PL/LJ/JC/DS1558

6 November 2023

STRICTLY PRIVATE AND CONFIDENTIAL

Emily Leslie
Greater London Authority
City Hall
Kamal Chunchie Way
London
E16 1ZE

By email only

Dear Emily,

ABERFELDY NEW VILLAGE, LONDON, E14 – AFFORDABLE HOUSING VIABILITY POSITION

We write in relation to the Financial Viability Assessment (FVA) prepared by DS2 in support of the proposed hybrid planning application ("Proposed Development") for the Aberfeldy New Masterplan, London, E14 (hereafter "the Site"), in the London Borough of Tower Hamlets (LBTH).

The FVA was submitted on behalf of Aberfeldy New Village LLP (the "Applicant") on 27 October 2021. The planning application was submitted by planning consultant DP9 and validated by LBTH on 10 November 2021.

Following a resolution to refuse planning permission by the LBTH Strategic Development Committee (SDC) in February 2023, and the subsequent direction that the Mayor of London will act as the local planning authority for the purposes of determining the planning application, further amendments have been made to the design of the Proposed Development to accommodate second staircases in all buildings over 18m in height (hereafter "Amended Proposed Development").

This letter sets out the viability position of the Amended Proposed Development along with scenario testing which illustrates the positive impact on the viability of the Amended Proposed Development that the change the Applicant are seeking to agree with the GLA.

The updated viability position reflects costs and values[1] as agreed in January 2023. We have updated the previously agreed viability appraisal to reflect the further amendments made to the design of the Proposed Development to accommodate second stairwells in all buildings over 18m in height.

[1] The agreed values and costs agreed in January 2023 have been proratad and applied to the updated Proposed Development areas.

Background

A Pre-Application FVA was submitted in October 2020, in accordance with LBTH'S Development Viability SPD (2017) which was undertaken to progress and agree the affordable housing proposal with LBTH's appointed viability advisor, BNP Paribas Real Estate (BNPPRE).

Following extensive discussions over a period of 12 months, agreement was reached with BNPPRE, concluding that the proposed level of affordable housing was in excess of the maximum amount of affordable housing that could viably be provided. Upon submission of the FVA, LBTH changed their viability advisor from BNPPRE to their internal viability team, Tower Hamlets Viability (THV).

DS2 have been in discussions with both THV and the GLA Viability Team (GLVT) since the submission of the FVA in October 2021. This letter sets out the finalised position following detailed discussions over the past two years.

An agreement was reached between the respective parties on the viability of the Proposed Development which incorporated second stairwells on buildings taller than 30 metres to the detailed phase only. The viability position agreed with LBTH and the GLVT in January 2023, and reported at SDC in February 2023 is presented in the table below.

Table One: Proposed Development appraisal results, January 2023			
	Profit Target	Profit output	Surplus/Deficit
Proposed Development	15.64% on GDV	10.52% on GDV	(5.12%) Equates to £32.86m

The results shown above indicate that the Proposed Development was generating a deficit of 5.12% against the agreed profit target of 15.64%, meaning the Proposed Development is providing in excess of the maximum viable amount of affordable housing. This deficit equates to approximately £32.86m as a monetary figure.

Updated viability position

DS2 have updated the previously agreed viability appraisal to reflect the further amendments made to the design of the Proposed Development to accommodate second stairwells in all buildings over 18m in height given the Government's announcement in July 2023.

The table below illustrates the changes in units and areas in comparison with the Proposed Development assessed in January 2023.

Table Two: Aberfeldy Amended Proposed Development changes, November 2023			
	Jan-23 (Proposed Development)	Sep-23 (Amended Proposed Development)	Change
Residential units	1,556	1,539	-17
Residential NSA (sqft)	1,137,284	1,097,234	-40,050
GIA (sqft)	1,629,568	1,637,345	7,777

The amendments summarised above reflect changes across the Amended Proposed Development and demonstrate that the introduction of a second staircase in all blocks 18m or above (including the outline element). The amendments reduce scheme efficiency due to a loss of NIA and an marginal increase in GIA.

The revised area and unit numbers have been modelled in the viability appraisal to measure the impact on the viability position. All inputs relating to costs, values and timings and been retained as agreed with LBTH and the GLA and as adopted in the agreed January 2023 appraisal for the Proposed Development, with the exception of the value attributed to the existing Social Rent homes, which forms part of the Benchmark Land Value (BLV).

The value attributed to the existing Social Rent homes has been reduced from circa £5.72m to £2.76m. The reduction based upon the updated valuation provided to the GLA on the 7 July 2023 which reflect the estimated expenditure required to remedy the fire safety issues in Blairgowrie House.

The revised appraisal results are shown in the table below.

Table Three: Amended Proposed Development appraisal results, November 2023			
	Profit Target	**Profit output**	**Surplus/Deficit**
Amended Proposed Development	15.61% on GDV	6.70% on GDV	(8.91%) Equates to £54.81m

The table illustrates that the Amended Proposed Development remains in a viability deficit. The deficit has increased from c. £32.86m in January 2023 (as shown in Table One) to c. £54.81m in September 2023 (as shown in Table Three). This indicates that the affordable housing provision of 38.8% (by habitable room) remains in excess of the maximum viable amount of affordable housing the Amended Proposed Development can provide, and that the introduction of second stairwells to blocks 18m or above has a significant impact on the viability of the Amended Proposed Development.

Scenario testing

The Applicant is seeking to re-profile the delivery of the affordable housing to assist with cashflow and thus general deliverability given the deterioration of the scheme economics (& notwithstanding that cost inflation has not been included that would worsen the position).

The proposed amendments are outlined below:

- Rebalancing of the delivery of affordable housing – whilst phasing boundaries will remain as previously proposed, S106 triggers are proposed to be agreed to allow for the rebalancing of the delivery of affordable housing. The S106 triggers are proposed to allow for a delay to upfront delivery to allow for a rolling out of the 38.8% affordable housing by habitable room throughout the Phases (i.e. – 38.8% of Phase A will be delivered as affordable housing, 38.8% of Phase A and Phase B will be affordable housing). The primary reason for seeking a rolling provision of 38.8% throughout the Amended Proposed Development is that it allows for more flexibility in the delivery of the affordable housing. Plot J, which forms part of the Detailed Phase is not in ownership of the Applicant and needs to be acquired from LBTH. If there are delays in acquiring Plot J, this would fetter the delivery of the affordable homes in the latter phases because the Applicant wouldn't have been able to deliver all of the affordable homes in Phase A.

The affordable housing has been reprofiled to distribute the delivery evenly across each phase, maintaining 38.8% across the Amended Proposed Development and 89%/11% Social Rent/intermediate tenure split. This tenure split is maintained by applying a blended £ rate of £215.42 psf, which is reflective of an 89%/11% Social Rent/intermediate tenure split based upon the agreed affordable housing values.

This amendment has been calculated using an NIA metric to ensure that the total affordable NIA is maintained. This has been approximated by DS2 in lieu of a full re-profiling scheme being drawn up. The calculation for this can be provided in an edited version of the area schedule spreadsheet if required. The positive cashflow impact of re-profiling the affordable housing is approximately £7m, which again is a result of finance savings, as shown in Table Four.

The outputs of each of the scenarios outlined above, alongside the Proposed Development and Amended Proposed Development, are shown in the table below.

Table Four: Summary appraisal Results, November 2023						
Scheme	**Profit %**	**Profit £**	**Change vs Jan 23 scheme %**	**Change vs Jan 23 scheme £**	**Profit impact vs Sept 23 base £**	**Deficit**
Proposed Development (Jan 2023)	10.52%	£67,488,949	-	-	-	-5.12% -£32,861,066
Amended Proposed Development	6.70%	£41,254,912	-3.82%	- £26,234,037	£0	-8.91% -£54,809,985
Amended Proposed Development with reprofiled affordable housing	7.86%	£48,386,528	-2.66%	- £19,102,421	£7,131,616	-7.75% --£47,697,280

The above table demonstrates that there would be a positive impact on the developer return of £7,131,616 if the affordable housing was re-profiled as explained above albeit the return is still significantly below that agreed in January 2023 and the agreed target rate of return. The positive impact on the cash flow is a result of finance cost savings.

Table Four indicates that the Amended Proposed Development is providing in excess of the maximum amount of affordable housing in all tested scenarios.

Conclusions

This letter sets out the updated position on the viability of the Amended Proposed Development and concludes that the affordable housing proposal of 38.8% (by habitable rooms) is in excess of the maximum viable amount of affordable housing the scheme can provide.

The letter demonstrates the impact on scheme viability due to design amendments required to incorporate second staircases for all blocks of 18m or above. A sensitivity is presented incorporating the proposed affordable housing phasing plan which is proposed to mitigate some of the negative financial impact of the introduction of second staircases.

The Amended Proposed Development remains in a viability deficit and as such the Amended Proposed Development would still provide the maximum viable amount of affordable housing, albeit rephasing of the open space and affordable housing does have a positive impact on scheme cashflow and thus assists with deliverability.

The Amended Proposed Development, subject to planning consent being secured, will be subject to an Early Stage Review, Mid Stage Reviews and Late Stage Reviews.

DS2 LLP
November 2023