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DELIVERY | VIABILITY | CAPACITY

Lewisham Gateway, Lewisham SE13

Financial Viability Review Report

London Borough of Lewisham

March 2017

Contents

1 INTRODUCTION

Background

1.1 Urban Delivery was instructed by the London Borough of Lewisham (the "Council") to assess the viability of proposals by Lewisham Gateway Developments Limited (a subsidiary of Muse Developments Limited) (the "Applicant") in support of its s73 application for Phase 2 of its development known as Lewisham Gateway in the centre of Lewisham town centre (the "Property" or "Site").

1.2 Outline planning permission for the development was granted in May 2009. With Phase 1 nearing completion, the Applicant has sought to revise plans for the next phase of development to include 538 new homes plus a mix of retail and leisure accommodation and the final reconfigurations to the surrounding highways and public realm.

1.3 The base financial model for the whole development assumed a developer's return of 15% profit on cost and 15% affordable housing with the level of provision determined at reserved matters stage and subject to viability.

1.4 The purpose of this report is to provide guidance on the viability of the Phase 2 development proposed by the Applicant. This report does not constitute 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. References to any values, sales values, rental values and costs are provided as broad estimates only in order to assess whether the Applicant is justified in omitting any affordable housing in the future phases of development. The advice provided herein must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied.

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 Lewisham Gateway Developments Limited or Muse Developments Limited.

Information Provided

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 person other than for whom it has been commissioned, without Urban Delivery's expressed permission. In any event, 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 person other than the commissioner for planning purposes.

2 PROJECT DETAILS

Location

2.1 The Site is located to the north of Lewisham town centre, adjacent to Lewisham DLR and mainline railway stations in south east London within the London Borough of Lewisham. The Site is situated to the north of the A20, which has been diverted around the southern boundary of the Site as part of the earlier phase works, which provides a direct route to other arterial routes and on to the wider motorway network.

The Site

2.2 The overall Lewisham Gateway Site extends to 5.6 hectares (13.8 acres), part of which formerly comprised a section of the main road network including the Lewisham Northern Roundabout and its various approach roads. As at the date of this report Phases 1a, including two residential towers located to the north of the site, have been constructed and Phase 1b, a residential block to the north east of the Site has begun construction. In addition, infrastructure works requiring the configuration of the road network as well as the diversion of the Quaggy and Ravensbourne Rivers have been significantly progressed.

2.3 We have only inspected the Site from the road and surrounding public areas and have not undertaken any internal inspections or carried out any measured surveys. We are therefore reliant on the accuracy of the information provided within the planning application documents.

Development Overview

2.4 The subject of this viability review is an application under Section 73 of the Town and Country Planning Act 1990 (as amended) for minor material amendments to the existing planning permission for the comprehensive redevelopment of the Lewisham Gateway Site (Ref No: DC/06/62375, Dated 8th May 2009).

2.5 The 2009 planning permission allowed the comprehensive redevelopment of the Lewisham Gateway Site comprising up to 100,000 sqm of retail (A1, A2, A3, A4 and A5), offices (B1), hotel (C1), residential (C3), education (D1), health (D1) and leisure (D2) with new road layout, parking, servicing, associated infrastructure and improvements to the public transport interchange, as well as open space, rivers and water features.

2.6 Planning documents submitted by the Applicant in support of the revisions to the planning permission state that the changes will facilitate the evolution of the Lewisham Gateway masterplan to deliver phased redevelopment of the Site, in accordance with its planning policy allocation.

2.7 The proposed amendments to the Lewisham Gateway Masterplan include:

- Changes to the floorspace allocated to the approved uses (however, no increase in total floorspace is proposed);
- Changes to the physical parameters of Blocks C1, C2, D1, D2 and E including raising the height of blocks, changes to the footprints and massing; and
- Omission of Block F and basement car parking.

2.8 The description of the revised development is:

"An application submitted under Section 73 of the Town & Country Planning Act 1990 for Minor Material Amendments in connection with the planning permission DC/06/62375 (granted on 8 May 2009) for the comprehensive mixed use redevelopment of the Lewisham Gateway Site, SE13 (land between Rennell Street and Lewisham Railway Station) for up to 100,000m² comprising retail (A1, A2, A3, A4 and A5), offices (B1), hotel (C1), residential (C3), education/health (D1) and leisure (D2) with parking and associated infrastructure, as well as open space and water features. The amendments comprise amendments to the floorspace allocated to

the approved uses (no increase in total floorspace), amendments to the physical parameters of Blocks C1, C2, D1, D2 and E including raising the height of blocks, changes to the footprints and massing, omission of Block F and basement car parking, and associated changes."

2.9 The application documents set out the following mix of land uses within Phase 2 of the proposed development:

- 32,420 sq m (NIA) residential accommodation
  - 244 x Private Sale Units
  - 294 x Private Rented Units
- 5,114 sq m (GIA) of retail accommodation
- 2,351 sq m (GIA) for a cinema
- 1,494 sqm (GIA) for a gymnasium
- 354 sq m (GIA) for a new library / cultural space
- 5,312 sq m (GIA) for a new hotel (147 bedrooms)
- 1,473 sq m (GIA) of servicing and plant

2.10 Although current LB Lewisham planning policy requires 50% of all proposed dwellings to be provided as affordable housing, the S106 agreement for this project limits total provision to no more than 20% affordable housing (in acknowledgement of the high infrastructure costs in delivering the whole development). Before any affordable housing is to be provided the project is required to generate a profit of at least 15%. Where it can be identified that this level of profit is exceeded, the Applicant will be required to include affordable housing albeit ensuring that the profit level does not fall below 15% as a result of the affordable housing.

Section 106 and CIL Proposals

2.11 It is our understanding that the S106 contributions agreed within the original Planning Agreement remain unchanged. The total net cost set out in the S106

agreement is understood to be £610,000, of which a financial contribution of £500,000 is index linked. The Applicant is also to be responsible for payment of the Council's legal costs in the negotiation of the S106 agreement, although this cost has not been disclosed.

2.12 With regard to CIL costs, the original planning application was approved before the introduction of CIL and therefore no obligation was imposed. However, following discussions with the Council, it is our understanding that a CIL liability of £838,204 will be imposed.

3 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

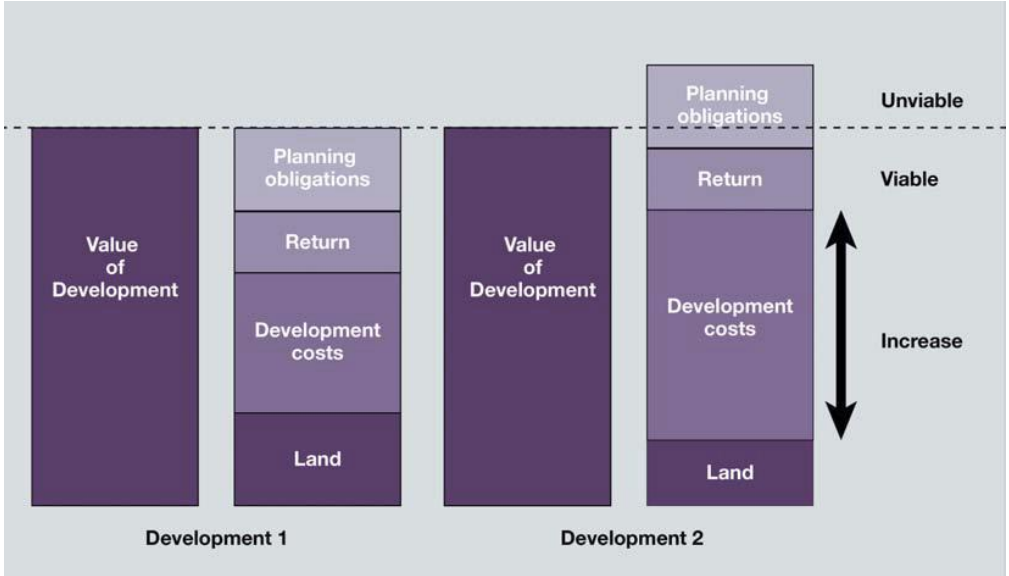
an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project".

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 While Urban Delivery accepts the RICS definition of Market Value as an appropriate basis to assess site value, we are aware of growing concern among Local Planning Authorities of the mis-use of this approach and a failure to account for appropriate planning obligations in the determination of development land values.

3.8 While the NPPF acknowledges that 'willing sellers' of land should receive 'competitive returns', for the purpose of this viability review it is understood that the land is to be included at a nil cost. Therefore, assessment of an appropriate Benchmark Land Value has been unnecessary.

Residual Development Appraisal Assumptions

3.9 This viability assessment has been undertaken in accordance with 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).

3.10 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.

3.11 In our appraisal we have adopted our own assumptions on the amount and timing of income and expenditure and have appraised the delivery of the Phase 2 development scheme as a single phase.

4 MARKET ANALYSIS

Local Property Market

4.1 We have undertaken a review of the local property market to identify a range of comparables relating to development new build residential unit sales, rentals and commercial property values.

Residential Sales

4.2 In seeking to form a view on achievable sales values for the units proposed within Phase 2 of the development we have focused our evidence, where available, on other developments of a similar scale and character in the location and neighbouring post codes.

Renaissance, Loampit Vale – Barratt Homes

4.3 Barratt Homes' 788 dwelling scheme is situated to the south west of the subject Property and while now completed, provides an indication of achievable sales prices within a comprehensive mixed use scheme within the Lewisham town centre environment. The development comprises eight buildings ranging from five to twenty-four storeys, comprising a mix of new homes (including up to 186 affordable), a leisure centre, 1,856 sq m of commercial floorspace (Use Classes A1, A2, and B1), an energy centre, replacement London City Mission facilities, public and private amenity space and improved public realm.

4.4 From our previous investigations into this development in connection with other viability reviews we have carried out for the Council over the past three years, we are aware that all homes within this scheme were either sold or reserved by the end of 2015. We set out below a selection of details we have available for units within this scheme, although it should be noted that a number of these are now historic.

Roma Corte - Renaissance, Loampit Vale						
Unit	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
Plot 350	1	45.7	492	£ 318,000	£ 646	Q1 2015
Plot 358	1	45.7	492	£ 322,000	£ 655	Q1 2015
Plot 364	1	45.7	492	£ 320,000	£ 651	Q1 2015
Plot 365	1	47.0	506	£ 325,000	£ 642	Q1 2015
Plot 207	1	49.4	532	£ 303,000	£ 570	Q2 2015
Plot 212	1	45.2	487	£ 297,000	£ 610	Q2 2015
Plot 213	1	49.4	532	£ 306,000	£ 575	Q2 2015
Plot 218	1	45.2	487	£ 300,000	£ 617	Q2 2015
Plot 278	1	45.2	487	£ 353,000	£ 726	Q3 2015
Plot 290	1	45.2	487	£ 359,000	£ 738	Q3 2015
Plot 366	1	45.7	492	£ 325,000	£ 661	Q2 2015
Plot 210	2	64.2	691	£ 399,000	£ 577	Q2 2015
Plot 211	2	64.0	689	£ 394,000	£ 572	Q2 2015
Plot 216	2	64.2	691	£ 403,000	£ 583	Q2 2015
Plot 217	2	64.0	689	£ 398,000	£ 578	Q2 2015
Plot 273	2	53.8	579	£ 455,000	£ 786	Q3 2015
Plot 285	2	53.8	579	£ 465,000	£ 803	Q3 2015
Plot 288	2	64.0	689	£ 475,000	£ 690	Q3 2015
Plot 289	2	64.2	691	£ 475,000	£ 687	Q3 2015
Plot 360	2	62.6	674	£ 436,000	£ 647	Q1 2015
Plot 361	2	56.3	606	£ 419,000	£ 691	Q1 2015
Plot 369	2	56.3	606	£ 423,000	£ 698	Q2 2015
Average Price		**53.5**	**576**	**£ 375,909**	**£ 653**	

4.5 As can be seen, average sales values over the course of 2015 were in the region of £7,020 per sq m (£653 per sq ft) for one and two bedroom apartments. It should be noted that a number of these units are located on higher floors within the building and could therefore reflect a premium compared with apartments on the lower levels.

4.6 For the purpose of comparison with earlier phases, we include sales details for units within the Sienna Alto tower below, which were marketed and reserved in 2014. It is clear from the average unit prices and sales values that the development experienced value growth. The evidence indicates that two bed units increased in price from approximately £410,000 in 2014 to £430,000 in 2015. The average sales value is also shown to have increased from £6,350 per sq m to £7,020 per sq m (£590 per sq ft to £653 per sq ft), although the average size of the two bed units was approximately sq m (50 sq ft) smaller in the later Roma Corte phase.

Sienna Alto, Renaissance, Loampit Vale						
Unit	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
Flat 114	1	40.9	440	£ 294,000	£ 668	Q2 2014
Flat 109	1	40.9	440	£ 291,060	£ 661	Q2 2014
Flat 104	1	40.9	440	£ 288,120	£ 654	Q2 2014
Flat 99	1	40.9	440	£ 285,180	£ 648	Q2 2014
Flat 89	1	40.9	440	£ 249,850	£ 568	Q2 2014
Flat 64	1	40.9	440	£ 241,615	£ 549	Q2 2014
Plot 59	1	58.3	627	£ 364,000	£ 581	Q1 2015
Flat 108	2	60.4	650	£ 440,000	£ 677	Q3 2014
Flat 87	2	67.0	721	£ 417,000	£ 578	Q3 2014
Flat 118	2	93.1	1002	£ 455,000	£ 454	Q3 2014
Flat 82	2	67.0	721	£ 349,200	£ 484	Q3 2014
Flat 100	2	60.6	652	£ 391,020	£ 599	Q2 2014
Flat 102	2	67.0	721	£ 443,000	£ 614	Q2 2014
Flat 103	2	60.4	650	£ 437,000	£ 672	Q2 2014
Flat 111	2	66.6	717	£ 430,000	£ 600	Q2 2014
Flat 112	2	67.0	721	£ 454,000	£ 630	Q2 2014
Flat 115	2	60.6	652	£ 450,000	£ 690	Q2 2014
Flat 106	2	66.6	717	£ 402,000	£ 561	Q2 2014
Flat 107	2	67.0	721	£ 446,000	£ 618	Q2 2014
Flat 110	2	60.6	652	£ 445,000	£ 682	Q2 2014
Flat 97	2	67.0	721	£ 440,000	£ 610	Q2 2014
Flat 92	2	67.0	721	£ 400,000	£ 555	Q2 2014
Flat 93	2	60.4	650	£ 386,000	£ 594	Q2 2014
Flat 95	2	60.6	652	£ 376,000	£ 576	Q2 2014
Flat 96	2	66.6	717	£ 388,080	£ 541	Q2 2014
Flat 98	2	60.4	650	£ 409,000	£ 629	Q2 2014
Flat 81	2	66.6	717	£ 370,000	£ 516	Q2 2014
Flat 62	2	62.6	674	£ 385,000	£ 571	Q2 2014
Flat 65	2	61.2	659	£ 363,000	£ 551	Q2 2014
Flat 63	2	60.9	656	£ 348,000	£ 531	Q2 2014
Flat 61	2	63.6	685	£ 405,000	£ 592	Q2 2014
Average Price		**60.1**	**647**	**£ 382,036**	**£ 590**	

Lewisham Gateway, Portrait Tower – Phase 1

4.7 The Applicant has provided Urban Delivery, in confidence, a schedule of the net sales prices for the units in Portrait Tower. For confidentiality reasons we are unable to reproduce that schedule within this report.

4.8 Having analysed the schedule of agreed sales, we can confirm that the average sales value is in the order of £6,100 per sq m (£567 per sq ft). However, we note that certain one and two bedroom units appear to have been sold at a discount, potentially to investors acquiring multiple units, and would therefore anticipate higher average prices to be achievable in subsequent phases.

Tower Loft Apartments, Tower House, Lewisham High Street

4.9 Tower House is located on Lewisham High Street in Lewisham town centre and is in the process of being converted to residential use with a fifth floor extension. The third floor benefited from change of use under permitted development rights and as such, development commenced in 2015 with marketing of the first 18 units commencing immediately.

4.10 Urban Delivery undertook a viability review of this scheme in early 2016, and we are therefore familiar with the achieved selling prices for units on the third floor of the development. We have updated our records to identify the achieved sales prices on the second floor. These are set out in the table below:

Tower Loft Apartments, Lewisham High Street, SE13							
Unit	Floor	No Beds	Area sq m	Area sq ft	Price	£psf	Reservation Date
2.1	2nd	1	57.3	617	£455,000	£ 737	Dec-16
2.2	2nd	1	49.8	536	£385,000	£ 718	Dec-16
2.3	2nd	1	48.5	522	£372,500	£ 714	Dec-16
2.4	2nd	1	49.3	531	£364,995	£ 687	Dec-16
2.5	2nd	1	67.0	721	£430,000	£ 596	Dec-16
2.6	2nd	1	55.0	592	£385,000	£ 650	Dec-16
2.10	2nd	1	49.5	533	£375,000	£ 704	Dec-16
2.11	2nd	1	52.0	560	£365,000	£ 652	Dec-16
2.12	2nd	1	50.0	538	£365,000	£ 678	Dec-16
2.13	2nd	1	49.4	532	£360,000	£ 677	Dec-16
2.14	2nd	1	48.4	521	£350,000	£ 672	Dec-16
3.1	3rd	1	55.0	592	£381,522	£ 644	Jun-15
3.2	3rd	1	46.5	501	£330,000	£ 659	Jun-15
3.3	3rd	Studio	45.5	490	£322,000	£ 657	Jun-15
3.4	3rd	1	49.5	533	£336,000	£ 630	Jun-15
3.5	3rd	1	52.0	560	£347,225	£ 620	Jun-15
3.6	3rd	1	49.0	527	£340,000	£ 645	Jun-15
3.7	3rd	1	50.0	538	£345,000	£ 641	Jun-15
3.8	3rd	1	50.0	538	£358,000	£ 665	Jun-15
3.9	3rd	1	48.5	522	£337,000	£ 646	Jun-15
3.10	3rd	1	51.5	554	£352,000	£ 635	Jun-15
3.11	3rd	Studio	42.5	457	£322,245	£ 705	Jul-15
3.12	3rd	Studio	47.5	511	£318,000	£ 622	Jun-15
3.13	3rd	Studio	37.0	398	£288,000	£ 724	Jun-15
3.14	3rd	1	44.5	479	£305,000	£ 637	Jun-15
3.15	3rd	1	67.0	721	£408,000	£ 566	Jun-15
3.16	3rd	1	49.0	527	£335,000	£ 636	Jun-15
3.17	3rd	1	52.0	560	£350,000	£ 625	Jun-15
3.18	3rd	2	66.5	716	£409,370	£ 572	Jun-15
Average Asking Price			**51.0**	**549**	**£358,340**	**£ 652**	

4.11 All the units on the second floor are now either sold/reserved or have been retained by the developer for rental purposes. We understand that of the units sold, approximately 80% were to investors.

4.12 As can be seen from the table above, the average sale price reflects a value in the order of £7,020 per sq m (£652 per sq ft). However, analysis of the units sold in December 2016 reflect an average value of £7,300 per sq m (£678 per sq ft). We would comment that these comprise one bed units with an average unit price of circa £380,000, which reflects a more affordable product for the investment market. Where a broader mix of two and three bedroom units would be included we would anticipate the average £/sqm (£/sq ft) to be lower. We note that a two bed unit on the third floor, previously sold, is being marketed for re-sale at a price of £455,000 reflecting a value of £6,835 per sq m (£635 per sq ft).

Residential Sales Summary

4.13 While there has been considerable redevelopment in the centre of Lewisham over the past few years it is notable that the major schemes have either completed and sales evidence is now dated, or the developers have focused more on providing homes for the rental sector.

4.14 The sales evidence highlighted in the tables above show a range of prices over the past two years with clear indication that prices have increased over this timeframe. Average values range from £6,135 to £7,210 per sq m (£570 to £670 per sq ft) with the values towards the higher end of this range having been achieved more recently, albeit within a smaller development scheme comprising mainly one bedroom homes. We understand that the final configuration and unit sizes within the proposed development are to be determined although these are likely to be larger than some of the comparables set out above, and will comply with minimum floor area standards.

4.15 It should also be noted that the proposed development will include tall residential towers and we would envisage that units within the upper floors of these blocks will achieve a premium over units on lower floors. In view of the evidence available we are of the opinion that the private residential accommodation across the whole of Phase 2 of the development would be capable of achieving an average sales value in the order of £6,996 per sq m (£650 per sq ft).

Residential Rental Values – PRS

4.16 Within the proposed Phase 2 development, a total of 294 dwellings within blocks C and D1 will be provided for private rent. We have therefore carried out research to identify likely rental values for these units. This has included a mix of independent private rented homes as well as purpose built rental blocks.

Fizzy Lewisham, SE13

4.17 Fizzy Living has two blocks within the Lewisham Gateway development. We provide summary rental information in the table below for unfurnished apartments.

Fizzy Lewisham, Lewisham Gateway, SE13				
No Beds	**Area sq m**	**Area sq ft**	**Monthly Rent**	**£psf/pa**
1	49.5	533	£1,340	£30.17
2	71.6	771	£1,655	£25.76
Average	**60.6**	**652**	**£1,498**	**£27.56**

4.18 The rental figures presented in the above table reflect the lower rental ranges and as such it is likely the average rental would exceed £1,500 per dwelling and a value of £296 per sq m (£27.56 per sq ft) per annum.

L&Q, Thurston Point, Lewisham, SE13

4.19 Within L&Q's development at Thurston Point in Lewisham, we understand that there are a total of 238 private rental units providing a mix of one, two and three

bedroom apartments. Following discussion with the letting team at L&Q we set out a summary of the average units in the table below.

L&Q - Thurston Point, Lewisham, SE13				
No Beds	Area sq m	Area sq ft	Monthly Rent	£psf/pa
1	44.0	474	£1,300	£32.91
2	60.3	649	£1,475	£27.27
3	69.6	749	£1,950	£31.24
Average	**58.0**	**624**	**£1,575**	**£30.29**

4.20 It is of note that all private rental units have been let within L&Q's scheme and a waiting list has been set up for renters seeking units within the development. With practical completion of the building understood to have been at the end of 2015, the take-up of units demonstrates a strong demand for rental stock in this location.

Other Private Rental Values, SE13

4.21 A review of rental asking prices and agreed lets within standard residential blocks indicates that rental values can range depending on location and quality of amenity. We set out the indicative range for one, two and three bedroom apartments below:

- 1 bed @ £1,200 to £1,300 per month
- 2 bed @ £1,450 to £1,600 per month
- 3 bed @ £1,700 to £2,100 per month

4.22 Based on the average rental figures above and assuming an average size for each of the one, two and three bedroom units, we estimate that an average value would be in the order of £290 to £323 per sq m (£27 to £30 per sq ft) per annum.

4.23 It should be noted that a purpose built rental block with on-site amenities designed for the rental sector should be able to achieve a premium over stand-alone rental units in mixed-tenure developments.

Residential Rental Values – Affordable Housing

4.24 While we have had regard to the above rental values in order to assess the potential value of any rented affordable homes, our assessment of the price a Registered Provider could pay to acquire any of these units is based on the Local Housing Allowance rates as at February 2017 for this location. These are currently as stated below:

- 1 bed @ £204.08 per week
- 2 bed @ £265.29 per week
- 3 bed @ £330.72 per week

4.25 These figures have been adopted to test the value that could be attributed to on-site affordable homes and therefore their impact on viability and the total number and mix of tenures that could be provided by the Applicant.

4.26 We have concluded that a Registered Provider may typically adopt a blended rate for the one, two and three bedroom units of £2,100 per sq m (£195 per sq ft).

4.27 With regard to shared ownership units we have adopted market values and made an assumption on the initial sale of equity to the purchaser. This is assumed to be 25%. The rental payments on the interest retained by a Registered Provider are then calculated based on a maximum of 2.75% of the outstanding value per annum.

4.28 This approach indicates a blended value for the one and two bedroom units at £3,710 per sq m (£345 per sq ft).

Commercial Values

Retail

4.29 On the western side of Lewisham railway station is situated Thurston Point, a mixed-use development by L&Q and Ashford Developments. The development includes a new Asda supermarket, gym and six retail units. Discussion with the letting agent has revealed that general interest and demand in the retail accommodation had been subdued.

4.30 Other than the pre-let Asda and gym, unit 3, extending to 284 sq m (3,055 sq ft), has now been leased to Screwfix at a rent reflecting £269 per sq m (£25 per sq ft). The unit was let on a shell and core basis and a rent free period was agreed to cover the cost of fit out.

4.31 On the opposite side of Loampit Vale, there are a number of retail units within Barratt's Renaissance development. Unit F2 extends to circa 128 sq m (1,382 sq ft) and is being marketed at an asking rent of £35,000 per annum. While the unit remains vacant, the asking rent reflects a value of circa £269 per sq m (£25 per sq ft).

4.32 The corner unit, owned by the Council, has been let to Explore Learning. Discussion with the marketing agent indicate that the achieved rental value broke back to approximately £269 per sq m (£25 per sq ft) per annum. We are advised that a 12 month rent free period was agreed.

4.33 Further discussion with the marketing agent revealed that the remaining retail units within the Renaissance scheme have asking rents of around £269 per sq m (£25 per sq ft) per annum. While no deals are yet agreed, we understand that a number of these units have recently received strong interest from potential tenants and one is

likely to be purchased on a long leasehold basis. The agent advised that the letting periods have been prolonged with little interest in these units up until recently, when the works to the Lewisham roundabout were completed and it was possible to understand more clearly how the area was evolving.

4.34 The availability of good quality investment transactions within the immediate vicinity is limited. However, we are aware that in December 2016, Knight Frank Investment Management exchanged contracts to acquire the Asda and Gym Group buildings on the Thurston Point development, from Ashford Developments. The price is understood to be £13,700,000 which reflects a blended yield of 4.85%. Analysing this deal, we would anticipate the individual yields would reflect a greater investment value for the Asda foodstore and a higher yield for the gym. The approximate rental income from the two units is estimated to be £703,000 per annum, of which Asda accounts for around 73% of this revenue. On this basis, applying a yield of circa 4.75% to the Asda unit, the gym would be attributed a yield of circa 6.25%.

4.35 Assuming that the retail space is likely to be let to a mix of national retailers, attracted by the proximity to the cinema, we anticipate covenants to be relatively strong and would therefore expect the completed units, once let, to achieve yields in the range of 6.25% to 6.75%.

4.36 Based on the evidence available for retail transactions, we would expect the proposed retail accommodation to achieve rental values in the order of £269 per sq m (£25 per sq ft) and depending on the eventual occupiers and covenant, achieve an investment yield of between 6.25% to 6.75%.

Cinema

4.37 Information for new cinema lettings is limited with operators treating new lease terms in confidence. We have therefore undertaken a broader search for evidence of cinema rental and capital values.

4.38 In November 2013, two Odeon cinema premises in Richmond in south west London were sold for a sum in the order of £12,140,000 reflecting a yield of 4.75%. At the date of the sale there was an unexpired term of 18 years on the lease and the passing rent equated to £227 per sq m (£21.10 per sq ft) although an RPI index linked rent review was due in 2014, potentially impacting on the level of the yield achieved. The guide price prior to the sale reflected a yield of 5.75%.

4.39 In early 2014, London Metric Property acquired the freehold interest in the Odeon Cinema premises on Finchley Road in Swiss Cottage. The agreed price was £4,780,000 and reported to reflect a yield of 7.13%. We have calculated that the passing rent at the time would have been in the order of £340,000 per annum. While floor areas are not available for this property, we understand that the cinema comprises five screens and 671 seats. This reflects a rental of £507 per seat or £68,000 per screen and a capital value of £7,124 per seat and £956,000 per screen.

4.40 Outside of London, but situated in the centre of the cathedral city of Canterbury in Kent, a two screen cinema leased to ABC (guaranteed by Odeon) for a 25 year term up to 2032, sold in May 2016 for a price of £2,790,000 reflecting a yield of 6.38%. The passing rent of £178,026 is subject to RPI uplifts of between 1% and 5% and currently equates to £84.60 per sq m (£7.85 per sq ft). Given the location we would anticipate the rental value for the proposed cinema unit would significantly exceed the figure indicated by this evidence, however, we are of the opinion the achieved yield reflects the demand for secure cinema related property investment.

4.41 Based on the limited evidence available we would expect a new multi-screen cinema in the centre of Lewisham to achieve a rental value equivalent to £193 to £215 per sq m (£18 to £20 per sq ft) and to reflect an investment yield of between 5.75% and 6.50%.

Hotel

4.42 It is our understanding that the hotel proposed within the subject Property will be a budget operator. As such, we have refined our search for comparable transactions to the budget hotel sector within London.

4.43 In July 2015, a 107 bedroom hotel on Selbourne Road in Walthamstow, leased to Travelodge for a term of 35 years, was acquired by LaSalle Investment Management for a price of £8,309,000, reflecting a yield of 5.44%. The agreed rental income was £478,290 which reflects a rent of £4,470 per room per annum.

4.44 In September 2016, a newly constructed 204 bedroom hotel on Dockside Road in the London Docklands area, leased to Travelodge, was sold to Aviva Investors for a price of £7,000,000. Although no rental information is available the capital value reflects a rate of £34,314 per room, which appears to be towards the lower end of the value range we would expect for this location. It is likely this transaction was subject to a forward funding agreement which could have reduced the financial obligation on the purchaser upon completion.

4.45 In March 2016, an 80 bedroom hotel on Amhurst Road in East London, leased to Travelodge, was acquired by TH Real Estate for a price of £13,500,000. The rental income is understood to be in the order of £830,000 per annum and includes a retail unit let to Carphone warehouse, reflecting a blended yield of 5.90%.

4.46 In January 2017, Whitbread completed a sale and leaseback of its 339 room hotel on Tothill Street in Victoria area of Central London. The freehold interest was acquired by M&G Real Estate for a price of £101,800,000 with a lease of 25 years granted to Whitbread. The rental income of £4,200,000 per annum reflects a yield of 4.00%. The agreed rental income reflects a rent of £12,389 per room per annum. Given the location of this hotel we do not believe the subject Property would achieve these levels of rent or investment value.

4.47 The proposed development will be well situated for easy access into Central London and on this basis we are of the opinion that the achievable rental value will sit between the values achieved in more distant locations such as Walthamstow and more central locations. Based on the evidence available for hotel transactions, we would expect the proposed facility to achieve rental values in the order of £7,250 to £7,500 per room and achieve an investment yield of around 5.50%.

Gym

4.48 As referred to above, within the Thurston Point development by L&Q and Ashford Developments, The Gym Group had pre-leased a 1,533 sq m (16,500 sq ft) premises on a 15 year term. Discussion with the letting agent indicated that the agreed rent equates to between £118 and £130 per sq m (£11 and £12 per sq ft) and that a 15 month rent free period was granted to assist with the cost of fit-out. It is noted that this deal was agreed over 12 months ago and the letting agent was of the view that the same deal agreed today could potentially achieve a rent in the order of £150 per sq m (£14 per sq ft).

4.49 In September 2016, Pure Gym agreed a lease for a term of 20 years on 1,110 sq m (11,945 sq ft) of second-hand accommodation at 315-317 Camberwell New Road, SE5, approximately 5.5km to the west of the subject Site. The agreed rent of £140,000 per annum reflects a rate of £126 per sq m (£11.72 per sq ft). A six

month rent free period was agreed between parties.

4.50 In March 2016, Flow Dance London agreed a lease for a term of 10 years on 379 sq m (4,080 sq ft) of D2 assembly and leisure accommodation at 1-3 Brixton Road in Oval, SE9, approximately 6.9km to the northwest of the subject Site. The agreed rent of £61,500 per annum reflects a rate of £162 per sq m (£15.07 per sq ft). A three month rent free period was agreed between parties. Based on location and the smaller floor area of this unit, we would not expect the subject Property to achieve as high a rental value as this evidence indicates.

4.51 In September 2015, Pure Gym acquired the freehold interest in 242 Shepherds Bush Road in West London, approximately 14km to the northwest of the subject Site. The premises extend to 2,029 sq m (21,840 sq ft). The acquisition price was reported to be circa £10,783,000, which reflects a capital value of £5,314 per sq m (£493 per sq ft).

4.52 In September 2016, the Virgin Active gym on Worple Road in Wimbledon was acquired by KFIM Long Income Property Unit Trust for the sum of £6,800,000. The premises extend to 2,624 sq m (28,243 sq ft) and was reported to be generating a rent of £398,317 per annum. Based on these figures the rent reflects around £151 per sq m (£14.10 per sq ft) and the investment yield is calculated to be in the order of 5.50%. Given the quality of covenant and location we would expect this evidence to represent a superior investment opportunity than the subject Property.

4.53 More historic data on gym transactions includes the Virgin Active gyms at 108-110 Cricklewood Lane, NW2 and Unit 13, Smugglers Way, SW18. These two facilities sold in February 2014 and July 2013 respectively, achieving investment yields of between 4.93% and 6.13%. Both were sold with long unexpired terms remaining on the leases.

4.54 Based on the evidence available for gym transactions, we would expect the proposed leisure accommodation to achieve rental values in the order of £129 to £162 per sq m (£12 to £15 per sq ft) and depending on covenant, achieve an investment yield of between 6.25% to 6.75%.

5 VIABILITY ASSESSMENT

Land Value

5.1 In undertaking our appraisal we have not attributed any cost to the acquisition of the land. It is our understanding that the land has been provided at nil cost by the Council and other public sector parties.

Appraisal Inputs

Private Residential Sales Revenue

5.2 While there are uncertainties concerning the local property market over the next few years with a combination of government initiated measures to curb the buy-to-let sector as well as the potential impact of the UK's exit from the EU, the availability of new homes to buy has become more limited with many of the new developments opting to provide private rental homes. This could therefore help maintain a good level of demand for sale homes.

5.3 In consideration of the sales evidence for new-build homes in the local vicinity and within earlier phases of the subject development, we have applied an average sales value to our appraisal reflecting £6,996 per sq m (£650 per sq ft). This generates a total capital receipt of just under £102,800,000 for the private sale units.

Private Rented Sector Revenue

5.4 The Applicant is proposing that 294 homes will be provided as private rented sector units (PRS).

5.5 Having reviewed the local rental market, including rents currently being charged by the operator, Fizzy Living, within the Phase 1 development, we have adopted an average rental value of £328 per sq m (£30.50 per sq ft). we have allowed for

rental voids equivalent to 4% of annual rent and management and maintenance costs equivalent to 18.5% of the gross rental income. We have applied an investment yield of 4.00% which generates a capital value of approximately £112,660,000.

Residential Ground Rent Revenue

5.6 In determining a suitable value attributable to the ground rent investment we have applied an average rent of circa £450 per private sale unit capitalised at a yield of circa 3.35%. Based on evidence from other sales we believe this reflects a reasonable value. This generates a gross capital receipt of approximately £3,280,000.

Commercial Revenue – Retail Uses

5.7 The evidence for retail transactions set out in section 4 of this report include accommodation within the Renaissance scheme and Thurston Point, close to Lewisham Gateway. Based on this evidence we have applied a rental value equivalent to £269 per sq m (£25 per sq ft) but have adopted a range of yields from 6.25% to 6.75% for A3 and A1 user classes respectively. The selection of yields reflects the current position where no pre-lets have been agreed with tenants. Once lettings are agreed, depending on the covenant strength, there is potential for yields to reduce and lead to a greater capital value. The adopted assumptions however generate a capital receipt of circa £19,600,000 net of rent free periods.

5.8 We have applied rent free periods for the A1 and A3 retail uses of 15 months, assuming lettings in excess of 10 years can be agreed.

Commercial Revenue – Cinema Use

5.9 Based on the evidence available for cinema transactions, we have applied a rental value to the cinema accommodation of £200 per sq m (£18.60 per sq ft) and an investment yield of 6.50%. Applying a rent free period of 6 months generates a capital value of circa £7,010,000 net of tenant incentives. We would comment that this figure is based on the current position and once a cinema operator is signed-up and the terms of a lease with rent review provisions are known, there may be potential to reduce the yield and present a greater capital value.

Commercial Revenue – Hotel Use

5.10 We have undertaken our review of the hotel use based on a potential rental value per bedroom. Based on the evidence set out in section 4 of this report, we have applied a rent equivalent to £7,500 per bedroom per annum and a yield of 5.50%. This generates a capital value of circa £20,045,000.

Commercial Revenue – Gym Use

5.11 Based on the available evidence we have applied a rental value equivalent to £162 per sq m (£15 per sq ft) and an investment yield of 6.75% to reflect current demand for well leased gym premises. A rent free period of 15 months is assumed which generates a capital value of approximately £3,310,000 net of tenant incentives. Once an established gym operator is signed-up and the terms of a lease are known, there may be potential to reduce the yield and present a greater capital value.

Commercial Revenue – Library Use

5.12 The proposed development includes a 354 sq m (3,810 sq ft) library facility. While evidence of similar letting and investment transactions is limited we have applied a

rental income equivalent to £200 per sq m (£18.60 per sq ft) and a yield of 7.40% which generates a capital receipt of circa £975,000.

Grant Funds

5.13 We understand that the whole development scheme has been granted public funding including £19,900,000 from the HCA and GLA plus up to £2,000,000 from LB Lewisham. It is our understanding that this funding was to assist with infrastructure and highway works, most of which is attributable to Phase 1 of the development. However, for the purpose of this viability assessment we have attributed 30% of this funding to Phase 2 of the project which equates to circa £6,700,000.

Tenant Incentives

5.14 Based on our past involvement in other mixed-use developments in which cinemas have formed an integral element, we would estimate that a capital contribution in the order of £1,000,000 towards the fit-out of the proposed cinema would be sought from an operator. We have therefore made an allowance for this sum within our appraisal.

5.15 With regard to the gym use, we have allowed for a financial contribution of £50,000 to help secure a tenant and to assist with fit-out costs.

Purchasers Costs

5.16 With regard to the sale of the property investment elements of the scheme, including the sale of the PRS block, we have applied a purchaser's cost equivalent to 5.8% of the GDV. This reflects a purchaser's obligation to pay SDLT plus any agency and legal fees. This cost reduces the GDV by circa £9,680,000 to arrive at an estimate of achievable Net Development Value (NDV) of £259,980,000.

Construction Cost Advice

5.17 In order to estimate reasonable construction costs we have taken advice from Trident Building Consultancy. Trident's advice is based on cost benchmarks for other similar residential and commercial developments.

5.18 Trident has recommended that for the purpose of this viability assessment the main construction cost should be in the order of £172,000,000 having allowed for cost contingencies and cost inflation up to the mid-point of the construction programme. This reflects an average build cost of circa £2,964 per sq m (£275 per sq ft), which is deemed to sit within an acceptable cost range based on other schemes in the Lewisham area.

5.19 Additional costs to cover infrastructure works, highways diversions, river diversions, service diversions, compensation payments and contributions to Transport for London for lane closures have also been included within our appraisal.

S106 and CIL Contributions

5.20 We have applied an overall CIL contribution to our appraisal as set out in paragraph 2.13. This totals £838,204. This figure has been provided by the Council and is understood to be based on the appropriate CIL contributions that would be due for the proposed S73 changes to the consented Phase 2 development.

Professional Fees

5.21 We have adopted an average cost for professional fees reflecting 10% of construction costs. Additionally, the development agreement permits the developer to charge up to 4% for project management costs, although for the purpose of this viability assessment we have applied a rate of 3%.

5.22 For a new scheme, depending on scale and complexity, we would ordinarily adopt fees in the order of 10% to 12% of build costs. On the basis that this proposed development is part of a comprehensive regeneration scheme with highway and service diversions we would typically adopt a fee rate towards the higher end of this range. We are of the opinion that an average fee cost equivalent to 13% of build costs is appropriate in this circumstance.

Marketing Costs

5.23 We have applied marketing costs at a rate of 3.00% of GDV. These costs would usually be expected to cover the preparation of a show apartment, production of brochures and website, running the marketing suite and paying marketing staff salaries and/or commission to achieve sales.

Development Programme

5.24 It is understood that the overall development is likely to take up to eight years to complete construction and a further 18 months to complete all sales. For the purpose of this viability assessment for the Phase 2 works we have applied a construction period of 30 months with a further six months to complete the sale of all residential units and commercial investment properties.

Finance Costs

5.25 We have adopted an overall finance rate of 6.70% on development costs. We have assumed this includes the fee for arrangement costs or loan exit fees.

Developer Profit

5.26 Under the terms of the Development Agreement the base financial model for the whole development assumes a developer's return of 15% profit on cost. Once this

target return is achieved, any surplus is to be used to provide up to a maximum of 15% affordable housing.

5.27 We have therefore adopted a target return of 15% profit on cost in determining the financial viability of this project and in determining whether the Phase 2 of the whole scheme could support on-site affordable housing.

6 VIABILITY OUTPUTS

Viability Findings

6.1 Based on our opinion of Gross Development Value for the proposed development and the estimated development costs, we are of the opinion that Phase 2 of the project will generate a profit on cost in the order of 12.39%. Where the development has not achieved a minimum return of 15% it is understood that there will not be a requirement to provide affordable housing at the current time.

6.2 Although the project comprises many different land uses we have estimated that the private residential sales values would need to increase by around 6.10% to £7,420 per sq m (£690 per sq ft) to achieve a profit of 15%, at which point any further value growth could permit the inclusion of some affordable homes.

Sensitivity Analysis

6.3 We have undertaken a series of sensitivity analyses to identify the potential upside and downside risk to the Applicant's proposed scheme.

6.4 The sensitivity testing indicates it will be necessary for the yields on the commercial elements to contract by 0.63% or for the achievable private unit sales value to increase by 6.10% for the scheme to achieve a profit of 15% or greater. However, should current market uncertainties have a detrimental impact on sales values and the wider commercial property market, the developer profit will fall further and adversely impact on the overall financial viability of the project.

7 CONCLUSION

7.1 Having reviewed the Applicant's proposal for Phase 2 of the Lewisham Gateway development we are of the opinion that the scheme will not achieve the target return of 15% profit on cost.

7.2 Our appraisal indicates that the Applicant's preferred option will achieve a profit of circa 12.39% and as such there will be insufficient funds to include any affordable housing at the current time.

7.3 As indicated by the sensitivity analysis set out in section 6 of this report, consideration should also be given to current property market uncertainties. While an increase in private sales values of 6.10% or more should help achieve a profit return in excess of 15%, should house prices or commercial property values fall over the following 12 to 24 months, this will have significant implications on the financial viability of the project.