Financial Viability Assessment in Respect of:

Cedars & Coach House
34 Sydenham Hill
London SE26 6LS

On behalf of:
Sterlingbridge Property Development Group

27th September 2019

Version Control

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Appendices

Date 27th September 2019

Our Ref: RLG

PRIVATE AND CONFIDENTIAL

London Borough of Lewisham
Catford Road
London
SE6 4RU

For the Attention of: Geoff Whitington

Dear Mr Whitington

Financial Viability Assessment in Respect of:-

Cedars & Coach House, 34 Sydenham Hill, London, SE26 6LS

EXECUTIVE SUMMARY

This report has been prepared in support of a planning application submitted to The London Borough of Lewisham Council for the proposed redevelopment of the above property. The application seeks planning permission for the following development:

"The alteration, conversion and change of use of Cedars 34 Sydenham Hill SE6, and the construction of a part single/part two storey extension at the rear, terraces at lower ground level and the provision of associated car parking spaces and bicycle storage to provide 3 one bedroom and 8 two bedroom self-contained flats, together with the demolition of the existing Coach House and the construction of 8 two bedroom cottages and associated landscaping and parking area, and the felling of seven mature trees."

This report considers the financial viability of the proposals and provides justification in economic viability terms for the level of affordable housing and other planning benefits included within the planning application.

Based upon the findings herein the proposed scheme contained within the application produces a Residual Land Value below what is considered an appropriate Benchmark Land Value for this type of development whilst adopting an appropriate developers return in accordance with published guidance on the financial viability in planning process. This is on the assumption of the following planning contributions:-

- Mayoral CIL payment of £24,000
- Local CIL payment of £34,268.
- Zero provision of affordable housing.

- Other benefits delivered by the scheme

Newsteer
REAL ESTATE ADVISERS

1. INTRODUCTION

1.1 Newsteer have prepared this report on behalf of the applicant – Sterlingbridge Property Development Group – in order to consider the profitability resulting from the proposed development and demonstrate the ability of the scheme proposals to provide affordable housing taking account of the scheme revenue and costs together with the other planning benefits outlined above. This report constitutes a financial viability appraisal of the proposed scheme for planning purposes.

1.2 This report is provided on a private and confidential basis to support the planning application submitted to The London Borough of Lewisham Council. We understand that the report will made available to the Council's advisors and are happy for this to occur however, we do not offer the Council or your advisors and or any third parties a professional duty of care.

1.3 This report must not be recited or referred to in any document, or copied or made available (in whole or in part) to any other person without our express prior written consent.

1.4 This report has been prepared in line with RICS valuation guidance and with regard to relevant guidance on preparing financial viability assessments for planning purposes. However, it does not constitute a formal "Red Book" valuation and should not be relied upon as such

1.5 We will assess the scheme using standard residual valuation methodology as follows:

Gross Development Value of the residential and commercial elements of the scheme
Build costs, Section 106 costs and Mayoral CIL, cost of sale, finance costs
Developers profit
Residual Land Value

1.6 The Residual Land Value is then compared with a Viability Benchmark Value (VBV) and if the Residual Value is lower or not sufficiently higher than the Benchmark Value the scheme is not technically viable.

1.7 We have undertaken development appraisals using the industry recognised ARGUS Developer Model (formerly Circle Developer)

1.8 The report will give a brief overview of the scheme; set out the Viability Benchmark Value considered appropriate in this case; detail the assumptions made in relation to the scheme residual appraisal and detail the appraisal results. This will allow conclusions to be drawn in respect of the level of contributions which the scheme is able to support.

2. DEVELOPMENT PROPOSALS

2.1 We attach as Appendix A the scheme development drawings and accommodation schedule in accordance with the submitted planning application. We detail a summary of the proposed accommodation below:-

Main Building			Alms Houses		
Ground Floor	Sq m	Sq ft	Unit No.	Sq m	Sq ft
Flat 1	72	775	No. 1	70	753
Flat 2	52	560	No. 2	70	753
Flat 3	136	1464	No. 3	70	753
Lower Ground Floor			No. 4	70	753
Flat 5	117	1259	No. 5	70	753
Flat 6	97	1044	No. 6	70	753
Flat 7	88	947	No. 7	70	753
First Floor			No.8	70	753
Flat 4	64	689			
Flat 8	61	657	**TOTAL**		**6028**
Flat 9	52	560			
Second Floor					
Flat 10	62	667			
Flat 11	76	818			
TOTAL		**9440**			

2.2 The scheme comprises a refurbishment and conversion of the main house to form 11 flats, the demolition of the coach house and its replacement with 8no. 2 bed Alms houses.

2.3 We also attach the original agents details which include useful measured floor plans indicating uses as Appendix B.

3. VIABILITY BENCHMARK LAND VALUE

3.1 In order to examine the economic viability of the proposed development the scheme needs to be tested against a base land value known as the Viability Benchmark Value (VBV).

3.2 There are a number of documents that provide guidance on viability appraisals for planning purposes:

- Homes and Communities Agency – HCA Development Appraisal Tool user manual;
- The Royal Institution of Chartered Surveyors (RICS) – Financial Viability in Planning Guidance Note 2012; and
- Greater London Authority – GLA Viability Toolkit Guidance Notes – January 2014.

3.3 However, these documents discuss different approaches with regard to reaching an acceptable Viability Benchmark Value. The RICS adopt the Market Value as the key benchmark whereas the GLA believe that the benchmark should be based around the Existing Use Value (EUV) plus a premium.

- The GLA believe that the dominant driver should be EUV (here it is worth noting that we believe they mean Current Use Value (CUV) which based upon the RICS definition thereof excludes all hope value including intensifications of existing uses) plus a premium, and;
- The RICS believe that the dominant driver should be Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan).

3.4 Depending on the practitioners view different approaches have been taken, one area of particular discussion has been in relation to the justification of any premium added to a EUV or CUV. There are those that have in the past tried to disregard premiums which are meant to reflect landowner premium however it is hoped that the clarity provided within the National Planning Policy Framework (NPPF) which refers to 'competitive returns' will be heeded. What has not been established however is how the level of premium should be arrived at.

3.5 It is our opinion that the premium over EUV/CUV which reflects competitive returns for the landowner should be the percentage difference between EUV/CUV and Market Value. In other words, the landowner will seek to achieve the full return offered by the market, the difference between this and the EUV/CUV is the landowner premium for bringing the site forwards. The level of premium will therefore vary depending on the existing use, the proposed use and the inherent risks in achieving planning for the proposed use.

3.6 In our opinion both approaches; EUV/CUV plus premium and Market Value should lead to the same value. The approach taken will depend on the circumstances of the case. Where there is clearly a valuable existing use it is perhaps more appropriate to adopt this and add a landowners premium to persuade him to forego this use in favour of an alternative which is more valuable. However in the case of a vacant site which will clearly not be used again for the previous use it is perhaps more appropriate to consider what the market would pay, including hope value for a more valuable use having regard to relevant planning policy.

3.7 We have had regard to the RICS's following guidance on deriving VBV's which states:

a "Site Value as an input into a scheme specific appraisal or as a benchmark is defined in the guidance note as follows:- Site Value should equate to Market Value subject to the following assumptions 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".

b "An accepted method of valuation of development sites and land is set out in RICS Valuation Information Paper (VIP) 12".

c "Reviewing alternative uses is very much part of the process of assessing the Market Value of Land and it is not unusual to consider a range of scenarios for certain properties. Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the Market Value".

d "The guidance provides this definition in the context of undertaking appraisals of financial viability for the purposes of town planning decisions: An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering the project".

e "Indicative outline of what to include in a viability assessment. "It is up to the practitioner to submit what they believe is reasonable and appropriate in the particular circumstances and for the local authority or their advisors to agree whether this is sufficient for them to undertake an objective review".

f “For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted must be able to meet the cost of planning obligations whilst ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this as ‘competitive returns’). The return to the landowner will be in the form of a land value in excess of current use value but it would be inappropriate to assume an uplift based upon set percentages as detailed above and in Appendix E, given the heterogeneity of individual development sites. The land value will be based upon market value which will be risk-adjusted, so it will normally be less than current market prices for development land for which planning permission has been secured and planning obligation requirements are known”.

g “Sales prices of comparable development sites may provide an indication of the land value that a landowner might expect but it is important to note that, depending on the planning status of the land, the market price will include risk-adjusted expectation of the nature of the permission and associated planning obligations. If these market prices are used in the negotiations of planning obligation, then account should be taken of any expectation of planning obligations that is embedded in the market price (or valuation in the absence of a price). In many cases, relevant and up to date comparable evidence may not be available or the heterogeneity of development sites requires an approach not based on direct comparison. The importance, however, of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions”.

h “The assessment of Market Value with assumptions is not straightforward but must, by definition, be at a level which makes a landowner willing to sell, as recognised by the NPPF. Appropriate comparable evidence, even where this is limited, is important in establishing Site Value for a scheme specific as well as area wide assessments”.

i “Viability assessments will usually be dated when an application is submitted (or when CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessment may occasionally need to be updated due to market movements of if schemes are amended during the planning process”.

j “Site purchase price may or may not be material in arriving at a Site Value for the assessment of financial ability. In some circumstances the use of actual purchase price should be treated as a special case”.

k “It is for the practitioner to consider the relevance or otherwise of the actual purchase price, and whether any weight should be attached to it, having regard to the date of assessment and the Site Value definition set out in this guidance”.

l “Often in the case of development and site assembly, various interests need to be acquired or negotiated in order to be able to implement a project. These may include : buying in leases of existing occupiers or paying compensation; negotiating rights of lights claims and payments; party wall agreements, over sailing rights, ransom strips / rights, agreeing arrangements with utility companies; temporary / facilitating works, etc. These are all relevant development costs that should be taken into account in viability assessments. For example, it is appropriate to include rights of light payments as it is a real cost to the developer in terms of compensation for loss of rights to neighbouring properties. This is often not reflected in Site Value given the different views on how a site can be developed “.

m “It is important that viability assessments be supported by adequate comparable evidence. For this reason it is important that the appraisal is undertaken by a suitably qualified practitioner who has experience of the type, scale and complexity of the development being reviewed or in connection with appraisals supporting the formulation of core strategies in local development frameworks. This ensures that appropriate assumptions are adopted and judgement formulated in respect of inputs such as values, yields, rents, sales periods, costs, profit levels and finance rates to be assumed in the appraisal. This should be carried out by an independent practitioner and ideally a suitably qualified surveyor”.

n “The RICS Valuation – Professional Standards 2012 (Red Book) definition of Market Value is as follows:-

- The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

o The Red Book also deals with the situation where the price is offered by prospective buyers generally in the market would reflect an expectation of a change in circumstances of the property in the future. This element is often referred to as 'hope value' and should be reflected in Market Value. The Red Book provides two examples of where the hope of additional value being created or obtained in the future may impact on the Market Value:

- The prospect of development where there is no current permission for the development; and
- The prospect of synergistic value arising from merger with another property or interests within the same property at a future date.

p The guidance seeks to provide further clarification in respect of the first of these by stating 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.

q The second bullet point above is particularly relevant where sites have been assembled for a particular development.

3.8 To date, in the absence of any guidance, a variety of practises have evolved which benchmark land value. One of these has been to adopt Current Use Value (CUV) plus a margin or a variant of this (Existing Use Value (EUV) plus a premium). The EUV/CUV basis is discussed below. The margin is an arbitrary figure often ranging from 10% to 40% above CUV but higher percentages have been used particularly in respect of green-field and rural land development. In the majority of sites already developed it is our experience that a percentage between 20%-30% has been adopted.

3.9 Existing Use Value may be defined as the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion assuming that the buyer is granted vacant possession of all parts of the property and required by the business and disregarding potential alternative uses and any other characteristics of the property would cause Market Value to differ from that needed to replace the remaining service potential at least cost.

3.10 The use of Existing Use Value is not appropriate for use as a VBV as property does not transact in the market at Existing Use Value and as such is not what the landowner would expect as a competitive return. Most practitioners have recognised and agreed that EUV or CUV does not reflect the workings of the market as land does not sell at this level, but rather at a price reflecting its potential for development. Whilst the use of CUV plus a margin does reflect hope value by applying a percentage increase over CUV it is a somewhat arbitrary process and where possible we believe regard should also be had to Market Value while recognising that this is not always easy to establish as the majority of land transaction are conditional on planning being achieved.

3.11 With regard to Alternative Use Value, the Valuation Standards at VS6.7 state where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use; and is both commercially and legally feasible, the value for this alternative use would be the Market Value and should be reported as such. In other words, hope value is also reflected and the answer is still Market Value. This is also consistent with the NPPF for willing sellers to receive competitive returns.

3.12 The GLA Viability Toolkit Guidance Notes state the following in relation to assessing viability and the Benchmark Land Value:

3.13 "In understanding whether development is viable, it is important for all parties to distinguish between 'scheme viability', and 'site viability'. A scheme may 'stack up' for residential or mixed use development but if the value generated by that scheme does not exceed the value of the site in its current use, then the site will not come forward."

> *"It is important that not only the developer makes a reasonable return, but also the land owner. The land owner is, in most circumstances (compulsory purchase as an exception) in the driving seat in so far as the decision to bring a site forward is concerned."*
>
> *"At a site specific level, the return that the land owner requires will vary according to a range of factors including the market cycle, tax position and the long term investment potential of the site. In all circumstances, it is recommended that boroughs deal with the issue in a corporate way, considering land owner return as a key driver of scheme viability alongside developer margin."*
>
> *"In 'Ensuring viability and deliverability' the NPPF (para 173) states that 'to ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a*

willing land owner and developer to enable the development to be deliverable.'"

3.14 It is our opinion that the there is no one easy answer to the question; which is the most appropriate way to arrive at a Viability Benchmark Value. We believe that the figure should reflect the value a landowner could achieve in the market and where clear market evidence is available which ties in with the current planning situation relating to the subject site this is to be preferred. However this will often not be available and in such circumstances using the Existing or Current Use Value and making a considered uplift to it to reflect a return to the landowner and the hope value a bidder in the market might adopt is a reasonable approach.

3.15 Having considered all of the above we have adopted the following methodology as being the most appropriate in this case to arrive at a Viability Benchmark Value against which to consider the schemes viability:-

3.16 Cedars was purchased by the Army in 1944 for emergency accomodation but when this did not transpire it became the war-time offices of The Salvation Army Fire Insurance Corporation before being opened in 1950 as the International Staff College. In recent years it has been used by the Salvation Army as a training centre (Use Class D1) which contained two residential units (C3).

3.17 Cedars has a D1 and C3 use status (2 staff apartments). As such we have considered the value of comparable buildings having D1 consent and also office uses. Comparables are attached as Appendix C which suggest a capital value in the order of £250 psf. would be appropriate for the building area in D1 use. Perhaps the best evidence would be the Date Valley School in Mitcham particulars for which are also included within Appendix C. This is a similar sized property of similar age which was sold with a letting in place at circa £12.50psf on a gross basis. The letting to Busy Bees at Charlton Road, Greenwich suggests nurseries are prepared to pay rents significantly in a excess of £12.50. The rent here is £187,500 and the sale price of £3.7m is considerably in excess of the sale price suggest here. The details of the Busy Bees property are also provided and others can be provided on request.

3.18 With regard to the staff apartments our residential valuer has put a value of £525psf on residential space on the assumption of self-contained accommodation. As these apartments are ancillary to the main D1 use rather than being self-contained we have made a deduction of 25% reflect this.

3.19 Our clients QS (Gavin Johnson of Johnson Associates has given us refurbishment costs for the building which have been deducted from the capital values to arrive at a net value for the building. Scheme build costs including the refurbishment costs are included in Appendix D. Site Inspection photos are also included as part of this Appendix.

3.20 With regard to the Coach House this was originally built in Victorian times and remodelled in the 1980's to form a four bedroom residence with its own separate driveway. Our residential valuer has put a value on this reflecting the refurbishment cost provided by Gavin Johnson.

3.21 The total existing use value is set out below.

Existing Use Value				
Flats				
	Sq m	Sq ft	Value	£/psf
	52.5	565	£222,936	395
	100.9	1086	£428,462	395
Commercial Space				
	Sq m	Sq ft	Value	£/psf
	913.6	9834	£2,458,498	£250
	Refurb Costs		£769,000	
	Net Value		£2,340,895	
Coach House				
	Sq m	Sq ft	Value	£/psf
	178	1916	£1,100,000	574
	Refurb Cost		£149,000	
	Net Value		£951,000	
Total Value			**£3,291,895**	

3.22 We have then made an addition of 20% to this figure to reflect a fair return to the landowners to encourage him to bring the site forwards for alternative use giving a total value of **£3,950,000**

4. VIABILITY APPRAISAL INPUTS & ASSUMPTIONS

4.1 We consider below the various inputs and assumptions contained within the attached appraisal.

Development Phasing & Timescales

4.2 Our development appraisal assumes a project timescale that is considered appropriate for this type and size of development. The detailed timings can be seen within the appraisal summary and are summarised briefly below:-

Phase	Number of Months
Pre-construction	**6**
Construction	**18**
Sales	**6**
TOTAL	**24**

Market Residential Values

4.3 We attach as Appendix D details of the comparable evidence considered in valuing this scheme.

4.4 Situation and Local Market

4.4.1 The subject property is a particularly attractive period villa on a good sized plot situated on Sydenham Hill in a good residential area. There are few new developments in the neighbourhood and the nature of the existing stock means that there will be limited opportunities for new schemes in the future.

4.4.2 The proposed scheme is a combination of converted and new build units, both of which are saleable in the locality and the quality of the existing main house should prove attractive to potential purchasers.

4.4.3 Sydenham Hill and Forest Hill railway stations are around 15 minutes walk form the property, the former going into London Victoria and the latter London Bridge stations; Forest Hill has the advantage of connecting to the London Overground.

4.4.4 There is a great deal of uncertainty in the market in London, primarily due to the confusion over Brexit and the previously overheated conditions prevalent in the last 8 years. Prior to the Brexit vote, the market was already showing signs of slowing down and the vote to leave with its ensuing chaotic political turmoil has only exacerbated the problem. Help to Buy has supported the London new build market for an extended period of time and continues to do so; most of the larger housebuilders schemes in the capital would have certainly failed without this Government initiative. Local agents report that the market has been slow for a while, vendors still have high expectations and purchasers thinking the downturn should offer better opportunities which are not forthcoming, a fairly typical situation when the market has been booming and then plateaus in economic uncertainty.

4.5 Comparable Evidence

4.5.1 Where there is a combination of new build and converted units in a scheme, the two types should be looked at differently. The quality of the existing house and its conversion will attract a different type of buyer to the more uniform new build houses to the rear. Prices in this part of Sydenham range from around £500 per sq ft to £675 per sq ft depending on condition and the quality of the accommodation. The proposed scheme looks to offer a higher end development, but the market is currently dominated by value for money, so buyers are reluctant to pay a huge premium for newly converted or built units at the moment.

4.5.2 Fortunately, there are two developments in relatively close proximity to the subject, both nearing completion of construction and still being marketed with live sales happening. Other surrounding stock is less useful, as it is mainly historic converted stock and it is difficult to properly compare the accommodation and condition. The immediate geographical location is important, the area is patchy in terms of value and if the comparable is too far from the subject, then the applied prices will not reflect the true value of the subject.

4.5.3 The main comparable is the Wells Park Place development by Crest Nicholson, currently close to final completion, offering a variety of both houses and flats. There are 46 market units out of a total of 96 units overall, 35 of which have sold so far (Sept 2019); the achieved prices range from £541 per sq ft to £682 per sq ft over the last 12 months. Houses have sold at £545 per sq ft but it should be noted that these were sold prior to completion (i.e. earlier than actually being built and few have been sold since) in a better market. Marketing has been taking place since July 2017 and is ongoing. The development is situated in a very similar location to the subject, is of larger quantum, but is a very good reflection of how the subject would sell in the current market. The largest flats sold at £540 plus, the smallest pushed the £ per sq ft value to around £650, but, again, a number were sold prior to completion and there is a notable tail off of prices currently being achieved as opposed to those achieved 12 months ago.

4.5.4 The next nearest new build scheme is the Kitewood development at Lawrie Park Place, a development of 46 units, 27 of which are private, all houses. Of which, 17 of these are sold, and the prices achieved have dropped from over £600 per sq ft to around £580 per sq ft in January of this year. Actual sales have been ticking along, but it is difficult to discern exactly what the sales figures are for the units sold since then. The scheme is complete and there is still interest, but actual reservations remain slow, typically reflecting the market overall.

4.5.5 As mentioned above, if comparable evidence is sought further afield prices fall, as the subject property is well located, and many overtly similar comparables do not fit the criteria. Taking this into account and looking at the market overall, a pragmatic approach is required and, to this end, we feel that an average of £626 per sq ft for the converted element and £557 per sq ft for the new build element of the proposed are justified.

4.6 Having given consideration to this evidence we have arrived at the following sales values for this location:-

Cedars, Sydenham Hill								
Valuation Schedule								
New Build					**Existing**			
Main Building					Flats			
Ground Floor	Sq m	Sq ft	Value	£/psf	Sq m	Sq ft	Value	£/psf
Flat 1	72	775	£495,000	639	52.5	565	£295,000	522
Flat 2	52	560	£360,000	643	100.9	1086	£570,000	525
Flat 3	136	1464	£895,000	611				
Lower Ground Floor								
Flat 5	117	1259	£775,000	615				
Flat 6	97	1044	£650,000	623				
Flat 7	88	947	£610,000	644				
First Floor								
Flat 4	64	689	£450,000	653				
Flat 8	61	657	£395,000	602				
Flat 9	52	560	£365,000	652				
Second Floor								
Flat 10	62	667	£390,000	584				
Flat 11	76	818	£525,000	642				

TOTAL		9440	£5,910,000	626					
Alms Houses					**Coach House**				
No. 1	70	753	445,000	591		178	1916	£1,100,000	574
No. 2	70	753	415,000	551					
No. 3	70	753	415,000	551					
No. 4	70	753	415,000	551					
No. 5	70	753	415,000	551					
No. 6	70	753	415,000	551					
No. 7	70	753	415,000	551					
No. 8	70	753	425,000	564					
Total		6028	3,360,000	557					
		15468	£9,270,000	599					

Ground Rent & Capital Value

4.7 Having regard to the most recent Government thinking on ground rents we have excluded these from our valuation.

Development Costs

4.8 We have been provided with budget construction costings prepared by the applicant's cost consultants, Gavin Johnson of Johnson Associates. These are included as Appendix E. The total estimated construction cost (including a 5% contingency) for the main house is is £2.861m equating to £249psf overall. The total estimated construction cost (including a 5% contingency) for the Alms houses is is £1.4171m equating to £235psf overall We are of the opinion that this is a reasonable estimate for a development of this nature, taking into account the quality of specification required in order to achieve the sales values detailed above.

4.9 We have made an allowance of 12% for professional fees. This reflects the relatively small size of the project.

Planning Obligations

4.10 We are not aware that any planning contributions other than affordable housing are being sought by the Council in this case.

Mayoral Community Infrastructure Levy (CIL)

4.11 Mayoral CIL2 has been included within the appraisal at £24,000 reflecting a rate of £60 psm. This is based upon the net additional area of 400 sq m as set out in the CIL schedule attached as Appendix E.

4.12 Local CIL has been included within the appraisal at £34,268. This is based upon the net additional area of 400 sq m as set out in the CIL schedule attached as Appendix F and reflects the local CIL rate of £70psm plus an uplift based upon BCIS inflation between Q4 2014 and Q4 2018.

Marketing, Acquisition and Sales Fees

4.13 Details of the estimated marketing, acquisition and sales fees are contained within our appraisal (attached as Appendix F). The fees have been applied having regard to industry standards for a development of this nature.

Development Profit

4.14 For a commercially acceptable development to proceed, an acceptable level of developer's return is required from the project using the Viability Benchmark as a fixed land value within the appraisal. In the current market, an acceptable return for a development of this nature should be approximately 17.5% -20% of the gross development value. Having regard to the nature of the scheme we have adopted 17.5% in this case. This level of profit will also be a requirement in order to successfully achieve debt funding for the project.

5. VIABILITY APPRAISAL RESULTS

5.1 Attached as Appendix G is an Argus Developer development appraisal summary considering the proposed redevelopment in accordance with the submitted application. We detail below the results of this appraisal, based upon the inputs detailed above:-

Gross Development Value	£9,270,000
Residual Land Value	£1,989,884
Viability Benchmark Land Value	£3,950,000
Construction Costs	£3,986,458
Contingency @ 5%	£199,323
Professional Fees @ £12%	£502,294
Planning Obligations/CIL	£58,268
Marketing & Disposal Fees	£303,600
Finance	£518,925
Total Costs	£7,647,745
Profit	£1,622,255
Profit on Cost (%)	21.21%
Profit on GDV (%)	17.5%

5.2 It is evident from the above that the residual land value generated by the proposed development is below /does not exceed the Viability Benchmark Value based upon what would be considered as an acceptable return for a development of this nature.

6. CONCLUSIONS

6.1 Based upon the findings herein the proposed scheme contained within the application produces a Residual Land Value below what is considered an appropriate Benchmark Land Value for this type of development whilst adopting an appropriate developers return in accordance with published guidance on the financial viability in planning process. This is on the assumption of the following planning contributions:

6.2 The profit generated from the proposed development based upon the Viability Benchmark Land Value is below what would be considered as a commercially acceptable level. This is on the basis of the following planning contributions:

- CIL payment of £24,000
- Local CIL payment of £34,268.
- Zero provision of affordable housing.
- Other benefits delivered by the scheme

6.3 Any requirement for further planning benefits may make the scheme undeliverable at the current time.

7. THIRD PARTIES AND PUBLICATIONS

7.1 This report contains commercially sensitive information and is private and confidential. Neither the whole nor any part of this report or any reference thereto may be included in any published document, circular or statement, nor published, reproduced or referred to any way without our prior written approval of the form and context in which it may appear.

7.2 This report has been prepared for the purposes of assessing the financial viability of the project and should not be relied upon by any third party. It does not constitute a formal valuation report and under no circumstances should be relied upon as such. Any figures contained within this report are specifically excluded from the provisions of the RICS Valuation Standards (The Red Book).

7.3 This document is confidential to those to whom it is addressed. This document, in whole, or in part and any specific information contained within is not to be provided to or discussed with any third parties other than the London Borough of Lewisham and their independent financial advisor. Should the Council wish to provide any of the information contained within to a third party, the third party will be required to enter into a written agreement with Newsteer, prior to the issue or discussion about such information.

7.4 Where we have relied upon information provided by third parties the accuracy of the report will depend upon on the accuracy of the information supplied by them. Should the information provided be inaccurate or incomplete then we would reserve the right to amend our report accordingly.

Yours faithfully

For and on behalf of

Newsteer