DOLPHIN SQUARE

FINANCIAL VIABILITY ASSESSMENT
JANUARY 2018

DS2

DS1248

Private & Confidential – Commercially Sensitive

Dolphin Square, London, SW1V

FINANCIAL VIABILITY ASSESSMENT

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On behalf of Dolphin Square Limited

January 2018

Confidentiality Statement

This report is released on a confidential basis to Westminster City Council and their appointed viability advisors for this scheme and is provided on the strict basis that it should not be disclosed to any third parties under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (or any future equivalent legislation) or otherwise disclosed without the prior approval in writing from DS2 LLP or Dolphin Square Limited.

This report must not, save as expressly provided for in the fee letter be recited or referred to in any document, or copied or made available (in whole or in part) to any person without our express prior written consent.

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1 INTRODUCTION

1.1 This Financial Viability Assessment ("FVA") has been prepared by DS2 to robustly examine the financial viability of the proposed refurbishment and development of Dolphin Square (hereafter "the Site"). The Site is located within the administrative boundary of Westminster City Council ("WCC)".

1.2 This FVA has been prepared in support of a full planning application ("the Application") which has been submitted by DP9 on behalf of Dolphin Square Limited ("The Applicant").

1.3 DS2 is instructed to test the maximum level of affordable housing and additional financial obligations, which can be supported by the development without impeding the viability of the project and the chances of delivery. The following report has been collated in accordance with planning policy and professional best practice guidance.

1.4 DS2 can confirm that our instruction is not on a contingent fee or success related basis. The report is an objective and impartial view on the development viability of the proposed scheme, albeit given the challenging nature of the scheme, certain special assumptions have been included in the appraisal, on a without prejudice basis.

1.5 ARGUS Developer has been used to demonstrate the project's financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer has previously been accepted by both WCC and the GLA for viability testing.

1.6 Dolphin Square comprises a single estate of 1,106 homes consisting of 13 interlinked residential buildings. Given the scale and complexity of the project, and a requirement to ensure that the FVA is transparent, each building has been created within ARGUS as a standalone phase, cash flowed in accordance with the current phasing plan, and further disaggregated into the refurbishment and new build components.

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

- Eric Parry Architects – Architects
- DP9 – Planning Consultants
- Cast Consultancy – Cost Consultants
- Knight Frank – Existing Use Valuation & Updated Serviced Apartment Values

1.8 This FVA has been structured as follows:

- **Site description** – summary of the location and nature of the existing asset;
- **Development proposals** – review and description of the proposed development;
- **Planning policy** – review of the key national, regional and local planning policies concerning the delivery of affordable housing and financial viability;
- **Viability methodology** – description of the methodology employed within the wider context of best practice for FVAs;
- **Development timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;
- **Development value** – review of the residential values alongside any additional revenue streams that comprise the scheme Gross Development Value (GDV);
- **Development costs** – review of the development costs for the proposed project;
- **Site Value** – analysis in relation to the proposed Site Value / Benchmark Land Value for the financial appraisals;
- **Appraisal results and sensitivity testing** – summary of the financial appraisal outputs and supplementary results of scenario and sensitivity testing;
- **Conclusions** – statement with the formal affordable housing offer and concluding rationale.

1.9 The appraisals and figures in this FVA do not represent formal 'red book' valuations and should not be relied upon as such. This report has been prepared to accompany the planning application for the purposes of Section 106 discussions only and should only be used for the consideration of these matters.

1.10 This report is reliant upon market evidence. Readers should be mindful that market evidence is subject to variation over time and in the event that this report is older than six months from the date issued, a summary update is advisable.

1.11 The report has been prepared by Rachel Leigh MRICS and Pascal Levine MRICS both of whom have considerable experience in undertaking such assessments on large-scale development projects in Westminster and elsewhere across London.

2 SITE DESCRIPTION

2.1 A detailed site description is contained within the DP9 Planning Statement submitted with the Application. A summary is provided below.

Site Location

2.2 The Site is located in Pimlico which falls within the administrative boundary of Westminster City Council (WCC). The 7.4-acre estate is owned by The Dolphin Square Estate Limited and managed by the Applicant, which are companies controlled by Westbrook Partners, a US real estate investment management company.

2.3 The Site is bordered by Chichester Street and the Pimlico School to the north, to the east by St George's Square, to the south by Grosvenor Road and to the west by Claverton Street. The southern section of the building benefits from a prominent position overlooking the River Thames.

Image 1: Grosvenor Road frontage (south) of Dolphin Square

Site Description

2.4 The Site comprises a residential and serviced apartment block built by Costains in 1937 with ancillary offices, retail and leisure facilities. The principal building is set around a central garden area which is landscaped, providing gardens, with tree lined walkways and flower beds set around a central fountain.

2.5 The main building is arranged over basement, ground and nine upper floors on three sides of the square and over six upper floors on Rodney House (Rodney House is located at the northern end of the estate). Internally, the estate comprises 13 buildings which are interlinked at basement and ground floor.

2.6 Each building benefits from its own access door, two lifts and a stairwell. In total, there are 1,106 residential flats and 124 serviced apartments, the latter of which are contained within Rodney House. The estate is home to over 2,500 people and is the UK's largest private residential rented apartment block.

2.7 The Site includes a retail arcade, situated along Chichester Street to the north of the square within Dolphin House, and the spa/gym facilities are located underneath the central courtyard. The leisure and retail facilities are open to residents and non-residents.

2.8 The plan below illustrates the layout of the building.

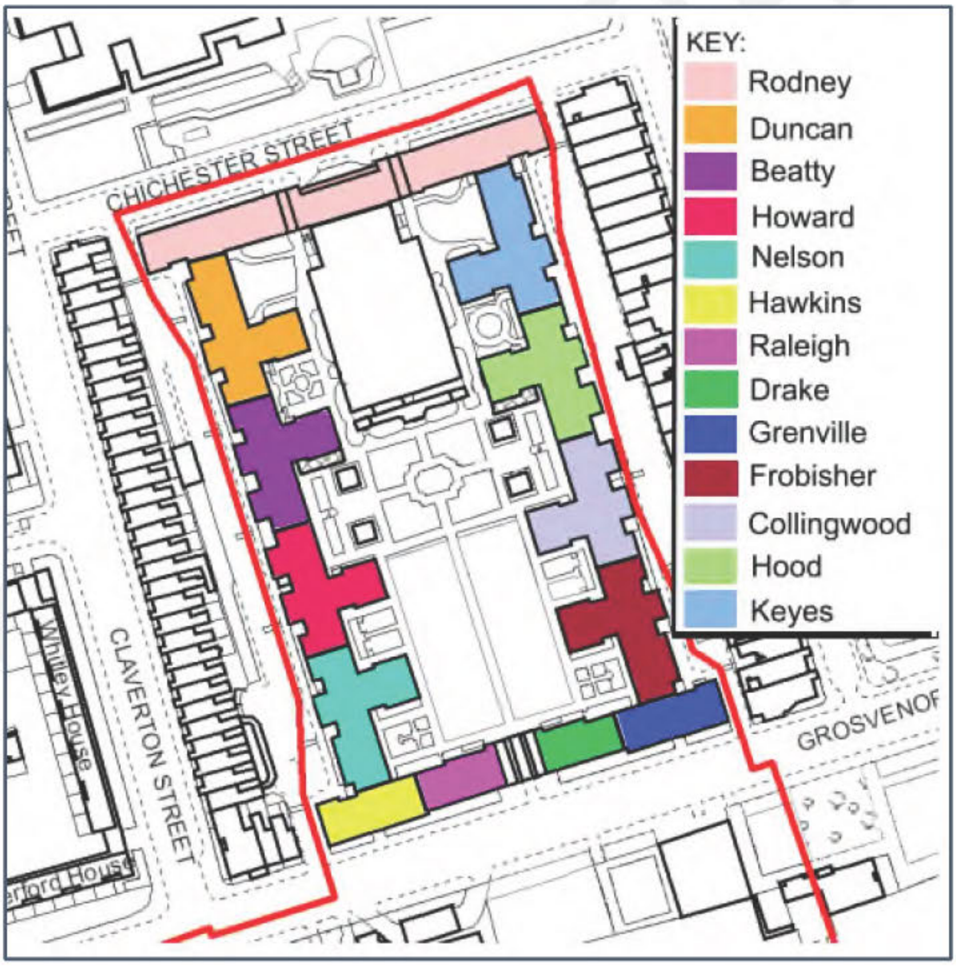


Figure One: Site Layout Plan

2.9 Each of the residential buildings are named after a famous navigator or naval admiral. Fronting Grosvenor Road the houses are Grenville, Drake, Raleigh and Hawkins. Along the western carriage way, there are Nelson, Howard, Beatty and Duncan. Along Chichester Street is Rodney/Dolphin House and the eastern carriage way there are Keyes, Hood, Collingwood and Frobisher.

Communal Areas

2.10 Each of the separate but interconnected residential houses benefits through access from both the inner courtyard and from the carriageways to both sides of property.

Image 2: Dolphin Square – Courtyard Gardens

Residential

2.11 The Site includes 1,106 residential apartments which are located on ground to ninth floors around the east, south and west sides of the square and which are in a variety of conditions.

2.12 The residential apartments comprise a mix of Assured Shorthold Tenancies (AST)s and Option B Tenants which are essentially lifetime Assured Tenancies. The rental levels across the estate are relatively low by central London standards and the Assured Tenancies are, in all intents and purposes, at affordable housing rental levels.

2.13 The combination of affordable rents, central London location and the high-quality living environment ensure that the estate benefits from a consistently high occupancy rate.

2.14 The Option B leases closely resemble a Rent Act 1977 protected tenancy and have a break right in 2018 and expiry in 2034. The tenancy differs from a Rent Act Tenancy in that the rent is set to rise in accordance with a formula in the lease.

2.15 Table One, indicates the existing mix of units and habitable rooms across the estate.

Table One: Existing Unit and Habitable Room Mix, Dolphin Square, February 2018

Existing units	Studio	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	6 Bed	Habitable Rooms	Unit Total
Beatty	24	55	31	1	0	0	0	238	111
Collingwood	24	58	25	3	1	0	0	237	111
Drake	10	17	9	6	1	1	0	134	44
Duncan	13	63	36	2	1	1	0	263	116
Frobisher	14	49	18	3	3	0	0	236	87
Grenville	20	41	16	3	0	0	0	175	80
Hawkins	18	43	17	2	0	0	0	167	80
Hood	29	54	30	2	1	0	0	234	116
Howard	24	56	27	3	0	0	0	234	110
Keyes	24	55	31	3	4	0	0	237	117
Nelson	11	59	14	3	1	1	0	197	89
Raleigh	11	14	10	10	0	0	0	146	45
Total	**222**	**564**	**264**	**41**	**12**	**3**	**0**	**2,497**	**1,106**

Serviced Apartments

2.16 The serviced apartments are contained within Rodney House. There are 124 serviced apartments, the current mix is set out below.

Table Two: Existing Serviced Apartment Mix, Dolphin Square, February 2018

Existing Serviced Apartments	Studio	1 Bed	2 Bed	3 Bed	Unit Total
Dolphin House/Rodney House	30	72	19	3	**124**

2.17 The serviced apartments benefit from access to a reception foyer, Club Lounge and Champagne Bar, Dolphin Bar and Grill, kitchen and ancillary area, Sports and Fitness Club, The Spa and administrative offices. The Sports and Fitness Club includes an indoor heated swimming pool, 3 squash courts, sauna, steam room and gymnasium and studios.

2.18 The Spa includes a Moroccan hammam, 7 treatment rooms, lounges and retail space.

Commercial Uses

Retail

2.19 The retail accommodation is arranged along the ground floor of Rodney House and does not have a street frontage. The space is predominantly used by the Dolphin Square residents (albeit available to the public as well).

Office

2.20 The office and storage accommodation is ancillary to the residential and serviced apartment uses. The space is located at basement level and comprises relatively basic, low specification accommodation.

Leisure

2.21 The existing fitness club features a gymnasium, swimming pool, sauna and steam rooms, three squash courts and two dance studios. Membership to the fitness club is open to the general public as well as residents of Dolphin Square.

Car Parking and Cycle Spaces

2.22 The Site benefits from underground car parking and there are 251 spaces (including 1 Accessible). There are 114 cycle parking spaces available in the basement.

Ownership

2.23 The Site is within the full, unencumbered, ownership of the Applicant.

3 DEVELOPMENT PROPOSALS

Proposed Development

3.1 The Application has been submitted by planning consultant DP9 on behalf of the Applicant for the refurbishment of the Site. The Application includes the reconstruction of Rodney House to provide serviced apartments and additional homes, together with an extension to the existing buildings and new town houses and the reconfiguration of existing residential units.

3.2 From a planning and viability perspective, DS2 has considered the proposals on the basis of two scenarios. Scenario 1 considers that all of the proposed development continues to be rented, and scenario 2 considers that the existing estate remains as a rental product and the new development is for sale.

3.3 A full assessment of the proposed development at the Site (hereafter "the Development") is contained within the Design and Access Statement prepared by Eric Parry Architects. A red line plan is included at **Appendix One.**

3.4 The Application is defined as follows:

"Comprehensive refurbishment of Dolphin Square including the reconfiguration of existing residential (Class C3) apartments; the demolition and reconstruction of Rodney House to provide a new ground plus 9 storey building with 2 basement levels to provide residential (Class C3), serviced apartments, retail (Class A1-A4), leisure (Class D2); single storey rooftop extensions to the retained and refurbished Houses to provide additional residential (Class C3); a new row of townhouses (Class C3) to the Western Carriageway; landscaping and new publicly accessible open space; new and reconfigured access points; and, all necessary enabling works"

3.5 In total, the Development will provide 942,754 (NIA) sq ft of residential, serviced apartments and commercial space equating to 1,331,980 (GEA) sq ft. This equates to an uplift of 116,383 sq ft (NIA) and 215,517 sq ft (GEA) across the scheme.

3.6 The proposals seek to enhance the original architectural vision for Dolphin Square and to increase the quantum of floorspace across the Estate.

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

Table Three: Proposed Scheme Development Areas and Uplift, Dolphin Square, February 2018						
Building Breakdown	**GEA Area (sqft)**	**NSA (sqft)**	**NIA (sqft)**	**Uplift GEA (sqft)**	**Uplift NSA (sqft)**	**Uplift NIA (sqft)**
New Residential Rooftop Apartments	60,709	39,352		60,709	39,352	
New Residential Mews	33,874	26,958		33,874	26,958	
New Residential Rodney Apartments	89,869	56,339		89,869	56,339	
Refurb/Reconfigured Apartment	781,639	563,885		-9,828	-23,337	
Residential Ancillary	107,565		80,673	-9,451	99,027	-7,088
Total Residential and Ancillary	**1,073,655**	**686,249**	**80,673**	**165,174**	**99,027**	
Rodney Serviced Apartments	117,489	72,796		21,313	5,263	
Ancillary	47,652		33,148	32,830		22,031
Total Serviced Apt and Ancillary	**165,141**	**72,796**	**33,148**	**54,143**		**27,294**
Retail	14,090	10,568		2,852		2,139
Leisure	25,543	19,157		-6,954		-5,215
Office				-1,238	-1,164	-928
Total Excluding Parking	**1,278,430**	**759,045**				**10,939**
Main Building Parking	53,551		40,163	1,539		1,154
Total	**1,331,980**	**759,045**	**183,709**	**215,517**	**104,290**	**12,093**

Scheme Layout and Design

3.8 The scheme proposals aim to enhance the original architectural vision for Dolphin Square, and increase the overall number of flats across the Estate. This involves the refurbishment of 12 residential buildings and the reconstruction of Rodney House. The Development can be summarised as follows:

- Refurbishing and reconfiguring the existing estate to create an additional 27 studios, one-bed and two-bedroom units.
- Landscaping and public realm improvements, to enhance the setting of the square and its connection to the community and immediate surroundings including level access to the gardens.
- Replacement of Rodney House to create an additional 78 residential apartments and increase the serviced apartments from 124 to 205.
- A roof top extension to the main residential building, creating an additional 68 new build flats.
- A row of 16 townhouses on the western access road with landscaping improvements.
- The leisure facilities will be provided beneath the new Rodney House, enabling the existing gardens to be extended.
- There will be new public amenity space with improved landscaping to the carriageways either side of the Estate.

Phasing

3.9 To summarise, the construction sequencing begins in January 2020 and this commences with the demolition of Rodney House. Following the demolition of Rodney House, two residential buildings are concurrently decanted or vacated, e.g. Duncan and Keyes, to allow strip out work to commence.

3.10 Option B tenants will be relocated into alternative apartments until the work on their home is completed. Whilst the residential buildings are being stripped out, the basement excavation commences alongside piling for the new Rodney House. Works continue to the remainder of the residential buildings, including the rooftop extension. At the point where the majority of the existing estate is reaching completion, work on the carriage way and townhouses begins. It is proposed that the entire construction programme is six years. The phasing plan underpins the development appraisal.

Residential Use

3.11 The Development will provide, 1,295 residential units within the refurbished and new build elements. The proposed residential mix is set out below:

Table Four: Proposed Scheme Residential Mix									
Proposed units	Studio	I bed	2 Bed	3 Bed	4 Bed	5 Bed	6 Bed	Habitable Rooms	Unit Total
Refurb & Adapted									
Beatty	43	55	20	1	0	0	0	220	119
Collingwood	39	60	14	3	0	0	0	219	116
Drake	9	18	9	7	0	1	0	103	44
Duncan	30	46	32	1	0	1	0	221	110
Frobisher	27	54	12	3	0	0	0	179	96
Grenville	22	43	15	3	0	0	0	166	83
Hawkins	18	46	15	3	0	0	0	159	82
Hood	40	52	24	1	1	0	0	124	118
Howard	44	55	16	2	0	0	0	218	117
Keyes	28	44	32	2	1	0	0	222	107
Nelson	28	58	7	3	0	0	0	183	96
Raleigh	11	15	10	9	0	0	0	100	45
Total	**339**	**546**	**206**	**38**	**2**	**2**	**0**	**2114**	**1133**
New Build Rooftop Extension									
Beatty	2	4	0	1	0	0	0	15	7
Collingwood	2	4	0	1	0	0	0	13	7
Drake	0	1	0	2	0	0	0	9	3
Duncan	2	3	0	2	0	0	0	16	7
Frobisher	3	4	0	0	0	0	0	8	7
Grenville	0	2	0	1	0	0	0	4	3
Hawkins	0	2	0	1	0	0	0	8	3
Hood	2	4	0	1	0	0	0	14	7
Howard	2	4	0	1	0	0	0	14	7
Keyes	2	3	0	2	0	0	0	15	7
Nelson	3	4	0	0	0	0	0	9	7
Raleigh	0	1	0	2	0	0	0	19	3
Total	**18**	**36**	**0**	**14**	**0**	**0**	**0**	**144**	**68**
Mews Building	0	0	0	16	0	0	0	64	16
Rodney Residential	18	23	27	10	0	0	0	195	78
Overall Total (including mews and Rodney)	**36**	**59**	**27**	**40**	**0**	**0**	**0**	**2,517**	**1295**

Townhouses

3.12 It is proposed that the townhouses are located along the Western Carriageway backing onto the boundary wall where the existing carpark ramp is currently situated. The townhouses are approximately 8.5m deep with a recessed porch providing access to each house. In total there are 16 townhouses including a single basement level connecting to the existing carpark basement and ground plus two storeys. The basement contains storage and utility space due to the existing site being in a flood risk zone. Six of the proposed units have garages in the basement space which can be accessed by car from the Eastern Carriageway.

3.13 The ground floor accommodates the main living area with a kitchen, living and dining area, the first-floor houses two bedrooms and the main bathroom with the top floor containing the master bedroom and a second bathroom.

Rodney Residential

3.14 Floors six to nine of Rodney House create 78 new residential apartments which are configured as studios, one, two and three bed apartments. These are planned mainly as duel aspect units with the exception of those located north of the main cores.

3.15 Access to these apartments will be via dedicated residential lift lobbies with access control, provide the Estate with a residential entrance on Chichester Street for the first time.

Rooftop Extension

3.16 There will be 68 new apartments across the rooftop of the existing building. The apartments will benefit from far reaching views and the ceiling heights are more generous than the floors below. The majority of units fronting Grosvenor Road are through units and benefit from north and south light and generous roof terraces are configured for the most easterly and westerly apartments.

Affordable Housing

3.17 The Applicant acknowledges the strategic importance of delivering affordable housing alongside the new accommodation. Westminster have also consistently stated as part of the pre-application process that a robust affordable housing offer will be required that recognises the strategic need for such accommodation and is a key priority.

3.18 The FVA however, provides a valuation baseline for the discussion regarding the affordable housing offer. Once this baseline is established, the Applicant will continue to work with Westminster and the GLA on an appropriate affordable housing solution but one that recognises the financial challenges faced.

Serviced Apartments

3.19 The re-developed serviced apartments will be provided across levels one to five of Rodney House. There will be a total of 205 apartments and they will continue to have access to the amenity provision provided at Dolphin Square included the courtyard gardens, fitness centre and swimming pool. The new apartments will benefit from:

- Increased design flexibility to combine and interconnect apartments to offer studio, one or two-bedroom units depending on the need.
- Maximum daylight in the bedrooms and living areas
- Comfort cooling

3.20 The new lobby area of the serviced apartments will house a visible reception desk and circulation stair leading down to the restaurant and leisure facilities, enhancing the arrival experience for guests.

Commercial Space

Retail

3.21 The proposals look to provide appropriate servicing for tenants, give a street presence to aid visibility and viability for the traders and provide a greater level of tradable floor area.

3.22 The retail floor area has been conceived as a flexible space to suit the possibility of different scale operators, with the possibility of units facing either in to the garden to the south, on to Chichester Street to the north or both depending on the size if the unit.

Basement & Leisure

3.23 The proposal is to move the leisure facilities from the existing podium building to within the basement of the new Rodney House. This opens up the north end of the garden providing an uninterrupted, landscaped vista from Chichester Street all the way through to the river as well as a restaurant and courtyard.

3.24 The new underground leisure facilities will be planned around a generous sunken courtyard and light-well that will illuminate the basement and allow visual connection to the public. The space will include the following:

- A twenty-metre swimming pool
- Two squash courts
- A gymnasium
- Fitness studios

3.25 Access to these facilities is via the reception lobby of the Serviced Apartments, via a circular stairwell and dedicated lift.

3.26 The lower basement level is configured for level access to the swimming pool and squash courts. The changing facilities and the main gymnasium and studios are all located at this level.

Car Parking and Cycle Parking

3.27 The development proposals fully retain the existing basemen car park and realign all vehicular access from the east Carriageway.

3.28 The basement parking bays are retained and where area has been converted for storage rooms and plant areas in the past, this has been reclaimed as parking to maximise the spaces. Additional new parking spaces have been created where the westerly ramp was located, under the new Townhouses and this provides a total of 167 spaces in the basement.

3.29 Street level parking is retained but reduced in number due to the placement of the Townhouses. The current 98 spaces have been reduced to 73 and this now includes dedicated accessible space adjacent to the houses with level access.

3.30 The proposal increases the current cycling provision from 98 spaces to 450. Dedicated, secure bike storage rooms will be provided at basement level and will be located to the east and west of the car park to ensure residents can park near their apartments. Additional visitor spaces will be located at ground floor for use by guests and users or the retail and leisure facilities.

4 PLANNING POLICY

4.1 A detailed review of the planning policy context of the proposed development is contained within the DP9 Planning Statement submitted with the Planning Application.

4.2 The following section of this FVA provides a summary of the key national, regional and local planning policy that guide the delivery of affordable housing, with reference to the importance of considering scheme specific financial viability and balancing requirements of obtaining planning obligations with the risks of non-delivery.

National

National Planning Policy Framework

4.3 The Government's National Planning Policy Framework (NPPF) was published in March 2012. Paragraphs 173 to 177 are entitled 'Ensuring Viability and Deliverability' and are pivotal in ensuring that the scale of obligations and policy burdens included in local plans should not threaten the viability of development sites that contribute towards planned housing delivery targets. This is to prevent unsustainable development from being carried out.

4.4 The second half of paragraph 173states:

> *"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."*

4.5 The NPPF encourages local authorities to approach affordable housing delivery pragmatically. In an environment of significant downward pressure on the availability of grant funding for the development of new affordable housing, local authorities are being challenged to deliver value affordable housing, by their own funding and developer subsidy, whilst responding innovatively and effectively to local priority needs. Optimising overall, locally appropriate outcomes is a consistent theme throughout policy.

4.6 The definition of affordable housing included within the Glossary (Annex 2) of the NPPF states that social rented, affordable rented and intermediate tenure types all make a valid contribution towards affordable housing delivery, providing housing to eligible households whose needs are not otherwise met by the market.

National Planning Practice Guidance

4.7 The National Planning Practice Guidance (NPPG) was finalised in March 2014. The NPPG, in alignment with the NPPF, contains important guidance on development viability.

4.8 The NPPG provides narrative on viability for the purposes of plan making and individual application sites development management. The guidance covers several areas including different development types; brownfield sites; considering planning obligations in viability; and the approach to values, costs, and land values. The guidance also expands upon paragraph 173 of the NPPF and the expected returns to developers and landowners. Paragraph 024 states:

"A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy."

4.9 Paragraph 173 of the NPPF and the NPPG together have introduced financial viability into central Government guidance and the concept of a competitive return as a material consideration in the determination of planning applications.

Regional

The London Plan (incorporating minor alternations March 2016)

4.10 The London Plan identifies the Mayor's requirement to maximise affordable housing. Policy 3.11 requires LPA's to set an overall target for affordable housing provision within development proposals, taking account of several key criteria, including viability.

4.11 Policy 3.11 sets a pan-regional target tenure split of 60% social and affordable rent housing and 40% intermediate housing. However, the policy notes that it is for each local authority to identify their own local requirements in relation to tenure split.

4.12 Policy 3.12 requires LPA's to seek the maximum reasonable amount of affordable housing when negotiating on individual residential or mixed-use sites, having regard to the following:

- The need to encourage rather than restrain residential development;
- The need to promote mixed and balanced communities;
- The size and type of affordable housing needed in particular locations; and
- The specific circumstances of individual sites.

4.13 In response to national guidance, the London Plan emphasises the need to consider development viability in relation to the proposed development on individual sites and in relation to borough target setting, to ensure that overall development is encouraged rather than restrained.

4.14 A comprehensive review of the London Plan commenced in the autumn of 2017. The consultation process will reflect the proposed policies of the new Mayoral administration, of which there will be a significant emphasis on housing delivery. The Mayoral administration's direction of travel for the new housing policies is contained within the SPG and the draft London Housing Strategy September 2017.

4.15 The London Plan identifies the Mayor's requirement to maximise affordable housing. Policy 3.11 requires Local Planning Authority (LPA) to set an overall target for affordable housing provision within development proposals, taking into account a number of key criteria, including viability.

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

4.16 The GLA published the draft SPG in November 2016 for consultation. Following a period of consultation, the final SPG was adopted in August 2017. The Mayor's guidance is, therefore, a material consideration in the determination of planning applications.

4.17 The SPG represents the new Mayoral administration's policy objectives in relation to the delivery of new homes, including affordable housing. The overarching objectives of the SPG are clear in seeking to enhance housing and economic opportunities for all persons across the capital. The SPG proposes the following guidance on existing policy:

- The Mayor will treat information submitted as part of, and in support of, a viability assessment transparently. In very exceptional circumstances, there may be legitimate reasons for keeping elements of viability information confidential.

- To enable the delivery of more affordable homes the Mayor will make funding available to increase the proportion of affordable homes above that which is viable on a nil-grant basis. Funding will be available on a tariff basis, details of which are set out in the Mayor's Homes for Londoners: Affordable Homes Programme 2016-21.

- The Mayor considers that the Existing Use Value (plus a premium) approach is usually the most appropriate approach to benchmark land value for planning purposes. Alternative approaches will only be considered in exceptional circumstances.

- The SPG provides further guidance on the practical application, methodologies, and approach to site value, amongst others, for viability assessments.

The London Plan – The Spatial Development Strategy for Greater London Draft for Public Consultation (December 2017)

4.18 Policy H5 of the draft London Plan identifies the Mayor's strategic target for affordable housing. This is for 50 per cent of all new homes delivered across London to be affordable. However, the viability tested route remains as maximum reasonable amount of affordable housing.

4.19 The Mayor states there is a need to deliver circa 43,500 affordable homes per year, as established in the Strategic Housing Market Assessment.

4.20 Affordable housing should be delivered on site, only in exceptional circumstances will an off-site contribution be accepted. Furthermore, cash in lieu contributions should be used in even more limited circumstances, and only where there is detailed evidence to demonstrate that on-site affordable housing delivery is not practical.

4.21 Policy H6 of the draft London Plan encourages residential and mixed-use developments to provide affordable housing through the threshold approach as explained further below and is consistent with the GLA Affordable Housing and Viability SPG, dated August 2017.

4.22 The Mayor's preferred approach to determining the benchmark land value is an Existing Use Value (EUV+) approach. An alternative approach should only be considered in exceptional circumstances which must be robustly justified by the applicant and/or the borough in line with the Mayor's SPG.

4.23 The Mayor indicates that currently all intermediate rented products such as London Living Rent and Discounted Market Rent should be affordable to household incomes of up to £60,000. The caps will be reviewed and updated where necessary in the Annual Monitoring Report

4.24 Furthermore, for dwellings to be considerable affordable, annual housing costs, including mortgage (assuming reasonable interest rates and deposit requirements), rent and service charge, should be no greater than 40 per cent of net household income, based on the household income limits set out above.

Local Policy

Westminster's City Plan (2016)

4.25 Westminster City Council's affordable housing policy is primarily contained within Policy S16 of Westminster's City Plan which was adopted in November 2016.

4.26 Policy S16 of Westminster's City Plan sets out WCC's affordable housing target of 30% for developments of 10 or more additional units or developments providing over 1,000 sq m of additional residential floor space.

4.27 Policy S16 also sets out a policy cascade with regard to the delivery of affordable housing, as follows:

"The affordable housing will be provided on-site. Where the council considers that this is not practical or viable, the affordable housing should be provided off-site in the vicinity. Off-site provision beyond the vicinity of the development will only be acceptable where the council considers that the affordable housing provision is greater and of a higher quality than would be possible on or off-site in the vicinity and where it would not add to an existing localised concentration of social housing, as set out in the City Management Policy."

4.28 The reasoned justification supporting Policy S16 refers on page 95 of the Westminster City Plan to the use of the Council's Affordable Housing Fund that 'plays an essential role in the provision of affordable housing in Westminster by bridging the funding gap between the Mayoral Homes and Communities Agency funding (previously funding by the Housing Corporation) for affordable units in Westminster, and the actual Registered Providers' build costs of those units. Without 'top up' from the affordable housing fund, fewer or less suitable affordable units would be built,'

4.29 Any site-specific payment in lieu is subject to the outcome viability assessment and discussions with the Council.

Statement on Affordable Housing Policies (2017)

4.30 The Statement on Affordable Housing Policies, sets out an interim approach to the application of Westminster's planning policies to support housing delivery ahead of the adoption of the revised City Plan next year.

4.31 It provides more detail on how existing planning policies, such as viability reviews and the affordable housing cascade will be applied.

Summary

4.32 National, regional and local affordable housing policies support the delivery of the maximum reasonable amount of affordable housing, having regard to viability. The planning application has been considered within the context of such policy but also acknowledging the strategic need for affordable housing.

5 VIABILITY METHODOLOGY

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

Methodology

5.2 The most common method for valuing development land is the Residual Valuation Method, as set out in the RICS 'Valuation Information Paper 12' (VIP12).

5.3 The methodology underpinning a residual valuation is a relatively simple concept. In short, the Gross Development Value ("GDV") of the completed development is assessed, including the aggregated value of the residential properties; commercial income; and other uses. The cost of building the development is then deducted along with professional fees, finance costs and developer's profit. This is illustrated in Table Three below:

Table Five: Residual Valuation Methodology
Gross Development Value
Residential sales / rental income capitalised
Commercial rental income capitalised
Any additional income (car parking, for example)
Less
Costs
Build costs
Exceptional development costs (where applicable)
Professional fees
Planning obligations
Marketing costs and disposal fees
Finance costs
Less
Developer's Profit
Equals
Residual Land Value

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

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

5.6 Alternatively, the Benchmark Land Value ("BLV") or Site Value can be inserted into the appraisal as a fixed cost and the level of profit generated by the scheme becomes the benchmark by which viability is measured. If a sufficient level of developer's profit is generated the scheme is deemed to be viable. This is the approach adopted within this FVA and is one that is in accordance with planning policy and guidance.

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

5.8 The approach that DS2 have taken in this FVA is to assess the residual value of the planning application proposals against the Existing Use Value of the Site. This is in full accordance with planning policy and guidance, including the Mayor's Viability SPG, and is consistent with the approach upon which DS2 have undertaken many FVAs in Westminster and across London.

6 DEVELOPMENT TIMINGS

6.1 The following section sets out the adopted pre-construction, construction and sale timings applied within the ARGUS appraisal of the Development.

Construction

6.2 Considering the nature and scale of development, a construction period has been adopted extending from January 2020 to April 2026 (including preliminary works, demolition, vacating two buildings at a time and reoccupation of the buildings following refurbishment.) This is indicated within the Construction Sequencing Report November 2017 at **Appendix Four** and is as advised by EPA.

6.3 In summary, the demolition of Rodney House to the north of the estate fronting Chichester Street, provides access to the Site. The individual residential buildings are then vacated two at a time. The residential buildings are then refurbished or adapted and the roof top extension is created. To allow residents to be relocated back to their original flat as soon as possible, each of the residential buildings is re-lettable at the point construction/refurbishment is complete.

6.4 The construction process continues until each of the twelve residential buildings has been refurbished with the four residential buildings fronting Grosvenor Road the last to be developed. The townhouses are delivered towards the end of the programme, as construction to the main site is reaching completion.

6.5 The Option B tenancies will be temporarily relocated from their flats into alternative accommodation within the estate as works progress. These works will be carried out in a manor to minimise disturbance and allow tenants to remain on the site ahead of returning to their refurbished apartments at the same rents as previously charged.

Residential Income & Sales Timings

6.6 As a result of the phased programme DS2 have assumed a single capitalisation of the estate at the end of the programme.

6.7 In reality, there may be up to a two to three-year stabilisation period i.e. an investor would require full occupancy for rents to be stabilised prior to an acquisition.

6.8 DS2 have considered two scenarios. Scenario 1 reflects the new build elements on a for rent basis and scenario 2 considers all new build elements as a for sale product.

6.9 In scenario 1, the rental model assumes that once PC is reached on a building that an income can be generated from the completed flats, this extends until the end of the programme when there is a single capitalisation point.

6.10 Scenario 2 considers the for-sale model. This assumes that 50% of the apartments in Rodney are sold off plan, and a unit a month is sold on the roof top extension of each building. 50% of the townhouses are also sold off plan.

6.11 DS2 note that in line with the construction sequencing, the Argus model starts in January 2020, with a period of interim income extending from current day until the point that each residential building is vacated.

6.12 Once each building is completed, is income from the point of PC to the capitalisation of the rents at the end of the development.

Commercial Letting Timings (Leisure and Retail)

6.13 DS2 have not assumed any rent-free periods as incentives for the commercial units. It is assumed that the existing tenants will be returning to the location with an enhanced space.

Summary

6.14 In summary, the construction programme reflects the timings as provided by EPA. The income is capitalised at practical completion, which in reality is in advance of when a sale and yield would be applied. In respect of the new build component, each scenario is considered within Appendix 5 and 5a.

7 DEVELOPMENT VALUE

7.1 The development appraisals included at **Appendix Five** have been collated assuming the following:

- Scenario 1 – All of the estate including the new build proposals is valued on a rental basis.
- Scenario 2 - the existing private rented stock is revalued on a rental basis and the new build element has been valued on an open market for sale basis as it is not currently decided whether the accommodation will be retained on a rental basis or offered to the market on a long lease.

Rental Valuation

7.2 In summary, the present day gross rental values for each of the properties has been assessed taking into consideration the location of the Development, comparable information, the individual units' size and location within the scheme, the proposed level of residential amenity and the quality of management and so on.

7.3 The gross rental income is then disaggregated into a £ per sq ft value within the appraisal. As noted in Section One, this has been done on a detailed basis on a per unit and per building basis allowing for full transparency.

7.4 The gross income is capitalised at an appropriate yield based on the evidence to provide an investment value. The total investment value is reduced by the purchaser's costs and reasonable legal costs. The gross investment value is the value of the completed development refurbished component to the Applicant.

7.5 It is worth noting that this is an objective assessment and therefore the capitalisation of the income is purely hypothetical and assumes an investment sale at practical completion, in order to calculate the development value. In reality, the value from the existing estate, and in all likelihood, the new development, will be accrued by way of net operating income over the lifetime of the investment rather than a single sale at the end of the development programme

7.6 Please also note that in the case of the attached Appraisals, no discount to market value has been assumed for a bulk purchase, which is something that is commonly referred to in 'Red Book' valuations, for example, in the Applicant's Existing Use Valuation from Knight Frank which is summarised in Section 9.

7.7 In general, BtR valuations are seeking to move away from a traditional open market based approach and are being valued on the value of the long-term income stream to the Owner (i.e. more akin to commercial asset valuation). Whilst the break-up value remains a consideration, the yield based approach is perhaps more important than a simple discount to VP.

7.8 In assessing the appropriate values for the rental element of the Dolphin Square proposals, DS2 have had regard to the existing AST rental levels and have searched for similar rental products within the vicinity.

7.9 The rental element of the Development will be managed by the Applicant and we summarise resident's rental package as:

- Tenants are offered an Assured Shorthold Tenancy and rent increases are linked to the Consumer Price Index;
- Services included in the gross rent are 24-hour security, communal gardens, water rates, gym access;
- Units are fitted to a high standard and fitted with modern appliances;
- 217 Option B tenancies on specified rents and rental increases.

Rental Values

7.10 DS2 summarise the current asking rents of new/recently refurbished residential accommodation in Dolphin Square, which provides a good indication of what refurbished rental levels and those that could be achieved across the estate once refurbishment has taken place:

Table Six a: Dolphin Square Rent Per Week			
Unit Type	Minimum	Average	Maximum
Studio / One Bedroom	£370	£420	£470
Two Bedroom	£460	£524	£615
Three Bedroom	£670	£670	£670

Table Six b: Dolphin Square Unit Sizes			
Unit Type	Minimum	Average	Maximum
Studio / One Bedroom	398	481	572
Two Bedroom	531	596	823
Three Bedroom	962	962	962

Table Six c: Dolphin Square Unit £ per sq ft per annum			
Unit Type	Minimum	Average	Maximum
Studio / One Bedroom	£38	£46	£54
Two Bedroom	£39	£46	£51
Three Bedroom	£36	£36	£36

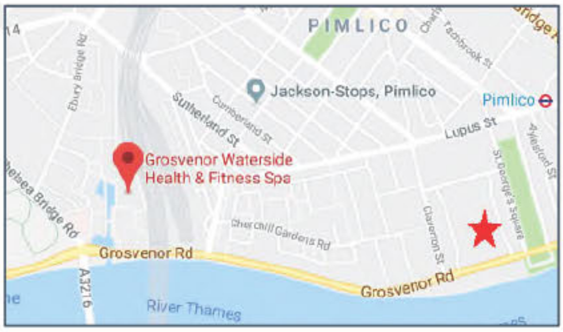
7.11 As the rented element of the proposed development will be refurbished, rather than new build residential space, DS2 have had regard to the rents of refurbished units in close proximity to the Site. There is a wide distribution in rents, due to the large range in floor areas as the refurbished residential stock in the immediate vicinity comprises predominately period dwellings which have been converted into flats.

7.12 In addition, much of the refurbished stock in the locality does not benefit from the same level of on-site amenities. Therefore, DS2 have placed greater weight on the rents of refurbished units in Dolphin Square summarised above than on refurbished period stock in the vicinity of the Site.

7.13 DS2 have also had consideration of rental levels in modern and recently completed developments, many of which will have on-site amenities. The following residential developments have also been considered comparable evidence and are summarised below:

- Grosvenor Waterside
- Belvoir House
- 55 Victoria Street

Grosvenor Waterside



Key Points

- Located within the Borough of Westminster;
- Located north of Grosvenor Road, in close proximity to the Subject Site.
- Riverside development;
- Further from Pimlico London Underground Station than the Site but benefits from being in close proximity to the desirable areas of Belgravia and Chelsea;
- Developed by Berkeley Homes;
- DS2 understand from Molior that 323 homes were delivered in Phase 1 and 299 homes were delivered in Phase 2;
- Construction completed by 2012;
- The development was a market sale scheme; however, a number of units in the development have been let after being purchased.

7.14 In addition, residents benefit from the following:

- Riverside development, next to the River Thames;
- Secure underground parking;
- On-site restaurant and creche;
- 24-hour concierge service;
- Leisure facilities including gym, sauna and spa;
- The interior of the flats has been finished to a high specification which includes: built in wardrobes, granite worktops, air cooling throughout;
- Communal courtyards.

7.15 According to the various rental databases, average rental prices in Grosvenor Waterside in 2017 are shown in the table below. Please note that the tables below assume marketing prices are achieved given the limited achieved data available and lettings have only been included where a floor area is available:

Table Seven a: Grosvenor Waterside Rent Per Week			
Unit Type	Minimum	Average	Maximum
Studio	£300	£409	£450
One Bedroom	£440	£528	£875
Two Bedroom	£625	£793	£1,050
Three Bedroom	£700	£1,077	£1,350

Table Seven b: Grosvenor Waterside Unit Sizes			
Unit Type	Minimum	Average	Maximum
Studio	245	336	405
One Bedroom	463	567	926
Two Bedroom	622	850	1,098
Three Bedroom	867	1,251	1,864

Table Seven c: Grosvenor Waterside Unit £ per sq ft per annum			
Unit Type	Minimum	Average	Maximum
Studio	£45	£58	£72
One Bedroom	£40	£49	£66
Two Bedroom	£43	£49	£58
Three Bedroom	£34	£45	£56

7.16 A more detailed analysis of the rental values is included at **Appendix Six**.

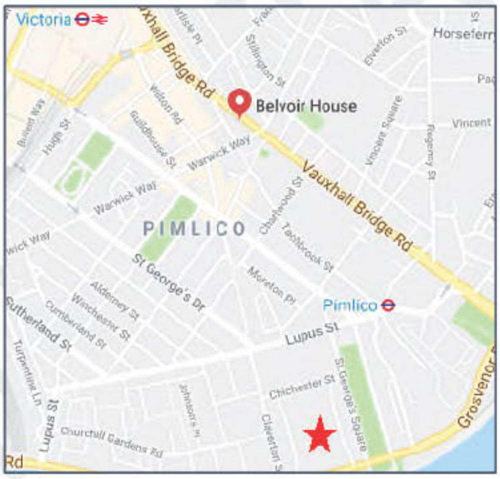
Analysis

7.17 It is considered that, the rents at Grosvenor Waterside, which is in close proximity to the Site, provide the best comparable evidence for the Site for several reasons:

- **Location** – Grosvenor Waterside is one of the geographically closest rental comparables as it is located off Grosvenor Road (A3212). The scheme also benefits from being in a riverside location, which is the same as the subject Site. Whilst Grosvenor Waterside is in an arguably a more desirable location, being closer to Belgravia than the subject Site, it is parallel to the railway, which has noise implications, whereas the subject Site is not.

- **Amenity** – Given the size of the Grosvenor Waterside development, residents at Grosvenor Waterside will benefit from similar facilities available on site, car parking and leisure space to the proposed development. The development also benefits from communal squares, however not as elaborate as landscaped areas in the proposed development.

Belvoir House



Key Points

- Located within the Borough of Westminster;
- Located on Vauxhall Bridge Road to the north of the subject Site;
- Modern purpose-built development;

7.18 In addition, residents will benefit from the following:

- Concierge;
- Access to a resident's only gym;
- Secure underground car park;

7.19 According to various rental databases, average rental prices in 2017 are shown in the tables below. Please note that the tables assume marketing prices are achieved given the limited achieved data available and lettings have only been included where a floor area is available. Please also note that limited data is available for this comparable. Nevertheless, based on the limited data available, we understand the following:

Table Eight a: Belvoir House Rent Per Week			
Unit Type	**Minimum**	**Average**	**Maximum**
Studio	N/a	N/a	N/a
One Bedroom	£450	£475	£500
Two Bedroom	£550	£625	£700
Three Bedroom	N/a	N/a	N/a

Table Eight b: Belvoir House Unit Sizes			
Unit Type	**Minimum**	**Average**	**Maximum**
Studio	N/a	N/a	N/a
One Bedroom	478	514	533
Two Bedroom	769	810	850
Three Bedroom	N/a	N/a	N/a

Table Eight c: Belvoir House Unit £ per sq ft per annum			
Unit Type	**Minimum**	**Average**	**Maximum**
Studio	N/a	N/a	N/a
One Bedroom	£44	£49	£55
Two Bedroom	£34	£41	£37
Three Bedroom	N/a	N/a	N/a

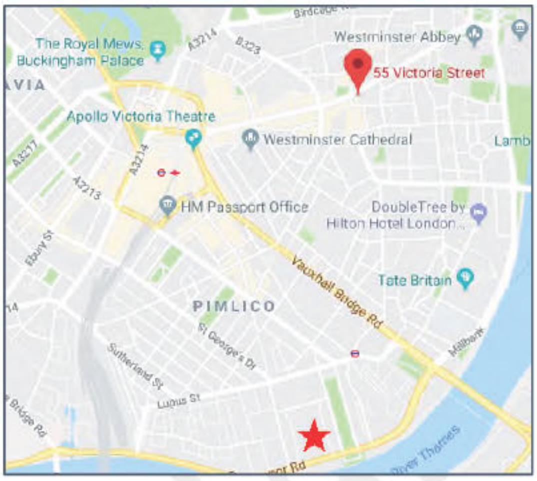
Analysis

7.20 It is considered that, on average, that Belvoir House provides good comparable evidence regarding the Site for the following reasons:

- **Location** – Belvoir House, is located north of the subject Site within the Pimlico area. Similar to the Site, it is located off a busy 'A' road. Whilst it is in a more central location, being closer to London Victoria stations, it does not benefit from having a riverside location, unlike the Site.

- **Amenity** – Belvoir House has a gym, concierge and a car park. However, the amenity provision is less than that proposed at the subject Site.

55 Victoria Street



Key Points

- Located within the Borough of Westminster;
- Refurbished office building with a total of 57 apartments;

7.21 In addition, residents benefit from the following:

- 24-hour concierge;
- Sky garden at the 8th floor;
- Residents gym overlooking the Courtyard Garden;
- 10-year zip car membership;
- Arranged up to 12 floors.

7.22 According to the various rental databases, average rental prices in 2017 are shown in the tables below. Please note that the tables below assume marketing prices are achieved given the limited achieved data available and lettings have only been included where a floor area is available:

Table Nine a: 55 Victoria Street Rent Per Week			
Unit Type	Minimum	Average	Maximum
Studio	£570	£573	£575
One Bedroom	£515	£675	£900
Two Bedroom	£1,250	£1,878	£4,200
Three Bedroom	N/a	N/a	N/a

Table Nine b: 55 Victoria Street Unit Sizes			
Unit Type	Minimum	Average	Maximum
Studio	451	529	606
One Bedroom	425	692	1,076
Two Bedroom	1,452	1,729	2,587
Three Bedroom	N/a	N/a	N/a

Table Nine C: 55 Victoria Street Unit £ per sq ft per annum			
Unit Type	Minimum	Average	Maximum
Studio	£50	£58	£66
One Bedroom	£42	£52	£68
Two Bedroom	£45	£55	£85
Three Bedroom	N/a	N/a	N/a

Analysis

7.23 It is considered that, on average, 55 Victoria Street provides good comparable evidence regarding the Site for the following reasons:

- **Location** – 55 Victoria Street is within the Victoria/Pimlico area. However, it is much closer to London Victoria railway stations and London Underground than the subject Site, which is closer to Pimlico. In addition, 55 Victoria Street does not benefit from being a riverside development. As such, DS2 consider this development to be less comparable than Grosvenor Waterside.

- **Amenity** – Whilst Victoria Street has a gym and a concierge, it has fewer on-site amenities that proposed at the subject Site. Therefore, less weight has been attached to this comparable.

Summary

7.24 The adopted gross rents are aligned with, albeit slightly higher than, the asking rents of refurbished units within the subject Site which reflects the improvements which will be made to the communal areas and amenity space.

7.25 The rents also are aligned with the rental comparables summarised in the tables above. Whilst the proposed units are smaller, on average, than the modern residential comparables summarised above, the proposed residential accommodation will comprise refurbished, rather than new build accommodation, unlike the comparables above.

7.26 The proposed rents are most similar to the rents in Grosvenor Waterside which is a riverside development, a short walk from the Site, which has similar amenities to the proposed development.

- Studio flat - £63 per sq ft
- 1 bedroom flat - £53 per sq ft
- 2 bedroom flat - £51 per sq ft
- 3 bedroom flat - £45 per sq ft

7.27 The average rent for the market rent accommodation equates to £53 per sq ft on a gross basis. This is above the current present-day rental values but reflects the high-quality design, management, and amenity that will be created by the proposals.

7.28 Considering the evidence provided it is considered that the refurbished elements at the Site reflects a total refurbished build GDV of £922m albeit as noted this is based upon a hypothetical capitalisation of the income upon practical completion of the project

7.29 For clarity, the table below sets of the proposed unit mix for the refurbished build element of the scheme

Table Ten: Refurbished Build Unit Mix, Dolphin Square, January 2018							
Block	Studio	1 Bed	2 Bed	3 Bed	4 Bed	5 Bed	Total
Drake	9	18	9	7		1	44
Grenville	22	43	15	3			83
Raleigh	11	15	10	9			45
Hawkins	18	46	15	3			82
Collingwood	39	60	14	3			116
Frobisher	27	54	12	3			96
Keyes	28	44	32	2	1		107
Hood	40	52	24	1	1		118
Howard	44	55	16	2			117
Nelson	28	58	7	3			96
Duncan	30	46	32	1		1	110
Beatty	43	55	20	1			119
Total	339	546	206	38	2	2	1,133

Rental Yield

7.30 A gross yield of 3.00% has been adopted for the rental accommodation, which is aligned with what the Applicant envisages could be achieved. Based on the Knight Frank valuation, there is a gross yield of 3.18% on the residential element of the existing estate. DS2 note that a keener yield is applied to the development valuation as a result of the proposed works.

7.31 DS2 have carried out additional research in support of this assumption and have researched data provided by organisations such as Knight Frank and databases, such as LonRes, to crosscheck that the yield adopted is reasonable.

7.32 LonRes' Yield Tables (London Overview Q3 2017) reports (gross) prime yields for flats range between 2.73% for Prime Central London and 3.41% for Prime London (which covers the postcode SW1V in which the Site is located). The change in London flatted residential yields over time is shown in Figure Two below.

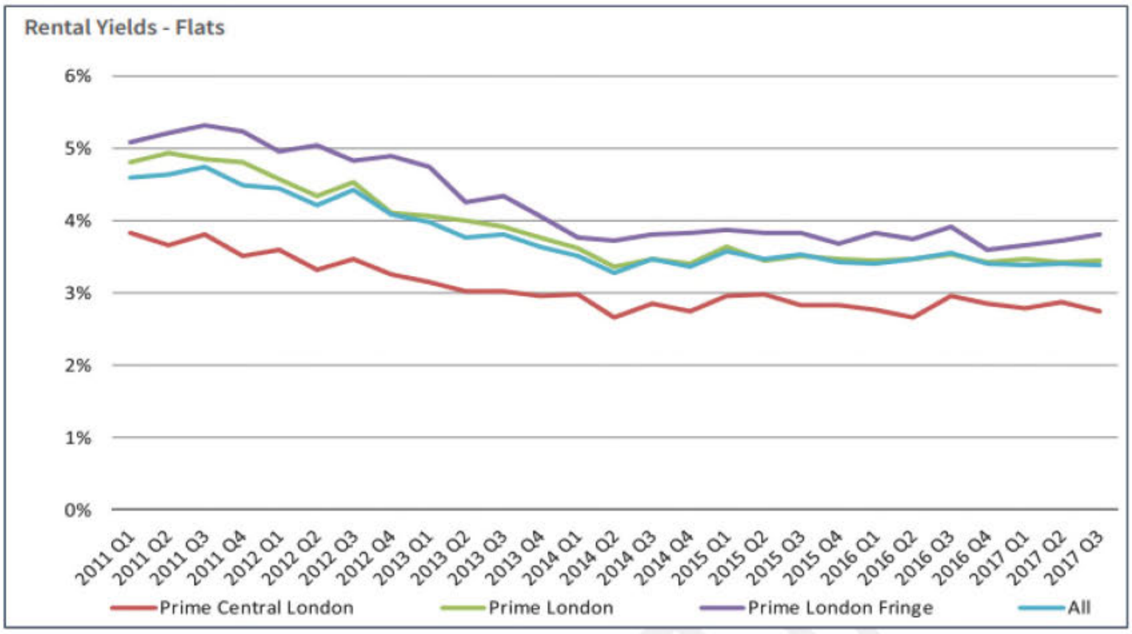


Figure Two: London Flatted Yields 2011 - 2017 (Source: LonRes)

7.33 Knight Frank's Private Rented Sector Update August 2017, the most recent version, illustrates the following:

Table Eleven: Knight Frank Private Rented Sector Gross Yields, August 2017	
Area	**Yield August 2017**
Prime Central London (PCL)	3.00% - 3.25%
Zone 1 Prime (Outside PCL)	3.75% - 4.00%
Zone 2-3 Prime	3.50% - 3.75%
Greater London Prime	4.00%

7.34 The subject Site is located within Zone 1 Prime (outside of PCL).

Residential Sale Valuation (Scenario 2)

7.35 The proposals include an element of new build residential, which will be included on the upper floors of the Rodney Building and on the top of the existing 12 houses, forming a series of penthouses. In addition to this, there are 16 mews houses proposed on the carriage way.

Market Context

7.36 At the present time, the residential market in London is presented with significant headwinds. Whilst there are positive long-term prospects due to the fundamental supply vs demand imbalance, the combination of Brexit uncertainty, rising interest rates, moderate wage growth and SDLT increases have resulted in dampened house price growth particularly in central London markets; according to Nationwide data average prices in London have fallen for the first time in eight years, in stark contrast to the rest of the country as illustrated in the graph below:

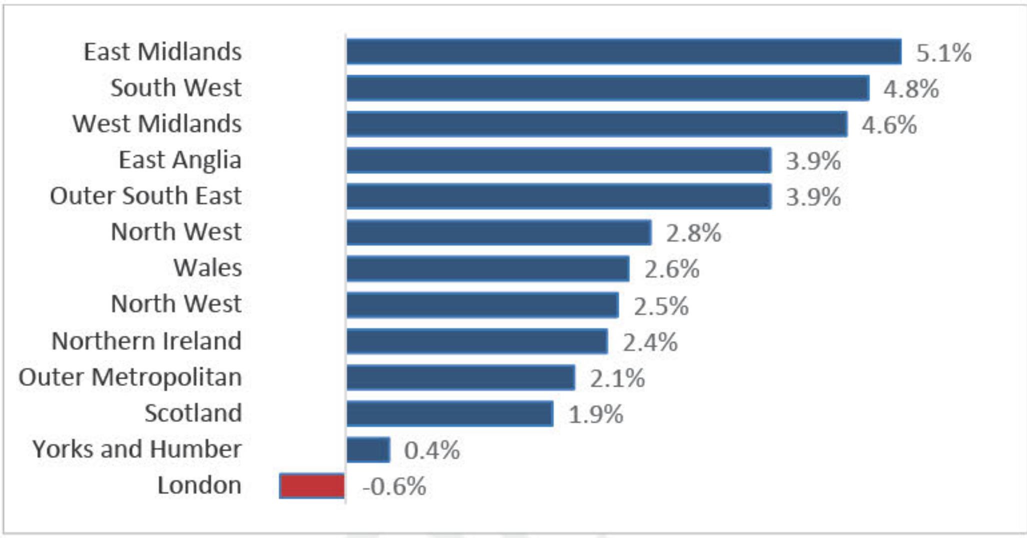


Figure Three: Year on Year house price growth ending Q3 2017 (Source: Nationwide)

7.37 The RICS December 2017 Residential Market Survey reports similar findings, with London and the south east returning negative average prices, sales volumes and price expectations.

Comparable Evidence

7.38 In assessing the appropriate sales values for the market residential homes, DS2 has searched for similar types of new build developments within the vicinity.

7.39 DS2's opinion of value is primarily based on market evidence which has come into our possession from numerous sources. That from other agents and valuers is given in good faith but without liability. It is often provided in verbal form. Some comes from databases such as Land Registry or computer databases to which DS2 subscribes. In all cases, other than were DS2 have a direct involvement with the transactions, we are unable to warrant that the information on which DS2 have relied is correct although we believe it to be so.

7.40 The following new build evidence, extracted from asking price data from Molior, has been considered albeit the evidence relates to asking and not achieved pricing, which is a key consideration at the current time, given the discounts and incentives being used to secure central London Residential sales.

Table Twelve: New Build Market Sale Comparables

Scheme	Address	Developer	No. of Units	Min	Average	Max
The Courthouse 	70 Horseferry Road, SW1P 4DE	Barratt	32	£1,472	£1,880	£2,227
Riverwalk 	157-161 Millbank, SW1P 4RR	Heron Corporation	113	£1,811	£2,262	£2,817
55 Victoria Street 	55 Victoria Street, SW1H 0EH	Alchemi Group	54	£1,374	£2,007	£3,865
Great Minster House East 	76 Marsham Street, SW1P 4DR	Barratt London	60	£1,465	£1,856	£2,356

26 Chapter Street 	26 Chapter Street, SW1P 4NP	Barratt London	31	£1,138	£1,643	£2,288
73 Great Peter Street 	73 Great Peter Street, SW1P 2BN	Taylor Wimpey	24	£1,471	£1,663	£2,208

7.41 In addition to this, re-sale evidence has been considered at Grosvenor Waterside and is attached in **Appendix Seven** for reference.

Summary

7.42 Considering the evidence provided it is considered that the new build elements at the Site will achieve the following rates per sq ft which reflects a total residential new build GDV of £211,718,300.

Table Eleven: New Build Residential Sales Values (£ per sq ft)	
Type	**£ per sq ft**
Studio	£1,800
1 Bed	£1,775
2 Bed	£1,750
3 Bed	£1,725

7.43 The sales value adopted places weight on Grosvenor Waterside as it a similar sized riverside development, with similar on-site amenity provision, a short walk away from the existing Site. Given that Grosvenor Waterside is a slightly dated scheme and the sold data available comprises re-sales, rather than new build sales, DS2 have had also consideration of new build developments in the area.

7.44 Where possible, DS2 have had regard to the sold price data of new and modern residential comparables, albeit there is a dearth of sold data available for new build developments in this location and DS2 are aware that achieved prices are often at a discount to the asking prices, especially during times of economic uncertainty and the impacts of government's stamp duty changes affecting higher value properties.

7.45 For clarity, the table below sets of the proposed unit mix for the new build element of the scheme.

Table Twelve: New Build Unit Mix Dolphin Square, January 2018					
Block	**Studio**	**1 Bed**	**2 Bed**	**3 Bed**	**Total**
Rodney	18	23	27	10	**78**
Mews				16	**16**
Drake		1		2	**3**
Grenville		2		1	**3**
Raleigh		1		2	**3**
Hawkins		2		1	**3**
Collingwood	2	4		1	**7**
Frobisher	3	4			**7**
Keyes	2	3		2	**7**
Hood	2	4		1	**7**
Howard	2	4		1	**7**
Nelson	3	4			**7**
Duncan	2	3		2	**7**
Beatty	2	4		1	**7**
Total	**36**	**59**	**27**	**40**	**162**

<u>Residential Income from the existing 12 houses</u>

7.46 Based on the length of the construction programme, and the current tenants, it is proposed that a phased programme of vacating two houses e.g. Duncan and Keyes at a time.

7.47 The phased construction allows parts of the existing estate to remain in operation and generate income from the existing tenants (AST's and Option B's), until the point that the building is vacated. As an aside, all of the Option B tenants remain on site during the construction period and will be relocated to their refurbished apartment at the earliest convenience. This income, both prior to the vacation of the individual houses and post completion of the houses but before the estate capitalisation, is captured in the appraisal.

7.48 In order to calculate the value of the interim income, we have assumed the current rents for each of the houses Assured tenants and reduced the total rental value per house by 10% a month, until 6 months in advance of the vacate deadline. The Option B income remains consistent throughout the construction period. A breakdown of the interim income is contained in **Appendix Eight.**

Serviced Apartments Valuation

7.49 The new provision of serviced apartments in the newly built Rodney House, comprises 205 units of which 189 are studios and 16 are one beds. We understand that the units are occupied on short term licences. The average area of the units is circa 33 sqm which is an appropriate size for this type of corporate 4 star accommodation.

7.50 As part of the serviced apartments, there will be a reception foyer and access to the facilities available across the scheme.

7.51 Research undertaken by Knight Frank finds that hotel transaction volumes reached £1.7bn in 2016, representing a total of 5,339 bedrooms. This breaks down to an average price per key of £320,000.

7.52 Knight Frank have carried out a Desktop Valuation of the proposed serviced apartments, this is attached at **Appendix Nine.**

7.53 Based on the evidence provided by Knight Frank, the GDV of the Serviced Apartments equals £97,000,000. This equates to £1,332 per sq ft.

Retail Rental Analysis

7.54 Recent market evidence suggests that London continues to outperform the rest of the UK in terms of retail sales and this is part fuelled by tourist numbers in prime retail locations. However, there remains a two-tier market with prime streets experiencing an increase in rental levels, but secondary and tertiary retail locations are operating in a more challenging environment. This coupled with the uncertainty of the long term economic consequences of Brexit has seen a rise in the amount of retail property becoming available as retailers re-evaluate their store locations in London and the UK.

7.55 It is understood that the retail provision will be arranged over the ground floor only, and front Chichester Street and the internal square.

7.56 The retail provision will be provided at enhanced shell condition and will make the space more accessible to a range of occupiers. The key comparables are set out in the table below:

Table Fourteen: Retail Rent Comparables							
Start Date	Address	Floor	Rent PA	Sq ft	£ per sq ft	Term	Tenant
31/05/2017	32 Gatliff Rd	GRND	£70,000	2,045	£34	N/a	N/a
10/11/2016	40 Vauxhall Bridge Rd	GRND	£125,743	3,800	£33	10 yrs	Pret A Manger
10/07/2017	116 Millbank *	GRND	£20,000	608	£33	10 yrs	N/a
01/02/2017	12 Vauxhall Bridge Rd *	GRND	£27,500	747	£37	N/a	N/a
01/07/2016	134 Alderney St *	GRND + MEZZ	£17,500	515	£34	N/a	N/a
01/04/2016	54-56 Lupus Street *	BSMT, GRND	£35,000	1,414	£25	N/a	N/a

(*) Denotes asking rent

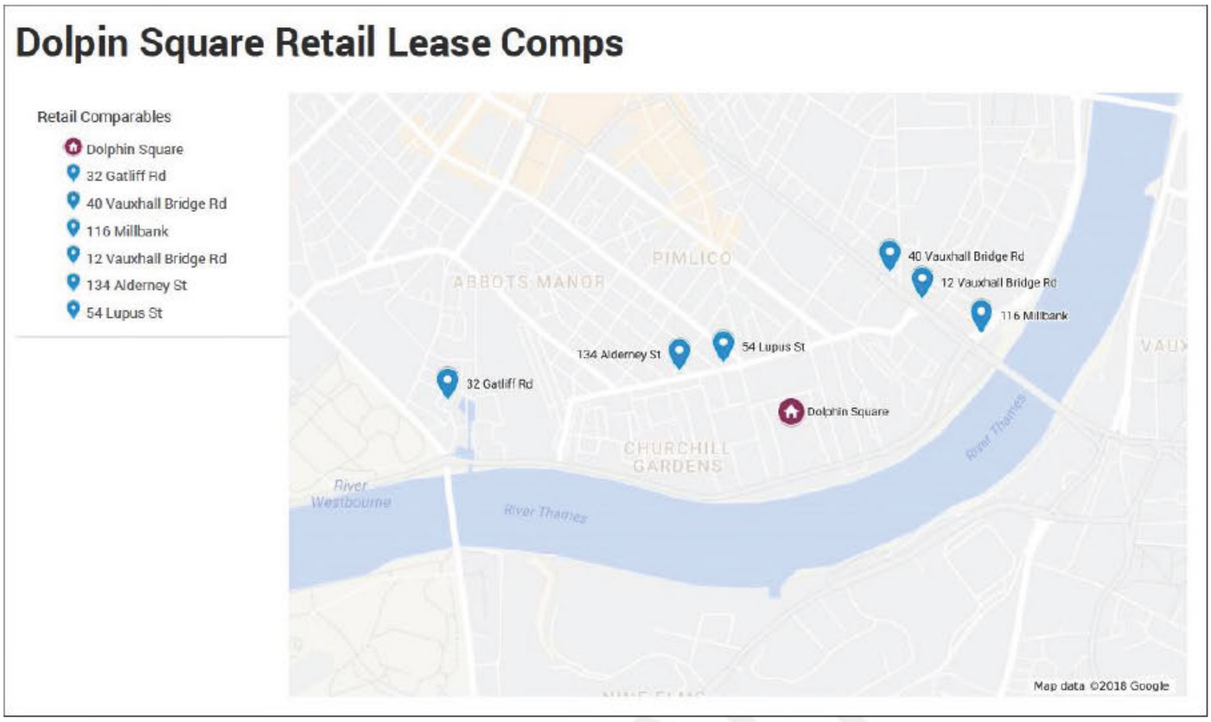


Figure Four: Dolphin Square Retail Lease Comparable Map

7.57 As can be shown from the map above, the proposed retail space is a peripheral location in Pimilco based on the retail evidence detailed above as it does not benefit from the footfall along Vauxhall Bridge Road. In addition, it does not benefit from road frontage and is set back from Lupus street, being south of Pimlico School.

7.58 Small units along Vauxhall Bridge Road are being marketed at circa £40 per sq ft. However, as mentioned, this is a superior retail location with a higher footfall.

7.59 54-56 Lupus is in a similar, albeit superior location to the Site and benefits from having a double frontage. It was marketed at £25 per sq ft for the basement and ground floor space which DS2 understand reflects a rent of circa £33 per sq ft on the ground floor. Whilst 32 Gatliff Road, which achieved £34 per sq ft, is in a similar retail location to the Site, forming part of a modern development, set back from the main road, it benefits from having retail and restaurant use for the unit, whereas the proposed retail units will have a flexible use from A1-A4 Use Class.

7.60 Based on the information provided by Knight Frank, we note that the proposed rents are above the average passing rents of the existing retail units which reflects £11.39 per sq ft. This rent is based on extremely historic lettings from over 15 years ago and is not considered to be directly comparable to the proposed retail space.

7.61 DS2 have adopted a rent of £30 per sq ft for the proposed retail space.

Retail Yield Analysis

7.62 According to Knight Frank's December 2017 Investment Yield Guide, retail yields for prime shops and regional cities, excluding the West End and the City, currently stand at 4.0% - 4.25%. Good secondary retail yields stand at 6%.

7.63 As mentioned, the Site is not in a prime retail location and will command a higher yield as a result.

7.64 The proposed development will enhance the provision of retail and open up the frontage to Chichester Street.

7.65 DS2 are aware from the Knight Frank 2017 red book report that net initial yields of properties on secondary retail parades in similar areas to unknown covenants have ranged from 5.53% - 6.31%. Each of the properties listed below were let for a ten-year term, albeit 67 Webb's Road does have tenant break options. DS2 summarise the investment comparables in the table below:

Table Fifteen: Retail Investment Comparables

Date	Address	Yield
Sept 2016	67 Webb's Road Battersea, SW11	5.53%
July 2016	276-278 Old Brompton Court, SW5	6.27%
Jan 2016	Units A and B, 30-32 Queenstown Road, Battersea, SW8	6.31%

7.66 DS2 have adopted a yield of 5.5% for the proposed retail space which reflects the secondary location, away from a high street of shops.

Leisure Rental Analysis

7.67 As previously described, the proposed leisure spa will comprise a gym, swimming pool and spa.

7.68 According to Colliers' Central Market Gym Review (2017), the gym market is diversifying and broadly comprises: budget, mid-market, luxury and studio operators. DS2 summarise average rents for the different gym types, extracted from Colliers' Report, in the table below:

Table Sixteen: Average Gym Rents by Club Type

Type	Rent (£ per sq ft)
Studio	£27.80
Budget	£15.88
Mid-Market	£13.40
Luxury	£21.56

7.69 Luxury gyms account for 10% gyms in the London but circa 22% of floorspace as a result of larger units needed to house swimming pools, climbing walls and laundry services. Generally, luxury gyms pay higher than average rents (averaging £21.56 per sq ft) due to the scarcity of suitable space in Central London for these operators in comparatively expensive locations, such as Chelsea and Marylebone.

7.70 Whilst the subject Site is in a Zone 1 location and the leisure space will include a swimming pool, it is arguably a less desirable location than Chelsea or Marylebone. There are a limited number of lettings involving gym, leisure and spa space. Nevertheless, DS2 summarise lettings in the table below from both gym and other leisure operators where the rents range from £11 - £29 per sq ft.

Table Seventeen: Leisure Investment Comparables

Start Date	Address	Floor	Rent PA	Sq ft	£ per sq ft	Term	Tenant
01/03/2017	139 Stockwell Rd	GRND	£21,992	1,001	£22	7 yrs	More Yoga
15/11/2016	19-23 Ironmonger Row	BSMT	£39,437	1,750	£23	5 yrs	Fitnessonfire Hot Yoga CIC
28/10/2016	132 Wandsworth Bridge Rd	BSMT	£65,350	4,234	£15	12 yrs	Ropa Fitness Ltd
09/11/2016	351 Harrow Rd	BSMT	£33,476	1,639	£20	10 yrs	Hotpod Yoga
09/11/2016	Wapping Wall	BSMT,GRND	£64,999	3,330	£20	10 yrs	The Fitness Space Wapping
01/10/2016	50 Gun St	BSMT,GRND	£93,498	2,619	£36	10 yrs	GymClass London
31/10/2016	Thurston Rd	GRND	£185,000	16,500	£11	15 yrs	The Gym
04/01/2016	129 Wilton Rd	GRND	£115,085	3,996	£29	15 yrs	FRAME

7.71 DS2 have adopted a rent of £15 per sqft for the proposed leisure facility, which reflects the nature of comparable evidence available.

Leisure Yield Analysis

7.72 There is a dearth of recent healthcare and wellbeing investment transactions. However, DS2 are aware of the following where leisure space, comprising gyms has recently transacted at 5.06% - 6.14%:

- **12-33 Worple Road, Wimbledon** sold for £6.8m in September 2016, reflecting a net initial yield of 5.49%. The property comprises a prime health and fitness club extending to 28,243 sq ft (2,624 sq m) primarily arranged over ground and lower ground floors with a basement plant area. At the date of the sale, the property was let in its entirety to Virgin Active Limited with a surety from Virgin Active Holdings Limited for 35 years from 31st October 2003. The passing rent we £398,317 per annum, which equates to circa £14 per sq ft, with 5 yearly fixed uplifts to 2.5% pa compounded.

- **East End Road, Finchley** sold for £4.55m in Q1 2017 reflecting a net initial yield of 6.14%. The property comprises a detached purpose built two storey gymnasium and cricket facility extending to 31,131 sq ft. At the time of the sale, the property was let in its entirety to Pure Gym Ltd for a further 19.8 years at a current passing rent of £297,604 per annum, equating to circa £10 per sq ft.

- **Cantilever House, Wandsworth Road** sold for £4.35m in October 2017, reflecting a net initial yield of 5.06%. The 19,900 sq. ft. gym, located on the ground floor and basement level of Cantilever House is let to Pure Gym Limited until 2032 and the rent equates to £11.80 per sq ft. Lease reviews are linked to RPI, subject to a collar and cap of 1% and 4%.

7.73 DS2 have adopted a yield of 6.0% for the leisure facility.

8 DEVELOPMENT COSTS

8.1 This section provides a summary of the development costs on a present-day basis. The overall costs comprise:

- Build costs;
- Additional Development costs;
- Professional fees;
- Planning Obligations including CIL;
- Sales, letting, disposal & Marketing costs;
- Profit; and
- Financing costs.

Construction Costs

8.2 The build cost advice for the proposed scheme has been provided by Applicant's cost consultants, Cast Consultancy, have provided a cost estimate for the development, a copy of which is attached at Appendix Ten.

8.3 In summary, the cost plan sets out a headline construction cost of £324,308,760 inclusive of prelims, overheads & profit, contingency, demolition and facilitating works. The headline construction cost equates to £262 per sq ft on the GIA

Professional Fees

8.4 Professional fees have been included at 10% of the headline construction costs. The total professional fees budget will be assumed at the start of pre-construction up until practical completion of the scheme.

8.5 In reality, the professional fees budget would be assumed to prior to start on Site for planning and design work required to submit the application with circa 30% of the total budget spent by the time construction commences.

8.6 This level of professional fees is what the market would ordinarily allow for a scheme of this scale and complexity and therefore is deemed reasonable.

8.7 The costs are a reflection of a large-scale refurbishment project where there are a full range of consultants required to cover every conceivable area and also reflect the requirement for high quality design.

Sales, Letting, Disposal and Marketing Costs

8.8 As set out earlier in the report, the Applicant intends to deliver the refurbished apartments as a rental product and the new build as for a for sale product.

8.9 The following disposal costs have been adopted in line with the Applicant's current budget and reflecting the current market. The figures are consistent across both the new build and refurbished elements of the estate.

• Residential Marketing - 1.5% (of residential GDV)

• Residential Sales Agent fee – 1.0% (of residential GDV)

• Residential Legal Fee – 0.25% (of residential GDV)

Planning Obligations & CIL

8.10 The Applicant has been advised by DP9 in respect of the level of planning obligations and both Mayoral and City of Westminster CIL. The following indicative figures have been included within the Argus Appraisal of the Development.

- Mayoral CIL - £1,168,964
- Westminster CIL - £2,869,650
- S106 - £1,500,000

Other Development Costs

8.11 The Applicant has been advised that there is a budget for a rights of light payment. However, this has been excluded from the financial model.

Finance

8.12 DS2 have assumed a 5% finance rate in our appraisal. This is lower than a standard development weighted cost of finance at c.6 to 7% however, in assessing a reasonable rate for this project DS2 is mindful of the nature and location of the development Site and the type of developer who would bring this forward.

8.13 Although the model assumes that the development is 100% debt financed, the reality of the current lending environment is that many of the more traditional lenders are generally only lending senior debt at a maximum of 50%-60% loan to cost ratio.

8.14 Developers therefore have to revert to equity or mezzanine finance to secure the remainder of their development funding, both of which are considerably more expensive than senior debt, typically at 7-20%. Alternatively, developers can source debt from niche operators who, are by their nature, more expensive than traditional lenders.

Profit Expectation

8.15 The proposed profit level reflects the risk profile of the project, given the scale, nature and location of the development amongst other things. DS2 have adopted a 6% profit on cost for the new and refurbished elements of the scheme. DS2 consider that for typical new build schemes a reasonable rate of return for the new build element would equate to 20% Profit on Cost.

8.16 In recent months, there have been obvious signs expressed by the RICS and a range of agents that there are short to medium concerns for the central London residential market. This increased risk is finding its way to the margins that lenders are requiring regarding loan facilities and also profit expectations for speculative residential and commercial development.

8.17 Taking all the above into account it is considered that an appropriate profit level of the proposed development is to be 6% on cost for the new build elements and refurbished elements.

8.18 The level at which the developer's margin or profit is set, should be mindful of the guidance provided by paragraph 173 of the NPPF, which states:

> *"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."*

8.19 The profit expectation is commensurate with the risks being undertaken for a speculative development in this location and the returns required by developers and their funders.

8.20 The Applicant reserves the right to amend their profit expectations at a later date so that there is consistency between an Open Market Sale profit expectation and Build to Rent profit expectation.

9 SITE VALUE

9.1 As discussed in Section 5, to arrive at an appropriate Benchmark Land Value, due regard should be given to the adopted and emerging planning policy and guidance as well as professional guidance.

9.2 In reaching a conclusion over an appropriate value, one should consider an appropriate site value to meet the requirements of paragraph 173 of the NPPF in relation to the development viability and encourage land owners to bring sites forward for development. The NPPF is clear that an appropriate Benchmark Land Value (BLV) must provide a competitive return to a willing landowner, to ensure that there is an incentive for a site to be released for development.

9.3 At paragraph 024 the NPPG expands on the principle of a competitive return:

> *"A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy."*

Current Use Value

9.4 In order to arrive at a BLV the Existing Use Value (EUV) of the Site has been assessed.

9.5 The Applicant instructed Knight Frank to provide a valuation of the building in its current use. A copy of their report is attached at **Appendix Eleven.**

9.6 At present, the Site is a residential apartment block built in 1937 with ancillary offices, retail and leisure facilities. The building is set on a site area of approximately 7.24 acres. The subject property is divided into 13 residential houses and also includes an area of land on the southern side of Grosvenor Road which is currently occupied by a tennis court.

9.7 Knight Frank have valued the individual component parts, principally being the following:

- Residential apartments
- Serviced apartments
- Commercial Units; and
- Additional Revenue items

9.8 The valuation of the residential apartments has been carried out using the comparative and investment methods, from the opinion of the aggregate Market Value a 10% deduction was made in order to apportion their opinion of value of the residential element as a single lot.

9.9 The serviced apartments have been valued utilising the Discounted Cash Flow method of valuation based upon a ten-year forecast of the hotel/serviced apartments potential trading performance.

9.10 Overall Knight Franks opinion of Market Value reflects a gross initial yield of 4.04% and a net initial yield of 2.81%, rising to 4.29% (GRY) and 3.07% (NRY) respectively, upon letting vacant units.

9.11 They have then aggregated these values in order to determine the total value of the property.

9.12 A breakdown of the valuation is set out below:

Table Eighteen: EUV Valuation Summary	
Element	**CUV**
Residential	£716,000,000
Dolphin House/Leisure	£112,000,000
Commercial	£2,440,000
Car Parking	£1,660,000
Garaging	£4,460,000
Additional Income	£1,330,000
Total	**£837,890,000**
Say	**£838,000,000**

Existing Use Value Premium

9.13 A premium to the current use value acts as incentive to the landowner to sell the land for development and accounts for the costs of any tenant compensation.

9.14 The NPPF is clear that for sustainable development to be achieved, there needs to be a premium for the landowner, to allow the site to come forward for development.

9.15 The Affordable Housing and Viability SPG suggests that the principle of this approach is that the landowner should receive at least the value of the land in its 'pre-permission' use, therefore the premium provides the landowner with an additional incentive to release the site. The premium must be justified and reflect the circumstances of the site. The SPG states that a premium could be 20%-30%.

9.16 For the purposes of this report, on a without prejudice basis, DS2 have not applied a premium to the Knight Frank valuation.

10 APPRAISAL RESULTS

10.1 A copy of the Argus Appraisal summary of the development is attached at **Appendix Five and Five A.**

10.2 As noted in Section 9 of this report, the Site's CUV will act as the Benchmark Land Value against which the viability of the development will be assessed. The results of the financial appraisal are provided below.

10.3 As noted in section three, two appraisals have been collated. Scenario One which reflects an all rental approach and Scenario Two considers that the existing estate is rented and the new build elements are valued on a for sale basis.

Table Nineteen: FVA Results			
Scheme	Benchmark Land Value	Residual Land Value	Surplus/Deficit
Application Scheme Scenario 1 (All Rental)	£838,000,000	£545,589,670	-£292,410,330
Application Scheme Scenario 2 (Rental and Market Sale)	£838,000,000	£560,620,596	-£277,379,404

10.4 The table above demonstrates that the proposed scheme RLV's in both scenario 1 and scenario 2 are lower than the benchmark land value of £838m.

10.5 This indicates that from a purely technical perspective and in accordance with planning policy and guidance no additional financial contributions can be made as the scheme is below the benchmark land value, when compared to the RLV a deficit of £292,410,330 is generated in Scenario 1 and £277,379,404 in scenario 2.

10.6 However, the Applicant as noted in the introduction, within the planning policy and guidance that exists, DS2 are simply seeking to establish the baseline position by way of this report. The Applicant is seeking to engage with Westminster and the GLA in order to present an affordable housing contribution and wishes to discuss the quantum and form this will take with during the determination process.

10.7 Given the scale and complexity of the appraisal, DS2 have not included sensitivity analysis at this time. This will be issued by way of a separate addendum, once the key appraisal inputs are agreed.

11 CONCLUSIONS

11.1 DS2 has been appointed by the Applicant to produce an FVA assessing the financial viability of the proposed scheme.

11.2 In reaching the conclusions contained in Section 10, the appropriate Benchmark Land Value of the Site has been assessed as the EUV of the Site. This is supported by a Knight Frank valuation dated June 2017 with a figure of £838 million. No premium has been applied to the EUV albeit the Applicant reserves the right to do so in accordance with best practice.

11.3 The detailed planning application seeks extensive reconfiguration of the existing estate with an element of additional new development. The costs of undertaking the works are significant and therefore, recognising that new development is required in order to cross subsidise the works to the existing estate, for which planning is needed, a reduced profit margin has been incorporated into the appraisal.

11.4 The approach reflects that the Applicant is not seeking to mitigate risk through a reduction in planning obligations but present a fair and balanced planning obligations offer in due course, with the development profit being ploughed back into the scheme in order to part fund the works.

5.21 The Applicant is aware that the information contained within this FVA, simply provides a valuation baseline for the discussion regarding the affordable housing offer. The Applicant is seeking to engage with Westminster and the GLA as a continuation of the pre-application process in order to identify an appropriate affordable housing solution but one that recognises the financial challenges faced.

11.5 DS2 look forward to discussing this unique scheme with you in greater detail in due course.

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For and on behalf of:
Dolphin Square Limited

Date: **February 27, 2018**