DS1448

DS2

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GREGGS BAKERY SITE & NO 2 GOULD ROAD, TWICKENHAM, TW2 6RT

FINANCIAL VIABILITY ASSESSMENT

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On behalf of London Square Developments Ltd

August 2022

RICS

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APPENDICES

EXECUTIVE SUMMARY

This Financial Viability Assessment has been prepared by DS2 on behalf of London Square Developments Ltd, in respect of a full planning application for the proposed redevelopment of the Greggs Bakery Site and No 2 Gould Road in Twickenham.

In accordance with professional best practice, DS2 has prepared a viability assessment on an independent and objective basis, which tests the maximum reasonable level of affordable housing and additional financial obligations, including Section 106 and other planning obligations (e.g. CIL) that the Development can viably support.

The Site is located within the administrative boundary of the London Borough of Richmond upon Thames. The existing Site, which is L shaped comprises the former Greggs Bakery Site in Twickenham and No. 2 Gould Road.

The Development will provide 97 residential units comprising of a mix of one, two, and three bed homes. The Development seeks to provide a truly mixed and balanced community by providing a mix of flats and houses across both the affordable and market sale tenures. In addition to the residential homes, the development proposes 1,000 sqm of industrial floorspace (Use Class E). 117 sqm of the industrial space will be provided as Affordable commercial use (Use Class E).

Of the 97 units that are to be provided, 20 will be provided as affordable housing. This equates to 20% by unit, 19% by habitable room and 17% by floorspace.

The Site's Existing Use Value has been assessed by commercial valuers Colliers and this has formed the Benchmark Land Value against which the residual value of the proposals has been assessed. This approach is in accordance with the National Planning Practice Guidance, the GLA's Affordable Housing and Viability Supplementary Planning Guidance (2017), the Council's Local Plan (2018) and the RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st Edition, March 2021).

If the residual land value produced by the Development is lower than the Benchmark Land 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 residual land value is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and / or other planning obligations.

The results of this assessment can be summarised below:

FVA RESULTS, GREGGS BAKERY JULY 2022		
Proposed Scheme RLV	**Benchmark Land Value**	**Surplus/Deficit**
£9,635,529	£12,800,000	-£3,164,471

The results demonstrate that the Development is providing in excess of the maximum reasonable amount of planning obligations including affordable housing when measured against the target profit. Notwithstanding these conclusions, the Applicant has committed to the proposed planning obligation package, including 20% affordable housing by unit.

1 INTRODUCTION

1.1 This Financial Viability Assessment ("FVA") has been prepared by DS2 to robustly examine the financial viability of the proposed redevelopment of the Greggs Bakery Site and No 2 Gould Road (hereafter "the Site"). The Site is located within the administrative boundary of the London Borough of Richmond upon Thames (hereafter "the Council").

1.2 This FVA has been prepared in support of a full planning application ("the Application") which has been submitted by DP9 LLP on behalf of London Square Developments Ltd ("the Applicant).

<u>Instructions</u>

1.3 DS2 have prepared this assessment on an independent and objective basis which tests the maximum reasonable level of affordable housing and additional financial obligations, including Section 106 obligations, the Council's Community Infrastructure Levy (CIL) and Mayoral CIL, that the development can viably support. DS2 can confirm that our instruction is on a non-performance or contingent related basis.

1.4 This FVA has been collated in accordance with the PPG which states 'any viability assessment should be prepared on the basis that it will be made publicly available other than in exceptional circumstances.'

1.5 This FVA has been prepared by Anneka Lewis, MRICS, Associate, and Steve Billington, a Partner at DS2. DS2 can confirm that the authors of this report have the necessary experience in preparing FVAs for residential and mixed-use developments.

<u>Conflict of Interest</u>

1.6 We can confirm that DS2 are not currently working for the Council on any other live planning application. We can confirm that there are no conflicts of interest in accordance with the RICS Professional Statement Conflicts of Interest, 1st Edition, that came into effect on 1st January 2018.

<u>Financial Viability in Planning: Conduct & Reporting</u>

1.7 This FVA has been prepared by DS2 in accordance with the latest RICS Professional Statement titled 'Financial Viability in Planning: Conduct and Reporting' which became effective from 1st September 2019 and 'Assessing viability in planning under the National Planning Policy Framework 2019 for England' which became effective from 1st March 2021.

1.8 This FVA has been prepared on an objective and impartial basis, without interference, and in full accordance with the planning policy and professional best practice requirements. DS2 can also confirm that in collating this report we have complied with the RICS Professional Statement (2) Ethics, Competency, Objectivity and Disclosures.

1.9 We can confirm that in undertaking this exercise, DS2 have been reasonable, transparent, fair and objective as required by Section 4 of the Professional Statement.

General

1.10 This report has been prepared to accompany a planning application for the purposes of Section 106 ("S106) discussions only and should only be used for the consideration of these matters.

1.11 The appraisals and figures in this FVA do not represent formal 'Red Book' valuations and should not be relied upon as such.

1.12 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 the Council for viability testing.

1.13 To inform the report, information prepared by the following independent consultants has been relied upon:

- DP9 – Planning Consultants
- Assael – Architects
- London Square – Cost Consultant & Residential Sales
- Colliers International – Commercial Valuation

1.14 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 and Sensitivity Testing** – summary of the financial appraisal outputs and supplementary results of scenario and sensitivity testing;
- **Conclusions** – statement with the formal affordable housing offer and concluding rationale.

1.15 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.

2 SITE DESCRIPTION

Site Location

2.1 The Site is located in the London Borough of Richmond upon Thames in South West London. The surrounding area is predominantly residential in character comprising rows of terraced streets.

2.2 Immediately north of the Site is the River Crane, the railway line and a single residential property. The river and land beyond to the north of the Site is designated as Metropolitan Open Land (MOL). To the south of the Site there is a small workshop in light industrial use.

2.3 To the east and west of the Site are established residential areas and immediately to the north west is 'Crane Mews', a collection of commercial studios, many of which have recently been converted into residential homes. Lockcorp House on Norcutt Road to the east of the Site comprises an office building which has been the subject of various applications which have resulted in planning permission being granted for residential use and most recently received approval for 15 affordable flats (mix of one, two and three bedroom units). Norcutt Road comprises mews type properties with small rear gardens with adjoin the Site.

2.4 The Hamilton Road Conservation Area is located to the east of the Site with the boundary running between the back gardens of the properties on the east side of Norcutt Road.

2.5 The Site benefits from the potential for dual access from Gould Road/Crane Road and Edwin Road. The Site benefits from its proximity to Chertsey Road, which connects it to the southwest and southeast via the M3 and M25. The M4 is located approximately 30 minutes from the Site, with Heathrow accessible by road in approximately 25 minutes. Twickenham railway station is located approximately 0.6m east of the Site, providing regular services to Waterloo which takes 20-30 minutes.

Site Description

2.6 The existing Site, which is L shaped comprises the former Greggs Bakery Site in Twickenham and No. 2 Gould Road. There are a range of buildings covering the majority of the Site which comprises an area of 1.1ha. The majority of the Site is covered by a single storey industrial shed alongside large extract equipment. There are also a number of associated two and three storey commercial buildings across the remainder of the Site which have developed in a piecemeal way over time. The application Site also includes no. 2 Gould Road, a two-storey end of terrace house.

2.7 Due to the current plot coverage, the total floorspace across the Site is 7,446 sqm made up of the existing Greggs industrial GIA of 7,371 sqm and 75 sqm existing residential GIA. The existing structures are built up to the boundaries with the gardens of the properties at Norcutt Road and Crane Road.

2.8 The Site is highly constrained and is accessed via Edwin Road to the South and via Gould Road at the north of the Site. There is a small yard to the south of the Site accessed from Edwin Road which is where HGVs access the Site. A limited amount of car parking associated with the existing bakery is located within the Site accessed off Gould Road to the north of the Site.

2.9 The existing use of the site is for Use Class B2 (general industrial) purposes and includes ancillary office floorspace associated with the bakery operations that previously operated from the Site. The bakery operation is now redundant and Greggs ceased the bakery use on the Site in 2018.

2.10 A Site location plan is attached at **Appendix One**.

Ownership

2.11 The Applicant is in a contractual agreement with the freeholder of the Site, subject to planning permission being granted.

Planning History

2.12 A planning application for the Site was submitted by the Applicant on February 26th, 2019. The description of development was as follows;

> "*Demolition of existing buildings (with retention of single dwelling) and redevelopment of the site to provide up to 116 residential units and 175 sqm commercial floorspace; landscaped areas; with associated parking and highways works and other associated works.*"

2.13 The planning application was refused at planning committee on August 7th, 2020.

3 DEVELOPMENT PROPOSALS

Proposed Development

3.1 The Application has been submitted by DP9 Planning Consultants on behalf of the Applicant for the redevelopment of the Site.

3.2 A full assessment of the proposed development at the Site (hereafter "the Development") is contained within the Design and Access Statement prepared by Assael Architecture.

3.3 The description of the Development for this scheme is as follows;

'Demolition of existing buildings (with retention of a single dwelling) and redevelopment of the site to provide 97 residential units and 883 sqm industrial floorspace (Use Class E(g) (iii)) and 117 sqm of affordable workspace (Use Class E) with associated hard and soft landscaping, car parking and highways works and other associated works'

3.4 A full set of application drawings for the Development is included at **Appendix Two**. An accommodation schedule for the development is included at **Appendix Three**. The headline development areas are shown in Table 1 below.

TABLE 1: DEVELOPMENT AREAS, GREGGS BAKERY, JULY 2022		
Use	**GIA SQM**	**GIA SQ FT**
Residential (Use Class C3) (including ancillary space)	9,989	107,525
Commercial Space (Use Class E)	1,000	10,764
Total	**10,989**	**118,289**

Residential

3.5 The Development will provide 97 residential units comprising of a mix of one, two, and three bed homes. The Development seeks to provide a truly mixed and balanced community by providing a mix of flats and houses across both the affordable and market sale tenures. The residential units are provided within seven buildings ranging from two to five storeys in height and includes mew housing and apartment buildings.

3.6 The table below indicates the proposed unit mix.

TABLE 2: DEVELOPMENT RESIDENTIAL UNIT MIX, GREGGS BAKERY JULY 2022					
Tenure	**1 Bed**	**2 bed**	**3 bed**	**Total**	**% per tenure**
Market Sale	25	23	29	77	80%
Intermediate (London Shared Ownership)	6	5	2	13	13%
Low Cost Rent (London Affordable Rent)	2	5	0	7	7%
Total	**33**	**33**	**31**	**97**	**100%**

3.7 The proposed mix by habitable room is set out in the table below;

TABLE 3: DEVELOPMENT RESIDENTIAL MIX BY HABITABLE ROOM, GREGGS BAKERY JULY 2022			
Tenure	**Habitable Rooms**	**Total %**	**Affordable Split by Tenure**
Market Sale	244	81%	
Intermediate - (London Shared Ownership)	35	12%	64%
Low Cost Rent (London Affordable Rent)	20	7%	36%
Total	**299**	**100%**	**100%**

3.8 Table 4 below summarises the proposed residential mix by net sales area (NSA).

TABLE 4: DEVELOPMENT RESIDENTIAL NET SALES AREA (NSA), GREGGS BAKERY, JULY 2022		
Tenure	NSA (sqm)	NSA (sq ft)
Market Sale	6,314	67,966
Intermediate	867	9,333
Low Cost Rent	463	4,984
Total	**7,644**	**82,283**

3.9 Of the 97 units that are to be provided, 20 will be provided as affordable housing. This equates to 20% by unit, 19% by habitable room and 17% by floorspace.

3.10 The proposed tenure split on a per unit basis is 65% Intermediate (to be delivered as London Shared Ownership) and 35% Low Cost Rent (to be delivered as London Affordable Rent).

Commercial Use

3.11 The Development provides a one storey commercial unit with mezzanine extending to 1,000 sqm (10,764 sq ft) GIA of Use Class E (g(iii)) commercial space. The space is designed for light industrial usage and is provided over ground floor and a mezzanine level. 117 sqm of the industrial space will be provided as affordable commercial use.

Car and Cycle Parking

3.12 A total of 196 residential long stay cycle parking spaces are proposed as part of the Development which will be accommodated within the boundary of each property either within the garages or designated cycle lockers for mews houses or cycle stores within the apartment buildings. Sheffield stands are proposed within the public realm to provide 6 short stay residential cycle spaces.

3.13 For the employment uses, 10 long stay spaces are to be provided within a secure and sheltered store. Sheffield stands are proposed within the public realm to provide 2 short stay employment cycle spaces.

3.14 A total of 101 car parking spaces will be provided across the Site of which 5 will be accessible. 83 of these car parking spaces will be allocated for residential use, with the remaining 18 for the industrial units. New residents will not be able to apply for a car parking permit to park within the surrounding CPZ and this will be secured under the Section 106 Agreement.

3.15 In addition, a car club space is proposed on Edwin Road which will be accessible to both the new residents and to existing residents in the surrounding area. The car club parking space will be located on the existing vehicle crossover and will therefore not impact on the existing parking capacity of the surrounding area.

Summary

3.16 In summary the Development seeks to add positively to the local area by redeveloping the Site through the provision of a variety of buildings. These buildings range from two to five storeys, comprising the delivery of mews housing, apartment buildings to the north of the Site fronting the River Crane and the delivery of an industrial building fronting Edwin Road.

4 PLANNING POLICY

4.1 A detailed review of the planning policy context of the Development is contained within the DP9 Planning Statement submitted with the Application. The following section of this FVA provides a summary of the key national, regional and local planning policies that guide the delivery of affordable housing, with reference to the importance of considering scheme specific financial viability and balancing the requirements of obtaining planning obligations with the risks of non-delivery.

National

National Planning Policy Framework (updated July 2021)

4.2 An updated National Planning Policy Framework ("NPPF") was published in July 2018 and further amendments were incorporated in July 2021.

4.3 Paragraph 20 of the NPPF places a requirement on authorities to set out an overall strategy for the pattern, scale and quality of development and, in particular, make sufficient provision for housing, including affordable housing.

4.4 Paragraph 34 requires plans to set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required, along with other infrastructure (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan.

4.5 Paragraph 58 of the NPPF, in relation to development viability for the purposes of planning applications states:

> "*Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available*".

4.6 Paragraph 63 of the NPPF states that where there is a need identified for affordable housing, the affordable housing should be provided on-site, except in justified circumstances.

4.7 Paragraph 65 of the NPPF states that where major development proposes the provision of housing, at least 10% of the units should be made available for affordable home ownership. This term is further defined in the NPPF as "being part of the overall affordable housing contribution from the Site".

4.8 The definition of affordable housing included within the Glossary (Annex 2) of the NPPF includes social rented, affordable rented and intermediate tenure housing as affordable housing i.e. housing provided to eligible households whose needs are not otherwise met by the market.

Planning Practice Guidance (updated September 2019)

4.9 The national Planning Policy Guidance ("PPG") was adopted in July 2018 in line with the updated NPPF. The PPG provides guidance on viability for the purposes of plan making and individual application development management and was last updated for viability in September 2019.

4.10 Paragraph 7 of the PPG states:

> *"Where up-to-date policies have set out the contributions expected from development, planning applications that fully comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. Policy compliant in decision making means that the development fully complies with up to date plan policies. A decision maker can give appropriate weight to emerging policies".*

4.11 Such circumstances could include where further information on infrastructure or site costs is required, where particular types of development are proposed which may significantly vary from standard models of development for sale and where a recession or similar significant economic changes have occurred since the date the Plan was bought into force.

4.12 The viability assessment should be proportionate, simple, transparent and publicly available. The viability should assess whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return.

4.13 In reference to NPPF paragraph 58, plan making and decision making, viability helps to strike a balance between the aspirations of developers and landowners, in terms of returns against risk, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission.

Regional

The London Plan (March 2021)

4.14 The London Plan introduces a policy framework that responds to the 2017 Strategic Housing Market Assessment identified an annual need of 43,500 new affordable homes per year.

4.15 The approach identified in the London Plan to the delivery of affordable housing and planning viability reflects the approach set out in the Affordable Housing and Viability SPG (2017).

4.16 Policy H4 relates to delivering affordable housing and Policy H5 relates to the threshold approach to development proposals.

4.17 Policy H4 seeks to maximise the delivery of affordable housing with a strategic target of 50% of all new homes delivered to be 'genuinely' affordable.

4.18 The threshold level of affordable housing on residential development is usually set at a minimum of 35% affordable housing with exceptions to this set out in the policy. One of the exceptions is for sites which are Strategic Industrial Locations, Locally Significant Industrial Sites and Non-Designated Industrial Sites appropriate for residential uses in accordance with Policy E7 Industrial intensification, co-location and substitution where the scheme would result in a net loss of industrial capacity.

4.19 On this basis the threshold approach for the Development is 50% affordable housing. If the relevant threshold for affordable accommodation is not met, a scheme will be considered under the Viability Tested Route in line the Mayor's Affordable Housing and Viability SPG. Applications which meet or exceed the 50% affordable housing threshold are considered to be 'Fast Track' and are not required to provide viability information.

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

4.20 The GLA published the draft SPG in November 2016 for consultation and the document was subsequently adopted in August 2017.

4.21 The SPG represents the new 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.

4.22 The Mayor's preferred approach to determining the benchmark land value is an Existing Use Value ("EUV+") approach. An alternative approach, such as the use of an alternative use value as the benchmark can also be used but must be robustly justified by the applicant and / or the borough in line with the Mayor's Viability SPG.

4.23 Further information on the practical application, methodologies, and approach to site value, amongst others, for viability assessments is contained within the SPG.

Local Planning Policy

London Borough of Richmond Upon Thames Local Plan (July 2018)

4.24 The local statutory Development Plan for the Site is the adopted London Borough of Richmond Upon Thames' Local Plan (July 2018). The affordable housing specific policies are supported by guidance included in the Affordable Housing Supplementary Planning Document (2014).

4.25 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 by unit. As specified within this policy, the LPA will seek the maximum reasonable amount of affordable housing, throughout the negotiation process. 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 a proposed scheme.

4.26 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 as specified within Policy LP36 of the Local Plan.

4.27 The Council's Housing Strategy 2013-17 sets out the Council's housing priorities. This demonstrates local needs and recognises the importance of delivering houses for rent in the borough and working within the challenges specific to the borough with particular concerns over affordability. There is a national definition of affordable housing and the Council will consider different products, such as for intermediate rent or low-cost home ownership, to ensure delivery at a local level is affordable and relevant to the housing needs in the borough. The Council's Tenancy Strategy (2013) and Intermediate Housing Policy Statement (January 2018) set out guidance which should inform the provision of a range of affordable housing.

London Borough of Richmond Draft Local Plan (December 2021)

4.28 The Council are currently preparing a new Local Plan for Richmond borough which will replace the current Local Plan and the Twickenham Area Action Plan. The Plan is currently at Regulation 18 stage; Consultation on 'Pre Publication' Draft Local Plan. The consultation ran until the 31st of January 2022. Following this consultation the Council will consider and analyse all responses received and make changes to the Plan, where appropriate. There will be a further round of public consultation on our final version of the Local Plan later in 2022. The Local Plan is anticipated to be adopted in Autumn 2024.

4.29 Draft Policy 11 sets out the Councils approach to Affordable Housing. All new housing in the borough should provide at least 50% of the total number of habitable rooms as affordable housing on site. On all former employment sites, at least 50% on-site provision is required and where possible, a greater proportion than 50% affordable housing on individual sites should be achieved.

4.30 Where on site affordable housing is provided on site, the Council will require an affordable housing tenure split of 70% affordable rented housing and 30% intermediate housing by habitable room.

4.31 Part E of Draft Policy 11 states that if the minimum level of affordable housing is not provided the application for development will be refused. Part F states that site-specific viability information will only be accepted in exceptional cases, determined by the Council.

Professional Guidance

RICS Professional Statement: Financial Viability in Planning: Conduct & Reporting (1st Edition, May 2019)

4.32 This professional statement sets out mandatory requirements in relation to the preparation of planning viability assessments and how the process must be conducted, whether for area-wide or scheme specific purposes. The Statement is informed by the policy framework provided by the NPPF and PPG and aims to provide consistency and transparency to the planning viability process.

RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st Edition, March 2021)

4.33 This guidance note provides additional best practice advice and recommendation to viability practitioners for the implementation of planning policy following the changes to the NPPF and PPG in 2019, expanding upon the requirements set out in national policy and guidance.

4.34 The NPPF and PPG remain the 'authoritative requirement' as defined in the RICS Valuation Global Standards (otherwise known as the 'Red Book'). This means that any valuation-based requirements in the PPG take precedence over any other valuation basis or approach.

Summary

4.35 The Development gives due consideration to these policies and will provide the maximum amount of affordable housing contributions in accordance with the national policy and guidance, London Plan, the Council's planning policy and overall scheme viability.

5 VIABILITY METHODOLOGY

5.1 The approach adopted in producing this FVA has been framed by national, regional, and local adopted planning policy as well as best practice guidance. This section sets out a summary of the adopted methodology and the approach to BLV.

Methodology

5.2 PPG paragraph 010 defines the viability process as

> *"looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return."*

5.3 As noted within the RICS 2021 guidance note, PPG describes a residual framework. This is detailed within the RICS Guidance Note 'Valuation of Development Property' (2019). In short, the gross value of the completed development is assessed, including, amongst others, the aggregated value of any residential properties, commercial income and car parking income. Secondly, the cost of building the development is deducted along with professional fees, finance costs and return to the developer. This is illustrated below:

TABLE 5: RESIDUAL LAND VALUE GREGGS BAKERY JULY 2022
Gross Development Value
Residential sales income
Commercial sales income
Any additional income (e.g. car parking)
Less
Costs
Build costs
Exceptional development costs
Professional fees
Internal overheads
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 (RLV)

5.4 The output is the Residual Land Value ("RLV"). Simply, if the RLV produced by a scheme is lower than an appropriate Benchmark Land Value ("BLV"), the scheme is deemed to be unviable and, therefore, unlikely to come forward for development unless the level of affordable housing and / or planning obligations can be reduced.

5.5 If the RLV is higher than the BLV the scheme can, in theory, provide additional affordable housing and / or other planning obligations.

5.6 Alternatively, the BLV can be inserted into the appraisal as a fixed cost and the level of return generated by the scheme becomes the benchmark by which viability is measured. If the target rate of developer's profit return is generated the scheme is deemed to be viable.

5.7 Through scenario testing it is possible to determine the maximum reasonable level of affordable housing and other obligations that ensure a scheme remains financially viable and retains the highest possible chance of coming forward, whilst balancing commercial requirements with policy requirements of the development plan.

Summary

5.8 Ultimately the aim of the NPPF is to create a balance so that the BLV is not simply included at the expense of planning obligations. Instead, the approach should assess BLV and seek to strike a balance between land value, the developer's return for risk, and the planning obligations required to meet the policy tests whilst at the same time ensuring that the scheme can be delivered.

5.9 A practitioner's judgment should therefore take a balanced approach, taking into consideration the site specifics; adopted and emerging policy; best practice guidance; and experience in undertaking viability assessments.

5.10 The approach adopted within this FVA (set out in Section 9 of this FVA) is robust and has full regard to adopted planning policy and guidance.

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 The development programme is estimated from August 2022 on a current day basis. A 6 month pre-construction period has been adopted within the proposed programme which includes allowances for the following:

- Signing the Section 106 legal agreement
- Securing development funding
- Expiration of the judicial review period
- Discharging of pre-commencement conditions
- Detailed/technical design stage
- Tender period for build contract packages(s); and
- Site mobilisation

Construction

6.3 Taking into account the nature and scale of the development and the constraints of developing in a residential area, a 28 month construction period has been adopted. This is in line DS2's experience of similar sized developments and has been advised by the Applicant. A copy of the construction programme is attached at **Appendix Four.**

Residential sales timings

6.4 The residential sales programme assumes that a marketing campaign is conducted in advance of practical completion, six months after construction has commenced.

6.5 In terms of the sales rate, we have spoken to a number of local agents and reviewed schemes which are currently selling in the local area.

6.6 For the market sale houses we have estimated that 25% would be sold off-plan with the income received in the first month after practical completion. Thereafter we have assumed a sales rate of one house per month for each building type that provides houses (so one per month in Building C, D and Building G).

6.7 For the market sale apartments within Building A and Building F we have estimated that 50% would be sold off plan. Post completion a sales rate of five per month has been adopted.

6.8 The affordable housing has been cashflowed as follows: 25% at 'golden brick' (i.e. when the affordable provider takes a legal interest in the building at first floor slab) with the remainder of the affordable payments are cash flowed based on equal monthly payments through the construction period.

Commercial letting timings

6.9 DS2 has assumed that the commercial rental income is capitalised at the start of the sales period but within this assumption has allowed for incentives and voids. We have adopted a twelve month rent free period within the ARGUS appraisal. The commercial income is capitalised at the start of the residential sales period.

Summary

6.10 The development timings included in the appraisal are a reflection of the advice received from the Applicant's consultant team regarding the construction programme and DS2's assumptions regarding the sales timings of the residential space and commercial space.

7 DEVELOPMENT VALUE

Residential values

Market residential

7.1 In valuing the residential component of the Development, DS2 has adopted the comparable method of valuation in accordance with the RICS Guidance Note. The present-day market value for each unit has been assessed by DS2, informed by our own research and input from the Applicant's sales team.

7.2 There is a distinct lack of new build comparable evidence currently selling within close proximity to the Site and in Twickenham itself. To support the market sale values adopted, in addition to recently completed local developments, second hand comparable evidence has been relied on, as well as conversations with local residential agents to support the assessment of Market Value.

7.3 The assessment of Market Value reflects the location of the development, the proposed level of residential amenity, and the size of the units amongst other features.

Twickenham Station/Twickenham Gateway, London Road

Key points

- Development by Solum, it is located 0.8 miles to the west of the Site.
- The development includes the redevelopment of Twickenham Station. The development is located adjacent to London Road and close to the new riverside walkway.
- The development comprises of 115 units split over three buildings up to 7 storeys with commercial space provided at ground floor level.
- The scheme provides 100% market homes. Block A comprises of 39 homes for market sale. Block B (52 homes) and Block C (30 homes) were both sold to Meadow and converted to Build to Rent.

- The construction of Block A completed in Q3 2020 and Blocks B and C completed during Q2 and Q4 2021 respectively.
- All of the homes benefit from either a private balcony or terrace. – outside space/balcony/communal garden
- The average asking price of the homes according to the Molior Database is £764psf. The average asking prices for the homes was £488,750 for the 1 beds, £659,625 for the 2 beds and £785,000 for the 3 beds.

7.4 The market sake units in Block A eventually sold out in Q1 2021 having completed during Q3 2022. Molior states that prices were reduced in Q1 2021 by amounts ranging from 3% to 11% and an average of 6%.

7.5 The achievable values at Twickenham Gateway will be higher than those at the Development due to its superior location, with its close proximity to Twickenham Station and local amenities on London Road including supermarkets, restaurants, cafes and pubs. Finally, at 7 storeys, the views offered at Twickenham Gateway are likely to be superior compared to the Development.

Brewery Wharf

Key points

- Development by St James Group (part of Berkeley Homes)
- The development is located opposite Twickenham Station and is located on the banks of the River Crane.
- The development comprises of a mixed use development comprising of a 3 to 5 storey building accommodating 82 residential units and two restaurants, and 28 houses. Basement car and cycle parking is provided.
- As part of the amenity offering, a new public space was created. A 24/7 concierge is provided.
- The development sold from new in 2016 and so is too far back to draw any conclusions from however we have considered the re sale properties which are currently on the market.

TABLE 6: BREWERY WHARF RIGHTMOVE ASKING PRICES JULY 2022				
Beds	Sq ft	Asking Price	£PSF	Added to Market/Reduced
1	566	£475,000	£839	Added - 30/05/2022
1	548	£475,000	£867	Reduced - 08/06/2022
2	721	£600,000	£832	Reduced – 19/04/2022
2	841	£960,000	£1,141	Added – 13/06/2022
2	830	£875,000	£1.054	Added – 10/05/2022

7.6 The table above represents asking prices only. The achievable values at Brewery Wharf are anticipated to be higher than those at the Development due to its superior location with close proximity to Twickenham Station and the town centre.

Schurlock Place, Twickenham

Key Points

- Small development of five x three bed houses currently marketed by Savills.
- The development is situated 0.6 miles from the Development and is situated to the south west of the Site. The Site is closer to Strawberry Hill than Twickenham and is 0.6 miles north of Strawberry Hill station.
- The homes benefit from two off street parking spaces, and sustainable features included heat source air pump and solar PV panels.
- The homes provided 1,354 – 1,376 sq ft of internal space and benefit from a separate living room in addition to an open plan living/kitchen/dining room to the rear of the property.
- The larger homes of 1,376 sq ft are being marketed at £1.2M and the smaller homes are being marketed at £1.1M.

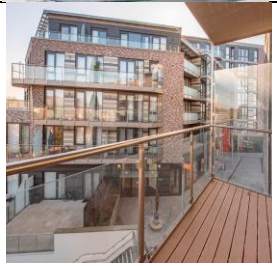
The achievable values for the three bed homes at this development are likely to be higher than the values for the majority of the 3 bed homes at Building C (18 homes in total) at the Development which are c.160 – 210 sq ft smaller and only provide a single combined living/kitchen/dining space at ground floor level.

Second Hand Comparables

As there is a distinct lack of new build developments currently selling or have recently sold in the local area, we have had regard to second hand comparables which are currently on the market.

1 bed flats

Address	Property Type	Asking	Date on Rightmove	sq ft	sqm	£psf	Comments	Location	Photo
Gould Road	Victorian Garden flat	£425,000	10/03/2022	520	48.3	£817	Large garden for a 1 bed flat, Victoria property	Gould Road 500 ft from the Development	
Gould Road	Victoria end of terrace conversion	£325,000	01/04/2022 (reduced)	527	49	£617	Well laid out 1 bed flat. Kitchen and Bathroom require modernisation. No outside space	Gould Road 500 ft from the Development	
Heath Road	Modern block of flats	£375,000	30/03/2022 Reduced from £400,000 to £375,000 on 04/05/2022	573	53.23	£654	Modern block on flats situated on the main road. Balcony	Heath Road 0.3 miles from the Development	

Heath Road	Modern block of flats	£325,000	18/05/2022	375	34.8	£866	Modern block of flats situated on the main road. No outside space	Heath Road 0.3 miles from the Development	
Twickenham Gateway	Brand new Modern block of flats	£469,000	07/10/2022	561	52.1	£836	Brand new flat, right by Twickenham Station	London Road 0.7 miles from the Development	

2 bed flats

Address	Type	Asking	Date on Rightmove	sq ft	sqm	£psf	Comments	Location	Photo
Colne Road	1930s Maisonette	£500,000	14/04/2022 SOLD - STC	646	59.9	£774	2 bed garden flat. Large south facing rear garden. Off street parking	Colne Road 0.2 miles from the Development	

Colne Road	Victorian Conversion Flat	£499,950	07/02/2022	853	79.3	£586	Well maintained flat, good sized bedrooms, benefits from a garage	Colne Road 0.2 miles from the Development	
Heath Road	Modern block	£575,000	19/04/2022 Reduced from £595,000 to 04/05/2022	707	65.7	£842	Modern flat, balcony and allocated parking.	Heath Road 0.3 miles from the Development	
Queens Road	Victorian Conversion Flat	£475,000	31/03/2022	609	56.6	£780	Well maintained flat, modern kitchen and bathroom. No outside space	Queens Road 0.7 miles from the Development	

2 bed houses

Address	Type	Asking	Date on Rightmove	sq ft	sqm	£psf	Comments	Location	Photo
May Road	Victorian Period house	£710,000	11/04/2022	920	86	£772	Property which would require some modernisation.	May Road 0.1 miles from the Development	
Norcutt Road	Mid terrace Victorian period house	£625,000	15/05/2022	721	67	£867	Small two bed house, very narrow kitchen. Small garden	Norcutt Road 0.1 miles from the Development	
Norcutt Road	Mid terrace Victorian period house	£649,950	8/06/2022	709	66	£917	Small two bedroom house. Dressing room to master bedroom	Norcutt Road 0.1 miles from the Development	

Warwick Road	Mid terrace Victorian period house	£650,000	20/03/2022	918	85	£708	Very well maintained two bedroom house with a good specification. Benefits from a loft room	Warwick Road 0.2 miles from the Development	
Hamilton Road	Mid terrace Victorian period house	£650,000	31/05/2022	759	71	£856	Immaculate condition, high end bathroom and kitchen specification. Landscaped courtyard garden	Hamilton Road 0/2 miles from the Development	

3 bed houses

Address	Type	Asking	Date on Rightmove	sq ft	sqm	£psf	Comments	Location	Photo
Crane Mews	Office conversion	£650,000	22/02/2022	885	82.8	£735	Mew style home, gated access, communal gardens, allocated parking space and a small private balcony	Crane Mews 200 ft from the Development	

Gould Road	Victorian Terrace	£899,950	18/05/2022	1097	102	£820	Victorian property with attic conversion. Large modern kitchen. Small garden	Gould Road 500 ft from the Development	
May Road	Victorian Terrace	£950,000	11/03/2022	1443	134	£658	Victoria property with attic conversion. Very modern and large kitchen. Good size garden	May Road 0.1 miles from the Development	
Lion Road	Victoria Terrace	£810,000	03/05/2022	1,136	106	£801	Three storey Victorian property. Large long garden	Lion Road 0.3 miles from the Development	

Wildgoose cottage, Chestnut Road	Victorian Terrace	£800,000	15/04/2022	1,151	107	£955.69	Large kitchen, two bathrooms, cottage feel. Small garden. Garden studio room	Chestnut Road 0.4 miles from the Development	
Lion Road	Victoria Terrace	£910,000	24/05/2022	1,136	106	£801	Three storey Victorian property. Large long garden	Lion Road 0.3 miles from the Development	

Market sale comparable evidence summary

7.7 For the 1 bed flats we consider the new build and resale comparables a Brewery Wharf and Twickenham Gateway to be the best sources of comparable evidence. These developments are considered the most comparable in terms of the nature of the product offered, which is a new build flat provided as part of a wider development. The 1 bed values range from £325,000 for a second hand flat with no outside space up to £488,750 for a 1 bed flat at Twickenham Gateway.

7.8 For the 2 bed flats we consider the modern block at Heath Road to be the most relevant comparable in terms of location and the type of product, this being a modern new build flat with a balcony and allocated parking. This comparable hasn't yet sold and has been reduced once already from £595,000 to £575,000. The 2 bed flats on the market at Brewery Lane also provide useful context in terms of the upper limit for 2 beds in this area, given its superior location with superior proximity to the centre of Twickenham and the railway station. The 2 bed asking values range from £475,000 for a 2 bed flat in a period property with no outside space up to £960,000 for a large 2 bed flat at Brewery Wharf.

7.9 For the 2 bed and 3 bed homes we consider the second hand properties on the surrounding streets are the most relevant as these larger homes at the subject Site will be in direct competition with these period properties. The new build mews at Schurlock Place provide a useful comparable for new build 3 bed homes which include a parking space. The asking prices for 2 bed house in this locality range from £625,000 to £710,000. The asking prices for 3 bed homes in this area range from £650,000 up to £1.2M for the larger homes at Schurlock Place.

7.10 London Square's sales team has conducted a unit by unit pricing schedule which is attached at **Appendix Five**. DS2 summarise the adopted pricing for the Development market sale homes below:

TABLE 7: SUMMARY OF UNIT BY UNIT PRICING SCHEDULE, GREGGS BARKEY JULY 2022

Unit Type	Minimum Price	Maximum Price	Average Price	Average Unit Size (sq ft)	Average £ per sq ft
1 bed flat	£450,000	£500,000	£460,417	557	£827
2 bed flat	£475,000	£650,000	£574,750	760	£756
2 bed house	£695,000	£715,000	£700,000	872	£803
3 bed flat	£700,000	£750,000	£725,000	1,044	£694
3 bed house	£905,000	£1,100,000	£972,222	1,253	£776

7.11 In summary an average value of £781psf has been adopted for the market sale residential homes situated within the Development. Several factors were taken into consideration when determining the capital values for the various unit types including the size of the unit types and how these compare to the comparable evidence, the location of the scheme which is situated 15 minutes' walk away from Twickenham Station and the quality of the scheme being proposed.

Affordable housing values

7.12 In valuing the affordable housing, regard has been given to the Council's affordable housing policies as well as DS2's professional experience in valuing affordable housing.

Low Cost Rented Homes

7.13 The proposed affordable housing component of the planning application consists of seven low cost rented units which are proposed to be delivered as London Affordable Rent (LAR) units.

7.14 To assess the value of the LAR homes, DS2 has used specialist discounted cashflow software which is used by the Registered Provider (RP) sector. ProVal assesses the total rented income generated by the affordable units, then makes deductions to reflect the RPs costs in delivering and managing the affordable units long term. This includes costs for management, maintenance and repair, letting, voids, delivery and borrowing (finance). The cashflow is assessed over 45 years and discounted back at an appropriate rate to a present-day value.

7.15 In summary the value generated for the seven LAR units based on the 2022/23 benchmark rents of £168.34 for a 1 bed home and £178.23 for a 2 bed home is £1,250,000. This equates to an average value of **£251** per square foot. A copy of the LAR ProVal appraisal is provided at **Appendix Six**.

Intermediate Housing

7.16 The Intermediate units are proposed to be delivered as London Shared Ownership. The affordability of intermediate units is determined by the total housing costs that are payable by the occupier. Under the London Shared Ownership model, a tenant purchases an initial equity share of the property upon which they take out a mortgage. They then pay a rent to a Registered Provider, based on the percentage equity that they do not own, typically charged at between 0.5% - 2.75% as well as the relevant service charge.

7.17 Over time the buyer can seek to purchase further tranches of equity in their property. This process is known as 'Staircasing'.

7.18 The combination of mortgage, rent and service charge forms the purchaser's housing costs. London Plan policy further stipulates that total housing costs cannot exceed

40% of net annual income. Based on a certain level of initial sale, rent and service charge it can be calculated whether a property's housing costs are 'affordable' to those on the applicable intermediate incomes.

7.19 The GLA's eligibility criteria for intermediate housing for sale stipulates that households must have a gross household income of no more than £90,000.

7.20 The Council's Intermediate Housing Policy Statement which was published in January 2018 acknowledges the GLA household income cap of £90,000. However within this document the Council states that they expects that two thirds of scheme applicants will have an income of up to £47,000 and that these households should be prioritised.

7.21 The London Shared Ownership homes have therefore been valued on the basis that two thirds of the homes will be affordable to households with a maximum household income of £47,000. The table below sets out below the assumptions for the London Shared Ownership units.

TABLE 8: LONDON SHARED OWNERSHIP ASSUMPTIONS

Unit Type	1 bed	1 bed	2 bed	2 bed	3 bed
Number of homes	5	1	3	2	2
Market Value	£427,500	£427,500	£555,750	£555,750	£650,750
Maximum Household Income Cap	£47,000	£90,000	£47,000	£90,000	£90,000
Initial Equity Share	25%	45%	25%	30%	25%
Rent on unsold share	1.75%	2.75%	0.85%	2.75%	2.65%

7.22 Based on the assumptions in the table above, the value generated by the 13 London Shared Ownership units is £4,200,000. This equates to a £ per square foot value of **£450**. A copy of the ProVal Appraisal is provided at **Appendix Seven**.

Car Parking

7.23 All surface and below podium spaces will be allocated to a specific dwelling and so the value of the car parking spaces is already included within the sales price.

Industrial value

7.24 In analysing the rental value of the industrial floor space proposed at the Site, DS2 have had regard to the following evidence on Costar.

TABLE 9: INDUSTRIAL RENTAL EVIDENCE JULY 2022						
Address	**Date**	**Use**	**Floor**	**Size (sq ft)**	**Rent per annum**	**Rent £ psf**
Pope's Grove – arch 36	July-22 (under offer)	Light Industrial	G	396	£7,000	£17.68
172-174 Colne Road TW2 6RE	April-22 (asking)	Industrial	G	675	£15,750	£23
Unit 6, Heathlands Industrial Estate, TW1 4BP	Feb – 22	Industrial	G	2,313	£57,594	£24.90
Suite 7, Heathlands Industrial Estate, TW1 4BP	Dec-21	Industrial	G	2,300	£57,500	£25
Unit 3, Heathlands Industrial Estate, TW1 4BP	Feb-2021	Industrial	G	3,613	£64,492	£17.85

7.25 Colliers have provided a valuation of the existing Site which is provided at **Appendix Eight**. This report provides useful commentary on the West London rental market. Colliers state Prime New Build Market Rents in West London are currently reflecting around £20.00 to £25.00 per square foot on a gross headline basis. This is in line with the comparable evidence obtained which ranges from £17 per square foot to £25 per square foot for existing units. Colliers state that the range is dependent on the size of the unit in question and the micro location. Colliers consider the subject Site to be towards this range and warrant a discount due to its micro location which would limit the pool of occupiers.

7.26 Based on the comparable evidence above and taking into consideration the commentary from Colliers on the limitations of the location of the Site, we have adopted a rent of £18 per square foot for the industrial floorspace.

7.27 Set out below is a table showing comparable yield evidence for industrial units in the area.

TABLE 10: INDUSTRIAL YIELD EVIDENCE JULY 2022						
Address	**Sale Date**	**Sale Price**	**Floor**	**Size (sq ft)**	**Price per sq ft**	**Net Initial Yield**
Princes Road, Teddington, TW11 0RT	Mar-22	£4.7M	G	14,357	£327.37	5.35%
Tamian Way – Cherrywell House	Feb-22	£2.65M	G/1st	12,479	£212.36	n/a
Heathlands Industrial Estate, TW1 4BP (Part of a Portfolio Sale)	June-21	£13.82M	G	28,053	£492.78	2.72%
Heathlands Industrial Estate, TW1 4BP (Part of a Portfolio Sale)	June-21	£5.68M	G	11,528	£592.78	2.72%

7.28 The yields from two of the comparable sites (Heathlands Industrial Estate) are from multi property portfolio sales at ground floor compared to the Development which provides industrial floorspace over ground floor and mezzanine level. The properties in the portfolio are also better situated in terms of access to main roads. Therefore the proposed industrial unit would not achieve a yield as keen as the transactional portfolio evidence at Heathlands Industrial Estate.

7.29 The comparable at Princes Road is the most relevant comparable in terms of the site characteristics. This is a small industrial site, surrounding by two to three storey residential dwellings. The site at Princes Road is situated closer to a main road so benefits from superior road access.

7.30 Given the limited recent yield information available over the past 12 months and the overall quantum of industrial space proposed, DS2 has also had regard to recent industrial market reports:

- Knight Frank's Investment Yield Guide (June 2022) shows that Secondary Distribution have remained stable from 4.50% to 4.00% in the period of June 2021 to June 2022. The Knight Frank Investment Yield Guild is provided at **Appendix Nine**.

- CBRE's UK Property Investment Yields (July 2022) reports Good Secondary are at 4.50% in July 2022. The CBRE Investment Yield Sheet is provided at **Appendix Ten**.

7.31 Due to the location of the industrial unit being situated further back from main access routes we have considered a yield of 4% as reasonable.

7.32 In line with local market evidence for newly constructed industrial floorspace, DS2 has adopted a rental value of £18 per square foot and an investment yield of 4% for the proposed commercial unit at the Development. A 12 month rent free period has been included within the ARGUS appraisal. The capital value of the industrial unit is £4,112,308 which equates to a £ per square foot value of £433.

Affordable Industrial

7.33 The Development provides 1,259 sq ft of affordable industrial floorspace (Use Class E). The Council's adopted Local Plan at para 10.2.12 states that;

"affordable workspace is considered to have a rent and service charge of less than 80% of comparable local market rates".

7.34 For the affordable workspace we have applied a rent of £14.40 per square foot which equates to 80% of the market rent adopted for the industrial space. We have capitalised the rental income by applying the same yield as the market industrial space of 4%. The capital value of the affordable industrial unit is £453,240 which equates to a £ per square foot value of £360.

Summary of revenue assumptions

7.35 The input assumptions for each use type are summarised in the table below;

TABLE 11: DEVELOPMENT APPRAISAL INPUT ASSUMPTIONS

Input	Value
Market Sale	£781 per sq ft
Affordable	£251 per sq ft – London Affordable Rent £450 per sq ft – Shared Ownership
Commercial (Industrial)	£18 per sq ft @ 4% Yield
Affordable Commercial (Industrial)	£14.40 per sq ft @ 4% Yield

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;
- Contingency;
- Professional fees;
- Sales, letting, disposal & marketing costs;
- Financing costs;
- Planning obligations including CIL

Construction Costs

8.2 The build cost advice for the Development has been provided by the Applicant, a summary of which is attached **Appendix Eleven**.

8.3 The cost estimate includes allowances for preliminaries, main contractors' overheads & profit. The total build costs equate to £27,589,996 on a present-day basis, which equates to circa **£233** per square foot based on the GIA of 118,289 square foot.

Contingency

8.4 An allowance of 5% of the total construction cost has been included within the appraisal for a developer's contingency. The developer's contingency is there to protect the developer for elements that the contractor will not accept the risk on such as necessary design development changes required to meet building regulations and specifications which have not yet been worked into the design.

Professional Fees

8.5 Professional fees are included at 12% of the total build costs. The costs reflect a mixed-use project where there are a full range of consultants required to cover every conceivable area. This level of professional fees is what the market would ordinarily allow for a scheme of this scale and complexity and is, therefore, considered reasonable.

Sales, Marketing and Disposal Costs

8.6 The following disposal costs have been adopted in line with current market norms:

- Residential sales marketing – 1.50% (of residential GDV)
- Commercial marketing – £1.50 per sq ft (of commercial GIA)

- Residential sales agent fee – 1.50% (of residential GDV)
- Affordable sales agent fee – 0.5% (of affordable GDV)
- Residential legal fee - £1,000 (per market sale unit)
- Commercial sales agent fee – 1.50% (on commercial NDV)
- Commercial sales legal fee – 1% (on commercial NDV)
- Commercial letting agent fee – 10% (of commercial ERV)
- Commercial letting legal fee – 5.0% (of commercial ERV)
- NHBC fees - £2,000 per residential unit

Finance

8.7 A 6.50% finance rate has been applied in our appraisal. This is an 'all in' rate, which includes the basic margin (4-5%), commitment fees, arrangement fees (2-3%) and exit fees (0.5-1%), as well as a bank management/monitoring cost.

8.8 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. However, viability inputs should be standardised under PPG requirements. Applicant specific finance rates should therefore not be provided or relied upon.

8.9 Although the model assumes that the development is 100% debt financed, the reality of the current lending environment is that many of the more traditional lenders are generally only lending senior debt at a maximum of 60% loan to cost ratio.

8.10 The outlook for speculative development debt post-pandemic period is, at best, uncertain, as there is little doubt that lenders will factor in greater risk and potentially headroom, into their pricing structures. This will invariably lead to greater borrowing costs for developers. Private equity will also likely become more expensive, and the overall impact will to a certain degree play through into land values but only to an extent i.e., not below a landowner's reasonable expectations and EUVs.

8.11 Developers therefore must 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 10-15%. Alternatively, developers can source debt from niche operators, who are by their nature, more expensive than the traditional lenders.

8.12 As noted, the current economic climate presents additional risk for the development industry in general and there is a risk that debt is likely to increase in the short to medium term.

Planning Obligations

8.13 The following CIL and planning obligations have been included within the appraisal of the Development as advised by DP9, the Applicant's planning consultants. The table below sets out a summary of the planning obligations which have been included:

TABLE 12: PLANNING OBLIGATIONS SUMMARY, GREGGS BAKERY, JULY 2022	
Planning obligation	Cost
Mayoral CIL2	£756,434
Borough CIL	£2,248,418
S.106 contributions	£134,060
Carbon Offset Payment	£122,075

8.14 Please note that all S106 and CIL costs are subject to final verification and are, therefore, subject to change as a result of further negotiations with the local planning authority.

Developer Return Expectation

8.15 Paragraph 016 of the NPG stipulates that an assumption of 15-20% of GDV may be considered a suitable return to developers to establish the viability of plan policies. Alternative figures may be appropriate for different development types and the return allowed should account for and mitigate development risk.

8.16 The criteria to consider in arriving at an appropriate figure for developer's profit therefore includes, amongst other things: location, property use type, scale of development, weighted cost of capital and economic context.

8.17 Developers, banks, and other funding institutions will have minimum expectations in terms of financial returns that are aligned with the risk profile. Simply, there must be a reasonable prospect that the return will be commensurate with the risks being undertaken.

8.18 In light of the scale and complexity of the project which involves the construction of a mixed use development surrounded by residential dwellings and adjacent to a river as well as the current economic climate and the general approach to risk, it is considered that finance for the project would generally not be forthcoming at a profit expectation below 20% profit on GDV for the market sale element, 6% profit on value for the affordable element and 15% profit on value for the commercial element. The allowance of 20% profit on GDV for the market sale element accords with the Council's Local Plan Viability Assessment Assumptions. That being said, DS2 has adopted a market sake profit allowance of 17.5% on GDV within the appraisal. This reflects the position adopted for the previous application by Bespoke Property Consultants, who acted on behalf of the Council.

8.19 The above approach to profit levels on the various elements of the scheme equates to a blended target profit expectation of 16.42% on GDV.

Summary

8.20 The costs for the Development on a present-day basis have been presented by the Applicant's consultant team and in their professional opinions are reflective of a mixed-use development in London.

9 SITE VALUE

Overview

9.1 Viability is determined by comparing the Residual Land Value (RLV) of the proposed development against a Benchmark Land Value (BLV). If the RLV equals or exceeds the BLV, a scheme can be considered viable as this enables the developer or landowner to make a competitive return.

Policy context

Existing Use Value

9.2 Paragraph 013 of the PPG states that a BLV should be established based on the Existing Use Value ("EUV") of the land, plus a premium for the landowner.

9.3 Paragraph 014 of the PPG states that BLV should:

- *"Be based upon EUV*
- *Allow for a premium to landowners*
- *Reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees"*

9.4 Market evidence (i.e. land transactions) can be used however the PPG limits the use of land transaction evidence to that of a cross-check of the BLV and should not be used in place of BLV. Further limitation on the use of market evidence is set out within the RICS 2021 Guidance Note.

9.5 Paragraph 015 of the PPG defines what is meant by EUV in a viability assessment. This states the following:

> *"Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development)."*

Existing Use Value Assessment

9.6 The value of the Site has been assessed by Colliers. The Applicant has instructed Colliers to provide their opinion of value on the existing use value in its current use. A copy of the report is attached at **Appendix Eight**.

9.7 The Site currently comprises of 79,341 sq ft of industrial space with ancillary office space. The property lies upon an irregular site of approximately 2.7 acres which provides a relatively high site coverage of 70%.

9.8 The property was formerly occupied by Greggs Bakery, who have ceased operation. The property is now vacant, with its main function previously being for factory use serviced by workshops, offices and storage space. Most of the property is single storey in elevation with the office/admin elements to the northeast comprising of both two and three storeys.

9.9 In order to let the property and create an investment, a comprehensive refurbishment is required. Colliers have included a Capital Expenditure allowance of £30.00 per square foot within their calculations. The extent of the works refers to a comprehensive refurbishment.

9.10 Colliers has assumed that the property will be non-income producing for two years including for six months to undertake the refurbishment , a twelve month letting void, followed by a six month rent-free period.

9.11 Colliers has adopted a market rent of £10.00 per square foot which has been discounted from rents of secondary assets in the area of £15 per square foot to reflect the Sites limitations with location, access, high site cover and eaves height.

9.12 Colliers has capitalised the income on an Equivalent Yield basis of 4.50%. Prime Equivalent Yields in London are around 3.50% and so Colliers has discounted this by around 100bps to allow for some investor profit to reflect the letting risk.

9.13 Based on the inputs outlined above, Colliers opinion of the existing use value of the Site is **£12,800,000**. This reflects a capital value on a £ per square foot basis of **£160**.

9.14 The PPG at Paragraph 017 states that where it is assumed that an existing use will be refurbished or redeveloped, this will be considered as an Alternative Use Value (AUV) when establishing BLV. As the Colliers value includes an allowance of c.£790,000 of Capital Expenditure we have not applied a premium to the Existing Use Value.

9.15 Therefore the Benchmark Land Value for the Site is **£12.8M**.

10 APPRAISAL RESULTS AND SENSITIVITY TESTING

10.1 A copy of the ARGUS appraisal summary of the Development is attached at **Appendix Twelve**. The results of the appraisal are included in the table below.

TABLE 13: FVA RESULTS, GREGGS BAKERY JULY 2022		
Proposed Scheme RLV	**Benchmark Land Value**	**Surplus/Deficit**
£9,635,529	£12,800,000	-£3,164,471

10.2 The results demonstrate that the development appraisal on a present-day basis derives a RLV of £9,203,166. This is below the BLV of £12,800,000. As such the above demonstrates that the scheme cannot support the proposed quantum of affordable housing, based upon the current day viability assessment alone.

10.3 However the Applicant is mindful of the requirement for any planning application on balance to provide more benefits than harm to its local area and therefore proposes 20% affordable housing and 117 sqm of affordable industrial floorspace. This offer is on the basis that the return can be improved sufficiently over the lifetime of the development.

10.4 Sensitivity analysis has been carried out below to demonstrate the impact on the RLV of the Development, should sales values and construction costs change in increments of 5%. The results of the sensitivity analysis are set out in the table below.

TABLE 14: SENSITIVITY TESTING, GREGGS BAKERY JULY 2022						
		Sales Values				
		-10.0%	-5.0%	0.0%	+5.0%	+10.0%
Construction Costs	-10.0%	£9,026,241	£10,687,570	£12,348,888	£14,010,224	£15,671,553
	-5.0%	£7,669,566	£9,330,903	£10,992,233	£12,653,552	£14,314,865
	0.0%	£6,312,895	£7,974,223	£9,635,529	£11,296,897	£12,958,217
	+5.0%	£4,956,223	£6,617,552	£8,278,881	£9,940,210	£11,601,562
	+10.0%	£3,599,552	£5,260,881	£6,922,209	£8,583,532	£10,244,867

10.5 The above table indicates that through a combination of changes to the sales and build cost inputs over the life of the Development, there is potential for a significant improvement in the residual land value.

11 CONCLUSIONS

11.1 The purpose of the Financial Viability Assessment is to robustly test the maximum reasonable amount of affordable housing and other financial obligations that the proposals can viably support. The Financial Viability Assessment is an objective and impartial view on the development viability of the Development using professional judgement.

11.2 Subject to the necessary permissions, the Applicant is seeking to deliver a high quality mixed use scheme providing 97 residential homes and 1,000 sqm of industrial floorspace.

11.1 The EUV for the Site is examined. This considers the value of the Site in its existing use. Colliers has provided an opinion of the existing use value of the Site which is **£12,800,000**. This reflects a capital value on a £ per square foot basis of **£160**.

11.2 The PPG at Paragraph 017 states that where it is assumed that an existing use will be refurbished or redeveloped, this will be considered as an Alternative Use Value (AUV) when establishing BLV. As the Colliers value includes an allowance of c.£790,000 of Capital Expenditure we have not applied a premium to the Existing Use Value.

11.3 The Development appraisal shows a deficit when compared to the value of the Site in its current use.

11.4 The sensitivity demonstrates that that through a combination of changes to the sales and build cost inputs in the viability of the Development, an improvement in the Residual Land Value can be achieved and demonstrates the scheme could have the ability to become viable. This is included purely as a sensitivity to demonstrate the business case behind the application.

11.5 DS2 conclude that the scheme is providing in excess of the maximum reasonable amount of affordable housing and other financial obligations that the proposals can viably support. On completion, the Development will provide 97 newly built units equating to 20% affordable housing by unit.

11.6 The Applicant and DS2 would be happy to meet with the Council and their appointed viability consultants to discuss or expand upon any points contained within this FVA.

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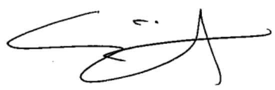

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