The main point of contention appears to relate to the rental values adopted in respect of the smallest units within the PRS element of the proposed scheme. CBRE (the Applicant's agent) is of the opinion that the rental values for the 1B1P units at the scheme should be adjusted down from C&Ws original assumption (£940 pcm) given the size of the units (334 sq ft). During a previous meeting, CBRE also highlighted that the proposed scheme will not provide the typical level / type of amenities associated with an 'institutional grade' PRS scheme / product (for example, gym, concierge services etc.).

As per Tim's email (attached), following a meeting between C&W and CBRE in December, the Applicant put forward a 'compromise' position in respect of the rental values proposed for the PRS element of the development. On the whole, these rental values are in line with C&W's original assumptions, with the exception being the rental value assumed on the 1B1P units (highlighted in yellow in the table below):

PRS Unit Type	Total Units	Size NIA (sq ft)	CBRE Revised Rents pcm (£)	CBRE View of 'Compromise' Position pcm (£)
1B1P	24	334	£664	£725
1B2P	40	538	£1,069	£1,100
2B3P	5	657	£1,377	£1,400
2B4P	35	754	£1,579	£1,575

Analysing the Applicant's compromise position in respect of the 1B1P apartments and C&W's adopted rents for the remainder of the units on a per sq ft, per annum basis, produces the following results:

PRS Unit Type	Size NIA (sq ft)	C&W Adopted Rents pcm (£)	Rental Values per sq ft per annum
1B1P	334	£725	£26.05
1B2P	538	£1,120	£24.98
2B3P	657	£1,400	£25.57
2B4P	754	£1,600	£25.46

C&W acknowledge that based on the actual unit size (c. 334 sq ft) a discount from our original assumption of £940 pcm is valid, though we remain of the view that a rental values of at least £800 pcm (£28.74 per sq ft per annum) would be achieved for these units – i.e. in excess of the £725 per sq ft position proposed by CBRE - it is be reasonable to anticipate a premium on the 1B1P rental values given that the size of these units (reflection of quantum) and the fact that the most affordable / lowest cost units are likely be in greatest demand.

C&W Updated Analysis

In email dated 4 February the Council have confirmed that the Applicant's proposed discount to market rent at 80% is not acceptable - our analysis therefore focusses on the policy 60% discount to market rent assumption.

The table below summarises the impact of amending the assumed rental levels in respect of the 1B1P units to £800 pcm. This results in a less viable position, demonstrating that the scheme maybe able to support 12.5% Affordable provision (13 Affordable Rent units). Please note, our analysis assumes an adjustment to the units allocated as Affordable Rent, as detailed in the table below. Please advise if the OM / AR mix is not appropriate as this will impact on viability outcome.

	C&W Original View 19% Affordable Rent (as per draft report dated January 2020)		Revised Position Adopting £800 pcm on 1B1P units	
PRS Rental Income per annum (£)	£1,438,560		£1,079,640	
Affordable Rent Provision	**20 (19%)**		**13 (12.5%)**	
OM / AR unit mix	**OM units**	**AR units**	**OM units**	**AR units**
	1B1P – 24 1B2P – 30 2B3P - 0 2B4P – 30	1B1P – 0 1B2P – 10 2B3P - 5 2B4P – 5	1B1P – 24 1B2P – 35 2B3P - 1 2B4P – 31	1B1P – 0 1B2P – 5 2B3P - 4 2B4P - 4
Discount for Management / Non-recoverable Costs	25%		25%	
Residual Land Value	£2,489,384		£2,502,155	
Benchmark Land Value	£2,500,000		£2,500,000	
Viability "Deficit / Surplus"	**£10,616**		**£2,155**	

We reiterate the point that CBRE have made regarding the proposed scheme's onsite amenity – i.e. the scheme will not provide the level of onsite amenity which would be typical of an institutional grade PRS development. For example, we are aware that Spring Wharf (L&G's Roseberry Place development) which is a more 'institutional grade' PRS product, provides a residents gym, 24-hour on-site team, concierge services, residents lounge, allotments etc.

The proposed scheme does not provide any of the above by way of on-site amenity provision. C&W's assessments have assumed a deduction of 25% from gross annual rental income for management and operational / non-recoverable costs associated with the operation of the PRS scheme - this would be a typical assumption when valuing traditional PRS developments for the funds investing in the assets – or lending on the developments. On the basis that the scheme does not offer the level of amenity of a traditional PRS product, it may be reasonable to assume that the associated management time / operating costs will be lower. That being said, the scale of the development should be taken into account, such that given the relatively small number of units at the scheme (typically institutional investors seek schemes of 150 units +), the positive impact of economies of scale on running costs may be less significant. In reality, it is difficult to accurately assess the likely management / nonrecoverable costs, but it might be that an allowance of c. 20% - 22.5% would be more appropriate for a scheme of this nature.

For the purpose of this analysis and in order to conclude these discussions, however, we have assumed a cost deduction of 25% in line with our original assessment.

Conclusion

We have taken on board the Applicant's comments regarding the fact that a reduction in rental values for the smallest units may be justified (from £940 pcm), in light of the available comparable evidence. Our analysis above demonstrates that adopting a reduced rental value of £800 pcm results in a less viable position, whereby the scheme can support 12.5% Affordable provision (13 Affordable Rent units), as opposed to 20 units (19%) concluded under our original assessment.