



GERALDEVE

**COMMERCIALLY CONFIDENTIAL**

**Phoebe's Garden Centre, Lewisham SE6 2LQ**

On behalf of: Lewisham Council

Addendum Update (2)

**CONTAINS CONFIDENTIAL INFORMATION**

**STRICTLY NOT FOR CIRCULATION OR TO BE USED TO SUPPORT FUTURE  
APPLICATIONS OF THIS SCHEME WITHOUT PERMISSION OF GERALD EVE LLP**

December 2017

© copyright reserved 2017 Gerald Eve LLP

72 Welbeck Street London W1G 0AY  
Tel. 020 7493 3338  
[www.geraldeve.com](http://www.geraldeve.com)

---

NOTE: The contents of this report are confidential to Lewisham Council and it together with any further information supplied shall not be copied, reproduced or distributed to any third parties without the prior express written consent of Gerald Eve LLP. Furthermore the information is being supplied to Lewisham Council ("The Council") on the express understanding that it shall be used only to assist in the financial assessment in relation to Phoebe's Garden Centre. The information contained within this report is believed to be correct as at November 2017 but Gerald Eve LLP give notice that:

- (i) all statements contained within this report are made without acceptance of any liability in negligence, tort or otherwise by Gerald Eve LLP. The information contained in this report has not been independently verified by Gerald Eve LLP;
- (ii) none of the statements contained within this report are to be relied upon as statements or representations of fact or warranty whatsoever without referring to Gerald Eve LLP in the first instance and taking appropriate legal advice;
- (iii) references to national and local government legislation and regulations should be verified with Gerald Eve LLP and legal opinion sought as appropriate;
- (iv) Gerald Eve LLP do not accept any liability, nor should any of the statements or representations be relied upon, in respect of intending lenders or otherwise providing or raising finance to which this report as a whole or in part may be referred to;
- (v) Any estimates of values or similar, other than specifically referred to otherwise, are subject to and for the purposes of discussion and are therefore only draft and excluded from the provisions of the RICS Valuation – Professional Standards 2014; and
- (vi) if this report is subsequently to be provided to The Council in full, it should be on a confidential basis. We therefore request that the report should not be disclosed to any third parties (other than consultants instructed by The Council to review this report) under the Freedom of Information Act (Sections 41 and 43 (2)) or under the Environmental Information Regulations.

## 1. Introduction

This section sets out details of the updated appraisal position following submission of the due diligence assessment and Addendum (1) dated November 2017.

### Background

- 1.1 Gerald Eve LLP ('GE') was commissioned by London Borough of Lewisham ('LBL') to undertake a due diligence assessment of a Financial Viability Assessment ('FVA') and associated information in connection with a planning application for the proposed redevelopment ('the Scheme') of Phoebe's Garden Centre, Lewisham, SE6 2LQ ('the Site'), submitted on behalf of City and Metro Limited ('the Applicant'). Turner Morum LLP ('the Advisor') has produced the FVA on behalf of the Applicant which forms part of the application documentation. Robert Neil & Co ('the Valuer') was also separately instructed by the Applicant to provide additional evidence in regard to the site value as a garden centre. GE submitted the final report to the Council in November 2017.
- 1.2 Following the submission of our report the Advisor provided a rebuttal dated the 13<sup>th</sup> November 2017. GE produced an Addendum (1) to our original report responding to the additional issues raised.
- 1.3 Following further various correspondences with the Advisor and the submission of additional Site specific evidence, this document ('Addendum 2') has regard to all evidence submitted in relation to this application in order to reach a final conclusion.

### Areas of Additional Information

- 1.4 In Addendum 1 we highlighted a number of areas we would re-consider subject to the provision to further Site Specific information provided by the Advisor.

- 1.5 Table 1 provides a summary of the remaining areas additional evidence has been provided to support the Advisor's case. We address these in more detail in Section 2.

**Table 1: Appraisal Inputs – Remaining Areas of Disagreement**

<b>Appraisal Input</b>	<b>GE Addendum 1</b>	<b>Advisor Proposed</b>
Professional Fees	10%	12%
Site Value	£1.3m	£1.56m
Profit on Return	17%	20%

Source: GE

## 2. Appraisal Inputs

This section considers the additional evidence provided to GE relating to Professional Fees, Site Value and Profit Return by the Advisor.

### Professional Fees Evidence

- 2.1 In their original appraisal the Advisor considered that professional fees of 10% on the construction and contingency costs should be applied.
- 2.2 We noted in Section 7 of our original report that a range of 10-12% professional fees would be reasonable. As the proposed 10% was within this range, we considered it reasonable to apply this level in the appraisal.
- 2.3 However in their response to the FVA Review, the Advisor discussed various appeal decisions and highlighted the use of Professional Fees at 12% as important.
- 2.4 As discussed above, we would consider 12% Professional Fees to be within a reasonable range of what should be applied. However, any amendments would be subject to appropriate Site-Specific evidence being provided by the Advisor to justify the increase from their original appraisal.
- 2.5 In their recent response, the Advisor provided additional information to support the 12% professional fees being applied which is summarised in Appendix 1.
- 2.6 We have reviewed this evidence along with our instructed Cost Consultant, Veale & Sanders ('V&S'). V&S's view is that the information provided does not completely correspond with the original report. For example, their table refers mainly to surveys and other costs with minimal reference to actual 'Consultants'. In some instances, the allowances appear excessive such as £150,000 for a topographical survey.

- 2.7 In the additional information provided, the total fees amount to £835k which is expressed as 15% of £5,403,012. The cost plan we received totalled £5,493,586 + £274,679 contingency i.e. £5,768,265. The difference is partly attributed to abnormals and infrastructure costs of £315,752 but the remaining £50k appears to be an arithmetical error.
- 2.8 Notwithstanding the latest evidence, it was confirmed by V&S that around 12% for Professional Fees based on the site specific cost plan, including abnormals and contingency is not considered unreasonable. We therefore agree with this proposed adjustment and have updated the appraisal accordingly.

### **Site Value Evidence**

- 2.9 The Advisors original assessment of a competitive return to a willing land owner was based on the former use of the Site as an operating Garden Centre using a Profit Methods valuation. It was concluded that a Site Value within the range of £2.8m-£3.1m was appropriate. £2.65m was assumed in their assessment. foll
- 2.10 GE had regard to the various approaches taken by the Advisor. It was noted however that the Garden Centre was no longer in use and insufficient comparable information had been provided to demonstrate an alternative A1 use or an application of a site premium.
- 2.11 We did not disagree that Market Value could be an appropriate Site Value, rather than EUV. However, we stressed the need for this to be justified by the Advisor through evidence and comparable information.
- 2.12 GE were therefore of the view that the Valuation provided held limited weight in the current context of the Site. It was concluded by GE that the appropriate Site Value was £1.3 million.
- 2.13 In their rebuttal the Advisor proposed an increased Site Value of £1.56 million, suggesting that this represented the Existing Use Value with a 20% premium applied.

2.14 The Advisor also provided some additional information which is summarised in Table 2 below to evidence why a 20% premium should be applied.

Advisors Evidence

**Table 2: Summary of Comparable Evidence**

Site	Postcode	Purchase Price	Date	Units	AH %	£ per acre	£ per plot	£ per plot applied to site	£ per acre applied to site
Forbury	SE13 5DL	£7,241,000	03/04 /2017	30	20%	£9,362,277	£241,367	£6,516,900	£9,716,357
Lawrie Park Place	SE26 6HG	£7,150,000	07/06 /2016	46	41%	£2,066,832	£155,435	£4,196,739	£2,145,000
Fairway House	SE23 3HN	£5,925,000	30/06 /2016	27	0%	£12,620,077	£219,444	£5,925,000	£13,097,368

Source: The Advisor

2.15 We have reviewed the evidence provided by the Advisor and commented on why these transactions are not considered to be comparable, on the following basis:

- All purchased with Planning Permission;
- Location;
- Do not reflect the unique site specific conditions of the Subject Site;
- Purchase Price not indexed to reflect the current market.

Forbury Site (SE13)

2.16 This Site is located 2 miles away from the Subject Site in the Conservation area of Blackheath, overlooking the park. This Site is located within close proximity to Blackheath Station and Greenwich Park and is considered to be more superior to the Subject Site. Although the units have not yet been marketed, some of the early advertisements by Berkeley Homes suggest that the prices will start £530k for a 1 bed, based on an assumption of 538 sq ft, this equates to a rate psf of circa £900k which is considerably higher than the average agreed at the Subject Site of £530psf. Clearly, the Site is expected to achieve higher sales values due to its preferable location which was therefore reflected in the land purchase price.

## Lawrie Park Place (SE26)

- 2.17 This site is located in the London Borough of Bromley, approximately 3.1 miles from the Subject Site. Although the Site is considered to be in a similar type of location to the Subject Site, it has the added benefit of being located within very close proximity to Crystal Palace Park. The current asking prices for the units are on average £616 psf across 1 – 3 bed units.

### GE Evidence

- 2.18 In the following section we have undertaken our own assessment of the market comparable evidence. We have highlighted a key transaction which is considered to offer an excellent comparable for the Subject Site.

## Catford Timber Island

- 2.19 We are of the view that it is necessary to consider comparable evidence based on Schemes that have not yet achieved planning permission as this is the current status of the proposed Site. A key transaction that we have considered is that of the Catford Island Timber Yard, located approximately 0.3 miles away from the proposed Site, off Catford High Street.
- 2.20 Table 3 provides a summary of the key information related to the transaction and the resulting values when applied to the Subject Site. You will note that the proposals include 42 residential units (27,000 sq ft), compared to the 27 units at the proposed Site (23,000 sq ft) with affordable housing. This site also has restricted access. As the Site was purchased back in March 2016, we have indexed the price in line with the Savills Development Index.



**Table 3: Summary of Comparable Transaction**

Planning Status	Date of Purchase	Purchase Price	Indexed Purchase Price	Total Private Units	Total Affordable Units	Total Units	% Affordable Housing (By Unit)	NIA Sq ft *	Price Per Unit	Price Per Private Unit	Price Per Sq ft
Submitted Oct 2017	31/03/2016	£ 2,055,000.00	£ 1,806,974.78	36	6	42	14	27000	£ 43,023.21	£ 50,193.74	£ 66.92
									£ 1,161,626.64	£ 1,154,456.11	£ 1,490,754.19

Source: Molior

2.21 The above analysis demonstrates the resulting Site Values, when the evidence from the comparable transaction is applied to the Subject Site. Based on a total unit analysis, the applied rate of approximately £43k per unit results in a Site Value of the proposed of circa £1.162 million. Similarly based on the number of Private units, this results in a value of £1.154 million (assuming 15% affordable housing). Finally, when the rate psf (NIA) is applied to the Subject Site proposals, this results in a higher Site Value of £1.490 million.

2.22 Based on this analysis GE estimate Market Value to range from c.£1,150,000 – c.£1,500,000, with a mid-point of £1,325,000.

2.23 In order to be reasonable GE have had regard to the upper end of the comparable evidence range in determining Site Value and the Advisor's position that a competitive return will exceed EUV of the property .

2.24 £1.5m reflects a value 15% in excess of EUV.

### Profit Return

2.25 In their original appraisal, the Advisor adopted a 20% Profit on GDV market housing and 6% for affordable housing, although the affordable GDV was nil.

2.26 GE concluded that a rate of 17% Profit on GDV for the market housing 6% for the affordable was considered to be more reasonable in the current market.

- 2.27 We note the wide range of generic market information on profit levels that the Advisor has submitted as part of their various responses, in order to further justify the 20% Profit on GDV. This included reference to what GE advised on another Scheme in Havant. However, as this was a much larger development with different Site Specific issues, it is not considered to be relevant evidence. The level of profit was devised in line with the site specific considerations of that particular Site which are obviously different to the Subject Site.
- 2.28 On a Site Specific basis, their main points in relation to development, have been summarised as follows:
- High cost single phase brownfield development is more risky than a multi-phase housing/greenfield site and as such developers need a higher return to obtain lending/board approval;
  - Delivering a development post Brexit is highly risky in the current economic climate and developers needs to ensure target returns are achieved at a high level otherwise developments will not come forward;
  - The scheme is a complex development in a brownfield location with access issue and surrounded by existing residential properties causing issues of access, manoeuvrability and noise;
  - Complex design issues as a result of being in conservation area and the previous appeal refusal – difficult scheme to build cost effectively;
  - Difficult in obtaining finance for the development due to the above and the economic climate post Brexit;
  - Issues to contend with delivering this site including disturbance to neighbours in close proximity.
- 2.29 Although we have reviewed the additional information sent over to support a higher profit rate of 20% on GDV, we are of the view that the evidence is not appropriate to justify the site specific reasons of why this should be applied.
- 2.30 In addition, as we have adopted a Site Value situated at the higher end of the range, incorporating a premium, we are of the view that the relevant level of risk has been reflected in the appraisal. Therefore, no further adjustments to the profit level are required.

- 2.31 Having considered all of the above, we have therefore maintained the 17% profit on Private GDV in the appraisal.
- 2.32 Having taken the above appraisal adjustments into account, we have set out the results in the following section.
- 2.33 Table 4 provides a summary of how the appraisal inputs and position has changed during the review and negotiation process.
- 2.34 The appraisal results can be viewed in Appendix 2.

**Table 4: Summary of Revised Appraisal Position**

<b>Appraisal Input</b>	<b>Advisor Proposal</b>	<b>GE Revised Current Proposal (Addendum 2)</b>
Site Value	£1,560,000	£1,500,000
Profit on GDV	20%	17%
Professional Fees	12%	12%
Affordable Housing Provision	2 units: 2 SO	3 units: 2 AR/ 1 SO

Source: GE

### **Sensitivity**

- 2.35 Given potential practicality issues with delivering social rented units within the scheme, we have considered the result of converting the current proposed mix of 2 x affordable rented units into Shared Ownership. We estimate that this conversion would appear to result in the potential an increase the overall affordable housing provision to 4 Shared Ownership units with a remain small financial surplus which would be insufficient to delivery any further units viably.
- 2.36 The appraisal results can be reviewed in Appendix 3.

### 3. Conclusion

- 3.1 This addendum (2) considers all of the evidence provided in response to GE's original and addendum (1) documents. We have accepted that additional evidence has been sufficient to evidence an increase in the allowance in professional fees from that originally proposed and for the Site Value to increase to reflect market comparable of £1.5m. This reflects a 15% premium over Existing Use Vale.
- 3.2 Following adjustment, GE estimate that there remains sufficient surplus in the appraisal to deliver on site affordable housing beyond that proposed following GE's original report. Based upon a mix of Social Rent (2 units) and Shared Ownership (1 unit), GE estimate a total of 3 affordable housing units can be viably be justified on site. This represents an onsite affordable housing provision of 11% by units and 12% by habitable rooms overall.
- 3.3 However, we understand the practicalities of delivering mixed tenure developments with low levels of affordable housing. We have therefore also considered the Scheme on the basis of 100% Shared Ownership.
- 3.4 We estimate that the appraisal surplus would deliver, on a 100% Shared Ownership basis, a total of 4 Shared Ownership units. This approach results in remaining small cash surplus (circa £250k) which is not sufficient to viably deliver an additional affordable housing unit. We therefore consider 4 Shared Ownership units to represent the maximum reasonable level of affordable housing.
- 3.5 We note however that a 100% Shared Ownership Scheme is not Policy compliant and does not meet the Council's requirement to provide a 70% affordable rented element on all major Schemes. Therefore an affordable housing offer that is not in line with policy would be subject to further discussions and consideration by the Council.

## Advisors Additional Evidence – Professional Fees

Professional Fees	Amount
Existing buildings (including valuation, measured surveys, structural surveys, structural investigations, condition surveys and demolition surveys).	£10,000
Geological and geotechnical.	£10,000
Topographical surveys, perhaps including laser scanning, Lidar or photogrammetry.	150000
Contamination.	10000
Ecological survey.	£15,000
Archaeological (see archaeology).	£7,500
Traffic and transport.	£10,000
Local climate.	£10,000
Flood risk.	£6,500
Air quality.	£7,500
Acoustic.	£7,500
Photographic.	£2,500
Historic use.	£1,000
Boundary surveys. -	£2,500
Structural surveys (including retained structures, underground structures and obstructions).	£15,000
Unexploded bomb survey.	£2,500
Railway and tunnel search.	£2,500
Asbestos and other hazardous materials surveys and registers	£25,000
Fire hydrants.	£15,000
Telecommunications.	£25,000
Wireless networks and satellite reception.	£15,000
Electrical infrastructure and capacity	£10,000
Gas network infrastructure and capacity	£10,000
Foul sewers and drains infrastructure and capacity	£10,000
Existing water supply infrastructure and capacity	£10,000
Soil survey.	Inc above
Site Inspector	£50,000
Health and Safety Exec	£30,000
Landscaping/design fees	£15,000
Traffic/highways fees	£17,500
Programmer	£12,500
Building Guarantee Insurance fees	£40,000
Build Regulation fees	£15,000
CDM Co-ordinator	£10,000
Planning Fees	£50,000
Other Fees (consultants, local authority etc)	£165,000
Legals	£40,000
	£835,000
	£ 5,403,012.00
	15%

Source: The Advisor

**Phoebes Garden Centre**

**Summary Appraisal for Phase 5 final**

Currency in £

**REVENUE**

Sales Valuation	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Unit Price	Gross Sales
1 Bed Private	7	4,161	562.07	334,110	2,338,773
2 Bed Private	8	6,897	543.25	468,349	3,746,795
3 Bed Private	6	6,263	487.97	509,359	3,056,156
Affordable - Rented	2	2,088	119.00	124,236	248,472
Affordable - Intermediate	1	836	379.00	316,844	316,844
1 Bed Private (Reduced Rate psf)	2	1,194	520.00	310,440	620,880
2 Beds - (Reduced Rate)	<u>1</u>	<u>836</u>	504.00	421,344	<u>421,344</u>
<b>Totals</b>	<b>27</b>	<b>22,275</b>			<b>10,749,265</b>

**Rental Area Summary**

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents - 1 Beds	9	250	2,250	2,250
Ground Rents - 2 Beds	9	300	2,700	2,700
Ground Rents - 3 Beds	<u>6</u>	350	<u>2,100</u>	<u>2,100</u>
<b>Totals</b>	<b>24</b>		<b>7,050</b>	<b>7,050</b>

**Investment Valuation**

Ground Rents - 1 Beds					
Current Rent	2,250	YP @	5.5000%	18.1818	40,909
<b>Ground Rents - 2 Beds</b>					
Current Rent	2,700	YP @	5.5000%	18.1818	49,091
<b>Ground Rents - 3 Beds</b>					
Current Rent	2,100	YP @	5.5000%	18.1818	38,182
					<b>128,182</b>

**GROSS DEVELOPMENT VALUE**

**10,877,446**

**NET REALISATION**

**10,877,446**

**OUTLAY**

**ACQUISITION COSTS**

Residualised Price			1,486,183	
Stamp Duty			63,809	1,486,183
Legal Fee		1.80%	26,751	
				90,560

**CONSTRUCTION COSTS**

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost	
Construction Costs	27,534 ft <sup>2</sup>	196.96 pf <sup>2</sup>	5,423,012	<b>5,423,012</b>
Private Profit		17.00%	1,680,506	
Affordable Profit		6.00%	41,402	
Abnormals			315,252	
CIL Costs			304,095	
Energy Costs			6,300	
Highways Payment			30,000	
				2,377,555

**PROFESSIONAL FEES**

Professional Fees		12.00%	687,392	
				687,392

**MARKETING & LETTING**

Marketing and Legal Fees		1.00%	119,479	
Affordable Disposal		1.00%	6,900	
				126,379

**DISPOSAL FEES**

Sales Agent Fee		1.00%	108,774	
Sales Legal Fee		0.25%	27,194	
				135,968

**FINANCE**

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)			
Land			203,712
Construction			331,424
Other			15,261

**Phoebes Garden Centre**

Total Finance Cost	550,397
<b>TOTAL COSTS</b>	<b>10,877,446</b>
<b>PROFIT</b>	<b>0</b>

**Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.06%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
Gross Initial Yield%	5.50%
Net Initial Yield%	5.50%
IRR	6.49%
Rent Cover	0 mths
Profit Erosion (finance rate 7.000%)	N/A

**Phoebes Garden Centre**

**Summary Appraisal for Phase 5 other**

Currency in £

**REVENUE**

Sales Valuation	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Unit Price	Gross Sales
1 Bed Private	9	5,355	562.07	334,432	3,009,885
2 Bed Private	8	6,897	543.25	468,349	3,746,795
3 Bed Private	6	6,263	487.97	509,359	3,056,156
Affordable - Intermediate - 1 Beds	1	881	351.00	309,231	309,231
Affordable - Intermediate 2 Beds	2	1,672	379.00	316,844	633,688
Affordable - Intermediate 3 Beds	1	1,207	338.00	407,966	407,966
<b>Totals</b>	<b>27</b>	<b>22,275</b>			<b>11,163,721</b>

**Rental Area Summary**

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents - 1 Beds	9	250	2,250	2,250
Ground Rents - 2 Beds	8	300	2,400	2,400
Ground Rents - 3 Beds	6	350	2,100	2,100
<b>Totals</b>	<b>23</b>		<b>6,750</b>	<b>6,750</b>

**Investment Valuation**

<b>Ground Rents - 1 Beds</b>					
Current Rent	2,250	YP @	5.5000%	18.1818	40,909
<b>Ground Rents - 2 Beds</b>					
Current Rent	2,400	YP @	5.5000%	18.1818	43,636
<b>Ground Rents - 3 Beds</b>					
Current Rent	2,100	YP @	5.5000%	18.1818	38,182
					<b>122,727</b>

**GROSS DEVELOPMENT VALUE 11,286,448**

**NET REALISATION 11,286,448**

**OUTLAY**

**ACQUISITION COSTS**

Residualised Price			1,786,035		
				1,786,035	
Stamp Duty			78,802		
Legal Fee		1.80%	32,149		
				110,950	

**CONSTRUCTION COSTS**

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost	
Construction Costs	27,534 ft <sup>2</sup>	196.59 pf <sup>2</sup>	5,413,012	<b>5,413,012</b>
Private Profit		17.00%	1,689,046	
Affordable Profit		6.00%	81,053	
Abnormals			315,252	
CIL Costs			304,095	
Energy Costs			6,300	
Highways Payment			30,000	
				2,425,746

**PROFESSIONAL FEES**

Professional Fees		12.00%	688,592		
				688,592	

**MARKETING & LETTING**

Marketing and Legal Fees		1.00%	119,479		
Affordable Disposal		1.00%	5,653		
				125,132	

**DISPOSAL FEES**

Sales Agent Fee		1.00%	112,864		
Sales Legal Fee		0.25%	28,216		
				141,081	

**FINANCE**

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)					
Land			245,086		
Construction			330,976		
Other			19,839		
Total Finance Cost				595,901	



**Phoebes Garden Centre**

**TOTAL COSTS** 11,286,448

**PROFIT** 0

**Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.06%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
Gross Initial Yield%	5.50%
Net Initial Yield%	5.50%
IRR	6.49%
Rent Cover	0 mths
Profit Erosion (finance rate 7.000%)	0 mths