Burlington Road Core Docs

Tim Lipscomb <Tim.Lipscomb@merton.gov.uk>
Wed 11/4/2020 7:45 PM
To: Matthew Davidson <Matthew.Davidson@merton.gov.uk>

Hi Matthew,

Could the email thread below be uploaded as: Email from Altair dated 29th August confirming viability

Thanks
Tim

From: Tim Lipscomb <Tim.Lipscomb@merton.gov.uk>
Sent: 30 August 2019 09:10
To: Jonathan Murch <jonmurch@daviesmurch.co.uk>
Subject: FW: 265 Burlington Road - Viability Update WP

FYI – response from Altair.

From: Emma O'Reilly <Emma.OReilly@altairltd.co.uk>
Sent: Thursday, August 29, 2019 6:04 PM
To: Tim Lipscomb <Tim.Lipscomb@merton.gov.uk>
Cc: Bradley Tollon <bradley.tollon@altairltd.co.uk>; Aaron Elliott <aaron.elliott@altairltd.co.uk>
Subject: RE: 265 Burlington Road - Viability Update WP

Hi Tim,

We've reviewed the revised information from the applicant.

We accept the amendments in relation to yield on commercial, and the build cost, however remain of the opinion that 17.5% is an appropriate level of profit on private sale.

Making these amendments, the break-even affordable housing viability level is 24% (based on habitable rooms).

I have discussed this on the phone with the applicant's representative, who has fed back to their client.

Let us know if you need any more on this.

Kind regards,
Emma

Emma O'Reilly
Project Director

t: 020 7934 0175 | m: 07585954218

Altair

Leadership, Quality, Insight

From: Tim Lipscomb <Tim.Lipscomb@merton.gov.uk>
Sent: 28 August 2019 14:52
To: Emma O'Reilly <Emma.OReilly@altairltd.co.uk>; Bradley Tollon <bradley.tollon@altairltd.co.uk>; Aaron Elliott <aaron.elliott@altairltd.co.uk>
Subject: FW: 265 Burlington Road - Viability Update WP

Hello all,

I just saw this come through from the agent. I am happy for you to have direct contact with them (provided that you are) but please cc me in.

Many thanks
Tim

From: Jonathan Murch <jonmurch@daviesmurch.co.uk>
Sent: Wednesday, August 28, 2019 2:41 PM
To: Tim Lipscomb <Tim.Lipscomb@merton.gov.uk>
Subject: FW: 265 Burlington Road - Viability Update WP

Hi Tim,

Please see below which our viability consultant has just sent to Emma at Altair. I hope you don't mind us sending this directly, we are just trying to close this out ahead of the GLA Stage 1 Report deadline at the end of the week.

Jon Murch
DaviesMurch
07900 491 490
jonmurch@daviesmurch.co.uk

From: Nick Bignall <nb@tmllp.co.uk>
Date: Wednesday, 28 August 2019 at 14:39
To: "emma.oreilly@altairltd.co.uk" <emma.oreilly@altairltd.co.uk>
Cc: Jonathan Murch <jonmurch@daviesmurch.co.uk>
Subject: 265 Burlington Road - Viability Update WP

Dear Emma

As per our conversation yesterday afternoon I understand both the applicant & the Council have confirmed that we should seek to agree the few disputed inputs within our viability appraisals so that an overall agreement can be presented to committee.

Fortunately the conclusions of our analysis are aligned (35% is beyond the maximum reasonable affordable position) and so the differences in our appraisal are relatively minor and should (hopefully) be quite easy to agree.

Before commenting on the areas of difference I would first point out that at paragraph 8.2 of your report you state that our appraisal submission ***concludes that it is not viable for them [the applicant] to deliver any affordable housing***. This is incorrect – our appraisal analysis actually showed the 'break-even' position on viability was at c. 11% (as noted in paragraph 7.6 of your report) however the applicant had reached the commercial decision to proceed with the scheme at 35% in spite of the deficit.

Moving to the areas of difference between our positions these are as follows:

- Yield on commercial space within proposed scheme
- Cost Plan
- Profit on market housing

For the yield you have proposed a 5.5% position compared to the 6% in my appraisal. In this instance to agree an overall position I would be prepared to adjust the yield in my appraisal to 5.5%.

On the cost plan your report notes that the difference between the total is c. 2%. Generally speaking a difference of under 5% on a cost plan could be considered as being within reasonable margins for subjective differences. Ultimately you could have QS's engage in lengthy discussions but never agree on a final cost plan position due to a difference on certain subjective assumptions. On this basis and in order to facilitate a swift agreement on the overall viability I would propose a mid-point compromise on the cost plan at a total of **£128,750,000** (£251 psf).

The final area of difference between us comes down to the profit margin; where you have preferred 17.5% whilst I adopted the 20% margin on market GDV. I note your comment about the PPG and the suggested range of 15% - 20% on GDV however I consider that a higher margin is required due to the current economic climate and falling housing market in London (see **attached** RICS Residential Market Survey for July 2019). This is covered in **paragraph 3.3.2** of the **RICS Financial Viability in Planning** guidance:

The benchmark return, which is reflected in a developer's profit allowance, should be at a level reflective of the market at the time of the assessment being undertaken. It will include the risks attached to the specific scheme. This will include both property-specific risk, i.e. the direct development risks within the scheme being considered, and also broader market risk issues, such as the strength of the economy and occupational demand, the level of rents and capital values, the level of interest rates and availability of finance. The level of profit required will vary from scheme to scheme, given different risk profiles as well as the stage in the economic cycle. For example, a small scheme constructed over a shorter timeframe may be considered relatively less risky and therefore attract a lower profit margin, given the exit position is more certain, than a large redevelopment spanning a number of years where the outturn is considerably more uncertain.

The above covers contextual justification as to why this substantial scheme being assessed in a climate of falling house prices would require a 20% margin. Furthermore, as per the final sentence of the above extract, on a site-specific basis this scheme will be delivered during a 2 + year construction programme with sales in the year afterwards and as such the outturn of the scheme is considerably more uncertain than smaller brownfield schemes. This reinforces justification for a 20% margin.

However, in this instance, in order to reach an agreement I would be prepared to agree a settlement position of 19% on GDV for the profit on market housing.

The above proposals are presented on a **without prejudice basis** to finalise the negotiations and reach an overall agreement on the viability of this scheme. I have attached to this email my updated appraisal analysis reflecting the above changes which shows the 'break-even' position at 20% affordable housing. In spite of this the applicant is still prepared to proceed with the 35% affordable housing offer as per my original submission.

I trust this is agreeable to you and as always any queries please call to discuss. I have asked the applicant to forward a copy of this email to the Council as well so they are fully in the loop.

Kind regards

Nick

Nick Bignall
BSc (Hons) MSc MRICS
Partner

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