

The logo for Redloft, featuring the word "redloft" in a lowercase, white, sans-serif font. The background is a solid red color with large, overlapping, semi-transparent circular shapes in various shades of red, creating a dynamic, layered effect.

redloft

**Option Appraisal
Addendum Report 2
Lister & Treves Estate
Regeneration**

**For and behalf of London Borough
of Tower Hamlets**

July 2017

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1. Introduction

Red Loft has been appointed by the London Borough of Tower Hamlets' Housing Department (LBTH) to undertake an options appraisal report analysing the potential viability of redeveloping or renewing the Lister & Treves Estate in Whitechapel.

The initial options appraisal was issued on Friday 12th May 2017. This report included the appraisal of five delivery options for the regeneration of the Lister and Treves estate, including 4 scenarios and sub scenarios for the demolition and redevelopment of the estate, and a number of scenarios for the infill and refurbishment of the existing estate. This options appraisal identified the scenario/ option to deliver the highest amount of affordable housing to be a market sale delivery model delivered by the Council's development company.

An addendum report was submitted on Tuesday 23rd May 2017. This report and appraisals included a different profile of 'returning' residents assuming 23 returning leaseholders and 16 returning tenants. The addendum report and appraisals analysed two development scenarios (1) max economically viable level of net additional AH (Affordable Housing) with the private element delivered as market sale and (2) the max economically viable level of AH with the private element delivered as 50% market sale and 50% market rent.

The results of the first addendum report clearly indicated the market sale delivery route for the private tenure units generated a higher capital value and as such a greater number of AH to be delivered.

Building upon the previous options appraisals, LBTH have requested three further options, which are considered in this report and supporting appraisals, as set out below. These options furthermore include additional development costs.

Scenario 1 – Redevelopment to provide 115 new build homes delivered by the Council's housing company (market housing) and housing revenue account (affordable housing) – with the additional units all delivered as private sale.

Scenario 2 – Redevelopment of the existing estate to provide 115 new build homes delivered by the Council's housing company (market housing) and housing revenue account (affordable housing) with the additional units delivered as policy compliant level of affordable housing.

Scenario 3- Redevelopment of the existing estate to provide 115 new build homes delivered by the Council's housing company (market housing) and housing revenue account (affordable housing) - assuming a middle ground between the two options outlined above.

The aim of the Council is to maximise the provision of affordable housing i.e. generate additionality whilst ensuring the project is financially viable to the Council and in keeping with appropriate rules, procedures, governance and financial regulations.

The results of this option appraisal, differs from the previous iterations as the appraisal identifies the required level of cross-subsidy to deliver the schemes.

2. Basis

This report is strictly private and confidential, for the sole use of the London Borough of Tower Hamlets. Red Loft Ltd prohibit the use of this report by other any third parties, or for use other than its intended purpose.

For the avoidance of doubt, it should be noted that the appraisals and figures provided in this report are not formal valuations and should not be relied upon as such. This is not a RICS (Royal Institution of Chartered Surveyors) Redbook compliant valuation report and has been prepared and is prepared in relation to development viability analysis only.

Red Loft cannot accept responsibility for any errors or omissions in the information provided.

3. Inputs and Assumptions

3.1. Residential Sales Values

An opinion of the open market sale value of the residential units has been provided by Redloft's in-house Sales and Marketing team.

Based on their research we have assumed a [REDACTED] per square foot average for the private sale units.

3.2. Affordable Residential Capital Values

Shared ownership

The value of the shared ownership units is made up of the revenue from the shares sold and the net present value of the rent on unsold equity receivable over the cashflow period. We have assumed a 30% share sold on 2 beds and 25% share sold on 3 beds.

The discounted cash flow appraisals formulate the a blended £/ft2 and capital values for the shared ownership units, which we have applied to the development appraisal.

Existing leaseholders (Shared equity units)

We have assumed the all 23 of the resident leaseholders would return. It is assumed that all the returning leaseholders would purchase a share of the new property which equates to the FMV of their existing home plus 10% home loss paid by council for the leasehold acquisition.

2 bed residents- £435,000 + £43,500= 75% share (Based on 2 bed at [REDACTED])

3 bed residents- £530,000 + £53,000= 69% share (Based on 3 bed at [REDACTED])

London Affordable Rent and Tower Hamlets Living Rent

We have appraised the affordable rent units in line with Tower Hamlets Draft Local Plan, this includes a 50:50 split of the affordable housing units to be provided as London Affordable Rent and Tower Hamlets Living Rent. The value of the affordable rent units has been assessed as the net present value of the rent receivable over the cash flow period with net rents determined from passing rents with deductions for management, maintenance, major repairs costs, and rent loss for voids/ bad debt. We have allowed for on-costs in line with evidence from industry benchmarking.

The discounted cash flow appraisals formulate the a blended £/ft2 and capital values for the affordable rented units, which we have applied to the development appraisal.

3.6. Finance costs

The finance rate applied is ■■■%. This rate is inclusive of finance arrangement fees, exit fees, and monitoring fees and makes no assumptions to reflect the cost of mezzanine funding.

4. Results

Scenario 1

This scenario does not provide any additional affordable housing beyond re-provision of the existing affordable housing and provision of shared equity units for returning leaseholders. Therefore a total of 16 social rented units and 23 intermediate (for returning leaseholders) are noted.

As outlined in the financial appraisal summary at **Appendix 1**, this scenario identifies a profit of £577,143 or 0.95% profit on Gross Development Value (GDV).

A typical financial return for a scheme of this nature would be 15% - 20% of total cost, the appraisals show a return which is £11,582,689 below a return of 20% profit on GDV.

The table below summarises the indicative unit mix.

Unit type	Market Sale	Intermediate	Affordable	Total
1 bed	45	0	0	45
2 bed	11	16	9	36
3 bed	15	7	6	28
4 bed	5	0	1	6
Total	76	23	16	115
Returners	0	23	16	39
Net additional	76	0	0	76

Scenario 2

This scenario includes re-provision of the existing affordable units, and a policy compliant level of affordable housing for the net additional units. This equates 49 private units, 27 net additional affordable units, and re-provision of 39 affordable units to support the decant.

As outlined in the financial appraisal summary at **Appendix 2**, this scenario identifies a deficit of £8,737,132 or -18.71% profit on Gross Development Value (GDV).

This option assumes 76 net additional units comprises of 35% affordable housing. Following the affordable housing policy as identified in the Draft Local Plan, the affordable housing is split 70/30 affordable to intermediate. The affordable rent element includes 50% THLR (Tower Hamlets Living Rents) and 50% LAR (London Affordable Rent). The intermediate tenure is assumed as 100% shared ownership.

The table below summarises the indicative unit mix.

Unit type	Market sale	Intermediate	Affordable	Total
1 bed	39	1	5	45
2 bed	2	19	15	36
3 bed	5	11	12	28
4 bed	3	0	3	6
Total	49	31	35	115
Returns	0	23	16	39
Net additional	49	8	19	76

Scenario 3

This scenario includes re-provision of the existing affordable units, and an addition 18% of net additional affordable housing, equating to 14 net additional affordable units. The additional affordable units follow the percentage splits of rent tenures and intermediate as set out in the Draft Local Plan. A total number of 62 private units, 14 net additional affordable units, and re-provision of 39 affordable units to support the decant.

As outlined in the financial appraisal summary at **Appendix 3**, this scenario identifies a deficit of £3,285,249 or -6.12% profit on Gross Development Value (GDV).

Unit type	Market sale	Intermediate	Affordable	Total
1 bed	43	0	2	45
2 bed	5	18	13	36
3 bed	9	9	10	28
4 bed	5	0	1	6
Total	62	27	26	115
Returns	0	23	16	39
Net additional	62	4	10	76

The table below sets out a summary of the financial performance and affordable provision from each of the scenarios appraised.

Scenario	Residualised profit	Net additional affordable housing	Approx. level of required subsidy
1	£577,143 (4.42% of GDV)	NIL	NIL
2	-£8,737,132 (-18.71% of GDV)	27	£8,737,132
3	-£3,285,249 (-6.12% of GDV)	14	£3,285,249

5. Conclusions

As noted in the appraisal results above, the redevelopment of the scheme is financially viable. However, the results indicate owing to the comparatively high redevelopment costs, and to a large part the decant and re-provision of homes for the existing tenants and leaseholders, the scheme alone can only financially support a small number of additional affordable units.

It should be noted that the assumptions within the appraisals based upon high level although informed assumptions. Some of the assumptions are correctly for this stage of the project, prudent, for instance the assumption that all resident leaseholders return and can only afford a percentage of the new build replacement property equivalent to the value of their existing home. Owing to individual circumstances, there may be a number of residents which would move offsite, this would reduce the financial cost of leaseholder decant and improve viability. Equally some leaseholders may be in a financial position where they are able and wish to purchase a greater share of the property than currently assumed.

Additional cross subsidy from external sources (in the form of grant) or other revenue from the Council would also enable the provision of a higher level of affordable housing, approximately equivalent to the deficit noted in the results of the appraisal.

Appendices

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Appendix 1 - Scenario 1 Appraisal Summary

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Lister and Treves
New Build
Scenario 1- 34% Affordable Housing

Development Appraisal
Red Loft
July 13, 2017

APPRAISAL SUMMARY**RED LOFT**

**Lister and Treves
New Build
Scenario 1- 34% Affordable Housing**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
Affordable - Existing Tenants	1	13,917			
Intermediate- Existing Leaseholders	1	19,187			
Market Sale	<u>1</u>	<u>53,438</u>			
Totals	3	86,542			

Rental Area Summary

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rent	76					
Retail Unit	<u>1</u>	<u>1,410</u>	20.00			
Totals	77	1,410				

Investment Valuation

Ground Rent					
Current Rent		YP @	5.5000%		
Retail Unit					
Current Rent		YP @	7.0000%		

GROSS DEVELOPMENT VALUE

Purchaser's Costs	
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NET DEVELOPMENT VALUE**NET REALISATION**

APPRAISAL SUMMARY**RED LOFT**

**Lister and Treves
New Build
Scenario 1- 34% Affordable Housing**

OUTLAY**ACQUISITION COSTS****Other Acquisition**

Non-resident Leasehold Acquisition	5,969,985	
Non-resident Onward Purchase	396,000	
Resident Leasehold Decant	12,144,920	
		18,510,905

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost
Retail Unit	1,894 ft ²		
Private Residential	69,429 ft ²		
Affordable	18,081 ft ²		
Intermediate	24,929 ft ²		
Totals	114,333 ft²		
Contingency			
Abnormals			
LBTH Retail CIL			
LBTH Residential CIL			
Mayoral CIL			
PROFESSIONAL FEES			
Professional Fees			
MARKETING & LETTING			
Marketing			
Letting Agent Fee			
Letting Legal Fee			

APPRAISAL SUMMARY

RED LOFT

**Lister and Treves
New Build
Scenario 1- 34% Affordable Housing**

DISPOSAL FEES

Sales Agent Fee	████	████	
Sales Legal Fee			████

Additional Costs

Tenant Disturbance Compensation		████	
Resident Leaseholder Onward Purchase		████	
Interim Leaseholder Rent		████	
Enhanced Void Works		████	
Security Cost		████	
CPO		████	
In-house Staff & Project Manager Fees		████	
Rights of Light and Easement Costs			████

FINANCE

Timescale	Duration	Commences
Purchase	12	Nov 2017
Pre-Construction	19	Nov 2018
Construction	24	Jun 2020
Sale	9	Jun 2022
Total Duration	64	

Debit Rate █████%, Credit Rate █████% (Nominal)

Land		████	
Construction		████	
Other		████	
Total Finance Cost			████

TOTAL COSTS

████

PROFIT

577,143

Lister and Treves**New Build****Scenario 1- 34% Affordable Housing****Performance Measures**

Profit on Cost%	0.96%
Profit on GDV%	0.95%
Profit on NDV%	0.95%

Lister and Treves
New Build
Scenario 1- 34% Affordable Housing

Development Appraisal
Red Loft
July 13, 2017

**Lister and Treves
New Build
Scenario 1- 34% Affordable Housing**

Table of Profit Amount and Profit on GDV%

Construction: Gross Cost								
0.000%	+1.000%	+2.000%	+3.000%	+4.000%	+5.000%	+6.000%	+7.000%	+8.000%
£577,143	£231,275	(£114,594)	(£460,462)	(£806,331)	(£1,152,199)	(£1,498,068)	(£1,843,936)	(£2,189,804)
0.949%	0.380%	-0.188%	-0.757%	-1.326%	-1.895%	-2.464%	-3.033%	-3.602%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost

Original Values are varied by Steps of 1.000%.

Heading	Phase	Amount	No. of Steps
Retail Unit	1		11 Up only
Private Residential	1		11 Up only
Affordable	1		11 Up only
Intermediate	1		11 Up only

**Lister and Treves
New Build
Scenario 1- 34% Affordable Housing**

+9.000%	+10.000%
(£2,535,673)	(£2,881,541)
-4.171%	-4.739%

Appendix 2 – Scenario 2 Appraisal Summary

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Lister and Treves
New Build
Scenario 2- 57% Affordable

Development Appraisal
Red Loft
July 13, 2017

APPRAISAL SUMMARY

RED LOFT

Lister and Treves
 New Build
 Scenario 2- 57% Affordable

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
Private Residential	1	31,232			
Affordable - Existing Tenants	1	13,917			
Affordable- THLR	1	7,998			
Affordable- LAR	1	7,448			
Intermediate	1	6,760			
Intermediate- Existing Leaseholders	1	19,187			
Totals	6	86,542			

Rental Area Summary

	Units	ft ²	Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rent	49					
Retail Unit	1	1,410				
Totals	50	1,410				

Investment Valuation

Ground Rent					
Current Rent		YP @	5.5000%		
Retail Unit					
Current Rent		YP @	7.0000%		

GROSS DEVELOPMENT VALUE

Purchaser's Costs				
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APPRAISAL SUMMARY

RED LOFT

**Lister and Treves
New Build
Scenario 2- 57% Affordable
NET DEVELOPMENT VALUE**

Additional Revenue			
Grant Intermediate		755,706	
Grant Affordable		1,486,276	
			2,241,982

NET REALISATION

OUTLAY

ACQUISITION COSTS

Other Acquisition			
Resident Leasehold Decant		12,144,920	
Non-resident Onward Purchase		396,000	
Non-resident Leasehold Acquisition		5,969,985	
			18,510,905

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost
Retail Unit	1,894 ft ²		
Private Residential	40,578 ft ²		
Affordable	38,150 ft ²		
Intermediate	33,711 ft ²		
Totals	114,333 ft²		
Contingency			
Abnormals			
Mayoral CIL			75,015
LBTH Residential CIL			139,181
LBTH Retail CIL			7,003

APPRAISAL SUMMARY

RED LOFT

**Lister and Treves
New Build
Scenario 2- 57% Affordable**

PROFESSIONAL FEES

Professional Fees [REDACTED] [REDACTED] [REDACTED]

MARKETING & LETTING

Letting Agent Fee [REDACTED] [REDACTED]
Letting Legal Fee [REDACTED] [REDACTED]

Additional Costs

Tenant Disturbance Compensation [REDACTED]
Rights of Light and Easement Costs [REDACTED]
In-house Staff & Project Manager Fees [REDACTED]
CPO [REDACTED]
Security Cost [REDACTED]
Enhanced Void Works [REDACTED]
Interim Leaseholder Rent [REDACTED]
Resident Leaseholder Onward Purchase [REDACTED]

FINANCE

Timescale	Duration	Commences
Purchase	12	Nov 2017
Pre-Construction	19	Nov 2018
Construction	24	Jun 2020
Sale	9	Jun 2022
Total Duration	64	

Debit Rate [REDACTED]%, Credit Rate [REDACTED]% (Nominal)

Land [REDACTED]
Construction [REDACTED]
Other [REDACTED]
Total Finance Cost [REDACTED]

TOTAL COSTS

[REDACTED]

APPRAISAL SUMMARY**RED LOFT**

**Lister and Treves
New Build
Scenario 2- 57% Affordable**

PROFIT**(8,737,132)****Performance Measures**

Profit on Cost%	(15.16)%
Profit on GDV%	(18.71)%
Profit on NDV%	(18.72)%

Lister and Treves
New Build
Scenario 2- 57% Affordable

Development Appraisal
Red Loft
July 13, 2017

**Lister and Treves
New Build
Scenario 2- 57% Affordable**

Table of Profit Amount and Profit on GDV%

Construction: Gross Cost								
0.000%	+1.000%	+2.000%	+3.000%	+4.000%	+5.000%	+6.000%	+7.000%	+8.000%
(£8,737,132)	(£9,073,657)	(£9,410,182)	(£9,746,707)	(£10,083,231)	(£10,419,756)	(£10,756,281)	(£11,092,806)	(£11,429,331)
-18.715%	-19.436%	-20.156%	-20.877%	-21.598%	-22.319%	-23.040%	-23.761%	-24.481%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost

Original Values are varied by Steps of 1.000%.

Heading	Phase	Amount	No. of Steps
Retail Unit	1		11 Up only
Private Residential	1		11 Up only
Affordable	1		11 Up only
Intermediate	1		11 Up only

**Lister and Treves
New Build
Scenario 2- 57% Affordable**

+9.000%	+10.000%
(£11,765,856)	(£12,102,381)
-25.202%	-25.923%

Appendix 3- Scenario 3 Appraisal Summary

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Lister and Treves
New Build
Scenario 3- 46% Affordable Housing

Development Appraisal
Red Loft
July 13, 2017

APPRAISAL SUMMARY

RED LOFT

Lister and Treves
 New Build
 Scenario 3- 46% Affordable Housing

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
Private Residential	1	41,818			
Affordable - Existing Tenants	1	13,917			
Affordable- THLR	1	4,070			
Affordable- LAR	1	4,070			
Intermediate	1	3,480			
Intermediate- Existing Leaseholders	1	19,187			
Totals	6	86,542			

Rental Area Summary

	Units	ft ²	Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rent	62					
Retail Unit	1	1,410				
Totals	63	1,410				

Investment Valuation

Ground Rent					
Current Rent		YP @	5.5000%		
Retail Unit					
Current Rent		YP @	7.0000%		

GROSS DEVELOPMENT VALUE

Purchaser's Costs				
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APPRAISAL SUMMARY

RED LOFT

**Lister and Treves
New Build
Scenario 3- 46% Affordable Housing
NET DEVELOPMENT VALUE**

Additional Revenue			
Grant Intermediate		390,038	
Grant Affordable		783,246	
			1,173,284

NET REALISATION

OUTLAY

ACQUISITION COSTS

Other Acquisition			
Resident Leasehold Decant		12,144,920	
Non-resident Onward Purchase		396,000	
Non-resident Leasehold Acquisition		5,969,985	
			18,510,905

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost	
Retail Unit	1,894 ft ²			
Private Residential	54,332 ft ²			
Affordable	28,657 ft ²			
Intermediate	29,450 ft ²			3
Totals	114,333 ft²			
Contingency				
Abnormals				
Mayoral CIL			100,441	
LBTH Residential CIL			186,357	
LBTH Retail CIL			7,003	

APPRAISAL SUMMARY

RED LOFT

**Lister and Treves
New Build
Scenario 3- 46% Affordable Housing**

PROFESSIONAL FEES

Professional Fees [REDACTED] [REDACTED] [REDACTED]

MARKETING & LETTING

Letting Agent Fee [REDACTED] [REDACTED]
Letting Legal Fee [REDACTED] [REDACTED] [REDACTED]

Additional Costs

Tenant Disturbance Compensation [REDACTED]
Resident Leaseholder Onward Purchase [REDACTED]
Interim Leaseholder Rent [REDACTED]
Enhanced Void Works [REDACTED]
Security Cost [REDACTED]
CPO [REDACTED]
In-house Staff & Project Manager Fees [REDACTED]
Rights of Light and Easement Costs [REDACTED] [REDACTED]

FINANCE

Timescale	Duration	Commences
Purchase	12	Nov 2017
Pre-Construction	19	Nov 2018
Construction	24	Jun 2020
Sale	9	Jun 2022
Total Duration	64	

Debit Rate [REDACTED]%, Credit Rate 0.000% (Nominal)

Land [REDACTED]
Construction [REDACTED]
Other [REDACTED]
Total Finance Cost [REDACTED]

TOTAL COSTS

[REDACTED]

APPRAISAL SUMMARY**RED LOFT**

**Lister and Treves
New Build
Scenario 3- 46% Affordable Housing**

PROFIT**(3,285,249)****Performance Measures**

Profit on Cost%	(5.66)%
Profit on GDV%	(6.12)%
Profit on NDV%	(6.13)%

Lister and Treves
New Build
Scenario 3- 46% Affordable Housing

Development Appraisal
Red Loft
July 13, 2017

**Lister and Treves
New Build
Scenario 3- 46% Affordable Housing**

Table of Profit Amount and Profit on GDV%

Construction: Gross Cost								
0.000%	+1.000%	+2.000%	+3.000%	+4.000%	+5.000%	+6.000%	+7.000%	+8.000%
(£3,285,249)	(£3,625,868)	(£3,966,487)	(£4,307,106)	(£4,647,724)	(£4,988,343)	(£5,328,962)	(£5,669,581)	(£6,010,200)
-6.123%	-6.758%	-7.393%	-8.028%	-8.662%	-9.297%	-9.932%	-10.567%	-11.202%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost

Original Values are varied by Steps of 1.000%.

Heading	Phase	Amount	No. of Steps
Retail Unit	1	██████████	11 Up only
Private Residential	1	██████████	11 Up only
Affordable	1	██████████	11 Up only
Intermediate	1	██████████	11 Up only

**Lister and Treves
New Build
Scenario 3- 46% Affordable Housing**

+9.000%	+10.000%
(£6,350,818)	(£6,691,437)
-11.837%	-12.471%

Appendix 4- Returning Tenants Discounted Cash Flow

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Appendix 5- Scenario 2 Discounted Cash Flows

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Appendix 6- Scenario 3 Discounted Cash Flows

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