



04 May 2016

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Lambert Smith Hampton
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Via email

Dear Elizabeth,

Re: 133 Deptford High Street, SE8 4NS.

- 1.1 Following the circulation of the BNP Paribas Real Estate letter dated 8th April 2016, as attached at appendix 1, you have asked that Lambert Smith Hampton (“LSH”) provide a response to the remaining matters to aid in finalising the financial viability and deliverability position in connection with the proposed development at 133 Deptford High Street.
- 1.2 BNP Paribas have maintained that the current proposal is viable and indicates that the residual land value exceeds the benchmark land value by [REDACTED]

Potential Lessee

- 1.3 The Applicant has stated that discussions are on-going with a number of hotel operators and heads of terms have been agreed however details are confidential at this stage. The Applicant has agreed to provide LSH with sight of the heads of terms on a confidential basis and we would summarise the salient points as follows:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- The heads of terms are subject to contract, landlord/tenant board approval and satisfactory planning consent.

1.4 LSH would note that the deliverability of the proposed scheme is dependent upon board approval which is in turn subject to obtaining the necessary planning consent for the proposed development.

Wheelchair Access

1.5 LSH are satisfied that the development proposal will provide sufficient wheelchair access in accordance with DM Policy 12 of the Local Development Plan.

Build Cost

1.6 LSH have been provided with an elemental cost plan and referred the scheme to our in-house Cost Project Management team who have concluded that the costs appear reasonable.

Car Parking

1.7 LSH would note that the heads of terms indicate that 2 car parking spaces are to be provided however development proposals are for a car free scheme. BNP Paribas have confirmed that the Applicant is aware and comfortable with a zero parking scheme.

Church Hall

1.8 We understand the Applicant is purchasing the air rights above the existing church hall for between [REDACTED] and [REDACTED]. We are informed from the latest response by BNPRE that a deal has been struck in the order of [REDACTED] with the owners of the church however it is unclear how the

Applicant has arrived at this figure. For the purpose of our assessment we have reflected this sum within our appraisal.

Benchmark Land Value

- 1.9 We are advised that the ground floor retail units are now vacant and extend to approximately 1,438 ft². The Applicant has adopted a total rent of ██████ per annum for both units equating to ██████ ft² overall. This has been capitalised at a net initial yield of ████ and indicates a capital value of ██████ equating to ██████ overall.
- 1.10 BNP Paribas have not provided any retail investment comparables in support of the yield adoption. LSH are of the opinion that the yield adopted is low given the size of the existing retail units and likelihood of securing a local independent trader of poor covenant strength on short lease terms.
- 1.11 We would consider the following transaction to be relevant;
- **124 Deptford High Street** – The property extends to approximately 6,236 ft² and is let to Poundland at a passing rent of £120,000 p.a for a term of 15 years from June 2012 with a tenant break option in year 10. The property was sold in May 2015 for £1.9m reflecting a net initial yield of 6.3%.
- 1.12 In consideration of the above LSH have adopted a yield of 8% allowing for a 6 months letting period and 6 months rent free. This indicates a capital value of £335,000 equating to 232ft² overall.
- 1.13 The existing residential accommodation has been assessed by BNP Paribas at £526/ft² and have confirmed that the existing accommodation extends to the following ;

Unit	Size m ²	Size ft ²	£/ft	Unit Value
1	42	452	£527	£238,204
2	41	441	£527	£232,407
3	41	441	£527	£232,407
4	46	495	£527	£260,865
5	39	419	£527	£220,813
6	39	419	£527	£220,813
Live/Work	76	818	£527	£431,086
Total				£1,836,595

1.14 In support of the above BNP Paribas have had regard to the following comparable transactions;

Date of Sale	Address	Size ft ²	Value	£/ft ²
18 July 2014	110g Deptford High Street	441	£189,995	£430
7 January 2014	115a Deptford High Street	355	£160,000	£450
13 June 2013	115b Deptford High Street	409	£150,000	£366
11 March 2013	110d Deptford High Street	495	£160,000	£323
				Av £392/ft²

1.15 We would note that no further information has been provided with regards to the existing condition, specification, repair or occupancy of the existing residential accommodation as is reasonably required to inform an understanding of freehold vacant possession values. LSH have not carried out an inspection and unable to comment on the above.

1.16 In the absence of any recent sales evidence LSH have had regard to Land Registry Data as a guide to the potential value of the existing residential accommodation.

1.17 In accordance with the latest land registry data the London Borough of Lewisham has witnessed an average flat increase of 58% in the period between March 2013 and the latest reported figures as at February 2016. According to land registry data the average price of a flat in the London Borough of Lewisham as at February 2016 was £379,617.

1.18 Applying the uplift in accordance with Land Registry data indicates a rate of c.£619/ft² equating to the following unit values;

Unit	Size m ²	Size ft ²	£/ft	Unit Value
1	42	452	£619	£279,788
2	41	441	£619	£272,979
3	41	441	£619	£272,979
4	46	495	£619	£306,405
5	39	419	£619	£259,361
6	39	419	£619	£259,361
Live/work	76	818	£619	£506,342
Total				£2,157,215

1.19 In consideration of the above LSH have assessed the combined benchmark land value of the existing residential and retail accommodation at [REDACTED]

Investment Comparables

1.20 BNP Paribas have provided a number of investment sale comparables the majority of which comprise large room numbers and located in a superior location. The following transactions have been provided;

Address	No. Beds	Price (£)	£/bed	Date	Yield	Comments
85 York Road, SE1	234	£48m	£205,000	2013	4.36%	The property is situated within a superior location and let to Whitbread Group at a rent of £2.211m
22-32 West Cromwell Rd, SW5	125	£22.77m	£182,000	2013	4.50%	The property is situated in a superior location and let to Premier Inn
20 St Mary At Hill, EC3R	184	£40m	£217,00	2013	4.60%	The property is situated in a superior location and let to Premier Inn for a term of 35 years with a tenant break option in year 25.
356-364 Grays Inn Rd, WC1X	n/a	£54.1m	n/a	2013	5.20%	The property is situated within a superior and is let to Travelodge.
Harewood Rd, NW1	69	£15.35m	£222,000	2011	5.20%	The property is situated within a superior location and is let to Travelodge.
Travelodge, Stratford, E15	188	£18m	£95,744	2014	5.00%	The property is let to Travelodge for a term of 25 years from 2012 at a passing rent of £963,500 per annum equating to £5,125 per rm.
Regency Hotel, 100 Queens Gate, SW7	n/a	n/a	n/a	2015	3.80%	n/a
The Abingdon, 54 Abingdon Rd, W8	n/a	n/a	n/a	2015	4.10%	n/a
The Apex, 32-38 Uxbridge Rd, W5	n/a	n/a	n/a	2015	4.50%	n/a
Grove House, 2-6 Orange Street, WC2H	n/a	n/a	n/a	2015	4.50%	n/a
St Ermin's Hotel, Caxton Street, SW1H	n/a	n/a	n/a	2015	4.50%	n/a
Travelodge, Bakers Rd, UB8	n/a	n/a	n/a	2014	4.88%	n/a

- 1.28 LSH have modelled our assessment on the basis of the agreed rent contained within heads of terms taking into account the additional costs paid by the Applicant. Should these change or be incorrect then this will have an impact upon our viability assessment.
- 1.29 A copy of our appraisal is attached at appendix 2.

Project Programme

- 1.30 We have not been provided with the current occupancy/lease details of the existing residential accommodation and it is unclear when the Applicant can gain full vacant possession. LSH have therefore adopted a project programme along the following lines;

Programme	Months
Pre – Construction	3
Construction	15
Sale rate	1
Total	19

Conclusions

- 1.31 LSH have applied the aforementioned assumptions to the proposed scheme the results of which are shown in the table below:

Table 1: Scheme Viability	
	Value (£)
Benchmark Land Value	████████
Residual Land Value	████████
Surplus	████████

- 1.32 As can be seen in the above table the proposed scheme can be considered financially viable and indicates a surplus of ██████████
- 1.33 Following the review of the heads of terms and in consideration of the above LSH would note that in order for the scheme to be considered deliverable the following points need to be satisfied;

████████████████████

- Planning consent;

- Details of the tenant requirements which are to be supplied to the landlord.

I trust that the above is all in order but should there be anything else that you require then please do not hesitate to get in touch.

Yours sincerely,

Appendix 1

BNP Paribas Letter

Appendix 2

Development Appraisal