Carpetright Site, Loampit Vale, SE13 7RZ

Final Viability Assessment

for
London Borough of Lewisham

January 2018

Prepared by

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DATE	ORIGINATORS	APPROVED
January 2018	David Price Senior Surveyor	Guy Ingham Director

Limitations

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1 INTRODUCTION

1.1 GL Hearn has been instructed by the London Borough of Lewisham to undertake a viability assessment in respect of a proposed development at the Carpetright Site, Lewisham, for which a planning application has been submitted by Threadneedle Pensions Ltd (the Applicant).

1.2 The subject property comprises 11,664 sq ft of retail warehousing which is let to Carpetright situated to the west of Ravensbourne River. The site is situated to the north west of Lewisham shopping centre in London Borough of Lewisham (LBL) and is bound by Loampit Vale (A20) to the south, Thurston Road to the west and the railway line to the east.

1.3 The site is located in close proximity to Lewisham Station providing access to the DLR and National Rail Services which provide entry to central London. Bus services are also available from the adjacent bus terminal providing services around London.

1.4 U.L.L. Property (ULL) is the lead author of the Financial Viability Assessment (FVA) but they have relied on a number of sources of third party advice. Specifically the following information has been incorporated in their assessment:-

- JTP Architects - Architects
- RLF - Budget estimate
- Axiom Land - Tenancy information

The Application Scheme

1.5 Planning permission is sought by the Applicant for the following;

"The comprehensive redevelopment of the Carpetright site including the demolition of the existing Carpetright building and the construction of two buildings of 16 storeys and 30 storeys in height comprising 870sqm non-residential floorspace comprising (A1) Shops, (A2) Financial & Professional Services, (A3) Restaurants & Cafes, (B1) Business, (D1) Non-residential Institutions and (D2) Assembly & Leisure uses and 242 residential units with private and communal open space, on-site energy centre, cycle parking and associated landscaping and public realm works".

1.6 The Applicant is proposing to provide two blocks containing 242 units and 8,703 sq ft commercial accommodation and public realm.

1.7 The site is complicated by the potential prospect of the Bakerloo Line extension which as proposed is reported to affect the site and subsequent design with further allowance required for abnormal construction costs. ULL has therefore tested two development scenarios both with and without the

additional construction costs associated with the impact of the Bakerloo Line extension which we detail below;

1.8 ULL has indicated that the assumed scheme comprising a 4% affordable housing contribution, without the additional abnormal allowance for construction costs in respect of the Bakerloo Line extension, results in a deficit of £1,435,000 when the residual land value is compared to ULL's opinion of Benchmark Land Value. Despite the projected deficit indicated, ULL has stated that the Applicant is willing to bring forward the site.

1.9 ULL has also modelled the scheme with the additional abnormal construction costs associated with the Bakerloo Line extension included, the impact of which results in a scheme deficit of £2,649,313 when the residual land value is compared to ULL's opinion of Benchmark Land Value. Therefore ULL has stated that for this scenario the development cannot provide any affordable housing.

2 GENERAL METHODOLOGY

2.1 GL Hearn's review of the FVA has had regard to the RICS Guidance Note "Financial Viability in Planning".

2.2 We do not take issue with the overarching methodology used by ULL within their assessment. They have:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme;
- Assessed a Benchmark Land Value (based on the EUV)
- Undertaken a residual appraisal to calculate the residual land value which is compared against the Benchmark Land Value to establish whether the scheme is viable or not assuming the current level of planning obligations.

2.3 ULL has used the Argus Developer appraisal programme to assess the viability of the development. This is a commercially available, widely used software package for the purposes of financial viability assessments. The methodology underpinning viability appraisals is the Residual Method of Valuation, commonly used for valuing development opportunities. Firstly, the gross value of the completed development is assessed and the total cost of the development is deducted from this.

2.4 The approach adopted by ULL has been to adopt a number of assumptions in relation to the proposed scheme which produces the residual land value. With this approach, if the residual land value is lower than the benchmark land value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development unless the level of affordable housing and/or planning obligations can be reduced.

2.5 In this case ULL has considered the Benchmark Land Value on the basis of Existing Use Value (EUV) as an 11,664 sq ft retail warehouse to which a land owner's premium has been applied before arriving at an assumed Benchmark Land Value of £7,582,000.

2.6 In respect of the proposed scheme ULL has modelled two development scenarios both with and without the assumed additional abnormal costs of £2,827,000 associated with the Bakerloo Line extension. Without the Bakerloo extension costs, ULL indicate that the scheme provides a deficit of £1,435,000 when compared to the assumed BLV of £7,582,000. Despite the projected deficit ULL indicate that the applicant is willing to offer a 4% affordable housing contribution. ULL has also modelled the proposed scheme to include the abnormal construction costs associated with the Bakerloo Line extension and indicate that the scheme produces a project deficit of £2,649,313 and as such cannot provide any on-site affordable housing or payment in lieu of affordable housing.

2.7 Given that the calculations are being made well in advance of commencement of the development, the figures used in the applicant's appraisal can only be recognised as a projection. As such, it is

essential that all assumptions are carefully scrutinised by the Council to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.

2.8 GL Hearn's approach has been to critically examine all of the assumptions on which the ULL appraisal is based.

2.9 It is also important to carefully scrutinise the applicant's methodology. In particular the measure of benchmark land value has a fundamental effect on the viability equation.

3 CRITIQUE OF BENCHMARK LAND VALUE

3.1 Determining an appropriate Benchmark Land Value is often the most important factor in determining viability. Put simply, if the value generated by the development does not produce a positive figure, there is no financial incentive to bring forward the development with all its associated risk.

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

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

3.3 In arriving at an appropriate BLV regard should be had to existing use value, alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy. Existing Use Value is widely used in establishing Benchmark land value and is supported in the latest mayoral SPD and by the London Assembly Planning Committee.

Summary of Applicants Position

3.4 ULL has put forward a BLV of £7,582,000 having considered the site value on the basis of Existing Use Value (EUV). The subject site comprises an existing A1 retail warehouse comprising 11,664 sq ft of accommodation which is currently let to Carpetright on a lease expiring in 2024.

3.5 ULL has considered the achievable rental value of the subject property based on comparable evidence and applied an appropriate yield based on comparable investment transactions to arrive at their opinion of EUV.

3.6 ULL has applied a rent of £379,080 per annum which equates to a rent of £32.50 per sq ft. Having considered comparable investment transactions and the security of the Carpetright covenant, ULL has adopted a yield of 6% in order to arrive at an EUV of £6,318,000,

3.7 ULL has applied a 20% premium to the assumed EUV of £6,318,000 to incentivise the landowner to release the land for development which results in an assumed BLV of £7,582,000. We comment on each of these assumptions in turn below.

<u>Rent</u>

3.8 We are informed that the current rent at the subject unit is £300,000 per annum reflecting a rent of £25.72 per sq ft which was agreed at a rent review in 2014. ULL has also sought evidence of

comparable properties in the locality and detailed five comparables in their financial viability assessment to inform their applied rent of £32.50per sq ft.

3.9 We have reviewed the evidence provided by ULL and do not consider the comparables at Friern Bridge Retail Park, Gallows Retail Park or Thurrock Retail Park to provide particularly good evidence given the respective locations being significant distances from the subject property. We would comment that the Mothercare unit at Brocklebank Retail Park is situated within a better location that the subject and the rent of £40 per sq ft is reflective of this.

3.10 We are of the opinion that the best and most comparable evidence for the subject site will be within Lewisham Retail Park. We have recently undertaken viability work in the surrounding area and have been party to the current rents at the Lewisham Retail Park which remain confidential. However, the tone of rents achieved within these units is similar to the adopted rent for the subject unit. Furthermore the Lewisham Retail Park units are of a similar size and we are therefore of the opinion given the neighbouring location and similar characteristics the applied rent of £379,080 per annum equating to £32.50 per sq ft is reflective of current market levels.

Yield

3.11 ULL has adopted a yield of 6% citing three comparable transactions in Romford, Newham Leisure Park and Slough which demonstrate net yield range of between 6.16% and 6.78%. We are also aware of the sale of Gateway Retail Park, E6 in May 2015 for £47.8m. The site provided 150,000 sq ft and comprised a B&Q, Pets at Home, Halfords, Wren Kitchens, Staples, McDonald's and KFC with a reported rent range from £17.50psf to £27psf. The weighted average unexpired leasehold term was circa 6.8 years at the time of sale with the B&Q and Staples leases having break clauses in 2022 and 2015 respectively. The sale price equated to a net initial yield of 6%.

3.12 Having considered the evidence provided by ULL and undertaken our own market research we are of the opinion that the applied yield of 6% is reflective of current market levels.

Premium

3.13 It is not uncommon for a premium to be attached to the EUV by way of a landowner's incentive to bring forward development. We are of the opinion that the site is within a prominent location with a secure income stream. The latest Mayoral SPD states that premiums require justification and could be between 10 per cent and 30 per cent, but must reflect site specific circumstances. Therefore we consider the applied 20% premium to be reasonable.

Valuation Methodology

3.14 ULL arrive at a value of £6,318,000 when capitalising the applied Market Rent of £379,080 at a yield of 6% to which they have applied a premium of 20% in order to arrive at a Benchmark Land Value of £7,582,000. As we have stated above we consider the assumptions to be reasonable and reflective of market levels.

3.15 We do however take issue with the methodology adopted by ULL. We are informed that the current passing rent is £300,000 equating to £25.72 per sq ft which was agreed at a rent review in 2014. We understand that the lease is due to expire in 2024. We have not had sight of the lease but assume that a 5 yearly rent review was agreed which is fairly standard. We consider that to assume a Market Rent from the start with no allowance for voids is an incorrect approach. We have therefore assumed the passing rent until the assumed rent review (1st June 2019) at which point we have applied the Market Rent of £32.50 per sq ft. We have also allowed for purchaser costs but have not made any allowance for letting fees or voids as we assume this to be reflected in the yield.

3.16 Adopting the above methodology and aforementioned assumptions we have arrived at an Existing Use Value of £5,807,500 to which to apply a premium of 20%.

3.17 We are therefore of the opinion that the BLV of the site is £6,969,000. This demonstrates a reduction of £613,000 when compared to the position assumed by the Applicant.

3.18 For the purposes of our modelling we have adopted £6,969,000 for our assumed Benchmark Land Value.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

Residential Value Assumptions

4.2 The proposed scheme includes a total of 242 residential units, 97 x one bed units, 130 x two bed units and 15 x three bedroom units situated within two separate blocks of 16 and 30 storeys. Within the proposed development, without assuming the abnormal costs associated with the Bakerloo Line extension, 9 x affordable units have been offered by the Applicant which are to be situated within block A of which 4 units are allocated as Shared Ownership tenure and 5 units as Affordable Rent.

4.3 The private units have been priced on an overall blended rate of £700psf which has been applied in the appraisal. ULL has stated that a range of £650 to £700 per sq ft is likely to be a reasonable average selling price at the subject site accounting for the superior values likely to be achieved on the upper floors. ULL has cited comparable evidence from Riverdale House, River Mill One and Tower House whilst also considering second hand sales from the Silkworks and Renaissance developments.

4.4 We have reviewed the comparable evidence provided by ULL and undertaken our own research in order to verify the pricing assumptions adopted. Before commenting on the specific comparable evidence we briefly set out an overview of the residential market for context.

Residential Market Overview

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

4.6 London experienced lower growth in the year to June 2017 at 2.9%, with average house prices in London as at June 2017 being £481,556 after a negative monthly growth of -0.7%.

4.7 Nationwide's July 2017 press release reports that house prices increased by 0.3% month on month in July. They note that annual house price growth also dropped slightly to 2.9%, compared with 3.1% in June. They comment that *"On the surface, this appears at odds with recent signs of cooling in the housing market. The number of housing transactions dipped to their lowest level for eight months in June, while in the same month the number of mortgages approved for house purchase moderated to a nine-month low of c.65,000. Nevertheless, constrained supply is likely to continue to provide support for house prices and, as a result, we continue to expect prices to rise by c.2% over 2017 as a whole - only modestly lower than the levels recorded in recent months*".

4.8 The General Election result, with a hung parliament and a minority Government, following on from Britain having voted to leave the EU and triggering Article 50, there will be a period of uncertainty as both the UK and indeed the world economy adjust to the implications. The short term implications will be one of adjustment and will be dependent upon financial stability, while markets, both in the UK and internationally, find a level.

4.9 Despite the uncertainty the Government are seeking to promote business as usual by reassuring the markets that investment in major infrastructure projects will continue as planned, and that increasing the supply of housing remains a national priority.

4.10 The average house price across the Borough as at June 2017 stood at £411,719 which equates to a positive annual change in house prices of 1.7%. This compares to the average house price across London of circa £480,000 with reported annual growth of 2.9%.

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

4.12 ULL has referred to a wide number of transactions within the locality, namely Riverdale House, River Mill One and Tower House along with a number of re-sales from the Renaissance and Silkworks developments.

4.13 In respect of the new build evidence we do not consider Riverdale House to provide a fair indication of new build values for the subject site. The development is situated in a poorer location 0.4 miles to the south of the subject site further away from Lewisham station and Lewisham shopping centre. The development is also an office to residential conversion and therefore does not represent new build evidence. Furthermore, the development is 6 storeys and therefore does not provide comparable pricing for the higher value units situated on the upper floors at the subject development.

4.14 The Tower House Loft Apartments is also a recent conversion of an office building. Whilst the development's location is more comparable being situated along Lewisham High Street, the achieved sales detailed within the table demonstrate an average capital value rate of £704 per sq ft are not 'new build' units and are also all situated on the second floor. In 2016 we were informed that the average asking price for the 33 units was £728 per sq ft. The proposed blocks at the subject site will be purpose built new build residential accommodation benefitting from scale and improved communal areas and as such will likely achieve a new build premium above the units within the

Tower House Loft Apartments. The proposed units are to be situated in blocks of 16 and 30 storeys and therefore as ULL state, will achieved superior values.

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

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

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

4.17 As can be seen in the above table the general tone for the units is in excess of £700psf. However, the units situated on the very upper floors are being marketed for values in excess of £800per sq ft. These provide a good indication of achievable values at the subject site for the units on the upper floors.

4.18 ULL have also referred to the Renaissance and Silverworks developments. Whilst the Renaissance development was completed a few years back, first launching in 2011, the development is located in close proximity to the subject site. We are aware of 2 x two bedroom units on the 19th floor which are on the market for £560,000 and £550,000 reflecting capital value rates of £777 per sq ft and £762 per sq ft. We would again expect the subject units situated on the upper floors to achieve a premium over these units given the new build quality.

Summary and Conclusions

4.19 Having considered the evidence detailed above and the comparables provided by ULL we are of the opinion that the pricing of the private units is below the market evidence. We consider the proposed units at the subject site would achieve slightly improved sales values when considering the site characteristics and proximity to transport links especially given the density of the proposed blocks. Having considered the above evidence we are of the opinion that a blended value of £725psf is appropriate for the private units.

4.20 GL Hearn has also recently undertaken a financial viability assessment of a similar sized scheme in very close proximity to the subject site. We consider the proposed scheme to be very comparable and our proposed pricing is reflective of the agreed pricing for this development. For the purposes of our modelling we have therefore adopted an overall sales value rate of £725psf.

Affordable Housing

4.21 The proposed development scenario without inclusion of abnormal costs associated with the Bakerloo Line extension provides 9 x on-site affordable housing units of which 4 are allocated as shared ownership tenure and 5 as affordable rented tenure.

4.22 The 5 x affordable rented units, comprising 1 x one bed unit, 3 x two bed units and 1 x 3 bed unit, have been valued at £616,326 assuming weekly rent of £144.26, £152.73 and £161.22 respectively. The 4 x shared ownership units, comprising 2 x one bed units and 2 x two bed units provide an overall blended capital value rate of £382 per sq ft.

4.23 GL Hearn's affordable housing team has reviewed the assumptions in respect of the above and considers the values for both tenures to be lower than what is being achieved in the market in the Lewisham area. Whilst the proposed shared ownership units are large we consider the blended value rate of £382 per sq ft to be especially lower than expected. We would recommend that the values are market tested with RP's.

Residential Ground Rents

4.24 ULL has assumed average ground rental income of £350 per annum applied to all units which has been capitalised at 5%. We consider this to be lower than what we would expect and have adopted ground rental income of £350 per annum in respect of the one bedroom units, £400 for the two bedroom units and £450 for the three bedroom units for the purposes of our modelling. This income has been capitalised at 5% which is at the upper level of the typical 4.5% - 5% usually adopted. This is consistent with the tone of the ground rent and capitalised rate agreed in the immediate area.

Commercial Value Assumptions

4.25 The proposed development also includes 8,703 sq ft of flexible non-residential accommodation comprising (A1) Shops, (A2) Financial & Professional Services, (A3) Restaurants & Cafes, (B1) Business, (D1) Non-residential Institutions and (D2) Assembly & Leisure uses. The accommodation is split over the ground and first floors in to the following units;-

Floor	Sq ft
Ground	630
Ground	1,213
Ground	615
Ground	2,878
First	1,152
First	1,213
First	1,002
Total	**8,703**

4.26 ULL has cited comparable rental and investment transactions to inform their adopted rent of £25 per sq ft and yield of 5.5% which we consider below;-

Rent

4.27 ULL has cited units C1 (1,443 sq ft), F1 (2,355 sq ft) and F2 (1,382 sq ft) within the Renaissance development which were constructed in 2015 and available to let in May 2017 for rents equating to £25 per sq ft. The units had the benefit of a flexible A1, A2 and B1 permission. ULL has also highlighted a retail unit at 3 Jerrard Street, Lewisham forming part of the Thurston Point development comprising 3,055 sq ft of accommodation. The unit was let in October 2016 at a rent equating to £25 per sq ft.

4.28 We are of the opinion that the units at the Renaissance development provide the best evidence of achievable rental values in the subject location and therefore consider the applied rent of £25 per sq ft to be reflective of market conditions.

Yield

4.29 ULL has adopted a net initial yield of 5.5% and has cited yield evidence demonstrating a range of 5.63% to 7.54%. we have sought our own evidence to verify the adopted yield which we detail in the table below;-

Address	Size Sq ft	Sale Price	Yield	Comments/lease terms
8-12 Lee High Road, SE14 5LQ	Total 6,491 3,502 Office 2,989 Retail	£2,200,000 (Feb 2017)	6.1%	Slightly dated building in the centre of Lewisham close to subject site. Includes retail space.
Unit E1 Roma Corte, **Renaissance**, Loampit Vale SE13 7DJ	1644	£450,000 (Jan 2017)	5.5%	New build office space in a similar development scheme as proposed by the applicant. Within close proximity to subject site. 999 year lease

4.30 Having considered the above evidence we are of the opinion that the Renaissance transaction provides very good evidence in respect of informing an appropriate yield. We have therefore applied a yield of 5.5% in respect of the proposed accommodation at the subject property.

4.31 For the purposes of our modelling we have therefore applied a rent of £25psf capitalised at a yield of 5.5%.

Cost Assumptions

Build Costs

4.32 A Budget Cost Estimate has been prepared by RLF to inform the viability assessment. As we have stated above, the potential prospect of the Bakerloo Line extension is reported to affect the site and subsequent design with further allowance required for abnormal construction costs. As such, RLF has considered the potential cost of the scheme both including and excluding these works. RLF consider the additional abnormal allowance required to be £2,827,000 to facilitate the Bakerloo Line extension.

4.33 On the basis of GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review this on behalf of the Council. The cost estimate for the proposed scheme, to include the Bakerloo Line extension works, assumes a total build cost of £69,500,000. For ease of reference a summary of costs for the proposed scheme is set out in the table below:-

Summary of costs	Proposed £ (% of Total Costs)
Demolitions & Alterations	£463,000 (1%)
Substructure	£2,605,000 (3%)
Superstructure	£24,508,000 (36%)
Internal Finishes	£3,836,000 (5%)
Fittings & Furnishings	£4,427,000 (7%)
Services	£13,236,000 (19%)

External Works	£1,918,000 (2%)
Preliminaries & Fixed Price Allowance	£10,003,000 (15%)
Contractor Overheads & Profit	£3,660,000 (5%)
Design Risk & Contingency	£4,844,000 (7%)
TOTAL	**£69,500,000**

4.34 A line by line review of the Applicant's cost plan has been undertaken by Johnson Associates, which can be found at Appendix A.

4.35 This concludes that the costplan presented by the applicant is excessive and that the original development proposals should be deliverable at a price of £64,971,000. This represents an overall reduction in the order of £4,529,000, i.e. approximately 6.5%.

4.36 Accordingly in our own appraisal we have adopted the reduced Johnson Associates total build cost figure of £64,971,000 for the purposes of our modelling.

Professional Fees

4.37 ULL has assumed professional fees of 12% of construction costs which totals £8,340,000. We would usually expect professional fees to be in the order of between 8-10% and therefore consider the allowance adopted to be above market evidence especially in the context of the scale of the proposed scheme. For the purposes of our modelling we have adopted an allowance of 10%.

Marketing and Transactional fees

4.38 The following allowances have been made in ULL development appraisal;-

- Marketing Fee - 1.25% (Private Units, Commercial & Ground Rents)
- Sale Agent Fee - 1.25% (Private & Affordable Units, Commercial, Ground Rents)
- Sale Legal Fee - £600 (Private Units) 0.25% (Affordable Units) 0.50% (Commercial & Ground Rents)
- Letting Agent Fee - 10% (Commercial)
- Letting Legal Fee - 3% (Commercial)
- Purchaser Costs - 6.8% (Commercial)

4.39 We do not take any issue with the allowances detailed above and have adopted these for the purposes of our modelling.

Finance Costs

4.40 Finance costs have been assumed at 7% debit rate. We consider this assumption to be reasonable and in line with market levels and have adopted it for the purposes of our modelling.

CIL/S106

4.41 ULL has been advised of the following site specific S106 costs which we detail below;-

- Carbon Offset - £520,885
- Car Club - £32,000
- Local Labour and Business Strategy - £154,230
- Legal & Monitoring - £25,000

4.42 We have not been party to the discussions between the Council but assume the above amounts to be correct and have adopted them for the purposes of our modelling but recommend that these are verified by the Council.

4.43 ULL has included an allowance for Lewisham CIL costs of £1,394,000 and £693,000 for Mayoral CIL. No evidence has been provided to enable us to interrogate this figure so for the purposes of our modelling we have assumed that this is the correct apportionment. Ideally further information should be provided by the applicant in this respect to enable verification. We would recommend that the CIL calculations are provided to the Council's CIL Officer to a full review.

Developer's Profit

4.44 ULL has adopted a developer's profit of 20% of Gross Development Value (GDV) on the private residential element, 6% of GDV in respect of the affordable element and 15% on GDV in relation to the commercial element. This equates to a blended profit on Gross Development Value of 19.84% in respect of the scheme including the Bakerloo Line extension works and zero affordable housing. For the scheme without the abnormal allowance included for the Bakerloo Line extension and comprising 9 x on-site affordable units, this equates to a blended profit on GDV of 19.62%.

4.45 We would comment that the appropriate level of developer profit will vary from scheme to scheme. Developer's profit margin is determined by a range of factors including property market conditions, individual characteristics of the scheme, comparable schemes and the development's risk profile. The market is extremely competitive in Lewisham with many developers active and a number of sites currently under construction. We would expect to see differing levels of profit applied to certain elements of the scheme dependent on the risk profile.

4.46 We therefore consider the profit margins adopted by ULL to be appropriate in this instance. We would highlight that should further on-site affordable housing units be offered the overall blended profit margin would reduce given the lower profit assumptions on account of the reduced level of risk associated with the affordable housing.

Summary Table

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

Assumption	ULL Property Assumptions	GLH Figure (Where Different)	Comments
Sales and Revenue			
Average Private Residential Sales Value	£700psf	£725psf	We consider the units to be undervalued
Average Affordable Sales Value	Aff Rent - £616,326 Shared Ownership - £381psf	TBA	We consider both the tenures to be undervalued and recommend that these are market tested with RP's
Residential Ground Rent	Average - £350 p.a. 5%	£350 - 1 bed £400 - 2 bed £450 - 3 bed @ 5%	We have adopted specific assumptions in line with market evidence.
Commercial	£25psf @ 5.5% £3,868,635	-	Agreed for modelling purposes
Development Costs			
Construction Costs (Inc. BLE abnormals)	£69,500,000	£64,971,000	See Appendix A for the Build Cost Review
Professional Fees	12%	10%	We consider the adopted allowance to be in advance of market levels in the context of the scheme
Sales Costs	1.25% Marketing - Private / Ground Rents / Commercial 1.25% Sales Agent Fee - Private / Affordable / Ground Rents / Commercial 0.5% Sales Legal Fee - Commercial / Ground Rents £600 per unit Sales Legal Fee - Private 10% Letting Agent Fee - Commercial 3% Letting Legal Fee - Commercial 6.8% Purchaser Costs - Commercial	-	Agreed for modelling purposes

CIL	£1,394,000 £693,000	-	We have adopted the CIL amount assumed by the Applicant but recommend this is reviewed by the Council.
S106	Carbon Offset £520,885 Car Club £32,000 Local Labour and Business Strategy £154,230 Legal & Monitoring £25,000	-	We have adopted the S106 amounts assumed by the Applicant but recommend this is reviewed by the Council.
Interest / Finance Costs	7% debit	-	Agreed for modelling purposes
Developers Profit	20% on GDV - Private Residential 15% on GDV - Commercial 6% on GDV - Affordable	-	Agreed for modelling purposes
Benchmark Land Value	£7,582,000	£6,969,000	We are of the opinion a lower BLV should be assumed.

5 FINANCIAL APPRAISALS & CONCLUSIONS

5.1 Where our own market research has indicated that the inputs used have not been fully justified we have sought to illustrate the potential impact on residual land value. In this respect we have undertaken sensitivity analysis producing a number of residual appraisals using Argus Developer, which is a leading industry-standard development appraisal package commonly used by developers and agents to assess development viability.

5.2 Although this analysis does not constitute formal valuations under the provisions of the RICS Valuation Standards ('Red Book') it does provide robust evidence to inform the Council's decision making process in respect of the applicants planning application.

5.3 In this instance we have been provided with a working appraisal by ULL for the development scenario without the inclusion for abnormal costs associated with the Bakerloo Line extension. This has enabled us to ensure the model has been constructed properly and the inputs are timed correctly within the cashflow. We have replicated the appraisal to include the abnormal costs associated with the Bakerloo Line extension and have arrived at the same residual land value as the appraisal print out which we have then used as the base position to conduct our sensitivity analysis.

5.4 As has been highlighted in the summary table in the previous section there are a number of assumptions adopted within the proposed appraisal which we are not in agreement with. Therefore we have undertaken our own modelling/sensitivity analysis applying our own assumptions which we believe to be more reflective of the market.

5.5 Given the above we have undertaken sensitivity analysis making adjustments to;

- Benchmark Land Value
- Build Costs
- Proposed Private Values
- Professional Fees
- Ground Rental Income

5.6 As we have stated above, we also consider the values of the affordable housing units to be below market levels. For now we have modelled the wholly private scheme which is inclusive of abnormal costs associated with the Bakerloo Line extension in order to arrive at a surplus which can be transposed into affordable housing at a later stage.

Overall Summary & Conclusions

5.7 ULL has concluded that no affordable housing or payment in lieu of affordable housing should be required when incorporating the additional abnormal costs associated with the Bakerloo Line

extension on viability grounds given the projected negative viability (£-2,649,313). In respect of the development scenario which does not include the abnormal costs and provides 9 x on-site affordable units, ULL has stated that the Applicant is happy to proceed despite the projected negative viability of £-1,435,000.

5.8 We have undertaken a new appraisal which retains the applicant's assumptions other than where we have highlighted above that we consider they understate viability i.e. Benchmark Land Value, build costs, proposed residential values, ground rents and professional fees. As we have stated above we have arrived at a Benchmark Land Value of £6,969,000. Adopting our adjustments to the elements detailed above for the development scenario which includes the abnormal costs associated with the Bakerloo Line extension, we arrive at a Residual Land Value (RLV) of £12,909,696. This delivers a surplus of £5,940,696 on the basis of a wholly private scheme.

5.9 Clearly our analysis paints a very different viability picture when compared to ULL's conclusions which arrives at a negative position of £-2,649,313. Our modelling indicates a significant surplus which could be transposed into the provision of on-site affordable housing provision.

5.10 Given the scale of the difference of opinion at this stage we have not sought to translate the surplus identified into on-site affordable provision. As we have stated above, we consider the proposed affordable housing values to be lower than what is being achieved in the Lewisham area and would recommend that these are market tested with RP's once an agreed surplus has been reached.

6 UPDATED VIABILITY CONCLUSIONS (JANUARY 2018)

6.1 Following submission of our initial draft report in September 2017, there have been several rounds of discussion around the points of contention detailed above and overall viability. For ease of reference these include the following;-

- Benchmark Land Value
- Build Costs
- Proposed Private Values
- Professional Fees
- Ground Rental Income

6.2 In our initial draft report we identified that the development scenario including the abnormal costs associated with the Bakerloo Line Extension delivered a surplus of £5,940,696 and therefore was able to provide on-site affordable housing. This was at odds with the ULL conclusion which arrived at a negative viability position of £-2,649,313 when assuming a wholly private development scheme.

6.3 Within their initial appraisal (for the scheme which did not include the abnormal costs associated within the Bakerloo Line Extension) ULL had assumed values of £192.61psf in respect of the London Affordable Rented Units and £381.89psf in respect of the Shared Ownership units. In our initial draft report we commented that the Shared Ownership units were lower than market evidence in the locality.

6.4 Following submission of our initial report, ULL sent an email dated 28th November 2017 accepting GL Hearn's position (on a without prejudice basis) in respect of Benchmark Land Value, Proposed Private Values, Professional Fees and Ground Rental Income. ULL has also revised their opinion of value for the Shared Ownership units and adopted a value rate of £450psf which we consider to be reflective of market evidence. There has also been further conversation between the respective Quantity Surveyors (Johnson Associates and RLF) which had resulted in an increase to the initial JA build cost figure to £66,490,000 for the scheme which includes the abnormal costs associated with the Bakerloo Line Extension.

6.5 ULL has updated their modelling to reflect the assumptions detailed above which includes the provision of 17 x London Affordable Rented Units and 8 x Shared Ownership Units, (previously 0 affordable units) and arrives at a residual land value of £6,359,846. We have amended the appraisal to include the correct number of ground rent which arrives at a residual land value of £6,376,248 which demonstrates a deficit of £592,752 when compared to the agreed Benchmark Land Value of £6,969,000.

6.6 The revised appraisal reflects the adjusted S106 and CIL allowances which we understand to have been agreed with the Council. We detail below the revised assumptions compared to the original allowances:-

Item	Original Allowance	Revised Allowance
Carbon Offsetting	£520,885	£443,040
Car Club	£32,000	£32,000
Local Labour & Business Strategy	£154,230	£154,230
Legal & Monitoring	£25,000	£14,000
Travel Plan Monitoring	£0	£10,000
DLR Capacity Enhancements	£0	£80,000
Lewisham Station Works	£0	£400,000
Wheelchair Housing / CPZ Review	£0	£35,000
Air Quality	£0	£25,000
Play Space	£0	£48,000
Misc 9LBL Monitoring Costs	£0	£14,000
Borough CIL	£693,000	£880,110
Mayoral CIL	£1,394,000	£1,519,460
TOTAL	**£2,819,115**	**£3,654,840**

6.7 The revised scheme includes an additional allowance of £835,725 in respect of additional S106 amounts and CIL allowances which we understand have been agreed with the Council.

Overall Summary & Conclusions

6.8 Therefore in respect of the scheme which is inclusive of abnormal costs associated with the Bakerloo Line extension, the revised ULL appraisal comprising 17 x London Affordable Rented units and 8 x Shared Ownership units, demonstrating an on-site affordable provision of 10.33% (by unit number) is in advance of the maximum contribution the scheme can viably support given the deficit of £592,752 and is greater than the 'maximum reasonable amount'.

6.9 Further to the above and following discussions between the Applicant and LBL and GLA Officers we understand the Applicant has been asked to model a number of affordable housing scenarios (based on the revised s106 allowances and appropriate CIL levels) which we detail in the table below:-

Options	Social Rent	Shared Ownership	Additional Affordable	Total Affordable Units	% Affordable by unit
Scenario 1 (Jan 18)	68%	32%		25	10.33%
Scenario 2	60%	40%	1	26	10.7%
Scenario 3	39%	61%	7	32	13.2%
Scenario 4	30%	70%	10	35	14.5%

6.10 We have not been provided with the appraisals which inform the other scenarios. These scenarios seek to test the maximum on-site affordable housing provision through varying the affordable housing tenure mix in favour of increased shared ownership provision. As can be seen in the table above, and as one would expect, scenarios 2, 3 and 4 all provide a greater level of overall affordable housing provision.

6.11 The Applicant has recognised the requirement for an improved affordable housing offer in the interest of reaching a favourable planning outcome. We understand that based on slightly reduced s106 allowances than the revised allowances set out in the table above, the Applicant has offered to provide 49 affordable homes (34 x Social Rent and 15 x Shared Ownership) which represents 20.2% by unit. Based on our analysis this offer would represent a level of affordable housing in excess of that which would conventionally be considered viable and therefore meets the relevant viability test.

Appendix A

Build Cost Review

Loampit Vale, Lewisham

Version B - Rev. C
29-Aug-2017

3.0 PROJECT COST SUMMARY

GIA = 21,658 m²

8.0 CONSTRUCTION COST SUMMARY

Section - Mixed use development

				JA REVIEW		
		Total Cost	**Cost / m²**	**Total Cost**	**Cost / m²**	
	DEMOLITIONS & ALTERATIONS					
1	Demolitions and Alterations	£463,000	£21.37	£426,000	£19.67	37,000
		£463,000	**£21.37**	**£426,000**	**£19.67**	
	SUBSTRUCTURE					
1	Substructure	£2,605,000	£120.28	£2,605,000	£120.28	-
		£2,605,000	**£120.28**	**£2,605,000**	**£120.28**	
	SUPERSTRUCTURE					
1	Frame	£2,282,000	£105.38	£2,253,000	£104.03	29,000
2	Upper Floors	£5,151,000	£237.84	£5,113,000	£236.08	38,000
3	Roof	£556,000	£25.68	£498,000	£22.99	58,000
4	Stairs	£353,000	£16.30	£353,000	£16.30	-
5	External walls	£12,392,000	£572.16	£11,971,000	£552.73	421,000
6	Windows and external doors	£811,000	£37.44	£783,000	£36.15	28,000
7	Internal walls and partitions	£1,401,000	£64.66	£1,401,000	£64.69	-
8	Internal doors	£1,562,000	£72.13	£1,407,000	£64.96	155,000
		£24,508,000	**£1,131.59**	**£23,779,000**	**£1,097.93**	
	INTERNAL FINISHES					
1	Wall finishes	£1,072,000	£49.49	£1,072,000	£49.50	
2	Floor finishes	£1,882,000	£86.90	£1,882,000	£86.90	
3	Ceiling finishes	£882,000	£40.72	£882,000	£40.72	
		£3,836,000	**£177.11**	**£3,836,000**	**£177.12**	
	FITTINGS AND FURNISHINGS					
1	Kitchen fittings	£2,613,000	£120.65	£2,525,000	£116.59	88,000
2	Fittings and furnishings	£1,814,000	£83.75	£1,727,000	£79.74	87,000
		£4,427,000	**£204.40**	**£4,252,000**	**£196.32**	
	SERVICES					
1	Sanitary appliances	£668,000	£30.83	£668,000	£30.84	-
2	Services equipment					-
3	Disposal installation	£653,000	£30.15	£597,000	£27.56	56,000
4	Water installations	£727,000	£33.55	£720,000	£33.24	7,000
5	Heat source	£1,637,000	£75.58	£1,621,000	£74.85	16,000
6	Space heating and air treatment	£2,649,000	£122.33	£2,593,000	£119.72	56,000
7	Ventilating systems	£415,000	£19.17	£387,000	£17.87	28,000
8	Electrical installations	£2,979,000	£137.56	£2,878,000	£132.88	101,000
9	Gas installations	£57,000	£2.62	£56,000	£2.59	1,000
10	Lift and conveyor installations	£956,000	£44.14	£956,000	£44.14	-
11	Protective installations	£1,010,000	£46.61	£1,000,000	£46.17	10,000
12	Communication installations	£1,085,000	£50.11	£1,075,000	£49.64	10,000
13	Special installations					
14	Builders work in connection	£400,000	£18.47	£400,000	£18.47	
		£13,236,000	**£611.12**	**£12,951,000**	**£597.98**	
	EXTERNAL WORKS					
1	Site works	£569,000	£26.28	£539,000	£24.89	30,000
2	Drainage	£255,000	£11.79	£255,000	£11.77	
3	External services	£1,093,000	£50.48	£1,093,000	£50.47	
4	Minor building works					
		£1,917,000	**£88.55**	**£1,887,000**	**£87.13**	
	Sub Total	£50,993,000	£2,354.42	£49,737,000	£2,296.43	
	PRELIMINARIES AND FIXED PRICE ALLOWANCE					
1	Preliminaries	£10,003,000	£461.84	£10,003,000	£461.86	
		£10,003,000	**£461.84**	**£10,003,000**	**£461.86**	
	MAIN CONTRACTOR'S OVERHEADS AND PROFIT					
1	Main Contractor's Overhead and Profit	£3,660,000	£168.99	£3,584,000	£165.48	76,000
		£3,660,000	**£168.99**	**£3,584,000**	**£165.48**	
	DESIGN RISK & CONTINGENCIES					
1	All risks allowance	£4,844,000	£223.66	£3,166,000	£146.18	1,678,000
		£4,844,000	**£223.66**	**£3,166,000**	**£146.18**	
	Total Construction Cost	**£69,500,000**	**£3,208.91**	**£66,490,000**	**£3,069.95**	3,010,000
				4.33%		
				£3,010,000		

Appendix B

Financial Appraisal

Carpetright (incl BLE) GLH assumptions 17 01 18
Preliminary Appraisal
Confidential - Not a Valuation

Development Appraisal
Prepared by Richard Ashdown
GL Hearn
January 24, 2018

APPRAISAL SUMMARY GL HEARN

Carpetright (incl BLE) GLH assumptions 17 01 18
Preliminary Appraisal
Confidential - Not a Valuation

Summary Appraisal for Phase 1 Single Phase

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Private Residential	217	148,018	725.00	494,530	107,313,050
London Affordable Rent	17	13,442	192.61	152,296	2,589,030
Shared Ownership	8	6,161	450.00	346,556	2,772,450
Totals	**242**	**167,621**			**112,674,530**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Commercial	1	8,703	25.00	217,575	217,575	217,575
Ground rents	217			383	83,124	83,124
Totals	**218**	**8,703**			**300,699**	**300,699**

Investment Valuation					
Commercial					
Market Rent	217,575	YP @	5.5000%	18.1818	
(5mths Unexpired Rent Free)		PV 5mths @	5.5000%	0.9779	3,868,635
Ground rents					
Current Rent	83,124	YP @	5.0000%	20.0000	1,662,471
					5,531,106

GROSS DEVELOPMENT VALUE	**118,205,636**
NET REALISATION	**118,205,636**

OUTLAY

ACQUISITION COSTS				
Residualised Price			6,376,248	
				6,376,248
Stamp Duty		5.00%	318,812	
Agent Fee		1.00%	63,762	
Legal Fee		0.25%	15,941	
				398,515
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Construction	234,478 ft²	283.57 pf²	66,490,000	**66,490,000**
Carbon Offsetting			443,040	
Car Club			32,000	
Local Labour and Business Strategy			154,230	
Legal & Monitoring			14,000	
Travel Plan Monitoring			10,000	
DLR Capacity Enhancements			80,000	
Lewisham Station Works			400,000	
Wheelchair Housing/ CPZ Review			35,000	
Air Quality			25,000	
Play Space			48,000	
Misc 9LBL Monitoring Costs			14,000	
Mayoral CIL			880,110	
Borough CIL			1,519,460	
				3,654,840
PROFESSIONAL FEES				
Professional Fees		10.00%	6,649,000	
				6,649,000
MARKETING & LETTING				
Marketing		1.25%	1,410,552	
Letting Agent Fee		10.00%	21,758	
Letting Legal Fee		3.00%	6,527	
				1,438,837
DISPOSAL FEES				
Purchaser's Costs			359,491	
Sales Agent Fee		1.25%	1,477,570	
Sales Legal Fee - private residenti	217 un	600.00 /un	130,200	

Carpetright (incl BLE) GLH assumptions 17 01 18
Preliminary Appraisal
Confidential - Not a Valuation

Sales Legal Fee - commercial	0.50%	19,343	
Sales Legal Fee - Ground Rent	0.50%	8,312	
			1,994,916
FINANCE			
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)			
Land		1,616,737	
Construction		6,885,654	
Letting Void		170,894	
Total Finance Cost			8,673,286
TOTAL COSTS			**95,675,642**
PROFIT			
			22,529,994

Performance Measures	
Profit on Cost%	23.55%
Profit on GDV%	19.06%
Profit on NDV%	19.12%
Development Yield% (on Rent)	0.31%
Equivalent Yield% (Nominal)	5.35%
Equivalent Yield% (True)	5.54%
IRR	20.98%
Rent Cover	74 yrs 11 mths
Profit Erosion (finance rate 7.000%)	3 yrs 1 mth