Viability Study

Garages at South Worple Way, East Sheen, London, SW14

By

Turner Morum LLP

19th November 2019

CONTENTS

APPENDICES

1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. My name is Nicholas Bignall of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2013 following the award, in 2009, of an Honours Degree in Land Management from University of Reading and in 2010 a Master's Degree in Urban Planning & Development.

1.2. In 2010 I joined the practice of Turner Morum LLP and was made a Partner in 2018. I am a specialist in the field of development site appraisals and associated subjects.

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. I have provided expert witness evidence at planning appeals and Local Plan examinations. Full details of some of my recent case experience can be viewed at **Appendix 7**.

2. BACKGROUND AND RELEVANT EXPERIENCE

2.1. Turner Morum were appointed by the applicant in October 2019 to undertake a viability assessment in respect of the proposed development on the site of the row of garages at South Worple Way, East Sheen, London SW14. The proposed scheme is for the redevelopment of the site to provide 5 detached residential dwellings. The total Gross Internal Area of the development is some 589 sqm.

2.2. The application site is situated in East Sheen in the London Borough of Richmond upon Thames. It is located to the north side of South Worple Way, immediately to the South of the railway line and in close proximity to Mortlake railway station. A site plan is included as **Appendix 1**. The site is currently occupied by 45 single lock-up garages.

2.3. I have carried out a development appraisal analysis adopting a bespoke residual valuation model structure to analyse the viability of the proposed scheme. My residual appraisal and supporting information can be seen as **Appendix 2.**

2.4. In undertaking this viability I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)* (see **Appendix 8**). I am also aware of viability guidance documents such as the *RICS Financial Viability in Planning (2012)* and *Viability Testing Local Plans* (the Harman report). I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF) and the 2017 Mayoral Affordable Housing & Viability Supplementary Planning Guidance (SPG).

3. MECHANICS OF THE ASSESSMENT

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

- **Appendix 2 Tab 1A** – shows the proposed scheme of 5 residential units with the policy commuted sum provision estimated at £338,933.

- **Appendix 2 Tab 1B** – shows the proposed scheme as above but with the commuted sum provision varied to arrive at a viable conclusion.

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

REVENUES

3.3. Market revenues are based upon a pricing schedule by Mr Jeremy Levy of Nightingale Chancellors who are a firm of Chartered Surveyors & Agents based in Richmond. They therefore are well placed to advise on the local market. Their pricing schedule can be seen as **Appendix 3.** Average market revenues equate to c. £750 per square foot (NIA) with the proposed dwellings assumed to sell for £950k per unit.

3.4. The above market revenues should be considered in the context of the current housing market especially in London. Attached as per **Appendix 4** is the RICS UK Residential Market Survey September 2019. I have extracted a key element from the Survey which provides an indication as to the current trend in London:

Turning to prices, the headline price balance returned a reading of -2% in September, little changed from -4% in August. Overall, this indicator is consistent with a broadly flat trend in national house price inflation. Nevertheless, as we have noted before, this headline gauge is being weighed down significantly by negative momentum in London and the

South East whilst the price picture appears to be firmer across other areas of the UK. In particular, solid gains were reported in Northern Ireland, Scotland and the North West.

DEVELOPMENT COSTS

3.5. Fees and marketing costs in respect of the proposed development are included at 3.5% of Market GDV as per standard industry benchmarks.

3.6. Build costs are derived from the BCIS database for Q4 2019 'estate housing detached' median data (from a 5-year average). This shows a base cost of £2,141 or £199 psf. In addition to this base cost and as required under BCIS guidance I have made the following adjustments:

- Location – 1.25 (Richmond – 25% above the national average)
- Externals – 10%
- Contingency – 5%

3.7. After the above adjustments the total build cost for this scheme equates to £287 psf and this is the cost adopted in my appraisal model. Applied to the gross area this produces a cost figure of £1.822m.

3.8. An allowance for Technical Fees is included at 12% of the Standard Build Cost which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the suggested allowance for professional fees within the 3 Dragons model is 12% of standard build costs. I therefore suggest that my adoption of 12% is a reasonable approach for a small-scale development of this nature.

3.9. I have then made an allowance for Developer Profit at 20% (of GDV) for the Market Housing. I would contend that in the current market a development could be considered unlikely to come to fruition unless it can achieve a profit margin of c. 20% of GDV (blended). Banks require Developers to illustrate these levels of developer profit before they will provide development finance.

3.10. I believe this to be all the more pertinent following the Brexit referendum vote in 2016, the ongoing negotiations and continued delays following a recent grant of extension until January 2020. The uncertainty which envelops these negotiations (and continues through the extension) has fed through into the economy and particularly the housebuilding industry; I believe it to be widely acknowledged that the current climate is one of rising costs and stalling revenues and as such, in these times, it is all the more important for developers to maintain sufficient target profit margins to ensure they are compensated for the level of risk involved (see **Appendix 4**).

3.11. Abnormals are currently included at a cost of £250k on the advice of Mr. David Atkins who is a qualified QS and has managed the letting on the garage units. The abnormal costs advised by Mr. Atkins can be viewed in full as per **Tab 3 of Appendix 2**. The majority of the costs are from extra-over sound mitigation measures which are required due to the sites proximity to the railway. In order to comply with standards, the development will require;

- 2.5m solid wall at the rear of the garden
- 2m wall at the east boundary
- Acoustic grade glazing for bedroom windows
- Acoustic grade of roof/ceiling
- Mechanical ventilation system required as windows need to remain closed
- E/O resilient structural bearings for ground vibration

3.12. Full details of the sound mitigation measures can be found in the Sound Survey undertaken by Peter Moore Acoustics Ltd included as **Appendix 6** to this assessment.

3.13. I have not included any S106 contributions in this analysis but a £176,820 allowance for CIL on the advice of the applicant. I would reserve the right to amend this position should the Council advise of different obligations than those reflected in my model.

3.14. The commuted sum contribution is included within my appraisal as per Tab 1A totalling **£338,933**. This figure is derived from a calculation using the London Borough of Richmond Affordable Housing SPD Commuted Sum Calculator. Full details of the assumptions and model can be viewed as per **Appendix 5**.

3.15. With regards to the calculation of finance, I have included within my appraisal a quarterly cashflow to reflect the cost of finance for the proposed scheme which can be seen as per Tabs 5A/B of **Appendix 2** of my submission. The adopted interest rate has been included at 7%.

3.16. I have made the assumption that construction will commence on site within Q1 Year 1 and will be completed by the end of Q4 Year 1. I have then made the assumption that market revenues will be accrued in the first quarter of Year 2.

3.17. The result of the above assumptions provides a finance costs for appraisal scenario tested. These costs are then shown as a percentage of overall GDV and as a percentage of total build costs. Within the appraisal, it will be apparent that my finance costs equate to c. 4.3% of total costs.

4. VALUATION METHODOLOGY

4.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing, Alternative or Benchmark Land Value.

4.2. More recent guidance in the form of the PPG on Viability and the Mayoral SPG advocates the approach of considering the BLV on the basis of EUV plus premium. In this instance the site is occupied by 45 lock up single garages. To calculate the EUV of these garages I have relied on the advice of Nightingale Chancellors who have inspected the site and advised the applicant of an EUV at £765k, see **Appendix 3.**

4.3. As per the RICS guidance note, *Financial Viability in Planning*, it is then appropriate to apply a premium to this EUV of between 15% and 40%. This is intended to represent the uplift required to entice the landowner to sell a site for development. It should be noted that within my assessment I have adopted a conservative premium at 20%.

4.4. After allowances for SDLT and purchasers costs the gross land value is included at **£967,170**.

5. SUMMARY CONCLUSION

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

Tab	Total Units	Commuted Sum	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
1A	5	-£338,933	£583,512	£967,170	-£383,658	NON-VIABLE
1B	5	£0	£946,800	£967,170	-£20,370	NON-VIABLE

6. SENSITIVITY ANALYSIS

6.1. In order to assess the viability, I have undertaken a sensitivity analysis by varying the level of commuted sum to try and achieve the break-even position (where the RLV is equal to the BLV).

6.2. In this instance, as per Tab 1B, I have reduced the commuted sum provision to £0 however even with this reduction the scheme still shows a deficit and therefore is technically non-viable.

7. NON-TECHNICAL SUMMARY

7.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed "Viable". However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered "Non-Viable".

7.2. The inputs I have adopted within my analysis can be seen within the summary table below compared with the Councils Whole Plan Viability Study document (December 2016):

Input:	Assessment Allowance:	Local Plan Viability Allowance:	Comments:
Market Revenues	£750 psf	£732 psf	Pg. 25
Affordable Revenues	-	-	
Non-Residential Revenue (if applicable)	-	-	
Fees and Marketing (Market):	3.5% on GDV	3% on GDV	Pg. 23
Transaction Costs (Affordable):	-	-	
Fees and Marketing (Non-Resi):	-	-	
Standard Construction Costs:	£287 psf	£192 - £271 psf (+ 5% contingency)	Pg. 19/23
Professional Fees:	12%	12%	Pg. 23
Developer Profit:	20% on market GDV	20% on market GDV	Pg. 19
Finance Rate:	7%	6.75%	Pg. 23
Benchmark Land Value:	£765k	£4m / ha	Pg. 18

7.3. In this instance, one can observe from the table included in Section 5.1 and the appraisal included as **Appendix 2** that the RLV of the proposed scheme does not exceed the adopted BLV even when no commuted sum is offered.

7.4. On this basis technically the scheme cannot provide a commuted sum payment.

8. CONCLUSIONS

8.1. As explained above, the scenario adopting a commuted sum tested in Tab 1A shows a deficit and is therefore technically non-viable.

8.2. My normal recommendation to my client in these circumstances would be to suggest reducing the s106 obligations/affordable housing to improve the viability of the scheme until the 'break-even' point is reached – where the surplus/deficit is £0 (and where the RLV equals the EUV).

8.3. As can be seen from Tab 1B the reduction in the policy commuted sum position produces a deficit as well, indicating the scheme cannot viably make a commuted sum contribution in-lieu of on-site affordable. In my experience, where certain deficits are incurred in viability the developer can sometimes choose to take the 'commercial decision' to proceed with a scheme, provided that the deficit does not increase any further. This 'commercial decision' would be reached on an individual site basis and formed on the assumptions within these appraisals.

8.4. On this basis my client has advised me that they are committed to seeing the scheme proceed, and wish to continue but can only do so on the basis of reducing the affordable housing commuted sum to nil as per **Tab 1B**.

8.5. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

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N Bignall MRICS

Turner Morum LLP

November 2019