

The Mall, 45 Selborne Walk, London E17 7JR

Viability Assessment Report

STRICTLY PRIVATE & CONFIDENTIAL

FOI EXEMPTION SECTION 41&42(2): PRIVATE AND CONFIDENTIAL

EIR Exemption 12 (5) (e) – (f)

WORKING DRAFT

This Viability Assessment has been prepared on behalf of:

Selborne One Ltd and Selborne Two Ltd

Instructions

This Viability Assessment is submitted to the London Borough of Waltham Forest to accompany a planning application for the proposed residential-led redevelopment of an element of the eastern side of The Mall, 45 Selborne Road, London E17 7JR and a part of the adjoining amenity land of Walthamstow Town Square Gardens (together 'the Subject'). The application is made on behalf of Selborne One Ltd and Selborne Two Ltd ('the Applicant').

Confidentiality

Due to the commercially sensitive nature of some of the information provided as part of this Viability Assessment, this report is provided on a strictly private and confidential basis. We understand that the report will be submitted to the London Borough of Waltham Forest as a supporting document to the planning application. The report must not be recited or referred to in any document, or copied or made available (in whole or in part) to any other person (save the consultants instructed by the Council to review the report) without our express prior written consent.

Report Limitations

Although this report has been prepared in line with RICS valuation guidance, it is first and foremost a supporting document to the planning application in order to inform Section 106 negotiations. Therefore it should be noted that, as per Professional Standards 1 of the RICS Valuation Professional Standards January 2014 Incorporating the International Valuation Standards – Global and UK Edition, advice given expressly in preparation for, or during the course of, negotiations or possible litigation does not form part of a formal "Red Book" valuation and should not be relied upon as such.

Date of Appraisal

The Date of Appraisal is the date of this report.

For and on behalf of:

Savills (UK) Limited
33 Margaret Street
London
W1G 0JD

Contents

1.	Executive Summary.....	5
2.	Introduction.....	8
3.	Subject Site	9
4.	Proposed Development.....	11
5.	Methodology	14
6.	Site Value Benchmark.....	16
7.	Appraisal Modelling Assumptions – GDV.....	18
8.	Appraisal Modelling Assumptions – Costs.....	21
9.	Viability Assessment Results and Conclusions	27
	Appendix 1: Site Location Plan.....	29
	Appendix 2: Land Purchase Plan.....	30
	Appendix 3: Red Line Plans	31
	Appendix 4: Development Parameters.....	32
	Appendix 5: Existing Floorplans.....	33
	Appendix 6: Existing Retail to be Demolished	34
	Appendix 7: Proposed Floorplans	35
	Appendix 8: Proposed Retail Accommodation and ERV Pricing	36
	Appendix 9: Residential Comparables Report	37
	Appendix 10: Proposed Residential Accommodation and Pricing	38
	Appendix 11: Costs to Gain Vacant Possession.....	39
	Appendix 12: Cost Plan for Proposed Scheme	40
	Appendix 13: Development Programme	41
	Appendix 14: CIL Calculations.....	42

Appendix 15: Residual Profit Appraisal	43
Appendix 16: Residual Profit Appraisal (Sensitivity).....	44
Appendix 17: Profit Paper.....	45

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1. Executive Summary

- 1.1 The Subject is located on Selborne Road in the London Borough of Waltham Forest, and currently comprises part of an operational shopping centre with a part of the adjoining amenity land. The freehold of the Subject is held by the London Borough of Waltham Forest. The Applicant owns a long leasehold interest in The Mall, and has a development agreement over the amenity land whereby the Applicant will be granted a new 250 year lease over the amenity land. The long leasehold interests in The Mall and the amenity land will then be incorporated as a single 250 year lease over both areas.
- 1.2 The element of The Mall included within the Subject comprises 8 retail units, a currency exchange counter and 2 ATMs, located at ground and first floor level. The Subject also comprises a part of Walthamstow Town Square Gardens, the adjoining amenity land.
- 1.3 The proposed development involves the demolition of the 8 retail units, the currency exchange and 2 ATMs, and redevelopment comprising construction of a total of 471 apartments and 20 new retail units. This scheme represents the 'Base Scheme' upon which this Viability Assessment is based. A Development Parameters document is attached at **Appendix 4** providing contextual detail around the Reserved Matters submission.
- 1.4 The new retail units will be provided over ground and 1st floor levels in 2 distinct elements; a northern element providing 6 units and a southern element providing 14 units.
- 1.5 The new residential element will extend from podium to between 3 and 26 levels above podium, and be provided within 4 new blocks; Blocks B, C, D and E. Block B will provide a total of 261 apartments from podium to 26th floor, Block C will provide a total of 168 units from podium to 19th floor, Block D will provide a total of 27 apartments from podium to 4th floor and Block E will provide a total of 15 apartments from podium to 3rd floor.
- 1.6 In line with the Greater London Authority's (GLA's) strategic planning guidance for London, site-specific financial viabilities are a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.
- 1.7 As such, viability appraisals can and should be used to analyse and justify planning obligations to ensure that Section 106 requirements do not make a scheme unviable. If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate delivery.
- 1.8 We have assessed the development economics of the proposed scheme in order to identify the level of planning obligations the scheme can sustain. We have appraised the scheme using Argus Developer (Version 6) and have based our appraisal upon the plans and accommodation/pricing schedules provided at **Appendices 7, 8 and 10**.
- 1.9 We have compared the resulting Residual Land Value to our Site Value Benchmark to ascertain whether there is a deficit or surplus against our Benchmark.
- 1.10 A summary of our appraisal results is set out below, on the basis of 471 market sale apartments, S278 and Public Realm costs totalling £4,198,938, and a total Mayoral and Borough CIL liability of £4,637,520.

Table 1 – Viability Appraisal Results

Residential Units	Fixed Land Value	Profit on Cost	Benchmark Profit on Cost	Profit Deficit
471				

- 1.11 Please see **Appendix 15** for the full appraisal.
- 1.12 The scheme would only be considered viable in planning viability terms, if the profit return driven was in excess of the Benchmark profit requirement.
- 1.13 In our view, the developer return required to secure development financing on schemes of this nature in the current market is a minimum of 20% Profit on GDV (broadly equivalent to 25% Profit on Cost). Sites without planning permission typically carry a far higher development risk than those with an appropriate and implementable consent.
- 1.14 Given that the appraisal of the proposed development generates a deficit against the Benchmark profit requirement, we have carried out sensitivity testing to explore the circumstances under which the development may be brought forward.
- 1.15 Given that the Applicant currently owns the long leasehold of the retail units to be demolished, will acquire the Council amenity land subject to grant of planning permission, and is instrumental in bringing forward the proposed development, we understand they may be able and willing to adopt assumptions outside of the market norms in order to bring the development forward.
- 1.16 As such we have carried out a second appraisal which adopts a fixed land value of , on the basis of CBRE's valuation of the existing retail units to be demolished to facilitate the development, although with no allowance for the cost of acquiring the amenity land and no allowance for a landowner Premium.
- 1.17 On the basis of this second appraisal, on the assumption of 100% market sale housing and no additional planning contributions in addition to the adopted CIL, carbon offset payment and S278 works, the appraisal generates a Profit on Cost return and so although scheme viability is improved, the scheme would remain unable to support the adopted level of planning obligations.
- 1.18 We have therefore had further detailed discussions with Savills New Homes Team in regard to the proposed residential values. The Team have commented that the values that they have provided, attached at **Appendix 10**, are currently at the top end of what would be considered justifiable for the scheme given the available evidence (including the wider London context), macro-economic and political factors, and the current state of the residential sales market. They have, however, commented that given an appropriate marketing campaign, no major short-term macro-economic or political shocks, a strengthening of the residential sales market and positive market sentiment, there may be scope to marginally increase the proposed residential values beyond that currently adopted.
- 1.19 We have therefore carried out a sensitivity analysis applied to the residential GDV only within our second appraisal. If the residential GDV was increased by 2.5% within this appraisal, the appraisal would generate a Profit on Cost return, which would be in excess of the Benchmark profit return. Our appraisal of this sensitivity scenario is at **Appendix 16**.

- 1.20 Notwithstanding the identified risks, we understand that the Applicant would be prepared to take the development forward on this basis and enter into discussions with the Local Authority and any other interested parties in relation to additional costs and planning obligations which may be required to enable the development to be brought forward.

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2. Introduction

2.1. Client Instruction

- 2.1.1. We have been instructed by the Applicant to examine the economic viability of this residential-led scheme, to determine the level of planning obligations that the proposed development can support whilst remaining commercially viable.

2.2. Information Provided

- 2.2.1. We have been provided with, and have relied upon, the following information from the Applicant:
- Site Plan produced by ESA Architecture as attached at **Appendix 1**;
 - Land Purchase Plan produced by ESA Architecture at **Appendix 2**;
 - Red Line Plans produced by ESA Architecture at **Appendix 3**;
 - Development Parameters Schedule at **Appendix 4**;
 - Floorplans of the existing accommodation produced by ESA Architecture as attached at **Appendix 5**;
 - Plan detailing the existing retail units to be demolished at **Appendix 6**;
 - Floorplans of the proposed accommodation produced by ESA Architecture as attached at **Appendix 7**;
 - Retail accommodation and pricing schedule produced by Jamieson Mills as attached at **Appendix 8**;
 - Breakdown of the anticipated costs to gain vacant possession by the Applicant at **Appendix 11**;
 - Cost plan for the proposed development produced by Thomas & Adamson as attached at **Appendix 12**;
 - Programme for the proposed development produced by Padstone Consulting as attached at **Appendix 13**; and
 - CIL liability produced by Barton Wilmore as attached at **Appendix 14**.

3. Subject Site

3.1. Subject Location

- 3.1.1. The Subject is located on Selborne Road in Walthamstow within the London Borough of Waltham Forest. Lee Valley Park is located 1.3km to the west, providing public open space incorporating playing fields and reservoirs. The wider surroundings of the Subject are generally residential housing to the north, south and east, and to the west is Walthamstow High Street providing town centre amenities. The Subject comprises a part of The Mall shopping centre and Walthamstow Town Square Gardens, and so the immediate surroundings are retail to the north and west, and public open space to the east beyond which is Walthamstow Central station. To the south are Selborne Road and the railway line serving Walthamstow Central Station, beyond which are the car park for the station and a modern low-rise residential development.
- 3.1.2. Transport connections are good, with Walthamstow Central National Rail, London Underground and London Overground station 0.2km to the east by foot. National Rail services provide access into Liverpool Street in 18 minutes, Kings Cross in 30 minutes, and Euston and Victoria in 40 minutes. London Underground (Victoria line) provides services into central London and access to the wider Underground network. The London Overground provides services to Liverpool Street in 20 minutes as well as access to the wider Overground network. Walthamstow Queens Road National Rail station is also 0.5km to the south by foot (providing services into Liverpool Street in 30 minutes). Walthamstow Central also incorporates a large bus depot providing numerous bus routes into central London.
- 3.1.3. A site plan is attached at **Appendix 1**.

3.2. Subject Description

- 3.2.1. The Subject currently comprises part of The Mall, an operational shopping centre, and part of Walthamstow Town Square Gardens, the adjoining amenity land. The element of The Mall included within the Subject comprises 8 retail units, a currency exchange counter and 2 ATMs, located at ground and first floor level. The amenity land comprises an element of Walthamstow Town Square Gardens, and includes predominantly open space and a children's play area.
- 3.2.2. The freehold of the Subject is held by the London Borough of Waltham Forest. The Applicant owns a long leasehold interest in The Mall, and has a development agreement over the amenity land whereby the Applicant will be granted a new 250 year lease over the amenity land. The long leasehold interests in The Mall and the amenity land will then be incorporated as a single 250 year lease over both areas.
- 3.2.3. The schedule below details the existing accommodation at the Subject (provided by the Applicant):

Table 2 – Schedule of Existing Accommodation

Unit	Tenant	Sq m	Sq ft
Store D	Poundland Ltd	937.0	10,086
Unit 21b	Dr & Herbs	22.2	239
Unit 21a	Timpson Ltd	22.5	242

Kiosk	Currency Exchange	-	-
ATM	Nationwide Building Society	-	-
ATM	Notemachine Ltd	-	-
Unit 22	Shoezone	308.0	3,315
Unit 27a	HM Desserts Ltd	36.1	389
Unit 27b	OG Clothing	27.3	294
Mall Cafe	Costa	146.8	1,580
Unit 23	British Heart Foundation	320.0	3,444
Total	11	1,819.9	19,589

- 3.2.4. Floorplans of the existing accommodation are attached at **Appendix 5** and a schedule of the units to be demolished with accompanying plans are attached at **Appendix 6**.
- 3.2.5. The application area extends to 3.05 ha, albeit this is taken at podium level as it includes areas which will providing solar panels as part of the new development. An application red line plan detailing the full extent of the application area is at **Appendix 1**, and further red line plans detailing areas excluded from the application area at ground to podium levels, are attached at **Appendix 3**.

4. Proposed Development

4.1. Proposed Development

- 4.1.1. A hybrid planning application has been submitted at the Subject, seeking part detailed and part outline planning consent.
- 4.1.2. The proposed development involves the demolition of 8 existing retail units, a currency exchange and 2 ATMs within The Mall, and redevelopment comprising construction of a maximum of 500 apartments above 20 new retail units.
- 4.1.3. The new retail element will be provided at ground and 1st floor level below a new podium over which 4 new residential blocks will be constructed. The new residential element will extend from podium to between 3 and 26 levels above podium, and be provided within Blocks B, C, D and E. The detailed element of the application relates to the below-podium retail element and the low-rise residential (Blocks D and E). The outline element relates to residential Blocks B and C. Although permission is only sought in outline for residential Blocks B and C, the Applicant has worked up and submitted a detailed proposal incorporating a total of 471 apartments. This scheme represents the 'Base Scheme' upon which this Viability Assessment is based. A Development Parameters document is attached at **Appendix 4** providing contextual detail around the Reserved Matters submission.
- 4.1.4. It is intended that Block B will provide a total of 261 apartments from podium to 26th floor, Block C will provide a total of 168 apartments from podium to 19th floor, Block D will provide a total of 27 apartments from podium to 4th floor and Block E will provide a total of 15 apartments from podium to 3rd floor.
- 4.1.5. The main access to the residential accommodation within Blocks B, C and D will be off the new amenity square at ground level. A residential lobby will provide stair and lift access to podium level, in addition to an office, post room and rear bin store. At podium level access to Blocks B and C is provided off 2 communal gardens. Within each of Blocks B and C there is a residential lobby providing lift and stair access to the upper floors. These lobbies also provide access to residential refuse stores at podium level. At 1st floor above podium there is a resident's gym within Block C, which will not be income producing.
- 4.1.6. The residential element of Block E will be provided off the new amenity square at ground level, with stair and lift access provided to the apartments at 1st to 3rd floor levels.
- 4.1.7. Each of the apartments within Blocks B, C and E will benefit from either a balcony or a terrace. The majority of the apartments within Block D will benefit from a balcony, although 2 of the apartments at podium level within the northern element and the 11 apartments within the southern element of the Block will not benefit from outside space. At podium level there will be 2 communal gardens for Blocks B, C, D and E. There will be 2 roof gardens for residents of Block B; 1 at 18th floor above podium and 1 above 26th level above podium. There will also be 2 roof gardens for residents of Block C; 1 at 12th floor above podium and 1 at 20th level above podium.

- 4.1.8. The development will provide 47 car parking spaces (10% by unit) for disabled residents, reallocated from the existing provision within The Mall. The operation and allocation of these spaces is subject to agreement with the Local Authority, however it is envisaged that these spaces will not be allocated to specific apartments and as such it will not be possible to sell the parking spaces with the apartments, albeit there will be a cost involved in delivering them. At this stage we have not allowed for any cost or revenue from the proposed car parking spaces. Bicycle storage for the residential will be provided within 3 bicycle stores at first floor level to the rear of the southern retail element. Servicing will be provided off the rear service yard, accessed from Selborne Road.
- 4.1.9. The new retail units will be provided over ground and 1st floor levels in 2 distinct elements; a northern element providing 6 units below residential Block E and a southern element providing 14 units below Blocks B, C and D. The proposed retail within the northern element will incorporate A1, A3 and D1 (gym) uses. The proposed retail within the southern element will incorporate predominantly A1 uses, although there is also a mixed A1/A2/A3/B1/D1 unit proposed.
- 4.1.10. Below is a summary of the proposed average unit sizes at the Subject. A detailed residential accommodation schedule is attached at **Appendix 10**.

Table 3 – Summary of Proposed Residential Accommodation – Block B

Unit Type	No. of Units	Average Sq m	Average Sq ft
1b1p	76	40.1	432
1b2p	107	53.2	573
2b4p	78	73.5	791
Total	261	14,476.0	155,818

Table 4 – Summary of Proposed Residential Accommodation – Block C

Unit Type	No. of Units	Average Sq m	Average Sq ft
1b1p	21	41.3	445
1b2p	84	52.5	565
2b4p	63	76.2	820
Total	168	10,075.0	108,446

Table 5 – Summary of Proposed Residential Accommodation – Block D

Unit Type	No. of Units	Average Sq m	Average Sq ft
1b1p	3	49.6	534
1b2p	3	49.2	530
2b4p	20	75.3	811
3b6p	1	109.3	1,176
Total	27	1,912.4	20,585

Table 6 – Summary of Proposed Residential Accommodation – Block E

Unit Type	No. of Units	Average Sq m	Average Sq ft
1b2p	6	49.8	536
2b4p	9	71.7	772
Total	15	944.0	10,161

Table 7 – Summary of Total Proposed Residential Accommodation

Unit Type	No. of Units	Average Sq m	Average Sq ft
1b1p	100	40.6	437
1b2p	200	52.7	567
2b4p	170	74.6	803
3b6p	1	109.3	1,176
Total	471	27,407	295,006

- 4.1.11. Below is a summary of the proposed commercial accommodation at the Subject. A detailed retail accommodation schedule is attached at **Appendix 8**.

Table 8 – Summary of Total Proposed Retail Accommodation

Use	No. of Units	Total Sq m	Total Sq ft
A1	14	8,050.6	86,500
A3	4	1,325.0	14,264
A1/A2/A3/B1/D2	1	356.7	3,839
D2 (Gym)	1	543.6	5,851
Total	20	10,275.8	110,454

5. Methodology

5.1. Financial Viability Assessments

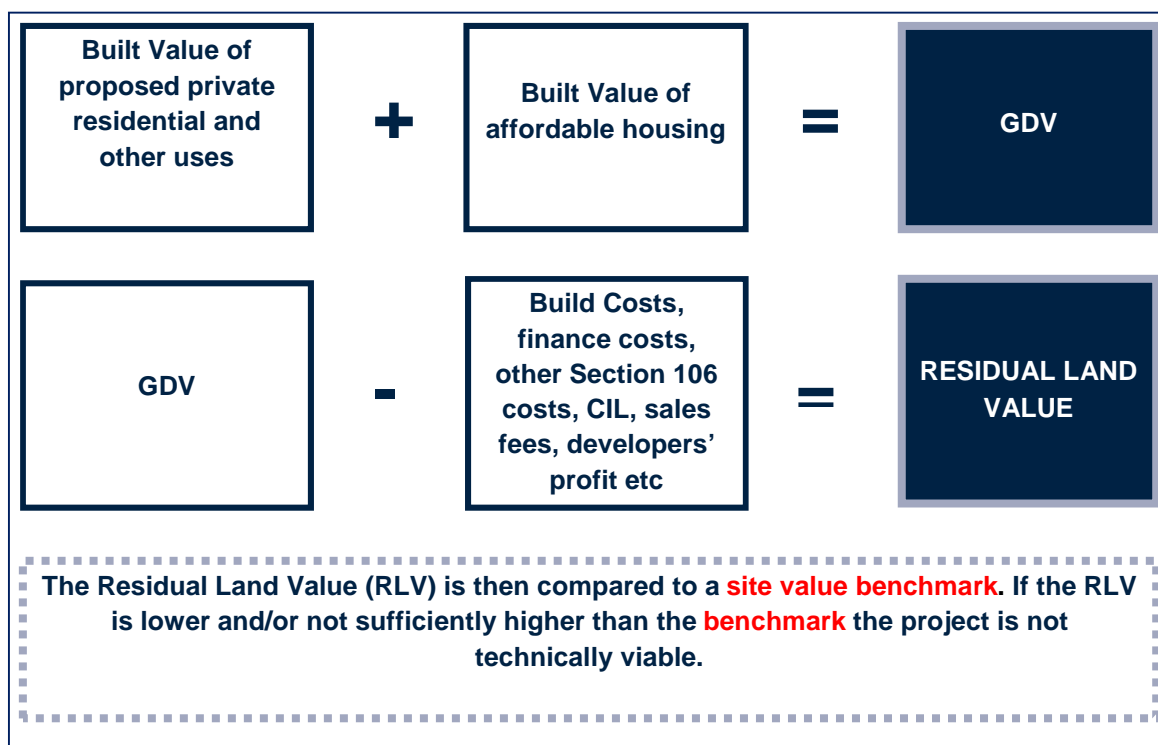
- 5.1.1. In line with the NPPF, and the Greater London Authority's (GLA's) strategic planning guidance for London, site-specific financial viabilities are a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.
- 5.1.2. As such, viability appraisals can and should be used to analyse and justify planning applications to ensure that Section 106 requirements do not make a scheme unviable.
- 5.1.3. The RICS define financial appraisals for planning purposes as:
- 'An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to a developer in delivering a project.'*
- 5.1.4. The GLA's logic is that, if the residual value of a proposed scheme is reduced to significantly below an appropriate viability benchmark sum, it follows that it is commercially unviable to pursue such a scheme, and the scheme is unlikely to proceed.
- 5.1.5. If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate viability.

5.2. Factors Affecting Viability

- 5.2.1. The following factors are particularly relevant to viability:
- Mayoral and Borough CIL (where applicable);
 - 'Other' Section 106 costs (e.g. highways, education etc);
 - Off-site commuted payments;
 - The quantity of Affordable Housing;
 - The mix of Affordable Housing;
 - Optimum land uses within the development;
 - Market conditions;
 - Timing of delivery;
 - Abnormal building costs; and
 - Particular planning requirements.

5.3. Residual Land Valuation

- 5.3.1. The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process can be seen below:



5.4. Profit

- 5.4.1. The above residual land approach can, and has been, inverted in this assessment so that it becomes a 'profit residual' based upon the insertion of a specific land cost (equivalent to the site value benchmark). By doing this, the focus is moved onto the level of profit driven by a scheme. This is, however, a purely presentational alternative.

6. Site Value Benchmark

6.1. Introduction

- 6.1.1. Identifying an appropriate viability benchmark sum requires judgement bearing in mind that national planning guidance indicates that appropriate land for housing should be 'encouraged' to come forward for development. The GLA provides guidance on viability benchmarks for planning purposes and we are also aware that the Royal Institution of Chartered Surveyors (RICS) issued a guidance note on 'Financial Viability in Planning' in August 2012.
- 6.1.2. Given the available guidance, recent appeal decisions, and our own professional experience, our views on what constitutes an appropriate viability benchmark are summarised below:
- **Existing Use Value / Current Use Value (EUV / CUV)** – This is the value of the existing lawful use, to which a premium is typically applied (of at least 10% - 40%) to reflect a competitive return to a landowner;
 - **Alternative Use Value (AUV)** – This refers to the value of the asset under an alternative planning use, either consented or for which permission might reasonably be expected to be obtained;
 - **Unconditional Purchase Price** – This is the price paid for a site, taking into account the circumstances of the transaction and with consideration given to the circumstances of the prevailing property market; and
 - **Market Value** – This is defined by the RICS as '*the estimated amount for which the asset should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion*'. National planning policy gives further guidance in this regard stating that development and mitigation should provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable. Overall we understand that, in having regard to the development plan the Market Value of a site should reflect a financially viable scheme.

6.2. Adopted Site Value Benchmark

- 6.2.1. Given the nature of the Subject, being a part of an existing shopping centre with adjacent amenity land, we would consider that in this instance the Existing Use Value forms the most appropriate site value benchmark. CBRE, the Applicant's retained valuer, has provided a valuation report in respect of the Existing Use Value of the Subject. CBRE consider that the Existing Use Value of the Subject is broken down as follows:
- Value of units to be demolished (excluding development potential): [REDACTED]
 - Value of amenity land: [REDACTED]
 - [REDACTED]

- 6.2.2. We have adopted a total Existing Use Value of [REDACTED], being the sum of Existing Use Value of the existing retail units of [REDACTED] and the mid-point of the value of the amenity land of [REDACTED]
- 6.2.3. In line with NPPF and RICS guidance we consider it appropriate to apply a premium to reflect the redevelopment potential of the Subject for residential use, which we understand to be in the range of 10% - 40%. In this instance the Subject comprises two elements; existing retail units forming part of an operational shopping centre and amenity land. We would consider that a landowner would require a good deal of incentive to release the existing retail units for redevelopment given that they are operational and form part of a wider asset, although would require a smaller incentive to release the amenity land. We would therefore consider a premium at the mid-point of the range would be appropriate in this instance.
- 6.2.4. We have therefore applied a premium of 25% over and above the Existing Use Value, generating an EUV Plus Premium of [REDACTED].

7. Appraisal Modelling Assumptions – GDV

7.1. Introduction

- 7.1.1. We have assessed the proposed scheme by undertaking a Residual Land Value appraisal using Argus Developer (Version 6).
- 7.1.2. The following assumptions have been adopted in assessing the value of the proposed scheme. A copy of our appraisal is attached at **Appendix 15**.

7.2. Residential Values

- 7.2.1. Savills New Homes Team have assessed a number of comparable developments in the area and given consideration to competing schemes in the wider London area to form an opinion of value for the proposed apartments at the Subject, taking into account the location, size, aspect, provision of outside space, proposed accommodation and parking provision.
- 7.2.2. Based on their research (attached at **Appendix 9**) they would anticipate the proposed apartments at the Subject achieving the following average values, on the assumption of 471 unencumbered market sale units:

Table 9 – Summary of Proposed Residential Pricing – Block B

Unit Type	Average Sq ft	Average Price	Average £/Sq ft
1b1p	432		
1b2p	573		
2b4p	791		
Total	61,720		

Table 10 – Summary of Proposed Residential Pricing – Block C

Unit Type	Average Sq ft	Average Price	Average £/Sq ft
1b1p	445		
1b2p	565		
2b4p	820		
Total	108,446		

Table 11 – Summary of Proposed Residential Pricing – Block D

Unit Type	Average Sq ft	Average Price	Average £/Sq ft
1b1p	534		
1b2p	530		
2b4p	811		
3b6p	1,177		
Total	20,584		

Table 12 – Summary of Proposed Residential Pricing – Block E

Unit Type	Average Sq ft	Average Price	Average £/Sq ft
1b2p	535		
2b4p	772		
Total	10,161		

Table 13 – Summary of Total Proposed Residential Pricing – Total GDV

Unit Type	Average Sq ft	Average Price	Average £/Sq ft
1b1p	437		
1b2p	568		
2b4p	803		
3b6p	1,177		
Total	295,006		

7.2.3. Overall we have adopted a GDV for the apartments of [REDACTED]

7.2.4. Attached at **Appendix 10** is a copy of Savills New Homes Team's detailed pricing schedule.

7.3. Ground Rents

7.3.1. Due to the nature of the lease agreement with the Council at the Subject ground rent income would be retained by the Council, and a developer would not be able to benefit from it. We have therefore excluded income from ground rents from our appraisal.

7.4. Retail Rental Values

7.4.1. Commercial values have been assessed by the Applicant's retained agent, Jamieson Mills, who have provided a rental pricing schedule and covering letter setting out their views on proposed rental values, incentives and letting programme on the basis of their ongoing experience at The Mall and with similar shopping centre schemes. Given the nature of the proposed development, being an extension to an existing shopping centre, they would consider that this experience is more relevant to the pricing of the proposed retail element than local comparables which are not within The Mall.

7.4.2. Please see attached at **Appendix 8** Jamieson Mills' ERV schedule and supporting letter.

7.4.3. Due to the nature of the lease agreement with the Council, the Applicant is required to pay a Head Rent to the Council in relation to the retail units which will be demolished for the redevelopment. The rental value agreed for these demolished units is [REDACTED]. The lease agreement provides that 1% of this agreed rental value is paid to the Council on an ongoing basis, equating to [REDACTED] per annum. We have assumed that this would apply for any prospective party looking to carry out the development, and as such have netted this off the total rental value of the southern element of the proposed retail provided by Jamieson Mills as follows:

- Northern Retail – Annual Rental Value: [REDACTED]
- Southern Retail – Annual Rental Value: [REDACTED]

7.4.4. We have adopted these annual rental values within our appraisal of the proposed scheme.

7.5. Retail Capitalisation

- 7.5.1. We have been provided with a valuation report prepared by the Applicant's retained valuer, CBRE, which gives consideration to the existing and proposed value of the retail accommodation. CBRE would consider that the proposed retail accommodation should be capitalised at [REDACTED], which we have adopted within our appraisal and assumed that the retail element is capitalised at construction completion of each retail block. CBRE's report will be provided under separate cover.

7.6. Car Parking

- 7.6.1. The development will provide 47 car parking spaces (10% by unit) for disabled residents, reallocated from the existing provision within The Mall. These spaces will not be allocated to specific apartments and it will not be possible to sell the parking spaces with the apartments, albeit there will be a cost involved in delivering them. We have therefore excluded car parking revenue from our appraisal.

7.7. Summary of Existing Income

- 7.7.1. We have included the existing income from the Subject over the Pre-Construction period within the appraisal, to reflect the income that a purchaser would receive prior to obtaining vacant possession for development, with a deduction to allow for the Head Rent payable to the Council. We have included income from the tenants detailed at **Table 2**, on a monthly pro-rata basis, net of the agreed Head Rent payable to the Council of [REDACTED] per annum. We have therefore included an income of [REDACTED] per month, totalling [REDACTED] over the [REDACTED] Pre-Construction period.

8. Appraisal Modelling Assumptions – Costs

8.1. Introduction

8.1.1. The following assumptions have been adopted in assessing the costs of the proposed scheme.

8.2. Build Costs

8.2.1. The Applicant was previously in discussions with [REDACTED] with regard to a previous iteration of the proposed development, for which [REDACTED] provided an elemental cost plan. The Applicant's retained Quantity Surveyor, Thomas & Adamson, have reviewed this cost plan and made adjustments to reflect the currently proposed scheme. [REDACTED] cost plan and Thomas & Adamson's review are attached at **Appendix 12**. The cost plan and review include an allowance for demolition, preliminaries, contingencies, contractor's OH&P, and inflation to present day.

8.3. Section 278 Costs and Public Realm Costs

8.3.1. We have been provided with an estimate of Section 278 and public realm costs by Thomas & Adamson (within the cost plan) as follows:

- Section 278: £225,302
- Public Realm: £3,973,636

8.3.2. We have included these costs within our appraisal.

8.4. Contingencies

8.4.1. The cost plan includes a contingency of 7.5%. We have not applied a separate developer's contingency at this stage but reserve the right to review.

8.5. Inflation

8.5.1. The construction costs currently exclude an allowance for inflation beyond the present day, however we reserve the right to review this.

8.6. Professional Fees

8.6.1. In this instance we have adopted professional fees of 12%. We have not been provided with a detailed breakdown of anticipated professional fees and therefore reserve the right to review our approach.

8.7. Sales/Letting Fees

- Residential/Commercial sales agent: 1.5%
- Residential/Commercial sales legal: 0.35%
- Commercial letting agent: 15%

- Commercial letting legal: 5%
- Residential marketing: 1% (We would note that, whilst we have adopted a marketing budget of 1% of residential GDV at this stage, we are advised by Savills New Homes that they would anticipate the required marketing budget equating to approximately 1.5-2% of residential GDV in order to achieve the adopted sales values and rate of disposal. The marketing budget that we have adopted is therefore extremely optimistic, and we reserve the right to review in the future).

8.8. Retail Voids

- 8.8.1. We have been provided with advice from Jamieson Mills with regard to the anticipated void periods for the retail element, attached at **Appendix 8**. On this basis, and following additional advice from the Applicant, we have assumed that [REDACTED] of the retail income is received at practical completion of the retail element, a further [REDACTED] of the retail income is received 6 months after practical completion, and the remaining [REDACTED] is received 12 months after practical completion.

8.9. Retail Incentives / Rent Free

- 8.9.1. We have been provided with advice from Jamieson Mills with regard to the anticipated incentives and rent free periods for the retail element, attached at **Appendix 8**, which details an incentives and rent free allowance as follows:

- Northern Retail: [REDACTED]
- Southern Retail: [REDACTED]
- [REDACTED]

- 8.9.2. We have included the above allowance for incentives and rent free periods as capital costs at practical completion of the retail elements.

8.10. Acquisition Costs

- 8.10.1. We have deducted acquisition costs from the capitalised value of the proposed retail at [REDACTED].

8.11. Costs to Gain Vacant Possession

- 8.11.1. We have been provided with a cost estimate for gaining vacant possession of the existing retail units at the Subject, equating to a total of [REDACTED] which we have included within our appraisal prior to the start of construction. The cost estimate is provided at **Appendix 11**.

8.12. Planning Obligations

8.12.1. We have included the following estimated CIL payments as advised by Barton Willmore:

- Borough CIL: £3,456,743
- Mayoral CIL: £1,180,777
- **Total: £4,637,520**

8.12.2. Barton Willmore have provided advice in regard to the proposed timings for CIL payments. We have included the Phase 1 total payment at construction start, with the Phase 2 total payment 21 months following the initial payment, broken down as follows:

- Phase 1 payment: £930,321
- Phase 2 payment: £3,707,199
- **Total: £4,637,521**

8.12.3. Barton Willmore's CIL calculations are attached at **Appendix 14**.

8.13. Carbon Offset Costs

8.13.1. We have been provided with an estimated carbon off-set cost by the Applicant, advised by Hulley & Kirkwood, of £1,102,140, which we have incorporated within our appraisal.

8.14. TFL Costs

8.14.1. It is anticipated that there will be costs in association with TFL's legal fees for their involvement in the proposed redevelopment. We have been provided with a budget for the cost of these legal fees by the Applicant of £250,000, which we have included within our appraisal at construction start. We would note that this is only a budget estimate at this point.

8.15. Third Party Abnormals

8.15.1. We have been provided with an estimate of third party abnormalities by the Applicant. This cost ranges from [REDACTED] and is subject to legal clarification in respect of existing leases at the Subject. At this stage we have adopted the lower end of the range within our appraisal, but reserve the right to update this figure in the future.

8.16. Profit

8.16.1. In assessing what constitutes an acceptable level of developer's return in the current market we have consulted with specialist colleagues within the Loan Security Valuation and Capital Markets departments of Savills, as well as applied our own development experience. In the current market if a developer was buying a site such as the Subject they would normally seek a return of at least 20% Profit on GDV (broadly equivalent to 25% Profit on Cost) in order to justify the risk of delivering the scheme.

8.16.2. We have had regard to policy guidance and recent appeal decisions as detailed in our Profit Paper attached at **Appendix 17**.

8.16.3. We have also given consideration to the project-specific risks of the proposed scheme, and would comment as follows:

- The residential sales values we have adopted are aspirational and reflect the place-making nature of the scheme, so there is currently little comparable evidence to support values at this level – therefore if we were valuing the proposed units purely on a comparable basis it is likely we would adopt lower values than currently assumed.
- The length of the project programme means that there is significant capital tied up in the scheme before revenues are realised, particularly for the residential element of the scheme, with the inherent risks around build cost inflation and change in residential sales values over this period.
- There are a number of ongoing policy-related and macro-economic changes which could have an effect on a scheme of this scale including recent Stamp Duty reforms, the upcoming general election, uncertainty over the global economy and Brexit fears, as well as recent affordable housing-related announcements and policy alterations.

8.16.4. The construction-related risks and logistics can be summarised as follows:

- Carrying out the proposed development whilst minimising disruption to the main Mall shopping centre, which will continue to trade throughout the development. This has implications for crane positions and unloading areas etc. There will be a requirement for completed public key areas when the Mall extension opens; site access and the logistics strategy is subject to local authority and highway approval so may be subject to change – at this stage it is clear that access is restricted, temporary road closures will be required and use made of 'just in time deliveries'. This also introduces complexities around modifying and maintaining services to ensure that health & safety / insurance requirements are in place at all times
- London Underground Victoria Line tunnels pass beneath the existing Mall; due to the extra loading of the proposed residential towers on the existing foundations, the current solution is to install rotary bored piles either side and between the tunnels with transfer structures spanning over them. This introduces the risk of differential settlement between the new and existing structures; and so requires specialist piling contractors and continuous design reviews. Although this is agreed in principle with LUL, detailed design, risk assessments, extensive monitoring and an Indemnity Agreement are still to be finalised and approved
- Requirement for separation / demolition of part of the structure from the existing Mall; the new structure will connect into the existing structure at the cut joints formed during demolition
- Temporary loss of park and children's play area during construction works requiring provision of temporary facilities, and relocation of existing public art

- Protected walkway tunnel to be provided within the Mall for duration of construction works; specification and design to be finalised, incorporating weather proofing, acoustic protection and aesthetic considerations
- Pedestrian access to Mall via entrance adjacent to former BHS means construction site effectively split in two, requiring controlled crossings to regulate pedestrian and vehicular movement, and planning of deliveries to minimise disruptions
- Shared service yard between new retail units and construction access requiring agreement and logistics planning to minimise conflict between users, with potential for needing alternative loading strategy if existing service yard is not appropriate
- Requirement to maintain pedestrian access to Mall from Town Square Gardens (bus station and train / tube) at all times
- Significant enabling works are required prior to demolition including car park access and loading bay alterations, maintaining fire escapes, establishing site accommodation and compound, relocating sprinkler tanks, erecting hoardings in basement and relocating services, erecting hoardings to the town square, diverting fibre cables, installation of 3 new substations along with HV cable diversions, gas main and fire water main, and tree removal / protection
- There are also numerous issues still to be considered as the project develops, including:
 - Energy Centre is located at basement level and the flue exits through Block C tower; the energy centre will be operational but the flue will not be available when Block E residential units are available for occupation, so temporary heating and flue location need to be considered prior to a permanent flue being in place
 - Operative and vehicle access to the development need to be considered so that pedestrian/vehicular routes can be established early in the programme, this is likely to be compounded by works which are due to be completed on the Mini-Holland infrastructure scheme and will require the temporary closure of the bus lane
 - Material storage and distribution strategy to be finalised along with waste management / removal plan

8.16.5. Taking all of these factors into consideration we would therefore consider that 20% Profit on GDV represents the minimum profit return a developer would require to take a scheme of this complexity and risk profile forward.

8.16.6. Based on our experience, research and the project-specific risks, we have adopted a developer's target return of 20% on GDV (broadly equivalent to 25% Profit on Cost).

8.17. Finance

8.17.1. Given that the availability, cost and terms of development finance will be heavily project-specific in addition to numerous other varying factors such as the wider economic and political landscape, determining an appropriate finance rate level can be extremely challenging.

- 8.17.2. In the current market for a scheme of this nature we would ordinarily expect an all-in finance debit rate of [REDACTED] applicable. We note that at June 2016 the Council's reviewer adopted a [REDACTED] all-in finance debit rate. Given the current level of economic and political uncertainty we would consider it reasonable to adopt a mid-point between our respective views at this stage, and as such have adopted an all-in debit finance rate of [REDACTED] on the assumption that the Council's reviewer's view remains unaltered.

8.18. Timescales

- 8.18.1. We have allowed a 3 month purchase period within our appraisal, given the complex nature of the acquisition.
- 8.18.2. We have been provided with development programmes by Padstone Consulting, and have adopted the following assumptions on this basis:
- Pre-construction: 14 months
 - Construction: 52 months
- 8.18.3. Padstone Consulting's programmes are attached at **Appendix 13**.
- 8.18.4. We have had detailed discussions with Savills New Homes Team, who have advised that they would anticipate 60% of the apartments being sold off-plan, and a rate of sale of 4 units per month thereafter. We have allowed a total sales period of 52 months which allows for the timing of Block constructions, with 60% of the residential GDV being received at practical completion on a block-by-block basis, and the remainder of the income at a rate equivalent to 4 units per month thereafter.
- 8.18.5. We have assumed the retail element is capitalised at construction completion of each block.

9. Viability Assessment Results and Conclusions

9.1. Results

- 9.1.1. We have appraised the proposed scheme against our Site Value Benchmark in order to fully understand the economics of the development and to establish the maximum level of planning obligations, including affordable housing, that the scheme can reasonably support.
- 9.1.2. In the current market, for a developer to take forward this scheme, they would normally require a return of at least 20% Profit on GDV (broadly equivalent to 25% Profit on Cost) in order to justify the risk of delivering the scheme and secure development finance, given likely market and economic risks.
- 9.1.3. A summary of our appraisal results is set out below, on the basis of 471 market sale apartments, S278 and Public Realm costs totalling £4,198,938, and a total Mayoral and Borough CIL liability of £4,637,520.

Table 14 – Viability Appraisal Results

Residential Units	Fixed Land Value	Profit on Cost	Benchmark Profit on Cost	Profit Deficit
471				

- 9.1.4. Please see **Appendix 15** for the full appraisal.
- 9.1.5. The scheme would only be considered viable in planning viability terms, if the profit return driven was in excess of the Benchmark profit requirement.
- 9.1.6. In our view, the developer return required to secure development financing on schemes of this nature in the current market is a minimum of 20% Profit on GDV (broadly equivalent to 25% Profit on Cost). Sites without planning permission typically carry a far higher development risk than those with an appropriate and implementable consent.
- 9.1.7. Given that the appraisal of the proposed development generates a deficit against the Benchmark profit requirement, we have carried out sensitivity testing to explore the circumstances under which the development may be brought forward.
- 9.1.8. Given that the Applicant currently owns the long leasehold of the retail units to be demolished, will acquire the Council amenity land subject to grant of planning permission, and is instrumental in bringing forward the proposed development, we understand they may be able and willing to adopt assumptions outside of the market norms in order to bring the development forward.
- 9.1.9. As such we have carried out a second appraisal which adopts a fixed land value of , on the basis of CBRE's valuation of the existing retail units to be demolished to facilitate the development, although with no allowance for the cost of acquiring the amenity land and no allowance for a landowner Premium.

- 9.1.10. On the basis of this second appraisal, on the assumption of 100% market sale housing and no additional planning contributions in addition to the adopted CIL, carbon offset payment and S278 works, the appraisal generates a [REDACTED] Profit on Cost return and so although scheme viability is improved, the scheme would remain unable to support the adopted level of planning obligations.
- 9.1.11. We have therefore had further detailed discussions with Savills New Homes Team in regard to the proposed residential values. The Team have commented that the values that they have provided, attached at Appendix 9, are currently at the top end of what would be considered justifiable for the scheme given the available evidence (including the wider London context), macro-economic and political factors, and the current state of the residential sales market. They have, however, commented that given an appropriate marketing campaign, no major short-term macro-economic or political shocks, a strengthening of the residential sales market and positive market sentiment, there may be scope to marginally increase the proposed residential values beyond that currently adopted.
- 9.1.12. We have therefore carried out a sensitivity analysis applied to the residential GDV only within our second appraisal. If the residential GDV was increased by 2.5% within this appraisal, the appraisal would generate a [REDACTED] Profit on Cost return, which would be in excess of the Benchmark profit return. Our appraisal of this sensitivity scenario is at **Appendix 16**.
- 9.1.13. Notwithstanding the identified risks, we understand that the Applicant would be prepared to take the development forward on this basis and enter into discussions with the Local Authority and any other interested parties in relation to additional costs and planning obligations which may be required to enable the development to be brought forward.