

Private and Confidential

167-169 Lewisham Road, Lewisham SE13
London Borough of Lewisham

Viability Report | August 2015

urbandelivery

Contents Page

1.0	Introduction	1
2.0	Project Details	2
3.0	Approach to Viability Appraisal	4
4.0	Market Analysis	7
5.0	Viability Assessment	14
6.0	Viability Outputs	17
7.0	Conclusion	19

1.0 Introduction

Background

- 1.1 Urban Delivery was instructed by the London Borough of Lewisham (the “Council”) to assess the viability of a proposal by Clancroft Properties (the “Applicant”) to redevelop the property known as 167-169 Lewisham Road, Lewisham, London, SE13 (the “Property”).
- 1.2 The Applicant is seeking a planning permission to demolish the existing buildings within the site and develop a mixed-use scheme comprising a ground floor retail unit and the development of 28 dwellings six storeys in height. The planning application states that five units will be provided as affordable homes.
- 1.3 On behalf of the Council, Urban Delivery has carried out its own assessment to consider what would be a reasonable level of affordable housing for the proposed scheme to deliver.
- 1.4 The purpose of this report is to provide guidance on the viability of the development proposed by Clancroft Properties. This report does not constitute a valuation and reference to any values, sales values and costs are provided as broad estimates only in order to assess whether the Applicant has offered a reasonable number of on-site affordable homes and any other planning obligations that may be required to support a development of this nature.

Conflict of Interests

- 1.5 We confirm that in providing this advice to the Council there is no conflict of interest between Urban Delivery and Clancroft Properties. The advice provided in this report does not represent a Valuation in accordance with the RICS Valuation Standards (The Red Book) 2014, published by the Royal Institution of Chartered Surveyors, and should not be regarded as such. The advice provided herein must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied.
- 1.6 In undertaking this review Urban Delivery has collected evidence from a number of third party sources. Urban Delivery cannot be held responsible for the accuracy of this data.
- 1.7 This report must not be used by any other person other than for whom it has been commissioned, without Urban Delivery’s expressed permission. Urban Delivery accepts no liability for any costs, liabilities or losses as a result of the use of, or reliance upon, the contents of this report by any other person other than the commissioner for planning purposes.

Information Provided

- 1.8 In undertaking this viability review Urban Delivery has reviewed copies of the planning application submission documents including proposed floor plans, Planning Statement and Design and Access Statement, which were downloaded from the LB Lewisham planning web site.

2.0 Project Details

Location

- 2.1 The Property is located to the north of Lewisham town centre in south east London within the London Borough of Lewisham. The Property is situated on the corner of Lewisham Road and Granville Park with an elevated railway line running along the southern side of Granville Park. The Property sits just to the north of the A20 which provides a direct route to other arterial routes and on to the motorway network. Lewisham railway and DLR stations are located within 200m to the southwest of the Property, providing regular services into central London.
- 2.2 The Property adjoins a public house to the north and an adult education centre to the east although the predominant land uses in both directions are residential. The surrounding area is undergoing significant change and regeneration with the Lewisham Gateway site immediately to the southwest under construction to provide a mix of new homes, retail, leisure and office accommodation. A new Premier Inn hotel has recently been developed to the south of Granville Park and the elevated railway line.

The Site

- 2.3 The site comprises 0.069 hectares (0.17 acres) of land currently accommodating a Texaco petrol filling station and forecourt shop which is accessed from Lewisham Road. The existing building extends to two storeys in height.
- 2.4 We understand that the Applicant is in negotiation to acquire the Property and that vacant possession of the Property can be achieved without any compensation payments being made by the Applicant for the termination of any existing lease agreements.
- 2.5 We have only inspected the Property from the road and have not undertaken an internal inspection or carried out a measured survey. We are therefore reliant on the accuracy of the information provided by the Applicant and its advisors.

Development Overview

- 2.6 The Applicant proposes the development of 28 new apartments, totalling 1,870 sq m (20,128 sq ft) of net internal floorspace (NIA) with a retail unit extending to 178 sq m (1,916 sq ft) within a single block up to six storeys.
- 2.7 The development will provide the following units:

Private

1 Bedroom Apartment: 8
2 Bedroom Apartment: 15

Social Rented Affordable

2 Bedroom Apartment: 1
3 Bedroom Apartment: 4

- 2.8 The Applicant's Planning Statement states that five dwellings will be available for affordable homes which reflects a proportion of 18% in terms of units and 27% with regard to habitable rooms. All of the affordable homes are proposed to be offered as social rented units. The Council's target is currently 70% as rented units and 30% as intermediate units.

Planning

- 2.9 The Applicant submitted a planning application (Ref: DC/15/91914) in April 2015 for the demolition of the existing petrol filling station and construction of a six storey building comprising ground floor commercial unit (Use Class A1-A3) with 28 residential units above, associated refuse and cycle spaces and landscaping. We understand that the Applicant has had pre-application meetings with the Council to discuss all aspects of the proposed submission.

- 2.10 The Property is not designated for any particular use within the adopted Development Plan and sits within the defined Major Centre of Lewisham and the Sustainable Living Area.

Section 106 and CIL Proposals

- 2.11 A review of the Applicant's development proposals and supporting planning application documents suggest that the CIL liability and S106 contributions could be as set out below:

• Mayoral CIL:	£49,665
• LBL CIL:	£187,770
• Monitoring Costs:	£6,000
TOTAL CIL & S106 COST:	£243,435

3.0 Approach to Viability Appraisal

Limitation of residual development appraisals

3.1 Please note the following;

- Development appraisals are highly sensitive to their inputs (i.e. small changes in inputs can lead to a marked change in outputs).
- Development appraisals are required to assess viability as at today's date, which is reinforced in the RICS *Financial Viability in Planning* guidance note. They are permitted to factor in historic costs and also potential future market and cost inflation. However this all needs to be considered as at today's date.

Approach to Appraisal

3.2 In undertaking a viability assessment for planning purposes Urban Delivery gives full consideration of the RICS Guidance Note 94/2012 (GN94) – Financial Viability in Planning. GN94 provides an objective methodology framework to support Affordable Housing viability assessment. The GN94 highlights that it is grounded in the statutory and regulatory planning regime that currently operates in England. It is consistent with the *Localism Act 2011*, the NPPF and *Community Infrastructure Levy (CIL) Regulations 2010*. GN94 concludes that the fundamental issue in considering viability assessments in a town planning context is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements.

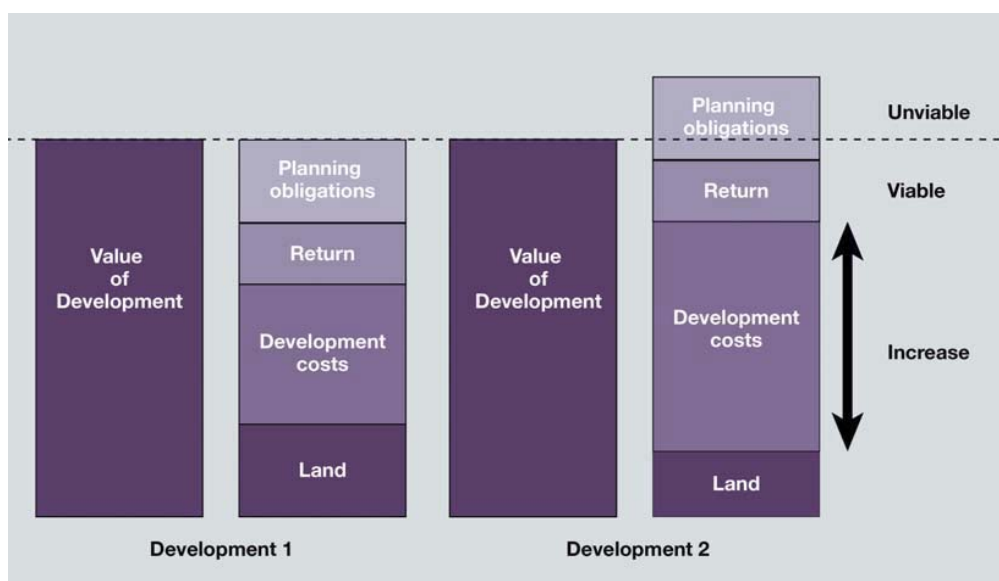
3.3 GN94 defines financial viability for planning purposes as follows:

“An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project”.

3.4 GN94 proposes the use of a residual appraisal methodology for financial viability testing and that such a methodology is normally used, where either the level of return or site value can be an input and the consequential output (either a residual land value or return respectively) can be compared to a benchmark having regard to the market in order to assess the impact of planning obligations or policy implications on viability. GN94 defines site value as follows:

“Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan”.

- 3.5 It is accepted however that any assessment of site value will have regard to potential planning obligations, and the purpose of the viability appraisal is to assess the extent of these obligations while also having regard to the prevailing property market.
- 3.6 This principle is demonstrated by the diagram found in GN94. The costs and necessary returns of Development 1 are such that policy can be met in delivering all planning obligations while meeting a site value for the land, all other development costs and a market risk adjusted return. In contrast, Development 2 indicates that an increase in costs results in an inability of that development to absorb the original planning obligations and is therefore unviable. A financial viability assessment would be required to ascertain what could viably be delivered in the way of planning obligations while ensuring that the proposed development was viable and deliverable.



Source: RICS Guidance Note 94/2012.

- 3.7 Urban Delivery adopts the RICS definition of Market Value as the appropriate basis to assess site value.
- 3.8 This is consistent with the NPPF, which acknowledges that 'willing sellers' of land should receive 'competitive returns'. Competitive returns can only be achieved in a market context (i.e. Market Value) not one which is hypothetically based on an arbitrary mark-up applied, as in the case of Existing Use Value (or Current Use Value) plus a premium.
- 3.9 In the absence of any definitive guidance, a variety of practitioners have evolved approaches to assess a reasonable benchmark land value. One approach has been to adopt Current Use Value (CUV) plus a margin or a variant of this, i.e. Existing Use Value (EUV) plus a premium. GN94 states that the problem with this singular approach is that it does not reflect the workings of the market as land may not be released at CUV or CUV plus a margin (EUV plus). It is however, possible that its current use represents the Market Value if the CUV is in excess of the residual value produced by a proposed development.

- 3.10 This viability assessment has been undertaken in the light of the LB Lewisham's Supplementary Planning Document (SPD) on Planning Obligations, adopted on the 25th February 2015. This includes guidance on financial viability assessments (paragraphs 4.31 to 4.38). In respect of land value the SPD notes that the analysis should be based on land values as set by the application of planning policy in determining the permissible scope of development rather than the price actually paid for the land.
- 3.11 The site value adopted in this viability review has been assessed against our view of a risk adjusted Market Value. The risk adjustment allows for the fact that the subject Property does not yet have a planning permission for the proposed use whereas evidence of similar land sales may reflect land sold with the benefit of a planning permission or a sale agreed on a 'subject to planning' basis. As such, the site value will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known.
- 3.12 In determining the site value Urban Delivery gives regard to EUV and transactional evidence of other residential land sales and all other material considerations that might impact on site value.

Residual Development Appraisal Assumptions

- 3.13 Our residual development appraisal is based on costs and values adopted by the appraiser and can then be applied to a bespoke timeframe with assumptions on cost breakdown throughout the life of the project. This assumption on costs, revenues and the timing of such is then used to calculate finance costs.
- 3.14 In our residual development appraisal we have adopted our own assumptions on the amount and timing of income and expenditure.
- 3.15 We have appraised the development scheme as a single phase.

4.0 Market Analysis

Local Property Market

- 4.1 We have undertaken a review of the local property market to identify evidence of other development land sales, new build residential unit sales and the letting of commercial premises.
- 4.2 In considering evidence of land sales transactions where the land is sold with the benefit of planning permission we have sought to discount the achieved price by 30% to make an allowance for the time, cost and associated planning risk that a purchaser is likely to incur if purchasing a parcel of land unconditionally and without a planning permission for the proposed land use or scale of development they are seeking. This level of discount has been chosen to reflect the cost of making a planning application, an allowance for adverse changes in property market conditions as well as the uncertainty over agreeing S106 contributions and the viable number of affordable homes that may be provided on-site.

Land Sales

88 Rushey Green, Catford, SE6

- 4.3 This site comprises an area of approximately 0.249 ha (0.62 acres) and was sold in April 2013 with the benefit of a planning permission for 29 dwellings, including four houses. We understand that the sale price was £1,350,000.
- 4.4 In applying this comparable to the subject Property we would allow for a discount of circa 30% to reflect the cost and risk of achieving a suitable planning permission. This discounted price would reflect a land value of circa £3,800,000 per hectare (£1,540,000 per acre).
- 4.5 While this would suggest a land value for the subject Property of only circa £260,000 based on site area, a value based on the permitted number of dwellings would indicate a land value in the region of £910,000 (assuming a discounted value of £32,500 per dwelling). On the basis that this comparable is a larger site and developed to a lower density, this could impact on the value per hectare (acre). As such, we are more inclined to apply greater weight to the analysis based on total dwellings.

136A Tanners Hill, Lewisham, SE8

- 4.6 This land comprises an area of approximately 0.09 ha (0.22 acres) and was sold in June 2014 with the benefit of a planning permission for four houses and four apartments, reflecting a relatively low density of approximately 36 dwellings per acre. We understand that there is no requirement for affordable homes within this development. We understand that the site achieved a sale price of £1,600,000.
- 4.7 In applying this comparable to the subject Property we would allow for a discount of circa 30% to reflect the cost and risk of achieving a suitable planning permission but taking into

consideration there would be no requirement for affordable housing. This discounted price would reflect a land value of circa £12,590,000 per ha (£5,100,000 per acre).

- 4.8 Applying the analysis above, this would suggest a land value for the subject Property of circa £870,000 based on site area. On the basis that the subject Property is proposed to accommodate a greater number of dwellings there is scope to suggest that the site could achieve a greater value per hectare than this comparable indicates.
- 4.9 The subject Property, while a similar sized plot of land, proposes 28 dwellings and equates to approximately 165 dwellings per acre compared with this comparable of only 36 dwellings per acre.

120-122 Tanners Hill, Lewisham, SE8

- 4.10 This land comprises an area of approximately 0.44 ha (1.09 acres) and was sold in September 2014 with the benefit of a planning permission for 58 residential units. We understand that the sale price was just under £8,000,000.
- 4.11 In comparing this site to the subject Property, which proposes around half the number of dwellings and comprises only around 15% of the site area of this comparable, it would be usual to allow an adjustment to reflect the difference in site area and proposed density. This can allow for site costs, infrastructure costs and the opportunity for greater efficiency to develop a greater number of units on a smaller site. The density of 165 dwellings per acre for the subject Property is greater than this comparable reflects of only 53 dwellings per acre.
- 4.12 In applying this comparable to the subject Property we would allow for a discount of circa 30% to reflect the cost and risk of achieving a suitable planning permission. This discounted price would reflect a land value of circa £12,590,000 per ha (£5,100,000 per acre).
- 4.13 Applying the analysis above, this would suggest a land value for the subject Property of circa £870,000 based on site area. On the basis that the subject Property has potential to achieve a greater density there is scope to suggest that the site could achieve a greater value per hectare than this comparable indicates. Although other issues such as contamination and situation adjacent to the elevated railway line will have a negative impact on land value.

Arklow Road Trading Estate, Deptford, SE14

- 4.14 This existing commercial site was sold in July 2014 on an unconditional basis. We understand that the sale price was £9,000,000. The site extends to approximately 0.88 hectares (2.17 acres) which reflects a value of approximately £10,230,000 per ha (£4,150,000 per acre).
- 4.15 The site proposes a scheme of approximately 330 new homes, reflecting a density close to 395 homes per hectare (160 homes per acre).

- 4.16 Applying this analysis would suggest a land value for the subject Property of circa £710,000 based on site area. We would note however that at the time of acquisition the development of this site was at an earlier stage than the subject Property and there may have been greater uncertainty as to ground conditions and development potential, thereby reflecting a more cautious purchase price.

Residential Sales

- 4.17 We have undertaken an independent investigation into private residential sale values in the vicinity of the proposed development, as set out in the tables below.

Renaissance, Loampit Vale

- 4.18 Barratt Homes is progressing with its development of this scheme, located approximately 0.5km southwest of the subject Property.
- 4.19 The development comprises eight buildings ranging from five to twenty-four storeys, incorporating balconies and terraces, comprising 788 residential units (including up to 186 affordable), a leisure centre, 1,856 sq m of commercial floorspace (Use Classes A1, A2, and B1, including 626 sq m for creative industries), an energy centre, replacement London City Mission facilities, public and private amenity space, together with associated landscaping, bin stores, 866 cycle, 26 motorcycle and 181 car parking spaces on ground and first floor levels, associated highway works, plant and servicing.
- 4.20 We have reviewed some of the more recent sales of new homes within the Roma Corte phase. These are set out in the table below:

Barratt Developments - Renaissance, Loampit Vale							
Phase	Unit	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
Roma Corte	Plot 207	1	49.4	532	£303,000	£ 570	Q2 2015
Roma Corte	Plot 212	1	45.2	487	£297,000	£ 610	Q2 2015
Roma Corte	Plot 213	1	49.4	532	£306,000	£ 575	Q2 2015
Roma Corte	Plot 218	1	45.2	487	£300,000	£ 617	Q2 2015
Roma Corte	Plot 366	1	45.7	492	£325,000	£ 661	Q2 2015
Roma Corte	Plot 210	2	64.2	691	£399,000	£ 577	Q2 2015
Roma Corte	Plot 211	2	64.0	689	£394,000	£ 572	Q2 2015
Roma Corte	Plot 216	2	64.2	691	£403,000	£ 583	Q2 2015
Roma Corte	Plot 217	2	64.0	689	£398,000	£ 578	Q2 2015
Roma Corte	Plot 369	2	56.3	606	£423,000	£ 698	Q2 2015
Average Price			54.8	589	£354,800	£ 602	

- 4.21 As can be seen, average sales values over the second quarter of 2015 are in the region of £6,480 per sq m (£602 per sq ft) for one and two bedroom apartments.
- 4.22 In addition to those units that have recently been sold/reserved we have considered the pricing of units currently being marketed within the Renaissance scheme. These are set out below:

Barratt Developments - Renaissance, Loampit Vale							
Phase	Unit	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
Roma Corte	Plot 278	1	45.2	487	£353,000	£ 726	OTM
Roma Corte	Plot 290	1	45.2	487	£359,000	£ 738	OTM
Roma Corte	Plot 273	2	53.8	579	£455,000	£ 786	OTM
Roma Corte	Plot 285	2	53.8	579	£465,000	£ 803	OTM
Roma Corte	Plot 288	2	64.0	689	£475,000	£ 690	OTM
Roma Corte	Plot 289	2	64.2	691	£475,000	£ 687	OTM
Average Asking Price			54.4	585	£430,333	£ 735	

- 4.23 The current release of units are situated on the upper floors of the tower, starting from level 14. We also note that the average unit sizes of these units is substantially smaller than the one and two bedroom units proposed in the subject scheme. Given the potential premium for units on higher floors and the smaller floor areas in general we are of the view that the average price of £7,910 per sq m (£735 per sq ft) is greater than could be achieved within the proposed development on Lewisham Road.
- 4.24 The Renaissance development in general is regarded as a superior scheme and is in a more desirable location on Loampit Vale, closer to the railway station, than the subject Property. As such, it is expected that values within this scheme would be higher than on Lewisham Road.

Portrait Tower

- 4.25 Portrait Tower is part of the Lewisham Gateway development situated to the west of the subject Property. The scheme comprises a development of 125 one, two and three bedroom apartments.
- 4.26 The development is currently selling units off-plan. Information on initial sales is limited although a review of property marketing web sites suggests that a good proportion of units have been bought by investors now looking to 'flip' units for a profit. The table below indicates the pricing for units:

Portrait Tower 1, Lewisham Gateway, SE13						
Unit	Floor	No Beds	Area sq m	Area sq ft	Price	£psf
031	3rd	1	50.0	538	£333,000	£ 619
041	4th	1	50.0	538	£299,000	£ 556
012	1st	2	64.5	694	£359,000	£ 517
032	3rd	2	61.0	657	£395,000	£ 601
052	5th	2	61.0	657	£405,000	£ 616
065	6th	2	61.2	659	£377,000	£ 572
085	8th	2	61.2	659	£410,000	£ 622
Average Asking Price			58.4	629	£368,286	£ 586

- 4.27 As can be seen, average asking prices are in the region of £6,310 per sq m (£586 per sq ft) for one and two bedroom apartments. In comparing this comparable sales/pricing evidence with the subject Property we have sought to use only those apartments up to the 8th floor. Apartments on the higher floors attract a premium pricing that cannot be achieved on the Lewisham Road scheme.

Tower Loft Apartments, Lewisham High Street

- 4.28 This development is situated towards the east of Lewisham town centre and will comprise a converted department store with a range of one and two bedroom apartments with gym and studio space. The development is anticipated to be completed in 2016.
- 4.29 The apartments are currently being marketed off-plan with the first release having sold well. The table below identifies a number of the one bedroom units that have now been reserved.

Tower Loft Apartments, Lewisham High Street, SE13						
Unit	Floor	No Beds	Area sq m	Area sq ft	Price	£psf
Flat	3rd	1	46.5	501	£345,500	£ 690
Flat	3rd	1	55.0	592	£399,500	£ 675
Flat	3rd	1	44.5	479	£338,500	£ 707
Flat	3rd	1	49.0	527	£355,500	£ 675
Flat	3rd	1	52.0	560	£365,000	£ 652
Flat	3rd	1	51.5	554	£365,000	£ 659
Flat	3rd	2	66.5	716	£435,500	£ 608
Average Asking Price			52.1	561	£372,071	£ 663

- 4.30 The majority of units reserved so far are one bedroom homes of varying floor areas.

Prime Place, Norman Road, Greenwich, SE10

- 4.31 With a lack of suitable sales evidence for three bedroom apartments in Lewisham town centre we have considered evidence from further afield. Prime Place Greenwich is a development situated on Norman Road, located on the eastern side of Deptford Creek, approximately 1.4km to the north of the site on Lewisham Road. Although this development is located in a more valuable location we are aware of a number of three bedroom units that have recently been sold and provide an indication of the pricing that could be achieved in Lewisham.
- 4.32 The table below identifies a range of three bedroom units sold in the past 12 months:

East Tower, Block C, Prime Place, Norman Road, Greenwich, SE10							
Unit/Type	Floor	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
C201	2nd	3	102.6	1104	£ 580,000	£ 525	2H 2014
C202	2nd	3	86.1	927	£ 530,000	£ 572	2H 2014
C301	3rd	3	107.8	1160	£ 570,000	£ 491	2H 2014
C302	3rd	3	86.1	927	£ 540,000	£ 583	2H 2014
C401	4th	3	86.0	926	£ 565,000	£ 610	2H 2014
C403	4th	3	86.1	927	£ 530,000	£ 572	2H 2014
C405	4th	3	91.2	982	£ 590,000	£ 601	2H 2014
C502	5th	3	86.1	927	£ 565,000	£ 610	2H 2014
C504	5th	3	91.2	982	£ 590,000	£ 601	2H 2014
Average			91.5	985	£ 562,222	£ 571	

- 4.33 We note that with the Applicant proposing that the three bed units on Lewisham Road will be in the order of 78 sq m (840 sq ft), the units at Prime Place are actually larger. Allowing for this difference in size, location and house price inflation since these sales were

achieved, we are of the opinion that the average value achieved of £6,146 per sq m (£571 per sq ft) provides a reasonable comparable for the three bedroom units within the Applicant's proposed development, should they be offered as private market homes rather than affordable rented units.

Summary

- 4.34 As can be identified from the comparable evidence tables above, the range of average sales values vary from £5,650 and £8,640 per sq m (£525 and £803 per sq ft).
- 4.35 The units at the Renaissance and Portrait Tower developments, situated only a short distance from the subject Property, are selling well and offer some good indicators of the level of pricing that should be achievable at the subject Property. The site on Lewisham Road itself is in close proximity to an elevated railway line which could impact on sales values for the units on the lower floors although we do not believe this will have a material impact on the overall demand for units.
- 4.36 We have considered unit prices applicable to the proposed units based on the asking prices and achieved sales values reported on other schemes in the locality.
- 4.37 Based on the average sales values achieved on other schemes in the area and in consideration of average unit prices referred to above, we are of the opinion that an average sales value of £6,135 to £7,210 per sq m (£570 to £670 per sq ft) is reasonable at the current time in consideration of the mix of one, two and three bedroom units.

Residential Rental Values

- 4.38 We have reviewed the local property market and identified that rental values for one to three bedroom apartments are in the region of:
- 1 bed @ £265 per week (@ 60% = £160 per week)
 - 2 bed @ £345 per week (@ 60% = £210 per week)
 - 3 bed @ £380 per week (@ 60% = £230 per week)

- 4.39 We have adopted these average values in order to assess the potential value of the affordable homes that a Registered Provider may attribute to the affordable rented units.

Commercial Values

- 4.40 While there have been a number of retail lettings in Lewisham town centre over the past 12 months, many of these are connected with retail units in more central locations and would therefore be expected to achieve a higher rental value. In order to form a view on the rental values and investment yields that could be applied to the proposed retail unit, we have sought to identify units of similar sizes and in non-prime locations.
- 4.41 We understand that a retail unit at 37-39 Lewisham Way has recently been let. The unit comprises 186 sq m (2,004 sq ft) of ground floor retail space and was leased in March 2015 at a rent in the order of £42,000 pa. This reflects a rent of £225 per sq m (£20.95 per

sq ft).

- 4.42 191-193 Lewisham High Street, comprises a more centrally located retail unit of 140 sq m (1,512 sq ft) of ground floor and basement accommodation and was recently leased on a 10 year term at a rent of £37,000 pa to a financial service provider. This reflects a rent of around £263 per sq m (£24.50 per sq ft). As referred to above, a retail unit in a core central location would be expected to achieve a higher rent than the proposed unit on Lewisham Road.
- 4.43 With regard to investment yields, there is limited sales evidence available at the current time although we are aware that a retail unit at 1 and 1a Brownhill Road in Catford, approximately 2km to the south of the subject Property, was recently marketed at a price reflecting a net initial yield of circa 7.5%. We understand that this unit has now sold.
- 4.44 The retail unit at 68 Lewisham High Street was sold at auction in March 2015 reflecting a yield of around 5.56%. This unit was let to a good covenant with over seven years remaining on the lease. The unit is also more centrally located with greater opportunity for rental growth and re-letting should the unit become vacant.

5.0 Viability Assessment

Benchmark Land Value

- 5.1 In order to ascertain a reasonable land cost Urban Delivery has investigated an estimate of Market Value.

Market Value

- 5.2 In order to adopt a preferred Market Value approach to assessing the Land Value Benchmark we have reviewed the local property market for evidence of land sales or the sale of premises that are suitable for residential development.
- 5.3 A review of the evidence referred to in Section 4 of this report highlights the range of values achievable for residential land within this area. The evidence from two sites on Tanners Hill, at 88 Rushey Green in Catford and also at Arklow Road in Deptford, would suggest a similar sized site could achieve a price in the range of £710,000 to £910,000 depending on development density and planning obligations.
- 5.4 Considering the evidence referred to above and applying this to the subject Property it is our opinion that a Land Value Benchmark of between £700,000 and £730,000 should be adopted within our assessment with potential for a higher price to be agreed should the site be sold on the open market. We would anticipate that a higher value could be attributed to the site should a planning permission be granted for residential development. For the purpose of our appraisal we have adopted a Benchmark Land Value of £715,000.

Appraisal Inputs

Residential Revenue

- 5.5 Based on the evidence of recent residential sales in the local vicinity we have adopted an average sales value for the private units of between £6,350 and £7,360 per sq m (£590 and £684 per sq ft). This equates to a blended rate of approximately £6,640 per sq m (£617 per sq ft)
- 5.6 While the average sales values on other schemes in the locality range between £5,650 and £8,640 per sq m (£525 and £803 per sq ft), the higher values tend to be achieved on the smaller one bedroom units. We would also note that the average unit sizes of the proposed development are larger than the average one and two bedroom units on other schemes in Lewisham and this will therefore skew the average value per sq m.
- 5.7 In view of this we have also had regard to ceiling unit prices for the range of other new-build one, two and three bedroom units currently on the market in Lewisham town centre.

Ground Rents

- 5.8 Ground rents on similar apartments are typically in the order of £350 per unit. Applying an investment yield of 6.00% generates a capital receipt of circa £134,000 for the 23 private units. We have included this within our appraisal.

Affordable Homes

- 5.9 We have appraised the value of the proposed affordable homes on the basis that the average rented unit will be capped at 60% of market rent.
- 5.10 Having applied these capped rents for one, two and three bedroom units we have derived that the average value of an affordable rented unit is in the region of £1,400 per sq m (£130 per sq ft), resulting in a capital sum of around £537,500 for the five units proposed.

Retail Unit Value

- 5.11 Based on our review of the local property market we are of the opinion that an annual rent of £215 (£20 per sq ft) could be achieved for the proposed retail unit. On the basis that the Applicant has not yet identified an occupier to lease the retail unit and its location away from the prime retail pitch, we have applied an investment yield of 7.00% to this element of the proposed development.

Cost Advice

- 5.12 In order to assess construction costs we have taken advice from Trident Building Consultancy. Trident's advice is based on cost benchmarks for other similar residential developments.
- 5.13 This cost benchmark evidence includes costs for items such as site clearance, substructure, superstructure, internal finishes, fittings and furnishings, M&E installations, external works and other items. An overall cost of circa £5,785,000 has been adopted, inclusive of preliminaries and contractors overheads and profits.

Decontamination

- 5.14 In addition to construction costs, Trident is of the opinion that an allowance of £185,000 for remediation works should be included to decontaminate the site.

S106 and CIL Contributions

- 5.15 We have applied the final MCIL and S106 financial contributions to our appraisal as set out in paragraph 2.11. These total £187,770 for LB Lewisham CIL plus £49,665 for Mayoral CIL. £6,000 is included under the S106 agreement to cover monitoring costs.

Professional Fees

- 5.16 For a new development scheme of the scale proposed with relatively few dwellings in comparison with other regeneration schemes, we believe that professional fees in the order of 12% of build costs would be reasonable.

Residential Sales and Marketing Fees

- 5.17 We have included sales and marketing fees at a rate of 3.5% of residential sales values. This allows for residential agency fees in the region of 1.5% with a further allowance of 2% for marketing costs.

Finance Costs

- 5.18 We have adopted a finance rate of 6.75%. In addition, we have applied a rate of 1% of costs to cover the loan arrangement fee. It is common practice for banks to charge an arrangement fee for investment and development finance and this can typically range from 1% to 2%.

Developer Profit

- 5.19 In the light of recent guidance and to fairly reflect the risk of the proposed development, a return of 20% of Gross Development Value (GDV) has been adopted.
- 5.20 With regard to a suitable development return we consider the GLA Toolkit's default allowance of 20% of Gross Residential Development Value a reasonable benchmark. However we are aware that other viability toolkits permit a range of profit levels to suit the phasing and perceived risk of the project.
- 5.21 We have also had regard to recent appeal cases where the Planning Inspectorate has passed judgement on the acceptability of certain profit levels within viability assessments. One particularly prominent case being The University of Reading vs Wokingham BC in which the Inspector accepted a developer return of 20% profit on GDV.

6.0 Viability Outputs

Viability Findings

- 6.1 Based on the proposed GDV, the development costs and the Benchmark Land Value, we are of the opinion that the proposal is able to support the provision of five affordable rented homes, as offered by the Applicant.
- 6.2 Our findings suggest that the offer submitted by the Applicant does reflect the maximum number of affordable rented homes that can be provided at the current time.
- 6.3 As part of the sensitivity testing we have run our appraisals to include an additional affordable unit and this results in either a reduction in the developer's profit or a residual land value that is below the Benchmark Land Value, confirming that the inclusion of additional affordable homes would technically be financially unviable.

Sensitivity Testing

- 6.4 We have run a series of sensitivity tests in order to understand the impact of changes to the assumptions on the viability of the scheme.
- 6.5 The sensitivity results are based on a change to the average sales value and the build costs by a factor of 5% and 10%. Any movement resulting in a higher sales value or lower build cost will increase the residual land value and in theory enable the delivery of a greater number of affordable homes.
- 6.6 Based on current values and costs however, as referred to in paragraph 6.3 above, we have examined the effect of including an additional affordable unit within the scheme to increase the proportions to 21.4% of on-site affordable housing.
- 6.7 The provision of an additional two bed unit for affordable rented purposes would reduce the land value to circa £650,000. This would reflect a deficit of approximately £65,000 and would make the scheme technically financially unviable.
- 6.8 Repeating this exercise again but substituting the additional two bed unit for a smaller one bed unit has the effect of reducing the land value to approximately £670,000, a deficit of circa £45,000 on the Benchmark Land Value.

Review Mechanism

- 6.9 Given the scope for sales values to continue to improve over the proposed duration of this development we would recommend that the Council seeks a review mechanism within a Planning Agreement to ensure that where viability permits any future uplift in value can be captured and, additional affordable housing can be provided.

Payment in Lieu of On-site Affordable Housing

- 6.10 On the basis that the Council could accept a payment in lieu of on-site affordable housing we have estimated that the uplift in GDV (as a result of achieving a full market value for the units that would otherwise have been subsidised as affordable homes) could support a capital sum to LB Lewisham in the order of £1,600,000.

7.0 Conclusion

- 7.1 Having undertaken a viability assessment for the proposed redevelopment of the site at 167-169 Lewisham Road we are of the opinion that the offer for five affordable rented units (18% affordable housing) is reasonable.
- 7.2 Our appraisal indicates that this level of affordable housing is financially viable, providing the developer with its required level of return of 20% of GDV while allowing a reasonable sum to acquire the land on an unconditional basis.
- 7.3 In light of this review it is unlikely that the proposed scheme is able to support any additional affordable housing based on the costs and sales values arrived at as at the date of this report.
- 7.4 However given the results of the sensitivity testing and the anticipation that sales values will increase over the next 12 months, the Council should incorporate a clause in the Section 106 Agreement which enables a review of this scheme at pre-determined scenarios to ensure that the Applicant provides a fair contribution towards affordable housing in the Borough.
- 7.5 Alternatively, should the Council be minded to accept a payment in lieu of on-site affordable housing, we would recommend that a sum in the order of £1,600,000 should be sought from the Applicant.