

Burgess Business Park Review – 22/05/2018

The below table shows the GVA Results with 35% Affordable Housing and the maximum reasonable level of affordable housing assuming a profit target of 15.70% on GDV;

Table 1

Scenario	Scheme	Profit on GDV	Max. Reasonable AH	AH Units
1	505 units / 41,680 sq ft commercial (updated areas to achieve 35% AH)	7.70%	24.5% by H.R.	109
2	453 units / 43,275 sq ft commercial	4.48%	17.18% by H.R.	73
3	425 units / 67,962 sq ft commercial	3.60%	17.39% by H.R.	69
4	390 units / 105,609 sq ft commercial	6.4%	17.18% by H.R.	62

We then tested the affordable housing output assuming the profit target was 7.7% to assess the impact of incremental increase in commercial floorspace;

Table 2

Scenario	Scheme	Percentage of Affordable	AH Units	AH Hab Rooms
1	505 units / 41,680 sq ft commercial (updated areas to achieve 35% AH)	35% by H.R.	181	552
2	453 units / 43,275 sq ft commercial	31% by H.R.	140	440
3	425 units / 67,962 sq ft commercial	32.6% by H.R.	136	430
4	390 units / 105,609 sq ft commercial	31.11% by H.R.	122	380

Scenario 1 is the Applicants current offer produces a profit output of 7.7%, the stand back analysis below confirms that this option is viable. We have then applied this target to the additional scenarios in order to test the impact of increasing commercial floorspace. The above table is reflected in our stand back review below.

The table below shows the value generated by only the commercial element in each of the above scenarios. It should be noted that we have assumed an additional 6 months' rent free/void on the commercial space in option 3 and an additional 12 months in option 4. This is to account for the increase in commercial floorspace.

Table 3

Scenario	Quantum of Commercial Space	Residual Value	RLV £psf
1	41,680	£4,361,445	£104.64
2	43,275	£4,004,888	£92.55
3	67,962	£6,241,425	£91.84
4	105,609	£8,663,174	£82.03

Updated Stand Back Review

Gerald Eve highlighted in the previous meeting that the current stand back analysis does not reflect the commercial element of the scheme. They have analysed the most relevant comparable Bermondsey Square (in terms of scale) in further detail as follows;

Table 4

Price Paid		£50,844,050
Private habitable rooms		923
Commercial GIA		212,987
Commercial NIA	take @ 95%	202,338
Commercial Value	£100 per sq ft	£20,233,790
Assumed Residential Value		£30,610,260
£ per private habitable room		£33,164
Adjustment to reflect scheme differences		£19,250

It should be noted that our analysis of the commercial space is at £100 per Sq. Ft whilst Gerald Eve are at £120 per Sq. Ft. We then applied the net habitable room rate to our stand back review;

Table 5

Scenario	Hab Rooms	Priv. Hab Rooms	Value	Add Back Commercial	Total Value
1	1578	1026	£19,750,500	£4,361,445	£24,111,945
2	1411	917	£17,652,250	£4,004,888	£21,657,138
3	1318	857	£16,497,250	£6,241,425	£22,738,675
4	1220	793	£15,265,250	£8,663,174	£23,928,424

Gerald Eve has raised issues with the additional risk associated with the increased commercial in scenario 4. They suggested a reduction in the headline rent of £5 per Sq. Ft. We have therefore undertaken sensitivity analysis on this scenario at £1.25 per Sq. Ft iterations to test the impact on the affordable outturn of scenario 4.

Table 6

Rent Decrease (£/Sq.Ft)	Hab Rooms	Private Hab Room	Value	Add Back Commercial	Total Value
1.25	1220	793	£15,265,250	£7,265,653	£22,530,903
2.50	1220	793	£15,265,250	£6,185,280	£21,450,530

The above indicated that the scenario 4 scheme is highly sensitive to very small changes in commercial rent, which can significantly affect the outturn.

LBS guidance states that if the uplift between EUV and Market Value is over 20% that the landowner can be considered to have accrued a competitive return and be willing to release land for development at this level. Our opinion of EUV is currently £19,150,000 meaning the residual value of the scheme must be above £22,980,000 for the landowner to generate a 'competitive return'.

From a commercial perspective a landowner would regard scenario 4 as more risky given the sensitivity and some reduction in the affordable housing from a 35% position as evidenced by the initial stand back needs to be reflected. We have also undertaken sensitivity analysis on the scenario 4 outturn from table 2 to test the impact of decreasing headline commercial rents on affordable provision.