

GVA

An **APLEONA** company

Report

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The Mall, 45 Selborne Walk, London E17 7JR

Planning Viability Review

DRAFT 24th July 2017



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Status: V2

Draft Date: 24th July 2017

For and on behalf of GVA Grimley Limited

1. Introduction

GVA has been instructed by LB Waltham Forest (the Council) to undertake a review of the planning viability assessment of the mixed use development proposed at The Mall, 45 Selborne Walk, London, E17 7JR by Selborne One Ltd and Selborne Two Ltd (the Applicant).

The Applicant submitted a hybrid planning application on 7th April 2017 (planning reference 17/1355) for:

Part demolition of The Mall, and its replacement and extension by an additional 8,769sqm (Gross External Area) GEA to be used for Shops, food and drink and leisure (Classes A1, A3, D2), Creation of 4 residential units (Use Class C3) up to a maximum height of 49m (Above Ordnance Datum), Redesign of Town Square, including new children's play space, landscaping (hard and soft) and lighting.

The Viability Assessment is based on a scheme comprising 471 residential units in four blocks of between three and 26 floors above podium level, below which the retail element will extend from the ground to first floors.

The Applicant has assessed the benchmark land value to be in the order of [REDACTED], in accordance with the valuation undertaken by CBRE, and has also examined the proposed scheme on the basis of a reduced land value of [REDACTED]

On either basis the Applicant contends that the scheme cannot support the delivery of any affordable housing.

The Council's Core Strategy sets a Borough wide affordable housing target for developments of 10 units or more requiring 50% of all additional dwellings built to be delivered as affordable housing.

The purpose of this report is to consider whether the proposed development can viably incorporate a policy compliant provision of 50% affordable housing, S106 Agreement provision and Mayoral CIL. GVA has carried out analysis of the assumptions and inputs used by the Applicant in carrying out its viability assessments, and has undertaken our own appraisals using the inputs we consider appropriate.

The development appraisal advice offered in this report does not constitute a valuation, and cannot be regarded, or relied upon as a valuation. It does provide a guide for feasibility in line with the purpose for which the assessment is required. This advice is exempt from the current RICS Valuation Standards (the Red Book).

GVA has relied on information provided by the Applicant and its agents, and information accompanying the planning application. GVA has based our cost assumptions on

information provided to us by the cost consultants, Rider Levett Bucknall. Our view on value is based on evidence obtained through market research conducted locally.

GVA has carried out our appraisals of the scheme using Argus Developer, a leading programme for the analysis of property developments used widely throughout the property industry.

Assessor's Qualifications and Experience

The appraisals and report have been prepared by Hattie Charlier-Poole MRICS, a RICS Registered Valuer, supervised by Charles Trustram Eve MRICS, a RICS Registered Valuer, and Director. Charles Trustram Eve is based in GVA's London office and has over 30 years' experience.

Site Visit

Charles Trustram Eve MRICS, Director, and Hattie Charlier-Poole MRICS, carried out an inspection of the Property on 7th July 2015.

2. The Property

Situated in a prominent position in Walthamstow town centre, the Mall comprises 58 retail units, a supermarket, and a three storey department store. The property is of brick build and was constructed in 1988 to a style typical of the area.

The site the planning application relates to comprises eight retail units, a currency exchange counter and two ATMs at ground and first floor level at the eastern end of the Mall, and amenity land located to the east of the Mall at Walthamstow Town Square Gardens.

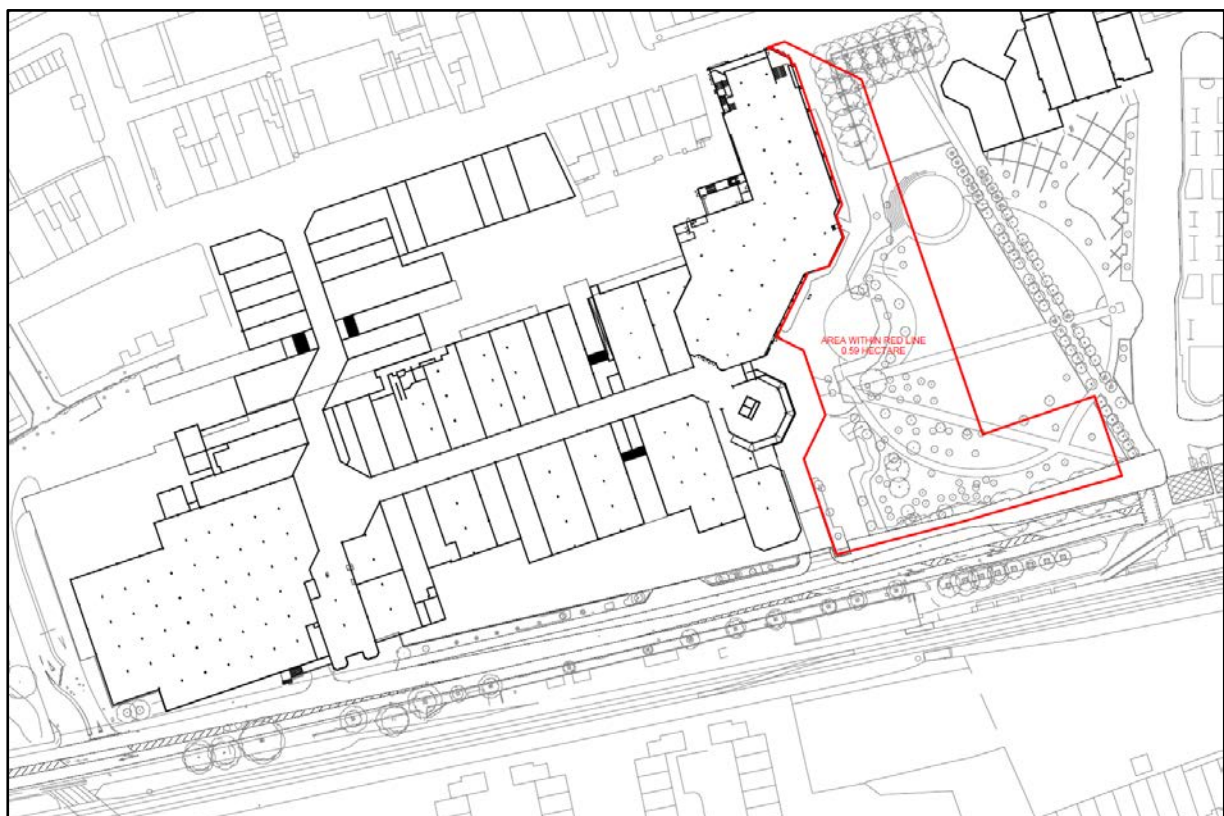
The site lies on Selborne Road in Walthamstow. Selborne Road is an arterial link that runs between St James Street underground station and Walthamstow Central Station. The site is located equidistant between the two main arterial roads, the A503 and the A104, that join the North Circular Road. The North Circular Road joins the M11 to the north, which leads onto the M25.

The site is located adjacent to Walthamstow High Street and Walthamstow Central Train Station. The site is well served by the London bus network as well as being connected to central and outer London by both the underground and overground rail service.

Figure 1: Red Line Plan of Shopping Centre



Figure 2: Red Line Plan of Amenity Land



3. Methodology

The NPPF's benchmark for viability appraisal is that "it should take 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". While there is no clear consensus on the best approach, it is accepted that Market Value, Alternative Use Value, and Existing Use Value Plus approaches can be used to fulfil the requirement and identify a benchmark with which to compare the value of the proposed development. The RICS Guidance Note on Financial Viability in Planning advocates the use of Market Value, as it the most likely to reflect the workings of the market.

The Mayor's Draft Affordable Housing and Viability Supplementary Planning Guidance (SPG) (November 2016) identifies the Existing Use Value Plus approach as the most appropriate for planning purposes. The SPG notes that the 'plus' reflects the incentive necessary for the landowner to release the site for development, and will vary on a case by case basis depending on the circumstances of the site and the owner and the policy requirements.

The benchmark variable may be developer's return, which must be at an acceptable market level to compensate the developer for the risk in undertaking the development. This is the approach adopted by Savills in its report. Alternatively, the residual land value may be the benchmark variable, where market profit levels are included as a cost in the appraisal. The residual land value must match or exceed the benchmark land value for the scheme to be viable.

Our approach is to establish a benchmark land value by assessing the current use value of the site, and comparing this with the residual land value of the proposed scheme.

4. Benchmark Land Value

The Applicant has provided us with a tenancy schedule dated December 2016 for the units to be demolished, Appendix I, which shows a gross rent of [REDACTED] inclusive of service charge and the ground rent; one unit is vacant.

The ground rent payable is equivalent to [REDACTED] of the rental value, equating to [REDACTED] pa.

CBRE on behalf of the Applicant has valued the units to be demolished as follows:

Table 1: CBRE Valuation

| | |
|--------------------|--|
| Gross Rent | |
| Net Rent | |
| ERV | |
| Capital Value | |
| Net Initial Yield | |
| Equivalent Yield | |
| Reversionary Yield | |

We are aware that in cases where redevelopment is imminent, retail units may be relet on shorter leases and at lower rents to allow flexibility. Assuming no development potential however, GVA has assumed that the units are relet on market terms.

We note that a number of the leases expire imminently. GVA has assumed reversion to market rent of £90 psf Zone A on expiry, and £100 psf Zone A on expiry of the smallest units (Units 21b, and 27b). We are aware that historically, Unit 23 has proved hard to let due to its location and size, and have assumed a six month reletting void, [REDACTED]

We have adopted an ERV of [REDACTED]

Shopping Centre Investment

UK shopping centre investment transactions totalled c£2.6bn in 2016, according to Property Data, a decrease of c£1.4bn from the previous year. The trend continued into 2017 with £358m in Q1, a c50% decrease from Q1 2016, although a number of centres remained under offer at the end of the quarter. Q1 2017 also saw the first quarterly decline in retail sales since 2013.

In the wake of the June 2016 Brexit result, supply failed to materialise as the funds either closed or focussed on the sale of more liquid stock, and sales from other parties were put on hold pending market stabilisation. Investors in shopping centres are becoming more selective, focussing on attractively priced assets sourced in off-market transactions.

The UK shopping centre development pipeline is marginally higher than the European average, but remains focussed on extensions and redevelopment. While 2017 got off to a slow start, GVA has a moderately optimistic view for the rest of the year.

The GVA yield guide shows that prime and secondary shopping centre yields have become increasingly polarised, with prime shopping centre yields remaining stable over the last 12 months, whilst dominant secondary centres saw some positive yield movement, and secondary shopping centre yields have seen outward movement (see below table).

Table 2: GVA Shopping Centre Yield Guide

| | Mar-16 | Mar-17 | Yield Trend |
|---|--------------|--------------|-----------------|
| Prime Shopping Centres (£200+ Zone A) | 4.25%-4.50% | 4.25%-4.50% | Stable |
| Dominant Secondary Shopping Centres (circa £100+ Zone A) | 5.00%-5.50% | 5.25%-5.75% | Stable/Negative |
| Secondary Shopping Centres (up to £100 Zone A) | 8.50%-10.00% | 8.75%-10.00% | Negative |

GVA has had regard to comparable shopping centre investment transactions in forming an opinion on the appropriate capitalisation rate, detailed below.

Table 3: Shopping Centre Investment Comparables

| Address | Date | Price | Yield | Tenants | Area Sq Ft |
|---|---------|---------|-------|---|------------|
| Exchange Shopping Centre, Ilford | Mar-17 | £78m | 6.7% | H&M, M&S, Next, River Island, TK Maxx | 300,000 |
| The Belfry Centre, Redhill | Jan-17 | £41.85m | 8.13% | O2, Card Factory, Robert Dyas, Timpson, M&S | 209,000 |
| Palace Exchange, Shopping Centre, Enfield | Nov -16 | £70m | 5.4% | Next, TK Maxx, H&M, River Island, New Look, TopShop | 160,000 |
| Red Rose Centre, Sutton Coldfield | Aug-16 | £10.4m | 7.4% | Sainsbury's, Wilko, Poundland | 101,000 |
| Whitefriars Shopping Centre (50%), Canterbury | Jul-16 | £80m | 6% | Fenwick, Boots, H&M, M&S | 600,000 |
| The Mall, Camberley | Jul-16 | £88.5m | 6.25% | House of Fraser, Primark | 390,000 |
| The Riverside Shopping Centre, Erith | Jun-16 | £17m | 8% | Argos, Matalan, Wilko | 200,000 |

| Address | Date | Price | Yield | Tenants | Area Sq Ft |
|-----------------------------------|--------|--------|-------|----------------------|------------|
| The Market Shopping Centre, Crewe | Jun-16 | £20.3m | 8.8% | Argos, Iceland | 154,000 |
| The Harpur Centre, Bedford | Jun-16 | £22m | 7.25% | Argos Primark, Boots | 200,000 |

Both CBRE and GVA have valued the units to be demolished on a standalone basis; the best method is to value the shopping centre both in its entirety and without the units to be demolished i.e. to establish the deprival value.

Having analysed the comparable transactions and having regard to factors affecting value, including location, tenant mix, and term certain, GVA has applied an equivalent yield of

■

A summary of the valuation is attached at Appendix II.

Table 4: GVA Valuation

| | |
|--|---|
| Gross Rent | ■ |
| Rent Net of Service Charge | |
| Rent Net of Service Charge and Ground Rent | |
| ERV | |
| ERV Net of Ground Rent | |
| Equivalent Yield | |
| Capital Value | |

The table below compares the GVA's valuation of the existing retail units with the Applicant's.

Table 5: Valuation Comparison

| | Applicant | GVA |
|------------------|-----------|-----|
| Net Rent | ■ | |
| ERV | | |
| Equivalent Yield | | |

Capital Value

Amenity Land

The site includes 0.59 ha (1.5 acres) of amenity land, being public open space. The Applicant's development agreement with the Council provides that the Applicant will be granted a 250 year lease over the both the amenity land and The Mall.

CBRE has valued the amenity land at [REDACTED]

We consider that the amenity land has no market value, and is potentially a liability; it has no book value. We have applied a nominal value [REDACTED].

Summary

As stated in the guidance, in establishing a benchmark based on existing use value, it is sometimes necessary to apply a premium reflecting the incentive required for the landowner to bring land forward for development. The Draft Affordable Housing and Viability SPG states that premiums above the existing use value should reflect the individual site and landowner circumstances, and could be between 10% and 30%.

In this case, the Mall stands to derive significant benefit from the proposed retail redevelopment, including increased interest from good quality tenants, increased rents and an enhanced investment value. The landowner, therefore, requires little or no incentive to release the land for development than if it stood to derive no benefit itself. Savills has noted that the Applicant has a vested interest in the redevelopment, and assessed the scheme against the EUV as well as the EUV plus a premium.

Table 6: Comparison of Benchmark Land Values

| | Savills | GVA |
|---------------------------------|------------|-----|
| Value of Units to be Demolished | [REDACTED] | |
| Value of Amenity Land | | |
| EUV | | |
| EUV + | | |

5. The Scheme

The scheme comprises 471 private sale residential units, and c 110,000 sq ft of commercial space, summarised below.

Table 7: 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 | 69.3 | 746 |

Table 8: Proposed Retail Accommodation

| Unit Type | No. of Units | Sq m | 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 |

6. Residential Sales Value

Residential Market

According to data from the Land Registry, house prices increased nationally by 1.6% in April, bringing annual house price growth to 5.6%, up from 4.5% in March. House prices fell for the third consecutive month in May as growth slowed to 2.1%, according to the Nationwide House Price Index. The average price of property in the UK is £220,094, in comparison with the average for London of £482,779.

According to the Land Registry data in Waltham Forest the average house price was £420,348 in April 2017, showing an annual increase of 2.34% at the all property level. The

Land Registry data also shows that the increase over the last 12 months has been largely the same for all forms of housing - detached, semi-detached, terraced and flats.

Comparable Residential Evidence

GVA has carried out a desktop review of the local residential market and contacted local agents in order to arrive at a view on likely sale prices for the residential units proposed as part of the development. Agents reported that the area has experienced improvement over recent years, and recently completed schemes have sold well. They noted in particular increasing demand for studio and 1 bedroom units, appealing to first time buyers attracted by the easy commute to central London.

In particular GVA has had regard to the following schemes in forming our opinion of value.

The Quant Building



The development was carried out as Permitted Development and comprises 60 residential units completed in Q3 2016. All the units were sold by the end of January 2016.

The Quant Building is located in close proximity to the subject site and benefits from transport links and amenities. Local agents advised that the scheme is located in a very popular area in close proximity to Walthamstow Village.

Asking prices ranged from £300,000 - £350,000 for one bedrooms (£666 - £700 psf) and £375,000 - £450,000 for two bedroom flats (£625 - £692 psf). Studios sold for £175,000 reflecting £735 psf. We note that as a PD scheme the units are markedly smaller than the proposed scheme, in some cases marketed as 'micro' flats.

Agents reported that demand for the scheme was excellent and that the units sold exceptionally quickly with no discount given.

Leyton Central



Leyton Central comprises a 3 to 6 storey development of 10,000 sq ft of B1 (artist studio) space and 116 residential units with basement parking.

55 units sold during Q2 2016, with 1 bedroom units priced from £555,000, 2 bedrooms units from £560,000, and 3 bedroom units from £700,000. £ psf values range from £644 - £1016 psf.

The scheme completed in Q4 2016 and some final units that had been held back by the developer were sold by December 2016.

The scheme has experienced strong demand and we understand that all units sold at the asking price. Similar to the proposed development this scheme benefits from proximity to an underground station (Leyton), though is closer to central London.

Banbury Park



The development comprises 349 residential units 12,000 sq ft of office space, 5,000 sq ft of forum and crèche space and 8,000 sq ft of retail space. The development is still on-going with 58 of the units sold by the end of Q1 2017. Completion of the final phase is due in Q3 2017.

We note that in comparison to the subject property, Banbury Park is in an inferior location, located to the North of the Walthamstow area, with a greater distance from train links as well as existing amenities.

The current pricing shows one bedroom flats at £345,000, 2 bedroom flats at £435,000, and an average sales rate of £537 psf.

Walthamstow Central



This scheme completed in Q1 2014 and sold out in Q3 2016 and an average capital value of £267,000.

The 34 private units comprised one and two bedroom flats over eight storeys. A separate block contained the affordable housing provision and a hotel.

Achieved prices reflected £371 to £436 psf and the scheme sold out within two months of launching.

We are aware that this scheme provides dated evidence, but have not found any resales evidence.

Savills Adopted Residential Sales Values

New build, high rise evidence is scarce in the immediate vicinity so Savills' values are untested. It has applied an uplift in the average value of c1-2% per floor, which is consistent with what we would expect. Having had regard to the comparable evidence and consulted agents in the area we are of the opinion that Savills' values are reasonable, as summarised below.

Table 9: Average Residential Sales Values

| | Savills Sales Value | GVA Sales Value |
|---------|------------------------|--------------------|
| Block B | | |
| Block C | | |

| | Savills Sales Value | GVA Sales Value |
|---------|------------------------|--------------------|
| Block D | | |
| Block E | | |

A further summary of values on a floor by floor basis is attached at Appendix III.

Ground Rents

The Development Agreement with the Council provides that the Council will receive the ground rents in lieu of a capital payment for the right to develop the residential accommodation.

We have excluded the income on the basis that the whole appraisal has effectively taken into account the ground rent payable.

7. Commercial Development Value

Retail Market

The UK economy shrugged off the immediate impact of the EU referendum result and economic growth in the second half of 2016 was broadly in line with the long-term trend (0.5% in Q3 and 0.7% in Q4). However, the second estimate for Q1 2017 slowed to 0.2%, the weakest performance since Q1 2016.

Trading conditions are becoming more challenging in 2017 than in recent years as prices are rising faster than earnings. Coupled with a slowing labour market, falling savings rates and a rise in unsecured lending, retail sales growth will slow substantially compared with last year. Indeed, the latest retail sales figures have weakened noticeably, with sales volumes rising by just 0.3% in February-April compared with the previous three months (although reversing a decline seen in the January-March figures).

Average UK shopping centre rental values are still nearly 20% below their 2008 peak, and have been broadly stable over the last year. However, there are sharp differences between prime and secondary centres.

With a combination of continued structural change, rising prices and wages falling in real terms, average rental growth is likely to remain subdued over the next two years. We forecast

all UK retail property to see average rental growth of 0.2-0.3% pa over the next two years, rising to circa 2% pa by 2021 (based on the IPD Annual Index). However, there will continue to be considerable variation across the market, and prime markets and locations will outperform.

Commercial GDV

Savills has applied advice from Jamieson Mills in its appraisal and adopted a Zone A rent of [REDACTED] for the retail space, [REDACTED] overall for the restaurant space, and [REDACTED] for the gym. Having taken advice from GVA's retail agency team and retail agents familiar with the area, we consider this appropriate. For retail units extending to the first floor, we consider an A/10 metric more appropriate than the A/20 metric adopted by Savills given that we assume the space will be good quality retail space in keeping with the rest of the development.

Under the existing lease, a ground rent is payable to the Council in relation to the retail units that will be demolished prior to construction. The ground rent payable is [REDACTED] equal to [REDACTED] of the rental value agreed for these units, [REDACTED]

Savills has assumed that this would be payable by any party carrying out the redevelopment, and has netted the ground rent off the ERV of the southern element of the proposed retail space. We consider this approach appropriate, summarised below, and detailed at Appendix IV.

Table 10: Commercial ERV

| | Proposed Use | ERV | |
|------------------|------------------|------------|-----|
| | | Savills | GVA |
| Northern Element | Restaurant/Gym | [REDACTED] | |
| Southern Element | Retail | | |
| | Less Ground Rent | | |
| | Net ERV | | |

GVA has adopted a rent free periods of [REDACTED] for the majority of the retail space, and [REDACTED]. Savills have adopted the same except for [REDACTED].

Both GVA and Savills have assumed [REDACTED] rent free for the restaurant space and [REDACTED] for the gym.

Savills has accounted for the incentives in its appraisal as a capital cost incurred at practical completion. For ease of comparison, GVA has adopted the same approach.

Savills has assumed that 85% of the commercial income would be secured by pre-lets with the remainder secured within 12 months. We consider this reasonable.

Savills has adopted a yield of [REDACTED] whilst GVA has applied [REDACTED]

8. Development Costs

Base Build Costs

Savills has provided [REDACTED] Cost Plan and Thomson & Adamson's subsequent Cost Review and Reconciliation document. Rider Levett Bucknall has been commissioned to carry out a review of the cost estimate, attached at Appendix V. Rider Levett Bucknall did not significantly disagree with the costings, although recommended that a new and comprehensive cost plan is undertaken to determine a fully robust cost basis for the proposed scheme.

Table 11: Build Costs

| Element | Total Cost | £/m² | £/ft² |
|---------------------------------|----------------|---------------|-------------|
| Residential Block B | £44.1m | £2,368 | £220 |
| Residential Block C | £31.3m | £2,357 | £219 |
| Residential Block D | £7.4m | £2,637 | £245 |
| Residential Block E | £3.5m | £2,830 | £263 |
| Retail South | £39.2m | £3,714 | £345 |
| Retail North | £4.3m | £1,345 | £125 |
| Total Construction Costs | £129.9m | £2,612 | £243 |
| Enabling Works | £1.5m | £30 | £3 |
| Total Project Cost | £131.4m | £2,642 | £245 |

CIL

Savills has indexed CIL based on BCIS data from April 2016, whilst GVA's indexation data is taken from July 2017.

Savills has inflated the CIL as detailed in the table below. GVA has applied no increase as the appraisal is based on current values and current costs.

Based on the floor areas provided to Barton Willmore by ESA/Collado Collins for the purposes of its CIL report, the CIL payable is assumed to be:

Table 12: CIL Costs

| | Savills | GVA |
|--------------|--------------|--------------|
| Borough CIL | £3.4m | £3.2m |
| Mayoral CIL | £1.2m | £1.1m |
| Total | £4.6m | £4.3m |

Table 13: CIL Indexation Dates

| | | Phase 1 | Phase 2 |
|---------|-------------|---------|---------|
| Savills | Mayoral CIL | Q1 2019 | Q3 2020 |
| | LBWF CIL | Q1 2019 | Q3 2020 |

S106

Savills has made no explicit allowance for Section 106 costs or contributions. We have also made no allowance but the Council will need to verify that this is correct.

Other Development Costs

Table 14: Other Development Costs

| Cost | Savills | GVA | Comment |
|------------------------------------|----------|----------|---|
| Third Party Abnormals | ██████ | ██████ | Estimate provided by Applicant |
| TfL Legal Costs | ██████ | ██████ | Estimate provided by Applicant |
| Carbon Offset | £1.1m | £1.1m | Estimate provided by Applicant |
| Costs of Gaining Vacant Possession | ██████ | ██████ | GVA has reviewed Savills' VP cost with GVA's lease consultancy team, and consider the total sum of £1.5m reasonable. We note that this includes contingency and tenant compensation by negotiation, which may be subject to change. |
| Section 278 Costs | £225,000 | £225,000 | Considered reasonable by Rider Levett Bucknall |
| Public Realm Costs | £4.0m | £4.0m | Considered reasonable by Rider Levett Bucknall |

Profit

Savills is targeting a profit of [REDACTED] on GDV.

We consider [REDACTED] profit on GDV to be higher than the market would expect and have adopted a target of [REDACTED] on GDV.

Finance

Savills has assumed a finance rate of 6.5%. We are of the opinion that this is appropriate.

9. Development Timing

Savills' report indicates an assumption that 60% of the residential units are sold off-plan, and at a rate of four units per months thereafter.

This assumption appears inconsistent with the positive market sentiment reported by local agents and what we would expect from a volume housebuilder like [REDACTED]

While the market is softening, a developer willing to commit to this form and scale of development is in our view likely to take a more positive view of the speed at which the flats can be sold. Therefore, GVA has assumed 70% of the units would be sold off-plan and has adopted a shorter timeframe.

Table 15: Timing Assumptions

| Event | Savills | | GVA | |
|----------------------------------|--------------------|----------------|--------------------|----------------|
| | Duration Months | Start Month | Duration Months | Start Month |
| Lead-In Period | 34 | 1 | 34 | 1 |
| Construction | 44 | 35 | 44 | 35 |
| Private Residential Sales Period | 52 | 30 | 43 | 30 |

10. Appraisal Assumptions

The table below summarises and compares the assumptions adopted by Savills and GVA.

Table 16: Appraisal Assumptions

| | Savills' Appraisal Assumptions | GVA's Appraisal Assumptions |
|------------------------------------|--------------------------------|-----------------------------|
| Revenue | | |
| Private Residential Block B | | |
| Private Residential Block C | | |
| Private Residential Block D | | |
| Private Residential Block E | | |
| Retail/Restaurant/Gym | | |
| Existing Income | | |
| Total Revenue (GDV) | | |
| Costs | | |
| Construction Cost | £129.9m | £129.9m |
| Enabling Works | £1.5m | £1.5m |
| Costs of Gaining Vacant Possession | | |
| Third Party Abnormals | | |
| Section 278 | £225,000 | £225,000 |
| Public Realm Costs | £4.0m | £4.0m |
| CIL | £4.6m | £4.4m |
| Carbon Offset Payment | £1.1m | £1.1m |
| TfL Legal Costs | £250,000 | £250,000 |

| | Savills' Appraisal Assumptions | GVA's Appraisal Assumptions |
|----------------------------|--------------------------------|-----------------------------|
| Retail Incentives | ■ | ■ |
| Marketing and Letting Fees | £2.5m | £2.5m |
| Professional Fees | £16.3m | £16.2m |
| Disposal Fees | ■ | ■ |
| Finance | ■ | ■ |
| Residual Land Value | ■ | ■ |
| Total Costs | £194.0m | £197.7m |
| Developer's Profit | ■ | ■ |

11. Appraisal Results

Below we summarise the results of our appraisal. A full summary of the appraisal is appended.

Table 17: Appraisal Results

| | Savills | GVA |
|----------------------|---------|-----|
| Benchmark Land Value | ■ | |
| Residual Land Value | | |
| Surplus | | |

Sensitivity Analysis was carried out to test the impact of varying construction cost psf and private residential sales values psf on Profit on Cost and Residual Land Value. The results are set out below.

Table 18: Sensitivity Analysis

| | | Sales: Rate p ² | | | | |
|--------------------------------------|---------|----------------------------|---------|--------|---------|---------|
| | | -6.000% | -3.000% | 0.000% | +3.000% | +6.000% |
| Construction: Rate p ² | -6.000% | | | | | |
| | -3.000% | | | | | |
| | 0.000% | | | | | |
| | +3.000% | | | | | |
| | +6.000% | | | | | |

12. Inflation/Growth

In addition to current values and current costs, we have run the appraisal with inflation and growth applied. Five year forecasts from Knight Frank, JLL and Savills are set out below. we have adopted an average growth rate of 2.8% pa.

Table 19: Residential Market Forecasts

| Forecast | 2017 | 2018 | 2019 | 2020 | 2021 | 2017-2021 | Average pa |
|--|--------|-------|-------|-------|-------|-----------|------------|
| Knight Frank London Residential Forecast | -1.50% | 2.50% | 3.00% | 3.00% | 4.00% | 11.00% | 2.20% |
| JLL Greater London Residential Forecasts | 1.00% | 2.00% | 3.00% | 5.00% | 7.00% | 18.00% | 3.60% |
| Savills Mainstream London Forecast | 0.00% | 3.00% | 4.50% | 2.00% | 1.00% | 10.50% | 2.10% |
| Savills Mainstream South East Forecast | 2.00% | 2.00% | 6.50% | 4.00% | 1.50% | 16.00% | 3.20% |

BCIS forecasts that build costs will rise 16.5% to 2021. We have applied 4.1% build cost inflation pa in our appraisal.

Table 20: Appraisal Results

| | Current Values Current Costs | Growth @ 2.8% Inflation @ 4.1% |
|----------------------|---------------------------------|-----------------------------------|
| Benchmark Land Value | | |
| Residual Land Value | | |
| Surplus | | |

13. Alternative Schemes

PRS

The Applicant has provided summary details of an appraisal based on the 471 residential units delivered as PRS rather than private sale. We understand the PRS GDV of [REDACTED] is based on the assumptions detailed below.

Table 21: PRS Assumptions

| | |
|-------------------------------|------------|
| Rent | [REDACTED] |
| Reduction for Operating Costs | [REDACTED] |
| Capitalisation Rate | [REDACTED] |
| Purchaser's Costs | [REDACTED] |
| GDV | [REDACTED] |

While we have not had time since receiving the appraisals to carry out a full analysis, we are of the opinion that the Applicant's assumptions are reasonable in respect of the PRS scheme.

502 Units

The Applicant has provided summary details of an appraisal based on 502 residential units (reflecting the maximum allowable), of which 4.5% are affordable. A summary of the inputs relating to the additional units is set out below.

Table 22: Additional Units

| | |
|------------------------------------|------------|
| Additional Private Units | 9 |
| Additional Private Sales Value | [REDACTED] |
| Additional Private Construction | £219 psf |
| Additional CIL | £88,025 |
| Additional Affordable Units | 22 |
| Additional Affordable Sales Value | [REDACTED] |
| Additional Affordable Construction | £219 psf |

Table 23: Comparison of Applicant's Appraisal Outputs

| | 471 Units 100% Private Sale | 502 Units 95.5% Private Sale 4.5% Affordable | 471 Units 100% PRS |
|-----------------|--------------------------------|--|-----------------------|
| Fixed Land Cost | ■ | ■ | ■ |
| Profit on Cost | ■ | ■ | ■ |

14. Summary and Conclusions

GVA has reviewed the Applicant's appraisal and assumptions, and makes the following observations.

1. Savills has run an appraisal to demonstrate that the scheme is not capable of generating an acceptable profit when its benchmark land value is adopted as a fixed land value;
2. We consider Savills' residential values to be reasonable. While we note that while strong comparable evidence is scarce and new build schemes in the area are low rise, the value uplift Savills has applied from floor to floor reflects unprecedented values in the area and is appropriate.
3. We note that the total build costs provided are in line with those expected for a scheme of this type, and have been reviewed by external cost experts Rider Levett Bucknall. They stated that the costs are towards the lower end of what they would expect and recommended a new and comprehensive report be commissioned;
4. We consider the proposed profit, ■ on cost, to be greater than that which is appropriate or required;
5. Our calculations showed scope for an affordable housing contribution in the region of ■ when compared to an EUV benchmark;
6. If we apply Savills' target profit level of ■ on cost, the residual land value reduces from ■ below our assessment of EUV;
7. We have adopted the EUV as the benchmark land value, which we consider to be ■. We do not consider that an incentive would be required to bring the land forward for retail development given that the rest of the Mall stands to benefit from the scheme. However, since the ground rents are to be retained by the Council, this

approach reflects limited incentive for the landowner to promote the residential element of the development. If a 20% premium is added to the EUV, the surplus is reduced from [REDACTED]

8. This viability assessment is based on a scheme of 471 units, although we understand that the possibility of a scheme of up to 600 units is being discussed.

Appendix I Tenancy Schedule

| Description | Current Tenant | Unit Size | Passing Rent | Service Charge Cap | Lease Start | Service Charge Inclusive | Service Charge | Net Rent |
|---------------------|------------------------------------|-----------|--------------|--------------------|-------------|--------------------------|----------------|----------|
| Store D | Poundland Limited | 10,086 | | | 05/08/2016 | | | |
| Unit 21 part | Dr Zhong Health Care Ltd. | 239 | | | 11/05/2016 | | | |
| Unit 21 part | Timpson Limited. | 242 | | | 03/01/2001 | | | |
| Unit 22 | Shoe Zone Retail Limited. | 3,315 | | | 08/08/2013 | | | |
| Unit 23 | British Heart Foundation. | 3,444 | | | 01/08/2015 | | | |
| Unit 27A | HM Desserts Ltd. | 389 | | | 01/09/2016 | | | |
| Unit 27B | Vacant | 294 | | | n/a | | | |
| Mall Cafe | Scoffs (Essex) Limited. | - | | | 23/05/2007 | | | |
| Currency Exchange | Currency Exchange Corporation Ltd. | - | | | 01/08/2016 | | | |
| ATM - Selborne Road | Notemachine UK Limited. | - | | | 01/11/2012 | | | |
| ATM 2 | Notemachine UK Limited. | - | | | 01/04/2012 | | | |
| | | Total | | | | | | |

Appendix II Valuation Summary

REPORT**Valuation Summary****GVA**

Report Date 17 July 2017
Valuation Date 07 July 2017

Property

Address HCP The Mall, Walthamstow, Walthamstow
File/Ref No

Gross Valuation
Capital Costs
Net Value Before Fees

Less Stamp Duty @6.00% of Net Value
Agents Fee @1.00% of Net Value
Legal Fee @0.50% of Net Value

Fees include non recoverable VAT @ 20.00 %
Net Valuation

Equivalent Yield
Initial Yield (Deemed)
Reversion Yield

Total Contracted Rent
Total Rental Value
Capital value per ft²

True Equivalent Yield
Initial Yield (Contracted)

Total Current Rent
No. Tenants

11

Running Yields**Date**

07-Jul-201
01-Aug-20
23-Nov-20
08-Aug-20
01-Feb-20
01-Sep-20
02-Jan-20
01-Mar-20
11-May-20
05-Aug-20
07-Jul-202
03-Dec-20

Yields bas

Portfolio: Alex Williams

CIRCLE VISUAL INVESTOR 2.50.048

REPORT**Valuation Summary****GVA****Report Date** 17 July 2017**Valuation Date** 07 July 2017**Tenants**

| Tenant name | File / Ref No | Next Review | Expiry Date | Current Rent | ERV Method | Cap.Group | Val.Meth. | Yield 1 | Yield 2 | Gross Val |
|--------------------------|---------------|-------------|-------------|--------------|------------|-------------------|-----------|---------|---------|-----------|
| Leasehold | | | | | | | | | | |
| Poundland Ltd | | | | | Rounded | Retail | Hardcore | | | |
| Dr Zhong Health Care Ltd | | | | | Unrounded | Retail | Hardcore | | | |
| Timpson Ltd | | | | | Unrounded | Retail | Hardcore | | | |
| Shoe Zone Ltd | | | | | Unrounded | Retail | Hardcore | | | |
| British Heart Foundation | | | | | Unrounded | Retail | Hardcore | | | |
| HM Desserts Ltd | | | | | Unrounded | Retail | Hardcore | | | |
| Vacant | | | | | Unrounded | Vacant Shop | Hardcore | | | |
| Scoffs (Essex) t/a Costa | | | | | Unrounded | Retail | Hardcore | | | |
| Currency Exchange | | | | | Manual | Sundry / licences | Hardcore | | | |
| Notemachine UK Ltd | | | | | Manual | Sundry / licences | Hardcore | | | |
| Notemachine UK Ltd | | | | | Manual | Sundry / licences | Hardcore | | | |
| Total | | | | | | | | | | |

Appendix III
Residential
Pricing
Summary

| Average Sales Values by Floor (£ psf) | | | | |
|---------------------------------------|---------|---------|---------|---------|
| Floor | Block B | Block C | Block D | Block E |
| 0 | | | | |
| 1 | | | | |
| 2 | | | | |
| 3 | | | | |
| 4 | | | | |
| 5 | | | | |
| 6 | | | | |
| 7 | | | | |
| 8 | | | | |
| 9 | | | | |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| 13 | | | | |
| 14 | | | | |
| 15 | | | | |
| 16 | | | | |
| 17 | | | | |
| 18 | | | | |
| 19 | | | | |
| 20 | | | | |
| 21 | | | | |
| 22 | | | | |
| 23 | | | | |
| 24 | | | | |
| 25 | | | | |
| 26 | | | | |

Appendix IV ERV Schedule

| Element | Unit | Use | Area (sq ft) | Total ITZA (sq ft) | Zone A £psf | Overall | ERV | Incentives Months | Incentives | ERV | ERV less Ground Rent | Incentives | Area (sq ft) |
|---------|-----------|----------------|--------------|--------------------|-------------|---------|-----|-------------------|------------|-----|----------------------|------------|--------------|
| South | 1 | A1 | 3598 | 1003 | | | | | | | | | |
| | 2 | A1 | 19202 | 2568 | | | | | | | | | |
| | 3 | A1 | 2404 | 880 | | | | | | | | | |
| | 4 | A1 | 2716 | 1012 | | | | | | | | | |
| | 5A | A1 | 2685 | 926 | | | | | | | | | |
| | 5B | A1 | 2764 | 926 | | | | | | | | | |
| | 5C | A1 | 3751 | 1080 | | | | | | | | | |
| | 6 | A1 | 3150 | 1004 | | | | | | | | | |
| | 7 | A1 | 4461 | 1448 | | | | | | | | | |
| | 8 | A1 | 520 | 520 | | | | | | | | | |
| | 9 | A1 | 27485 | 5190 | | | | | | | | | |
| | 10/11/12A | A1 | 11224 | - | | | | | | | | | |
| | 12B | A1/A2/A3/B1/D2 | 3839 | - | | | | | | | | | |
| | 13A | A1 | 2031 | - | | | | | | | | | |
| North | Rest 1 | A3 | 4240 | - | | | | | | | | | |
| | Rest 2 | A3 | 5070 | - | | | | | | | | | |
| | Rest 3 | A3 | 2313 | - | | | | | | | | | |
| | Rest 4 | A3 | 2641 | - | | | | | | | | | |
| | B1 | A1 | 509 | - | | | | | | | | | |
| | Gym | D2 | 5581 | - | | | | | | | | | |

Appendix V Cost Review

London Borough of Walthamstow

The Mall, Walthamstow

Cost Review

14 July 2017

Authorisation

This report has been prepared by



.....
Henry Letts MRICS

And authorised for issue by



.....
Steve Fernbank MRICS

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| 3 | Cost Review of Thomas & Adamson Cost Review | Page 7 |
| 4 | Conclusion | Page 19 |

Appendix A - Documents Register

Appendix B - T&A Queries and Responses

1.0 Introduction

- 1.1 RLB have been commissioned by London Borough of Walthamstow Forest to review [REDACTED] Plan 12, and Thomas & Adamson's (T&A) subsequent Cost Review and Reconciliation document for The Mall, Walthamstow. This review is based on limited information and a short timeframe.
- 1.2 This report also comprises a high level cost review of T&A's Cost Review and Reconciliation document dated 21 March 2017 for The Mall in Walthamstow. This document uses the total construction cost within [REDACTED] Cost Plan 12 dated 3 June 2016 as a starting point and then makes adjustments based on updated design information and a review of headline costs including contingency, contractor's OH&P and inflation. In producing this report we have therefore also undertaken a high level cost review of [REDACTED] Cost Plan 12. The [REDACTED] Cost Plan, based on a scheme which comprised of 463 apartments and extension of the existing Mall to provide additional retail space, results in a total construction cost of £120,441,843, equating to £247/sqft. Marketing costs, surveying and design fees, included in [REDACTED] Cost Plan, are excluded from this construction cost and from our analysis, since these costs fall outside of typical construction allowances and are not in our scope to review. The T&A Cost Review, based on a very similar revised scheme comprising of 471 apartments results in a total construction cost of £135,600,803, equating to £270/sqft. This total cost includes an inflation calculation from 2Q2016 to 1Q2017. All commentary within our report is with regard to rates related to those time periods.
- 1.3 We have assumed that the original development plan was for [REDACTED] to act as developer and contractor. Therefore as part of our assessment of the [REDACTED] Cost Plan we have assumed that the works will not be competitively tendered and that the [REDACTED] Cost Plan is based on [REDACTED] undertaking the construction directly. Professional Fees, VAT and S106 and 278 work and Inflation beyond 2Q2016 have not been included in the [REDACTED] Cost Plan.
- 1.4 As part of our assessment of the T&A Cost Review we have assumed that the works will now be procured through a single stage, competitive tender. Professional Fees, VAT and S106 work and Inflation beyond 1Q2017 have not been included in T&A Cost Review. S278 Work is included in the T&A Cost Review and we have provided some commentary against this.

- 1.5 The works consist of the extension of the existing mall built in 1988, to provide additional retail with residential accommodation above. The residential units are incorporated in 4 Blocks (B, C, D and E) ranging from 2 storeys to 26 storeys over podium level or 4 storeys to 28 storeys from ground. There are no affordable units noted; pricing for Blocks B and C is based on [REDACTED] [REDACTED] ation level, and for Blocks D and E [REDACTED] 'Shared Ownership' specification level. It would appear that the existing Basement is to be extended. The [REDACTED] Cost Plan separates the 'Residential' above podium cost from the 'Retail' below podium cost and the 'Retail' cost incorporates the whole substructure cost of the development.
- 1.6 This review is based on the following information provided by London Borough of Walthamstow Forest and T&A:-
- Information as detailed in Appendix A.
 - Responses to queries provided by T&A; see Appendix B.
 - We note the area schedules provided do not match the floor plans provided in all instances.
- 1.7 As agreed with London Borough of Walthamstow Forest no measurement has been undertaken by RLB and we cannot comment on the accuracy of [REDACTED] or T&A measures.
- 1.8 We note that, as advised by T&A, there are two architects working on this project: Collado Collins (CC) are involved in the high rise Blocks B and C, and ESA Architecture are undertaking the design for the remaining buildings.
- 1.9 Even though T&A have provided some guidance, generally it is unclear precisely what design information has been used to inform both the [REDACTED] Cost Plan and the T&A cost documentation. In addition there appears to be some contradictory design information, and some information that is missing altogether. We have highlighted issues in this regard in our report where applicable.

2.0 Overview of [REDACTED] Cost Plan

2.1 [REDACTED] Cost Plan Overview

- 2.1.1 T&A have produced a cost estimate which used the [REDACTED] Cost Plan as a starting point. In this section we have highlighted some key aspects regarding the cost plan prior to our cost assessment in the next section of our report.
- 2.1.2 Our cost review is based on limited information and private sales values have been obtained from the Savills Draft Viability Assessment Report dated 7 June 2017 at between [REDACTED]. These sales values generally indicate a medium specification.
- 2.1.3 The [REDACTED] Cost Plan includes a Common Residential Costs section comprising various costs deemed to be 'Site Wide'. In order to ascertain the full cost for each residential block, these costs have been apportioned pro rata to the GIA of each block and included within the overall costs for each block, with the exception of the surveying and design fees which we have excluded from our assessment as we would deem these to be client costs which are excluded from our benchmark construction cost data.
- 2.1.4 In order to benchmark the Residential Cost against our own cost data, we have removed the Substructure element from our own benchmarks to ensure that all costs are like for like.
- 2.1.5 We have reviewed the design characteristics for each of the Residential Blocks (above podium) using areas provided by [REDACTED] within their Cost Plan. RLB have not undertaken any measurement and cannot comment on the accuracy of [REDACTED] measures.
- 2.1.6 On review Blocks B and C are towers and have the following design characteristics:
- Single or double aspect apartments, no triple aspect apartments
 - 12 apartments per floor on Block B and 11 apartments per floor on block C served by a central core which is very efficient
 - Small to medium sized floor plates
 - Net to Gross is 83% for Block B and 81% for Block C which appears to be efficient
 - Floor to floor heights at 3.15m, typical for residential in Greater London
 - Wall to Floor ratio is 0.73 for Block B and 0.80 for Block C, relatively high
 - [REDACTED] [REDACTED] specification which is medium quality standard

2.0 Overview of [REDACTED] Cost Plan

2.1.7 Based on the design characteristics above we do not consider the design for Block B and C to result in the costs being outside our benchmark range. The Wall to Floor ratios are relatively high (efficiencies of 60-75% can be achieved with more economical plan shape) which will tend to push up the cost of the external walls.

2.1.8 Block D and E are low rise blocks of 4 and 5 storeys. Block D has the following design characteristics:

- Single, double and triple aspect apartments
- At podium level, 6 apartments served by a central core, plus refuse and storage space
- At first floor, 3 apartments served by a stairwell and 4 apartments served by a central core
- At second and third floors, 3 to 4 apartments per floor served by a central core
- Small floor plates
- Net to Gross is 59% (inefficient owing to significant portion of refuse/storage at low level)
- Floor to floor heights at 3.15m, typical for residential in Greater London
- Wall to Floor ratio of 0.78, relatively high
- All shared ownership apartments

2.1.9 Based on the characteristics above, this block is the least efficient, with a low Net to Gross ratio, high Wall to Floor ratio, and inclusion of triple aspect apartments. Despite the above, as a large portion of the area is refuse and storage space which appear to serve Blocks C and D and which is not included as NIA, we would expect the overall costs to be within our benchmark range.

2.1.10 Block E has the following design characteristics:

- Single and double aspect apartments, no triple aspect apartments
- 5 apartments per floor served by a central core
- Small floor plates
- Net to Gross is 79%
- Floor to floor heights at 3.15m, typical for residential in Greater London
- Wall to Floor ratio of 0.88, relatively high
- All shared ownership apartments

2.1.11 Based on the characteristics above we do not consider the design to Block E to result in the costs being outside our benchmark range. The Wall to Floor ratios are relatively high tending to push up the external wall costs.

2.0 Overview of [REDACTED] Cost Plan

2.2 Cost and Rate Appraisal

2.2.1 Generally the rates and allowances included within the [REDACTED] Cost Plan appear reasonable but at the lower end of the range we would typically expect. Without structural information indicating foundations design, floor slab thickness etc. and no specification we cannot comment further. We have highlighted below key areas which we believe may be either high or low.

2.2.2 We have based our assessment on recent rates sourced from competitively tendered schemes undertaken by a Main Contractor. We recognise that [REDACTED] as a volume house builder, would very likely benefit from buying gains and economies of scale in the procurement of their trades. Rates and prices that [REDACTED] can achieve are likely to be unachievable by most contractors and as [REDACTED] are no longer involved on the scheme and the works are to be competitively tendered, our comments are as follows:

- The rate for the rainscreen cladding is £400/m². We consider this to be at the lower end of the range for cladding costs.
- The rate for the facing brickwork to external walls works out to be £163/m². This is based on £400 per 1000 bricks which for the grey glazed bricks indicated in the planning presentation appears low. We would expect a rate of £250-£300/m² based on a brick supply cost of £600-£650 per 1000 bricks.
- Windows at £700/m² (Blocks B, C and D retail only) are above the expected range. Windows elsewhere are £550/m² which is more reasonable.
- At £5,200 per unit the allowance included for kitchens appears low. We would expect costs in the region of £6,500 for Studios to £9,500 for 2 bed units
- Allowances for Mechanical, Electrical and Public Health installations appear light at between £34,100 to £43,500 per unit or £373 - £511 per m². We would expect costs at between £45,000 to £55,000 per unit.
- Assuming 13 person passenger lifts with bespoke finishes and travelling speed of 4m/s, allowances for lifts to Blocks B and C (the towers) appear light at £242,000 and £260,000 (fire lift) for Block B (30 stops) and £221,000 and £237,000 (fire lift) for Block C (25 stops). Based on recent tender prices we have received we would anticipate costs to be circa £545,000 and £570,000 (fire lift) for Block B (30 stops) and £520,000 and £545,000 (fire lift) for Block C (25 stops).

2.0 Overview of [REDACTED] Cost Plan

2.3 Clarifications

2.3.1 The [REDACTED] Cost Plan does not schedule the basis, assumptions or exclusions. We have assumed that the following are excluded, and have undertaken our review on this basis:

General

- Inflation to start on site
- Inflation during construction
- VAT
- Professional Fees
- Legal fees
- Finance charges
- Planning and Building Regulation fees and charges
- Surveys and Investigations
- Community Infrastructure Levy charges
- Removal of asbestos and contaminated materials

Residential Specific

- Comfort Cooling to apartments
- Loose fixtures, fittings and equipment
- Gym equipment

Retail Specific

- Retail fit-out - (Shell and Core included only)
- Permanent Shop fronts
- Tenant escalators, lifts and stairs
- Works or refurbishment of the existing mall

3.0 Cost Review of T&A Cost Review and Reconciliation

3.1 High level cost review introduction

3.1.1 T&A have produced a Cost Review and Reconciliation document which uses the [REDACTED] Cost Plan as a starting point and then makes adjustments in order to come to a revised total figure. In order to benchmark the T&A costs against both the [REDACTED] costs and our own benchmarking data we have allocated the costs within this document as necessary into Residential, Retail, Substructure, Demolition, Landscaping, Services Diversions, OH&P, Preliminaries, Contingency and Inflation.

3.1.2 T&A's Cost Review and Reconciliation document includes cost adjustments from two other documents, the T&A Cost Plan Review November 2016 and the subsequent Cost Movement Tracking (Revision D) document dated 2 March 2017. We have provided some brief commentary against these documents

3.1.3 Note all comments in this Section 3 of the report are subject to the same clarifications as noted in the previous Section 2.3.

3.2 T&A Cost Review and Reconciliation 21.03.17

3.2.1 T&A have undertaken a high level cost review and reconciliation. In order to align their costs to typical construction allowances they have deducted the [REDACTED] allowances for fees and marketing costs. They have included a provisional sum for retail shell specification enhancements, revised the contingency allowance, added in the cost adjustments discussed in Paragraph 3.1.2 above, added contractor's profit and included inflation to 1Q2017 in order to bring the costs to current day. The cost adjustments are summarised below:

| | Total Cost £ |
|---|---------------------|
| [REDACTED] Cost Plan 12 | 132,857,706 |
| Deduct Fees | -9,891,627 |
| Deduct Marketing | -1,791,429 |
| Deduct Contingency | -5,472,915 |
| Add Retail shell specification enhancements | 2,000,000 |
| Add costs as T&A November Cost Plan | 960,337 |
| Add costs as T&A Cost Tracker | 648,289 |
| Add Contingency (7.5%) | 8,948,277 |
| Add Contractor's Profit (5%) | 6,412,932 |
| Add Inflation to 1Q2017 | 929,234 |
| | 135,600,803 |

3.0 Cost Review of T&A Cost Review and Reconciliation

3.2.2 We comment on each line item as follows:

3.2.3 ████████████████████ Cost Plan 12

This is the total figure included in the ██████████ Cost Plan, adjusted for inflation to 2Q2016.

3.2.4 Deduct Fees

The figure deducted is as per the ██████████ Cost Plan. We agree that this figure should be deducted when assessing construction costs and as noted previously we had already deducted it from all reported construction costs throughout this report in order to benchmark the construction costs.

3.2.5 Deduct Marketing

Same comments as the Deduct Fees figure.

3.2.6 Deduct Contingency

This is the total contingency figure included in the ██████████ Cost Plan. T&A have advised that this figure was deducted as the ██████████ Contingency calculation is complicated and a revised allowance was deemed more suitable.

3.2.7 Add Retail shell specification enhancements

This is a provisional allowance inputted to cover for the various specification enhancements required by some of the tenants at The Mall. T&A have advised that the main two retailers that this applies to are ██████████ however there are a number of other retailers that it applies to. T&A have undertaken an assessment of the additional requirements and are of the opinion that ██████████ is a reasonable figure to cover the works required. We have been provided with a breakdown of the costed ██████████ enhancements, totalling circa ██████████ and which appear logical. We have not been provided with a breakdown for the remaining cost items and at this stage cannot provide any further commentary.

3.0 Cost Review of T&A Cost Review and Reconciliation

3.2.8 Add costs as T&A November Cost Plan

T&A's cost adjustments within this document are based in part on updates to the design since the issue of [REDACTED] Cost Plan, and in part on revised measurements undertaken by T&A which replace [REDACTED] original measurements.

We have not been provided with a definitive list of the updated information used to inform the T&A Cost Plan, however please refer to Appendix A for information we understand was used to inform the Cost Plan. There are two sets of information here which are contradictory - CC information which shows 474nr units in total and ESA information which shows 471 units in total. Key changes include:

- Addition of 8nr units (CC information) or 11nr units (ESA information)
- Increased slab area to B, C and D retail
- Additional balconies throughout
- Increased areas throughout with the exception of Retail Block which is reduced
- Various adjustments to elevations

T&A have priced the changes in the sum of £960,337 which includes preliminaries and contingency. Rates used by T&A are the same as those used by [REDACTED]. Generally the items seem to reflect the changes shown on the drawings. There are a few key items which do not seem to match the revised drawings or floor plans, including adjustments to foul water drainage, in situ concrete floors and frame, external brickwork and scaffolding. This may be due to a remeasure undertaken by T&A providing figures which are not easily reconciled with the [REDACTED] figures, or due to design information which we have not been provided with, for example the ESA revised area schedules. Nevertheless it might be advisable to review the quantities within this document.

We note that surveying and design fees are included in this figure and need to be omitted for consistency. Omitting this figure would reduce overall costs by circa £150,000 when contingency, profit and inflation adjustments are taken into consideration.

3.0 Cost Review of T&A Cost Review and Reconciliation

3.2.9 Add costs as T&A Cost Tracker

Subsequently to the T&A Cost Plan, T&A have produced a cost tracking document to track the design development from November 2016 to March 2017. Headline changes include:

- Changes resulting from revised area schedule
- Revised landscaping design
- S278 Works information
- Cladding and architectural fins

The T&A cost adjustments resulting from the revised area schedule are applicable only to Blocks C and D. We are unclear why there are no changes to Block E since this block has also reduced in area. We note that the adjustments based on changes of units do not seem to match the changes between the area schedules which we have: the T&A adjustments allow for 6nr 1 bed units to be replaced with 6nr 2 bed units to Block D, however the differences shown for Block D between the CC Area Schedule from November 2016 and December 2016 show 1nr additional 1b2p unit, 1nr additional 2b4p unit and 1nr additional 3b6p unit. In addition the T&A cost adjustments do not appear to pick up any of the costs associated with changes in GIA e.g. revised floor slab areas. Cost adjustments are solely related to changes in numbers of units. We would recommend this is reviewed.

We have not been provided with the updated landscaping design information on which T&A's cost adjustments have been made. We have reviewed the rates which seem reasonable for the work described in lieu of any specifications. The S278 items included appear to be in accordance with the design information. We have not undertaken check measures. We have reviewed the rates used by T&A which generally seem reasonable for the works proposed.

Rate changes to cladding and architectural fins have been applied following, we understand, market testing. We do not have the specifications for these items so we cannot comment further. We note that the adjustments to the cladding rate appear to have been applied to Block D only and we are unclear why the rates for other blocks have not been adjusted.

We note, T&A's Cost Tracker also includes cost additions for demolishing the Natwest bank and relocating the shop mobility office area. We understand from T&A that these items are no longer applicable and they have subsequently been excluded from T&A's Cost Review and Reconciliation and thus have also been excluded from our review.

3.0 Cost Review of T&A Cost Review and Reconciliation

3.2.10 Add Contingency (7.5%)

The [REDACTED] Cost Plan included a contingency allowance of 4% for housebuild items and 5% for all remaining items. T&A are of the opinion that 7.5% across the whole works is a more suitable allowance. We would concur with increasing the contingency allowance, and given the complexity of some of the work and the high number of unknowns at this stage a contingency allowance of 10% might be considered.

3.2.11 Add Contractor's Profit (5%)

[REDACTED] Cost Plan shows construction costs exclusive of OH&P on net construction cost. This assumes that [REDACTED] will be Contractor/Developer and that they will obtain profit from sales revenue. We understand that the development model has now changed. As the Contractor will not now be Developer, the Contractors will need to include OH&P within the construction costs. T&A have allowed 5% which we would agree is appropriate in the current market.

3.2.12 Add Inflation to 1Q2017

Inflation has been added from 2Q2016 to 1Q2017. As noted above we would query whether a calculation from 1Q2016 would be more suitable. T&A have used a percentage adjustment of 0.69%. Currently the percentage adjustment for TPI on the BCIS is 0.71%. We deem this allowance to be reasonable.

3.3 T&A Cost Review Benchmarking

3.3.1 Updated Area Schedule Information

The differences between the GIAs that the [REDACTED] and T&A costs are based on are summarised below:

| | T&A (m2) | [REDACTED] (m2) | Difference (m2) |
|--------------------------|---------------------|------------------------|------------------------|
| Blocks B, C and D Retail | 8,577 | 8,326 | 251 |
| Block E Retail | 2,044 | 3,430 | -1,386 |
| Block B - 28 floor | 18,635 | 16,831 | 1,804 |
| Block C - 21 floor | 13,296 | 12,738 | 558 |
| Block D - 5 floor | 2,816 | 2,796 | 20 |
| Block E - 4 floor | 1,253 | 1,272 | -19 |
| Total | 46,621 | 45,393 | 1,228 |

3.0 Cost Review of T&A Cost Review and Reconciliation

The differences in the number of units that the [REDACTED] and T&A costs are based on are summarised below:

| | T&A | [REDACTED] | Difference |
|--------------------|----------------|-------------------|-------------------|
| Block B - 28 floor | 261 | 252 | 9 |
| Block C - 21 floor | 168 | 172 | -4 |
| Block D - 5 floor | 27 | 24 | 3 |
| Block E - 4 floor | 15 | 15 | 0 |
| Total | 471 | 463 | 8 |

We have listed the information provided by T&A, which we understand has been used to inform the T&A Cost Review, in Appendix A. We gather from this information that the design has remained largely similar to previously. We have assumed that key design aspects as summarised in Section 2.1 of this report have remained the same.

3.3.2 Residential Costs

T&A's Residential costs excluding Substructure and Landscaping but including Preliminaries, Main Contractors OH&P, Contingency and Inflation to 2Q2016 are shown below. In addition we have included [REDACTED] £/sqft, updated to 1Q2017.

| | T&A Total Cost £ | T&A £/sqft | [REDACTED] £/sqft | RLB Benchmark £/sqft |
|--------------------|-------------------------------------|-----------------------|------------------------------|-------------------------------------|
| Block B - 28 floor | 46,548,690 | £232 | £229 | 260-290 |
| Block C - 21 floor | 33,341,444 | £233 | £227 | 250-280 |
| Block D - 5 floor | 7,635,751 | £252 | £220 | 220-250 |
| Block E - 4 floor | 3,716,525 | £276 | £261 | 220-250 |
| Total | 91,242,410 | £235 | £229 | |

T&A £/sqft allowances are higher than [REDACTED] comparable 1Q2017 rates. This is due to the additional contingency allowances, addition of OH&P and other adjustments as noted above.

3.0 Cost Review of T&A Cost Review and Reconciliation

Blocks B and C fall well below our benchmark range. As noted in Section 2.1 of this report we would anticipate costs for Block B and C to fall within our benchmark range. If selecting from Contractors who are not volume house builders and are not taking development profit, we would expect rates to be higher than [REDACTED] which might explain in part why costs are lower than expected.

Block D is over our benchmark range, and Block E is well over despite [REDACTED] competitive rates being used. We note that the costs for Block E include a high £/sqft for in situ concrete frame which is significantly higher than the other blocks, and a high £/sqft for external cladding which is more than double the other blocks. Whilst we appreciate there is some additional detailing allowed here, these allowances appear to be inflated and are driving the cost well over our benchmark.

Block D and E both have high Wall to Floor ratio and other design inefficiencies. We would not these aspects to increase costs above our benchmark range.

There is a significant disparity between T&A's updated costs and our benchmark figures. We would anticipate towers to be significantly more expensive than low rise blocks, however the opposite is the case here. It is possible that the way [REDACTED] have allocated various costs could be skewing the figures. With the available information and timescales it is difficult to comment further or draw any conclusions.

We have shown below the cost impact, if the lower and upper ends of our benchmark ranges were applied.

| | GIA sqft | Total Revised Cost £ (lower range) | Total Revised Cost £ (upper range) |
|----------------|-----------------|---|---|
| Block B | 200,590 | £5,600,000 | £11,620,000 |
| Block C | 143,113 | £2,440,000 | £6,730,000 |
| Block D | 30,311 | -£970,000 | -£60,000 |
| Block E | 13,488 | -£750,000 | -£340,000 |
| Total | 387,501 | £6,320,000 | £17,950,000 |

3.0 Cost Review of T&A Cost Review and Reconciliation

The above table highlights that there could potentially be a significant increase in construction cost for the residential buildings compared with the current allowances.

3.3.3 Retail - below podium

The Demolition, Services Diversions, Substructure/Basement and Landscaping costs are included by [REDACTED] within the Retail section of their Cost Plan. As the Substructure is applicable to the whole development it over inflates the Retail cost. We have therefore extracted this cost out when reviewing the Retail and have reviewed the Substructure cost separately.

If the Demolition, Services Diversions, Substructure/Basement and Landscaping cost were excluded from retail costs within the T&A Cost Review, the costs would be as follows:

| | GIA m2 | T&A Total Cost £ | T&A £/sqft | [REDACTED] £/sqft |
|-------------------|---------------|---------------------------------|-----------------------|------------------------------|
| Blocks B, C and D | 8,577 | 21,199,404 | 230 | 200 |
| Block E | 2,044 | 2,481,348 | 113 | 93 |
| Total | 10,621 | 23,680,752 | 207 | 169 |

Note we have grouped Blocks B, C and D as the retail space beneath these blocks forms a single building and the associated costs have been grouped together in the [REDACTED] Cost Plan.

T&A have confirmed retail costs include for 'shell and core', plus [REDACTED] additional allowance for specific tenant shell and core enhancements. The retail shell is simple and the units are large.

The T&A costs are showing an uplift against the [REDACTED] costs which have been updated for inflation to 1Q2017. This is as expected due to the [REDACTED] additional retail enhancements included by T&A, plus the additional contingency and profit allowances.

3.0 Cost Review of T&A Cost Review and Reconciliation

There appears to be an anomaly, in that the £/sqft for Blocks B, C and D is £230/sqft but for Block E is £113/sqft. It is unclear what is causing this large disparity, and it could be associated with how [REDACTED] have originally allocated costs, however we would recommend a remeasure. Since we cannot determine for certain how this anomaly has arisen we have based our analysis on the costs that we have been provided, rather than trying to second guess any revised costings which may be applicable.

Based on the above, we would expect that the construction cost of shell and core retail space, excluding substructure, to be between £120 - £160 / sqft however this scheme includes tenant enhancements, and will have to include works to join the existing structure to the new structure and make good the existing mall locally where these works have been undertaken. In consideration of this we are of the opinion that the overall cost at £207/sqft appears reasonable.

3.3.4 Substructure and Basement Construction

Substructure costs are included in the Retail sections of the [REDACTED] Cost Plan and we have extracted them for the purpose of our assessment. There is an existing basement beneath the Blocks B, C and D retail space, which is to be extended. There is no existing or proposed basement beneath the Block E rental space.

T&A's effective cost for the Sub-structure is £8,029,318 excluding Preliminaries and Contingency. It is difficult to assess whether this is reasonable and reflective of the scope, as there are no Structural drawings or information to indicate how the existing basement joins the new basement. The costs include piled foundations for Blocks B, C and D which we would expect on a scheme of this nature, but include a 600mm raft slab for Block E which is four storeys high. Without design input from a structural engineer we cannot comment any further.

As a cost per m2 over the Total retail and residential GIA, the Substructure could be calculated as follows:

| | Total Cost £ | GIA m2 | T&A £/m2 | [REDACTED] £/sqft |
|-------------------|-------------------------|-------------------|---------------------|--------------------------|
| Blocks B, C and D | 7,674,806 | 43,324 | 177 | 180 |
| Block E | 354,513 | 3,297 | 108 | 84 |

3.0 Cost Review of T&A Cost Review and Reconciliation

The substructure for Blocks B, C and D equates to £177/m² over the total GIA excluding preliminaries and contingency, which compares with the [REDACTED] figure of £180/m². For other new build schemes we would typically expect a cost of between £120 to £150/m² for this element, excluding any basement construction. The additional complexity of extending the existing basement, adjacent to an existing operational shopping mall, would add abnormal costs above the 'normal' range. Additional propping, underpinning and preliminaries etc. will be required and we would highlight that there is a risk that the T&A allowance may not be sufficient.

[REDACTED] substructure cost for Block E equates to £108/m² over the total GIA of the development excluding preliminaries and contingency. This equates to circa £280/m² based on the building footprint. This is at the lower end of the range and there is a risk it may not be sufficient subject to confirmation of substructure design.

3.3.5 Demolition

[REDACTED] allowed a figure of £2,626,375 for demolitions for the entire project excluding preliminaries, contingency and inflation. T&A have not amended this allowance so effectively the same allowance stands, albeit with an additional allowance for OH&P. We are in receipt of ESA's drawing 10061 SK EX P Demolition dated 2 June 2016 which we understand reflects the extent of demolition priced by [REDACTED]. Based on the extent of demolition shown on this drawing, overall demolition equates to circa £90/m³, assuming demolition from ground and first floor only. This allowance seems more than sufficient, however without further design information, knowledge of specific site characteristics and intended methodology for the works it is difficult to comment accurately.

3.3.6 Landscaping

The bulk of the hard and soft landscaping costs are included in a single provisional sum of £2,750,000 under the Blocks B, C and D section of the [REDACTED] Cost Plan, equating to circa £370/m² of the external works area which appears reasonable subject to confirmation of specification. T&A have omitted this allowance in their Cost Tracking document and undertaken a more detailed estimate, resulting in an overall addition of £601,037 excluding preliminaries and contingency. This rates used appear reasonable but without further details of the revised landscaping proposal we cannot provide further commentary.

3.0 Cost Review of T&A Cost Review and Reconciliation

3.3.7 Services Diversions

Services diversions are priced entirely under the Blocks B, C and D section of the [REDACTED] Cost Plan, in the sum of £975,000 excluding preliminaries, contingency and inflation. T&A have not updated this allowance. Without details of the scope of works and quotes from the utilities companies we cannot comment accurately on the allowances here.

3.3.8 Overheads and Profit

The [REDACTED] Cost Plan does not make any allowance for Main Contractor's Overheads and Profit as [REDACTED] would be acting as Developer and would obtain profit from sales revenue. In order to allow for an open market, competitive tender T&A have included a 5% addition for OH&P. We view this as a reasonable allowance for OH&P which reflects the current market.

3.3.9 Preliminaries

Given the potential constraints and challenges of demolishing and rebuilding in a live town centre environment, we would expect the cost to be in the region of 18-20% of the net building cost. The effect of T&A adjustments to [REDACTED] Cost Plan results in Preliminaries, which, including Scaffolding, equates to circa 20% which is at the upper end of our anticipated range.

3.3.10 Contingency

[REDACTED] have included a total of 5% Contingency to all cost items with the exception of the housebuild for which they have included a 4% Contingency. T&A have revised this figure to 7.5% which we view as sensible. Given the early stage of design and high number of unknowns at this stage we would recommend a Contingency of 7.5-10%.

3.3.11 Inflation

[REDACTED] inflation adjustment for 1Q2016 to 2Q2016 is 1.46% x 0.83, which equates to an adjustment of 1.21%. T&A have advised that it is their understanding that [REDACTED] applied a notional adjustment to take account of the fact that their overall budget included non construction related expenditure (fees, marketing etc.).

T&A have subsequently added inflation from 2Q2016 to 1Q2017. T&A have used a percentage adjustment of 0.69%. Currently the percentage adjustment for TPI on the BCIS is 0.71%. We deem this allowance to be reasonable.

3.0 Cost Review of T&A Cost Review and Reconciliation

We have received Padstone Consulting's Development Programme Rev D dated 02.03.17, which indicates a construction period commencing in March 2019 and completing in 16 June 2023. There is no allowance in the T&A Cost Plan for inflation beyond 1Q2017, however actual costs will be impacted by inflation in the period and should be considered going forward.

3.3.12 Summary of Cost Adjustments

The above cost adjustments result in a revised overall cost of £135,600,803 which equates to £270/sqft based on CC Area Schedule dated 08.12.16 and the retail areas provided by T&A in their November Cost Plan. This cost could be light (based on 1Q2017 figures), given that the allowances are based on [REDACTED] highly competitive rates, and is subject to actual design development and specification. There are some cost significant items which have not been specified yet such as the foundations/piling, frame, cladding/facades and services.

4.0 Conclusion

4.0.1 Following our review of the [REDACTED] Cost Plan and the subsequent T&A Cost Review and Reconciliation document, we have summarised our position below.

4.1 Summary of T&A Cost Plan Review

4.1.1 T&A have used as a starting point the [REDACTED] Cost Plan and then made adjustments based on revised design information and revised allowances for contingency, OH&P and inflation. In addition, T&A have used [REDACTED] rates in calculating costs for subsequent design developments. There is an inherent issue with using the [REDACTED] Cost Plan as a starting point, firstly because it is not clear what information was used as a basis for this Cost Plan, and secondly because [REDACTED] as a volume house builder, are able to achieve significant buying discounts through economies of scale that are not available to most contractors.

4.1.2 In order to benchmark the T&A adjusted costs against our in-house benchmark data, we have split the costs into Residential, Retail, Substructure, Demolition, Landscaping, Services Diversions, OH&P, Preliminaries, Contingency and Inflation. We summarise our review as follows:

- Tower costs are well below our benchmarks and low rise costs are slightly over our benchmarks. Since the towers make up the majority of the build, we would expect the residential costs to be higher than shown by T&A. Adjusting costs using the lower and upper ends of our benchmark ranges indicates a potential cost uplift range of £6.326M - £17.95M.
- The overall cost for retail of £207/sqft appears reasonable, although we have been unable to undertake a proper assessment of the tenant shell and core enhancements for which T&A have included a provisional sum of £2M. We note however that there is an anomaly in that the £/sqft for the Blocks B, C and D retail is more than double the Block E £/sqft. We would recommend that this is reviewed.
- Given the requirement for basement extension the allowance for the substructure to Blocks B, C and D could be light but we require further information to assess any further. The substructure allowance for Block E is at the lower end of the range we would expect for raft slab construction.
- Demolition and landscaping costs appear reasonable subject to confirmation of scope.
- We have not seen any quotes for services diversions and cannot comment on the suitability of allowances currently in place.
- OH&P at 5% is a reasonable allowance that reflects the current market.
- Preliminaries at 20% is at the upper end of what we might expect for a project of this nature but is not unreasonable. This may be exaggerated by [REDACTED] low build costs.
- Contingency at 7.5% seems reasonable, however we would consider allowing 10%.
- Inflation allowances seem reasonable.

4.0 Conclusion

4.1.4 T&A's cost adjustments result in a revised overall cost of £135.6M which equates to £270/sqft. This cost appears light (based on 1Q2017 figures) when compared with our in-house benchmarks, particularly with regards to the residential and substructure build elements. Our review is based on the information that has been provided by T&A but we note that this appears to be incomplete and in some cases contradictory. Further clarification of the project information is needed for us to provide more accurate advice.

4.2 Final Commentary

- 4.2.1 [REDACTED] Cost Plan does not list the information which their costs are built on. It also assumes that as they will be Contractor/Developer, OH&P will be covered by sales revenue and not added to net construction cost. As [REDACTED] are a volume house builder the discounts they will obtain through buying power and economies of scale will not be procurable by most main contractors. For these reasons we think an uplift should be added to [REDACTED] costs.
- 4.2.2 The £/sqft of Tower Blocks B and C are significantly lower than for the Low Rise Blocks D and E, which should not be the case as towers are significantly more costly to build. The tower costs also fall well below our benchmark range. The £/sqft for Block E is well over our benchmark range and for Block D falls just over. There appears to be some anomalies in the pricing for Block E.
- 4.2.3 Even though the overall £/sqft for Retail appears reasonable, the £/sqft of the Retail to Blocks B, C and D is more than double that of the Retail to Block E. This may be due to the way that [REDACTED] have allocated costs.
- 4.2.4 T&A have used the [REDACTED] Cost Plan as a starting point which is problematic since it includes low rates from a volume house builder which may not be comparable with tenders from typical residential main contractors. In addition the Cost Plan includes some significant disparities in the £/sqft figures, and it is unclear what information [REDACTED] have used in producing their Cost Plan.
- 4.2.5 We would recommend a new, comprehensive cost plan is undertaken in order to determine a robust cost basis for the proposed works.

Appendix A

Documents Register

Appendix A - Documents Register

| Document Name | Revision | Date | Number |
|---|---|--|--|
| General Documentation | | | |
| Padstone Consulting Summary Development Programme - DRAFT | D | 02.03.17 | |
| Savills Viability Assessment Report | Draft | 07.05.17 | |
| Capita Landscape Masterplan (1 of 2) | - | Feb-17 | 063065-L104 |
| Documents Applicable to [REDACTED] Cost Plan 12 | | | |
| [REDACTED] Cost Plan 12 - The Mall, Walthamstow, including: The Mall Walthamstow - Block B Works up to podium under blocks B, C & D The Mall Walthamstow - Block C The Mall Walthamstow - Block D The Mall Walthamstow - Block E Retail The Mall Walthamstow - Block E The Mall Walthamstow - Common Residential Costs The Mall Walthamstow - summary 463 units | | 03.06.16 | |
| ESA Demolition Drawing Elevation Townsquare Split Scheme Upper Car Park Plan Mall Level BHS Existing BHS First Floor Layout Mezzanine Level Block E Residential Layouts Section AA Diagram Section BB Diagram Section CC Diagram Section DD/EE/FF Diagrams | A A G K K - A E E E B | 02.06.16 Oct-15 08.10.15 24.11.15 06.11.15 09.10.15 13.06.16 Dec-15 Dec-15 Dec-15 Oct-15 | 10061_SK_EX_P_Demolition SK_E_PR_Elevation SK_P_PR Split Scheme_01 SK_P_SplitScheme_00_Retail Split Option_08 SK_P_SplitScheme_01_Retail Split Option_08 SK_P_SplitScheme_Mezzanine_Level 10061_SK_PR_P_Block E_Residential SK_S_PR_AA_GL SK_S_PR_BB_GL SK_S_PR_CC_GLDE SK_S_PR_DD to FF_GL |
| Collado Collins Architects Residential Podium Sketch Proposal Residential 1st Floor Sketch Residential 2nd Floor Sketch Residential 3rd Floor Sketch Residential 4th Floor Sketch Residential 11th Floor Sketch Residential 15th Floor Sketch Residential 17th Floor Sketch Residential 18th Floor Sketch Residential 20th Floor Sketch Residential 21st Floor Sketch Residential 23rd Floor Sketch Residential 24th Floor Sketch Residential 26th Floor Sketch Residential Roof Plan | - - - - - - - - - - - - - - - - | 10.01.15 10.05.15 10.06.15 10.07.15 10.07.15 10.01.15 10.07.15 08.10.15 10.08.15 10.08.15 10.08.15 10.08.15 10.08.15 08.10.15 08.10.15 | 14085.SK-108 14085.SK-109 14085.SK-110 14085.SK-111 14085.SK-112 14085.SK-113 14085.SK-114 14085.SK-115 14085.SK-116 14085.SK-117 14085.SK-118 14085.SK-119 14085.SK-120 14085.SK-121 14085.SK-122 |
| Documents Applicable to T&A Cost Movement Tracking (Revision D) | | | |
| Thomas & Adamson Cost Plan Review November 2016, The Mall Refurbishment, Walthamstow Cost Movement Tracking Cost Review and Reconciliation, The Mall Refurbishment and Extension, Walthamstow [REDACTED] Cost Review [REDACTED] Cost Review | - D - F D | 29.11.16 02.03.17 21.03.17 12.12.16 12.09.16 | L8698QS - L8698QS - - |
| ESA Low Rise Residential Floor Plans SITE BLOCK PLAN PROPOSED BASEMENT CAR PARK PLAN PROPOSED GROUND FLOOR PLAN PROPOSED FIRST FLOOR PLAN PROPOSED SECOND FLOOR PLAN PROPOSED PODIUM PLAN LOW RISE RESIDENTIAL FLOOR PLANS PROPOSED EAST ELEVATION PROPOSED SOUTH ELEVATION PROPOSED ELEVATIONS MALL ELEVATIONS PROPOSED SECTIONS A & B PROPOSED SECTIONS C, D & E PROPOSED SECTIONS F, G & H PROPOSED DETAIL ELEVATION A PROPOSED DETAIL ELEVATION B PROPOSED DETAIL ELEVATION C PROPOSED DETAIL ELEVATION D PROPOSED DETAIL ELEVATION E PROPOSED DETAIL ELEVATION F | - | - | WME_P_PL_P_205 WME-P-PL-X-001 WME-P-PL-P-200 WME-P-PL-P-201 WME-P-PL-P-202 WME-P-PL-P-203 WME-P-PL-P-204 WME-P-PL-P-205 WME-P-EL-P-300 WME-P-EL-P-301 WME-P-EL-P-302 WME-P-EL-P-303 WME-P-SE-P-400 WME-P-SE-P-401 WME-P-SE-P-402 WME-P-EL-P-310 WME-P-EL-P-311 WME-P-EL-P-312 WME-P-EL-P-313 WME-P-EL-P-314 WME-P-EL-P-315 |

Collado Collins Architects

| | | | |
|---|---|----------|--------------|
| Area Schedule; Additional Units at Podium | - | 08.11.16 | - |
| Area Schedule; Additional Units at Podium | - | 08.12.16 | - |
| Podium - Additional Units | F | 16.06.16 | 14085.SK-550 |
| Residential Level 01 - Additional Units | F | 16.06.16 | 14085.SK-551 |

Milestone

| | | | |
|--|---|----------|-------------|
| SECTION 278 WORKS, GENERAL ARRANGEMENT | A | 01.12.16 | 14069 / 001 |
|--|---|----------|-------------|

Appendix B

T&A Queries and Responses

04/07/2017

The Mall, Walthamstow - Query Sheet 01

| | Query | T&A Response |
|----|---|--|
| 1 | Please confirm documents used to inform T&A updated costs and forward documents | Review of [REDACTED] cost estimate 12. To forward design information Ref folder 3 |
| 2 | Please confirm documents used to inform [REDACTED] Cost Plan 12 and forward documents | To forward if available Ref folder 3 |
| 3 | Please provide breakdowns to cost adjustments, including revised cost plan dated 29.11.16 and Cost Tracker Rev D 02.03.17 | To forward Ref folder 3 |
| 4 | Please forward Collado Collins area schedule 08.12.16 and the superseded area schedule used to inform the [REDACTED] costs | To forward if available Ref folder 4 |
| 5 | Please advise why contingencies on externals and marketing are deducted separately | Retained from a previous cost reconciliation revision which omitted the fees and marketing together with the relevant contingency element but retained the balance of construction contingency at 5%, as allowed by [REDACTED]. In the Final cost review and reconciliation the balance of the original contingency allowance has been omitted in its entirety and added back at 7.5%. |
| 6 | Please advise what are the retail shell spec enhancements. What is the retail shell spec - assumed basic shell and core with capped services? | Latest cost review of [REDACTED] Tenant specification included (ref folder 6); the remainder of the £2mIn allowance relates to a number of smaller units |
| 7 | Why has contingency been adjusted to 7.5%? | For rationalisation, 7.5% deemed reasonable allowance given the status of the design |
| 8 | Why has contractor's profit been added at 5%? | To reflect open market procurement (rather than [REDACTED] rates) |
| 9 | Presumably inflation is 2Q16-1Q17 and taken from BCIS? | BCIS |
| 10 | BCIS figures for 1Q16-2Q16 are 2.5%. It is unclear how the 1.46% is derived from and why this percentage is multiplied by 0.83. It might make more sense to take [REDACTED] pre-inflation (i.e. 1Q16) figure and adjust this to 1Q17 as opposed to using their inflated figure as a starting point. | Whilst negotiating with [REDACTED] we were happy to accept their assessment on the basis that it was lower than our own expectation. The co-efficient applied by [REDACTED] was, we understand, a notional adjustment to take account of the fact that their overall budget included non construction related expenditure (fees, marketing etc.) |
| 11 | Is there any specification information available? | [REDACTED] have made assumptions, based on [REDACTED] own internal standards - based on [REDACTED] in house specification for [REDACTED] |
| 12 | Is a residential unit schedule corresponding to the [REDACTED] and T&A costs available? | To forward if available [REDACTED] - ref CE 12 breakdown for individual blocks; T&A - ref folder 4 (CC Area Schedule dated 08.12.16) |
| 13 | Please confirm updated costs are based on the 28 storey scheme | It varies for different blocks; ref CC Area Schedule dated 08.12.16 for details |
| 14 | Are you able to confirm % of affordable housing to each block? | We understand this was part of a wider discussion with the Council. [REDACTED] based their cost assumptions on blocks B & C finished to [REDACTED] and D & E to [REDACTED] 'Shared ownership' specification level |
| 15 | Is there any documentation setting out extent of demolition? | Ref folder 15 |
| 16 | Savills sales values as follows: Block B: [REDACTED] Block C: [REDACTED] Block D: [REDACTED] Block E: [REDACTED] Average: [REDACTED] Have you allowed for these sales values in your costings? | Our understanding is that [REDACTED] were comfortable that their assumed level of specification and construction costs were commensurate with the level of sales value being discussed at the time. [REDACTED] as you would expect had a good understanding of what sales values they themselves were likely to achieve. |
| 17 | To confirm construction programme is circa 4 years and 3 months? | Yes - Padstone Rev D. We based our cashflow projections on [REDACTED] programme assumptions for individual blocks |
| 18 | Are there any surveys available? | Ref folder 21 |
| 19 | Are there any existing utilities information available? | Ref folder 21 |
| 20 | Why are there no site management costs included in the resi costs? | See 'Site Wide' costs column - included in £9,765,570. Also see item 23 below |
| 21 | Presumably other preliminaries costs shown as £0 are included under site management? | [REDACTED] included a general allowance for Preliminaries of £34.92/ft2 within their cost - see detailed breakdowns for various sections for details. They have also allowed for other items such as, for instance, various surveys, insurance, scaffolding and cleaning throughout the cost. |
| 22 | Can you please clarify the reason behind the Project insurance adjustment in the Cost Tracker | [REDACTED] original methodology retained - all [REDACTED] estimates included for project insurance adjustment based on the total construction cost (25p per £100 of Construction Cost, see detailed [REDACTED] breakdowns for different sections) |
| 23 | Why have Natwest demolition and Shopmobility been excluded from the final Cost review and reconciliation? | Neither element forms part of the scheme in question. Any negotiations with NatWest are confidential in nature and are undertaken on a separate basis. If required, Shopmobility relocation can be carried out at any time (prior to, during or after the main works) and can be funded from a separate budget (e.g., operational expenditure etc.) |

Appendix VI Appraisal summary

The Mall, Walthamstow
100% Private

Development Appraisal
Prepared by GVA
Licensed Copy
17 July 2017

APPRAISAL SUMMARY**LICENSED COPY**

The Mall, Walthamstow
100% Private

Summary Appraisal for Phase 1

Currency in £

REVENUE**Sales Valuation**

| | Units | ft² |
|---------------------|------------|----------------|
| Block B Residential | 261 | 155,818 |
| Block C Residential | 168 | 108,446 |
| Block D Residential | 27 | 20,584 |
| Block E Residential | 15 | 10,161 |
| Totals | 471 | 295,009 |

Rental Area Summary

| | Units | ft² |
|----------------------|----------|----------------|
| Retail (South) - 85% | 1 | 76,356 |
| Retail (South) - 10% | 1 | 8,983 |
| Retail (South) - 5% | 1 | 4,492 |
| Retail (North) - 85% | 1 | 17,301 |
| Retail (North) - 10% | 1 | 2,035 |
| Retail (North) - 5% | 1 | 1,018 |
| Totals | 6 | 110,185 |

Investment Valuation**Retail (South) - 85%**

Current Rent YP @

Retail (South) - 10%

Market Rent YP @

(0yrs 6mths Rent Free) PV 0yrs 6mths @

Retail (South) - 5%

Market Rent YP @

(1yr Rent Free) PV 1yr @

Retail (North) - 85%

Current Rent YP @

Retail (North) - 10%

Market Rent YP @

(0yrs 6mths Rent Free) PV 0yrs 6mths @

Retail (North) - 5%

Market Rent YP @

(1yr Rent Free) PV 1yr @

APPRAISAL SUMMARY**LICENSED COPY****The Mall, Walthamstow****100% Private****GROSS DEVELOPMENT VALUE**

| | | |
|-------------------|-------|--|
| Purchaser's Costs | 6.80% | |
|-------------------|-------|--|

NET DEVELOPMENT VALUE**Additional Revenue**

Existing Income

NET REALISATION**OUTLAY****ACQUISITION COSTS**

Residualised Price

| | | |
|-------------------|-------|--|
| Purchaser's Costs | 6.80% | |
|-------------------|-------|--|

CONSTRUCTION COSTS

| Construction | ft² | Rate ft² | Cost | |
|-------------------------|--------------------|------------|--------------------|--------------------|
| Retail (South) - 85% | 96,674 ft² | 345.10 pf² | 33,362,201 | |
| Retail (South) - 10% | 11,373 ft² | 345.10 pf² | 3,924,822 | |
| Retail (South) - 5% | 5,687 ft² | 345.10 pf² | 1,962,584 | |
| Retail (North) - 85% | 29,009 ft² | 124.99 pf² | 3,625,800 | |
| Retail (North) - 10% | 3,413 ft² | 124.99 pf² | 426,591 | |
| Retail (North) - 5% | 1,706 ft² | 124.99 pf² | 213,233 | |
| Block B Residential | 200,591 ft² | 219.86 pf² | 44,102,811 | |
| Block C Residential | 143,114 ft² | 218.79 pf² | 31,311,304 | |
| Block D Residential | 30,311 ft² | 245.02 pf² | 7,426,669 | |
| Block E Residential | <u>13,488 ft²</u> | 262.90 pf² | <u>3,546,005</u> | |
| Totals | 535,366 ft² | | 129,902,019 | 129,902,019 |
| Public Realm | | | 3,973,636 | |
| S278 Works | | | 225,302 | |
| Third Party Abnormals | | | | |
| Cost to Gain VP | | | | |
| Mayoral and Borough CIL | | | 4,433,804 | |
| Carbon Offset Payment | | | 1,102,140 | |

Other Construction

APPRAISAL SUMMARY**LICENSED COPY****The Mall, Walthamstow****100% Private**

| | | | |
|---------------------------|--|-----------|--|
| Enabling Works | | 1,500,000 | |
| Retail Incentives (South) | | | |
| Retail Incentives (North) | | | |
| TfL Legal Costs | | 250,000 | |
| | | | |

PROFESSIONAL FEES

| | | | |
|-------------------|--------|------------|------------|
| Professional Fees | 12.00% | 16,272,115 | 16,272,115 |
|-------------------|--------|------------|------------|

MARKETING & LETTING

| | | | |
|-------------------|--------|-----------|-----------|
| Marketing | 1.00% | 2,053,225 | |
| Letting Agent Fee | 15.00% | 332,730 | |
| Letting Legal Fee | 5.00% | 110,910 | |
| | | | 2,496,865 |

DISPOSAL FEES

| | | | |
|-----------------|-------|-----------|-----------|
| Sales Agent Fee | 1.50% | 3,512,390 | |
| Sales Legal Fee | 0.35% | 819,558 | |
| | | | 4,331,947 |

FINANCE

| | | |
|--------------------|--|------------------------------|
| Debit Rate | | Credit Rate 1.000% (Nominal) |
| Land | | |
| Construction | | |
| Other | | |
| Total Finance Cost | | |

TOTAL COSTS**PROFIT****Performance Measures**

| | |
|------------------------------|--|
| Profit on Cost% | |
| Profit on GDV% | |
| Profit on NDV% | |
| Development Yield% (on Rent) | |
| Equivalent Yield% (Nominal) | |
| Equivalent Yield% (True) | |

IRR

| | |
|-------------------------------|---------------|
| Rent Cover | 19 yrs 9 mths |
| Profit Erosion (finance rate) | 3 yrs 1 mth |