Appendix 2

Financial Viability Review Report

1 SILVER ROAD, LONDON, SE13 7BQ

September 2018

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Axion House, Silver Road, Lewisham SE13

Financial Viability Review Report

London Borough of Lewisham

September 2018

Private and Confidential

Contents

1 INTRODUCTION

Background

1.1 Urban Delivery was instructed by the London Borough of Lewisham (the "Council") to assess a viability assessment provided by London Square Developments Limited (the "Applicant") in support of its planning application for the redevelopment of Axion House, Silver Road, SE13 (the "Property" or "Site").

1.2 The Applicant submitted a planning application in May 2017 (ref: DC/17/102703) to demolish the existing buildings and develop a mixed use scheme comprising 153 residential units and flexible B1/A1/A3/D2 commercial uses across a number of buildings extending over 6 to 16 storeys in height. The Applicant was offering 44 of these residential units as affordable homes, reflecting a proportion of c.29% based on unit numbers. The Council policy is for developments to offer up to 50% of new dwellings as affordable homes, subject to financial viability.

1.3 Following discussion with the Council the scheme has been revised to address concerns over the height and massing of the development. The revised scheme now proposes 136 dwellings of which 28 will be affordable homes (20% based on unit numbers). The height of the buildings have been reduced by between one and two storeys.

1.4 The purpose of this report is to provide guidance to the Council on the reasonableness of assumptions applied by the Applicant with regard to its updated financial viability assessment (FVA) for the proposed development scheme and to test whether if could be financially viable to provide additional affordable homes to improve compliance with local planning policy. The advice in this report should be considered in accordance with Urban Delivery's original FVA Review Report, dated November 2017.

1.5 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.

1.6 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

1.7 We confirm that in providing this advice to the Council there is no conflict of interest between Urban Delivery and London Square Developments Limited.

Information Provided

1.8 In undertaking this 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.

1.9 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.

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

a. A copy of the Applicant's FVA Addendum, prepared by DS2, dated May 2018. Within the appendices this includes:

   i. A copy of the Argus appraisal summary
   ii. A set of revised scheme drawings
   iii. An accommodation schedule
   iv. A revised pricing schedule, prepared by Colliers International, dated 29th March 2017
   v. A copy of the revised construction cost plan, prepared by Faithful & Gould, dated 23rd April 2018
   vi. A market report and BLV appraisal, prepared by Colliers International and dated March 2017

1.11 During the review process a range of clarifications were sought from the Applicant and response received from DS2 and Faithful & Gould. We have given consideration to the information received from these enquiries in the advice contained in this viability review report.

1.12 As at the date of this report Urban Delivery is advised by the Council that the GLA Viability Team has reviewed the Applicant FVA and previous iterations of the Urban Delivery FVA Review. Based on comments received from the Council we have completed a further review of the proposed development scheme.

2 PROJECT DETAILS

Location

2.1 The Site is located within the London Borough of Lewisham within the Lewisham Town Centre Boundary, as defined by the Local Plan. The Site is situated to the south of Lewisham Town Centre, accessed from Elmira Street and is predominantly a residential location. Elmira Street runs north to the A20, which provides a direct route to other arterial routes and on to the wider motorway network. Lewisham mainline railway station and DLR station is located approximately 0.4km to the north east, which provides regular services into central London.

The Site

2.2 The Site extends to 0.49 hectares (1.21 acres) and is currently occupied by a two-storey warehouse/depot (Use Class B8). It is understood from the Applicant that the existing warehouse is a self-contained industrial property arranged over ground and first floor with associated yard and car parking. The building was built in the 1980s and is of steel portal frame construction.

2.3 We have only inspected the Site from the road and have not undertaken any internal inspections or carried out any measured surveys. We are therefore reliant on the accuracy of the information provided by the Applicant and its advisers.

2.4 The Site sits to the south of Silver Road and is accessed via a gated entrance. To the north of Silver Road is a housing estate. The Site is bounded to the east by the Ravensbourne River and to the west and south by mainline railway lines and land controlled by Network Rail.

Development Overview

2.5 It is understood that the site has not been subject to and significant past planning applications or development proposals.

2.6 The Applicant is now seeking to redevelop the Site and has submitted detailed proposals for the following scheme:

"Demolition of existing buildings and erection of a new residential-led mixed use development comprising two linked buildings ranging from ground plus 4 to 8 storeys, and ground plus 4 to 15 storeys, to provide 136 residential units, and including flexible B1/A1/A3 use and flexible B1/A1/A3/D2 use at ground floor, associated landscaping works, vehicular access, and other works incidental to the development."

2.7 The Applicant's Financial Viability Assessment sets out the following mix of land uses within the proposed development:

- 740 sqm (7,969 sq ft) (NIA/GIA) mixed commercial accommodation
- 12,657 sqm (GIA) and 9,480 sqm (NIA) residential accommodation
  - 108 x Private Sale Units (7,510 sqm (NIA))
  - 24 x Affordable Rent Units (1,710 sqm (NIA))
  - 4 x Shared Ownership Units (260 sqm (NIA))

2.8 The updated Financial Viability Assessment submitted by the Applicant indicates that the development proposal will include a total of 28 affordable homes, reflecting a proportion of c.20% by unit number. However, the inclusion of these affordable homes, based on the adopted Benchmark Land Value (reviewed in sections 4 and 5), results in the Applicant appraisal indicating a developer profit of 0.59% based on suggested the Gross Development Value (GDV). This developer profit would not usually be considered an appropriate return for a development scheme of this nature.

2.9 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.

2.10 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 the proposed affordable housing offer at only 29%, a detailed viability review remains a requirement in the determination of this planning application.

Section 106 and CIL Proposals

2.11 Within the Applicant FVA, the following S106 and CIL contributions have been allowed for:

- S106: £331,250
- Mayoral CIL: £544,194
- LB Lewisham CIL: £945,736

TOTAL S106 & CIL COST: £1,821,180

2.12 In undertaking this FVA Review, we have checked these figures with the Council, which has indicated the total Mayoral CIL would be £419,492 and the Borough CIL would be £847,223. This reflects a reduction in Mayoral and Borough CIL estimates of £124,702 and £98,513 respectively.

2.13 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".*

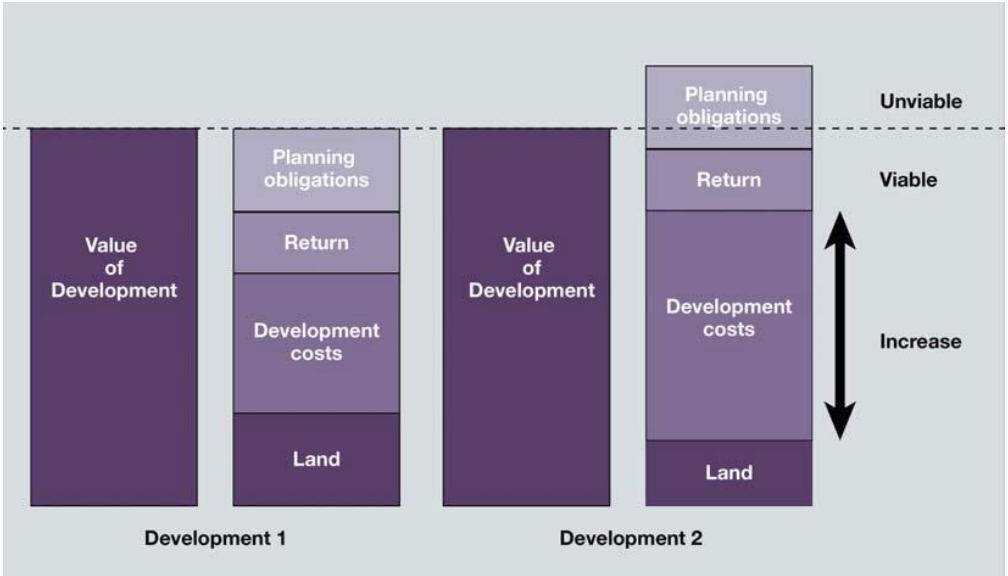
3.4 GN94 proposes the use of a residual appraisal methodology for financial viability testing and that such a methodology is normally used, where either the level of return or site value can be an input and the consequential output (either a residual land value or return respectively) can be compared 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 the use as a warehouse/depot with use class B8.

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 two phases as per the Applicant's construction programme. 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 comparables for new build residential unit sales, rentals and commercial property values.

Industrial Property Market – Benchmark Land Value

4.2 The Council's and the GLA's preferred approach to calculating the Benchmark Land Value (BLV) for viability assessments is the Existing Use Value plus (EUV+). This assumes that the price a purchaser will pay for the Property will reflect the current use the Property is permitted to be used for, as at the current date. This approach should disregard any development potential the Property or Site may present. In order to incentivise the owner to sell the Property however, a premium is assumed to enable the owner to achieve an appropriate financial return. This premium can typically range from 10% to 40% depending on the characteristics of the property and circumstances around its disposal.

4.3 There is limited evidence of industrial property transactions within the local vicinity. Research reported by JLL in the Employment Land Report, submitted as part of the planning application, advises that '*occupier demand is typically focussed on 'hub' locations (multi-let industrial / warehouse estates) that are able to take advantage of local infrastructure and the benefit of sympathetic surrounding occupiers involved in similar or complementary uses*'. The JLL report continues, '*As a consequence a "two-tier" market has developed with good demand for modern or new space located on established industrial estates, but little appetite for poor quality or dilapidated stock which is constrained by way of functionality or access*'.

4.4 To ascertain the likely achievable rental value the existing Property could achieve, Urban Delivery has conducted a review of recent lettings of industrial and warehouse premises in the surrounding locations.

Axion House, Silver Road, SE13 (the Property)

4.5 The Property was let in March 2014 for a term of three years to V22 for use as artists' studios. The rent agreed was £113,000 pa, reflecting a rent of £52.21 per sq m (£4.85 per sq ft). We note the original asking rent was £175,000. It should be borne in mind that this letting was agreed on a short-term basis while the owner prepared for the site to be sold for redevelopment. It should also be noted that the letting occurred over three years ago, since which it can be expected the industrial property market has experienced rental growth.

4.6 While we would not necessarily rely on this letting as a robust indication of the rent an occupier would be prepared to pay, it would be remiss not to reference this transaction within this review. We would comment however, while we have not been able to inspect the building internally, we understand from the JLL report that the building has continued to fall in to a state of disrepair and this would impact the achievable rental value should the building be marketed at the current date. Should the Energy Performance Certification also be recorded as lower than E, it would not be possible to let the Property until work was completed to improve its energy performance. Although we note the EPC rating was C, as at March 2014.

Unit 2, Mercy Terrace, SE13

4.7 Mercy Terrace is situated approximately 0.5km to the southwest of the Property. Unit 2 comprises a self-contained 391 sq m (4,211 sq ft) industrial unit and was let in September 2016 on a five year lease at a rent of £40,000 pa. The asking rent was £42,000 pa. The agreed rent reflects £102 per sq m (£9.50 per sq ft). It is noted that this unit is significantly smaller than the subject Property.

Unit 3, Mercy Terrace, SE13

4.8 Unit 3 comprises a self-contained 541 sq m (5,823 sq ft) industrial unit and was let in March 2017 on a five year lease at a rent of £40,000 pa. The asking rent was £45,000 pa. The agreed rent reflects £74 per sq m (£6.87 per sq ft). Again ,it is noted that this unit is smaller than the subject Property.

Deptford Trading Estate, Blackhorse Road, SE8

4.9 Deptford Trading estate is located approximately 2.8km to the northwest of the Property and comprises a cluster of industrial units just off the A200 arterial route. Over the past two years there have been a number of new lettings:

- Unit 2 comprises a self-contained 1,035 sq m (11,141 sq ft) industrial unit let in September 2015 on a 20 year lease at a rent of £111,410 pa with a 10 month rent free period. The agreed rent reflects £107.63 per sq m (£10 per sq ft).
- Unit 5 comprises a self-contained 300 sq m (3,227 sq ft) industrial unit let in July 2015 on a five year lease at a rent of £34,628 pa with a 5 month rent free period. The agreed rent reflects £115.50 per sq m (£10.73 per sq ft).
- Unit 8 comprises a self-contained 537 sq m (5,783 sq ft) industrial unit let in July 2015 on a five year lease at a rent of £63,163 pa with a 4 month rent free period. The agreed rent reflects £117.56 per sq m (£10.92 per sq ft).
- Unit 17 comprises a self-contained 325 sq m (3,499 sq ft) industrial unit let in April 2015 on a five year lease at a rent of £38,489 pa with a 4 month rent free period. The agreed rent reflects £118.40 per sq m (£11 per sq ft

4.10 Having reviewed the letting particulars we are of the opinion that these units are of a superior quality than the accommodation available at the Property, albeit of a smaller scale and better suited to smaller business occupiers. As a result of this difference in accommodation size and quality, we would not expect the Property to achieve a rental value as high as the units at the Deptford Trading Estate.

Surrey Canal Trade Park, Surrey Canal Road, SE14

4.11 Surrey Canal Trade Park is situated approximately 3km to the northwest of the Property and comprises a cluster of newly constructed industrial premises. Units 1, 2 and 3 comprises self-contained industrial premises ranging in size from 445 to 608 sq m (4,786 to 6,546 sq ft) let during 2016. The agreed rents reflect £161 to £172 per sq m (£15 to16 per sq ft). It is noted that these units are significantly smaller than the subject Property and are of a superior quality and location.

4.12 Evidence of investment sales is very limited, with most premises sold for continued use as industrial premises transacting as vacant or owner-occupied facilities.

34-40 Eastdown Park, SE13

4.13 This property was sold with vacant possession in October 2016 with a reported price of £3,950,000. Based on the floor areas recorded, the capital value reflects £2,650 per sq m (£246 per sq ft). However, the property did present potential for residential redevelopment and this may have been reflected in the pricing. On the basis that the premises, if let, could achieve a rent equivalent to £75 to £130 per sq m (£7 to £12 per sq ft), we estimate the investment yield would be in the range of 3% to 5%, suggesting that a premium for development potential was achieved.

Sandgate Trading Estate, Sandgate Street, SE15

4.14 Sandgate Trading Estate is located approximately 4km to the northwest of the Property, in the north of Peckham. Units 3 and 4 were sold in June 2014 as an investment property. The achieved price was £762,000 with the passing rent at the time of £61,000, reflecting an initial yield of c.8%. While this evidence is now historic, we would anticipate the yield would have compressed to reflect value growth in the time since this transaction.

4.15 With the limited evidence available, we are of the opinion that should the landowner seek to re-let the Property at the current time, the rent would need to be discounted to reflect the condition, location and quantum of space compared with the evidence listed above. We would therefore expect a rental equivalent to £65 to £75 per sq m (£6 to £7 per sq ft) which would generate an annual income of circa £140,000 to £163,000.

4.16 Determining an appropriate investment yield is less precise in the current market and with the lack of truly comparable evidence. A yield of 5% to 7% might be acceptable to an investor, although given the issues referred to above concerning location and condition, while disregarding development potential, we would be of the opinion a yield towards the higher end of the range would be necessary, particularly as it is currently vacant. We set out our BLV calculation in section 5.

Residential Sales

4.17 In seeking to form a view on achievable sales values for the proposed private sale units we have focused our evidence, where available, on other developments of a similar scale and character in the location and neighbouring post codes.

Lewisham Gateway, Portrait Tower – Phase 1

4.18 Following work that was undertaken to complete an FVA review for Phase 2 of Lewisham Gateway, we were provided with data by Muse Developments on the net sales prices achieved for the units in Portrait Tower. For confidentiality reasons we are unable to reproduce that information within this report. However, our analysis confirmed that the average sales value was in the order of £6,100 per sq m (£567 per sq ft).

4.19 We have been keeping a record of re-sale data from this first phase however and set out below a series of details for units and the asking prices.

Phase 1 re-sales, Portrait Tower, Lewisham Gateway, SE13						
Unit	**Floor**	**No Beds**	**Area sq m**	**Area sq ft**	**Asking Price**	**£psf**
N/A	2nd	1	50.0	538	£325,000	£604
N/A	3rd	1	50.0	538	£340,000	£632
N/A	6th	1	38.7	417	£380,000	£911
N/A	7th	1	38.7	417	£319,950	£767
N/A	10th	1	51.4	553	£340,000	£615
N/A	14th	1	51.4	553	£350,000	£633
N/A	14th	1	51.4	553	£340,000	£615
N/A	15th	1	51.4	553	£350,000	£633
N/A	15th	1	51.4	553	£349,000	£631
N/A	20th	1	55.6	599	£385,000	£643
N/A	6th	2	61.2	659	£425,000	£645
N/A	8th	2	61.1	658	£420,000	£638
Average Asking Price			**51.0**	**549**	**£360,329**	**£656**

4.20 While the information is restricted mainly to one bedroom units we would expect the resulting £/sq ft to be skewed to reflect the smaller average unit size compared with unit pricing. This sample of re-sale data indicates that the average asking price is in the order of £7,060 per sqm (£656 per sq ft).

Lewisham Gateway, Portrait Two

4.21 The second phase of sales at Lewisham Gateway has been underway in 2017 with a mix of one and two bedroom apartments. Discussion with the marketing agent confirmed that 62 of the 101 sale units had now been reserved off-plan. These reservations have so far been achieved without the Help to Buy scheme as completion of the units was still over nine months away. The table below sets out a selection of units and typical unit pricing.

Portrait 2, Lewisham Gateway, SE13							
Unit Ref	Beds	Floor	Area (Sq m)	Area (Sq ft)	Price	£ sq ft	Sold Date
B2-011	1	1	50.0	538	£345,000	£641	OTM
B2-015	1	1	50.0	538	£345,000	£641	OTM
B2-051	1	5	50.0	538	£355,000	£660	OTM
B2-095	1	9	50.7	546	£367,500	£673	Reserved
B2-105	1	10	50.7	546	£370,000	£678	Reserved
B2-125	1	12	50.7	546	£375,000	£687	Reserved
1 Bed Unit Average					**£359,583**	**£663**	
B2-013	2	1	67.6	728	£427,500	£588	OTM
B2-022	2	2	64.4	693	£427,500	£617	OTM
B2-023	2	2	67.6	728	£430,000	£591	OTM
B2-053	2	5	68.5	737	£437,500	£593	OTM
B2-082	2	8	64.6	695	£445,000	£640	Reserved
B2-112	2	11	64.6	695	£452,500	£651	OTM
B2-143	2	14	68.5	737	£462,500	£627	OTM
2 Bed Unit Average					**£440,357**	**£615**	
Overall Average						**£634**	

4.22 While the prices in this table reflect asking prices, the agent advised that buyers may be expected to achieve discounts of between 2% and 5% on asking price. It was also commented that so far, the larger units have been receiving greater interest from buyers. In terms of buyer demographic, we are advised that around 60% of the units that have been reserved to date are from the marketing of units in London, with around 35% having been sold via the agent's Asia offices.

4.23 The selection of evidence above indicates that the one bed units range in value reflecting £6,900 to £7,395 per sqm (£641 to £687 per sq ft) and average £7,135 per sqm (£663 per sq ft) with the two bed units ranging in value reflecting £6,330 to £7,007 per sqm (£588 to £651 per sq ft) and average £6,620 per sqm (£615 per sq ft).

4.24 We would comment that the units at Lewisham Gateway would potentially be expected to achieve greater buyer interest and value due to its central location and proximity to the railway and DLR station. The proposed extension to the Bakerloo Line will also add value although with expected delivery and opening of this station approximately 10 years away we would anticipate additional value growth to be realised in the future.

Tower Loft Apartments, Tower House, Lewisham High Street

4.25 Tower House is located on Lewisham High Street in Lewisham town centre and is in the process of being converted to residential use with a fifth floor extension. The third floor benefited from change of use under permitted development rights and as such, development commenced in 2015 with marketing of the first 18 units commencing immediately.

4.26 Urban Delivery undertook a viability review of this scheme in early 2016, and we are therefore familiar with the achieved selling prices for the first phase of units on the third floor of the development. The units were sold to overseas investors in mid-2015 with an average value reflecting £6,845 per sqm (£636 per sq ft).

4.27 We are aware that a number of these units were re-marketed in late 2016 and include a table below setting out the sale prices achieved.

Re-Sales - Tower Loft Apartments, Lewisham High Street, SE13							
Unit	Floor	No Beds	Area (sqm)	Area (sq ft)	Price	£psf	Reservation Date
3.1	3rd	1	55.0	592	£ 385,000	£ 650	Dec-16
3.4	3rd	1	49.5	533	£ 375,000	£ 704	Dec-16
3.7	3rd	1	50.0	538	£ 385,000	£ 716	Dec-16
3.8	3rd	1	50.0	538	£ 360,000	£ 669	Dec-16
3.9	3rd	1	48.5	522	£ 372,500	£ 714	Dec-16
3.10	3rd	2	67.0	721	£ 430,000	£ 596	Dec-16
3.11	3rd	1	55.0	592	£ 385,000	£ 650	Dec-16
3.16	3rd	1	49.0	527	£ 350,000	£ 664	Dec-16
3.17	3rd	1	52.0	560	£ 365,000	£ 652	Dec-16
3.18	3rd	2	66.5	716	£ 455,000	£ 635	Dec-16
Average Price			**54.2**	**584**	**£ 386,250**	**£ 662**	

4.28 As can be identified from this evidence, the achieved value has increased to £7,125 per sqm (£662 per sq ft). We would comment that these comprise mainly one bed

units with an average unit price of circa £380,000. Where a broader mix of two and three bedroom units would be included we would anticipate the average £/sqm (£/sq ft) to be lower. We note that the two bed units range in value from £6,415 to £6,835 per sqm (£596 to £635 per sq ft).

Renaissance, Loampit Vale – Barratt Homes

4.29 Barratt Homes' 788 dwelling scheme known as Renaissance is now relatively historic in terms of providing sales values for new-build homes in Lewisham town centre. The development is situated to the north of the subject Property and is now completed.

4.30 From our previous investigations into this development in connection with other viability reviews we have carried out for the Council over the past four years, we set out below a selection of details we have available for units within this scheme.

Roma Corte - Renaissance, Loampit Vale						
Unit	No Beds	Area sq m	Area sq ft	Price	£psf	Sold Date
Plot 350	1	45.7	492	£ 318,000	£ 646	Q1 2015
Plot 358	1	45.7	492	£ 322,000	£ 655	Q1 2015
Plot 364	1	45.7	492	£ 320,000	£ 651	Q1 2015
Plot 365	1	47.0	506	£ 325,000	£ 642	Q1 2015
Plot 207	1	49.4	532	£ 303,000	£ 570	Q2 2015
Plot 212	1	45.2	487	£ 297,000	£ 610	Q2 2015
Plot 213	1	49.4	532	£ 306,000	£ 575	Q2 2015
Plot 218	1	45.2	487	£ 300,000	£ 617	Q2 2015
Plot 278	1	45.2	487	£ 353,000	£ 726	Q3 2015
Plot 290	1	45.2	487	£ 359,000	£ 738	Q3 2015
Plot 366	1	45.7	492	£ 325,000	£ 661	Q2 2015
Plot 210	2	64.2	691	£ 399,000	£ 577	Q2 2015
Plot 211	2	64.0	689	£ 394,000	£ 572	Q2 2015
Plot 216	2	64.2	691	£ 403,000	£ 583	Q2 2015
Plot 217	2	64.0	689	£ 398,000	£ 578	Q2 2015
Plot 273	2	53.8	579	£ 455,000	£ 786	Q3 2015
Plot 285	2	53.8	579	£ 465,000	£ 803	Q3 2015
Plot 288	2	64.0	689	£ 475,000	£ 690	Q3 2015
Plot 289	2	64.2	691	£ 475,000	£ 687	Q3 2015
Plot 360	2	62.6	674	£ 436,000	£ 647	Q1 2015
Plot 361	2	56.3	606	£ 419,000	£ 691	Q1 2015
Plot 369	2	56.3	606	£ 423,000	£ 698	Q2 2015
Average Price		**53.5**	**576**	**£ 375,909**	**£ 653**	

4.31 As can be seen, these sale/reservation dates are over two years old and we would have expected the local housing market to have moved on from these values.

Average sales values over the course of 2015 were in the region of £7,020 per sqm (£653 per sq ft) for one and two bedroom apartments. It should be noted that a number of these units are located on higher floors within the building and could therefore reflect a premium compared with apartments on the lower levels.

Residential Sales Summary

4.32 While there has been considerable redevelopment in the centre of Lewisham over the past few years it is notable that many of the major schemes have either completed and sales evidence is now dated.

4.33 The sales evidence for the more recent schemes highlighted in the tables above show a mix of values ranging from £6,330 to £8,255 per sqm (£588 to £767 per sq ft), with average values ranging from £6,825 to £7,125 per sqm (£634 to £662 per sq ft).

4.34 It should also be noted that the proposed development will include tall residential towers and we would envisage that units within the upper floors of these blocks will achieve a premium over units on lower floors. This is therefore in line with the characteristics of the Lewisham Gateway scheme. Although, we would have expected values at Lewisham Gateway to be superior to any other development further from the centre of town and the railway station.

4.35 Urban Delivery's previous FVA review concluded that the average private sales value across the proposed development at Axion House would be in the order of £7,100 per sqm (£660 per sq ft). This was based on a scheme of up to 16 storeys in height. We are of the opinion that achievable unit prices have not changed materially since the previous review. However, on the basis that the height of the development has been reduced and the number of more valuable units reduced, the overall average sales value will have decreased slightly. We are therefore of the view that an average sales value would be in the order if £7,083 per sqm (£658 per sq ft).

Residential Rental Values – Affordable Housing

4.36 To assess the potential value of any rented affordable homes, our assessment of the price a Registered Provider could pay to acquire any of these units is based on the London Affordable Rents. We understand this is the basis upon which the Affordable Rented units will be let. These are currently as stated below:

- 1 bed @ £144.26 per week
- 2 bed @ £152.73 per week
- 3 bed @ £161.22 per week

4.37 In assessing the potential value attributable to any Affordable Rented units we have taken into account the government's requirement for Registered Providers to reduce rents by 1% per annum up to 2020. Our calculations are based on a Registered Provider letting the units at the London Affordable Rent allowing for deductions equivalent to 30% of the gross rental income to cover annual management costs, bad debts, repairs and maintenance. The net rental income has been capitalised at a yield of 6%. We have concluded that a Registered Provider may typically adopt a blended rate for the one, two and three bedroom units of £1,593 per sqm (£143 per sq ft). This reflects a value of approximately 22% of the average private sale value.

4.38 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.

4.39 This approach indicates a blended value for the one, two and three bedroom units at £3,980 per sqm (£370 per sq ft). This reflects a value of approximately 56% of the average private sale value.

Office Values

4.40 Evidence of office transactions is limited within the new-build developments constructed in Lewisham town centre over the past few years. We have undertaken a review of the property market and set out the evidence below of which we are currently aware.

4.41 *Unit 1, 52-54 Thurston Road, SE13:* The unit comprises a 92 sqm (990 sq ft) office premises over ground and mezzanine level within a new development to the west of Lewisham station. We understand that the unit was let to JBS Solicitors Ltd in August 2016, for a term of five years at a rent of £18,000 pa. This reflects a rental rate of c.£195 per sqm (£18.18 per sq ft). It is understood the asking rent was £20,000 and that there will be a rent review after three years.

4.42 *Unit D, Silkworks, Conington Road, SE13:* The unit comprises a 96 sqm (1,029 sq ft) office premises over ground level within a recent development to the northeast of Lewisham town centre. We understand that the unit was let in May 2015 at a rent of £18,000 pa. This reflects a rental rate of c.£188 per sqm (£17.50 per sq ft).

4.43 *Unit 1, 52-54 Thurston Road, SE13:* This unit (referred to above) comprises a 92 sqm (990 sq ft) office premises over ground and mezzanine level within a new development to the west of Lewisham station. We understand that the unit was sold to Fuse Pension Fund in April 2016, for a sum of £165,000. This sale pre-dates the letting to JBS Solicitors Ltd and reflects a capital value of £1,794 per sqm (£167 per sq ft).

4.44 *Unit 2, 52-54 Thurston Road, SE13:* This unit comprises a 69 sqm (738 sq ft) office premises over ground level within a new development to the west of Lewisham station. We understand that the unit was sold to Frank Metier LLP in November 2016, for a sum of £167,000. This sale reflects a capital value of £2,435 per sqm (£226 per sq ft).

4.45 *Unit 3, 52-54 Thurston Road, SE13:* This unit comprises a 75 sqm (807 sq ft) office premises over ground level within a new development to the west of Lewisham

station. We understand that the unit was sold to a private party in October 2016, for a sum of £180,000. This sale reflects a capital value of £2,400 per sqm (£223 per sq ft).

4.46 As stated above, there is a limited volume of transactional evidence to rely on and the evidence above is for accommodation located more centrally to the town centre. As such, we do not believe the rental values achievable for any office accommodation within the proposed development would be as high. Based on the evidence available for office transactions, we would expect the proposed office accommodation to achieve rental values in the order of £172 to £183 per sqm (£16 to £17 per sq ft).

4.47 With capital values for the evidenced transactions at between £1,794 and £2,432 per sqm (£167 and £226 per sq ft) and rental values in the order of £183 to £194 per sqm (£17 to £18 per sq ft) the equivalent yield would be in the order of 7.5% to 10.00%, depending on the covenant strength and lease terms of the eventual occupiers. We note that the Applicant has adopted a yield of 8.00% in its FVA.

5 VIABILITY ASSESSMENT

Land Value

5.1 We note that since the original FVA review the Applicant has retained its opinion of the Benchmark Land Value (BLV) of £5,284,500 after an allowance for a 30% premium on top of the EUV. This is based on an assumed rental value equivalent to £107 per sqm (£10 per sq ft) and a yield of 5.25%.

5.2 Based on the evidence and comment set out in section 4, we retain our previous reservations that the site would achieve this value if restricted to its current use and potential for residential development is disregarded. For the purpose of this FVA review, a rental value of £75 per sqm (£7 per sq ft) and a yield of 7% has been adopted.

Current Use Value
Axion House, Silver Road, SE13

Premises			23,300	Sq Ft
Rent @ £7.00psf		£	163,100	
Total Rent		£	163,100	
	Say	**£**	**163,000**	**Per Annum**
Reversion				
Total Rent		£	163,000	
YP in Perp @ 7.00%			14.2857	
Gross Value				£ 2,328,571

Gross EUV	£ 2,328,571
Less: purchasers costs @ 5.8%	£ 2,200,918
Say:	**£ 2,200,000**

5.3 On the basis that the EUV is in the order of £2,200,000, it would be necessary to allow for a premium to incentivise the landowner to sell. As noted above, the Applicant has adopted a premium of 30%, justified on the assumption that the Property is currently vacant and if it was to be sold as an investment, the owner

would seek to re-let it prior to disposal, thereby reducing the risk of voids and increasing its value as an investment. On this basis, we do not believe a premium of 30% is unreasonable and would apply this to our own estimate of EUV. This would allow for a total BLV of c.£2,860,000, a reduction of £2,424,500 compared with that of the Applicant's estimated BLV.

5.4 For the purpose of this FVA review we have therefore adopted a BLV of £2,860,000 to determine the financial viability of the proposed development and to calculate a reasonable proportion of affordable housing.

Appraisal Inputs

Private Residential Sales Revenue

5.5 We note that the Applicant has adopted an average sales value of £7,083 per sqm (£658 per sq ft). This FVA review is based on current day values. We note that there remains uncertainty concerning the local property market over the next few years with a combination of government initiated measures to curb the buy-to-let sector as well as the potential impact of the UK's exit from the EU. However, recent measures to scrap SDLT on the first £300,000 of homes for first-time buyers could help to stabilise values.

5.6 In consideration of the sales evidence for new-build homes in the local vicinity we have applied an average sales value to our appraisal reflecting £7,083 per sqm (£658 per sq ft). This generates a total capital receipt of just over £53,190,000 for the private sale units.

Affordable Housing Revenue

5.7 The Applicant had initially allowed for the sale of the Affordable Rented and Intermediate homes to a Registered Provider (RP) at a value of £2,088 and £3,810 per sqm (£194 and £354 per sq ft) respectively. This is calculated to generate a capital receipt of £4,560,548. The assumed timing of this receipt is 25% upon start of construction with further payments throughout the construction period with a final payment shortly after practical completion. It is understood from the

Applicant's original FVA report that discussion has been held with the Council's planning and housing teams with regard to the calculation of these figures and agree overarching principles. However, there is no evidence of pre-application discussion with RP's to ascertain the likely values or payments the Applicant could expect to receive, as is recommended in the London Plan and the Mayor's Affordable Housing and Viability SPG 2017.

5.8 Urban Delivery has run its own appraisal on the potential value attributable to these two tenure types based on London Affordable Rent rates for the Affordable Rented units and on the assumption that 25% equity in the intermediate units will be sold to buyers with the remaining equity retained by the RP subject to an annual rental charge up to 2.75% of the outstanding 75% capital value. It is assumed that the annual income of the purchasing household of the intermediate units will not exceed £90,000 pa.

5.9 Based on these assessments, we are of the view that the average value for the Affordable Rented units could be in the order of £1,539 per sqm (£143 per sq ft) and the intermediate units could achieve in the order of £3,982 per sqm (£370 per sq ft). This would generate a capital receipt of £3,666,578 which is £893,970 less than estimated within the Applicant's FVA, based on LHA rates rather than London Affordable Rent rates.

Residential Ground Rent Revenue

5.10 The Applicant has adopted an average ground rent of £338 per private sale unit. This is based on an assumption that the ground rent will be £300, £350 and £400 for the one, two and three bedroom units respectively. These rents have been capitalised at a yield of 5.00%. This would in line with our own expectations and for the purpose of this FVA Review have adopted these figures. This generates a capital receipt of £730,080. We would comment however that following the Communities Secretary announcement on the 21st December 2017, proposing to introduce legislation to set new ground rents on long leases at zero, there is a risk this capital income may not materialise. While there is no set timeframe to

introduce this policy it has received cross-party support and is therefore likely to come into effect in the future.

Commercial Revenue – Office Uses

5.11 The Applicant has applied a rental value to the proposed office accommodation of £183 per sqm (£17 per sq ft) and an investment yield of 8.00%. Our own review of the current local office property market has identified that there is limited evidence of leasing and investment transactions. Those that have been reported within the nearby regeneration sites in Lewisham suggest that the proposed rental value is in line with that suggested by the Applicant.

5.12 The evidence for office accommodation transactions set out in section 4 of this report include accommodation within Thurston Road and at Silkworks, which are closer to the town centre. Based on this evidence we have applied a rental value equivalent to £183 per sq m (£17 per sq ft) and have adopted a yield of 8.00%. Once lettings are agreed, depending on the covenant strength, there is potential for yields to reduce and lead to a greater capital value. The adopted assumptions however generate a capital receipt of circa £1,660,000 net of rent free periods.

5.13 The Applicant has assumed a rent free period of three months. On the assumption that demand for office space appears limited and incentives are likely to be required to attract an occupier, we are of the opinion that this is an acceptable rent free term to adopt.

Purchasers Costs

5.14 With regard to the sale of the property investment elements of the scheme, including the office accommodation and the ground rent investment, we note that the Applicant has deducted a purchaser cost equivalent to 6.8% of the capital value. This would typically cover the cost of the purchaser's SDLT and professional fees. On the basis that the value of these elements exceed £500,000 we would accept that this level of purchaser cost is reasonable.

Construction Cost Advice

5.15 In order to check the Applicant's construction cost assumptions we have taken advice from Trident Building Consultancy. Trident has reviewed the Applicant's cost summary, prepared by Faithful & Gould, and analysed the broad inputs that make up the total construction costs. A copy of Trident's cost report is attached at Appendix 1.

5.16 In summary, Trident has recommended that for the purpose of this viability assessment the main construction cost should be in the order of £39,100,000 having allowed for cost contingencies and cost inflation up to the current quarter. This reflects an average build cost of circa £2,918 per sqm (£271 per sq ft) inclusive of abnormals, external works and contingency. Trident's cost reduction equates to £2,095,000, which we have applied to our appraisals.

S106 and CIL Contributions

5.17 We note that the Applicant has made an allowance in its own FVA for borough CIL of £945,736 and a Mayoral CIL of £544,194.

5.18 We have checked these CIL allowances with the Council to ensure the appropriate charging rates are adopted and appropriate indexation applied. The Council's CIL Officer has advised that the CIL contributions should be as below. We have adopted these costs within our FVA review for the current time.

- LB Lewisham CIL: £847,223
- Mayoral CIL: £419,492
- **TOTAL S106 & CIL COST: £1,266,715**

5.19 We note the Applicant has allowed for a S106 contribution equivalent to £331,250. We have applied this initial cost to our FVA review but understand an additional contribution of £80,000 has been requested by the GLA in connection with capacity upgrades for the DLR station. We have included this additional sum in our FVA review.

Carbon Off-set Payment

5.20 We are advised by the Council that a carbon off-set payment of c.£243,360 would be payable by the Applicant. We have therefore included this cost within our appraisal. We note that the Applicant FVA does not make any allowance for carbon off-set payments.

Professional Fees

5.21 The Applicant has adopted an average cost for professional fees reflecting 12% of construction costs.

5.22 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. While this scheme is a mixed-use development and situated within a site with constraints to working practices such as the adjoining railway and the Ravensbourne River, we are of the opinion that professional fees in the order of 10% would be sufficient. This results in a cost of c.£3,723,000.

Marketing Costs

5.23 The Applicant has applied marketing costs of 1.50% of GDV in respect to the residential elements and a fixed rate of £21.52 per sqm (£2 per sq ft) to the commercial element, which reflects a rate of 0.95% based on the gross value of the office unit. In addition, agency fees of 1.50% have been applied to the sale of the residential units and 1.00% for the sale of the office unit. The combined marketing and sales agent fees are therefore 3.00% and 1.95% for the residential and office uses respectively. A combined agent letting and legal letting fee of 15% has been applied to the office accommodation.

5.24 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. However, separate

letting and sales agency fees are usually added to this figure. In view of this, we are of the opinion that the rates adopted by the Applicant are acceptable and we have adopted the same rates within this FVA review.

Development Programme

5.25 The Applicant has assumed a six month pre-construction period to complete the S106 agreement, discharge pre-commencement planning conditions, secure funding, and procure and mobilise a construction team. A period of up to 25 months is assumed to construct the development with a further period of 10 months post completion to achieve all residential sales. It is assumed that up to 60% of sales could be achieved off-plan. Having considered this programme, we are of the view that these assumed timings are reasonable and have adopted the same programme within out FVA review.

Finance Costs

5.26 The Applicant has adopted a finance rate of 6.75% on development 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.

5.27 It should also be borne in mind however that in practice, in order to limit loan to value ratios to no more than 70% to 80%, 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

5.28 We note the Applicant has targeted a blended profit rate of 18.8% profit on Gross Development Value. This is derived from a requirement for 20% on the private residential units, 6% on the affordable homes and 16.67% on the commercial unit (this is based on 20% profit on cost). Despite this, the Applicant's FVA indicates a return equivalent to only 0.59% profit on GDV.

5.29 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. The Applicant has indicated in its original FVA report that '*there have been clear signs expressed by the RICS and a range of agents that there are short to medium concerns for the central London residential market. This increased risk is finding its way to the margins that lenders are requiring in regard to loan facilities and also profit expectations for speculative development*'. The FVA report also cites additional risk concerns such as the location of the Property, particularly for the proposed commercial unit, the scale of development, real levels of debt and wider economic context.

5.30 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 issues referenced in the Applicant's FVA are reasonable considerations at this stage in the development programme. However, once certain planning issues can be resolved and if any pre-sales or pre-lettings can be agreed prior to commencement of development, it may be justifiable to reduce profit expectations in line with a reduced risk profile.

5.31 We have also had regard to guidance in the Mayor of London Affordable Housing and Viability 2017 SPG as well as the Revised NPPF and supporting NPPG (July 2018) which sets anticipated profit rates at between 15% and 20% on GDV, with the higher rates reserved for complex and high risk development schemes.

5.32 For the purpose of this FVA review and having regard to the proposed scheme, we would apply a profit rate of 17.5% on GDV for the private sale and commercial units and 6% on GDV for the Affordable Housing. For the purpose of this FVA Review this reflects a blended target profit rate of 16.79%. Our own appraisal is indicating the proposed development is generating a profit on GDV of 9.52%.

6 VIABILITY OUTPUTS

Viability Findings

6.1 Having reviewed the Applicant's FVA report addendum setting out justification for certain assumptions, we have undertaken our own updated appraisal and while we find that many of the Applicant assumptions are reasonable, we set out below where we have arrived at a different conclusion.

Input	Applicant Assumption	Urban Delivery Assumption	Comment
BLV	£5,284,500	£2,860,000	We believe the existing premises requires refurbishment and due to its location would have limited appeal to new tenants. We have reflected this in the EUV.
Construction Costs	£41,194,000	£39,100,000	Urban Delivery costs based on Trident review. (costs include contingency)
CIL	BCIL: £945,736 MCIL: £544,194	BCIL: £847,223 MCIL: £419,492	CIL figures provided by Council CIL Officer.
Professional Fees	£4,707,960 (12%)	£3,723,810 (10%)	Fees are based on percentage of construction costs.
Carbon Off-Set	Excluded	£243,360	Figure provided by Council
Cost Total	**£52,631,390**	**£47,193,885**	**Saving of £5,437,505**
Affordable Housing	£4,560,548	£3,666,578	We have based rented units on London Affordable Rent figures resulting in a lower £/sqm than the Applicant estimate.
Value Total	**£4,560,548**	**£3,666,578**	**Reduced value of £893,970**
Total Variance			**£4,543,535**

6.2 This table summary sets out that the Urban Delivery appraisal has identified £4,543,535 of either cost reductions or added value which could boost viability of the proposed development scheme.

6.3 Based on our opinion of Gross Development Value for the proposed development, including the provision of 20.5% affordable housing, the development costs and a Benchmark Land Value of £2,860,000, the proposed development scheme is generating a profit to the developer of c.£5,638,000 which reflects a return of 9.52% based on GDV. For the targeted return of 16.79% to be achieved, we calculate that there is a deficit of c.£4,309,000.

6.4 In view of this output, we are of the opinion that the proposed development is unable to support the inclusion of any additional on-site affordable housing at the current time, which would further impact negatively on the viability of the development scheme.

Sensitivity Analysis

6.5 We have undertaken a series of sensitivity analyses to identify the potential upside and downside risk to the Applicant's proposed scheme. The tables below set out the forecast profit levels that the scheme could generate where the sales values of the private residential units fall and rise by the stated level. This sensitivity testing assumes that the scheme is delivering 20.5% affordable housing.

Sensitivity of Private Residential Sales Values

Residential Sales Value (£/sq ft)	Profit on GDV	Variance from Target (16.45%)
£658 (0%)	9.52%	-7.27%
£691 (+5%)	13.41%	-3.38%
£724 (+10%)	16.95%	+0.16%
£625 (-5%)	5.23%	-11.56%
£592 (-10%)	0.50%	-16.29%

6.6 As can be seen from the outputs in the tables above, it will be necessary for the private residential sales value to increase by nearly 10% to achieve a level of developer return in excess of 16.79%. We estimate that values would need to increase by c.9.75% and an average sales value of £7,771 per sqm (£722 per sq ft) to achieve a target return of 16.79% on GDV. However, should current market uncertainties have a detrimental impact on sales values and the wider commercial property market, the developer profit will fall further and adversely impact on the overall financial viability of the project.

6.7 We have undertaken further sensitivity testing to ascertain the level of residential value increase necessary to support 35% and 50% affordable housing. The results are set out below.

% Affordable Homes	Required Sales Value	Alternative Surplus
50%	£972 per sq ft	£20,713,000
35%	£820 per sq ft	£8,689,000

6.8 In order to achieve a 50% policy compliant mix of affordable homes the average private sales value would need to increase by approximately 47.75% to achieve an average of £10,462 per sqm (£972 per sq ft), resulting in an adjusted blended profit target of c.15.04% on GDV. The column indicating the 'Alternative surplus' reflects the surplus the development project would achieve assuming the stated sales value was achieved, having allowed for the agreed Benchmark Land Value and target profit of 16.79% on GDV. This surplus could be divided between developer and the Council.

Review Mechanism

6.9 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 development could generate a profit of c.£5,638,000 reflecting a return of 9.52% profit on GDV. However, to achieve the target return of 16.79%, additional value or cost savings of c.£ 4,309,000 would need to be achieved.

7.2 As at the date of this report, this level of deficit indicates that the proposed development scheme will not be able to support the inclusion of any additional affordable homes, other than the agreed 28 dwellings currently proposed, where a blended return of 16.79% is required by the developer.

7.3 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 partly by the referendum vote to exit the EU as well as a broad slowing or decline of house price growth in London 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 development scheme.

7.4 To capture any improvement in viability and profitability of the scheme that may be achieved between the grant of planning permission and the sale of all new homes, it is recommended that a review mechanism be adopted to seek a proportion of any additional uplift in value that could be used to deliver additional affordable homes.

APPENDIX 1

Trident Cost Review

Financial Viability Report

Axion House
1 Silver Road
Lewisham
London
SE13 7BQ

Report Dated 05 July 2018

Trident

Financial Viability Report

Prepared for London Borough of Lewisham
C/O Urban Delivery Limited
99 Gloucester Court
Kew Road
Richmond
Surrey
TW9 3DZ

Prepared by Trident Building Consultancy Limited
8 Angel Court
London
EC2R 7HP

T 020 7280 8194
F 020 7280 8199

Luke Antos BSc (Hons) MRICS
Luke.antos@tridentbc.com
T 020 7280 8166

Checked by Terry Cook BSc (Hons) MRICS

Reference LA/P2017-00563

Date issued 05/07/18

Financial Viability Report
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Axion House, 1 Silver Road,
Lewisham, London, SE13 7BQ

1.0 Introduction

1.1 Trident Building Consultancy Limited were appointed by Urban Delivery Limited to review the updated construction cost estimate for the proposed residential development at Axion House, 1 Silver Road, Lewisham, London, SE13 7BQ.

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 0.49 hectares in area and is of an irregular shape. Access into site is via Silver Road adjacent to a bridge which provides access under the railway.

2.1.2 The application site remains as previously specified of a two-storey warehouse/depot (Use Class B8) with associated yard and parking. The building was built in the 1980's and measures approximately 23,000ft2 (GIA).

2.1.3 The proposed revised development will comprise of the demolition of existing buildings and erection of a new residential-led mixed use development comprising two linked buildings ranging from ground plus 4 to 8 storeys, and ground plus 4 to 15 storeys, to provide 136 residential units, and including flexible B1/A1/A3 use and flexible B1/A1/A3/D2 use at ground floor, associated landscaping works, vehicular access, and other works incidental to the development.

2.1.4 Based on the revised scheme described above the main changes that have been incorporated in the new design are as follows:

- Reduction of the residential units from 153 units to 136 units
- Reduction of height on the northern most building by a single storey
- Reduction of height of the middle portion of the building by two storeys
- Changes to the layouts and elevations to incorporate the new reduction of units and tenure mix.
- Addition Photovoltaic panels to the northern- most terrace to serve the non-residential units.

2.1.5 The proposed residential unit mix amendments from the previous Cost estimate, November 2017 to the updated cost estimate, June 2018 is as follows:

	November 2017		June 2018	
Unit Type	**Nr. Of Units**	**%**	**Nr. Of Units**	**%**
1-bed flat	56	37	**48**	**36**
2-bed flat	71	46	**64**	**47**
2-bed duplex	4	3	**4**	**3**
3-bed flat	20	13	**18**	**13**
3-bed duplex	2	1	**2**	**1**
TOTAL	**153**	**100**	**136**	**100**

2.2 INFORMATION RECEIVED

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

- Axion House, London, SE13 7BQ Financial Viability Assessment May 2017
- Axion House, London, SE13 7BQ, Addendum To The Financial Viability Assessment – Axion House May 2018 with supporting Appendix 1-6

2.3 DEVELOPMENT AREAS

2.3.1 The Applicant's Appraisal is based on a construction cost using a Gross Internal Floor area of 144,216ft² (13,398m^2). This area accords with the Faithful & Gould Cost Plan 01 Rev 05 dated 23 April 2018. The breakdown provided to this area is as follows:

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 Faithful & Gould has provided a revised total construction cost of £41,195,000 compared to the original Rev 3 cost estimate in the sum of £44,416,000; the costs have still been based at 2nd Quarter 2017 however we consider the rates reflect current day pricing levels as at 2nd Quarter 2018. The costs incorporate the same contingency of 5% equating to a new revised amount of £1,962,000.

3.1.2 The Faithful & Gould revised cost estimate REV 05 comparison from the previous cost estimate REV 03 is as follows:

		Cost estimate REV 03 November 2017		Cost estimate REV 05 June 2018		Movement
		14,780m²		13,398m²		-1,382m²
		Total	£/m²	Total	£/m²	Total
1.0	**Demolition & Enabling Works Sub-total**	**£683,800**	£46	**£683,800**	£51	**£0**
1.1	Allowance for Japanese Knotweed	£50,000	£3	£50,000	£4	£0
	Demolition of existing buildings	£320,000	£22	£320,000	£24	£0
	Break out ground floor slabs and hardstandings and stockpile	£60,000	£4	£60,000	£4	£0
	Working in close proximity to existing buildings	£50,000	£3	£50,000	£4	£0
	Working in close proximity to existing buildings and railway	£75,000	£5	£75,000	£6	£0
	Breaking out existing hardstandings and foundations	£28,800	£2	£28,800	£2	£0
	Asbestos removal	£100,000	£7	£100,000	£7	£0
1.0	**Substructure Sub-total**	**£1,759,034**	**£119**	**£1,753,252**	£131	**-£5,782**
1.1	Substructure	£1,759,034	£119	£1,753,252	£131	-£5,782
2.0	**Superstructure Sub-total**	**£16,836,325**	**£1,139**	**£15,390,924**	£1,149	**-£1,445,401**
2.1	Frame & Upper Floors	£4,523,826	£306	£4,080,158	£305	-£443,668
2.3	Roof	£1,339,598	£91	£1,334,108	£100	-£5,490
2.4	Stairs and ramps	£253,200	£17	£253,200	£19	£0
2.5	External walls, Windows and external doors	£8,126,437	£550	£7,386,844	£551	-£739,593
2.6	Internal walls and partitions	£1,962,239	£133	£1,759,439	£131	-£202,800
2.7	Internal doors	£631,025	£43	£577,175	£43	-£53,850
3.0	**Internal finishes Sub-total**	**£2,281,625**	**£154**	**£2,065,426**	**£154**	**-£216,199**
3.1	Wall Finishes	£682,209	£46	£614,575	£46	-£67,634

		Cost estimate REV 03 November 2017		Cost estimate REV 05 June 2018		Movement
3.2	Floor Finishes	£1,025,031	£69	£931,746	£70	-£93,285
3.3	Ceiling Finishes	£544,385	£37	£489,105	£37	-£55,280
3.4	Finishes Generally	£30,000	£2	£30,000	£2	£0
4.0	**Fittings, furnishings and equipment**	**£1,265,100**	**£86**	**£1,143,200**	**£85**	**-£121,900**
4.1	Fittings, furnishings and equipment	£1,265,100	£86	£1,143,200	£85	-£121,900
5.0	**M&E Services Sub-total**	**£9,074,867**	**£614**	**£8,295,177**	**£619**	**-£779,690**
5.1	M&E Installation	£8,013,550	£542	£7,284,570	£544	-£728,980
5.2	Lift and conveyor installations	£797,000	£54	£769,000	£57	-£28,000
5.3	Builder's work in connection with services	£264,317	£18	£241,607	£18	-£22,710
6.0	**Commercial Sub-total**	**£1,026,686**	**£69**	**£1,032,169**	**£77**	**£5,483**
6.1	Commercial	£1,026,686	£69	£1,032,169	£77	£5,483
7.0	**External works Sub-total**	**£1,526,315**	**£103**	**£1,526,315**	**£114**	**£0**
7.1	External Works	£1,526,315	£103	£1,526,315	£114	£0
8.0	**Services Sub-total**	**£885,000**	**£60**	**£885,000**	**£66**	**£0**
8.1	Services	£885,000	£60	£885,000	£66	£0
	Building works estimate	**£35,338,752**	**£2,391**	**£32,775,263**	**£2,446**	**-£2,563,489**
7.1	Main contractor's preliminaries - 14%	£4,947,425	£335	£4,588,537	£342	-£358,888
7.2	Main contractor's overheads and profit - 5%	£2,014,309	£136	£1,868,190	£139	-£146,119
	Base cost estimate					
	Design development risk - 5%	£2,115,000	£143	£1,961,599	£146	-£153,401
11.0	**Risks Sub-total**	**£2,115,000**	£143	**£1,961,599**	£146	**-£153,401**
	Rounding	**£514**		**£1,411**		**£897**
	Cost limit (excluding inflation)	**£44,416,000**		**£41,195,000**		**-£3,221,000**

3.2 REVIEW OF CONSTRUCTION COST

3.1.1 The Applicant's Cost Plan equates to a construction cost of £3,075/m2 including abnormals, external works and contingency. This cost is higher than we would normally expect for developments of this nature.

3.1.2 The Elemental Costs reported in the Applicant's Cost Plan are similar to the previous estimate and many of the rates have not altered. Quantities for various building elements have been adjusted to reflect the reduced number of units.

3.1.3 The reported construction cost of £41,195,000 represents both Commercial and Residential. For the purpose of this comparison against the benchmarking a detail split has been extracted from the Cost Estimate. The splits are as follows.

	Area m²	Cost £	£/m²
Commercial	740	£1,236,000	£ 1,670
Residential	12,658	£39,959,000	£ 3,157
	13,398	**£41,195,000**	**£ 3,075**

3.3 Commercial

3.2.1 We have reviewed the Applicant's Cost Plan for the Commercial areas this cost has increased from the previous cost estimate REV 03 however the commercial area has not increased or changed. The overall cost of the commercial units has increased by £5,483 and although an explanation has not been provided for this change it is not significant in the context of the overall scheme.

3.3 Residential Units

3.3.1 The residential cost element at £3,157/m2 of the GIFA is higher than similar schemes of this nature. This is considered further in Section 4.0 Benchmarking.

3.3.2 Having reviewed the Applicant's revised cost plan, the comments and adjustments proposed in the previous Viability Report issued 16 November 2017 regarding Cost Estimate Rev 03 are relevant.

3.3.3 Our review of the estimate has identified a number of items which we consider to be above typical benchmark costs. These items are detailed in Appendix A. We would therefore suggest the construction cost for this project to be £39,100,000 as set out below.

A)	Original Cost Plan (adjusted for time)	£	41,195,000.00
B)	Adjustment for changes to Cost Estimate		(2,106,843.00)
C)	Revised Current Day Construction Cost	£	39,088,157.00

Say £39.1 million

3.4 Cost Adjustments

3.4.1 The main areas where costs have been adjusted are as follows:

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Demolition and Enabling Works

- Japanese Knotweed

Substructures

- Testing allowance
- Ground floor slab

Roof

- Waterproofing to roof
- Decking to roof gardens
- Tree and lighting allowances to roof gardens

External Facades

- External brick, clad and corrugated facades
- Balcony balustrading

Lift Installations

- Allowances for lifts

Commercial

- Ground floor slab
- Facades
- M&E Installations

External Works

- Hard landscaping (blended rate)
- Deck platform
- Feature lighting and CCTV

3.4.2 The revised cost equates to £2,918/m2 or £271/ft2 based upon the GIFA

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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	Total - Mixed Tenure, schemes >50 Units	13	2,207 to 3,214	2,648	2,530
2	**BCIS (See Note 2)**				
2.1	Apartments /Flats (6+ Storeys)	82	1,725 to 2,255	2121	2,045
3	**SPONS**				
3.1	Spon's Pricing Book high quality apartments in residential tower – Inner London	N/A	2,275 to 2,900	N/A	2,588

Notes

1) - The range of costs for Trident historic data is based upon schemes larger than 50 units

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

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

4.3 When compared to Trident data, the residential cost of £3,157/m² is at the upper end of the data range. The Trident data is based upon projects that are greater than 50 nr units and many are of a comparable size and specification to Axion House. The mean average cost is £2,648/m2 and the median cost is £2,530/m2 and Axion House is significantly above both of these figures. The cost is £509/m2 above the Trident mean cost and £627/m2 above the median cost. The Applicant's construction cost is also much higher than BCIS cost data.

4.4 To facilitate a like for like comparison with the BCIS Data, the sums included for facilitating works, external works, abnormals and drainage should be omitted from the Applicants cost estimate. The items total £2,886,000 (£1,827,000 for external works and £1,059,000 for services infrastructure). A Contingency allowance of 5% is then added so the total cost of this element is £3,030,300 (£239/m2).

4.5 Once the allowance for facilitating works and external works are deducted from the total cost of £3,157/m2, the cost for the residential building only is £2,917/m2. This sum is still significantly above BCIS cost benchmarks. It is also at the upper end of the Spon's Pricing book allowances. The Applicant's cost is also at the upper end of the Trident cost benchmarks and notably higher than the mean and median cost benchmarks. It is one of the highest cost allowances we have reviewed in Lewisham and Bromley when expressed at a cost £/m2. This supports the view that the cost is high and should be reduced for the purpose of a viability study.

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5.0 Summary

5.1 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 £41,195,000.00; this is based on costs at 2nd Quarter 2018. This excludes Professional Fees, Inflation and VAT.
- The Commercial unit cost of £1,236,000 at £1,670 /m2 is considered a reasonable estimate of cost.
- Many of the comments made in the previous report are still applicable.

5.2 For the purposes of a Financial Viability Report, as at 2nd Quarter 2018, we would recommend a total construction cost of £39,100,000 which equates to £2,918/m² including abnormals, external works and contingency.

Appendix A

Cost Adjustments

Axion House, 1 Silver Road, Lewisham

Cost Adjustments - 05/07/18

Residential	12658	m2
Commercial	740	m2
TOTAL	**13398**	**m2**

Item	Description	F&G cost	F&G cost per m2	Trident Proposed cost	Trident cost per m2	Total Cost Reduction	Comments
1	**Demolition & Enabling Works**						
1.1	Japanese Knotweed	£50,000	£3.95	£25,000	£1.98	£25,000	Area advised to be 2 x 4m long by 2m deep). Revised cost
2	**Substructures**						
2.1	Provision for testing	£67,077	£5.30	£20,000	£1.58	£47,077	Pile testing only
2.2	Ground floor slab	£216,999	£17.14	£196,695	£15.54	£20,304	250mm thick slab. F&G rate £171/m2. Trident proposed £155/m2.
3	**Roof**						
3.1	Waterproofing to roof	£534,420	£42.22	£320,580	£25.33	£213,840	F&G rate £300/m2. Trident proposed £180/m2.
3.2	Decking to roof gardens	£187,863	£14.84	£117,415	£9.28	£70,448	F&G rate £200/m2. Trident proposed £125/m2.
3.3	Tree and lighting allowances to roof gardens	£191,000	£15.09	£120,000	£9.48	£71,000	
4	**External Facades**						
4.1	Brick façade	£3,034,350	£239.72	£2,697,200	£213.08	£337,150	F&G façade rate £450/m2. Trident proposed £400/m2.
4.2	Balcony balustrading	£309,100	£24.42	£224,800	£17.76	£84,300	F&G rate £550/lm. Trident proposed £400/lm.
5	**M&E installations**						
5.1	M&E installations (excluding abnormals)	£5,745,700	£453.92	£5,316,360	£420.00	£429,340	Trident propose M&E (Inc renewables and connections exc Energy Centre) to be £420/m2
6	**Lift Installations**						
6.1	Allowance for lifts	£769,000	£60.75	£700,000	£55.30	£69,000	
7	**Commercial**						
7.1	Ground floor slab	£76,950	£103.99	£69,750	£94.26	£7,200	250mm thick slab. F&G rate £171/m2. Trident proposed £155/m2.
8	**External Works**						
8.1	Hard landscaping (blended rate)	£149,250	£11.79	£119,400	£9.43	£29,850	F&G rate £250/m3. Trident proposed £200/m2.
8.2	Deck platform	£420,525	£33.22	£283,500	£22.40	£137,025	F&G rate £445/m3. Trident proposed £300/m2.
8.3	Feature lighting and CCTV	£145,000	£11.46	£100,000	£7.90	£45,000	Revised cost to align with scope
9	**VAT items**						
9.1	Non recoverable VAT on carpets	£56,533	£4.47	£0	£0.00	£56,533	All VAT excluded from cost plan
9.2	Non recoverable VAT on White goods	£56,000	£4.42	£0	£0.00	£56,000	All VAT excluded from cost plan

SUBTOTAL		£1,699,067
Preliminaries	14%	£237,869
OHP	5%	£84,953
Contingency	5%	£84,953
TOTAL COST REDUCTION		**£2,106,843**

APPENDIX 2

Development Appraisal Summary

Axion House Proposed Scheme
Urban Delivery Assumptions
20.5% Affordable Housing

Development Appraisal
Urban Delivery
14 September 2018

APPRAISAL SUMMARY URBAN DELIVERY

Axion House Proposed Scheme
Urban Delivery Assumptions
20.5% Affordable Housing

Summary Appraisal for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Building C Market Housing	65	49,516	658.00	501,254	32,581,528
Building B Market Housing	43	31,320	658.00	479,269	20,608,560
Affordable Rent	24	18,406	143.00	109,669	2,632,058
Shared Ownership	4	2,796	370.00	258,630	1,034,520
Totals	**136**	**102,038**			**56,856,666**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Rents	65			338	21,970	21,970
Ground Rents	43			338	14,534	14,534
Commercial Space	6	7,969	17.00	22,579	135,473	135,473
Totals	**114**	**7,969**			**171,977**	**171,977**

Investment Valuation					
Ground Rents					
Current Rent	21,970	YP @	5.0000%	20.0000	439,400
Ground Rents					
Current Rent	14,534	YP @	5.0000%	20.0000	290,680
Commercial Space					
Market Rent	135,473	YP @	8.0000%	12.5000	
(3mths Rent Free)		PV 3mths @	8.0000%	0.9809	1,661,142
					2,391,222

GROSS DEVELOPMENT VALUE				**59,247,888**
Purchaser's Costs			(162,603)	
				(162,603)
NET DEVELOPMENT VALUE				**59,085,285**
NET REALISATION				**59,085,285**
OUTLAY				
ACQUISITION COSTS				
Fixed Price			2,860,000	
				2,860,000
Stamp Duty		5.00%	143,000	
Agent Fee		1.30%	37,180	
Legal Fee		0.50%	14,300	
				194,480
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Commercial Space	6 un	206,000	1,236,000	
Demolition	1 un	819,000	819,000	
Build Costs C	1 un	15,664,940	15,664,940	
Build costs A & B	1 un	16,632,160	16,632,160	
External Works	1 un	1,827,000	1,827,000	
Services Infrastructure	1 un	1,059,000	1,059,000	
Totals			**37,238,100**	**37,238,100**
Contingency		5.00%	1,861,905	
Lewisham S106			331,250	
MCIL			419,492	
Lewisham CIL			847,223	

Axion House Proposed Scheme
Urban Delivery Assumptions
20.5% Affordable Housing

GLA S106 (DLR Capacity)			80,000	
Carbon Off-Set Payment			243,360	
				3,783,230
PROFESSIONAL FEES				
Professional Fees		10.00%	3,723,810	
				3,723,810
MARKETING & LETTING				
Marketing Resi		1.50%	797,851	
Marketing Commercial	7,969 ft²	2.00 pf²	15,938	
Letting Agent & Legal Fee		15.00%	25,797	
				839,586
DISPOSAL FEES				
Sales Agent Fee Commercial		1.00%	36,382	
Sales Agent Fee Resi		1.50%	653,756	
Sales Agent Fee AH		1.50%	53,008	
Sales Legal Fee Resi		0.25%	111,546	
Sales Legal Fee Commercial		0.25%	9,095	
Sales Legal Fee AH		0.25%	8,835	
				872,621
FINANCE				
Debit Rate 6.750%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				3,935,171
TOTAL COSTS				**53,446,999**
PROFIT				
				5,638,286

Performance Measures	
Profit on Cost%	10.55%
Profit on GDV%	9.52%
Profit on NDV%	9.54%
Development Yield% (on Rent)	0.32%
Equivalent Yield% (Nominal)	7.10%
Equivalent Yield% (True)	7.42%
IRR	14.53%
Rent Cover	32 yrs 9 mths
Profit Erosion (finance rate 6.750%)	1 yr 6 mths