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DELIVERY | VIABILITY | CAPACITY

Creekside Village East

Copperas Street, Deptford SE8

Financial Viability Review Report

London Borough of Lewisham

October 2018

Private and Confidential

Contents

1 INTRODUCTION

Background

1.1 Urban Delivery was instructed by the London Borough of Lewisham (the "Council") to undertake a financial viability assessment review (FVA Review) to assess the financial viability of the proposed development scheme by Kitewood Creekside Limited (the "Applicant") in support of its proposal to provide 393 dwellings together with 751 sqm (8,084 sq ft) (GIA) of commercial floor space and 7,938 sqm (85,445 sq ft) (GIA) of accommodation for Trinity Laban within combined sites known as Creekside Village East, to the western bank of Deptford Creek (the "Property").

1.2 The purpose of this FVA Review report is to provide guidance to the Council on the financial viability of the proposed scheme and to consider the Applicant's offer for on-site affordable housing as part of the overall development and to test whether it could be financially viable to provide additional affordable homes or a different mix of tenures in accordance with planning policy.

1.3 The advice provided in this FVA Review 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.

1.4 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 uncertain, with the potential for domestic and international investors and home buyers 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

1.5 We confirm that in providing this advice to the Council there is no conflict of interest between Urban Delivery and Kitewood Creekside Limited.

Information Provided

1.6 This FVA Review was originally carried out in May and June 2018 with final updates completed in October 2018. In undertaking this FVA Review Urban Delivery has collected evidence from a number of third party sources. Urban Delivery cannot be held responsible for the accuracy of this data.

1.7 This report contains commercially sensitive 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.

1.8 In undertaking the review of the Applicant's viability report, Urban Delivery has been provided with the following information:

a. A copy of the Applicant's FVA report, prepared by Montagu Evans, dated April 2018. Within the appendices is included:

   i. A copy of the viability appraisals prepared in Argus Developer.
   ii. Residential comparable evidence, prepared by Montagu Evans.
   iii. A schedule of estimated sales values, prepared by Montagu Evans.
   iv. Copies of the development drawings and accommodation schedule.
   v. A copy of the cost plan, prepared by BTP Group, dated 8th March 2018.

1.9 A further review of cost assumptions was completed by BTP Group and reviewed by Trident Building Consultancy in October 2018.

2 PROJECT DETAILS

Location

2.1 The Property is located on the southern side of Copperas Street in Deptford in south east London within the London Borough of Lewisham and is situated on the western bank of Deptford Creek and borders the administrative boundary with the Royal Borough of Greenwich. Access to the site is from Copperas Street which can be accessed in the north from the A200 and in the west from Creekside. The southern end of Creekside links to the A2 which provides a direct route to the arterial road and motorway network. Deptford railway station is situated approximately 0.5km to the west of the Property while Greenwich railway and DLR stations are a similar distance to the east, albeit on the opposite side of Deptford Creek.

2.2 The surrounding area is in the process of large-scale re-development with the land to the north of Copperas Street having been recently developed by Telford Homes and the land to the east currently under development by Essential Living. The land to the west is occupied by Trinity Laban conservatoire and comprises a modern structure accommodating part of the Institution's performance and training facilities.

2.3 The areas to the south west, Kent Wharf and Sun Wharf, are in the process of being transformed into residential led schemes. Bellway Homes having implemented its planning permission for a 143 unit scheme at Kent Wharf while currently exploring a 230 residential unit scheme with 1,500 sqm (16,145 sq ft) of flexible commercial accommodation for the site at Sun Wharf.

The Site

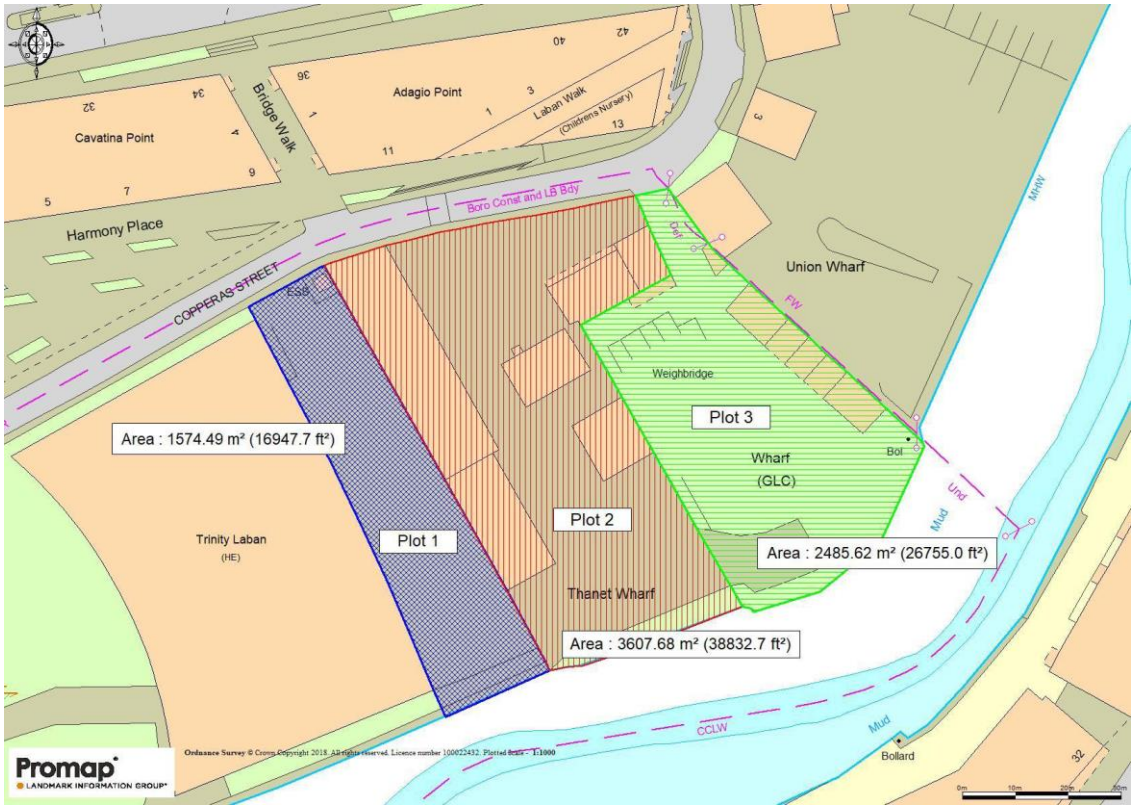
2.4 The Site comprises three main land interests as set out in the below site plan. The combined Site contains a selection of car parking land, disused and vacant commercial premises all of which will be demolished as part of the development.

- Plot 1: An area of car park land owned by Trinity Laban extending to 0.157

hectares (0.388 acres).

- Plot 2: An area of land owned by the Applicant extending to 0.361 hectares (0.892 acres).
- Plot 3: An area of land currently owned by LB Lewisham, extending to approximately 0.249 hectares (0.615 acres).

Fig.01: Site identification plan (Source: Montagu Evans)



2.5 We have only inspected the Site from the road and surrounding public areas and have not undertaken any internal inspections or carried out any measured surveys. We are therefore reliant on the accuracy of the information provided by the Applicant and its advisers.

Planning

2.6 In August 2006, identical planning applications were submitted to LB Lewisham and RB of Greenwich for the redevelopment of the entire Creekside Village site with subsequent amendments made in 2007. In September 2007, the RB of Greenwich granted planning permission for:

"the construction of four blocks 9 to 22 storeys and associated structures for 11,466 sqm. of commercial floorspace (Classes B1, A1, A3, D1 and D2)".

2.7 In November 2007, LB Lewisham's Strategic Planning Committee resolved to grant planning permission for the part of the site that falls within the Council's boundary. The development comprised as follows:

"demolition of existing buildings/structures on land bounded by Copperas Street, Deptford Creek and Creekside SE8 and the construction of 4 blocks of 9 to 22 storeys, to provide 11,466 m² of commercial floorspace, including a nursery and healthcare centre and uses within Use Classes B1, A1, A3, A4 and D1 and 9,000 m² of cultural/dance space, archive, exhibition areas and associated facilities for Trinity Laban and 430 residential units, underground car and cycle parking, open space, the reprofiling of the Creek walls and associated landscaping and Creekside walk".

2.8 However, the S106 agreement for the application was never completed and planning permission was therefore never granted.

2.9 While the Council engaged in pre-application discussions with Kitewood towards the end of 2014 for the redevelopment of the Creekside Village East site we are aware that relations between the three land owners deteriorated resulting in Kitewood submitting a planning application in early 2015 for the redevelopment of the Plot 2 site only. This planning application was for 216 dwellings within two towers of 10 and 25 storeys in height including approximately 1,988 sqm (21,400 sq ft) of commercial space. This planning application was the subject of an appeal against non-determination, which was dismissed in February 2016.

2.10 In line with adopted planning policy LB Lewisham currently 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.

Development Overview

2.11 The Applicant proposes the development of a mixed-use scheme to accommodate a mix of commercial space, accommodation for Trinity Laban and 393 new apartments. The proposed development will comprise a five storey podium with two residential towers extending to 29 and 25 storeys in height.

2.12 The Applicant's Financial Viability Assessment sets out the following mix of land uses within the proposed development:

- 393 dwellings totalling 35,030 sqm (377,063 sq ft) (GIA) equating to 26,535 sqm (285,623 sq ft) (NIA). It is proposed that 39 dwellings will be provided as shared equity sale homes.
- 751 sqm (8,084 sq ft) (GIA) of commercial accommodation (A1, A2, A3, A4 and B1).
- 7,938 sqm (85,445 sq ft) (GIA) of accommodation for Trinity Laban.

2.13 The development will provide the following mix of residential units:

Unit Type	Tower 1 Private	Tower 1 Shared Equity	Tower 2 Private	Tower 2 Shared Equity
1 Bedroom	63	2	87	12
2 Bedroom	89	8	64	9
3 Bedroom	33	5	18	3
Total	**185**	**15**	**169**	**24**

2.14 We understand from the proposal drawings that the development will include 76 car parking spaces of which 44 will be for disabled car parking. Plans also indicate a series of cycle parking areas although exact numbers are not currently available.

2.15 Although not referred to explicitly in the Applicant's FVA report, it has been reiterated to us that as part of the land sale transaction between the Applicant and

LB Lewisham, the Council will receive a number of dwellings equivalent to 1,045 sqm (11,250 sq ft) (NIA) to hold as investment properties and generate a rental income, to contribute to the running of public services.

2.16 The Financial Viability Assessment submitted by the Applicant indicates that the development proposal will include 39 affordable homes to be offered as Shared Ownership homes. This reflects a proportion of 10% of all dwellings proposed.

Section 106 and CIL Proposals

2.17 At this pre-application stage the extent of potential S106 contributions are yet to be confirmed. However, the Applicant has allowed for Borough CIL and Mayoral CIL costs of £5,990,156 to include the residential, commercial and Laban accommodation with relief on the proposed affordable housing floor space.

2.18 In addition, the Applicant has assumed total S106 contributions to equate to £1,000 per dwelling and has provisionally allowed for a cost of £393,000.

2.19 We would recommend that these figures are confirmed by the Council. 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".*

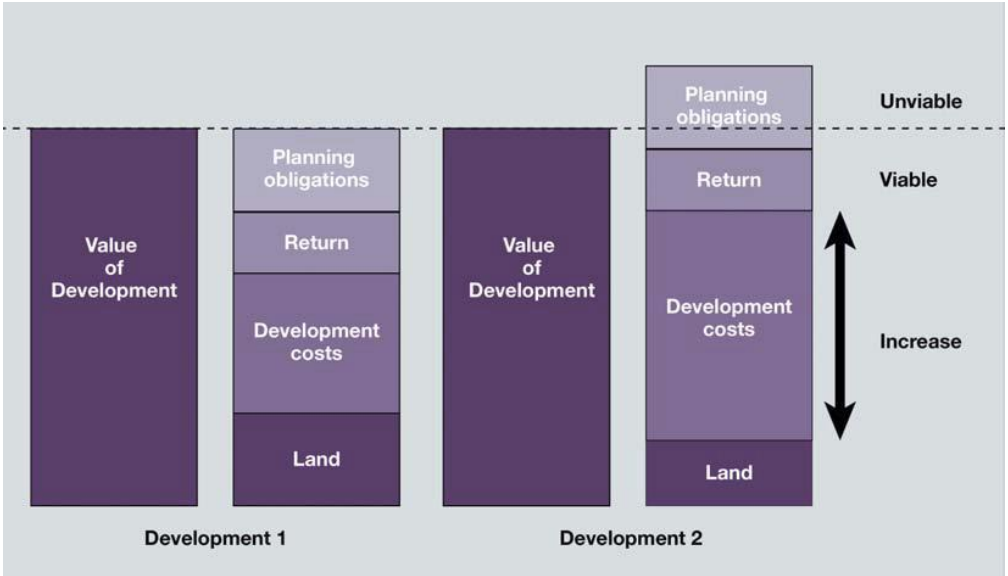
3.4 GN94 proposes the use of a residual appraisal methodology for financial viability testing and that such a methodology is normally used, where either the level of return or site value can be an input and the consequential output (either a residual land value or return respectively) can be compared 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 concern by 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 In August 2017, the Mayor of London 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.

3.9 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.

3.10 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.

3.11 The site value adopted in this viability assessment is based on Existing Use Value+, in respect to its current use as a mix of car parking and open storage yard.

3.12 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

3.13 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.

3.14 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.

3.15 We provide a copy of this appraisal in Appendix 2 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 the uses within the proposed development. This includes residential sales values and commercial property rental and capital values. This research includes assimilation of evidence to review the proposed Benchmark Land Value (BLV), based on a mix of car parking and open storage land.

Car Parking Sites

4.2 The Trinity Laban site (Plot 1 as shown on Fig.01) currently comprises a site used for car parking. It is understood that this plot provides up to 50 parking spaces. The Applicant has suggested that with a significant increase in development in this locality the demand for private car parking would be strong. Urban Delivery has undertaken a review of car parking space prices currently being achieved in the south London area.

St Mark's Square, Bromley, BR1

4.3 Although located in an outer London borough to the south of the subject Property, we are aware that private car parking spaces are being offered at this U+I development in the centre of Bromley. Spaces are available to buyers of residential units of two bedrooms and more and are being marketed at £25,000 per space. However, discussion with the sales agent indicates that take-up is limited.

Dennett Road, Croydon

4.4 Further afield in Croydon, an area of land to the rear of Dennett Road was marketed as suitable for one car parking space. The asking price for this space is £20,000.

Blue Lion Place, London, SE1

4.5 A single parking space is currently being advertised within the undercroft of a modern development in Bermondsey, close to London Bridge. The asking price is £29,000 for a 999 year lease. We would consider this to be a superior location to the subject Property.

Courtlands Avenue, London, SE12

4.6 The freehold interest of a single garage unit in Kidbrooke has recently been sold with an asking price of £20,000. We would consider the subject Property to present a superior location to this premises, although note this does offer a garage unit rather than an open parking space.

4.7 A review of the house buyer websites Rightmove.com and Zoopla.com has identified a number of parking spaces and garage sites currently being marketed. A garage/parking space on South Norwood Hill in the SE25 postcode sold in 2017 with an asking price of £15,000.

4.8 In view of the limited evidence available we are of the opinion that a premium car parking space in the Creekside area could achieve up to £20,000 per space. We would therefore accept the Applicant assumption to be reasonable with regard to estimating the EUV for this plot.

Commercial Storage Land

4.9 Plots 2 and 3, as identified in Fig.01, are predominantly cleared sites and have been assumed to be useable in their current state for open storage. There is a limited supply of suitable evidence within the borough itself, as such we have spread our review further afield to seek to ascertain the levels of rents and capital values that such assets are achieving in the open market.

Storage yard, 33-37 The Oval, Hackney Road, London, E2 9DT

4.10 This storage yard is being marketed to let on a short term basis up to 3 years. The yard is situated in an established industrial/commercial area in east London just to

the north of Hackney Road (A1208), approximately 6.4 km to the north of the Property. The site is 528.9 sq m (5,694 sq ft) and the asking rent is £15,500 pa and reflects the rate of £29.30 per sqm (£2.70 per sq ft).

St Leonards Wharf, Ailsa Street, E14 0LE

4.11 This storage yard is located in the London Docklands area, approximately 4.2km to the north east of the Property. The site is currently being marketed and is available to rent for a term of up to two years. The site is accessed via Lochnagar and is located opposite Leven Road, a residential area similar to the subject Property. The site extends to 0.46 ha (1.14 acres) with an asking rent equivalent to £16 per sqm (£1.50 per sq ft).

Riverside Open Storage Site, Dock Road, Silvertown, London, E16

4.12 This storage site is located on the south side of Dock Road in East London, approximately 3.6km north east from the subject Property. The site extends to approximately 0.32 ha (0.8 acres) and is currently available for rent at £90,000 per annum reflecting £28 per sqm (£2.58 sq ft).

Site at Creek Road and Long Reach Road, Barking, IG11

4.13 This storage site is located approximately 9.2km north east from the subject Property. The site extends to approximately 0.8 ha (1.99 acres) and was leased in February 2017 for a term of five years with a break option in year two. The agreed rent was £175,000 per annum reflecting £21.52 per sqm (£2.00 sq ft).

4.14 Given the limited supply of similar storage sites in south east London and the limited availability of completed transactions of similar sites, we have formed a view on the achievable rental value for the Property. Based on the wider evidence available, the more central location and the quantum of storage space available at the Property, we are of the opinion that the subject Property could achieve a rental value equivalent to £37 per sqm (£3.50 per sq ft) per annum. Based on the site area of 6,092 sqm (65,573 sq ft) this would reflect a rental value of circa £230,000 per annum.

Storage Land Investment Yields

4.15 In terms of applicable investment yields there has been little comparable evidence available in the area. A broader market view has therefore been adopted based on perceived demand and lack of availability of similar sites. On this basis, we are of the opinion that an investor would seek a return equivalent to 6% to 7% per annum. We note that the Applicant valuation of the Property has applied an investment yield of 6.00%, which we believe to be reasonable.

Residential Sales Values

4.16 In order to ascertain a view on achievable sales values for the proposed residential units Urban Delivery has undertaken a review of recent sales and availability within the local area. A summary of the key schemes is provided below.

Kent Wharf, Creekside, Deptford, SE8

4.17 The development by Bellway comprises 143 new apartments over three blocks ranging from six to 16 storeys and 1,375 sq m (14,800 sq ft) of commercial B1/D1/D2 floorspace on the ground floor. The development is now completed and we understand that all units are sold.

4.18 We provide details of a selection of one, two and three bedroom units in the table over the page.

4.19 As can be seen, the average value for these units is £7,273 per sqm (£676 per sq ft). The average unit price equates to approximately £394,000 for a one bedroom home, £533,000 for a two bedroom home and £609,000 for a three bedroom home. While this development is situated in close proximity to the subject development, we would expect the average achievable value for the proposed scheme to exceed these values on the basis that a greater number of units will be situated on higher floors and therefore able to achieve a premium.

Kent Wharf, Creekside, SE8								
Unit Ref	Beds	Floor	Area (Sq m)	Area (Sq ft)	Asking Price	£ sqm	£ sq ft	Sold date
29SC	1	2	56.0	603	£349,995	£6,250	£581	Oct-17
32SC	1	3	52.0	560	£374,995	£7,211	£670	Oct-17
34SC	1	3	51.0	549	£369,995	£7,255	£674	Oct-17
35SC	1	3	56.0	603	£397,500	£7,098	£659	Oct-17
40SC	1	4	51.0	549	£377,500	£7,402	£688	Oct-17
41SC	1	4	56.0	603	£399,995	£7,143	£664	Oct-17
44SC	1	4	52.0	560	£379,995	£7,308	£679	Oct-17
46SC	1	4	51.0	549	£379,995	£7,451	£692	Oct-17
50SC	1	5	52.0	560	£382,500	£7,356	£683	Oct-17
52SC	1	5	51.0	549	£382,500	£7,500	£697	Oct-17
64SC	1	6	56.0	603	£415,500	£7,420	£689	Oct-17
72SC	1	7	56.0	603	£412,500	£7,366	£684	Oct-17
84SC	1	8	56.0	603	£424,995	£7,589	£705	Oct-17
88SC	1	8	56.0	603	£427,500	£7,634	£709	Oct-17
92SC	1	9	56.0	603	£429,995	£7,678	£713	Oct-17
30SC	2	3	72.0	775	£494,995	£6,875	£639	Oct-17
33SC	2	3	74.0	797	£504,995	£6,824	£634	Oct-17
42SC	2	4	72.0	775	£504,995	£7,014	£652	Oct-17
45SC	2	4	74.0	797	£514,995	£6,959	£647	Oct-17
51SC	2	5	74.0	797	£519,995	£7,027	£653	Oct-17
54SC	2	5	72.0	775	£514,995	£7,153	£665	Oct-17
61SC	2	6	72.0	775	£524,995	£7,292	£677	Oct-17
62SC	2	6	76.0	818	£554,995	£7,303	£678	Oct-17
75SC	2	7	73.0	786	£549,995	£7,534	£700	Oct-17
77SC	2	7	72.0	775	£544,995	£7,569	£703	Oct-17
81SC	2	8	72.0	775	£549,995	£7,639	£710	Oct-17
85SC	2	8	72.0	775	£554,995	£7,708	£716	Oct-17
93SC	2	9	72.0	775	£564,995	£7,847	£729	Oct-17
95SC	2	9	73.0	786	£564,995	£7,740	£719	Oct-17
28GH	3	2	85.0	915	£589,995	£6,941	£645	Apr-18
96CH	3	9	85.0	915	£584,995	£6,882	£639	Apr-18
105CH	3	10	85.0	915	£589,995	£6,941	£645	Apr-18
114HA	3	1	86.0	926	£624,995	£7,267	£675	Apr-18
120HA	3	1	86.0	926	£629,995	£7,326	£681	Apr-18
126HA	3	3	86.0	926	£634,995	£7,384	£686	Apr-18
Average						**£7,273**	**£676**	

Timber Wharf, Evelyn Street, Deptford, SE8

4.20 This development is currently being built out by LendLease and comprises over 1,100 new homes plus a mix of commercial land uses. We set out in the table below a selection of units now reserved and currently available on the market.

Timber Wharf, Evelyn Street, SE8								
Unit Ref	Beds	Floor	Area (Sq m)	Area (Sq ft)	Asking Price	£ sqm	£ sq ft	Sold date
2E302	1	3	52.0	560	£423,000	£8,135	£756	Oct-17
2B203	1	2	51.0	549	£406,000	£7,961	£740	Feb-16
2B207	1	2	51.0	549	£399,950	£7,842	£729	Feb-16
2B703	1	7	51.0	549	£463,000	£9,078	£843	Oct-17
2B206	1	2	63.0	678	£470,000	£7,460	£693	Oct-17
2E303	1	3	52.0	560	£413,000	£7,942	£738	Feb-16
N/A	1	8	52.0	560	£442,500	£8,510	£791	OTM
N/A	1	9	52.0	560	£447,500	£8,606	£800	OTM
N/A	1	4	51.0	549	£405,000	£7,941	£738	OTM
2B206	2	2	77.0	829	£590,000	£7,662	£712	Oct-17
2B902	2	9	72.0	775	£612,500	£8,507	£790	Dec-17
2B1006	2	10	77.0	829	£667,500	£8,669	£805	Dec-17
2B1106	2	11	77.0	829	£695,000	£9,026	£839	OTM
2D502	2	5	78.0	840	£589,000	£7,551	£702	Oct-17
2D503	2	5	73.0	786	£542,000	£7,425	£690	Oct-17
2E301	2	3	74.0	797	£555,000	£7,500	£697	Oct-17
2B202	2	1	79.0	850	£560,000	£7,089	£659	Oct-17
2B205	2	2	77.0	829	£591,000	£7,675	£713	Oct-17
2B405	2	4	77.0	829	£615,000	£7,987	£742	Oct-17
2B903	2	9	52.0	560	£612,500	£11,779	£1,094	Dec-17
2B1005	2	10	77.0	829	£665,000	£8,636	£802	OTM
2D201	2	2	72.0	775	£520,000	£7,222	£671	Jun-17
2D205	2	2	72.0	775	£530,000	£7,361	£684	Feb-16
2D805	2	8	74.0	797	£606,000	£8,189	£761	Oct-17
2D905	2	9	74.0	797	£635,000	£8,581	£797	Oct-17
2E501	2	5	74.0	797	£575,000	£7,770	£722	Oct-17
2D203	3	3	97.0	1044	£670,000	£6,907	£642	Oct-17
2B1001	3	10	94.0	1012	£775,000	£8,245	£766	Dec-17
2B01	3	G/1	97.0	1044	£647,000	£6,670	£620	Oct-17
2B401	3	4	94.0	1012	£705,000	£7,500	£697	Dec-17
2B701	3	7	94.0	1012	£711,000	£7,564	£703	Oct-17
Average						**£7,947**	**£738**	

4.21 The average value for these units is £7,947 per sqm (£738 per sq ft). The average unit price equates to approximately £430,000 for a one bedroom home, £597,000 for a two bedroom home and £702,000 for a three bedroom home. We expect this development to be of a similar standard to that proposed by the Applicant. While this development is situated in-land from the River Thames and located further to the north of Deptford, we are of the opinion the values achieved at Timber Wharf will be in line with the prices achievable at the subject development and is therefore considered to be a good comparable for the purpose of this FVA review.

Deptford Foundry, Arklow Road, Deptford, SE8

4.22 This development by Anthology comprises of eight buildings and one tower. Deptford Foundry will provide 276 private homes in total comprising a selection of one, two and three-bedroom homes, all with balconies or terraces and access to maintained communal gardens. The development is located approximately 1km to the west of the subject Property.

Deptford Foundry, Arklow Road, SE8								
Unit Ref	Beds	Floor	Area (Sq m)	Area (Sq ft)	Asking Price	£ sqm	£ sq ft	Sold date
10MC	1	2	53.0	570	£385,000	£7,264	£675	OTM
9CH	1	3	52.8	568	£385,000	£7,292	£677	OTM
20MC	1	4	53.0	570	£395,000	£7,453	£692	OTM
12AH	1	3	50.0	538	£405,000	£8,100	£753	OTM
19AH	1	4	59.1	636	£405,000	£6,853	£637	OTM
20AH	1	4	50.0	538	£410,000	£8,200	£762	OTM
21AH	1	4	50.0	538	£410,000	£8,200	£762	OTM
21CH	1	4	50.5	544	£410,000	£8,119	£754	OTM
28AH	1	5	50.0	538	£415,000	£8,300	£771	OTM
28CH	1	5	50.5	544	£415,000	£8,218	£763	OTM
29AH	1	5	50.0	538	£415,000	£8,300	£771	OTM
4MC	1	1	50.0	538	£415,000	£8,300	£771	OTM
13MC	1	3	50.0	538	£420,000	£8,400	£780	OTM
14MC	1	3	51.0	549	£420,000	£8,235	£765	OTM
24MC	1	5	51.0	549	£420,000	£8,235	£765	OTM
34CH	1	6	50.5	544	£425,000	£8,416	£782	OTM
27CH	1	5	50.8	547	£430,000	£8,465	£786	OTM
17AH	2	4	73.6	792	£485,000	£6,590	£612	OTM
11CH	2	3	70.0	753	£510,000	£7,286	£677	OTM
17CH	2	4	69.8	751	£515,000	£7,378	£685	OTM
25CH	2	5	70.0	753	£520,000	£7,429	£690	OTM
24CH	2	5	69.8	751	£525,000	£7,521	£699	OTM
31CH	2	6	70.0	753	£530,000	£7,571	£703	OTM
22AH	2	4	70.6	760	£535,000	£7,578	£704	OTM
26CH	2	5	70.7	761	£535,000	£7,567	£703	OTM
30CH	2	6	69.8	751	£540,000	£7,736	£719	OTM
32CH	2	6	70.7	761	£540,000	£7,638	£710	OTM
38CH	2	7	70.7	761	£545,000	£7,709	£716	OTM
11MC	2	3	81.0	872	£550,000	£6,790	£631	OTM
34AH	2	6	65.9	709	£550,000	£8,346	£775	OTM
21MC	2	5	81.0	872	£560,000	£6,914	£642	OTM
36CH	2	7	69.8	751	£560,000	£8,023	£745	OTM
2MC	2	GF	75.0	807	£565,000	£7,533	£700	OTM
15CH	2	4	87.1	938	£575,000	£6,602	£613	OTM
22CH	2	5	87.1	938	£585,000	£6,716	£624	OTM
1MC	2	GF	81.5	877	£590,000	£7,239	£673	OTM
33AH	3	6	88.5	953	£732,323	£8,275	£769	OTM
Average						**£7,623**	**£708**	

4.23 The average value for these units is £7,623 per sqm (£708 per sq ft). The average unit price equates to approximately £410,000 for a one bedroom home, £543,000 for a two bedroom home and £732,000 for a three bedroom home. We expect this development to be of a similar standard to that proposed by the Applicant, albeit of a predominantly lower-rise scheme and therefore not benefiting from premium values for improved views across the city.

Sales Values Summary

4.24 Based on our review of the current schemes in close proximity to Creekside the evidence indicates average sales values between £7,273 to £7,947 per sqm (£676 to £738 per sq ft) for the overall developments. Analysis of different unit types suggests the following unit price range and £/sqm (£/sq ft):

- 1 bedroom units: £393,000 to £430,000 / £7,309-£8,147 psm (£679-£757 psf)
- 2 bedroom units: £533,000 to £597,000 / £7,319-£8,090 psm (£680-£752 psf)
- 3 bedroom units: £609,000 to £732,000 / £7,125-£8,275 psm (£662-£769 psf)

4.25 We are of the opinion that these three private sale development schemes provide a good indication of the prices and values that are currently achievable at the Applicant's proposed development.

Residential Rental Values – Affordable Housing

4.26 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 June 2018 for this location (inner Lewisham). These are currently as stated below:

- 1 bed @ £210.20 per week
- 2 bed @ £273.25 per week
- 3 bed @ £330.72 per week

4.27 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 £2,712 per sq m (£252 per sq ft). This reflects a value of approximately 33% of the average private sale value.

4.28 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.

4.29 This approach indicates a blended value for the one, two and three bedroom units at £4,305 per sq m (£400 per sq ft). This reflects a value of approximately 53% of the average private sale value.

Commercial Values

4.30 Within the development proposal 751 sqm (8,084 sq ft) of accommodation is provided for use classes A1/A2/A3/A4/B1. The following section provides an overview on potential values for the appropriate land uses.

Retail

8 Little Thames Walk, Deptford, SE8

4.31 In October 2016 this ground floor retail unit, close to the subject Property, was let at an asking rent of £20,000 pa. Based on the unit size of 106 sqm (1,141 sq ft) the rental value reflects an overall rate of £189 per sqm (£17.52 per sq ft).

2 Little Thames Walk, Deptford, SE8

4.32 This retail unit, extending to 128 sqm (1,385 sq ft), is currently being marketed with an asking rent of £25,000 pa. Should this asking rent be achieved this will reflect an overall rate of £194 per sqm (£18.05 per sq ft).

Atrium Building, 2 Copperas Street, Deptford, SE8

4.33 This retail unit, extending to 118 sqm (1,270 sq ft), is currently being marketed with an asking rent of £19,500 pa. Should this asking rent be achieved this will reflect an overall rate of £165 per sqm (£15.35 per sq ft).

137 Creek Road, Deptford, SE8

4.34 This second-hand retail unit, extending to 245 sqm (2,637 sq ft), is currently being marketed with an asking rent of £45,000 pa. Should this asking rent be achieved this will reflect an overall rate of £184 per sqm (£17.06 per sq ft).

Office

4.35 A review of the local property market indicates that there have been few occupational and investment deals for office premises in the locality. We set out below information of a selection of comparable transactions and current availability.

82-84 Childers Street, Deptford, SE8

4.36 In March 2018, units 1 and 2 of this building, extending to 511 sqm (5,507 sq ft) of accommodation was leased to Roland Mouret for a term of 10 years at a rent equivalent to £215 per sqm (£20 per sq ft).

10 Greenwich Quay, Deptford, SE8

4.37 This building is located close to Deptford Creek and Copperas Street. In January 2015 an office suite within this building was let for a rent equivalent to £148 per sqm (£13.71 per sq ft). It should be noted however that this was second-hand grade B accommodation.

Theatro Tower, Creek Road, SE8

4.38 The basement office unit within this building is currently being marketed with an asking rent of £17,500 pa. Based on the accommodation of 111 sqm (1,200 sq ft) the asking rent equates to c.£157 per sqm (£14.60 per sq ft).

Greenwich Creekside, Adagio Point, Laban Walk, SE8

4.39 This office premises is situated within a modern development close to the subject Property. The unit extends to 832 sqm (8,962 sq ft) and is currently being marketed for either sale or letting. We note that the asking rent is currently in the order of £269 per sqm (£25 per sq ft) but has been on the market for over two years and has remained vacant.

4.40 Based on the evidence of past transactions and current availability we are of the opinion that likely achievable rents for the commercial accommodation would be in the order of £161 to £215 per sqm (£15 to £20 per sq ft).

4.41 Assuming that the retail/office space within the proposed development is likely to be let to a mix of local or independent businesses, we anticipate the achievable investment yields will reflect this local covenant. We would therefore expect the present-day value of the proposed units to reflect an investment yield of c.7.00% on the basis they are not pre-let. However, once let, and assuming a good covenant and lease term, it is possible the yield an investor would accept could reduce to between 6.00% and 6.50%.

5 VIABILITY ASSESSMENT REVIEW

Land Value

5.1 We note that the Applicant has included a Benchmark Land Value (BLV) of £5,850,000 after an allowance for a 30% premium to the EUV. This is based on an assumed capital value for Plot 1 of £1,000,000 (£20,000 per parking space) and a rental value of £230,000 pa for Plots 2 and 3, capitalised at a yield of 6.00%. The calculation allows for a six month rent free period on the letting of Plots 2 and 3 plus a deduction for purchaser's costs of 6.8%.

5.2 Based on the evidence and comment set out in section 4, we are in broad agreement with the Applicant's assumptions. For the purpose of this FVA review, a capital value of £1,000,000 for Plot 1 has been applied plus an assumed rental value of £230,000 pa for Plots 2 and 3 with an investment yield of 6% applied.

Current Use Value
Creekside Village, Deptford, SE8

Plot 1 (£20,000 per space)			£ 1,000,000	(Capital Value)
Plot 2 (38,832 sq ft) @ £3.50 per sq ft			£ 135,912	
Plot 3 (26,755 sq ft) @ £3.50 per sq ft			£ 93,643	
Rent			£ 229,555	Per Annum
		Say	**£ 230,000**	**Per Annum**
Reversion				
Total Rent	£ 230,000			
YP in Perp @ 6.00%	16.6667			
Gross Value (Plots 2 & 3)			£ 3,833,333	
Less 6 months rent free			£ 3,718,333	
Less Purchasers Costs @ 6.8%			£ 3,481,586	
Gross Value (Plot 1)			£ 1,000,000	
Aggregate Land Value			**£ 4,481,586**	
		20% Premium	£ 5,377,903	
		30% Premium	£ 5,826,061	
		40% Premium	£ 6,274,220	

5.3 On the basis that the EUV is in the order of £4,481,000, it would be necessary to allow for a premium to incentivise the landowner to sell. As noted above, the Applicant has adopted a premium of 30%. A premium of between 10% and 40% is often quoted as a reasonable range although 20% is commonly adopted for the purpose of FVA's as a suitable return for the landowner. On the basis that the Property is located in an area undergoing substantial residential development and the EUV reflects a relatively conservative opinion of the price a landowner would expect to receive for its land, we are of the opinion a premium of 30% to 40% could be reasonable and have therefore applied a minimum 30% premium to our own estimate of EUV. This approach generates a total BLV of £5,826,000.

5.4 Allowing for minor adjustments to the application of tenant incentives and purchaser's costs this figure is in line with the proposed BLV applied by the Applicant. For the purpose of this FVA review we have therefore adopted a BLV of £5,850,000 to determine the financial viability of the proposed development and to calculate a reasonable proportion of affordable housing.

5.5 With regard to the structure of the actual land acquisition deal, we understand that the Trinity Laban site (Plot 1) is to be transferred to the Applicant in exchange for the new facilities, likely to cost in excess of £13,000,000 to build. Plot 3, owned by the Council, is to be transferred in exchange for a number of completed dwellings within the scheme, likely to have an end value in excess of £7,500,000. As such the BLV of £5,850,000 is considered to a conservative estimate to include within the FVA.

Appraisal Inputs

Private Residential Sales Revenue

5.6 We note that the Applicant has adopted an average private sales value of circa £8,126 per sqm (£755 per sq ft). We would note that there remains uncertainty concerning the local property market over the next few years with a combination of government initiated measures to curb the buy-to-let sector as well as the potential impact of the UK's exit from the EU.

5.7 In consideration of the sales evidence and unit pricing for new-build homes in the local vicinity, set out in section 4 of this report, we are of the opinion that the sales values applied by the Applicant are within a reasonable range and we have adopted the unit pricing set out in the Applicant's FVA report.

Affordable Housing Revenue

5.8 The Applicant has undertaken a range of FVA scenarios. A scenario with 35% affordable housing with a mix of 70% Affordable Rented and 30% Shared Ownership tenures but excluding the Trinity Laban facilities. A scenario with nil affordable housing and a scenario with 10% affordable housing, offered as Shared Ownership homes. In running these scenarios the Applicant has applied an average blended value of £3,315 per sqm (£308 per sq ft) for the mix of Affordable Rented and Shared Ownership homes and £4,305 per sqm (£400 per sq ft) for the scenario with only Shared Ownership homes. It is assumed the receipt for the Affordable Housing is received during the construction period with a final payment upon practical completion. There is no evidence of pre-application discussion with RP's to ascertain the likely values or payments the Applicant could expect to receive, as is recommended in the London Plan and the Mayor's Affordable Housing and Viability SPG 2017.

5.9 Urban Delivery has run its own appraisal on the potential value attributable to these two tenure types based on LHA rates for the Affordable Rented units and on the assumption that 25% equity in the Shared Ownership units will be sold to buyers with the remaining equity retained by the RP subject to an annual rental charge up to 2.75% of the outstanding 75% capital value. It is assumed that the annual income of the purchasing household of the intermediate units will not exceed £90,000 pa.

5.10 Based on these assessments, we are of the view that the average value for the Affordable Rented units could be in the order of £2,712 per sqm (£252 per sq ft) and the Shared Ownership units could achieve in the order of £4,305 per sqm (£400 per sq ft). A blended mix of 70% Affordable Rented and 30% Shared Ownership would therefore equate to c.£3,186 per sqm (£296 per sq ft).

5.11 Based on this review we are of the opinion the values the Applicant has adopted for the Affordable Housing are reasonable.

Residential Ground Rent Revenue

5.12 The Applicant has adopted the following annual ground rents of £300, £400 and £500 for the one, two and three bedroom units respectively. These rents have been capitalised at a yield of 5.00%. This is in line with our own expectations and have adopted these figures in our FVA review.

Commercial Revenue – Retail/Office Uses

5.13 The Applicant has applied a rental value to the proposed retail/office accommodation of £215 per sqm (£20 per sq ft) and an investment yield of 7.00%. Our own review of the local retail and office property market has identified that the deals completed close to the subject Property are typically equal to, or lower than suggested by the Applicant.

5.14 The evidence for retail and office transactions set out in section 4 of this report include accommodation within the recent developments at Theatro Tower and Little Thames Walk, close to Copperas Street. This evidence indicates rental values equivalent to £161 to £215 per sqm (£15 to £20 per sq ft). For the purpose of this FVA review we have therefore adopted the rental values applied by the Applicant.

5.15 The Applicant has applied a yield of 7.00% to the commercial uses. The selection of yield reflects the current position where no pre-lets have been agreed with tenants. Once lettings are agreed, depending on the covenant strength, there is potential for yields to reduce and lead to a greater capital value. For the purpose of this FVA review, we are of the opinion this yield is reasonable.

Tenant Incentives

5.16 The Applicant has included a rent free period on the commercial accommodation for a period of six months. It is not unusual for tenants to be awarded a rent free period upon occupation to allow for fit out and establish trading in a new premises.

We are therefore of the opinion that this is a reasonable assumption to include within the FVA.

Purchasers Costs

5.17 With regard to the sale of the property investment elements of the scheme, which includes the commercial accommodation and ground rent investment, the Applicant has applied purchaser's cost equivalent to 6.8% of the commercial GDV. This reflects a purchaser's obligation to pay Stamp Duty Land Tax plus agency and legal fees. We are of the opinion this allowance is reasonable for the purpose of this FVA.

Construction Cost Advice

5.18 The Applicant's financial viability appraisal comprises a mix of development costs including construction of the main buildings, external works and specific infrastructure costs relevant to the delivery of the whole project.

5.19 In order to check the Applicant's construction cost assumptions we have taken advice from Trident Building Consultancy. Trident has reviewed the Applicant's cost summary, prepared by BTP, and analysed the broad inputs that make up the total construction costs. This analysis has included discussion and clarification with BTP during which initial differences in opinions on cost elements were discussed and variances agreed. A copy of Trident's cost report and response to BTP Group's further clarifications is attached at Appendix 1.

5.20 A review of the BTP cost summary identified some potential opportunities to reduce costs. In summary, Trident has recommended that for the purpose of this viability assessment the main construction cost should be in the order of £120,400,000 inclusive of preliminaries and cost contingencies. The figures prepared by Trident reflects an average build cost of circa £2,537 per sqm (£236 per sq ft), which is deemed to sit within an acceptable cost range based on other schemes in the Lewisham area. Trident's cost review equates to a reduction in the costs adopted within the Applicant's FVA of circa £2,163,000. For the purpose of this FVA review we have adopted the cost assumptions prepared by Trident.

S106 and CIL Contributions

5.21 We have applied an overall CIL contribution to our appraisal as set out in paragraph 2.17. This totals £5,990,156. This figure has been provided by the Applicant and is understood to represent the Mayoral and Borough CIL contribution that would be due for the option with 10% Shared Ownership homes. We would recommend that the Council verifies this figure.

5.22 The Applicant has assumed a S106 costs equivalent to £1,000 per dwelling, totalling £393,000. With no further information available at this stage with regard to S106 contributions, we have adopted this figure in our own FVA review.

Professional Fees

5.23 The Applicant has adopted an average cost for professional fees reflecting 12% of construction costs.

5.24 For a new scheme, depending on scale and complexity, we would ordinarily allow for fees in the order of 10% to 12% of build costs. On the basis that this proposed development is part of a comprehensive mixed-use development with tall buildings, we would typically adopt a fee rate towards the higher end of this range. We are therefore of the opinion that an average fee cost equivalent to 12% of build costs is acceptable.

Marketing Costs

5.25 The Applicant has applied marketing costs of 4.00% of GDV for the private sale residential units and 1% for the Shared Ownership homes and commercial accommodation. This appears to cover sales agency fees of c.1% plus a marketing budget for the private homes of 3%.

5.26 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 therefore of the opinion that these rates are acceptable and have adopted the same rate within our own appraisal.

5.27 In addition, letting agency fees of 10% of the commercial rental value have been included to secure tenants for the retail/office space. This allowance reflects a typical fee for letting agents and is therefore considered to be reasonable.

Development Programme

5.28 The Applicant has assumed in its FVA that the development will be constructed over two main phases. The first phase will include Tower 1 and the Laban Centre and will take 24 months to complete construction following an initial nine month pre-construction lead-in. The second phase will comprise Tower 2, which will take a further 24 months to construct following completion of phase 1. For the purpose of this FVA review we have adopted a similar timescale for both phases with revenue from the sale of the affordable homes being received during the construction period.

Finance Costs

5.29 The Applicant has adopted a finance rate of 7.00% on development costs. 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.

5.30 The funding of a project of this scale is likely to be complex with a range of different funding sources. For the purpose of this FVA review the Applicant's adopted rate is in line with other projects we have worked on and appears reasonable.

Developer Profit

5.31 Within the Applicant's viability assessment it is stated that the Applicant's target rate of return on private dwellings is 20% profit on GDV (reducing to 6% for the affordable homes) and 17.50% on GDV for the commercial uses. In addition, a

profit on cost of 6% is included for the construction of the Laban Centre. This is the level of return we would typically expect a developer to seek for a scheme with regard to the private sale units and commercial accommodation, while a profit of 6% would be applied to the affordable homes. In arriving at our opinion on viability, we have therefore based our target return on these profit rates.

5.32 The Mayoral SPG on Affordable Housing and Viability 2017, makes it clear that applicants should provide evidence and justification for the proposed profit rates adopted within the FVA. While no evidence has been provided on any discussions with lenders as to their actual requirements with regard to finance rates or profit expectations, we would acknowledge that the lending market is currently demonstrating greater caution in view of slowing growth expectations. The Applicant does comment that the scheme comprises two tall towers which "*...significantly increases risk as it is not possible to phase the development based on sales performance. The inability to phase the residential development results in a peak debt of approximately £104,400,000 in month 33 before any private residential receipts are received".* We would accept this as a valid risk for which a suitable profit margin and buffer should be allowed.

5.33 We have also had 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.

5.34 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.

5.35 For the purpose of this FVA review and having regard to the current circumstances we would regard the Applicant's profit rate requirements as reasonable and have therefore based our target return on 20% profit on GDV for the private housing, 17.5% profit on GDV for the commercial units, a profit of 6% on GDV for the affordable homes and a 6% profit on cost for the Laban Centre.

6 VIABILITY OUTPUTS

Viability Findings

6.1 Having reviewed the Applicant's FVA report setting out justification for certain assumptions, 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, including the provision of 10% Shared Ownership affordable housing, the development costs and the selection of profit expectations, the proposed development scheme is generating a residual land value (RLV) of c.£5,200,000 which reflects a deficit of c.£650,000.

6.3 In view of this output, we are of the opinion that the proposed development is unable to support the inclusion of any additional on-site affordable housing at the current time, neither could the proposed 39 affordable housing units be changed from Shared Ownership to Affordable/Social Rented tenure without further negatively impacting on the viability of the development scheme.

Sensitivity Analysis

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

6.5 The tables below set out the estimated RLV that the scheme could generate where the value of the private residential units vary from the base scenario. This is based on changes to private sales value.

Sensitivity of Private Residential Sales Values

Residential Sales Value (£/sq ft)	Residual Land Value*	Variance from Target Residual Land Value**
£755 (0%)	£5,200,000	-£650,000
£793 (+5%)	£12,377,000	£6,527,000
£831 (+10%)	£19,503,000	£13,653,000
£717 (-5%)	-£2,235,000	-£8,085,000
£680 (-10%)	-£10,225,000	-£16,075,000

*Rounded to nearest £1,000

**Target RLV of £5,850,000

6.6 As can be seen from the outputs in the table above, the current proposal is not significantly below the technical viability level and would require only a minor upturn in private sales values to exceed the targeted levels of return and BLV. However, should current market uncertainties have a detrimental impact on sales values and the wider commercial property market, the overall financial viability of the project will decline and present greater risk to the delivery of the scheme.

6.7 We have undertaken further sensitivity testing to ascertain the level of private residential value increase necessary to support 35% and 50% affordable housing, based on a policy compliant 70/30 rented/intermediate tenure split. The results are set out below.

% Affordable Homes	Required Average Sales Value	Alternative Surplus
50%	£1,062 per sq ft	£52,179,000
35%	£916 per sq ft	£26,699,000

6.8 In order to achieve a 50% policy compliant mix of affordable homes the average private sales value would need to increase by approximately 37.40% to achieve an average of £11,432 per sqm (£1,062 per sq ft). To achieve a 35% policy compliant mix of affordable homes the average private sales value would need to increase by approximately 19.25% to achieve an average of £9,860 per sqm (£916 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. This surplus could be divided between developer and the Council.

Compliant Tenure Split (10% by Unit Number)

6.9 Based on the Applicant's proposed offer of 10% Affordable Housing, we have tested the impact of providing the proposed 39 affordable units as 70% Affordable Rented and 30% Shared Ownership. This would potentially allow for 27 Affordable Rented homes and 12 Shared Ownership homes. Applying a blended value of £3,315 per sqm (£308 per sq ft) to the affordable homes would result in an RLV of £2,549,000. This figure reflects a deficit of c.£3,301,000 compared with the BLV of £5,850,000 and would require the average private sales value to increase by approximately 2.30% to deliver a fully viable scheme.

Review Mechanism

6.10 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. We are aware 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 scenario for 10% Shared Ownership units will generate a Residual Land Value approximately £650,000 below the accepted Benchmark Land Value.

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 additional affordable homes, other than the agreed 39 Shared Ownership dwellings currently proposed.

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 and 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.

7.4 To capture any improvement in viability and profitability of the scheme that may be achieved between the grant of planning permission and the sale of all new homes, it is recommended that a review mechanism be adopted to seek a proportion of any additional uplift in value that could be used to deliver additional affordable homes.

APPENDIX 1

Trident Cost Review

Financial Viability
Review of Construction Cost

Creekside Village East
Copperas Street
Deptford
London
SE8

Report Dated 10th May 2018

Trident

Financial Viability
Review of Construction Cost

Prepared for London Borough of Lewisham
C/O Urban Delivery Ltd
99 Gloucester Court
Kew Road
Richmond
Surrey
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Creekside Village East
Deptford
London
SE8

Financial Viability
Review of Construction Cost

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Creekside Village East
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1.0 Introduction

1.1 Trident Building Consultancy Limited was appointed by Urban Delivery Limited to review the construction cost estimate for the proposed residential led, mixed use development at Creekside Village East, Copperas Street, Deptford, London SE8 .

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 proposed development will comprise of the demolition of existing buildings to create a mixed use development with residential units, commercial space and Trinity Laban space.

THE SITE

2.1.2 The Site is located on the southern side of Copperas Street in Deptford within the London Borough of Lewisham. The site which is situated on the western bank of Deptford Creek borders the administrative boundary of the London Borough of Greenwich. The development site is approximately 0.767 hectares across three parcels of land.

2.1.3 The site comprises of three plots of land, two of which the applicant has purchased or contracted to purchase and another site owned by Trinity Laban. The Trinity Laban site has surface car parking and the other sites have hardstandings with a few small individual units which will be demolished.

PROPOSED SCHEME

2.1.4 The proposed scheme comprises of:

- Two residential towers. Towers 1 has Basements, Ground and Twenty Nine upper storeys with 200 units. Tower 2 has Basements, Ground and Twenty Five upper storeys comprising 193 units. Thirty nine of the units are proposed to be affordable tenure (shared ownership)
- A basement housing plant and providing car parking space.
- Accommodation of 7983m2 for Trinity Laban including a Concert Hall over Ground to Fifth floors.
- Commercial space between Blocks 1&2 at Ground Floor Level.
- Energy centre, statutory services and external works including works to the river wall.

2.1.5 The proposed residential unit mix is as follows:

Residential Units

Tower 1		Tower 2		Total	
Units Nr	Area (m2)	Units Nr	Area (m2)	Units Nr	Area (m2)
200	18,365	193	16,665	393	35,030

The total residential GIA is 38,710 m2 with a net internal area of 35,030 m2.

The Mix of one, two and three bed units is shown in the table below together with the affordable units.

	Private Residential Unit Mix Tower 1 Nr	**Affordable Residential Unit Mix Tower 1 Nr**	**Private Residential Unit Mix Tower 2 Nr**	**Affordable Residential Unit Mix Tower 2 Nr**
One Bed	63	2	87	12
Two Bed	89	8	64	9
Three Bed	33	5	18	3
Sub Total	185	15	169	24

Trinity Laban Space

The Trinity Laban Gross Internal area is stated as 7,928 m2 comprising 6,272 m2 of useable space and 1,666 m2 of plant, cycle parking and car parking.

Commercial Units

The Gross Internal area of the commercial units is stated as 819 m2 comprising 751m2 of useable commercial space and 68 m2 of plant and cycle parking.

Total GIFA

The total Gross Internal area is 47,457 m2, the Architects area schedule states 47,467 m2 a small difference of 10m2 which is negligible.

2.2 INFORMATION RECEIVED

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

- Financial Viability Assessments, Creekside Village East, Copperas Street, Deptford, London SE8 dated April 2018 prepared by Montagu Evans hereafter referred to as 'The Viability Report'
- Drawings prepared by Squire & Partners contained within Appendix 1 of the Viability Rep.
- Preliminary Budget Estimate Nr 9 dated 08 March 2018 prepared by BTP Group.
- A drawing from Jacobs showing Flood Defences to Thanet Wharf and details of flood defence work at Deptford Creek by Arcelor Mittal.
- Report on Ground Contamination by Card Geotechnics dated March 2000.

3.0 Review of Construction Cost

3.1 SUMMARY OF CONSTRUCTION COST

3.1.1 The Cost estimate prepared by BTP Group has a total construction cost of £122,560,324.89. This is based on costs at 1st Quarter 2018 and excludes professional and VAT. This calculates as £2,582.56/m^2 or £240/ft2.

3.1.2 The BTP Group cost estimate breakdown is as follows:

Executive Summary by Building Use

Executive Summary by Building Use	Net Cost £	Preliminaries £	Contingency £	Total £
1.01 Demolition & Alterations.	571,000.00	114,200.00	34,260.00	719,460.00
2.01 Laban	10,624,454.41	2,379,541.55	650,199.80	13,654,195.76
3.01 Commercial	1,169,103.18	227,441,51	69,827.23	1,466,422.41
4.01 Residential Tower 1	44,169,269.08	8,609,711.48	2,638,949.03	55,417,929.59
5.01 Residential Tower 2	34,382,286.07	6,852,328.01	2,061,730.70	43,296,344.78
6.01 Public Realm	1,527,755.83	305,551.17	91,665.35	1,924,972.35
7.01 Statutory Services	1,050,000.00	210,000.00	63,000.00	1,323,000.00
Sub-Total	**93,493,868.57**	**18,698,773.71**	**5,609,632.11**	**117,802,324.89**
8.01 Removal of contaminated land				2,625,000.00
9.01 Works to the Creek Wall	1,693,000.00	338,500.00	101,500.00	2,133,000.00
Total	**95,186,868.57**	**19,037,273.71**	**5,711,132.11**	**122,560,324.89**

Note: There is a rounding error of £52.50 in the table above which is not considered significant.

3.2 Cost £/m2 for Building Type

The cost £/m2 of the GIFA for the various building types is shown in the table below.

Executive Summary by Building Use	Net Cost £	GIFA M2	Cost £/m2
1.01 Demolition & Alterations.	719,460.00	47,457 m2	15.16
2.01 Laban Centre	13,654,195.76	7,928 m2	1722.27
3.01 Commercial	1,466,422.41	819 m2	1,790.50
4.01 Residential Tower 1	55,417,929.59	38,710 m2	2,550.10
5.01 Residential Tower 2	43,296,344.78		
6.01 Public Realm	1,924,972.35	47,457 m2	40.56
7.01 Statutory Services	1,323,000.00	47,457 m2	27.88
Sub-Total	**117,802,324.89**	**47,457 m2**	**2,482.30**
8.01 Removal of contaminated land	2,625,000.00	47,457 m2	**55.31**
9.01 Works to the Creek Wall	2,133,000.00	47,457 m2	44.95
Total	**122,560,324.89**	**47,457 m2**	**2,582.56**

3.2.1 The Applicant's Cost Plan equates to a construction cost of £122,560,324.89. The costs noted above are based at 1Q 2018 levels.

3.2.2 Laban Centre

The overall cost for the Trinity Laban Conservatoire of Music and Dance is £1722.27/m2. The centre comprises a performance area, audience seating, WC's and circulation space

3.2.3 Commercial Units

The cost for the commercial units is higher than what we would typically expect. Commercial units with residential units above typically fall within a range of £1200 to

£1700/m2. The cost included within the BTP Group cost estimate is £1,790/m2. This is probably due to the structural requirements associated with transfer structures for residential units and high quality glazed facades. We therefore consider this cost to be reasonable.

3.2.4 Basement and Substructure

The Basement cost is allocated between the various uses, ie Laban, Residential and Commercial units. As would be expected, the majority of this cost is for basement excavation and disposal of material, the basement slab and ground floor slab plus the frame and retaining structures. Ventilation, sprinklers and lighting are also provided to the car park area and the total cost is £11,663,000 which equates to £1958/m2 based on the Basement area of 5,958 m2. Normally we would anticipate a slightly higher cost £/m2 for the basement but the basement is of such a size, that economies are to be expected and this cost is considered

3.2.5 Frame and Upper Floors

The costs for the frame and upper floors are slightly higher than we would typically expect with rates of £75/m2 for the frame and £270/m2 for the upper floors although they are not to considered to be unreasonable in the absence of any structural design information.

3.2.6 External walls and Windows

There are limited details available relating to the specification of the external walls and windows although from the images within the report the building appears to comprise a combination of rainscreen cladding panels, aluminium windows and some larger glazed areas. The external elevations are priced at £750/m2 and the windows at £450/m2 which represent reasonable cost allowances.

3.2.7 Internal Walls and Doors

The cost allowances for internal partitions and doors are considered reasonable.

3.2.8 Internal Fit Out – Finishes

The specification for the internal fit out of the apartments is of a typical standard and specifications are not stated but allowances have been included for floor finishes at £80/m2 and tiling to bathrooms at £80/m2. The rate for decoration of walls is higher than we would expect at £15/m2. We have recently seen tenders with rates of £5/m2 to £7m2 for decoration and would suggest an allowance of £10/m2 would be appropriate to include painting walls plus sundry decorations of joinery.

3.2.8 Internal Fit Out – Finishes . . . Cont'd

The rates for internal fit out items generally, ie dry lining walls, skirtings, screeds, carpets and ceilings are all considered reasonable allowances and we would not propose any adjustments.

3.2.9 General fittings, furnishings and equipment

The main cost item within the fittings section is the allowance for kitchens fittings to all residential apartments for which £10,000 per apartment has been included. This is stated as excluding white goods although we would expect a good quality kitchen with white goods could be provided for £10,000 per unit.

An allowance of £5,500 has been included for a single panel of letter boxes and for signage. In Blocks 2, 3, 4 and 6 there is a total of 54 letter boxes (approx. 1 per 7 units). The sum total for this is £297,000. It is our view that the letter boxes could be provided at a cost of £2500 each reducing the overall cost by £162,000.

3.2.10 Sanitaryware

The allowance for sanitaryware is £2,700 per bathrooms / shower rooms and includes taps, wastes, bath, shower, basin. This is considered reasonable as is the allowance for £1100 for vanity units.

The mirrors are priced at £800 each and are unheated. We would propose that a good quality mirror could be provided for £500 each and this adjustment results in a reduction of £186,300.

3.2.11 Mechanical and Electrical Services

The allowance for mechanical and electrical services is £435/m2 based upon the apartment floor area. This is higher than what might typically be expected for residential units but given the building height, the costs are considered reasonable given that services distribution in high rise buildings is more expensive.

There is also an allowance of £50/m2 for a sprinkler installation.

3.2.12 External Works and Drainage

We have not seen a proposed landscaping scheme for the development however the allowances for hard and soft landscaping fall within typical cost parameters that we might expect.

3.2.13 **Statutory Utilities**

The statutory services comprise £150,000 for decommissioning Laban's existing Substation and reconnection including transformer, £150,000 for a new substation to residential units and a sum of £750,000 for connection costs to the residential units. There is no breakdown of this cost but it is considered reasonable with regard to the scope and size of the development.

3.2.14 **Main Contractor Preliminaries and Overheads & Profit**

The sums for Main Contractor's Preliminaries and Overheads & Profit is combined with a total £18,698,774. This represents 20% of the construction cost and is in alignment with levels of preliminaries that we might typically expect for residential developments of this size.

3.2.15 **Contingency**

A Construction and Design Contingency of 5% has been included which totals £5,609,632. Whilst this is a substantial sum this represents a reasonable allowance given the current status of the design.

3.2.16 **Contamination Remediation**

Allowance for removal of contaminated land has been included in the sum of £2,625,000. We queried with the applicant how this allowance was arrived at and we received a response from Philippa Brennan of BTP Group on 18 March 2018. Report on Ground Contamination by Card Geotechnics dated March 2000. The response provided is as follows:

"We have currently assumed, based upon the attached report from 2000, that the entire site is contaminated and therefore have allowed for the removal of contaminated land down to 6 metres. Please note that the attached report refers to contamination down at least 4 metres however due to the proposed basement being 6 metres in depth we have allowed for the whole area."

3.2.17 We would note that the report from Card geotechnics was prepared more than 18 years ago and we would question whether this represents a reasonable basis for the inclusion of an allowance. Section 2.1 of the report states that there is made ground to a maximum depth of 3.0m.

The cost estimate allows for removal of all material to a depth of 6m. However, Table 1 in Section 3.2 refers to some samples – but not all - exceeding trigger limits. Given the report was prepared more than 18 years ago it is likely that trigger values may have changed and methods for treating soils have advanced and it is highly likely that alternative methods for soil treatment are available. Excavation and disposal of contaminated material is often not the most economical method for remediation. We consider the allowance of £2,625,000 is high and would suggest an appropriate allowance would be £1,500,000.

3.2.18 **Works to reinstate the Creek wall**

The estimate includes an allowance for works to the Creek wall in accordance with 'Jacobs design'. The total sum is £2,133,000 comprising a wall length of 78 m @ £17,778, totalling £1,394,134 plus a contribution of £298,888 to the EA (Environment Agency). This work includes temporary sheet piles, anchors, king posts and a capping. Preliminaries, overheads and profit and contingency are then applied to these figures to give a total of £2,133,000. Indicative design details have been prepared but there is no further cost build up. In the absence of a more detailed cost breakdown it is assumed the cost for works to the creek wall are reasonable.

4.0 Benchmarking

4.1 This section compares the cost of the new build residential units against other sources of cost data. High rise buildings typically cost more than low rise buildings due to the structural design and vertical services distribution through the building. We have therefore benchmarked the Creekside project against other high rise developments.

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 - Residential Schemes; Over 10 storeys	6	2,364 to 3,124	2,559	2,476
2	**BCIS**				
2.1	Apartments / Flats (6+ Storeys)	81	1,709 to 2,224	2,096	2,028
3	**Spons Pricing Book 2017**				
3.1	High quality apartments Residential tower – Inner London	N/A	2,275 to 2,900	N/A	N/A

Creekside Village East – Cost /m2 GIFA	**£2,550 (Residential Towers)**

Notes

1) - The range of costs for Trident historic data is shown above

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 As noted above, the BCIS cost data excludes demolition and external works and represent the cost for residential buildings only. To facilitate a like for like comparison the cost allowances for demolition, external works (public realm) plus similar abnormal items should be separately identified. We have extracted the costs for these items below and this totals £7,402,432.35 which equates to £155.98/m2. These are the costs for the development as a whole and include the Laban Centre and the Commercial units which would all be expected to carry a proportion of cost for these items.

Abnormal items - Figures extracted from BTP Group Cost Estimate

Demolition & Alterations.	£719,460.00	£15.16
Public Realm	£1,924,972.35	£40.56
Contaminated land allowance	£2,625,000.00	£55.31
Works to Creek wall	£2,133,000.00	£44.95
Total	£7,402,432.35	£155.98/m2

4.4 If the allowance of £155.98 for abnormal items is added to the BCIS costs, the adjusted cost range is £1865 to £2380 (lower and upper quartile) with a mean cost of £2,252 /m2 and a median cost of £2,184 /m2.

The Applicants cost estimate at £2,550/m2 is above the mean, median and upper quartile level of the range of BCIS costs.

4.5 We have also benchmarked the costs against Trident cost data which has lower and upper quartile values of £ 2,364/m2 to £3,124/m2 respectively. The mean cost of £2,559/m2 and median cost of £2,476/m2 is comparable to the cost of £2,550/m2 for the proposed development at Creekside Village East.

4.6 Spon's Pricing Book 2017 suggests a large cost range for high rise residential apartments ranging from £2,275/m2 to £2,900/m2. The cost of £2,550/m2 is also within this range of costs.

4.7 In summary, the development cost falls within cost benchmarks that Trident would typically expect for high rise residential developments. The cost is higher than benchmark costs provided by the BCIS however in our experience, it is often the case that BCIS costs are lower than other sources of cost data.

5.0 Proposed Cost Adjustments

5.1 PROPOSED ADJUSTMENTS TO COST ESTIMATE

5.1.1 Within this section, we set out our proposed cost adjustments to the Applicant's cost estimate. Having reviewed the estimate, we would propose a reduction of £2,162,925 as set out in the table below.

Ref	Item	Adjustment £
1.	**Internal Finishes** - Emulsion paint to residential areas only; reduce rate from £15/m2 to £10/m2 (95,090 m2)	(475,450)
2.	**Fixtures and Fittings** - Allowance for single panel of letter boxes and for signage - residential; reduce allowances for post boxes from £5500 to £2500 (54 nr)	(162,000)
3.	**Fixtures and Fittings** - Mirrors to residential bathrooms (non-heated); reduce allowance from £800 each to £500 each (621 nr)	(186,300)
4.	**Contractor's Preliminaries, Overheads and Profit** @ 20% on above items totalling £823,750	(164,750)
5	**Contingency** Contingency on above items @ 5% of £988,500	(£49,425)
6.	**Contamination Remediation** Reduce allowance for contaminated land from £2,625,000 to £1,500,000	(1,125,000)
7.	**Total proposed cost adjustment £**	**(£2,162,925)**

5.2 Proposed Construction Cost

5.2.1 Having reviewed the Cost Estimate prepared by BTP Group, we would advise that the construction cost for the Viability Assessment be £120,400,000 inclusive of contaminated land and works to the Creek Wall as set out below.

A)	Cost Estimate (1Q 2018)	£122,560,324.89
B)	Cost Adjustment	(£2,162,925.00)
C)	Revised Current Day Construction Cost £	£120,397,399.89
	Say	**£120.400 Million**

5.2.2 The revised cost equates to £2,537/m2 or £236/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 Applicant has provided a construction cost estimate in the sum of £122,560,324.89; this is based on costs at 1st Quarter 2018. This excludes professional fees and VAT but includes allowances for treatment of contaminated land and works to the Creek Wall.

- The Cost /m2 GIFA within the Applicant's Cost Estimate for Creekside Village East is £2,582.56/m2 as an average across all uses. The residential cost at £2,550/m2 is above the mean, median and upper quartile level of the range of BCIS costs but within cost benchmarks using cost data from Trident projects.

- It is our view that the majority of items within the BTP Group cost estimate represent reasonable allowances.

- We would propose a reduction in construction cost for finishes and fittings which reduces the construction cost by £1,202,675.

- The allowance for removal of contaminated land is based upon a Geotechnical report prepared over 18 years ago. The allowance further assumes that all contaminated material should be removed from site to a depth of 6m. It is our view that this cost allowance should be adjusted from £2,625,000 to £1,500,000 given that it is unlikely all material will be contaminated and alternative remediation strategies are possible.

- The allowances for the Laban Centre and the Commercial units are considered to be reasonable estimates of cost.

6.2 For the purposes of a Financial Viability Report, we would recommend a total construction cost of £120,400,000 which equates to £2,537/m2. Including abnormals, external works and a 5% contingency/risk allowance.

Appendix A – Breakdown of Cost Adjustments

Trident

Creekside East, SE8		GIFA = 47,457m2
Ref	**Item**	**Adjustment £**
	Residential Fit Out	
	Internal Finishes	
1)	Emulsion paint to residential areas only; reduce rate from £15/m2 to £10/m2	
1.1)	Block 1 (Ground floor Tower 1 - 1,799 m2)	(8,995.00)
1.2)	Block 2 (1st - 4th Floor Tower 1 - 3194 m2)	(15,970.00)
1.3)	Block 3 (5th Floor Tower 1 - 1,156 m2)	(5,780.00)
1.4)	Block 4 (6th to 29th Floor Tower 1 - 43,082 m2)	(215,410.00)
1.5)	Block 5 (Ground Floor Tower 2 - 291 m2)	(1,455.00)
1.6)	Block 6 (2nd to 25th Floor Tower 2 - 45,568 m2)	(227,840.00)
	Fixtures and Fittings	
2)	Allowance for single panel of letter boxes and for signage - residential; reduce allowances for postboxes from £5500 to £2500	
2.1)	Block 2 (1st - 4th Floor Tower 1) - 4 nr	(12,000.00)
2.2)	Block 3 (5th Floor Tower 1) - 1 nr	(3,000.00)
2.3)	Block 4 (6th to 29th Floor Tower 1) - 24 nr	(72,000.00)
2.4)	Block 6 (2nd to 25th Floor Tower 2) - 25 nr	(75,000.00)
3)	Mirrors to residential bathrooms (non-heated); reduce allowance from £800 each to £500 each	
3.1)	Block 2 (1st - 4th Floor Tower 1) - 36 nr	(10,800.00)
3.2)	Block 3 (5th Floor Tower 1) - 9 nr	(2,700.00)
3.3)	Block 4 (6th to 29th Floor Tower 1) - 289 nr	(86,700.00)
3.4)	Block 6 (2nd to 25th Floor Tower 2) - 287 nr	(86,100.00)
	Sub-Total £	(823,750.00)
	Main Contractor Preliminaries, OH&P and Contingency	
	Main Contractor Preliminaries (Items 1 to 4)	
4)	Contractor's Preliminaries, Overheads and Profit @ 20%	(164,750.00)
	Sub-Total £	(988,500.00)
	On-Costs	
5)	Contingency @ 5%	(49,425.00)
	Contaminated Land	
6)	Reduce allowance for contaminated land from £2,625,000 to £1,500,000	(1,125,000.00)
	Note: The Contaminated land sum is inclusive of Prelims. OH&P and Contingency	
	Total Adjustment (Reduction) £	**(2,162,925.00)**
		(£46/m2)

		£
A)	Original Cost Plan Total (March 2018) £	**122,560,324.89**
B)	Adjustment for changes to Cost Estimate (see above)	(2,162,925.00)
C)	Revised Current Day Construction Cost £	120,397,399.89
	SAY	**£120.400 million**
		£2,537/m2 GIFA
		£236/ft2 GIFA

Creekside Village East
Deptford
London SE8

Trident

TC/TT/P2015-1125

Mr S.Davis
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16 October 2018

Dear Simon,

Creekside East, Deptford, London SE8

We have reviewed the information received on 26/9/18 from the Applicant in response to our report in respect of the Construction cost for the Financial Viability Study. For ease of reference below, we have set out the comment from BTP (the Applicant's QS) and the Trident response.

1. Overall Cost

BTP Comment 25/9/18 re Overall Cost

In summary, Trident, under Section 47 (of their Report) state "In Summary, the development cost falls within cost benchmarks that Trident would typically expect for high rise residential developments. The margin of difference between us is circa 2%.In my opinion this small percentage difference is within the accepted norm and would deal with differences of opinion on high and low rates by both Trident and ourselves.

Trident Response 16/10/18

Trident would agree that the difference of 2% is within the norm however, risk allowances and contingencies have been provided for within the estimate. The overall difference is considerable and may have an impact on affordable housing provision and therefore requires consideration of the individual points made in our report.

2. Internal Finishes – emulsion paint to residential areas.

BTP Comment 25/9/18 re Decoration

The rate proposed by Trident for emulsion paint of £10/m^2 is in our opinion on the low side. However, in order to close out this issue we are prepared to concede a rate of £12.50/m^2.

Trident Response 16/10/18 re Decoration

BTP have stated that 'in their opinion' the rate of £10/m2 is on the low side however no information has been provided to substantiate this. We have reviewed tender returns received from main contractors across three recent projects and the rates are as listed below.

- *£4.98/m2 – Cambridge*
- *£4.75/m2 to £5.21/m2 – Fulham*
- *£5.50/m2 – Isleworth*

We therefore consider that a rate of £10/m2 should be sufficient for high quality residential apartments and propose no further adjustment.

3. Fixtures and Fittings – allowance for single panel of letter boxes and for signage

BTP Comment 25/9/18 – Letter boxes and Signage

We consider that it is not for Trident to decide what the Developer requires within the Development. This allowance also includes for an element of building branded signage which has yet to be designed and decided upon. BTP and the Developer will not accept a reduction in specification.

Trident Response 16/10/18 – Letter boxes and Signage

We would agree that it is not for Trident to specify products however what we are assessing is whether the costs provided are reasonable. The cost of £297,000 for letter boxes is higher than what would typically be expected. If a quotation and further design information could be provided to substantiate this item we will review it however no further information has been provided.

4. Fixtures and Fittings – Mirrors to residential bathrooms

BTP Comment 25/9/18 – Mirrors to residential bathrooms

Fixtures and Fittings – mirrors to residential bathrooms (non heated)

We consider that it is not for Trident to decide what the Developer requires within the Development. This proposed reduction by Trident to a sales sensitive item is not accepted.

Trident Response 15/10/18 – mirrors to residential bathrooms

Once again, rather than addressing the issue, ie the unit cost of the mirrors, BTP have simply responded by stating it is not for Trident to decide what the Developer requires. Equally we would point out that our proposed cost of £500 per mirror is a very good allowance for a bathroom mirror. For the purpose of determining whether the cost is reasonable for a viability study, the Trident allowance is reasonable.

Perhaps the Applicant can provide an explanation as to why they consider it necessary to spend £800 on a mirror?

5. <u>Contamination Remediation</u>

<u>BTP Comment 25/9/18 – Contamination Remediation</u>

Trident have proposed a reduction in the allowance for this item from £2,625,000 to £1,500,000. They have not supported or provided any back up to their figure.

BTP did previously explain to trident that we had allowed for the whole site down to a depth of 4.5m (and not to 6m as stated in the Trident report,).Trident are correct that the assessment is based upon a report that is now some 18 years old. We note their comments about trigger levels (in our opinion the level of contamination testing these days is probably more vigorous than 18 years ago) and their assertion that there may be more advanced alternatives for soil treatment.

However the treatment and removal of the contaminated ground remains a high risk on this project which is not allowed for elsewhere in any project contingency. BTP and the Developer therefore cannot accept a reduced allowance for this item until further soil testing has been carried out in order to minimise this high project risk.

<u>Trident Response 15/10/18 — Contamination Remediation</u>

In respect of the comment that 'BTP and the Developer therefore cannot accept a reduced allowance for this item until further soil testing has been carried out in order to minimise this high project risk' we find it odd that if this item is considered to be a significant risk, why has further testing and surveys not been carried out ? if there is a significant risk of extensive remediation, it would be prudent to assess and quantify the risk and then implement an appropriate strategy or to develop an alternative design.

With regard to the comment that BTP explained that they had allowed for excavation to a depth of 4.5 m3 we would disagree. The email from Philippa Brennan to Jonathan Glaister on 14 May 2018 clearly states "We have currently assumed, based upon the attached report from 2000, that the entire site is contaminated and therefore have allowed for the removal of contaminated land down to 6 metres." We have attached a copy of the email by way of confirmation.

The proposed solution assumed by BTP simply involves excavating ground material and then disposing off site. This approach is simplistic approach and highly unlikely to be the method of remediation that is adopted. There are alternative long-term remediation measures such as treating soil in situ by bioremediation, soil washing or other means. These techniques often significantly reduce the volume of material disposed at landfill sites which is costly.

Furthermore, there are numerous references in the Card Geotechnics Report dated March 2000 (referred to as 'The Report') which suggests that there are areas of contamination as opposed to contamination extending across the whole of the site. Particular items of note are listed below.

- *The made ground extends to a depth of 3.0m (Section 2.1 of the report).*

- *Section 3.2.1 of the report states that the heavy metal contamination across the site is at 'slightly elevated concentrations'. There was only one sample of lead that exceeded the trigger levels whilst other metals are not considered to pose a risk to human health on the site.*

- *Section 3.2.1 of the report states that the leachate testing reveals that the migration potential is considered low. This poses the question as to whether there is any contamination below the level of made ground (to a maximum of 3m).*

- *Section 5.3 of the Report states 'localised' areas of tar and oil contamination at a shallow depth. This suggests that the material that needs removing is only present at shallow depths..*

- *Section 5.4 of the report states that site specific levels will be determined by risk assessment and agreed with the Environment Agency and Local Authority. This confirms that the site remediation model has not been agreed and it is likely that only some of the material will need to be removed from site. A new model is to be developed and agreed with the EA and LA so the report is outdated.*

BTP have commented that Trident have not provided any back up to the proposed figure of £1.5 million. On the next page, we have provided a build up to this figure and consider this sum to be a reasonable provision.

Summary

To summarise we are of the view that BTP have not addressed the points in our report.
The response of 'it is not for Trident to decide what the Developer requires within the Development' provides no further information for us to re-consider the construction cost for the viability study.

We therefore consider that the figures used in our previous report (contained within Appendix 1 of the Urban Delivery Viability Report, Draft, dated June 2018) to provide a suitable basis for the viability study.

If you should any queries or wish to discuss this further, please do not hesitate to contact me.

Yours sincerely

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Director

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Contamination Remediation
Build up to Trident Value of £1.5 million

Ref	Item	Quantity	Unit	Rate £	£
1)	Remove potential asbestos in made ground to a depth of 3m (part of Basement to Block 2- approx 1500 m2)	4,500	m3	150	675,000.00
2)	Soil washing / bioremediation of remainder of basement excavation [calculated as Basement area of 5958 m2 x 3 m depth of made ground, less 4,500 m3 in item 1]	13,374	m3	40	534,960.00
3)	Allowance for removal of hotspots in ground at 3m to 6m depth	1	item	100,000	100,000.00
					1,309,960.00
4)	Main Contractor Preliminaries and OHP @ 20%				261,992.00
					1,571,952.00
					SAY £1.5 M

The basis for the cost build up noted above is as follows:

The BTP cost estimate includes for excavation and disposal of material at £65/m2 as noted on item 2 of page 15. This would assume inert material. The rate of £150/m3 used for item 1 above is an extra over rate.

On page 20 of the pdf version of the Card Associates report there is a drawing ref CG/870 and this notes an area of potential asbestos contamination noted as the blue area which we understand to be the former Lewisham Waste Transfer Station. Once this is mapped onto the basement footprint of the proposed building, it covers an area of approximately 1500 m2, mainly on Block 2. We have allowed for excavating this to a depth of 3m (the made ground). We would however point out that:

- The area is noted as 'potential' asbestos and this is not confirmed so it is unlikely that all material would need removal.
- There may be potential for treating this soil to de-classify the waste from hazardous to non-hazardous or even inert. This would reduce the disposal rate.

Item 2 allows for treating the made ground so it can be classified as inert material and then disposing of the material off site which is included within the basement excavation and disposal costs.

On the basis that the report suggests that there is likely to be 'hotspots' within the 3m to 6m layer we have made a provision of £100,000.
Main Contractor Preliminaries and OHP have been added at 20%.

APPENDIX 2

Development Appraisal Summary

Creekside Village East
Deptford Creekside
Appendix 2 - 10% Shared Ownership

Development Appraisal
Urban Delivery
21 October 2018

APPRAISAL SUMMARY URBAN DELIVERY

Creekside Village East
Deptford Creekside
Appendix 2 - 10% Shared Ownership

Summary Appraisal for Merged Phases 1 2 3 4 5 6 7

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Block 1 - Private Residential	185	136,272	756.65	557,351	103,110,000
Block 1 - Shared Ownership	15	11,970	400.00	319,200	4,788,000
Block 2 - Private Residential	169	120,374	754.32	537,278	90,800,000
Block 2 - Shared Ownership	24	17,007	400.00	283,450	6,802,800
Totals	**393**	**285,623**			**205,500,800**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Block 1 - 1 Bed Ground Rents	63			300	18,900	18,900
Block 1 - 2 Bed Ground Rents	89			400	35,600	35,600
Block 1 - 3 Bed Ground Rents	33			500	16,500	16,500
Block 1 - Commercial	1	4,854	20.00	97,080	97,080	97,080
Block 2 - 1 Bed Ground Rents	87			300	26,100	26,100
Block 2 - 2 Bed Ground Rents	64			400	25,600	25,600
Block 2 - 3 Bed Ground Rents	18			500	9,000	9,000
Block 2 - Commercial	1	3,229	20.00	64,580	64,580	64,580
Totals	**356**	**8,083**			**293,360**	**293,360**

Investment Valuation					
Block 1 - 1 Bed Ground Rents					
Current Rent	18,900	YP @	5.0000%	20.0000	378,000
Block 1 - 2 Bed Ground Rents					
Current Rent	35,600	YP @	5.0000%	20.0000	712,000
Block 1 - 3 Bed Ground Rents					
Current Rent	16,500	YP @	5.0000%	20.0000	330,000
Block 1 - Commercial					
Market Rent	97,080	YP @	7.0000%	14.2857	
(6mths Rent Free)		PV 6mths @	7.0000%	0.9667	1,340,725
Block 2 - 1 Bed Ground Rents					
Current Rent	26,100	YP @	5.0000%	20.0000	522,000
Block 2 - 2 Bed Ground Rents					
Current Rent	25,600	YP @	5.0000%	20.0000	512,000
Block 2 - 3 Bed Ground Rents					
Current Rent	9,000	YP @	5.0000%	20.0000	180,000
Block 2 - Commercial					
Market Rent	64,580	YP @	7.0000%	14.2857	
(6mths Rent Free)		PV 6mths @	7.0000%	0.9667	891,883
					4,866,609

GROSS DEVELOPMENT VALUE			**210,367,409**
Purchaser's Costs		(309,859)	
			(309,859)
NET DEVELOPMENT VALUE			**210,057,550**
NET REALISATION			**210,057,550**
OUTLAY			
ACQUISITION COSTS			
Residualised Price		5,201,512	
			5,201,512
Stamp Duty		249,576	
Agent Fee	1.00%	52,015	

Creekside Village East
Deptford Creekside
Appendix 2 - 10% Shared Ownership

Legal Fee		0.50%	26,008	
				327,598
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Block 1 - Commercial	4,854 ft²	99.96 pf²	485,223	
Block 2 - Commercial	3,229 ft²	158.85 pf²	512,924	
Block 1 - Private Residential	181,719 ft²	228.94 pf²	41,602,744	
Block 1 - Shared Ownership	15,962 ft²	228.94 pf²	3,654,345	
Block 2 - Private Residential	157,176 ft²	226.96 pf²	35,672,554	
Block 2 - Shared Ownership	22,206 ft²	226.96 pf²	5,039,985	
Laban	67,512 ft²	192.54 pf²	12,998,690	
Totals	**452,658 ft²**		**99,966,464**	**99,966,464**
Contingency		5.00%	5,560,235	
Block 1 - Resi CIL			2,635,765	
S106 - £1,000 per unit	200 un	1,000.00 /un	200,000	
Block 1 - Commercial CIL			22,604	
Block 2 - Resi CIL			2,274,253	
S106 - £1,000 per unit	193 un	1,000.00 /un	193,000	
Block 2 - Commercial CIL			15,037	
Laban Centre - CIL			1,042,497	
				11,943,391
Other Construction				
Resi & Commercial Basement			7,459,732	
Public Realm			1,833,307	
Statutory Services			1,260,000	
Demolition & Site Clearance			685,200	
Removal of Contaminated Land			1,500,000	
Works to Reinstate the Creekwall			2,133,000	
				14,871,239
PROFESSIONAL FEES				
Professional Fees		12.00%	14,447,753	
				14,447,753
MARKETING & LETTING				
Letting Agent Fee		10.00%	16,166	
Letting Legal Fee		5.00%	8,083	
				24,249
DISPOSAL FEES				
Sales & Marketing - Private Resi		4.00%	7,855,052	
Sales & Marketing - SO		1.00%	115,908	
Sales Agent Fee - Commercial		1.00%	20,905	
Sales Legal Fee		0.50%	1,050,288	
				9,042,152
MISCELLANEOUS FEES				
Developer's Return - Private Resi		20.00%	20,906,000	
Developer's Return - Affordable		6.00%	287,280	
Developer's Return - Commercial		17.50%	234,627	
Developer's Return - Private Resi		20.00%	18,402,800	
Developer's Return - Affordable		6.00%	408,168	
Developer's Return - Commercial		17.50%	156,080	
Developer's Return - Laban Centre		6.00%	979,737	
				41,374,692
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				12,858,500
TOTAL COSTS				**210,057,550**
PROFIT				
				0

Creekside Village East
Deptford Creekside
Appendix 2 - 10% Shared Ownership

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.14%
Equivalent Yield% (Nominal)	5.93%
Equivalent Yield% (True)	6.16%
IRR	6.33%
Rent Cover	0 mths
Profit Erosion (finance rate 7.000%)	0 mths