

Twickenham Rediscovered – Financial Viability Summary

London Borough of Richmond

6 December 2017

Financial Viability

The Twickenham Rediscovered project aims to create a new 'heart' for the town; helping to make it a better place to live, work and visit. As such, consideration of the scheme's viability must extend beyond a straight financial appraisal of cost versus direct revenues and needs to take into account the wider economic, environmental and social benefits the scheme would deliver. Some of these wider benefits are difficult to put a figure against, and some of them would only be realised over the longer term, but that does not make them any less important.

The Council has decided to take a long-term view on the proposed development, providing some subsidy to the scheme to unlock these wider benefits for the town.

In October 2017 Cabinet decided that the Council would develop the scheme itself to ensure that the quality and content of the proposals are delivered to secure these wider benefits. As such it will procure a building contractor directly and take responsibility for the sale and management of the scheme. Taking this development risk helps mitigate the cost of involving a private property developer. The Council could save around £4.5 million by not involving a developer (no 'developer's profit').

In addition to taking on the risks associated with direct delivery the Council is not expecting to recover the costs of the land purchased in 2014 (6.84 million including Stamp Duty Land Tax), thereby enabling the scheme that has evolved through engagement and public consultation (of a reduced scale) to be delivered (subject to planning permission). The Council believes that this investment supports the delivery of a scheme that will be enjoyed by local residents, will enable businesses to flourish and draw new visitors to the town.

Viability appraisal

The viability assessment will be a publicly available document included with the planning application. The detailed financial appraisal contains commercially sensitive material, for example individually assessed sales values and detailed construction costs and rates. Publication of this material could potentially prejudice the Council's commercial position in securing the development should planning permission be granted. To this end, some of the detailed appraisal will not be available for public review.

The appraisal is structured as follows:

Estimated revenues arising from the development including residential and commercial sales (in the case of the latter yielded up rents to represent a notional capital value), to alight at an estimated Gross Development Value (GDV); *LESS*

Estimated costs to deliver the development including: construction costs; marketing and sales costs; developers profit (see below regarding the omission of developers profit); and financing costs.

The viability appraisal results in a net loss, calculated for the project at -£6,047,333. This figure does not include the value of the land.

The format of the viability appraisal utilises a real estate industry recognised model and requires a developers profit to be entered. A required developer's profit level of 17.50% of GDV has been applied to the private residential sales; 15.0% for the commercial elements;

and 6.0% of GDV for the affordable element of the scheme. These are considered to be commensurate with current market rates for a scheme of this type.

As above omitting the developer's profit from the appraisal could save around £4.5 million. This, coupled with the Council's ability to secure better financing rates than used in the standard model, would result in the scheme demonstrating only a nominal loss excluding the value of the land. In short, the Council would anticipate providing a small subsidy to deliver the scheme and does not expect to recover the costs of the land purchased in 2014.

The detailed appraisal will be submitted to the planning officers and they will employ an independent consultant to assess the full appraisal, verifying its validity and contents.