1 Creekside,
Deptford
London
SE8 3DZ

Viability Review – Update Jan 2019

for
London Borough of Lewisham

Jan 2019

Prepared by

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Quality Standards Control

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

DATE	ORIGINATORS	APPROVED
July 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 1 Creekside, Deptford for which a planning application has been submitted by Bluecroft Creekside (the Applicant).

1.2 The subject property is a rectangular site of c. 0.50 acres (0.20 hectares) comprising range of uses including open storage, warehouse buildings and a yard currently occupied by an MOT Centre. The site also comprises an area of undeveloped amenity land.

1.3 The site is situated along Creekside and just off of Deptford Church Street. Located just north of Deptford Bridge station and south east of Deptford station, the subject site is surrounded by large residential blocks which appear to be Council owned and adjacent to a large industrial unit and service yard occupied by Euro Wines.

1.4 Montagu Evans (ME) 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:-

- Metropolitan Workshop - Architects
- BTP Group - Budget estimate
- Various Agents - Proposed Commercial Accommodation
- In House - Residential Sales Values

The Application Scheme

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

"Clearance and demolition of existing buildings on site and construction of 56 dwellings and 1,541 sqm of commercial space (use class B1 business) in a building ranging in height from 4 to 8 storeys, together with access, servicing / yard space, cycle parking, amenity space and refuse provision and associated works".

1.6 The Applicant's viability consultant has indicated that the assumed scheme comprising a 36% (by hab room) affordable housing provision produces a scheme deficit of £1,701,105 when the residual land value is compared to their opinion of the sites Benchmark Land Value.

1.7 Given the above ME has concluded that the scheme cannot viably provide the 36% affordable housing allocation. However, we understand that the applicant has made a commercial decision and is committed to delivering the proposals on the basis of 36% affordable housing provision but on the basis the scheme would not be subject to a review mechanism.

1.8 We detail the applicant's proposed accommodation schedule below which provides 56 residential units comprising a 36% (by hab room) affordable housing provision with a tenure split of 67% affordable rent and 33% intermediate;

Unit	Number of Units	Average Area (sq ft)
Private Units		
1 Bed	12	601
2 Bed	22	787
3 Bed	2	866
Total	**36**	
Affordable		
1	14	567
2	1	678
3	5	980
Total	**20**	
Total	**56**	

1.9 For the purposes of our above accommodation schedule, we have combined both affordable tenure types' floor areas.

1.10 The proposed development will also provide 1,541 sq ft of commercial accommodation (use class B1) at ground and mezzanine floor levels and basement space.

2 GENERAL METHODOLOGY

2.1 GL Hearn's review of the FVA has had regard to the RICS Guidance Note "Financial Viability in Planning". We have also had regard to the Mayoral Affordable Housing and Viability SPG.

2.2 We do not take issue with the overarching methodology used by the applicant's consultant within their assessment. They have:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme including provision of a build cost plan;
- Assessed a Benchmark Land Value;
- Undertaken a residual appraisal to calculate the residual land value which reflects their assessment of Benchmark Land Value and profit requirements to establish whether the scheme is viable or not assuming the current level of planning obligations.

2.3 The Applicant's advisor ME has 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 land. 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 ME has been to adopt a number of assumptions in relation to the proposed scheme which produces the residual land value. With this approach, if the residual land value is lower than the Benchmark Land Value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development unless the level of affordable housing and/or planning obligations can be reduced.

2.5 Typically there are two common approaches. Either the Benchmark Land Value is fixed in the development appraisal and if the scheme produces a profit margin which falls below a target profit requirement, 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. Alternatively, and in this case, the residual land value is compared to the Benchmark Land Value which has been assessed outside of the residual appraisal to establish if the scheme is viable.

2.6 Based on the inputs adopted by ME they have arrived at a positive residual land value of £242,895 for the proposed scheme. However in respect of the benchmark land value ME adopted an existing use value plus (EUV+) basis, which has led them to adopting a Benchmark Land Value of £1,944,000 further detail of which is provided in the Section 3. When the above are considered together this results in an overall project deficit of £1,701,105.

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

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

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

3 CRITIQUE OF BENCHMARK LAND VALUE

3.1 As indicated above 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 by the NPPF, the latest mayoral SPG and by the London Assembly Planning Committee.

Summary of Applicant's Position

3.4 ME's calculation of the sites EUV is made up of three elements as indicated in the table below;

Property	Description/Use	Gross Internal Area (sq ft)	EUV Value
A) Residential			
Former House	2 bedroom, 2 storey house. Currently used for storage	-	£340,000
B) Existing Commercial			
Warehouse & Yard	Occupied by an MOT Centre	5,909	£1,180,000 (£200psf)
C) Amenity Land			
Western Portion	Amenity land	0.21 acres	£100,000
Total			**£1,620,000**

3.5 To arrive at the EUV value indicated above ME has made a number of assumptions. The have indicated in Section 7 of their report that limited information has been provided to them in respect of the existing areas, condition of buildings or lease terms in respect of the MOT centre occupation.

3.6 Give the limited information provided it is important that the component parts of ME's calculations are interrogated and as such we comment on each of their EUV calculations below.

A) – The former residential house (eastern portion), currently in use as storage

3.7 ME has indicated that details of the existing building have not been provided to them and as such their estimation of value is in largely based assumptions around structural soundness, property size and condition. They have assumed that the building is structurally sound, the roof is in a fair condition, and the property benefits from double glazed windows and could accommodate two bedrooms. However they have also assumed that internally the property is likely to be in poor condition and in need of refurbishment.

3.8 To bring the property up to a saleable standard they attributed a cost of £60,000 inclusive of professional fees and profit. ME have indicated that a sum of £50,000 is assumed to be sufficient to undertake "complete refurbishment, including re-plumbing, re-wiring, new bathroom, kitchen and decoration throughout". Once refurbished ME have assumed a sale price of £400,000, which would equate to £340,000 after costs are deducted.

3.9 ME has not provided supporting comparable sale evidence in justification of the end sale price adopted but we would acknowledge that there is limited evidence of similar properties in the immediate area. Although the area is subject to change, the current immediate surrounding area is mixed use in nature with areas of low grade industrial use. Having had regard to recent sales as well as asking prices in the area, we would not disagree with the end sales value adopted for a fully renovated property in a predominately residential location in the surrounding area. In our opinion the subject property has a number of disadvantages for residential use and as such it is our view that £350,000 would be a more appropriate end sale value for the completed unit, reflecting the characteristics of the site.

3.10 In addition to the above we do not believe the refurbishment costs to be sufficient to bring the existing building to a saleable standard. We have not been provided with a cost plan and therefore we have had regard to BCIS refurbishment costs, which indicate a medium quartile refurbishment cost of £133 psf. Assuming a property size of 700 ft² this would equate to a total cost of circa £93k. Allowing for professional fees etc this would equate to a total cost of circa £100,000 and when deducted from our opinion of the end sale value this would equate to a EUV for the element of the site of £250,000.

B) The existing commercial buildings / yard

3.11 Set out in the table below is the capital value rate adopted by ME in respect of the Warehouse & Yard.

Unit	Description	Area (sq ft)	CV£/psf	EUV
Warehouse	MOT Centre	5,909	£200psf	£1,180,000
Total		**5,909**		**£1,180,000**

3.12 We do not disagree with the valuation methodology adopted by ME given the characteristics of the asset. As mentioned above we have not been provided with a lease details and therefore the terms of occupation are unknown, but we assume there is no formal lease arrangements in place and therefore limited security of income.

3.13 ME have provided two comparable transactions namely '2-10 Ossory Road, Peckam', and '3-5 Blackhorse Road'. 2-10 Ossory Road with the latter under offer at a rent of £16.00 per ft² at the time the FVA was written. Assuming a yield of 6.0% this would equate to a capital value per ft² of £265. ME indicated that 3-5 Blackhorse Road transacted at a price equating to £295 per sq. ft.

3.14 ME have acknowledged that both comparables indicated above would be considered superior to the subject property. Ultimately ME have adopted a capital value of £200 psf, which equates to a EUV of £1,180,000.

3.15 In order to verify the assumed value adopted by ME, we have had regard to the following rental evidence;

3.16 <u>Suite 1C – Juno Enterprise Centre – SE14 5RW</u> – with a new lease signed on 19th June 2018 for a 3 year term; the property is situated to the west of the subject and is in our opinion a superior offering. With a net effective rent of £14.10 per sq. ft and 1,550 sq. ft leased, this equated to an annual income of £21,855, which when capitalised by the 6.00% yield of which we do not contest equates to £364,250 and a cap rate of £235psf.

3.17 <u>Unit 17 – 53 Norman Road – SE10 9QF</u> – situated 0.4 miles west of the subject property across Deptford Creek, the comparable property comprised 2,000 sq. ft of space let on a new lease as of the 30th August 2017 for a 12 year term. With an achieved rent of £14.50 per sq. ft, this equated to an annual sum of £29,000. When again capitalised by the 6.00% yield, this equated to £483,140 and £242psf. We were again of the opinion 53 Norman Road was superior to 1 Creekside.

3.18 Based on the above evidence, and the subject property's inferior specification and location, we do not disagree with ME's value of £200 per sq. ft being adopted.

3.19 We have therefore adopted the same EUV of £1,180,000 for the purposes of our own modelling for this element of the site.

3) Amenity / undeveloped Land

3.20 The western portion of the subject site consists of undeveloped land of some 0.21 acres. ME have applied a rate per acre on the basis of 'amenity land', which was estimated to be in the order of £500,000. Over 0.21 acres, this equated to an EUV of £100,000.

3.21 No evidence has been provided to justify the value adopted and we do not find this element of the BLV compelling. It is our opinion that this element of this site would only have a notional value given its characteristics and extent of tree coverage. That said we have undertaken our own research to provide an indication of value which is detailed below.

3.22 Land at South-West side of London Road - Bromley – 0.168 acres of land with development potential subject to planning permission. With a guide price of £5,000, this equates to a per acre price of c. £30,000. Although smaller than the subject plot, the site is situated in a superior location surrounded by residential and green space.

3.23 Land at Spinney Gardens – Norwood – the freehold plot is a curved site that bounds multiple residential properties and comprises 0.39 acres of vacant land with development potential subject to planning permission. Sold in March 2017 for £20,000, this equates to a per acre price of c. £51,000. Much like the London Road comparable, we are of the view Spinney Gardens occupies a prominent location and would be considered superior in nature.

3.24 Land at Stanley Close – Eltham – Sold for £38,000 in May 2018, this rectangular site comprises 0.58 acres, which equates to a price per acre of c. £65,000.

3.25 Based on the above and discussions with agents we would expect the site to achieve a maximum of £10,000, which would equate to circa £47,500 per acre.

Summary

3.26 Reflecting our own assumptions in regard to the existing units we arrive at the following value;

Property	Description/Use	Gross Internal Area (sq ft)	Value
Residential			
Former House	2 bedroom, 2 storey house. Currently used for storage	-	**£250,000**
Existing Commercial			
Warehouse & Yard	Occupied by an MOT Centre	5,909	**£1,180,000 (£200psf)**
Amenity Land			
Western Portion	Amenity Land	0.21 acres	**£10,000**
Total			**£1,440,000**

3.27 Adopting our own assumptions in regard to the existing units we arrive at an EUV of £1,440,000 which represents a reduction of £180,000 to that proposed by ME.

Landowner's Premium

3.28 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%.

3.29 In this instance ME have applied a 20% premium and we comment on this below.

3.30 We have not been provided with lease details in respect of the MOT Centre, which occupy the majority of the site. As such we are not aware of the level of security of income but we assume this to be minimal. In respect of the vacant cottage (utilised as storage) and the amenity land it is our opinion a landowner's premium at the lower end of the typical range is appropriate. Given the above we have applied 10% landowner's premium across 3 uses, which make up the applicant's assessment of the sites BLV.

3.31 For ease of reference our opinion of the sites BLV including premium totals £1,584,000.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

Residential Value Assumptions

4.2 The proposed scheme includes a total of 56 residential units comprising a 36% (by hab rooms) affordable housing provision with a tenure split of 67% affordable rent and 33% intermediate. The remaining 36 private residential units comprise 12 x one bed units, 22 x two bed units and 2 x three bed units.

4.3 ME has applied a blended rate of £700 per sq. ft for the south core units which are wholly private, and for the two private units in the north core (units N.20 and N.21) ME have adopted a slightly reduced sales value of £650 per sq. ft to reflect the fact that the block is largely for affordable housing. ME haven't provided a unit by unit pricing schedule, and have carried out research into residential values through various local schemes to demonstrate the range of values in the locality. We summarise the applied private values in the below table which has been extracted from the applicants appraisal;

Block	No. of Units	Overall Area (sq ft)	Blended Rate £/psf	Average Unit Value
North Core	2	1,335	£650	£433,875
South Core	34	24,919	£700	£513,038
Total	**36**			

Residential Market Overview

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

4.5 The Land Registry House Price Index (HPI) reported in April 2018 that the annual rate of growth of house prices in the England was 3.7%, and the monthly rate of change was 1.1%. The average house price in England was £243,639 at April 2018.

4.6 Lewisham experienced solid growth in the year to April 2018 at 3.3% when compared with the London average of 2.4%. Average house prices in the area as at April 2018 were £419,901 which was in line with the London average of £484,584.

4.7 Nationwide's June 2018 press release reports that house prices increased by a modest 0.5% month on month from May. This latest release means house prices in year to date rose overall by 2%. They comment note that "*Annual house price growth fell to its slowest pace for five years in June. However, at 2% this was only modestly below the 2.4% recorded the previous month. "Indeed, annual house price growth has been confined to a fairly narrow range of c2-3% over the past 12 months, suggesting little change in the balance between demand and supply in the market over that period".*

4.8 The proposed scheme includes 26 x one bedroom units, 23 x two bedroom units and 7 x three bedroom units with a 36% provision of on-site affordable units, amounting to a total of 67 units split 67/33 in favour of Affordable Rent and Intermediate tenures.

4.9 Lewisham has seen extensive new build residential development in recent years and ME have referred to a range of evidence, notably The Timberyard, The Station House, Kent Wharf and Deptford Foundry to demonstrate the range of values in the borough. We provide commentary of these developments below;

4.10 The Timberyard (The Wharves) – SE8 3QS - is situated 1.3 miles north west of the subject scheme and is in close proximity to Pepys Park which overlooks the Thames. Developed by Lendlease, the scheme is currently under construction on the first 173 private units within 'Cedarwood Square', with a likely completion date due for the end of 2019. The mixed-used scheme was granted permission in March 2016 to provide 1,132 residential units including 943 private units and various commercial accommodation. The current price list for Cedarwood Square shows 2 beds from £585,000 and 3 beds from £775,000, producing an average capital value rate of £770psf. To draw comparisons with the blended rates adopted in the Montagu Evans report, we are of the opinion The Timberyard scheme due to its large offering and superior location is superior to the subject scheme which is reflected in the above pricing.

4.11 Kent Wharf, SE8 3DZ - is situated circa 0.3 miles to the north east of 1 Creekside adjacent to Deptford Creek and comprises 143 residential units and commercial space. Developed by Bellway Homes and having sold out in Q4 2017, the scheme completed at the end of Q2 2018. The latest pricelist (Q4 2017) showed 1 beds from £369,995, 2 beds from £494,995 and 3 beds from £584,995 and produced an average of £670psf. We detail some of the most recent OTM prices for the scheme;

Plot	Floor	Beds	Size	Price	Price (£ psf)
B01	3	920	£644,995	£701	Sept -2018
B11	2	786	£549,995	£700	Sept -2018
CO4	3	931	£639,995	£687	Sept -2018
CO8	2	1039	£659,995	£635	Sept -2018
CO9	2	1017	£659,995	£649	Sept -2018
C10	2	1028	£659,995	£642	Sept -2018
			£635,828	**£669**	

4.12 The Station House – (The Deptford Project) – SE8 4LW - is located next to Deptford overground station and situated 0.3 miles north west from the subject site, the Deptford Project is a mixed-use scheme comprising 121 residential units and commercial workshop units. Developed by the U+I Group, the scheme sold out during Q3 2017 having completed in Q3 2016. According to Molior, the average price list showed Studios priced at £295,000, 2 beds at £525,000 and 3 bed townhouses at £750,000. This produced an average £/psf of £657psf.

4.1 Deptford Foundry – SE14 6EB - This Anthology development comprising 316 units is located north east of the subject site. Units in the scheme all benefit from either balconies or terraces and are of a high specification. A workspace element seeks to bring artists to the area and landscaped communal gardens contribute to the schemes overall appeal. The scheme is due to complete in Q1/Q2 2019. The current pricelist shows 1 bed flats from £385,000, 2 bed flats from £510,000 and a 3 bed flat at £732,323. This reflects an average of £710psf. We detail a number of relevant transactions and available units below:

Plot	Floor	Beds	Size	Price	Price (£ psf)
AH 13	3	1	538	£389,000	£723
CH 27	5	1	546	£430,000	£788
MC13	3	1	546	£420,000	£769
MC 04	1	1	538	£415,000	£771
AH 12	3	1	538	£405,000	£753

CH 21	4	1	543	£409,000	£753
AH 17	4	2	791	£484,000	£612
AB 12	2	2	722	£465,000	£644
AH 34	6	2	709	£550,000	£776
CH 25	5	2	753	£520,000	£691
CH 32	6	2	760	£540,000	£711
			635	**£457,000**	**£726**

4.2 In order to verify the evidence ME have provided, we have also undertaken our own assessment of the market and detail relevant comparable evidence below;

4.3 Tanners Hill – SE8 4QD - is situated 0.5 miles south west of the subject scheme in close proximity to St Johns overground station. The development was completed in Q3 2016 and was originally intended to provide 43 private units, however the tenure switched in Q2 2016 with all 43 units delivered as 100% affordable. Subsequently the development was sold off to Clarion Housing Group and Notting Hill Genesis, as such, we do not consider the units to be comparable to the subject private units.

4.4 Greenland Place (Cannon Wharf) - SE8 5RT - is situated 1.4 miles north west of the subject scheme, comprising 679 residential units and commercial space. Having completed and fully sold out by Q3 2017, the scheme reflected an average capital value rate of £760psf.

4.5 Maritime (Booker Cash & Carry) – SE10 8LR – is situated 0.4 miles directly south of the subject scheme and as the crow flies directly across Deptford Creek. The scheme is set to provide 125 residential units ranging from 4-14 storeys, out of which 81 out of the 125 units are private, and 44 assigned to intermediate. Additionally, the scheme has proposed 513 sqm of commercial floor space and a stand-alone commercial unit. According to Molior, the scheme has been off the market during Q2 2018 and will look to be relaunched later in the summer. As of March 2018, the schemes pricelist showed 1 beds from £429,950, 2 beds from £499,950 and 3 beds from £649,950, which produced an average £/psf of £780psf. Admittedly with the scheme being double in size to the subject scheme, with a larger provision for residents such as public realm and car parking, we believe £780psf reflects the schemes superior nature.

Summary and Conclusions

4.6 We would acknowledge that there is a broad range of pricing in immediate area due to the diversity of accommodation and the ongoing regeneration of Deptford. Having considered the evidence detailed above we are of the opinion that then blended private rates adopted by ME of £700psf and

£650psf to be overly pessimistic. It is our opinion that the sales values indicated in the table below to be more reflective of the current market in the context of the characteristics of the subject site.

Beds	No. of Units	Average Area (sq ft)	Average £/psf	Average Unit Value
North Core	2	1,335	£725	£483,937
South Core	34	24,919	£750	£549,683
Total	**36**			

4.7 Adopting our assumptions the residential private residential accommodation produces a gross development value of £19,657,125, which represents a value difference of £1,346,075 or c. 7.4%.

Affordable Housing

4.8 The proposed development includes 20 affordable units with a tenure split of 67% affordable rent (13 units) and 33% intermediate (7 units). ME have adopted a blended rate of £300 per sq. ft for both tenure types within their appraisal. The estimated values for the individual tenures making up this blend are:

- Affordable Rent: £250 psf
- Shared Ownership: £400 psf

4.9 In respect of the above we would comment that ultimately the value an RP will be willing to pay for product will in part be informed by their own business model and needs. Recently GL Hearn have seen some aggressive bidding by RP's in excess of the levels indicated above and in lower value areas based on the same affordability criteria.

4.10 In respect of the subject site we would expect units to attract a good level of interest from RP's. In our experience it would be unusual for RP's not to have been approached to inform the potential values which could be achieved but this does not seem to be the case here.

4.11 We have discussed the sales values adopted with GL Hearn's Affordable Housing team who consider the value adopted for the Affordable Rent tenure reasonable but believe the value adopted for the Shared Ownership units to be below what are typically being achieved in the area. It is our opinion that £460psf is more reflective of the market and have therefore adopted this for our own modelling purposes.

Residential Ground Rents

4.12 ME have adopted an annual ground rent at £350 per unit and capitalised at an industry standard yield of 5%. They do make comment however of the government's recent announcement to reduce ground rents on new builds. On 21st December 2017; the Communities Secretary announced a Government proposal to introduce legislation to ensure that ground rents on new long leases of flats and houses are set at zero. While the legislation has yet to be passed, we gather that the proposal has all-Party support and whilst there is no timetable for the proposed legislation, we consider it prudent to assume that the proposal will become law in the relatively short term. For the purposes of our modelling we have mirrored ME's approach.

Commercial Value Assumptions

4.13 In addition to the residential content of the scheme the proposed development includes 1,541 sqm of commercial accommodation (Use Class B1). We are informed that the units will have mezzanines and some with basement facilities. We detail the proposed accommodation in the table below as per ME's appraisal;

Unit	Floor	GIA (sq m)	GIA (sq ft)
North Core Basement	Basement	60.02	646
North Core Ground	Ground	285.03	3,068
North Core Mezz	Mezz	340.03	3,660
South Core Ground	Ground	450.02	4,844
South Core Mezz	Mezz	379.97	4,090
		1,515	**16,308**

4.14 Having taken advice from their in-house agency team, ME has valued the proposed accommodation and applied a rent of £20psf to the ground floor accommodation and £15psf to the mezzanine and basement floor levels which have been capitalised at a yield of 6% in order to arrive at a capital value of £4,468,239 which reflects a blended capital value rate of £274psf. ME additionally allowed for a 12 month combined rent free/void period in their valuation.

4.15 ME have not supplied comparable evidence informing their rental and yield assumptions but have had regard to the assumptions put forward in support of their BLV in addition to the below.

4.16 13 Tarves Way, Greenwich – SE10 9JP - situated 0.5 miles from the subject scheme; 13 Tarves Way is a high street office unit at ground floor level. With a guide rent of £20,000 and rent £/psf of £18.55psf, this 1,078 sq ft office is to be let on a new FRI lease for a 10 year term and 5 year rent review. We would comment that with being part of a new build scheme, the subject units will likely command a superior £/psf.

4.17 We would acknowledge that directly comparable evidence for offices is scarce, with residential and industrial being the predominate uses in the immediate area. With that said, having reviewed the evidence available we do not consider the value adopted to be unreasonable.

Cost Assumptions

Build Costs

4.18 A Budget Cost Estimate was prepared by the Applicant's Quantity Surveyors, BTP Group to inform the viability assessment. GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review this on behalf of the Council. The cost estimate for the proposed scheme assumes a total build cost of £17,908,779 inclusive of a 5% contingency. For ease of reference a summary of costs for the proposed scheme is set out in the table below:-

Summary of costs	Proposed £ (% of Total Costs)
Measured Works	£14,213,316
Preliminaries, Overheads and Profit (20%)	£2,842,663
Contingencies (5%)	£852,799
Total Cost	**£17,908,779**

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

4.20 This concludes that the costplan presented by the applicant is somewhat excessive and that the original development proposals should be deliverable at a price of £17,585,186. This represents an overall reduction in the order of £323,593, i.e. approximately 1.8%.

4.21 Accordingly, in our own appraisal we have adopted the reduced Johnson Associates total build cost figure of £17,585,186 inclusive of abnormal costs and contingency.

Professional Fees

4.22 ME has assumed professional fees of 10% of construction costs equating to a total cost of £1,790,878. We consider this allowance to be acceptable and appropriate owing to the characteristics of the site.

Marketing and Transactional fees

4.23 The following allowances have been made in ME's development appraisal;

- Marketing Fees - 2%
- Sales Legal Fee - 0.5%
- Sales Agent Fees – 1.50%

4.24 For the purpose of our modelling we have adopted the fee allowances detailed above as per the ME appraisal.

Contingency

4.25 A contingency allowance of 5% has been included within the BTP Group cost plan which we do not take issue with.

Finance Costs

4.26 Finance costs have been assumed at 7% debit rate.

4.27 We would comment that typically Applicants / developers are adopting finance rates ranging from 6-7%, which provides a good indication of current market levels. We consider the allowance adopted to be reasonable and have reflected in our modelling.

S106 & CIL

4.28 Within the proposed scheme ME has made the following allowances in respect of S106 & CIL;

- S106 - £150,000

- CIL - £520,000
- Total - £670,000

4.29 ME have been provided with their breakdown of figures from the Applicants planning consultants. Although the sum is emphasised as being an estimation, they do not showcase both the Local and Mayoral sums, and we haven't been provided with the workings for the CIL calculations in the report.

4.30 For the purposes of our initial modelling we have adopted the same S106 and CIL allowance, but we would recommend that that the above sums are verified by the Council's CIL Officer.

Developer's Profit

4.31 The appropriate level of developer profit will vary from scheme to scheme. Developer's profit margin is determined by a range of factors including property market conditions, individual characteristics of the scheme, comparable schemes and the development's risk profile.

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

4.33 ME has adopted profit levels at the lower end of range in respect of all tenure types with 17.50% on GDV for private units, 15% for commercial and 6% on affordable. We do not take issue with profit margins adopted and we have adopted the same for our own modelling.

Summary Table

4.34 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	Montagu Evans Assumptions	GLH Figure (Where Different)	Comments
Sales and Revenue			
Average Private Residential Sales Values	£650psf-£700psf	£725psf- £750psf	We consider the private values have been understated
Affordable Sales Value	Affordable Rent - £250psf Intermediate - £400psf	Affordable Rent - £250psf Intermediate - £460psf	We consider the Intermediate affordable housing values to be understated
Commercial	£274psf	-	
Development Costs			
Construction Costs	£17,908,779	£17,585,186	See Appendix A for the Build Cost Review
Contingency	5% (included in construction costs)	-	
Professional Fees	10%	-	
Sales Costs	Private Residential – 1.50% (Marketing, Sales Agent & Legal) Affordable - 0.5% (Sales Legal) Commercial - 2% (Marketing, Sales Agent & Legal)	- - -	
S106 CIL	£150,000 £520,000	-	We have adopted the same S106 and CIL amounts, but recommend this is reviewed by the Council
Interest / Finance Costs	7% debit	-	
Developers Profit	17.5% on GDV (Private) 6% on GDV (Affordable) 15% on GDV (Commercial)	-	
Benchmark Land Value	£1,944,000	£1,584,000	We are of the opinion a lower BLV should be assumed.

5 INITIAL FINANCIAL APPRAISALS & CONCLUSIONS

5.1 Where our own market research has indicated that the inputs used have not been fully justified we have sought to illustrate the potential impact on scheme viability. 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 mirror ME’s Argus appraisal to ensure the model is consistent before adjusting the various inputs deemed as being under or overstated and conducting our own sensitivity analysis.

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

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

- Benchmark Land Value
- Private Residential Sales Values
- Shared Ownership Values
- Build Costs

5.6 In addition to the above, as previously stated, we would request that the CIL payments are verified by the Council.

Initial Summary & Conclusions

5.7 ME concluded that the proposed scheme resultant in a positive residual land value of £242,895 but when considered against their view of the site benchmark lane value (£1,944,000) there was an overall project deficit of £1,701,105.

5.8 Making the adjustments indicated above our modelling indicates the proposed scheme results in a residual land value of £1,607,599 against a benchmark land value of £1,584,000, which reflects a minimal project surplus.

5.9 In light of the above although we do not agree with all of the inputs adopted by ME we would concur with their conclusions that the affordable housing offer indicated does reflect the maximum reasonable.

6 JAN 2019 – ADDENDUM REVIEW / UPDATE VIABILITY*

6.1 Following submission of our draft report in July 2018, we have now been provided with a rebuttal email from the Applicant's viability consultant Montague Evans (ME).

6.2 The original review concluded that we were in agreement with the overall conclusion reached by ME namely that a 36% affordable housing offer would be considered the maximum reasonable level of affordable housing in the context of scheme viability.

6.3 We understand that the purpose of the rebuttal correspondence is not to renegotiate the headline affordable housing offer but to seek to agree on number of the outstanding points of difference in order to establish an agreed base viability position for the proposed viability review.

6.4 In respect of the areas of disagreement these include:-

- Benchmark land value and level of landowner's premium applied
- Private residential sales values
- Intermediate sales values

6.5 In addition to the above, there also remains difference of opinion around the level of build costs adopted. The applicant has not provided any supporting information / justification at this stage and as such we have maintained our original positon. For ease of reference the current difference of opinion between us equates to circa £325k.

6.6 We comment on each of the main areas of difference in turn below.

Benchmark Land Value

6.7 The subject site's benchmark land value is made up of three main components, namely an existing residential unit, which is currently in disrepair and used for storage, a commercial unit and yard used as an MOT centre and amenity land.

6.8 Within their email dated 31st January, Montague Evans have conceded on the value attributed to the amenity land, the commercial unit used as an MOT Centre and also the refurbishment costs adopted to bring the single residential unit to saleable standard.

6.9 However, Montague Evans have questioned the end sale value attributed to the existing residential unit once refurbished. We have considered this further and remain of the opinion that £500psf is a reasonable value in the context of the medium quartile refurbishment costs applied and also given the unit would remain surrounded by commercial uses. As will be seen below we have made a downward adjustment to the residential values adopted for the proposed scheme in light of recent comparables and current market condition. The overall impact therefore will be a narrowing of the value gap between the refurbished residential unit and the blended sales value modelled for the proposed scheme.

6.10 In respect of the developer's premium, ME have suggested a midpoint compromise at 15%. Having considered this further it is our view that this would not be unreasonable in the context of current guidance and given part of the site is income producing.

Private Sales Values

6.11 Montague Evans have provided a number of updated comparables to justify their applied revised blended sales value rate of £700psf for south core. In addition they have assumed a capital value of £650 psf for the two private units in the north clock, which is 91% affordable and includes affordable rented as well as intermediate.

6.12 The £650 psf for the two private units in the north core represents a 9% discount to the £700 psf private values applied to the 100% private South Block.

6.13 We have reviewed the evidence provided and agree that the comparable schemes referred to represent the most relevant schemes in which to form an opinion of value.

6.14 Our original review was completed in July 2018 and our views of values were based on transactional evidence and asking prices from Q1 / Q2 2018. We would acknowledge that there has been a deterioration in the market since our original review and there remains continued economic uncertainty around the impact of Brexit.

6.15 With the above being the case and also having had regard to levels agreed in more recent reviews we have modelled Montague Evans suggested revised position in respect of private sales values for the Southern and Northern Blocks.

Intermediate Sales Values

6.16 We had previously adopted a blended Intermediate sales value of £460psf within our original review. RP's continue to bid aggressively especially for shared ownership units with a number taking a view around their ability to staircase. Reflecting recent discussions around intermediate unit values in the locality and in the absence of new information / market evidence from ME, we have made a small downward adjustment adopting a blended £430psf.

Construction Costs

6.17 Following receipt of Gavin Johnson initial review the Applicant's QS (BTP) has proposed a compromise position for the items in disagreement. BTP provided a revised schedule for these items totalled £972,534 down £122,633 from their original £1,095,167. Gavin Johnson Associates has reviewed the information provided and did not believe there to be any new compelling evidence provided, which would lead to changes being made to the original position. This being we have adopted the Gavin Johnsons opinion of reasonable construction costs as outlined in our initial report.

Updated Modelling

6.18 We have updated our modelling making the above adjustments, which results in a revised scheme gross development value of £27.19m and residual land value of £548,759.

6.19 When the residual land value is compared to the benchmark land value (reflecting a 15% landowner's premium) this results in a project deficit of £1,107,241.

6.20 It is clear from our analysis that market conditions have deteriorated from our original review, which has had an adverse impact on scheme viability.

6.21 Given the above, the conclusions reached in the original review are unchanged in that from a viability perspective the current affordable housing offer of 36% would be considered the maximum reasonable.

**Please note that original authors of the report moved from GL Hearn to Carter Jonas in Jan 2019. As such it was agreed between the Council, Applicant, GL Hearn and Carter Jonas that the review would novate across to Carter Jonas to allow continuity of advice and satisfactory completion of the review*

Appendix A

Build Cost Review

Scheme: **Deptford Creekside**

Comparison of differences between BTP Cost Plan and Johnson Associates Comments

Element	Quantity	BTP Rate £	BTP Total £	JA Rate £	JA Total £	Difference £	Rate £	Total-BTP compromise £	BTP Comment
Roof									
North Tower									
Concrete paving slab to balconies and communal areas.	157	320	50,240	250	39,250	10,990	290	45,530	BTP have allowed for a high specification paving system to complement the overall scheme. However to reach an agreement on viability BTP propose a compromise rate of £290.
South Tower									
Concrete paving slab to balconies and communal areas.	385	320	123,200	250	96,250	26,950	290	111,650	BTP have allowed for a high specification paving system to complement the overall scheme. However to reach an agreement on viability BTP propose a compromise rate of £290.
Wall Finishes									
North Tower									
Emulsion paint to residential areas.	4779	20	95,580	12	57,348	38,232	16	76,464	BTP rate is for a high level of paint finish. However to reach an agreement on viability BTP propose a compromise rate of £16.
South Tower									
Emulsion paint to residential areas.	7317	20	146,340	12	87,804	58,536	16	117,072	BTP rate is for a high level of paint finish. However to reach an agreement on viability BTP propose a compromise rate of £16.
Floor Finishes									
North Tower									
Carpet to bedrooms	381	80	30,480	50	19,050	11,430		30,480	Carpet allowance as discussed with Client to reflect sales specification expectation.
Carpet to communal hallways, lift lobbies and stair core	371	80	29,680	50	18,550	11,130		29,680	Carpet allowance as discussed with Client to reflect sales specification expectation.
South Tower									
Carpet to entrance areas	82	80	6,560	50	4,100	2,460		6,560	Carpet allowance as discussed with Client to reflect sales specification expectation.
Carpet to bedrooms	689	80	55,120	50	34,450	20,670		55,120	Carpet allowance as discussed with Client to reflect sales specification expectation.
Carpet to communal hallways, lift lobbies and stair core	369	80	29,520	50	18,450	11,070		29,520	Carpet allowance as discussed with Client to reflect sales specification expectation.
Ceiling Finishes									
North Tower									
Emulsion paint to plasterboard ceilings	2025	20	40,500	12	24,300	16,200	16	32,400	BTP rate is for a high level of paint finish. However to reach an agreement on viability BTP propose a compromise rate of £16.
South Tower									
Emulsion paint to plasterboard ceilings	2986	20	59,720	12	35,832	23,888	16	47,776	BTP rate is for a high level of paint finish. However to reach an agreement on viability BTP propose a compromise rate of £16.
External Works									
Paving to external areas	632	320	202,240	280	176,960	25,280	300	189,600	BTP have allowed for a high specification paving system to complement the overall scheme. However to reach an agreement on viability BTP propose a compromise rate of £300.
Sub Total			869,180		612,344	256,836		771,852	
Contractors preliminaries overheads and profit(20%)			173,836		122,469	51,367		154,370	
Contingencies(5%)			52,151		36,741	15,410		46,311	
Overall Total			1,095,167		771,553	323,613		972,534	

Appendix B

Financial Appraisal – July 2018

1 Creekside, Deptford
36% Affordable Housing

Development Appraisal
GL Hearn
25 July 2018

1 Creekside, Deptford
36% Affordable Housing

Summary Appraisal for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
North Core Private Resi (Units N.20 & N.21)	2	1,335	725.00	483,938	967,875
Affordable Rent	11	9,058	240.00	197,629	2,173,920
Intermediate Rent	9	4,461	460.00	228,007	2,052,060
South Core Private Resi	34	24,919	750.00	549,684	18,689,250
Totals	**56**	**39,773**			**23,883,105**

Rental Area Summary	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
North Core Ground Rents	2			350	700	700
North Core Commercial Basement	1	646	15.00	9,690	9,690	9,690
North Core Commercial Ground	1	3,068	20.00	61,360	61,360	61,360
North Core Commercial Mezz	1	3,660	15.00	54,900	54,900	54,900
South Core Ground Rents	34			350	11,900	11,900
South Core Commercial Ground	1	4,844	20.00	96,880	96,880	96,880
South Core Commercial Mezz	1	4,090	15.00	61,350	61,350	61,350
Totals	**41**	**16,308**			**296,780**	**296,780**

Investment Valuation					
North Core Ground Rents					
Current Rent	700	YP @	7.0000%	14.2857	10,000
North Core Commercial Basement					
Market Rent	9,690	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	152,358
North Core Commercial Ground					
Market Rent	61,360	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	964,780
North Core Commercial Mezz					
Market Rent	54,900	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	863,208
South Core Ground Rents					
Current Rent	11,900	YP @	5.0000%	20.0000	238,000
South Core Commercial Ground					
Market Rent	96,880	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	1,523,270
South Core Commercial Mezz					
Market Rent	61,350	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	964,623
					4,716,239

GROSS DEVELOPMENT VALUE		**28,599,344**
Purchaser's Costs	(300,285)	
		(300,285)
NET DEVELOPMENT VALUE		**28,299,059**
NET REALISATION		**28,299,059**

OUTLAY

ACQUISITION COSTS		
Residualised Price	1,607,599	
		1,607,599

1 Creekside, Deptford
36% Affordable Housing

Agent Fee		1.00%	16,076	
Legal Fee		0.50%	8,038	
				24,114
CONSTRUCTION COSTS				
Construction	**ft²**	**Rate ft²**	**Cost**	
Construction Costs	76,629 ft²	229.48 pf²	17,585,186	**17,585,186**
Demolition			50,000	
Substation Works			130,000	
Neighbourly Matters			50,000	
S106			150,000	
CIL			520,000	
				900,000
PROFESSIONAL FEES				
Professional Fees		10.00%	1,758,519	
				1,758,519
MARKETING & LETTING				
Marketing		2.00%	373,785	
Letting Agent Fee		10.00%	29,678	
Letting Legal Fee		5.00%	14,839	
				418,302
DISPOSAL FEES				
Sales Agent Fee		1.50%	346,428	
Sales Legal Fee		0.50%	141,495	
				487,923
MISCELLANEOUS FEES				
Private Resi Profit		17.50%	169,378	
Affordable Resi Profit		6.00%	130,435	
Commercial Profit		15.00%	297,052	
Private Resi Profit		17.50%	3,312,269	
Commercial Profit		15.00%	373,184	
				4,282,318
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				1,235,098
TOTAL COSTS				**28,299,059**
PROFIT				
				0
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
Development Yield% (on Rent)		1.05%		
Equivalent Yield% (Nominal)		5.95%		
Equivalent Yield% (True)		6.18%		
IRR		6.37%		
Rent Cover		0 mths		
Profit Erosion (finance rate 7.000%)		N/A		

Appendix C

Financial Appraisal – Jan 2019

APPRAISAL SUMMARY — CARTER JONAS LLP

1 Creekside, Deptford
Carter Jonas
36% Affordable Housing

Appraisal Summary for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
North Core Private Resi (Units N.20 & N.21)	2	1,335	650.00	433,875	867,750
Affordable Rent	11	9,058	240.00	197,629	2,173,920
Intermediate Rent	9	4,461	430.00	213,137	1,918,230
South Core Private Resi	34	24,919	700.00	513,038	17,443,300
Totals	**56**	**39,773**			**22,403,200**

Rental Area Summary	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
North Core Ground Rents	2			350	700	700
North Core Commercial Basement	1	646	15.00	9,690	9,690	9,690
North Core Commercial Ground	1	3,068	20.00	61,360	61,360	61,360
North Core Commercial Mezz	1	3,660	15.00	54,900	54,900	54,900
South Core Ground Rents	34			350	11,900	11,900
South Core Commercial Ground	1	4,844	20.00	96,880	96,880	96,880
South Core Commercial Mezz	1	4,090	15.00	61,350	61,350	61,350
Totals	**41**	**16,308**			**296,780**	**296,780**

Investment Valuation

North Core Ground Rents					
Current Rent	700	YP @	7.0000%	14.2857	10,000
North Core Commercial Basement					
Market Rent	9,690	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	152,358
North Core Commercial Ground					
Market Rent	61,360	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	964,780
North Core Commercial Mezz					
Market Rent	54,900	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	863,208
South Core Ground Rents					
Current Rent	11,900	YP @	5.0000%	20.0000	238,000
South Core Commercial Ground					
Market Rent	96,880	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	1,523,270
South Core Commercial Mezz					
Market Rent	61,350	YP @	6.0000%	16.6667	
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	964,623
Total Investment Valuation					**4,716,239**

GROSS DEVELOPMENT VALUE			**27,119,439**
Purchaser's Costs		300,285	
Effective Purchaser's Costs Rate	6.80%		
			300,285
NET DEVELOPMENT VALUE			**26,819,154**
NET REALISATION			**26,819,154**

APPRAISAL SUMMARY	CARTER JONAS LLP

1 Creekside, Deptford
Carter Jonas
36% Affordable Housing

OUTLAY				
ACQUISITION COSTS				
Residualised Price			548,759	
				548,759
Stamp Duty			16,938	
Effective Stamp Duty Rate		3.09%		
Agent Fee		1.00%	5,488	
Legal Fee		0.50%	2,744	
				25,169
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Construction Costs	76,629	229.48	17,585,186	**17,585,186**
Demolition			50,000	
Substation Works			130,000	
Neighbourly Matters			50,000	
S106			150,000	
CIL			520,000	
				900,000
PROFESSIONAL FEES				
Professional Fees		10.00%	1,758,519	
				1,758,519
MARKETING & LETTING				
Marketing		2.00%	348,866	
Letting Agent Fee		10.00%	29,678	
Letting Legal Fee		5.00%	14,839	
				393,383
DISPOSAL FEES				
Sales Agent Fee		1.50%	327,739	
Sales Legal Fee		0.50%	134,096	
				461,835
MISCELLANEOUS FEES				
Private Resi Profit		17.50%	151,856	
Affordable Resi Profit		6.00%	130,435	
Commercial Profit		15.00%	297,052	
Private Resi Profit		17.50%	3,094,228	
Commercial Profit		15.00%	373,184	
				4,046,755
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				1,099,549
TOTAL COSTS				**26,819,154**
PROFIT				
				0
Performance Measures				
Profit on Cost%		0.00%		
Profit on GDV%		0.00%		
Profit on NDV%		0.00%		
Development Yield% (on Rent)		1.11%		
IRR		6.32%		
Cost per Gross ft²		350		