



Melliss Avenue, London, TW9 4BD

FINANCIAL VIABILITY ASSESSMENT

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On behalf of Melliss Ave Devco Limited

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1 INTRODUCTION

- 1.1 This Financial Viability Assessment (“FVA”) has been prepared by DS2 to examine the financial viability of the proposed redevelopment of the former Thames Water Biothane Treatment Plant associated with Stag Brewery. The Site is located within the Royal Borough of Richmond Upon Thames (RBRuT).
- 1.2 DS2 is instructed to test the maximum level of affordable housing and additional financial obligations, including Section 106 obligations, RBRuT Community Infrastructure Levy (CIL) and Mayoral CIL, which can be supported by the development without impeding the viability of the project and the chances of delivery.
- 1.3 The following report has been collated in accordance with professional best practice guidance, including the RICS Guidance Note ‘Financial Viability in Planning’ (94/2012). DS2 can confirm that our instruction is not on a contingent fee or success related basis. The report is an objective and impartial view on the development viability of the proposed scheme.
- 1.4 ARGUS Developer has been used to demonstrate the project’s financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer has previously been accepted by LBRuT for viability testing.
- 1.5 To inform the report, information prepared by the following independent consultants has been relied upon:
- DP9 – Planning Consultants
 - Marchese Partners – Architects
 - Quantem – Cost Consultants
 - Knight Frank - Residential Comparable Evidence
 - Gerald Eve – Existing Use Value
- 1.6 This FVA has been structured as follows:
- **Site description** – summary of the location and nature of the existing asset;
 - **Development proposals** – review and description of the proposed development;
 - **Planning policy** – review of the key national, regional and local planning policies concerning the delivery of affordable housing and financial viability;
 - **Viability methodology** – description of the methodology employed within the wider context of best practice for FVAs;

- **Development timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;
- **Development value** – review of the residential values alongside any additional revenue streams that comprise the scheme Gross Development Value (GDV);
- **Development costs** – review of the development costs for the proposed project;
- **Site Value** – analysis in relation to the proposed Site Value / Benchmark Land Value for the financial appraisals;
- **Appraisal results** – summary of the financial appraisal outputs and sensitivity testing;
- **Conclusions** – statement with the concluding rationale.

- 1.7 The appraisals and figures in this FVA do not represent formal ‘red book’ valuations and should not be relied upon as such. This report has been prepared to accompany the planning application for the purposes of Section 106 discussions only and should only be used for the consideration of these matters.
- 1.8 This report is reliant upon market evidence. Readers should be mindful that market evidence is subject to variation over time and in the event that this report is older than six months from the date issued, a summary update is advisable.
- 1.9 This report should be read in conjunction with the Affordable Housing Statement, Planning Statement and is supported by the Carterwood needs assessment and the R&Y Operator Statement.

2 SITE DESCRIPTION

- 2.1 A detailed site description is contained within the DP9 Planning Statement submitted with the planning application. A summary is provided below.

Site Location

- 2.2 The Site is located within the Kew Riverside development, a private residential development of over 500 dwellings ranging from 1-bedroom units to large four-storey townhouses and comprises the former Thames Water Biothane treatment plant associated with Stag Brewery. Following the closure of the Stag Brewery, the use of the Site as a Biothane works has ceased and Thames Water have undertaken the required remediation works to the Site in order for the Environmental Agency to issue the permit surrender to allow the site to be sold. We are advised that further remediation works may be required as part of the future development of the site.
- 2.3 Extending to 0.7 hectares in size, the Site is located adjacent to the Thames River and the public towpath, however it is not currently accessible to the public and is surrounded by a 2.4-metre-high metal fence. On the Site, there are a number of buildings and structures associated with the former industrial use, all of which are becoming run down and degrading over time.
- 2.4 Directly adjacent to the north of the Site is the retained Thames Water facility and associated structures and buildings, which remains in use and is also fully enclosed by fencing. As previously mentioned, the public Thames towpath sits directly adjacent the eastern boundary of the Site and is lined by thick vegetation and trees.
- 2.5 The main vehicular and pedestrian access to the Site is from Melliss Avenue to the south, which connects via Townmead Road with Mortlake Road/South Circular. Pedestrians are also afforded alternative access through the Kew Riverside development and from the towpath, however some of these are gated and not available 24 hours a day.
- 2.6 With regard to public transport, Kew Gardens Station is located approximately 1km (12 minutes walking or 4 minutes cycling) from the Site and provides District Line on the London Underground and North London Line on the London Overground services to central and outer London.
- 2.7 Kew Village is similarly located approximately a 12-minute walk from the site, and provides a range of local amenities including restaurants, retail shopping and a post office.
- 2.8 More widely, completed in 2005, the Kew Riverside and Riverside Park developments surround the application Site and comprise a range of contemporary buildings of up to 7 storeys in height. Saffron House is located to the south and is 4 storeys in height, while Terrano House to the north rises to 5 storeys in height - both are residential apartment buildings.
- 2.9 To the north, the former Inland Revenue site on Bessant Drive has been redeveloped as 'Emerald Gardens', completed in 2017, which provides approximately 170 residential units over a series of 5 storey blocks.

- 2.10 Finally, built in the mid-1990s, Kew Retail Park is located to the west of the application Site and comprises a substantial retail centre with associated parking and serves a large shopping catchment area in Kew and south west London.

Designations

- 2.11 The Site is identified as Site Allocation 'SA 26 Kew Biothane Plant, Mellis Avenue, Kew' within the London Borough of Richmond upon Thames Local Plan 2018. It is acknowledged within the designation that the Site is now surplus to requirements following the closure of the Stag Brewery and that the Council supports its redevelopment.
- 2.12 Part of the Site is designated Metropolitan Open Land ('MOL'), which comprises the elements closest to the river, of which the towpath is also identified as being Public Open Space. The Site also falls within the Thames Policy Area.
- 2.13 The Site is not located within a conservation area nor are there any listed buildings located in proximity to the Site.

Ownership

- 2.14 The site is in the full unencumbered ownership of the Applicant.

3 DEVELOPMENT PROPOSALS

Proposed Development

- 3.1 The content of the application proposal is set out in the Design and Access Statement and Planning Application Drawings and is summarised below. The proposed description of development is as follows:

“Demolition of existing buildings and structures and redevelopment of the site to provide a specialist extra care facility (C2 Use Class) for the elderly with existing health conditions. Comprising 89 units, with extensive private and communal healthcare, therapy, leisure and social facilities set within a building of ground plus 3 to 5 storeys including setbacks. Provision of car and cycle parking, associated landscaping and publicly accessible amenity spaces including a children’s play area.”

- 3.2 The proposed development comprises a new specialist extra care facility of 89 new specialist extra care units (C2 Use Class) set in landscaped grounds. The key characteristics of the proposed specialist extra care facility comprise:

- Purpose-built facility
- Caters for over 65s with long term significant health conditions
- Units are self-contained with 24-hour, permanent operator access to all areas
- Units have kitchens however as residents age in place they will become entirely dependent on the communal catering facilities
- Support is available on-site 24 hours a day, 7 days a week
- Specialist care is provided to residents depending on their varying needs
- Communal facilities are available

- 3.3 The proposed specialist extra care facility will be set within a building of ground plus 3 to 5 storeys in height, whereby the upper levels are set back from the levels below. The ground floor comprises entirely care and communal facilities and circulation space, with the extra care units themselves located on floors 1 to 5. The proposed quantum of development is as follows:

Table 01 – Proposed Scheme Areas		
Proposed Use	GEA Area (sqm)	GIA Area (sqm)
Specialist Extra Care (C2 Use)	12,790	11,933

Table 02 – Total Units	
Unit Type	Total
1-bedroom	11
2-bedrooms	78
Total	89

- 3.4 To complement the holistic social and health care provided, as well as to foster links and opportunities with the local and wider community, the proposals also include a variety of uses accessible for the local community. An operational team of 80 full-time equivalent staff (which are required to cover up to 31 staff on site at any one time) comprised of 20 different staff types will be present on site 24 hours a day, 7 days a week to care for residents. Residents will benefit from engaging amenities and an active social environment. A key part of the Red and Yellow care model is to integrate with the local community for the benefit of the extra care residents to ward off loneliness. The integrated package includes the following communal facilities to give residents the quality of life that they need to live fully and age gracefully:

Care Facilities

- CQC registered Medical, nursing and care operations
- Medical Centre and Nurse Station
- Rehabilitation and Exercise Room
- Therapy and Treatment Rooms
- Hydro-Therapy and Exercise Pool
- Changing Facilities
- Mobility Scooter & Charge Store

Leisure / Amenity Facilities

- Cafe
- Restaurant / Bar
- Activity Room
- Lounge
- Library
- Hair Salon
- Play Area and open space

- 3.5 From the above it is clear that a significant quantum of communal facilities is proposed, indeed the entire ground floor is given over to communal facilities and back of house facilities. Requirements for plant space to service the specialist extra care facility are also substantial, and overall the proportion of gross internal area dedicated to operational, functional, plant and circulation space will amount to approximately 40% of the total GIA. The remaining 60% will accommodate all extra care units, from first floor and above. This figure is much greater than standard residential developments and as such the proposed development differentiates itself as a specialist extra care facility by providing care provision, leisure and communal facilities,

which in combination will enhance a resident's sense of community and aid treatment, rehabilitation and stimulation.

3.6 The accommodation has been designed to create a community feel within an existing urban environment which also seeks to enhance the Metropolitan Open Land and surrounding area. In design terms, the guiding principles that the architects, Marchese Partners, and the landscape architects, Wilder Associates, have identified and subsequently taken through the design development process are sought to:

- Preserve and enhance the Metropolitan Open Land as part of the character of the area
- Deliver a high-quality architecture and aesthetic which is anticipated to be a response to the adjacent plots, but also pay tribute to the historical character of Kew, drawing on high quality materials and achieving excellent design
- Consider bulk, massing, height and density in response to the established rhythm of the local area and minimise visual impact on properties of Melliss Avenue
- Consider views from buildings to the north and south
- Ensure open green areas are appropriately landscaped, respecting the Site's location
- Sensitively consider the view into the Site from the riverside path and from across the river
- Enhance the connectivity of the area, allowing permeability from the river and to adjoining areas
- Provide sufficient parking for residents, in line with policy, and minimise the use and visual impact of parking

3.7 Significant landscaping is proposed, which will dramatically improve the Site, the designated Metropolitan Open Land, and views from the surrounding area, while also providing a significant benefit to future residents. This includes completely opening up the landscaping for public access (where none is provided currently), the provision of a central hub courtyard space that acts as an extension to the MOL into the adjoining undesignated land, a formal public space and active street frontage to Melliss Avenue to signal the main entrance, as well as a play area located along the southern arm, connecting the central hub to the riverside walkway.

3.8 Primary access to the proposed specialist extra care facility is from Melliss Avenue, with a Porte Cochere located directly in front of the entrance to provide a covered area for disabled people to exit vehicles. Due also to the requirement to provide level access to the building and achieve Part M compliance, an access ramp is provided within the entrance courtyard, providing disabled access from the external pavement to the interior of the building, without the need for

assistance. Secondary access points to the building, each also with level access, are provided to the east and south.

- 3.9 A total of 27 car parking spaces are proposed, one of which will be a drop off/short term space, and 12 out of the 27 car parking spaces are proposed as blue badge disabled. With regard to cycle parking, 8 secure and sheltered long stay cycle parking spaces are located within the ground floor, along with 18 short stay cycle parking spaces situated outside the building.
- 3.10 Within Richmond, the Council's adult social care strategy Market Position Statement 2018–2019 sets out the current and potential future demand and supply for adult social care services and outlines the investment that the Council and its partners have made in local services, to inform evidence-based commissioning. Within this document it is stated that:
- *"28,900 people aged 65+ live in Richmond-upon-Thames (15% of total population)."*
 - *"This is predicted to increase by 55% to 46,800 people by 2035 (19% of total predicted population). This is the major area of demographic change."*
 - *"Richmond-upon-Thames has a high proportion of older people within its population (15% aged over 65), compared to London as a whole (12% aged over 65)".*
- 3.11 It also must be noted that the London Borough of Richmond upon Thames has the highest proportion of older people living alone in Greater London, with over 76 per cent owning their own homes.
- 3.12 Please refer to the planning statement and operator statement for further details of the care provision that will be available at the subject Site.
- 3.13 A full set of application drawings for the proposed scheme is included at **Appendix Two**. An accommodation schedule for the development is included at **Appendix Three**.

4 PLANNING POLICY AND APPROACH

- 4.1 The DP9 Planning Statement submitted as part of the Application provides an overall review of the planning policy context in relation to the Development.

Defining the Planning Use Class

- 4.2 The principal statutory reference point for any land use classification is the Town and Country Planning (Use Classes) Order 1987 (as amended) ('the Order'). The Order defines residential/sleeping accommodation type uses (Part C) as follows:
- C1 - Hotels and hostels "Use as a hotel, boarding or guest house or as a hostel where, in each case, no significant element of care is provided."
 - C2 – Residential Institution - "Use for the provision of residential accommodation and care to people in need of care (other than a use within class C3 (dwelling houses)), use as a hospital or nursing home or use as a residential school, college or training centre."
 - C3 – Dwelling Houses – "Use as a dwelling house (whether or not as a sole or main residence) (a) by a single person or by people living together as a family, or (b) by not more than 6 residents living together as a single household (including a household where care is provided for residents)."
- 4.3 A defining feature of the sub C classification is the provision of care, namely that the distinction between C2 use and others within the C classification is the provision of care to those in need of care. The other sub classes are correspondingly distinguished by the lack of care provision.
- 4.4 Care is defined in the Order as "personal care for people in need of such care by reason of old age, disablement, past or present dependence on alcohol or drugs, or past or present mental disorder and in Class 2 also includes the personal care of children and medical care and treatment". It follows that residential accommodation with care provision to people in need of care, particularly those with specialist long term conditions such as dementia, is C2 and not C1 or C3.
- 4.5 As the proposals include residential accommodation with specialist health and social care and extensive medical, therapy and wellbeing facilities provided, the Use Class of the proposed scheme is C2.

Differences of Approach

- 4.6 There is sector-wide debate about the position of market elderly care accommodation within the national conversation on housing delivery. This focuses principally on whether as a sector it is financially viable to deliver planning obligations in the same way as the C3 Use Class (residential accommodation) does. Secondly, if it is deemed financially viable, whether it is practically possible for elderly care schemes to contribute towards affordable housing following the C3 series of preferred delivery; being onsite delivery as the preference, then offsite delivery, and finally a sum in lieu of delivery.
- 4.7 As the debate on the position of the Use Class throughout the sector and therefore applicable policy is acknowledged, the following sections discuss the current and emerging policy environment for C3 planning applications, and those that seek to capture market extra care accommodation. The Operating Statement and Planning Statement provide full details of the care service to be provided at the proposed development.
- 4.8 For this planning application, the determination of the Use Class of the proposals is largely irrelevant to achieving the Council's stated affordable housing outcomes. Firstly, the viability position of the scheme must be assessed. Secondly the ability of the scheme to contribute towards affordable housing via the onsite/offsite/sum in lieu hierarchy must be assessed.
- 4.9 Notwithstanding the Use Class debate, the Applicant provides this viability assessment and an Affordable Housing Statement which sets out the affordable housing deliverability case. It is worth noting that if this was to be classed as Use Class C3, then a similar exercise would be undertaken with a similar output, however it would be liable for a circa £4m CIL payment.
- 4.10 The following section of this FVA therefore provides a summary review of the key national and local planning policy that guides the delivery of affordable housing and other planning obligations, with reference to the importance of considering financial viability and balancing the requirements of obtaining planning obligations with the risks of non-delivery.

National

National Planning Policy Framework

- 4.11 The NPPF was refreshed as of July 2018. The drive for sustainable development remains at its core. It advises that development proposals that accord with the development plan should be approved without delay, and where there are no relevant development plan policies permission should be granted unless adverse impacts of doing so would significantly and demonstrably outweigh the benefits of the development.
- 4.12 Councils are advised to consider the housing need of all user groups within their local area and plan accordingly for appropriate accommodation to be delivered. Where there is a need for affordable housing, plans should specify the types required, with the expectation that in normal circumstances these requirements are addressed through the provision of onsite affordable

housing, and where it can be robustly justified for contributions to be made via offsite delivery or a contribution in lieu.

- 4.13 If an applicant seeks permission for a development proposal that does not meet the local planning policy requirements on viability grounds, it is the Applicant's responsibility to demonstrate this at the application stage.

National Planning Practice Guidance

- 4.14 The National Planning Practice Guidance (NPPG) was finalised in March 2014 and subsequently updated in line with the New NPPF published July 2018. The NPPG, in alignment with the NPPF, contains important guidance on development viability. It provides a more detailed assessment of acceptable practices for the submission of a site-specific viability assessment covering transparency, the standardisation of inputs, and the approach to consideration of the Benchmark Land Value.

- 4.15 At paragraph 013 the NPPG defines land value for the purposes of a viability assessment:

"To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+)."

- 4.16 Paragraph 14 of the NPPG sets out that the factors that should be considered to reach a Benchmark Land Value; this is further discussed in Section 9 of this report.

Regional Policy

- 4.17 The Draft New London Plan that incorporates minor changes to the December 2017 version was published in August 2018, ahead of the Examination in Public. This is after the proposed scheme herein has been developed and finessed for submission to the Council. As this Draft Plan has not been tested by an Inspector at Examination in Public, the weight that should be attributed to it at this stage is minimal.
- 4.18 Policy H5 details the strategic targets for affordable housing delivery across London, setting a target of 50% of all new homes to be affordable. It explains the sequential approach to affordable housing delivery with a preference for onsite delivery, an acknowledgement that offsite delivery can be appropriate when onsite delivery is not achievable or would deliver better outcomes, or cash in lieu being appropriate in exceptional circumstances. In discussions with LBRuT it has been noted that an off-site payment would be accepted here.

- 4.19 The 'Threshold Approach' to assessing development schemes is detailed under Policy H6. This explains that schemes that deliver a minimum of 35% affordable housing and meet other relevant policy requirements can follow the Fast Track Route without submitting viability evidence, and schemes that do not will follow the Viability Tested Route.
- 4.20 The Mayor's emerging approach to market older persons' housing is explained in Policy H15. It explains that the accommodation type is "generally" considered as being Use Class C3.
- 4.21 This is somewhat contrary to the position outlined in the adopted Affordable Housing and Viability Supplementary Planning Guidance, which recognises at paragraph 3.7.18 that even if units within a building have their own front door this does not mean that the use falls outside of Class C2.

"Consultants suggest that the most robust way of distinguishing between the two is the 'front door' test – if the unit of accommodation has its own front door then it is usually C3, if not it is C2. However, development management experience suggests in many cases this may require some refinement to take appropriate account of the components of care and support and level of communal facilities such as those associated with some Extra Care schemes where units may have their own front door, but functionally are effectively C2. Providing the proposal is justified by identified need and addresses wider policy considerations, the planning system should not be used to restrict development of either – this is an evolving market and provision should not be constrained by what, in need terms, might appear to be an arbitrary and perhaps dated planning distinction".

- 4.22 Draft policy H15 and the SPG rely heavily on the 'front door test' and, generally, assess self-contained accommodation as C3, but without reference to the provision of care as set out and defined by the Order. Notwithstanding that presumption, neither is prescriptive (ref use of the term 'generally') and the SPG recognises the need to consider all matters where an operation is functionally C2, but with its own front doors.
- 4.23 The GLA interpretation of the policy and proposals included in this planning application gives rise to the application of the affordable housing policies set out in the Draft London Plan. In principle they are that the scheme should contribute towards affordable housing delivery and if it is not able to meet the conditions for the Fast Track Route, the Viability Tested Route should be followed.
- 4.24 Notwithstanding the Applicant's disagreement with the principle of the application of the affordable housing policies set out in the Draft London Plan, this FVA explains the viability position of the application scheme.

The Mayor's Affordable Housing and Viability SPG (August 2017)

- 4.25 The Mayor's guidance is a material consideration in the determination of planning applications. However, it is also clear that it does not, and cannot, introduce new policy.

4.26 The SPG represents the Mayoral administration's policy objectives in relation to the delivery of new homes, including affordable housing. The overarching objectives of the SPG are clear in seeking to enhance housing and economic opportunities for all persons across the capital. The SPG proposes the following guidance:

- The Mayor will treat information submitted as part of, and in support of, a viability assessment transparently. In very exceptional circumstances, there may be legitimate reasons for keeping elements of viability information confidential.
- The Mayor considers that the Existing Use Value (plus a premium) approach is usually the most appropriate approach to benchmark land value for planning purposes. Alternative approaches will only be considered in exceptional circumstances.
- The SPG provides further guidance on the practical application, methodologies, and approach to site value, amongst others, for viability assessments.

4.27 The Mayor's Housing SPG (March 2016) sets out the following non-statutory guidance (para 3.7.4):

- **Sheltered accommodation** (also called retirement housing) (use class C3); self-contained residential accommodation specifically designed and managed for older people (minimum age 55) in need of no or a low level of support. Each household has self-contained accommodation and the schemes normally include additional communal facilities such as a residents' lounge. A warden, scheme manager, community alarm/telecare or house manager interacts with residents on a regular basis and is the first point of contact in an emergency.
- **Extra care accommodation** (also called close care, assisted living, very sheltered or continuing care housing) (use class generally C3 – see use class section below); Self-contained residential accommodation and associated facilities designed and managed to meet the needs and aspirations of people who by reason of age or vulnerability have an existing or foreseeable physical, sensory or mental health impairment. Each household has self-contained accommodation and 24-hour access to emergency support. In addition, extra care accommodation includes a range of other facilities such as a resident's lounge, a guest room, laundry room, day centre activities, a restaurant or some kind of meal provision, fitness facilities and classes and a base for health care workers. The exact mix of facilities will vary on a site by site basis. Some domiciliary care is provided as part of the accommodation package, according to the level of need of each resident. Extra care housing aims to create a balanced community, bringing together a balanced proportion of people with different levels of care needs.
- **Use class C2 - Residential Institutions**; Residential/nursing care (including end of life/hospice care and dementia care): Nursing or residential care home providing non-self-contained residential accommodation for people who by reason of age or illness have physical, sensory or mental impairment, including high levels of dementia. Accommodation is not self-contained; meals and personal services are routinely provided to all residents. Communal facilities are likely to include a dining room and residents lounge. There will be

a scheme manager and in-house care team who provide a consistent presence. Personal or nursing care is a critical part of the accommodation package. Nursing homes include 24-hour medical care from a qualified nurse.”

- 4.28 In the context of considering viability, the Housing SPG at para. 3.7.20 recognises that because of the ancillary services and layout required for new specialist older people’s housing, development costs are usually significantly higher than for general needs housing, even when associated direct or indirect revenue streams are netted off.
- 4.29 The Housing SPG goes on to recognise that it is therefore important that viability assessments carried out to identify developer contributions are sufficiently sensitive to take these additional net costs into account. Paragraph 3.7.23 of the Mayor’s Housing SPG goes on to state that “with requirements to take account of the circumstances of individual sites, as well as viability and the need to encourage rather than restrain development, this approach addresses developer concerns that such obligations may limit [new specialist older people’s housing] development” and that “In reality, this approach should help make acceptable, development which might otherwise not be so in planning terms, supporting the thrust of Policy 3.8 to increase provision in light of need [of older Londoners]”.
- 4.30 Paragraph 3.1.70 has also identified that an independent review of the way in which the planning system can help meet the housing needs of older people highlights the need for many boroughs to take a pro-active approach to increase provision of C3 ‘sheltered’ and ‘extra care’ accommodation, especially in the private sector. The Housing SPG highlights that the consultants found that, “...at present, across London as a whole, most specialist housing for older Londoners is in the social rented sector”, but “...given that more than 60% of older people in London are home owners, LPAs should seek to encourage provision of a range of housing options which reflects the diversity of tenure amongst older households.”

Local

- 4.31 The local statutory Development Plan for the application site is the newly adopted London Borough of Richmond Upon Thames’ Local Plan (July 2018). It notes that the borough’s recent housing delivery policy target has been an average of 315 homes per year, and that this will be reviewed, following the adoption of the emerging London Plan. The current Draft London Plan aims to increase this to 811 homes per year for 2019/20 to 2028/2029. The affordable housing specific policies are supported by guidance included in the Affordable Housing Supplementary Planning Document (2014).
- 4.32 Local Plan Policy LP 36 outlines the borough’s approach to affordable housing delivery. It specifies a target of 50% of all new housing to be delivered as affordable housing, in a tenure split of 80% for rent and 20% for intermediate housing. When considering planning applications on a case by case basis, the Council will have regard to economic viability, individual site costs, the availability of public subsidy and the overall mix of uses and other planning benefits brought forward by the proposed scheme.

- 4.33 If an Applicant is unable to meet the policy target for affordable housing delivery, it is necessary to submit viability evidence to demonstrate that the scheme is maximising its contribution towards affordable housing delivery. The Council's primary (but not exclusive) approach to assessing benchmark land value is to consider the Existing Use Value plus a premium approach, in most circumstances.
- 4.34 The Council's Retirement Housing Review recognises the need for the viable delivery of c. 145 new retirement homes by 2020, with specific delivery gaps in Kew, Whitton and Heathfield. It does not provide guidance that market tenure extra care accommodation should be classified as Use Class C3 on a de facto basis. Each site-specific planning application should be decided on its own merits.
- 4.35 Carterwood is experienced in providing advice on the care sector and currently advise 70% of the top 20 operators across the elderly care sector. Carterwood has prepared a need assessment for the subject site, based on the market catchment area and the London Borough of Richmond Upon Thames Council Boundary.
- 4.36 Carterwood's analysis assuming all planned units have been developed and are operational, indicates an exceptional unmet need of 1,210 private extra care units in the market catchment and 322 in the local authority catchment. Further to this the shortage is predicted to rise substantially over the next six years to 2025. Accordingly, this shortfall could more than accommodate the 89 proposed extra care units.
- 4.37 It is therefore considered that there is a critical undersupply of extra care accommodation for private leasehold sale within the Borough of Richmond, and this is likely to continue given the lead in time for extra care schemes to be developed.

Summary

- 4.38 The proposed redevelopment delivers a specialist extra care facility for the elderly with existing health conditions. It comprises 89 units and extensive private and communal healthcare, therapy, leisure and social facilities.
- 4.39 The proposed redevelopment is submitted as a C2 Use Class, however, it is acknowledged that the Council has not yet determined whether the particular delivery model of this application, if consented, would result in a C2 or C3 Use Class permission.
- 4.40 Notwithstanding the discussion regarding the appropriate Use Class of the proposals, the Applicant has sought to address in this application concerns raised by the Council in pre-application discussions over the viability and deliverability of affordable housing for the proposed scheme.
- 4.41 In summary, national, regional and local affordable housing policy support the delivery of the maximum reasonable contribution towards affordable housing that can be viably delivered, alongside other forms of planning gain and local CIL. The policy intent however also seeks to

encourage rather than restrict delivery, so development proposals must remain commercially viable.

5 VIABILITY METHODOLOGY

Methodology

- 5.1 The methodology adopted in producing this FVA has been framed by national, regional and local adopted planning policy as well as non-adopted best practice guidance.
- 5.2 The most common method for valuing development land is the Residual Valuation Method, set out in the RICS's 'Valuation Information Paper 12' (VIP12), and the RICS 'Financial Viability in Planning' (FVIP) Guidance Note (94/2012).
- 5.3 The methodology underpinning a residual valuation is a relatively simple concept. In short, the gross value of the completed development is assessed, including, amongst other things, the aggregated value of any residential properties, commercial income, car parking income and ground rents. Secondly, the cost of building the development is deducted along with professional fees, finance costs and developer's profit. This is illustrated below:

Table 03: Residual Analysis Methodology	
Gross Development Value	
Residential sales income	
Commercial sales income	
Any additional income (ground rents)	
Less	
Costs	
Build costs	
Exceptional development costs (e.g. listed building works)	
Professional fees	
Planning obligations (e.g. CIL, site specific s.106 obligations)	
Marketing costs and disposal fees	
Finance costs	
Less	
Developer's Profit	
Equals	
Residual Land Value	

- 5.4 The output is the 'Residual' Land Value (RLV). Simply, if the RLV produced by a scheme is lower than an appropriate benchmark value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and /or planning obligations can be reduced. If the RLV is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and /or other planning obligations.
- 5.5 Alternatively, the benchmark value can be inserted into the appraisal as a fixed cost and the level of profit generated by the scheme becomes the benchmark by which viability is measured. If a sufficient level of developer's profit is generated the scheme is deemed to be viable.



RICS

Regulated by the RICS

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A list of members' names is open to inspection at our registered office, 100 Pall Mall, London SW1Y 5NQ.

6 DEVELOPMENT TIMINGS

- 6.1 The following section sets out the adopted pre-construction, construction and sale timings applied within the ARGUS appraisal of the Development.

Pre-construction

- 6.2 A 6-month pre-construction period has been adopted within the proposed programme. This includes demolition, which in isolation is estimated to take five months. Also included in the pre-construction period are allowances for the following:

- Signing the Section 106 legal agreement;
- GLA Stage 2 sign off
- Discharging of pre-commencement conditions;
- Detailed/ technical design stage;
- Tender period for build contract package(s); and
- Site mobilisation.

Construction

- 6.3 Taking into account the nature and scale of the development, a 24-month construction period has been adopted. This is in line with DS2's experience of similar sized developments and has been advised by Blue Sky Building. A copy of the construction programme is attached at **Appendix Four**.

Residential sales timings

- 6.4 It is generally noted that the retirement product is slower to sell than non-age restricted accommodation due to the nature of the buyer profile and the fact that the buyer is not only buying the real estate but also the lifestyle concept and the care packages associated with the scheme.
- 6.5 The residential sales programme assumes that a marketing campaign is conducted in advance of practical completion and will result in some limited pre-sales of the residential units. A total level of off-plan sales of 35% has been adopted. This is lower than a non-age restricted product as typically the buyer would like to see the product before they buy. The pre and post sales amount is based off Caterwoods experience in the extra care market to date.
- 6.6 It is assumed that the remaining un-sold units would be purchased following practical completion, at a rate of 3 units per month.

7 DEVELOPMENT VALUE

Residential Value

- 7.1 The residential market in London is currently under significant pressure. Whilst there are positive long-term prospects due to the fundamental supply vs demand imbalance, the combination of Brexit uncertainty, rising interest rates, only moderate wage growth and SDLT increases on buy to let and overseas investors have resulted in dampened house price growth. According to Nationwide data, average prices in London have fallen for the first time in eight years, in stark contrast to the rest of the country, as illustrated in the table below. The Nationwide House Price Index report (September 2018), indicates that the annual house price growth has remained subdued in September 2018, with London indicating a decline, with average house prices down -0.7% compared with the same period a year ago.

Chart 01: UK Regions over the last 12 months (Source: Nationwide)

Region	Average Price (Q3 2018)	Annual % change this quarter	Annual % change last quarter
Yorks & H'side	£160,263	5.8%	2.1%
East Midlands	£186,414	4.8%	4.4%
N Ireland	£139,374	4.3%	2.1%
West Midlands	£190,607	4.1%	4.3%
North West	£162,596	4.1%	3.0%
Wales	£154,881	3.3%	4.0%
East Anglia	£228,690	3.0%	2.5%
Scotland	£149,161	2.1%	3.1%
South West	£245,434	1.9%	2.4%
Outer SE	£279,858	0.8%	2.5%
Outer Met	£364,309	-0.3%	0.9%
London	£468,544	-0.7%	-1.9%
North	£125,085	-1.7%	1.6%
UK	£216,103	2.1%	2.2%

- 7.2 The RICS October 2018 Residential Market Survey reports similar findings, with London and the south east returning reduced achieved prices, sales volumes and price expectations.

Comparable Evidence

- 7.3 In preparing the indicative valuation we have adopted the comparable method of valuation, utilising public databases, local sales offices and had regard to recent transactions.
- 7.4 This research considers non-age restricted residential asking and achieved prices to establish the “tone” for the locality, alongside the local retirement market to reach a conclusion on value.

7.5 The following primary C3 evidence has been considered:

- Kew Bridge, Provenance House
- Chiswick Gate
- Fitzroy Gate
- Kew Bridge West
- Brewery Wharf
- Star and Garter, Richmond
- Kew Riverside, Melliss Avenue
- Emerald Gardens, Kew
- Boat Race House

7.6 Each of the developments is described in detail at **Appendix Five**.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Other Uses

7.9 To complement the holistic social and health care provided, as well as to foster links and opportunities with the local and wider community, the proposals also include a variety of uses accessible for the local community.

7.10 [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

8 DEVELOPMENT COSTS

8.1 This section provides a summary of the development costs on a present-day basis. The overall costs comprise:

- Build costs as advised by the Applicant's cost consultants, Quantem;
- Additional development costs;
- Professional fees;
- Planning obligations including CIL;
- Sales, letting, disposal and marketing costs;
- Financing costs.

8.2

Professional Fees

8.4 Professional fees have been included at 12% of the headline construction costs, in line with current industry practice for schemes of this scale and nature.

Sales, disposal and marketing costs

8.5 The following fees have been adopted in line with industry norms for a development of this type;

- Marketing – 1.5% (of residential GDV)
- Sales agent fee – 1.25% (of residential GDV)
- Sales legal fee – 0.25% (of residential GDV)

Planning Obligations

8.6 The Applicant has been advised by DP9 in respect of the planning obligations. The following indicative figures have been included within the Argus appraisal of the Development.

- London Borough of Richmond CIL - £0 The site is located in the 'higher band' zone, for which a C2 use does not attract any CIL charge.

- Mayoral CIL - £596,560 (£50 per sqm x 11,933 sqm GIA)
- S106 - £500,000

8.7 These figures have not been formally discussed with RBRuT and should the level of contribution change, DS2 reserve the right to amend this FVA.

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Finance

- 8.9 We have assumed a 7.0% finance rate in our appraisal. This is an 'all in' rate, which includes the basic margin (4.5-5%), commitment fees, arrangement fees (2-3%) and exit fees (0.5%-1%), as well as bank management/monitoring cost.
- 8.10 In assessing a reasonable rate of funding costs for this project DS2 is mindful of the nature and location of the development Site and the type of developer who would bring this forward.
- 8.11 Although the model assumes that the development is 100% debt financed, the reality of the current lending environment is that many more traditional lenders are generally only lending senior debt at a maximum of 60% loan to cost ratio. Developers therefore have to revert to equity or mezzanine finance to secure the remainder of their development funding, both of which are considerably more expensive than senior debt, typically at 10-20%. Alternatively, developers can source debt from niche operators, who are by their nature, more expensive than traditional lenders.
- 8.12 On balance, it is considered that a blended rate of 7%, which takes into account both senior debt and equity/mezzanine finance falls short of the actual funding cost of the project. We recognise the non-developer specific approach to assessing viability and for the meantime have therefore adopted a sector-proxy finance rate of 7%. However, there is a greater risk element associated with Extra Care, as it is a less well known development concept, operational risks are greater and there are fewer funding sources readily available.

Profit Expectation

- 8.13 The key criterion to consider in arriving at an appropriate figure for the developer's profit is risk. Such influencing factors include, amongst other things, location, property use type, the scale of the development, real levels of debt and the economic context. Perhaps more importantly banks and other funding institutions will have minimum expectations in terms of financial returns that are aligned with risk profile. In the case of the subject development a key risk area, and one that would be considered by funding institutions, is the nature of the C2 product and location in MOL.
- 8.14 In recent months, there have been clear signs expressed by the RICS and a range of agents that there are short to medium term concerns for the central London residential market. This increased risk is finding its way to the margins that lenders are requiring to issue loan facilities and also profit expectations for speculative residential and commercial development.
- 8.15 At this stage, whilst there is currently a lack of hard evidence to demonstrate an explicit reduction in sales values, the level of uncertainty created by Brexit - how hard or fast any withdrawal from the European Union is and the cost of doing this, has significantly increased. Ultimately uncertainty can be directly linked to risk, or the possibility of risk, and it is the perception of the level of uncertainty that has spread to the wider economy and the property

markets. For example, the uncertainty around the labour movement is affecting the cost of construction, in addition to a weak pound and the cost of raw building materials that are typically purchased in euros or dollars.

- 8.16 Taking all of the above into account it is considered that an appropriate profit level of the proposed development is 20% of Gross Development Value.

9 SITE VALUE

9.1 To arrive at an appropriate Site Value, or Benchmark Land Value, due regard should be given to the NPPF, NPPG, local planning policy and the RICS Guidance Note for undertaking FVAs.

9.2 The RICS Guidance Note on Financial Viability in Planning states that:

“For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for a land owner and a market risk adjusted return to the developer in delivering. This return to the landowners will be in the form of a land value in excess of the current use value...”

9.3 To encourage land owners to bring sites forward for development, it is necessary to consider an appropriate Site Value that allows for a return to the site owner. The NPPG is clear that an appropriate Benchmark Land Value (BLV) must provide a return to a willing landowner, to ensure that there is an incentive for a site to be released for development.

9.4 At paragraph 013 the NPPG defines land value for the purposes of a viability assessment:

“To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called ‘existing use value plus’ (EUV+).”

9.5 Paragraph 14 expands on this, setting out that the following factors should be considered to reach a Benchmark Land Value:

- be based upon existing use value
- allow for a premium to landowners (including equity resulting from those building their own homes)
- reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and
- be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments

to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

- 9.6 With regard to the Current Use Value (CUV), which is also referred to as the Existing Use Value (EUV), the RICS Guidance Note on Financial Viability in Planning notes the following definition. The EUV is;

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause market value to differ from that needed to replace the remaining service potential at least cost.”

Current Use Value

- 9.7 To arrive at a Benchmark Land Value, the value of the Site has been assessed by Gerald Eve; a copy of their report is attached at **Appendix Seven**.
- 9.8 The Site is comprised of a redundant biothane treatment plant which had been dedicated to the treatment of liquid waste effluent from the Stag Brewery in Mortlake. The brewery ceased operations in December 2015 and subsequently the processing plant is no longer in operation and is surplus to Thames Water’s requirements.
- 9.9 Gerald Eve has carried out the valuation on the presumption of Market Value under the Special Assumption of a continuation of its existing planning use (industrial).

Valuation Methodology

- 9.10 The valuation reflects the current planning use (Use Class B8) utilised in an alternative built configuration within the B8 Use Class. The existing tanks and infrastructure on site have become surplus to requirements for Thames Water. It is therefore assumed that the scheme is demolished to slab level and new storage or distribution accommodation will be provided.

Valuation Considerations

- 9.11 In considering the Site’s Benchmark Land Value for the existing use, Gerald Eve undertook a development appraisal for the redevelopment of the site in continued B8 use.
- 9.12 It is noted that in the consideration of comparable evidence provided for sales of industrial land in the greater London area, that it is anticipated that the majority are sold with an element of ‘hope value’. This is particularly when following sale, planning applications are lodged for

schemes in different planning uses. Because of this, the residual approach to valuation is considered more appropriate for this Site, as it removes the element of hope from the land valuation. Assuming a planning permission is in place for an alternative built form of development that has less impact than the proposed scheme and is within the Site's current permitted planning use, makes this a low risk approach. It sits on the spectrum of Site Value as a significantly lower risk option than the proposed development.

9.13 Gerald Eve has adopted a net site area of 1.43 acres which reflects the extent of the site which is currently surfaced. Gerald Eve have assumed a site cover of approximately 50% to give a total area of the units of 31,000 sqft across fourteen units.

9.14 A summary of their specific assumptions for an Industrial Use is set out below:

Table 04: Summary of Gerald Eve Residual Appraisal	
Input	Value/Cost
Rental value	£20.00/Sqft - GIA Floor Area
Investment Yield	4.25%
Construction Cost	£90.00 sqft
Gross/Net Ratio	5.00%
Profit on Cost	15.00%
Contingency	5% on total construction cost
Enabling Works	Provided by Quantem Consulting LLP at £1,107,000
Finance Rate	6.50%
Professional Fees	12% on total construction
Letting - agent Fee	10.00%
Letting -legal fee	5.00%
Sales – agent fee	1.00%
Sales – legal fee	0.50%
Assumed lease term	5 years
Rent Free Period	6 months' rent-free incentive
Letting period	Staggered letting period
Mayoral CIL	£50 per sqm
Borough CIL	N/A
S106 budget	£100,000
Site Specific Infrastructure Costs	£50,000
Environmental Considerations	£80,000