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DELIVERY | VIABILITY | CAPACITY

86-92 Bell Green, Sydenham, SE26 4PZ

Financial Viability Review Report

London Borough of Lewisham

November 2017

Private and Confidential

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1 INTRODUCTION

Background

- 1.1** Urban Delivery was instructed by the London Borough of Lewisham (the "Council") to review a viability assessment provided by IMA Real Estate (the "Applicant") in support of its planning application to develop the site at 86-92 Bell Green, Sydenham, SE26 4PZ (the "Property" or "Site") to create 23 new dwellings and 63 sq m of commercial accommodation. The purpose of this report is to provide guidance to the Council on the reasonableness of assumptions applied by the Applicant with regard to its financial viability assessment (FVA) for the proposed development scheme and to test whether it could be financially viable to provide affordable homes to improve compliance with local planning policy.
- 1.2** The advice provided in this report does not represent a Valuation in accordance with the RICS Valuation Global Standards 2017 (The Red Book), published by the Royal Institution of Chartered Surveyors, and should not be regarded as such. The advice provided herein must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied.
- 1.3** Following the outcome of the EU referendum in June 2016, despite the immediate market reaction being less adverse than some commentators were anticipating, negotiations on the terms of the UK's exit and future trade agreement with the remaining Member States are on-going and we remain in a period of relative economic uncertainty. The short to medium term impact on the housing market and the commercial property market remains volatile, with domestic and international investors and home buyers likely to be deterred by an adverse outcome to negotiations. We would, therefore, recommend that particular attention is paid to the sensitivity analysis provided in section 6 of this report, considering both the impacts on future value growth as well as the potential for a downturn in property values over the duration of the proposed development.

Conflict of Interests

- 1.4** We confirm that in providing this advice to the Council there is no conflict of interest between Urban Delivery and the Applicant.

Information Provided

- 1.5** 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.

- 1.6** This report contains confidential information provided by the Applicant and the 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.

- 1.7** In undertaking the review of the Applicant's FVA, Urban Delivery has been provided with the following information:

1. A copy of the Applicant's Financial Viability Assessment prepared by Sheridan Development Management Limited (SDML), dated July 2017. This report includes a further 5 appendices which comprise of:
 - a. Appendix 1: Schedule of Accommodation
 - b. Appendix 2: Existing Use Valuation (Prepared by GVA)
 - c. Appendix 3: Residual Development Appraisal
 - d. Appendix 4: Residential Values Comparable Evidence
 - e. Appendix 5: Cost Plan (Prepared by Pellings)

- 1.8** In addition to the above information that was supplied as part of the Applicant's FVA, we have downloaded planning application documents from the Council's website. These include:

1. Scheme drawings prepared by Chassay Studio

2. Design and Access Statement prepared by Chassay Studio, dated July 2017
3. Planning Statement prepared by WYG, dated July 2017.

1.9 During the review process a range of clarifications were sought from the Applicant and response received from its own FVA consultant, Sheridan Development Management Limited, and cost consultant, Pellings. We have given consideration to the information received from these enquiries in the advice contained in this viability review report.

2 PROJECT DETAILS

Location

- 2.1** The Property is situated close to the corner of Bell Green (A212) and Sydenham Road approximately 0.6km northwest of Lower Sydenham Station, within the London Borough of Lewisham. Bell Green is a busy arterial road that runs north towards Catford. Towards the eastern side of Bell Green is Bell Green Retail Park including a Sainsbury's supermarket and range of retail warehouse outlets. The western side of Bell Green is characterised by low density residential uses plus a health centre directly behind the Property.

The Site

- 2.2** The Site extends to 346 square metres and currently comprises four vacant ground floor retail units fronting onto Bell Green with four residential units above extending to 3 storeys. It is our understanding that the residential accommodation on the upper floors comprises four 2-bedroom flats which are accessed from Holmshaw Close. To the rear of the building is a parking courtyard enclosed by a brick wall and also accessed from Holmshaw Close. A footpath extending access from Holmshaw Close with Bell Green runs along the north boundary.
- 2.3** We have only inspected the subject site from the road and have not undertaken an internal inspection or carried out a measured survey. We are therefore reliant on the accuracy of the information provided by the Applicant and its advisers.

Development Overview

- 2.4** The Applicant seeks to redevelop the Site to provide a part 8-storey, part 6-storey building comprising 23 residential units and a ground floor commercial unit fronting onto Bell Green. The residential accommodation will total 1,411 sq m (15,188 sq ft) of Net Sales Area with a residential Gross Internal Area of 1,750 sq m (25,567 sq ft), inclusive of integral balconies. The ground floor commercial unit is 63 sq m (678 sq ft). The development also proposes five car parking spaces (of which three are for disabled parking), 38 secure cycle parking spaces and refuse storage.

- 2.5** The Applicant's financial viability assessment indicates that all 23 apartments will be provided for private market sale on the basis that the development cannot support any on-site affordable housing on viability grounds.

Planning

- 2.6** In July 2017, the Applicant submitted a planning application seeking planning permission for the following development:

"Demolition of existing buildings and construction of a mixed use development comprising part 8-storey, part 6-storey building, 23 no. residential units, 63sqm (GIA) commercial floorspace (A1, A2 & B1), 5 car parking spaces; 38 cycle parking spaces; refuse storage; communal amenity area; and associated highway works."

- 2.7** Current LB Lewisham planning policy requires 50% of all proposed dwellings to be provided as affordable housing unless it can be demonstrated through viability that a lower provision is appropriate. In exceptional circumstances, it is possible for the applicant to offer a payment in lieu of on-site affordable homes. In either circumstance an assessment must demonstrate that the maximum level of affordable housing has been secured or that an equivalent sum is paid to provide the equivalent number of affordable homes off-site.
- 2.8** In August 2017, the Mayor of London issued Supplementary Planning Guidance on affordable housing and viability assessments, stating that where a minimum of 35% affordable housing is provided on-site and meets the specified tenure mix, without access to public subsidy, the need for an FVA can be omitted in an attempt to speed up the planning process. With no affordable housing proposed, a detailed viability review remains a requirement in the determination of this planning application.

Section 106 and CIL Proposals

- 2.9** The Applicant has allowed for Borough CIL and Mayoral CIL costs at £70 and £35 per sq m respectively. These rates have been applied to the proposed net increase

in accommodation relating to the new-build residential accommodation, allowing for affordable housing relief, where applicable. The Applicant has included a total CIL contribution of £158,830.

2.10 It is our understanding however, that the current CIL liability would be greater than the allowance currently included in the Applicant's FVA on the basis that the base charge rates have not been indexed as at the time the FVA was prepared. In order to reflect a more accurate liability, Urban Delivery has applied the latest charge rates to the CIL calculations. These are understood to be £77.29 per sq m for the Borough CIL and £44.69 per sq m for the Mayoral CIL.

2.11 Based on a net increase in floor area for residential accommodation of 1,492 sqm and 63 sqm for the commercial accommodation, we have provisionally estimated the CIL liability to be:

LBL Borough CIL:	Residential: 1,492 sqm x £77.29	= £115,317
Mayoral CIL:	Residential: 1,492 sqm x £44.69	= £66,677
	Commercial: 63 sqm x £44.69	= £2,815

2.12 The CIL liability and contribution is therefore likely to be as follows:

- Mayoral CIL: £69,492
 - LB Lewisham CIL: £115,317
- TOTAL LBL CIL & MCIL COST: £184,809**

2.13 In addition, an allowance has been made for S106 contributions totalling £50,000 for off-site children's play space.

2.14 We would recommend that these S106 and CIL figures are confirmed by the Council, with particular attention given to required indexation of the CIL liability since charging schedules were adopted. Should additional CIL or S106 contributions be required this will impact on the viability of the development and could affect the Applicant's ability to deliver the proposed scheme.

3 APPROACH TO VIABILITY APPRAISAL

Limitation of residual development appraisals

3.1 We have prepared a series of development appraisals using the industry standard Argus Developer software to appraise the project viability. 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 (as Amended). 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:

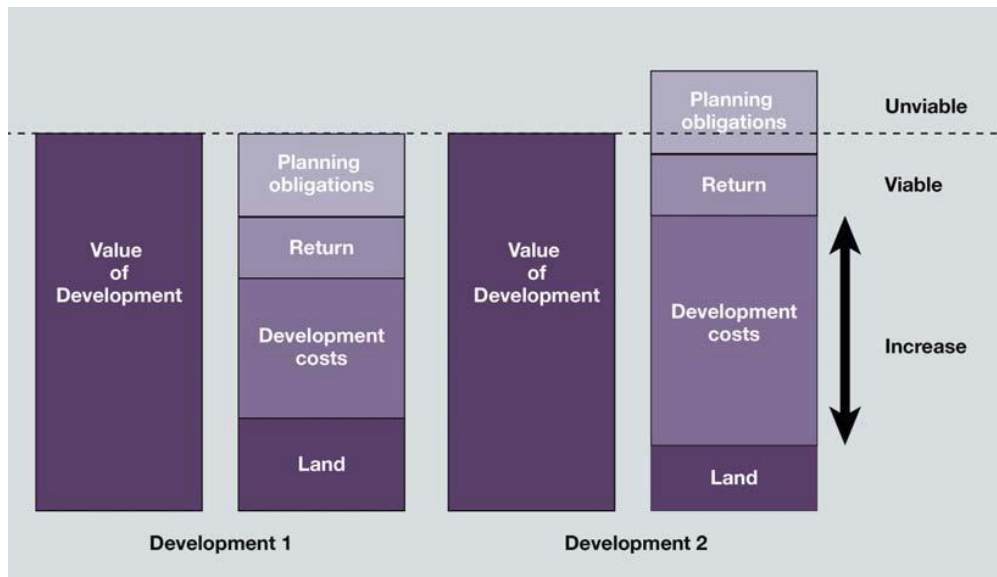
"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project".

- 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 and replicated in fig.3.1 below. 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.

Fig.3.1: Demonstration of viability



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 miss-use of this approach and a failure to account for appropriate planning obligations in the determination of development land values.
- 3.8 The NPPF acknowledges that 'willing sellers' of land should receive 'competitive returns'. Competitive returns can, in theory, only be achieved in a market context (i.e. Market Value).
- 3.9 It is noted that as of August 2017, the Mayor of London has adopted its Affordable Housing and Viability SPG which sets out the preferred method of Benchmark Land Value assessment. The Mayor considers that the EUV+ approach is usually the most appropriate approach for planning purposes.
- 3.10 Where the existing site or property is undeveloped or in a condition unsuitable for use or occupation, an alternative approach could be to consider the Alternative Use Value (AUV). This methodology seeks to identify an alternative use or development that could be permitted on the site, in line with planning policy. The cost of constructing this hypothetical development must be considered and deducted from the potential development value in order to generate a Residual Land Value (RLV). This RLV can then be suggested as the Benchmark Land Value.

- 3.11** 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). In respect of land value, the SPD notes that the analysis should be based on land values as set by the application of planning policy in determining the permissible scope of development rather than the price actually paid for the land.
- 3.12** The site value adopted in this viability assessment is based on Existing Use Value+, in respect to its current state as a mixed-use retail and residential block.
- 3.13** In determining the EUV+, Urban Delivery will have regard to transactional evidence for similar properties in the local vicinity, or further afield were appropriate and justified.

Residual Development Appraisal Assumptions

- 3.14** Our residual development appraisal has been prepared using Argus Developer, a recognised industry standard package that models individual development schemes and development phases. The model 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.
- 3.15** In our residual development appraisal we have adopted our own assumptions on the amount and timing of income and expenditure, explaining why these differ from the Applicant's assumptions, if applicable. As part of our review we have examined all assumptions and formed our own independent view on whether these assumptions are applicable in the current market conditions.
- 3.16** We have appraised the development scheme as a single phase. We provide a copy of this appraisal in Appendix 3 and set out the revenue and cost assumptions adopted.

4 MARKET ANALYSIS

Local Property Market

- 4.1** We have undertaken a review of the local property market to identify a range of comparable evidence relating to sales, rental values and investment yields for retail properties as well as new build residential unit sales.

Benchmark Land Value Review

- 4.2** The existing use of the Property is a mixed-use block comprising four retail units on the ground floor with four 2 bedroom apartments on two upper floors. In order to review the existing use value for the Property we have investigated transactional evidence from around the local vicinity to ascertain reasonably achievable investment values for retail and residential units.
- 4.3** The Applicant has valued the existing Property at £980,000. To incentivise a landowner to release the site for development a premium of 20% has been applied which generates a Benchmark Land Value (BLV) of £1,176,000.

Retail Property Values

- 4.4** During the course of our market review we have noted Land Registry records identify the Property was acquired by IMA Project Two Limited on the 10th June 2016, for a sum in the order of £1,125,000. The acquiring party is assumed to be the Applicant. It is noted that this purchase price is £51,000 lower than the adopted BLV within the Applicant FVA. It is not certain however whether the acquisition price is subject to any overage payments related to the successful grant of planning permission or any other trigger to generate additional value. For the purpose of this FVA review, it is assumed this was an unconditional acquisition and this price reflects the total land cost.
- 4.5** Despite having this information available, it should be noted that the BLV should be based on the Existing Use Value plus a premium, as at the date of the FVA. For this reason, we have sought to establish the likely achievable rental value and investment

yield that the Property could expect to achieve. To assist in forming this opinion we have made reference to the available comparable evidence.

167 Sydenham Road, SE26

- 4.6** This retail unit is located approximately 0.7km to the west of the Property, and is more central to Sydenham and is considered to be a superior retail location. The unit extends to 70 sqm (753 sq ft) and was leased to Beer Rebellion, a craft beer venue, in January 2017 for a rent of £26,000 pa. This reflects a rental rate of £371 per sq m (£34.50 per sq ft), overall. As a leisure retail unit it would be expected this unit to achieve a premium rental level compared to A1 retail units.

170 Sydenham Road, SE26

- 4.7** This retail unit is located approximately 0.7km to the west of the Property, and again, is more central to Sydenham. The unit extends to 52 sqm (565 sq ft) and was leased in January 2015 for a term of nine years at a rent of £7,500 pa. This reflects a rental rate of £143 per sq m (£13.30 per sq ft), overall.

341 Sydenham Road, SE26

- 4.8** This retail unit is located approximately 0.1km to the west of the Property, close to the corner of Bell Green. The unit extends to 33 sqm (350 sq ft) and was leased in December 2014 for a rent of £10,000 pa. This reflects a rental rate of £307 per sq m (£28.50 per sq ft), overall.

287 Sydenham Road, SE26

- 4.9** This retail unit is located approximately 0.3km to the west of the Property. The unit extends to 129 sqm (1,390 sq ft) of which 59 sqm (640 sq ft) is used for retail sales area. The unit was marketed in 2015 to either lease or for sale. The asking rent was £12,000 pa, reflecting a rental rate of £93 per sq m (£8.60 per sq ft), overall. However, the unit was eventually acquired in December 2015 for a sum of £140,000 reflecting a capital value of c.£1,085 per sqm (£101 per sq ft) and an investment yield of 8.35% net of purchaser's costs.

99 Kirkdale, SE26

- 4.10** This retail unit is located approximately 1.5km to the west of the Property, on the other side of Sydenham. The unit extends to 41 sqm (437 sq ft). The unit was leased in July 2017 for a term of 10 years at a rent of £11,000 pa, reflecting a rental rate of £271 per sq m (£25 per sq ft), overall. However, the unit was subsequently sold as an investment in October 2017 at auction for the sum of £150,000 reflecting a capital value of c.£3,660 per sqm (£343 per sq ft) and an investment yield of 7.1% net of purchaser's costs.

278-280 Kirkdale, SE26

- 4.11** This newly constructed retail unit is located approximately 1.2km to the west of the Property, close to Sydenham station. The unit extends to 149 sqm (1,604 sq ft) across ground and basement levels. The unit was leased in November 2016 for a term of 15 years to Acorn Estate Agents at a rent of £30,000 pa, reflecting a rental rate of £201 per sq m (£18.70 per sq ft), overall. The unit was sold as an investment in December 2016 at auction for the sum of £425,000 reflecting a capital value of c.£2,850 per sqm (£265 per sq ft) and an investment yield of 6.75% net of purchaser's costs.
- 4.12** We have also had regard to evidence set out in the GVA valuation report included with the Applicant's FVA. This report acknowledges the limited comparable evidence and refers to the historic lettings at 86-92 Bell Green which were agreed in 2013 and 2014 and typically secured rents at £7,500 pa, reflecting Zona A rental values of c.£231 to £242 per sqm (£21.50 to £22.50 per sq ft).
- 4.13** We note that the transactional evidence available is not truly comparable in terms of location and quality, with the Property itself being located in a secondary or tertiary pitch and is in a poor state of decoration. It will therefore be necessary to make a judgement on appropriate adjustments to the evidence stated above to form an opinion on achievable rental and capital values for the existing retail units.

4.14 The retail lettings evidence indicates an overall rental range of £93 to £371 per sqm (£8.60 to £34.50 per sq ft) which is considered to be quite broad. The middle of this range is calculated to be approximately £231 per sq m (£21.50 per sq ft).

4.15 Having considered the retail letting evidence available, we are of the opinion that the existing four retail units could achieve a rent equivalent to £231 to £242 per sqm (£21.50 to £22.50 per sq ft) in the current market. We would also expect investment yields to be in the region of 7% to 8%, assuming the premises were suitable for accommodation.

Residential Rental Property

4.16 The existing Property includes four 2 bedroom flats. The Applicant's BLV calculation assumes these will be let on AST agreements at an average rent of £1,000 pcm, rather than sold as long leasehold interests. We have given both options due consideration in the arrival at our opinion on an appropriate BLV.

4.17 A review of the property websites Rightmove and Zoopla has identified a range of two bedroom flats available for rent in the vicinity of the Property, on Sydenham Road, Southend Lane and Worsely Bridge Road. Asking rents start from £1,100 pcm and range up to £1,450 pcm.

4.18 On the basis that the units within the Property are on a busy road and appear to be in a poor state of decoration we would anticipate rental values to be towards the lower end of this range. A rent of £1,000 to £1,100 pcm could be achievable although allowance would need to be made for voids between lettings.

Residential Sale Property

4.19 With regard to sales evidence for long leasehold units, a review of the local property market identifies that two bedroom apartments within older blocks and in need of renovation are currently being priced at between £200,000 and £230,000. Allowing for a 5% discount on asking prices this would reduce the range to c.£190,000 and £219,000. Adopting the lower range would indicate a capital value of c.£760,000 for

the four units. However, it is assumed that capital expenditure would be necessary to renovate the units and put them into a saleable condition.

- 4.20** Assuming an allowance of £30,000 per apartment, the net price that could potentially be achieved for the four units, on the assumption they are sold with the benefit of a long leasehold, could be in the order of £600,000 to £650,000.

New Build Residential Sales Evidence

- 4.21** For the purpose of considering the potential development value of the proposed scheme, we have undertaken a review of new build developments in the local area to identify a range of comparable sales evidence. This information is set out below.

Dylon Works, Station Approach, SE26 5HD

- 4.22** Dylon Works is a large development currently under construction by Crest Nicholson and is located approximately 0.6 km southeast of the subject property on Worsley Bridge Road. The development comprises of 223 one, two and three bedroom units
- 4.23** The prices achieved so far at this development are higher than we would expect to be achieved at the proposed development due to its location, proximity to Lower Sydenham station, the scale of development creating a greater sense of place with landscaped gardens and set back from the main arterial highways. Additionally, the 'Help to Buy' scheme is also supporting buyers with the availability of a 20% equity loan that has helped improve affordability over the initial five year period of ownership. The developer is also understood to provide car parking included within the unit price and offers to pay the buyers stamp duty. Discussion with the marketing agent has indicated that listed asking prices are achieved as agreed sale prices. Therefore, the average sale value of £631 per sq ft, as evidenced in the table below, should be regarded as a gross sales value with a deduction for incentives reducing this figure slightly.

Dylon Works, Worsley Bridge road								
Unit Ref	Beds	Floor Level	Description	Area (Sq m)	Area (Sq ft)	Prie	£ sq ft	Sold Date
C070	2	G	patio	75	804	£514,995	£641	N/A
C075	3	1	balcony	109	1175	£599,995	£511	N.A
C077	1	1	balcony	53	572	£394,995	£691	Nov-16
C082	3	2	balcony	109	1175	£599,995	£511	N/A
C083	1	2	balcony	53	572	£399,995	£699	Feb-17
C084	1	2	balcony	53	572	£399,995	£699	Feb-17
C085	1	2	balcony	53	572	£399,995	£699	Apr-17
C088	2	3	balcony	82	885	£534,995	£605	Jun-17
C094	2	3	balcony	93	1004	£549,995	£548	N/A
C095	1	4	balcony	52	560	£429,995	£768	Apr-17
C098	1	4	balcony	49	532	£394,995	£742	N/A
E118	1	1	balcony	52	557	£379,995	£682	N/A
E122	1	2	balcony	55	589	£402,500	£683	N/A
E124	2	2	balcony	63	679	£502,995	£741	N/A
E135	1	3	balcony	52	557	£389,995	£700	N/A
F148	1	G	patio	51	546	£389,995	£714	N/A
F166	1	G	patio	51	546	£395,000	£723	N/A
C071	3	G	patio	109	1175	£599,995	£511	N/A
C072	1	G		52	557	£384,995	£691	Apr-17
C073	1	G	patio	52	557	£379,995	£682	N/A
C074	2	1	balcony	82	885	£524,995	£593	Jun-17
C076	1	1	balcony	53	571	£394,995	£692	Feb-17
C078	1	1	balcony	53	572	£394,995	£691	Apr-17
C079	2	1	balcony	88	949	£529,995	£558	N/A
C081	2	2	balcony	82	885	£529,995	£599	Nov-16
C086	2	2	balcony	88	949	£529,995	£558	N/A
C087	2	2	balcony	93	1004	£534,995	£533	N/A
C093	2	2	balcony	88	949	£534,995	£564	N/A
C097	2	4	balcony	70	753	£534,995	£710	Apr-17
C099	2	4	balcony	70	755	£529,995	£702	N/A
D102	2	1	balcony	73	790	£519,995	£658	Feb-17
D103	3	1	balcony	107	1147	£599,995	£523	Jun-17
D104	3	2	balcony	107	1147	£599,995	£523	Apr-17
D108	2	3	balcony	73	790	£529,995	£671	Feb-17
D110	1	4	terrace	52	562	£419,995	£747	Apr-17
D113	1	4	terrace	52	562	£419,995	£747	Jun-17
E115	2	1	balcony	80	860	£524,995	£610	N/A
E119	1	1	balcony	52	557	£379,995	£682	N/A
E120	2	1	balcony	89	956	£524,995	£549	N/A
E125	2	2	balcony	69	743	£502,995	£677	N/A
E126	1	2	balcony	52	557	£384,995	£691	N/A
E127	1	2	balcony	52	557	£384,995	£691	Jun-17
E134	1	3	balcony	52	557	£389,995	£700	N/A
E138	2	4	balcony	70	754	£539,995	£716	N/A
E140	2	4	balcony	77	824	£534,995	£649	N/A
E141	1	4	balcony	51	549	£414,995	£756	N/A
E142	3	4	balcony	86	926	£599,995	£648	N/A
E143	1	4	balcony	50	533	£419,995	£788	N/A
F144	3	G	patio	114	1231	£599,995	£487	N/A
F154	1	1	balcony	51	546	£392,500	£719	N/A
F160	1	2	balcony	51	546	£395,000	£723	N/A
Average							£631	

Zanara Court, Sydenham Road, SE26

4.24 This scheme comprises a total of 18 apartments with a mix of one, two and three bedroom units, of which two are provided as intermediate rent affordable homes. The development is under construction and initial marketing of the first four units has only recently commenced with the main launch to be released in January 2018. So far only the one bedroom unit has been reserved and the remaining three units are available. Details are included in the table below.

Zanara Court, Sydenham Road, SE26							
Unit/Type	Floor	No Beds	Area (sq m)	Area (sq ft)	Asking Price	£psf	Sold Date
Flat 1	Grd	1	55	592	£385,000	£650	Reserved
Flat 2	Grd	2	64	689	£450,000	£653	OTM
Flat 3	Grd	3	88	947	£610,000	£644	OTM
Flat 4	Grd	3	90	969	£625,000	£645	OTM
Average						£647	

4.25 This development is located on Sydenham Road, closer to Sydenham station, approximately 1.1km west along Sydenham Road from the subject Site. While the units are of a similar size to the proposed scheme we attribute the higher value to its situation away from the busy junction on Bell Green, availability of a communal courtyard amenity space and its closer proximity to the railway station. There is also no certainty yet that the higher priced two and three bedroom units will achieve the initial asking prices and these should be viewed with caution at the current time.

Barclay Court, Venner Road, SE26

4.26 Barclay Court was a development of four one and two bedroom contemporary apartments located approximately 1.3km to the west of the subject Property. The units are described as being completed to a luxury finish. Since the release of these units in July 2016 a £75,000 reduction has been made on the available units. The unit sizes within this development are considerably smaller than within the proposed development therefore the £per sq ft will be higher at Barclay Court. Current prices are set out in the table below:

Barclay Court, Venner Road, SE26							
Unit/Type	Floor	No Beds	Area (sq m)	Area (sq ft)	Price	£psf	Sold Date
Flat 1	Grd	1	39	424	£300,000	£708	OTM
Flat 3	1st	2	53	570	£390,000	£684	OTM
Flat 4	2nd	2	53	570	£390,000	£684	OTM
Average				1564		£691	

Chaffinch Court, Rowden Road, BR3

- 4.27** Chaffinch Court is a development of six two bedroom contemporary apartments located approximately 0.3km from Clock House Station and 2km to the South of the Property. The development includes parking and is also offered on the Help to Buy scheme. We are advised that one unit in the current phase remains available and that the second phase is due to be released at the end of this year. Prices for the recently marketed units are set out in the table below:

Chaffinch Court, Rowden Road, Beckenham						
Unit Ref	Beds	Area (Sq m)	Area (Sq ft)	Price	£ Sq ft	Sold Date
1	2	61	660	£429,950	£651	SSTC
4	2	61	657	£437,500	£666	OTM
5	2	61	657	£442,500	£674	SSTC
Average					£664	

- 4.28** As can be identified from the table above, floor areas for the two bedroom units are similar in size to the units within the proposed development. However, Rowden Road is a superior residential location with quieter suburban streets close to Beckenham. As such, the units are likely to achieve a greater unit price than homes on the corner of Bell Green.

Albemarle Place, BR3

- 4.29** This new build scheme is a small development comprising nine two bedroom units, located 0.6km from Ravensbourne Station and 2.7km South east of the subject Site. The units are spacious and built to a high specification. It is understood from the sales agent that the development completed in December 2016 and all units are now sold. The table below includes sold prices, provided verbally by the agent. The two bedroom units in this development are considerably larger than in the proposed

development which is reflected in the higher capital values per unit. Due to the size of these units, it is believed the average £/sq ft is lower than could be achieved within the subject development.

Albermarle Place, Albemarle Road, Beckenham						
Unit Ref	Beds	Area (Sq m)	Area (Sq ft)	Price	£ sq ft	Sold Date
1	2	103	1,112	£535,000	£481	2H/2017
3	2	98	1,060	£520,000	£490	1H/2017
5	2	81	868	£495,000	£570	1H/2017
6	2	103	1,112	£530,000	£481	1H/2017
8	2	81	868	£495,000	£570	1H/2017
9	2	960	1,030	£535,000	£519	1H/2017
Average					£514	

Newbeck Court, BR3 1QJ

4.30 Newbeck Court is a collection of one and two bedroom units marketed by JDM New Homes, set within a gated development, located close to New Beckenham Station and is approximately 1.4km south of the subject Site. The development was launched at the end of 2015 and all units are now sold.

4.31 Upon enquiring about this development the marketing agent advised that in their opinion the property market had not moved significantly in terms of availability of similar developments and these prices should provide a good indication of achievable prices in the local area.

Newbeck Court, Beckenham						
Unit Ref	Beds	Area (Sq m)	Area (Sq ft)	Sold Price	£ Sq ft	Sold Date
11	2	63	679	£375,000	£552	Mar 2017
10	2	77	825	£425,000	£515	Apr 2017
12	1	52	557	£310,000	£570	Sept 2017
Average					£539	

Resale Apartments

4.32 Due to a limited selection of new-build apartments within the local vicinity to Bell Green, we have also given consideration to resale units within the immediate area. Resales of older homes in the Sydenham area have been included in the table below to provide an indication of likely achievable sale prices for the subject development.

Apartment resales						
Address	Description	Area (Sq ft)	Sale Date	Sale Price	£/Sq ft	
Flat 4, 266-268 Kirdale road, SE26 4RS	1 bed, 2002 conversion, above a shop	484	April	£295,000	£609	
Flat 4, The Arc, 85 Willow way, SE26 4AR	2 bed flat	721	Oct-16	£385,000	£533	
First Floor Flat, 75, Larkbere Road, SE26 4HA	1 bed flat	484	Aug-17	£320,000	£661	No Image Available
10 Loxley Close, Sydenham, SE26 5DU	1 bed, top floor flat	624	Aug-17	£280,000	£449	
33b Burghill Road, Sydenham, SE26 4HJ	2 bed flat situated within converted house	883	Sep-17	£390,000	£441	
Flat 6, Burghill Court, Mayow Road, Sydenham, SE26 4HW	2 bed flat	678	Sep-17	£350,000	£516	No Image Available

4.33 The re-sale evidence above indicates a range of sales values for one and two bedroom units in the vicinity of the subject Property. The one bed units range from £280,000 to £320,000 while the two bedroom units range in value from £350,000 to £390,000. The £/sq ft values range from £441 to £609 per sq ft, although this metric is dependent on unit size in relation to the sale price and unit type.

4.34 We would comment that due to the limited availability of comparable new-build units within the immediate locality, the resale evidence provides a good indication of the potential pricing for respective unit types. However, we would expect new-build units to command a premium to existing housing stock, particularly where sale incentives are to be offered to purchasers as well as access to the Help to Buy scheme.

Summary

4.35 Urban Delivery has conducted market research by speaking to local estate agents in Sydenham and surrounding areas. It is the consensus from speaking to these agents that the market has remained strong for one and two bedroom units. While three bedroom units are less common, it is believed these will be popular with purchasers seeking larger properties to accommodate a family, particularly where private outside amenity space is available, although these will be price sensitive.

4.36 Agents have indicated that over the past few years, sale prices within the larger developments have been supported by the government's Help to Buy scheme and as such prices have been slightly inflated. There is a risk that when this scheme expires sales rates could start to fall back slightly.

4.37 We would suggest that although it is useful to be aware of larger developments such as Dylon Works, it is more helpful to reference similar scale developments on the market such as units at Zanara Court, Barclay Court and Chaffinch Court. While these schemes are all situated in different locations with differing characteristics to the Property at Bell Green, they help to offer an indication of unit pricing.

4.38 With regard to estimating the achievable average unit sales prices for the one bedroom units we suggest a range between £317,500 and £327,500. With regard to the two bedroom units we suggest a range of between £410,000 and £465,000. With regard to the three bedroom units, on the basis these appear to be small units, we suggest pricing between £495,000 to £535,000. The application of this unit pricing range generates an average sales value of £6,555 per sq m (£609 per sq ft). This is marginally greater than the residential sales values applied to the Applicant's FVA of

£6,458 per sq m (£600 per sq ft). A copy of the indicative pricing schedule is attached at Appendix 2.

Residential Rental Values

- 4.39** 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 November 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
- 4.40** 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.
- 4.41** In assessing the potential value attributable to any Affordable Rented units we have taken into account the government's requirement for Registered Providers to reduce rents by 1% per annum up to 2020. We have concluded that a Registered Provider may typically adopt a blended rate for the one, two and three bedroom units of £2,650 per sq m (£246 per sq ft), reflecting a value of circa 40% of the estimated private sales value. We note however that the Applicant has indicated a rate of £2,860 per sq m (£266 per sq ft) within its own FVA report.
- 4.42** 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.
- 4.43** This approach indicates a blended value for the one, two and three bedroom units at £3,875 per sq m (£360 per sq ft), reflecting a value of circa 60% of the estimated private sales value. We note however that the Applicant has indicated a rate of £3,820 per sq m (£355 per sq ft) within its own FVA report.

5 VIABILITY ASSESSMENT

Benchmark Land Value

5.1 The Applicant's FVA allows for a Benchmark Land Value of £1,176,000. This is calculated based on an estimated EUV of £980,000 plus a 20% premium of £196,000. To complete an objective viability assessment, Urban Delivery has sought to review the potential existing use value for the Property in its current use as four ground floor retail units and four 2 bedroom flats on the upper two storeys.

Existing Use Value

5.2 Based on the evidence we set out in the previous section of this report relating to retail property values, we are of the opinion that that achievable rent for the retail units would be in the order of £231 per sq m (£21.50 per sq ft).

5.3 We are advised by the Applicant that the four retail units comprise the accommodation as set out in the table below, with which we have used to estimate the market rent.

Retail Unit	Area (Sqm)	Area (Sq Ft)
86 Bell Green	30.9	333
88 Bell Green	32.3	348
90 Bell Green	32.1	345
92 Bell Green	25.5	275

5.4 Applying the rental value stated to these floor areas would generate a rental revenue of just under £28,000 per annum.

5.5 With regard to the residential units, we have based the likely achievable income on the evidence stated in section 4 of this report which supports the Applicant's assumption of a monthly rent of circa £1,000 pcm for each of the units. Assuming all four units could be re-let, this would generate an annual revenue of £48,000.

5.6 The combined rental income would generate a revenue of circa £76,000 per annum. To reflect the risk of this investment however, we would apply a yield of 7.5%, compared with the Equivalent yield of c.6.3% adopted by the Applicant's valuer. This appraisal is summaries below, and generates a new current use value in the order of £960,000.

Current Use Value			
86-92 Bell Green, Sydenham, SE26			
Retail Accommodation			
86 Bell Green	333	Sq Ft	
88 Bell Green	348	Sq Ft	
90 Bell Green	345	Sq Ft	
92 Bell Green	275	Sq Ft	
Total Retail Accommodation	1,301	Sq Ft	
Rent @ £21.50psf	£	27,972	
	Say	£ 28,000	Per Annum
Residential Accommodation			
Flat 1	£ 12,000	Per Annum	
Flat 2	£ 12,000	Per Annum	
Flat 3	£ 12,000	Per Annum	
Flat 4	£ 12,000	Per Annum	
Total Residential Income	£ 48,000	Per Annum	
Reversion			
Total Revenue	£ 76,000		
YP in Perp @ 7.50%	13.3333		
Gross Value		<u>£ 1,013,333</u>	
Gross EUV		<u>£ 1,013,333</u>	
Less: purchasers costs @ 5.4%		<u>£ 961,417</u>	
	Say:	£ 960,000	

5.7 This figure is £20,000 lower than the value assumed by the Applicant, and is therefore within an acceptable tolerance. We would agree that a premium of 20% is reasonable to incentivise the owner to release the asset for development, which applied to our own EUV calculation would indicate a BLV of £1,152,000.

Appraisal Inputs

Residential Revenue

- 5.8** Based on the limited evidence of new-build residential sales data in the local vicinity, we are of the opinion that for the purpose of this viability assessment it would not be appropriate to adopt a strict value per sq m (or sq ft) on this alone and have also had regard to some of the re-sales evidence reported locally. In view of this mix of evidence we have given consideration to the potential unit pricing for the mix of one, two and three bedroom apartments in this proposed scheme, at the current time.
- 5.9** In consideration of the sales evidence for both new-build and re-sale homes in the local vicinity, we have applied estimate sale prices for each unit as summarised in the table below:

Apartment Type	No. of Units	Unit Price
1 Bed Unit	10	£317,500 to £327,500
2 Bed Unit	8	£410,000 to £465,000
3 Bed Unit	5	£495,000 to £535,000
Total	23	£9,242,500

- 5.10** Our own assessment of the residential sales revenue is c.£117,000 greater than suggested in the Applicant's viability report and reflects only a marginal increase.

Ground Rent Revenue

- 5.11** The Applicant has applied an average ground rent of £275 per annum for all proposed dwellings. This generates an annual ground rent income of £6,325. We would comment that this level of ground rent is towards the lower end of the range for new developments in London and would expect ground rents to be in the order of £250 for one bed units, £300 for two bed units and £350 for the three bed units. We have applied this range to our own FVA which generates an annual ground rent income of £6,650.

- 5.12** The Applicant has applied a yield of 5.5% to the ground rent investment. We are of the opinion this is an acceptable investment return for the proposed ground rent investments and we have therefore applied a yield of 5.50% within our own appraisals.

Commercial Revenue

- 5.13** The proposed development includes a 63 sqm (678 sq ft) retail unit. The Applicant has applied a rental value equivalent to £194 per sq m (£18 per sq ft) and a yield of 7.75%. Based on the evidence to support the BLV we believe this is lower than should be achieved and have applied a rental value equivalent to £231 per sqm (£21.50 per sq ft) and a yield of 7.5%. This assumption generates a value approximately £35,000 greater than the Applicant had included within its own FVA.

Cost Advice

- 5.14** In order to check the Applicant's cost assumptions we have taken advice from Trident Building Consultancy. Trident has reviewed the Applicant's cost summary and analysed the broad inputs that make up the total construction costs. A copy of Trident's report is attached at Appendix 1.
- 5.15** In summary, Trident has found the cost assumptions adopted by the Applicant to be towards the higher end of the cost range it would expect for a development of this nature. As such, Trident has suggested that the cost figure adopted within the Applicant's FVA should be reduced from an inflation adjusted figure of £5,708,319 to £5,408,319 which equates to around £2,662 per sq m (£247 per sq ft), inclusive of external works, abnormal costs and design contingencies.

S106 and CIL Contributions

- 5.16** We have applied the overall Borough CIL and Mayoral CIL contributions to our appraisal as set out in paragraph 2.12. These total £184,809. These calculations are understood to be based on the appropriate CIL contributions that would be due for the proposed development. We would recommend that the Council check these figures are accurate based on the agreed floor areas and any indexation to be applied to the agreed CIL charge rates.

- 5.17** The Applicant has allowed for S106 contributions of £50,000 for providing an off-site children's play area. We have therefore applied this S106 cost to our own appraisals.

Professional Fees

- 5.18** The Applicant has adopted an average cost for professional fees reflecting 10% of construction costs. For a new scheme, depending on scale and complexity, we would ordinarily allow for fees in the order of 8% to 12% of build costs. On the basis that this proposed development is relatively non-complex, we would accept the Applicant's figure and have adopted a rate of 10% within our own appraisal.

Marketing Costs

- 5.19** The Applicant has applied marketing and sales costs of 3.00% of the private residential sales values and 2.5% for the commercial and ground rent investment to cover agency fees in addition to advertising and production of marketing materials. This could also potentially include the preparation of a show flat.
- 5.20** We are aware that different developers attribute different marketing rates and that such rates typically range from a relatively notional rate up to circa 3.5%. 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. We are of the opinion that the rate applied by the Applicant is acceptable and we have adopted the same rate within our own appraisal.

Legal Fees

- 5.21** There is no specific reference within the Applicant's FVA for Legal Fees. However, it is usual for some allowance to be included to cover conveyancing matters. Within our appraisal we have allowed for sales legal fees equivalent to 0.25% of the residential sales values and 0.5% of the capital value for the retail unit and ground rent investments.

Finance Costs

- 5.22** The Applicant has adopted a finance rate of 6.75% across the development. We note that there is no separate fee for arrangement costs or loan exit fees which typically range from 1% to 2% of the funds borrowed.
- 5.23** It should also be borne in mind however that in practice, in order to limit loan to value ratios to no more than 70% to 80%, a proportion of the development funds will be drawn from internal reserves which can attract a higher 'cost of money' where opportunity costs require an internal rate of return in excess of finance rates offered by financial institutions. As such, for the purpose of this viability assessment the Applicant's adopted rate appears reasonable.

Developer Profit

- 5.24** Within the Applicant's FVA the Applicant has targeted a profit rate is 17.5% profit on Gross Development Value. Typically, developers will target a rate of return in excess of this figure for the purpose of viability assessments and a rate of 20% is often cited as a minimum level of return at the planning stages of a development. For the purpose of this FVA review we would accept the Applicant's profit rate and have therefore based our target return on a profit of 17.5% on private sales and the commercial use. Where applicable, we would adjust the profit rate to 6% where any on-site affordable homes are included.
- 5.25** With regard to a suitable development return for a standard development project, we consider the GLA Toolkit's default allowance of 20% of Gross Development Value a reasonable benchmark. However, we are aware that other viability toolkits permit a range of profit levels to suit the phasing and perceived risk of the project.
- 5.26** We would also have regard to past appeal cases where the Planning Inspectorate has passed judgement on the acceptability of certain profit levels within viability assessments. One particularly prominent case being The University of Reading Vs Wokingham BC in which the Inspector accepted a developer return of 20% profit on GDV.

5.27 We would also note that with continuing uncertainty on the impact of the UK's departure from the EU and uncertainty continuing over the short to medium-term performance of the London housing market, there is greater risk perceived in the lending market which has seen development funding increase in cost over the past 12 months. As such, lenders are potentially likely to require developers to provide a greater 'buffer' to repay loans and this could reinforce the requirement for a slightly greater developer profit to be achieved.

6 VIABILITY OUTPUTS

Viability Findings

- 6.1** We have undertaken our own appraisal and have arrived at the main outcomes described below.
- 6.2** Based on our opinion of Gross Development Value for the proposed development, the development costs, an acceptable level of developer profit and a Benchmark Land Value of £1,152,000, we are of the opinion that the development is generating a viability gap of circa £157,000. In view of this output, we are of the opinion that the proposed development is unable to support the inclusion of any on-site affordable housing, which would further impact negatively on the viability of the development scheme.

Sensitivity Analysis

- 6.3** In view of the current property market uncertainties resulting from the vote for Britain to exit the EU and broader economic performance in the London housing market, we have undertaken a series of sensitivity analyses to identify the potential upside and downside risk to the Applicant.
- 6.4** The table below sets out the surplus or deficit that the scheme with 100% private sale units could generate where the sales values of the private units fall and rise by the stated level. For the purpose of this sensitivity testing we have applied our own opinion on sales values.

Private Sales Value	Deficit / Surplus (Target RLV is £1,152,000)
+5%	£150,000
+10%	£456,000
+15%	£763,000
-5%	-£464,000
-10%	-£771,000
-15%	-£1,085,000

6.5 With the current proposal being assessed as financially non-viable, the sensitivity testing indicates that average sales values would need to increase by approximately 2.50% to achieve a scheme that breaks-even. As set out in the above table, any further reductions in sale value, caused by current market uncertainties, will significantly impact on the viability and potential delivery of the proposed development.

Policy Compliant Affordable Housing

6.6 To provide a policy compliant mix of affordable homes we have undertaken further sensitivity testing to identify the required average private sales value to support the development. The average base sales value is set at £6,555 per sq m (£609 per sq ft). This sensitivity testing assumes a mix of 70% affordable rented homes and 30% shared ownership homes. The average blended rate adopted for the mix of rented and intermediate Affordable Housing is £3,150 per sq m (£293 per sq ft).

% Affordable Homes	Required Sales Value	Alternative Surplus
50% (11 units)	£900 per sq ft	£2,779,000
35% (8 units)	£783 per sq ft	£1,601,000

6.7 In order to achieve a 50% policy compliant mix of affordable homes the average private sales value would need to increase by approximately 47.85% to achieve an average of £9,687 per sq m (£900 per sq ft). The column indicating the 'Alternative surplus' reflects the surplus the development project would achieve assuming the stated sales value was achieved, having allowed for the agreed Benchmark Land Value and the developers target profit equivalent to 17.5% profit on GDV.

Review Mechanism

6.8 For larger schemes we would typically recommend a review mechanism within a S106 agreement to review viability of the scheme towards the end of the development programme. This would be used to assess the average sales values that have been achieved and ascertain whether any 'top-up' payments should be made to the Council. While review mechanisms have not typically been applied to

smaller or single phase schemes, this is something that is now being advocated by the Mayor of London in order to ensure a fair contribution is received from developers towards the provision of affordable housing across London.

7 CONCLUSION

- 7.1** Having reviewed the Applicant's proposal for the development of the subject Property we are of the opinion that the development is not financially viable and will generate a deficit of circa £157,000.
- 7.2** As at the date of this report, this level of deficit indicates that the proposed development scheme will not be able to support the inclusion of any affordable homes.
- 7.3** Additionally however, as indicated by the sensitivity analysis set out in section 6 of this report, consideration should also be given to current property market uncertainties caused partly by the referendum vote to exit the EU as well as a broad slowing or decline of house price growth in London and the risk implications this has for the Applicant in proceeding with this project. Should house prices fall over the following 12 months and beyond, this will have significant implications on the financial viability of the project and the delivery of the proposed development scheme.

APPENDIX 1

Trident Cost Report

Financial Viability Report

86 – 92 Bell Green

Sydenham

Lewisham

London

SE26 4PZ

Report Dated 18 October 2017

Financial Viability Report

Prepared for London Borough of Lewisham
C/O Urban Delivery Limited
17 Hanover Square
London
W1S 1BN

Prepared by Trident Building Consultancy Limited
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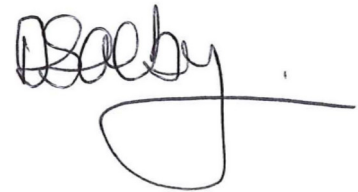
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A handwritten signature in black ink, appearing to read "Dave Saxby". The signature is written in a cursive style with a long horizontal stroke extending to the right.A handwritten signature in blue ink, appearing to read "CD". The signature is written in a cursive style with a long horizontal stroke extending to the right.

Checked by Colin Dunne BSc (Hons) MRICS

Reference CD/E2017-0928

Date issued 18 October 2017

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1.0 Introduction

- 1.1 Trident Building Consultancy Limited were appointed by Urban Delivery Limited to review the construction cost estimate for the proposed residential development at 86-92 Bell Green, Sydenham, Lewisham, London, SE26 4PZ.
- 1.2 The construction cost review will form part of a Financial Viability Study undertaken by Urban Delivery Limited. This report is for the purposes of Urban Delivery Limited only and has been prepared in accordance with our scope of services document included within our appointment document.

2.0 Project Description and Information Received

2.1 PROJECT DESCRIPTION

- 2.1.1 The development site is approximately 0.034 hectares in area and is rectangular in shape. Access into site is via the busy Bell Green road to the front.
- 2.1.2 The application site houses a detached terrace of 4 no. retail shops with 4 no, 2 bedroom residential flats above built c.1960.
- 2.1.3 The proposed development will comprise the demolition of existing building and construction of a mixed use development comprising part 8-storey, part 6-storey building, accommodating 23 no. residential units and 63sqm of commercial floor space. The scheme will deliver a mix of 1, 2 and 3 bedroom apartments. The development will include a communal outdoor amenity space, cycle parking, refuse provisions and associated highway works.
- 2.1.4 The proposed residential unit mix is as follows:

Unit Type	Nr. Of Units	%
1-bed, 2-person	10	43
2-bed, 3-person	8	35
2-bed, 4-person		
3-bed, 4-person	5	22
TOTAL	23	100

2.2 INFORMATION RECEIVED

2.2.1 We have received the following information in respect of the construction cost review:

- 86 – 92 Bell Green, Sydenham, Lewisham, London, SE26 4PZ Financial Viability Assessment (FVA) Report For IMA Real Estate July 2017;
- Information in respect of Planning Application DC/17/102792 http://planning.lewisham.gov.uk/online-applications/applicationDetails.do?activeTab=documents&keyVal= LEWIS DCAPR_90694

2.3 DEVELOPMENT AREAS

2.3.1 The Applicant's Appraisal is based on a construction cost using a Gross Internal Floor area of 23,145ft² (2,151m²). This area accords with the Pellings Cost Estimate Issue 04 dated July 2017. The breakdown provided to this area is as follows:

Unit Type	Nr.		Area (m ²)	Total Area (m ²)
1-bed, 2-person	10	@	50	500
2-bed, 3-person	5	@	62	310
2-bed, 3-person wheelchair accessible	3	@	75	225
3-bed, 4-person	4	@	75	300
3-bed, 4-person	1	@	78	78
Commercial unit	1	@	63	63
Covered car parking, bin and bike stores	1	@	204	204
Sub-Total				1,680
Circulation Areas				282
Balconies				189
TOTAL GROSS INTERNAL FLOOR AREA				2,151

2.3.2 We have undertaken our own check measure and calculated the GIFA to be 21,862ft² (2031m²). This is close to the GIA included on the schedule of accommodation within the Financial Viability Assessment Report which totals 21,636ft² (2010m²). It therefore seems the GIFA included within the Pellings cost estimate of 23,153ft² (2151m²) has been miscalculated. We would also note within the Pellings GIFA they have allowed for balcony areas, which in line with measuring code of practice, should not be included within the GIFA total.

3.0 Review of Construction Cost

3.1 SUMMARY OF CONSTRUCTION COST

3.1.1 The Cost estimate prepared by Pellings has been provided in the total construction cost of £5,651,801; this is based on costs at 2nd Quarter 2017 and includes a contingency of £269,133 (which equates to 5%) and excludes Inflation and VAT.

An allowance of 4% has been included for main contractors design fees.

3.1.2 The Pellings cost estimate breakdown is as follows:

1	Facilitating works		£130,500	£64.25
1.1	Facilitating works		£130,500	£64.25
1	Substructure Sub-total		£268,360	£132.13
1.1	Substructure		£268,360	£132.13
2	Superstructure Sub-total		£1,955,655	£962.90
2.1	Frame		£283,483	£139.58
2.2	Upper floors		£320,552	£157.83
2.3	Roof		£41,420	£20.39
2.4	Stairs and ramps		£63,000	£31.02
2.5	External walls		£442,000	£217.63
2.6	Windows and external doors		£393,500	£193.75
2.7	Internal walls and partitions		£279,700	£137.72
2.8	Internal doors		£132,000	£64.99
3	Internal finishes Sub-total		£512,580	£252.38
3.1	Wall Finishes		£213,740	£105.24
3.2	Floor Finishes		£196,195	£96.60
3.3	Ceiling Finishes		£102,645	£50.54
4	Fittings, furnishings and equipment		£229,000	£112.75
4.1	Fittings, furnishings and equipment		£229,000	£112.75
5	Services Sub-total		£1,043,228	£513.65
5.1	Sanitary installations		£66,000	£32.50
5.2	Services equipment		£32,030	£15.77
5.3	Disposal installations		£52,811	£26.00
5.4	Water installations		£85,933	£42.31
5.5	Heat source		£58,410	£28.76
5.6	Space heating and air conditioning		£179,124	£88.19
5.7	Ventilation systems		£16,150	£7.95
5.8	Electrical installations		£232,845	£114.65
5.10	Lift and conveyor installations		£95,000	£46.77
5.11	Fire and lightning protection		£66,463	£32.72
5.12	Communication, security and control systems		£98,062	£48.28
5.13	Specialist Installations		£30,000	£14.77
5.14	Builder's work in connection with services		£30,400	£14.97
6	External works Sub-total		£127,990	£63.02
6.1	External Works		£127,990	£63.02
	Building works estimate		£4,267,313	£2,101.09
7.1	Main contractor's preliminaries	15%	£645,950	£318.05
7.2	Main contractor's overheads and profit	7%	£298,712	£147.08
7.3	Main contractors design fees	4%	£170,693	£84.04

	Base cost estimate		£5,382,668	£2,650.26
	Design development risk	5%	£269,133	£132.51
11	Risks Sub-total		£269,133	£132.51
Cost limit (excluding inflation)			£5,651,801	

3.2 REVIEW OF CONSTRUCTION COST

3.2.1 Once adjusted for the correct GIFA (2031m²), the Applicant's Cost Plan equates to a construction cost of £2,782.77/m² including abnormals, external works and contingency. The construction cost excluding abnormals, external works and contingency is £2,522.98/m². This cost is higher than we would normally expect.

3.2.2 The Applicant's Construction Cost can be summarised into elemental allowances as follows:

ELEMENT	COST £/m ²	TOTAL COST OF ELEMENT £
Facilitating works	£64	£130,500
Substructure	£132	£268,360
Superstructure	£963	£1,955,655
Internal Finishes	£252	£512,580
Fittings, Furnishings and Equipment	£113	£229,000
Services	£514	£1,043,228
External Works	£63	£127,990
SUB-TOTAL	£2,101	£4,267,313
Main Contractor's Preliminaries (15%)	£318	£645,950
Main Contractor's OH&P (7%)	£147	£298,712
Main Contractors Design Fees	£84	£170,693
Design & Construction Risk (5%)	£132	£269,133
TOTAL	£2,783	£5,651,801

3.2.3 As the costs noted above are based at 2Q 2017 levels we would suggest that these be updated to current day levels at 4Q 2017. Based on the BCIS Tender Price Index the uplift is approximately 1%. (2Q 2017: 299, 4Q 2017: 302).

3.2.4 The updated costs to 4Q 2017 would be as follows.

ELEMENT	COST £/m ²	TOTAL COST OF ELEMENT £
Facilitating works	65	131,805
Substructure	133	271,044
Superstructure	972	1,975,212
Internal Finishes	255	517,706
Fittings, Furnishings and Equipment	114	231,290
Services	519	1,053,660
External Works	64	129,270
SUB-TOTAL	2,122	4,309,986
Main Contractor's Preliminaries (15%)	321	652,140
Main Contractor's OH&P (7%)	148	301,699
Main Contractors Design Fees	85	172,400
Design & Construction Risk (5%)	134	271,824
TOTAL	2,810	5,708,319

4.0 Benchmarking

4.1 This section compares the cost of the new build residential units against other sources of cost data.

4.2 We have collated construction cost data from various sources for new residential units and this is summarised in the table below:

Ref	Source	Sample Size Nr	Residential Units Cost range £/m2	Mean Average £/m2	Median Average £/m2
1	Trident Cost Data				
1.1	Total - Mixed Tenure Schemes less than 40 units	10	1,995 to 2,392	2,267	2,190
2	BCIS				
2.1	Apartmens / Flats (Generally)	943	1,393 to 1,883	1,669	1,596
	Apartments / Flats (3-5 Storey)	634	1,392 to 1,876	1,646	1,582

Notes

1) - The range of costs for Trident historic data is based upon the lower and upper quartiles

2) - The range of costs for BCIS is based upon figures in the lower and upper quartiles

3) - BCIS Costs include for buildings only and exclude external works

4.3 The reported construction cost of £5,708,319 equates to £2,810/m². The lower quartile figure is £1,995/m² and the upper quartile is £2,392/m². The mean average cost is £2,267/m² and the median cost is £2,190/m².

4.4 It can be seen that the Applicant's construction cost is outside the benchmark cost range for both Trident projects and BCIS cost data. The cost is £543/m² above the mean cost and £620/m² above the median cost.

4.5 To facilitate a like for like comparison with the BCIS Data, the sums included for facilitating works, external works and drainage should be omitted from the Applicants cost estimate. The items total £258,490. Once preliminaries (15%), Contractors OHP (7%), Design fees (4%) and Contingency allowance (5%) are added, the total cost of this element is £338,622 (£166.73/m²). Once this sum is deducted from the total cost of £2,810/m², the cost for the building only is £2,643/m². It can be seen that this sum is still significantly above both BCIS and Trident cost benchmarks. We are aware that the



access into and within the site is fairly restricted which will have a slight impact on costs for this development. As well as this, there are also some fairly large external amenity spaces which are not included within the GIFA measures that again shall have an impact on costs. Although this is the case, we are not aware of any specific reasons or abnormal costs that would result in such a high cost as currently shown.

5.0 Proposed Cost Adjustments

5.1 OBSERVATIONS UPON THE COST PLAN

5.1.1 Within this section, we provide our commentary upon each elemental section within the Cost Plan.

Facilitating Works

5.1.2 We have reviewed the Applicant's Cost Plan and have no specific comments upon this section.

Substructure

5.2.1 We have reviewed the Applicant's Cost Plan and are of the view that the substructure costs are generally acceptable at £268,360 (£200/m²). We have not been provided with structural design information and from the details provided within the cost plan; it suggests that this element is still to be developed. We would comment that the allowances for the ground floor slab depth seem high.

5.2.2 The piling cost is based upon an allowance of £310/m² of the Ground Floor footprint. We consider that assuming the piles are not excessively large, or long, this allowance could be reduced when the scheme is competitively tendered.

5.2.3 We would comment that the quantity of steel allowed within the substructures could most likely be reduced to a more reasonable allowance of 150kg/m³ once further designs are developed.

Superstructure

5.3.1 The Frame and upper floor allowances are generally within typical cost parameters that we would expect, although the "Holorib" decking cost seems to be higher than what we would expect. We would also comment that the quantity of steel allowed within the concrete frame to ground floor could most likely be reduced to a more reasonable allowance of 150kg/m³ once further designs are developed.

5.3.2 The allowances for stairs and roofs are considered reasonable.

5.3.3 The external walls propose a brick clad building, with vertical bonded brickwork and perforated brickwork to ground floor level. The windows will be composite aluminium units. The cost plan allowances reflect the proposed choice of materials for facades.

5.3.4 The allowances for composite windows and doors are high at £550/m². We would expect these costs to be closer in the region of £400-£450/m².

The allowance for communal doors and external balconies are considered to be reasonable allowances for the proposed scope of works.

5.3.5 In terms of the internal finishing's, we comment as follows:

- The floor finish allowances are considered reasonable on the assumption that it includes for a screed and a separate floor finish.
- The ceiling finish at £60/m² is higher than we would normally expect (typically closer to £50/m²) as this would normally comprise a plasterboard suspended ceiling decorated with emulsion but we would not propose any adjustment for this item.
- The allowances for internal doors are considered slightly high. There is potential for these to be reduced when the project is tendered.
- The allowances for bathrooms, kitchens and carpentry and joinery are reasonable and would allow a very good quality finish.
- The allowance for mechanical and electrical installations is on the upper side of what we would expect for this scheme at £840,798 (£414/m²). Typically these costs tend to fall within a range of £350/m² to £425/m². There may be further opportunity to reduce this once full M&E are developed.
- The allowance for underfloor heating seems high at £60/m², especially considering allowances have been made elsewhere for screed. We would suggest this is reduced to £45/m².
- The building has 1 nr passenger lift and typically we would anticipate a cost of £60,000 to £70,000 for this. We consider the allowance of £95,000 is too high and would represent a cost for a building with a greater number of storeys. We would therefore suggest a reduction in this cost of £30,000.

External Works

5.4.1 We have reviewed the Applicant's Cost Plan for external works items. Generally we consider the allowances to be reasonable.

Specialist Installations

5.5.1 We have reviewed the Applicant's Cost Plan for Specialist Installations items. There may be potential to reduce these costs considering the size of the roof area available.

Preliminaries

5.6.1 The allowance of 15% for Main Contractor Preliminaries is at the upper end of the typical cost range of 11% to 17%. It is possible that if the project was tendered competitively, tenders could be procured at a level below the cost plan sum of £645,950.

Overheads and Profit

5.7.1 The allowance for 7% Contractors OH&P is considered high for a project of this nature. It is possible that if the project was tendered competitively, this could be reduced to the

region of 3-5%.

Design Development/Risk

5.8.1 The Applicant has included a 5% Design Development/Risk allowance which is reasonable. As noted above we do not propose to reduce this percentage allowance.

5.9 Suggested Cost Reduction

5.9.1 Having reviewed the cost estimate provided we would suggest a reduction in construction cost of £300,000.00. We would therefore suggest the construction cost for this project to be £5,408,319.00 as below.

A)	Original Cost Plan (adjusted for time)	£	5,708,319.00
B)	Adjustment for changes to Cost Estimate		(300,000.00)
C)	Revised Current Day Construction Cost	£	5,408,319.00

Say £5.408 million

The main areas where we believe cost reductions can be achieved are as follows:

- Thickness / quantities of ground floor slab
- "Holorib" metal formwork decking to upper floors
- Composite windows and doors rate
- Ceiling finishes rate
- Internal doors rate
- Underfloor heating rate
- Passenger lift cost
- PV Panel Installation cost
- Contractor OH&P percentage

5.9.2 The revised cost equates to £2,662/m2 or £247/ft2 based upon the GIFA

6.0 Summary

6.1 Following our review of the construction costs submitted by the Applicant we would summarise the key observations as follows:

- The gross internal build cost noted within the Financial Viability Assessment dated July 2017 is incorrectly reported as £2,151/m². This is believed to be a typing error as it matches the Pellings GIFA area.
- The Applicant has provided a construction cost estimate in the sum of £5,651,801; this is based on costs at 2nd Quarter 2017. This excludes Inflation and VAT;
- The GIFA area utilised within the Pellings cost estimate is believed to be incorrect. Our measure of the GIFA area is 2,031m². This area has been utilised to calculate the costs per m² within this viability report.

5.2 For the purposes of a Financial Viability Report, as at 4th Quarter 2017, we would recommend a total construction cost of £5,408,319 which equates to £2,662/m² including abnormals, external works and contingency. The revised construction cost excluding abnormals, external works and contingency equates to £2,375/m².

APPENDIX 2

Indicative Pricing Schedule

86-92 Bell Green, Sydenham - Unit Schedule

Unit	Floor	Beds	Sq m	Sq ft	Unit Price	£/Sq m	£/Sq ft
1	1	1	50	538	£ 317,500	£6,368	£590
2	1	1	50	538	£ 317,500	£6,368	£590
3	1	2	62	667	£ 410,000	£6,631	£614
4	1	2 (WC)	75	807	£ 460,000	£6,150	£570
5	2	1	50	538	£ 320,000	£6,418	£595
6	2	1	50	538	£ 320,000	£6,418	£595
7	2	2	62	667	£ 412,500	£6,672	£618
8	2	2 (WC)	75	807	£ 462,500	£6,184	£573
9	3	1	50	538	£ 322,500	£6,468	£599
10	3	1	50	538	£ 322,500	£6,468	£599
11	3	2	62	667	£ 415,000	£6,712	£622
12	3	2 (WC)	75	807	£ 465,000	£6,217	£576
13	4	1	50	538	£ 325,000	£6,518	£604
14	4	1	50	538	£ 325,000	£6,518	£604
15	4	2	61	657	£ 417,500	£6,863	£636
16	4	3	75	807	£ 495,000	£6,618	£613
17	5	1	50	538	£ 327,500	£6,568	£609
18	5	1	50	538	£ 327,500	£6,568	£609
19	5	2	61	657	£ 420,000	£6,904	£640
20	5	3	75	807	£ 500,000	£6,685	£619
21	6	3	74	797	£ 500,000	£6,776	£628
22	6	3	79	850	£ 525,000	£6,664	£617
23	7	3	75	807	£ 535,000	£7,153	£663
Total			1,411	15,188	£ 9,242,500	£6,561	£609

Unit Type	No. of Units	Total Area (Sq ft)	Ave Size (Sq ft)	Ave Unit Price	Ave £/Sq ft
1 Bed Units	10	5,382	538	£322,500	£599
2 Bed Units	5	3,315	663	£415,000	£626
2 Bed WC Unit	3	2,422	807	£462,500	£573
3 Bed Units	5	4,069	814	£511,000	£628
Total	23	15,188			£609

APPENDIX 3

Development Appraisal Summary

86-92 Bell Green, Sydenham
Urban Delivery Assumptions
Nil Affordable Housing

Development Appraisal
Urban Delivery
20 November 2017

APPRAISAL SUMMARY**URBAN DELIVERY****86-92 Bell Green, Sydenham
Urban Delivery Assumptions
Nil Affordable Housing****Summary Appraisal for Phase 1**

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
1 Bed Apartments	10	5,382	599.22	322,500	3,225,000
2 Bed Apartments	5	3,315	625.94	415,000	2,075,000
2 Bed (WC) Apartments	3	2,422	572.87	462,500	1,387,500
3 Bed Apartments	<u>5</u>	<u>4,069</u>	627.92	511,000	<u>2,555,000</u>
Totals	23	15,188			9,242,500

Rental Area Summary

	Units	ft ²	Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Retail Unit	1	678	21.50	14,577	14,577	14,577
1 Bed Ground Rent	10			250	2,500	2,500
2 Bed Ground Rent	8			300	2,400	2,400
3 Bed Ground Rent	<u>5</u>			350	<u>1,750</u>	<u>1,750</u>
Totals	24	678			21,227	21,227

Investment Valuation

Retail Unit					
Current Rent	14,577	YP @	7.5000%	13.3333	194,360
1 Bed Ground Rent					
Current Rent	2,500	YP @	5.5000%	18.1818	45,455
2 Bed Ground Rent					
Current Rent	2,400	YP @	5.5000%	18.1818	43,636
3 Bed Ground Rent					
Current Rent	1,750	YP @	5.5000%	18.1818	31,818
					315,269

GROSS DEVELOPMENT VALUE**9,557,769**

Purchaser's Costs	(7,882)
	(7,882)

NET DEVELOPMENT VALUE**9,549,887****NET REALISATION****9,549,887****OUTLAY****ACQUISITION COSTS**

Residualised Price	994,957
	994,957
Stamp Duty	39,248
Agent Fee	1.00% 9,950
Legal Fee	0.50% 4,975
	54,172

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost
Retail Unit	678 ft ²	233.57 pf ²	158,360
1 Bed Apartments	7,965 ft ²	233.57 pf ²	1,860,402
2 Bed Apartments	4,906 ft ²	233.57 pf ²	1,145,900
2 Bed (WC) Apartments	3,584 ft ²	233.57 pf ²	837,216
3 Bed Apartments	<u>6,022 ft²</u>	233.57 pf ²	<u>1,406,536</u>
Totals	23,155 ft²		5,408,414

Other Construction

S106 Allowance	50,000
LBL CIL	115,317

APPRAISAL SUMMARY**URBAN DELIVERY****86-92 Bell Green, Sydenham
Urban Delivery Assumptions
Nil Affordable Housing**

Mayoral CIL		69,492	234,809
PROFESSIONAL FEES			
Professional Fees	10.00%	545,841	545,841
DISPOSAL FEES			
Marketing Costs - Residential	3.00%	277,039	
Marketing Costs - Commercial	2.50%	5,798	
Sales Legal Fee - Residential	0.25%	23,106	
Sales Legal Fee - Retail	0.50%	1,537	
			307,480
FINANCE			
Debit Rate 6.750%, Credit Rate 0.000% (Nominal)			
Land		123,857	
Construction		191,250	
Other		16,497	
Total Finance Cost			331,604
TOTAL COSTS			7,877,278
PROFIT			1,672,610
Performance Measures			
Profit on Cost%		21.23%	
Profit on GDV%		17.50%	
Profit on NDV%		17.51%	
Development Yield% (on Rent)		0.27%	
Equivalent Yield% (Nominal)		6.73%	
Equivalent Yield% (True)		7.03%	
IRR		35.33%	
Rent Cover		78 yrs 10 mths	
Profit Erosion (finance rate 6.750%)		2 yrs 11 mths	