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Stag Brewery Development: Financial Viability Assessment (Addendum)

Prepared for

Reselton Properties Limited

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1 Introduction

Dartmouth Capital acting on behalf of Reselton Properties Limited ('the Applicant') has commissioned BNP Paribas Real Estate to provide an assessment of the financial viability of their proposed residential-led mixed use redevelopment ('the Proposed Development') of the Stag Brewery Site in Mortlake ('the Site'). We assessed a smaller application in a report dated February 2018 and a larger scheme in a subsequent addendum report during discussions with GL Hearn/Carter Jonas, Richmond upon Thames Council ('the Council') and the Greater London Authority ('GLA'). Where possible and relevant, we have retained the assumptions agreed by the parties during discussions on the previous application. The position applied is marked clearly in the document.

In July 2023, the Council's Planning Committee resolved to grant planning permission, subject to completion of a Section 106 agreement. However, at the end of July, the Department for Levelling Up, Communities and Housing ('DLUHC') announced its intention to amend the Fire Regulations to require developments of 18 metres or taller to provide two stair cores. Although DLUHC has recently announced transitional arrangements allowing developers with planning permission to implement those schemes within 18 months, the Applicant has decided to amend the Proposed Development so that it complies with the requirements of the Fire Regulations.

This Addendum Report reflects changes to the Proposed Development (Fire-Led Design Amendments 3.11.23) as issued by Squire and Partners which addresses changes to the layout to facilitate second cores across all buildings in the development that are within the scope of the new regulations.

Our terms of reference are summarised as follows:

- Assess the residual land value generated by the Development;
- Determine an appropriate benchmark land value for the Site;
- Using the outputs of the appraisal, consider the viability of the Proposed Development and the implications for the provision of affordable housing.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 34 countries in Europe, Middle East, India and the United States of America, including 18 wholly owned and 16 alliances.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ('RPs').

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The Development Viability Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority ('GLA') to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model and advising on areas that required amendment in the re-worked toolkit and other available appraisal models and submitted our report in February 2012.

Anthony Lee was a member of the working group under the chairmanship of Sir John Harman that drafted '*Viability testing local plans: Advice for planning practitioners*'. He was also a member of (then) Ministry of Housing, Communities and Local Government's *'Developer Contributions Expert Panel'* which assisted in the drafting of the viability section of the Planning Practice Guidance in 2019. He is currently a member of the RICS Working Group drafting guidance on the valuation of affordable housing.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report structure

We have structured our report as follows:

- In Section two, we provide a brief description of the changes to the Proposed Development;
- In Section three, we describes the methodology we have adopted;
- In Section four, we outline the inputs we have adopted within our appraisals;
- In Section five, we set out the outputs of the appraisals;
- Finally, in Section six, we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Practice Statement ('PS') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, we have not sought, nor have we agreed, any 'performance-related' or 'contingent' fees.

We address this report to Reselton Properties Limited only and it should not be reproduced without our prior consent.

2 Background and description of the Development

2.1 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 buildings, including modern and period buildings (summarised in Table 2.1.1). 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).

Table 2.1.1: Existing buildings on site (unchanged from previous FVA)

Building number on plan at Figure 2.1.2.	Existing Use	Sq m GIA	Sq ft GIA
1	P.O.B	2,221	23,906
2	Brewhouse	4,645	50,004
3	Process Building	3,705	39,879
4	Chip Cellar	2,923	31,466
5	Finishing Cellar	2,153	23,172
6	Power House	2,627	28,278
7	Powder Store	168	1,806
8	Effluent Treatment	330	3,548
9	Maltings	1,083	11,657
10	Former Hotel	3,085	33,211
11	Former Bottling Hall	70	753
12	Packaging	9,440	101,610
13	Stable Court	2,110	22,711
14	Sports Club	549	5,906
15	East Gatehouse	24	263
16	West Gatehouse	72	777
17	TBC	198	2,115
	Totals	**35,403**	**381,062**

Figure 2.1.2: Site plan and existing buildings

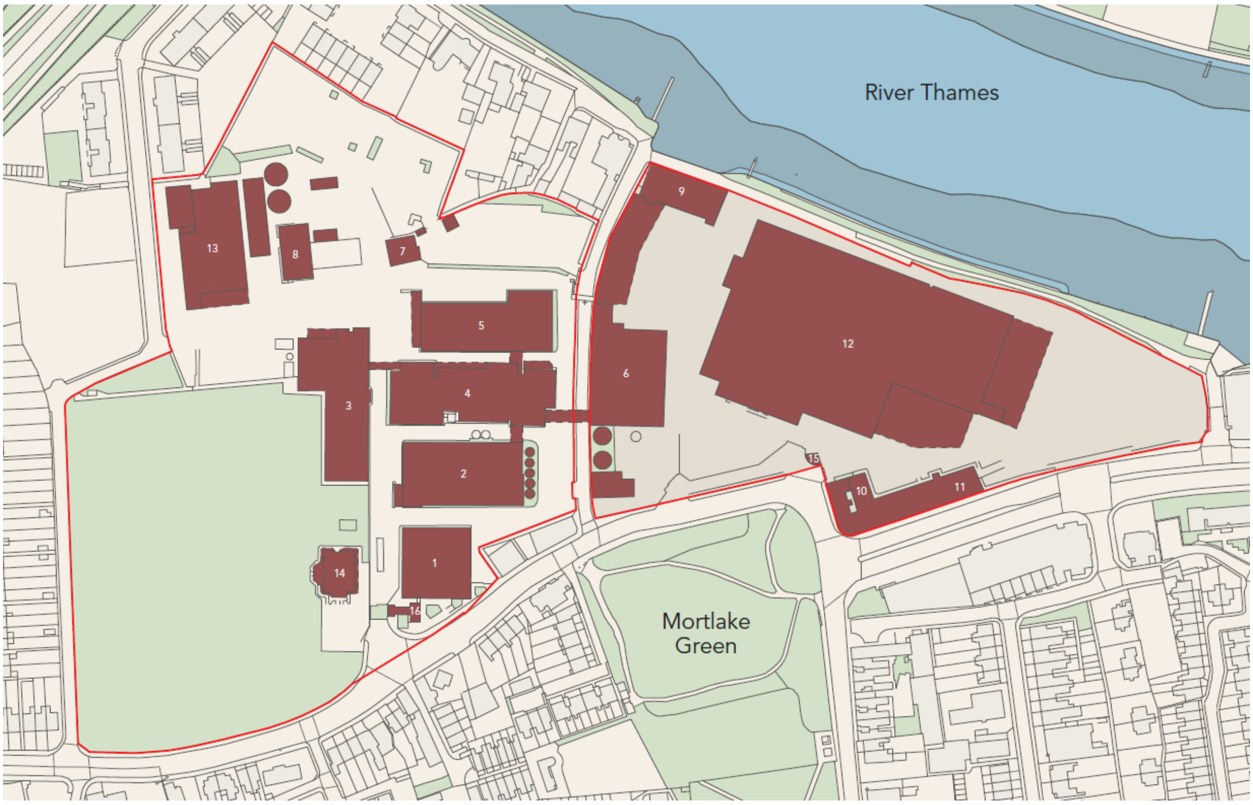
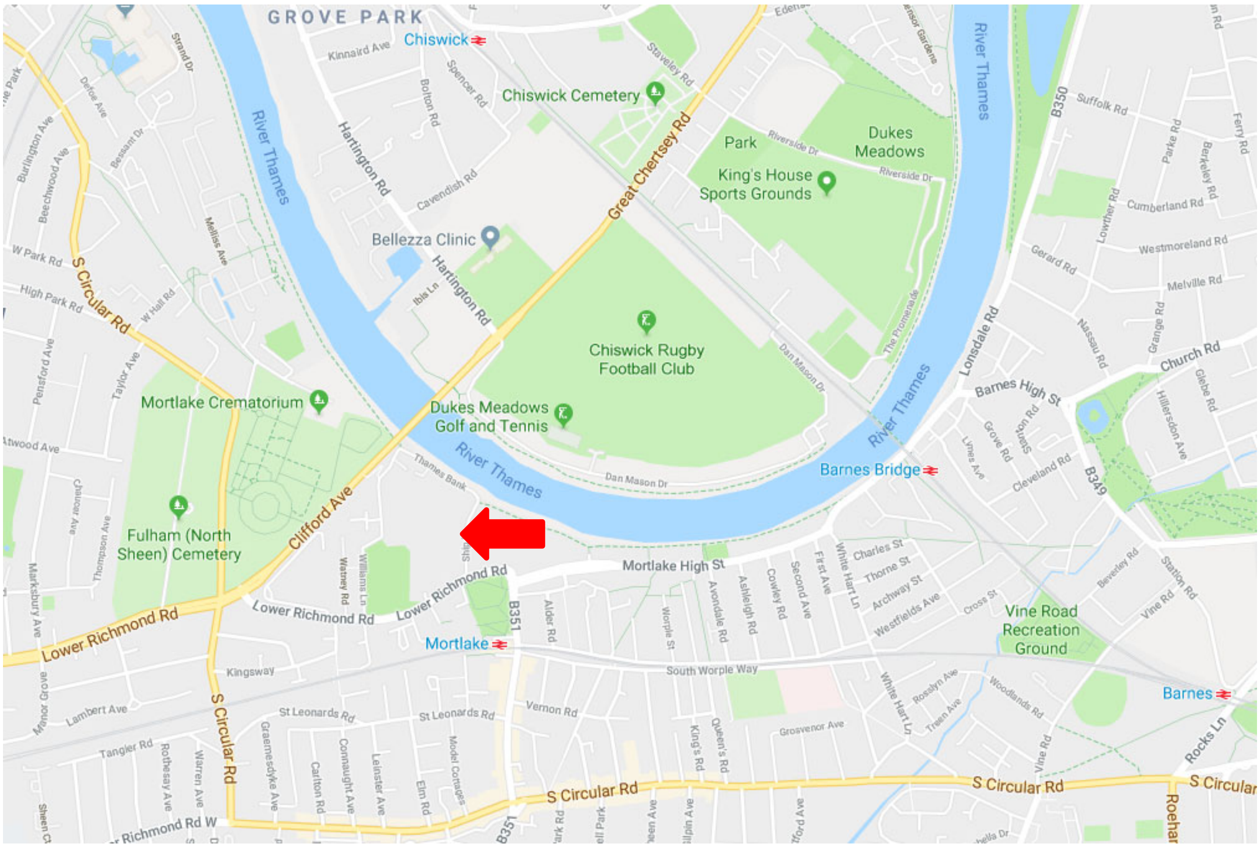


Figure 2.1.3: Location plan



2.2 Planning brief

The Planning Brief and Local Plan site allocation SA24 set out the Council's vision for the Site, which it considers represents a major opportunity for a mixed use regeneration scheme, which can stitch the Site back into the local area through high quality design and public realm and landscape improvements. Any redevelopment of the Site should "*provide a new village heart for Mortlake based on buildings and public realm of the highest quality that will radically transform Mortlake whilst respecting the character and history of the area*".

The brief indicates that redevelopment should open up access to the River Thames and also provide a mix of buildings including residential, leisure and employment, as well as a significant amount of new greenspace.

The brief recognises the need for any redevelopment to be "*financially viable and commercially deliverable, with assumptions about land values ands [sic] land revenues realistically based on constraints of the site and the planning policy framework*". At paragraph 5.22, the planning brief notes that "*residential use is likely to be the most valuable use and has the potential to deliver public benefits and enable other priority uses including community uses to be delivered. The Council will therefore support a mixed tenure residential led mixed use development provided there is a range of other uses to create a vibrant Riverside area and associated employment and leisure opportunities. This should include family housing and the maximum reasonable provision of affordable housing of appropriate tenure mix, in accordance with LDF policy CP15 and DM HO6. The Council recognises that the requirements for a mix of uses including open space and community uses and for the restoration of the historic buildings may affect the amount of affordable housing that can be provided and on this basis each case will be treated on its merits subject to detailed viability appraisal".*

2.3 The 2018 application

In 2018, the Applicant submitted an application for the comprehensive phased redevelopment of the site, as follows:

a) *Application A – hybrid planning application for comprehensive mixed use redevelopment of the former Stag Brewery Site 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. It was agreed by the Council and the GLA that the 2018 scheme could not viably provide more than 17.5% affordable housing.

2.4 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 into 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.

The Applicant offered to provide 30% affordable housing 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. Affordable housing was not a reason for refusal. The Mayor also refused Application B.

2.5 The 2022 planning application

The 2022 linked applications sought planning permission for:

Application 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 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 3 to 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:

a) The erection of a single storey basement and buildings varying in height from 2 to 8 storeys

b) Residential development

c) Provision of on-site cycle, vehicle and servicing parking

d) Provision of public open space, amenity and play space and landscaping

e) 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"

Together applications A and B described above are the 'Proposed Development'.

2.6 Amendments to satisfy the new Fire Regulations

The indicative residential unit mix is summarised in Table 2.6.1. Where unit numbers have changed as a result of the Fire Regulations changes, the original numbers are shown struck through for the purposes of comparison. The overall number of units in the amended scheme is 1,075, increased from 1,071 in the October 2022 application scheme (and also increased from the scheme that eventually formed the basis for the resolution to grant planning permission in July 2023, comprising 1,068 units. This increase largely relates to the conversion of the office space in Building 1 from offices to residential, which offsets reductions elsewhere.

Table 2.6.1: Residential units

Building	Rev J (October 2022 application)	Fire Regs Scheme	Change
Building 1	0	17	+17
Building 2	118	119	+1
Building 3	48	48	0
Building 4	20	19	-1
Building 5	-	-	-
Building 6	-	-	-
Building 7	24	24	0
Building 8	87	87	0
Building 9	100	100	0
Building 10	-	-	-
Building 11	13	13	0
Building 12	39	39	0
Building 13	52	52	0
Building 14	48	48	0
Building 15	-	-	-

Building	Rev J (October 2022 application)	Fire Regs Scheme	Change
Building 16	42	42	0
Building 17	34	34	0
Building 18	112	111	-1
Building 19	73	73	0
Building 20	73	64	-9
Building 21	119	124	+5
Totals	**1,071**	**1,075**	+4[1]

For the purposes of testing the viability of the Proposed Development, we have re-appraised the 'Final Offer' (as set out in our note dated 2 May 2023 comprising 65 affordable housing units (52 or 80% social rent and 13 or 20% intermediate units). This indicative mix is summarised in Table 2.6.2.

The 13 intermediate units are located in Building 18 and the 52 rented units are spread across Building 18 (14 units) and Building 19 (38 units).

Table 2.5.2: Final Affordable Housing Offer mix (80% rent, 20% shared ownership)

Tenure	1 bed flat	2 bed flat	3 bed flat	4 bed flat	Totals
Total affordable units	8	8	44	5	**65**
Of which Shared Ownership	8	5	-	-	**13**
Of which Social Rent	-	3	44	5	**52**

Full accommodation and area schedules are attached as Appendix 1 and a comparison table is provided at Table 2.5.3 (gross areas) and Table 2.5.4 (net areas).

[1] An increase of 7 units in comparison to the May 2023 scheme comprising 1,068 units.

Table 2.5.3: Indicative Gross internal areas (square feet) – comparison between October 2022 application scheme and Fire Regulations Scheme

Building	2022 Application GIA			Fire Regs Scheme GIA					
	Priv Resi	Commercial / car parking	Total	Priv Resi	Commercial	Total	Change to residential GIA	Change to commercial/ Car parking	Change to total GIA
Basement 1		92,860	92,860		98,325	98,325	0	+5,465	+5,465
Building 1		32,849	32,849	22,402	1,524	23,926	+22,402	-31,325	-8,923
Building 2	139,487	6,668	146,155	137,771	7,576	145,347	-1,716	+908	-808
Building 3	54,055	1,834	55,889	54,055	1,834	55,889	0	0	0
Building 4	31,784	5,036	36,820	29,310	5,159	34,469	-2,474	+123	-2,351
Basement 1		79,433	79,433		79,433	79,433	0	0	0
Building 5		52,189	52,189		52,189	52,189	0	0	0
Building 6	29,053	4,407	33,460	29,053	4,407	33,460	0	0	0
Building 7	97,243	5,439	102,682	95,814	6,568	102,382	-1,429	+1,129	-300
Building 8	117,495	5,211	122,706	118,984	4,331	123,315	+1,489	-880	+609
Basement 1		45,104	45,104		45,104	45,104	0	0	0
Building 9	18,164	3,685	21,849	18,164	3,685	21,849	0	0	0
Building 10	43,359	3,876	47,235	43,359	3,876	47,235	0	0	0
Building 11	62,212	3,017	65,229	62,212	3,017	65,229	0	0	0
Building 12	54,455	3,931	58,386	54,455	3,931	58,386	0	0	0
Basement 1		59,543	59,543		59,543	59,543	0	0	0
Building 13	38,590	0	38,590	38,590	0	38,590	0	0	0
Building 14	32,378	0	32,378	32,378	0	32,378	0	0	0
Building 15	95,822	0	95,822	95,822	0	95,822	0	0	0
Building 16	59,380	0	59,380	59,380	0	59,380	0	0	0
Building 17	64,268	0	64,268	64,268	0	64,268	0	0	0
Building 18	168,420	0	168,420	168,426	0	168,426	6	0	6

Building	2022 Application GIA Priv Resi	Commercial / car parking	Total	Fire Regs Scheme GIA Priv Resi	Commercial	Total	Change to residential GIA	Change to commercial/ Car parking	Change to total GIA
Building 19	52,489	0	52,489	52,489	0	52,489	0	0	0
Building 20	26,451	0	25,912	25,912	0	25,912	-539	0	-539
Building 21	13,683	0	13,022	13,022	0	13,022	-661	0	-661
Totals	**1,198,788**	**405,082**	**1,603,870**	**1,215,866**	**380,502**	**1,596,368**	**+17,078**	**-24,580**	**-7,502**

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Table 2.5.4: Indicative Net internal areas (square feet) – comparison between October 2022 application scheme and Fire Regulations Scheme

Building	2022 Application Residential NIA	Fire Regs Residential NIA	Change in NIA	2022 Application total units	Fire Regs scheme total units	Change to units
Building 1	0	15,349	+15,349	0	17	+17
Building 2	110,642	107,768	-2,874	118	119	+1
Building 3	41,656	41,172	-484	48	48	0
Building 4	22,981	20,365	-2,616	20	19	-1
Building 5	0	0	0	0	0	0
Building 6	20,516	20,516	0	24	24	0
Building 7	74,788	73,560	-1,228	87	87	0
Building 8	92,010	88,996	-3,014	100	100	0
Building 9	13,842	13,842	0	13	13	0
Building 10	26,264	26,264	0	39	39	0
Building 11	50,741	48,287	-2,454	52	52	0
Building 12	41,915	39,041	-2,874	48	48	0
Building 13	31,108	31,205	+97	42	42	0
Building 14	25,597	25,597	0	34	34	0
Building 15	77,296	76,983	-313	112	111	-1
Building 16	47,393	47,663	+270	73	73	0
Building 17	50,827	49,600	-1,227	73	64	-9
Building 18	132,902	132,762	-140	119	124	+5
Building 19	41,958	41,312	-646	46	38	-8
Building 20	23,896	23,433	-463	16	16	0
Building 21	12,658	12,056	-602	7	7	0
Totals	**938,990**	**935,771**	**-3,219**	**1,071**	**1,075**	**+4**

3 Methodology

In common with the previous FVAs submitted to the Council, we have used Argus Developer (‘Argus’) to appraise the development proposals. This model is used by most major chartered surveying practices for the purposes of valuing developments for a range of client requirements, including secured lending. Argus is a commercially available development appraisal package in widespread use throughout the development industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuation. Further details can be accessed at www.argussoftware.com.

Argus is essentially a cash-flow model. Such models all work on a similar basis:

- Firstly, the value of the completed development is assessed (i.e. the sum of the market value of all the completed units when built, together with other parts of a development that will attract a value when completed, such as car parking spaces and commercial floorspace. The sum of all these values is referred to as the ‘Gross Development Value’ or ‘GDV’).

- Secondly, the development costs are calculated, including either the profit margin required or land costs if these are known. An appraisal can be run to determine how much a developer should pay for a site, in which case they input their target profit as a cost, with land being the output. If a site has already been purchased, this price can be entered into the appraisal as a cost, with profit being the output of the appraisal.

The difference between the total development value and total costs equates to the residual land value (‘RLV’). The model is normally set up to run over a development period from the date of the commencement of the project until the project completion, when the development has been constructed and is occupied.

The cash-flow approach allows the finance charges to be accurately calculated over the development period. This approach can accommodate more complex arrangements where a number of different uses are provided or development is phased.

In order to assess whether a development scheme can be regarded as being economically viable it is necessary to compare the RLV that is produced with a benchmark land value. If the Development generates a RLV that is higher than the benchmark it can be regarded as being economically viable and therefore capable of providing additional affordable housing and Section 106 payments. However, if the Development generates a RLV that is lower than the benchmark it should be deemed economically unviable and the quantum of affordable housing and Section 106 payments may need to be adjusted until viability is achieved.

National Planning Practice Guidance (‘NPPG’) paragraph 014 (reference ID 10-014-20190509) indicates that benchmark land values should be based on existing use value and allow a premium to landowners. Paragraph 017 (reference ID 10-017-20190509 indicates that benchmark land value may also be informed by alternative use value, providing such uses fully comply with development plan policies and is also commercially feasible.

3.1 The Mayor’s Affordable Housing and Viability SPG

The London Plan requires local planning authorities to seek the <u>maximum reasonable</u> proportion of affordable housing, having regard to site-specific circumstances, including viability. The Mayor has set out his approach to affordable housing and viability *in ‘Homes for Londoners: Affordable Housing and Viability SPG’* which came into force in August 2017. This approach is amplified in Policy H5 of the 2021 London Plan, which sets out two routes; a ‘Fast Track’ route for schemes which are able to provide 35% affordable housing (50% on former industrial sites which do not reprovide an equivalent amount of replacement employment floorspace); and a ‘Viability Tested’ route for schemes which are not able to viably provide 35% affordable housing.

4 Appraisal inputs

This section of the report sets out the general principles and assumptions which have been used to undertake a development appraisal of the scheme. It should be noted that these have been retained at their previous levels unless explicitly stated in the text. In some cases, we have used Carter Jonas's inputs but for the avoidance of doubt, this does not indicate our agreement to those inputs.

4.1 Residential sales values

For the previous FVA submission in 2022 (and subsequently submitted appraisals) , we relied upon advice on achievable residential sales values from Strutt & Parker (as of Quarter 1 2022). We attach their advice as Appendix 2. In arriving at their recommended pricing, Strutt & Parker reviewed sales evidence from the following developments:

- Boat Race House, SW14
- Emerald Gardens, TW9
- Teddington Riverside, TW9
- Queenhurst, KT2
- Lion Wharf TW7
- Fitzroy Gate, TW7
- The Brentford Project, TW8
- Chiswick Gate, W4
- 500 Chiswick High Road, W4
- Queen's Wharf, W6
- Fulham Reach, W6
- Bishops Gate, SW6
- Riverside Quarter, SW18
- Fulham Riverside (Phase 1), SW6

In addition, they considered values achieved for second hand stock.

Strutt & Parker advised that the overall blended average sales value across the development (assuming all units are provided as private housing for sale) equated at the to £927 per square foot. Their pricing schedule is attached as Appendix 2. Clearly, market conditions have changed since early 2022, including the September 2022 'Fiscal Event' which resulted in a significant increase in mortgage rates.

We note that Carter Jonas's conclusion on pricing in December 2022 was a blended value of £957 per square foot. Whilst we do not agree with this higher value, we have appraised the Proposed Development assuming this value on a without prejudice basis.

4.2 Ground rents

On 8 February 2022, the 'Leasehold Reform (Ground Rents) Act' received Royal Assent and its provisions came into effect on 30 June 2022. The Act limits ground rents in new leases to a peppercorn. We have reflected the requirements of the Act by attaching nil capital value to the disposal of the freehold.

4.3 Car parking

The Proposed Development will provide a total of 463 car parking spaces, reduced from 478 in the August 2022 scheme. Table 4.3.1 summarises the provision of spaces in the August 2022 scheme and Table 4.3.2 summarises provision in the amended scheme.

Table 4.3.1: Car parking in August 2022 scheme

Area	Residential	Residential (WC)	Commercial	Commercial (WC)
Eastern Basement	312	18	70	8
Western Basement	46	24	0	0
Townhouses	23	0	0	0
Sub - Total	381	42	70	8
Total	501			
Total excluding surface spaces	**478**			

Table 4.3.2: Car parking in amended scheme

Area	Residential	Residential (WC)	Commercial	Commercial (WC)
Eastern Basement	308	17	64	7
Western Basement	46	21	0	0
Townhouses	23	0	0	0
Sub - Total	377	38	64	7
Total	486			
Total excluding surface spaces	**463**			

Although the 71 commercial spaces are unlikely to generate any revenue, we have nevertheless applied a value to them for testing purposes. Our appraisals therefore incorporate income from sales of 463 car parking spaces at a rate of £50,000 per space (a total of £23.15 million).

4.4 Affordable Housing Revenue

We have retained the same affordable housing value applied in the 2022 FVA and subsequent appraisals (a blended value for the 80% social rent / 20% intermediate split of £266 per square foot). This reflects the previously agreed affordability criteria for the shared ownership units (two thirds of units to be made available to households in receipt of gross annual incomes not exceeding £50,000; and one third in receipt of gross annual incomes not exceeding £92,000.

Although social rents will have increased by around 7% in 2023, this is far lower than the rate of inflation and RPs operating costs have increased significantly (due to increases in staff costs and the costs of responsive and cyclical maintenance). In addition, RPs' funding costs have increased as a result of the significant increase in gilt yields following the September 2022 'Fiscal Event'. All of these factors will place significant constrains on the amounts that RPs can pay to acquire new stock and it is very unlikely that the £266 per square foot blended value we previously applied will have increased.

4.5 Commercial floorspace (offices, flexible use, cinema, hotel)

Our assumptions for the commercial floorspace remain unchanged from the assumptions agreed with Carter Jonas for the August 2022 application, as follows:

Table 4.5.1: Commercial rents, rent free periods and yields

Use	Rent per square foot	Rent free (months)	Yield	Capital value (per square foot)
Offices	£40.00	24	6.0%	£593
Flexible use	£35.00	9	6.0%	£558
Affordable flexible use	£27.50	9	6.0%	£439
Hotel	-	-	-	£994

The capital values are supported by the comparable evidence attached as Appendix 3.

4.6 Construction Costs

The Applicant has commissioned Gardiner & Theobald ('G&T') to provide a revised cost estimate for the construction costs for the Proposed Development. For the August 2022 Application, total costs for above ground construction amounted to £424.18 million before contingency. Basement construction was estimated at £66.94 million before contingency. Demolition, infrastructure and public realm were estimated at £2.9 million, £31.15 million and £25.06 million respectively before contingency.

A copy of the most recently submitted G&T cost plan (relating to Revision J, which the Final Affordable Housing appraisals were based) is attached as Appendix 4 and a summary is provided in Table 4.6.1.

Table 4.6.1: Summary of construction costs (£ millions)

	Demolition and clearance	East Ph 1A	East Ph 1B	East Ph 1C	West Ph 1A	West Ph 1B	West Ph 1C	Totals
1 Site clearance works	£2.90	£0.00	£0.00	£0.00	£0.00	£0.00	£0.00	£2.90
2 Infrastructure works	£0.00	£7.89	£6.57	£4.03	£4.99	£7.10	£0.57	£31.17
3 Basement	£0.00	£19.92	£19.67	£11.75	£0.00	£15.60	£0.00	£66.94
4 Flexible use - shell and core	£0.00	£0.78	£2.24	£1.71	£0.00	£0.00	£0.00	£4.73
5 - Flexible use - refurb	£0.00	£0.91	£3.48	£0.00	£0.00	£0.00	£0.00	£4.38
5 Offices	£0.00	£9.15	£7.34	£0.00	£0.00	£0.00	£0.00	£16.49
6 Cinema - shell only	£0.00	£5.92	£0.00	£0.00	£0.00	£0.00	£0.00	£5.92
7 Hotel 3 star	£0.00	£0.00	£6.10	£0.00	£0.00	£0.00	£0.00	£6.10
8 Private residential	£0.00	£64.38	£79.97	£44.73	£0.00	£99.40	£8.95	£297.42
9 Private residential refurb	£0.00	£9.54	£0.00	£0.00	£0.00	£0.00	£0.00	£9.54
9 Affordable residential	£0.00	£0.00	£0.00	£17.22	£65.58	£0.00	£0.00	£82.80
10 Public realm works	£0.00	£5.54	£4.38	£2.14	£8.29	£4.71	£0.00	£25.06
Totals	£2.90	£123.92	£129.76	£78.75	£78.86	£126.53	£9.52	£550.23

G&T's cost plan recommends a Construction Contingency of 7.5%, but as previously agreed for the 2020 Scheme, we have applied a 5% contingency in our appraisal.

The costs reflect the following factors:

- The scale of the development, and the incorporation of extensive basements to accommodate on-site car parking and plant;
- The quality of the proposed architecture (which is reflected in the Strutt & Parker pricing schedule);
- The impact of retention and conversion of heritage buildings that must be retained as part of any redevelopment; and
- The extent and quality of associated site infrastructure to serve a development of this scale.

G&T have provided a schedule of the cost changes resulting from the changes in the Figure Regulations scheme (also attached at Appendix 4). This shows a total cost increase of £24,060,000 (before contingency), which we have reflected in the appraisal.

4.7 Off-site works

In addition to the costs above, the Council requires improvements to highways and pavements off-site to be undertaken. These are estimated by G&T as follows (unchanged from the previously submitted appraisals):

Table 4.7.1: Highways improvements

	Highways	Pavements	Totals
1 Chalkers Corner	£3,019,000	-	£3,019,000
2 Lower Richmond Road	£2,947,000	£1,290,000	£4,1237,000
3 Mortlake High Street	£1,468,000	£475,000	£1,943,000
4 Ship Lane	£589,000	£160,000	£749,000
5 Williams Lane	£910,000	£170,000	£1,080,000
6 Thames Tow Path	£1,479,000	-	£1,479,000
7 Mortlake Green	-	-	-
8 Sheen Lane	£240,000	-	£240,000
9 Level Crossing works	£250,000	-	£250,000
10 Slipway	£566,000	-	£566,000
Inflation Q4 2017 to Q4 2021	-	£71,000	£71,000
Totals	**£11,468,000**	**£2,166,000**	**£13,634,000**

In the Applicant's opinion, a significant proportion of these works is required to mitigate additional highways impact associated with the School, rather than the mixed-use parts of the proposed Development. At this stage (as was previously the case) we have incorporated all the costs in the appraisal, reflecting the lack of agreement at this stage that the EFA will pay a proportion of these costs.

Any other highways and infrastructure works other than those specified are subject to future negotiation. If appropriate highways works under a Section 278 agreement are not agreed, there may be a requirement for a third party land payment.

4.8 Carbon off-set

The Applicant has commissioned Hoare Lee to advise on carbon off-set costs. Their most recent advice (in line with the final position in July 2023) for the Proposed Development is that the total Carbon Offset contribution will be £1,337,618.

4.9 CIL and Planning Obligations

The Applicant's planning consultants, Gerald Eve, have provided an estimate to CIL liability for the Proposed Development. This estimate is attached as Appendix 5 which also details their assumptions. Estimated liabilities are summarised in Table 4.9.1 (reflecting the indexation figures for 2024 recently issued by the RICS). We have provided two appraisals incorporating the lower and higher CIL respectively in our appraisals.

Table 4.9.1: CIL liability

Liability	Assuming all existing space meets occupancy test	Assuming no existing space meets occupancy test
Mayoral CIL	£9,792,577	£12,962,313
Borough CIL	£39,144,979	£51,240,463
Total	**£48,937,556**	**£64,202,775**

For the sensitivity analysis which retains the office use above the Cinema in Building 1, we have applied the following amounts of CIL, as advised by Gerald Eve (calculations attached as Appendix 5).

Table 4.9.2: CIL liability (office in Building 1 sensitivity)

Liability	Assuming all existing space meets occupancy test	Assuming no existing space meets occupancy test
Mayoral CIL	£9,972,577	£12,962,313
Borough CIL	£39,179,404	£50,163,493
Total	**£48,971,982**	**£63,125,806**

4.10 Section 106 payments

In July 2023, the Applicant and the Council agreed a package of Section 106 obligations totalling £7,327,196 and we have assumed that these will remain unchanged for the purposes of updating the appraisal.

4.11 Project Timetable

We have adopted the following assumed timings for construction and sales, which is unchanged from previously submitted appraisals. These assumptions are indicative only at this stage. The timing for individual stages of the development in our appraisals are summarised as follows:

Phase 1 (Plots 1A, 1B and 1C)[2]

- 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;
- Final sale completed 12 months after practical completion.

[2] These phases correspond with the floor area schedules.

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;
- Final sale completed 12 months after practical completion.

The ground works and basement construction for each phase will need to be completed in their entirety in the first phase, even when above ground works follow sometime later.

4.12 Other agreed appraisal inputs

Table 4.12.1 summarises the remaining appraisal inputs which were previously agreed with Carter Jonas. These inputs are commensurate with reasonable assumptions having regards the scale of the development and the significant upfront capital commitment to address site infrastructure requirements.

Table 4.12.1: Other agreed appraisal inputs

Description of appraisal input	BNP Paribas Real Estate	Carter Jonas
Marketing	2%	2%
Letting Agent and Letting Legals	15%	15%
Sales agent fee (% of capital value)	1%	1%
Sales legal fee residential (per unit)	£1,250	£1,250
Sales legal fee (% of capital value)	0.5%	0.5%
Finance rate	6%	6%
Professional fees	10%	10%
Target profit – commercial	15%	15%
Target profit – affordable	6%	6%

While profit on the private housing is not agreed, we have adopted Carter Jonas's profit of 17.5% on a without prejudice basis. This is something of a moot point at this stage, as the appraisal does not generate a profit which is close to Carter Jonas's lower target profit margin.

5 Appraisal Results

In this section, we consider the outputs of the appraisals and the implications for the viable level of affordable housing within the proposed Development.

5.1 Benchmark Land Value

For the purposes of the updated assessment, we have adopted a benchmark land value of £36,000,000, which has previously been agreed with Carter Jonas and the GLA.

5.2 Appraisal Results

Our appraisals of the Proposed Development reflect the Final Affordable Housing Offer **and** growth in sales values/inflation on costs as follows:

Table 5.2.1: Cumulative growth

Year	Sales values	Construction costs
2024	2.00%	2.00%
2025	2.00%	2.00%
2026	3.00%	2.00%
2027	3.00%	2.00%
2028	4.00%	2.00%
Assumed growth from 2029 onwards	4.00%	2.00%

In common with previously submitted assessments, we have inputted the Benchmark Land Value as a cost, so the output of the appraisals is a residual profit, expressed as a percentage of GDV and costs. The appraisal results are summarised in Table 5.2.2.

Table 5.2.2: Appraisal outputs (with cumulative growth) reflecting the final affordable housing offer

CIL	Profit on GDV	Profit on Cost
No existing floorspace meets occupancy test	10.39%	11.64%
All existing floorspace meets occupancy test	12.18%	13.93%

In both cases, the profit remains significantly lower than the blended profit margin.

The Review Mechanisms incorporated into the draft Section 106 agreement will capture any uplift in value (net of cost increases and after remedying the deficit at this stage) and this will be used to provide additional affordable housing or a payment in lieu.

5.3 Office use retained in Building 1 above Cinema

If the space above the Cinema is retained in office use, the profits are summarised in Table 5.3.1 (see appraisals attached as appendices 8 and 9).

Table 5.3.1: Appraisal outputs (with cumulative growth) reflecting final affordable housing offer, with office use retained in Building 1

CIL	Profit on GDV	Profit on Cost
No existing floorspace meets occupancy test	9.82%	10.94%
All existing floorspace meets occupancy test	11.50%	13.05%

6 Conclusions

The Proposed Development reflecting the Final Affordable Housing Offer of 65 units (80% social rent and 20% intermediate) plus the additional benefit of land for a secondary school (as reflected in the Application which the Council resolved to grant consent in July 2023) has been amended to reflect the requirement in the Fire Regulations for second cores in all buildings of 18 metres or taller. The amendments to the Scheme mitigate some of the impact arising from these changes by converting the space in the upper floors of the Cinema Building from offices to residential.

The profit generated by the Proposed Development after these changes have been applied is marginally lower than the profits previously reported to the Council in July 2023, as summarised in Table 6.1.1.

Table 6.1.1: Scheme profit

CIL	Profit on GDV		Profit on Cost	
	July 2023 Scheme	Fire Regs Scheme	July 2023 Scheme	Fire Regs Scheme
No existing floorspace meets occupancy test	14.16%	10.39%	16.58%	11.64%
All existing floorspace meets occupancy test	15.67%	12.18%	18.68%	13.93%

Despite the outcome of this assessment, it is our understanding that the Applicant intends to retain the provision of affordable housing at the same percentage, tenure split and mix of units as previously offered (and accepted by the Council and their advisors as exceeding the maximum viable provision).

Appendix 1 - Residential unit schedule

Appendix 2 - Residential sales value report and pricing schedule

Appendix 3 - Commercial comparable evidence

Appendix 4 - Cost plan

Appendix 5 - CIL calculations

Appendix 6 - Development appraisal – Lower CIL

Appendix 7 - Development appraisal – Higher CIL

Appendix 8 - Development appraisal – Office retained in Building 1 (Lower CIL)

Appendix 9 - Development appraisal – Office retained in Building 1 (Higher CIL)