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DELIVERY | VIABILITY | CAPACITY

154-158 Sydenham Road, London SE26

Financial Viability Report

London Borough of Lewisham

February 2018

Private and Confidential

Contents

1 INTRODUCTION

Background

1.1 Urban Delivery was instructed by the London Borough of Lewisham (the "Council") to review the Financial Viability Assessment (FVA) provided by Family Mosaic (the "Applicant") in support of its planning application to build 29 dwellings and 155 sq m (1,668 sq ft) of commercial accommodation. The purpose of this report is to provide guidance on the reasonableness of assumptions proposed by the Applicant with regard to the viability of the proposed development of the property known as 154-158 Sydenham Road, London, SE26 (the "Property") and to ensure that the development is providing a fair proportion of affordable homes.

1.2 The advice provided in this report does not represent a Valuation in accordance with the RICS Valuation Global Standards 2017 (The Red Book), published by the Royal Institution of Chartered Surveyors, and should not be regarded as such. The advice provided herein must only be regarded as an indication of potential value, on the basis that all assumptions are satisfied.

1.3 Following the outcome of the EU referendum in June 2016, despite the immediate market reaction being less adverse than some commentators were anticipating, negotiations on the terms of the UK's exit and future trade agreement with the remaining Member States are on-going and we remain in a period of relative economic uncertainty. The short to medium term impact on the housing market and the commercial property market remains volatile, with domestic and international investors and home buyers likely to be deterred by an adverse outcome to negotiations. We would, therefore, recommend that particular attention is paid to the sensitivity analysis provided in section 6 of this report, considering both the impacts on future value growth as well as the potential for a downturn in property values over the duration of the proposed development.

Conflict of Interests

1.4 We confirm that in providing this advice to the Council there is no conflict of interest between Urban Delivery and the Applicant.

Information Provided

1.5 In undertaking this FVA review Urban Delivery has collected evidence from a number of third party sources. Urban Delivery cannot be held responsible for the accuracy of this data.

1.6 This report contains confidential information provided by the Applicant and the report must not be used by any person other than for whom it has been commissioned, without Urban Delivery's expressed permission. In any event, Urban Delivery accepts no liability for any costs, liabilities or losses as a result of the use of, or reliance upon, the contents of this report by any person other than the commissioner for planning purposes.

1.7 In undertaking the review of the Applicant's FVA, Urban Delivery has been provided with the following information:

a. A copy of the Applicant's viability report, prepared by Douglas Birt Consulting, dated October 2017. This includes a copy of the development appraisal for the proposed development.
b. A summary construction cost plan prepared by Cox Drew Neale LLP and dated 20th July 2017.
c. A valuation report for the existing Property prepared by Matthews and Goodman, dated 24th October 2017.

1.8 In addition to the above information that was supplied as part of the Applicant's viability report, we have downloaded planning application documents from the Council's website. These include:

d. Scheme drawings and elevations prepared by Stephen Davy Peter Smith Architects.
e. Proposed floor area schedule prepared by Stephen Davy Peter Smith Architects, dated July 2017.
f. Design and Access Statement prepared by Stephen Davy Peter Smith Architects, dated November 2017.
g. Planning Statement prepared by CMA Planning, dated November 2017.

2 PROJECT DETAILS

Location

2.1 The Property is located on Sydenham Road, east of Sydenham and Crystal Palace in south east London within the London Borough of Lewisham. Forrest Hill is located approximately 1.5km to the north of the site. The A212 Sydenham Road links with the A206 South Circular Road to the north and the A21 to the east and A23 to the west, providing direct links towards the wider arterial road and motorway network. Sydenham railway station is located within 650m to the west of the Property, providing regular services into central London.

2.2 The Property is situated in a mixed-use area albeit surrounded by residential buildings to the west and south, a haulage yard to the east and Sydenham Road itself to the north, along which is located a mix of commercial premises.

The Site

2.3 The Property comprises an area of land extending to 0.39 hectares (0.96 acres) and accommodates a 1930's two storey office building towards the northwest of the site, along the main entrance on to Sydenham Road and two storage sheds to the south. We understand that the Property was most recently occupied by O'Rourke Construction and was used as a builder's yard and depot.

2.4 We have only inspected the Property from the road and have not undertaken an internal inspection or carried out a measured survey. We are therefore reliant on the accuracy of the information provided by the Applicant and its advisers.

Development Overview

2.5 The Applicant proposes the development of a mixed-use scheme to accommodate 155 sqm (1,668 sq ft) of commercial space over ground and part first floor with 17 new apartments, two maisonettes and 10 houses within two principal blocks extending up to a total of three storeys in height. The residential accommodation is reported to total 2,585.8 sqm (27,833 sq ft) of Net Sales Area.

2.6 The development will provide the following residential units:

Unit Type	Private	Social Rented	Shared Ownership
1 Bedroom Flat	4	0	1
2 Bedroom Flat	8	2	3
3 Bed Flat	0	1	0
3 Bed House	10	0	0
Total	**22**	**3**	**4**

2.7 We understand that the development will include 14 off-street car parking spaces of which four will be for disabled car parking.

2.8 The development proposal indicates that seven dwellings will be provided as affordable homes adopting a tenure split of 43% social rented and 57% shared ownership. This reflects a level of 24% affordable housing in terms of total dwellings and just under 22% by habitable room.

Planning

2.9 In April 2016 the Applicant submitted a planning application seeking planning permission for the following development:

> *"DC/16/096301 | The construction of a part 2/ part 3 storey with basement building (Block 1) providing 18, one, two and three bedroom self-contained residential flats and 155 sq.m ground and first floor commercial floorspace (use classes A1, A2, B1, D1 and/or D2), and a part 2/ part 3-storey terrace (Block 2) comprising 10, three bedroom single dwelling-houses, 1, one bedroom self-contained flat and 1, two bedroom self-contained maisonette, together with the provision of upper floor balconies, associated landscaping, PV Panels, 14 parking bays (including 4 disabled spaces) and 68 secure cycle spaces at 154-158 Sydenham Road SE26".*

2.10 This application was refused, and whilst this decision was appealed by the Applicant, the decision was upheld. The reasons for refusal included the height of the building fronting Sydenham Road and the proximity to existing dwellings on Hillmore Grove.

2.11 The Applicant has revised its proposals to take into consideration these reasons for refusal and has now submitted a revised application for:

> *"Construction of 29 residential units and a commercial unit arranged in two blocks, one containing the 155 sqm commercial unit (use classes A1, A2, B1, D1 and/or D2) and 17 flats, the other a row of 10 terraced houses and two maisonettes, together with access, parking and associated works".*

2.12 Current LB Lewisham planning policy requires 50% of all proposed dwellings to be provided as affordable housing unless it can be demonstrated through viability that a lower provision is appropriate. In exceptional circumstances, it is possible for the applicant to offer a payment in lieu of on-site affordable homes. In either circumstance an assessment must demonstrate that the maximum level of affordable housing has been secured or that an equivalent sum is paid to provide the equivalent number of affordable homes off-site.

2.13 In August 2017, the Mayor of London issued Supplementary Planning Guidance on affordable housing and viability assessments, stating that where a minimum of 35% affordable housing is provided on-site and meets the specified tenure mix, without access to public subsidy, the need for an FVA can be omitted in an attempt to speed up the planning process. With only 24% affordable housing proposed, a detailed viability review remains a requirement in the determination of this planning application.

Section 106 and CIL Proposals

2.14 The Applicant has allowed for Borough CIL and Mayoral CIL totalling a contribution of £202,602.

2.15 We have been advised by the Council's CIL Officer that the CIL liability will be as follows:

- Mayoral CIL: £62,040.54
- LB Lewisham CIL: £108,429.29

TOTAL LBL CIL & MCIL COST: £170,469.83

2.16 In addition, an allowance has been made for S106 contributions totalling £61,500 for loss of employment space.

2.17 We would recommend that these S106 and CIL figures are confirmed by the Council, with particular attention given to required indexation of the CIL liability since charging schedules were adopted. Should additional CIL or S106 contributions be required this will impact on the viability of the development and could affect the Applicant's ability to deliver the proposed scheme.

3 APPROACH TO VIABILITY APPRAISAL

Limitation of residual development appraisals

3.1 We have prepared a series of development appraisals using the industry standard Argus Developer software to appraise the project viability. Please note the following;

- Development appraisals are highly sensitive to their inputs (i.e. small changes in inputs can lead to a marked change in outputs).

- Development appraisals are required to assess viability as at today's date, which is reinforced in the RICS Financial Viability in Planning guidance note. They are permitted to factor in historic costs and also potential future market and cost inflation. However, this all needs to be considered as at today's date.

Approach to Appraisal

3.2 In undertaking a viability assessment for planning purposes Urban Delivery gives full consideration of the RICS Guidance Note 94/2012 (GN94) – Financial Viability in Planning. GN94 provides an objective methodology framework to support Affordable Housing viability assessment. The GN94 highlights that it is grounded in the statutory and regulatory planning regime that currently operates in England. It is consistent with the Localism Act 2011, the NPPF and Community Infrastructure Levy (CIL) Regulations 2010 (as Amended). GN94 concludes that the fundamental issue in considering viability assessments in a town planning context is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements.

3.3 GN94 defines financial viability for planning purposes as follows:

> *"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project".*

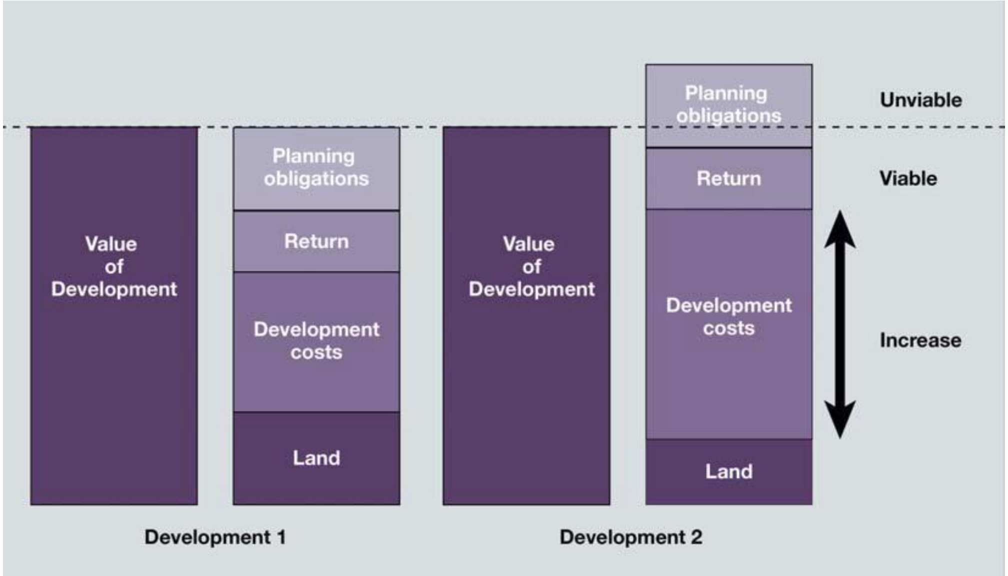
3.4 GN94 proposes the use of a residual appraisal methodology for financial viability testing and that such a methodology is normally used, where either the level of return or site value can be an input and the consequential output (either a residual land value or return respectively) can be compared to a benchmark having regard to the market in order to assess the impact of planning obligations or policy implications on viability. GN94 defines site value as follows:

> *"Site Value should equate to the market value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan".*

3.5 It is accepted however that any assessment of site value will have regard to potential planning obligations, and the purpose of the viability appraisal is to assess the extent of these obligations while also having regard to the prevailing property market.

3.6 This principle is demonstrated by the diagram found in GN94 and replicated in fig.3.1 below. The costs and necessary returns of Development 1 are such that policy can be met in delivering all planning obligations while meeting a site value for the land, all other development costs and a market risk adjusted return. In contrast, Development 2 indicates that an increase in costs results in an inability of that development to absorb the original planning obligations and is therefore unviable. A financial viability assessment would be required to ascertain what could viably be delivered in the way of planning obligations while ensuring that the proposed development was viable and deliverable.

Fig.3.1: Demonstration of viability



Source: RICS Guidance Note 94/2012.

3.7 While Urban Delivery accepts the RICS definition of Market Value as an appropriate basis to assess site value, we are aware of growing concern among Local Planning Authorities of the miss-use of this approach and a failure to account for appropriate planning obligations in the determination of development land values.

3.8 The NPPF acknowledges that 'willing sellers' of land should receive 'competitive returns'. Competitive returns can, in theory, only be achieved in a market context (i.e. Market Value).

3.9 It is noted that as of August 2017, the Mayor of London has adopted its Affordable Housing and Viability SPG which sets out the preferred method of Benchmark Land Value assessment. The Mayor considers that the EUV+ approach is usually the most appropriate approach for planning purposes.

3.10 Where the existing site or property is undeveloped or in a condition unsuitable for use or occupation, an alternative approach could be to consider the Alternative Use Value (AUV). This methodology seeks to identify an alternative use or development that could be permitted on the site, in line with planning policy. The cost of constructing this hypothetical development must be considered and deducted from the potential development value in order to generate a Residual Land Value (RLV). This RLV can then be suggested as the Benchmark Land Value.

3.11 This viability assessment has been undertaken in accordance with the LB Lewisham's Supplementary Planning Document (SPD) on Planning Obligations, adopted on the 25th February 2015. This includes guidance on financial viability assessments (paragraphs 4.31 to 4.38). In respect of land value, the SPD notes that the analysis should be based on land values as set by the application of planning policy in determining the permissible scope of development rather than the price actually paid for the land.

3.12 The site value adopted in this viability assessment is based on Existing Use Value+, in respect to its current state as an office, in poor state of repair, and storage yard.

3.13 In determining the EUV+, Urban Delivery will have regard to transactional evidence for similar properties in the local vicinity, or further afield were appropriate and justified.

Residual Development Appraisal Assumptions

3.14 Our residual development appraisal has been prepared using Argus Developer, a recognised industry standard package that models individual development schemes and development phases. The model is based on costs and values adopted by the appraiser and can then be applied to a bespoke timeframe with assumptions on cost breakdown throughout the life of the project. This assumption on costs, revenues and the timing of such is then used to calculate finance costs.

3.15 In our residual development appraisal we have adopted our own assumptions on the amount and timing of income and expenditure, explaining why these differ from the Applicant's assumptions, if applicable. As part of our review we have examined all assumptions and formed our own independent view on whether these assumptions are applicable in the current market conditions.

3.16 We have appraised the development scheme as a single phase. We provide a copy of this appraisal in Appendix 2 and set out the revenue and cost assumptions adopted.

4 MARKET ANALYSIS

Local Property Market

4.1 We have undertaken a review of the local property market to identify a range of comparable evidence relating to sales, rental values and investment yields for office properties as well as new build residential unit sales.

Benchmark Land Value Review

4.2 The existing Property comprises a two storey office premisis in poor state of repair and storage yard. In order to review the existing use value for the Property we have investigated transactional evidence from around the local vicinity to ascertain reasonably achievable investment values for the Property, on the assumption it was to continue to be used in its current status.

4.3 The Applicant has valued the existing Property at £1,400,000. This assumes the existing office will be demolished and the site used for open storage. Estimated renovation costs to restore the office building were considered to be non-viable. While it is typical to incentivise a landowner to release the site for development by including a premium to the EUV, it is noted that the Applicant has not added any premium at this stage.

Storage Land

4.4 *R/O 151 Woolwich Road, Westminster Industrial Estate, London, SE7 8LJ*: this surfaced and secure yard with ancillary storage, is located approximately 5.5 km to the north east from the Property and is situated adjacent to Windrush primary school and a mix of other residential blocks. The yard area is approximately 0.14 ha (0.35 acres). The asking rent is £120,000 per annum, reflecting a rent of £86 per sqm (£8 per ft).

4.5 *Storage yard, 33-37 The Oval, Hackney Road, London, E2 9DT*: this storage yard is being marketed to let on a short term basis up to 3 years. The yard is situated in an established industrial/commercial area in east London just to the north of Hackney Road (A1208), approximately 6.4 km to the north of the Property. The site is 528.9 sq m (5,694 sq ft) and the asking rent is £15,500 pa and reflects the rate of £29.30 per sqm (£2.70 per sq ft).

4.6 *St Leonards Wharf, Ailsa Street, E14 0LE*: this storage yard is located in the London Docklands area, approximately 5km to the north east of the Property. The site is currently being marketed and is available to rent for a term of up to two years. The site is accessed via Lochnagar and is located opposite Leven Road, a residential area similar to the subject Property. The site extends to 0.46 ha (1.14 acres) with an asking rent equivalent to £16 per sqm (£1.50 per sq ft).

4.7 *Riverside Open Storage Site, Dock Road, Silvertown, London, E16*: this storage site is located on the south side of Dock Road in East London, approximately 4.7km north east from the subject Property. The site extends to approximately 0.32 ha (0.8 acres) and is currently available for rent at £90,000 per annum reflecting £28 per sqm (£2.58 sq ft).

4.8 Given the limited supply of similar storage sites in south east London and the limited availability of completed transactions of similar sites in other outer London boroughs, we have formed a view on the achievable rental value for the Property if used solely as a storage yard. Based on the wider evidence available, we are of the opinion that the subject Property could achieve a rental value equivalent to £32 per sqm (£2.75 per sq ft) per annum. Based on the cleared site area of 3,900 sqm (41,980 sq ft) this would reflect a rental value of circa £115,500 per annum.

Investment Yields

4.9 In terms of applicable investment yields there has been little comparable evidence available in the area. A broader market view has therefore been adopted based on perceived demand and lack of availability of similar sites. On this basis, we are of the opinion that an investor would seek a yield equivalent to 6% to 8%.

4.10 Based on this review of the EUV for the Property, we would therefore estimate the EUV could be in the order of £1,370,000 to £1,820,000 net of purchaser's costs. On this basis, it would appear the Applicant's assessment of £1,400,000 is reasonable.

Residential Sales

4.8 We have undertaken an independent investigation into private residential sale values in the vicinity of the proposed development, as set out in the tables below.

351-355 Sydenham Road, SE26

4.9 This development comprises nine 1 and 2 bedroom apartments over four storeys. The development is located approximately 0.5km to the east of the subject Property on Sydenham Road and is therefore considered to be a good comparable to for the proposed apartments. It is our understanding that foue units have so far been reserved and five remain available. We set out below information on the units and pricing.

351-355 Sydenham Road, SE26						
Unit/Type	**No Beds**	**Area (sq m)**	**Area (sq ft)**	**Asking Price**	**£psf**	**Sold Date**
Flat 1	2	66	710	£395,000	£556	OTM
Flat 2	2	70	753	N/A	N/A	Reserved
Flat 3	1	63	678	£345,000	£509	OTM
Flat 4	2	72	775	N/A	N/A	Reserved
Flat 5	2	74	797	£399,950	£502	OTM
Flat 6	2	71	764	£425,000	£556	OTM
Flat 7	2	74	797	N/A	N/A	Reserved
Flat 8	2	61	657	£365,000	£556	OTM
Flat 9	2	61	657	N/A	N/A	Reserved
Average					**£535**	

4.10 While the agent was unable to provide information for all the units reserved, the pricing for the remaining units indicates an average sales value of £5,760 per sqm (£535 per sq ft) with unit pricing ranging from £345,000 to £425,000. We would anticipate the proposed development could achieve a slightly better value on the basis that it will be set within a more comprehensive scheme with better landscaping.

Zanara Court, Sydenham Road, SE26

4.12 This scheme comprises a total of 19 apartments with a mix of one, two and three bedroom units, of which two are provided as intermediate rent affordable homes. The development is under construction and marketing of the final release of apartments is due in March 2018. Details of selected units are included in the table below.

Zanara Court, Sydenham Road, SE26							
Unit/Type	Floor	No Beds	Area (sq m)	Area (sq ft)	Asking Price	£psf	Sold Date
Flat 1	Grd	1	55	592	£385,000	£650	Reserved
Flat 2	Grd	2	64	689	£450,000	£653	OTM
Flat 3	Grd	3	88	947	£610,000	£644	OTM
Flat 5	1st	1	55	592	£385,000	£650	Reserved
Flat 6	1st	1	56	603	£400,000	£663	OTM
Flat 8 (Duplex)	2nd/3rd	2	94	1012	£625,000	£618	OTM
Flat 10	2nd	2	64	689	£465,000	£675	Reserved
Flat 11	2nd	1	56	603	£410,000	£680	OTM
Flat 15 (Duplex)	Grd/1st	3	90	969	£625,000	£645	Reserved
Flat 19	2nd	1	50	538	£395,000	£734	OTM
Average						**£657**	

4.13 This development is located on Sydenham Road, closer to Sydenham station, approximately 0.5km west along Sydenham Road from the subject Property. While the one bedroom units are generally slightly larger, the two bedroom units are smaller than proposed within the proposed scheme and could be responsible for skewing the overall value per sqm (£/sq ft). We attribute the higher value generally to its situation closer to the railway station and provision of communal gardens.

<u>Barclay Court, Venner Road, SE26</u>

4.14 Barclay Court was a development of four one and two bedroom contemporary apartments located approximately 0.7km to the west of the subject Property. The units are described as being completed to a luxury finish. Since the release of these units in July 2016 a £75,000 reduction has been made on the available units. The unit sizes within this development are considerably smaller than within the proposed development therefore the £/sqm (£/sq ft) will be higher at Barclay Court. Current prices are set out in the table below:

Barclay Court, Venner Road, SE26							
Unit/Type	Floor	No Beds	Area (sq m)	Area (sq ft)	Price	£psf	Sold Date
Flat 1	Grd	1	39	424	£290,000	£684	OTM
Flat 2	Grd	1	35	374	£290,000	£775	OTM
Flat 3	1st	2	53	570	£390,000	£684	OTM
Flat 4	2nd	2	53	570	£390,000	£684	OTM
Average				**1938**		**£702**	

4.15 We understand that Venner Road is a quiet residential location and this is reflected in the asking prices. As can be seen, the one bed unit is priced at £290,000 while the two bed units are priced at £390,000. However, we are aware these units have been on the market for a considerable period of time and have not yet sold. We would consider these units to be over priced for the size of accommodation provided.

Dylon Works, Station Approach, SE26 5HD

4.16 Dylon Works is a large development currently under construction by Crest Nicholson and is located approximately 0.9 km southeast of the subject property on Worsley Bridge Road. The development comprises of 223 one, two and three bedroom units

4.17 The prices achieved so far at this development are higher than we would expect to be achieved at the proposed development due to its location, proximity to Lower Sydenham station, the scale of development creating a greater sense of place with landscaped gardens and set back from the main arterial highways. Additionally, the 'Help to Buy' scheme is also supporting buyers with the availability of a 20% equity loan that has helped improve affordability over the initial five year period of ownership. The developer is also understood to provide car parking included within the unit price and offers to pay the buyers stamp duty. Discussion with the marketing agent has indicated that listed asking prices are achieved as agreed sale prices. Therefore, the average sale value of £631 per sq ft, as evidenced in the table below, should be regarded as a gross sales value with a deduction for incentives reducing this figure slightly.

Dylon Works, Worsley Bridge road								
Unit Ref	**Beds**	**Floor Level**	**Description**	**Area (Sq m)**	**Area (Sq ft)**	**Prie**	**£ sq ft**	**Sold Date**
C070	2	G	patio	75	804	£514,995	£641	N/A
C075	3	1	balcony	109	1175	£599,995	£511	N.A
C077	1	1	balcony	53	572	£394,995	£691	Nov-16
C082	3	2	balcony	109	1175	£599,995	£511	N/A
C083	1	2	balcony	53	572	£399,995	£699	Feb-17
C084	1	2	balcony	53	572	£399,995	£699	Feb-17
C085	1	2	balcony	53	572	£399,995	£699	Apr-17
C088	2	3	balcony	82	885	£534,995	£605	Jun-17
C094	2	3	balcony	93	1004	£549,995	£548	N/A
C095	1	4	balcony	52	560	£429,995	£768	Apr-17
C098	1	4	balcony	49	532	£394,995	£742	N/A
E118	1	1	balcony	52	557	£379,995	£682	N/A
E122	1	2	balcony	55	589	£402,500	£683	N/A
E124	2	2	balcony	63	679	£502,995	£741	N/A
E135	1	3	balcony	52	557	£389,995	£700	N/A
F148	1	G	patio	51	546	£389,995	£714	N/A
F166	1	G	patio	51	546	£395,000	£723	N/A
C071	3	G	patio	109	1175	£599,995	£511	N/A
C072	1	G		52	557	£384,995	£691	Apr-17
C073	1	G	patio	52	557	£379,995	£682	N/A
C074	2	1	balcony	82	885	£524,995	£593	Jun-17
C076	1	1	balcony	53	571	£394,995	£692	Feb-17
C078	1	1	balcony	53	572	£394,995	£691	Apr-17
C079	2	1	balcony	88	949	£529,995	£558	N/A
C081	2	2	balcony	82	885	£529,995	£599	Nov-16
C086	2	2	balcony	88	949	£529,995	£558	N/A
C087	2	2	balcony	93	1004	£534,995	£533	N/A
C093	2	2	balcony	88	949	£534,995	£564	N/A
C097	2	4	balcony	70	753	£534,995	£710	Apr-17
C099	2	4	balcony	70	755	£529,995	£702	N/A
D102	2	1	balcony	73	790	£519,995	£658	Feb-17
D103	3	1	balcony	107	1147	£599,995	£523	Jun-17
D104	3	2	balcony	107	1147	£599,995	£523	Apr-17
D108	2	3	balcony	73	790	£529,995	£671	Feb-17
D110	1	4	terrace	52	562	£419,995	£747	Apr-17
D113	1	4	terrace	52	562	£419,995	£747	Jun-17
E115	2	1	balcony	80	860	£524,995	£610	N/A
E119	1	1	balcony	52	557	£379,995	£682	N/A
E120	2	1	balcony	89	956	£524,995	£549	N/A
E125	2	2	balcony	69	743	£502,995	£677	N/A
E126	1	2	balcony	52	557	£384,995	£691	N/A
E127	1	2	balcony	52	557	£384,995	£691	Jun-17
E134	1	3	balcony	52	557	£389,995	£700	N/A
E138	2	4	balcony	70	754	£539,995	£716	N/A
E140	2	4	balcony	77	824	£534,995	£649	N/A
E141	1	4	balcony	51	549	£414,995	£756	N/A
E142	3	4	balcony	86	926	£599,995	£648	N/A
E143	1	4	balcony	50	533	£419,995	£788	N/A
F144	3	G	patio	114	1231	£599,995	£487	N/A
F154	1	1	balcony	51	546	£392,500	£719	N/A
F160	1	2	balcony	51	546	£395,000	£723	N/A
Average							**£631**	

Houses

4.18 We have sought to identify a number of new-build houses in the locality in order to estimate the level of pricing that the proposed three bedroom houses could achieve.

Buckley Mews, Forest Hill, SE23

4.19 Buckley Mews comprises a development of eight contemporary town houses set in a small close on the Forest Hill/East Dulwich borders. These new homes are described as offering good sized family accommodation and built to a high specification. All three bedroom homes come with en suite to the master bedroom, fully fitted kitchen/diner and integral garages. Details of a selection of houses are set out below:

3 Bedroom New Build Houses							
Address	**Description**	**No Beds**	**Area sq m**	**Area sq ft**	**Price**	**£psf**	**Status**
Plot 12, Buckley Mews, Forest Hill, SE23	An end of terrace townhouse with garden	3	143.3	1542	£ 687,000	£ 446	OTM
Plot 13, Buckley Mews, Forest Hill, SE23	A terrace townhouse with garden	3	147.4	1587	£ 675,950	£ 426	OTM
Plot 14, Buckley Mews, Forest Hill, SE23	A terrace townhouse with garden	3	147.4	1587	£ 675,950	£ 426	OTM
Plot 15, Buckley Mews, Forest Hill, SE23	A terrace townhouse with garden	3	147.4	1587	£ 672,500	£ 424	OTM
Average						**£ 430**	

4.20 These houses are larger than those proposed within the subject development and offer garages and garden space. Unit pricing ranges from 672,500 to £687,000 with the average value reflecting £ per sqm (£430 per sq ft). While this development is located approximately 2.6km to the north of Sydenham, we are of the opinion these present a good comparable.

Broca Court, Brockley Road, SE4

4.21 Broca Court on Brockley Road is located approximately 3km to the north of the subject Property in Crofton Park. The development comprises of seven apartments and two 3 bedroom houses. Details of a selection of houses are set out below:

3 Bedroom New Build Houses							
Address	Description	No Beds	Area sq m	Area sq ft	Price	£psf	Status
House 1, Broca Court, Brockley Road, SE4	An end of terrace townhouse with terrace/gargen	3	116.7	1256	£695,000	£ 553	OTM
House 2, Broca Court, Brockley Road, SE4	A terrace townhouse with terrace/garden	3	117.8	1268	£695,000	£ 548	OTM
Average						£ 551	

4.22 These two houses are similar in size to those proposed at the subject Property. The quoting price is in the region of £695,000 which indicates the average value is £5,930 per sqm (£551 per sq ft). The location of these houses and the limited number of units available could have the effect of increasing value and on this basis we are of the opinion the pricing is toward the upper end of any range that could be achieved within the subject development.

4.23 While new-build stock is relatively limited, the evidence available would suggest that three bedroom houses in this location could be expected to achieve prices of between £650,000 and £695,000.

Summary

4.24 As can be identified from the evidence above, the range of asking prices and sales values for individual new-build units within schemes in the vicinity of the subject Property can vary significantly from £290,000 to £410,000 for one bedroom apartments, £365,000 to £465,000 for standard two bedroom apartments and £600,000 to £625,000 for three bedroom apartments with three bedroom houses achieving between £650,000 and £695,000. We would comment that some of the comparables, particularly for the houses, are located in preferential locations in more established residential areas away from adjoining commercial sites. As such, we are of the view that the prices likely to be achieved for certain units within the proposed development may be sold at a discount to those indicated above.

4.25 With regard to estimating the achievable average sales value for the private sale units, it would not be appropriate in the current market to suggest a fixed unit pricing for one and two bedroom units but instead we suggest a range for each type as set out below:

- 1 Bed Flat @ £325,000 to £380,000
- 2 Bed Flat @ £465,000 to £515,000
- 3 Bed House @ £650,000 to £655,000

4.26 Applying this range of unit pricing to the private apartments within the proposed development scheme generates a revenue of £5,290,000 which reflects an average sales value of circa £6,114 per sq m (£568 per sq ft). The value attributed to the 10 houses of £6,505,000 equates to circa £5,565 per sq m (£517 per sq ft). The overall average is calculated to be in the order of £5,800 per sqm (£539 per sq ft).

Affordable Housing Values

4.27 While the value a Registered Provider may attribute to the affordable housing may be based on the Local Housing Allowance rates, we understand from the Applicant that the rented units are based on the GLA standard Affordable Rent, which is the equivalent to a Social Rent. These are currently as stated below with the LHA rates in brackets:

- 1 bed @ £153.05 per week (LHA = £204.08 per week)
- 2 bed @ £162.03 per week (LHA = £265.29 per week)
- 3 bed @ £171.04 per week (LHA = £330.72 per week)

4.28 These values have been adopted to test the value that could be attributed to on-site affordable homes and therefore their impact on viability and the total number and mix of tenures that could be provided by the Applicant.

4.29 In assessing the potential value attributable to the rented units we have taken into account the government's requirement for Registered Providers to reduce social rents by 1% per annum up until 2020. We have concluded that a Registered Provider may typically adopt a blended rate for the two and three bedroom units of £1,313 per sqm (£122 per sq ft). The Applicant's adopted rate is stated to be £1,377 per sqm (£128 per sq ft). Where LHA rates are applied, the value is estimated to be in the order of £1,808 per sqm (£168 per sq ft).

4.30 With regard to shared ownership units we have adopted market values and made an assumption on the initial sale of equity to the purchaser. This is assumed to be

25%. The rental payments on the interest retained by a Registered Provider are then calculated based on a maximum of 2.75% of the outstanding value per annum. We have adjusted these rental figures to comply with maximum thresholds and affordability levels adopted by the Council.

4.31 This approach indicates a blended value for the one and two bedroom units at £3,627 per sqm (£337 per sq ft). The Applicant's adopted rate is stated to be £3,724 per sqm (£346 per sq ft).

Commercial Values

4.32 The Applicant proposes to provide 155 sq m (1,668 sq ft) (NIA) of B1 commercial accommodation.

4.33 *280 Kirkdale, Sydenham, SE26:* In November 2016, Acorn Estate Agents leased 155 sqm (1,668 sq ft) of ground floor office accommodation for a term of 15 years for a rent of £30,000. This reflects a rental rate of £193 per sq m (£18 per sq ft). However, while described as office accommodation, this premises is being used as an estate agent office and could potentially be regarded as a retail unit, with frontage on to a busy thoroughfare opposite Sydenham railway station.

4.34 This building was also sold at auction in December 2016, achieving a price of £425,000. A review of the auction particulars from this sale indicates the sale was for the office/retail element only and did not include any ground rent investments for the apartments on the upper floors. The sale price reflects a yield of c.7.00%.

4.35 *Unit 1, Metro Business Centre, Kangley Bridge, Road, SE26 5BW:* In December 2015, 206 sqm (2,221 sq ft) of business space was let for a term of 10 years for a rent of £18,000. This reflects a rental rate of £87 per sqm (£8 per sq ft). However, this premises includes an element of warehousing accommodation which would achieve a lower rental value. The agreed rent represents a discount to the asking rent which was £19,000 pa.

4.36 *Brook Court, Blakeney Road, Beckenham, BR3 1HG:* In June 2017, 247 sqm (2,656 sq ft) of B1b business space was let for a term of 5 years for a rent of £40,000, reflecting a rental rate of £161 per sqm (£15 per sq ft). The agreed rent represents a discount to the asking rent which was £43,500 pa.

4.37 *15 Davids Road, Forest Hill, SE23:* Further to the north of the subject Property, closer to Forest Hill, 144 sqm (1,545 sq ft) of B1 office space was let for a term of 5 years commencing April 2016, for a rent of £25,000, reflecting a rental rate of £172 per sqm (£16 per sq ft).

4.38 *Broomsleigh Business Park, Sydenham, SE26:* This second-hand office premises, close to Lower Sydenham Station, was sold in December 2014 for a price of £175,000. This long leasehold sale reflects a capital value of £1,883 per sq m (£175 per sq ft). Assuming a hypothetical rental range of £161 to £193 per sqm (£15 and £18 per sq ft), the investment yield could be in the order of 8.50% to 10.00%.

4.39 Based on the limited evidence available from comparable commercial transactions, we would expect the proposed commercial accommodation to achieve rental values in the order of £161 to £193 per sqm (£15 to £18 per sq ft) in this location depending on specification and level of landlord incentives to attract a tenant.

4.40 With regard to investment yield, for a new premises, we would expect an investor to seek a return equivalent to 6.50% to 7.50% if let to a good covenant. However, on the basis the premises is vacant a yield in the region of 8.00% to 8.50% could be reasonable.

5 VIABILITY ASSESSMENT

Land Value

5.1 The Applicant's FVA allows for a Benchmark Land Value of £1,400,000, based on an estimate of Existing Use Value. This figure is based on the Site being let as a storage yard rather than the existing office premises being restored and re-let. It is noted that a premium to incentivise a landowner to sell the land has not been included. Additionally, we understand that the actual purchase price is £2,680,000 inclusive of any overage payments.

5.2 Based on the evidence and comment set out in section 4, we are in broad agreement with the Applicant's assumptions. For the purpose of this FVA review, a rental value of £115,500 pa and a yield of 8% has been adopted.

Current Use Value
154-158 Sydenham Road, SE26

Site Area		41,980	sq ft		
Rent / Sq ft	£	2.75	per sq ft		
Rent	**£**	**115,445**	**Per Annum**		
Reversion					
Total Rent	£	115,445			
YP in Perp @ 8.00%		12.5000			
Gross Value			£ 1,443,063		
Gross EUV					£ 1,443,063
Less: purchasers costs @ 5.8%					£ 1,363,953
				Say:	**£ 1,365,000**
				10% Premium	£ 1,501,500
				20% Premium	£ 1,638,000
				30% Premium	£ 1,774,500
				40% Premium	£ 1,911,000

5.3 On the basis that our calculation of the EUV is in the order of £1,365,000 net of any premium, it would appear the Applicant's adopted BLV of £1,400,000 is within an acceptable range of values. A premium of only 10% would increase the BLV to over £1,500,000.

5.4 For the purpose of this FVA review we have therefore adopted a BLV of £1,400,000 to determine the financial viability of the proposed development and to calculate a reasonable proportion of affordable housing.

Appraisal Inputs

Residential Revenue

5.5 Based on the range of evidence of recent residential sales in the local vicinity, we are of the opinion that for the purpose of this viability assessment it would not be appropriate to adopt a strict value per sqm (or sq ft). As such, we have given consideration to the potential unit pricing for one, two and three bedroom units in this location, at the current time.

5.6 In consideration of this sales evidence for new-build homes in the local vicinity, we have applied an average sale price for the different unit types, as set out in paragraph 4.25 above. This generates a total capital receipt of £11,795,000 for the private sale units which reflects an average value of £6,114 per sqm (£568 per sq ft) for the apartments and £5,554 per sqm (£516 per sq ft) for the houses. The blended value is in the order of £5,800 per sqm (£539 per sq ft) which marginally exceeds the Applicant's suggested private sales value of £5,790 per sqm (£538 per sq ft).

5.7 With regard to the affordable housing, we understand that the Applicant, a Registered Provider itself, has indicated a value of £1,394,000 for the three rented units and four shared ownership units. Based on the units it has identified for the respective tenures, the values break back to £1,377 per sqm (£128 per sq ft) for the rented units and £3,724 per sqm (£346 per sq ft) for the shared ownership units.

5.8 Our analysis and calculations suggest that the figures adopted by the Applicant are within an acceptable range where the rented units are to be provided at Social Rent levels rather than based on the maximum LHA rates.

Ground Rent Revenue

5.9 Within the Applicant's FVA report, it has applied ground rent of £400 per unit to 22 dwellings at a yield of 5.0%, generating a value of £176,000. However, discounting the 10 houses and the proposed seven affordable homes, there would be only 12 apartments paying ground rent. We have therefore applied a ground rent of £400 per annum for the 12 private sale apartments and applied a yield of 5.0% to arrive at the capital value of £96,000.

Commercial Revenue

5.10 The Applicant has applied a rental value to the commercial accommodation of £161 per sqm (£15 per sq ft) and an investment yield of 8.00%. Our own review of the commercial property market has identified that there is limited evidence of leasing transactions, although those that have been reported suggest that rents are typically within the range suggested by the Applicant. For the purpose of this FVA review we have adopted values of £161 per sqm (£15 per sq ft) and an investment yield of 8.00%. Should a tenant be identified for this unit prior to sale however there may be potential for the yield to contract and the value to increase.

Grant Funds

5.11 The FVA that we reviewed for this Site previously in July 2016, included housing grant of £360,000. However, we are advised that this funding has now been lost due to the delay in developing the Site. As such, no housing grant has been included in the appraisals.

Cost Advice

5.12 In order to check the Applicant's cost assumptions we have taken advice from Trident Building Consultancy. Trident has reviewed the Applicant's cost summary, prepared by Cox Drew Neale (dated July 2017), and analysed the broad inputs that make up the total construction costs.

5.13 In summary, the Cox Drew Neale cost plan was considered to contain certain cost rates that were higher than expected. This included allowances for site remediation and the build costs for the houses. Trident has recommended that the construction cost would be in the order of £7,415,000, net of a developer contingency. We provide a copy of the Trident cost review summary at Appendix 1.

Developer Contingency

5.14 We understand that a contingency has been applied to the Cox Drew Neale cost plan at a rate of 5% of build costs. This contingency is anticipated to cover unforeseen delays and added costs incurred throughout the construction phase. In view of this we have not included any additional developer contingency within our appraisals.

S106 and CIL Contributions

5.15 We have applied the overall Borough CIL and Mayoral CIL contributions to our appraisal as set out in paragraph 2.15. These total c.£170,470. These calculations are understood to be based on the appropriate CIL contributions that would be due for the proposed development net of existing built accommodation with relief applied to the affordable housing element. We would recommend that the Council check these figures are accurate based on the agreed floor areas and any indexation to be applied to the agreed CIL charge rates.

Professional Fees

5.16 The Applicant has adopted an average cost for professional fees reflecting 10% of construction costs. For a new scheme, depending on scale and complexity, we would ordinarily allow for fees in the order of 10% to 12% of build costs. On the basis that this proposed development is relatively non-complex, we have adopted a rate of 10% within our own appraisal.

Marketing Costs

5.17 The Applicant has applied marketing costs of 3.00% of private residential sales values, inclusive of sale agency fees. An additional £48,000 for the marketing and disposal of the shared ownership units, which reflects £12,000 per dwelling.

5.18 We are aware that different developers attribute different marketing rates and that such rates typically range from a relatively notional rate up to circa 3.5%. These costs would usually be expected to cover the preparation of a show apartment, production of brochures and website, running the marketing suite and paying marketing staff salaries and/or commission to achieve sales. We are of the opinion that this marketing rate is acceptable and have adopted the same rate within our own appraisal. However, we are of the opinion that the £48,000 to market the shared ownership units is high and have raised this with the Applicant. We are advised this is the fee that it will have to pay an estate agent to sell these units although have been provided with no evidence. For the purpose of this FVA review we have reduced this cost by 50% to £24,000.

5.19 With regard to the commercial space, we have excluded this element from the 3% marketing cost within our own appraisal and assumed a letting and legal fee equivalent to 15% of the annual rental value. We have included a sales agency fee and legal sales fee of 1% and 0.50% respectively of the capital value. Purchaser's costs of 4.8% have been included to cover an investors acquisition costs and SDLT.

Development Programme

5.20 The Applicant states in its viability report that it has adopted a construction period of two years. In order to prepare our own appraisal we have applied a similar development period, allowing for a pre-construction phase of three months, a construction period of 18 months and a sales period of three months post practical completion to allow for all the private dwellings and the commercial premises to be sold.

Finance Costs

5.21 The Applicant has adopted a finance rate of 7.00% on the residential land uses and commercial build costs. We note that there is no separate fee for arrangement costs or loan exit fees which typically range from 1% to 2% of the funds borrowed.

5.22 It should also be borne in mind however that in practice, in order to limit loan to value ratios to no more than 60% to 70%, a proportion of the development funds will be drawn from internal reserves which can attract a higher 'cost of money' where opportunity costs require an internal rate of return in excess of finance rates offered by financial institutions. As such, for the purpose of this viability assessment the Applicant's adopted rate appears reasonable.

Developer Profit

5.23 Within the Applicant's viability assessment it is stated that the Applicant's target rate of return on private dwellings and the commercial uses would be 20% profit on Gross Development Value. This is the level of return we would typically expect a developer to seek for a scheme with regard to the private sale units, while a profit of 6% would be applied to the affordable homes. In arriving at our opinion on viability, we have therefore based our target return on a profit rate that reflects 20% on private sales and the commercial use and 6% on the affordable homes.

5.24 The Mayoral SPG on Affordable Housing and Viability 2017, makes it clear that applicants should provide evidence and justification for the proposed profit rates adopted within the FVA. While no evidence has been provided on any discussions with lenders as to their actual requirements with regard to finance rates or profit expectations, we would acknowledge that the lending market is currently demonstrating greater caution in view of slowing growth expectations. However, once certain planning issues can be resolved and if any pre-sales can be agreed prior to commencement of development, it may be justifiable to reduce profit expectations in line with a reduced risk profile.

5.25 We have also had regard to past appeal cases where the Planning Inspectorate has passed judgement on the acceptability of certain profit levels within viability assessments. One particularly prominent case being The University of Reading Vs Wokingham BC in which the Inspector accepted a developer return of 20% profit on GDV.

5.26 We would also note that with continuing uncertainty on the impact of the UK's departure from the EU and uncertainty continuing over the short to medium-term performance of the London housing market, there is greater risk perceived in the lending market which has seen development funding increase in cost over the past 12 months. As such, lenders are potentially likely to require developers to provide a greater 'buffer' to repay loans and this could reinforce the requirement for a slightly greater developer profit to be achieved.

5.27 For the purpose of this FVA review and having regard to the current circumstances we would regard the Applicant's profit rate requirement as reasonable and have therefore based our target return on 20% profit on GDV for the private housing and commercial unit with a profit of 6% on GDV for the affordable homes.

6 VIABILITY OUTPUTS

Viability Findings

6.1 Based on our opinion of Gross Development Value for the proposed development, the development costs, the Benchmark Land Value and an acceptable level of developer profit, we are of the opinion that there is the potential to increase the number of units to be provided as affordable housing or to change the proposed tenure split to include a higher proportion of rented units. The current offer comprises seven affordable homes which are to be provided as three social rented units and four shared ownership units, which equates to 24% of the total number of units proposed by the Applicant.

6.2 Based on our assessment, the proposed development, including the seven affordable homes, will generate a residual land value of approximately £1,574,000. We estimate that this provides a surplus of circa £174,000, assuming a target return of 20% on private sale units and 6% on affordable units is required. As such, there is scope to increase the affordable housing contribution.

6.3 We have run a series of scenario testing to ascertain the potential numbers and tenure mix for affordable housing in this proposed development. The outputs are summarised in the table below.

Mix of Affordable Housing – Scenario Testing

Affordable Housing Mix	Residual Land Value	Additional Surplus*
4No. Shared Ownership 3No. Social Rented	£1,574,000	£174,000
4No. Shared Ownership 4No. Social Rented	£1,402,000	£2,000

*Based on BLV of £1,400,000

Sensitivity Analysis

6.4 In view of the current property market uncertainties resulting from the recent vote for Britain to exit the EU we have undertaken a series of sensitivity analyses to identify the potential upside and downside risk to the Applicant.

6.5 The table below sets out the residual land value that the proposed scheme with seven affordable homes could generate where the sales values of the private units fall and rise by the stated level.

Private Sales Value	Residual Land Value	Deficit / Surplus*
+5%	£1,952,000	+£552,000
+10%	£2,330,000	+£930,000
-5%	£1,196,000	-£204,000
-10%	£818,000	-£582,000

*Target RLV is £1,400,000

6.6 As can be seen from the outputs in the table above, should sales values and house prices fall during the development period, there is a risk the scheme will become financially unviable and the Applicant will likely incur a significant loss. Assuming the Applicant will have acquired the land prior to development commencing, the only option available could be to negotiate a reduction in the number of affordable homes to provide a higher proportion of private sale homes or shared ownership tenure units.

Review Mechanism

6.7 For larger schemes we would typically recommend a review mechanism within a S106 agreement to review viability of the scheme towards the end of the development programme. This would be used to assess the average sales values that have been achieved and ascertain whether any 'top-up' payments should be made to the Council. We are aware this is something that is now being advocated by the Mayor of London in order to ensure a fair contribution is received from developers towards the provision of affordable housing across London.

7 CONCLUSION

7.1 Having reviewed the Applicant's proposal for the development of the subject Property we are of the opinion that the offer for seven affordable homes (24% based on unit numbers and comprising four Shared Ownership units and three Social Rented homes) potentially understates the total number of affordable units that can be supported on-site, or the mix of tenure.

7.2 Our appraisal indicates that there could be the potential to increase the affordable housing provision to include an additional one bedroom Social Rented Unit (8 units).

7.3 As part of any agreement we would recommend that the Council incorporates a clause in the Section 106 Agreement which enables a review of this scheme at pre-determined scenarios to ensure that the Applicant provides a fair contribution towards affordable housing in the Borough, should viability improve during the development programme.

7.4 Additionally however, as indicated by the sensitivity analysis set out in section 6 of this report, consideration should also be given to current property market uncertainties caused by the referendum vote to exit the EU and the risk implications this has for the Applicant in proceeding with this project. Should house prices fall over the following 12 months and beyond, this will have significant implications on the financial viability of the project and the delivery of the proposed affordable housing.

APPENDIX 1

Trident Cost Report

Financial Viability
Report on Construction Cost

154-158 Sydenham Road
London
SE26 5JZ

Trident

Report Dated 26 February 2018

Financial Viability
Report on Construction Cost

Prepared for London Borough of Lewisham
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Reference P2015-1124

Date issued 26 February 2018

154-158 Sydenham Road
London
SE26 5JZ

Financial Viability
Report on Construction Cost

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154-158 Sydenham Road
London
SE26 5JZ

1.0 Introduction

1.1 Trident Building Consultancy Limited were appointed by Urban Delivery Limited to review the construction cost estimate for the proposed residential development at 154-158 Sydenham Road, London, SE26 5JZ.

1.2 The construction cost review will form part of a Financial Viability Study undertaken by Urban Delivery Limited. This report is for the purposes of Urban Delivery Limited only and has been prepared in accordance with our scope of services document included within our appointment document.

2.0 Project Description and Information Received

2.1 PROJECT DESCRIPTION

2.1.1 The development site is approximately 0.385 hectares. Two buildings which were previously on site have been demolished and on site is a two-storey former office building which has been stripped out and now made unsuitable for occupation.

2.1.2 The proposed development will comprise of the demolition of existing buildings (two-storey office) and the construction of 29 residential units. The units are split into block 1 and block 2. Block 1 is a three-storey apartment block and Block 2 comprises of three-storey houses and a 2 storey maisonette.

2.1.3 In addition there are plans for construction of (B1) office space with GIA of 157m2 (stated as 162m2 in the cost estimate), together with provisions for play area, disabled parking and landscaping.

2.1.4 The proposed residential unit mix is as follows:

Unit Type	Nr. Of Units	%
1- Bed flats	5	17%
2- Bed flats	13	45%
3- Bed flat	1	3%
3- Bed houses	10	35%
TOTAL	**29**	**100%**

2.2 INFORMATION RECEIVED

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

- Douglas Birt Consulting – 154-158 Sydenham Road, London, SE26 5JZ, Viability Assessment October 2017 (referred to as The Viability Report)

- Cox Drew Neale LLP Budget Construction Costs 13 – Project No: 2302, dated 20 July 2017 contained within Appendix 2 of the Viability Report.

- Matthews & Goodman, Valuation Report- Property: 154-158 Sydenham Road, London, SE26 5JZ, 24th October 2017 contained within Appendix 3 of the Viability Report.

2.2.2 A number of queries were raised in respect of the construction cost and these were issued to Douglas Birt Consulting on 8 February 2018 and a response was received on 12 February 2018.

2.3 DEVELOPMENT AREAS

2.3.1 The Applicant's Appraisal is based on a construction cost using a Gross Internal Floor area of 33,056ft² (3,071m^2). This area accords with the Cox Drew Neale LLP Budget Construction Costs 13 – Project No: 2302 dated 20 July 2017.

2.3.2 We have undertaken our own check measure and concur with the measures provided in the cost plan provided.

3.0 Review of Construction Cost

3.1 SUMMARY OF CONSTRUCTION COST

3.1.1 The Cost estimate prepared by Cox Drew Neale LLP differs slightly from the costs included in the Viability Report. The Viability Report provides a total construction cost of £7,621,079. This is based on costs at 3rd Quarter 2017 and includes a contingency of £362,908 (which equates to 5%) and excludes Professional Fees, Inflation and VAT. This calculates as £2,482/m^2 or £231/ft^2 based on the GIFA (Gross Internal Floor Area).

3.1.2 The Cox Drew Neale LLP cost estimate breakdown is as follows:

	Description	**Cost £**
1	United Living's enabling works cost to date*	£152,721.34
2	Demolition and site clearance (including removal of existing basement)	£195,000.00
3	Site remediation	£100,000.00
4	For Sale houses 1,170m2 @ £2,275.00/m2	£2,661,750.00
5	For Sale flats 813m2 @ £2,300.00/m2	£1,869,000.00
6	Shared Ownership flats 487m2 @ £2,150.00/m2	£1,047,050.00
7	Affordable Rent flat 439m2 @ £2,000.00/m2	£878,000.00
8	Enhancement for wheelchair flats 3 No @ £15,000.00/unit	£45,000.00
9	Commercial unit 162m2 @ £1,250.00/m2	£202,500.00
10	Extra over for construction of basement & plant room 85m2 @ £1,250.00/m2	£106,250.00
	Sub-Total	**£7,258,171.34**
11	On-costs @ 6%, say £426,828.66 ([1] see below)	Excluded
12	Allowance for inflation (£100,00); ([2] see below)	Excluded
13	Contingency @ 5%	£362,908.57
	Total Forecast Construction Cost	**£7,621,079.91**

Note

1. The on-costs of 6% have been excluded from the figures used in the Viability Report but a separate 5% contingency sum has been added.
2. The inflation allowance of £100,000 has been excluded from the figures used in the Viability Report as the appraisal is on a current day basis.

3.1.3 The Applicant's Cost Plan equates to a construction cost of £2,482/m^2 including contingency. The costs noted above are based at 3Q 2017 levels.

3.1.4 It should be noted that different rates have been included according to tenure as shown below.

For Sale houses	£2,275.00/m2
For Sale flats	£2,300.00/m2
Shared Ownership flats	£2,150.00/m2
Affordable Rent flats	£2,000.00/m2

The differences in cost are presumably attributable to differing levels of specification. We would expect the Private For Sale units to have slightly higher costs than the shared ownership or rented units. The above costs exclude demolition, United Living Costs and Contingencies.

4.0 Benchmarking

4.1 This section compares the cost of the new build residential units against other sources of cost data.

4.2 We have collated construction cost data from various sources for new residential units and this is summarised in the table below:

Ref	Source	Sample Size Nr	Residential Units Cost range £/m2	Mean Average £/m2	Median Average £/m2
1	**Trident Cost Data**				
1.1	Apartments - Mixed Tenure Schemes	15	2,183 to 2,589	2,347	2,352
2	**BCIS**				
2.1	Apartments / Flats (Generally)	961	1,412 to 1,901	1,689	1,615
2.2	Apartments / Flats (3-5 Storey)	642	1,410 to 1,898	1,667	1,607
2.3	Housing Terraced (Generally)	395	1,211 to 1,612	1,445	1,391
2.4	Housing Terraced (Single Storey)	49	1,313 to 1,857	1,583	1,487
2.5	Housing Terraced (3 Storey)	59	1,140 to 1,505	1,405	1,325
3	**Spons Pricing Book 2017 – Approximate Estimates**				
3.1	Private Developments; two and three storey houses	N/A	1,425 to 1,775		
3.2	Apartments/Flats generally; standard quality; 3–5 storeys	N/A	1,725 to 2,150		

<u>Notes</u>

1) - The range of costs for Trident historic data is shown above based upon the lower and upper quartiles

2) - The range of costs for BCIS is based upon figures in the lower and upper quartiles

3) - BCIS Costs include for buildings only and exclude external works

4.3 The total construction cost (3Q 2017) of £7,621,079 equates to £2,482/m^2 or £231/ft^2.

4.4 In comparison to Trident cost data from Trident, the build cost of £2,482/m2 is within the cost range of the lower and upper quartiles but above the mean average cost of £2,347/m2 and the median cost of £2,352/m2.

4.5 It can be seen that the Applicant's construction cost is outside the benchmark cost range for both BCIS cost data and Spons Pricing Book 2017.

To facilitate a like for like comparison with the BCIS Data, the sums included for enabling works, demolition, site remediation and contingency should be omitted from the Applicants cost estimate.

A)	Updated Cost Plan (3Q 2017)	£	7,621,079.91
B)	Deduct (Enabling works, Demo, Site remediation)		(447,721.34)
C)	Deduct Contingency on above items @ 5%		(22,386.07)
D)	Revised Current Day Construction Cost £		7,150,972.50

Once the above sums are deducted the total construction cost is £7,150,972.50. This provides a cost of £2,329/m2. This sum does include external works is drainage which is probably in the order of £100/m2 to £150/m2 of the GIFA although the cost of these items is not identified separately. Once external works and drainage costs are omitted – to enable a like for like comparison - it is likely that these costs are above the Spons and BCIS cost parameters.

5.0 Proposed Cost Adjustments

5.1 OBSERVATIONS UPON THE COST PLAN

5.1.1 Within this section, we provide our commentary upon each section within the Cost Plan

5.1.2 Residential Costs

The construction cost is based upon the rates below.

- For Sale houses £2,275.00/m2
- For Sale flats £2,300.00/m2
- Shared Ownership flats £2,150.00/m2
- Affordable Rent flats £2,000.00/m2

These rates for the various types of tenure for residential apartments are considered to represent reasonable estimates of costs however we comment below upon the cost for the For Sale House in 5.1.4.

The Commercial unit has a cost of £1,250.00/m2 and this is considered a reasonable cost allowance. As is the addition of an 'Extra over' sum for construction of basement and plant room.

5.1.3 Site remediation

In the response dated 12 February 2018, Cox Drew Neale state the remediation costs are based on estimated excavation and waste disposal volumes assuming the site has to be reduced in levels by 750mm, with 7.5% of the waste assumed to be hazardous and 15% non hazardous. This does not include for the disposal of any extra contaminated waste (hazardous or non hazardous) resulting from the buildings substructure e.g. pile arisings or excavating for the ground beams ground floor slabs etc.

No engineering information has been provided to verify the inclusion of these allowances. Within the documents submitted as part of the planning application, there is a Geotechnical report included. This is the O'Rourke Construction and Surfacing Report, Report on Phase 1 Desk Study dated April 2008.

There are a few sections of the report which are of particular interest and these are:-

3.1.4 The site is within an urban area and, although not indicated as present on the site from the geological maps, the possibility that Made Ground exists on site cannot be discounted.

3.4.1 This section notes that Radon gas is not an issue.

4.13.6 The contamination assessment was conducted on the basis of the results from three samples of Made Ground and three natural samples, from five boreholes. None of the contaminant concentrations exceeded their respective guideline values.

Should the site be redeveloped, it is considered further intrusive investigation would be necessary to update the contamination assessment and establish whether any relevant pollutant linkages are present in relation to the proposed end use. The areas of the site to be covered by structures or hardstanding are unlikely to present a risk to end users, unless there is a valid inhalation pathway.

Given that there is no actual evidence to identify the presence of contamination and no results from boreholes or trial pits are available we consider the allowance of £100,000 to represent an allowance above what we would typically expect. Furthermore, it is stated that material below hard surfacing and buildings is unlikely to present a risk to end users and given the relatively small amount of soft landscaping we would propose to reduce this sum of £50,000.

5.1.4 <u>For Sale houses (1,170m2)</u>

The rate for constructing the houses is £2,275/m2 based upon the GIFA. This equates to £266,200 per house which is considered high. Houses typically have a lower build cost than apartments when costs are expressed on a cost £/m2 basis. This is evidenced by cost data from Trident, BCIS and Spons Pricing Book.

We have also recently tendered a private housing scheme in South London which has a build cost of £1,726/m2 and £216,000 per unit.

The cost of £2,275/m2 is at the upper end of typical cost benchmarks and we propose a lower build cost of £2,150/m2 which would reduce the cost of the housing from £2,661,750.00 to £2,515,500 a reduction of £146,250.

5.2 Proposed Cost Adjustment

5.2.1 Having reviewed the cost estimate provided we would propose a reduction in construction costs of £206,063.

A)	Cost Estimate (3Q 2017)	7,621,080
B)	Site remediation	(50,000)
C)	For Sale houses 1,170m2 Reduce Build cost to £2,150/m2	(146,250)
D)	Contingency	(9,813)
E)	Total Adjustment for changes to Cost Estimate	(206,063)
F)	Revised Current Day Construction Cost £	7,415,017.41
	Say	**£7.415 million**

5.2.2 Our view is that a reasonable estimate of construction cost for this project for the purpose of a viability study is £7,415,017. The revised cost equates to £2,415/m2 or £224/ft2 based upon the GIFA.

6.0 Summary

6.1 Following our review of the construction costs submitted by the Applicant we would summarise the key observations as follows:

- The Applicant has provided a construction cost estimate in the sum of £7,621,079.91; this is based on costs at 3rd Quarter 2017. This excludes Professional Fees, Inflation and VAT.
- The costs include demolition and site clearance and historic United Living's enabling works cost to date. These items appear to be reasonable inclusions.
- Generally, the rates used for apartments are considered to be reasonable.
- We have proposed adjustments to the construction cost in the sum of a reduction £206,063.

6.2 For the purposes of a Financial Viability Report, we would recommend a total construction cost of £7,415,017 which equates to £2,415/m2. Including abnormals, external works and a contingency allowance @ 5%.

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APPENDIX 2

Development Appraisal Summary

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

24% Affordable Housing (4xSO, 3xSR = 7 units)

Development Appraisal
Urban Delivery
26 February 2018

APPRAISAL SUMMARY — URBAN DELIVERY

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	m²	Rate m²	Unit Price	Gross Sales
Flat 1 - 1B2P	1	75.00	5,066.67	380,000	380,000
Flat 2 - 3B4P (AR)	1	115.70	1,377.00	159,319	159,319
Flat 3 - 2B3P (AR)	1	90.40	1,377.00	124,481	124,481
Flat 4 - 2B3P (SO)	1	75.00	3,724.00	279,300	279,300
Flat 5 - 2B4P (Duplex)	1	102.00	5,049.02	515,000	515,000
Flat 6 - 2B4P (AR)	1	75.00	1,377.00	103,275	103,275
Flat 7 - 1B2P	1	50.00	6,500.00	325,000	325,000
Flat 8 - 2B4P (SO)	1	72.00	3,724.00	268,128	268,128
Flat 9 - 2B4P (SO)	1	72.00	3,724.00	268,128	268,128
Flat 10 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 11 - 1B2P (SO)	1	51.00	3,724.00	189,924	189,924
Flat 12 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 13 - 1B2P	1	50.00	6,500.00	325,000	325,000
Flat 14 - 2B4P	1	72.00	6,458.33	465,000	465,000
Flat 15 - 2B4P	1	72.00	6,458.33	465,000	465,000
Flat 16 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 17 - 2B4P	1	86.00	5,930.23	510,000	510,000
Maisonette 1 - 1P2B	1	57.70	6,325.82	365,000	365,000
Maisonette 2 - 2P4B	1	75.00	6,466.67	485,000	485,000
3 Bed House - 3B5P	10	1,170.00	5,555.56	650,000	6,500,000
Totals	**29**	**2,585.80**			**13,182,555**

Rental Area Summary	Units	m²	Rate m²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rent	12			400	4,800	4,800
Commercial Unit	1	155.00	161.46	25,026	25,026	25,026
E/O Basement & Plant Room	1	85.00		0	0	
Totals	**14**	**240.00**			**29,826**	**29,826**

Investment Valuation					
Ground Rent					
Current Rent	4,800	YP @	5.0000%	20.0000	96,000
Commercial Unit					
Current Rent	25,026	YP @	8.0000%	12.5000	312,829
					408,829

GROSS DEVELOPMENT VALUE			**13,591,383**
Purchaser's Costs		(19,624)	
			(19,624)
NET DEVELOPMENT VALUE			**13,571,760**
NET REALISATION			**13,571,760**

OUTLAY

ACQUISITION COSTS			
Residualised Price		1,574,400	
			1,574,400
Stamp Duty	5.00%	78,720	
Agent Fee	1.00%	15,744	
Legal Fee	0.50%	7,872	
			102,336

CONSTRUCTION COSTS

Construction	m²	Rate m²	Cost
Commercial Unit	162.00 m²	1,250.00 pm²	202,500

APPRAISAL SUMMARY **URBAN DELIVERY**

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

E/O Basement & Plant Room	85.00 m²	1,250.00 pm²	106,250	
Flat 1 - 1B2P	75.00 m²	3,032.45 pm²	227,434	
Flat 2 - 3B4P (AR)	115.70 m²	3,032.45 pm²	350,854	
Flat 3 - 2B3P (AR)	90.40 m²	3,032.45 pm²	274,133	
Flat 4 - 2B3P (SO)	75.00 m²	3,032.45 pm²	227,434	
Flat 5 - 2B4P (Duplex)	102.00 m²	3,032.45 pm²	309,310	
Flat 6 - 2B4P (AR)	75.00 m²	3,032.45 pm²	227,434	
Flat 7 - 1B2P	50.00 m²	3,032.45 pm²	151,623	
Flat 8 - 2B4P (SO)	72.00 m²	3,032.45 pm²	218,336	
Flat 9 - 2B4P (SO)	72.00 m²	3,032.45 pm²	218,336	
Flat 10 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 11 - 1B2P (SO)	51.00 m²	3,032.45 pm²	154,655	
Flat 12 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 13 - 1B2P	50.00 m²	3,032.45 pm²	151,623	
Flat 14 - 2B4P	72.00 m²	3,032.45 pm²	218,336	
Flat 15 - 2B4P	72.00 m²	3,032.45 pm²	218,336	
Flat 16 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 17 - 2B4P	86.00 m²	3,032.45 pm²	260,791	
Maisonette 1 - 1P2B	57.70 m²	3,032.45 pm²	174,972	
Maisonette 2 - 2P4B	75.00 m²	3,032.45 pm²	227,434	
3 Bed House - 3B5P	1,170.00 m²	2,194.81 pm²	2,567,925	
Totals	**2,832.80 m²**		**7,170,018**	**7,170,018**
Demolition/Site Clearance			195,000	
				195,000
Other Construction				
Remediation			50,000	
				50,000
Section 106 Costs				
Section 106			61,500	
LBL CIL			108,429	
Mayoral CIL			62,041	
				231,970
PROFESSIONAL FEES				
Professional Fees		10.00%	741,502	
				741,502
MARKETING & LETTING				
Marketing - Private Sale Homes		3.00%	356,580	
Marketing - Shared Ownership Units			24,000	
Letting Agent Fee		10.00%	2,503	
Letting Legal Fee		5.00%	1,251	
				384,334
DISPOSAL FEES				
Sales Agent Fee - Commercial Unit		1.00%	3,892	
Sales Legal Fee - Commercial Unit		0.50%	1,946	
				5,838
MISCELLANEOUS FEES				
Profit on Private Residential		20.00%	2,358,000	
Profit on Affordable Residential		6.00%	83,553	
Profit on Commercial Unit		20.00%	81,766	
				2,523,319
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				593,043
TOTAL COSTS				**13,571,760**
PROFIT				
				0
Performance Measures				
Profit on Cost%		0.00%		

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.22%
Equivalent Yield% (Nominal)	7.30%
Equivalent Yield% (True)	7.64%
IRR	6.50%
Profit Erosion (finance rate 7.000%)	N/A

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

27% Affordable Housing (4xSO, 4xSR = 8 units)

Development Appraisal
Urban Delivery
26 February 2018

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**m²**	**Rate m²**	**Unit Price**	**Gross Sales**
Flat 1 - 1B2P	1	75.00	5,066.67	380,000	380,000
Flat 2 - 3B4P (AR)	1	115.70	1,377.00	159,319	159,319
Flat 3 - 2B3P (AR)	1	90.40	1,377.00	124,481	124,481
Flat 4 - 2B3P (SO)	1	75.00	3,724.00	279,300	279,300
Flat 5 - 2B4P (Duplex)	1	102.00	5,049.02	515,000	515,000
Flat 6 - 2B4P (AR)	1	75.00	1,377.00	103,275	103,275
Flat 7 - 1B2P (SO+)	1	50.00	3,724.00	186,200	186,200
Flat 8 - 2B4P (SO)	1	72.00	3,724.00	268,128	268,128
Flat 9 - 2B4P (SO)	1	72.00	3,724.00	268,128	268,128
Flat 10 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 11 - 1B2P (SO to AR)	1	51.00	1,377.00	70,227	70,227
Flat 12 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 13 - 1B2P	1	50.00	6,500.00	325,000	325,000
Flat 14 - 2B4P	1	72.00	6,458.33	465,000	465,000
Flat 15 - 2B4P	1	72.00	6,458.33	465,000	465,000
Flat 16 - 2B4P	1	75.00	6,466.67	485,000	485,000
Flat 17 - 2B4P	1	86.00	5,930.23	510,000	510,000
Maisonette 1 - 1P2B	1	57.70	6,325.82	365,000	365,000
Maisonette 2 - 2P4B	1	75.00	6,466.67	485,000	485,000
3 Bed House - 3B5P	10	1,170.00	5,555.56	650,000	6,500,000
Totals	**29**	**2,585.80**			**12,924,058**

Rental Area Summary	**Units**	**m²**	**Rate m²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Rent	11			400	4,400	4,400
Commercial Unit	1	155.00	161.46	25,026	25,026	25,026
E/O Basement & Plant Room	1	85.00		0	0	
Totals	**13**	**240.00**			**29,426**	**29,426**

Investment Valuation					
Ground Rent					
Current Rent	4,400	YP @	5.0000%	20.0000	88,000
Commercial Unit					
Current Rent	25,026	YP @	8.0000%	12.5000	312,829
					400,829

GROSS DEVELOPMENT VALUE		**13,324,886**
Purchaser's Costs	(19,240)	
		(19,240)
NET DEVELOPMENT VALUE		**13,305,647**
NET REALISATION		**13,305,647**

OUTLAY

ACQUISITION COSTS

Residualised Price		1,402,591	
			1,402,591
Stamp Duty	5.00%	70,130	
Agent Fee	1.00%	14,026	
Legal Fee	0.50%	7,013	
			91,168

CONSTRUCTION COSTS

Construction	**m²**	**Rate m²**	**Cost**
Commercial Unit	162.00 m²	1,250.00 pm²	202,500

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

E/O Basement & Plant Room	85.00 m²	1,250.00 pm²	106,250	
Flat 1 - 1B2P	75.00 m²	3,032.45 pm²	227,434	
Flat 2 - 3B4P (AR)	115.70 m²	3,032.45 pm²	350,854	
Flat 3 - 2B3P (AR)	90.40 m²	3,032.45 pm²	274,133	
Flat 4 - 2B3P (SO)	75.00 m²	3,032.45 pm²	227,434	
Flat 5 - 2B4P (Duplex)	102.00 m²	3,032.45 pm²	309,310	
Flat 6 - 2B4P (AR)	75.00 m²	3,032.45 pm²	227,434	
Flat 7 - 1B2P (SO+)	50.00 m²	3,032.45 pm²	151,623	
Flat 8 - 2B4P (SO)	72.00 m²	3,032.45 pm²	218,336	
Flat 9 - 2B4P (SO)	72.00 m²	3,032.45 pm²	218,336	
Flat 10 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 11 - 1B2P (SO to AR)	51.00 m²	3,032.45 pm²	154,655	
Flat 12 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 13 - 1B2P	50.00 m²	3,032.45 pm²	151,623	
Flat 14 - 2B4P	72.00 m²	3,032.45 pm²	218,336	
Flat 15 - 2B4P	72.00 m²	3,032.45 pm²	218,336	
Flat 16 - 2B4P	75.00 m²	3,032.45 pm²	227,434	
Flat 17 - 2B4P	86.00 m²	3,032.45 pm²	260,791	
Maisonette 1 - 1P2B	57.70 m²	3,032.45 pm²	174,972	
Maisonette 2 - 2P4B	75.00 m²	3,032.45 pm²	227,434	
3 Bed House - 3B5P	1,170.00 m²	2,194.81 pm²	2,567,925	
Totals	**2,832.80 m²**		**7,170,018**	**7,170,018**
Demolition/Site Clearance			195,000	
				195,000
Other Construction				
Remediation			50,000	
				50,000
Section 106 Costs				
Section 106			61,500	
LBL CIL			108,429	
Mayoral CIL			62,041	
				231,970
PROFESSIONAL FEES				
Professional Fees		10.00%	741,502	
				741,502
MARKETING & LETTING				
Marketing - Private Sale Homes		3.00%	352,176	
Marketing - Shared Ownership Units			24,000	
Letting Agent Fee		10.00%	2,503	
Letting Legal Fee		5.00%	1,251	
				379,930
DISPOSAL FEES				
Sales Agent Fee - Commercial Unit		1.00%	3,816	
Sales Legal Fee - Commercial Unit		0.50%	1,908	
				5,724
MISCELLANEOUS FEES				
Profit on Private Residential		20.00%	2,293,000	
Profit on Affordable Residential		6.00%	87,543	
Profit on Commercial Unit		20.00%	80,166	
				2,460,709
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				577,035
TOTAL COSTS				**13,305,647**
PROFIT				
				0
Performance Measures				
Profit on Cost%		0.00%		

154-158 Sydenham Road
Urban Delivery Assumptions and Trident Costs

Profit on GDV%	0.00%
Profit on NDV%	0.00%
Development Yield% (on Rent)	0.22%
Equivalent Yield% (Nominal)	7.34%
Equivalent Yield% (True)	7.69%
IRR	6.49%
Rent Cover	0 mths
Profit Erosion (finance rate 7.000%)	0 mths