164-196 Trundleys Road, Deptford SE8 5JE

Viability Review

for
London Borough of Lewisham

July 2018

Prepared by

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Quality Standards Control

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

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

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1 INTRODUCTION

1.1 GL Hearn has been instructed by the London Borough of Lewisham to undertake a viability assessment in respect of a proposed development at 164-196 Trundleys Road, Deptford for which a planning application has been submitted by Trundleys Road Ltd (the Applicant).

1.2 The subject property is a rectangular site of 0.94 acres (0.38 hectares) providing a number of warehouse buildings, a service yard and terraced buildings comprising a number of former shops and residential flats.

1.3 The site is situated along the western side of Trundleys Road between two railway lines. The site is bordered by the B207 and Folkestone Gardens to the east, industrial units to the west and a scrap metal yard to the north.

1.4 Turner Morum (TM) is the lead author of the Financial Viability Assessment (FVA) but they have relied on a number of sources of third party advice. Specifically the following information has been incorporated in their assessment:-

- Formation Architects - Architects
- Randall Simmonds - Budget estimate
- Strettons - Benchmark Land Value & Proposed Commercial Accommodation
- Dexters - Residential Sales Values

The Application Scheme

1.5 Planning permission is sought by the Applicant for the following *(DC/18/106941)*;

"Demolition of the existing buildings and construction of a basement, double height commercial plinth at ground floor and two buildings, one of part 6, part 9 storeys and one of part 11, part 15 storeys to provide 2,220 sqm (GIA) of flexible commercial space (use classes B1c/B2/B8) at ground and mezzanine floors with 189 residential dwellings above, together with provision of associated access and highway works, amenity areas, cycle, disabled and commercial car parking (within the basement), and refuse/recycling stores at 164-196 Trundleys Road and 1-9 Sanford Street, SE8 5JE".

1.6 The Applicant's viability consultant has indicated that the assumed scheme comprising a 35% (by hab room) affordable housing provision produces a scheme deficit of £9,515,635 when the residual land value is compared with the Benchmark Land Value. On this basis, they conclude that the scheme is unviable. However, TM comments that following discussions with the Applicant they are willing to proceed with the development despite the projected negative viability position.

1.7 We detail the applicant's proposed accommodation schedule below which provides 189 residential units comprising a 33% (by unit) affordable housing provision with a tenure split of 63% social rented units and 37% shared ownership units;

Unit	Number of Units	Average Area (sq ft)
Private Units		
1 Bed	61	558
2 Bed	53	837
3 Bed	12	915
Total	**126**	
Social Rent		
1 Bed	13	566
2 Bed	12	806
3 Bed	15	945
Total	**40**	
Shared Ownership		
1 Bed	16	565
2 Bed	7	818
3 Bed	0	-
Total	**23**	
Total	**189**	

1.8 The proposed development will also provide 19,763 sq ft of commercial accommodation (use class B2/B1c) at ground and mezzanine floor levels across 4 separate units.

2 GENERAL METHODOLOGY

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

2.2 We do not take issue with the overarching methodology used by TM within their assessment. They have:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme;
- Assessed a Benchmark Land Value (based on their assessment of the existing use value of the site)
- Undertaken a residual appraisal to calculate the residual land value which is compared against the Benchmark Land Value to establish whether the scheme is viable.

2.3 Turner Morum has used their own in house appraisal programme to assess the viability of the development. GL Hearn use a software package called Argus developer, a commercially available software package used for the purposes of financial viability assessments. Given the sensitive nature of appraisals around inputs and timings we have sought to re-create the appraisal adopting the TM inputs to establish a base position before conducting our sensitivity analysis on the proposed development.

2.4 The methodology underpinning viability appraisals is the Residual Method of Valuation, commonly used for valuing development opportunities. Firstly, the gross value of the completed development is assessed and the total cost of the development is deducted from this.

2.5 The approach adopted by TM has been to adopt a number of assumptions to assess the proposed schemes residual land value. Based on their inputs they have arrived at a negative residual land value of £-3,661,135.

2.6 In respect of the sites Benchmark Land Value the FVA assumes an Existing Use Value of £4,600,000 which is made up of a variety uses at the subject site to include warehouses, shops/cafes, residential and open storage accommodation. TM has adopted a premium of 20% to the EUV to arrive at an assumed BLV of £5,854,500. Taking the scheme residual land value and assumed BLV TM has arrived at a scheme deficit of £-9,515,635.

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

2.8 GL Hearn's approach has been to critically examine all of the assumptions on which the TM appraisal is based. It is also important to carefully scrutinise the applicant's methodology. In particular the measure of benchmark land value has a fundamental effect on the viability equation.

3 CRITIQUE OF BENCHMARK LAND VALUE

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

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

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

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

Summary of Applicant's Position

3.4 TM has put forward a BLV which is based on a Strettons EUV valuation arriving at £4,600,000. We detail below the individual elements which make up the total EUV of the site;

Property	Description/Use	Gross Internal Area (sq ft)	Value
Warehouses			
164-178 Trundleys Road	Vehicle servicing and repair (workshop & office)	7,147	**£2,200,000 (£155psf)**
180-188 Trundleys Road	Workshop and external storage	3,638	
190 Trundleys Road	Vehicle testing	3,423	
Shops & Cafes			
192-194 Trundleys Road	Vacant café and premises	635	**£545,000**
196 Trundleys Road	Vacant shop	298	
1 Sanford Street	Vacant shop	545	
3-9 Sanford Street	Ground floor office	560	
Storage Land			

Land Rear of 3-9 Sanford Street	Storage land	13,810	**£930,000**
Residential			
192-194 Trundleys Road	2 bed flat	£1,200pcm	**£940,000**
196a Trundleys Road	2 bed flat	£775pcm	
198 Trundleys Road	2 x 1 bed flats	£900pcm x 2	
1 Sanford Street	2 bed flat	£1,200pcm	
3-9 Sanford Street	1 bed flat	£900pcm	
Total			**£4,615,000**

3.5 Strettons comment that a number of units are currently let but for the purposes of their valuation they have assumed that they are vacant. We comment on each of the individual valuations below.

Warehouses

3.6 Strettons has applied a rent of £12.50 to the 3 x warehouse units to arrive at a total ERV of £177,601. We have reviewed the evidence provided in Appendix 2 to justify the rent assumed and have also undertaken our own research to verify the applied rent. In addition to the evidence provided we are also aware of a unit at 1-10 British Wharf, Landmann Way which was let in September 2015 for a rent equating to £13.75psf. The unit comprises 2,820 sq ft of ground floor industrial accommodation of a similar quality.

3.7 Strettons has applied a yield of 7.5% to arrive at a value of £2,368,013 before allowing for purchaser costs which we do not consider to be unreasonable in the context of the current market.

3.8 We therefore consider the applied value of £2,200,000 (£155psf) for the warehouse units to be reflective of market levels.

Shops / Cafes

3.9 We detail the accommodation and applied rental values by Strettons in the below table in respect of the shop units;

Unit	Description	Area (sq ft)	£/psf	ERV
192-194 Trundleys Road	Ground flr café	635	£31.50	£20,000

196 Trundleys Road	Ground flr shop	298	£25.17	£7,500
1 Sanford Street	Ground flr shop & 1st flr store	545	£18.35	£10,000
3-9 Sanford Street	Ground flr office	560	£17.86	£10,000
Total		**2,038**		**£47,500**

3.10 We have not been provided with the tenancy schedule for these units but Strettons refer to this and existing rents of £20,000 pa in respect of 192-194 Trundleys Road and £10,000 at 1 Sanford Street. We have not been provided with the existing rental schedule but would comment that the best evidence for rental values are the subject units themselves.

3.11 Strettons has applied the existing rents at the two properties which have informed the applied rents at the two other units. From our knowledge of the market we consider the rents adopted to be reasonable. A yield of 8% has been applied to arrive at a capital value of £595,000 before allowing for purchaser costs. Strettons has then assumed a nominal refurbishment (£50,000) to upgrade the condition required by an incoming tenant to arrive at an assumed value of £545,000. We do not take issue with the value adopted in respect of the shop units.

Storage Yard

3.12 The subject property also includes 13,810 sq ft of open storage land. Strettons has not provided any comparable evidence to inform the applied value of the open storage land. They have adopted a capital value rate of £67psf to arrive at a value of £930,000.

3.13 In order to verify the assumed value for the open storage land we have had regard to the following rental evidence;

3.14 Land at Western Road, Mitcham – 4.14 acres of open storage land is currently being marketed (April 2018) on behalf of National Grid. We have been advised the site has an asking price per acre of £130,000, which equates to £2.98psf.

3.15 Thorney Mill Road – the site occupies a prominent location on Thorney Mill Road which links West Drayton to the east and Langley/Slough to the west, and provides access to both Junctions 4 & 5 of the M4 motorway, and in turn to Junction 15 of the M25 motorway – Various plots are available at an asking price equating to £2.75psf.

3.16 Penfold Trading Estate, Watford – in January 2017 Unit A Penfold Trading Estate, Imperial Way, which comprised a building of 7,424 sq ft with its own yard and car parking was let at a rent of £84,000 pa. The agreed letting reflects a rent of £10.30psf for the industrial unit and £3.00psf for the self-contained yard.

3.17 Armada Way, Beckton – Approximately 1.5 acres let in January 2015 for a rent equating to £1.84psf. The rent was restrained due to the 12 month rolling lease offered by the landlord.

3.18 Oliver Road, Thurrock – 3.63 acres let in December 2015 at £280,000 (£1.77psf). The rent was depressed due to the short two year secure term offered.

3.19 Endeavour Way, Croydon – 3 acre site currently quoted at £3.50psf. We understand this site was restricted to waste transfer / recycling use but longer term lets offered.

3.20 Industrial agents report a strong market for open storage land with rental increases over the last year. The majority of open storage sites are let on restricted timescales due to preferences to redevelop if planning can be obtained and this tends to drive a premium for longer term lets, where available.

3.21 Based on the above and discussions with agents we would expect the site to achieve approximately £3.50psf given its scale and on the assumption of a reasonable lease term, which is at the upper end of the evidence above. We have capitalised the assumed rent of £3.50psf at a yield of 7% and after allowing for purchaser costs arrive at a value of £650,000. This represents a reduction of £280,000 when compared to the position adopted by Strettons.

Residential

3.22 The subject site also comprises 6 x residential flats which have been valued using the investment method. Strettons have therefore applied the following rents which have been capitalised at a yield of 7.5%.

Unit	Description	Rent
192-194 Trundleys Road	Two bed flat	£1,200
196a Trundleys Road	Two bed flat	£775
198 Trundleys Road	One bed flat	£900
198 Trundleys Road	One bed flat	£900
1 Sanford Street	Two bed flat	£1,200
3-9 Sanford Street	One bed flat	£900

Total		**£5,875**

3.23 We do not take issue with the approach adopted by TM and have therefore considered the rental market in the immediate locality. We also note that the units are in a basic condition. In respect of two bedroom units we would comment that good quality purpose built residential units are achieving in the region of £1,300pcm and one bedroom units around £1,100pcm. The applied rental values reflect a discount to these levels and on the assumption that the units are in a reasonable condition we consider the applied rents to reflect this.

3.24 Strettons has applied a yield of 7.5% to arrive at a value of £940,000 for the flats. Again we do not take issue with this assumption.

Summary

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

Property	Description/Use	Gross Internal Area (sq ft)	Value
Warehouses			
164-178 Trundleys Road	Vehicle servicing and repair (workshop & office)	7,147	**£2,200,000 (£155psf)**
180-188 Trundleys Road	Workshop and external storage	3,638	
190 Trundleys Road	Vehicle testing	3,423	
Shops & Cafes			
192-194 Trundleys Road	Vacant café and premises	635	**£545,000**
196 Trundleys Road	Vacant shop	298	
1 Sanford Street	Vacant shop	545	
3-9 Sanford Street	Ground floor office	560	
Storage Land			
Land Rear of 3-9 Sanford Street	Storage land	13,810	**£650,000**
Residential			
192-194 Trundleys Road	2 bed flat	£1,200pcm	**£940,000**
196a Trundleys Road	2 bed flat	£775pcm	
198 Trundleys Road	2 x 1 bed flats	£900pcm x 2	

1 Sanford Street	2 bed flat	£1,200pcm	
3-9 Sanford Street	1 bed flat	£900pcm	
Total			**£4,335,000**

3.26 Adopting our own assumptions in regard to the existing units we arrive at an EUV of £4,335,000 which represents a reduction of £280,000.

Premium

3.27 We have not been provided with an existing tenancy schedule but are aware that a number of the units are currently vacant. We understand that all unexpired leases on the site have a clause which allows the landlord to break the lease at any time with 6 months' notice. TM has adopted a premium of 20% to incentivise the landowner to release the land for development.

3.28 Given that nature of the existing stock and the number of vacancies we have adopted a lower premium (10%) to reflect the standard of accommodation and security of the existing revenue stream. We consider this to be a suitable incentive for the landowner to release the land for development.

3.29 Based on our EUV calculation and reflecting a premium of 10%, we arrive at a BLV of £4,768,500. This figure compares with TM's BLV of £5,854,500 which reflects a difference of £1,086,000.

3.30 Accordingly for the purposes of our own modelling we have adopted a Benchmark Land Value of £4,768,500.

4 ASSESSMENT OF APPLICATION SCHEME INPUTS

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

Residential Value Assumptions

4.2 The proposed scheme includes a total of 189 residential units including an affordable provision of 33% (by unit). The remaining 126 private residential units comprise 61 x one bed units, 53 x two bed units and 12 x three bed units.

4.3 TM has included a unit pricing schedule for the private units provided by Dexter's in their FVA which derives an average capital value rate of £627psf. No further comparable evidence has been provided by TM other than to refer to three schemes within the borough to demonstrate the range of values in the locality. We summarise the applied private values in the below table;

Beds	No. of Units	Average Area (sq ft)	Average £/psf	Average Unit Value
1	61	558	£663	£370,082
2	53	837	£609	£509,906
3	12	915	£587	£537,500
Total	**126**			

Residential Market Overview

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

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

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

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

4.8 As referred to above, the proposed scheme includes 90 x one bedroom units, 72 x two bedroom units and 27 x three bedroom units with a 33% provision of on-site affordable units, amounting to a total of 63 units split 63/37 in favour of Social Rent and Shared Ownership tenures. Dexter's has provided a schedule of private values for the proposed units with a value range from £335,000 to £575,000 deriving an average capital value rate of £627psf.

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

4.10 Tanners Hill – SE8 4QD - is situated 1.1 miles south east of the subject scheme in close proximity to St Johns overground station. The development was completed in Q3 2016 and was originally intended to provide 43 private units, however the tenure switched in Q2 2016 with all 43 units delivered as 100% affordable. Subsequently the development was sold off to Clarion Housing Group and Notting Hill Genesis, as such, we do not consider the units to be comparable to the subject private units.

4.11 The Station House – (The Deptford Project) – SE8 4LW - is located next to Deptford overground station and situated 0.9 miles south east from the subject site, the Deptford Project is a mixed-use scheme comprising 121 residential units and commercial workshop units. Developed by the U+I Group, the scheme sold out during Q3 2017 having completed in Q3 2016. According to Molior, the average price list showed Studios priced at £295,000, 2 beds at £525,000 and 3 bed townhouses at £750,000. This produced an average £/psf of £657psf.

4.12 The Timberyard (The Wharves) – SE8 3QS - is situated 0.7 miles north east of the subject scheme and is in close proximity to Pepys Park which overlooks the Thames. Developed by Lendlease, the scheme is currently under construction on the first 173 private units within 'Cedarwood Square', with a likely completion date due for the end of 2019. The mixed-used scheme was granted permission in March 2016 to provide 1,132 residential units including 943 private units and various commercial accommodation. The current price list for Cedarwood Square shows 2 beds from £585,000 and 3 beds from £775,000, producing an average capital value rate of £770psf. To reiterate the sentiment drawn within the Turner Morum report, we are of the opinion The Timberyard scheme due to its large offering and superior location is superior to the subject scheme which is reflected in the above pricing.

4.13 In order to verify the pricing schedule provided by Dexters, we have also undertaken our own assessment of the market and detail relevant comparable evidence below;

4.14 Kent Wharf, SE8 3DZ - is situated circa 1.1 miles to the south east of Trundleys Road adjacent to Deptford Creek and comprises 143 residential units and commercial space. Developed by Bellway Homes and having sold out in Q4 2017, the scheme completed at the end of Q2 2018. The latest pricelist (Q4 2017) showed 1 beds from £369,995, 2 beds from £494,995 and 3 beds from £584,995 and produced an average of £670psf. We detail some of the most recent OTM prices for the scheme;

Plot	Floor	Beds	Size	Price	Price (£ psf)
B01	3	920	£644,995	£701	Sept -2017
B11	2	786	£549,995	£700	Sept -2017
CO4	3	931	£639,995	£687	Sept -2017
CO8	2	1039	£659,995	£635	Sept -2017
CO9	2	1017	£659,995	£649	Sept -2017
C10	2	1028	£659,995	£642	Sept -2017
			£635,828	**£669**	

4.15 Greenland Place (Cannon Wharf), SE8 5RT - is situated 0.6 miles north east of the subject scheme, comprising 679 residential units and commercial space. Having completed and fully sold out by Q3 2017 reflecting an average capital value rate of £760psf.

Summary and Conclusions

4.16 We would concur with TM that there is a broad range of pricing in LB Lewisham with pricing being sensitive to a number of factors. Having considered the evidence detailed above and in addition to our experience reviewing FVA's on behalf of the Council in this locality we do not take issue with the pricing of the 1 bedroom units. However, we consider the two and three bedroom units producing a projected blended capital value rate of £609psf and £587psf to be lower than expected. In the case of the two bedroom units, despite the larger than usual average size, there is evidence of oversized two bedroom units selling for well in excess of £609psf nearby. Reflecting the characteristics of the scheme we consider an average blended capital value rate of £630psf and £600psf should be achievable in the case of the two and three bedroom units at the subject scheme.

4.17 For the purposes of our modelling we have adopted the following blended values;

Beds	No. of Units	Average Area (sq ft)	Average £/psf	Average Unit Value
1	61	558	£663	£370,082
2	53	837	£630	£527,310
3	12	915	£600	£549,000
Total	**126**			

4.18 The TM pricing for the private units produced a GDV of £56,050,000. Reflecting our adjustments in respect of the two and three bedroom units we arrive at a private GDV of £57,101,640 (£639psf). This represents a difference of £1,051,640 i.e. 1.9%.

Affordable Housing

4.19 The proposed development includes 40 x social rented units and 23 x shared ownership units. In the case of the social rented units TM has valued these at a blended rate of £263psf and the shared ownership units at £411psf.

4.20 We would comment that where on-site provision is required, an application should be accompanied by evidence of meaningful discussions with a Registered Provider which have informed the proposed tenure, size of units and design to address local priorities and explored funding opportunities. Ultimately the value an RP will be willing to pay for product will in part be informed by their own business model and needs. Recently GL Hearn have seen some aggressive bidding by RP's in excess of the levels indicated above and in lower value areas based on the same affordability criteria.

4.21 In respect of the subject site we would expect units to attract significant interest from RP's. In our experience it would be unusual for RP's not to have been approached to inform the potential values which could be achieved given the location and scale of development proposed. In the first instance GL Hearn's Affordable Housing team considers the social rented values to be reasonable but is of the opinion that the shared ownership units have been undervalued based on what they are seeing in the market.

4.22 For the purpose of our initial modelling we have adopted the social rented values provided by TM but adjusted the shared ownership units upwards to £450psf.

Residential Ground Rents

4.23 TM has not included any value for ground rental income or indeed provided any commentary around ground rents. This is not entirely surprising given that on 21st December 2017; the Communities Secretary announced a Government proposal to introduce legislation to ensure that ground rents on new long leases of flats and houses are set at zero. While the legislation has yet to be passed, we gather that the proposal has all-Party support and whilst there is no timetable for the proposed legislation, we consider it prudent to assume that the proposal will become law in the relatively short term.

4.24 For the purposes of our modelling we have mirrored this approach and have not reflected any value attached to the ground rents.

Commercial Value Assumptions

4.25 The proposed development includes 19,763 sq ft of commercial accommodation (Use Class B2/B1c). The proposed scheme also comprises a total yard space of 13,617 sq ft. We are informed that the units will have a minimum ceiling height of 3m on all floors, exposed concrete floors and ceilings. We detail the proposed accommodation in the table below;

Unit	Floor	GIA (sq m)	GIA (sq ft)
A	Ground	262	2,820
B	Ground	396	4,263
B	Mezzanine	365	3,929
C	Ground	353	3,800
C	Mezzanine	111	1,195
D	Ground	275	2,960
D	Mezzanine	74	797
		1,836	**19,763**

4.26 Strettons has valued the proposed accommodation and applied a rent of £15psf to the ground floor accommodation and £10psf to the mezzanine floor levels which have been capitalised at a yield of 7% in order to arrive at a capital value of £3,550,000 which reflects a blended capital value rate of £180psf.

4.27 Strettons has supplied comparable evidence informing their rental and yield assumptions and has also provided a number of freehold sales. Before commenting on the appropriateness of these assumptions we would comment that the existing dated warehouse accommodation at 164-178 Trundleys Road, 180-188 Trundleys Road and 190 Trundleys Road was valued by Strettons at £2,200,000 reflecting a capital value rate equating to £155psf after the application of £12.50psf which was capitalised at a yield of 7.5%. This is compared to the £180psf applied to the proposed new build accommodation.

4.28 We would further comment that the freehold sales and yield evidence is somewhat historic. Of the 5 freehold sales comparables highlighted in south-east London, three of these are especially dated with sales dating back to August 2010, March 2012 and May 2014. We have therefore disregarded these comparables given the context of the industrial market with increased demand for new build accommodation in particular and subsequent value growth in recent times. We have attached more weight to the sales of Unit 6, Glengall Business Centre, which was sold in November 2016 reflecting a capital value rate of £187psf and Units 1-4, 62 Hatcham Road, which is situated 0.8 miles to the west of the subject site and was sold in June 2016 for a value equating to £296psf. The units comprised 9,278 sq ft split into 4 separate units and at the time of sale were all occupied by tenants. Given the characteristics and location of this comparable we consider it to provide good evidence to inform the value of the proposed units.

4.29 In respect to the yield evidence provided, these are also particularly historic with the most recent sale more than two years ago and the earliest completing in March 2014.

4.30 Having reviewed the evidence we consider there should be a much greater gap between the value of the existing dated warehouse accommodation and the new build superior quality commercial floor space. From our own knowledge of the market we consider a yield no greater than 6% should be applied to the ERV.

4.31 For the purposes of our modelling we have adopted a yield of 6% to the proposed commercial accommodation which arrives at a capital value of £210psf after purchaser costs have been deducted.

Cost Assumptions

<u>Build Costs</u>

4.32 A Budget Cost Estimate was prepared by Randall Simmonds LLP to inform the viability assessment. GL Hearn has sub instructed quantity surveyors Johnson Associates (JA) to review this on behalf of the Council. The cost estimate for the proposed scheme assumes a total build cost of £52,720,000 inclusive of abnormal costs. For ease of reference a summary of costs for the proposed scheme is set out in the table below:-

Summary of costs	Proposed £ (% of Total Costs)
Enabling Works	£390,000
Basement Works	£3,610,000
Building Works	£37,570,000
External Works (on-site)	£890,000
External Works (off-site)	£70,000
Drainage	£400,000
Utilities	£970,000
Build Preliminaries	£5,550,000
Logistics Management	£250,000
Works Insurance	£400,000
Network Rail Costs	£150,000
Design Contingency (5%)	£2,470,000
Total Cost	**£52,720,000**

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

4.34 This concludes that the costplan presented by the applicant is somewhat excessive and that the original development proposals should be deliverable at a price of £52,120,000. This represents an overall reduction in the order of £600,000, i.e. approximately 1.1%.

4.35 Accordingly, in our own appraisal we have adopted the reduced Johnson Associates total build cost figure of £52,120,000 inclusive of abnormal costs and contingency.

Professional Fees

4.36 TM has assumed professional fees of 10% of construction costs equating to a total cost of £5,183,869. We consider this allowance to be acceptable and appropriate owing to the characteristics of the site.

Marketing and Transactional fees

4.37 The following allowances have been made in TM's development appraisal;

- Marketing, Sales Agent & Legal Fees - 3% (Private Residential)
- Sales Legal Fee - 0.5% (Affordable Residential)
- Marketing, Sales Agent & Legal Fees - 2% (Commercial)

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

Contingency

4.39 A contingency allowance of 5% has been included within the Randall Simmonds cost plan which we do not take issue with.

Finance Costs

4.40 Finance costs have been assumed at 6.5% debit rate.

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

CIL

4.42 Within the proposed scheme TM has made the following allowances in respect of CIL;

- Local - £1,101,022
- Mayoral - £463,061
- Total - £1,564,083

4.43 We have been provided with the workings for the CIL calculations in Appendix 4 of the report. We would comment it appears the existing space has not been used to off-set CIL payments despite the Strettons report stating that a number of the units currently being in occupation.

4.44 We would therefore recommend that that the above calculations are verified by the Council's CIL Officer. For the purposes of our initial modelling we have adopted the same CIL allowance as TM.

Developer's Profit

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

4.46 Having under taken a number of reviews for the Council we would typically expect a profit margin ranging from 17.5% - 20% on GDV for the private units, 15% on GDV the commercial uses and 6% on GDV in respect of the affordable units. TM has adopted these levels and the upper end of range in respect of the private units which produces a blended profit margin of 17.1%.

4.47 In light of the site's characteristics, we have adopted the same profit assumptions as the Applicant in this case.

Summary Table

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

Assumption	Turner Morum Assumptions	GLH Figure (Where Different)	Comments
Sales and Revenue			
Average Private Residential Sales Value	£627psf	£639psf	We consider the values have been understated
Affordable Sales Value	Social Rent - £263psf Shared Ownership - £411psf	Shared Ownership - £450psf	We consider the Shared Ownership values to be lower than expected
Commercial	£180psf	£210psf	We consider the value of the new build accommodation has been understated by Strettons.
Development Costs			
Construction Costs	£52,720,000	£52,120,000	See Appendix A for the Build Cost Review
Contingency	5% (included in construction costs)	-	
Professional Fees	10%	-	
Sales Costs	Private Residential - 3% (Marketing, Sales Agent & Legal) Affordable - 0.5% (Sales Legal) Commercial - 2% (Marketing, Sales Agent & Legal)	- - -	
S106 CIL	nil £1,564,083	-	We have adopted the S106 & CIL amounts assumed by the Applicant but recommend this is reviewed by the Council
Interest / Finance Costs	6.5% debit	-	
Developers Profit	20% on GDV (Private) 6% on GDV (Affordable) 15% on GDV (Commercial)	-	

Benchmark Land Value	£5,854,500	£4,768,500	We are of the opinion a lower BLV should be assumed.

5 INITIAL FINANCIAL APPRAISALS & CONCLUSIONS

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

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

5.3 In this instance we have sought to copy the TM in-house appraisal to ensure the model is consistent with TM before conducting our own sensitivity analysis. We have therefore re-created the TM appraisal in Argus and arrive at a residual land value of -£3,419,772. This represents a difference of approximately £240,000. This is largely due to finance costs attributed to the timing of their BLV within the cashflow. We consider this to be close enough to the TM model and have adopted this as our base position in which to conduct our own sensitivity analysis.

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

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

- Benchmark Land Value
- Private Residential Sales Values
- Shared Ownership Values
- New build commercial accommodation
- Build Costs

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

Initial Summary & Conclusions

5.7 TM has concluded that the current provision of affordable housing (33%) produces a scheme deficit of -£9,515,635 when adopting their own inputs in regard to the proposed scheme and Benchmark Land Value.

5.8 We have undertaken a new appraisal which retains the applicant's assumptions other than where we have highlighted above that we consider they understate viability. If we maintain the currently proposed scheme, this delivers a residual land value of -£829,662.

5.9 When this is compared against our view of the sites benchmark land value (reflecting a landowner's premium which equates to £4,768,500) there remains an overall project deficit of £-5,598,162.

5.10 Whilst our own assumptions indicate that TM has overstated the negative viability position, the current scheme still remains in deficit and we would concur with TM's conclusion that the scheme is unable to provide further on-site affordable housing.

Appendix A

Build Cost Review

Appendix B

Financial Appraisal