Appendix 2

Viability Report

Conington Road, Lewisham,

Viability Assessment

for
London Borough of Lewisham

November 2018

Prepared by

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

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1 INTRODUCTION

1.1 GL Hearn has been instructed by the London Borough of Lewisham to undertake a viability assessment in respect of a proposed development at Conington Road, Lewisham, for which a planning application has been submitted by the Meyer Homes (the Applicant).

1.2 The subject property comprises 218 car parking spaces and a cleared hardstanding area to the north west of the Tesco petrol station. The site comprises a total of 0.9826 hectares (2.42 acres).

1.3 The site is situated on Conington Road to the north and is circa 0.2 miles to the north of Lewisham railway station and within a circa 10 minute walk from Lewisham Retail Park.

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

- EPR Architects - Architects
- Stace - Budget estimate

The Application Scheme

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

“Construction of three buildings measuring 34, 14 and 8 storeys to provide 365 residential dwellings and 554sqm gross of commercial/community/office/leisure space (Use class A1/ A2/ A3/ B1/ D1/ D2) with associated access, servicing, energy centre, car and cycle parking, landscaping and public realm works”.

1.6 The Applicant is proposing to provide three blocks containing 365 units and 5,952 sq ft commercial accommodation and public realm.

1.7 For reference, GL Hearn advised the Council on a previous application at the subject site in June 2017 which was refused. The revised application seeks to provide the same quantum of residential units and commercial accommodation with minor scheme amendments.

1.8 JRB has provided an updated financial viability assessment to inform the revised application which proposes the same provision of affordable housing as the previous application following viability discussions in November 2017.

1.9 JRB has modelled two scenarios for the revised application with both scenarios assuming the same affordable housing provision as the 2017 application but altering the level of Local and Mayoral CIL on the assumption that planning consent is secured either before or after March 2019.

- Scenario 1 - assumes planning consent is granted before March 2019 and assumes a combined cost allowance of £3,153,785 for Local and Mayoral CIL.

- Scenario 2 - assumes planning consent is granted after March 2019 and assumes a combined cost allowance of £7,783,780 for Local and Mayoral CIL.

1.10 JRB previously concluded that the proposed scheme comprising an affordable housing provision of 20.19% by habitable room was unviable which was accepted by GL Hearn in their updated review of November 2017, although the extent to which was not agreed between the two parties. Nerveless the Applicant was willing to proceed with the development.

1.11 JRB has indicated that the revised application comprising the same provision of affordable housing is also in a deficit position but the viability shortfall has increased further. However despite the apparent worsening in scheme viability we understand that the applicant is willing to proceed with the development and proposed level of affordable housing.

2 GENERAL METHODOLOGY

2.1 GL Hearn's review of the FVA has had regard to the RICS Guidance Note "Financial Viability in Planning".

2.2 We do not take issue with the overarching methodology used by JRB within his revised assessment. He has:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme;
- Assessed a Benchmark Land Value (based on the EUV)
- Undertaken a residual appraisal to calculate the level of profit of the scheme based on the applied cost and value assumptions of the proposed development whilst including the Benchmark Land Value as a fixed land cost in the appraisal to establish whether the scheme is able to meet the target profit margin or not assuming the current level of planning obligations.

2.3 JRB has once again used the Argus Developer appraisal programme to assess the viability of the development. This is a commercially available, widely used software package for the purposes of financial viability assessments. The methodology underpinning viability appraisals is the Residual Method of Valuation, commonly used for valuing development opportunities. Firstly, the gross value of the completed development is assessed and the total cost of the development is deducted from this.

2.4 The approach adopted by JRB has been to adopt a number of assumptions in relation to the proposed scheme including the assumed BLV as a fixed land cost in the appraisal which produces the level of profit derived from the scheme. With this approach, if the level of profit produced is lower than the target return, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development unless the level of affordable housing and/or planning obligations can be reduced.

2.5 The Applicant has offered the same provision of affordable housing as before totalling an affordable provision of 20.19% by habitable room which includes the following mix;-

- Social Rent - 16 units
- Affordable Rent - 27 units
- Discounted Market Sale - 30 units
- Total - 73 units (20% by unit number)

2.6 As mentioned above JRB has modelled two scenarios for the revised application altering the level of Local and Mayoral CIL on the assumption that planning consent is secured either before or after March 2019.

- Scenario 1 - assumes planning consent is granted before March 2019 and assumes a combined cost allowance of £3,153,785 for Local and Mayoral CIL.

- Scenario 2 - assumes planning consent is granted after March 2019 and assumes a combined cost allowance of £7,783,780 for Local and Mayoral CIL.

2.7 When adopting his own assumptions, JRB has concluded that Scenario 1 derives a profit of 10.22% on cost and Scenario 2 derives a profit of 6.23% on cost against a target of 22.5% on costs. Therefore according to JRB, Scenario 1 demonstrates a viability shortfall of £18.34m and Scenario 2, a shortfall of £25.1m.

2.8 With regard to the 2017 application we had previously concluded that when adopting our own assumptions we arrived at a residual land value of £853,376 and when adopting our position in regard to the BLV of £2,975,000 the scheme provided a negative position of £-2,121,624 on the basis of maintaining the profit margin of 22.50% on cost, whereas JRB had concluded that this deficit was understated.

2.9 The revised financial viability assessment incorporates a number of revised assumptions to inform the viability position demonstrated by JRB including alterations to his opinion of the Benchmark Land Value, private sales values, Discounted Market Sale values, ground rents and build costs.

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

2.11 GL Hearn's approach has been to critically examine all of the assumptions on which the JRB appraisal is based including the previously agreed assumptions to ensure that they reflect current market levels.

2.12 As before it is also important to carefully scrutinise the applicant's methodology, in particular the measure of benchmark land value which has a fundamental effect on the viability equation. In this case JRB has once again considered it on a number of bases, including the existing use value of the car park on the basis of an assumed 268 car parking spaces, its value as open storage, both to which a land owner's premium has been applied, its value on the basis of an assumed development as an alternative use value and in considering land transactions before arriving at an assumed Benchmark Land Value of £4,200,000.

3 CRITIQUE OF BENCHMARK LAND VALUE

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

3.2 Arriving at an appropriate BLV is not a straightforward exercise and this is acknowledged at 3.4.6 of the RICS Guidance Note which states that:

> *"The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF."*

3.3 In arriving at an appropriate BLV regard should be had to existing use value, alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy. Existing Use Value is widely used in establishing Benchmark land value and is supported in the latest mayoral SPD and the new NPPF PPG update.

Summary of Applicants Position

3.4 JRB has put forward a BLV of £4,200,000 having once again considered a number of valuation bases to include existing use value (EUV), alternative use value (AUV) and development land transactions. The subject site comprises an existing car park comprising 218 car parking spaces and a cleared hard standing area which we are informed could provide a further 50 car parking spaces resulting in a total of 268 car parking spaces.

3.5 Previously JRB applied a figure of £10,000 per space to the assumed 268 spaces resulting in an EUV of £2,680,000. In subsequent correspondence JRB adjusted his methodology and applied a value of £15,000 per space to the existing 218 car parking spaces totalling £3,270,000 and an additional £300,000 was included for the semi derelict site to reflect the costs of bringing the site into car parking use.

3.6 In the latest financial viability report dated October 2018, in considering the value of the car parking spaces, on an EUV basis, JRB has provided the same comparable evidence as the previous FVA with the addition of two comparables and once again stating that most of the car parks are leased and the price achieved on a per space basis is dependent on the lessee covenant strength. We would comment that the two new transactions are not remotely comparable to the subject premises. The Saffron Hill Car Park, which was sold on 2015, is a 6 storey secure car park let to Bishopsgate Parking No.2 (headlease expiry 2064) and sublet to NCP. The Kingston Road North Car Park is a

130 space secure underground car park in Knightsbridge. For ease of reference I detail our summary position stated in GLH's November 2017 updated report below;

3.7 *GLH has considered, as per the original draft report, that a value of £10,000 per space to the existing car parking spaces was the maximum reasonable value and cited recent evidence of surface car parking spaces in Hounslow town centre being acquired for between £4k to £6k per space with secure business spaces at basement level being acquired for circa £12k. We also considered business car parking permits in central Lewisham being £500 per annum and should an optimistic and unjustified yield of 5% be applied we would arrive at a value of £10,000 per space before deducting purchase costs. In this light we considered a value of £15,000 not to be justified by JRB despite his apparent site specific discussions with Euro Car Parks which allegedly pointed to a value of more that £10,000, although this was never provided.*

3.8 JRB has provided his revised workings which we duplicate below;

- 218 existing spaces x £15,000 = £3.27m plus
- 50 spaces deliverable @ £10,000 per space (after works costs of £5,000 per space) = 500,000
- A total of £3.77m
- 20% landowner premium = £4.52m

3.9 In the absence of any additional relevant evidence we remain of the opinion that an existing use value of £10k per space is reflective of comparable market evidence. For the derelict land we note that JRB has applied a cost of £5k per space to an assumed value of £15k per space totalling £500,000. As we have stated above, this was previously agreed at £300,000 as the applied value equated to £10k per space and allowed for an assumed remediation cost of £199,539 which was informed by our QS, Johnson Associates. A breakdown of this cost was detailed in Appendix A of GLH's November 2017 report. The revised value equates to an additional £200,000 from the previously agreed position, an uplift we consider to be unsupported and in the absence of further evidence to support this we remain of the opinion that £300,000 is reasonable for this derelict part of the site.

3.10 JRB has also once again considered the value of the site on the basis of open storage and has applied a rent of £2psf to the site area which has been capitalised at 7% arriving at a figure of £2,730,000. JRB has applied a landowner premium of 'at least 50%' in order to arrive at an assumed BLV of £4.1m. Again, no evidence has been provided to justify the applied assumptions and in any case we would comment that the site would incur costs to safeguard the site and in clearing the hard standing area to facilitate use as storage.

3.11 As before, JRB has also considered the site value on the basis of Alternative Use Value. He has provided the same two transactions on Thurston Road, SE13 and Trafalgar Road, SE10 for a 410 student unit scheme and a mixed use development respectively. In addition, in the attempt to justify the adopted premium he has provided the same three development land transactions. We would comment that analysis of gross land prices for potential development sites is not especially scientific given that no two sites are the same. Each site will have different characteristics and planning potential which lead to differing levels of value even within close proximity to one another. The three development transactions demonstrate a wide value range on a per acre basis of £4.025m - £15.2m.

3.12 JRB, in the revised FVA, has now also provided a table comprising average land values for industrial and residential land detailed in the GLA's economics report 'Economic Evidence Base for London 2016'. From this, JRB has taken a 'conservative' upper quartile value per hectare between residential and industrial values to consider the value for the site further which we detail below;

- 0.9826 ha x £11.73m x 1.05 (indexation since 2015 for mixed-use land) = £12m.

3.13 We would comment that this is a particularly crude approach to valuation and reiterate that the subject site is a car park and neither residential nor industrial land. Given the lack of information surrounding these transactions and the fact that Existing Use Value is now widely recognised as the appropriate methodology used in establishing Benchmark Land Value, which is supported in the latest mayoral SPD and the NPPF PPG update, we have considered the site value on the basis of existing use.

3.14 For ease of reference we detail the previous assumptions adopted by JRB in regard to BLV.

- £4,100,000
- £4,224,000
- November 2018 - £4,200,000.

3.15 With the exception of two comparables identified, which we have discounted, the revised FVA comprises the same evidence as previously provided in the original FVA. Having regard to this and current market evidence we see no reason to defer from our previous EUV position adopted and remain of the opinion that an appropriate EUV for the subject site is £2,480,461 (268 x spaces @ £10k per space - remediation of £199,539 = £2,480,461.

3.16 In our previous financial viability assessment we considered a premium of 20% to be reasonable which when applied to our opinion of EUV resulted in an assumed BLV of £2,975,000.

3.17 In line with guidance we do not take issue with a Landowner's incentive being reflected to bring the site forward for development. The most recent guidance in London is set out in the GLA SPG and this provides a range of premium between 10-30%. In this instance, whilst we consider there a reasonable chance that in the absence of a redevelopment scenario a revenue stream could be generated. However, given that there is no direct existing revenue stream, the risks associated need to be reflected in an appropriate premium. We therefore consider a premium of 20% to be reasonable in this instance.

3.18 For the purposes of our modelling we have adopted £2,975,000 for our assumed Benchmark Land Value which demonstrates a reduction of £1,225,000 when compared to the latest position assumed by the Applicant.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

Residential Value Assumptions

4.2 The revised scheme includes a total of 365 residential units, 172 x one bed units, 180 x two bed units and 13 x three bedroom units situated within three separate blocks. As before, the private and DMS accommodation is located within Blocks 1 and 2 and the affordable accommodation is situated within Block 3.

4.3 The private units have been priced once again on an individual basis by JRB which has produced an overall blended rate of £666psf for Block 1 and £675psf for Block 2 which has then been applied in the updated appraisal. The pricing of the private units demonstrates a range from £616psf to £760psf. We detail the summary pricing of the private units below;

Block	Beds	Units	Value £	Value £ / psf
Block 1	1	59	£25,517,000	£706.69
Block 1	2	108	£62,614,000	£654.50
Block 1	3	8	£7,309,000	£630.85
Block 2	1	78	£29,979,000	£695.63
Block 2	2	39	£19,554,000	£646.35
			£144,973,000	**£668.97**

4.4 We have reviewed the updated comparable evidence provided by JRB and once again undertaken our own research in order to verify the pricing assumptions adopted. Before commenting on the specific comparable evidence we briefly set out an overview of the residential market for context.

Residential Market Overview

4.5 The Land Registry House Price Index (HPI) reported in September 2018 that the annual rate of growth of house prices in England was 3.0%, and the monthly rate of change was 0.0%. The average house price in England was £249,408 at September 2018.

4.6 Nationwide's October 2018 press release reports that annual house prices growth slowed to 1.6% and comment that "October saw a slowdown in annual house price growth to 1.6% from 2.0% in September. As a result, annual house price growth moved below the narrow range of c2-3% prevailing over the previous 12 months. "However, this was broadly in line with our expectations, as the squeeze on household budgets and the uncertain economic outlook is likely to have dampened demand, even though borrowing costs remain low by historic standards and unemployment is at 40-year lows. We continue to expect house prices to rise by around 1% over the course of 2018."

4.7 Halifax's latest House Price Index Commentary reports that house prices in the three months to October 2018 were 1.5% higher than in the same three months a year earlier. The monthly change was 0.7% against a quarterly change of 0.2%. Halifax comments that *""The annual rate of house price growth has fallen from 2.5% in September to 1.5% in October, which is the lowest rate of annual growth since March 2013. However, this remains within our forecast annual growth range of 0-3% for 2018. House prices continue to be supported by the fact that the supply of new homes and existing properties available for sale remains low. Further house price support comes from an already high and improving employment rate and historically low mortgage rates which are creating higher rates of relative affordability. We see this continuing to be the case over the coming months and we remain supportive of our 0-3% forecast range*."

4.8 The General Election result, with a hung parliament and a minority Government, following on from Britain having voted to leave the EU and triggering Article 50, there will be a period of uncertainty as both the UK and indeed the world economy adjust to the implications. The short term implications will be one of adjustment and will be dependent upon financial stability, while markets, both in the UK and internationally, find a level.

4.9 Despite the uncertainty the Government are seeking to promote business as usual by reassuring the markets that investment in major infrastructure projects will continue as planned, and that increasing the supply of housing remains a national priority.

4.10 As referred to above the revised scheme includes 172 x one bed units, 180 x two bed units and 13 x three bedroom units situated within three separate blocks totalling 292 private residential units, 16 x social rented units, 27 x affordable rented units and 30 x discounted market sale units. JRB has provided further comparable evidence in the surrounding area to inform the revised pricing schedule of the proposed private units.

4.11 The updated pricing of the private units applied by JRB arrives at an average blended private sales figure of £666psf and £675psf for Blocks 1 and 2 based on the individual prices for the 292 private units. The applied values demonstrate a range from £616psf to £760psf.

4.12 For reference, within the previous FVA (May 2017), JRB's applied pricing of private units demonstrated an average blended private sales figure of £699psf and £708psf for Blocks 1 and 2 ranging from £643psf to £798psf.

4.13 We detail the revised applied average pricing of the units by unit type below;

Unit	Average Size (sq ft)	Average Price	£ psf
1 Bed	578	£405,080	£670
2 Bed	857	£558,966	£669
3 Bed	1,448	£913,625	£660

4.14 JRB has once again considered a number of comparable schemes in the locality to inform the revised pricing schedule. He has provided asking price information from Portrait 2 Lewisham Gateway and Centralis 87-89 Loampit Vale and has also identified 4 other individual units, one of which has been sold. We consider the evidence to be limited and would usually expect a more thorough report comprising a large number of individual schemes in the locality with evidence of transacted pricing rather than asking price information. We have therefore considered further evidence to verify the pricing assumptions adopted.

4.15 We too have once again had regard to recent pricing of the Portrait 2 Lewisham Gateway development and have undertaken discussions with local agents. The development is situated 0.3 miles south of the subject scheme in Lewisham town centre. The development comprises 169 units comprising 1 and 2 bedroom apartments. 101 units are for private sale with the remainder as BTR for Fizzy Living. The scheme completes in Q4 2018 and we detail a number of recent transactions below:

Plot	Floor	Beds	Size (sq ft)	Price	£ psf	Sale Date
B2-145	14	1	546	£380,000	£696	Jul-18
B2-195	19	1	546	£395,000	£723	Jun-18
B2-022	2	2	693	£427,500	£617	Jun-18
B2-042	4	2	695	£432,500	£622	Jul-18
B2-063	6	2	737	£442,500	£600	Jul-18

4.16 We understand from our enquiries with the sales team that the majority of units have sold at asking prices, with stamp duty being paid on occasion as an incentive. Help to Buy has also been a driver of sales and the scheme has generally been well priced in comparison to others in Lewisham. The sales agent also commented that there has been reasonable interest from investors, who see Lewisham as an opportunity area for capital growth despite the declining prospects for buy-to-let.

4.17 We regard Portrait 2 as a useful comparable owing to its close proximity to the subject site and recent sales which provide a good indication of value for the subject units.

4.18 We have also considered the Christopher Boone's Almhouses development, situated off Belmont Park Road, Lewisham, SE13 5BL and located 0.9 miles south east of the subject site. The development is being brought forward by Christopher Boone's Charity and comprises a total of 88 units, 62 of which will be for people over 57 years. 32 units will be returned to The Merchant Taylor's Boone's Charity for their beneficiaries and 26 homes units will be offered for open market sale to help fund the development. Sales launched in September 2018 and by the end of Q3 2018, 7 units were under offer.

4.19 We understand from our enquiries with the sales team that 1 x 1 bed will be available for £350,000 and measures 619 sq ft, which equates to £565psf. 19 x 2 beds will be available from £500,000 with sizes ranging from 870 sq ft to 930 sq ft. 6 x 3 beds have been openly advertised which we detail as follows:

Plot	Floor	Beds	Size (sq ft)	Price	£ psf	Status
102	1	3	979	£587,500	£600	Under Offer
103	1	3	979	£585,000	£598	OTM
104	2	3	979	£587,500	£600	OTM
106	3	3	979	£592,000	£605	OTM
107	3	3	979	£595,000	£608	OTM
108	4	3	979	£597,500	£610	OTM

4.20 The sales agent confirmed that all 7 units that were under offer had been agreed at the asking price, although there were minor incentives offered in the form of a 2 year waiver of the service charge. We consider the subject development to be superior to the development given its proximity to services in central Lewisham and the characteristics of the proposed scheme.

Summary and Conclusions

4.21 Having considered the evidence detailed above and the comparables provided by JRB we are of the opinion that the revised pricing of the private units is reflective of market evidence.

4.22 For the purposes of our modelling we have adopted an overall sales value rate of £669psf.

Affordable Housing

4.23 Historically affordable housing values have been an area of disagreement between GLH and JRB with there being numerous discussions since the submission of our previous review of the financial viability assessment. The revised scheme provides the same provision of affordable units as what was offered by the Applicant and approved at Committee in March 2018.

4.24 For ease of reference, the scheme includes an 11.8% provision split 63/37 between Affordable Rent and Social Rent units. In addition a further 30 Discounted Market Sale Units (at a 25% discount) have been offered by the Applicant taking the total affordable offer to 20% by unit number.

4.25 As before, JRB has applied a value of £140psf for the Social Rented units and £185psf for the Affordable Rented units. The value of the Social Rented units was previously accepted as the applied value was in line with what was previously agreed on the viability review for a development scheme at Lewisham Retail Park. At the time of discussion GLH considered that whilst the mix and sizes of units proposed for the subject site may alter the blended average, the variance was likely to be minimal and therefore accepted the proposed social rented values. With regard to the Affordable Rented units, GLH previously considered that the values proposed were lower than market levels and referred to another viability review which was carried out in Lewisham the previous year where affordable rented values were queried the applicant. The applicant was required to market test the proposed Affordable Rent units which resulted an offer being received equating to approximately £266psf which was ultimately agreed by both the Council and Applicant. GLH therefore requested JRB to re-consider the proposed values of the Affordable Rented units and to market test these products based on the proposed mix. GLH's Affordable Housing team provided JRB with a number of contact details of RP's although JRB was unable to extract offers from RP's with the exception of Clarion, who offered £11.9m for the total proposed affordable units which JRB considered lacked robustness and the offer was not provided for us to review. As such an impasse was reached on the proposed values of the Affordable Rented units.

4.26 We remain of the opinion that the proposed affordable housing values are lower that market levels. JRB has again not sought to market test the proposed affordable housing units and we would once again recommend that this process is undertaken as stated in the Mayoral SPG. In the absence of this our Affordable Housing team has undertaken calculations using SDS Proval, a specialist affordable housing valuation software. For the purposes of our own modelling we have adopted £150psf for the Social Rented units and £200psf for the Affordable Rented units. In respect of the Affordable Rented units we have assumed a blended 60% of the Market Rent across the units and would comment that the precise rent policy to be adopted requires further discussion with the Council. We do not take issue with the pricing of the DMS units.

Residential Ground Rents

4.27 JRB has applied an average ground rent of £400 per unit p.a. which has been capitalised at 5%. We do not take issue with this assumption.

Office Value Assumptions

4.28 The revised development also includes 5,952 sq ft of office accommodation as the previous application. In the previous FVA of May 2017, JRB had applied a rent of £20psf which was capitalised at a rate of 6.5% after allowing for a void and rent free period of 12 months which provided a gross value of £1,719,610 equating to £289psf.

4.29 In the revised FVA JRB has applied the same assumptions as above for Block 1 comprising 3,057 sq ft of accommodation but has applied a rent of £15psf for Block 2 comprising 2,895 sq ft. 3 further comparables have been provided, one sale and two rental transactions, both of circa 1,000 sq ft. Given the lack of commentary we do not consider the reduction in rent of Block 2 to be justified especially given that both units are of a similar size. Therefore we do not consider there to be a justification to adopt a lower rent than £20psf which was previously agreed for the purposes of viability in the previous application.

4.30 For ease of reference we detail the evidence which we previously provided in our review of the May 2017 FVA.

Rental Evidence

Address	Size Sq ft	Rent	£/psf	Comments/lease terms
Unit 1 Arden House, 54 Thurston Road, SE13 7SD	*990*	*£18,000 (Achieved)*	*£18.18*	*5 yr term with Rent review and tenant break option in 3rd yr. No rent free period. Lease start 26/08/16 Relatively new build – completed Dec 2014*
13 Tarves Way, SE10 9JP	*1078*	*£24,000 (Achieved, 2017)*	*£22.26*	*FRI Lease, 10 yr term, Break at 5th yr. Adjacent to Greenwich station – further from Conington Road Grade B*
Rushey Green, SE6	*1087*	*£19,022 (Asking)*	*£17.50*	*The property is further south and is closer to Catford.*
83-85 Lewisham High Street	*766*	*£15,000 (Asking)*	*£19.58*	*Poor spec of offices*

Yield Evidence

Address	Size Sq ft	Sale Price	Yield	Comments/lease terms
8-12 Lee High Road, SE14 5LQ	*Total 6,491 3,502 Office 2,989 Retail*	*£2,200,000 (Feb 2017)*	*6.1%*	*Slightly dated building in the centre of Lewisham close to Connington Road. Includes retail space.*
Unit E1 Roma Corte, Renassiance, Loampit Vale SE13 7DJ	*1644*	*£450,000 (Jan 2017)*	*5.5%*	*New build office space in a similar development scheme as proposed by the applicant. Within close proximity to Connington Road. 999 year lease*
Unit 3, 54 Thurston Road, SE13 7GT	*807*	*£180,000 (Oct 2016)*	*9%*	*250 year lease. Close to Connington Road. Asking rent at time of sale was £20.20 psf*
Unit 2, 54 Thurston Road, SE13 7GT	*738*	*£167,000 (Nov 2016)*	*8.9%*	*250 year lease. Close to Connington Road. Asking rent at time of sale was £20.20 psf*

4.31 Having considered the above evidence, we remain of the opinion that £20psf is reflective of market levels and for the purposes of our modelling we have therefore applied a rent of £20psf to both units capitalised at a yield of 6.5% whilst also allowing for a 12 month void/rent free period.

Cost Assumptions

<u>Build Costs</u>

4.32 A Budget Cost Estimate was prepared by Stace to inform the previous viability assessment which was reviewed by GL Hearn's quantity surveyors Johnson Associates (JA) on behalf of the Council. The cost estimate for the previously proposed scheme assumed a total build cost of £109,496,100. For ease of reference a summary of costs is set out in the table below:-

Summary of costs (May 17)	Proposed £ (% of Total Costs)
Preliminaries	£15,863,100 (19.22%)
Overheads and Profit	£5,902,800 (6%)
Design & Construction Contingency	£5,214,000 (5%)
Demolition	£521,400
Externals	£3,376,500
Facilitating Works	£585,800
Substructure	£6,013,700
Superstructure	£51,369,600
Services	£20,649,100

TOTAL	**£109,496,100**

4.33 A line by line review of the Applicant's cost plan was undertaken by Johnson Associates and further discussions were undertaken between the respective consultants.

4.34 JA concluded that the costplan presented by the applicant was excessive and that the original development proposals should be deliverable at a price of £108,078,340 which represented a reduction in the order of £1,417,760.

4.35 Within the revised figures a cost plan figure of £108,386,700 has been utilized to which an inflation figure of 3% has been applied based on the London TPI BCIS index which totals £111,638,300. In addition, £695,000 has been included for a number of other design amendments. Therefore the total build cost assumed in the JRB appraisals is £112,333,300.

4.36 Once again GL Hearn's QS, Johnson Associates, has reviewed the updated build cost allowance adopted by Stace and JRB and considers the assumptions adopted to be reasonable and reflective of market levels. Accordingly in our own appraisal we have also adopted the revised build cost figure of £112,333,300 for the purposes of our modelling.

4.37 As before, JRB has included a cost of £140,000 within the appraisal to reflect a loss of saleable residential space as a result of two new entrances. For ease of reference we include below our original commentary below;

4.38 *This is based upon an estimate of a loss of 550 sq ft of private residential accommodation plus interest and cost implications. Whilst we do not agree with this methodology given profit and fees will be taken on the value element which is still included, given the stage of where we are at we had adopted this methodology. In terms of the cost GLH requested further detail around this assumption, following which a plan was provided. We reviewed the plan and noted the re-allocation of units to accommodate the entrances but commented that without a breakdown of impact on saleable floor space / re-working of unit typologies it was virtually impossible to be definitive about value impact. From the plan provided, it appeared the loss of saleable floor space was less than a single unit as stated by JRB. GLH estimated a loss of circa 200 ft², with the remaining floor space accommodated within reworked larger units. Without a more detailed breakdown provided assumed a reduction of value equating 200 x £700psf = £140k.*

4.39 We consider that a reduced payment is now justified given the lower capital value rate adopted in the appraisal. We have therefore applied £133,800 (200 x £669psf) for the purposes of our modelling.

4.40 As per the previous FVA, an additional a cost of £1,590,800 has been assumed for the river culvert works which represent half the cost of the works to the River Ravensbourne. Furthermore, a cost of £469,600 is also included reflecting required design amendments for the proposed station works. Whilst we had previously accepted these costs for the purposes of our original modelling, cost estimates were not reviewed. In the absence of further information we have once again included these costs in our modelling but should any cost savings be made, these should be payable to the Council.

Professional Fees

4.41 JRB has again assumed professional fees of 10% of construction costs which totals £11,233,163. We would usually expect professional fees to be in the order of between 8-10% and therefore consider the allowance adopted to be line with market evidence. For the purposes of our modelling we have adopted an allowance of 10%.

Marketing and Transactional fees

4.42 The following allowances have been made in JRB revised development appraisal:

- Marketing Fee - 1.25% (Private B1 & B3 Social & Aff Rent)
- Sale Agent Fee - 1.5% (Private & Affordable Units, Commercial, Ground Rents)
- Sale Legal Fee - £450,000
- Letting Agent Fee - 10% (Commercial)
- Letting Legal Fee - £5,000 (Commercial)
- Purchaser Costs - 5.8% (Commercial)

4.43 We do not take any issue with the allowances detailed above. However it would appear that JRB has incorrectly applied marketing fees in the appraisal applying it to B1 Private units and B3 Social & Affordable Rented units. In the interests of fairness we have corrected this and applied this allowance to the private units only which has a negative impact on overall scheme viability.

Finance Costs

4.44 Finance costs have been assumed at a 7% debit rate and a credit rate of 0.5%. We consider this assumption to be reasonable and in line with market levels and have adopted it for the purposes of our modelling.

CIL

4.45 JRB has modelled two scenarios with Scenario 1 based on the combined CIL allowance of £3,153,785 on the assumption that planning consent is secured before March 2019. Scenario 2 is based on planning consent being secured after March 2019 with an assumed cost allowance of £7,783,780.

4.46 In respect of Lewisham CIL we note that the site is situated in Zone 2 which charges £70psm for net additional residential accommodation. With regard to Mayoral CIL, the site is situated in zone 2 which assumes a cost of £35psm to all use classes.

4.47 No evidence has been provided to enable us to interrogate these figures so for the purposes of our modelling have assumed that this is the correct apportionment. Ideally further information should be provided by the applicant in this respect to enable verification. However we would recommend that the CIL calculations are provided to the Council's CIL Officer to a full review.

Developer's Profit

4.48 JRB has adopted a developer's profit of 22.5% of Gross Development Cost which equates to a blended profit on Gross Development Value of 21.17%.

4.49 We would comment that in the vast majority of residential led schemes, profit is considered on the basis of GDV as developers typically look at profit margins against the value against the residential units. We consider that profit should be considered on this basis. The Council will be aware that the GLA would generally expect to see a profit margin set at 17.5% on GDV for private units and 6% for affordable units on account of the reduced risk although, if there are specific reasons why a schemes risk profile justifies a higher profit then a scheme should be considered on its merits.

4.50 In this case we have applied a profit margin of 20% on GDV for the private units, 15% on GDV for the commercial accommodation and 6% on GDV for the affordable units. This equates to a blend of 18.5% on GDV.

Summary Table

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

Assumption	JRB Assumptions	GLH Figure (Where Different)	Comments
Sales and Revenue			
Average Private Residential Sales Value	£669psf	-	
Affordable Sales Value	Social Rent - £140psf Affordable Rent - £185psf	£150psf £200psf	We believe the affordable units have been undervalued
Residential Ground Rent	Avg - £400 p.a. @ 5% £2,547,000	-	
Office	B1 - £20psf @ 6.5% B2 - £15psf @ 6.5%	- B2 - £20psf @ 6.5%	We consider a rent of £20psf is justified for both blocks
Development Costs			
Construction Costs	£112,333,300	-	
Additional Costs	£140,000 £1,590,800 £469,600	£133,800 - -	A reduced capital value rate has been applied.
Professional Fees	10%	-	
Sales Costs	1.25% Marketing 1.5% Sales Agent Fee £450,000 Sales Legal Fee 10% - Letting Agent Fee £5,000 - Letting Legal Fee 5.8% - Purchaser Costs	- - - - - -	Allowances are accepted but we have corrected the application of marketing fees
CIL	Scenario 1 - £3,153,785 Scenario 2 - £7,783,780	- -	We have adopted the CIL amounts assumed by the Applicant but recommend this is reviewed by the Council
Interest / Finance Costs	7% debit 0.5% credit	-	
Developers Profit	22.5% on Cost	Private - 20% GDV Aff - 6% GDV Com - 15% GDV	We have adopted profit margins based on GDV
Benchmark Land Value	£4,200,000	£2,975,000	We are of the opinion a lower BLV should be assumed

5 FINANCIAL APPRAISALS & CONCLUSIONS

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

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

5.3 In this instance we have been provided with working appraisals for both development scenarios by JRB upon which we have conducted our sensitivity analysis to ensure our base position is consistent with the applicants. This has enabled us to ensure the model has been constructed properly and the inputs are timed correctly within the cashflow. For the purposes of our review we have considered the scheme viability of Scenario 1 in the first instance.

5.4 As has been highlighted in the summary table in the previous section there are a number of assumptions adopted within the revised appraisal which we are not in agreement with. Therefore we have undertaken our own modelling/sensitivity analysis applying our own assumptions which we believe to be more reflective of the market.

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

- Benchmark Land Value
- Affordable Values
- Developer Profit
- Additional Cost Item
- B2 Office Rent
- Marketing Fees

Overall Summary & Conclusions

5.6 JRB has concluded that no further affordable housing or payment in lieu of affordable housing should be required in advance of the 11.8% provision (split 63/37 between Affordable Rent and Social Rent units) plus a further 30 Discounted Market Sale Units, taking the total affordable offer to 20% by unit number, on viability grounds given the projected negative viability. When applying their aforementioned assumptions in respect of the proposed scheme and Benchmark Land Value the scheme delivers a 10.22% on cost against a target profit margin of 22.5% on cost.

5.7 We have undertaken a new appraisal (Scenario 1) which retains the applicant's assumptions other than where we have highlighted above that we consider they understate viability i.e. Benchmark Land Value, proposed affordable values, B2 office rent, additional cost item and have corrected the application of marketing fees. If we maintain the currently proposed Scenario 1, this provides a profit margin of 11.45% on cost (10.27% on GDV).

5.8 As we have mentioned above, we do not consider the JRB profit assumptions to be reasonable but when adopting our own profit assumptions the scheme would still fall short of being viable. We would also comment that the overall scheme viability would improve should higher rents be assumed or a higher percentage blend of market rent be assumed with regard to the affordable rented units. By way of example, if we were to adopt the Clarion offer of £266psf this would result in a profit margin of 12.39% on cost (11.02% on GDV).

Appendix A

Financial Appraisal

Conington @ 1/10/2018 MCIL/CIL Scenario 1

Development Appraisal
Prepared by JRB
GL Hearn
29 November 2018

APPRAISAL SUMMARY — GL HEARN

Conington @ 1/10/2018 MCIL/CIL Scenario 1

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**	
Block B1 Private Residential	1	143,390	665.60	95,440,384	95,440,384	
Block B1 DMS	1	6,002	505.50	3,034,011	3,034,011	
Block B2 Private Residential	1	73,347	675.32	49,532,696	49,532,696	
Block B2 DMS	1	14,128	521.85	7,372,697	7,372,697	
Block B3 Social and Aff Rent	1	31,465	181.43	5,708,695	5,708,695	
Ground Rents	1	0	0.00	2,547,000	2,547,000	
Totals	**6**	**268,332**			**163,635,483**	
Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Block B1 Commercial	1	3,057	20.00	61,140	61,140	61,140
Block B2 Commercial	1	2,895	20.00	57,900	57,900	57,900
Totals	**2**	**5,952**			**119,040**	**119,040**
Investment Valuation						
Block B1 Commercial						
Market Rent	61,140	YP @	6.5000%	15.3846		
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	883,207	
Block B2 Commercial						
Market Rent	57,900	YP @	6.5000%	15.3846		
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	836,403	
					1,719,610	
GROSS DEVELOPMENT VALUE				**165,355,093**		
Purchaser's Costs			(99,737)			
				(99,737)		
NET DEVELOPMENT VALUE				**165,255,355**		
NET REALISATION				**165,255,355**		

OUTLAY

ACQUISITION COSTS				
Fixed Price			2,975,000	
				2,975,000
Stamp Duty		5.00%	148,750	
Agent Fee		1.00%	29,750	
Legal Fee		0.80%	23,800	
				202,300
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Block B1 Commercial	3,057 ft²	308.79 pf²	943,971	
Block B2 Commercial	2,895 ft²	308.79 pf²	893,947	
Block B1 Private Residential	191,383 ft²	308.79 pf²	59,097,157	
Block B1 DMS	8,011 ft²	308.79 pf²	2,473,717	
Block B2 Private Residential	97,896 ft²	308.79 pf²	30,229,306	
Block B2 DMS	18,659 ft²	308.79 pf²	5,761,713	
Block B3 Social and Aff Rent	41,879 ft²	308.79 pf²	12,931,816	
Totals	**363,780 ft²**		**112,331,626**	**112,331,626**
River Culvert			2,060,000	
CIL/MCIL			3,153,785	
Other New Costs			133,800	
				5,347,585
PROFESSIONAL FEES				
Professional Fees		10.00%	11,233,163	
				11,233,163
MARKETING & LETTING				
Marketing		1.25%	1,812,164	
Letting Agent Fee		10.00%	11,904	
Letting Legal Fee			5,000	

This appraisal report does not constitute a formal valuation.

APPRAISAL SUMMARY			GL HEARN

Conington @ 1/10/2018 MCIL/CIL Scenario 1

			1,829,068
DISPOSAL FEES			
Sales Agent Fee	1.50%	2,480,326	
Sales Legal Fee		450,000	
			2,930,326
FINANCE			
Debit Rate 7.000%, Credit Rate 0.500% (Nominal)			
Land		615,109	
Construction		10,265,575	
Other		544,488	
Total Finance Cost			11,425,171
TOTAL COSTS			**148,274,239**
PROFIT			
			16,981,116
Performance Measures			
Profit on Cost%	11.45%		
Profit on GDV%	10.27%		
Profit on NDV%	10.28%		
Development Yield% (on Rent)	0.08%		
Equivalent Yield% (Nominal)	6.50%		
Equivalent Yield% (True)	6.77%		
IRR	15.56%		
Rent Cover	142 yrs 8 mths		
Profit Erosion (finance rate 7.000%)	1 yr 7 mths		

This appraisal report does not constitute a formal valuation.