

STAG BREWERY – FURTHER ADDITIONAL VIABILITY ADDENDUM

We have issued the following documentation relating to the proposed development at Stag Brewery:

- Stag Brewery Development: Financial Viability Assessment, February 2018
- Initial response to GLA comments, 2 March 2018
- Letter in response to GL Hearn review, 15 August 2018
- Response to LB Richmond and GLA queries, December 2018
- Further addendum viability 27 March 2019

This further additional viability addendum should be read in conjunction with the previously issued documentation. This note addresses the following specific issues raised by GLA officers at a meeting on 7 May 2019:

1. Further explanation on the approach to valuing the care home and assisted living units;
2. Further consideration of the phasing position and financing;
3. Consideration of the impact of a further reduction in the size of the basement car park; and
4. To cross-check the value attributed to the school site against the benchmark land value adopted for the wider site.

1. Care Home and assisted living units

1.1 Nursing Home

We have been advised that the maximum achievable rent for a care home in this part of London would be £1,100 per week, with an average occupancy of 85%. The EBITDA would equate to 35% of gross income which would be capitalised at 10% yield. This would generate a capital value of £170,170 per room.

National Care Standards require the following minimum space standards for care homes:

- Useable space in room: 135 square feet
- Ensuite: 38 square feet
- Communal space, excluding circulation: 42 square feet

Blocks 14 and 15 provide the following amount of floorspace:

Block	Gross internal area	Circulation (20% of gross)	Communal space (42 square feet per room)	Net internal area square feet	No of rooms (173 square feet per room)	Total capital value @ £170,170 per room
14	51,345	10,269	8,024	33,052	173	£29,439,410
15	50,608	10,122	7,909	32,577	188	£31,991,960

In contrast, the total values applied in the appraisal for blocks 14 and 15 are £34,144,900 and £33,654,700. If the care home element is appraised on standard metrics, the total GDV would therefore be lower.

1.2 Assisted living units

During the meeting on 7 May 2019, it was suggested by GLA officers that no evidence had been provided to support the values attributed to the assisted living units. This is not correct – the Savills pricing schedule that underpinned the original viability assessment considered

the values of units within blocks 13, 16 and 17. Considering their position within the development, Savills priced these units with an overall average of £950, £915 and 940 per square foot.

The net to gross ratio in these blocks is 70%, which is relatively efficient for an assisted living scheme. As observed during the 7 May meeting, GLA officers confirmed that they would expect a net to gross ratio of only 65%. We have adjusted the appraisal accordingly to 65%.

Savills have advised that there is very limited evidence on sales values for assisted living schemes in London as only one has been developed (Lifecare Battersea Place). This scheme achieved an average value of £1,117 per square foot, against an underlying average residential value of £900 per square foot. This equates to a 24% premium, although this does not account for differences in specification. Nevertheless, we have applied a 25% premium to the assisted living units in the Development. This is applied to the *inflated* residential sales values of £1,050 per square foot, taking the values for assisted living to £1,313 per square foot.

2. Phasing and finance costs

During the meeting on 7 May 2019, Carter Jonas suggested that Argus may not attribute all income in a phase to paying down debt when using a multi-phase modelling approach. While this may be the case when an Argus appraisal is set up to calculate a separate residual land value per phase, we have not set up our appraisal in this way. Our Argus appraisal is set up based on a single fixed land value input in Phase 1, with all subsequent phases linked to the first phase. For the avoidance of doubt, this means that all income, regardless of when it is received, is used to pay down debt and keep finance costs to a minimum. We have provided Carter Jonas with an export of the cashflow demonstrating that in any given month, the finance calculation takes account of all income received. This confirms that the effect they allude to does not apply in this case.

We have also compared the finance costs as a percentage of total costs to other major schemes. This analysis (see Table shows that the Stag Brewery finance costs are not unreasonably high in comparison to other developments.

Table 1: Comparison of finance costs

Scheme	Finance costs	Total development costs	Finance costs as a percentage of total development costs
Skylines E14	£82,501,185	£632,442,150	13.04%
ITV studios site	£86,713,986	£701,976,291	12.35%
Haringey Heartlands	£70,235,192	£608,986,682	11.50%
Stag Brewery	£83,410,025	£750,662,025	11.10%
Westferry Printworks	£40,835,561	£406,399,994	10.04%
8 Albert Embankment	£27,692,169	£291,672,390	9.50%
Trent Park	£14,993,412	£194,196,145	7.70%
Tottenham Hale – Argent	£36,761,733	£489,037,162	7.51%

3. Further reduction in the size of the basement

In the Further Addendum Viability note dated 27 March 2019, we reflected a reduction in the size of basement car park of 150 units. However, we did not reflect the consequential impact this would have on sales values and sales rates.

The reduced basement provided a total of 406 spaces. We have reduced the basement cost by a further 100 spaces leaving only 306 spaces. In practice, the loss in spaces may be



greater, as cycle parking, plant and services also need to be accommodated in the basement. Assuming all the remaining spaces are made available to residents (leaving none for the commercial floorspace), this would result in a car parking ratio of 0.3:1, whereas the Council's parking standard is 1:1 provision.

4. Value attributed to school land

The school is located on land designated by the Council as 'Other Open Land of Townscape Importance'. In the benchmark land value, this land is attributed a value of £674,700, or £130,000 per acre based on sales of other similar sites.

In contrast, the Gerald Eve valuation of the Site for use as a school equates to £1,136,801 per acre, or 8.7 times the value used to establish the benchmark land value.

5. Cumulative impact of changes to appraisal

We have run a further appraisal (attached as Appendix 1) which reflects the cumulative impact of the following changes from the 13 December 2018 and 26 March 2018 submissions, summarised as follows:

- Reduction in car parking through the removal of 150 spaces;
- Removal of gym;
- Switching affordable housing tenures from 80% rent/20% intermediate to 50% rent and 50% intermediate;
- Add the value of the School land in line with Gerald Eve's valuation, which as noted above is significantly higher than the benchmark land value;
- Reflect the layout optimisation work undertaken by Squire and Partners
- Reflect LBRuT policy requirements for affordable workspace and carbon offset payments;
- Increase private residential sales values to £1,050 per square foot across all units;
- Increase value attributed to assisted living units to £1,313 per square foot across all units (a 25% premium above the inflated private residential values), despite their location;
- A further reduction in car parking spaces of 100, leaving 306 of the original 556 spaces;
- A reduction in interest rate from 7% to 6.0%;

It should be noted that this appraisal does not reflect the impact of the shortfall in car parking on sales values and sales rate – all assumptions in this regard are retained based on an assumption of provision of the full parking provision in the original appraisal.

The residual profit generated by the Development would be **19.13%**. As noted previously by Carter Jonas, a profit target based on 20% of private GDV, 6% on the affordable and 15% on the commercial would equate to 19.11%. A reduced profit of 17.5% on private GDV with the same profit rates on the other elements would equate to 16.88%. It is only on the basis of a significant underprovision of car parking and inflated starting sales values that the profit has increased to 19.13%. Given the evident risk of achieving the values now attributed to the private housing in the scheme, a reduction in profit could not be justified. The scheme does not generate any additional capacity to provide additional affordable housing, even on the highly optimistic assumptions now modelled.

If the residential values were to fall by just 2.5% as a result of the lack of car parking provision from the inflated rate of £1,050 per square foot (bearing in mind that this is significantly higher than the pricing advised by Savills based on comparable evidence) to £1,024 per square foot, the blended profit would fall to **17.28%**. This does not reflect any impact of reduced parking on the rate of sale, which would have a further downwards impact on the profit margin.

APPENDIX 1: APPRAISAL REFELCTING CUMULATIVE IMPACT OF CHANGES

**Stag Brewery
Cumulative changes 20 June 2019**

Summary Appraisal for Merged Phases 1 2 3 4 5

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
Building 2 residential	101	90,858	1,050.00	944,563	95,400,900
Building 3 residential	46	40,246	1,050.00	918,659	42,258,300
Building 4 residential	20	23,562	1,050.00	1,237,005	24,740,100
Building 6 residential	18	16,135	1,050.00	941,208	16,941,750
Building 7 residential	71	63,324	1,050.00	936,482	66,490,200
Building 8 residential	69	71,634	1,050.00	1,090,083	75,215,700
Building 10 residential	26	22,486	1,050.00	908,088	23,610,300
Plot 1B Car Parking	181	0	39.55	25,000	4,525,000
Building 9 residential	13	13,993	1,050.00	1,130,204	14,692,650
Building 11 residential	42	39,525	1,050.00	988,125	41,501,250
Building 12 residential	37	34,240	1,050.00	971,676	35,952,000
Building 13 Extracare	1	26,149	1,313.00	34,333,637	34,333,637
Building 14 Extracare	1	35,942	1,313.00	47,191,846	47,191,846
Building 15 Extracare	1	35,426	1,313.00	46,514,338	46,514,338
Building 16 Extracare	1	41,325	1,313.00	54,259,725	54,259,725
Building 17 Extracare	1	44,710	1,313.00	58,704,230	58,704,230
Building 18 affordable residential	138	129,856	355.00	334,050	46,098,880
Building 19 residential	62	55,499	1,050.00	939,902	58,273,950
Plot 2A Car Parking	125	0	43.69	25,000	3,125,000
Building 20 residential (houses)	16	25,575	1,050.00	1,678,359	26,853,750
Building 21 residential (houses)	8	12,788	1,050.00	1,678,381	13,427,050
Totals	978	823,273			830,110,556

Rental Area Summary

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Building 1 Cinema	1	22,821	14.33	327,120	327,120	327,120
Plot 1A Ground rents	167			10	1,670	1,670
Building 2 flexible use	1	6,127	35.00	214,445	214,445	214,445
Building 4 flexible use	1	4,283	35.00	149,905	149,905	149,905
Building 5 flexible use	1	5,199	35.00	181,965	181,965	181,965
Plot 1B Ground rents	170			10	1,700	1,700
Building 5 office	1	18,262	40.00	730,480	730,480	730,480
Building 5 hotel	1	18,003		0	0	
Building 6 flexible use	1	4,104	35.00	143,640	143,640	143,640
Building 7 flexible use	1	5,765	35.00	201,775	201,775	201,775
Building 8 Affordable flexible use	1	4,738	30.00	142,140	142,140	142,140
Building 10 flexible use	1	2,780	27.50	76,450	76,450	76,450
Plot 1C Ground rents	92			10	920	920
Building 9 flexible use	1	3,209	35.00	112,315	112,315	112,315
Building 11 flexible use	1	2,989	37.50	112,088	112,088	112,088
Building 12 flexible use	1	3,239	37.50	121,463	121,463	121,463
Totals	442	101,519			2,518,075	2,518,075

Investment Valuation

Building 1 Cinema						
Market Rent	327,120	YP @	6.0000%	16.6667		
(0yrs 3mths Rent Free)		PV 0yrs 3mths @	6.0000%	0.9855	5,373,155	
Plot 1A Ground rents						
Current Rent	1,670	YP @	4.5000%	22.2222	37,111	
Building 2 flexible use						
Market Rent	214,445	YP @	6.0000%	16.6667		
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	3,421,254	
Building 4 flexible use						
Market Rent	149,905	YP @	6.0000%	16.6667		
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	2,391,583	
School land receipt						
Manual Value					5,900,000	
Building 5 flexible use						
Market Rent	181,965	YP @	5.5000%	18.1818		
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	5.5000%	0.9606	3,178,234	
Plot 1B Ground rents						
Current Rent	1,700	YP @	4.5000%	22.2222	37,778	
Building 5 office						
Market Rent	730,480	YP @	6.0000%	16.6667		
(2yrs Rent Free)		PV 2yrs @	6.0000%	0.8900	10,835,410	

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Building 5 hotel					
Manual Value					13,215,000
Building 6 flexible use					
Market Rent	143,640	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	2,291,631
Building 7 flexible use					
Market Rent	201,775	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	3,219,117
Building 8 Affordable flexible use					
Market Rent	142,140	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	2,267,700
Building 10 flexible use					
Market Rent	76,450	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	1,219,683
Plot 1C Ground rents					
Current Rent	920	YP @	4.5000%	22.2222	20,444
Building 9 flexible use					
Market Rent	112,315	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	1,791,873
Building 11 flexible use					
Market Rent	112,088	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	1,788,243
Building 12 flexible use					
Market Rent	121,463	YP @	6.0000%	16.6667	
(0yrs 9mths Rent Free)		PV 0yrs 9mths @	6.0000%	0.9572	1,937,812
					58,926,027

GROSS DEVELOPMENT VALUE **889,036,583**

Purchaser's Costs	6.80%	(3,605,770)	(3,605,770)
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NET DEVELOPMENT VALUE **885,430,813**

NET REALISATION **885,430,813**

OUTLAY

ACQUISITION COSTS

Fixed Price		49,570,000	
Stamp Duty	5.00%	2,478,500	
Agent Fee	1.00%	495,700	
Legal Fee	0.80%	396,560	
			52,940,760

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost
Building 1 Cinema	22,821 ft²	315.62 pf²	7,202,764
Building 2 flexible use	7,005 ft²	315.62 pf²	2,210,918
Building 4 flexible use	5,039 ft²	315.62 pf²	1,590,409
Building 5 flexible use	6,117 ft²	315.62 pf²	1,930,648
Building 5 office	26,089 ft²	315.62 pf²	8,234,210
Building 5 hotel	18,003 ft²	315.62 pf²	5,682,107
Building 6 flexible use	4,902 ft²	315.62 pf²	1,547,169
Building 7 flexible use	6,792 ft²	315.62 pf²	2,143,691
Building 8 Affordable flexible use	5,574 ft²	315.62 pf²	1,759,266
Building 10 flexible use	3,545 ft²	315.62 pf²	1,118,873
Building 9 flexible use	3,775 ft²	315.62 pf²	1,191,465
Building 11 flexible use	3,516 ft²	315.62 pf²	1,109,720
Building 12 flexible use	3,811 ft²	315.62 pf²	1,202,828
Building 2 residential	117,436 ft²	315.62 pf²	37,065,150
Building 3 residential	54,877 ft²	315.62 pf²	17,320,279
Building 4 residential	31,945 ft²	315.62 pf²	10,082,481
Building 6 residential	22,486 ft²	315.62 pf²	7,097,031
Building 7 residential	81,446 ft²	315.62 pf²	25,705,987
Building 8 residential	90,379 ft²	315.62 pf²	28,525,420
Building 10 residential	33,685 ft²	315.62 pf²	10,631,660
Building 9 residential	18,077 ft²	315.62 pf²	5,705,463
Building 11 residential	49,582 ft²	315.62 pf²	15,649,071
Building 12 residential	44,559 ft²	315.62 pf²	14,063,712
Building 13 Extracare	37,356 ft²	315.62 pf²	11,790,301
Building 14 Extracare	51,345 ft²	315.62 pf²	16,205,509
Building 15 Extracare	50,608 ft²	315.62 pf²	15,972,897

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Building 16 Extracare	59,035 ft ²	315.62 pf ²	18,632,627	
Building 17 Extracare	63,872 ft ²	315.62 pf ²	20,159,281	
Building 18 affordable residential	159,649 ft ²	315.62 pf ²	50,388,417	
Building 19 residential	67,390 ft ²	315.62 pf ²	21,269,632	
Building 20 residential (houses)	28,137 ft ²	315.62 pf ²	8,880,600	
Building 21 residential (houses)	<u>13,977 ft²</u>	315.62 pf ²	<u>4,411,421</u>	
Totals	1,192,830 ft²		376,481,005	376,481,005

Developers Contingency		2.50%	11,708,506	
Demolition			4,110,000	
				15,818,506

Other Construction

Infrastructure works			24,324,300	
Basement			47,498,544	
Ph 1 Highways and pavements			7,193,550	
Capital contribution to cinema fito			1,000,000	
Ph 1 highways and pavements			6,638,100	
Ph 1 highways and pavements			2,094,750	
				88,749,244

Municipal Costs

CIL (Borough and Mayoral) Ph 1			12,226,952	
Carbon offset			2,295,000	
TFL bus contribution			3,675,000	
TFL bus infra enhancements			100,500	
TFL A205 public realm improvements			111,439	
LBRUT CPZ cost			65,000	
Healthcare contribution			720,980	
CIL Borough and Mayoral (Ph 2)			24,457,176	
				43,652,047

PROFESSIONAL FEES

Professional fees		10.00%	46,834,025	
				46,834,025

MARKETING & LETTING

Marketing		2.00%	14,361,755	
Letting Agent Fee		10.00%	284,091	
Letting Legal Fee		5.00%	284,601	
				14,930,446

DISPOSAL FEES

Sales Agent Fee		1.00%	8,795,308	
Sales Legal Fee		0.50%	4,397,654	
				13,192,962

FINANCE

Debit Rate 6.000% Credit Rate 0.000% (Nominal)				
Total Finance Cost				62,722,316

TOTAL COSTS

715,321,311

PROFIT

170,109,503

Performance Measures

Profit on Cost%	23.78%
Profit on GDV%	19.13%
Profit on NDV%	19.21%
Development Yield% (on Rent)	0.35%
Equivalent Yield% (Nominal)	5.96%
Equivalent Yield% (True)	6.19%

IRR 16.66%

Rent Cover 67 yrs 7 mths
 Profit Erosion (finance rate 6.000%) 3 yrs 7 mths