# FVA Review | Axion House, Lewisham

Boyer

Prepared on behalf of London Borough of Lewisham | June 2019

## Report Control

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## APPENDIX

# 1. INTRODUCTION

**Background**

1.1 Boyer Planning was instructed by the London Borough of Lewisham (the "Council") to review a viability assessment provided by London Square Developments Limited (the "Applicant") in support of its planning application for the redevelopment of Axion House, Silver Road, SE13 (the "Property" or "Site"). Boyer has previously reviewed the financial viability of a previous iteration of the proposed development by the Applicant and issued an FVA review to the Council in February 2019.

1.2 The Applicant originally submitted a planning application in May 2017 (ref: DC/17/102703) to demolish Axion House and develop a mixed use scheme comprising 153 residential units and flexible B1/A1/A3/D2 commercial uses across a number of buildings extending over 6 to 16 storeys in height. The Applicant was offering 44 of these residential units as affordable homes, reflecting a proportion of c.29% based on unit numbers.

1.3 Following discussion with the Council the scheme was revised to address concerns over the height and massing of the development. The height of the buildings were subsequently reduced by between one and two storeys and the total number of homes reduced to 136 dwellings of which 28 were offered as affordable homes (21.6% based on habitable rooms and 20.5% based on unit numbers). This proposal was presented to the Planning Committee in September 2018 where Members resolved to refuse the application.

1.4 The Applicant has therefore implemented further design alterations to reduce the massing and height of the buildings via reductions in floor to ceiling heights as well as moving the footprint of the proposed building to minimise overshadowing of existing residential property in the area. The configuration of the ground and first floor has also been revised to reduce the commercial floor space and areas designated for the energy centre so that the total number of dwellings can be increased to support a further seven affordable homes. It is now proposed to build 141 dwellings of which 24.8% will be affordable housing. The Council policy is for developments to offer up to 50% of new dwellings as affordable homes, subject to financial viability.

1.5 The purpose of this report is to provide the Council with an updated review of the financial viability of the development scheme. We note that the latest FVA report prepared by the Applicant is dated May 2018, and was prepared prior to the current design revisions. This FVA review therefore provides guidance on the reasonableness of assumptions applied within the May 2018 FVA report and assumes the same assumptions are to be applied to the current development scheme to test whether if could be financially viable to provide additional affordable homes and improve compliance with local planning policy.

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

**Objectivity, Impartiality and Reasonableness**

1.7 In carrying out this FVA review, we have acted:

- With objectivity
- Impartially
- Without interference, and
- With reference to all appropriate available sources of information.

1.8 We can confirm that in preparing this report no performance-related or contingent fees have been agreed.

**Conflicts of Interest**

1.9 We confirm that in providing this advice to the Council there is no conflict of interest between Boyer and London Square Developments Ltd.

**Information Provided**

1.10 In undertaking this review Boyer has collected evidence from a number of third party sources. Boyer cannot be held responsible for the accuracy of this data.

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

1.12 In undertaking this FVA review, we have relied on the latest development scheme information being provided to Boyer which includes the following information:

i) A copy of the Applicant's FVA prepared by DS2 LLP, dated May 2018.

ii) Revisions of the development scheme drawings prepared by PRP Architects, dated 7th May 2019.

iii) A copy of the accommodation schedule prepared by PRP Architects, dated 3rd May 2019.

iv) A copy of the construction cost plan, prepared by Faithful & Gould, dated 28th May 2019.

v) A copy of the Planning Statement prepared by DP9 Ltd, dated November 2018.

# 2. PROJECT DETAILS

**Location**

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

**The Site**

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

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

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

**Development Overview**

2.5 The Applicant is seeking a planning permission to redevelop the Site and has submitted detailed proposals for the following scheme:

> "Demolition of existing buildings (Axion House), 1 Silver Road, SE13 and the construction of buildings ranging from ground level plus 4 to 15 storeys in height, to provide 136 residential units, and flexible B1/A1/A3/D2 commercial uses, associated landscaping works, vehicular access, cycle and car parking".

2.6 Since this planning application was submitted the Applicant has revised the proposal to reduce the quantum of commercial floor space and increase the number of dwellings from 136 to 141. This has resulted in an additional seven dwellings being offered for affordable housing.

2.7 Based on the revised accommodation schedule we understand the proposed development scheme comprises the following accommodation:

- 453 sqm (NIA/GIA) mixed commercial accommodation

- 12,980.5 sqm (GIA) and 9,760 sqm (NIA) residential accommodation
    - 106 x Private Sale Units (7,360 sqm (NIA))
    - 25 x Affordable Rent Units (1,778.5 sqm (NIA))
    - 10 x Shared Ownership Units (621.5 sqm (NIA))

2.8 The Applicant's current proposal indicates that the development will include a total of 35 affordable homes, reflecting a proportion of c.24.9% by habitable room or c.24.8% by unit number.

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

2.10 In August 2017, the Mayor of London issued Supplementary Planning Guidance on affordable housing and viability assessments, stating that where a minimum of 35% affordable housing is provided on-site and meets the specified tenure mix, without access to public subsidy, the need for an FVA can be omitted in an attempt to speed up the planning process. With the proposed affordable housing offer at only 24.9%, a detailed viability review remains a requirement in the determination of this planning application.

**Section 106 and CIL Proposals**

2.11 We are advised by the Applicant that based on the current proposal the following S106 and CIL contributions have been allowed for:

| | |
|---|---|
| • S106: | £331,250 |
| • Mayoral CIL2: | £622,500 |
| • Borough CIL: | £896,963 |
| **Total S106 & CIL:** | **£1,850,713** |

2.12 In undertaking this FVA review, we have provisionally checked these assessments. LB Lewisham CIL was adopted in April 2015 at a rate of £70 per sqm for residential development. Applying the indexation to November 2018, based on the BCIS All-in Tender Price Index, indicates a current charging rate in the order of £81.13 per sqm. There is no charge on B class uses. MCIL2 is effective from April 2019 and reflects a charge of £60 per sqm on all development, with relief on affordable housing.

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

# 3. APPROACH TO VIABILITY ASSESSMENT

**Limitation of Residual Development Appraisals**

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

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

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

**Approach to Appraisal**

3.2 In undertaking a viability assessment review for planning purposes Boyer gives full consideration of the RICS Guidance Note 94/2012 (GN94) – Financial Viability in Planning. GN94 provides an objective methodology framework to support Affordable Housing viability assessment. The GN94 highlights that it is grounded in the statutory and regulatory planning regime that currently operates in England. GN94 concludes that the fundamental issue in considering viability assessments in a town planning context is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements.

3.3 GN94 defines financial viability for planning purposes as follows:

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

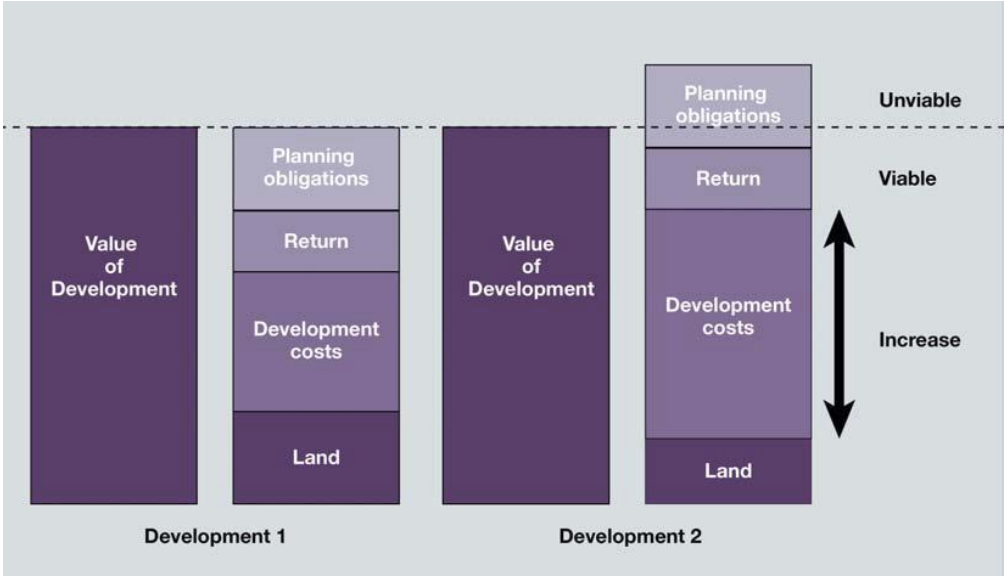
3.4 GN94 proposes the use of a residual appraisal methodology for financial viability testing and that such a methodology is normally used, where either the level of return or site value can be an input and the consequential output (either a residual land value or return respectively) can be compared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

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

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

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

Fig.3.1: Demonstration of viability




Source: RICS Guidance Note 94/2012.

3.7 While Boyer acknowledges the RICS definition of Market Value as one basis to assess site value (now more commonly referred to as Benchmark Land Value (BLV)), more recent guidance in the NPPF (February 2019) and NPG (May 2019) requires the assessment of the BLV to be based on an Existing Use Value plus a premium (EUV+) or Alternative Use Value (AUV). We understand that the RICS is due to issue an updated guidance note shortly to reflect this current approach.

3.8 With regard to the use of EUV+, the premium is designed to allow for a sufficient return to the land owner to incentivise the release of the land for development.

3.9 Where AUV is to be applied in assessing the BLV there must be either an implementable planning permission for the site or where no permission exists, any proposal must be fully planning policy compliant and stand a reasonable likelihood of the LPA granting a planning permission for that development scheme. It must also be evidenced that there is sufficient market demand for the stated alternative use and provide an explanation why the alternative use has not been pursued.

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

3.11 Where the existing site or property is undeveloped or in a condition unsuitable for use or occupation, an alternative approach could be to consider the AUV.

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

3.13 The site value adopted in this viability assessment is based on EUV+, in respect to the use as a warehouse/depot with use class B8.

3.14 In determining the EUV+ assessment, Boyer has had regard to transactional evidence for similar properties in the local vicinity, or further afield were appropriate and justified.

**Residual Development Appraisal Assumptions**

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

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

3.17 We have appraised the development scheme as a single phase development. We provide a copy of this appraisals in the Appendices and set out the revenue and cost assumptions adopted.

# 4. MARKET ANALYSIS

**Local Property Market**

4.1 We have undertaken a review of the local property market to identify a range of comparables for residential rental units and commercial property values.

**Industrial Property Market - Benchmark Land Value**

*Existing Use Value Plus*

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

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

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

*Axion House, Silver Road, SE13 (the Property)*

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

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

*Suite 5, Franthorne Way, London, SE6*

4.7 Franthorne Way is situated approximately 3km to the south of the Property. Suite 5 comprises a self-contained 463 sqm (4,980 sqft) industrial unit and was let in July 2018 on a seven year lease at a rent of £45,000 pa. The agreed rent reflects £97 per sqm (£9.04 per sqft). It is noted that this unit is significantly smaller than the subject Property.

*Unit 3, Mercy Terrace, SE13*

4.8 Mercy Terrace is situated approximately 0.5km to the southwest of the Property. Unit 3 comprises a self-contained 769 sq m (8,277 sq ft) industrial unit and was let in November 2017 at a rent of £60,000 pa. The rent reflects £78 per sq m (£7.23 per sq ft). This unit is smaller than the subject Property.

*Deptford Trading Estate, Blackhorse Road, SE8*

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

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

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

*Surrey Canal Trade Park, Surrey Canal Road, SE14*

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

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

*34-40 Eastdown Park, SE13*

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

*Sandgate Trading Estate, Sandgate Street, SE15*

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

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

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

**Development Values**

4.17 The proposed development scheme comprises 141 dwellings for private sale and affordable housing. We provide a selection of evidence below from which we have formed an opinion of achievable gross development value (GDV).

*Residential Sale Values*

4.18 In seeking to form a view on achievable sales values for the proposed private sale units we have focused our evidence, where available, on other developments of a similar scale and character in the location and neighbouring post codes. It should be noted that a number of large scale development schemes in Lewisham are now relatively historic. This would include Barratt's development known as Renaissance and the first phase of Muse's development at Lewisham Gateway. Although we do provide some commentary below.

*Lewisham Gateway, Portrait Tower – Phase 1*

4.19 Following work that was undertaken as a separate commission we are aware the average sales value for the 193 dwellings was in the order of £6,100 per sqm (£567 per sqft). However, these sales occurred in 2014 and 2015 and do not necessarily reflect current market trends.

4.20 It should be noted that the majority of units comprised one bedroom homes which could further skew the resulting £/sq ft figure on the basis that smaller units can achieve a disproportionally higher £/sqft rate.

*Lewisham Gateway, Portrait Two*

4.21 The second phase of sales at Lewisham Gateway has been underway since 2017 with a mix of one and two bedroom apartments. We provide details of units sold in 2018 at Appendix 1, which suggest an average sales value of £6,737 per sqm (£626 per sqft). The average sales value for all units sold during 2017 and 2018 is £6,824 per sqm (£634 per sqft).

4.22 The evidence available indicates that the one bed units range in value reflecting £7,491 to £7,787 per sqm (£696 to £723 per sq ft) with the two bed units ranging in value reflecting £6,321 to £6,791 per sqm (£587 to £631 per sq ft).

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

*Centralis, 87-89 Loampit Vale, Lewisham, SE13*

4.24 Centralis is a development by Purelake New Homes Ltd comprising 49 self-contained dwellings together with associated parking, landscape works and amenity space. The development is located approximately 0.3km to the north of the subject property, closer to the railway station.

4.25 We provide details of units currently being marketed at Appendix 1, which suggest an average sales value of £6,738 per sqm (£626 per sqft). The average sales value for all units sold to date is understood to be in the order of £6,727 per sqm (£625 per sqft) with the highest value achieved in the order of £7,459 per sqm (£693 per sqft).

4.26 The evidence available indicates that the one bed units range in value reflecting £7,264 to £7,556 per sqm (£675 to £702 per sq ft) with the two bed units ranging in value reflecting £6,321 to £7,513 per sqm (£587 to £698 per sq ft) and three bed units at £5,640 per sqm (£524 per sqft).

*Christopher Boones Almshouses, Belmont Park, Lewisham, SE13*

4.27 Christopher Boones Almshouses is a development of 2 and 3 bedroom apartments and 4 bedroom duplexes in a gated community by Merchant Taylors Company to provide 88 units in total for residents over the age of 57. The development is located approximately 0.9km to the east of the subject property situated on the corner of Belmont Park and Middleton Way in the London Borough of Lewisham.

4.28 We provide details of units currently being marketed at Appendix 1, which suggest an average sales value of £5,995 per sqm (£557 per sqft) for a selection of mainly three bedroom units.

4.29 It should be noted the evidence is for asking prices for three bed units which are likely to reflect a lower £/sqft value than could be achieved on the smaller two bedroom units.

*Renaissance, Loampit Vale – Barratt Homes*

4.30 Barratt Homes' 788 dwelling scheme known as Renaissance is now relatively historic in terms of providing sales values for new-build homes in Lewisham town centre. While sales began as early as 2010, the last sales are understood to have completed in 2015. The development is situated to the north of the subject Property and is now completed.

4.31 With average sales values now reported to be in the order of £5,059 per sqm (£470 per sqft) overall, we have calculated that average sales values over the course of 2015 were in the region of £7,020 per sqm (£653 per sq ft) for one and two bedroom apartments. It should be noted that a number of these units are located on higher floors within the building and could therefore reflect a premium compared with apartments on the lower levels.

**Residential Sales Summary**

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

4.33 The sales evidence for the more recent schemes highlighted above and in the appendices show a mix of values ranging from £5,640 to £7,782 per sqm (£524 to £723 per sq ft), with average values ranging from £5,995 to £6,738 per sqm (£557 to £626 per sq ft).

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

4.35 The previous FVA review carried out in February 2019 concluded that the average private sales value across the proposed development at Axion House would be in the order of £7,083 per sqm (£658 per sq ft). This was based on a similar scheme of up to 16 storeys in height. We are of the opinion that achievable unit prices will not have increased in the past four months to materially alter the average sales value adopted by the Applicant. We are therefore of the view that an average sales value would be in the order if £7,083 per sqm (£658 per sq ft).

**Residential Rental Values – Affordable Housing**

4.36 To assess the potential value of any rented affordable homes, our assessment of the price a Registered Provider could pay to acquire any of these units is based on the Local Housing Allowance rates as at May 2019 for this location. These are currently as stated below:

- 1 bed @ £216.51 per week
- 2 bed @ £281.45 per week
- 3 bed @ £340.64 per week

4.37 In assessing the potential value attributable to any Affordable Rented units we have taken into account the government's requirement for Registered Providers to reduce rents by 1% per annum up to 2020. Our calculations are based on a Registered Provider achieving the LHA rents stated above allowing for deductions equivalent to 30% of the gross rental income to cover annual management costs, bad debts, repairs and maintenance. The net rental income has been capitalised at a yield of 6%. We have concluded that a Registered Provider may typically adopt a blended rate for the one, two and three bedroom units of £2,906 per sqm (£270 per sq ft). This reflects a value of approximately 41% of the average private sale value.

4.38 With regard to shared ownership units we have adopted market values and made an assumption on the initial sale of equity to the purchaser. This is assumed to be 25%. The rental payments on the interest retained by a Registered Provider are then calculated based on a maximum of 2.75% of the outstanding value per annum.

4.39 This approach indicates a blended value for the one and two bedroom units at £4,338 per sqm (£403 per sq ft). This reflects a value of approximately 61% of the average private sale value.

**Office Values**

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

*83 Lewisham High Street, SE13*

4.41 The unit comprises a 71 sqm (766 sq ft) office premises over a retail unit in the high street in the centre of Lewisham. We understand that the unit was let to Augustine Clement Solicitors in June 2017, for a term of 15 years at a rent of £13,000 pa. This reflects a rental rate of c.£183 per sqm (£16.97 per sq ft).

*Unit 1, 52-54 Thurston Road, SE13*

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

*Unit 1, 52-54 Thurston Road, SE13*

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

*Unit 2, 52-54 Thurston Road, SE13*

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

*Unit 3, 52-54 Thurston Road, SE13*

4.45 This unit comprises a 75 sqm (807 sq ft) office premises over ground level within a new development to the west of Lewisham station. We understand that the unit was sold to a private party in October 2016, for a sum of £180,000. This sale reflects a capital value of £2,400 per sqm (£223 per sq ft).

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

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

# 5. VIABILITY ASSESSMENT

**Benchmark Land Value**

5.1 We note that since the original FVA in May 2017 the Applicant has retained its opinion that the Benchmark Land Value (BLV) should be £5,284,500 after an allowance for a 30% premium on top of the EUV. This is based on an assumed rental value equivalent to £107 per sqm (£10 per sqft) and a yield of 5.25%.

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

**Current Use Value**
**Axion House, Silver Road, SE13**

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

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

5.3 On the basis that the EUV is in the order of £2,200,000, it would be necessary to allow for a premium to incentivise the landowner to sell. As noted above, the Applicant has adopted a premium of 30%, justified on the assumption that the Property is currently vacant and if it was to be sold as an investment, the owner would seek to re-let it prior to disposal, thereby reducing the risk of voids and increasing its value as an investment. On this basis, we do not believe a premium of 30% is unreasonable and would apply this to our own estimate of EUV. This would allow for a total BLV of c.£2,860,000, a reduction of £2,424,500 compared with that of the Applicant's estimated BLV.

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

**Appraisal Inputs**

*Private Residential Sales Revenues*

5.5 We note that the Applicant had adopted an average sales value of £7,083 per sqm (£658 per sqft). This FVA review is based on current day values. There remains uncertainty concerning the local property market over the near future with a combination of the UK's exit from the EU and a general slowdown and decline in house price growth. However, with the benefits of Help to Buy and measures to scrap SDLT on the first £300,000 of homes for first-time buyers this should help to stabilise values and there are signs first-time buyers are returning to the market with an upturn in mortgage approvals.

5.6 In consideration of the sales evidence for new-build homes in the local vicinity we have applied an average sales value to our appraisal reflecting £7,083 per sqm (£658 per sq ft). This generates a total capital receipt of just over £52,128,000 for the private sale units.

*Affordable Housing Revenue*

5.7 The Applicant had initially allowed for the sale of the Affordable Rented and Intermediate homes to a Registered Provider (RP) at a value of £2,088 and £3,810 per sqm (£194 and £354 per sq ft) respectively. This is calculated to generate a capital receipt of £4,560,548. The assumed timing of this receipt is 25% upon start of construction with further payments throughout the construction period with a final payment shortly after practical completion. It is understood from the Applicant's original FVA report that discussion has been held with the Council's planning and housing teams with regard to the calculation of these figures and agree overarching principles. However, there is no evidence of pre-application discussion with RP's to ascertain the likely values or payments the Applicant could expect to receive, as is recommended in the London Plan and the Mayor's Affordable Housing and Viability SPG 2017.

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

5.9 Based on these assessments, we are of the view that the average value for the Affordable Rented units could be in the order of £2,906 per sqm (£270 per sq ft) and the intermediate units could achieve in the order of £4,338 per sqm (£403 per sq ft). This would generate a capital receipt of £7,864,680 which is £3,304,132 greater than estimated within the Applicant's original FVA, based on LHA rates rather than London Affordable Rent rates. Although it should be noted that the current scheme now includes a greater number of affordable homes.

*Residential Ground Rent Revenue*

5.10 The Applicant had adopted an average ground rent of £338 per private sale unit. This is based on an assumption that the ground rent will be £300, £350 and £400 for the one, two and three bedroom units respectively. These rents have been capitalised at a yield of 5.00%.

5.11 On the 21 December 2017, the Communities Secretary announced a government proposal to introduce legislation to ensure that ground rents on new long leases are set at zero. Further comment from the Government has since suggested that ground rents will be capped at no more than £10 per annum. While the legislation is yet to be passed, the proposal has cross party support and as such it is likely to become law in the short to medium-term.

5.12 Consequently, in line with current valuation practice we have applied a cautious approach to the inclusion of any ground rent investment. For the purpose of this viability assessment we have applied a ground rent capped at £10 per dwelling and applied a yield of 3.50%. This generates a sum of £30,286.

*Commercial Revenue – Office Uses*

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

5.14 The evidence for office accommodation transactions set out in section 4 of this report include accommodation within Thurston Road, which is closer to the town centre. Based on this evidence we have applied a rental value equivalent to £183 per sq m (£17 per sq ft) and have adopted a yield of 8.00%. Once lettings are agreed, depending on the covenant strength, there is potential for yields to reduce and lead to a greater capital value. The adopted assumptions however generate a capital receipt of circa £1,046,690 net of rent free periods.

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

*Purchasers Costs*

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

*Construction Cost Advice*

5.17 The Applicant has provided updated construction costs to reflect the proposed revisions to the design including reduction in commercial accommodation and increase in affordable homes. Faithful & Gould's cost estimate summary indicates a total cost of c.£43,452,000 which reflects £3,235 per sq m (£300 per sq ft). This cost summary has been reviewed by Accertum Quantity Surveyors which has recommended that for the purpose of the viability assessment the main construction cost should be in the order of £41,568,000 having allowed for cost contingencies and cost inflation. This reflected an average build cost of circa £3,094.50 per sqm (£287 per sq ft) inclusive of abnormals, external works and contingency. Accertum's review has resulted in a cost reduction compared with the Faithful & Gould cost summary of £1,884,278.

*S106 and CIL Contributions*

5.18 We note that the Applicant has made an allowance in its own FVA for borough CIL of £1,129,698 and a Mayoral CIL of £622,500.

5.19 We have checked these CIL allowances to ensure the appropriate charging rates are adopted and appropriate indexation applied. We have estimated that the CIL liabilities would be as follows:

- LB Lewisham CIL: £896,963
- Mayoral CIL: £622,500

**TOTAL CIL COST: £1,519,463**

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

*Carbon Off-set Payment*

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

*Professional Fees*

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

5.23 For a new scheme, depending on scale and complexity, we would ordinarily allow for fees in the order of 10% to 12% of build costs. While this scheme is a mixed-use development and situated within a site with constraints to working practices such as the adjoining railway and the Ravensbourne River, we are of the opinion that professional fees in the order of 10% would be sufficient. This results in a cost of c.£4,156,800.

*Marketing Costs*

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

5.25 We are aware that different developers attribute different marketing rates and that such rates typically range from a relatively notional rate up to circa 3.5%. These costs would usually be expected to cover the preparation of a show apartment, production of brochures and website, running the marketing suite and paying marketing staff salaries and/or commission to achieve sales. However, separate letting and sales agency fees are usually added to this figure. In view of this, we are of the opinion that the rates adopted by the Applicant are acceptable and we have adopted the same rates within this FVA review.

*Development Programme*

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

*Finance Costs*

5.27 The Applicant has adopted a finance rate of 6.75% on development costs. We note that there is no separate fee for arrangement costs or loan exit fees which typically range from 1% to 2% of the funds borrowed.

5.28 It should also be borne in mind however that in practice, in order to limit loan to value ratios to no more than 70% to 80%, a proportion of the development funds will be drawn from internal reserves which can attract a higher 'cost of money' where opportunity costs require an internal rate of return in excess of finance rates offered by financial institutions. As such, for the purpose of this viability assessment the Applicant's adopted rate appears reasonable.

*Developer Profit*

5.29 We note the Applicant had originally targeted a blended profit rate to reflect a 20% profit on GDV on the private residential units, 6% profit on GDV on the affordable homes and 16.67% on the commercial unit (this is based on 20% profit on cost). Despite this, the Applicant's FVA indicated a return equivalent to only 0.59% profit on GDV.

5.30 The Mayoral SPG on Affordable Housing and Viability 2017, makes it clear that applicants should provide evidence and justification for the proposed profit rates adopted within the FVA. The Applicant has indicated in its original FVA report that 'there have been clear signs expressed by the RICS and a range of agents that there are short to medium concerns for the central London residential market. This increased risk is finding its way to the margins that lenders are requiring in regard to loan facilities and also profit expectations for speculative development'. The FVA report also cites additional risk concerns such as the location of the Property, particularly for the proposed commercial unit, the scale of development, real levels of debt and wider economic context.

5.31 While no evidence has been provided on any discussions with lenders as to their actual requirements with regard to finance rates or profit expectations, we would acknowledge that the issues referenced in the Applicant's FVA are reasonable considerations at this stage in the development programme. However, once certain planning issues can be resolved and if any pre-sales or pre-lettings can be agreed prior to commencement of development, it may be justifiable to reduce profit expectations in line with a reduced risk profile.

5.32 We have also had regard to guidance in the Mayor of London Affordable Housing and Viability 2017 SPG as well as the Revised NPPF and supporting NPPG (May 2019) which sets anticipated profit rates at between 15% and 20% on GDV, with the higher rates reserved for complex and high risk development schemes.

5.33 For the purpose of this FVA review and having regard to the proposed scheme, we would apply a profit rate of 17.5% on GDV for the private sale and commercial units and 6% on GDV for the Affordable Housing. For the purpose of this FVA Review this reflects a blended target profit rate of 16.00%. Our own appraisal is indicating the proposed development is generating a profit on GDV of 7.2%.

# 6. VIABILITY OUTPUTS

**Viability Findings**

6.1 Having reviewed the Applicant's FVA report setting out justification for certain assumptions, we have undertaken our own appraisal and have arrived at the main outcomes described below.

6.2 Based on our opinion of Gross Development Value (GDV) for the proposed development with 35 affordable housing units (24.8% based on total units or 24.9% based on habitable rooms), a benchmark land value of £2,860,000 and updated development costs, the proposed development is indicating a profit of 7.2% on GDV. Compared with a target return of 16.00% on GDV the proposed development scheme is generating a deficit of approximately -£5,362,000, indicating the scheme is not able to support any further affordable housing units at the current time.

6.3 In view of this output, we are of the opinion that the proposed development would be unable to support any additional affordable homes at the current time and the Applicant's offer of 35 affordable homes on a 71/29 Affordable Rent/Shared Ownership tenure split reflects a reasonable offer.

**Sensitivity Analysis**

6.4 We have undertaken a series of sensitivity analyses to identify the potential upside and downside risk to the Applicant's proposed scheme. The tables below set out the forecast profit levels that the scheme could generate where the sales values of the private residential units fall and rise by the stated level. This sensitivity testing assumes that the scheme is delivering 24.8% affordable housing by unit number.

*Sensitivity of Private Residential Sales Values*

| Residential Sales Value (£/sq ft) | Profit on GDV | Variance from Target (16.00%) |
|---|---|---|
| £658 (0%) | 7.22% | -8.78% |
| £691 (+5%) | 11.00% | -5.00% |
| £724 (+10%) | 14.47% | -1.53% |
| £625 (-5%) | 3.07% | -12.93% |
| £592 (-10%) | -1.49% | -17.49% |

6.5 As can be seen from the outputs in the tables above, it will be necessary for the private residential sales value to increase over 10% to achieve a level of developer return in excess of 16.00%. We estimate that values would need to increase by c.12.35% and an average sales value of £7,957 per sqm (£739 per sq ft) to achieve a target return of 16.00% on GDV. However, should current market uncertainties have a detrimental impact on sales values and the wider commercial property market; the developer profit will fall further and adversely impact on the overall financial viability of the project.

**Review Mechanism**

6.6 It is recommended that a review mechanism is included within a S106 agreement to review viability of the scheme towards the end of the development programme. This would be used to assess the average sales values that have been achieved and ascertain whether any 'top-up' payments should be made to the Council. This is something that is now being requested by the Mayor of London in order to ensure a fair contribution is received from developers towards the provision of affordable housing across London.

# 7. CONCLUSION

7.1 Having reviewed the Applicant's proposal for the development of the subject Property we are of the opinion that the development could generate a profit of c.£4,405,000 reflecting a return of 7.22% profit on GDV. However, to achieve the target return of 16.00%, additional value or cost savings of c.£5,362,000 would need to be achieved.

7.2 As at the date of this report, this level of deficit indicates that the proposed development scheme will not be able to support the inclusion of any additional affordable homes, other than the agreed 35 dwellings currently proposed on a 71/29 Affordable Rent/Shared Ownership tenure split, where a blended return of 16.00% is required by the developer.

7.3 Additionally however, as indicated by the sensitivity analysis set out in section 6 of this report; consideration should also be given to current property market uncertainties caused partly by Britain's anticipated exit from the EU as well as a broad slowing or decline of house price growth in London and the risk implications this has for the Applicant in proceeding with this project. Should house prices fall over the following 12 months and beyond, this will have significant implications on the financial viability of the project and the delivery of the proposed development scheme.

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

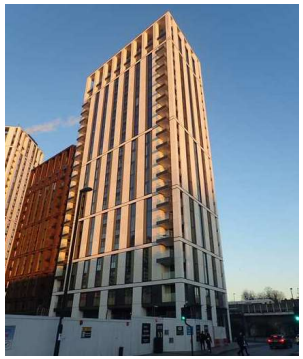
James Mercer

**James Mercer MRICS**
**Associate Director, Boyer Planning, Development Economics**

**13 June 2019**

# APPENDIX ONE – RESIDENTIAL SALES EVIDENCE

## New Build Sales Evidence



### Lewisham Gateway - 1B - Portrait Two, Lewisham, SE13

A major mixed-use development by Muse Developments to regenerate Lewisham town centre. Phase 1B comprises 101 private sale units and 68 PRS units built over 15 and 22 storeys. The completed Lewisham Gateway development will provide a mix of residential units, retail and leisure premises and improvements to the public realm. The pricing below reflects the asking prices over the past 12 months. It should be noted the average sales value is £634 per sqft for all units sold.

The development is located approximately 400m to the north of the subject property situated between adjacent to Lewisham Railway Station.

| Plot | Floor | No. of Beds | Floor Area (sqm) | Floor Area (sqft) | Sale Price | £/sqm | £/sqft | Sale Date |
|---|---|---|---|---|---|---|---|---|
| B2-145 | 14th | 1 | 51 | 546 | £380,000 | £7,491 | £696 | Mar-18 |
| B2-195 | 19th | 1 | 51 | 546 | £395,000 | £7,787 | £723 | Mar-18 |
| B2-013 | 1st | 2 | 68 | 728 | £427,500 | £6,321 | £587 | Mar-18 |
| B2-022 | 2nd | 2 | 64 | 693 | £427,500 | £6,640 | £617 | Mar-18 |
| B2-042 | 4th | 2 | 65 | 695 | £432,500 | £6,698 | £622 | Mar-18 |
| B2-063 | 6th | 2 | 68 | 737 | £442,500 | £6,463 | £600 | Mar-18 |
| B2-073 | 7th | 2 | 68 | 737 | £455,000 | £6,645 | £617 | Mar-18 |
| B2-092 | 9th | 2 | 65 | 695 | £447,500 | £6,931 | £644 | Mar-18 |
| B2-093 | 9th | 2 | 68 | 737 | £450,000 | £6,572 | £611 | Mar-18 |
| B2-102 | 10th | 2 | 65 | 695 | £450,000 | £6,969 | £647 | Mar-18 |
| B2-023 | 2nd | 2 | 68 | 728 | £430,000 | £6,358 | £591 | Jun-18 |
| B2-053 | 5th | 2 | 68 | 737 | £442,500 | £6,463 | £600 | Jun-18 |
| B2-103 | 10th | 2 | 68 | 737 | £455,000 | £6,645 | £617 | Jun-18 |
| B2-133 | 13th | 2 | 68 | 737 | £462,500 | £6,755 | £628 | Jun-18 |
| B2-143 | 14th | 2 | 68 | 737 | £465,000 | £6,791 | £631 | Jun-18 |
| | | | | | | **£6,737** | **£626** | |

## New Build Sales Evidence

**Centralis, 87-89 Loampit Vale, Lewisham, SE13**

A development by Purelake New Homes Ltd to demolish the existing shop, workshop and 5 no. bedsits at 87-89 Loampit Vale and the construction of a part 4, part 6, part 7 storey building comprising 49 self-contained dwellings (Use Class C3) together with associated parking, landscape works and amenity space.

The development is located approximately 0.3km to the north of the subject property, in the London Borough of Lewisham.


| Plot | Floor | No. of Beds | Floor Area (sqm) | Floor Area (sqft) | Asking Price | £/sqm | £/sqft | Sale Date |
|---|---|---|---|---|---|---|---|---|
| P216615 | 3rd | 1 | 50 | 541 | £380,000 | £7,561 | £702 | May-19 |
| P216616 | 4th | 1 | 54 | 578 | £390,000 | £7,263 | £675 | Dec-18 |
| P216617 | 3rd | 2 | 66 | 711 | £495,995 | £7,509 | £698 | Dec-18 |
| P216618 | 4th | 2 | 73 | 787 | £520,000 | £7,112 | £661 | May-19 |
| P221856 | 4th | 2 | 74 | 792 | £465,000 | £6,320 | £587 | Dec-18 |
| P216626 | 4th | 3 | 105 | 1126 | £590,000 | £5,640 | £524 | Dec-18 |
| | | | | | | **£6,743** | **£626** | |

## New Build Sales Evidence

**Christopher Boones Almshouses, Belmont Park, Lewisham, E13**

A development of 2 and 3 bedroom apartments and 4 bedroom duplexes in a gated communityby Merchant Taylors Company to provide 88 units in total for buyers over the age of 57.

The development is located approximately 900m to the east of the subject property situated on the corner of Belmont Park and Middleton Way in the London Borough of Lewisham.

| Plot | Floor | No. of Beds | Floor Area (sqm) | Floor Area (sqft) | Asking Price | £/sqm | £/sqft | Sale Date |
|---|---|---|---|---|---|---|---|---|
| 101 | Grd | 2 | 88 | 942 | £460,000 | £5,256 | £488 | May-19 |
| 102 | 1st | 3 | 91 | 980 | £587,500 | £6,453 | £599 | May-19 |
| 103 | 1st | 3 | 91 | 980 | £526,500 | £5,783 | £537 | May-19 |
| 104 | 2nd | 3 | 91 | 980 | £545,000 | £5,986 | £556 | May-19 |
| 106 | 3rd | 3 | 91 | 980 | £555,000 | £6,096 | £566 | May-19 |
| 107 | 3rd | 3 | 91 | 980 | £610,000 | £6,700 | £622 | May-19 |
| 108 | 4th | 3 | 91 | 980 | £545,000 | £5,986 | £556 | May-19 |
| 109 | 4th | 3 | 91 | 980 | £545,000 | £5,986 | £556 | May-19 |
| 209 | 2nd | 3 | 93 | 1001 | £560,000 | £6,022 | £559 | May-19 |
| 204 | Grd | 3 | 117 | 1262 | £610,000 | £5,203 | £483 | May-19 |
| 212 | 2nd | 3 | 91 | 983 | £570,000 | £6,242 | £580 | May-19 |
| 213 | 2nd | 3 | 93 | 1001 | £570,000 | £6,129 | £569 | May-19 |
| 214 | 2nd | 3 | 91 | 983 | £570,000 | £6,242 | £580 | May-19 |
| 215 | 2nd | 3 | 93 | 1001 | £570,000 | £6,129 | £569 | May-19 |
| 216 | 2nd | 3 | 91 | 980 | £545,000 | £5,986 | £556 | May-19 |
| | | | | | | **£6,000** | **£557** | |

We note that since our previous review in February 2019, the developer has reduced the unit pricing substantially resulting in the average sale value falling from £613 per sqft to £557 per sqft. Although the majority of these units are larger three bedroom apartments which will reduce the average £/sqft.

# APPENDIX TWO – ACCERTUM COST REVIEW

Accertum

# Review of Construction Cost

for

Residential and Commercial Development

at

Axion House
1 Silver Road
Lewisham
London
SE13 7BQ

13 June 2019

# Review of Construction Cost
# Axion House, Lewisham

**Prepared for** LB Lewisham
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**Reference** 19/008 - TC

**Date issued** 13.06.2019

# Review of Construction Cost

# Contents

# 1.0 Introduction

1.1 **Instruction**

Accertum Ltd were appointed by Boyer Planning to undertake the preparation of an independent report upon financial viability of the development at Axion House in Lewisham. Boyer Planning will undertake the financial appraisal for the project as part of the planning application and Accertum will undertake a review of construction cost from the information submitted by the Applicant *London Square Development Limited*, hereafter referred to as 'the Applicant'.

DS2 LLP have prepared a financial viability appraisal on behalf of the applicant and this includes an estimate of construction cost provided by Faithful and Gould, the applicant's cost consultant.

1.2 **Site Location**

The development site is approximately 0.49 hectares in area and is of an irregular shape. Access into site is via Silver Road adjacent to a bridge which provides access under the railway. The existing building on the site comprises an area of around 1,600 m2 and has a permitted use of B8 storage / warehouse. The site is a former Council storage depot and was used in 2017 as artist studios with the building subdivided into units with flexible tenancies. The site is bounded to the east by the Ravensbourne River, to the west and south by railway lines, south west by a Network Rail servicing facility and to the north by Silver Road.

1.3 **Project Description**

The proposed revised development will comprise of the demolition of existing buildings and erection of a new residential-led mixed use development comprising two linked buildings ranging from ground plus 4 to 8 storeys, and ground plus 4 to 15 storeys, to provide 141 residential units, and flexible B1/A1/A3/D2 use at ground floor, associated landscaping works, vehicular access, and other works incidental to the development.

1.4 **Planning Application Reference**

A previous planning application was submitted for a scheme with 136 nr units. This scheme can be viewed on the Council's website at https://lewisham.gov.uk/myservices/planning

The application number is **DC/18/09972.**

Accertum

## 1.5 Changes to Previous Application

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

- The external envelope is essentially the same with all changes limited to GF and L1
- Private units have reduced from 108 to 106. (Units B207 and C101 have been displaced)
- Affordable units changed from 28 units (24 Affordable Rent and 4 Shared Ownership) to 35 units (25 nr Affordable Rent and 10 Shared Ownership units)
- Commercial space reduced from 7,969 sq ft to 4,876 sq ft

This has been achieved by;

- Moving the Energy Centre from L1 to the Ground Floor
- Converting commercial space on L1 to a 1B Affordable Rent
- Converting commercial space on L1 to 3no 1B Shared Ownership
- Converting 1no 3B6P private unit to 1 no 1B Shared Ownership and a 2B Shared Ownership
- Converting a 1B2P private unit to Shared Ownership

## 1.6 Floor Areas

The floor areas for the project are taken from the area schedules produced in the Cost summary dated 28 May 2019.

| Use | GIFA m2 | NIA m2 |
|---|---|---|
| Residential | 12,980 | 9,760 |
| Retail | 453 | N/A |
| **Total** | **13,433** | **9,760** |

# 2.0 Information Received

2.1 The information that we have received from the application via Boyer Planning includes the following:

- Cost summary dated 28 May 2019.
- Drawings and Area scheduled received from DS2 on 23 May 2019.

2.2 The Applicant's Appraisal is based on a construction cost using a residential Gross Internal Floor area of 12,980m2 and a commercial Gross Internal Floor area of 453m2. This area accords with the Faithful & Gould Cost Plan 02 dated 28 May 2019. An area schedule was provided with the cost plan.

Accertum

# 3.0 Cost Summary

3.1 The Cost estimate prepared by Faithful & Gould forecasts a revised total construction cost of £43,452,240. This compares to the previous cost estimate in the sum of £41,195,000, an increase of £2,257,240; The rates for work items within the cost plan are based at 2nd Quarter 2017 however the costs have been updated using an inflation adjustment to reflect current day pricing levels as at 2nd Quarter 2019. A summary of the main cost items is shown in the table below.

3.2

| Ref | Item | Total £ | £/m² GIA Overall GIA |
|---|---|---|---|
| | | | |
| 1 | Site Clearance/Demolition | £819,000 | £61/m2 |
| 2 | Residential | £35,074,000 | £2,611/m2 |
| 3 | Commercial (Shell Only) | £991,000 | £74/m2 |
| 4 | Sub-Total | £36,884,000 | £2,746/m2 |
| 5 | External Works | £1,827,000 | £136/m2 |
| 6 | Services Infrastructure | £1,080,000 | £80/m2 |
| 7 | Sub-Total | £39,791,000 | £2,962/m2 |
| 8 | Contingency | £1,990,000 | £148/m2 |
| 9 | Construction Total @ 2Q2017 Pricing | £41,781,000 | £3,110/m2 |
| 10 | Inflation to 2Q 2019 | £1,671,240 | £124/m2 |
| **11** | **Total Estimate (at Current Day 2Q 2019)** | **£43,452,240** | **£3,235/m2** |

3.3 An elemental comparison of cost between the previous estimate dated 5 June 2018 and the current cost estimate dated 28 May 2019 is shown on page 5.

The costs have increased by £615,701 as at 2Q 2017 prior to an inflationary adjustment of £1,671,240 to update the costs to 2nd Quarter 2019.

The movement in cost represents a reasonable adjustment as there are five additional residential units where the total has increased from 136 nr to 141 nr. This has been achieved in the most part by re-planning the floor layouts within the existing building envelope. The commercial space has reduced in area. As the residential area has increased, the additional units will require fitting out and therefore the movement in cost is considered reasonable.

However, it should also be noted that the previous review of the viability study proposed a reduction in construction cost. This is discussed further at Section 5.0.

Accertum

| | | Cost estimate REV 05 June 2018 | | Cost Plan 02 June 2018 | | Movement £ |
|---|---|---|---|---|---|---|
| | | 13,398m² | | 13,433m² | | |
| | | Total | £/m² | Total | £/m² | £ |
| **1** | **Demolition & Enabling Works Sub-total** | **£683,800** | £51 | **£683,800** | £51 | **£0** |
| **1** | **Substructure Sub-total** | **£1,753,252** | £131 | **£1,753,252** | £131 | **£0** |
| 1.1 | Substructure | £1,753,252 | £131 | £1,753,252 | £131 | £0 |
| **2** | **Superstructure Sub-total** | **£15,390,924** | £1,149 | **£15,566,706** | £1,159 | **£175,782** |
| 2.1 | Frame & Upper Floors | £4,080,158 | £305 | £4,169,246 | £310 | £89,088 |
| 2.3 | Roof | £1,334,108 | £100 | £1,334,108 | £99 | £0 |
| 2.4 | Stairs and ramps | £253,200 | £19 | £253,200 | £19 | £0 |
| 2.5 | External walls, Windows & ext. doors | £7,386,844 | £551 | £7,408,538 | £552 | £21,694 |
| 2.6 | Internal walls & partitions | £1,759,439 | £131 | £1,810,839 | £135 | £51,400 |
| 2.7 | Internal doors | £577,175 | £43 | £590,775 | £44 | £13,600 |
| **3** | **Internal finishes Sub-total** | **£2,065,426** | **£154** | **£2,120,577** | **£158** | **£55,151** |
| 3.1 | Wall Finishes | £614,575 | £46 | £630,450 | £47 | £15,875 |
| 3.2 | Floor Finishes | £931,746 | £70 | £958,122 | £71 | £26,376 |
| 3.3 | Ceiling Finishes | £489,105 | £37 | £502,005 | £37 | £12,900 |
| 3.4 | Finishes Generally | £30,000 | £2 | £30,000 | £2 | £0 |
| **4** | **Fittings, furnishings and equipment** | **£1,143,200** | **£85** | **£1,183,450** | **£88** | **£40,250** |
| 4.1 | Fittings, furnishings and equipment | £1,143,200 | £85 | £1,183,450 | £88 | £40,250 |
| **5** | **M&E Services Sub-total** | **£8,295,177** | **£619** | **£8,677,965** | **£646** | **£382,788** |
| 5.1 | M&E Installation | £7,284,570 | £544 | £7,667,358 | £571 | £382,788 |
| 5.2 | Lift and conveyor installations | £769,000 | £57 | £769,000 | £57 | £0 |
| 5.3 | Builder's work in connection with services | £241,607 | £18 | £241,607 | £18 | £0 |
| **6** | **Commercial Sub-total** | **£1,032,169** | **£77** | **£827,565** | **£62** | **-£204,604** |
| 6.1 | Commercial | £1,032,169 | £77 | £827,565 | £62 | -£204,604 |
| **7** | **External works Sub-total** | **£1,526,315** | **£114** | **£1,526,315** | **£114** | **£0** |
| 7.1 | External Works | £1,526,315 | £114 | £1,526,315 | £114 | £0 |
| **8** | **Services Sub-total** | **£885,000** | **£66** | **£902,550** | **£67** | **£17,550** |
| 8.1 | Services Infrastructure | £885,000 | £66 | £902,550 | £67 | £17,550 |
| | **Building works estimate** | **£32,775,263** | **£2,446** | **£33,242,180** | **£2,475** | **£466,917** |
| 9.1 | Main contractor's preliminaries - 14% | £4,588,537 | £342 | £4,653,905 | £346 | £65,368 |
| 9.2 | Main contractor's OH&P - 5% | £1,868,190 | £139 | £1,894,804 | £141 | £26,614 |
| | **Base cost estimate 2Q 2017** | £39,232,000 | | £39,791,000 | **£2,962** | £558,899 |
| | Contingency - 5% | £1,961,599 | £146 | £1,990,000 | £148 | £28,401 |
| **10** | **Risks Sub-total** | **£1,961,599** | **£146** | **£1,990,000** | **£148** | **£28,401** |
| | **Rounding** | **£1,411** | | **£111** | | **-£1,300** |
| | **Total Cost £** | **£41,195,000** | | **£41,781,000** | **£3,110** | **£586,000** |
| 11 | Inflation to 2Q 2019 | | | £1,671,240 | £124 | £1,671,240 |
| | **Construction Cost at 2Q 2019** | | | **£43,452,240** | **£3,235** | **£2,257,240** |

# 4.0 Benchmarking

## 4.1 Benchmarking Data

We have obtained cost data from various sources to facilitate cost benchmarking of residential projects. This data includes, BCIS (Building Cost Information Service), a Cost Model from Spons (a recognised industry publication) and cost data from Accertum. This cost data has been reviewed and adjusted for location and updated to reflect current day costs to facilitate a comparison with the costs reported by the Applicant for Axion House.

4.2 The Axion House cost £/m2 inclusive of site clearance and external works is **£3,235/m2.**
If the commercial unit was excluded, together with site clearance and external works, the **residential build cost is £2,951/m2**. This is calculated by taking the residential cost of £35,074,000, adding 5% for contingency/risk, 4% for inflation to 2Q 2019 giving a total of £38,300,808 with a residential gross internal floor area of 12,980 m2.

## 4.3 BCIS Cost Data

The Building Cost Information Service (BCIS) is an organisation operated by the RICS that collates, analyses and publishes construction cost data. The BCIS service provides a UK wide and fully independent database compiled and continually updated using date from various building types and locations.

BCIS publish costs as average overall building cost on a cost per square metre (£/m2) basis and an elemental cost per square metre basis for new build work. BCIS data can provide a baseline to assess the level of cost and specification enhancements on a particular scheme.

The BCIS data for new build flats (apartments) greater than 6 storeys, based upon a Lewisham location as at 2Q 2019 shows a cost range of £1,773/m2 to £2,330/m2 based upon the lower and upper quartile values.

The Mean Cost is £2,188/m2
The Median cost is £2,058/m2

It should be noted that the BCIS cost data does not include for demolition or external works elements and therefore this must be taken into consideration when comparing the data to Axion House.

As Axion House has a high-quality façade treatment and is in close proximity to the railway line and river, we would suggest that the BCIS upper quartile value is used for comparison rather than the mean or median cost benchmark.

The BCIS upper quartile value is £2,330/m2 which compares to the Axion House cost of £2,951/m2. Axion House cost is £621/m2 (27%) above the BCIS upper quartile value for apartments above 6 storeys.

## 4.4 Spon's Pricing Book 2019 Cost Model

Spon's Pricing Book is an industry recognised source of building cost data and provides detailed and professionally relevant construction price information for the UK. The data is intended as a guide to expected price levels for the projects or items described.

Within the Cost Models section of this publication, there is an elemental cost model for rented apartments which is described as follows:-

*"The apartments are being built for the Public Rented Sector and are arranged in a single eleven-storey building with two cores. Each core has its own apartment entrance lobby. The building also includes a residents' gym (GIA 185 m2), a private screening room and cinema (93 m2) and a residents' lounge and multifunction area (185 m2), as well as a dedicated estate management suite (GIA of 140 m2) and two retail units (GIA 280 m2)."*

This provides a suitable basis for comparison with Axion House.

The cost model provides a total cost of £2,906.40/m2 based upon the Gross Internal Floor Area (GIFA). This reflects a Central London Location which has a location factor of 1.05. The Outer London Location Factor is 1.00. If an adjustment is made for this location, the adjusted cost is **£2,768/m2**.

The costs are summarised in the table below.

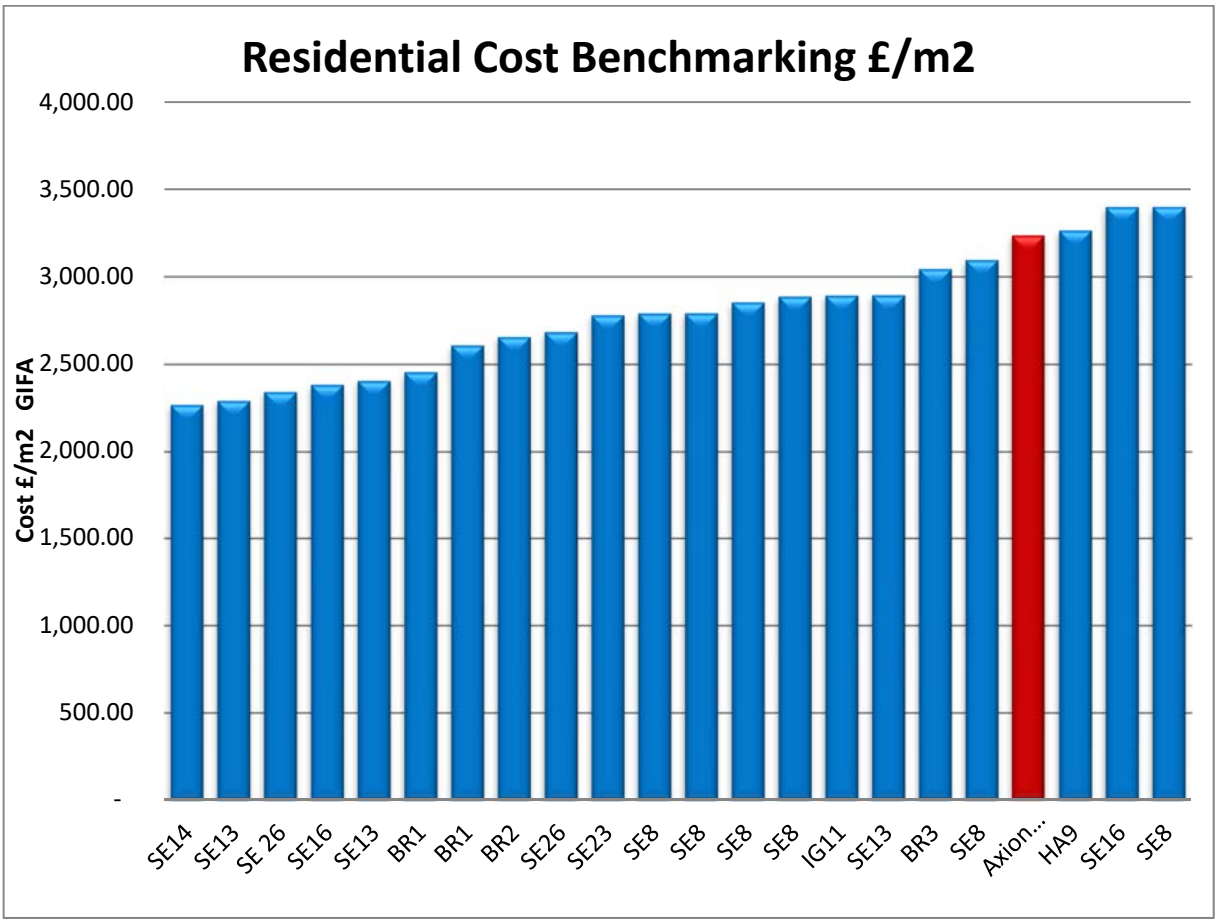
| | **Total cost £/m2** |
|---|---|
| Axion House | £2,951/m2 |
| Spons Cost Model | £2,768/m2 |
| Difference | +£183/m2 |

Overall, the Axion House scheme is £183/m2 (6.60%) above the cost model benchmark. We would anticipate the cost model to have a higher specification than Axion House as it is based upon an inner London specification although part of this would have been factored into the location adjustment.

## 4.5 Accertum Cost Data

Accertum have a cost database from historic projects against which projects can be benchmarked. This cost data shows that residential costs range from £2,267/m2 to £3,398/m2 with a mean cost of £2,791/m2 and a median cost of £2,790/m2.

This data is depicted in the graph on page 8 with the Axion House cost shown in red and in the table on page 9. These costs are slightly different to the BCIS and Spons cost model benchmarking in that they are inclusive of demolition, site clearance and external works. The Axion House cost is £3,235/m2.




4.6 Overall, the Axion House scheme cost is £444/m2 (15.9%) above the mean cost in comparison to cost data collated by Accertum. The Axion House cost is within the top 20% band of projects.

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

| Ref | Source | Sample Size Nr | Residential Units Cost Range £/m2 | Mean Average £/m2 | Median Average £/m2 |
|---|---|---|---|---|---|
| **1** | **BCIS (See Note 2)** | | | | |
| 1.1 | Apartments /Flats (6+ Storeys) | 85 | 1,773 to 2,330 | 2188 | 2,058 |
| **2** | **SPONS Price Book** | | | | |
| 2.1 | Spon's Pricing Book<br>Public Rented Sector Apartments (Outer London) | N/A | 2,768 | N/A | N/A |
| **3** | **Accertum Cost Data** | | | | |
| 3.1 | Apartments /Flats (High rise) | **22** | 2,364 to 3,398 | 2,791 | 2,790 |

Notes

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

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

*3) – Accertum cost data includes demolition and external works*

4.8 **Benchmarking Analysis**

The Axion House cost £/m2 is above typical cost benchmarks from BCIS, Spons Cost Model and Accertum cost data. Key points to note are as follows:

- The Axion House residential cost is £2,951/m2 not including demolition and external works and £3,235/m2 inclusive of these items.
- The Axion House cost is £621/m2 (27%) above the BCIS upper quartile value of £2,330/m2 for apartments above 6 storeys.
- The Axion House scheme is £183/m2 (6.60%) above the cost model benchmark of £2,768/m2.
- Axion House is the Fourth highest project cost when compared with Accertum cost data for 22 nr residential projects. The cost of £3,235/m2 (including demolition and external works) is £444/m2 (15.9%) above the mean cost.

4.9 The conclusion from the benchmarking study is that Axion House cost is above many cost benchmarks and further analysis is required to identify possible reasons for this.

Accertum

# 5.0 Proposed Cost Adjustments

5.1 Following our review of the construction costs submitted by the Applicant we would summarise that a number of the rates used within the cost plan are higher than what we would expect for developments of this size and nature.

We have compared the rates used to other projects and recent tender returns. We would propose the following adjustments to the cost estimate:

- Reduce allowance for treatment of Japanese Knotweed
- Substructure- adjustment of rate for pile testing and ground floor slab
- Adjustment to rate for waterproofing to roof
- Reduction in Tree and lighting allowances to roof gardens
- Review of rate for brickwork to facades
- Reduce allowance for mechanical and electrical installations
- Reduction in cost of lift installations
- External works – adjustment to rates for paving and deck platform
- Reduce allowance for Feature lighting and CCTV to reflect scope
- Omit non recoverable VAT on carpets and white goods

5.2 Accertum have made adjustments for the items noted in Section 5.1 and these are summarised on page 11. These adjustments have been made to the rates priced at 2Q 2017 levels, so a 4% uplift has been added which results in **a reduction of £1,884,278** to the Applicant's construction cost.

5.2 **Inflation**

The applicant's cost consultant, Faithful & Gould has proposed a 4% uplift in cost to update the cost from 2Q 2017 to 2Q 2019. This results in a cost increase of £1,671,240.

The BCIS All in Tender Price Index provides data upon changes in tender prices. BCIS data during the period of the initial estimate (2Q 2017) and current day is set out below:

- 2Q 2017 is 324
- 2Q 2019 is 332

This represents an increase of 2.47% in the period which is less than the 4% adopted by the Applicant. Inflation forecasts from other construction consultants over the period 2Q 2017 to 2Q 2019 varies and typically ranges from 3% to 4.5% with most forecasts being closer to 3%. Notwithstanding the 4% uplift is considered as being reasonable.

**Axion House, 1 Silver Road, Lewisham**

Cost Adjustments - 13/06/19

| | | |
|---|---|---|
| Residential | 12,980 | m2 |
| Commercial | 453 | m2 |
| **TOTAL** | **13,433** | **m2** |

Accertum

| Item | Description | F&G cost | F&G cost per m2 | Accertum Proposed cost | Accertum cost per m2 | Total Cost Reduction | Comments |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
| **1** | **Demolition & Enabling Works** | | | | | | |
| 1.1 | Japanese Knotweed | £50,000 | £3.85 | £25,000 | £1.93 | £25,000 | Area advised to be 2 x 4m long by 2m deep). Revised cost |
| | | | | | | | |
| **2** | **Substructures** | | | | | | |
| 2.1 | Provision for testing | £67,077 | £5.17 | £20,000 | £1.54 | £47,077 | Pile testing only |
| 2.2 | Ground floor slab | £216,999 | £16.72 | £196,695 | £15.15 | £20,304 | 250mm thick slab. F&G rate £171/m2. Accertum proposed £155/m2. |
| | | | | | | | |
| **3** | **Roof** | | | | | | |
| 3.1 | Waterproofing to roof | £534,420 | £41.17 | £320,580 | £24.70 | £213,840 | F&G rate £300/m2. Accertum proposed £180/m2. |
| 3.2 | Tree and lighting allowances to roof gardens | £191,000 | £14.71 | £120,000 | £9.24 | £71,000 | F&G Allowance seems excessive |
| | | | | | | | |
| **4** | **External Facades** | | | | | | |
| 4.1 | Brick façade | £3,034,350 | £233.77 | £2,697,200 | £207.80 | £337,150 | F&G façade rate £450/m2. Accertum proposed £400/m2. |
| | | | | | | | |
| **5** | **M&E installations** | | | | | | |
| 5.1 | M&E installations (excluding Services Infrastructure and Energy Centre) | £7,667,358 | £590.71 | £7,342,858 | £565.71 | £324,500 | Accertum propose M&E (Inc renewables and connections exc Energy Centre) to be £566/m2; Reduction of £2301 per unit |
| | | | | | | | |
| **6** | **Lift Installations** | | | | | | |
| 6.1 | Allowance for lifts | £769,000 | £59.24 | £700,000 | £53.93 | £69,000 | Improvement in rates when procuring |
| | | | | | | | |
| **7** | **Commercial** | | | | | | |
| 7.1 | Ground floor slab | £56,088 | £123.81 | £50,840 | £112.23 | £5,248 | 250mm thick slab. F&G rate £171/m2. Accertum proposed £155/m2. (328m2) |
| | | | | | | | |
| **8** | **External Works** | | | | | | |
| 8.1 | Hard landscaping (blended rate) | £149,250 | £11.50 | £119,400 | £9.20 | £29,850 | F&G rate £250/m2. Accertum proposed £200/m2. |
| 8.2 | Deck platform | £420,525 | £32.40 | £283,500 | £21.84 | £137,025 | F&G rate £445/m2. Accertum proposed £300/m2. |
| 8.3 | Feature lighting and CCTV | £145,000 | £11.17 | £100,000 | £7.70 | £45,000 | Revised cost to align with scope |
| | | | | | | | |
| **9** | **VAT items** | | | | | | |
| 9.1 | Non recoverable VAT on carpets | £58,551 | £4.51 | £0 | £0.00 | £58,551 | All VAT excluded from cost plan |
| 9.2 | Non recoverable VAT on White goods | £58,000 | £4.47 | £0 | £0.00 | £58,000 | All VAT excluded from cost plan |
| | | | | | | | 116 nr units (Private & SO) |

| | | |
|---|---|---|
| SUBTOTAL | | £1,441,545 |
| Preliminaries | 14% | £201,816 |
| OHP | 5% | £82,168 |
| Contingency | 5% | £86,276.47 |
| **SUB-TOTAL** | | £1,811,806 |
| Inflation to 2Q 19 @ 4% | | £72,472 |
| **TOTAL COST REDUCTION** | | **£1,884,278** |

**PROPOSED CONSTRUCTION COST (ROUNDED)** £41,568,000 Applicant cost was £43,452,240

Accertum

# 6.0 Summary

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

- The Applicant has provided a construction cost estimate in the sum of £43,452,240. This cost represents a current day cost as at 2nd Quarter 2019. This sum excludes Professional Fees and VAT but includes a 5% contingency/risk allowance.
- The Cost £/m2 equates to £3,235/m2 including demolition, site clearance, new build residential and commercial units plus external works and site infrastructure. The cost for the residential only element is £2,951/m2 based on the residential area.
- The Commercial unit cost of £1,082,172 equates to £2,389/m2 which is high for commercial units but we have reviewed the cost build up and consider this to be a reasonable estimate of cost, although it is at the higher end of the cost range.
- The costs have been benchmarked against BCIS cost data, a Spons cost model which is a recognised industry publication and Accertum cost data.
- The Axion House residential cost of £2,951/m2 is £621/m2 (27%) above the BCIS upper quartile value of £2,330/m2 for apartments above 6 storeys.
- The Axion House residential cost of £2,951/m2 is £183/m2 (6.60%) above the Spons cost model for new build residential projects in Outer London.
- The Axion House scheme cost is £444/m2 (15.9%) above the mean cost in comparison to cost data collated by Accertum. The Axion House cost is within the top 20% band of projects.
- The cost estimate has been based upon 2Q 2017 pricing levels with an inflation adjustment of 4% to bring costs up to current day levels at 2Q 2019. The 4% adjustment is at the upper end of inflation forecasts but is considered to be a reasonable uplift of cost.
- Some of the rates used in the cost estimate are considered high and a number of adjustments are proposed. These adjustments result in a reduction of **£1,884,278** to the Applicant's construction cost.

6.2 For the purposes of a Financial Viability Report, as at 2nd Quarter 2019, we would recommend a total construction cost of **£41,568,000** which equates to **£3,094.47/m²** including abnormals, external works and contingency but excluding fees.

# APPENDIX THREE – ARGUS APPRAISAL SUMMARY

# Axion House Proposed Scheme - June 2019
# 25% Affordable Housing

Development Appraisal
Boyer Planning Limited
13 June 2019

## Axion House Proposed Scheme - June 2019
## 25% Affordable Housing

**Summary Appraisal for Merged Phases 1 2**

**Currency in £**

**REVENUE**

| **Sales Valuation** | **Units** | **ft²** | **Rate ft²** | **Unit Price** | **Gross Sales** |
|---|---|---|---|---|---|
| Building C Market Housing | 64 | 48,442 | 658.00 | 498,044 | 31,874,836 |
| Building B Market Housing | 42 | 30,780 | 658.00 | 482,220 | 20,253,240 |
| Affordable Rent | 25 | 19,143 | 270.00 | 206,744 | 5,168,610 |
| Shared Ownership | 10 | 6,690 | 403.00 | 269,607 | 2,696,070 |
| **Totals** | **141** | **105,055** | | | **59,992,756** |

| **Rental Area Summary** | **Units** | **ft²** | **Rate ft²** | **Initial MRV/Unit** | **Net Rent at Sale** | **Initial MRV** |
|---|---|---|---|---|---|---|
| Ground Rent | 106 | | | 10 | 1,060 | 1,060 |
| Commercial Space | 5 | 4,876 | 17.00 | 16,578 | 82,892 | 82,892 |
| **Totals** | **111** | **4,876** | | | **83,952** | **83,952** |

| **Investment Valuation** | | | | | |
|---|---|---|---|---|---|
| **Ground Rent** | | | | | |
| Current Rent | 1,060 | YP @ | 3.5000% | 28.5714 | 30,286 |
| **Commercial Space** | | | | | |
| Market Rent | 82,892 | YP @ | 8.0000% | 12.5000 | |
| (3mths Rent Free) | | PV 3mths @ | 8.0000% | 0.9809 | 1,016,405 |
| | | | | | **1,046,690** |

| | | | |
|---|---|---|---|
| **GROSS DEVELOPMENT VALUE** | | | **61,039,446** |
| Purchaser's Costs | 6.8% | (2,059) | |
| Purchaser's Costs | 6.8% | (69,116) | |
| | | | (71,175) |
| **NET DEVELOPMENT VALUE** | | | **60,968,272** |
| **NET REALISATION** | | | **60,968,272** |
| **OUTLAY** | | | |
| **ACQUISITION COSTS** | | | |
| Fixed Price | | 2,860,000 | |
| | | | 2,860,000 |
| Stamp Duty | | 130,500 | |
| Agent Fee | 1.0% | 28,600 | |
| Legal Fee | 0.5% | 14,300 | |
| | | | 173,400 |

**CONSTRUCTION COSTS**

| **Construction** | **Units** | **Unit Amount** | **Cost** | |
|---|---|---|---|---|
| Commercial Space | 5 un | 215,062 | 1,075,312 | |
| Demolition | 1 un | 861,670 | 861,670 | |
| External Works | 1 un | 1,718,137 | 1,718,137 | |
| Services Infrastructure | 1 un | 1,179,360 | 1,179,360 | |
| **Totals** | | | **4,834,479** | |

| | **ft²** | **Rate ft²** | **Cost** | |
|---|---|---|---|---|
| Building C Market Housing | 64,432 ft² | 262.92 pf² | 16,940,302 | |
| Building B Market Housing | 40,931 ft² | 262.92 pf² | 10,761,477 | |
| Affordable Rent | 25,456 ft² | 262.92 pf² | 6,692,828 | |
| Shared Ownership | 8,896 ft² | 262.91 pf² | 2,338,914 | |
| **Totals** | **139,715 ft²** | | **36,733,521** | **41,568,000** |
| Carbon Off-Set Payment | | | 243,360 | |
| GLA S106 (DLR Capacity) | | | 80,000 | |
| Lewisham CIL | | | 896,963 | |
| MCIL2 | | | 622,500 | |
| Lewisham S106 | | | 331,250 | |
| | | | | 2,174,073 |

| | | | |
|---|---|---|---|
| **PROFESSIONAL FEES** | | | |
| Professional Fees | 10.0% | 4,156,800 | |
| | | | 4,156,800 |

## Axion House Proposed Scheme - June 2019
## 25% Affordable Housing

| | | | | |
|---|---|---|---|---|
| **MARKETING & LETTING** | | | | |
| Marketing Resi | | 1.5% | 781,921 | |
| Marketing Commercial | 4,876 ft² | 2.00 pf² | 9,752 | |
| Letting Agent & Legal Fee | | 15.0% | 12,593 | |
| | | | | 804,266 |
| **DISPOSAL FEES** | | | | |
| Sales Agent Fee Commercial | | 1.0% | 9,755 | |
| Sales Agent Fee Resi | | 1.5% | 781,921 | |
| Sales Agent Fee AH | | 1.0% | 78,647 | |
| Sales Legal Fee Resi | | 0.3% | 130,320 | |
| Sales Legal Fee Commercial | | 0.3% | 2,443 | |
| Sales Legal Fee AH | | 0.3% | 19,662 | |
| | | | | 1,022,748 |
| **FINANCE** | | | | |
| Debit Rate 6.750%, Credit Rate 0.000% (Nominal) | | | | |
| Total Finance Cost | | | | 3,804,337 |
| **TOTAL COSTS** | | | | **56,563,624** |
| **PROFIT** | | | | |
| | | | | **4,404,648** |

| **Performance Measures** | |
|---|---|
| Profit on Cost% | 7.8% |
| Profit on GDV% | 7.2% |
| Profit on NDV% | 7.2% |
| Development Yield% (on Rent) | 0.1% |
| Equivalent Yield% (Nominal) | 7.9% |
| Equivalent Yield% (True) | 8.3% |
| IRR | 13.0% |
| Rent Cover | 52 yrs 6 mths |
| Profit Erosion (finance rate 6.750%) | 1 yr 1 mth |

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