North Essex Garden Communities Ltd

Viability Technical Seminar

Explanatory Paper

16 December 2019

NEGC – Viability Explanatory Paper

1. The approach used by NEGC Ltd assumes that NEGC Ltd becomes a locally led development corporation, which acquires the land at its market value in phases and then undertakes the infrastructure and servicing works, including S106 matters. The serviced land is sold for its market value to developers who undertake the construction and sale of completed dwellings including land/buildings for other uses.

2. The approach is similar to that used by a master developer. It does not preclude direct development by NEGC, but this would be on the basis that the market value of the land is paid/accounted for.

3. The cost of the land has been assessed on the basis that the payment to a landowner will reflect its market value as set out in the AY note appended to Further Hearing Statement for Matter 5 (Delivery mechanisms and State aid).

4. The costs and income are calculated within a bespoke excel model that has been written by Grant Thornton.

5. The cost of the infrastructure and S106 obligations has been estimated by Gleeds and includes an allowance for Optimism Bias.

6. Allowance is made for the operating costs of NEGC apportioned to each garden community. This starts in 2019 and includes pre-development costs such as masterplanning and CPO preparation.

7. The timing of the acquisition of the land, the payment for infrastructure and the receipt of income are detailed in the summary annual cashflows, EXD/062.

8. The cost of funding is based on borrowings with differing rates for the land, infrastructure and operating costs. The interest payable on each debt facility:
   (a) Land loan: to finance land acquisition; interest rate of 2.5% pa; repaid on an annuity basis over40 years.
   (b) Opex loan: to finance the initial operating costs before the infrastructure loan is made available -interest rate of 5% pa. The Opex loan is refinanced by the infrastructure loan.
   (c) Infrastructure loan: to finance infrastructure costs – interest rate of 3.5% pa; repaid on a cash available basis.
   (d) Gap facility loan: to finance interest payments (and principal repayments on the land loan) when there is insufficient cash available in the period – interest rate of 4%; repaid on a cash available basis.

9. The model shows both the Internal Rate of Return, excluding finance, the Profit on Cost and the Net Present Value at 3.5%, excluding finance. The figures quoted in the AY Evidence are calculated from monthly cashflows.

10. The other assumptions made are detailed in the AY Viability Evidence.