Carter Jonas

STAG BREWERY DEVELOPMENT: FINANCIAL VIABILITY ASSESSMENT (HYBRID DEVELOPMENT)

REVIEW OF APPLICANT'S FINANCIAL VIABILITY ASSESSMENT

Update Draft Report

SUBMITTED ON BEHALF OF CLIENT:

LONDON BOROUGH RICHMOND UPON THAMES

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1. EXECUTIVE SUMMARY

Carter Jonas has been instructed by the London Borough of Richmond upon Thames (LBRuT) (as local planning authority) to undertake a viability review in respect of proposed residential-led mixed use redevelopment ('the Proposed Development') of the Stag Brewery Site in Mortlake ('the Site').

The 8.6 ha Site is broadly triangular in shape and is located on the south bank of the River Thames and bordered by Mortlake High Street and Lower Richmond Road to the south and Williams Lane to the west. The existing Brewery buildings extend to circa 32,794 sqm (353,000 sqft) of floorspace in a variety of modern and period buildings.

The Site has a complex planning history. In January 2020, the Council resolved to grant planning permission, subject to the Applicant entering into a Section 106 agreement. Following the LBRuT planning committee's resolution to approve Applications A and B and refuse Application C in January 2020, the GLA exercised its call-in powers in May 2020. The Applicant entered a series of discussions with the GLA on an enlarged scheme providing 1,250 units through increased heights. The Mayor refused permission in August 2021 on the grounds of height, bulk and massing; heritage impact; neighbouring and amenity issues; and no Section 106 agreement in place. The Mayor also refused Application B.

BNP Paribas (BNP) submitted a Financial Viability Assessment (FVA) on behalf of Dartmouth Capital acting on behalf of Reselton Properties Limited ('the Applicant') in respect of new linked Applications. Application A is a Hybrid Application to include the demolition of existing buildings to allow for comprehensive phased redevelopment of the site. Planning permission is sought in detail for works to the east side of Ship Lane and outline with all matters reserved for works to the west of Ship Lane. In addition, detailed planning permission (Application B) is also sought for the erection of a three-storey building to provide a new secondary school; sports pitch with floodlighting, external MUGA and play space; and associated external works including landscaping, car and cycle parking, new access routes and other associated works".

Application A originally comprised 1,085 dwellings and 12,757 sqm of non-residential accommodation. Following discussion between the Applicant and the LPA there have been number of recent changes to the proposals, which are detailed below:-

- Loss of 14 residential units / 29 habitable rooms;
- 9 of these units were in B10 which has been reduced to 6 storeys;
- 5 of the units were at the ground floor in Phase 2 due to adding extra escape corridors and moving the refuse stores up from the basement;
- Loss of 79m2 / 851sqft Office GIA due to the changes to the top floor of B01;
- Loss of 55m2 / 590sqft Flexible Use GIA due to moving the refuse stores to ground floor, separating the residential stairs from the basement and adding additional lifts to the basement;
- Loss of 581m2 / 6,256sqft Residential GIA due to the reduction of B10 and the ground floor changes;
- There is now 2264m2 flexible use in the high street zone, a loss of 90m2.

The above changes result in a reduction in overall residential numbers to 1,071 dwellings and 12,623 sqm of non-residential accommodation.

For the purposes of testing the viability buildings 10 and 18 have been modelled as affordable, which equates to an affordable housing provision of 14.8% of units or 16.6% of habitable rooms. This falls significantly below the strategic 50% target for affordable housing set out in both the Richmond Local Plan and the London Plan.

The updated FVA models five affordable housing tenure scenarios, which vary the split of rented and shared ownership accommodation. Based on the Applicant's assumptions they have concluded that all scenarios result in a viability deficit when compared to their assumed target profit margin.

Carter Jonas has now reviewed the updated development scenarios and the assumptions adopted. Given that the Applicant's calculations are being made well in advance of commencement of the development, the figures used in the Applicant's appraisals can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the local planning authority to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.

In respect of Benchmark Land Value (BLV) extensive discussions took place as part of the previous applications given that the BLV was a key area of difference. At that time, Savills, acting on behalf of the Applicant, advised the value of the benchmark to be £49.12m, which was significantly above Carter Jonas' assessment (acting for the Council) of £32.15m.

Subsequent discussions took place between the Applicant and the GLA and we understand a compromise position was reached at a value of £36,000,000. BNP have maintained this agreed position for the purpose the viability update and we have adopted the same for our own modelling.

In respect of the proposed scheme the table below provides a summary of our analysis highlighting any areas of difference in respect of specific inputs.

Assumption	BNP Assumptions	Carter Jonas Assumptions	Comments
Sales and Revenue			
Private Residential Sales Value	BNP has adopted an average blended private sales figure of £927 psf. This breaks back to £936 psf for Phase 1 and £912 psf for Phase 2.	We have adopted an average blended private sales figure of £957psf. This breaks back to £963psf for Phase 1 and £952psf for Phase 2	See Section 5.1
Affordable Housing Sales Values	S1 - 20% rent and 80% shared ownership (blended capital value of £350 per square foot)	Values have decreased because of applying reduced affordability criteria to	We have adopted the same values for the purpose of our own modelling, but the

	S2 - 50% rent and 50% shared ownership (blended capital value of £310 per square foot) S3 - 60% rent and 40% shared ownership (blended capital value of £303 per square foot) S4 - 70% rent and 30% shared ownership (blended capital value of £286 per square foot) S3 - 80% rent and 20% shared ownership (blended capital value of £266 per square foot)	the proposed shared ownership units. Clearly the impact is greater for the scenarios which include a higher SO provision.	values are still subject to validation. The accommodation mix differs for each scenario and it's not clear is a prorate approach has been taken or bespoke modelling for each scenario. We would also request that separate blended sales value for the rented and shared ownership accommodation are provided rather than a single overall blend.
Residential Ground Rents	N/A	Agreed	
Flexible Use Office Accommodation Hotel (3 Star) Cinema Use Affordable Flexible Use	£35psf @ 6% £40psf @ 6% £13.2m £14.33 psf 6% yield £27.50 psf @ 6% (Various rent-free periods and £1m reverse premium for the cinema use)	See comments	We would request that further details are provided in relation to discussions with cinema operators. We consider the rental value adopted for the cinema use to be at the lower end of the typical range and it is noted that modelling also reflects a reverse premium of £1m.
Car Parking	£50k per space applied to all car parking spaces – residential and commercial	Agreed	
Development Costs			
Construction Costs	£550,228,000 (exc. Contingency)	£549,238,000 (exc. Contingency)	Although there could be a small cost saving against the FVA cost plan given the scale of the scheme and overall costs it is our opinion that this falls with an acceptance tolerance. As such we have mirrored the Applicants build costs for the purpose of our modelling.
Works outside the application boundary	£11,468,000 (exc. Contingency)	£11,077,000 (exc. Contingency)	See Appendix A
	£2,095,000	£2,095,000	See Appendix A

Further off-site Highways Works	(exc. Contingency)	(exc. Contingency)	
Build Contingency	7.5% reflected in G&T's cost plan but reduced to 5%in BNP's modelling	5%	We consider 5% to be reasonable and standard for a scheme of this nature
Professional Fees	10%	See comments	Agreed but for completeness a breakdown of anticipated professional fees should be provided.
Sales Costs	Various	Agreed	
S106 / CIL	S106 - £5,466,219 CIL – £35,847,594 Assuming all existing space meets occupancy test CIL - £48,164,416 Assuming no existing space meets occupancy test	See comments	We have assumed the CIL and S106 costs to be correct for our initial modelling purposes – however we would recommend that BNP's assumptions are reviewed and confirmed by the Council's CIL / S106 officer. Clearly the level of CIL will need to be updated if additional AH is secured.
Interest / Finance Costs	6% 100% debit	Agreed	
Developers Profit	20% on GDV on private residential 6.0% on GDV on affordable residential 15% on GDV on commercial accommodation	17.5% on GDV on private residential 6.0% on GDV on affordable residential 15% on GDV on commercial accommodation	Given the characteristics of the scheme and considering profit as a capital sum it is our opinion that applying a 17.5% developer's profit to inform the profit hurdle rate in this instance would be reasonable.
Benchmark Land Value	£36.0m	Agreed	BNP have maintained the compromise position with the GLA relating to the previous application. We have adopted the same BLV for the purpose of our modelling.

As can been seen from the table above we do not take issue with majority of the assumptions adopted. However, we have highlighted some inconsistency between the pricing schedule and the current proposals. For completeness an up to date pricing schedule reflecting the current proposals should be provided.

Having reviewed the residential evidence and also having regard to the previously agreed position we consider the private values adopted for the updated viability assessment to be overly conservative.

In respect of the affordable values although the reduction in values do not appear unreasonable considering the new affordability restriction, we do require further detail to understand how adjustments between the various scenarios have been undertaken and what the assumed blended values per affordable per tenure would for each scenario.

We would also request that further information is provided in respect of the cinema provision. The capital value for cinemas can vary considerably depending on the type, assumed operator, and level of fit out proposed.

In addition to the above the S106 and CIL costs stated in the report are subject to further validation by the Council in due course.

The Applicant / BNP considered an appropriate blended profit / hurdle rate to be 18.15% to be appropriate. This reflected an assumed developers profit of 20% on GDV for the private accommodation. It is our view that a 17.5% margin on the private accommodation is reasonable given the characteristics of the scheme and considering profit as a capital sum.

Making the downward adjustments to the private profit margins from 20% to 17.5% would reduce the blended project profit margin to circa 16.4%.

The outputs of our modelling alongside the Applicants / BNP's are indicated in the tables below :-

Appraisal results (CIL with full offsetting - £35.85m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20% (31)	80% (127)	6.05%	8.57%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	5.26%	7.57%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	5.12%	TBC
S4 – 14.8% / 16.6%	70% (110)	30% (48)	4.77%	TBC
S5 – 14.8% / 16.6%	80% (126)	20% (32)	4.37%	6.98%

Appraisal results (CIL with no offsetting - £48.16m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20% (31)	80% (127)	4.63%	6.93%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	3.82%	5.90%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	3.67%	TBC

S4 – 14.8% / 16.6%	70% (110)	30% (48)	3.32%	TBC
S5 – 14.8% / 16.6%	80% (126)	20% (32)	2.91%	5.31%

As can be seen from the outputs above, although we consider that the Applicant's FVA has overstated the extent of the scheme deficit, we would acknowledge that the site is challenging from a viability perspective.

Although this is a high value area the cost of developing out the site is also high and there are notable upfront costs. Of note is the cost of the basement, which although includes some revenue from the car parking and includes services this does have a significant adverse impact on viability. Moreover, this is an upfront cost, which has implication in relation to finance costs.

Given the overall project deficit we also undertaken further sensitivity analysis to illustrate the impact of positive market movements. Given the characteristics and location of the site we do believe that there is a good prospect for value growth within the proposals and as such we have modelled a stepped change of plus 5% in private residential values.

The value growth sensitivity analysis demonstrates that given the scale of proposals there is the potential for a significant positive impact on viability.

With this being the case, we recommend that the Council should seek appropriate Review Mechanisms given the long-term phased nature of the scheme and the potential for viability enhancement which could support additional affordable housing.

2. INTRODUCTION

2.1. Background

Carter Jonas has been instructed by the London Borough of Richmond upon Thames (as local planning authority) to undertake a viability review in respect of proposed residential-led mixed use redevelopment ('the Proposed Development') of the Stag Brewery Site in Mortlake ('the Site').

2.2. The Site

The 8.6 ha Site is roughly triangular in shape and is located on the south bank of the River Thames and bordered by Mortlake High Street and Lower Richmond Road to the south and Williams Lane to the west.

The Site has a long history as a Brewery with the first operation commencing in 1487. The two most recent operators on the Site were James Watney & Co (1889 to 1995) and Anheuser Busch (1995 to 2015). Anheuser Busch ceased brewing on the Site in 2015 due to constraints on expansion and moved its operations to South Wales. The existing Brewery buildings extend to circa 353,000 square feet of floorspace in a variety of modern and period buildings.

None of the buildings on the Site are listed, but three buildings and some boundary structures fall within the Mortlake Conservation Area. The Maltings Building, the former Bottling Building, the Hotel Building and the boundary structures fronting the River Thames and the High Street are all considered by the Council to be buildings of townscape merit.

Mortlake National Rail Station is located circa 100 yards to the south of the Site, providing access to South Western Trains services to Clapham Junction (journey times of approximately 12 minutes) and London Waterloo (journey times of approximately times of 23 minutes).

2.3. Planning History

The Site has a complex recent planning history, which we have summarised below:-

<u>The 2018 Application</u>

In 2018, the Applicant applied for the comprehensive phased redevelopment of the site, as follows:

a) Application A – hybrid planning application for comprehensive mixed-use redevelopment consisting of:

i Land to the east of Ship Lane applied for in detail (referred to as 'Development Area 1' throughout);and

ii Land to the west of Ship Lane (excluding the school) applied for in outline (referred to as 'Development Area 2' throughout).

b) Application B – detailed planning application for the school (on land to the west of Ship Lane)

c) Application C – detailed planning application for highways and landscape works at Chalkers Corner.

In January 2020, the Council resolved to grant planning permission, subject to the Applicant entering into a Section 106 agreement. Viability discussions concluded that the 2018 scheme could not viably provide more than 17.5% affordable housing.

The GLA Application Proposed Development

Following the LBRuT planning committee's resolution to approve Applications A and B and refuse Application C in January 2020, the GLA exercised its call-in powers in May 2020. The Applicant entered a series of discussions with the GLA on an enlarged scheme providing 1,250 units through increased heights. The main changes to the Application are summarised as follows:

- Increase in residential unit provision from up to 813 units (this includes the up to 150 flexible assisted living and / or residential units) to up to 1,250 units (all standard residential with no assisted living);
- Increase in affordable housing provision from up to 17% to up to 30% of habitable rooms;
- Increase in height for some buildings, of up to three storeys compared to the Original Scheme;
- Change to the layout of Blocks 18 and 19, conversion of Block 20 from a terrace row of housing to two four storey buildings;
- Reduction in the size of the western basement, resulting in an overall reduction in car parking spaces of 186 spaces, and introduction of an additional basement storey beneath Block 1 (the cinema);
- Other amendments to the masterplan including amendments to internal layouts, relocation and change to the quantum and mix of uses across the Site, including the removal of the nursing home and assisted living in Development Area 2;
- Landscaping amendments, including canopy removal of four trees on the north west corner of the Site; and
- Alternative options being explored to Chalkers Corner highways works in order to mitigate highways impacts.

We understand this scheme reflected a 30% affordable housing provision by habitable rooms. The Mayor refused permission in August 2021 on the grounds of height, bulk and massing; heritage impact; neighbouring and amenity issues; and no Section 106 agreement in place. The Mayor also refused Application B.

2.4. The Planning Application

BNP has submitted the Financial Viability Assessment (FVA) on behalf Dartmouth Capital acting on behalf of Reselton Properties Limited ('the Applicant') in respect of a linked applications seeking permission for:-

<u>*Application A*</u>

"Hybrid application to include the demolition of existing buildings to allow for comprehensive phased redevelopment of the site:

Planning permission is sought in detail for works to the east side of Ship Lane which comprise:

a) *Demolition of existing buildings (except the Maltings and the façade of the Bottling Plant and former Hotel), walls, associated structures, site clearance and groundworks*

b) Alterations and extensions to existing buildings and erection of buildings varying in height from 3to 9 storeys plus a basement of one to two storeys below ground
c) Residential apartments
d) Flexible use floorspace for:
i. Retail, financial and professional services, café/restaurant and drinking establishment uses
ii. Offices
iii. Non-residential institutions and community use
iv. Boathouse
e) Hotel / public house with accommodation
f) Cinema
g) Offices
h) New pedestrian, vehicle and cycle accesses and internal routes, and associated highway works
i) Provision of on-site cycle, vehicle and servicing parking at surface and basement level
j) Provision of public open space, amenity and play space and landscaping
k) Flood defence and towpath works
l) Installation of plant and energy equipment

Planning permission is also sought in outline with all matters reserved for works to the west of Ship Lane which comprise:

m) The erection of a single storey basement and buildings varying in height from 3 to 8 storeys
n) Residential development
o) Provision of on-site cycle, vehicle and servicing parking
p) Provision of public open space, amenity and play space and landscaping
q) New pedestrian, vehicle and cycle accesses and internal routes, and associated highways works"

Application B

"*Detailed planning permission for the erection of a three-storey building to provide a new secondary school; sports pitch with floodlighting, external MUGA and play space; and associated external works including landscaping, car and cycle parking, new access routes and other associated works"*

2.5. Updated Proposals

Application A previously comprised 1,085 homes in addition to 12,757 sqm of non-residential accommodation. Following ongoing discussion between the Applicant and the LPA there have been number of recent changes to the scheme, which are detailed below:-

- Loss of 14 residential units / 29 habitable rooms;
- 9 of these units were in B10 which has been reduced to 6 storeys;
- 5 of the units were at the ground floor in Phase 2 due to adding extra escape corridors and moving the refuse stores up from the basement;
- Loss of 79m2 / 851sqft Office GIA due to the changes to the top floor of B01;
- Loss of 55m2 / 590sqft Flexible Use GIA due to moving the refuse stores to ground floor, separating the residential stairs from the basement and adding additional lifts to the basement;
- Loss of 581m2 / 6,256sqft Residential GIA due to the reduction of B10 and the ground floor changes;
- There is now 2264m2 flexible use in the high street zone, a loss of 90m2.

Reflecting the changes above the updated scheme now comprises 1,071 homes in addition to 12,623 sqm of non-residential accommodation.

The table below provides a summary of the revised residential mix.

Unit Type	Total units	% of Total
Studios	45	4.20%
1 Bed	275	25.68%
2 Bed	476	44.44%
3 Bed	249	23.25%
4 Bed	26	2.43%
Total	**1071**	**100%**

For the purposes of testing viability buildings 10 and 18 have been modelled as affordable, which equates to an affordable housing provision of 14.8% of units and 16.6% of habitable rooms.

The proposed affordable provision falls significantly short of the strategic 50% target for affordable housing set out in both the Richmond Local Plan and the London Plan.

BNP has tested five affordable housing tenure scenarios and details of the assumed tenure split and unit mix for each are detailed in the tables below.

Scenario 1 - 20% rent, 80% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	14	49	64	-	127
London Affordable Rent	8	17	0	6	31

Scenario 2 - 50% rent and 50% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	49	8	-	79
London Affordable Rent	-	17	56	6	79

Scenario 3 - 60% rent and 40% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	41	-	-	63
London Affordable Rent	-	25	64	6	95

Scenario 4 - 70% rent and 30% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	26	-	-	48
London Affordable Rent	-	40	64	6	110

Scenario 3 - 80% rent and 20% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	26	-	-	48
London Affordable Rent	-	40	64	6	110

2.6. Viability Conclusions

The viability approach adopted by BNP has been to measure viability against an assumed blended profit margin (18.15%). On this basis their assumed Benchmark Land Value has been fixed as a land cost within the appraisal. They have also considered the viability reflecting CIL with full off setting and CIL with no off setting. Based on their assumptions / inputs the results of their modelling are summarised in the tables below:-

Appraisal results (CIL with full offsetting - £35.85m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP
S1 – 14.8% / 16.6%	20% (31)	80% (127)	6.05%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	5.26%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	5.12%
S4 – 14.8% / 16.6%	70% (110)	30% (48)	4.77%
S5 – 14.8% / 16.6%	80% (126)	20% (32)	4.37%

Appraisal results (CIL with no offsetting - £48.16m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP
S1 – 14.8% / 16.6%	20% (31)	80% (127)	4.63%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	3.82%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	3.67%

S4 – 14.8% / 16.6%	70% (110)	30% (48)	3.32%
S5 – 14.8% / 16.6%	80% (126)	20% (32)	2.91%

Based on the above outputs all scenarios are resulting in a viability deficit when compared to the Applicant's target profit margin. In addition to the base modelling BNP has also undertaken sensitivity analysis to demonstrate the impact on viability through the adoption of sales value growth.

3. METHODOLOGY

3.1. Approach

Carter Jonas' review of the Applicant's FVA has had regard to the RICS Guidance Note "Financial Viability in Planning". We do not take issue with the overarching methodology used by the Applicant within their assessment. They have:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme;
- Adopted a Benchmark Land Value (based on the previously agreed BLV with the GLA) and assumed that to be a fixed land value,
- Undertaken an appraisal to calculate the outturn profit and the measured against the Applicant's target profit.

BNP has used the Argus Developer appraisal programme to assess the viability of the development and liver versions of their models have been provided to us. This is a commercially available, widely used software package for the purposes of financial viability assessments. The methodology underpinning viability appraisals is the residual method of valuation, commonly used for valuing development opportunities. Firstly, the gross value of the completed development is assessed, and the total cost of the development is deducted from this.

The approach adopted by BNP has been to assume a fixed land cost (which is equal to the agreed BLV previously agreed the GLA) and to adopt several assumptions in relation to the proposed development scenarios to arrive at profit outturn. With this approach, if the profit outturn is lower than the Applicants / a reasonable developer's return, then the scheme is deemed to be unviable and is therefore unlikely to come forward unless the level of affordable housing and/or planning obligations can be reduced.

BNP has modelled five affordable housing development scenarios based on a 14.8% provision by unit / 16.6% by habitable room and considered viability reflecting CIL with full off setting and CIL with no off setting. The Applicant's assumed profit hurdle rate is 18.15% on GDV and the outputs of their modelling are detailed in the table below:-

Appraisal results (CIL with full offsetting - £35.85m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20%	80%		
S2 – 14.8% / 16.6%	50%	50%		
S3 – 14.8% / 16.6%	60%	40%		
S4 – 14.8% / 16.6%	70%	30%		
S5 – 14.8% / 16.6%	80%	20%		

Appraisal results (CIL with no offsetting - £48.16m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20%	80%		
S2 – 14.8% / 16.6%	50%	50%		
S3 – 14.8% / 16.6%	60%	40%		
S4 – 14.8% / 16.6%	70%	30%		
S5 – 14.8% / 16.6%	80%	20%		

Carter Jonas has reviewed the development scenarios and the assumptions adopted by BNP in the FVA. Given that the Applicant's calculations are being made well in advance of commencement of the development, the figures used in the Applicant's appraisals can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the local planning authority to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.

Carter Jonas' approach has been to critically examine all the assumptions on which the BNP's appraisals are based. Our approach has then been to undertake sensitivity analysis where in our opinion inputs are not in line with current market conditions.

4. THE BENCHMARK LAND VALUE

Determining an appropriate Benchmark Land Value is often the most important factor in determining viability. Put simply, if the value generated by the development does not produce a positive figure (or in this case achieve an appropriate profit hurdle), there is no financial incentive to bring forward the development with all its associated risk.

Arriving at an appropriate BLV is not a straightforward exercise and this is acknowledged at 3.4.6 of the RICS Guidance Note which states that:

> *The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF.*

In arriving at an appropriate BLV regard should be had to existing use value, alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy.

Existing Use Value is widely used in establishing Benchmark Land Value and is supported in the latest mayoral SPD and the new NPPF PPG update.

Extensive discussions took place in respect of the BLV during the previous Application as this was a key area of difference between the parties. Savills' acting on behalf of the Applicant advised the value of the benchmark to be £49,118,198, which was significantly above Carter Jonas' assessment (acting for the Council) equating to £32,150,000.

Following subsequent discussions between the Applicant and the GLA, a compromise position was reached in respect of the BLV at a value of £36,000,000 and BNP have maintained this position for the purpose of the subject application. For our modelling, we have mirrored this approach / value.

5. ASSESSMENT OF APPLICATION SCHEME INPUTS

This section of the report present's the Applicant's appraisal inputs together with Carter Jonas's interrogation of these inputs and appropriate adjustments where applicable.

5.1. Scheme Values

5.1.1. Private Sales Values

The private sales values adopted in BNP's modelling has been informed by advice provided by Strutt and Parker (S&P) on the achievable prices. We summarise below S&P's pricing schedule albeit the below reflects a previous iteration of the scheme.

Beds	Total	Av sqft	Av Unit Price	£psf	Min	Max
S	£23,620,000	499	£501,875	£1,005	£480,000	£545,000
1	£171,995,000	602	£605,862	£1,006	£555,000	£800,000
2S	£74,595,000	777	£740,385	£953	£685,000	£850,000
2	£224,115,000	819	£768,260	£938	£685,000	£975,000
2L	£75,860,000	989	£851,141	£861	£785,000	£1,100,000
3S	£38,880,000	1,080	£1,061,625	£983	£970,000	£1,160,000
3	£218,380,000	1,157	£1,137,241	£983	£925,000	£1,675,000
4	£22,150,000	1,365	£1,258,611	£922	£1,080,000	£1,700,000
3TH	£15,600,000	1,389	£1,300,000	£936	£1,300,000	£1,300,000
4TH	£17,300,000	1,808	£1,572,727	£870	£1,400,000	£1,600,000
Summary	**£882,495,000**	**855**	**£818,115**	**£957**	**£480,000**	**£1,700,000**

It is important to note that the pricing schedule does not reflect the current proposals, but the approach adopted by BNP has been to apply the average £PSF of £957 indicated above to the private floor area resulting from the latest changes to the scheme.

In the context of the overall viability position consider that the effect will be small due to the modelling approach adopting a blended sales rate to the correct 1,071-unit mix. However, for completeness a new pricing schedule should be provided which reflects the current scheme.

No new evidence has been provided as part of the update FVA and BNP have maintained the same private sales values as previously assumed.

In 2008 Savills carried out a similar pricing exercise on behalf of the Applicant and this was agreed by all parties at that time. In the table below we set out the previously agreed sales values alongside S&P pricing schedule for comparison purposes.

	Savills 2018			S&P 2022		
Block	**Av unit sqft**	**Total GDV**	**£psf**	**Av unit sqft**	**Total GDV**	**£psf**
Phase 1						
2	900	£92,650,537	**£1,019**	881	£102,512,500	**£931**
3	875	£40,549,876	**£1,007**	863	£37,572,500	**£907**
4	1,174	£24,931,512	**£1,062**	1,172	£21,677,500	**£925**
6	896	£15,925,245	**£987**	862	£18,767,500	**£907**
7	891	£66,306,960	**£1,048**	861	£71,645,000	**£957**
8	1,035	£74,252,880	**£1,040**	925	£86,035,000	**£930**
9	1,076	£14,524,734	**£1,038**	1,074	£13,840,000	**£991**
10	864	£20,856,800	**£928**	699	£35,195,000	**£933**
11	941	£41,659,350	**£1,054**	970	£46,642,500	**£924**
12	918	£35,681,100	**£1,050**	878	£40,985,000	**£973**
Phase 2						
13	Extra Care	£24,841,550	**£950**	739	£29,705,000	**£934**
14	Extra Care	£34,144,900	**£950**	753	£24,225,000	**£946**
15	Extra Care	£33,654,700	**£950**	683	£73,772,500	**£939**
16	Extra Care	£37,812,375	**£915**	648	£45,194,000	**£969**
17	Extra Care	£40,909,650	**£915**	692	£48,541,000	**£935**
18	941	£123,363,200	**£950**	960	£115,725,000	**£880**
19	895	£52,724,050	**£950**	957	£37,560,000	**£892**
20	1,598	£21,866,625	**£855**	1,493	£22,000,000	**£921**
21	1,599	£10,933,740	**£855**	1,808	£10,900,000	**£861**
Phase 1	938	£427,338,994	**£1,023**	889	£474,872,500	**£936**
Phase 2	Not known	£380,250,790	**£921**	819	£407,622,500	**£917**
Total	**Not known**	**£807,589,784**	**£972**	**855**	**£882,495,000**	**£927**

As the table above demonstrates, the pricing assumptions adopted by S&P are substantially below the previously agreed position with the overall blended rate dropping from £972psf to £927psf.

Evidently, the scheme design has changed, and the prices of units will be affected by a range of factors, the most significant being whether they have a river view.

Therefore, we previously went through the schedule provided by S&P in some detail with reference to the previous pricing carried out by Savills to understand where these differences arise, as well as having reference to the comparable evidence detailed in section below.

5.1.2. National Housing Overview

Economic Overview

Gross domestic product (GDP) is estimated to have fallen by 0.6% in September 2022 after a fall of 0.1% in August 2022. Services fell by 0.8% in September 2022 after growth of 0.1% in August. The largest contribution to the fall came from a 3.2% fall in information and communication activity, and a 2% fall in wholesale and retail trade, and repair of motor vehicles and motorcycles. Output in consumer-facing services fell by 1.7% in September 2022, after a fall of 1.6% in August 2022.

Production grew by 0.2% in September 2022, after a fall of 1.4% in August 2022, electricity, gas, steam and air conditioning supply grew by 1.5% and was the largest contributor to growth in production in September 2022.

Construction grew by 0.4% in September 2022, after growth of 0.6% in August 2022, the monthly increase came from increases in both new work (0.6%), and repair and maintenance (0.2%).

Residential Market Overview

The Land Registry House Price Index (HPI) reports that the latest average property prices for England as at September 2022 (latest available) now stands at £314,278 with the annual rate of growth of 9.6%.

Nationwide reported a month on month fall in house prices of -0.9% in October, down from 0.0% in September. On an annual basis the Bank found that prices have risen by 7.2%, again a slowdown over the previous month which saw a 9.5% increase. The annual house price is now £268,282 and the monthly house price decrease of -0.9% is the first such fall since July 2021 and the largest since June 2020.

Halifax reported a monthly drop in house prices during October of -0.4% and an annual rise of 8.3% which is a reduction from September where 9.8% growth was recorded. Halifax also report the average UK property price of £292,598. Halifax report that the drop of -0.4% is the sharpest seen since February 2021 taking the typical property price to a five month low.

ONS's official house price index showed a slowing pace of house price growth in September with 9.5% annual growth recorded, down from 13.1% the month before. The average UK house price was £295,000 in September 2022, which is £26,000 higher than this time last year, and unchanged since August 2022.

October's RICS Residential Market Survey included the following commentary: *"The October 2022 RICS UK Residential Survey results point to a further deterioration in market conditions over the month, with the fall in buyer demand and agreed sales gathering pace. On the back of this, house price growth has now ground to a* *halt at the national level. By way of contrast, demand remains firm across the lettings market, with tenant enquiries still rising within all parts of the UK.*

Starting with the sales market, new buyer enquiries reportedly fell for a sixth successive report, as the latest headline net balance weakened further to -55% in October (from -36% last time). Moreover, the survey feedback on buyer demand is negative across all parts of the UK, the second report running in which this has been the case.

At the same time, the number of new listings coming onto the market also remains in decline, evidenced by a net balance of -17% of respondents at the national level citing a diminishing trend. Similarly, the volume of market appraisals undertaken over the month is down on an annual comparison, with the latest net balance slipping to -37% from -20% in September. For agreed sales, the latest feedback from members also remains firmly negative. At the headline level, a net balance of -45% of contributors saw a fall in sales during October, down from an already weak reading of -29% in the previous iteration of the survey. Going forward, the near-term outlook for sales remain subdued, with the three-month sales expectations net balance slipping a little deeper into negative territory at -40% (compared to -31% last month). On a twelvemonth view, the latest sales expectations net balance of -42% is broadly in-line with the reading of -44% seen in September.

In keeping with the general pattern of a weakening market of late, the average time to complete a sale (from initial listing) has edged up recently, now taking close to 18 weeks. At this point last year, the average completion time was closer to 16 weeks.

With respect to house prices, the latest results show a considerable slowing in momentum. The national net balance for house prices moderated to -2% in October, down from a figure of +30% previously. As such, this brings to an end a sequence of 28 positive monthly readings beforehand, with the latest result indicative of house price growth grinding to a halt. Furthermore, when disaggregated, respondents in areas such as East Anglia and the South East of England are now reporting some pull-back in prices (posting net balances of -31% and -16% respectively). Conversely, respondents based in Northern Ireland and Scotland continue to report a reasonably firm upward trend in house prices remaining in place, even if the pace of growth (in net balance terms) is softer than earlier in the year.

Looking ahead, the net balance for the twelve-month price expectations series sank to -42% in the latest findings, falling from a reading of -18% last time. When viewed at the regional/country level, respondents across all parts of the UK are now (on balance) of the opinion that prices will see some degree of decline over the year ahead."

Average residential asking prices dropped by 1.1% this month (November 2022) with annual changes of 7.2%, according to Rightmove's latest house price index report (November 2022). This is down from last month's 7.8%, following a monthly change of 0.9%. Demand stats are up 4% on the more normal market of 2019 but down by 20% on October last year.

"The average price of newly-marketed homes dips by 1.1% this month (-£4,159) to £366,999. As is usual in November, sellers are pricing more competitively to try to find a buyer in the last months of the year. This monthly price drop is exactly in line with the average 1.1% that Rightmove recorded in November during the pre-

pandemic years of 2015 to 2019, and so should not be regarded in isolation as a negative indicator. However, there are signs that more existing sellers, whose properties were already on the market and unsold, are willing to take their agents' recommendations and reduce their prices in order to achieve a quicker sale. The proportion of unsold properties seeing a price reduction has increased only slightly from the pre-pandemic 7.5% in October 2019 to 8% this October. However, it has doubled from the figure of 4% in the frenzied market of October 2021. Buyer demand is still performing better than it was during the more normal market of 2019, but it is clear that we have returned to a much more price-sensitive housing market after two years of a buying frenzy."

Local Residential Market Overview

The Land Registry House Price Index (HPI) reports that the latest average property prices for Richmond as of September 2022 (latest available) now stands at £780,053with the annual rate of growth of 5.7%. The residential developer activity in Richmond is strong with notable competition for sites. Developers continue to see good prospects for both commercial and residential development given the good transport links, quality of schools and local amenities.

5.1.3. Residential Comparable Evidence

In their previous analysis S&P referred to several riverside developments running from Battersea along the Thames up to Kingston. Sales values vary considerably as would be expected, but these developments are considered to provide more reliable evidence for the proposed scheme than other schemes without any river frontage. They have also had regard to sales of second-hand properties in the surrounding area to provide show the tone of the local market.

A summary of the schemes in our research showing the average unit sizes and £psf is presented below:

Scheme	Status	1 bed		2 bed		3 bed		Comment
		Size	£psf	Size	£psf	Size	£psf	
Boat Race House, Mortlake	Asking	538	£846	1,228	£846	-	-	Small scheme. Units oversized. Very close to Stag. Inferior.
	Achieved	-	-	1,447	£942	1,906	£905	
Emerald Gardens, Kew	Achieved	575	£847	917	£698	-	-	Resales. Taylor Wimpey scheme. Separated from the river. Smaller scheme with inferior placemaking to Stag.
Teddington Riverside	Asking	628	£1,032	817	£1,232	1,249	£1,423	Same developer as Stag. Sales limited to riverside units.
	Achieved	616	£910	826	£1,094	1,206	£1,296	
York Place, Wandsworth	Asking	631	£1,254	840	£1,252	1,038	£1,496	Set back from river – river views limited to upper storeys. Limited placemaking / landscaping
	Achieved	572	£1,074	778	£1,094	1,027	£1,257	
Riverside Quarter, Putney	Asking	-	-	941	£1,072	1,370	£1,126	Riverside location with lots of pocket parks and landscaping. Comparable to Stag.
	Achieved	596	£1,013	872	£802	1,437	£1,061	

Scheme	Status	1 bed		2 bed		3 bed		Comment
		Size	£psf	Size	£psf	Size	£psf	
Chiswick Green, Chiswick	Asking	581	£1,194	858	£1,157	1,062	£1,196	No river views but overlooks park. Centre of Chiswick. Superior location but lack of views / river factor.
Ram Brewery, Wandsworth	Asking	583	£1,192	1,211	£915	1,273	£925	No river views, but strong mixed-use element and placemaking.
	Achieved	581	£915	883	£875	1,250	£747	
Brentford Community Stadium	Asking	546	£819	800	£802	1,109	£680	Inferior location. Limited placemaking.
Richmond Square, Richmond	Asking	554	£1,296	909	£1,218	1,098	£1,298	No river views. Close to Kew Gardens and centre of Richmond. Grade II listed conversion. Superior location.

Our analysis and conclusions reached are unchanged and our repeated below for ease of reference.

Boat Race House is immediately adjacent to the Stag Brewery but this comprised just 16 private units and therefore we would expect values to be considerably above this due to the enhanced placemaking benefits provided by a large scheme.

Emerald Gardens is closely situated on a similar stretch of riverside circa 0.8 miles north west of Stag. Although it completed in 2018 there have been a number of recent resales. We would expect higher values at the Stag Brewery development because Emerald Gardens is set back slightly from the river and is a smaller scheme without the placemaking aspects present in the proposed development. We would also expect the end product of Stag to be superior to a Taylor Wimpey scheme.

Teddington Riverside is another riverside scheme by Dartmouth Capital, the same developer as Stag Brewery. Like the proposed scheme, it benefits from underground parking and landscaped gardens, but owing to its smaller scale lacks the placemaking aspects that will be created as Stag through the commercial elements present. Therefore, it provides a good indication of the quality that can be expected and their pricing. We understand that sales have been slow and limited to river-facing units, but these have achieved a significant premium over the local market.

We also consider the Riverside Quarter in Putney to provide good evidence as it is located directly next to the river and benefits from good landscaping and a series of pocket parks like the subject site. The location is superior due to being more central and closer to the centre of Wandsworth and near to Putney, however, there are fewer amenities which limits the overall placemaking. On balance, we would expect marginally lower values at the subject scheme.

We have also given some consideration to the Ram Brewery scheme in Wandsworth. Although this does not benefit from a river frontage, it does benefit from a good degree of placemaking with integration of commercial elements. Nevertheless, we would still expect the value of these units to be slightly higher than at the Ram

Brewery owing to the close proximity of the river and its easy accessibility. Therefore, we have isolated the proposed units at Stag which do not have river views to compare.

Consideration must be given to a range of factors in assessing the evidence from other schemes. Moreover, the subject location is relatively untested to there is naturally a degree of uncertainty around pricing.

5.1.4. Summary and Conclusions

In consideration of the comparable evidence as well as the previously agreed position, we made various amendments to the S&P pricing schedule as below: -

Beds	Total	Av sqft	Av Unit Price	£psf	Min	Max
S	£24,090,000	499	£501,875	£1,005	£480,000	£545,000
1	£175,700,000	602	£605,862	£1,006	£555,000	£800,000
2S	£77,000,000	777	£740,385	£953	£685,000	£850,000
2	£227,405,000	819	£768,260	£938	£685,000	£975,000
2L	£78,305,000	989	£851,141	£861	£785,000	£1,100,000
3S	£42,465,000	1,080	£1,061,625	£983	£970,000	£1,160,000
3	£230,860,000	1,157	£1,137,241	£983	£925,000	£1,675,000
4	£22,655,000	1,365	£1,258,611	£922	£1,080,000	£1,700,000
3TH	£15,600,000	1,389	£1,300,000	£936	£1,300,000	£1,300,000
4TH	£17,300,000	1,808	£1,572,727	£870	£1,400,000	£1,600,000
Summary	**£911,380,000**	**855**	**£818,115**	**£957**	**£480,000**	**£1,700,000**

Noting the continued discrepancies between the Strutt and Parker pricing schedule and currently proposed accommodation schedule, we have mirrored BNP's approach of applying our increased blended rate of £957psf to all private blocks in our modelling.

5.1.5. Ground Rents

On 21st December 2017 the Communities Secretary announced a government proposal to introduce legislation to ensure that ground rents on new long leases of flats and houses are set at zero. Whilst the legislation has yet to be passed, we gather that the proposal has all-Party support although there is no timetable for the proposed legislation as yet. The government's 'Help to Buy: Equity Loan 2021-2023 Programme: Builder participation and registration guidance' (September 2020) indicates that any developer seeking to be eligible for Help to Buy must set ground rents at a peppercorn.

BNP has not included revenue for ground rents in their appraisal and we have mirrored this approach in our own appraisal.

5.1.6. Affordable Housing

For the purposes of viability, BNP have tested buildings 10 and 18 as affordable, which equates to an overall affordable housing provision of 14.8% of units and 16.6% of habitable rooms. This falls significantly short of the strategic 50% target for affordable housing set out in both the Richmond Local Plan and the London Plan.

BNP has tested five affordable housing tenure scenarios and details of the assumed tenure split and unit mix for each are detailed in the tables below.

Scenario 1 - 20% rent, 80% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	14	49	64	-	127
London Affordable Rent	8	17	0	6	31

Scenario 2 - 50% rent and 50% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	49	8	-	79
London Affordable Rent	-	17	56	6	79

Scenario 3 - 60% rent and 40% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	41	-	-	63
London Affordable Rent	-	25	64	6	95

Scenario 4 - 70% rent and 30% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	26	-	-	48
London Affordable Rent	-	40	64	6	110

Scenario 3 - 80% rent and 20% shared ownership

	I Bed	2 Bed	3 Bed	4 Bed	Total
Total Units	22	66	64	6	158
Shared Ownership	22	26	-	-	48
London Affordable Rent	-	40	64	6	110

Background

During discussions on the 2018 application, BNP indicted that Richmond Housing Partnership ('RHP') would offer a blended capital value of £240 per square foot. This was based on the tenure mix of 80% social rented and 20% shared ownership housing provision.

As a result of subsequent increases in London Affordable Rents, the blended capital value for the same tenure split was increased to £274 per square foot.

BNP's previous modelling was based on the following affordability criteria:

- London Affordable Rents (£168.34 per week for one beds; £178.23 per week for two beds; £188.13 per week for three beds; and £198.03 per week for four beds);
- Shared ownership; one bed units affordable to purchasers in receipt of household incomes not exceeding £47,000 per annum, with an initial equity sale of 25% and a rent of 1.1% on the retained equity; and two bed units affordable to purchasers in receipt of household incomes of £70,000 with initial equity sales of 25% and rent on retained equity of 1%.

Which led to the following blended affordable housing sales values being applied to the three affordable housing scenarios tested at the time:-

- 20% rent and 80% shared ownership (blended capital value of £408 per square foot);
- 50% rent and 50% shared ownership (blended capital value of £321 per square foot);
- 80% rent and 20% shared ownership (blended capital value of £274 per square foot).

For their updated modelling BNP have revised the affordable housing sales values to aligned to RHP's previous offer but reflecting the revised mix and affordability criteria. Based on their assumptions they have applied the following blended capital values to each of the affordable housing scenarios.

- 20% rent and 80% shared ownership (blended capital value of £350 per square foot);
- 50% rent and 50% shared ownership (blended capital value of £310 per square foot);
- 60% rent and 40% shared ownership (blended capital value of £303 per square foot);
- 70% rent and 30% shared ownership (blended capital value of £286 per square foot); and
- 80% rent and 20% shared ownership (blended capital value of £266 per square foot).

As can been seen from the above there has been a reduction in the blended values, which primarily relates to changes in the affordability criteria for the shared ownership accommodation as detailed below.

March 2022 shared ownership affordability:

- One beds (20% of units) @£50k income per annum
- Two beds (52% of units) @ £70k income per annum
- Three beds (28% of units) @ £90k income per annum

August 2022 shared ownership affordability:

- Two thirds of units @ £50k income per annum
- One third of units @ £92k income per annum.

Essentially there has been a reduction in the two-bed unit income threshold from £70k to £50K. Of course, the impact is more telling for the scenarios which have a higher proportion of shared ownership accommodation i.e. Based on BNP's modelling the blended capital value for the 20% rent and 80% shared ownership mix has fallen from the £408 per square foot used in the March 2022 appraisals to £350 per square foot. Whereas the blended capital value for the 80% rent and 20% shared ownership mix has fallen from the £274 per square foot used in the March 2022 appraisals to £266 per square foot.

In overall terms although these reductions do not appear unreasonable on a sliding scale further detail is required as to how the blended rate has been arrived. The accommodation mix differs for each scenario and it's not clear is a prorate approach has been taken or bespoke modelling for each scenario. We would also request that separate blended sales value for the rented and shared ownership accommodation are provided rather than a single overall blend.

First Homes

The Applicant is not intending to incorporate the provision of First Homes in the proposed development. The update FVA states several reasons why the viability of development would be adversely impact if included all of which we would concur with. Further scenarios were tested as part of the previous iterations of the proposals which illustrated the impact, and we see no reasons why the outcome would differ in this instance given the relatively limited changes to the proposals.

5.1.7. Car Parking

The proposed development will provide a total of 478 car parking spaces (408 in the Eastern Basement and 70 in the Western Basement).

The 24 spaces in the Western Basement are proposed for wheelchair users and therefore no value has been attached to these spaces in BNP's appraisal.

We understand that 330 of the 408 spaces in the Eastern Basement will be available for sale to the purchasers of the private units, with the remaining 78 spaces reserved for the commercial floorspace.

BNP's appraisals assume the sale of all 478 car parking spaces at a rate of £50,000 per space (a total of £23.9 million).

We do not take issue with the values adopted for the car parking and have mirrored these in our own modelling.

We would highlight that despite this increase the total value generated from the basement parking this remains significantly less than the cost of constructing the basements, which is estimated at c£67m (exclusive of fees, contingency and finance).

As highlighted in our previous viability assessment this has a significant impact on scheme viability with not only the differential in value and cost but the timing of the when the cost in occurred are notable factors.

5.1.8. Commercial Values

BNP have maintained the value assumptions adopted in the previous assessment, which are detailed in the table below: -

Use	NIA (Sq Ft)	Value Inputs
Office Use	33,663	£40 psf 6% yield (24 months' rent free)
Flexible Use	39,330	£35 psf 6% yield (9 months' rent free)
Affordable Flexible Use	4,429	£27.50 6% yield (9 months' rent free)
Hotel	13,299	£13.22m
Cinema	17,288	£14.33 psf 6% yield (3 months' rent free)

Although the values adopted above do not appear unreasonable and they are broadly consistent with the inputs agreed in the previous application, limited comparable information has been provided to support the value assumptions.

The table below seeks to compare the capital values against the net build costs to illustrate the comparative viability of certain uses.

Use	Capital Value	Assumed Costs (ex-contingency, fees, finance etc)	Difference
Office Use (Cat A)	£19,973,300	£16,220,000	£3,753,300
Flexible Use	£21,967,051	£9,018,000	£12,949,051
Affordable Flexible Use	£1,943,156	Inc above	N/A
Hotel (3 star)	£13,215,000	£6,099,000	£7,116,000
Cinema	£4,070,422	£5,920,000	-£1,849,578
Commercial Total	**£61,168,929**	**£37,259,000**	**£23,909,929**

It can be seen in the table above that all commercial uses are positive contributors to the scheme except for cinema use which shows a viability deficit of circa £1.85m, which would increase further after contingency, fees, finance, and profit are reflected.

We would request that further details are provided in relation to discussions with cinema operators. We consider the rental value adopted for the cinema use to be at the lower end of the typical range and we note that the FVA also reflects a £1m capital contribution towards fitout of the cinema.

The type of cinema and likely operator will have a significant bearing on the likely capital value achievable and therefore further information should be provided to allow the overall value / package adopted to be validated.

For ease of reference the combined commercial GDV equates to circa £61.17m, which represents circa 7% of the scheme GDV.

5.2. Scheme Costs

5.2.1. Build Costs

Reflecting the changes to the scheme a revised Budget Cost Estimate has been prepared by Gardiner & Theobald to inform the viability assessment. Accordingly, Carter Jonas has sub instructed quantity surveyors Johnson Associates (JA) to review this on behalf of the Council.

The cost estimate for the proposed scheme assumes a total build cost of £550,228 (ex-contingency). For ease of reference a summary of costs for the proposed scheme is set out in the table below: -

Item	G&T Costs	Johnson Associates Costs
Site Clearance Works	£2,900,000	£2,900,000
Infrastructure Works	£31,150,000	£31,060,000
Basement	£66,940,000	£66,940,000
Flexible Use – Shell and Core	£9,018,000	£9,118,000
Offices	£16,220,000	£16,220,000
Cinema	£5,920,000	£5,920,000
Hotel	£6,099,000	£6,099,000
Private Residential	£306,972,000	£306,972,000
Affordable Residential	£79,949,000	£82,798,000
Public Realm Works	£25,060,000	£24,160,000
Total ex contingency	**£550,228,000**	**£549,238,000**

Works outside the application boundary

In addition to the scheme costs the proposals include works outside of the site red line boundary. These are detailed in the table below along with G&T's summary of costs.

Item	G&T Costs	Johnson Associates Costs
Chalkers Corner	£3,019,000	£3,019,000
Lower Richmond Road	£2,947,000	£2,730,000
Mortlake High Street	£1,468,000	£1,355,000
Ship Lane	£589,000	£589,000
Williams Lane	£910,000	£910,000
Thames Tow Path	£1,479,000	£1,479,000
Mortlake Green	Excluded	Excluded

Item	G&T Costs	Johnson Associates Costs
Sheen Lane	£240,000	£222,000
Level crossing works	£250,000	£250,000
Slipway	£566,000	£523,000
Total (ex-contingency)	**£11,468,000**	**£11,077,000**

Further off-site highways costs

In addition to the above, the FVA also includes further off-site highways costs for refurbishment of the footways, which G&T indicate have been included at the request by LBRuT. This requires further validation as limited information has been provided. For the purpose of our initial review we have adopted the same costs as indicated in the below:-

Item	**G&T Costs**	**TBC**
Chalkers Corner	N/A	N/A
Lower Richmond Road	£1,290,000	£1,290,000
Mortlake High Street	£475,000	£475,000
Ship Lane	£160,000	£160,000
Williams Lane	£170,000	£170,000
Thames Tow Path	N/A	-
Mortlake Green	N/A	-
Total (ex-contingency)	**£2,095,000**	**£2,095,000**

Summary of Total all Works

Item	**G&T Costs**	**Johnson Associates Costs**
Works in the Boundary	£550,232,000	£549,242,000
School and landscaping	Excluded	Excluded
Works outside the Boundary	£13,634,000	£13,243,000
Total (ex-contingency)	**£563,866,000**	**£562,485,000**

A line-by-line review of the Applicant's cost plans has been undertaken by Johnson Associates, which can be found at Appendix A.

This concludes that although there could be a small cost saving against the FVA cost plan given the scale of the scheme and overall costs it is our opinion that this falls with an acceptance tolerance. As such we have mirrored the Applicants build costs for the purpose of our modelling.

5.2.2. Contingency

The G&T plan included a contingency allowance of 7.5%, which BNP have reduced to 5.0%. It is our opinion that a 5% allowance is sufficient in this case and aligns with contingency allowance applied and agreed in other larger (500 + unit) FVA reviews.

We have applied this rate of contingency to the costs indicated by Johnson Associates.

5.2.3. Professional Fees

A professional fee allowance of 10% has also been included. We would usually expect to a range of between 8-12%. We would acknowledge that this is a complicated scheme given the basement constructions and its position within close proximity to the River Thames but equally given its size there should be economies of scale savings. It is our opinion that a professional fee allowance at the mid-point of the typical range at 10% would be reasonable. However, for completeness we would request that a breakdown of anticipated fees are provided.

5.2.4. Fees and Marketing Costs

BNP has adopted the following sales and marketing costs: -

Item	Assumption
Marketing Costs	2%
Letting Agents Fee	10%
Letting Legal Fee	5%
Sales Agent Fee (Residential)	1.0%
Sale Legal Fee (Residential)	£1,250 per unit
Sale Legal Fee (Commercial)	0.5%

We would concur that the above is in line with market expectations and therefore we have adopted the same allowances for the purpose of our own modelling.

5.2.5. Finance Cost

A finance rate of 6.0% has been adopted by BNP, which we have mirrored for the purposes of our own modelling.

5.2.6. Community Infrastructure Levy

The Applicant's planning consultants, Gerald Eve, has provided an estimate to CIL liability for the proposed development alongside details of their assumptions. Estimated liabilities are based on an indicative assumption of 77% private housing by floor area). On this basis they have estimated the liability as follows:-

Liability	Assuming all existing space meets occupancy test	Assuming no existing space meets occupancy test

Borough CIL	£28,653,735	£38,200,158
Mayoral CIL	£7,193,859	£9,964,258
Total	**£35,847,594**	**£48,164,416**

BNP has undertaken their modelling on two bases, firstly assuming that none of the existing space meets the vacancy test and secondly on the basis that tall of the existing floor space meeting the vacancy test. In this respect we have mirrored BNP's approach in our own modelling.

Clearly the above will be subject to change if the additional affordable housing can be secured but for the purpose of our initial modelling, we have adopted the same approach but recommend that this is verified by the Council's CIL officer in due course.

The full payment of CIL has been assumed at month 19 on the start of construction.

5.2.7. S106 Costs

The following S106 costs have been assumed in BNP's updated modelling but it is recognised that these costs remain subject to change as discussions progress.

Item	Estimated Cost
TFL Bus Contribution	£3,195,000
TFL Pedestrian Improvement Scheme	£228,878
Air Quality	£160,000
LBRuT CPZ	£130,000
Health Mitigation	£620,985
Community Park Contribution	£147,700
CAVAT	£114,096
Level Crossing Works	£151,776
Travel Plan Monitoring and Implementation	£249,984
Construction Management Monitoring	£30,000
Towpath Improvement Works	£39,520
Waste Management	£50,375
Barnes Eagles License Termination	£90,750
Mortlake Green	£233,155
Grass Pitch Improvements	£24,000
Total Estimated Costs	**£5,466,219**

The estimated S106 costs equate to circa £4.9m. There is also a £2.25m carbon offset allowance reflected in the BNP modelling.

Similarly, to the approach adopted for CIL we have mirrored these costs but recommend that they are verified by the Council's S106 officer to ensure they adequately reflect previous discussions.

5.2.8. Development Programme / Assumptions

BNP has adopted the following assumed timings for construction and sales.

Phase 1 (Plots 1A, 1B and 1C)

- 12-month lead in period for planning, demolition and site preparation;
- 30-month construction period;
- Sales commencing 6 months after construction commences with income received from practical completion onwards;
- 50% of residential income at practical completion
- Final residential sale completed 12 months after practical completion.
- Non-residential uses assumed to be sold at practice completion

Phase 2 (Plots 2A, 2B and 2C)

- 6-month lead in period;
- 24-month construction period;
- Sales commencing 6 months after construction commences with income received from practical completion onwards;
- 50% of residential income at practical completion
- Final residential sale completed 12 months after practical completion.
- Non-residential uses assumed to be sold at practice completion

We do not take issue with the general assumptions adopted.

However, it should be noted that the ground works and basement construction for each phase has been assumed to be completed in their entirety in the first phase, which as mentioned previously has a notable bearing on viability.

5.2.9. Developer's Profit Margin

We would comment that the appropriate level of developer profit will vary from scheme to scheme. Developer's profit margin is determined by a range of factors including property market conditions, individual characteristics of the scheme, comparable schemes, and the development's risk profile.

BNP has adopted a developer's profit of 20% on Gross development Value of the private units, 6% on the affordable housing revenue and 15% on GDV of the commercial accommodation.

Based on our experience of schemes across London, profit on GDV for private residential is typically agreed at 17.5% and we are not aware of any profit margins being agreed more than 17.5% locally or by the GLA.

Given the characteristics of the scheme and considering profit as a capital sum it is our opinion that applying a 17.5% developer's profit to establish the profit hurdle rate in this instance would be reasonable. It is also our view that there is a good prospect for value growth at the site given its placemaking potential, and riverside location. These factors would help to mitigate the risk to the developer.

We do not take issue if the profit margins adopted for the commercial or affordable housing provision.

The provision of 17.5% profit margin would result in a lowering of the blended affordable housing percentage / viability hurdle but the margins would vary depending on the development scenario tested. In this respect we have set out our adjusted hurdle rate against the profit outturns in the viability summary tables in the next section.

5.3. Summary Table

The table below provides a summary of the above analysis highlighting any areas of difference, which will form the basis of our sensitivity testing in the following section.

Assumption	BNP Assumptions	Carter Jonas Assumptions	Comments
Sales and Revenue			
Private Residential Sales Value	BNP has adopted an average blended private sales figure of £927 psf. This breaks back to £936 psf for Phase 1 and £912 psf for Phase 2.	We have adopted an average blended private sales figure of £957psf. This breaks back to £963psf for Phase 1 and £952psf for Phase 2	See Section 5.1
Affordable Housing Sales Values	S1 - 20% rent and 80% shared ownership (blended capital value of £350 per square foot) S2 - 50% rent and 50% shared ownership (blended capital value of £310 per square foot) S3 - 60% rent and 40% shared ownership (blended capital value of £303 per square foot) S4 - 70% rent and 30% shared ownership (blended capital value of £286 per square foot) S3 - 80% rent and 20% shared ownership (blended capital value of £266 per square foot)	Values have decreased because of applying reduced affordability criteria to the proposed shared ownership units. Clearly the impact is greater for the scenarios which include a higher SO provision.	We have adopted the same values for the purpose of our own modelling, but the values are still subject to validation. The accommodation mix differs for each scenario and it's not clear is a prorate approach has been taken or bespoke modelling for each scenario. We would also request that separate blended sales value for the rented and shared ownership accommodation are provided rather than a single overall blend.
Residential Ground Rents	N/A	Agreed	
Flexible Use Office Accommodation Hotel (3 Star) Cinema Use Affordable Flexible Use	£35psf @ 6% £40psf @ 6% £13.2m £14.33 psf 6% yield £27.50 psf @ 6% (Various rent-free periods and £1m reverse premium for the cinema use)	See comments	We would request that further details are provided in relation to discussions with cinema operators. We consider the rental value adopted for the cinema use to be at the lower end of the typical range and it is noted that modelling also reflects a reverse premium of £1m.

Car Parking	£50k per space applied to all car parking spaces – residential and commercial	Agreed	
Development Costs			
Construction Costs	£550,228,000 (exc. Contingency)	£549,238,000 (exc. Contingency)	Although there could be a small cost saving against the FVA cost plan given the scale of the scheme and overall costs it is our opinion that this falls with an acceptance tolerance. As such we have mirrored the Applicants build costs for the purpose of our modelling.
Works outside the application boundary	£11,468,000 (exc. Contingency)	£11,077,000 (exc. Contingency)	See Appendix A
Further off-site Highways Works	£2,095,000 (exc. Contingency)	£2,095,000 (exc. Contingency)	See Appendix A
Build Contingency	7.5% reflected in G&T's cost plan but reduced to 5%in BNP's modelling	5%	We consider 5% to be reasonable and standard for a scheme of this nature
Professional Fees	10%	See comments	Agreed but for completeness a breakdown of anticipated professional fees should be provided.
Sales Costs	Various	Agreed	
S106 / CIL	S106 - £5,466,219 CIL – £35,847,594 Assuming all existing space meets occupancy test CIL - £48,164,416 Assuming no existing space meets occupancy test	See comments	We have assumed the CIL and S106 costs to be correct for our initial modelling purposes – however we would recommend that BNP's assumptions are reviewed and confirmed by the Council's CIL / S106 officer. Clearly the level of CIL will need to be updated if additional AH is secured.
Interest / Finance Costs	6% 100% debit	Agreed	
Developers Profit	20% on GDV on private residential	17.5% on GDV on private residential	Given the characteristics of the scheme and considering profit as a capital sum it is our opinion that applying a

	6.0% on GDV on affordable residential 15% on GDV on commercial accommodation	6.0% on GDV on affordable residential 15% on GDV on commercial accommodation	17.5% developer's profit to inform the profit hurdle rate in this instance would be reasonable.
Benchmark Land Value	£36.0m	Agreed	BNP have maintained the compromise position with the GLA relating to the previous application. We have adopted the same BLV for the purpose of our modelling.

6. ANALYSIS & CONCLUSIONS

Where our own market research has indicated that the inputs used have not been fully justified, we have sought to illustrate the potential impact on viability. In this respect we have undertaken sensitivity analysis producing several residual appraisals using Argus Developer, which is a leading industry-standard development appraisal package commonly used by developers and agents to assess development viability.

Although this analysis does not constitute formal valuations under the provisions of the RICS Valuation Standards ('Red Book') it does provide robust evidence to inform the Council's decision-making process in respect of the Applicants planning application.

In this instance we have been provided with the working appraisal by BNP, which has enabled us to ensure the model has been constructed properly, the inputs are consistent, and timings are correct within the cashflow. As such we have used the BNP model for our sensitivity analysis to ensure that the base position is fully consistent with the Applicant's.

We do not take issue with the approach adopted by BNP nor the majority of the assumptions adopted for the purposes of the revised application. However, as we have stated above, we consider the private values adopted to be conservative and further detail is required to validate the blended affordable housing values adopted.

In addition to the above we have also identified areas for further validation / clarification namely:-

- Inconsistency between the pricing and accommodation schedule;
- Further information relating to the proposed cinema use;
- Validation of the S106 and CIL costs;
- An indicative breakdown of anticipated professional fees.

The Applicant / BNP considered an appropriate blended profit / hurdle rate to be 18.15%. Making the downward adjustments to the private profit margins from 20% to 17.5% this would reduce the blended project margin of 16.4%.

Based on the adjustments indicated above and outlined in the previous section of this report our modelling results in the following outputs:-

Appraisal results (CIL with full offsetting - £35.85m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20% (31)	80% (127)	6.05%	8.57%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	5.26%	7.57%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	5.12%	TBC

S4 – 14.8% / 16.6%	70% (110)	30% (48)	4.77%	TBC
S5 – 14.8% / 16.6%	80% (126)	20% (32)	4.37%	6.98%

Appraisal results (CIL with no offsetting - £48.16m)

Affordable Housing (% of units / %of habitable rooms)	Rented	Shared Ownership	Profit on GDV BNP	Profit on GDV Carter Jonas
S1 – 14.8% / 16.6%	20% (31)	80% (127)	4.63%	6.93%
S2 – 14.8% / 16.6%	50% (79)	50% (79)	3.82%	5.90%
S3 – 14.8% / 16.6%	60% (95)	40% (63)	3.67%	TBC
S4 – 14.8% / 16.6%	70% (110)	30% (48)	3.32%	TBC
S5 – 14.8% / 16.6%	80% (126)	20% (32)	2.91%	5.31%

As can be seen from the outputs above although we consider that BNP has overstated the extent of the scheme deficit, we would acknowledge that the site is challenging from a viability perspective. Although this is a high value area the cost of developing out the site is also high and there are notable upfront costs.

Of note is the cost of the basement, which although reflects a capital receipt from the proposed car parking and services this does have a significant adverse impact on viability. Moreover, this is an upfront cost, which also has implication in relation to finance costs.

Sensitivity Analysis

Given the project overall project deficit we have also undertaken further sensitivity analysis to illustrate the impact of positive market movements. Given the characteristics and location of the site we do believe that there is a good prospect for value growth within the proposals.

Specifically, we have modelled a stepped change of plus 2.5% in private residential values. At this stage we have applied these analysis to the 80% rented / 20% shared ownership affordable housing scenario and the outputs of the sensitivity analysis are detailed in the tables below:-

Appraisal results (CIL with full offsetting)

Affordable Housing (% of units / %of habitable rooms)	Base £957 psf Profit on GDV	Plus 2.5% £980 psf	Plus 5% £1,005 psf	Plus 7.5% £1,029psf	Plus 10% £1,058 psf
S3 – 14.6% / 16.6% 80% Rented / 20% SO	6.98%	19.06%	11.05%	12.94%	14.75%

Appraisal results (CIL with no offsetting)

Affordable Housing (% of units / %of habitable rooms)	Base £957 psf Profit on GDV	Plus 2.5% £980 psf	Plus 5% £1,005 psf	Plus 7.5% £1,029psf	Plus 10% £1,058 psf
S3 – 14.6% / 16.6% 80% Rented / 20% SO	5.31%	7.33%	9.26%	11.1%	12.87%

The value growth sensitivity analysis demonstrates that given the scale of proposals there is the potential for a significant positive impact on viability. With this being the case, we recommend that the Council should seek appropriate Review Mechanisms given the long-term phased nature of the scheme and the potential for viability enhancement which could support additional affordable housing.

7. Viability Update – March 2023

As highlighted in the previous Section, although we agreed with BNP that we previously there was an overall scheme deficit based on the proposals and affordable housing scenarios tested. There were a number of inputs, which required further validation.

Subsequently, there has been several exchanges of information accumulating in a further addendum issued by BNP dated 31st January 2023 (which is attached for ease of reference).

Having reviewed BNP's response and the additional information provided, we now accept the inputs adopted in relation to the proposed cinema use and professional fee allowance. We have also assumed that the S106 and CIL allowances to be correct, but this would be subject to final validation from the Council's S106 / CIL officer in due course.

In respect of private sales values although there is a relatively modest difference on a percentage basis, we have reached an impasse with both parties maintaining their position. The comparables put forward by the Applicant's residential advisors demonstrate a wide range of possible values especially given the scale of the project, its extensive riverside location and the assumed quality of the build demonstrated by the build cost proposed. Our blended sales values are marginally below those agreed with the Applicant's previous advisor Savills and in this context and reflecting the sites characteristics we maintain that our opinion of value is entirely reasonable. Given the difference of opinion in relation to this input and in order move forward we suggest a reasonable approach would be to 'agree to disagree' on this matter as the actually values will be addressed through the review mechanism at the appropriate time.

In addition to their addendum BNP has also issued a summary note setting out their viability conclusions, which are summarised below:

- On a present-day basis (i.e. today's values and today's costs), a scheme with 100% private housing and CIL with full offsetting of existing floorspace, generates a profit of 14.2% on GDV.
- On the assumption growth is applied and there is a full offsetting of existing floorspace for CIL, the Scheme can provide a maximum affordable housing percentage of 5.9% affordable housing (assuming an 80% social rented and 20% shared ownership split).
- On the assumption growth is applied, but assuming no existing floorspace offset for CIL the Scheme can provide a maximum affordable housing percentage of 3.9% affordable housing (assuming an 80% social rented and 20% shared ownership split).

We have been provided with the live Argus models for the above scenarios and having reviewed them we are satisfied that the inputs have been applied correctly. As such and notwithstanding our comments in relation to private sales values, the proposed profit hurdle rate (ref 5.2.9) and the validation of S106 and CIL costs we are satisfied that the outputs indicated are a reasonable representation of scheme viability.

Revised Affordable Housing Offer

Notwithstanding the outcome of the viability analysis, we understand that there have been ongoing discussions between the LPA and the Applicant regarding the quantum of affordable housing proportion of 3 bed units social rented units proposed.

In response to these discussions, the Applicant has issued a revised affordable housing proposal dated the 15th February in which they commit to a greater minimum quantum of affordable housing. The proposed breakdown of the revised affordable housing offer is as follows:

Total number of affordable units (out of 1,063)	Social Rent: Intermediate (number)	Social Rent: Intermediate (%))	Habitable Room (%)
77 Units (7.2%) (Assuming no CIL Relief on existing floorspace)	38:39	50:50	249 (7.7%)
101 Units (9.5%) (Assuming full CIL Relief on existing floorspace)	71:29	71:29	323 (10%)

The mix of accommodation in the social rented units is now proposed to be:-

- 2 bed: 8%
- 3 bed: 79%
- 4 bed: 13%

Although we have not had sight of the documents, we understand that the breakdown and mix of and illustrative floorplans for how current outline blocks B10 and B19 could accommodate the mix have been provided to the Council.

Overall Conclusions

In conclusion and reflecting the revised affordable housing offer, in is our opinion that the current offer would represent the maximise reasonable provision in this instance. Similarly, to the conclusion reached in the previous application and our initial review of the current proposals we acknowledge that the site is challenging from a viability perspective.

Specifically, although this is a high value area the cost of developing out the site is also considerable and there are notable upfront costs. Of note is the cost of the basement, which although reflects a capital receipt from the proposed car parking and is the location of a number of services this does have a significant adverse impact on viability. Moreover, this is an upfront cost, which also has implication in relation to finance costs.

Given the characteristics and location of the site we do believe that there is a good prospect for value growth within the proposals and with this being the case, we recommend that the Council should seek appropriate Review Mechanisms given the long-term phased nature of the scheme and the potential for scheme to outperform current market expectations.

APPENDIX 1 – APPRAISAL PRINT-OUTS

APPENDIX 2 – COSTPLAN REVIEW