

Jonathan Rowlatt  
Union 4 Planning Consultancy  
30 Stamford Street  
London SE1 9LQ

9 July 2020

Dear Jon,

**Proposed redevelopment of Trocoll House, Wakering Road, Barking IG11 8PB**

I understand that the applicant is prepared to submit to the Borough an increased offer of affordable housing at 25% of the 198 apartments and with a tenure split of these as 15 London Living Rent and 35 Discounted Market Rent at 80% of the equivalent market rent level.

I attach an updated viability appraisal that reflects the 25% affordable housing now proposed. The appraisal shows its result as a Residual Land Value of just under £1.5 million. This remains significantly below the Benchmark Land Value of £2.3 million provisionally adopted by BNP Paribas Real Estate (BNPPRE) in their advice to the Borough in June this year. The applicant has argued that a significantly higher current benchmark value derives from the existing public house and the potential use of the existing upper floors as offices and residential.

The 25% affordable housing now proposed therefore remains more than the maximum currently viable.

Note that the appraisal attached adopts almost all of the BNPPRE assumptions made in the most recent appraisals provided to the Borough, even though the applicant does not accept them. These include:

- Market rents at 10% above those last submitted by HEDC. The table also attached summarises these. I have to repeat that I have been unable to find any evidence of market rents in the area at anything near these levels, and BNPPRE have not provided any information to support these levels.

- A capital value for the 198 PRS apartments assuming an investment yield of 3.5% rather than 3.75%. This is an optimistic assumption, particularly as the appraisal assumes sale of the investment immediately after completion of construction, rather than as a "stabilised asset" a year or so later when the apartments could reasonably be expected to be let.
- BNPPRE's assumptions on a reduced level of developer profit for the public house at 6% of its GDV, rather than 15% shown in HEDC's appraisal.
- Other BNPPRE assumptions on various agent and legal fees.

I should comment that the BNPPRE appraisal submitted to the Borough in June showing 35% affordable housing as viable adopted similar assumptions to the above, but two other assumptions had fundamental flaws. These were:

- Omission of any operating costs for about half of the 35% affordable housing. I think this was simply an error in the BNPPRE appraisal, but it makes a substantial difference to the GDV and to the viability result shown.
- An assumption that the end user PRS investor would make (and release to the developer) payments in full during construction at exactly the same total amount as BNPPRE assumed as being payable only after practical completion of the building. This had the effect of artificially reducing the developer's interest costs in the BNPPRE appraisal by about £4.2 million, which is what made 35% affordable appear viable. However, this assumption would leave the investor with no discount to offset the very significant cost and risk to itself. It is a quite unrealistic assumption on any commercial or common sense basis, and I expect that BNPPRE would acknowledge this if queried. As the Borough's investment arm, I also find it hard to believe that Be First would support this assumption as being commercially sound.

Yours sincerely,



Ian Stuart

Attachments:

HEDC appraisal dated 9 July 2020 showing 25% affordable housing

HEDC summary table of the tenure and dwelling mix and current rents with 25% affordable housing.

Trocoll House, Wakering Road, Barking IG11 8PD  
9 JULY 2020 with 25% affordable in unit numbers  
24.85% in hab rooms  
See HEDC covering letter 9 July 2020 for commentary

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Summary Appraisal for Phase 1

Currency in £

**REVENUE**

**Rental Area Summary**

	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
Car parking	4			1,200	3,600	4,800	3,600
Replacement public house	1	3,498	21.44	75,000	75,000	75,000	75,000
Commercial unit	1	3,348	20.00	66,960	66,960	66,960	66,960
PRS apartments 1B/1P	2	1,033	36.93	19,074	28,611	38,148	28,611
PRS apartments 1B/2P	58	32,367	32.20	17,969	781,654	1,042,206	781,654
PRS apartments 2B/3P	50	34,068	30.60	20,847	781,753	1,042,338	781,753
PRS apartments 2B/4P	38	28,675	29.73	22,435	639,392	852,522	639,392
DMR apartments 1B/1P	4	1,862	28.07	13,068	39,204	52,272	39,204
DMR apartments 1B/2P	10	5,360	25.32	13,570	101,772	135,696	101,772
DMR apartments 2B/3P	17	11,657	21.88	15,001	191,268	255,024	191,268
DMR apartments 2B/4P	4	3,348	20.66	17,292	51,876	69,168	51,876
London Living Rent 1B	9	4,661	18.54	9,600	64,800	86,400	64,800
London Living Rent 2B	6	4,413	14.50	10,668	48,006	64,008	48,006
<b>Totals</b>	<b>204</b>	<b>134,290</b>			<b>2,873,896</b>	<b>3,784,542</b>	<b>2,873,896</b>

**Investment Valuation**

**Car parking**

Current Rent 3,600 YP @ 3.5000% 28.5714 102,857

**Replacement public house**

Market Rent 75,000 YP @ 5.0000% 20.0000  
 (1yr 3mths Unexpired Rent Free) PV 1yr 3mths @ 5.0000% 0.9408 1,411,252

**Commercial unit**

Market Rent 66,960 YP @ 6.0000% 16.6667  
 (0yrs 6mths Rent Free) PV 0yrs 6mths @ 6.0000% 0.9713 1,083,955

**PRS apartments 1B/1P**

Current Rent 28,611 YP @ 3.5000% 28.5714 817,457

**PRS apartments 1B/2P**

Current Rent 781,654 YP @ 3.5000% 28.5714 22,332,986

**PRS apartments 2B/3P**

Current Rent 781,753 YP @ 3.5000% 28.5714 22,335,814

**PRS apartments 2B/4P**

Current Rent 639,392 YP @ 3.5000% 28.5714 18,268,329

**DMR apartments 1B/1P**

Current Rent 39,204 YP @ 3.5000% 28.5714 1,120,114

**DMR apartments 1B/2P**

Current Rent 101,772 YP @ 3.5000% 28.5714 2,907,771

**DMR apartments 2B/3P**

Current Rent 191,268 YP @ 3.5000% 28.5714 5,464,800

**DMR apartments 2B/4P**

Current Rent 51,876 YP @ 3.5000% 28.5714 1,482,171

**London Living Rent 1B**

Current Rent 64,800 YP @ 3.5000% 28.5714 1,851,429

**London Living Rent 2B**

Current Rent 48,006 YP @ 3.5000% 28.5714 1,371,600

**80,550,536**

**GROSS DEVELOPMENT VALUE**

**80,550,536**

Purchaser's Costs 5.80% (144,722) (144,722)

**NET DEVELOPMENT VALUE**

**80,405,814**

Income from Tenants 300

**NET REALISATION**

**80,406,114**

**OUTLAY**

**ACQUISITION COSTS**

Residualised Price 1,449,955 1,449,955

Stamp Duty 5.00% 72,498

Agent Fee 1.00% 14,500

Legal Fee 0.50% 7,250

94,247

**CONSTRUCTION COSTS**

**Construction** ft<sup>2</sup> Rate ft<sup>2</sup> Cost

**APPRAISAL SUMMARY****HEDC LIMITED**

Construction works total	197,977 ft <sup>2</sup>	277.92 pf <sup>2</sup>	55,022,000	<b>55,022,000</b>
<b>PROFESSIONAL FEES</b>				
Professional & other fees		10.00%	5,502,200	5,502,200
<b>MARKETING &amp; LETTING</b>				
Letting agent fee commercial		10.00%	14,556	
Letting legal fee commercial		5.00%	7,098	21,654
<b>DISPOSAL FEES</b>				
Sales Agent Fee commercial		1.00%	24,952	
Sales legal fee PRS & commercial		0.25%	201,376	226,328
<b>Additional Costs</b>				
Profit on PRS		12.50%	9,756,916	
Profit on commercial unit		15.00%	162,593	
Profit on public house		6.00%	84,675	
Mayoral CIL2			284,014	
LBB&D CIL			965,992	
Compensation to JDW			546,000	
Contribution to JDW fit out costs			1,500,000	13,300,190
<b>FINANCE</b>				
Debit Rate 6.500%, Credit Rate 0.500% (Nominal)				
Land			349,843	
Construction			4,443,919	
Other			(4,224)	
Total Finance Cost				4,789,539
<b>TOTAL COSTS</b>				<b>80,406,114</b>
<b>PROFIT</b>				<b>0</b>
<b>Performance Measures</b>				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
Development Yield% (on Rent)		3.57%		
Equivalent Yield% (Nominal)		3.56%		
Equivalent Yield% (True)		3.64%		
IRR		6.18%		
Rent Cover		0 yrs 0 mths		
Profit Erosion (finance rate 6.500%)		N/A		

Trocoll House

Dwelling & tenure mix shown in the 1 July draft appraisal with 25% affordable

PRS	Units	Av rent PCM	Range PCM		
			<i>from</i>	<i>to</i>	
1B/1P	2	£1,590	£1,584	£1,639	Levels 21 & 22 only
1B/2P	58	£1,497	£1,424	£1,639	Levels 4 to 23
2B/3P	50	£1,737	£1,557	£1,991	Levels 4 to 23
2B/4P	38	£1,870	£1,733	£2,057	Levels 4 to 23
	<b>148</b>				
<b>DMR</b>					
1B/1P	4	£1,089	All on levels 1 - 3		
1B/2P	10	£1,131			
2B/3P	17	£1,250			
2B/4P	4	£1,441			
	<b>35</b>				
<b>LLR</b>					
1B/1P	4	£800	All on levels M and 1		
1B/2P	5	£800			
2B/3P	4	£889			
2B/4P	2	£889			
	<b>15</b>				

IS/HEDC/9 July 2020