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Simon Devitt
Bespoke Property Consultants
Arundene Orchard/Loxwood Rd
Horsham
RH12 3BT



Gareth Turner
GTurner@savills.com
+44 (0) 20 7016 3771

33 Margaret Street
London
W1G 0JD
T: +44 (0) 20 7499 8644
savills.com

Dear Simon,

Property: Barnes Hospital, South Worple Way, SW14 8SU
Affordable Housing Provision and Viability GDV

Introduction

Following the request that Star Land consider providing the affordable housing in Block A, this letter sets out our analysis of the impact of the proposal.

In undertaking the analysis, we would note that Star Land have consistently proposed that the affordable housing would be provided in Block C. This was a direct follow-on from the Outline Planning Permission location and fully integrated into the design of the scheme for the detailed application.

Star Land made a without prejudice offer to increase the number of affordable homes to 27, notwithstanding that we maintain that the Council's approach to the Site Value Benchmark (i.e. that a C2 scheme should include an affordable housing contribution) is factually incorrect. The Council agreed to the 27 units and then requested these be located in a self-contained Block A.

The market sales pricing provided is based on previous viability reports; given the passage of time we have sought further advice from Savills Residential Sales Team, who have provided specific commentary in respect of the difference between Blocks C and A in value, detailed later in this letter.

In respect of the affordable housing, Richmond Housing Partnership (RHP) have provided a revised offer for the 27 homes in Block A, which is at a lower level than the figure contained in Bespoke's report from for the 24 homes in Block C. The lower offer has an immediate impact on the viability of the scheme. On a like-for-like basis it would mean that 27 units could not be viably provided, which contradicts the rationale for considering affordable homes in Block A.

Alongside the revised offer from RHP, the design of both Blocks A and B has the cycle parking and refuse space in the basement. The affordable housing residents would be obliged to contribute to the service charge costs of this area, since they would have full access to the space. Locating affordable housing in Block C will lead to comparably lower service charges for the incoming RP.

Finally, we note that the evidence in respect of costs and values used within viability analysis to date is now a year old. Since that time there have been consistent cost increases in the marketplace, whereas sales values have continued to be subdued due to impacted wider economic factors. Continued construction cost inflation and increases in CIL/MCIL levy create an unavoidable reduction in scheme viability.

Notwithstanding the above, we are advised that Star Land are willing to stand behind their without prejudice offer of 27 units in Block C (or a revised layout of 24 larger units which we refer to later). This location is also consistent with the original Outline Planning Permission for the entire hospital site, and all subsequent design discussions with the Planning Team.

We set out further details as follows:

- Market Sales Values including a detailed pricing schedule.
- Analysis of the recent revised offer from Richmond Housing Partnership for Block A.
- Revised Block C Mix to provide and increase in 3 bed homes in Block C
- Comparison of overall Scheme GDV
- Cost Increases since the last Viability Assessment
- Conclusions

Overall it is clear that the reduction in value of the homes between Block A and Block C, combined with the revised figures from RHP and consideration of service charge costs, make it both less viable and less practical to deliver the affordable housing in Block A.

1) Market Sales Values

In order to identify the impact on scheme value of locating the affordable homes in Block A, we have based our pricing on those we agreed in the 2021 report, which was the last exercise that Bespoke used to produce values. We have then applied a **percentage adjustment** to our base pricing to ensure that we are broadly consistent with Bespoke's reported values **(which were inclusive of parking income)**.

Applying the assumptions from that point (i.e., before a further adjustment as recommended by our sales team to block C) then the summary of values assuming all the units are market sale is as below, and the full schedule is attached.

Block	Unit Tye	No of Units	Average Sqft	Average Value	Average of BPS £sqft
A	1B2P	10	568	£380,449	£670
	2B3P	4	697	£642,082	£921
	2B4P	7	823	£662,860	£808
	3B4P	1	850	£725,850	£854
	3B5P	1	936	£732,274	£782
	3B6P	4	1,066	£753,150	£708
	Sub-Total	27		15,483,558	£712
B	1B2P	9	591	£397,322	£676
	2B3P	4	675	£657,750	£974
	2B4P	15	819	£684,178	£838
	3B4P	2	856	£615,581	£720
	3B5P	3	969	£741,909	£766
	3B6P	3	1,044	£746,191	£715
	Sub-Total	36		£22,165,029	£790
C	1B2P	20	578	£372,171	£646
	2B3P	5	698	£639,007	£918
	2B4P	14	812	£664,633	£820
	3B4P	1	807	£589,887	£731
	3B5P	3	926	£698,372	£754
	Sub-Total	43		£22,628,329	£754

Block	Unit Tye	No of Units	Average Sqft	Average Value	Average of BPS £sqft
D	2B3P	1	753	£643,264	£854
	2B4P	1	872	£655,089	£751
	Sub-Total	2		£1,298,353	£799
E	Studio	1	431	£336,160	£781
	Grand Total	109		£61,911,429	£770

We would note that this pricing was undertaken in a very different market, and since that point apartment prices have in general terms decreased, and the rate of sales have slowed.

When considering the aspect of the homes in Block C in particular, we have been provided with further commentary from Savills New Homes Sales Team, which is set out below:

It appears that the parking facilities and amenity space are now going to be located to the East of the school plot with the knock-on effect being that the actual school block itself will be far closer to the Southeast aspect of block C than was originally thought.

As such there will be a knock-on effect to those units on that aspect and more specifically the units that are directly facing into the school itself.

I can confirm that there would be a reduction in unit values for the units that were directly facing into the school. It's difficult to attribute a consistent % to this as it will be more acute with differing unit types and there won't be an across-the-board figure that can be applied as a result but it could be as much as 5% on the worst affected units and potentially more.

The above assessment of values excludes any further reductions as a result of the alternate parking space arrangements.

Based on the above, it is clear that locating the affordable homes in Block A would reduce the value of the scheme overall.

2) Affordable Housing Values

Bespoke's June 2023 report reflects a total figure of £5,812,000 for 24 homes, which equated to £242,167 per unit or £346sqft.

RHP have recently provided a revised price of £4,950,000 on the assumption of 27 homes being provided in Block A. This equates to a figure of £183,333 per unit or £244sqft.

The significant reduction in value reduces the scheme viability irrespective of the location of homes, and on a like-for-like basis the scheme cannot afford to support 27 affordable homes, which contradicts the rationale for locating the affordable homes in Block A.

In applying the revised affordable housing values within the proposed GDV, we have adopted the average £ per unit provided by RHP. We have applied the £/unit rather than £/sqft because our client is considering amending the Block C Mix as set out below.

In addition to the above, the service charge costs for the homes in Block A will be higher than Block C, since the residents will be required to contribute to maintenance and management of the underground car park to include the cycle storage and refuse space. In contrast, Block C was designed for the AH and the cycle and refuse storage is at ground floor level

and with no access to the basement which would therefore comparatively reduce the service charge burden for the affordable homes. Service charges are a key concern to RPs and we are not aware that RHP have been made aware of these implications when considering their proposal; there is therefore further potential for the value of affordable homes in Block A to decrease.

3) Revised Block C Mix

In order to facilitate the Council's preference for a greater number of larger family homes, LS Estates have instructed Scott Brownrigg architects to consider an alternate housing mix in Block C which enables an increased number of 3-bedroom homes.

The changes would result in the following mix overall Block C, including the market units, as follows:

- The existing unit C.01.06 is removed.
- The existing unit C.01.07 will become a dual aspect 3 Bed.
- The existing unit C.01.05 will become a lateral 3 Bed.
- C.01.04 becomes a 2 Bed
- C.01.03 becomes a 1 bed

Unit Type	1 bedroom	2 bedroom	3 bedroom
Existing Block C Mix	20	19	4
Proposed Block C Mix	18	15	8

In considering the above mix we have been mindful to ensure that, as much as possible, the Social Rented homes can be accessed from a single residential entrance in order to facilitate ease of management.

We therefore propose to locate the Social Rent homes to be accessed predominantly from the southern-most lift and stairs in Block C, with the market homes located at the north of the block. We also propose to locate as many as the Social Rented homes as possible on the ground floor.

4) Comparison of Scheme GDV

The table below compares the different GDV (including the provision of Affordable Housing) and the overall value.

In respect of the affordable housing, we have applied the revised offer £sqft value from RHP to the potential mixes of homes.

Mix Option	Tenure	1 bed	2 bed	3 bed	Tenure Split Hab Room	Total GDV
Original 24 Unit Applicant Offer	Social Rented	7	8	4	84:16 SR:SO	£55.88m
	Shared Ownership	5				
Revised 27 Unit Applicant Offer	Social Rented	9	8	4	85:15 SR:SO	£55.14m
	Shared Ownership	6				
Block A Mix	Social Rented	5	11	6	87:13 SR:SO	£53.47m
	Shared Ownership	5				
Revised Applicant offer Block C	Social Rented	6	4	8	80:20 SR:SO	£55.03m

Mix Option	Tenure	1 bed	2 bed	3 bed	Tenure Split Hab Room	Total GDV
	Shared Ownership	4	2			

5) Cost Increases

The time taken for the application to date has led to significant cost increases which continue to challenge overall viability. BCIS All-in-TPI, for example, shows an increase of 2.64% between our report of February 2023 and the current date, which would equate to over £800K taking into account the corrections to Exigiere's review provided by Beadmans in July 2023.

We have been provided with an indexed CIL cost by Avison Young based on the original 2021 calculation as follows:

- LBRuT: £3,357,287
- MCIL2: £877,710
- Total: £4,234,996

The above is an increase of £570,355 from the £3,664,641 stated in our 2023 report.

Conclusion

The Council's proposal to locate affordable homes in Block A creates a significant effect on the viability of the scheme, both in terms of design revisions that will be required, and a reduction in market sales income.

Alongside this, the offer from RHP for affordable homes has decreased significantly in comparison to 2023.

Key cost items have increased, namely construction cost and CIL/MCIL, at a total of over £1.3m.

Taking the above into account, providing 27 units in Block A would significantly impact on the scheme viability, and therefore would support fewer units overall, i.e. making it unviable provide the affordable homes in Block A.

The revised design of Block C shows that within the same area, we can provide an increase in the number of 3 bedroom homes (above that in Block A) within a self-contained section of the block.

We are advised that on the basis that the application gets put forward to the Committee meeting due on 22nd May 2024, that Star Land are willing to maintain the without prejudice offer to provide either the 27 units or larger 24 units in Block C.

Yours sincerely,



Gareth Turner
Director

Encl:
Pricing Schedule
Revised Floor Plans Block C