



GL Hearn

Viability Review

London Borough of Lewisham

BMW Garage
Lee Terrace
Blackheath

March 2016

Prepared by

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DATE

March 2016


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1 INTRODUCTION

- 1.1 GL Hearn was instructed by London Borough of Lewisham (the Council) to review a viability assessment submitted by Berkeley Homes (the Applicant) in support of their proposed planning application for the site at BMW Garage, Lee Terrace, Blackheath (the Site).
- 1.2 GL Hearn is well qualified to undertake this review given our extensive experience of advising London local authorities on viability and impact on achievable planning contributions. Given this experience we have a detailed understanding of the methodology behind financial viability assessments and the economics of town centre development. We also have a strong knowledge of the local Lewisham market having advised the Council on a number of development projects in the recent past.
- 1.3 The subject site is located in the London Borough of Lewisham on the north side of Lee Terrace. The site is bounded by Lee High Road to the south west and Blackheath Hill to the north. Lewisham Shopping Centre is located 0.5 miles west of the site whilst the Blackheath hospital is 0.3 miles east. The A2 provides the best link to the M25 leading outside of London and to the wider national road network. More locally the site is opposite and adjacent to St Margaret's and St Andrews churches respectively. As these include large green areas they provide an attractive setting for the site.
- 1.4 Blackheath station is the nearest public transport link with trains into London Charing Cross, London Victoria, London Bridge and London Cannon Street taking approximately 20 to 30 minutes. In addition to this Lewisham is situated on the DLR line leading north into Canary Wharf and eventually to Bank station where many London Underground Lines can be accessed. Local bus routes also serve the area.
- 1.5 Berkeley is the lead author of the Financial Viability Assessment (FVA) but they have relied on a number of sources of third party advice. Specifically the following information has been incorporated in their assessment:-
- Gerald Eve – Surveyors who have provided a valuation for the existing use value of the site.
 - Collabora Consulting – Cost Consultants who have provided a detailed cost estimate summary of the proposed scheme.
 - Jones Lang LaSalle (JLL) – JLL have provided Berkeley with a proposed scheme residential pricing letter.
- 1.6 GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review the Collabora Consulting summary cost plan on behalf of the Council.

The Existing Building

- 1.7 The subject property comprises a car showroom in operation by BMW/Mini that fronts Lee Terrace. The building provides a two storey showroom with a pitched roof. On the right hand side of the building there is a car ramp leading up to a first floor car storage area to the rear. There is also a large car storage area on the ground floor at the front site (as illustrated in the photograph below) and also the rear of the site.
- 1.8 The main building comprises 15,850 sq. ft. of accommodation and has a large amount of parking and outside space that is desirable for a showroom use.



Photo of BMW Garage, Lee Terrace, Blackheath

- 1.9 For ease of reference the scheme proposals / floor plans have been appended at Appendix B.

The Scheme

- 1.10 We have been informed that Berkeley is yet to submit their planning application. However they detail that the proposed scheme comprises the following:

- The construction of 30 residential units, 20 of which are flats and are 10 townhouses.
- The construction of a 3,057 sq. ft. boutique car showroom and premises.
- Communal grounds and landscaping
- 16 car parking spaces

1.11 Specifically the scheme comprises the following, which is detailed in the applicant's FVA:

Unit Type	Units	% of Units
1 bed Apartment	9	30%
2 bed Apartment	8	26%
3 bed Apartment	3	10%
4 Bed Townhouse	10	34%
Total	30	100%

1.12 Within the proposed scheme there are 20 apartments of which 6 are proposed to be affordable shared ownership units. The apartments total 15,141 sq. ft. NIA and are to be built over ground and three upper floors with the third floor slightly set back; all of the proposed units have a balcony. The units are situated above the proposed boutique car showroom in one large building fronting Lee Terrace. An entrance way, plant and cycle storage are situated on the ground floor. The 6 affordable units are to be situated in the same building core as the private and all apartments are accessed by a single lift.

1.13 The 10 townhouses total 21,786 sq. ft. NIA; these are proposed to be built over lower ground and three storeys above. All of the proposed townhouses have a private garden whilst 6 of the 10 also have a private rooftop terrace.

1.14 There are 11 residential car parking spaces within the proposed scheme and residents will be prohibited from applying for resident's parking permits through the S.106 Agreement. There are no visitor spaces within the development. The proposals include a cycle storage area.

1.15 The scheme also incorporates a boutique BMW Showroom of 3,057 sq. ft. based on the ground floor of the main block facing Lee Terrace with associated plant, forecourt and 5 car parking spaces for sole use of the BMW garage.

1.16 A detailed breakdown of each of the residential units including their size is set out in the table below:

Unit Number	Floor	Beds	Sq. ft. (NIA)
Flat 1	1	3b5p	1,044
Flat 2	1	2b4p	915
Flat 3	1	1b2b	601
Flat 4	1	2b4p	840
Flat 5	1	1b2p (SO)	597
Flat 6	1	1b2p (SO)	597

Flat 7	1	2b4p	828
Flat 8	2	3b5p	1,044
Flat 9	2	2b4p	920
Flat 10	2	1b2p	601
Flat 11	2	2b4p	840
Flat 12	2	1b2p (SO)	592
Flat 13	2	1b2p (SO)	592
Flat 14	2	2b4p	827
Flat 15	3	2b4p	829
Flat 16	3	2b4p	807
Flat 17	3	3b5p	1,009
Flat 18	3	1b2p (SO)	544
Flat 19	3	1b2p (SO)	544
Flat 20	3	1b2p	570
Total			15,141

Unit Number	Floor	Beds	Sq. ft. (NIA)
Townhouse 1	LG - 3	4b7p	2,551
Townhouse 2	LG - 3	4b7p	2,137
Townhouse 3	LG - 3	4b7p	2,137
Townhouse 4	LG - 3	4b7p	2,137
Townhouse 5	LG - 3	4b7p	2,137
Townhouse 6	LG - 3	4b7p	2,551
Townhouse 7	LG - 3	4b7p	2,034
Townhouse 8	LG - 3	4b7p	2,034
Townhouse 9	LG - 3	4b7p	2,034
Townhouse 10	LG - 3	4b7p	2,034
Total			21,786

2 METHODOLOGY

Introduction

- 2.1 GL Hearn's review of the FVA has had regard to the RICS Guidance Note "Financial Viability in Planning".
- 2.2 We do not take issue with the overarching methodology used by Berkeley within their assessment. They have undertaken a development appraisal to assess the viability of the development. The methodology underpinning the viability appraisal is the Residual Method of Valuation, commonly used for valuing development land. Firstly, the gross value of the completed development is assessed and the costs, including the Benchmark Land Value of the development are deducted from this to form a figure that is positive or negative.
- 2.3 As part of their proposal Berkeley have included a 20% affordable housing provision within the subject scheme by way of including 6 shared ownership units.
- 2.4 Berkeley has asserted a Residual Land Value with a negative figure of £2,301,040 based on their assumptions.
- 2.5 Given that the Berkeley analysis indicates that the residual land value is negative they have concluded that the development cannot viably provide any further on-site affordable housing nor can the scheme contribute off-site by way of a commuted sum.
- 2.6 Berkeley have accepted that whilst the proposed scheme does produce a negative land value they are prepared to accept the risk that future sales growth may reduce the deficit.
- 2.7 Given that the calculations are being made well in advance of even commencement of the development, the figures used in the applicant's appraisal can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the Council to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.
- 2.8 GL Hearn's approach has been to critically examine all of the assumptions on which Berkeley's appraisal is based.
- 2.9 It is also important to carefully scrutinise the applicant's methodology. In particular the measure of Benchmark Land Value, which we analysis in the following section, as it has a fundamental effect on the viability equation.

3 CRITIQUE OF BENCHMARK LAND VALUE

3.1 Determining an appropriate Benchmark Land Value is often the most important factor in determining the viability especially in already developed sites such as the subject site. Put simply, if the value generated by the proposed scheme (including allowance for BLV) does not produce a positive figure, there is no financial incentive to bring forward the development with all its associated risk.

3.2 Arriving at an appropriate Benchmark Land Value is not a straightforward exercise and this is acknowledged at 3.4.6 of the RICS Guidance Note which states that:

“The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF.”

3.3 The Benchmark Land Value should reflect the Market Value along with an appropriate premium to incentivise the sale. In terms of arriving at an appropriate Market Value regard should be had to Existing Use Value, Alternative Use Value, market/ transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy.

3.4 In this case, Berkeley has put forward a benchmark based on an Existing Use Value (EUV) plus a premium as an incentive for the land to be released for development.

3.5 The applicant’s EUV is predicated on a valuation report provided to them by Gerald Eve dated February 2016. In Gerald Eve’s approach to formulating an Existing Use Value they have assumed the existing building is vacant.

3.6 As per the proposed scheme we have critically examined all of the assumptions on which the EUV / BLV are to ensure that the BLV has not been overstated.

BLV – Rental and Yield Value Assumptions

3.7 Gerald Eve have applied rental values as indicated in the table below :-

Unit	Area sq. ft.	Market Rent £ psf	Market Rent per annum
BMW Showroom	15,850	£16.00	£253,600

3.8 In order to validate the rental values applied we have reviewed what we consider to be the most applicable evidence provided by Gerald Eve which is summarised in the table below:

Address	Size sq. ft.	Transaction	Date	Rent Psf	Detail
Porsche Centre, Gallions Reach, East London	23,057	OML	10/02/2015	£20.82	FRI lease with 5 yearly reviews. Very modern building with large yard space. Superior to subject in specification.
Toyota, Axial Way, Colchester	14,098	OML	30/04/2014	£16.00	Large Toyota Showroom with good yard space on a 20 year lease with 5 yearly reviews. Superior specification to subject however less desirable location.
Citygate Watford, Otterspool Way, Watford	33,400	OML	01/07/2013	£13.50	25 year lease on FRI terms with 5 yearly reviews. Similar specification to subject yet less desirable location.

3.9 In forming an opinion of Market Rent Gerald Eve have indicated within their application of rent that they are of the opinion that the Porsche Centre at Gallions Reach is more desirable than the subject unit and the Citygate Watford unit is less desirable. We are in agreement with Gerald Eve in this respect due to the Gallions Reach unit having a very high specification and large outside car storage areas and we are of the opinion that the Citygate unit is less desirable being located further from central London where automotive units attract a premium due to their lack of supply. We of the opinion that the rent should reflect a similar level to that achieved at Axial Way in Colchester. Gerald Eve has adopted a rent of £16.00psf and we can confirm this is reflective of the Market Rent for the unit.

3.10 Gerald Eve's opinion of Market Rent has then been capitalised at a yield of 5.5%. We detail what we believe to be the best comparable transactions provided by Gerald Eve which we have analysed in the table below.

Address	Occupier	Passing Rent pa	Net Initial Yield	Purchase Price	Capital Value psf
Cow Roast, Tring	BMW Mini	£391,150	4.86%	£7,652,000	£294
Kia, 963 Great Western Road, Brentford	Kia	£1,268,520	5.10%	£23,500,000	£569
Cray Avenue, Orpington	Honda	£268,384	4.45%	£5,700,000	£374

- 3.11 We are of the opinion that the applicant has justified their yield adopted of 5.5% as shown within the transactions above.
- 3.12 By capitalising a Market Rent of £16.00psf at a yield of 5.5% Gerald Eve's EUV of the site comes to a total of **£4,300,000**. We consider this to be a reasonable assessment of value.

Premium

- 3.13 The EUV of the site does not, however, provide us with a Benchmark Land Value as it does not reflect for the competitive return a landowner would require in order to release the land for development.
- 3.14 It is generally accepted that an appropriate premium applicable on top of the EUV is in the range of 10%-30%.
- 3.15 The Gerald Eve report does not take this approach but seeks to arrive at an open market land value with reference to 'comparable' land sales.
- 3.16 We consider this to be an unreliable approach for development land. The level of analysis generally does not take account of what may be widely differing physical and planning constraints and therefore can be considered quite crude.
- 3.17 Also it does not factor in that developers may have overpaid for land in the hope of a preferential planning consent. Certainly Gerald Eve's analysis does not factor in these considerations.
- 3.18 Accordingly we consider EUV plus premium to be the appropriate benchmarking approach.
- 3.19 In order to attach a premium to the Existing Use Value we have considered that Gerald Eve has assumed a vacant building and as such there is no sitting tenant, which will reduce the premium applicable as the EUV is less secure. We have, however, also considered that car dealerships are a desirable asset in greater London and that the layout of this building is good for a dealership. We would expect the premium to be at the upper end of the generally accepted parameters of 10%-30%. We therefore consider that a premium of 25% would be appropriate in order to incentivise a landowner to release the land for development.

Benchmark Land Value Conclusions

- 3.20 Having undertaken a comprehensive review of the applicant's BLV assumptions we are in agreement with the assumptions adopted to form an opinion of an Existing Use Value for the site.

However we do not concur with methodology used by Gerald Eve to attach a premium to the Existing Use Value as explained in point 3.13 to 3.19 above.

- 3.21 We have applied a 25% premium to the site which gives a Benchmark Land Value of **£5,375,000** in comparison to the applicants adopted Benchmark Land Value of £5,700,000.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

4.1 The following section critically reviews the proposed scheme and the assumptions adopted in the applicant's FVA.

Residential Value Assumptions

4.2 As the key value driver of the scheme we have reviewed the residential content in the first instance.

4.3 The proposed scheme includes 30 residential units comprising one, two and three bed apartments and 10 townhouses. 6 of the flats are proposed to be affordable shared ownership units.

4.4 Berkeley has undertaken research into local residential market and also provided a Jones Lang LaSalle residential pricing letter within their submission. They have arrived at their opinion of value, which is indicated in the table below.

Unit Number	Floor	Beds	Sq. ft. (NIA)	Value	Value psf
Flat 1	1	3b5p	1,044	£685,000	£656
Flat 2	1	2b4p	915	£605,000	£661
Flat 3	1	1b2b	601	£435,000	£724
Flat 4	1	2b4p	840	£575,000	£685
Flat 5	1	1b2p (SO)	597	£167,160	£280
Flat 6	1	1b2p (SO)	597	£167,160	£280
Flat 7	1	2b4p	828	£585,000	£707
Flat 8	2	3b5p	1,044	£692,500	£663
Flat 9	2	2b4p	920	£610,000	£663
Flat 10	2	1b2p	601	£440,000	£733
Flat 11	2	2b4p	840	£580,000	£691
Flat 12	2	1b2p (SO)	592	£165,760	£280
Flat 13	2	1b2p (SO)	592	£165,760	£280
Flat 14	2	2b4p	827	£590,000	£714
Flat 15	3	2b4p	829	£595,000	£718
Flat 16	3	2b4p	807	£595,000	£737
Flat 17	3	3b5p	1,009	£707,500	£701
Flat 18	3	1b2p (SO)	544	£152,320	£280
Flat 19	3	1b2p (SO)	544	£152,320	£280
Flat 20	3	1b2p	570	£455,000	£798
Total			15,141	£9,120,480	

Unit Number	Floor	Beds	Sq. ft. (NIA)	Value	Value psf
Townhouse 1	LG - 3	4b7p	2,551	£1,850,000	£725
Townhouse 2	LG - 3	4b7p	2,137	£1,520,000	£711
Townhouse 3	LG - 3	4b7p	2,137	£1,520,000	£711
Townhouse 4	LG - 3	4b7p	2,137	£1,520,000	£711
Townhouse 5	LG - 3	4b7p	2,137	£1,520,000	£711
Townhouse 6	LG - 3	4b7p	2,551	£1,850,000	£725
Townhouse 7	LG - 3	4b7p	2,034	£1,475,000	£725
Townhouse 8	LG - 3	4b7p	2,034	£1,475,000	£725
Townhouse 9	LG - 3	4b7p	2,034	£1,475,000	£725
Townhouse 10	LG - 3	4b7p	2,034	£1,475,000	£725
Total			21,786	£15,680,000	£719

4.5 The units within the development have an average £per sq. ft. value of :

- Private Flats £712psf
- Shared Ownership Flats £280psf
- Townhouses £719psf

4.6 We have reviewed the evidence provided and also undertaken our own research in order to verify the assumptions adopted. Before commenting on the on the specific comparable evidence we briefly set out below an overview of the London Residential Market for context.

London Overview

4.7 The Office for Budget Responsibility (OBR) published its latest Economic and Fiscal Outlook in November 2015. Growth in 2015 is unchanged at 2.4 per cent, but the OBR have revised higher projections in 2016 and 2017 by 0.1 percentage points in each year. They expect net migration to increase in 2016 and 2017 which will contribute to growth in GDP. The OBR expect borrowing to fall by £21.2 billion in 2015-16. They judge that the Government has a greater than 50 per cent chance of meeting the fiscal mandate and supplementary target and expect the budget to be in surplus by 0.5 per cent of GDP (£10.1 billion) in 2019-20 and public sector net debt to fall by 0.6 per cent of GDP in 2015-16.

- 4.8 In its October commentary, the ONS reported that house prices rose by 7.0% in the year to October 2015, up from 5.7% in the year to June 2015. On a seasonally adjusted basis, average house prices increased by 0.8% between September and October 2015.
- 4.9 The Consumer Prices Index (CPI) rose by 0.1% in the year to November 2015 compared with a fall from 0.2% from the year to October 2015. Base rates continue to remain at their historic low of 0.5%.
- 4.10 The Council of Mortgage Lenders' November Market Commentary reports that the UK may not see its first rate hike until 2017, as global uncertainties have had a profound effect on interest rate expectations. Echoing a more general revival in lending to individuals, mortgage lending is currently enjoying its strongest spell since the financial crisis, with annual growth in mortgage balances reaching 3% for the first time since 2008. Our estimate is that gross mortgage lending was £21.8 billion in October: nearly a fifth higher than a year ago. The pick-up in mortgage lending is becoming more broadly-based, following several months of year-on-year growth in lending to first-time buyers, movers and re-mortgage customers.
- 4.11 Nationwide's Q4 2015 press release reports that the annual pace of house price growth picked up modestly to 4.5%, from 3.7% in December. However, they note that the pace of house price growth in London has continued at, or above the rate in the UK overall over the past six quarters. Average prices in the capital are now 50% above their pre-crisis peak in 2007, while in the UK overall prices are around 7% higher.
- 4.12 Halifax's latest House Price Index Commentary reports that house prices in the three months to November 2015 were 1.4% higher than in the previous quarter. The annual increase was 9.0% (up from 8.6%) which is significantly higher than the UK growth rate reported by Nationwide. They comment that "House prices in the three months to November were 1.4% higher than in the previous three months. This was the smallest rise on this measure since December 2014. The annual rate eased from 9.7% in October to 9.0%. "Solid economic growth, rising real earnings and falls in already very low mortgage rates have combined to stimulate housing demand this year. "The increasingly acute imbalance between supply and demand is causing prices to rise at a robust pace. A situation that is unlikely to reverse significantly in the short-term".

Local Context

- 4.13 Residential developer activity in Lewisham is strong with there being significant competition for sites. Developers continue to see good prospects for both commercial and residential development given the good transport links and connectivity to central London via rail and DLR links.

4.14 According to the latest publication by Land Registry detailing house price movements the annual house price growth in the Borough was 15% up on the previous year. The average price of a property in Lewisham currently stands at circa £447,291, which compares to the London average of £530,409.

4.15 Berkeley has referred to a number of transactions which in our opinion provide a fair indication of the sales value tone in Lewisham and more specifically Blackheath. We have considered this evidence but also undertaken our own research of comparable transactions and these are set out in the tables below:

Address	Description	Sale Price	Agent
1 Bed Flats			
Block A1, Lewisham Gateway Development, SE13	1 bed in new development. 9 th floor. Balcony. 553 sq. ft.	£305,500 (£552psf) November 2015	Robinson Jackson
Roma Corte, Renaissance, Lewisham	1 bed flat in new development. 3 rd floor. 487 sq. ft.	£320,000 (£657psf) September 2015	Moving City
Lewisham Gateway, London, SE13	1 bed flats in new development. 1no. bathroom. 1no. reception room. Balcony.	£340,000 January 2016	Gordon & Co
Lewisham Gateway, SE16	1 bed flat in new development. 15 th floor. 1no. bathroom. 553 sq. ft.	£350,000 (£634psf) January 2016	Montgomery & Slate
Greenwich Collection, Central Park, Greenwich, SE10	1 bed flat in new development. 2 nd floor. High specification. 1no. bathroom. 541 sq. ft.	£359,000 (£664psf) January 2016	Fraser & Co
The Glassworks, Deptford SE8	1 bed flat in new development. High specification. 563 sq. ft.	£384,950 (£684psf) January 2016	London Link Properties
The Squirrels, Belmont Hill, Lewisham, SE13	1 bed flat in need of modernisation. 487 sq. ft.	£260,000 (£534psf) Under offer – February 2016	Kershaws
Church Terrace, Blackheath, SE13	1 bed ground floor flat in purpose built block. In need of modernisation.	£340,000 December 2015	Ludlow Thompson
Portrait, Lewisham Gateway, SE13	1 bed ninth floor flat in new Muse development. Balcony.	£345,000 (£624psf)	JLL

	553 sq. ft.	Asking price – February 2016	
The Tower Loft Apartments, Lewisham, SE13	1 bed flats in new Art Deco conversion. 538 to 716 sq. ft.	£365,000 to £455,000 (£635psf to £678psf) Asking prices – February 2016	Fraser & Co
Glenton Road, Blackheath, SE13	1 bed period conversion flat. 476 sq. ft.	£349,950 (£735psf) December 2015	Foxtons
Granville Park, Lewisham, SE13	1 bed lower ground floor period conversion flat. Communal garden. 555 sq. ft.	£400,000 (£849psf) Under offer – February 2016	Winkworth

- 4.16 The table above indicates a sales value range from £534 - £849 per sq. ft. In our opinion the comparables located in Lewisham above are situated in less desirable areas to Blackheath but do provide useful context. The comparables in Blackheath provide good transactional evidence for the tone of values in the area and are in line with the values adopted by Berkeley on a value per sq. ft. basis.
- 4.17 We consider the transaction on Glenton Road and Granville Park provide the best comparables, and these equated to a value per sq. ft. range of £735 - £849. This is in line with the values Berkeley has adopted for their one bed units depending on their position and features.

Address	Description	Sale Price	Agent
2 Bed Flats			
Lewisham Gateway, Lewisham, London, SE13	2 bed flat in new development. 6 th floor. Balcony.	£400,000 Asking price – January 2016	Gordon & Co
Central Park, The Greenwich Collection, Greenwich, SE10	2 bed flat in new development. 1 st floor. 2no. bathrooms. Balcony. Communal garden. 779 sq. ft.	£439,000 (£564psf) January 2016	Gordon & Co
Unit 2, Woodland Mews. Elswick Road, Lewisham SE13	2 bed flat in new gated development. Ground floor. High specification. Allocated parking. Garden. 906 sq. ft.	£455,000 (£502psf) November 2015	Peter James
Greenwich	2 bed flat in new	£459,000 (£671psf)	Fraser & Co

Address	Description	Sale Price	Agent
Collection, Central Park, Greenwich, SE10	development. 6 th floor. High specification. 2no. bathrooms. 684 sq. ft.	January 2016	
Lewisham Gateway, Lewisham, SE16	2 bed flat in new development. 15 th floor. 2no. bathrooms. 771 sq. ft.	£460,000 (£597psf) January 2016	Montgomery & Slate
The Distillery Crescent, 1 Mill Lane, Deptford, London, SE8	2 bed flat in new development. 18 th floor. High specification. 2no. bathrooms. Balcony. 788 sq. ft.	£499,000 (£633psf) January 2016	Life Residential
The Cube, Blackheath, SE13	2 bed first floor flat in modern development. Parking. 664 sq. ft.	£380,000 (£572psf) Under offer – January 2016	Franklyn James
Brandram Road, Lewisham, SE13	2 bed split level maisonette. c. 1980s. Garage. 774 sq. ft.	£420,000 (£543psf) December 2015	Winkworth
Boyne Road, Lewisham, SE13	2 bed maisonette with garden. 756 sq. ft.	£425,000 (£562psf) Asking price – February 2016	Winkworth
The Tower, Renaissance, Lewisham, SE13	2 bed nineteenth floor flat in new Barratt development. Large balcony. 721 sq. ft.	£550,000 (£763psf) Asking price – February 2016	Moving City
Cedars Close, Blackheath, SE13	2 bed 2 bath ground floor flat in gated development. Patio. 887 sq. ft.	£550,000 (£620psf) Asking price – February 2016	Foxtons
Glenton Road, Lewisham, SE13	2 bed period conversion flat on ground floor. Good condition. Private garden. 1,036 sq. ft.	£620,000 (£598psf) Under offer – February 2016	Winkworth

4.18 In respect of the two bed units the table above indicates a sale value range of £502 - £763 per sq. ft. As with the 1 bed comparables we are of the opinion that the subject site is in a superior location to the developments located in Lewisham and the values adopted in Berkeley's FVA reflect this.

4.19 We would consider the flats within the subject development more desirable than The Cube and the unit sold at Cedars Close in Blackheath. The Cedars Close comparable is slightly oversized which has reduced its value on a per sq. ft. basis.

Address	Description	Sale Price	Agent
3 Bed Flats			
The Distillery Crescent, 2 Seager Place, Deptford, London, SE8	3 bed flat in new development. Close to site. High specification. 2no. bathrooms. Balcony.	£540,000 (£624psf) December 2015	Life Residential
The Distillery Crescent, 2 Seager Place, Deptford, London, SE8	3 bed flat in new development. Close to site. 4 th floor. High specification. 2no. bathrooms. Balcony.	£550,000 January 2016	Life Residential
New Cross Lofts, New Cross, SE14	3 bed flats in new development. High specification. En-suite. 882 – 884 sq. ft.	£700,000 (£794psf) January 2016	Foxtons
Parkside Avenue, Greenwich, London, UK, SE10	3 bed flat in new development. High specification. 1no. reception room. 2no. bathrooms. Balcony. 1,028 sq. ft.	£690,000 (£671psf) January 2016	Kingsley Hamilton Estates
Lee Terrace, Balckheath, SE3	3 bed second floor period conversion flat. 916 sq. ft.	£540,000 (£590psf) Asking price – February 2016	Felicity J Lord
Belmont Hill, Lewisham, SE13	3 bed first floor period maisonette. 1,146 sq. ft.	£575,000 (£502psf) Under offer – February 2016	John Payne
Cedars Close, Belmont Hill, SE13	3 bed 2 bath top floor flat in gated development. 813 sq. ft.	£575,000 (£707psf) Asking price – February 2016	Winkworth
Lee Terrace, Blackheath, SE3	3 bed period conversion flat with garden. Lower ground floor. 967 sq. ft.	£650,000 (£672psf) Under offer – February 2016	Winkworh

4.20 In respect of the three bed units the table above indicates a sale value range of £624 - £794 per sq. ft. We consider these comparables are representative of the market for three bedroom units in the area and the values are in line with those adopted by Berkeley in their FVA.

Townhouses

Address	Description	Sale Price	Agent
Townhouses			
Belmont Park, Lewisham, SE13	3 bed end of terrace house. Recently refurbished. Garden. 992 sq. ft.	£485,000 (£489psf) December 2015	Winkworth
Belmont Park, Lewisham, SE13	3 bed end of terrace house. Recently refurbished. Garden.	£500,000 Under offer – February 2016	Acorn
Boones Road, Lewisham, SE13	3 bed terraced house. Garden. 954 sq. ft.	£575,000 (£603psf) Asking price – February 2016	John Payne
Weardale Road, Lewisham, SE13	3 bed period terraced house. Garden. 1,064 sq. ft.	£600,000 (£564psf) December 2015	Felicity J Lord
Cedars Close, Blackheath, SE13	3 bed terraced house in gated development. Garden. 916 sq. ft.	£720,000 (£786psf) December 2015	Foxtons
Meridian Mews, Nightingale Grove, Hither Green	3 bed town houses in small new development. 1,287 sq. ft.	£725,000 to £760,000 (£563psf to £591psf) Asking prices – February 2016	Kinleigh Folkard & Hayward
Abernethy Road, Lewisham, SE13	3 bed period terraced house. Garden. 1,121 sq. ft.	£750,000 (£640psf) Asking price – February 2016	John Payne
St Margarets Passage, Lewisham, SE13	3 bed detached house. Garden. 1,025 sq. ft.	£790,000 (£771psf) December 2015	Kinleigh Folkard & Hayward

4.21 We are of the opinion that the best comparable in the table above is the 3 bed terraced house on Cedars Close. Whilst this equates to a value of £786 per sq. ft. it is considerably smaller than the subject properties within the scheme and there would be a quantum premium i.e. a buyer will pay a larger value on a per sq. ft. basis for a smaller unit.

4.22 In light of this we consider that Berkeley has justified the values applied to their townhouses within the subject scheme.

Shared Ownership Values

- 4.23 Berkeley has not provided information on how they have arrived at their GDV of the proposed shared ownership units. Within their appraisal the GDV of the affordable units can be analysed to a rate of £280 per sq. ft.
- 4.24 We are of the opinion that £280 per sq. ft. is a reasonable value assumption on the London Borough of Lewisham income threshold assumptions and have adopted this for the purposes of our modelling.
- 4.25 However, if higher income thresholds were to be assumed then the achievable values of the shared ownership units would be higher. Accordingly it will be important to review this assumption in light of agreed s106 terms.

Summary and Conclusions

- 4.26 Residential sales values for the proposed scheme equating to an average sale value of £712 per sq. ft. for the flats and £719 per sq. ft. for the townhouses have been adopted within the applicant's FVA. Consideration has been given to individual units with prices reflecting the units' size and position within the scheme.
- 4.27 Our analysis has confirmed that the sales values adopted in the FVA are in line with comparable developments in Lewisham and Blackheath and therefore we are of the opinion that the sales values adopted in the scheme proposals are a fair reflection of the current market.

Other Revenue Assumptions

- 4.28 Berkeley has attached a value of £1,400,000 to the boutique BMW showroom within the proposals. They have not provided a breakdown of how this figure has been arrived and we have therefore assumed the following:

Occupier	Size (sq. ft.)	Rent pa	Rent psf	Initial Yield	Total Value	Capital Value psf
BMW Mini	3,057	£70,000	£22.89	5.00%	£1,400,000	£458

- 4.29 In order to analyse this further we must take into consideration what the applicant has applied to the existing building in order to arrive at their Benchmark Land Value. In section 3 of this report we have accepted that a Market Rent of £16.00 per sq. ft. for the existing showroom of 15,850 sq. ft.

has been justified. This was capitalised at a yield of 5.5% which we also considered was a reasonable assumption bearing in mind the Benchmark Land Value was based on a vacant building.

- 4.30 Considering that the unit is pre-let to BMW Mini we have reflected this within the yield and adopted 5.00%. This reflects the fact that there is now no letting void and that BMW/Mini is a desirable covenant.
- 4.31 Applying this yield and working back from the end gross value of £1,400,000 produces a rent of £22.89psf to the boutique BMW showroom. Considering this unit is now far smaller we would expect a quantum difference in a rental value per sq. ft. between the proposed 3,057 sq. ft. unit and the existing 15,850 sq. ft. showroom. We are of the opinion that a rental value of £22.89psf is a reasonable reflection of this.
- 4.32 In conclusion we can agree that the gross value of £1,400,000 adopted within Berkeley's appraisal is a reasonable value to apply to the BMW showroom premises.

Residential Ground Rent

- 4.33 Berkeley has assumed a total ground rent income of £106,000 but has not detailed the breakdown of how this is formed within their FVA. We have concluded that Berkeley have assumed the townhouses would be sold on a freehold basis and in this case a ground rent would not be applicable to this element of the scheme. In addition to this 6 of the 20 flats are Shared Ownership and as such ground rents are not applicable to these units either. This therefore leaves 14 units where a ground rent income is applicable.
- 4.34 We have assumed that Berkeley have adopted an average blended ground rent of £380pa per unit and capitalised this at 5.00% to arrive at a figure of £106,000. We consider this to be in line with other developments in the borough and have accepted this for the purposes of our modelling.

Car Parking

- 4.35 The FVA indicates that there are a total of 16 car parking spaces within the scheme. 11 of these are for the residential element whilst 5 are for the boutique BMW garage. Berkeley has not adopted a sales value for the 11 residential car parking spaces. It is detailed that the flat values have been reduced due to the fact they do not come with parking. We have therefore assumed the value of the car parking spaces has been reflected within the townhouse residential values within the scheme and we have not valued the parking separately.
- 4.36 Whilst analysing our residential comparable evidence we have had regard to car parking and found that many of the comparable units come with a parking provision which has been reflected in their

end values i.e. there is no additional price payable for car parking. We are therefore satisfied that the residential values assumed by Berkeley can reasonably be considered to be inclusive of parking where provided.

Cost Assumptions

Build Cost

4.37 A budget cost estimate was prepared by Collabora Consulting on behalf of the applicant to inform the viability assessment. GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review the cost plan on behalf of the Council. The Collabora Consulting cost estimate resulted in a build cost of £10,047,833 with a breakdown of cost items set out in the table below:-

Cost Item	Estimated Cost
Demolition & Enabling Works	£296,064
Substructure	£935,450
Utility and Service Connections	£526,700
External Landscaping	£891,113
Other Additional Requirements	£235,000
Commercial Space	£25,171
Frame and Upper Floors	£1,021,755
External Envelope	£1,416,314
Roofing	£777,101
Party Walls	£105,050
Builders Work	£25,000
M&E – Common Areas	£272,100
Plastering	£38,620
Carpentry	£20,164
Wall & Floor Finishes	£23,650
Painting & Decorating	£22,304
Special Purpose Fixtures	£19,100
Private Apartment Fit Out	£1,175,072
Affordable Apartment Fit Out	£293,987
Townhouse Fit Out	£1,928,116
Total	£10,047,833

4.38 In overall terms it is JA's opinion that the scheme as proposed could be delivered for a total cost of £9,770,818 which represents a cost reduction of £277,015 from the subtotal of £10,047,833. We have adopted the JA cost figure in our appraisals for initial modelling purposes.

4.39 Berkeley have also included the following costs within their appraisal:

- Preliminaries @ 10% - £1,205,740
- Contingency @ 5% - £562,679

4.40 We are of the opinion these are acceptable.

Professional Fees

4.41 Berkeley has assumed professional fees of 8% which total £900,286. We consider this an appropriate assumption within the appraisal.

Marketing and Transactional fees

4.42 The following allowances have been made in Berkeley's development appraisal:

- Sales & Marketing - 4.5% (of private residential & Commercial GDV) £1,140,138
- Legals on Sales - £600 (per unit) £18,000

4.43 Within their FVA Berkeley have provided a Sales & Marketing breakdown of the anticipated costs involved. We have analysed this cost schedule further and would comment that from the total cost of £1,140,138 the agent sales fee totals £529,203 which equates to 2.08% out of the total 4.5% cost. The remainder of the cost is attributed solely to Marketing with a large part of the cost being attributed to the creation of an on-site sales office. When analysing these figures separately, 2.08% of GDV for an agent sales fee and 2.42% of GDV for marketing are high in relation to comparable schemes.

4.44 We consider the marketing and sales fee to be excessive and we have adopted a cost of 3% of GDV for this element which can be broken down into 1.5% for Sales and 1.5% for Marketing.

4.45 We consider the Legals and Sales fee appropriate.

Finance Costs

Finance costs have been assumed at 7.5% debit rate and 0% credit rate. Most developers are currently assuming an overall rate of between 6-7% in appraisals for schemes of this nature and so we consider this assumption to be high, and have adopted a rate of 7% within our modelling.

S106 / CIL Costs

4.46 In respect of planning contribution, the following has been assumed in the Berkeley modelling:-

- A S106 cost of £125,900
- A Mayoral CIL allowance £89,661
- A Local Borough CIL allowance of £182,030

4.47 No calculation has been provided for these CIL figures and so whilst for the purpose of our own modelling we have assumed these figures to be correct and mirrored the assumptions within our appraisals, these should be verified by the LPA.

Developers Profit

4.48 Berkeley has adopted 20% on private GDV and 6% on affordable GDV as a profit target.

4.49 Whilst 20% will often be argued by applicants for private residential (and 6% GDV for affordable where appropriate), in the current competitive residential development market, particularly in attractive locations such as the subject site, we would expect developers seeking to buy land to need to bid based on lower profit margins to be competitive. Accordingly we have applied a profit level of 17.5% GDV in our own modelling which we consider to be more reflective of market conditions.

Summary Table

4.50 The table below provides a summary of the above analysis highlighting any areas of difference, which will form the basis of our sensitivity testing in the following section

Assumption	Berkeley figure (appraisal)	GLH figure (where different)	Comments
Sales and Revenue			
Private Residential Sales Values	Flats: £712psf Houses: 719psf	As Berkeley	Berkeley sales vales average £712psf for flats and £719psf for all the units within the scheme.
Affordable Sales Values (S/O)	Flats: £280psf	As Berkeley	Berkeley has adopted £280psf for the shared ownership housing which we deem reasonable.
Residential Ground Rent	£280pa per unit	As Berkeley	These have been capitalized at a 5.5% yield which we deem reasonable.

Commercial Values	Total Value: £1,400,000	As Berkeley	We consider £1,400,000 in the proposed scheme appropriate.
Car Parking	n/a	n/a	Berkeley has included the parking values within their residential pricing.
Development Costs			
Construction Costs	£10,047,833	£9,770,818	We have adopted JA's opinion of construction costs.
Contingency	5%	5%	JA has advised that we should adopt 5% for construction contingency.
Professional Fees	8%	8%	We are of the opinion 8% is reasonable given the context of the scheme.
Marketing Costs	4.5%	3%	We consider 4.5% excessive and have adopted a figure of 3%.
Planning Obligations (S106)	£125,900	As Berkeley	We have not verified this figure however assume it to be a correct sum of monies.
Mayor CIL	£89,611	As Berkeley	We have not verified this figure however assume it to be a correct sum of monies.
Borough CIL	£182,030	As Berkeley	We have not verified this figure however assume it to be a correct sum of monies.
Interest / Finance Costs	7.5%	7.0%	7.5% is a reasonable figure to adopt for finance in the current market.
Developers Profit - Private	20% GDV	17.5% on GDV	We are of the opinion that 17.5% on GDV is more reflective of the competitive development market for new build schemes.
Benchmark Land Value	£5,700,000	£5,375,000	We have made our assumptions into Benchmark Land Value.

5 FINANCIAL APPRAISALS & CONCLUSIONS

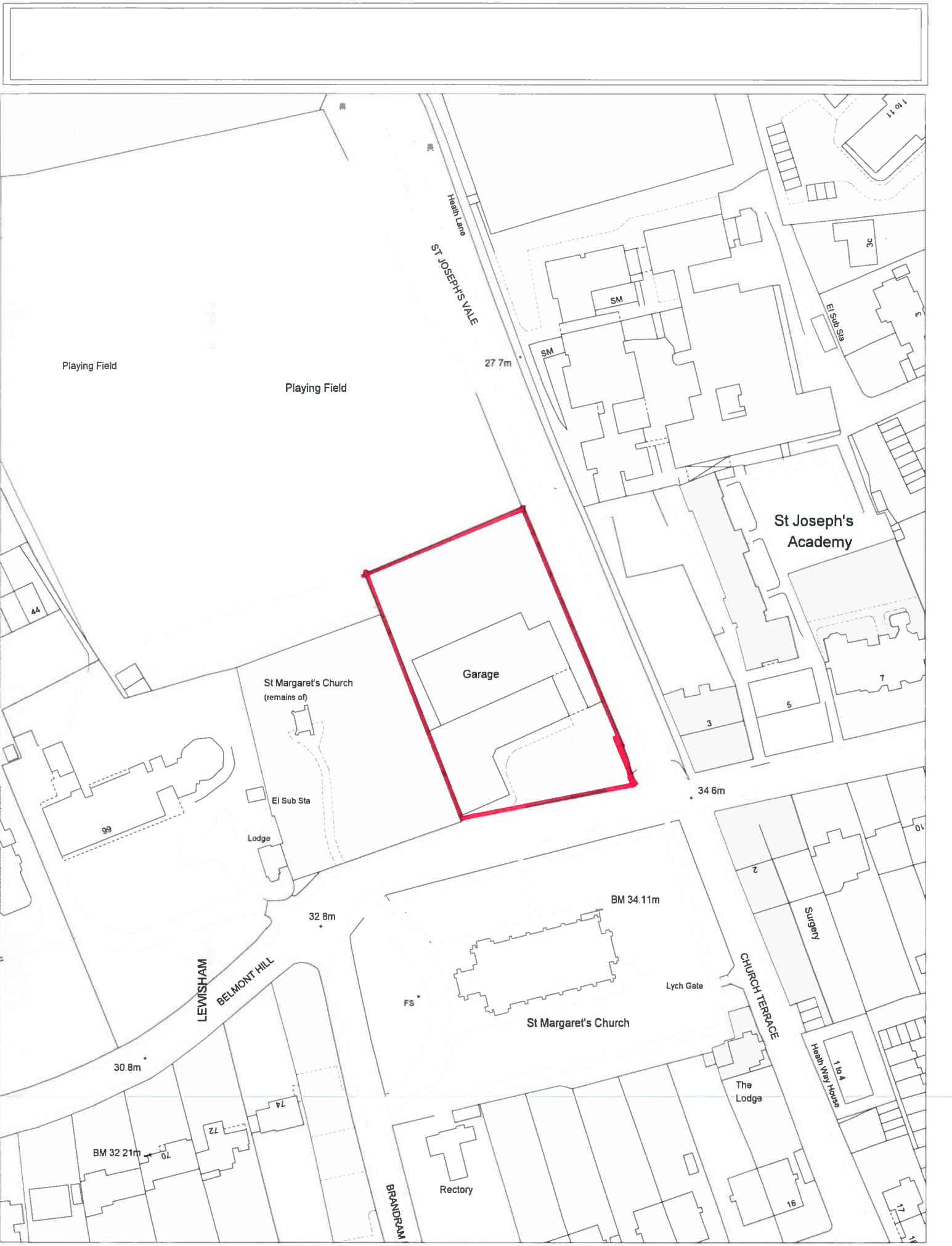
- 5.1 Where our own market research has indicated that the inputs used have not been fully justified we have sought to illustrate the potential impact on land value. In this respect we have undertaken sensitivity analysis producing a number of residual appraisals using Argus Developer, which is a leading industry-standard development appraisal package commonly used by developers and agents to assess development viability.
- 5.2 Although this analysis does not constitute formal valuations under the provisions of the RICS Valuation Standards ('Red Book') it will help in providing evidence to inform the Council's decision making process in respect of the applicants planning application.
- 5.3 We have mirrored Berkeley's Development Appraisal based on their assumptions but using our own appraisal software. We have arrived at a negative residual of £2.343m as opposed to the Berkeley figure of £2.301. In the context of a scheme with a GDV of £23m this is a small difference and could be explained by some small development timing differences or indeed purely by the software. It is sufficiently close for us to conclude that the Berkeley model accurately reflects their assumptions, and that our own model is an appropriate starting point for analysing changes to certain assumptions.
- 5.4 As has been highlighted in the previous section, with the exception of profit level, build costs and marketing fees, we are in broad agreement with Berkeley on the majority of the assumptions which make up this appraisal.
- 5.5 The more significant difference of opinion relates to build cost where JA has advised that a figure of £9,770,818 would be a more appropriate build cost for a scheme of this nature and benchmark land value where we would consider £5,375,000 more appropriate.
- 5.6 Reflecting the above it is our opinion that the residual land value of the proposed scheme should be negative £534,534.

Overall Summary

- 5.7 Based on our analysis we would agree with Berkeley's conclusion. Inputting the GLH assumptions in the application scheme produces a Residual Land Value of minus £534,534. Therefore whilst we do consider that Berkeley have overstated the extent to which the scheme is not viable we conclude that their overall conclusions are correct and that the scheme cannot viably include any additional provision of affordable housing or contribute by way of an off-site sum.

Appendices

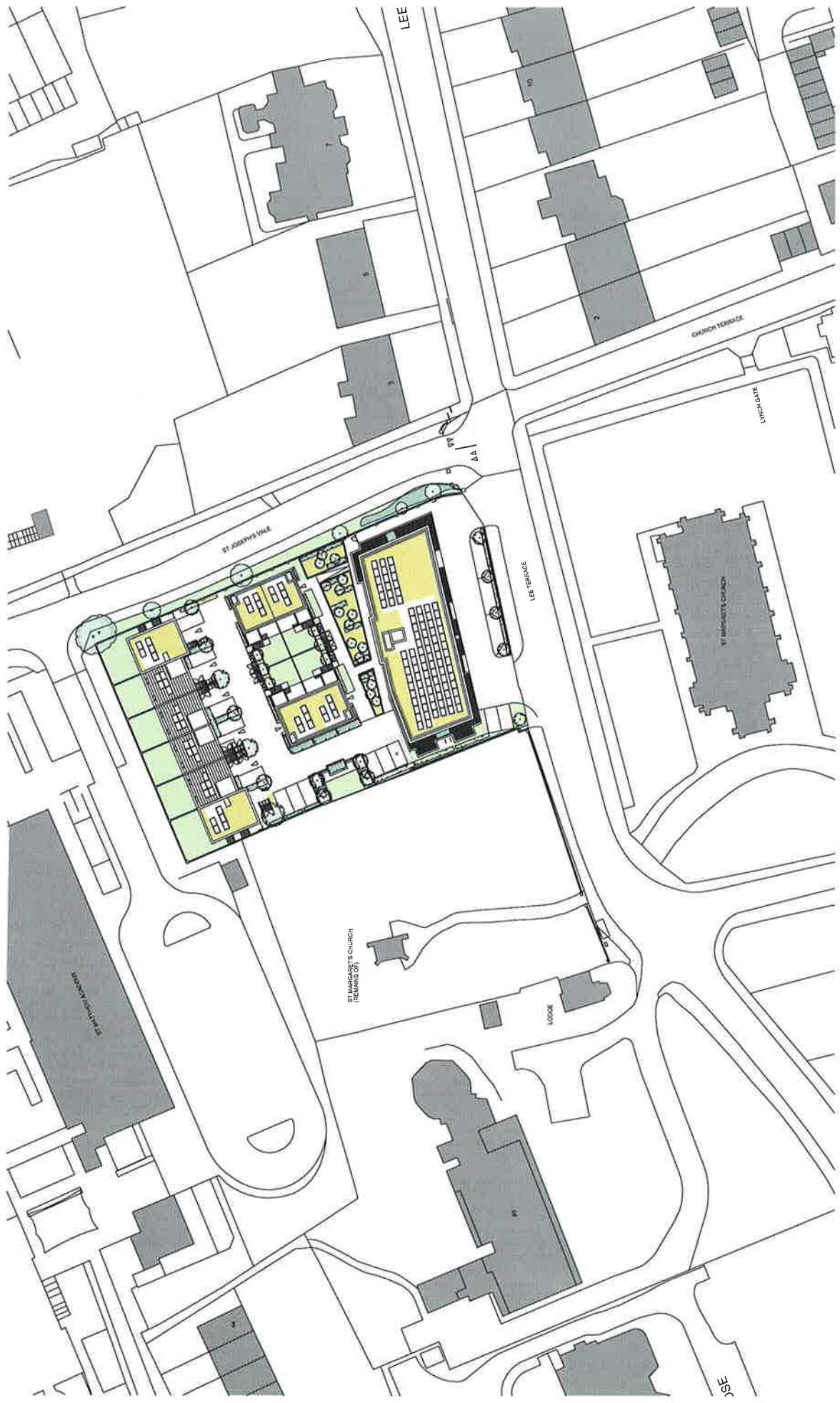
APPENDIX A: LOCATION PLAN



Date: 19/01/16

Scale:1250
Base on the
Ordnance Survey map
Licence no:100017710
London, SE6 4RU

APPENDIX B: SCHEME LAYOUT



EPR
architects

Lee Terrace
Backshop
SITE PLAN
PROPOSED PLAN

DATE: 10/18/2011
SCALE: AS SHOWN
PROJECT NO: 10186-T-00-0101-ZXX
SHEET NO: 01

DATE	BY	CHKD

Notes:

1. All dimensions are in feet and inches unless otherwise noted.
2. All dimensions are to the centerline of the building.

North Arrow