GL Hearn
Part of Capita Real Estate

Land at White Post Street, Lewisham

Draft Viability Review

for
London Borough of Lewisham

March 2018

Prepared by

GL Hearn Limited
280 High Holborn
London WC1V 7EE

T +44 (0)20 7851 4900
glhearn.com

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DATE	ORIGINATORS	APPROVED
March 2018	David Price Associate Director	Guy Ingham Director

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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 White Post Street, Lewisham for which a planning application has been submitted by GADA Property Investments and H&R Properties (the Applicant).

1.2 The subject property comprises an operational scrap yard and railway viaduct, accommodating a total of 6 railway arches. We understand it measures 0.28 hectares/0.69 acres.

1.3 The site is situated at the junction of White Post Street and Wagner Street, within Lewisham's New Cross Ward. The site is adjacent to the South London line which separates the London Boroughs of Lewisham and Southwark.

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

- Coleflax Design - Architects
- GNA - Budget estimate

The Application Scheme

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

"The demolition of the existing structures on-site and redevelopment to provide a mixed use development comprising the erection of two buildings ranging from 3-7 storeys and refurbishment of the 6 railway arches (No's 62 – 67) on-site, providing flexible A1/A2/B1/D1 floorspace and 25 residential units; associated plant, amenity space, 2 accessible car parking spaces and 56 cycle spaces".

1.6 The Applicant's viability consultant has indicated that the assumed scheme comprising a nil affordable housing provision produces a profit below that of the developer's target of 25%, when land is fixed at nil cost. On this basis, they conclude that the scheme is would be unviable If there were to be an affordable housing provision as part of the proposed scheme.

1.7 We detail the applicant's proposed accommodation schedule below;

Use	Area (Gross sq ft)	Area (Net sq ft)

Residential 7 x 1 beds 18 x 2 beds **Total = 25**	21,042	17,279
Commercial New Build A1/A2/B1/D1	3,218	2,736
Arches A-F B1/B2	7,276	6,913
Total	**31,536**	**26,928**

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 Iceni 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 their assessment of the existing use value of the site)
- 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.

2.3 Iceni have 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 Iceni has been to adopt a number of assumptions to assess the proposed schemes profit outturn assuming a nil land value. Based on their inputs a profit return of 20.62% on costs was produced which they indicated is less than the applicant's target return of 25%. This being the case if the inclusion of a land cost / or BLV is reflected this have a further negative impact of on scheme viability.

2.5 In respect of the sites Benchmark Land Value the FVA assumes an Existing Use Value of £749,450 which is based a variety of industrial related uses.

2.6 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.

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

2.8 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 Applicant's Position

3.4 Iceni have put forward a BLV which is based on an EUV that they assess to be £749,450. This is underpinned by a valuation based on an ERV of £8.00 psf which has been applied to the collective floor area of the arches and then capitalised at a yield of 7.75%. In respect of the scrap yard Iceni has indicted that the area is unlettable and therefore no value has been attributed to this element of the site.

3.5 A copy of the valuation has been appended to the FVA but the information does not provide details of the occupational lease terms.

3.6 Having reviewed the information provided there appears to be a large disparity between the current passing rent of the units and the proposed ERV.

3.7 Having not had sight of the lease details it is difficult to assess when the passing rents were set. It may be that some rents are based on recent review, which we would expect to be in line with market values.

3.8 We have reviewed the comparable evidence provided by Iceni in Appendix 6 of their FVA but it is our view that they have limited relevance to the subject site in terms of their superior location, condition, and site accessibility.

3.9 As such we have given limited weight to this evidence and in our opinion the best proxy for value is the passing rents being achieved from the existing tenants. We note from the rental schedule provided that rents vary significantly but the highest rent being achieved is £6.45 psf.

3.10 Similarly to the rental comparable information we do not consider the yield evidence provided to be compelling. For example, 1 Filament Walk transacted in March 2016 at a yield of 7.54%. The unit was constructed recently (c. 2015) and is located in a central Wandsworth a short distance from Southside Shopping Centre.

3.11 Furthermore we note that Iceni have adopted the same yield to establish the value of the existing arches as the proposed scheme, which assumes the arches have been refurbished. A marginally keener of 7.5% has been adopted for the new build commercial accommodation within the proposed scheme.

3.12 For the purposes of our modelling we have adopted a 9% yield, which is in our view more reflective of the current market in the context of the characteristics of the existing asset.

3.13 Given that the current tenants are occupying the premises on leases inside the Landlord & Tenant Act (1956), we consider there to be a reasonable level of security of income from the site and therefore we do not take issues with a level of landowner's premium being reflected in the Benchmark Land Value. This is consistent with current guidance.

3.14 In this instance we have applied a 20% premium, which is at the mid-point of current guidance, to our view of an appropriate Existing Use Value in order to arrive at an appropriate Benchmark Land Value.

3.15 For ease of reference we detail our EUV assumptions are detailed the table below. You will note that we have adopted an ERV of £6.45, which is based on the highest rent currently being achieved from the arches.

Unit	Area	Rent	Passing Rent	Capital Value @ 8.5% Yield
62	1,494	£6.45	£9,636	£113,368
63	1,447	£6.45	£9,333	£109,802
64	1,350	£6.45	£8,708	£102,441

65	1,240	£6.45	£7,998	£94,094
66	1,123	£6.45	£7,243	£85,216
67	1,100	£6.45	£7,095	£83,471
Total	**7,754**			**£588,392**
Total Less Purchaser's Cost @ 6.80%				**£548,381**
Plus Premium @ 20%				**£658,057**

3.16 Based on our EUV calculation and reflecting a premium of 20%, we arrived at a BLV of £658,057. This figure compares with Iceni's BLV of £749,450 which reflects a difference of £91,393.

3.17 Accordingly for the purposes of our own modelling we have adopted a Benchmark Land Value of £658,057.

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 25 private residential units, 7 x one bed units and 18 x two bed units.

4.3 Iceni have provided a Market Comparables report. We have not had sight of their unit-by-unit pricing but have had regard to the average sales values the 1 and 2 bed apartments which are summarised in the table below and reflected in the Iceni Argus appraisal:

Beds	Average Size (NIA sq ft)	Average Price	Average £/sq ft	No. of Units
1	550	£312,739	£588	7
2	746	£355,768	£477	18
Total		**£8,592,990**		**25**

Residential Market Overview

4.4 The continued appetite for residential property is up against the continuing shortage of new housing stock in the UK. This has been especially evident in the South East and London, where both the fundamental lack of supply of new homes and a lack of existing stock on the market have combined to deliver strong annual growth in prices in some areas.

4.5 The Land Registry House Price Index (HPI) reported in December 2017 that the annual rate of growth of house prices in the England was 5.00%, and the monthly rate of change was -0.40%. The average house price in England was £243,528 at December 2017.

4.6 Lewisham experienced solid growth in the year to December 2017 at 4.70% when compared with the London average of 2.50%. Average house prices in the area as at December 2017 were £417,640 which was in line with the London average of £484,173.

4.7 Nationwide's January 2018 press release reports that house prices increased by a modest 0.6% month on month from December. This latest release means house prices in 2017 rose overall by 2.6%. They comment note that "*The annual rate of house price growth picked up to 3.2% at the start of 2018, compared with 2.6% at the end of 2017. House prices increased by 0.6% over the month, after taking account of seasonal factors, the same increase as December.*"

4.8 As referred to above, the proposed scheme includes 7 x one bedroom units and 18 x two bedroom units with nil affordable units, amounting to a total of 25 units. Iceni have provided comparable transactions in the surrounding area to inform their pricing schedule of the proposed private units and have arrived at an average private sales figure of £588psf and £477psf for 1 bed and 2 bed units respectively.

4.9 Lewisham has seen extensive new build residential development in recent years and Iceni have referred to a range of evidence within a c.3 mile radius. We view their comparables to be reasonable but we note that they have subsequently gone on to adjust the new build sales values identified downwards based on Land Registry information and location data.

4.10 We find Iceni's methodology unconvincing and inconsistent with other FVA GL Hearn has reviewed recently. Making downward adjustments to new build sales evidence based on historic data which is made up of both new and older residential stock in our view is inappropriate and would led to unrealistic discounts being applied. The table below seeks to highlight the impact of applying this methodology.

Address	Price	Date	Adjusted	Variation
173 Belleville House, 4 John Donne Way	£570,000	Jul-17	£356,048	-£213,952
Flat 58, 2 Woods Roaad	£565,000	May-17	£394,012	-£170,988
Avonley Village, Water Lane	£300,000	On Market	£231,744	-£68,256

4.11 The examples above illustrate the impact that adopting this methodology has on comparable analysis and we disagree with its use both in the context of development viability and as a general method of comparable analysis. We have therefore disregarded its application in relation to this viability review.

4.12 The table on page 23 is a helpful overview in terms of detailing the unadjusted sales value tone in the area and in our view provides a good proxy for the likely sales values; however, we note that whilst some are new build, most are second hand stock.

4.13 We also note that some of the comparables cited are further towards Greenwich/Lewisham town centre, which we would acknowledge generally achieve higher sales values given their proximity to a range of amenities and better rail networks.

4.14 Iceni have referred to The Iron Works as a relevant comparable which we also consider to be appropriate given its age and close proximity to the subject site. We have also had regard to Deptford Foundry, which has some shared characteristic albeit this development is of larger scale..

4.15 The Iron Works, SE14 – A new Latimer Homes by Affinity Sutton development located approximately 0.2 miles south of the subject site. The scheme comprises 37 units of 1, 2 and 3 bedroom apartments. Whilst the units are offered as Shared Ownership, we have reviewed the market value price list and detail a range of units within Megan Court below;

Plot	Floor	Beds	Size	Price	Price (£ psf)
4	G	1	786	£400,000	£509
5	G	1	830	£420,000	£506
7	1	1	560	£380,000	£679
9	1	1	539	£380,000	£705
11	1	1	603	£390,000	£647
13	2	1	560	£382,500	£683
14	2	1	539	£382,500	£710
16	2	1	603	£392,500	£651
20	3	1	549	£385,000	£701
1	G	2	722	£490,000	£679
2	G	2	722	£490,000	£679
6	1	2	807	£510,000	£632
8	1 and 2	2	781	£505,000	£647
10	1	2	853	£525,000	£615
12	2	2	807	£512,500	£635
15	2	2	853	£527,500	£618
17	3	2	689	£500,000	£726

4.16 We note however, that plots 4 and 5 are particularly large and skew the average prices. Excluding these two units and when considering the prices in Harriet Court (Block B), the overall average prices for the scheme reflect £640 psf for 1 bedroom units and £617 psf for 2 bedroom units.

4.17 Enquiries with the agent indicate that the units have sold well and whilst there is no negotiation on shared ownership units, the sales rate has reflected accurate unit pricing.

4.18 Deptford Foundry – An Anthology development comprising a total of 316 x 1, 2 and 3 bedroom flats. Completions are due from Q4 2018 to Q1/Q2 2019. By the end of Q4 2017, 60 units had been sold We note the following price list below;

Plot Ref	Floor	Bed	Sq Ft	Price	Price (£ psf)	Date of Price
AH 01	2	2	791	£470,000	£594	Dec-17
AH 03	2	1	635	£395,000	£622	Dec-17
AH 13	3	1	538	£420,000	£781	Dec-17
AH 17	4	2	791	£485,000	£613	Dec-17
AH 21	4	1	538	£395,000	£734	Dec-17
AH 22	4	2	759	£535,000	£705	Dec-17
AH 27	5	1	635	£410,000	£646	Dec-17
MC 01	G	2	844	£590,000	£699	Dec-17
MC 02	G	2	804	£565,000	£703	Dec-17
MC 04	1	1	538	£415,000	£771	Dec-17
MC 10	2	1	573	£385,000	£672	Dec-17
MC 11	3	2	875	£550,000	£629	Dec-17
MC 14	3	1	557	£420,000	£754	Dec-17
MC 20	4	1	573	£395,000	£689	Dec-17
MC 21	5	2	875	£560,000	£640	Dec-17
MC 24	5	1	557	£420,000	£754	Dec-17

4.19 Prices at the scheme range from £582 psf to £803 psf with an average of £683 psf based on prices released so far. We consider the scheme to be a good indication of new build flat values in the surrounding area although we note it is likely a superior quality to the type of scheme that would be delivered on the subject site.

4.20 <u>Other Comparable Evidence</u> – We have had regard to a number of additional comparables in the form of both new build and secondary stock. Below are a number of sales which we believe are relevant to informing our view on values;

Address	Beds	Size	Price	Price (£ psf)	Sale Date
61 Water Lane, SE14 5DN	1	581	£310,000	£534	Jun-17
44 Water Lane, SE14 5DN	1	549	£332,500	£606	Aug-16
Flat 46, Penny Black Court, SE15 2EZ	1	560	£440,000	£786	Jun-16
Flat 42, Penny Black Court, SE15 2EZ	2	667	£530,000	£795	Jul-16
Flat 39, Penny Black Court, SE15 2EZ	2	667	£475,000	£712	Jul-16
Flat 38, Penny Black	2	657	£535,000	£814	Jul-16

Court, SE15 2EZ					
Flat 41, Penny Black Court, SE15 2EZ	2	657	£540,000	£822	Jul-16

Summary and Conclusions

4.21 Having considered the evidence detailed above in addition to our experience of reviewing FVA's on behalf of LB Lewisham, we are of the opinion that the proposed pricing of the private units are below market levels.

4.22 Whilst Iceni have identified a range of new build comparable evidence, their discounts to a level which in our opinion significantly undervalues the private units within the proposed scheme.

4.23 It is our view that the Iron Works development represents a good comparison but we would acknowledge that given the backland nature of the subject site it is likely to be considered marginally less attractive.

4.24 We therefore consider that the units proposed should be priced as follows;

Beds	Average Size (NIA sq ft)	Average Price	Average £/sq ft	No. of Units
1	550	£352,181	£640	7
2	746	£459,941	£617	18
Total		**£10,744,209**		**25**

4.25 The above sales values represent a 5% downward adjustment to that of the Iron Works and c. 10% compared to Deptford Foundry.

<u>Affordable Housing</u>

4.26 Iceni's appraisal is predicated on a wholly private scheme and therefore no commentary or sales evidence has been provided.

<u>Residential Ground Rents</u>

4.27 We would highlight the recent Government consultation paper 'Tackling unfair practices in the leasehold market' in Summer 2017", which published its findings on 21 December.

4.28 The paper included an unexpected proposal on new leasehold flats that impacts valuations - "We will introduce legislation so that, in the future, ground rents on newly established leases of houses and flats are set at a peppercorn (zero) financial value."

4.29 Although there is no timetable for this proposed legislation, and it may ultimately not be passed into law as presented – it does point toward the abolishing of ground rents.

4.30 That said Iceni have reflected ground rents of £250 per annum for 1 bedroom units and £350 per annum for 2 bedroom units and given the uncertainty around this we have mirrored their approach.

4.31 Iceni have capitalised the ground rents at 5.00% which is in line with current market practice and therefore we do not consider the assumptions adopted to be unreasonable.

Commercial Value Assumptions

4.32 The proposed development also includes a range of A1/A2/B1/D1 use; 6,913 sq ft within arches A to F and a further 2,736 sq ft of new build commercial space. These are net figures which reflect a gross to net of 95% and 85% respectively.

4.33 Iceni have adopted the following values on the commercial element in their appraisal;

	Size (sq ft)	Rent (£ psf)	Yield	Rent Free (months)	Capital Value
Arches A-F	6,913	£14.96	7.75%	3	£971,870
New Build	2,736	£16.50	7.50%	9	£580,522
Total	**9,649**				**£1,552,392**

4.34 Iceni have provided a range of comparable evidence in the surrounding area which have been used to support their adoption of the values above.

4.35 The comparable evidence indicates a rental tone of c. £12.00 psf to £25.00 psf for railway arches, with the exceptions of units on Lombard Road, SW11 and Grove Green Road, E11. These two comparables reflect a rent of £4.87 psf and £8.00 psf respectively.

4.36 Industrial units reflect a rental tone of £8.00psf to £13.33psf and offices £15.19 psf to £17.60 psf.

4.37 Whilst the yield evidence is limited to 4 comparables, we view 1 Filament Walk to be an appropriate comparable given its relatively new build status and off-pitch access.

4.38 We have reviewed the evidence put forward by Iceni in relation to the commercial element of the scheme and it is our view that the assumptions adopted are reasonable given the characteristics of the site.

Cost Assumptions

Build Costs

4.39 A Budget Cost Estimate was prepared by GNA to inform the viability assessment. 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 assumes a total build cost of £8,450,105. 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)
Demolition	£50,700
Substructure	£432,355
Superstructure	£2,718,113
Finishes	£701,729
Fixtures & Fittings	£575,150
Services	£963,265
Preliminaries	£697,012
Other Works	£747,797
Total Cost	**£6,886,120**

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

4.41 This concludes that the costplan presented by the applicant is somewhat excessive and that the original development proposals should be deliverable at a price of £6,748,153. This represents an overall reduction in the order of £137,967, i.e. approximately 2.0%.

4.42 Accordingly, in our own appraisal we have adopted the reduced Johnson Associates total build cost figure of £6,748,153.

Preliminaries

4.43 Iceni have referred to a figure of £697,012 for preliminaries, which equates to 10.12% of construction costs. Having reviewed this allowance JA commented that although as a percentage of base construction costs this appears high that do not believe it to be unreasonable in light of the sites current use and also its restricted access.

Professional Fees

4.44 Iceni have stated professional fees at 8.08% of construction costs including preliminaries in their report. This is contrary to what is reflected in the table presented on Page 18 which equates to 11.25%. This is also the professional fees allowance reflected in Iceni's Argus appraisal.

4.45 Typically, professional fees range from 8-10% on base construction costs. We have adopted an allowance of 10% on construction costs for the purpose of our modelling. This is towards the upper end of the range which we deem to be appropriate owing to the characteristics of the site.

Marketing and Transactional fees

4.46 The FVA indicates that the following allowances have been made in Iceni's development appraisal:

- Sale Agent Fee - 2.00% (Commercial, Purchaser's Costs)
- Sale Legal Fee - 0.50% (Private Units, Commercial, Purchaser's Costs)
- Letting Agent Fee - 10% (Arches A to F, Commercial New Build, Residential Ground Rents)
- Letting Legal Fee - 5% (Arches A to F, Commercial New Build, Residential Ground Rents)
- Purchaser Costs - 6.78% (Commercial , Ground Rents)

4.47 Their report also refers to a Marketing Fees of 1.50% but this does not appear to have been applied to either the residential or commercial content of the scheme. In addition we note that Sales Fees have only been applied to the commercial content of the scheme and not the residential accommodation which we assume to be an omission.

4.48 For the purpose of our modelling we have adopted the fee allowance indicated by Iceni and adopted an overall sales and marketing allowance of 2.0% applied to both the residential and commercial content.

Contingency

4.49 Iceni have adopted varying levels of contingency. Specifically they have adopted a 5% scheme contingency and a 10% contingency on both ground works and input labelled "developers contingency fees" in the Argus appraisal. We do not take issue with the scheme contingency of 5% being applied but believe the 10% on ground works to be excessive and have reduced this allowance to 5% for the purpose of our modelling. As mentioned above it is not clear what "developers contingency fees" relates to and as such we have removed this allowance for the purpose of our analysis.

Finance Costs

4.50 Finance costs have been assumed at 7.825% debit rate.

4.51 We would comment that typically Applicants / developers are adopting finance rates ranging from 6-7%, which provides a good indication of current market levels. Given the nature and characteristics of the schemes we have modelled the upper end of the typical range at 7%.

<u>CIL</u>

4.52 Within the proposed scheme Iceni has made an allowance for CIL and a Carbon Off-set payment of £293,192.

4.53 We note that the site is situated in Zone 2 which charges £130psm for net additional residential accommodation. The site is also situated within the primary shopping area which requires a charge of £200psm on the net additional retail accommodation.

4.54 A CIL calculation has not been provided to enable verification of the allowance adopted. For the purposes of our modelling we have adopted the same CIL allowance but details of Iceni's calculations should be provided. We would also highlight that there appears to be inconsistences between the amount of development quoted in the FVA and the CIL form which requires clarification.

4.55 We note the existing retail and office units are in use and therefore will likely be offset against the proposed accommodation.

4.56 Clearly if affordable housing was to be introduced then this would have an impact on the CIL allowance adopted and therefore this element of the FVA should be kept under review.

<u>Developer's Profit</u>

4.57 We note that Iceni have referred to a hurdle rate of 25% but it is not clear if this is proposed on the gross development value or total development costs.

4.58 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.

4.59 Having under taken a number of reviews for the Council we would typically expect a profit margin ranging from 17.5% - 20% on GDV for the private units, 15% on GDV the commercial uses and 6% on GDV in respect of the affordable units

4.60 In light of the site's characteristics, we have modelled 20% profit on GDV for the private units and 15% on GDV for the commercial accommodation. Although at this stage no affordable housing has been proposed if this were to be introduced we would expect this element of the scheme to attract a 6% profit on GDV in line with local current market trends.

Timescales

4.61 The Appraisal reflects a construction period of 19 months and a sales rate of 3 units per month on average. We note that there is a 7 month void following the end of construction to the non-residential element. Although we believe this programme to be somewhat pessimistic, we have mirrored Iceni's proposed programme for the purpose of our initial modelling.

Summary Table

4.62 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.

Sales and Revenue			
Average Private Residential Sales Value	1 Beds =£588 psf 2 Beds = £477 psf	1 Beds = £640 psf 2 Beds = £617 psf	Sales values adjusted upwards following GLH review of comparable evidence.
Residential Ground Rent	£250 - 1 bed £350 - 2 bed @ 5%	-	
Arches A to F	£14.96 psf @ 7.75% = £971,870	-	
Commercial New Build	£16.50 psf @ 7.50% = £580,522	-	
Development Costs			
Construction Costs	£6,886,120	£6,748,153	See Appendix A for the Build Cost Review
Contingency	Contingency = 5% Developers contingency = 10% Developers Contingency Ground Works = 10%	Contingency = 5% Developers Contingency Groundworks = 5%	See section 4.48.
Professional Fees	11.25%	10%	Iceni have stated professional fees of 8.08% in their report. We note that their table and their appraisal reflect professional fees of 11.25%.

Sales Costs	0.5% Sales Legal Fee 10% Letting Agent Fee 5% Letting Legal Fee 6.78% Purchaser's Costs	2.0% Sales and Marketing Fee 10% Letting Agent Fee 5% Letting Legal Fee 6.78% Purchaser's Costs	Allowances are accepted but have removed letting fees applied to ground rents and purchaser costs applied to sales fees. 2.0% allowance for sales and marketing fees.
CIL	£243,192.	See comments	A CIL calculation has not been provided to enable verification of the allowance adopted. For the purposes of our modelling we have adopted the same CIL allowance but details of Iceni's calculations should be provided. We would also highlight that there appears to be inconsistences between the amount of development quoted in the FVA and the CIL form which requires clarification..
Interest / Finance Costs	7.825% debit	7.00%	We typically see applicants/developers adopting finance rates ranging from 6-7%. We have adopted the upper range given the characteristics of the site.
Developers Profit	25% on GDV	20%	Iceni have referred to a hurdle rate of 25%. We view a range of 17.5% to 20% profit on GDV to be market standard. We have a 20% margin on private residential, 15% on commercial and 6% on affordable (if introduced)
Benchmark Land Value	£749,450	£658,057	This reflects a difference of £91,393.

5 INITIAL 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 profit level. 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 Iceni upon which we have conducted our sensitivity analysis to ensure our base position is consistent with the applicants. This has enabled us to ensure the model has been constructed properly and the inputs are timed correctly within the cashflow.

5.4 As has been highlighted in the summary table in the previous section we are not in disagreement with a large number of the assumptions adopted. However there are a several inputs where we believe the assumptions to be overstated and have applied our own assumptions which we consider is more reflective of the market.

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

- Private Residential Sales Values
- Build Costs
- Professional Fees
- Marketing and Sales Fees
- Contingency levels
- Finance rate
- Developers Profit

5.6 In addition to the above it is our opinion the Applicant's BLV has been overstated for the reasons outlined in Section 3 of this report. For ease of reference we adopted a BLV of £658,057, which reflects a 20% landowners premium and this reflects a variance of £91,393 when compared to the BLV indicated in the Applicant's FVA.

Initial Summary & Conclusions

5.7 Iceni has concluded that no affordable housing or payment in lieu of affordable housing should be required on viability grounds given that the developers return assuming a nil land value falls short of the developers profit target return of 25%.

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. If we maintain the currently proposed wholly private offer, this delivers a residual land value of £1,373,167.

5.9 When this is compared against our view of the sites benchmark land value (reflecting a landowner's premium which equates to £658,057) there remains an overall project surplus of £715,110.

5.10 Clearly our initial analysis indicated a very different viability picture when compared against the Iceni analysis. Our initial analysis provides for a significant surplus which potentially could contribute to an on-site affordable offer.

5.11 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.

Appendix A

Build Cost Review

Appendix B

Financial Appraisal