

# Development Sub Committee

## Appendix 3

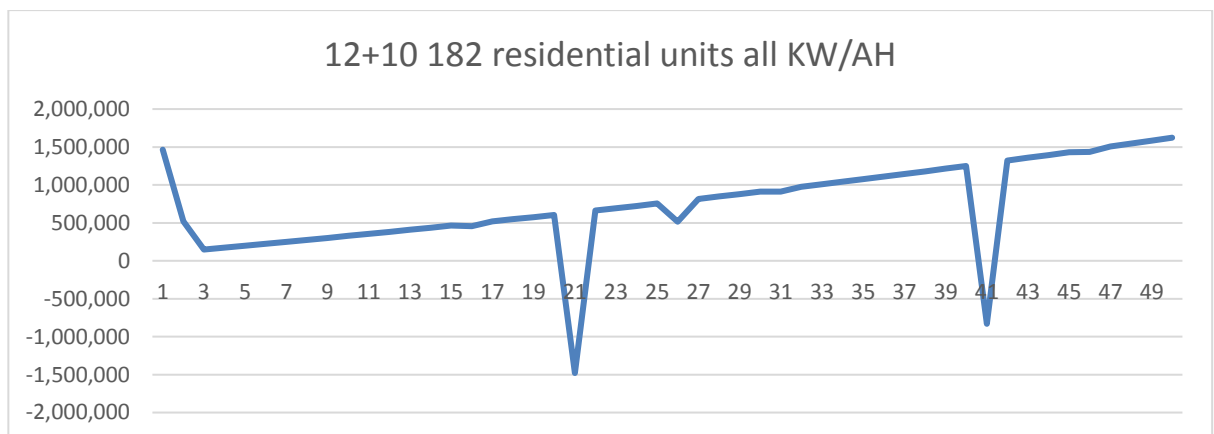


Knowle Green Estates (KGE) Rental Viability Analysis for Oast House based on 182 apartments 12+10 storeys

**Monday 5 April 2022**

### 1. Executive Summary

- 1.1 The above project is financially viable meaning that KGE will be able to meet all its liabilities as they fall due and therefore there will not be a future need for the Council to provide subsidy which might require service spending cuts elsewhere, and reflects the revised capital cost, taking into account recent construction inflation trends, for construction and the change in footprint for the commercial property and its reduced footprint.
- 1.2 The chart below shows the annual cash inflows and (outflows) for the next first 50 years of the project:



### 2. Officers have prepared the viability report below key issues

- 2.1 The Development Sub-Committee requested that each development goes through a viability study.
- 2.2 Officers have not entered into any speculation as to the closing value of the property valuations through professional valuers, however, based on extrapolation and taking into account past growth in the residential property market, the Oast House Residential units, duly maintained, could be worth between £150m and £250m in 50 years' time.
- 2.3 The projections indicate that, including componentisation of various parts of the building, the project has a positive outcome and placed Spelthorne Borough Council, as the sole shareholder of KGE, in a strong position, enabling them to consider and formulate a strategy based on strong net positive cashflows over the period, to regenerate the Borough. Equally this will help give the Board of KGE assurance that they are able to accept receipt

of transfer of the proposed scheme without undermining the viability of KGE as a company.

- 2.4 A word of caution, construction materials and labour costs have significantly increased over the last few months and if this trend continues, it could have a significant impact on this project, which is one reason why officers do not feel there is any further scope to reduce the scale of the residential scheme.
- 2.5 The original projections agreed by the KGE Board in June 2021:
- (a) Showed a higher market rental for the apartments in Oast House, compared to this viability report, with income reducing by 8%
  - (b) Did not account for the £37m contribution from the NHS Cavel Centre, which has seen a 32% reduction in our borrowing and repayment requirements.
  - (c) Indicate that when the depreciation charge (it is not tax allowable) is added back for tax purposes, KGE will be making profits which will be subject to Corporation Tax, currently 19%.