DRAFT VIABILITY REPORT

For the Project

At

CRESSINGHAM GARDENS – REFURBISHMENT

Prepared On Behalf Of

LONDON BOROUGH OF LAMBETH

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Version Control

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V1	2 Feb 2016	MG	12	Refurb first draft
V2	8 Feb 2016	MG	12	Refurb with option 1
V3	12 Feb 2016	MG	12	Revised draft

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1. INTRODUCTION

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

As part of this programme, the Council has identified the housing stock on the Cressingham Estate ("the site") as being in need of improvement or replacement.

Airey Miller Partnership has been commissioned to complete financial analysis of the preliminary refurbishment options for consideration by the Council.

The design scenarios considered reflect the different development options for the estate. Where properties are retained by the Council under the HRA, the Council is responsible for commissioning and funding the refurbishment works.

The purpose of this report is therefore to provide an overview of the financial viability of the refurbishment options arising from the wider estate regeneration proposals being explored.

This exercise of considering refurbishment of the estate as is a purely theoretical exercise. In practice, estates within the HRA are financed centrally and are not considered on a stand alone basis. This exercise has, however, been requested to consider whether (in theory) the Cressingham Gardens estate could fund its own refurbishment.

1.1 Delivery from the proposed options

Four refurbishment options are considered. These options have been produced as part of the feasibility and massing exercise completed by Karthaus Design and summarised in the Cressingham Gardens Summary Report dated March 2015. Resulting from these proposals is a number of scenarios where the Council would retain stock under the HRA. These circumstances can be summarised as:

- ***Option 1 Retention of Estate***

  This scenario proposes:
  - Retention of entire estate

  Details of the Retention option
  - Refurbishment of the entire estate
  - Refurbish 306 homes of which 212 tenants and 94 leaseholders/ freeholders

- ***Option 2 Small Partial Redevelopment and Infill***

  This scenario proposes:
  - Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
  - Development of a small number new homes on open space

  Details of the Small Partial Redevelopment and Infill
  - Demolition of 19 properties in Crosby
  - Of which 7 tenants and 12 leaseholders/ freeholders
  - Retain 205 tenants and 82 leaseholders

- ***Option 3 Partial Redevelopment and Infill***

  This scenario proposes:
  - Retention of the majority of the estate and refurbishment costs to be borne by the Council through the HRA.
  - Development of an increased number new homes on open space

  Details of the Partial Redevelopment and Infill option
  - Demolition of 31 properties including Crosby
  - Of which 17 tenants and 14 leaseholders/ freeholders
  - Retain 195 tenants and 80 leaseholders

- ***Option 4 Significant Redevelopment***

  This scenario proposes:
  - Redevelopment of part of the estate
  - Provision of new homes, flats and houses
  - Create a new landscaped area
  - Refurbishment costs to be borne by the Council through the HRA.

  Details of the Significant Redevelopment option
  - Demolition of Crosby, Longford, Scarlette, Papworth and Chandler
  - 121 homes demolished
  - Of which 93 tenants and 28 leaseholders/ freeholders
  - Retain 119 tenants and 66 leaseholders

1.2 Delivery Aspirations

The Council has identified a programme of works that is required over a ten-year investment scenario. The works are to be phased in two broadly equivalent value packages to be completed in year 5 and year 10.

In order to complete, this refurbishment the Council requires the retained stock to be able to support the cost of the work in order for it to be financially viable.

1.3 Programme and Decanting

For the purpose of the assessment it is assumed that each phase of work will be completed in 12 months.

The scope of work may require some degree of decanting but at present the extent of this has not been established.

It is acknowledged that the Council may deviate from the timeline assumed and undertake work as and when properties become available for re-let for example.

Broadly, the refurbishment is proposed to take place in a continuous phase spanning 12 months during 2022 and 2027.

For Lease/Freeholders it is assumed that the cost of the work will be recovered in the preceding 5 years after the final package of refurbishment work is complete.

2. FINANCIAL VIABILITY ANALYSIS

The purpose of this financial viability analysis is to establish whether the options proposed to bring about estate refurbishment at Cressingham Gardens are viable and deliverable, providing the Council with an acceptable risk profile and a positive net present value ("NPV"[1]).

For the purpose of this analysis, the financial appraisal is operating a cumulative cashflow with finance costs being charged on the annual profit and loss position.

The outputs are based on a notional refurbishment approach and is assessed to be viable when the following criteria are achieved:

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

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

- Finance Costs (annual rate)
  - HRA Loans at 5.57% pa (fixed)

[1] NPV is a measure of how profitable a future cashflow is by comparing the value of a pound today to the value of that pound at a future point, taking inflation into account. If the NPV of a prospective project is positive, the project stands to provide an increased return on investment and would be considered acceptable. However, if NPV is negative, the project probably should be rejected because the cost of implementing will not be recovered in the future.

- Assumed rents

  - Retained Council Rent (£pw) Beds

Beds	Rent (£pw)
1	£94.62
2	£108.12
3	£124.43
4	£143.69
5	£157.34

- A 4% rent reduction to accord with the July 2015 Budget has been included in the first 5 years.

- Percentage of gross rent assumed for capitalisation purposes:

	Beds 1	2	3	4	
Affordable	33.12%	33.12%	33.12%	33.12%	Gross:Net Rent

- Leaseholder / Freeholder contributions to work:
  - Assumed that cost of refurbishment work is recovered from final work package in year 10 over the preceding 5 years.
  - Assumed that 80% of costs is recovered.

3. BASE OPTION

A base option has been considered for each development proposal. The base option takes account of the Council's objectives and aspirations detailed earlier in this report and determines the extent to which these ambitions can be achieved.

The base option delivers the following outcomes:

Option 1

No. of dwellings tenanted dwellings retained	212
No. of leaseholder and freeholders retained	94
Cost of phase 1 refurbishment work (Inc. inflation)	£6m
Cost of phase 2 refurbishment work (Inc. inflation)	£7.3m
Grant Levels	£0
Total revenue value (30yr)	£18.62m
Tenant and Leaseholder payments	£3.27m
Peak capital requirement	-£10.9m
Pre Finance NPV	-£566k
Post Finance NPV	-£66.59m
Finance Cost	£8.88m
Breakeven achieved in	N/A

Option 2

No. of dwellings tenanted dwellings retained	205
No. of leaseholder and freeholders retained	82
Cost of phase 1 refurbishment work (Inc. inflation)	£5.63m
Cost of phase 2 refurbishment work (Inc. inflation)	£6.85m
Grant Levels	£0
Total revenue value (30yr)	£17.7m
Tenant and Leaseholder payments	£2.85m
Peak capital shortfall requirement	-£10.1m
Pre Finance NPV	-£433k
Post Finance NPV	-£60.6m
Finance Cost	£8.04m
Breakeven achieved in	N/A

Option 3

No. of dwellings tenanted dwellings retained	195
No. of leaseholder and freeholders retained	80
Cost of phase 1 refurbishment work (Inc. inflation)	£5.39m
Cost of phase 2 refurbishment work (Inc. inflation)	£6.56m
Grant Levels	£0
Total revenue value (30yr)	£16.9m
Tenant and Leaseholder payments	£2.78m
Peak capital shortfall requirement	-£9.7m
Pre Finance NPV	-£439k
Post Finance NPV	-£58.5m
Finance Cost	£7.7m
Breakeven achieved in	N/A

Option 4

No. of dwellings tenanted dwellings retained	119
No. of leaseholder and freeholders retained	66
Cost of phase 1 refurbishment work (Inc. inflation)	£3.63m
Cost of phase 2 refurbishment work (Inc. inflation)	£4.4m
Grant Levels	£0
Total revenue value (30yr)	£11m
Tenant and Leaseholder payments	£2.3m
Peak capital shortfall requirement	-£6.8m
Pre Finance NPV	-£438k
Post Finance NPV	-£42m
Finance Cost	£5.6m
Breakeven achieved in	N/A

4. SUMMARY

Through our financial analysis of the Cressingham Gardens Estate, it would appear unviable under any of the four options for the retained homes to be viable for refurbishment.

The base options presented recognise the key objectives of delivering within the principle policy requirements of the Council; however, the retained stock does not generate the revenues required over the 30 year period to fund the cost of the refurbishment work. Consequently, the Council would be required to invest further capital, which under the HRA system would prove prohibitive.

Notes and Exclusions

- Numerous input data remains to be refined by the client and other advisors, the current model output is therefore not representative of the final scheme position.
- Indicated finance costs will not be accurate where the scheme does not reach a positive position.
- The finance structure is indicative and will need to be agreed with the eventual funder.
- This model has been prepared at an early stage in the project development based on limited information; the results of the model may therefore change in line with scheme / financial development. A further iteration of the model will be undertaken in due course.
- The gross and net rent cashflow is intended to be indicative only. A full business plan including major repair and replacement should be produced to inform cashflow.
- Airey Miller accepts no liability for the accuracy of input data other than that provided by Airey Miller Partnership. In particular, no liability is accepted in respect of values or income or operational/management costs. At present, the model uses affordable values as advised by the Council and those set out in the Local Housing Allowance for Inner South East London, June 2015. The Open Market Sales and Rental Values reported to the Council are provided by Lambert Smith Hampton and Hamptons International. These will need to be checked for a more location specific value weightings going forward.
- Airey Miller Partnership accept no liability for user changes to the model, any proposed changes should be referred to Airey Miller Partnership for checking.
- Airey Miller Partnership has produced its own Order of Costs to inform the cost assumptions. It is intended that these OoC's provide a consistent and up to date base date. The detail is based on the previous design work and it is assumed that the design will work around the existing infrastructure layout. If there is a need to re-route services etc. then this will incur additional cost.
- All figures reported are illustrative only. Cost and values will fluctuate during the development period and it is recommended that the financial position is constantly monitored to ensure financial performance is maintained.
- There may be minor discrepancies between the figures presented owing to rounding in the calculations within the financial model.
- Funding for any refurbishment through the HRA is not considered as part of the financial viability testing.
- The position does not reflect any proposed or emerging changes to the draft Housing Bill currently being progressed by Government.