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# Option Appraisal Modelling

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Net Present Value Analysis

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## Net Present Value Analysis

The Savills logo is located in the top right corner of the page. It consists of the word "savills" in a lowercase, sans-serif font. Above the text, there are several horizontal lines of varying lengths, creating a stylized, architectural appearance.

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# 1. Introduction

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## Introduction

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We have calculated a net present value of cashflows to support Harlow's options appraisal of three individual housing assets.

The principles of this approach reflect Savills' approach to active asset management and asset based value for money, where investment decisions are taken following consideration of the long term performance of the property portfolio.

The results need to be considered in the context of:

- Other elements of the options appraisal such as factors around demand and the external housing environment in which the properties are situated
- Any consideration of planning or title restrictions associated with the properties
- An understanding of how the NPVs of these individual properties compare to an analysis of the whole of the organisation's housing.

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**2. 1 and 2 Bromley Cottages**

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## 1 and 2 Bromley Cottages

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### 2.1. Introduction

The calculation of net present value is based on input assumptions from information supplied to us by Harlow Council.

We have not carried out any independent validation of the accuracy or completeness of this information.

### 2.2. Key Assumptions

- 2016/17 weekly rent £99.32 (on 52 week basis)
- Management cost per dwelling per annum £1,237
- Repair cost per dwelling per annum £1,001
- Works to carry out immediate repairs and improvements, as well as a thirty year cost totals £67,983 (provided by Savills).

We have also made the following assumptions:

- Rents decrease by 1% for three years before increasing at CPI + 1%.
- An annual void rate of 0.7%.
- An annual bad debt rate of 1% has been assumed to provide a combined void and bad debt rate of 1.7%.
- Costs increase at CPI (2.0% long term) with an additional 0.5% real cost increase for management costs to reflect short term increases of 1% on staff costs (assumed to continue for five years)
- Professional fees on major works @ 10%
- No VAT is payable due to Local Authority VAT status
- Discount rate 6.5% (real).

### 2.3. Results

These inputs and assumptions result in a 30 year net present value (NPV) of -£5,536 for each of the cottages.

To put this figure in context, in 2013 our review of Harlow's assets indicated an average NPV for the entire housing portfolio as £13,753 per unit.

Savills estimate that the Market Value for each of the Bromley Cottages is £315,000.

Please note that the advice provided on values is informal and given purely as guidance. Our views on price are not intended as a formal valuation and should not be relied upon as such. No liability is given to any third party and the figures suggested are not in accordance with Valuation Practice Statement 1.2 of RICS Valuation - Professional Standards January 2014.

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**3. 3 East End Cottages**

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### 3 East End Cottages

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#### 3.1. Introduction

The calculation of net present value is based on input assumptions from information supplied to us by Harlow Council.

We have not carried out any independent validation of the accuracy or completeness of this information.

#### 3.2. Key Assumptions

- 2016/17 weekly rent £92.78 (on 52 week basis)
- Management cost per dwelling per annum £1,237
- Repair cost per dwelling per annum £1,001
- Works to carry out immediate repairs and improvements, as well as a thirty year cost totals £67,983 (provided by Savills).

We have also made the following assumptions:

- Rents decrease by 1% for three years before increasing at CPI + 1%.
- An annual void rate of 0.7%.
- An annual bad debt rate of 1% has been assumed to provide a combined void and bad debt rate of 1.7%.
- Costs increase at CPI (2.0% long term) with an additional 0.5% real cost increase for management costs to reflect short term increases of 1% on staff costs (assumed to continue for five years)
- Professional fees on major works @ 10%
- No VAT is payable due to Local Authority VAT status
- Discount rate 6.5% (real).

#### 3.3. Results

These inputs and assumptions result in a 30 year net present value (NPV) of -£10,743 for the cottage.

To put this figure in context, in 2013 our review of Harlow's assets indicated an average NPV for the entire housing portfolio as £13,753 per unit.

Savills estimate that the Market Value for 3 East End Cottages is £300,000.

Please note that the advice provided on values is informal and given purely as guidance. Our views on price are not intended as a formal valuation and should not be relied upon as such. No liability is given to any third party and the figures suggested are not in accordance with Valuation Practice Statement 1.2 of RICS Valuation - Professional Standards January 2014.



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