Viability Review P03 Addendum

1-9 Sandycombe Road, Richmond, London,
TW9 2EP

Prepared on behalf of Goldcrest Land

Date of Report 5 January 2017

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Contact details

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Executive summary

Address	1-9 Sandycombe Road, Richmond, London, TW9 2EP
Proposal	This addendum is as a result of alterations to the December 2015 submission. This report should be considered in the context of the original report submitted by Knight Frank LLP to London Borough of Richmond upon Thames in December 2015 which has been reviewed by Bespoke Property Consultants Ltd in their review of financial viability. An updated assessment of economic viability is modelled, as a result minor alterations to the original proposal. An updated pricing exercise has been carried out by the Knight Frank Residential Development department and an updated cost plan has been provided by Harrabin Consultancy Ltd. The updated viability has been carried out the Three Dragon's Toolkit appraisal software, the industry standard appraisal software. The viability study demonstrates that the updated proposal submitted does not viably support an affordable housing contribution either by on site provision or via a payment in lieu.

Proposal's residualised land value	Benchmark site value (including 20% landowner premium)	Viable affordable housing offer
£1.423m	£1.86m	Nil

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5 January 2017

Dear Sirs

Property: 1-9 Sandycombe Road, Richmond, London, TW9 2EP

1 Introduction

1.1 Knight Frank LLP has been appointed by Goldcrest Land (the applicant) to advise on affordable housing obligations of the material alterations to the proposed scheme at 1-9 Sandycombe Road as a result of alterations to a scheme previously submitted by the applicant in December 2015. Knight Frank LLP has been instructed to provide an update to the confidential financial viability assessment following minor changes to the scheme design. This should be read in conjunction with the report submitted in December 2015.

1.2 Knight Frank LLP is recognised as a market leader in the residential market, and the affordable housing team has a strong track record of informing on affordable housing proposals, including different types of affordable housing products. The team has extensive experience in all aspects of affordable housing development and provides both strategic and scheme specific advice to a range of clients including developers, local authorities and registered providers (RP's).

1.3 As with the previous report, Knight Frank LLP has undertaken a financial viability assessment using the Three Dragon's Toolkit.

2 Confidentiality

2.1 We are submitting this addendum and appendices ("the information") as Commercial-In-Confidence falling within the provisions of the Freedom of Information Act ("the Act"), sections 41 and 43, under which information is exempt from release to any other person or persons to whom it is not addressed.

It is the Applicant's view that the Council and its agents are under a duty of confidentiality not to disclose the information to the public. In satisfaction of section 41 of the Act, we state that:

1. the information is provided in confidence; and
2. disclosure would constitute an actionable breach of that confidence.

2.2 The information is provided to the Council in support of the planning application and is a necessary part of seeking permission. However, it is clear on consideration of the information that it differs from other supporting documentation in that it contains commercially sensitive material belonging to the Applicant.

In order to support the planning application, it has been decided that a financial viability assessment would be informative. The Applicant has provided the information, including financial information that, if released, would:

a) weaken its position in a competitive development market by revealing potentially useful information to competitors and potential Joint Venture partners;

b) set an unfair precedent in the minds of the public and the market as to the purchase and development costs of land by the applicant.

2.3 It is the Applicant's view that the information is exempt information under Section 43 of the Freedom of Information Act as its disclosure would be highly likely to prejudice the commercial interests of the Applicant. The release of the information would have a detrimental effect on the applicant's presence and expectations in the market-place.

3 Viability Assessment Inputs

Inputs and Assumptions

3.1 The inputs into the viability appraisal remain consistent with those agreed with the Council's appointed viability assessors following the report submitted in December 2015, having taken into consideration allowances for cost and receipt appropriate at the current day and up to date CIL contribution, up to date exceptional development costs including costs associated with a BAPA agreement with Network Rail. Any alterations to the appraisal are made due to the above and the material alterations made to the proposed scheme.

Minor Alterations

3.2 The changes to the proposed development are as follows:

- Alteration to the design of the façade, including additional materials and details, plus an increased size of secure cycle store and minor additional exceptional costs.

Private Residential Pricing Exercise

3.3 The residential units and total floor space are unchanged from the previously submitted application in December 2015. The applicant wishes to maintain the residential pricing from the December 2015 report in order to bring forward the development, other than amendments made to the 1 bed flat sale values to reflect the recent sold figures of comparable 1 bed flats.

Nick Alderman, Partner, Knight Frank Residential Development has advised on the likely sales prices achievable for the completed flats at an average £780 per sq ft (based on the net saleable area).

Residential Scheme Narrative (provided by Nick Alderman MRICS of Knight Frank Residential Development).

The subject scheme has been designed by Goldcrest's in-house architects and comprises 20 residential units (2 x studio flats, 7 x 1 bedroom flats, 7 x 2 bedroom flats and 4 x 3 bed flats) and totals circa 13,496 sq ft NSA.

We believe that the concept is generally well suited for the area and there will be good local market demand. The scheme is likely to appeal to a range of purchasers including owner occupiers, investors and young professionals on a range of incomes.

We note however that the scheme is compromised in respect of the railway line, nearby petrol station and its proximity to the A316. As a corollary the scheme is impeded by noise from both road and railway and the stigma associated with petrol stations. Furthermore, given the shape of the site, and as such the slightly irregular shape of the proposed scheme, some of the unit types cannot be optimised and the units are priced accordingly.

In respect of comparable evidence, we have had regard to properties in the area and append a list of the comparable sales evidence for information (**Appendix 5**). We have extensive experience in the sale of new and second hand homes in the area and believe an overall blended average £per sq ft sales figure for the scheme of approximately £780 per sq ft to include parking represents a realistic figure in the current market. The comparable evidence reviewed provides a range of values from £554 per sq ft to £991 per sq ft subject to area, amenity and location etc. We attach to this report our pricing exercise of the proposed scheme.

The local area has not benefited from a good supply of new build stock and currently the only nearby new build schemes include Forsyth House (trading at circa £750 per sq ft) and Station Point (initial pricing suggested a range of values at around £900 per sq ft). Station Point has struggled to achieve those values and has started to offer sizeable discounts as an incentive for buyers, as can be seen from the sold prices.

We detail below some more general market commentary in order to provide some context of the overall market:

As always national average performance disguises large regional variations that still characterise the UK market. Values are growing more strongly in the South of England (particularly London and the South East) compared to slower growth in the North of England, Scotland and Wales.

The uncertainty caused by Brexit has had an impact on the market, with house price growth slowing and buyers taking a more cautious approach to purchasing. Interest rates continue to play a key role in the market. While capital values will continue to be supported by ultra-low interest rates, the discussion has now turned to when, not if, the Bank of England will start to raise rates; markets are pricing in a rise in 2017.

While there are more mortgage deals available to those with only a 5% deposit, the MMR mortgage rules mean that clinching a mortgage deal will continue to be challenging for some, especially for first time buyers. Activity in the market has stabilised, although it is interesting to note that the cut in stamp duty for homes worth less than £1.1million in December 2015 and the definitive General Election result failed to produce an increase in activity.

This was closely linked to a lack of stock on the market, particularly second-hand stock. A lack of available homes to buy will likely continue to put a floor under pricing. There is now even more emphasis on the delivery of new homes, and while levels of house building have picked up in recent years, the supply of new-build dwellings is still far below Government targets.

The London property market faced a number of headwinds in 2016, led by the increase in stamp duty and the European referendum. Higher transaction costs will continue to weigh on activity and price growth in 2017 as the market continued to absorb the new rates. There is a degree of nervousness surrounding global economic events and some reticence following exceptional price growth in some markets in recent years. These factors, combined with the continued uncertainty surrounding Brexit, weigh on demand. However, the strength of the UK's economic recovery, continued supply constraints and the diminishing likelihood of a near-term rate rise means price growth is likely to remain positive next year.

Comparable evidence has shown that Brexit has had an impact on the market and values have suffered, with the achieved values at Station Point illustrating these difficulties. The site, which is considered the most suitable comparable to 1-9 Sandycombe Road, has had to offer discounts on the original pricing in an attempt to sell the remaining unsold units. These considerable discounts (**Appendix 7**) illustrate how the initial sale prices were unrealistic and sales rate has been incredibly slow because of this.

In spite of this, the applicant wishes to maintain the residential pricing from the December 2015 report in order to bring forward the development, other than the aforementioned amendments to the 1 bed flat sale values to reflect recent sold figures of comparable 1 bed flats. A pricing exercise reflecting the above commentary is attached at **Appendix 12**.

With development finance still being challenging to secure, the usual route to mitigating risk in the view of funders is to achieve a percentage of sales off plan, which require discounts to be offered. The GLA Toolkit is not able to model the discounts for an element of 'pre-sales', therefore we make note that the Gross Development Value stated by the Toolkit is overstated by some 1.5%, under the assumption that 3% discounts based on 50% of units being pre-sold, we therefore reserve our position on this point. Ground Rents have been modelled at a blended £500 per unit per year, with an appropriate capitalisation rate of 5.5%, as previously agreed with the Council's appointed viability assessors. The capitalised ground rent for the 20 units is £181,818. Please note that there is an alignment fault with the Three Dragons Toolkit on the ground rent section.

Cost Plan

3.4 A detailed cost plan for the application scheme with minor alterations has been provided by Harrabin, the project's Quantity Surveyors to reflect the minor alterations to the scheme. This current day cost plan is included as an appendix to this report (**Appendix 3**).

Construction Costs

3.5 The total construction cost for the proposed scheme with minor alterations is noted as £6,468,228.53. This is a slight increase from the previous value of £6,316,424.58, due to the inflation of construction prices since the initial application, the changes to the façade designs including additional materials and details, plus an increased size of the secure cycle store.

Benchmark Land Value

3.6 The benchmark land value has been updated to £1,860,000 to reflect the current market and is broadly in line with the figure agreed on the previous application after review by the council and their appointed assessors. The existing use valuation report has been provided by Vokins Chartered Surveyors (**Appendix 4**). Note that this is inclusive of the 20% land owners premium as previously agreed with the Council's appointed viability assessors. The agreed land owner premium is down 5% from the position of 25% in the original submission (we reserve the right to increase this back to 25% if deemed more appropriate).

Exceptional Development Costs

3.7 In line with London Plan Policy 5.2 and supporting GLA guidance, Allowable Solutions in relation to CO2 emissions apply to the residential component only and are calculated on the basis of £60/tonne over a 30-year period (Energy and Sustainability statements attached as **Appendix 10** and **Appendix 11** respectively).

Allowable Solutions Calculation: 13.85 tonnes x £60 x 30 years = £24,930.

Network Rail have estimated costs associated with carrying out services for the BAPA to be £74,876 (**Appendix 13**).

The above have been entered as exceptional development costs within the toolkit.

Previously Agreed Assumptions

3.8 The following assumptions were agreed previously with the Council's appointed viability assessors, remain unchanged.

- Benchmark land value premium
- Commercial pricing (commentary attached at **Appendix 8**).
- Commercial yield
- Ground rent
- Ground rent yield
- Finance costs
- Marketing fees
- Agency fees
- Professional fees

- Profit allowance
- Construction timeline

4 Results

4.1 An updated toolkit with assumptions as described in this report is attached at **appendix 9**.

4.2 The viability appraisal generates a residual land value of £1,423,000 after the appropriate application of land holding costs, which is below the residual land value delivered by the Existing Use Value of the site (£1,860,000). This demonstrates that the proposal submitted for this 20 unit residential scheme with minor alterations does not viably support an affordable housing contribution either by on site provision or via a payment in lieu.

5 Conclusions

Conclusion

5.1 The updated application with minor alterations provides the opportunity to promote the delivery of a high quality mixed use scheme in the borough of Richmond upon Thames.

5.2 As can be seen from the residual land value derived by the proposed scheme, there is a shortfall from the benchmark land value indicating that affordable housing cannot be viably supported, either by on site delivery or via a payment in lieu.

Proposal's residualised land value	Benchmark site value (including 20% landowner premium)	Viable affordable housing offer
£1.423m	£1.86m	Nil

Yours faithfully

Paul Hawkey

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For and on behalf of
Knight Frank LLP

Appendix 1 - Scheme plans

Appendix 2 - Schedule of accommodation

Appendix 3 - Cost plan

Appendix 4 - Existing Use Valuation

Appendix 5 - Residential comparables

Appendix 6 - Residential comparables dot map

Appendix 7 - Station Point comparables

Appendix 8 - Commercial pricing commentary

Appendix 9 - Toolkit

Appendix 10 - Energy statement

Appendix 11 - Sustainability statement

Appendix 12 - Residential pricing exercise

Appendix 13 - Network Rail BAPA