[redacted]

From: [redacted]
Sent: 09 June 2017 17:10
To: [redacted]
Cc: [redacted]
Subject: RE: The Mall - Waltham Forest

[redacted] - I've looked at the FVA submitted by Savills on behalf of applicants Selbourne One Ltd & Selbourne Two Ltd. Pending completion of the LBWF review of this, the following are my initial comments:

Information provided:
The FVA dated June 2017 included a number of attachments providing most of the information needed to assess viability. Not included in the FVA and should be provided are:

1. Para 7.5.1 refers to a CBRE asset valuation report of the existing property and assessing the investment value of the commercial part once development is complete.
2. Appendix 8 (Jamieson Mills' ERV schedule and supporting letter) did not include the supporting letter which I assume provided retail market rental evidence and tenancy details of the existing lettings.
3. Full details of the enabling works and works required by TfL.

Methodology:
The FVA is generally compliant with the Mayor's draft AH SPG, adopting an EUV+ approach as benchmark, and assessing values and costs on a current day basis. Viability is assessed on a profit on GDV/GDC.

PPG advocates (Para 017) '..where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the applicant and local planning authority wherever possible.' As this is a phased development over at least 6 years, this recommendation should be considered.

Whilst the Mayor's draft AH SPG recommends profitability be assessed as a % of GDV or GDC, there are circumstances when these measurements alone can give a misleading view of viability. This is most evident in longer term developments, particularly where there are high front end costs- such as is the case in this scheme. In these circumstances assessment based on IRR should also be considered as a 'sense check' to the %/GDV approach. This has not been done.

Viability inputs:
Scheme proposals:

1. The proposed scheme is for the demolition of part of the operating Mall (8 units, ATMs etc) followed by a phased development of mixed retail and residential units. Following enabling works, the first stage involving the development of a two storey retail extension to the Mall will also include a podium for blocks B & C of the four new residential blocks which will be 26 (B) & 19 (C) floors above the podium. Blocks D & E will be separately accessed from GF and are 3 & 4 storeys. In total 20 shops, a gym and 471 flats will be provided. NIA: GIA is 87%, reflecting relative inefficiencies of a high rise development.
2. The development is a complex one, needing to interfere as little as possible with the continued operation of the remainder of the Mall and public access. In addition foundations for the tower blocks are stated to involve boring between existing tube lines. The timetable- particularly commencement of Phase 4- should be reviewed to consider if an earlier start can be managed to improve cash flow.

GDV:

1. Market housing: Savills provided market comparable evidence which should be assessed by LBWF's expert. This is the key input in this viability assessment. It is noted that:
   a) Much of the comparable evidence is historic.
   b) All the comparables are for low rise developments and do not reflect premium prices achieved in high rise towers.
   c) The location attractions with tube/ railway network and town centre should be reflected in values.

d) Savills recognise that good comparable market evidence is limited and so these values are their judgement. Given this, sensitivity testing should be included within the FVA to show what results are achieved with upward and downward changes.

Savills used this comparable evidence to assess flat values on a flat by flat basis. This is good practice. It would be helpful for them to explain the though process behind the pricing schedule.

2. Retail: Rent pricing of individual retail units has been provided, from which a head rent deduction has been included (Correctly) in the Argus toolkit assessments. The letter providing further information was not included. This will need to include market evidence of rental lettings and rent free periods. Information on investment yields is also required and Savills state this is provided by CBRE- This information was not included in the FVA. Savills state that an investment yield of [redacted] is appropriate for this scheme. I note Savills report on Prime Equivalent Yield report as at January 2016 showed shopping centres at about 4.25% (A multiplier of ~23.5x rent) so the yield adopted in this case may understate the retail value.
3. Car parking and ground rent. These are stated as having a nil value as the car parking is for disabled users and is not available for sale and the ground rent income goes to LBWF as freeholders.

GDC:

1. Build costs were initially prepared by [redacted] for an earlier scheme. This has been updated and increased to current costs to reflect the changes in the current scheme. The overall rate equates to ~£2610/m2, which includes contingency at 7.5% (See 2 below). Net of this, the cost is £2415/m2 which is higher than typical high rise developments. The costs may be reflecting abnormal foundation costs and restricted working conditions. These should be reviewed by a cost consultant.
2. Other build costs: S278 and public realm costs should be reviewed by a cost consultant and clarification given as to what these relate to.
3. Contingency. I note that 7.5% has been applied and included within the build costs. [redacted] allowed between 4-5% on their proposals and I assume this reflected their opinion as contractors. In my opinion, contingencies of 5% would be the upper end of costs in this scheme.
4. Professional fees. I note that this has been shown as 12%. Again, the [redacted] figure (I assume this is a design & build proposal) was for fees at 10.4% excluding planning fees. 12% all in is reasonable.
5. Third party abnormals- These costs are still to be clarified.
6. Marketing costs and costs of finance are typical.
7. CIL costs. LBWF should confirm if these are correct.
8. Profit. This is a complex multi-phase scheme but in a good location. The profit level proposed based on 20% GDV/ 25% of GDC is at the upper end of normal market expectations. Viability should be sense checked by consideration of IRR- in my opinion, a return at 15% on this basis would be typical.

Benchmark:

An assessment of value as an investment has been prepared by CBRE. This has not been provided. Savills consider an uplift of 25% is appropriate. This is at the upper end of typical levels. However, in considering this, note should be given to the benefit the landowner will derive from the overall benefit to the rest of the Mall by the increased retail space. This will result in potential increased rents and higher investment value. In light of this, no, or minimal uplift may be reasonable.

VRM:

In accordance with the Mayor's draft AH SPG, VRM for delayed implementation and at late stage should be agreed in a s106 agreement.

Summary:

Further information as identified should be provided. The FVA should include growth modelling in accordance with PPG guidance. Inputs in to the FVA should be considered by the LBWF expert- particularly retail and residential values and build costs. The contingency level is excessive and not supported by [redacted] cost report. Other costs appear to be provisional and may not be appropriate. Once these aspects have been reviewed, a further toolkit assessment should be provided showing the revised viability results. VRMs should be included within a S106 agreement.

A lot of detail in the FVA. If you have any queries, please let me know.

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