



Our Ref: CF01/02B825164  
Your Ref: Manor Road

24 June 2019

Avanton Richmond Developments Ltd  
56 Queen Anne Street  
London  
W1G 8LA

For the attention of Omer Weinberger Esq.

Dear Sirs

**Manor Road, Richmond – Viability Response**

We have reviewed the latest viability response prepared by Turley's in relation to the above.

Turley's have reported a revised benchmark land value for the proposed scheme of £26.6 million compared to our position of £31.75 million.

The difference in value alongside their continued removal of the developer's contingency has resulted in a reported affordable housing position of 41% affordable housing split 36:64 between LAR and SO tenure. We maintain that it is not viable for the scheme to support this level of affordable housing.

We have reviewed Turley's rationale and whilst we take on board some of the commentary in relation to existing rental value, we do not agree with the commentary regarding the trading positions on this site, the valuation approach or the eventual benchmark land value position.

Given the current climate for retail rents, for the purpose of advancing discussions in the short timescales available, as we have been asked to respond today, we are willing to adopt the rent put forward by Turley's at £25 per sq ft. However, we do not accept the comments regarding the trading conditions of this store. It is a well performing store and the tenant would not be vacating were it not for the redevelopment plans. You have advised that the tenant wishes to retain this site.

Furthermore, we do not however accept that applying an arbitrary 20% uplift premium as the appropriate method to assess any plus. Planning policy requires that this must have regard to other evidence in the market and be arrived at through 'an iterative process informed by professional judgment and must be based upon the best available evidence informed by cross sector collaboration.' (Viability PPG).

The subject property is well located within the London Borough of Richmond, it is recognised as a site with significant development potential and therefore it is clear that the site would not be released without a

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considerable premium. Turley have referenced a number of transactions of similar sites and the values have been well in excess of the value we have assessed. Our assessment has taken an iterative approach recognising the need to adjust transactional evidence to ensure that affordable housing is not priced out, but also acknowledging that sites will not come forward for development at artificially constrained land values. The GLA SPG recognises that the premium above existing use may range between 10% and 30%, but this is only a guide and can be more or less. Given the prime location of this site in an accessible location within the affluent Borough of Richmond, it is to be expected that a premium towards to upper end of this range or potentially over it, would be justified and we have sought to demonstrate this with regard to market evidence. We consider the sale of the Homebase to Barratt's in our initial report as the main comparable in this respect. The yield adopted in this case was 3% and the scheme was policy compliant with regard to GLA requirements. Therefore we consider that our adjusted yield of 3.75% reflects an extremely reasonable approach and arguably this could be lower.

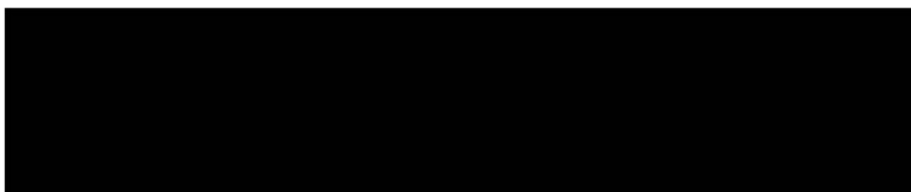
Taking £25 per sq ft rent and maintaining a yield of 3.75% results in a benchmark land value of £28 million, which we are willing to adopt on a without prejudice basis to progress discussions. Had we adopted 3% based on the policy compliant comparable, the benchmark would be £35 million. Overall a position of between £28 million and £31.75 million seems reasonable.

With regard to the Developer's Contingency, the approach here seems contradictory. The comment is made that Developer's Contingency is 'whittled away' over the course of the development. This is not disputed, however, the viability assessment has to be undertaken reflecting the position today and at this stage in scheme development there are risks and unknown costs that mean a developer's contingency is an essential requirement. This would be a requirement for any bank lending and is set out in RICS Guidance as an allowance both developers and contractors would require. Indeed both contingencies are entirely separate sums for different purposes – one as a contingency for a contractor, the other for a developer. This is fully explained in the RICS guidance attached.

We note that an allowance for additional contingency for ground works has been made but this is only one area of potential risk. It is necessary to make further allowance and of course if this is not required this would be picked up in any late stage review.

Adopting a revised BLV of circa £29 million, towards the lower end of the reasonable position, results in an outturn affordable position which, given the time available to consider the latest letter from Turley's, continues to support our current affordable housing offer of 35% affordable housing. We are aware that this would be subject to an early and late stage review and final assessment prior to implementation to confirm the grant position at that time, which we would be happy to discuss with you at an appropriate stage.

Yours faithfully



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## 2.15 Measurement rules for risk

- 2.15.1** All building projects involve risks; some obvious, some less so. The proper management of risk saves time and money. Risks can occur at any point in a building project and it is essential that they are identified, assessed, monitored and controlled.
- 2.15.2** Risk exposure (i.e. the potential effect of risk) changes as the building project progresses; continually managing the risks is therefore essential. As the design evolves, more of the project requirements are defined, and a risk response can be decided. For example:
- (a) **Risk avoidance:** where risks have such serious consequences on the project outcome that they are totally unacceptable. Risk avoidance measures might include a review of the employer's brief and a reappraisal of the project, perhaps leading to an alternative development mix, alternative design solution or its cancellation.
  - (b) **Risk reduction:** where the level of risk is unacceptable. Typical action to reduce risk can take the form of:
    - (i) Redesign: combined with improved value engineering.
    - (ii) More detailed design or further site investigation: to improve the information on which cost estimates and programmes are based.
    - (iii) Different materials or engineering services: to avoid new technology or unproven systems or long delivery items.
    - (iv) Different methods of construction: to avoid inherently risky construction techniques.
    - (v) Changing the project execution plan: to package the work content differently, or to carry out enabling works.
    - (vi) Changing the contract strategy: to allocate risk between the project participants in a different way.
  - (c) **Risk transfer:** where accepting the risk would not give the employer best value for money. The object of transferring risk is to pass the responsibility to another party able to better control the risk. Whenever risk is transferred there is usually a premium to be paid (i.e. the receiving party's valuation of the cost of the risk). To be worthwhile, risk transfer should give better overall value for money to the employer (the total cost of the risk to the employer is reduced by more than the cost of the risk premium). Risk transfer measures include taking out insurance cover where appropriate.
  - (d) **Risk sharing:** occurs when risk is not entirely transferred and the employer retains some element of risk.
  - (e) **Risk retention:** risks retained by the employer that are not necessarily controllable. This remaining risk is called the residual risk exposure.
- 2.15.3** Considering the limited information about the building project and site conditions, the risk allowance at the RIBA Preparation Work Stage (i.e. A: Appraisal and B: Design Brief) and the OGC Business Justification and Delivery Strategy Gateways can be a significant percentage of the total estimated cost; whereas, after completion (when all accounts are settled) the requirement for a risk allowance will be zero. Proper risk identification, assessment, monitoring and control are therefore a prerequisite of realistic cost estimates and of minimising the consequential costs arising from the employer's residual risk exposure.
- 2.15.4** It is recommended that risk allowances are not a standard percentage, but a properly considered assessment of the risk, taking into account the completeness of the design and other uncertainties such as the amount of site investigation done.
- 2.15.5** It is recommended that separate allowances be made for each of the following:
- (a) **Design development risks** – an allowance for use during the design process to provide for the risks associated with design development, changes in estimating data, third party risks (e.g. planning requirements, legal agreements, covenants, environmental issues and pressure groups), statutory requirements, procurement methodology and delays in tendering.

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- (b) **Construction risks** – an allowance for use during the construction process to provide for the risks associated with site conditions (e.g. access restrictions/limitations, existing buildings, boundaries, and existing occupants and users), ground conditions, existing services and delays by statutory undertakers.
- (c) **Employer change risks** – an allowance for use during both the design process and the construction process to provide for the risks of employer driven changes (e.g. changes in scope of works or brief, changes in quality and changes in time).
- (d) **Employer other risks** – an allowance for other employer risks (e.g. early handover, postponement, acceleration, availability of funds, liquidated damages or premiums on other contracts due to late provision of accommodation, unconventional tender action and special contract arrangements).

**2.15.6** Lists of typical risks for each category of risk are at Part 4: Tabulated rules of measurement for elemental cost planning (group element 13: Risks). These lists are not meant to be definitive or exhaustive, but are simply a guide.

**2.15.7** Risk allowances are to be included in the order of cost estimates. Even at the RIBA Preparation Work Stage and the OGC Business Justification and Delivery Strategy Gateways, it is recommended that the size of the initial risk allowance is based on the results of a formal risk analysis. If the risk characteristics are not acceptable to the employer, it is advisable that the risk allowance is not determined until management action has been taken to review the employer's risk exposure and to identify suitable risk responses that will reduce this exposure to an acceptable level. It is recommended that a revised risk analysis is undertaken to determine the most likely out-turn cost and the risk allowance.

**2.15.8** Throughout the RIBA Preparation Work Stage and the OGC Business Justification and Delivery Strategy Gateways of a building project, it is advisable that effort is concentrated upon the main sources of risk. It may be beneficial, even at this stage of the project, to prepare a project specific risk register incorporating the major risks identified and a risk management strategy. It is recommended that risks are not excluded without due consideration. Take care not to allow the natural optimism which surrounds the early stages of a building project to influence the realism of judgments which are to be made.

**2.15.9** The risks, which can influence the cost of a project, change as the building project progresses through the subsequent RIBA Work Stages. It is recommended that risk registers and risk estimates are reassessed at regular intervals throughout the various formal stages of cost planning which follow once the cost limit has been authorised by the employer.

**2.15.10** For the purpose of order of cost estimates, risk allowances for design development risks, construction risks and employer's risks based on the application of percentage additions are to be calculated by multiplying the base cost estimate by the selected percentage additions. The equation for calculating the risk allowances for design development risk, construction risk and employer's risk are therefore:

for design development risks:  $R1 = a \times p1$

for construction risks:  $R2 = a \times p2$

for employer change risks:  $R3 = a \times p3$

for employer other risks:  $R4 = a \times p4$

where:

a = base cost estimate

p1 = percentage risk allowance for design development risks

p2 = percentage risk allowance for construction risks

p3 = percentage risk allowance for employer change risks

p4 = percentage risk allowance for employer other risks

# Group element 13: Risks

Group element 13 comprises the following elements:

13.1 Design development risks

13.2 Construction risks

13.3 Employer change risks

13.4 Employer other risks

**Note:** Typical causes of risks that should be considered under these elements are listed in the tables below. The risks that might arise from these causes can then be identified and the cost implications to the project should any of the risks materialise be estimated (i.e. the risk allowance required to manage and resolve the each risk should it materialise). The lists are not meant to be definitive or exhaustive, but are merely a guide. The lists can be used to prompt the employer and other project team members.

### Element 13.1: Design development risks

- 1 Inadequate or unclear project brief.
- 2 Unclear design team responsibilities.
- 3 Unrealistic design programme.
- 4 Ineffective quality control procedures.
- 5 Inadequate site investigation.
- 6 Planning constraints/requirements.
- 7 Soundness of design data.
- 8 Appropriateness of design (constructionability).
- 9 Degree of novelty (i.e. design novelty).
- 10 Ineffective design co-ordination.
- 11 Reliability of area schedules.
- 12 Reliability of estimating data:
  - changes in labour, materials, equipment and plant costs; and
  - inflation (i.e. differential inflation due to market factors and/or timing).
- 13 Use of provisional sums (i.e. do not give price certainty).

### Element 13.2: Construction risks

- 1 Inadequate site investigation.
- 2 Archaeological remains.
- 3 Underground obstructions.
- 4 Contaminated ground.
- 5 Adjacent structures (i.e. requiring special precautions).
- 6 Geotechnical problems (e.g. mining and subsidence).
- 7 Ground water.
- 8 Asbestos and other hazardous materials.
- 9 Invasive plant growth.
- 10 Tree preservation orders.
- 11 Ecological issues (e.g. presence of endangered species).
- 12 Environmental impact.
- 13 Physical access to site (i.e. restrictions and limitations).
- 14 Existing occupancies/users.
- 15 Restricted working hours/routines.



- 16 Maintaining access.
- 17 Maintaining existing services.
- 18 Additional infrastructure.
- 19 Existing services (i.e. availability, capacity, condition and location).
- 20 Location of existing services.
- 21 Relocation of existing services.
- 22 Statutory undertakers (i.e. performance).
- 23 Uncertainty over the source and availability of materials.
- 24 Appropriateness of specifications.
- 25 Incomplete design.
- 26 Weather and seasonal implications.
- 27 Industrial relations.
- 28 Remote site.
- 29 Competence of contractor and subcontractors.
- 30 Health and safety.
- 31 Ineffective quality management procedures.
- 32 Phasing requirements (e.g. occupation and decanting).
- 33 Ineffective handover procedures.
- 34 Disputes and claims.
- 35 Effect of changes/variations on construction programme.
- 36 Cumulative effect of numerous changes/variations on construction programme.
- 37 Defects.
- 38 Accidents/injury.

### Element 13.3: Employer change risks

- 1 Specific changes in requirements (i.e. in scope of works or project brief during design, pre-construction and construction stages).
- 2 Changes in quality (i.e. specification of materials and workmanship).
- 3 Changes in time.
- 4 employer driven changes/variations introduced during the construction stage.
- 5 Effect on construction duration (i.e. impact on date for completion).
- 6 Cumulative effect of numerous changes.

## Element 13.4: Employer other risks

<p><b>1 Project brief:</b></p> <ul style="list-style-type: none"> <li>– End user requirements.</li> <li>– Inadequate or unclear project brief.</li> <li>– Employer's specific requirements (e.g. functional standards, site or establishment rules and regulations, and standing orders).</li> </ul> <p><b>2 Timescales:</b></p> <ul style="list-style-type: none"> <li>– Unrealistic design and construction programmes.</li> <li>– Unrealistic tender period(s).</li> <li>– Insufficient time allowed for tender evaluation.</li> <li>– Contractual claims.</li> <li>– Effects of phased completion requirements (e.g. sectional completion).</li> <li>– Acceleration of construction works.</li> <li>– Effects of early handover requirements (e.g. requesting partial possession).</li> <li>– Postponement of pre-construction services or construction works.</li> <li>– Timescales for decision making.</li> </ul> <p><b>3 Financial:</b></p> <ul style="list-style-type: none"> <li>– Availability of funds.</li> <li>– Unavailability of grants/grant refusal.</li> <li>– Cash flow effects on timing.</li> <li>– Existing liabilities (i.e. liquidated damages or premiums on other contracts due to late provision of accommodation).</li> <li>– Changing inflation.</li> <li>– Changing interest rates.</li> <li>– Changing exchange rates.</li> <li>– Changes in taxation (e.g. VAT).</li> <li>– Unsuitable contract strategy.</li> <li>– Incomplete design before construction commences.</li> <li>– Unconventional contract strategy.</li> <li>– Unconventional tender action.</li> <li>– Amendments to standard contract conditions and/or supplementary contract conditions.</li> <li>– Acceptance of use of provisional sums (i.e. do not give price certainty).</li> <li>– Liquidation/insolvency of main contractor.</li> <li>– Liquidation/insolvency of consultant.</li> <li>– Delay in payment.</li> </ul>
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<p><b>4 Management:</b></p> <ul style="list-style-type: none"> <li>- Unclear project organisation and management.</li> <li>- Competence of project/design team.</li> <li>- Unclear definition of project/team responsibilities.</li> <li>- Inadequate or no risk management strategy.</li> <li>- Ineffective or no cost control procedures.</li> <li>- Inadequate or no design review procedures.</li> <li>- Ineffective or no procedures for procurement.</li> <li>- Ineffective or no time control procedures.</li> <li>- Ineffective change control procedures (for both pre-construction and construction stages of building project).</li> <li>- Ineffective reporting systems.</li> <li>- Phasing of decanting and occupation.</li> </ul> <p><b>5 Third party:</b></p> <ul style="list-style-type: none"> <li>- Requirements relating to planning (e.g. public enquiries, listed building consent and conservation area consent).</li> <li>- Opposition by local councillor(s).</li> <li>- Planning refusal.</li> <li>- Legal agreements.</li> <li>- Works arising out of party wall agreements.</li> <li>- Requirements relating to existing rights of way, rights of light, way leaves and noise abatement.</li> <li>- Requirements relating to listed buildings and/or conservation areas.</li> <li>- Requirements relating to sites of scientific interest (SSI).</li> <li>- Requirements relating to environmental impact assessments.</li> <li>- Requirements relating to social matters (e.g. pressure groups and local protests).</li> <li>- Public enquiries.</li> </ul> <p><b>6 Other:</b></p> <ul style="list-style-type: none"> <li>- Insistence on use of local work people.</li> <li>- Availability of labour, materials and plant.</li> <li>- Statutory requirements.</li> <li>- Market conditions.</li> <li>- Political change.</li> <li>- Legislation.</li> <li>- Force majeure.</li> </ul>
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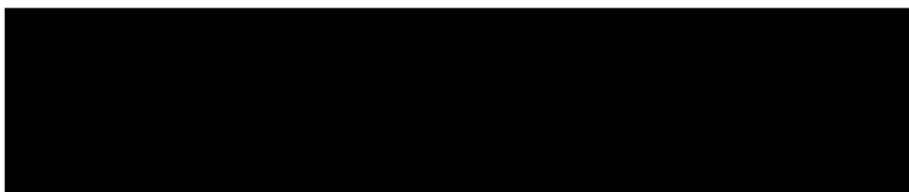
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**2.15.6** Lists of typical risks for each category of risk are at Part 4: Tabulated rules of measurement for elemental cost planning (group element 13: Risks). These lists are not meant to be definitive or exhaustive, but are simply a guide.

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where:

a = base cost estimate

p1 = percentage risk allowance for design development risks

p2 = percentage risk allowance for construction risks

p3 = percentage risk allowance for employer change risks

p4 = percentage risk allowance for employer other risks

# Group element 13: Risks

Group element 13 comprises the following elements:

13.1 Design development risks

13.2 Construction risks

13.3 Employer change risks

13.4 Employer other risks

**Note:** Typical causes of risks that should be considered under these elements are listed in the tables below. The risks that might arise from these causes can then be identified and the cost implications to the project should any of the risks materialise be estimated (i.e. the risk allowance required to manage and resolve the each risk should it materialise). The lists are not meant to be definitive or exhaustive, but are merely a guide. The lists can be used to prompt the employer and other project team members.

### Element 13.1: Design development risks

- 1 Inadequate or unclear project brief.
- 2 Unclear design team responsibilities.
- 3 Unrealistic design programme.
- 4 Ineffective quality control procedures.
- 5 Inadequate site investigation.
- 6 Planning constraints/requirements.
- 7 Soundness of design data.
- 8 Appropriateness of design (constructionability).
- 9 Degree of novelty (i.e. design novelty).
- 10 Ineffective design co-ordination.
- 11 Reliability of area schedules.
- 12 Reliability of estimating data:
  - changes in labour, materials, equipment and plant costs; and
  - inflation (i.e. differential inflation due to market factors and/or timing).
- 13 Use of provisional sums (i.e. do not give price certainty).

### Element 13.2: Construction risks

- 1 Inadequate site investigation.
- 2 Archaeological remains.
- 3 Underground obstructions.
- 4 Contaminated ground.
- 5 Adjacent structures (i.e. requiring special precautions).
- 6 Geotechnical problems (e.g. mining and subsidence).
- 7 Ground water.
- 8 Asbestos and other hazardous materials.
- 9 Invasive plant growth.
- 10 Tree preservation orders.
- 11 Ecological issues (e.g. presence of endangered species).
- 12 Environmental impact.
- 13 Physical access to site (i.e. restrictions and limitations).
- 14 Existing occupancies/users.
- 15 Restricted working hours/routines.

- 16 Maintaining access.
- 17 Maintaining existing services.
- 18 Additional infrastructure.
- 19 Existing services (i.e. availability, capacity, condition and location).
- 20 Location of existing services.
- 21 Relocation of existing services.
- 22 Statutory undertakers (i.e. performance).
- 23 Uncertainty over the source and availability of materials.
- 24 Appropriateness of specifications.
- 25 Incomplete design.
- 26 Weather and seasonal implications.
- 27 Industrial relations.
- 28 Remote site.
- 29 Competence of contractor and subcontractors.
- 30 Health and safety.
- 31 Ineffective quality management procedures.
- 32 Phasing requirements (e.g. occupation and decanting).
- 33 Ineffective handover procedures.
- 34 Disputes and claims.
- 35 Effect of changes/variations on construction programme.
- 36 Cumulative effect of numerous changes/variations on construction programme.
- 37 Defects.
- 38 Accidents/injury.

### Element 13.3: Employer change risks

- 1 Specific changes in requirements (i.e. in scope of works or project brief during design, pre-construction and construction stages).
- 2 Changes in quality (i.e. specification of materials and workmanship).
- 3 Changes in time.
- 4 employer driven changes/variations introduced during the construction stage.
- 5 Effect on construction duration (i.e. impact on date for completion).
- 6 Cumulative effect of numerous changes.



## Element 13.4: Employer other risks

<p><b>1 Project brief:</b></p> <ul style="list-style-type: none"> <li>– End user requirements.</li> <li>– Inadequate or unclear project brief.</li> <li>– Employer's specific requirements (e.g. functional standards, site or establishment rules and regulations, and standing orders).</li> </ul> <p><b>2 Timescales:</b></p> <ul style="list-style-type: none"> <li>– Unrealistic design and construction programmes.</li> <li>– Unrealistic tender period(s).</li> <li>– Insufficient time allowed for tender evaluation.</li> <li>– Contractual claims.</li> <li>– Effects of phased completion requirements (e.g. sectional completion).</li> <li>– Acceleration of construction works.</li> <li>– Effects of early handover requirements (e.g. requesting partial possession).</li> <li>– Postponement of pre-construction services or construction works.</li> <li>– Timescales for decision making.</li> </ul> <p><b>3 Financial:</b></p> <ul style="list-style-type: none"> <li>– Availability of funds.</li> <li>– Unavailability of grants/grant refusal.</li> <li>– Cash flow effects on timing.</li> <li>– Existing liabilities (i.e. liquidated damages or premiums on other contracts due to late provision of accommodation).</li> <li>– Changing inflation.</li> <li>– Changing interest rates.</li> <li>– Changing exchange rates.</li> <li>– Changes in taxation (e.g. VAT).</li> <li>– Unsuitable contract strategy.</li> <li>– Incomplete design before construction commences.</li> <li>– Unconventional contract strategy.</li> <li>– Unconventional tender action.</li> <li>– Amendments to standard contract conditions and/or supplementary contract conditions.</li> <li>– Acceptance of use of provisional sums (i.e. do not give price certainty).</li> <li>– Liquidation/insolvency of main contractor.</li> <li>– Liquidation/insolvency of consultant.</li> <li>– Delay in payment.</li> </ul>
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<p><b>4 Management:</b></p> <ul style="list-style-type: none"> <li>- Unclear project organisation and management.</li> <li>- Competence of project/design team.</li> <li>- Unclear definition of project/team responsibilities.</li> <li>- Inadequate or no risk management strategy.</li> <li>- Ineffective or no cost control procedures.</li> <li>- Inadequate or no design review procedures.</li> <li>- Ineffective or no procedures for procurement.</li> <li>- Ineffective or no time control procedures.</li> <li>- Ineffective change control procedures (for both pre-construction and construction stages of building project).</li> <li>- Ineffective reporting systems.</li> <li>- Phasing of decanting and occupation.</li> </ul> <p><b>5 Third party:</b></p> <ul style="list-style-type: none"> <li>- Requirements relating to planning (e.g. public enquiries, listed building consent and conservation area consent).</li> <li>- Opposition by local councillor(s).</li> <li>- Planning refusal.</li> <li>- Legal agreements.</li> <li>- Works arising out of party wall agreements.</li> <li>- Requirements relating to existing rights of way, rights of light, way leaves and noise abatement.</li> <li>- Requirements relating to listed buildings and/or conservation areas.</li> <li>- Requirements relating to sites of scientific interest (SSI).</li> <li>- Requirements relating to environmental impact assessments.</li> <li>- Requirements relating to social matters (e.g. pressure groups and local protests).</li> <li>- Public enquiries.</li> </ul> <p><b>6 Other:</b></p> <ul style="list-style-type: none"> <li>- Insistence on use of local work people.</li> <li>- Availability of labour, materials and plant.</li> <li>- Statutory requirements.</li> <li>- Market conditions.</li> <li>- Political change.</li> <li>- Legislation.</li> <li>- Force majeure.</li> </ul>
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