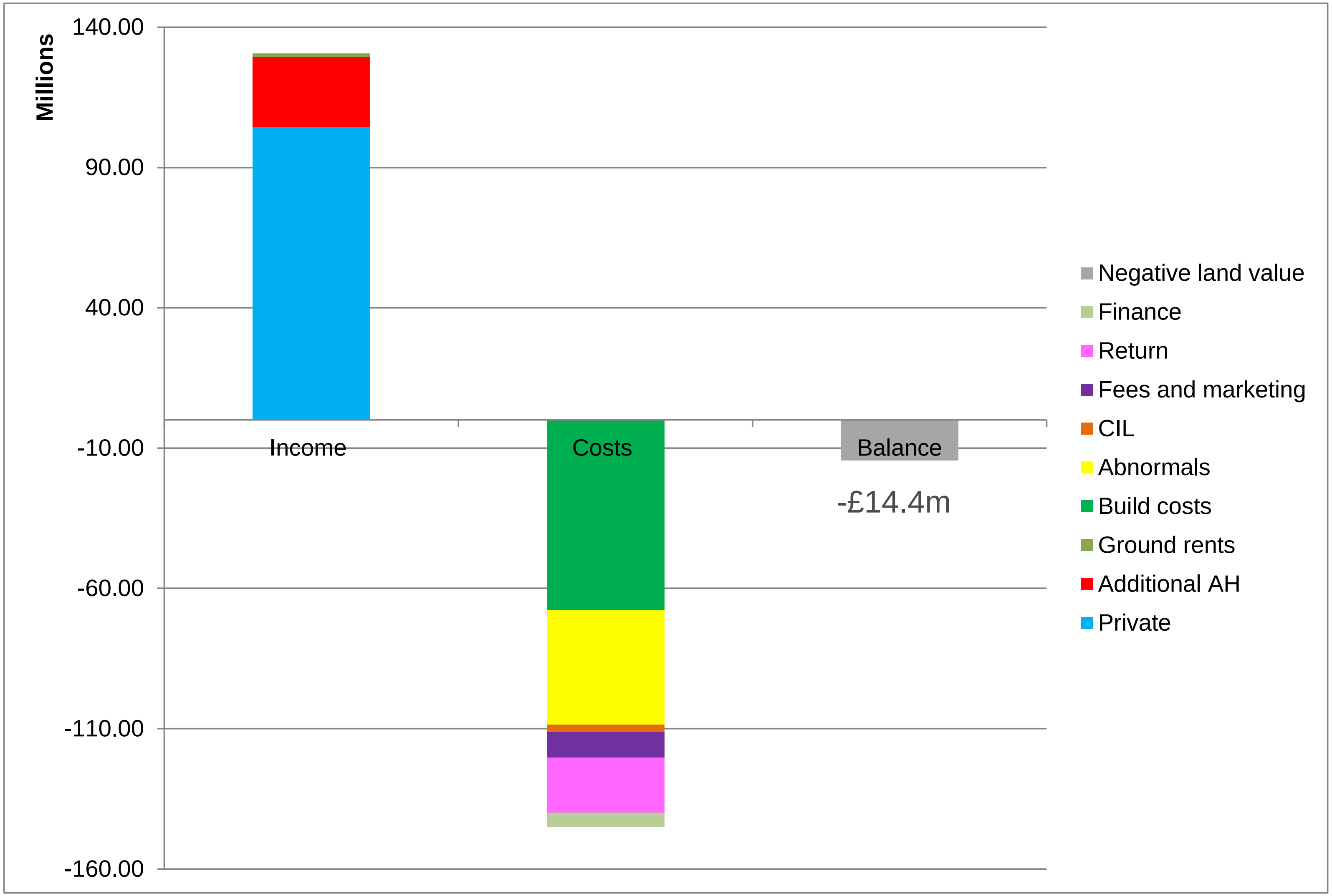
Appraisal results: 300 unit scheme



Appraisal results: 400 unit scheme



Appraisal results: 500 unit scheme



Conclusions

- Appraisals are sensitive to changes in inputs
- Market outlook now uncertain
  - Sales values and risk – impact on income, risk margin and funding
  - Build costs – changing labour and material costs
- Scheme is unlikely to be self-funding; RHP and the Council need to fund deficit
- Our appraisals indicate that
  - Proposals of less than 400 units unlikely to be viable unless sales values growth accelerates
- Architects and cost consultants need to work up details to optimise value

Questions