Addendum Viability Study

219 – 233 Coldharbour Lane, London, SW9 8RU

By

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Private & Confidential

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TURNER MORUM

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1. BACKGROUND AND RELEVANT EXPERIENCE

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. Full details of some of my recent case experience can be viewed at **Appendix 5**.

1.4. Turner Morum were originally appointed by Coldharbour Lane Ltd ('the applicant') in January 2019 to undertake a viability assessment in regards to their proposed development at 219 – 223 Coldharbour Lane, London, SW9 8RU. The original scheme was for the alteration and extension of the existing building comprising extending the existing first floor to the rear and adding five storeys on top of the existing building to create 13 new residential properties with retail and office uses in the existing ground and first floors.

1.5. As part of this application a viability analysis was carried out by Turner Morum (TM) and submitted to the Council; this was in turn reviewed by their appointed expert consultants; Avison Young (AY). Following a period of negotiations TM and AY agreed on the viability of the 13-unit scheme which could deliver as a maximum reasonable level 23% on a unit basis (3 units) with 67% London Affordable Rent (2 units) and 33% intermediate (1 unit). The AY addendum report to the Council on the viability of the original application can viewed as per **Appendix 4**.

1.6. Since then a reduced scheme has been submitted to the Council consisting of just 8 residential dwellings with commercial space on the ground and first floor. This addendum report seeks to build on the agreement previously reached with AY on the viability and apply to the latest application. On this basis therefore I would hope the conclusions of this assessment can be considered as fairly non-contentious as they have already been assessed and agreed with AY.

1.7. I have carried out a development appraisal adopting a bespoke valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**.

1.8. In undertaking this viability I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)*.

1.9. I am also aware of viability guidance documents such as the *RICS Financial Viability in Planning* (2012) and *Viability Testing Local Plans* (the Harman report). I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF) and the 2017 Mayoral Affordable Housing & Viability Supplementary Planning Guidance (SPG).

2. MECHANICS OF THE ASSESSMENT

2.1. My residual appraisal analysis can be summarised as follows: -

- **Appendix 2 Tab 1A –** Appraisal showing the viability of the proposed scheme with no affordable housing.

- **Appendix 2 Tab 1B –** Appraisal showing the viability of the proposed scheme with the previously agreed provision of affordable housing (2 * London Affordable Rent units and 1 * intermediate unit).

2.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

REVENUES

2.3. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents most notably KFH (see **Appendix 3**). Their pricing recommendation can be seen below;

- 1 beds - £350,000 - £400,000
- 2 beds (3 persons)- £425,000 - £475,000
- 2 beds(4 persons) - £475,000 - £525,000
- 3 beds - £525,000-£575,000

2.4. Within **Appendix 3** KFH have also provided sales details of a 2 bed unit of c. 77 sqm which they recently sold on Coldharbour Lane at £530k. They note that this value was reduced from the asking price of £545k and advise that values have dropped since then,

2.5. In the viability negotiations for the original application AY and TM agreed the 1 bed values at £387,085 and this is maintained in this updated assessment. The 2 bed values are included at a range of £500k - £530k depending on the size of the dwelling which is in line (if not above) the price range advised by KFH above. The 3-bed dwelling is included at £630k which I consider to be very optimistic considering the pricing guidance from KFH.

2.6. Affordable values were previously agreed with AY and hence have not been adjusted in this latest analysis. As benchmarks of OMV they equate to 30% for the rented dwellings and 65% for intermediate units.

2.7. In line with the AY report to the Council the B1 commercial space is included at a rent of £25 psf whilst the A1 commercial space is included at £22.5 psf; both are capitalised at a 6% yield with a 6-month rent free period. This position has been maintained from the previous agreement with AY.

2.8. One can also observe that the value estimates above takes no account of the outbreak of the Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11th March 2020, which has impacted global financial markets.

2.9. Market activity is being impacted in many sectors including the housing industry. Therefore, it is clear that the current assumptions on the valuation of the proposed dwellings/commercial element is reported on the basis of 'material valuation uncertainty'; the previous viability was negotiated prior to the pandemic outbreak and as such was clearly undertaken in a time of greater certainty regarding achievable sales values and timings. Consequently, less certainty should be attached to the assumption on values than would normally be the case. On this basis therefore I would reserve the right to re-assess the assumptions should an agreement not be reached and more certainty is known regarding the impact of COVID-19 on the market.

DEVELOPMENT COSTS

2.10. Fees and marketing costs in respect of the development are included at 2.5% for residential sales/legal/marketing costs and 15% of the annual rental income for the commercial space to reflect letting agent and legal fees. Both of these assumptions are based on the AY report on viability.

2.11. The construction costs are based on the original cost plan provided for the larger scheme; to apply to this smaller scheme I have adopted the average of £228 psf and applied to the area of 13,222 sq ft; this shows a build cost of £3.015m.

2.12. An allowance for Technical Fees is included at 10% of the Standard Build Cost as previously agreed with AY.

2.13. For the purpose of this assessment I have mirrored the approach of AY in adopting a 17.5% developers' margin on the market housing, 6% on the affordable and 15% on the commercial. I consider the margin on the market housing to be below typically acceptable benchmarks (especially so in the current climate of uncertainty) however in this instance I have included in this assessment to achieve an agreement on the overall viability. This clearly does not set a precedent for future viability submissions or negotiations.

2.14. Estimated S106 costs have been included at a cost of £30k and CIL has been included at c. £84k. During the course of the application process should either of the assumptions on CIL/S106 prove to be inaccurate I would reserve the right to amend the appraisal in line with the accurate planning obligations.

2.15. With regards to the calculation of finance, I have included within my appraisal a quarterly cashflow to reflect the cost of finance for my appraisal analysis. This can be seen as per **Tab 5A – 5B of Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.

2.16. I have made the assumption that construction will commence on site within Q1 Year 1 (this is assumed to be a period of site preparation) and will be completed by Q1 Year 2.

2.17. I have assumed the residential sales will be achieved in the quarter post completion; this includes a portion of off-plan sales although the monies from these sales would go into escrow and would not be accessible by the developer until after the development is completed.

2.18. The affordable is assumed to be disposed of via a 'golden brick' payment. The cashflow works on a finance rate on debit of 6.5% which I believe is reasonable in the current climate. The finance costs in my analysis equate to c. 5% of development costs which in my experience is a reasonable assumption for a cash-intensive, single phase, brownfield development site.

3. VALUATION METHODOLOGY

3.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing, Alternative or Benchmark Land Value.

3.2. As can be viewed from **Appendix 4** AY and TM agreed a benchmark for the subject site at £1.150m and this is the figure included within my updated assessment.

4. SUMMARY CONCLUSION

4.1. The outturn of my analysis can be summarised as follows:

Tab	Total Units	Aff % (Units)	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
1A	8	0%	£957,859	£1,147,852	-£189,993	NON-VIABLE
1B	8	38%	£448,390	£1,147,852	-£699,462	NON-VIABLE

5. SENSITIVITY ANALYSIS

5.1. In order to assess the viability, I have undertaken a sensitivity analysis by varying the level of affordable housing to try and achieve the break-even position (where the RLV is equal to the BLV).

5.2. In this instance, as per Tab 1A, I have reduced the affordable housing to 0% however even with this reduction the scheme still shows a deficit and therefore is technically non-viable.

6. NON-TECHNICAL SUMMARY

6.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered "Non-Viable".

6.2. The inputs I have adopted within my analysis can be seen within the summary table below compared with the New Southwark Plan Evidence Base; Housing Policy Viability Update Study (November 2017):

Input:	Assessment Allowance:	Local Plan Viability Allowance:	Comments:
Market Revenues	£830	£650 - £2,155	Pg. 21
Affordable Revenues	£208	-	Pg. 23
Non-Residential Revenue (if applicable)	-	-	
Fees and Marketing (Market):	3%	3.5%	Pg. 25
Transaction Costs (Affordable):	0.5%	-	
Fees and Marketing (Non-Resi):	-	-	
Standard Construction Costs:	£224 psf	£2,342 - £3,371 psm	Pg. 25
Professional Fees:	10%	10% - 12%	
Developer Profit:	20% / 6%	20% / 6%	Pg. 26
Finance Rate:	7%	7%	
Benchmark Land Value:	£1.064m	£6.8m - £27.6m per ha	Pg. 28

6.3. In this instance, one can observe from the table above and the appraisal included as Appendix 2 that the RLV of the proposed scheme does not exceed the adopted BLV even when the affordable housing % is reduced.

7. CONCLUSIONS

7.1. You will note from the table above and the appraisal included as **Appendix 2** shows the proposed scheme incurring a deficit even when the affordable contributions are reduced. In these circumstances the scenarios tested should therefore be considered technically 'non-viable' however the applicant has advised that they have reached the 'commercial decision' to deliver the scheme as per the appraisal in my submission but can only do so with the provision of no affordable housing (Tab 1A).

7.2. A material consideration in this case should also be the Secretary of State's letter to the Mayor of London dated 13th March 2020 and specifically Direction DR3. This clearly states that affordable housing and tariff style contributions should not be sought on developments of 10 units or less. On this basis and therefore in line with both the conclusions of my viability and the recommendations of the Secretary of State the application can only proceed without the provision of affordable housing.

7.3. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

Turner Morum LLP

April 2020