

Financial Viability Assessment

Twickenham Riverside

Prepared on behalf of London Borough of Richmond
upon Thames

24 November 2017

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Contact details

London Borough of Richmond upon Thames

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Executive summary

Address	Twickenham Riverside
Existing Site and Proposals	<p>The development site is located in Twickenham, a suburb of South West London. It lies within the London Borough of Richmond upon Thames. The current building is located at the junction of Water Lane and King Street in the heart of Twickenham.</p> <p>The site comprised the current Santander bank at 1 King Street as well as 1a & 1b King Street (Superdrug & The Works) and 2/4 Water Lane. The site extends to the rear running down to the river and incorporating a private car park as well as a disused and rundown swimming pool.</p> <p>The proposal is for a mixed use scheme incorporating 39 residential units from 1st to 3rd floors and a mix of office and retail space on the ground floor.</p> <p>This viability study incorporates residential and commercial market research undertaken by Knight Frank LLP and a detailed cost plan prepared by Huntley Cartwright.</p> <p>The residential pricing exercise details the price of each unit taking account of layout, size, location and amenity and is supported by comparable evidence of schemes in the general area.</p>
Affordable Housing	The viability modelling includes appraisals of the affordable housing provided, which has been carried out on Pamwin Plus appraisal software, the industry standard appraisal software
Conclusion	<p>The viability study concludes that the affordable housing proposal offered by the Applicant is above that which the scheme can economically support. This has been shown through accepted viability methodology.</p> <p>The applicant is keen to bring forward the best offer possible in terms of planning gain package to the local authority and regeneration to the area in support of the Local Authority's vision.</p> <p>The proposed scheme offers 15.4% affordable housing. The proposed scheme therefore provides an opportunity for a significant contribution towards the affordable housing quota within Richmond.</p>

Contents

Executive summary	2
1 Introduction	6
Principles of Viability	6
2 Richmond Planning Policy	7
3 Site Description	8
4 Proposed Scheme	12
Overview	12
5 Economic Viability Assessment Methodology	13
6 Viability Assessment Inputs	14
Inputs and Assumptions	14
Construction Costs and Programme	16
7 Market Analysis	17
8 Conclusions	18

Appendices

- Appendix 1 - Proposed Scheme Plans
- Appendix 2 - Accommodation Schedule
- Appendix 3 - Residential Accommodation Schedule
- Appendix 4 - Residential Market Commentary
- Appendix 5 - Residential Pricing
- Appendix 6 - Retail Market Commentary
- Appendix 7 - Office Market Commentary
- Appendix 8 - Construction Cost Plan
- Appendix 9 - Argus Appraisal

24 November 2017

Dear Sirs

Property: Twickenham Riverside, London E1

This viability report has been prepared in connection with the proposed redevelopment of Twickenham Riverside into a mixed use scheme comprising of a new block of apartments and commercial accommodation.

The applicant is submitting the enclosed information as Commercial-In-Confidence falling within the provisions of the Freedom of Information Act, sections 41 and 43, under which information is exempt from release to any other person or persons to whom it is not addressed.

Information provided in Confidence - Section 41

It is the Applicant's view that the Council is under a duty of confidentiality not to disclose the Information to the public. In satisfaction of section 41 of the Act, it states that:

- The Information is provided in confidence; and
- Disclosure would constitute an actionable breach of that confidence.

The Information is provided to the Council in support of the Planning Application and is a necessary part of seeking permission for the Development. 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, and the proposed provision of Planning Contributions a financial viability assessment was required. As part of the Information, the Developer provided justification for the Planning Contributions including financial information that, if released, would:

- Weaken its position in a competitive development market by revealing potentially useful information to competitors;
- Set an unfair precedent in the minds of the public and the market as to the development costs of property by the Developer.

Commercial Interests - Section 43

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

On a more global scale, the release of commercial detail such as that found in the Information could undermine the interests of planning decision-making at large. There is a public interest need for Councils to make well informed decisions on the planning merits, however, Developers cannot afford to sacrifice (and will avoid doing so at all costs) their commercial interests in order to acquire the needed planning consent. The two interests directly conflict, hence, the exemption under section 43 of the Act. This clearly applies here. We also make reference to the recent case of *R (English) v East Staffordshire Borough Council & Anor* [2010] EWHC 2744.

We strongly urge the Council not to release the Information, as falling within the above mentioned exemptions.

We look forward to meeting with you or your appointed advisors in due course to discuss further.

1 Introduction

Instruction Knight Frank LLP has been appointed by the London Borough of Richmond upon Thames (the applicant) to advise on affordable housing obligations of the proposed scheme at 1 King Street. Knight Frank LLP has been instructed to provide the confidential financial viability assessment in order to justify the appropriate levels of affordable housing contributions and a suitable planning obligations package.

Knight Frank LLP Knight Frank LLP is recognised as a market leader in the residential sector, 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, registered providers (RP's) and Central Government.

Principles of Viability

Residual Valuation Method Knight Frank LLP has undertaken a viability study to ascertain the residual value of the proposed scheme in order to determine how much of an affordable housing contribution can be made.

ARGUS Developer ARGUS Developer software was used in order to undertake the financial viability assessment, with inputs appraised following extensive market research as detailed in this report and its supporting annexes.

Pamwin Plus The valuation of the affordable housing has been carried out on Pamwin Plus appraisal software, which is seen as the industry standard appraisal software. The units have been appraised on a discounted cashflow basis, with known Key Performance Indicators being targeted to align with those accepted by actively developing Registered Providers.

2 Richmond Planning Policy

Affordable Housing	The London Borough of Richmond Upon Thames target 50% affordable housing on sites, subject to viability, on schemes delivering 10 or more units. We note that the consented scheme contains 6 out of 39 units as Affordable - all Shared Ownership tenure. This represents an affordable provision of 15% by unit number.
Core Strategy	<p>Affordable Housing is to be delivered in accordance with the Council's Core Strategy, Policy CP14, Policy CP15, Development Management Plan and the Supplementary Planning Document (SPD) for Affordable Housing.</p> <p>The Core Strategy aims to maximise the development of affordable housing in the Borough, negotiated on a site-by-site basis. This takes into account affordability, financial viability and deliverability. The Core Strategy Policy CP15 seeks to achieve 80% housing for social rent and 20% intermediate housing. This differs from the London Plan in requiring more social rent accommodation, but is in line with the Council priorities and evidence base.</p>
Delivery of Affordable Housing	Whilst the priority for affordable housing provision is on-site delivery, in exceptional circumstances affordable housing may be provided off-site, or secured through the payment of a commuted sum.
Viability Appraisals	The Council must be fully satisfied that it is achieving the maximum reasonable level of affordable housing as sought in the Core Strategy. In considering proposals or financial contributions, the Council will have regard to economic viability, individual site costs, availability of public subsidy and the overall mix of uses and other planning benefits.

3 Site Description

Introduction

The property is located on the junction of King Street and Water Lane, Twickenham. The property benefits from a prominent high street position on King Street whilst also enjoying significant river frontage at the southern end of the site. Diamond Jubilee Gardens sit to the west of the site whilst existing residential buildings occupy the boundary to the east.

Site Location



(source promap)

Communications

The property is located c. 500m from Twickenham station which offers regular train services to London Waterloo in less than 25 minutes. The property is also within close proximity to a number of bus services providing transport to central, west and south west London.

Although the site has a PTAL rating of 6a/5 it is likely that a significant number of residents will opt to use private transport given the property's suburban location. The site is located c. 0.8 miles south of the A316 which provides access to the M3 and M4 both of which offer excellent road links in and out of the capital.

Photographs

The following photographs show the current state of the buildings on site and their position in the wider realm (all images taken summer 2017)



Current Santander Bank on the corner of King Street and Water Lane



Current car park taken from Water Lane



Looking south down Water Lane



Looking north-west from the river at the disused buildings on site



Looking north-east from the river at the disused buildings on site



Rear elevation of the current holding fronting King Street



Looking west along current service road



Looking north up Water Lane

4 Proposed Scheme

Overview

Proposed Development

The Applicant is seeking to obtain planning permission for a mixed use scheme on the site. Plans for the proposed scheme are attached at Appendix 1.

Proposed Residential Units

The scheme proposes 39 units comprising approximately 30,000 sq ft of net internal residential floorspace. The units will be a mixture of 1, 2 and 3 bedroom units located over 1st – 3rd floors. The table below summarises the proposed residential units to be located on site. A full residential unit by unit accommodation schedule is attached at Appendix 3.

Unit Type	No. Units	Total NIA (sq ft)	Average Unit NIA (sq ft)
1 bedroom	18	10,527	585
2 bedroom	19	15,844	834
3 bedroom	2	1,894	947
Total	39	28,266	725

Parking Provision

The proposed scheme includes an element of underground car parking spaces.

Proposed Commercial Space

The ground floor comprises five commercial units. These total 11,421 sq ft NIA. A full unit by unit breakdown is included within Appendix 2.

Affordable Housing

The proposed scheme includes 6 units of affordable housing (included within the total of 39 units). This represents over 15% by unit number. These are modelled as Intermediate (shared ownership) units.

5 Economic Viability Assessment Methodology

Financial Viability in Planning	<p>Further to the National Planning Policy Framework, we have paid regard to the RICS Guidance Note, <i>“Financial Viability in Planning”</i> (1st edition, 2012). Financial viability for planning purposes is defined by this guidance as follows:</p> <p><i>“An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations while ensuring an appropriate Site Value for the landowner and a market risk adjusted return to the developer in delivering that project”</i></p>
Methodology	<p>With particular regard to the planning policies as mentioned in this report, we set out below our approach to the EVA:</p> <ol style="list-style-type: none">1. Valuation of existing assets on site (assessment of Benchmark Land Value (BLV)) as at the date of this report.2. Residual Valuation of the proposed scheme as at the date of this report. This involves assessing the gross development value (GDV) of the proposed scheme and subtracting the costs associated with delivering this scheme (including a reasonable profit allowance). The difference is considered to be the (residual) value of the land.3. Calculate the difference between the residual value of the proposed scheme and the BLV in order to calculate the viability of the scheme (its ability to meet planning contributions including affordable housing).
Appraisal Software	<p>All development appraisals prepared as part of the EVA are modelled using Argus Developer. Argus is a commercially available appraisal software package and is widely considered to be an accepted method for appraising viability assessments.</p>
Argus Appraisal Summary	<p>We have included the Argus appraisal summary for the proposed scheme with indicative levels of affordable housing as described above at Appendix 9.</p>

6 Viability Assessment Inputs

Inputs and Assumptions

The inputs into the viability appraisal are noted below.

Residential Pricing	A residential pricing exercise has been carried out by Knight Frank. This can be found at Appendix 5. The average £psf of the private units is £761psf. This figure has been modelled within the Argus appraisal.
Residential Comparable Evidence	Knight Frank has provided comparable evidence to support this pricing. This is attached at Appendix 4.
Ground Rents	These have been applied at £400 per unit per annum, capitalised at 4.0%. This figure of £400 represents a blended average across all unit sizes.
Sales Period	Presales of the private units are modelled at 50%. The remaining 50% of the units are assumed sold post-completion. A 6 months sales programme has been modelled in line with market expectation. It should be noted that no presales discount has been allowed for, which can typically be expected to be at 3% – 5%, we therefore reserve our position on this point.
Car Parking	The 2 and 3 bed units are each allocated a car parking space. In pricing these units we have considered the car parking attributed to the units and the price stated is inclusive of an allocated car parking space.
Affordable Pricing	We have modelled the Affordable Housing using Pamwin Plus appraisal software. The value for the Shared Ownership units is applied at £450psf.
Service Charge	Service Charge for the Affordable Units has been modelled as £3.00 per sq ft per annum, which is a typical assumption for a scheme of this nature. We note that altering service charges will have an impact upon our pricing. We therefore reserve the right to re-visit this aspect of the viability appraisal if so required.
Timing of Payments	Affordable housing has been modelled as 25% of monies being received from a Registered Provider (RP) after 6 months of the construction period (representing an estimate of the site achieving “Golden Brick”). The remainder of the monies is received in equal monthly payments over the construction period. The total balance is therefore fully paid by the point of Practical Completion.
Grant Funding	It is expected that no social housing grant will be applied in the transfer of the long leasehold interests of the affordable homes to an RP and we have not applied an assumption of Grant within our Pamwin appraisal.
CIL Contribution	The appraisal includes the provision of £807,225 CIL payments in accordance with Richmond and Mayoral charging rates, after appropriate indexation. The payment has been modelled 100% at the start of the development programme. This figure has been provided to Knight Frank LLP by ECE on behalf of the Applicant.

S106 Contribution	We have not included any S106 payments. We reserve our position on this point should this matter alter.
Developer's Profit	A required developer's profit level of 17.50% of GDV has been applied. This level of profit for the scheme as a whole is seen as an absolute requirement in order to bring a development of this nature forward given the timescales and complexity of delivery. Note that we have applied a reduced rate of 15.0% for the commercial elements and 6.0% of GDV for the affordable element of the scheme. These are considered industry standards.
Finance Costs	We have applied a finance rate of 6.25% to reflect the current market sentiment for bank lending. This rate has been applied through discussions with the Knight Frank Finance Team as well as the Bank Valuations Team.
Letting Legal & Agency Fees	We have applied 5% and 10% (of first year's rent) letting and agency fees, respectively, for the commercial element.
Marketing	<p>We have applied 1.5% to residential marketing. We have applied marketing on commercial space at a rate of £2.00 psf (based on the net internal area).</p> <p>Note that we have not applied these to the Affordable Housing units as we have assumed that these costs would be covered within the affordable housing agency fee.</p>
Purchaser's Costs	We have applied these at 6.8% to the commercial investment opportunities, representing stamp duty, agency and legal fees, and VAT.
Sales Agency Fees	We have applied 1.5% agency fees to the investment opportunities. We have applied a total fee of £50,000 to the affordable housing agency fee.
Sales Legal Fees	We have applied 0.5% to all sales.
Acquisition Costs	We have applied stamp duty at the current UK commercial rate at the date of this report. We have applied 1% agency fees and 0.5% legal fees. Note that these are not applied in the appraisal as the residual land value is negative.
Commercial	<p>We have relied on advice from internal colleagues. Market commentary on the commercial units including evidence for the values attributed is attached at Appendices 6 and 7. In summary we have applied the following assumptions to each unit:</p> <p>Unit 1 – £112,500pax (£75 zone A) @ 5.5% (6 months letting period 6 months' rent free)</p> <p>Unit 2 – £32psf @ 5.5% (6 months letting period plus 6 months' rent free)</p> <p>Unit 3 – £30psf @ 5.5% (6 months letting period 6 months' rent free)</p> <p>Unit 4 – £30psf @ 5.5% (6 months letting period 6 months' rent free)</p> <p>Unit 5 – £30psf @ 5.5% (6 months letting period 6 months' rent free)</p>

Construction Costs and Programme

Cost Plan	We have applied construction costs as advised by Huntley Cartwright. Total costs are made at £25,734,000. These have been applied within Argus on an “s-curve” basis.
Professional Fees	Professional fees have not been applied within the Argus appraisal as these are included within the cost plan.
Programme	A total construction period of 33 months is assumed for the appraisal after a 3 month period modelled to allow for discharge of conditions and letting of contracts.

7 Market Analysis

Comparable Analysis

The residential and commercial comparable and market reports are attached at Appendices 4 (residential), 6 (retail) and 7 (office).

8 Conclusions

Overview

The application provides an opportunity to promote the delivery of a high quality mixed-use project in the heart of Twickenham, which seeks a balance between viability and the need for affordable housing provision.

The details of the affordable housing proposal are demonstrated by this viability assessment provided by Knight Frank LLP.

The affordable housing proposal balances viability with the requirement to provide affordable housing within the LB Richmond upon Thames, while promoting mixed and balanced communities and meeting aspirations for affordable home ownership.

Appraisal Results

With assumptions as described in this report, the Residual Land Value of the proposed scheme is shown to be negative and therefore “unviable”. However, the Applicant being the Council has a vested interest in regenerating this site and is prepared to offer a proportion of the residential element as affordable housing within the development, to bring this scheme forward.

Table 1: Results

Proposal’s residual land value	Viable Affordable Housing Output
-£6,047,333 (negative land value)	Nil above that which is already proposed

Source: Knight Frank LLP

It can be seen that the proposed scheme is offering a level of affordable housing that is unviable. However, the Applicant is committed to delivering the proposed scheme and in doing so offering 15% affordable housing. We firmly believe this scheme would contribute greatly towards the local environment and in particular towards the Borough’s affordable housing targets.

Yours faithfully



Robert Sheldon MRICS
RICS Registered Valuer



Paul Hawkey MRICS
RICS Registered Valuer

Appendix 1 - Proposed Scheme Plans

Appendix 2 - Accommodation Schedule

Appendix 3 - Residential Accommodation Schedule

Appendix 4 - Residential Market Commentary

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