

**Appendix 1**

**Viability Assessment**

**152A LEE HIGH ROAD, LONDON, SE13 5PR**

**Septmeber 2017**



**GL Hearn**

Part of Capita Real Estate

152a Lee High Road  
London  
SE13 5PR

**Viability Assessment**

for  
London Borough of Lewisham

September 2017

**Prepared by**

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## Quality Standards Control

The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator.

This document must only be treated as a draft unless it is has been signed by the Originators and approved by a Business or Associate Director.

DATE	ORIGINATORS	APPROVED
September 2017	David Price Senior Surveyor	George Barnes Director

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### Limitations

This document has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of GL Hearn; we accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

## 1 INTRODUCTION

- 1.1 GL Hearn has been instructed by London Borough of Lewisham (the Council) to review a viability assessment submitted by Affordable Housing 106 Ltd on behalf of Henry Walters Ltd (the Applicant) in support of their proposed planning application for a site at 152a Lee High Road (the Site).
- 1.2 The subject site is 0.085 hectares in size and is located in the London Borough of Lewisham, occupying a corner plot at the junction of Eastdown Park and Lee High Road. The immediate area comprises largely retail and residential uses and the adjacent properties to the north of the site are two Victorian houses and a Kwik Fit garage.
- 1.3 Lee High Road (A20) provides the main link to the M25 leading outside of London and to the wider national road network. The site is situated circa 0.7 miles from Lewisham Station which provides access to the DLR and National Rail Services which provide entry to central London. Lewisham Shopping Centre is located approximately 0.6 miles to the north.
- 1.4 By way of background, in March 2016 GL Hearn undertook a viability review in relation to a previous application which proposed zero affordable housing comprising 17 private residential units and 8,105 sq ft (GIA) of B1(a) office accommodation. At that time GL Hearn concluded that whilst it was considered that the Applicant's advisors Affordable Housing 106 Ltd had overstated the extent to which the scheme was not viable, it was concluded that the scheme could not provide any affordable housing units.
- 1.5 Affordable Housing 106 Ltd has now submitted an updated viability assessment reflecting specific design amendments which takes into account the evolving market conditions since their previous financial viability assessment. The updated scheme comprises the same residential content as before but a reduced commercial provision after a reduction in floor area in respect of the basement accommodation.
- 1.6 Their analysis reflecting the above adjustment indicates that the scheme produces a deficit of £1,325,542 reflecting their opinion of the sites Benchmark Land Value of £1,345,500. Therefore, as per their previous viability assessment, Affordable Housing 106 Ltd has concluded that the scheme cannot viably provide any on-site affordable housing or off-site contribution.
- 1.7 For ease of reference this GL Hearn report will provide a review of the latest Affordable Housing 106 Ltd financial viability assessment but also, where pertinent, highlight the areas of difference when compared to the previous financial viability assessment of March 2016.

1.8 Affordable Housing 106 Ltd is the lead author of the Financial Viability Assessment (FVA) but they have relied on a number of sources of third party advice. Specifically the following information has been incorporated in their assessment:-

- Brian Gale - Existing Use Valuation & Proposed Commercial Valuation
- Gleeds - Construction Costings
- Alan Camp Architects - Architect

1.9 GL Hearn has sub-instructed quantity surveyors Johnson Associates (JA) to review the updated Gleeds summary cost plan on behalf of the Council.

### The Application Scheme

1.10 The Applicant is proposing to demolish the existing two storey commercial building and the erection of a new four storey building to provide 17 residential flats and B1(a) commercial accommodation. We detail the proposed scheme in more detail below;

- The construction of 10 x 1 bed units, 5 x 2 bed units, 2 x 3 bed units.
- The construction of 719 sq m (GIA) of B1 (a) accommodation.
- 2 car parking spaces

1.11 The accommodation schedule for the proposed residential units detailing the individual units and pricing has not been provided. However the units have been valued on the basis of the application of an average floor area and value, as follows;

Unit Type	Units	Average Area (sq ft)	Price	Price (£/psf)
1 bed apartment	10	537	£325,000	£604
2 bed apartment	5	809	£450,000	£556
3 bed apartment	2	818	£465,000	£568
<b>Total</b>	<b>17</b>	<b>11,065</b>	<b>£6,430,000</b>	<b>£581</b>

1.12 The proposed residential accommodation is the same as the previous financial viability assessment providing 17 apartments of which none are proposed to be affordable housing. The apartments total 11,065 sq ft (NIA) and are to be built over the first, second and third floors above the proposed ground floor office and basement storage accommodation.

1.13 The updated FVA also comprises 7,741 sq ft (GIA) of office accommodation at ground and basement floor level with two car parking spaces. The updated proposals represent a reduction of approximately 151 sq ft to the basement accommodation and a loss of 3 car parking spaces but the ground floor accommodation is the same as the previous.

## 2 GENERAL METHODOLOGY

### Introduction

- 2.1 GL Hearn has reviewed the Financial Viability Assessment and we do not take issue with the overarching methodology used by the applicant's consultant within their assessment. They have:
- Assessed the realisable value of the proposed scheme;
  - Assessed the costs associated with delivering the scheme including provision of a build cost plan;
  - Assessed a Benchmark Land Value which is treated as a development cost;
  - Undertaken a residual appraisal to calculate development surplus available for planning contributions (or shortfall suggesting contribution not viable).
- 2.2 Affordable Housing 106 Ltd has used the HCA Development Appraisal Tool (DAT) programme to assess the viability of development. However its outputs are somewhat unwieldy and not entirely transparent in some of the assumptions that have been made, particularly on certain items such as timing of payments, and GL Hearn use the Argus Developer package for this type of exercise.
- 2.3 The methodology underpinning viability appraisals is the Residual Method of Valuation, commonly used for valuing development opportunities. Firstly, the gross value of the completed development is assessed and the total cost of the development is deducted from this.
- 2.4 The approach adopted by Affordable Housing 106 Ltd has been to adopt a number of assumptions in relation to the proposed scheme, to fix the developer's assumed profit requirements (20% on profit for the private residential units and 10% for the office accommodation) and the assumed Benchmark Land Value (treated as a notional acquisition cost) in the appraisal producing an output which is a project surplus/deficit. With this approach, if the scheme produces a deficit, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development unless the level of affordable housing and/or planning obligations can be reduced.
- 2.5 In this case the Affordable Housing 106 Ltd updated analysis indicates that the scheme produces a deficit of £1,325,542 based on the assumptions contained in the appraisal and using an assumed Benchmark Land Value of £1,345,500. With the scheme producing a deficit, Affordable Housing 106 Ltd has concluded that the revised scheme cannot viably provide any on-site affordable housing or off-site contribution.
- 2.6 Affordable Housing 106 Ltd has sought to demonstrate scheme viability by undertaking sensitivity analysis to establish the point at which the scheme can deliver the target profit margins required by the developer (20% on GDV for the private residential units and 10% on GDV for the commercial accommodation). They have modelled a scenario with a 30% increase in private sales values with all other inputs remaining the same which arrives at a small surplus of £17,009.

- 2.7 Given the findings of their revised viability analysis, Affordable Housing 106 Ltd has concluded that the proposed scheme is unable to deliver any on-site affordable units or off-site contribution.
- 2.8 Given that the calculations are being made well in advance of even commencement of the development, the figures used in the applicant's appraisal can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the Council once again to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.
- 2.9 GL Hearn's approach once again has been to critically examine all of the assumptions on which the revised Affordable Housing 106 Ltd appraisal is based.
- 2.10 It is also important to carefully scrutinise the applicant's methodology. In particular the measure of Benchmark Land Value, which we analyse in the following section, as it has a fundamental effect on the viability equation.

### 3 CRITIQUE OF BENCHMARK LAND VALUE

- 3.1 Determining an appropriate Benchmark Land Value is often the most important factor in determining the viability. Put simply, if the value generated by the development does not produce a positive figure, there is no financial incentive to bring forward the development with all its associated risk.
- 3.2 Arriving at an appropriate Benchmark Land Value is not a straightforward exercise. In arriving at an appropriate BLV regard should be had to existing use value (also referred to as current use value), alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy. Existing Use Value is widely used in establishing Benchmark land value and is supported in the latest mayoral SPD and by the London Assembly Planning Committee.

#### **Summary of Applicant's Position**

- 3.3 Affordable Housing 106 Ltd previously assumed an Existing Use Value of £1,210,000 which was predicated on a valuation report dated November 2015 by Brian Gale Surveyors. As part of our March 2016 review we considered the value to be in the order of £1,170,000 based on an adjustment to the yield. For the purposes of the updated FVA, Affordable Housing 106 Ltd has adopted the GLH opinion of EUV as at March 2016 of £1,170,000.
- 3.4 Affordable Housing 106 Ltd has not provided any further commentary in respect of the assumed BLV other than to state that the market is more or less the same and therefore they have adopted GL Hearn's opinion of EUV of £1,170,000 in the March 2016 FVA.
- 3.5 As before, Affordable Housing 106 Ltd has applied a premium of 15% to the EUV as an incentive for the land to be released for development which results in a Benchmark Land Value of £1,345,500.
- 3.6 Given the relatively short space of time since our financial viability review in March 2016 and there being no reported changes to the property and that the Brian Gale valuation assumed vacant possession we would agree with this assertion and see no reason to suggest deviating from our previous position. For ease of reference we have included the analysis from the previous GL Hearn viability assessment in italics which considered an adjustment to the applied yield in their initial FVA.
- 3.7 *The subject property comprises a concrete framed building operating as a car garage. The accommodation is situated over basement and ground floor levels with car parking at roof level. The ground floor accommodation is a double height structure which contains a car repair area and offices to the front. We understand the basement comprises low quality storage space, parking and*

tank rooms. The area spans the majority of the ground floor footprint and is well ventilated, artificially lit and benefits from a car ramp leading down to it.

3.8 We detail the floorspace and current use of the accommodation below, as detailed in the Brian Gale Surveyors valuation report dated 27 October 2015;

Floor	Description	Area (sqm)	Area (sq ft)
Basement	Storage, Parking, Tank Room	453	4,876
Ground	Offices, Displays	172	1,850
Bsmt, Gnd & Roof	Vehicle Ramp	86	925
Ground	Parts Stores	210	2,260
Ground	Vehicle Workshop	383	4,125
Roof	Car Park	748	8,050
<b>Total</b>		<b>2,052</b>	<b>22,086</b>

3.9 Brian Gale Surveyors have applied rental values as indicated in the table below :-

Floor	Description	Area (sq ft)	Market Rent (£psf)	Market Rent (per annum)
Basement	Storage, Parking, Tank Room	4,876	£2.00	£9,752
Ground	Offices, Displays	1,850	£10.50	£19,425
Bsm, Gnd & Roof	Vehicle Ramp	925	Nil	Nil
Ground	Parts Stores	2,260	£5.25	£11,865
Ground	Vehicle Workshop	4,125	£6.50	£26,812
Roof	Car Park	8,050	£2.50	£20,125
<b>Total</b>		<b>22,086</b>		<b>£87,979</b>

3.10 In addition to the accommodation stated above, an allowance has been made for an area on Eastdown Park which we are informed comprises plant room and garages totalling 840 sq ft. A Market Rent of £4psf has been applied to this element.

3.11 In order to validate the rental values applied we have reviewed what we consider to be the most applicable evidence provided by Brain Gale Surveyors. The majority of evidence provided is either office accommodation or small retail units and not relevant to the vehicle workshop element of the subject property. The most relevant evidence provided to justify the rent applied to the ground floor office accommodation at the subject property is summarised in the table below:

Address	Size	Transaction	Rent	Detail
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	(sq ft)		(£psf)	
307-313 Lewisham High Street	2,450	October 15	£8.50	Open plan office space with large kitchen and reception area.
207 Lewisham High Street	1,350	On the Market	£12.60	Three floors of office space situated above retail.
Mercia House, Mercia Grove	1,250	On the Market	£11.20	First floor self-contained office suite plus kitchen and WC's.

- 3.12 *Having regard to the above evidence, we are of the opinion that the applied £10.50psf Market Rent applied to the existing office element is in line with the market evidence.*
- 3.13 *In forming our opinion of the other elements of the building, most notably the motor vehicle workshop area and parts store, we have sought our own comparable evidence to properly consider the appropriateness of the rent applied. We are aware of the recent letting of Fordmill Depot, Fordmill Road, Catford, SE6 3JH. The accommodation provided 4,362 sq ft of garages and 2,009 sq ft of office and crew facilities totalling 6,371 sq ft. We understand that 'We Fix Any Car' has taken the unit on a 5 year lease at a rent of £41,411 per annum equating to £6.50psf. A 6 month rent free was agreed as part of the deal which provides a net effective rent of £5.76psf.*
- 3.14 *We are of the opinion the above evidence provides good evidence for the motor vehicle and parts store element of the subject building and justifies the Market Rent applied to the other elements of the subject building.*
- 3.15 *We understand the property is currently let out to 'Go Motor Retailing Ltd' for a term of 2 years from 1<sup>st</sup> December 2014 for £75,000 per annum, exclusive of VAT and other outgoings. This provides further comfort that the applied Market Rent is in line with market levels.*
- 3.16 *Brian Gale Surveyors' opinion of Market Rent has then been capitalised at a yield of 7.25%. This has been based on local evidence which is referred to as generally achieving between 7% and 7.5%. The transactional evidence detailed in the appendices refers to two office suites at Thurston Road which are in close proximity to the centre of Lewisham. One of the units, Unit 2, comprises 738 sq ft of office accommodation and was let for £12,000. The unit is on the market for £162,000 and the sale price equates to a yield of 7.40%.*
- 3.17 *By capitalising a Market Rent of £88,000 + £3,360 at a yield of 7.25% Brian Gayle Surveyors' EUV of the site comes to a total of **£1,210,000** having deducted purchaser costs of 4%.*
- 3.18 *Given the superior nature of the accommodation detailed above, reflected in the £16.20 per sq ft achieved rent, we are of the opinion that a yield of 7.50% is more appropriate for accommodation of this type in this location.*

- 3.19 *For the purposes of our modelling we have adopted a yield of 7.50% to the existing accommodation which arrives at a total of **£1,170,000** having also deducted purchaser costs of 4%.*

#### Premium

- 3.20 As before, Affordable Housing 106 Ltd has applied a premium of 15% to the EUV to incentivise the landowner to release the land for development. We remain of the opinion that the unit is within a prominent location and coupled with the fact that there appears to be a lack of similar opportunities in the locality, we consider there to be strong prospects of securing a tenant.
- 3.21 The latest Mayoral SPD states that premiums require justification and could be between 10 per cent and 30 per cent, but must reflect site specific circumstances. We note the 2 year lease to Go Motor Retailing Ltd was due to expire in December 2016 and we are unaware of any new lease being granted or whether the sitting tenant is holding over. A 15% premium is at the lower range of the guidance and reflects the unsecure income. Therefore given the above we consider 15% to be reasonable in this instance.

#### Summary

- 3.22 Affordable Housing 106 Ltd in their updated financial viability assessment has put forward an EUV of £1,170,000 to which a 15% premium has been applied to arrive at a Benchmark Land Value of £1,345,500. In their previous assessment they had put forward a BLV of £1,391,500 based on an EUV of £1,210,000.
- 3.23 The updated position is in line with the GL Hearn opinion of Existing Use Value from our March 2016 review. Given the short space of time since our last review we consider the newly adopted BLV in the Affordable Housing 106 Ltd FVA to be reasonable and in line with market evidence.
- 3.24 Therefore a Benchmark Land Value of **£1,345,500** is agreed on which to assess the viability of the overall scheme proposed.

## 4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

### Residential Value Assumptions

4.2 The key value driver of the application scheme is the residential content and we review this in the following section.

4.3 As referred to earlier the proposed scheme includes the same residential content as the previous FVA, comprising 17 residential units in a mix of one, two and three bed apartments. All of the units are proposed as private sale with zero provision of affordable housing.

4.4 As before, Affordable Housing 106 Ltd has undertaken their own research into the local residential market and has applied the following updated average sales values to all of the proposed units:-

Unit Type	Units	Average Area (sq ft)	Price	Price (£/psf)
1 bed apartment	10	537	£325,000	£604
2 bed apartment	5	809	£450,000	£556
3 bed apartment	2	818	£465,000	£568
<b>Total</b>	<b>17</b>	<b>11,065</b>	<b>£6,430,000</b>	<b>£581</b>

4.5 The updated pricing schedule demonstrates increases to all private average values with increases between £25,000 and £35,000 applied. For ease of reference we have detailed the pricing in the previous Affordable Housing 106 Ltd FVA below:-

Unit Type	Units	Average Area (sq ft)	Price	Price (£psf)
1 bed apartment	10	537	£300,000	£557
2 bed apartment	5	809	£415,000	£513
3 bed apartment	2	818	£435,000	£532
<b>Total</b>	<b>17</b>	<b>11,065</b>	<b>£5,945,000</b>	<b>£537</b>

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

4.7 The Land Registry House Price Index (HPI) reported in June 2017 that the annual rate of growth of house prices in the England was 5.2%, and the monthly rate of change was 0.8%. The average house price in England was £240,325 at June 2017.

- 4.8 London experienced lower growth in the year to June 2017 at 2.9%, with average house prices in London as at June 2017 being £481,556 after a negative monthly growth of -0.7%.
- 4.9 Nationwide's July 2017 press release reports that house prices increased by 0.3% month on month in July. They note that annual house price growth also dropped slightly to 2.9%, compared with 3.1% in June. They comment that *"On the surface, this appears at odds with recent signs of cooling in the housing market. The number of housing transactions dipped to their lowest level for eight months in June, while in the same month the number of mortgages approved for house purchase moderated to a nine-month low of c.65,000. Nevertheless, constrained supply is likely to continue to provide support for house prices and, as a result, we continue to expect prices to rise by c.2% over 2017 as a whole - only modestly lower than the levels recorded in recent months"*.
- 4.10 The General Election result, with a hung parliament and a minority Government, following on from Britain having voted to leave the EU and triggering Article 50, there will be a period of uncertainty as both the UK and indeed the world economy adjust to the implications. The short term implications will be one of adjustment and will be dependent upon financial stability, while markets, both in the UK and internationally, find a level.
- 4.11 Despite the uncertainty the Government are seeking to promote business as usual by reassuring the markets that investment in major infrastructure projects will continue as planned, and that increasing the supply of housing remains a national priority.
- 4.12 The average house price across the Borough as at June 2017 stood at £411,719 which equates to a positive annual change in house prices of 1.7%. This compares to the average house price across London of circa £480,000 with reported annual growth of 2.9%.
- 4.13 Generally, residential developer activity in Lewisham is strong with there being significant competition for sites. Developers continue to see good prospects for both commercial and residential development given the good transport links and connectivity to central London via rail and DLR links.
- 4.14 Affordable Housing 106 Ltd has again referred to a wide number of transactions within the locality which in our opinion provides a fair indication of the sales value tone in Lewisham. They have cited a number of developments in the locality to evidence their assumed pricing, more specifically the Lewisham Gateway, Renaissance and Central Park developments along with a number of flats situated within period buildings. We provide further information in respect of these developments below;-
- 4.15 Renaissance, Lewisham - is a large new Barratt development located opposite Lewisham Station. The development comprises 788 residential units, 602 of which are for private sale. The

development launched in Q1 2011 and sold out in Q1 2016. The latest sales at the development averaged £775 per sq ft. This rate is high as the units are undersized when compared to other new developments in Lewisham. We detail a number of recent sales and available units within the development in the table below;

Block	No. of Beds	Floor	Price	Floor area (sq ft)	£ / psf
Venice Corte	2	4	U/O - £430,000	700	£614
Venice Corte	2	8	U/O - £400,000	628	£636
Roma Corte	1	6	On Mkt - £365,000	479	£762
Roma Corte	1	7	STC - £340,000	499	£681
The Tower	2	19	On Mkt - £560,000	721 (Penthouse)	£777
The Tower	2	19	On Mkt - £550,000	721 (Penthouse)	£762

- 4.16 Central Park, Lewisham Road - Central Park is a large phased re-development of the Heathside and Lethbridge Housing Estates by Family Mosaic which will create 1,192 units. The estate is located to the south of Blackheath Hill and east of Lewisham Road. The housing estate currently comprises 595 flats and maisonettes in a number of blocks dating from the 1950s and 1960s. The development has completed phase 3 (of 7) with residents moving in during June 2017.

No. of Beds	Floor	Asking Price	Floor area (sq ft)	£ / psf
1	2	£365,000 (March 2017)	594	£614
1	13	£375,000 (March 2017)	594	£631
1	8	£325,000 (exchanged April 17)	538	£604
2	6	£436,000 (March 2017)	685	£637
2	4	£440,000 (Jan 2017)	711	£619
2	12	£480,000 (exchanged April 17)	690	£696

- 4.17 Lewisham Gateway, Lewisham - is a large redevelopment located to the south of Lewisham Rail and DLR Station. The scheme will comprise a number of new blocks, with phase 1 (the Portrait development) comprising two blocks located around Confluence Place measuring 25 and 15 storeys in height respectively and providing a total of 193 residential units (comprising 18 studios, 97 one bedroom, 74 two bedroom and 4 three bedroom units).

- 4.18 The agent confirmed that all of the 125 units in the Portrait 1 development have now sold with Portrait 2 sales currently underway. We detail below a number of recent sales and a couple of units which are now appearing on the market as re-sales:-

No. of Beds	Floor	Price	Floor area (sq ft)	£ / psf
2	14	STC - £549,000	772	£711
1	9	On Mkt - £320,000	416	£769
1	14	On Mkt - £345,000	553	£624
1	6	STC Feb 17 - £360,000	545	£661
1	1	STC Feb 17 - £345,000	545	£633
1	7	STC - £310,000	417	£743
1	8	On Mkt - £330,000	417	£791
1	19	STC - £359,000	592	£606
2	24	On Mkt - £625,000	759 (Penthouse)	£825
2	24	On Mkt - £625,000	778 (Penthouse)	£803
2	10	£520,000 (March 2017)	825	£630
1	16	£380,000 (July 2017)	618	£615

- 4.19 We would comment that the aforementioned developments provide the upper limit to achievable values in Lewisham. With the exception of Central Park, which is located to the north of Lewisham, the developments are located within the centre of Lewisham in close proximity to the station and shopping centre. These developments are achieving values equating to capital value rates of £600 - £700psf with premiums for penthouses and units located at upper levels of taller buildings. The subject site is located approximately half a mile due south of the centre on a busy road and therefore we do not expect the proposed units to command the same values as the more centrally located comparables.
- 4.20 Affordable Housing 106 Ltd has cited comparable evidence from the developments detailed above and the surrounding area which demonstrates a capital value range of £524psf and £657psf in respect of the one bedroom units, £417psf and £643psf in respect of the two bedroom units and £416psf and £580psf in relation to the three bedroom units.
- 4.21 They have applied an average value of £325,000 to the assumed average unit area of 537 sq ft which equates to a capital value rate of £605psf, £450,000 to the two bedroom units with an average area of 809 sq ft equating to an average capital value rate of £556psf and a value of £465,000 in respect of the three bedroom units with an average size of 818 sq ft equating to a value rate of £568psf.

- 4.22 We are of the opinion that whilst the proposed units will achieve improved values when compared to the period refurbished accommodation in the immediate locality reflecting a new build premium, the units will not achieve the upper limit of the range due to location of the development.
- 4.23 Having considered the evidence we do not take issue with the proposed pricing of the one bedroom units whereas the pricing of the two bedroom units on a capital value rate basis do appear low especially when considered against the proposed pricing of the three bedroom units. However, this is largely due to the larger than average unit size of the proposed two bedroom units when compared to the comparable evidence. Therefore, we consider the capital value of £450,000 for a two bedroom unit in this location to not be unreasonable.
- 4.24 With regard to the proposed three bedroom units, Affordable Housing 106 Ltd has stated that there was a lack of modern purpose built three bedroom units in the locality and has cited two large three bedroom units within the Central Park development to inform their pricing. The comparables demonstrate capital value rates of £575psf and £580psf. However, we do not consider these to be particularly relevant especially given the unit size of 990 sq ft. We would comment that whilst the Central Park development is marginally superior, we would expect a high capital value rate given the relative small size of the proposed units and the mixed use nature of the scheme. Having considered the evidence in the round we consider that the applied values in respect of the three bedroom units to be reasonable.

#### Summary

- 4.25 As previously stated above, the evidence detailed above comprises largely new build schemes in the centre of Lewisham and a number of refurbished period flats in the more immediate locality. As we have stated above, the subject scheme is located in a more peripheral location than the comparable schemes identified. In addition the proposed units will be situated above ground floor commercial which will also have a negative impact on values. Therefore, we would not expect the units to achieve prices equivalent to these larger and more centrally located schemes. In addition, given the lack of new build schemes in the vicinity of the subject location, the market is relatively untested and there will be an element of 'wait and see' in respect of the achievable prices.
- 4.26 Having reviewed the values applied by Affordable Housing 106 Ltd we consider them to be reasonable and reflective of the site's characteristics.

#### Residential Ground Rent

- 4.27 Affordable Housing 106 Ltd has again assumed a total ground rent income of £102,000 by adopting an average ground rent of £300 per unit. This has been capitalised at a 5% yield.
- 4.28 We consider these assumptions appropriate and in line with the market.

**Office Value Assumptions**

- 4.29 The revised scheme includes a reduced provision of commercial accommodation comprising 7,741 (GIA) of B1(a) use flexible office accommodation at ground floor and basement level and 2 x car parking spaces. The previous FVA comprised 8,105 sq ft (GIA) of B1(a) use office accommodation at ground floor and basement level and 5 x car parking spaces. We are informed that the ground floor area remains the same but the basement accommodation has been reduced by circa 150 sq ft.
- 4.30 The previous office accommodation was valued by Brian Gale Surveyors who undertook a Red Book valuation for the proposed accommodation in November 2015. Their report was appended to the previous FVA and reported a value of £720,000. This was based on the application of the rents detailed in the table below and capitalised at a yield of 7.25%. Brian Gale Surveyors also discounted the value by 5% to reflect a short lease length. GL Hearn accepted the rental and yield assumptions but did not consider the application of a discount to be appropriate and arrived at a value of £760,000.

Unit	Area (NIA)	Market Rent
Unit 1 - Gnd flr	831 sq ft	£15psf
Unit 2 - Gnd flr	656 sq ft	£15psf
Unit 3 - Gnd flr	699 sq ft	£15psf
Unit 4 Gnd flr	879 sq ft	£15psf
<b>Total Ground Floor</b>	<b>3,065 sq ft</b>	<b>£45,975</b>
<b>Circulation, WC's, Kitchen</b>	<b>840 sq ft</b>	£2.00psf - <b>£1,680</b>
<b>Basement</b>	<b>3,886 sq ft</b>	£2.50psf - <b>£9,715</b>
<b>Total</b>	<b>7,791 sq ft</b>	<b>£57,370</b>

- 4.31 Affordable Housing 106 Ltd has provided two further rental comparable transactions to inform their updated assumptions which demonstrate achieved rents of £18.18psf and £12.59psf at Unit 1 Arden House, 52-54 Thurston Road and 207 Lewisham High Street. Based on the above, Affordable Housing 106 Ltd has applied the same rental and yield assumptions to arrive at a Market Rent of £56,993 with the reduction to the basement floor space. After capitalising at a yield of 7.25% and applying purchaser costs of 4% they arrive at a value of £755,875.
- 4.32 We have therefore sought our own evidence to once again verify the assumptions adopted. We have had regard to the recent letting of 164 Lee High Road comprising 1,300 sq ft of office accommodation which was agreed in February 2017. The asking rent equated to £14.23 per sq ft and the property is in particularly close proximity to the subject site. Whilst we would expect the unit to achieve a rent slightly in advance of the accommodation given the new build nature, we are of

the opinion that the property provides further comfort that the applied £15psf remains reflective of market conditions.

- 4.33 In respect of the yield evidence, Affordable Housing has capitalised the rent at a yield of 7.25%. Having reviewed the evidence we do not consider there to be any recent comparable evidence to suggest a shift in the yield to be appropriate. Therefore we consider the applied 7.25% to be reasonable.

#### Summary

- 4.34 Having reviewed the assumptions applied we consider the applied rental and yield assumptions to be reasonable. On this occasion we note that Affordable Housing 106 Ltd has not applied a discount to reflect the lease term which we are in agreement with.
- 4.35 For the purposes of our modelling we have therefore adopted a figure of £755,875 for the value of the proposed office accommodation.

#### **Cost Assumptions**

##### Build Cost

- 4.36 An updated budget cost estimate has again been prepared by Gleeds on behalf of the applicant to inform the viability assessment. GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review the cost plan on behalf of the Council. The updated Gleeds cost estimate results in a total build cost of £4,411,838. This represents an increase of £84,552 from the previous cost estimate. For ease of reference we detail the breakdown of cost items in the table below for both the updated and previous estimates:-

Cost Item	Estimated Cost (2016)	Estimated Cost (2017)
Demolitions & Alterations	£125,000	£125,000
Substructure	£399,470	£434,515
Superstructure	£1,416,365	£1,498,015
Internal Finishes	£323,794	£340,465
Fittings, Furnishings & Equipment	£132,000	£134,948
Services	£882,700	£924,510
Externals	£72,350	£73,500
<b>Subtotal</b>	<b>£3,351,679</b>	<b>£3,530,953</b>
Preliminaries	16%	15%

	£536,268.64	£529,642.95
Overheads & Profits	6%	6%
	£233,276.86	£243,635.76
Contingency	5%	3%
	£206,061.22	£107,605.79
<b>Total</b>	<b>£4,327,285.72</b>	<b>£4,411,837.50</b>

4.37 A line by line review of the Gleeds cost estimate has been undertaken and this is provided at Appendix A.

4.38 In overall terms it is JA's opinion that the scheme as proposed could be delivered for a total cost of £4,143,874.82 which represents a cost reduction of £267,962.68. We have adopted the JA cost figure in our appraisals for initial modelling purposes.

#### Professional Fees

4.39 Affordable Housing 106 Ltd has again assumed professional fees of 10% which totals £463,243 based on their opinion of build costs. We consider this an appropriate assumption within the appraisal.

#### Marketing and Transactional fees

4.40 The following allowances have been made in the revised Affordable Housing 106 Ltd development appraisal:

- Sales & Marketing - 3% (Residential)
- Sales & Marketing - 2% (Commercial GDV)
- Legals on Sales - £17,000 (£1,000 per unit)
- Legals on Sale - 0.75% (Commercial GDV)

4.41 The above allowances included within the revised FVA mirror the previous assumptions from the last FVA with the exception of the Legal fees applied to the commercial accommodation (previously 1.8%). This is now in agreement with our previous review which also considered the sales and marketing fees to be excessive. Upon further review and given the small size of the scheme we are of the opinion that the above allowances are reasonable.

#### Finance Costs

4.42 Finance costs have been assumed at 7% debit rate and 0% credit rate as per the previous FVA. Most developers are currently assuming an overall rate of between 6-7% in appraisals for schemes of this nature and so we have adopted a rate of 7% within our modelling.

### Contingency

- 4.43 Affordable Housing 106 Ltd has adopted a 5% contingency on the construction costs of the residential and commercial elements. We note from the build cost estimate that a contingency allowance has already been included and we therefore consider the application of a further 5% to be double counting. We have not applied a further allowance for the purposes of our modelling.

### S106 / CIL Costs

- 4.44 In respect of planning contributions, the following has been assumed in the revised Affordable Housing 106 Ltd modelling:-

- Combined Local & Mayoral CIL - £122,263
- S106 Contributions - £75,440

- 4.45 The net chargeable GIA liable for Lewisham CIL for the proposed development is 724 sqm and the net chargeable GIA liable for Mayoral CIL is 1,477 sqm. These figures are on the basis of offsetting the existing 783 sqm. The revised combined CIL allowances have been uplifted from £105 per sqm to £122 per sqm reflecting BCIS Tender Price Index increases.

- 4.46 We have not confirmed these figures with LBL and recommend that these figures are reviewed by the Council's CIL Officer. However, for the purpose of our own modelling we have mirrored the assumptions above as adopted by Affordable Housing 106 Ltd.

### Developer's Profit

- 4.47 Affordable Housing 106 Ltd has again adopted profit margins of 20% on value for the private residential units and 10% on value for the office element. GL Hearn previously argued a profit margin of 17.5% on revenue of the private residential units in the March 2016 review.

- 4.48 Developer's profit margin is determined by a range of factors including property market conditions, individual characteristics of the scheme, comparable schemes and the development's risk profile. It is quite common for developers in London to work on the assumption of a profit based on 20% GDV for private residential accommodation and this is widely accepted by many authorities. However it is arguable that the development market in this part of London is extremely competitive to the extent that developers will need to reduce profit below this level to secure opportunities. Moreover there are number of viability assessments in the Borough, which are predicated on a lower developers return, which does indicate the markets willingness to proceed with developments at lower levels of return.

- 4.49 However, in the context of the current economic climate after Britain voted to leave the EU we are of the opinion that the adopted profit margins are acceptable.

### Summary Table

4.50 The table below provides a summary of the above analysis highlighting the changes between the previous FVA and any current areas of difference, which will form the basis of our sensitivity testing in the following section.

Assumption	AH 106 Ltd 2016 Figure	AH 106 Ltd 2017 Figure	GLH figure (where different)	Comments
<b>Sales and Revenue</b>				
Private Residential Sales Values	1 bed - £300,000 2 bed - £415,000 3 bed - £435,000	1 bed - £325,000 2 bed - £450,000 3 bed - £465,000	-	Agreed for modelling purposes
Residential Ground Rent	£300 pa per unit @ 5%	£300 pa per unit @ 5%	-	Agreed for modelling purposes
Office Values	£720,000	£755,875	-	Agreed for modelling purposes
Car Parking	n/a	As before	n/a	AH106 Ltd has included the parking values within their office pricing.
<b>Development Costs</b>				
Construction Costs	£4,327,285.72	£4,411,837.50	£4,143,874.82	We have adopted JA's opinion of construction costs.
Contingency	5% - Included in the BC	5%	0%	3% contingency sum already included within build cost estimate.
Professional Fees	10%	As before	-	Agreed for modelling purposes
Sales Agent	3% GDV Residential	As before	-	Agreed for modelling purposes
Legal Fees	2% Commercial GDV	As before	-	
	£1,000 per unit	As before	-	
	1.8% Com GDV	0.75% Com GDV	-	
Planning Obligations (S106)	nil	£75,440	-	We have not verified this figure however assume it to be a correct sum of monies
Combined Local & Mayoral CIL	£102,365	£122,263	-	We have not verified this figure however assume it to be a correct sum of monies
Interest /	7%	As before	-	Agreed for modelling

Finance Costs				purposes
Developers Profit	20% GDV Residential 10% GDV Commercial	As before	-	Agreed for modelling purposes
Benchmark Land Value	£1,391,000	£1,345,500	-	Agreed for modelling purposes

## 5 FINANCIAL APPRAISALS & CONCLUSIONS

- 5.1 Where our own market research has indicated that the inputs used have not been fully justified we have sought to illustrate the potential impact on the development surplus/deficit. In this respect we have undertaken sensitivity analysis producing a residual appraisal using Argus Developer, which is a leading industry-standard development appraisal package commonly used by developers and agents to assess development viability.
- 5.2 Although this analysis does not constitute formal valuations under the provisions of the RICS Valuation Standards ('Red Book') it will help in providing evidence to inform the Council's decision making process in respect of the applicants planning application.
- 5.3 We have been provided with a development appraisal from Affordable Housing 106 Ltd detailing their assumptions and inputs.
- 5.4 This includes their timing assumptions as follows:
- 15 month build period
  - 4 month sales period
- 5.5 As has been highlighted in the previous section, with the exception of construction costs and contingency sums we are in broad agreement with all of the other Affordable Housing 106 Ltd assumptions which make up this appraisal.
- 5.6 Affordable Housing 106 Ltd arrives at a development deficit of £1,325,542 when adopting all of their assumptions in respect of the benchmark land value and proposed scheme.
- 5.7 Reflecting the changes detailed in the table at 4.50 to include the removal of the additional contingency sum and Johnson Associates' opinion of build costs the proposed scheme results in a profit deficit of £845,574.
- 5.8 For ease of reference our development appraisal can be found at Appendix B.

### Overall Summary

- 5.9 Affordable Housing 106 Ltd previously indicated that there was a project deficit of £1,321,143 when adopting their own assumptions with regard to the previous scheme in 2016. They have advised that the revised scheme arrives at a development deficit of £1,325,542 when adopting evolving market conditions and after reducing in the commercial accommodation at basement level.

- 5.10 Although we disagree with two of their inputs and have adopted different assumptions for these elements, the proposed scheme still results in a project deficit. As such we would concur with the conclusions reached that the scheme cannot viably support an affordable housing provision.
- 5.11 As we stated previously, the main constraint on viability is the relatively high benchmark land value in the context of what is quite a modest level of development. This is a relatively untested location for residential development as is demonstrated by the fact that both the applicant and ourselves have had to rely on comparable evidence drawn from notionally stronger locations. Whilst we do consider that the discounts which have been applied to these comparables do reasonably reflect the location there is of course the prospect that higher values will actually be received, particularly in a rising market.
- 5.12 That being the case, and in light of the fact that a zero-affordable position is proposed, we consider that it would be reasonable for the Council to require a review mechanism whereby an increase in values above an agreed threshold equivalent to a breakeven viability position would be shared with the planning authority in the form of an off-site contribution. We recommend that the Council should once again propose a review should receipts exceed this threshold.
- 5.13 Affordable Housing 106 Ltd has undertaken sensitivity analysis increasing private sales values by 30% with all other inputs remaining the same which they state generates a 20% profit return on the private residential GDV and 10% profit return on the commercial GDV. We have mirrored their sensitivity testing based on the outcome of our analysis and applying the same 30% increase to residential sales values results in a project surplus of approximately £650,000. Further sensitivity analysis indicates that an increase of 17.5% results in small surplus of £30,000, which provides an indication of the tipping point between the sites benchmark land value and the residual land value of the proposed scheme.

**APPENDIX A: BUILD COST SUMMARY**

**APPENDIX B: FINANCIAL APPRAISAL**