Turner Morum
CHARTERED SURVEYORS

Viability Study

at

63-71 High Street, Hampton Hill,

TW12 1NH

By

Thomas Hegan MRICS

Private & Confidential

September 2017

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Turner Morum Viability Report

Appendices

Appendix 4 – Savills - Market Revenue Advice – Proposed & PD Scheme

Appendix 5 – Mr. Tim Gauld - Bosnor Penningtons - Existing Use Value Report

Appendix 6 – P2M Cost Plan (Proposed Scheme)

Appendix 7 – P2M Cost Plan (PD Scheme)

Appendix 8 – Turner Morum Recent Viability Experience

1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. My name is Thomas Hegan of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2010 following the award, in 2005, of an Honours degree in Real Estate Valuation and Management from University of West England, Bristol.

1.2. In 2007 I joined the practice of Turner Morum Chartered Surveyors and was made a Partner in 2013. I am a specialist in the field of development site appraisals and associated subjects. Some of the work I am currently undertaking or have recently undertaken is attached to this statement as Appendix 8.

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land. I am currently instructed by a substantial number of Local Authorities, Landowners, Developers, Receivers & Liquidators and have extensive experience in this field.

1.4. I am an Accredited Expert Witness and have previously provided Expert Valuation Evidence. I have successfully undertaken the Advanced Professional Award in providing Expert Witness Evidence & am also an RICS Registered Valuer.

1.5. Turner Morum were originally appointed by Mr Terry Holmes on behalf of Greatplanet Limited in April 2016 to undertake a viability assessment in regards to their proposed development at 63-71 Hampton Hill, TW12. A submission was made in December 2016 to support the planning application however since then the scheme has undergoing some amendments and as such this updated analysis is intend to reflect those changes and consider the impact on the schemes viability.

1.6. The site is a rectangular parcel of land (68m by 38m) developed with three office buildings, two on the High Street frontage and the third located in the south west corner of the site. The southern of the two frontage building also has three self-contained residential flats on the top floor. The buildings have been entirely vacant since September 2013.

1.7. The proposed scheme is for 41 new build dwellings overall including 35 apartments and 6 houses to the rear. The scheme also includes circa 2,562 square feet of retail space, on the ground floor of the flatted elements.

1.8. The Benchmark Land Value ("BLV") is a key element within this assessment: Permitted Development ("PD") approval exists for conversion of the existing buildings to provide 26 apartments, (23 new + the 3 existing units) all as private market housing. I have also considered the development value attributable to the south west corner, following the demolition of the existing single-storey office building. I expand on this later within my report.

1.9. I have also considered the value of the existing lawful B1 office use, for the purposes of a further BLV consideration. Again I examine this in greater detail within the following report.

1.10. I can confirm that the requirements on the applicant, as outlined within Policy LP36, have been met.

1.11. 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.

2. MECHANICS OF THE ASSESSMENT

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

BLV Approach 1 – PD Scheme

- **Appendix 2 Tab 1** – This appraisal shows the scheme for 41 residential units – entirely delivered as Market Housing, benchmarked against the PD BLV.
- **Appendix 2 Tab 2** – This appraisal shows the above scenario, with 4 of the apartments delivered as Starter Homes.
- **Appendix 2 Tab 3 –** this appraisal shows the scheme again delivered entirely for Market Housing but with a commuted sum financially equivalent to the 4 Starter Home units included within Scenario 2.
- **Appendix 2 Tab 4** – Benchmark Land Value appraisal based on the approved PD scheme

BLV Approach 2 – Commercial EUV

- **Appendix 3 Tab 1** – This appraisal shows the scheme for 41 residential units – entirely delivered as Market Housing, benchmarked against the Commercial BLV.
- **Appendix 3 Tab 2** – This appraisal shows the above scenario, with 4 of the apartments delivered as Starter Homes.
- **Appendix 3 Tab 3 –** this appraisal shows the scheme again delivered entirely for Market Housing but with a commuted sum financially equivalent to the 4 Starter Home units included within Scenario 2.

2.2. I have not modelled any further appraisal scenarios including 'traditional' affordable housing (affordable rent, social rent and/ or shared ownership) primarily because the scheme cannot viably support it. Registered Providers are generally not interested in acquiring small amounts of on-site affordable units, due to disproportionately high management charges of the sort that will be necessary for an extensively managed development such as this.

2.3. I am advised that the proposed design, with access from pedestrianised courts off the High Street and with the provisions for parking, cycle storage, and refuse storage and management, all accommodated within the full site basement, makes the incorporation of traditional forms of affordable housing extremely difficult. On-site affordable would require separate service provisions, cycle storage, bins and basement parking, all through separate service charge arrangement which is not possible within this scheme. Starter homes do not require this sort of different service charge arrangement, which is why four units have been included within Tab 2 (in both tested scenarios).

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

REVENUES

2.5. Market Values for the private dwelling units have been based on advice received from Mr. Gregory Cornish of Savills, which can be seen at Appendix 4. Please note that this advice covers both the proposed residential scheme and the PD change of use scheme. The proposed redevelopment scheme includes average market revenues of £705 per square foot (with average units of 785 square feet), whereas the PD scheme includes understandably lower average market revenues of £642 per square foot (with average units of £636 square feet).

2.6. The values for the starter homes have been included at 80% of their equivalent market units. These units are a mix of studio and 1-bed apartments, and are well below the £450,000 price cap identified within the emerging Starter Home Regulations.

2.7. With regards to the value of the retail element within scenarios 1 to 3, this is included at a rent of £10 per square foot, applied to the 2,519 square feet, capitalised at a yield of 6%, generating an overall value of circa £403,565. There is no retail area included in the PD scheme.

DEVELOPMENT COSTS

2.8. Fees and marketing costs in respect of the market housing and starter home units are included at 3.25% of Market Housing and Starter Homes Gross Development Values (“GDV”), which I feel reflects standard industry benchmarks. With regards to the retail element, the agency and marketing fees are included at 3.0% of GDV.

2.9. It will be apparent that bespoke cost plans have been provided for both the proposed scheme (see Tab 6A) and for the PD scheme (see Tab 6B). The cost reports exclude associated technical fees which are included at 10% of the overall costs within my assessment. These illustrated construction costs include all abnormals & infrastructure. The respective cost plans are included as Appendices 6 and 7.

2.10. This allowance is intended to represent the cost associated with architects, quantity surveyors, engineers & project management and all other technical / professional consultancy fees. I am advised that the ‘real world’ technical fee expenditure on this scheme is “*likely to exceed 12%*”.

2.11. With regards to developer profit allowances, for the market housing I have made an allowance at 20% of the market housing GDV, which I would suggest is entirely appropriate for a single-phase cash intensive scheme of this nature. A profit allowance for the starter homes is included at 15% of GDV, although I feel a 20% allowance could be justified as this is essentially a market-product, with arguably greater risk due to a smaller captive market. A 15% margin on GDV has been included for the retail element.

2.12. Arguably a development could be considered unlikely to come to fruition unless it can achieve an overall profit margin of 20-25% of GDV (blended). Banks require Developers to illustrate these levels of developer profit before they will provide development finance and clearly such is considerably higher than that shown in my analysis.

2.13. As above, no separate cost allowances are then required for abnormals or infrastructure, as these are implicit within the above overall construction costs per square foot, see para 2.9 above.

2.14. Separate costs have then been included for mayoral, residential and local Community infrastructure levy payments, which are shown separately on Tab 7, which can be summarised as follows:

1. Scenario 1 - £1.629m total CIL
2. Scenario 2 - £1.574m total CIL
3. Scenario 3 - £1.629m total CIL
4. Scenario 4 - £0.486m total CIL

2.15. I have not included any s106 contributions within my analysis, although tab 3 (in both scenarios) include affordable housing contributions that shows the scenarios 'drawing parity' with the viability position shown in both Scenario 2 appraisals - with 4 starter home units. This is illustrated by the same level of deficit being shown in these two sets of appraisals.

2.16. With regards to the finance cost calculations, I have calculated these for each scenario through a quarterly cashflow appraisal. As with any cashflow, there are numerous assumptions made as to build rate and revenue timings; a full breakdown of my assumptions can be viewed as Appendix 2 Tabs 8 to 11.

2.17. I have assumed a finance rate on debit of 6.5% which I believe is a reasonable assumption in the present climate. Within the proposed scheme I have assumed an 18-month construction period, whereas a shorter construction period is required for the PD scheme totalling just 12-months. The cost profiling adopted within each cashflow model is based on advice included within the respective cost plans. Within schemes I have then reflected a number of off-plan sales (with the income received on PC) with 15-month overall sales periods. I feel this approach is appropriate for these types of 'high end' schemes.

2.18. Considering the finance costs as a percentage of total development costs is a useful benchmarking exercise. In this case, the finance costs for the proposed scheme equate to just circa 7% of total development costs. I believe this indicates quite a conservative finance figure as I would usually expect these costs to equate to at least <u>10%</u> for a scheme of this nature.

2.19. As this is predominantly a development of apartments and the 6 houses are accessed from the court which serves the apartments, the development costs clearly cannot be offset through sales until the entirety of the scheme is complete, which invariably results in a cash-intensive development that will be costly to finance.

3. VALUATION METHODOLOGY

3.1. My residual appraisal produces a Residual Land Value ("RLV") which is then compared to either the site's appropriate Benchmark Land Value, which is invariably based upon an Existing Use Value ("EUV") plus a premium, or an Alternative Use Value ("AUV"). In this instance I have considered both the AUV (based on the PD scheme) and the EUV (based on the existing B1 office commercial use), which I explain separately below.

3.2. My primary valuation approach has been to consider the BLV based upon the Alternative Use Value for the PD scheme (as Appendix 2), which is considered within Appraisal scenario 4. It will be apparent that I have produced a residual appraisal to establish this PD value, based on Market revenue Advice provided by Savills (averaging £636 per square foot) and a bespoke cost plan provided by Mr. Terry Holmes of P2M Limited.

3.3. Within the PD scheme appraisal, it will be apparent that I have also included a notional **£1m** to reflect the land value attributable to redevelopment of the rear of the site. It will be noted that this area of land is being developed for 6 Houses within the proposed scheme, and is therefore clearly "residentially appropriate". Therefore it is believed that 6 x 3-Bed houses averaging 1,227 square feet (plus internal garages) could be developed. Savills have estimated these would achieve sales values totalling £5.53m.

3.4. The adopted £1m land value is therefore equivalent to just **£167k** per plot or **19.7%** of GDV which I believe is entirely conservative. In reality I believe a considerably higher amount could be justified – which would naturally worsen the viability further. I do not believe this is necessary bearing in-mind the clear results of my viability analysis.

3.5. Taking this approach, it will be apparent that the analysis included as Appendix 2 includes a BLV of some **£4.047m**.

3.6. I have also considered the viability of this scheme when considered against a BLV based on a refurbished commercial scheme – see Appendix 3. It will be apparent that independent valuation advice on the value of the existing building for commercial use has been provided by Mr. Tim Gauld of local agents Bosnor Penningtons (see Appendix 5), recommending an EUV of **£3.3m**.

3.7. Where an EUV is adopted, present practice dictates that a 'premium' above the EUV should be applied. This premium is intended to represent an additional amount that a theoretical purchaser would need to pay on-top of the EUV to encourage the site owner to sell their site. It is generally accepted that a range of premiums can be applied between 15% and 30%.

3.8. In this case I have included a premium of 20%, which is obviously at the bottom of this identified range, and equates to **£660,000**. Given the development potential of this site, I feel a considerably higher premium could be justified. Taking the above into account, the total EUV for comparison with the RLV within this Scenario is included at **£3.96m**.

3.9. In both cases I have then made allowances for SDLT and agents & legal fees, with SDLT applied at prevailing rates and the agents & legal fees included at 1.75% of the respective BLV figures. This generates an overall BLV of **£4.31m** in the PD Appraisal scenario (Appendix 2) and **£4.22m** in the Commercial EUV scenario (Appendix 3).

3.10. Finally it is worth noting that both BLV figures equate to circa 18% of the overall GDV. Again I believe this indicates a relatively conservative Benchmark Land Value; the usual "rule of thumb" allowance would indicate a BLV equivalent to between 25% and 35% of GDV.

4. SUMMARY CONCLUSIONS

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

BLV Approach 1 – PD Scheme

Tab	Scenario	Starter Homes	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
1	**Residual 1 100% Market**	0	£4,063,119	£4,309,505	-£246,385	NON-VIABLE
2	**Residual 2 4 Starter Homes**	4	£3,919,730	£4,309,505	-£389,775	NON-VIABLE
3	**Residual 3 100% Market + Commuted Sum**	0	£3,919,730	£4,309,505	-£389,775	NON-VIABLE

Scenario 3 Commuted Sum	**£135,527**

BLV Approach 2 – Commercial EUV

Tab	Scenario	Starter Homes	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
1	**Residual 1 100% Market**	0	£4,077,593	£4,216,800	-£139,207	NON-VIABLE
2	**Residual 2 4 Starter Homes**	4	£3,935,945	£4,216,800	-£280,855	NON-VIABLE
3	**Residual 3 100% Market + Commuted Sum**	0	£3,935,945	£4,216,800	-£280,855	NON-VIABLE

Scenario 3 Commuted Sum	**£134,961**

5. CONCLUSIONS

5.1. You will note from the above summary tables that deficits are shown in all appraisal scenarios. As will be apparent, my analysis illustrates deficits of £246k and £139k (per scenario) at 100% market Housing. This indicates that the scheme cannot technically support any affordable/ starter homes or an equivalent commuted sum payment.

5.2. It is the expectation of Greatplanet that the subject development will be of a quality which is regarded as a landmark sustainable regeneration project within the London Borough of Richmond. Greatplanet have therefore taken the commercial decision to proceed at these sub-norm profit levels including either the 4-starter home dwellings or making an equivalent commuted sum payment of circa £135k. This is the commuted sum figure generated by both sets of appraisals.

5.3. I believe that these conclusions further illustrate that my client is making an entirely generous offer, as not only can the scheme not afford to deliver any affordable housing, but my client is also prepared to include either four Starter Homes or make an equivalent commuted sum payment.

5.4. My client is prepared to make these offers with a view to swiftly concluding the viability discussions, although it should be noted that a requirement to provide further contributions or starter homes would worsen the scheme deficit and place doubt over its commercial deliverability. Once again I should add that on-site affordable cannot be delivered for design (and viability) reasons.

5.5. I believe the conclusions of this assessment are especially apparent when one considers the conservative nature of my adopted appraisal inputs, particularly the notional £1m land value included within the PD appraisal, and the conservative professional fees. Obviously if more realistic amounts had been included, my analysis would have appeared considerably more non-viable.

5.6. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

T Hegan
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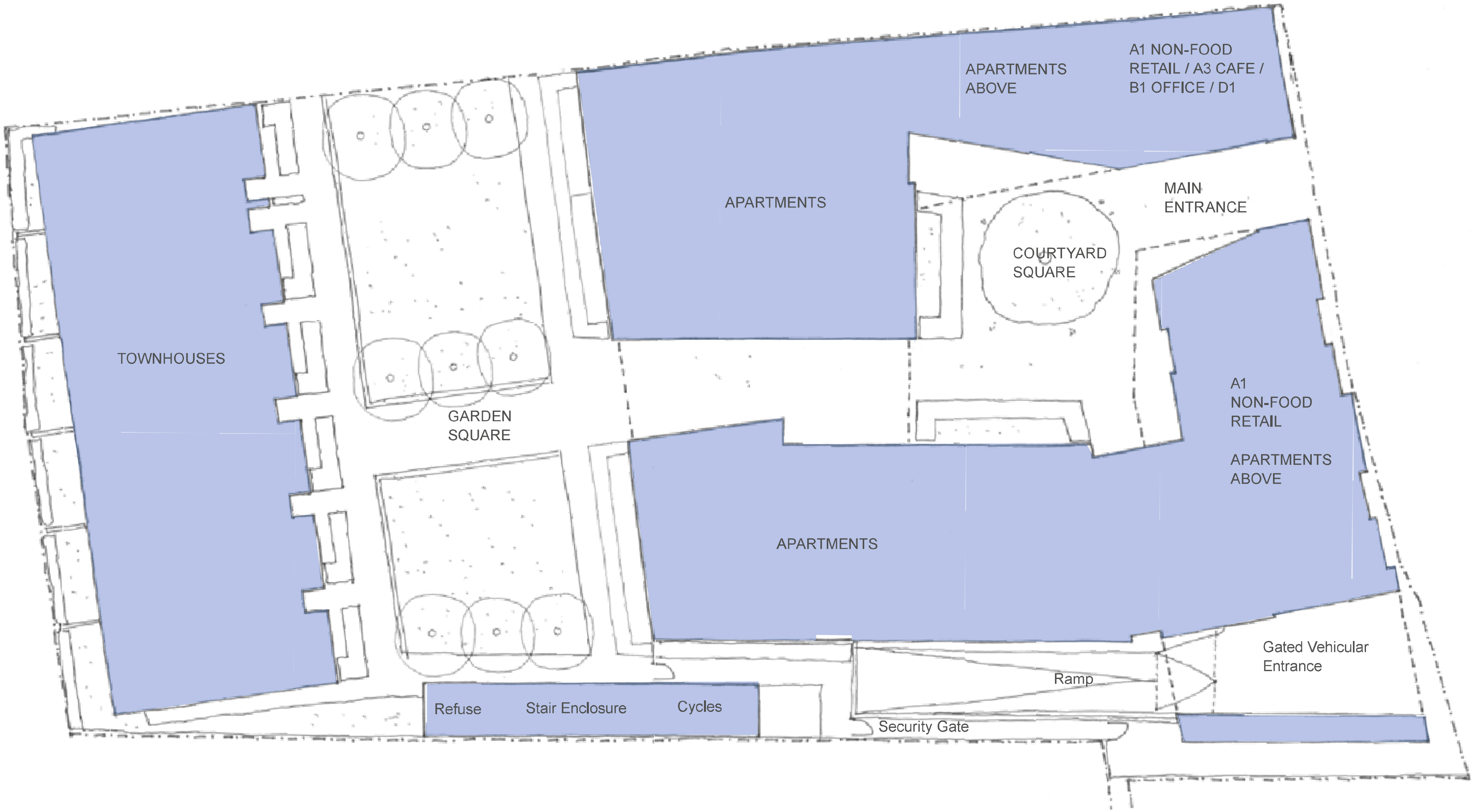
Thomas Hegan MRICS

Appendix 1

Site Layout Plans

4.0 Site Layout Overview



Appendix 2
Turner Morum Appraisal Analysis
(PD BLV)

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63-71 Hampton Hill

Tab	Scenario	Total Units	Market Units	Starter Homes	AFF %	GDV	Total Development Costs	RLV	BLV	Surplus/ Deficit	Viable/ Non-Viable
1	**Residual 1** **100% Market**	41	41	0	0%	£23,218,565	-£19,155,446	£4,063,119	£4,309,505	-£246,385	NON-VIABLE
2	**Residual 2** **4 Starter Homes**	41	37	4	10%	£22,891,232	-£18,971,502	£3,919,730	£4,309,505	-£389,775	NON-VIABLE
3	**Residual 3** **100% Market +** **Commuted Sum**	41	41	0	0%	£23,218,565	-£19,298,835	£3,919,730	£4,309,505	-£389,775	NON-VIABLE

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100% Market Housing — Tab 1

Type	Tenure	Units	Unit Size (ft2)	Unit Size (m2)	Total Size (ft2)	Total Size (m2)	£ per ft2	Average Unit Value (£)	Total GDV	Market	Affordable	Non-Residential
1 Bed Flats	Market	19	568	52.8	10,796	1,003.0	£700.02	£397,763	£7,557,500			
2 Bed Flats	Market	16	838	77.9	13,412	1,246.0	£715.60	£599,844	£9,597,500			
2 Bed Houses	Market	1	1,076	100.0	1,076	100.0	£761.81	£820,000	£820,000			
3 Bed Houses	Market	5	1,378	128.0	6,889	640.0	£683.71	£942,000	£4,710,000			
TOTAL MARKET HOUSING		**41**	**785**	**72.9**	**32,173**	**2,989.0**	**£705.09**	**£553,293**	**£22,685,000**	**£22,685,000**		
1 Bed Flats	Starter Homes	0	0	0.0	0	0.0	£0	£0	£0			
2 Bed Flats	Starter Homes	0	0	0.0	0	0.0	£0	£0	£0			
TOTAL STARTER HOMES	**0%**	**0**	**0**	**0.0**	**0**	**0.0**	**£0.00**	**£0**	**£0**		**£0**	
						Yield	**Cap. Yield**					
Ground Rents - 1 Bed Flats		19	-	£200	£3,800	6.0%	16.67		£63,333			
Ground Rents - 2 Bed Flats		16	-	£250	£4,000	6.0%	16.67		£66,667			
TOTAL GROUNDS		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**£130,000**	**£130,000**		
TOTAL RESIDENTIAL		**41**	**785**	**72.9**	**32,173**	**2,989**	**£709.13**	**£556,463**	**£22,815,000**			
Retail					2,562	238.0			£403,565			**£403,565**
TOTAL GROSS DEVELOPMENT VALUE				**0**	**34,735**				**£23,218,565**			
Gross Ha/ Acres						0.0						
Net Ha/Acre						0.0						
Average Market Units Sales Values psf						**£705.09**						
Less Fees and Marketing - Market Housing @								3.25%	(£737,263)	(£737,263)		
Less Fees and Marketing - Starter Homes @								3.25%	£0		£0	
Less Fees and Marketing - Retail @								3.00%	(£12,107)			(£12,107)
Build Costs							**sq ft**	**£/sq ft**				
Construction Costs (including contingency)							34,735	£282.61	(£9,816,645)	(£9,092,635)	£0	(£724,010)
							34,735	**(£282.61)**				
Professional Fees						10%	(£981,665)					
								(£981,665)	(£981,665)	(£909,263)	£0	(£72,401)
Developer Profit on Market Housing @						20%	(£4,563,000)			(£4,563,000)		
Developer Profit on Starter Homes @						15%	£0				£0	
Developer Profit on Retail @						15%	(£60,535)					(£60,535)
Blended Developer Margin						**19.9%**		(£4,623,535)	(£4,623,535)			
GROSS CLEAN SERVICED LAND VALUE (CSLV)									**£7,047,351**	**£7,512,839**	**£0**	**(£465,488)**
Infrastructure and Abnormal Costs							Included					
					Rate	**Area (m2)**						
Local and Mayoral CIL					£265	5,915	(£1,568,741)					
					Rate	**Area (m2)**						
Non-Residential CIL					£253	238	(£60,307)					
Section 106 Obligations							£0					
Construction Finance Costs (see Cashflow)							(£1,355,184)					
								(£2,984,232)	**(£2,984,232)**			
RESIDUAL LAND VALUE (RLV)									**£4,063,119**			
EXISTING USE VALUE (EUV)								**£4,046,843**				
Premium Over EUV							0.0%	£0				
SDLT @							4.74%	£191,842				
Legals @							1.75%	£70,820				
									£4,309,505			
SURPLUS/DEFICIT									**(£246,385)**			
VIABLE/NON-VIABLE?									**NON-VIABLE**			

Finance as a % of	
Costs	**GDV**
7.1%	5.8%

BLV as % GDV
19%

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63-71 Hampton Hill

10% Affordable Housing - Starter Homes — Tab 2

Type	Tenure	Units	Unit Size (ft2)	Unit Size (m2)	Total Size (ft2)	Total Size (m2)	£ per ft2	Average Unit Value (£)	Total GDV	Market	Affordable	Non-Residential
1 Bed Flats	Market	15	570	52.9	8,547	794.0	£700.58	£399,167	£5,987,500			
2 Bed Flats	Market	16	838	77.9	13,412	1,246.0	£715.60	£599,844	£9,597,500			
2 Bed Houses	Market	1	1,076	100.0	1,076	100.0	£761.81	£820,000	£820,000			
3 Bed Houses	Market	5	1,378	128.0	6,889	640.0	£683.71	£942,000	£4,710,000			
TOTAL MARKET HOUSING		**37**	**809**	**75.1**	**29,924**	**2,780.0**	**£705.63**	**£570,676**	**£21,115,000**	**£21,115,000**		
1 Bed Flats	Starter Homes	4	562	52.3	2,250	209.0	£558	£314,000	£1,256,000			
2 Bed Flats	Starter Homes	0	0	0.0	0	0.0	£0	£0	£0			
TOTAL STARTER HOMES	**10%**	**4**	**562**	**52.3**	**2,250**	**209.0**	**£558.31**	**£314,000**	**£1,256,000**		**£1,256,000**	
						Yield	**Cap. Yield**					
Ground Rents - 1 Bed Flats		15	-	£200	£3,000	6.0%	16.67		£50,000			
Ground Rents - 2 Bed Flats		16	-	£250	£4,000	6.0%	16.67		£66,667			
TOTAL GROUNDS		**-**	**-**	**-**	**-**	**-**	**-**	**-**	**£116,667**	**£116,667**		
TOTAL RESIDENTIAL		**41**	**785**	**72.9**	**32,173**	**2,989**	**£698.95**	**£548,480**	**£22,487,667**			
Retail					2,562	238.0			£403,565			**£403,565**
TOTAL GROSS DEVELOPMENT VALUE				**0**	**34,735**				**£22,891,232**			
Gross Ha/ Acres						0.0						
Net Ha/Acre						0.0						
Average Market Units Sales Values psf						**£705.63**						
Less Fees and Marketing - Market Housing @								3.25%	(£686,238)	(£686,238)		
Less Fees and Marketing - Starter Homes @								3.25%	(£40,820)		(£40,820)	
Less Fees and Marketing - Retail @								3.00%	(£12,107)			(£12,107)
Build Costs							**sq ft**	**£/sq ft**				
Construction Costs (including contingency)							34,735	£282.61	(£9,816,645)	(£8,456,850)	(£635,785)	(£724,010)
							34,735	**(£282.61)**				
Professional Fees						10%	(£981,665)					
								(£981,665)	(£981,665)	(£845,685)	(£63,578)	(£72,401)
Developer Profit on Market Housing @						20%	(£4,246,333)			(£4,246,333)		
Developer Profit on Starter Homes @						15%	(£188,400)				(£188,400)	
Developer Profit on Retail @						15%	(£60,535)					(£60,535)
Blended Developer Margin						**19.6%**		(£4,495,268)	(£4,495,268)			
GROSS CLEAN SERVICED LAND VALUE (CSLV)									**£6,858,490**	**£6,996,561**	**£327,417**	**(£465,488)**
Infrastructure and Abnormal Costs							Included					
					Rate	**Area (m2)**						
Local and Mayoral CIL					£265	5,706.0	(£1,513,311)					
					Rate	**Area (m2)**						
Non-Residential CIL					£253	238	(£60,307)					
Section 106 Obligations							£0					
Construction Finance Costs (see Cashflow)							(£1,365,141)					
								(£2,938,760)	**(£2,938,760)**			
RESIDUAL LAND VALUE (RLV)									**£3,919,730**			
EXISTING USE VALUE (EUV)								**£4,046,843**				
Premium Over EUV							0.0%	£0				
SDLT @							4.74%	£191,842				
Legals @							1.75%	£70,820				
									£4,309,505			
SURPLUS/DEFICIT									**(£389,775)**			
VIABLE/NON-VIABLE?									**NON-VIABLE**			

Finance as a % of	
Costs	**GDV**
7.2%	6.0%

BLV as % GDV
19%