9-19 Rushey Green
Lewisham
SE6 4AZ

Viability Assessment

for
London Borough of Lewisham

November 2017

Prepared by

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Quality Standards Control

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

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

DATE	ORIGINATORS	APPROVED
November 2017	David Price Senior Surveyor	Guy Ingham Director

Limitations

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

1 INTRODUCTION

1.1 GL Hearn has been instructed by London Borough of Lewisham (the Council) to review a viability assessment submitted by Upside London Limited (ULL) on behalf of Threadneedle Pensions Limited (the Applicant) in support of their proposed planning application for a site at 9-19 Rushey Green (the Site).

1.2 The subject property comprises a brick built office building providing 28,144 sq ft of Use Class A2 accommodation and secure parking to the rear of the site. The site is located on Rushey Green, due south of Lewisham High Street in the London Borough of Lewisham. The immediate area comprises a mix of commercial and residential uses.

1.3 Rushey Green (A21) provides access into central Lewisham to the north and the south circular to the south. The site is situated between Lewisham and Catford and is circa 1.1 miles from Lewisham Station which provides access to the DLR and National Rail Services with Catford Station located 0.7 miles to the south west. Lewisham Shopping Centre is located approximately 0.9 miles to the north.

1.4 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:-

- Robinson Low Francis (RLF) - Construction Costings
- JTP - Architect

The Application Scheme

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

“Demolition of the existing building at 9-19 Rushey Green, SE6 and the erection of a mixed-use building of 6 storeys in height, comprising 45 residential units (Use Class C3) and 295sqm of commercial floorspace (flexible A1/A2/A3/B1use), with associated ancillary space including bike store, refuse and recycling storage and landscaping”.

1.6 The Applicant is proposing a new six storey building to provide 45 residential flats comprising 27 x 1 bed units, 14 x two bed units and 4 x three bed units situated on the ground to fifth floor levels along with 295 sq m of commercial accommodation on the ground floor.

1.7 We have been provided with an accommodation schedule for the proposed residential units detailing the individual units and pricing which arrives at an overall capital value rate of £551psf. We detail in the table below the range of prices applied to each unit type;

Unit Type	Units	Area Range (sq ft)	Price Range	Price Range (£/psf)
1 bed apartment / 2 person	27	539 - 689	£320,000 - £375,000	£545 - £594
2 bed apartment / 3 person	11	664 - 720	£390,000 - £400,000	£555 - £587
2 bed apartment / 4 person	3	755 - 755	£415,000 - £415,000	£550 - £550
3 bed apartment / 4 person	1	947 - 947	£475,000 - £475,000	£501 - £501
3 bed duplex / 4 person	3	1,160 - 1,349	£530,000 - 580,000	£430 - £457
Total	**45**	**30,541**	**£16,820,000**	**£551**

1.8 In addition to the proposed residential accommodation detailed above the Applicant is proposing 295 sq m of flexible A1/A2/A3/B1 use accommodation with associated ancillary space including a bike store, refuse and recycling storage and landscaping.

1.9 ULL has indicated that the proposed scheme comprising a nil on-site affordable housing contribution or payment in lieu of affordable housing results on a deficit of £203,669 when the residual land value is compared to ULL's opinion of Benchmark Land Value. Despite the projected deficit, ULL has stated that the Applicant is willing to bring forward the site.

2 GENERAL METHODOLOGY

Introduction

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 the applicant's consultant within their assessment. They have:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme including provision of a build cost plan;
- Assessed a Benchmark Land Value (based on 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 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 the ULL has considered the Benchmark Land Value on the basis of Existing Use Value (EUV) as a 28,144 sq ft office let to a Job Centre Plus to which a land owner's premium has been applied before arriving at an assumed Benchmark Land Value of £1,920,000.

2.6 ULL has modelled the proposed scheme and indicated that the development produces a residual land value of £1,716,331. ULL has indicated that the scheme provides a deficit of £203,669 when compared to the assumed BLV of £1,920,000.

2.7 Given the findings of their viability analysis, ULL has concluded that the proposed scheme is unable to deliver any on-site affordable units or off-site contribution in addition to the assumed CIL contributions and Carbon Offset Payment and despite the projected deficit, it appears that the Applicant is willing to proceed with the development.

2.8 Given that the calculations are being made well in advance of even commencement of the development, the figures used in the applicant's appraisal can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the Council to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.

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

2.10 It is also important to carefully scrutinise the applicant's methodology. In particular the measure of Benchmark Land Value, which we analyse in the following section, as it has a fundamental effect on the viability equation.

3 CRITIQUE OF BENCHMARK LAND VALUE

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

3.2 Arriving at an appropriate Benchmark Land Value is not a straightforward exercise 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 (also referred to as current use value), alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy. Existing Use Value is widely used in establishing Benchmark land value and is supported in the latest mayoral SPD and by the London Assembly Planning Committee.

Summary of Applicant's Position

3.4 ULL has put forward a BLV of £1,920,000 having considered the site value on the basis of Existing Use Value (EUV). The subject site comprises a 28,144 sq ft office building and also provides secure car parking spaces. The property is let entirely to Job Centre Plus and we understand the tenant operates under Use Class A2.

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. ULL has adopted the current net effective rent of £133,333 per annum which has been capitalised at a yield of 8% before arriving at an assumed EUV of £1,600,000.

3.6 ULL has applied a premium of 20% to the EUV as an incentive for the land to be released for development which results in a Benchmark Land Value of £1,920,000. We comment on each of these assumptions in turn below;

<u>Rent</u>

3.7 As previously stated the property is currently let to Job Centre Plus on a lease from 29th September 2016 to 31st March 2018 at a passing rent of £160,000 per annum reflecting an overall rate of £5.69 per sq ft. We understand that the net effective rent is £133,333 per annum after allowing for a three month rent free period.

3.8 In addition to the evidence cited within the property, ULL has referred to other evidence in the locality of comparable A2 accommodation, specifically Duke House, 84-88 Rushey Green and Catford Town Hall. Duke House, 84-88 Rushey Green comprised 1,462 sq ft of secondary office accommodation and was available to rent in December 2016 at a rent equating to £14.02 per sq ft. We understand that The Compass Company took 20,934 sq ft of office accommodation at Catford Town Hall on a 1 year lease with a 6 month break option at a rent equating to £18 per sq ft. ULL has reported that the accommodation was newly refurbished at the time of letting.

3.9 We would comment that the best evidence is the subject property itself. We do not consider newly refurbished accommodation to be comparable to the subject accommodation and the accommodation referred to at Duke House is of a significantly reduced scale when again compared with the subject premises.

3.10 ULL has adopted the net effective rent of £133,333 equating to £4.74 per sq ft which has been capitalised by an assumed yield. We do not take issue with the rent adopted given the recent nature of the letting and have applied this for the purposes of our modelling.

<u>Yield</u>

3.11 ULL has applied a yield of 8% having cited market evidence in the locality. We would comment that there is a significant level of risk associated with the income on the subject property given the Job Centre Plus lease term expires in March 2018.

3.12 Having reviewed the evidence provided and undertaken our own assessment of the market we are of the opinion that 8% is reflective of market conditions. In the light of our research and the lack of similar properties transacting the immediate locality, we consider 8% to be reasonable.

<u>Valuation Methodology</u>

3.13 It appears from the Financial Viability Report that ULL has simply applied their assumed net effective Market Rent and capitalised at a yield of 8% into perpetuity before applying a premium of 20%. Whilst we agree with the rental and yield assumptions we consider the methodology not to be correct.

3.14 We have therefore valued the current income (£160,000) until the end of the term at lease expiry (31st March 2018). We have then assumed a void period of 18 months before valuing the reversion. We have not assumed any rent free periods as the assumed reversionary rent is net of incentives. We have also accounted for purchaser costs, letting fees and empty rates in our EUV figure.

3.15 Adopting the above assumptions we arrive at an EUV of £1,282,500.

Premium

3.16 ULL has applied a premium of 20% to the EUV to incentivise the landowner to release the land for development on account of the potential use as a B1 office. We would comment that for a change of use to be granted a full planning application would be required. As such, there are inherent risks associated, especially given the town centre location with local authorities often seeking to protect retail uses particularly at ground floor level.

3.17 The latest Mayoral SPD states that premiums require justification and could be between 10 per cent and 30 per cent, but must reflect site specific circumstances. We note the existing lease term is due to expire early next year and at which point we are advised that the Job Centre will vacate the premises. Therefore, as we have referred to above, there is a significant risk attached to this income especially given the standard of accommodation and current use class of the building. As such we consider a 10% premium to be reasonable in this instance.

Summary

3.18 ULL has arrived at an EUV of £1,600,000 to which they have applied a premium of 20% to arrive at an assumed BLV of £1,920,000.

3.19 Reflecting our assumptions in regard to the assumed void period at lease expiry we have arrived at an EUV of £1,282,500 to which we have applied a premium of 10% in order to arrive at an assumed BLV of £1,410,750.

3.20 We have therefore assumed a Benchmark Land Value of **£1,410,750** on which to assess the viability of the scheme proposed.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

Residential Value Assumptions

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

4.3 As referred to earlier the proposed scheme comprises 45 residential units in a mix of one, two and three bed apartments. All of the units are proposed as private sale with zero provision of affordable housing.

4.4 ULL has undertaken their own research into the local residential market and has applied the following range of sales values to the proposed units;-

Unit Type	Units	Area Range (sq ft)	Price Range	Price Range (£/psf)
1 bed apartment / 2 person	27	539 - 689	£320,000 - £375,000	£545 - £594
2 bed apartment / 3 person	11	664 - 720	£390,000 - £400,000	£555 - £587
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3 bed duplex / 4 person	3	1,160 - 1,349	£530,000 - 580,000	£430 - £457
Total	**45**	**30,541**	**£16,820,000**	**£551**

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

4.6 The Land Registry House Price Index (HPI) reported in July 2017 that the annual rate of growth of house prices in the England was 5.4%, and the monthly rate of change was 1.0%. The average house price in England was £243,220 at July 2017.

4.7 London experienced lower growth in the year to July 2017 at 2.8%, with average house prices in London as at July 2017 being £488,729 after monthly growth of 0.3%.

4.8 Nationwide's August 2017 press release reports that house prices fell by -0.1% month on month in August. They note that annual house price growth also dropped slightly to 2.1%, compared with 2.9% in July. They comment that *"The annual pace of house price growth moderated to 2.1% in August, from 2.9% in July. The slowdown in house price growth to the 2-3% range in recent months from the 4-5% prevailing in 2016 is consistent with signs of cooling in the housing market and the wider economy. "The economy grew by c.0.3% per quarter in the first half of 2017, around half the pace recorded in 2016. The number of mortgages approved for house purchase moderated to a nine-month low of circa 65,000 in June and surveyors have reported softening in the number of new buyer enquiries. "Nevertheless, in some respects the slowdown in the housing market is surprising, given the ongoing strength of the labour market. The economy created a healthy 125,000 jobs in the three months to June and the unemployment rate fell to 4.4% – the lowest rate for over forty years. In addition, mortgage rates have remained close to all-time lows".*

4.9 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.

4.10 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.

4.11 The average house price across the Borough as at July 2017 stood at £416,848 which equates to a positive annual change in house prices of 1.5%. This compares to the average house price across London of circa £490,000 with reported annual growth of 2.8%.

4.12 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.

4.13 ULL has referred to a number of transactions within the Catford Green development by Barratt whilst also considering sales of second hand Victorian conversion terraced flats in the immediate vicinity of the subject site. They have provided completed sales from May 16 to December 16 in the Ferdinand and Lawrence buildings and sales completed in June 16 within the Westmead building. The evidence in the Ferdinand and Lawrence buildings arrive at an average value on a capital rate basis of £551 per sq ft. The sales within the Westmead building equate to a capital value rate of £526 per sq ft.

4.14 We would concur that the Catford Green development provides a good indication of new build sales values in the area and as such we provide further detail on the scheme below;-

4.15 Catford Green, Lewisham - is a large new Barratt development located in close proximity to Catford and Catford Bridge stations. The development comprises 635 one, two and three bedroom apartments opening on to the 54 acres of Ladywell Fields. As at Q3 2017 all of the units within the Ferdinand, Dempsey, Burgess, Dunstone, Lawrence, Harlie, Abbey, Appelby and Westmead Courts buildings have been sold. In addition there are 126 units within the Dixie Court phase of which 120 have now sold. Grosvenor Court is the final phase of the development and is due to complete in Q2 2018. The phase was launched in Q3 2017 and so far 20 units have been sold. The current pricelist shows 1 bed units from £328,000, 2 bed units from £392,000 and 3 bed units from £588,000 demonstrating an average of £670 per sq ft. We detail a number of available units within this phase and the remaining available units within Dixie Court in the table below;

Block	No. of Beds	Floor	Price	Floor area (sq ft)	£ / psf
Plot 532	1	3	£328,000	429	£765
Plot 534	1	3	£328,000	429	£765
Plot 505	2	1	£392,000	550	£713
Plot 504	2	1	£392,000	554	£708
Plot 508	2	1	£405,000	543	£746
Plot 393 Dixie Court	2	2	£480,000	789	£608
Plot 386 Dixie Court	2	2	£493,000	780	£632
Plot 406 Dixie Court	2	3	£498,000	789	£631
Plot 497	2	Gnd	£518,000	794	£652
Plot 498	2	Gnd	£527,000	774	£681
Plot 404 Dixie Court	3	3	£588,000	1,076	£546
Plot 422 Dixie Court	3	4	£591,000	1,076	£549

4.16 The above units provide a wide range of sales values from £546 - £765 per sq ft on a capital value rate basis. We would comment that the two bed units within the Grosvenor Court phase are particularly small which explains the high capital value rate. The proposed two bedroom units at the subject site are considerably larger ranging from 664-755 sq ft and we would therefore expect a lower capital value rate. The two bedroom units within the Dixie Court phase are much larger and more akin to the subject two bedroom units. The Dixie Court asking prices demonstrate a range £608 to £631 per sq ft. This is clearly in advance of the applied pricing in regard to the proposed two bed units. Whilst we consider the Barratt scheme to provide the best evidence, we do consider the development to benefit from scale and public realm improvements when compared to the subject site. We do however consider that the proposed units would achieve sales prices above that applied by ULL.

4.17 We would comment further that the evidence provided by ULL details most units completing in May and June 2016. The point at which the sale prices were agreed is likely to be well before this date and we therefore consider this evidence to be somewhat historic.

Summary

4.18 We would acknowledge that due to the scale and location of the Catford Green development, it is appropriate to reflect a discount to the units within the subject site but not to the extent indicated by ULL given the historic nature of the evidence put forward. The Catford market has continued to improve demonstrated by increasing sales values within Barratt's Catford Green development and as such we consider an average value of £575 per sq ft to be reasonable in the case of the subject units.

Residential Ground Rent

4.19 ULL has assumed the following ground rental income which has been capitalised at a yield of 5%; -

- 1 Bed - £300 p.a.
- 2 Bed - £400 p.a
- 3 Bed - £500 p.a.

4.20 Within the appraisal an average ground rental income of £349 per annum has been applied which is reflective of the above mix. The capitalised total ground rental income of £15,700 arrives at a capital value of £314,000. We consider these assumptions appropriate and in line with the market.

Commercial Value Assumptions

4.21 The scheme includes 3,173 sq ft of flexible A1/A2/A3/B1 use accommodation. ULL has applied a rent of £22.50 per sq ft to the accommodation which has been capitalised at a yield of 6.5% to arrive at a capital value of £1,039,452 after allowing for a 6 month rent free period. We comment on these assumptions in turn below;-

Rent

4.22 ULL had applied a rent of £22.50 per sq ft to the proposed accommodation citing evidence in the Renaissance development closer to central Lewisham as well as accommodation at 3 Jerrard Street, 27 Winslade Way and 99 Rushey Green. We understand the asking rent at the Renaissance unit equates to a rent of £25.33 per sq ft. We are in agreement with ULL in that we consider the Renaissance development to be most comparable and we consider this location superior to that of the subject premises given the location to Lewisham centre and the large number of new build residential units in this location. We therefore consider the applied rent of £22.50 per sq ft to be reflective of market levels.

Yield

4.23 ULL has adopted a net initial yield of 6.5% and has cited yield evidence demonstrating a range of 5.23% to 7.23%. 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%	Dated building in the centre of Lewisham. Includes retail space.
Unit E1 Roma Corte, Renassiance, Loampit Vale SE13 7DJ	1644	£450,000 (Jan 2017)	5.5%	New build office space in new build development scheme. 999 year lease.

4.24 We consider the ULL Sainsbury's comparable for the new build Barratt scheme in Loampit Vale to also provide good comparable evidence for the subject property. Whilst we consider the yield to be lower than we would expect for the subject unit given the improved location and covenant strength we would comment that the comparable provides good evidence of new accommodation in a residential led scheme in the locality.

4.25 Having considered the above evidence and the comparables provided by ULL, we are of the opinion that the applied yield of 6.5% is reflective of the market.

Summary

4.26 When applying the ULL assumptions in regard to the proposed commercial accommodation they arrive at a capital value of £1,039,452. As we have stated above, we consider the applied rent to be reflective of market conditions but have adjusted the yield.

4.27 Adopting our assumptions with regard to the yield with all other assumptions staying the same, we arrive at a capital value of £1,130,178.

4.28 For the purposes of our modelling we have therefore adopted a figure of £1,130,178 for the value of the proposed flexible commercial accommodation.

Cost Assumptions

Build Cost

4.29 A budget cost estimate has been prepared by RLF on behalf of the applicant to inform the viability assessment. GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review the cost plan on behalf of the Council. The RLF cost estimate results in a total build cost of £10,466,000. For ease of reference we detail the breakdown of cost items in the table below;-

Cost Item	Estimated Cost
Facilitating Works	£250,000
Substructure	£413,000
Superstructure	£3,255,000
Internal Finishes	£757,000
Fittings, Furnishings & Equipment	£563,000
Services	£1,946,000
Externals	£355,000
Subtotal	**£7,539,000**
Preliminaries & Fixed Price Allowance	£1,782,000
Overheads & Profits	£650,000
Design Risk & Contingency	£495,000
Total	**£10,466,000**

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

4.31 In overall terms it is JA's opinion that the scheme as proposed could be delivered for a total cost of £9,593,620.56 which represents a cost reduction of £872,379.44. We have adopted the JA cost figure in our appraisals for initial modelling purposes. Johnson Associates commented that there was an error in the common parts services and that they considered there to be double counting in terms of the kitchen appliances together with a number of rates.

Professional Fees

4.32 ULL has assumed professional fees of 8% which totals £655,120 based on their opinion of build costs. We consider this an appropriate assumption within the appraisal.

Marketing and Transactional fees

4.33 The following allowances have been made in the ULL development appraisal:

- Residential Marketing - 1.25%
- Residential Sales Agent Fee - 1.25%
- Residential Sales Legal Fee - £750 per unit
- Ground Rent Sales Agent Fee - 2%
- Ground Rent Sales Legal Fee - 1%
- Commercial Letting Agent Fee - 10%
- Commercial Letting Legal Fee - 5%
- Commercial Sales Agent Fee - 2%
- Commercial Sales Legal Fee - 0.5%

4.34 We are of the opinion that the above allowances are reasonable.

Finance Costs

4.35 Finance costs have been assumed at 7% debit rate and 0% credit rate. Most developers are currently assuming an overall rate of between 6-7% in appraisals for schemes of this nature. Given the recent rate increase and that this is at the upper end, we consider 7% to be reasonable and have adopted it within our modelling.

Contingency

4.36 A contingency sum of £495,000 has been included within the construction cost estimate labelled as design risk and contingency reflecting a 6.6% allowance. This figure has been adjusted as part of the Johnson Associates review which we have adopted for the purposes of our modelling.

S106 / CIL Costs

4.37 In respect of planning contributions, the following has been assumed in the ULL Ltd modelling:-

- Mayoral CIL - £40,265
- Lewisham CIL (Residential) -£62,059
- Lewisham CIL (Commercial) - 5,771
- **Total CIL Contributions - £108,095**

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

4.39 We note the subject property is currently in use and is let to Job Centre Plus and whilst we have not been provided with the workings we assume that part or the entire existing floorspace would be used to offset a CIL requirement.

Developer's Profit

4.40 ULL has adopted profit margins of 20% on value for the private residential units and 15% on value for the commercial element to arrive at a blended profit margin of 19.71% on GDV.

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

4.42 However, in the context of the current economic climate after Britain voted to leave the EU we are of the opinion that the adopted profit margins are acceptable. In addition we would comment that if affordable housing was to be introduced we would expect a profit margin of 6% to be applied for this element.

Summary Table

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

Assumption	ULL figure	GLH figure (where different)	Comments
Private Residential Sales Values	£551psf	£575psf	We consider the proposed units to be undervalued.
Residential Ground Rent	£349 p.a. @ 5%	-	Agreed for modelling purposes
Office Values	£22.50psf @ 6.5%	-	-
Construction Costs	£10,466,000	£9,593,620.56	We have adopted JA's opinion of construction costs.
Contingency	Included in the BC	-	-
Professional Fees	8%	-	Agreed for modelling purposes
Disposal Fees	Residential Sales Agent Fee - 1.25% Residential Sales Legal Fee - £750 per unit	-	Agreed for modelling purposes

	Ground Rent Sales Agent Fee - 2% Ground Rent Sales Legal Fee - 1% Commercial Letting Agent Fee - 10% Commercial Letting Legal Fee - 5% Commercial Sales Agent Fee - 2% Commercial Sales Legal Fee - 0.5%		
Combined Local & Mayoral CIL	£108,095	-	We have not verified this figure however assume it to be a correct sum of monies
Interest / Finance Costs	7%	-	Agreed for modelling purposes
Developers Profit	20% GDV Residential 15% GDV Commercial	-	Agreed for modelling purposes
Benchmark Land Value	£1,920,000	£1,410,750	See Section 3 for details

5 FINANCIAL APPRAISALS & CONCLUSIONS

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

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

5.3 We have been provided with a development appraisal from ULL detailing their assumptions and inputs.

5.4 This includes their timing assumptions as follows:

- 15 month build period
- 9 month sales period

5.5 As has been highlighted in the previous section, with the exception of BLV, construction costs and the proposed private values, we are in broad agreement with all of the other ULL assumptions which make up this appraisal.

5.6 ULL arrive at a development deficit of £-203,669 when adopting all of their assumptions in respect of the benchmark land value and proposed scheme.

5.7 Reflecting the changes detailed in the table at 4.43 the proposed scheme results in a scheme surplus of £1,609,182.

5.8 For ease of reference our development appraisal can be found at Appendix B.

Overall Summary

5.9 ULL has indicated that there was a project deficit of -£203,669 when adopting their own assumptions with regard to the scheme and the Benchmark Land Value.

5.10 Following a meeting between consultants, a narrowing of the extent of the differences of opinion has been reached but an agreed position has not been achieved. For ease of reference there remains a difference of opinion in respect of Benchmark Land Value, residential values and build costs. Adopting our assumptions for these elements we arrive at a development surplus of £1,609,182 on the basis of a wholly private scheme.

5.11 The above represents our final position in respect of this review unless substantial new evidence can be provided in respect of the areas of difference. At this stage we have not sought to transpose the identified surplus into an affordable housing allowance and would suggest our revised report is shared with the Applicant for consideration.

6 REVISED SCHEME CONCLUSIONS (MARCH 2018)

6.1 Following the issue of our updated draft report in November 2017, further discussions were carried out between GL Hearn and ULL in the attempt to reach agreement in respect of the aforementioned development proposals. The latest position presented by ULL in their letter dated 29th November 2017 indicated a project surplus of £1,180,000 which they transposed into 8 x affordable housing units (5 x affordable rent and 3 x shared ownership).

6.2 After receipt of this letter further discussions were held between ULL and GL Hearn but no final viability position was agreed.

6.3 A revised scheme has now been put forward by the Applicant following consultation responses which makes minor design alterations to the proposed development. We detail below the proposed amendments:-

- First floor unit no.10 reduced from 54.23 sqm to 50 sqm
- Second floor unit no.20 reduced from 70.12 sqm to 47.51 sqm
- Third floor unit no.30 reduced from 70.12 sqm to 47.51 sqm
- Fourth floor unit no.40 reduced from 70.12 sqm to 47.51 sqm
- Fifth floor unit no.45 reduced from 66.90 sqm to 54.45 sqm

6.4 In effect the above amendments have resulted in an overall reduction in floorspace of 910 sq ft to the proposed residential accommodation. We highlight in the table below the amendments to the scheme mix. The ground floor commercial accommodation remains the same.

Unit Type	Units (November 2017)	Units (March 2018)
Studio	0	3
1 bed apartment / 2 person	27	28
2 bed apartment / 3 person	11	10
2 bed apartment / 4 person	3	0
3 bed apartment / 4 person	0	1
3 bed duplex / 4 person	4	3
Total	**45**	**45**

6.5 We have been provided with an updated viability position from ULL in their letter dated 13th March 2018. This letter formalises a number of the agreed assumptions from the previous iteration of the scheme. We summarise these elements below:

Benchmark land Value

6.6 ULL has adopted the previously agreed position in respect of the Existing Use Value from November 2017. This was arrived at by valuing the existing income of £160,000 until lease expiry (31st March 2018). We then assumed a void period of 18 months before valuing the reversion. This has been capitalised at an equivalent yield of 8%. We did not assume any rent free periods as the assumed reversionary rent was considered net of incentives. Purchaser costs, letting fees and empty rates were also accounted for in our EUV figure of £1,282,500. After the application of an agreed premium of 10% this resulted in a BLV of £1,410,750.

6.7 We understand that there have been no material changes to the subject property or terms of the lease with the tenant due to vacate at the end of the month. To reflect the increased risk to the income we have pushed the yield out to 8.5% and updated the valuation date with all other inputs the same as before. Reflecting the above the changes this results in a revised EUV of £1,175,000. Applying the agreed premium of 10% we arrive at an adjusted BLV of £1,292,500 which represents a reduction of £118,250.

Residential Sales Values

6.8 ULL has applied the previously agreed overall blended value rate per sq ft of £575 to the adjusted private residential floorspace. In respect of the affordable units previously agreed value rates of £195psf and £395psf have been applied in respect of the Affordable Rented and Shared Ownership units. We remain of the opinion that the applied value assumptions remain reflective of the market and the proposed scheme and we therefore consider these to be reasonable.

Ground Rental Income

6.9 ULL has retained the value assumptions in respect of ground rents for the private units despite the recent announcement from the Communities Secretary, Sajid Javid, that new legislation is to be introduced setting ground rents on long leases at zero. Whilst the new legislation has yet to be adopted, ULL has retained the value associated with this (£259,000) but they have highlighted that the Applicant is unlikely to receive the benefit of this income.

6.10 We are aware through other FVA reviews GL Hearn have undertaken that the GLA's general approach has been to adopt an investment yield of 10% to reflect the increased uncertainty surrounding the value associated with ground rents. If we were to adopt this position with the subject units this would equate to a value of £129,500 which would result in a reduction of £129,500 before finance and other fees were amended.

Commercial Value Assumptions

6.11 ULL has adopted the previously agreed commercial assumptions in respect of the commercial accommodation which provides a value of £1,039,452. We remain of the opinion that the value assumptions are reasonable.

Construction Costs

6.12 A revised construction cost estimate has been provided by RLF which we understand reflects a number of previously agreed positions on some cost items but also reflects amendments to the development.

Cost Item	Estimated Cost
Facilitating Works	£250,000
Substructure	£405,000
Superstructure	£3,217,000
Internal Finishes	£726,000
Fittings, Furnishings & Equipment	£514,000
Services	£1,537,000
Externals	£361,000
Preliminaries & Fixed Price Allowance	£1,590,000
Overheads & Profits	£602,000
Design Risk & Contingency	£460,000
Total	**£9,661,000**

6.13 Once again a line by line review of the RLF cost estimate has been undertaken and this is provided at Appendix A.

6.14 In overall terms it is JA's opinion that the scheme as proposed could be delivered for a total cost of £9,579,000 which represents a cost reduction of £82,000. We have adopted the JA cost figure in our appraisals for initial modelling purposes. The marginal reduction is reflective of the fact that a number of the rates were previously agreed in the last iteration of the scheme.

Summary Table

6.15 As before we have provided a summary table below highlighting the scheme assumptions and areas of difference for the revised scheme:

Assumption	ULL figure	GLH figure (where different)	Comments
Private Residential Sales Values	£575psf		
Residential Ground Rent	£350 p.a. @ 5%	-	-
Office Values	£22.50psf @ 6.5%	-	-
Construction Costs	£9,661,000	£9,579,000	We have adopted JA's opinion of construction costs.
Contingency	Included in the BC	-	-
Professional Fees	8%	-	
Disposal Fees	Residential Sales Agent Fee - 1.25% Residential Sales Legal Fee - £750 per unit Ground Rent Sales Agent Fee - 2% Ground Rent Sales Legal Fee - 1% Commercial Letting Agent Fee - 10% Commercial Letting Legal Fee - 5% Commercial Sales Agent Fee - 2% Commercial Sales Legal Fee - 0.5%	-	
Combined Local & Mayoral CIL	£103,005	-	We have not verified this figure however assume it to be a correct sum of monies
Interest / Finance Costs	7%	-	
Developers Profit	20% GDV Private Residential 6% GDV Affordable Residential 15% GDV Commercial	- - -	Agreed for modelling purposes
Benchmark Land Value	£1,410,750	£1,292,500	See Section 6 for details

Overall Conclusion

6.16 Reflecting their own assumptions, a number of which were previously agreed in the last iteration of the scheme, ULL arrive at a residual land value of £1,341,002 which when compared with the assumed Benchmark Land Value of £1,410,750 indicates a marginal scheme deficit of £-69,748.

6.17 When adopting our revised position in respect of the BLV given the forthcoming tenancy expiration we have arrived at a revised BLV of £1,292,500. In addition, when reflecting the JA construction cost savings for the revised scheme of £82,000 the scheme's residual land value would crudely improve to £1,423,002. This demonstrates that the revised scheme based on the current provision of 8 x affordable housing units provides a marginal surplus of £130,502.

6.18 However, as we have previously mentioned, with the additional risk now attached to ground rental income, we have applied a yield of 10% to the income which reduces the capital value by £129,500. Whilst there would be savings in respect of sales fees given the reduced value, we consider this to be marginal. Therefore if we were to reflect this reduction in respect of the ground rent the surplus indicated above would be cancelled out.

6.19 We therefore consider in this instance that 8 x affordable units offered by the Applicant is the maximum the scheme can viably provide.

6.20 Despite the above we understand the Applicant has agreed to provide a total of 11 x on-site affordable units (6 x Affordable Rent & 5 x Shared Ownership). Given that that this offer is in excess of that modelled and in light of the conclusion reached, it is our opinion that this enhanced affordable housing provision represents a good offer and therefore see no reason from a viability perspective that this should not be accepted by the Council.

APPENDIX A: BUILD COST SUMMARY

GFA = 3833 m2

Section - Residential development

		Total Cost	Cost / m²	Cost / ft²	%
	FACILITATING WORKS				
1	Toxic / Hazardous Material Treatment	£10,000	£2.61	£0.24	0.1
2	Major Demolition Works	£240,000	£62.61	£5.82	2.5
3	Temporary Support to Adjacent Structures				
4	Specialist Groundworks				
5	Temporary Diversion Works				
6	Extraordinary Site Investigation Works				
		£250,000	**£65.22**	**£6.06**	**2.6**
	SUBSTRUCTURE				
1	Substructure	£405,000	£105.67	£9.82	4.2
		£405,000	**£105.67**	**£9.82**	**4.2**
	SUPERSTRUCTURE				
1	Frame	£345,000	£89.95	£8.36	3.6
2	Upper Floors	£873,000	£227.66	£21.15	9.0
3	Roof	£350,000	£91.18	£8.47	3.6
4	Stairs and Ramps	£59,000	£15.26	£1.42	0.6
5	External Walls	£801,000	£208.87	£19.40	8.3
6	Windows and External Doors	£285,000	£74.22	£6.90	2.9
7	Internal Walls and Partitions	£296,000	£77.29	£7.18	3.1
8	Internal Doors	£197,000	£51.39	£4.77	2.2

Rushey Green Catford
8.0 CONSTRUCTION COST SUMMARY

Version B - Rev. A Feb18

GFA = 3833 m2

Section - Residential development

		Total Cost	Cost / m²	Cost / ft²	%
		£3,206,000	**£835.82**	**£77.65**	**33.3**
	INTERNAL FINISHES				
1	Wall Finishes	£231,000	£60.26	£5.60	2.4
2	Floor Finishes	£364,000	£95.07	£8.83	3.8
3	Ceiling Finishes	£131,000	£34.24	£3.18	1.4
		£726,000	**£189.57**	**£17.61**	**7.6**
	FITTINGS, FURNISHINGS AND EQUIPMENT				
1	Fittings, Furnishings and Equipment	£469,000	£122.35	£11.37	5.3
		£469,000	**£122.35**	**£11.37**	**5.3**
	SERVICES				
1	Sanitary Installations	£91,000	£23.77	£2.21	0.9
2	Services Equipment				
3	Disposal Installations	£74,000	£19.18	£1.78	0.8
4	Water Installations	£86,000	£22.53	£2.09	0.9
5	Heat Source	£170,000	£44.39	£4.12	1.8
6	Space Heating and Air Conditioning	£179,000	£46.59	£4.33	1.8
7	Ventilation	£184,000	£47.99	£4.46	1.9
8	Electrical Installations	£321,000	£83.74	£7.78	3.6
9	Fuel Installations	£1,000	£0.28	£0.03	0.0
10	Lift and Conveyor Installations	£132,000	£34.44	£3.20	1.4

Rushey Green Catford
8.0 CONSTRUCTION COST SUMMARY

Version B - Rev. A Feb18

GFA = 3833 m2

Section - Residential development

		Total Cost	Cost / m²	Cost / ft²	%
11	Fire and Lightning Protection	£26,000	£6.88	£0.64	0.3
12	Communication, Security and Control Systems	£108,000	£28.28	£2.63	1.1
13	Specialist Installations	£46,000	£12.06	£1.12	0.5
14	Builder's Work in Connection with Services	£92,000	£24.00	£2.23	1.0
		£1,510,000	**£394.13**	**£36.62**	**16.0**
	PREFABRICATED BUILDINGS AND BUILDING UNITS				
1	Prefabricated Buildings and Building Units				
		£0	**£0.00**	**£0.00**	**0.0**
	WORKS TO EXISTING BUILDINGS				
1	Minor Demolition Works and Alteration Works				
2	Repairs to Existing Services				
3	Damp Proof Courses / Fungus and Beetle Eradication				
4	Façade Retention				
5	Cleaning Existing Surfaces				
6	Renovation Works				
		£0	**£0.00**	**£0.00**	**0.0**
	EXTERNAL WORKS				
1	Site Preparation Works	£20,000	£5.16	£0.48	0.2
2	Roads, Paths, Pavings and Surfacings	£50,000	£12.97	£1.20	0.5
3	Soft Landscaping, Planting and Irrigation Systems	£10,000	£2.73	£0.25	0.1

Rushey Green Catford **Version B - Rev. A Feb18**

8.0 CONSTRUCTION COST SUMMARY

GFA = 3833 m2

Section - Residential development

		Total Cost	Cost / m²	Cost / ft²	%
4	Fencing, Railings and Walls	£33,000	£8.61	£0.80	0.3
5	External Fixtures				
6	External Drainage	£61,000	£15.94	£1.48	0.6
7	External Services	£164,000	£42.76	£3.97	1.7
8	Minor Building Works and Ancillary Buildings	£23,000	£5.87	£0.55	0.2
		£361,000	**£94.04**	**£8.73**	**3.6**
	Sub Total				
	PRELIMINARIES AND FIXED PRICE ALLOWANCE				
1	Preliminaries	£1,590,000	£414.82	£38.54	16.5
		£1,590,000	**£414.82**	**£38.54**	**16.5**
	OVERHEADS AND PROFIT				
1	Overhead and Profit	£602,000	£157.06	£14.59	6.2
		£602,000	**£157.06**	**£14.59**	**6.2**
	DESIGN RISK AND CONTINGENCIES				
1	Design risk and contingencies	£460,000	£120.01	£11.15	4.8
		£460,000	**£120.01**	**£11.15**	**4.8**
	Total Construction Cost	**£9,579,000**	**£2,498.70**	**£232.13**	**##**

Variance: £82,000

APPENDIX B: FINANCIAL APPRAISAL