GERALDEVE

Financial Viability Review

On behalf of: Greater London Authority

Convoys Wharf, Deptford, Lewisham

Description:
Review of the Applicant's Financial Viability Assessment, having regard to the due diligence report prepared on behalf of the Local Authority

CONTAINS CONFIDENTIAL INFORMATION

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EXECUTIVE SUMMARY

1. In order to seek to protect commercially sensitive information, all information issued to us was provided as Commercial-In-Confidence within the meaning of provisions of the Freedom of Information Act, Sections 41 and 43. This executive summary is for public release and therefore we believe does not contain any commercially sensitive information.

2. Gerald Eve LLP is instructed by the Greater London Authority ("the GLA") to undertake the financial viability review of Convoys Wharf ("the Site") and associated information in connection with a planning application, submitted on behalf of Hutchinson Whampoa ("the Applicant"), to London Borough of Lewisham ("LB Lewisham") for the redevelopment of the Site ("the Scheme").

3. The Applicant instructed Strutt & Parker ("S&P") to prepare and submit a financial viability assessment (FVA) which formed part of the planning application documentation. LB Lewisham instructed Lambert Smith Hampton ("LSH") we understand to undertake a due diligence exercise on S&P's assessment, to verify and validate the inputs and reporting on the reasonableness of the S106 (and affordable housing) offer.

4. We confirm that the viability information and therefore our financial viability review has been updated to reflect the market movements, and scheme amendments during the planning process. The financial information is therefore correct as at the date of this report.

5. Our review has regard to the National Planning Policy Framework, and in particular paragraph's 173-177. We have also had regard to the London Plan Policy 3.12 which states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes. Finally, we have had regard to relevant LB Lewisham planning policies.

6. Gerald Eve's review is in accordance with Royal Institution of Chartered Surveyors (RICS) Guidance Note: "Financial Viability in Planning" (published August 2012) ("RICS GN 94/12"). The majority of the review is focused on the areas as set out in our instructions from the GLA; matters which LSH have raised; and, other areas we consider must be addressed having regard to RICS GN 94/12. We have had an open

exchange of correspondence with both S&P and LSH, where both parties have provided us with supporting information where required.

7. We assessed the Scheme on a present day approach reflecting up-to-date cost and value inputs, and on a growth approach where the developer is in effect forecasting an outcome which has yet to happen and therefore taking all the risk associated with an offer based on that predicted outturn. Occasionally it is necessary to add in, when using a growth approach, a "check and balance" provision (or review) to ascertain whether the Scheme is progressing in the manner it was assumed. Any adjustment to affordable housing or planning obligation contribution would need to have a cap and collar.

8. All viability consultants agreed that the residual methodology using the Site Value as an input and measuring a profit return was the appropriate way to assess the viability of the Scheme. This method is in line with RICS GN 94/12, and in accordance with best practice.

9. The Site Value input was agreed by both viability consultants, and was arrived at in accordance with RICS GN 94/12 methodology. We were of the view that the level whilst being at the lower end of a possible range, was reasonable and therefore saw no reason to adjust it.

10. Given the length of the development programme, and the delivery profile we were of the view that measuring the Scheme on the basis of an Internal Rate of Return ("IRR") was a better representation of viability rather than a return on cost or return on gross development value ("GDV"). When including growth and inflation, a more suitable return proxy in this case is IRR. More importantly IRR takes into consideration the time value of money.

11. We consider the minimum target rate of return on a growth basis to be an IRR of [redacted] which is risk adjusted relative to the characteristics of developing the Scheme. S&P and LSH did not disagree with our view.

12. Whilst there were differences between S&P and LSH in relation to certain inputs, the method and approach undertaken by both consultants has been robust, and broadly in accordance with RICS guidance. From what we have read and understand, we are of

the view that both practitioners acted independently, impartially and reasonably in order to arrive at an agreed position.

13. In relation to the construction programme, it is noted that the phases overlap significantly. Clearly there will be a variance in programme as one developer will inevitably undertake development differently to another. Implications of delay will also differ for each developer. Whilst there is likely to be a degree of variance in programme, our role is to make sure the assumptions put forward by S&P are reasonable, and not to comment on the range of possible scenarios which could take place. We are therefore of the view that the inevitable uncertainty in programme is reasonably reflected in sensitivity testing, which is mentioned further below.

14. The manner in which both consultants have looked to the market to understand current day residential pricing in comparable schemes which are in the vicinity of Convoys Wharf is accepted valuation practice, and encouraged by the RICS, albeit this is one of the key areas of disagreement.

15. In light of LSH's request for the GLA to consider the reasonableness of the Applicant's proposed revenue assumptions, we are of the view that the residential pricing as set out by S&P is under the current day pricing level we would assume. We therefore applied growth to S&P's pricing of [redacted], having regard to updated market information and movements in order to bring the pricing up to present day levels.

16. Given discussions between S&P and LSH have been on-going for over six years, and the cost review exercise has been undertaken in accordance with RICS guidance, we are satisfied that the majority of the cost (both construction and infrastructure) inputs put forward by S&P are reasonable insofar as a starting point.

17. We do however have concerns over a notional [redacted] in now historic costs being applied. We have therefore had regard to the BCIS All-In Tender Price Index which suggests [redacted] in costs since the 2011 date of the cost report.

18. As a result of these adjustments, amongst other more minor adjustments, our present day outturn that arises is:

Table B: Gerald Eve Appraisal Outputs – Present Day

	GE Present Day
IRR	[redacted]
Profit on cost	[redacted]
Profit on GDV	[redacted]
Affordable housing contribution	As provided by Applicant
S106 obligations	As provided by Applicant

19. The outturn above is on a present day basis, and in view of the magnitude of the Scheme and the time frame over which it is to be delivered, as referenced above, we consider it necessary to reflect anticipated future movements in both costs and values in order to understand the effect of an outturn (growth) approach to viability. This can then be compared with a present-day approach.

20. In determining appropriate growth rates to apply to residential values, and cost inflation we rely upon data provided by the major property consultancy houses and our own in house research. The financial appraisals of the Scheme can be compared and summarised as follows:-

Table C: Gerald Eve Appraisal Outputs – Present Day and Growth

	GE Present Day	GE Growth
IRR	[redacted]	[redacted]
Profit on cost	[redacted]	Not applicable
Profit on GDV	[redacted]	Not applicable
Affordable housing contribution	As provided by Applicant	As provided by Applicant
S106 obligations	As provided by Applicant	As provided by Applicant
TARGET IRR	[redacted]	[redacted]

21. If the GLA accept a growth approach, any affordable housing review mechanism should be restricted to a more limited "check and balance", with known upside and downside risks.

22. Whilst a number of the assumptions put forward by the respective consultants have been agreed, we are of the view that there is likely to be variance in these. Sensitivity testing has been undertaken in accordance with best practice. This type of analysis is a fairly simplistic approach to testing viability. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Notwithstanding normal market accepted variance, the majority of inputs proposed by S&P are considered to be reasonable.

23. It follows that in considering the robustness of the Scheme appraisal we have looked at certain key inputs, on both a present day and growth model basis, as follows:-
    - Residential sales values
    - Construction costs (including utilities, infrastructure and roads).

24. We accept that the upside on each residential unit will vary proportionally, relative to its location within the Scheme. We have however tested a holistic upside through sensitivity testing. S&P and LSH have not disagreed with this approach.

Table D: Gerald Eve Growth model IRR sensitivity: residential values and construction costs

		Residential sales values variance				
		-10.0%	-5.0%	0.0%	+5.0%	+10.0%
Costs variance	+10.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	+5.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	0.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	-5.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
	-10.0%	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

25. On the basis of the adjustments set out in this report, and the information provided by the Applicant, we are of the view the Scheme can afford to provide 15% affordable housing onsite plus the planning obligations payments of [redacted] offered, and subsequently a further [redacted] offered. We also recommend "check and balance"

reviews prior to respective phases, once the Scheme has achieved a certain implemented critical mass, including infrastructure.

Table 1 - Key inputs and assumptions

Value Item	S&P APR 2013	S&P NOV 2013	LSH JAN 2014 incorporating comments during 2013, and matters arising in Lewisham CIL EiP Dec. 2013	GE Comment
	Value £CV psf	Value £CV psf	Value £CV psf	Value £CV psf
Affordable P12, P15, P19, P05, P20	[redacted]	[redacted]	LSH has queried these inputs given comparable data is historic.	TBC, post meeting with GLA
Private Resi P11	[redacted]	[redacted]		
Private Resi P09/P10	[redacted]	[redacted]		
Private Resi P15	[redacted]	[redacted]		
Private Resi P14	[redacted]	[redacted]		
Private Resi P06, P08, P18	[redacted]	[redacted]		
Private Resi P03	[redacted]	[redacted]		
Private Resi P01, P02, P04	[redacted]	[redacted]		
Private Resi P02, P06, P14	[redacted]	[redacted]		
Value Item	**£CV**	**£CV**	**£CV**	**£CV**
Car Parking	[redacted]	[redacted]	Agreed.	TBC, post meeting with GLA
Car Parking	[redacted]	[redacted]		
Car Parking	[redacted]	[redacted]		
Value Item	**£CV**	**£CV**	**£CV**	**£CV**
Ground Rents	[redacted]	[redacted]	Agreed.	TBC, post meeting with GLA
Ground Rents	[redacted]	[redacted]		
Ground Rents	[redacted]	[redacted]		

Value Item	£CV	£CV	£CV	£CV
Hotel P15	[redacted]	[redacted]	LSH has queried amendments	TBC, post meeting with GLA
Hotel P16				
Wharf Land				
Value Item	**Rent £psf**	**Rent £psf**	**Rent £psf**	**Rent £psf**
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]	[redacted]	Agreed.	TBC, post meeting with GLA
Employment P19				
Employment P07 (S.106 Item)				
Health P13 (S.106 Item)				
Restaurant/Bar P08, P01, P02, P03, P04				
Restaurant Bar P07 (S.106 Item)				
Retail P08, P15, P14, P18, P01, P02, P06				
Retail P07 (S.106 Item)				
Cultural P09/P10				
Cultural P16				
Cultural P07 (S.106 Item)				
Cultural P03				
Hotel P15				
Hotel P16				
School				
Value Item	**Yield**	**Yield**	**Yield**	**Yield**
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]	[redacted]	Agreed.	TBC, post meeting with GLA
Employment P19				
Employment P07 (S.106 Item)				
Health P13 (S.106 Item)				
Restaurant/Bar P08, P01, P02, P03, P04				
Restaurant Bar P07 (S.106 Item)				

Retail P08, P15, P14, P18, P01, P02, P06	[redacted]			
Retail P07 (S.106 Item)				
Cultural P09/P10				
Cultural P16				
Cultural P07 (S.106 Item)				
Cultural P03				
Value Item	**Incentives**	**Incentives**	**Incentives**	**Incentives**
Incentives for all uses - rent free	[redacted]		**Agreed.**	**TBC, post meeting with GLA**
Purchaser's Costs (on GDV)				

Cost Item	**Cost £**	**Cost £**	**Cost £**	**Cost £**
Land	[redacted]		**Agreed.**	**TBC, post meeting with GLA**
Stamp				
Agents				
Legal				
Cost Item	**£psf**	**£psf**	**£psf**	**£psf**
Affordable P12, P15, P19, P05, P20	[redacted]		**Agreed.**	**TBC, post meeting with GLA**
Private Resi P01, P02, P03, P04				
Private Resi P06, P08, P09/10, P11, P14, P15, P18				
Private Resi P02,, P06, P14				
Cost Item	**£CV**	**£CV**	**£CV**	**£CV**
Car Parking	[redacted]		**Agreed.**	**TBC, post meeting with GLA**
Car Parking				
Car Parking				

Cost Item	£psf	£psf	£psf	£psf
Hotel P15	[redacted]		Agreed.	TBC, post meeting with GLA
Hotel P16				
Cost Item	**£psf**	**£psf**	**£psf**	**£psf**
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]		Agreed.	TBC, post meeting with GLA
Employment P19				
Employment P07 (S.106 Item)				
Health P13 (S.106 Item)				
Restaurant/Bar P08, P01, P02, P03, P04				
Restaurant Bar P07 (S.106 Item)				
Retail P08, P15, P14, P18, P01, P02, P06				
Retail P07 (S.106 Item)				
Cultural P09/P10				
Cultural P16				
Cultural P07 (S.106 Item)				
Cultural P03				
School P17 (S.106 Item)				
Contingency (on construction costs)				
Cost Item	**£CV**	**£CV**	**£CV**	**£CV**
Mayoral CIL	[redacted]		These are subject to further discussion between Applicant and LPA	TBC, post meeting with GLA
Utilities/Infrastructure/Roads				
River Bus				
Highway Works				
Cycle Path				
Green Travel Plan				
Archaeological Works				
Bus Service Improvements				

Heritage and Public Art	[redacted]		
CPZ			
Telecoms Interference/Air Quality			
Design Panel/Prof Fees			
Wharf & Jetty			
New King Street Improvements			
Employment Training			
Cost Item			
Professional fees (as a % of construction cost)	[redacted]	**Agreed.**	**TBC, post meeting with GLA**
Marketing (as a % of GDV)			
Letting Agent Fee (as a % of rent)			
Letting Legal Fee (as a % of rent)			
Cost Item			
Sales Agent Fee (as a % of GDV)	[redacted]	**Agreed.**	**TBC, post meeting with GLA**
Sales Legal Fee (as a % of GDV)			
Cost Item			
Finance Debit (on land and construction)	[redacted]	**No comment from LSH**	**TBC, post meeting with GLA**
Finance Credit (on land and construction)			
Performance Measures			
Profit on Cost%	[redacted]	**Improved viability, subject to final inputs.**	**TBC, post meeting with GLA**
Profit on GDV%			
Profit on NDV%			
IRR			

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1 Introduction and Instructions

1.1 Gerald Eve LLP has been instructed by the Greater London Authority ("the GLA") to undertake a review of the financial viability of Convoys Wharf ("the Site") and associated information in connection with a planning application, which has been called-in for determination by the Mayor of London.

1.2 A planning application was submitted on behalf of Hutchinson Whampoa ("the Applicant"), to be determined by London Borough of Lewisham ("LB Lewisham") for the redevelopment of the Site ("the Scheme").

1.3 The Applicant instructed Strutt & Parker ("S&P") to prepare and submit a financial viability assessment (FVA) which formed part of the planning application documentation. LB Lewisham instructed Lambert Smith Hampton ("LSH") we understand to undertake a due diligence exercise on S&P's assessment, to verify and validate the inputs and reporting on the reasonableness of the S106 (and affordable housing) offer. We have not however been privy to LSH's instructions.

1.4 S&P on behalf of the Applicant submitted an (updated) FVA (dated November 2013), to which LSH prepared a "Viability Commentary" report (dated January 2014) which raises a number of queries on behalf of LB Lewisham, and was in turn submitted to the GLA. Both of these documents were made available to us following our instruction.

1.5 We are aware that since the submission of the planning application (April 2013), economic conditions have moved on. We confirm that this review is accordance with section 3.5 of RICS Guidance Note 94/12 (see paragraph 1.9 below) which specifically states that:

"Viability assessments will usually be dated when an application is submitted (or when a CIL charging schedule or Local Plan is published in draft). Exceptions to this may be pre-application submissions and appeals. Viability assessments may occasionally need to be updated due to market movements or if schemes are amended during the planning process."

1.6 Specifically the independent review that the GLA has sought should respond to the 'outstanding issues' identified by LSH's Viability Commentary report, and, in particular, comment on the following:

- Is the Applicant's land value benchmark reasonable?
- What would be an appropriate profit benchmark to assess viability?
- Do the proposed standard costs and infrastructure costs appear reasonable?
- Do the proposed revenue assumptions appear reasonable?
- What is the most appropriate way to consider growth/inflation over the scheme lifetime?
- Does the proposed development timeline and phasing strategy appear reasonable for delivering a scheme that could become financially viable in future?
- What would be the most appropriate mechanism for securing the maximum reasonable amount of affordable housing from the scheme over its lifetime?

1.7 This report comments and provides analysis and conclusion on the above matters, whilst also referring to other key financial assumptions which are intrinsically linked to the overall viability of the Scheme. This report was prepared over a period of six working days with Gerald Eve being instructed on 22 January 2014. As this was a relatively limited period of time we have relied upon information supplied which we have interpreted, made assumptions where required and concluded accordingly.

1.8 In reviewing the reports issued by S&P, LSH and other associated information, we are only concerned with the proposed redevelopment of the Site, as set out in the planning application, and in accordance with general accepted practice (see 1.9 below). We do not seek to compare or contrast the financial offer proposed by the Applicant with any other proposed or implemented scheme (or Appeal decision). In accordance with planning legislation, each application should be considered on its own merits. It is also recognised that financial viability, in considering a planning application, is only one of the material considerations as to whether permission should be granted or refused.

1.9 In undertaking our review we have had particular regard to guidance and policy contained within the following:

- National Planning Policy Framework ("NPPF") (March 2012);

- National Planning Practice Guidance (Beta Version) (September 2013);
- The London Plan (July 2011);
- [Further Alterations to the London Plan (December 2013)];
- [Lewisham Unitary Development Plan (2004)];
- [Lewisham Core Strategy];
- Royal Institution of Chartered Surveyors (RICS) Guidance Note: "Financial Viability in Planning" (published August 2012) ("RICS GN 94/12"); and
- Other relevant best practice guidance.

1.10 As outlined in RICS GN 94/12, in undertaking this exercise, we are formulating an appropriate judgement based upon information provided by the Applicant and its consultants, as to the viability of the Scheme and the maximum reasonable level affordable housing the Scheme can afford in terms of planning obligations.

1.11 Our assessment only extends in so far as assessing whether the FVA submitted accurately reflects the viability of the proposed Scheme. In reviewing the viability of the Scheme we have not sought to comment on whether it could be improved upon.

Conflict

1.12 So far as we are aware, we have no conflict of interest in relation to the provision of viability advice in respect of this project. We have no on-going or previous fee earning relationship with the Applicant, LB Lewisham, S&P, LSH or the Site. We have however worked with S&P and LSH on other projects including FVAs.

Inspection of the Site

1.13 In accordance with the acceptance of our instructions, we have viewed the Site and the immediate area in order to consider the information provided by S&P, and matters raised by LSH and the GLA.

Confidentiality

1.14 We are aware that in order to seek to protect commercially sensitive information all information issued to us is provided as Commercial-In-Confidence within the meaning of provisions of the Freedom of Information Act, Sections 41 and 43.

Information received

1.15 In undertaking this assessment, we have had particular regard to the following information:

- Convoys Wharf Financial Viability Statement prepared by S&P, dated November 2013;
- Viability Commentary prepared by LSH on behalf of LB Lewisham, dated January 2014;
- Convoys Wharf Planning Statement prepared by BPTW partnership, dated April 2013;
- GLA's Convoys Wharf Stage II Report, dated October 2013; and
- Information and documentation in the public domain available through LB Lewisham website under application number DC/13/83358.

Contact with S&P and LSH

1.16 During the limited period available to prepare our report we have had an open exchange of correspondence with both S&P and LSH, whereby both parties have been copied into our requests for further information and clarification of issues.

1.17 Both consultants have been supportive in providing us with the information required in order for us to report to the GLA in the allocated timeframe.

Our Report Structure

1.18 We set out our report under the following numbered headings:-

Section 2: Background and Description of Proposed Development

Section 3: Planning Policy Overview

Section 4: Viability Methodology and Approach

Section 5: Areas of Agreement

Section 6: Review of value assumptions and inputs

Section 7: Costs and Construction programme

Section 8: Site Value

Section 9: Review of Financial Appraisal

Section 10: Growth and Inflation

Section 11: Sensitivity Analysis

Section 12: Conclusions

1.19 We set out Sections 4 to 9 under the following sub-headings:

- Summary of information provided;
- Analysis and Comment; and
- Preliminary conclusions.

1.20 Our report is accompanied by Appendices which are introduced in the text.

1.21 We have adopted an approach whereby if we believe the inputs used by S&P and LSH are within a reasonable margin of our views then we have not sought to challenge these differences. Where these lie outside this margin we expect the consultants will wish to clarify and comment as necessary. This approach is a standard practice and encouraged by RICS GN 94/12. We would add that where we have not commented on some aspect of either S&P's report or LSH's report and accompanying documents this does not mean we agree or disagree with the consultants, Applicant, the Local Authority or its advisors.

1.22 Finally, it is stressed that this review is taken at a particular point in time (January 2014). Values and costs will change over time and whilst we have had regard to this inevitable uncertainty in the sensitivity analysis section of our report and our concluding recommendations, this report is nevertheless as at the time of writing.

1.23 We are not aware of the basis upon which whether S&P is instructed. In line with Local Authority tendering we understand that LSH are instructed on a fixed fee basis with no incentives (or contingent fees) with regard to the pending outcome.

2 Background and Description of Proposed Development

Introduction

2.1 In this section we outline the location and description of the Site, with an overview of the proposed development which is the subject of the planning application. We have had regard to BPTW planning statement in the main, and also S&P's (updated) FVA. Other core planning documents have also been used which available on LB Lewisham's online public planning register.

Situation

2.2 The Site is located in north Deptford relatively close to Deptford High Street. It is approximately 4 km south-east of the City of London, 2 km south of Canary Wharf and 1 km west of Greenwich. It comprises some 16.6 hectares (41.2 acres); we understand it represents approximately 50% of Lewisham's River Thames frontage.

2.3 The majority of the eastern side of the Site forms the administrative boundary with the London Borough of Greenwich ("LB Greenwich"). The remainder is formed by the boundary with the Shipwright's House (Grade II* listed) which is located in LB Lewisham. The surrounding area is predominantly residential with the Pepys Estate to the west and Sayes Court Estate to the south. The Site is bounded by Leeway to the north west, properties on Grove Street/Prince Street to the south and Watergate Street to the east.

2.4 Until recently existing buildings on the Site amounted to approximately 60,000 sq m comprising approximately 33 buildings, most of which were warehouses and industrial sheds of late 20th century.

2.5 At April 2013 there were eight buildings remaining, most of which are warehouse and industrial sheds and including the listed Olympia Building. The seven other buildings will be demolished in a phased way over the duration of the development.

2.6 Existing access to the Site is via an entrance at the junction of Prince Street and New King Street. Evelyn Street (A200) and the northern end of Deptford High Street are approximately 100m to the south.

2.7 The nearest mainline stations are at Deptford and Greenwich (services to/from Cannon Street and Charing Cross via London Bridge), Docklands Light Railway services are at Greenwich, Cutty Sark and Deptford Bridge and Underground services at Canada Water and Surrey Quays.

2.8 Approximately half the Site (8 hectares) is currently designated as a protected wharf and the subject of Safeguarding Directions issued by the Secretary of State for the Environment. In March 2013, the GLA carried out a review of safeguarded Wharfs.

2.9 English Heritage has identified Convoys Wharf as an Area of Archaeological Priority where significant buried remains of the former Royal Dockyard are likely to exist.

2.10 Some elements of the dockyard are still visible today; most notable the Grade II listed Olympia Building, which was constructed as cover to Slipways nos. 2 & 3 in the former Deptford Royal Dockyard. This building dates from 1846.

2.11 A Tree Preservation Order has been issued on a group of mature trees on the south west corner of the Site, the north east corner of the Site adjacent to the Master Shipwright's House (the latter lies outside the application site boundary) and a row of trees along the southern boundary.

2.12 The northern part of the Site lies within the Strategic View corridor of St Paul's Cathedral from Greenwich Park and the Site lies within the Wider Setting Consultation Area for this view.

2.13 The river wall is principally brick, with stone features and is believed to date mainly from the 1830s and 1860s. The blocked entrances to the Double Dry Dock, the Number 1, 4 and 5 Slips, the Great Basin and the canal accessing the mast ponds are visible. A number of cannons are reused as bollards along the river wall. A jetty and landing stage protrude into the river. The jetty is approximately 280m long and may have been constructed originally in the 1930s. A roll on/roll off (ro-ro) facility was added in 1975 and the structure upgraded in the early 1990s. The river wall is being considered by English

Heritage for listing.

2.14 The elevation of the Site is generally between 4-5m AOD with the highest points along the river wall and the lowest at the western corner.

Surrounding Area

2.15 The surrounding area is predominantly residential in character, mainly comprising housing built by the former Greater London Council (GLC) and its predecessor the London County Council (LCC) after World War II.

2.16 Shops and other services are concentrated mainly along Deptford High Street, with a secondary centre at Evelyn Street/Grove Street. Industrial and other employment uses are located close to the waterfront to the east of the Site, to the west of Grove Street and along Deptford Creek.

2.17 There are three Sites of Importance for Nature Conservation (SINC) located immediately adjacent to the site.

Planning history

2.18 The relevant planning history dates back to 2002, which we provide a summary of **Appendix 1**.

The Scheme

2.19 The outline application identifies a series of development plots within which more detailed proposals will come forward at reserved matters stage.

2.20 The current (outline) application (ref: DC/13/83358) proposes:

"Comprehensive redevelopment to provide a mixed-use development of up to 419,100 sq.m comprising up to 321,000 sq.m residential (Class C3) (up to 3,500 units), up to 15,500 sq.m business (Class B1/ Live/Work units) (including up to 2,200 sq.m for 3 no. potential energy centres), retention and refurbishment of the Olympia Building and

demolition of all remaining non-listed structures on site, a river bus facility, a wharf (Class B2 and Sui Generis) with associated vessel moorings (32,200 sq.m), up to 5,810 sq.m shops (Class A1) and financial and professional services (Class A2), up to 4,520 sq.m restaurant/cafes (Class A3) and drinking establishments (Class A4), up to 13,000 sq.m. community/ non-residential institutions (Class D1), up to 27,070 sq.m hotel (Class C1), 1,840 car parking spaces, together with vehicular access."

2.21 The Scheme is set out in an illustrative masterplan ("the Masterplan") prepared by Farrells, and in summary is for:

- Up to 321,00 sqm of residential (Class C3) space – up to 3,500 dwellings of which 15% will be affordable;
- Up to 15,500 sqm of business (Class B1/ Live/work) floorspace (including2,200 sqm for 3 no. potential energy centres if required;
- Up to 32,200 sqm of industrial/ wharf (Class B2 and Sui Generis) floorspace;
- Up to 5,810 sqm of shops (Class A1) and financial and professional services (Class A2) floorspace;
- Up to 4,520 sqm of restaurant and cafés (Class A3) and drinking establishments (Class A4) floorspace;
- Up to 13,000 sqm of community/ non-residential institution (Class D1) and assembly & leisure (Class D2) floorspace;
- Up to 27,070 sqm of hotel (Class C1) floorspace;
- Public open spaces;
- A river bus facility; and
- Up to 1, 840 car parking spaces (residential and 300 non-residential/carclub).

2.22 The Masterplan has not been submitted for approval, but has been used as a basis upon which to test technical chapters within the Environmental Assessment. We understand the Masterplan has been developed through a comprehensive process of review and consultation with LB Lewisham, the GLA and their project-specific Design Review Panel.

2.23 The application identifies the mix of uses and maximum quantum of development for which outline planning permission is sought and includes a schedule of the proposed maximum quantum of floorspace proposed within each development plot.

2.24 The application essentially entails the complete redevelopment of the Site, with all buildings demolished other than the Grade II listed Olympia Building, the gate posts at the junction of Grove Street and Leeway retained, and some parts of the perimeter wall.

2.25 The total development floorspace has been divided between the Development plots in accordance with **Appendix 2**. We understand that the total floorspace, for each use will not be exceeded.

2.26 The application proposes three landmark tall buildings (P14a is 38 storeys, P06a is 38 storeys and P02a on the riverfront is 48 storeys). These tall buildings will frame the core cultural/retail area around the Olympia Building. The siting and massing of these tall buildings is fixed (subject to the deviations set out in the Parameter Plans and the Design Guidelines). P22 will also include: the existing jetty which is to be utilized for a riverside open space and river bus stop; public spaces between Olympia Building and the Thames; and a public space on the site for the former Double Dry Dock.'

2.27 The table below is the assumptions used by S&P in its analysis of the areas of each plot. The shading represents at which phase the plot will be delivered.

Table 2: Breakdown of S&P's assumed areas of Masterplan

PHASE	PLOT	Units	Net ft²	Gross ft²	Efficiency
[redacted]	P01	Private Resi Building P01	[redacted]		
	P01	Restaurant/Bar Building P01			
	P01	Retail Building P01			
	P02	Private Resi Building P02			
	P02	Private Resi Building P02			
	P02	Retail Building P02			
	P02	Restaurant/ Bar Building P02			
	P03	Private Resi Building P03			
	P03	Cultural Building P03			
	P03	Restaurant Building P03			
	P04	Private Resi Building P04			
	P04	Restaurant Building P04			
	P04	Employment Building P04			

[redacted]	P05	Affordable Resi Building P05	[redacted]
	P05	Employment Building P05	
	P06	Private Resi Building P06	
	P06	Private Resi Building P06	
	P06	Retail - Building P06	
	P06	Employment Building P06	
	P07	Cultural Building P07 (S.106 Item)	
	P07	Employment Building P07 (S.106 Item)	
	P07	Retail Building P07 (S.106 Item)	
	P07	Restaurant Bar Building P07 (S.106 Item)	
	P08	Private Resi Building P08	
	P08	Retail Building P08	
	P08	Restaurant/Bar Building P08	
	P09/10	Private Resi Building P09/P10	
	P09/10	Cultural Building P09/P10	
	P11	Private Resi Building P11	
	P12	Affordable Resi Building P12	
	P13	Employment Building P13	
	P13	Health Building P13 (S.106 Item)	
	P14	Private Resi Building P14	
	P14	Private Resi Building P14	
	P14	Employment Building P14	
	P14	Retail Building P14	
	P15	Private Resi Building P15	
	P15	Affordable Resi Building P15	
	P15	Retail Building P15	
	P15	Employment Building P15	
	P15	Hotel Building P15	
	P16	Hotel Building P16	
	P16	Cultural Building P16	
	P17	School Building P17 (S.106 Item)	
	P18	Private Resi Building P18	
	P18	Retail Building P18	
	P19	Affordable Resi Building P19	
	P19	Employment Building P19	
	P20	Affordable Resi Building P20	
	P20	Employment - Building P20	

Source: S&P FVA

2.28 Whilst we appreciate that the figures put forward by S&P are of an indicative nature, the table provides a good indication of the quantum of floorspace to be delivered in each plot. S&P has assumed a blanket assumption of [redacted] gross to net efficiency for residential new build, and [redacted] for the commercial and cultural properties. We consider the efficiency of the residential is at the lower end of a possible range and it is possible that this could be improved upon.

2.29 The following table identifies the area of uses which will be delivered in each phase.

Table 3: Quantum of uses delivered by Phase

Phase 1 use	Net sq ft	Gross sq ft
Affordable residential	[redacted]	[redacted]
Cultural	[redacted]	[redacted]
Employment	[redacted]	[redacted]
Health (S.106 Item)	[redacted]	[redacted]
Hotel	[redacted]	[redacted]
Private Residential	[redacted]	[redacted]
Restaurant/Bar Building	[redacted]	[redacted]
Retail Building	[redacted]	[redacted]
Totals	[redacted]	[redacted]
Phase 2 use	**Net sq ft**	**Gross sq ft**
Affordable Residential	[redacted]	[redacted]
Cultural	[redacted]	[redacted]
Employment	[redacted]	[redacted]
Hotel	[redacted]	[redacted]
Private Residential	[redacted]	[redacted]
Restaurant/ Bar	[redacted]	[redacted]
Retail	[redacted]	[redacted]
School (S.106 Item)	[redacted]	[redacted]
Totals	[redacted]	[redacted]
Phase 3 use	**Net sq ft**	**Gross sq ft**
Affordable Residential	[redacted]	[redacted]
Cultural	[redacted]	[redacted]
Employment	[redacted]	[redacted]
Private Residential	[redacted]	[redacted]
Restaurant	[redacted]	[redacted]
Retail	[redacted]	[redacted]
Totals	[redacted]	[redacted]

Source: S&P FVA

2.30 The final table below is from the planning statement, and is a summary of the GEA to be delivered.

Table 4: Planning application GEAs

Use	GEA SQ M	GEA SQ FT
Residential (Class C3)	[redacted]	[redacted]
Business (Class B1/ live/work) and Storage/Distribution (Class B8)		
Industrial Wharf Uses (Class B2 and Sui Generis)		
Shops (Class A1) and Financial and Professional Services (Class A2)		
Restaurant and Cafes (Class A3) and Drinking Establishments (Class A4)		
Community/ Non-residential institutions (Class D1)and Assembly & Leisure (Class D2)		
Hotel (Class C1)		
TOTAL		

Source: BPTW Planning Statement April 2013

2.31 We understand that the phasing is in accordance with the Environmental Assessment, and the GEA's identified will not be exceeded in overall terms, but the balance within each phase may be subject to amendments.

2.32 Any significant alterations to the delivery of the uses in each phase may alter the viability of the Scheme. Generally speaking if the phases are kept within a reasonable margin to that which is outlined above in Table 4, then we would not anticipate a material impact in the Scheme's viability.

3 Planning Policy Overview

3.1 In this section we provide a brief overview of our understanding of the policies which set the background and need for viability assessments in order to justify the need for residential accommodation and the level of affordable housing and other planning obligation contributions.

3.2 We provide a high level review of the national, regional and local policies and supporting documents to which the Scheme's affordable housing provision and S106 costs should be considered.

3.3 We also comment upon Scheme specific policy considerations, and refer to RICS GN 94/12.

3.4 BPTW planning consultants submitted a planning statement to support the application.

National Planning Policy

3.5 The NPPF published in March 2012 sets out the Government's economic, environmental and social planning policies for England. It summarises in a single document all previous national planning policy advice. Taken together, these policies articulate the Government's vision of sustainable development, which should be interpreted and applied locally to meet local aspirations.

3.6 In respect of affordable housing, paragraph 50 of the NPPF aims to boost significantly the supply of housing and states that where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified. Such policies should be sufficiently flexible to take account of changing market conditions over time.

3.7 The NPPF also recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

3.8 In the context of achieving sustainable development the NPPF refers to ensuring viability and deliverability at sections 173-177. Section 173 in particular states:

> *".... To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into 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".*

3.9 The RICS GN addresses "competitive return" as follows:

> *"A term used in paragraph 173 of the NPPF and applied to 'a willing land owner and willing developer to enable development to be deliverable'. A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project. ."*

3.10

National Planning Practice Guidance

3.11 The National Planning Practice Guidance (NPPG) provides guidance to support the National Planning Policy Framework and to make it more accessible. The statements below are from Section 3 of the NPPG Viability Guidance found on the Governments online planning portal.

3.12 The NPPG addresses the question of when and how viability should be assessed by the Council in respect of planning applications. The NPPG states:

"Decision-taking on individual applications does not normally require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular circumstances of the site in question. Assessing the viability of a particular site requires more detailed analysis than at plan level.

A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken."

3.13 The NPPG addresses the use of forecast modelling within viability testing as follows:

"Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances.

However, where a scheme requires phased delivery over the 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."

3.14 With regards to the Council's consideration of planning obligations in relation to viability – including the assessment of affordable housing provision, NPPG states:

"In making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations.

This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions should not be sought without regard to individual scheme viability. The financial viability of the *individual scheme should be carefully considered in line with the principles in this guidance."*

Regional Planning Policy

3.15 The London Plan, July 2011 is the overall strategic plan for London, and sets out an economic, environmental, transport and social framework for the development of the capital to 2031 and forms part of the development plan for Greater London.

3.16 The Mayor recently published Draft Further Alterations to the London Plan (FALP) for a twelve-week public consultation. Of significance to this scheme is the change to Policy 3.11 , which states that the Mayor will seek to "ensure an average of at least 17,000 more affordable per year in London over the term of this Plan", a figure which was 13,200 previously after the Revised Early Minor Alterations (October 2013).

3.17 Policy 3.8 seeks to promote housing choice and ensure the provision of affordable family housing as a strategic priority in the LDF policies.

3.18 Policy 3.10 goes on to define affordable housing including social rented and intermediate housing, stating that they should be provided to meet the needs of specific households whose needs are not met by the market.

3.19 Policy 3.12 outlines the ability to negotiate the level of affordable housing on individual private residential and mixed use schemes. It states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes. In particular the policy states that regard should be had to the current and future requirements for affordable housing at local and regional levels, and goes on to state that there is a need to encourage rather than retain residential development and promote mixed and balanced communities. The size and type of affordable housing delivered should reflect the size and type of affordable housing currently in need. Part B of Policy 3.12 states that negotiations on sites should take account of their individual circumstances including the viability of schemes and the availability of public subsidy.

3.20 The affordable housing thresholds are set out in Policy 3.13 which seeks affordable housing provision on sites with a capacity of 10 units or more. Part B of this policy outlines that Boroughs are encouraged to seek a lower threshold through the LDF process where this can be justified in accordance with guidance.

3.21 Paragraph 3.74 of the London Plan states that affordable housing is normally required on-site but in exceptional circumstances it may be provided off-site or through a ring fenced cash-in-lieu contribution, and if appropriate 'pooled' to secure efficient delivery of new affordable housing on identified sites elsewhere.

Unitary Development Plan

3.22 The Planning & Compulsory Purchase Act 2004 reformed the development plan system replacing the Unitary Development Plan (UDP) with the Local Development Framework (LDF). There are a number of saved policies from the UDP are relevant to the Scheme, albeit none with direct relevance to the contribution of affordable housing.

Core Strategy

3.23 LB Lewisham Core Strategy was formerly adopted in June 2011. . The Core Strategy Policies which are considered relevant are as follows:

<u>Core Strategy Policy 1 – Housing Provision, Mix and Affordability</u>

- The Council will seek the maximum provision of affordable housing with a strategic target for 50% affordable housing from all sources. This would equate to approximately 9,082 net new dwellings between 2010/11 and 2025/26.

- The provision of family housing (three+ bedrooms) will be expected as part of any new development with 10 or more dwellings.

- All new housing is to be built to Lifetime Homes standards and 10% of all housing are to be wheelchair accessible or easily adapted for those using a wheelchair in accordance with London Plan policy.

- The Council will seek an appropriate mix of dwellings within a development, having regard to the following criteria:

a. the physical character of the site or building and its setting;

b. the previous or existing use of the site or building;

c. access to private gardens or communal garden areas for family dwellings;

d. the likely effect on demand for car parking within the area;

e. the surrounding housing mix and density of population; and

f. the location of schools, shops, open space and other infrastructure requirements.

- Housing provision across the borough will generally be in accordance with the Spatial Policies contained in Section 6.

- For all development, the Council will:

a. apply national and regional policy and guidance to ensure highest quality design and the protection or enhancement of the historic and natural environment, which is sustainable, accessible to all, optimises the potential of sites and is sensitive to the local context and responds to local character.

b. ensure design acts to reduce crime and the fear of crime.

c. apply the housing densities as outlined in the London Plan, except where this is not appropriate to preserving or enhancing the characteristics of conservation areas.

d. use Building for Life standards to assess major planning applications to ensure design quality in new housing schemes.

e. ensure development is flexible and adaptable to change and Sustainable Development, Housing, Planning for the Historic Environment

<u>Core Strategy Policy 21 - Planning obligations:</u>

- The need to provide infrastructure, services and/or facilities to address the impact of new development will be considered by the local planning authority from the outset of the planning application process.

The RICS Guidance Note: Financial Viability in Planning.

3.24 The RICS GN was published in August 2012. The purpose of the guidance note is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. It provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes.

3.25 The RICS GN defines financial viability for planning purposes; separates the key functions of development, being land delivery and viable development (in accordance, and consistent, with the NPPF); highlights the residual appraisal methodology; defines Site Value for both scheme specific and area-wide testing in a market rather than hypothetical context; what to include in viability assessments; terminology and suggested protocols; and the uses of financial viability assessments in planning.

3.26 The guidance note provides all those involved in financial viability in planning and related matters with an objective methodology framework and set of principles that can be applied for both plan making and development management.

3.27 The guidance note is grounded in the statutory and regulatory planning regime that currently operates in the UK. It is consistent with the Localism Act 2011, the National Planning Policy Framework (NPPF) and the Community Infrastructure Levy (CIL) Regulations 2010.

3.28 Financial viability for planning purposes is defined as follows:-

"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project."

Summary

3.29 The NPPF has a clear presumption in favour of sustainable development and in determining planning applications local authorities should take account of this.

3.30 The NPPF recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened; and in addition, obligations should be flexible to market changes in order to ensure planned development are not stalled. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

3.31 Under local policy the Council will seek the maximum provision of affordable housing with a strategic target for 50% affordable housing from all sources.

3.32 Under the London Plan, Policy 3.12 outlines the ability to negotiate the level of affordable housing on individual private residential and mixed use schemes. It states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes.

3.33 The NPPG and best practice guidance such as RICS GN 94/12 recognises the need for FVAs which accompany planning applications to be determined, should be up to date and relevant (see paragraph 1.5 above).

4 Viability Methodology and Approach

4.1 In this section we review S&P's methodology and approach in assessing viability as set out in its report. We have also had regard to the RICS GN as referred to in paragraph 1.9 and common practice. In particular we highlight paragraph 1.5 of our report in respect of an up to date viability assessment for the purposes of determining a planning application.

Summary of information provided

4.2 **Viability Appraisal Toolkit**: Both S&P and LSH have undertaken their appraisals of the Scheme using Argus Developer software. The residual appraisal methodology assess the resultant profit (after a Site Value has been inputted) and this is compared this to an industry benchmark in order to assess the Scheme's viability.

4.3 **S&P Site Value**: S&P has adopted a Site Value of [redacted] "with reference to previous discussions with LSH and finance costs and/or land value growth since then". S&P comment further that "the purchase price of the Site in 2008 was [redacted]", and "further costs have been incurred since".

4.4 LSH state that in its area wide CIL study "land values around Convoys Wharf were anticipated to be circa [redacted] per hectare ([redacted] per acre). Since the conclusion of the consultants agreeing the Site Value, the Mayoral CIL came into place. LSH comment that "it seems reasonable to assume that this additional cost to the scheme may well have resulted in the reduction of the potential EUV and therefore the Market Value of the Site".

4.5 **S&P sales values and build costs**: S&P has used comparable sales and rental evidence in order to ascertain the appropriate values the Scheme could achieve and has relied upon construction costs provided by Franklin & Andrews. S&P has relied on a cost report from 2011 and [redacted] having regard to building tender indices. S&P has not provided the tender indices.

4.6 **Development programme**: No information is provided to justify a suitable sales velocity, or assumptions to provide an off plan sales strategy, albeit we understand that agents reports have been written and reviewed by LSH. We note S&P's cashflow assumptions, which we discuss further in section 6.

4.7 **S&P infrastructure costs**: S&P has included [redacted] of infrastructure, which it states "are based upon costs previously agreed with LSH". Whilst this is the case, LSH has asked the GLA, through us to comment on the reasonableness of these costs.

4.8 **S&P basis of assessment**: S&P has undertaken its appraisal on a present day basis. It has assumed an [redacted] development programme (up to sale of the final residential unit), over three phases, this we understand is in accordance with the Environmental Impact Assessment.

4.9 **Consultancy fees**: S&P has made assumptions on the agents, marketing, legal and professional fees.

4.10 **LHS sales value and build costs**: LSH has reviewed the comparable sales and rental evidence put forward by S&P, commenting where necessary over areas of disagreement. LSH has provided further evidence which it considers comparable. LSH has sought independent advice in relation to the cost (including infrastructure) information provided.

4.11 **LSH assumptions on AH, S106 & CIL costs**: Within the application it states that the Masterplan "will provide 15% affordable housing", which S&P has modelled. S&P has also made an assumption/notional offer in relation to the level of financial contribution in relation to planning obligations as set out in Table 7. Similarly, an assumption has been made for Mayoral CIL liability. It appears the affordable housing contribution is not an output. No financial rationale has been put forward by S&P.

4.12 **S&P developer return**: S&P has state that it considers an appropriate return for this scheme to be [redacted] profit on cost. S&P state that it considers "the residual profit from the proposed scheme needs to be at least [redacted] for it to be considered viable by normal measures". S&P does not define what it means by 'normal measures'. S&P has sought to reference planning inspectorate decisions of other schemes in order to justify its target profit assumptions.

4.13 **Sensitivity analysis**: We have not seen any sensitivity analyses provided by either viability consultant.

Analysis and Comment

4.14 We understand LSH has been instructed by LB Lewisham for around six years and been in discussion with the Applicant's consultant for a similar amount of time. The level of this interaction and discussion clearly cannot be replicated in the time allocated for us to review each consultant's work. The majority of this review is therefore focused on the areas the GLA has asked us to look at, matters which LSH have raised, and other areas we consider must be addressed having regard to RICS GN 94/12.

4.15 **Agreement on residual approach**: The consultants agree that the residual methodology using the Site Value as an input and measuring a return is the appropriate way to assess the viability of the Scheme. We would agree with the approach, and add that this method is in line with RICS GN 94/12, being a recognised way of assessing Site Value for viability for planning purposes.

4.16 **Site Value**: Whilst the method is correct, we have some concerns over the Site Value input given the historical purchase price in 2008, the further costs associated with the delivery of the planning application and general market movements. We note LSH's comments on Site Value in relation to the introduction of MCIL. We comment further on Site Value in Section 7.

4.17 **Disagreement on sales values**: The manner in which both consultants have looked to the market to understand current day residential pricing in schemes which are in the vicinity of Convoys Wharf is accepted valuation practice, and encouraged by the RICS. This is one of the key areas of disagreement, which we comment further on section 5. We also comment in section 5 on the sales velocity within the scheme and the delivery of the units to the market.

4.18 **Build Costs**: Given that LSH has sought independent advice on the construction costs and the infrastructure costs we will not review these in detail. The costs are significant, as one would expect in a scheme of this size and complexity. We comment further on costs in section 6.

4.19 **Sensitivity analysis and growth**: Established practice states that in considering viability assessments in a planning viability context, it is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements (see also RICS GN 2.1.2).

4.20 In the case of Convoys Wharf the application states it "will provide 15% affordable housing". S&P has included this affordable housing contribution and a series of planning obligations within its appraisal. S&P state that the Applicant is progressing "in the hope that values will improve over time to the extent that the scheme becomes viable over time", but S&P does not provide a sensitivity analysis to anticipate this inevitable uncertainty and measure the future potential risk profile. We comment further on the financial contributions in section 6, and provide sensitivity testing of the scheme in section 9.

4.21 Whilst we accept that assessing the Scheme on a present day basis is accepted practice, we are of the view, given the length of the scheme, and the returns S&P consider will be made, that modelling growth and inflation into the Scheme should also have been undertaken. This is in accordance with DCLG guidance and the RICS GN.

4.22 **Use of review mechanism**: In a present day assessment, where appropriate the approach of including a review mechanism prior to the implementation of any future phase can be an acceptable approach in meeting the "maximum reasonable" criteria in respect of affordable housing (and planning obligations). As an alternative, with a growth approach the developer is in effect forecasting an outcome which has yet to happen and therefore taking all the risk associated with an offer based on that predicted outturn. Occasionally it is necessary to add in, when using a growth approach, a "check and balance" provision to ascertain whether the Scheme is progressing in the manner it was assumed. Any adjustment to affordable housing or planning obligation contribution would have a cap and collar. We can provide further detail of this approach if necessary.

4.23 **Developer's competitive return**: The level of profit will vary between projects and will reflect a range of factors including market demand, competition, scheme complexity, financial risk and exposure particularly in relation to up-front costs together with the anticipated timescales for development and for receiving a return. Measurements of return such as "profit on cost", "profit on value", "development yield", or "internal rate of return" (IRR) ratios are commonly used as comparable ratios, and the benchmark level against which the profitability of a scheme should be tested will depend on the degree of risk involved with the scheme. The benchmark return used by S&P and agreed by LSH for the viability appraisal is a return on cost, and both have appraised the Scheme on a present day basis.

4.24 **Return based on Internal Rate of Return**: Given the length of the development programme, and the delivery profile we are of the view that measuring the Scheme on the basis of an IRR would be a better representation of viability rather than a return on cost or return on GDV. Whilst these can be used, we are of the view that it is not unreasonable to consider using growth and inflation, and a more suitable return proxy in this case is IRR. More importantly this proxy takes into consideration the time value of money.

4.25 In addition, we have some concerns over S&P's application of the [redacted] profit on cost as this is not justified to the extent we would expect. The RICS GN refers to both market forces and intrinsic risks associated with the scheme being appraised will inform the level of return. In addition, whilst S&P mention an affordable housing return, the [redacted] profit on cost target proposed appears to be a blanket rate with no mention of a potential adjustment and no mention of the risks of the Scheme.

4.26 **Appropriate level of return**: We consider the minimum target rate of return on a growth basis to be an IRR of [redacted] which is risk adjusted relative to the following characteristics:-

- Site complexity/ constrained nature/ neighbouring buildings/ substructure works needed;
- The length of the proposed construction period;
- The proposed residential sales assumptions and speculative construction;
- The speculative construction of the commercial elements;
- The capital intensive nature of the phased development programme;
- The uncertainty over the scheme to achieve the residential pricing levels;
- Based on a growth model with assumptions made in respect of values and costs and likely outturn;

- From the implications of the wharf safeguarding;
- By reference to the IPD Performance of UK Commercial Property Developments; and
- By comparison with other key strategic sites we have directly worked upon;

4.27 **Use of sensitivity table**: We are concerned that whilst LSH has referenced growth, neither consultant has presented a sensitivity table in their respective reports, even though they both refer to future uncertainty. We provide our sensitivity testing in section 11.

Preliminary Conclusions

4.28 The RICS GN 94/12 and other best practice guidance set out the approach to reviewing viability in the context of undertaking an assessment for planning purposes.

4.29 We agree with both consultants that the approach of inputting a Site Value and measuring a return is the appropriate method to use for this scheme, and is in accordance with best practice.

4.30 Whilst there are differences between consultants in certain inputs the method and approach undertaken by both consultants has been robust, and broadly in accordance with RICS guidance. From what we have read and understand, both practitioners have acted reasonably in order to arrive at an agreed position.

4.31 In order for us to report in a robust manner we consider that the Scheme should not only be assessed on a present day basis but also having regard to growth.

4.32 The output upside and downside should to varying degrees be reflected in a sensitivity analysis from which a judgement can be formulated.

4.33 The most appropriate return proxy for this is approach is to assess the Scheme against a market adjusted target IRR.

4.34 If the GLA accept a growth approach any affordable housing review mechanism should be restricted to a more limited "check and balance", with known upside and downside risks.

5 Areas of Agreement

Introduction

5.1 In this section we provide a summary of the areas which LSH comment as being agreed. We then provide opinion on whether we consider the input is at a reasonable given the size, scale and complexity of the Scheme

Summary of information provided

5.2 LSH set out the elements of the Scheme which have been agreed as being acceptable between the parties for the purpose of the viability in planning exercise:

i. Development area of 41.2 acres.

ii. The submitted appraisal assumed a development of 3,484 residential units.

iii. Scheme to include:

   a Commercial space;

   b Health space;

   c Retail and restaurant A1/A3 space;

   d Hotel (C1);

   e Cultural space; and

   f Educational space.

iv. Development over 3 phases

v. Inclusion of 1,840 car park spaces.

vi. The below table sets out the agreed proportional appraisal assumptions:

Table 5: Consultant's areas of agreement

Additional Build Cost	Strutt & Parker Assumptions Proportion of Cost/Sale/Amount
Contingency	[redacted]
Stamp duty	
Purchase fees	
Professional fees	
Disposal fees	
Lettings Fees	
Marketing Costs	
Interest rate	
Internal over heads	
Profit (private)	
Promotional Costs	

vii. In addition to these items, LSH accepted that a land value benchmark of [redacted] reflected Market Value. We note that the Site Value is now [redacted].

viii. LSH accepted that build costs had been thoroughly interrogated by a third party Quantity Surveyor.

Analysis and comment

5.3 On review of the planning application documentation and Masterplan, we have no further comment on above paragraphs 5.2.i through to 5.2.v.

5.4 So far as the table in 5.2.vi is concerned, we comment as follows:

i. Contingency: We would normally expect to be provided with a site specific justification that analyses the risks associated with development on that site, specifically relating to ground condition, contamination, abnormal costs, unknown elements of the develop and the risks associated with them, in order to justify the proposed level of contingency. It is considered that a contingency of [redacted] for a scheme of this nature is low. It is not clear from the information we have been provided with whether contingency has been included in the cost report. Clearly we have not had a detailed level of discussion with cost consultants, but at the level we have been instructed to review this scheme on, this level of contingency is considered optimistic, and we would normally expect a [redacted] figure;

ii. Professional fees: We are of the view that the [redacted] on cost is [redacted] for a scheme of this nature and complexity. Again, we have not been involved in detailed discussions, but we would normally expect this to be between [redacted] of costs, and consider a [redacted];

iii. Finance: On a scheme of this nature we are of the view that a finance rate of [redacted] is considered to be low, and we note that S&P has [redacted] the finance to [redacted] in its November 2013 update, with no apparent reasoning; and

iv. Where we have not commented, we are broadly in agreement with the consultants.

5.5 We comment further on Site Value in section 8.

Preliminary Conclusions

5.6 Whilst a number of the assumptions put forward by the respective consultants have been agreed, we are of the view that there is likely to be variance in these.

5.7 Notwithstanding the variance, the inputs are considered to be reasonable.

6 Review of Value Assumptions and Inputs

Introduction

6.1 In this and the following section we review the value inputs relating to residential values and sales rates of the appraisals within S&P's FVA and LSH due diligence exercise. We provide a summary overview of the actual inputs, then review the source of each element, and finally provide comment and analysis. We also have regard to the need to update the appraisal to current day market conditions, in particular what we state at paragraph 1.5 (above) of our report.

Summary of Information Provided

a) Private Residential

Strutt & Parker

6.2 The table below is a summary of the inputs that S&P has used in relation to its FVA. S&P has identified an overall average for each plot.

Table 6: S&P's private residential pricing assumptions

Plot	Type and block	£psf Ave	Location	Max Height	Other uses
P01	Private Resi	[redacted]	Riverside	12	Retail/ Restaurant
P02	Private Resi Private Resi	[redacted]	Riverside	48	Retail/ Restaurant
P03	Private Resi	[redacted]	Riverside	14	Cultural/ Restaurant
P04	Private Resi	[redacted]	Riverside	13	Restaurant/ Employment
P06	Private Resi Private Resi	[redacted]	Middle	38	Retail/ Employment
P08	Private Resi	[redacted]	Middle	14	Retail/ Restaurant
P09/10	Private Resi	[redacted]	Middle	3	Cultural
P11	Private Resi	[redacted]	Rear	3	None
P14	Private Resi Private Resi	[redacted]	Middle	38	Employment / Retail
P15	Private Resi	[redacted]	Rear	9	Afford/ Retail/ Employment / Hotel
P18	Private Resi	[redacted]	Rear	14	Retail

6.3 S&P has based its residential sales values on comparable value evidence obtained from the Molior Database.

6.4 S&P has provided the following as justification for its inputs:

- Seren Park, SE3
- Lovells Wharf (Banning St/River Gardens), SE10;
- New Capital Quay, SE10;
- Greenwich Creekside, 133 Creek Road, SE3;
- Theatro Tower;
- Delta, Creek Road Deptford;
- Ashburnham Apartments; and
- Paynes & Borthwick Wharf.

6.5 On inspection of the supporting evidence provided by S&P it was noted that only a selection of sales were provided to support the value assumptions provided in its FVA. It is unclear whether S&P left this information out on purpose or not, as no independent commentary was provided. We also note that no variance is identified by S&P as to the possible upper and lower limits of pricing. This is normally expected as it places pricing context to the Scheme.

6.6 S&P has provided re-sales information at the following locations:

- the Selection/Union Point/ Sailacre House;
- Blue Building, Woolwich Road; and
- Woodlands Heights.

6.7 No commentary has been provided by S&P on the rate of sale of units to the market when released to the market. We understand S&P's assumptions to be as set out in its Argus financial model, but not at any point in its report do S&P comment as to the reasonableness and justification of the assumption. It is unclear from the information received whether a residential agent has previously commented on this assumption.

Lambert Smith Hampton

6.8 In 2011 LSH considered that there were a few new developments underway in close proximity to Convoys Wharf which provided comparable data. LSH reference Adagio Apartments at Creekside and Theatro at Creek Road, Greenwich developed by Union Developments. LSH also had consideration to Berkeley Homes (St. James Group) the 'Silkworks' scheme, OneSE8 and Deptford Bridge. George Wimpey 'Axis' development and Bellway's Meridian South at Hither Green.

6.9 LSH has provided the following further information:

i. Greenland Place – SE8 –achieving £476-494 per sq ft Dec 13

ii. Marine Wharf West – SE8 – achieving £446-592 per sq ft 2012.

iii. Drakes Apartment (Refrub)- SE8 – achieved £342-£484 per sq ft 2009

iv. 124 Deptford Hight St –SE8 – achieving £313-531 per sq ft.

6.10 LSH has not commented on sales velocity assumptions in its report.

b) Affordable Residential

Strutt & Parker

6.11 We have considered the value assumed for the affordable housing component within the S&P model. In their report S&P indicate that a blended rate of around [redacted] has been applied, and that this has been calculated following discussions with London and Quadrant. We note however that a rate of [redacted] is also referred to in the report and that [redacted] is used in the model itself.

6.12 No commentary is provided on the timing of payments from the registered provider ("RP"). Assumptions are of course within S&P's appraisal cashflow.

6.13 The table below is a summary of the affordable housing values used by S&P, in its appraisal.

Table 7: S&P affordable residential pricing assumptions

Phase	Plot	NSA	£/sqft	Total Value
Phase 1	Affordable P12	98,340	[redacted]	[redacted]
Phase 1	Affordable P15	24,411	[redacted]	[redacted]
Phase 2	Affordable P19	109,801	[redacted]	[redacted]
Phase 3	Affordable P05	84,105	[redacted]	[redacted]
Phase 3	Affordable P20	41,966	[redacted]	[redacted]

6.14 In relation to the commercial values, we have not had sight of any reports to back up the assumptions provided by S&P.

Analysis and Comments

6.15 On review of Seren Park we comment as follows:

- Molior reports this scheme is a "horror story";
- Last schedule of asking prices was dated December 2011;
- Located on the eastern side of Greenwhich Park, and therefore quite a way from the Site;
- The following table summarises Molior's most up to date asking prices of the scheme:

	Max	Avg	Min
Price:	£750,000	£396,422	£235,000
£psf	£691	£530	£425
Sq. ft	1,452	745	513

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£345,000	£274,261	£235,000
2 Bedroom	£610,000	£395,225	£262,500
3 Bedroom	£750,000	£670,500	£585,000

- The scheme is historic, and would have been a good benchmark to understand residential values at 2011;
- We are of the view that pricing has moved on since 2011, and therefore this information sets an underlying tone of value which we consider could be achieved at Convoys Wharf; and

- The average pricing provided by S&P is at the lower end of the pricing as set out in Molior's tables above.

6.16 On review of Lovells Wharf, we comment as follows:

- Lovells is 29 units. It is fully sold and complete;
- River Gardens (the neighbouring scheme) is 125 units, it commenced at the end of Q1 2012 and is due to complete in spring 2014;
- 20 units were sold overseas during autumn 2011. The scheme was re-launched in mid-September 2014 and 56 new sales have been made since then including 21 in Q4 2013;
- The scheme is quite a distance east from Convoys Wharf, and the other side of Greenwich Park;
- The following table summarises Molior's most up to date asking prices of the scheme:

.	Max	Avg	Min
Price:	£1,700,000	£532,239	£249,950
£psf	£705	£560	£417
Sq. ft	3,046	932	440

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£360,000	£298,413	£249,950
2 Bedroom	£595,000	£511,158	£375,000
3 Bedroom	£950,000	£725,684	£520,000

- The average pricing provided by S&P is at the lower end of the pricing as set out in Molior's tables above.

6.17 On review of New Capital Quay, we comment as follows:

- 44 units sold in Q4 2013. Construction works have completed in three blocks containing 333 units but remain on-going in three more containing 303 units, which will all be completed by the end of October 2014.
- Within a reasonable vicinity of the Site;
- The following table summarises Molior's most up to date asking prices of the scheme:

.	Max	Avg	Min
Price:	£2,050,000	£534,188	£280,000
£psf	£1,577	£660	£249
Sq. ft	2,038	812	460

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£460,000	£329,113	£280,000
2 Bedroom	£800,000	£534,993	£375,000
3 Bedroom	£2,050,000	£734,286	£295,000

- The upper and lower thresholds lie outside of those which are provided by S&P;
- The average pricing provided by S&P is at the lower end of the pricing as set out in Molior's tables above.

6.18 On review of Greenwich Creekside, 133 Creek Road, we comment as follows:

- The last units were reserved by the end of April 2013. Construction works completed in mid 2012.
- These units are historic sales but lie within the vicinity of the Site.
- The following table summarises Molior's most up to date asking prices of the scheme:

.	Max	Avg	Min
Price:	£865,000	£384,851	£230,000
£psf	£697	£484	£384
Sq. ft	1,671	761	464

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£382,500	£272,635	£230,000
2 Bedroom	£660,000	£401,728	£310,000
3 Bedroom	£865,000	£477,682	£385,000

- The average pricing provided by S&P is around the level of pricing as set out in Molior's tables above;
- No variance is identified by S&P as to the possible upper and lower limits of pricing, in order to place pricing context on the Scheme.

6.19 On review of, Theatro Tower we comment as follows:

- We consider the data associated with this Scheme to be historic and can be discounted.

6.20 On review of Delta, Creek Road Deptford we comment as follows:

- The last three units sold in Q3 2012.
- The evidence provided by S&P is somewhat selective given the amount of detail provided on Molior.
- Whilst the location is within the vicinity, the product would be comparable to the worst units proposed at Convoys Wharf.

6.21 On review of Paynes & Borthwick Wharf, Watergate Street we comment as follows:

- Considered to be strong evidence given location of scheme and type of product (in reference to the new build), subject to the restoration of the listed building;
- 125 units are now build complete and the remainder are due to complete by the end of Q1 2014. 161 units have now sold, including 31 in Q4 2013, leaving 52 to be sold;
- The following table summarises Molior's most up to date asking prices of the scheme:

	Max	Avg	Min
Price:	£825,000	£469,409	£290,000
£psf	£864	£563	£468
Sq. ft	1,408	841	490

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£370,000	£310,833	£290,000
2 Bedroom	£645,000	£439,333	£355,000
3 Bedroom	£825,000	£712,857	£525,000

- The average pricing provided by S&P is at the lower end of the pricing as set out in Molior's tables above.

6.22 On review of Ashburnham Apartments we comment as follows:

- The final four units sold in Q3 2012;
- Non-waterfront location, but typical type of product the further away from the waterfront at the Site;
- Historical evidence, so expectation that market would have moved.
- Information provided by S&P is selective;
- The following table summarises Molior's most up to date asking prices of the scheme:

.	Max	Avg	Min
Price:	£349,950	£290,325	£219,950
£psf	£864	£603	£405
Sq. ft	839	496	405

	Max	Avg	Min
Studio:	£0	£0	£0
1 Bedroom	£259,950	£250,783	£219,950
2 Bedroom	£349,950	£314,050	£244,950
3 Bedroom	£0	£0	£0

- The average pricing provided by S&P is around the level of pricing as set out in Molior's tables above.

6.23 Molior is an industry recognised London Residential research tool, which is widely quoted by consultants, researchers and developers when reporting on schemes in London. Molior is heavily caveated, although is recognised as providing an accurate and robust form of data so far as it is possible to do so for residential development in London. As a consultancy we use Molior to support our work, and it is widely accepted to be a reliable evidence source.

6.24 Whilst the resales provide an improved understanding of market conditions, we do not consider them to hold as much weight as that evidence which is provided above.

6.25 Notwithstanding sourcing evidence from Molior, given the scale of the project, we would expect the independent residential agents instructed by the Applicant to have provided an update addendum to review the current residential market position. S&P has valued the residential part of the Scheme at [redacted], and whilst there is mention to "comparable" schemes, S&P's analysis of the residential is more of a brief comment and update rather than a detailed and thorough overview. We would have expected this exercise to be undertaken by residential agents with a strong and active presence in the area. Without more detailed reporting, this has clearly opened up criticism on the evidence base, which LSH has reflected in its reporting.

6.26 On review of the sales velocity, or rate of sale S&P has assumed that a [redacted] weighting sales approach. Without going into detail, this assumption is considered to be optimistic, in that it assumes [redacted] for the course of the assumed sales period. Whilst there is likely to be a significant income tranche on practical completion to reflect off plan sales, we are of the view that there will be greater tethering off than that assumed by S&P. This weighting approach has also been applied to the affordable housing income distribution.

6.27 In relation to the affordable housing values we have reviewed the tenure mix proposed and comment on pricing. The transfer price (i.e. sale price to a registered provider (RP)) is a function of a number of factors, the most significant of which are:

i. Intermediate housing (assuming shared ownership):

- The income thresholds for each intermediate bedroom category
- The full market value of each unit type
- The percentage share sold at first sale
- The rent charged on the unsold equity
- The assumed level of deposit
- RP confidence in the product and market

ii. Affordable rent:

- The rent set at first letting (i.e. percentage of market rent including service charge)
- Scope for annual rent increases
- RP confidence in the product and market

6.28 A review of the price applied by S&P suggests that the income groups assumed for the intermediate homes are some way below current GLA target thresholds. We have derived target income groups from a combination of S&P's MV's, a set of standard shared ownership product assumptions, and the overall price they have advised. The table below shows our opinion of an adjusted minimum transfer price psf (based on these assumptions) for modelling purposes:

Shared ownership (assuming a MV at [redacted])			
	One bed	**Two bed**	**Three bed**
Maximum average target income group	[redacted]		
Initial share	[redacted]		
%age rent on unsold equity	[redacted]		
Minimum transfer price psf	[redacted]		

6.29 The rents proposed for affordable rent are close to those published by the HCA as social rent caps for 2014-2015. The minimum transfer price appropriate for testing the proposed affordable rent product assuming these rents is [redacted] (averaged across all bedroom categories). We have calculated the minimum current blended transfer price, incorporating both tenures on the basis of the 25:75 affordable rent to intermediate split, as [redacted], based on these assumptions.

6.30 We have also considered what impact GLA target income thresholds for intermediate units, combined with higher affordable rents would have on the blended affordable housing transfer price. We have tested household incomes which are close to GLA thresholds, alongside a 50:50 apportionment of the new capped and discounted rents (introduced as part of the 2015-2018 programme), for the affordable rent component. We have also adjusted the market value to [redacted] following our review of sale values.

6.31 For the intermediate housing, on the basis of the income groups specified below (i.e. thresholds close to current GLA target income groups), and the revised MV rate of [redacted], the transfer price for this tenure is likely to [redacted] to a [redacted] minimum level of [redacted]

Shared ownership (assuming a MV at £550 psf)			
	One bed	Two bed	Three bed
Maximum average target income group	[redacted]		
Initial share			
%age rent on unsold equity			
Minimum transfer price psft			

6.32 On the basis that capped rents are set at 50% of market rents, and discounted rents at Local Housing Allowance (LHA) levels (inclusive of service charge), we assess an appropriate price for affordable rent as [redacted]

6.33 Assuming that the tenure and unit mix remain constant, we calculate that a minimum transfer price (for appraisal purposes) on a blended basis is approx. [redacted]

6.34 In relation to the commercial values we note that there is are manual inputs of hotel values Plot 15 and Plot 16.

Preliminary Conclusions

6.35 We are mindful of the need when undertaking FVAs of meeting the requirements as set out in paragraph 1.5 above, and to provide up to date information upon which to consider the viability evidence when arriving at a decision on the planning application.

6.36 There would appear, on review of the available evidence, to be a strong propensity for an upside in values of all units. The general tone of [redacted] is considered to be relatively easily achievable given the comparable evidence put forward and our updated analysis of it.

6.37 In addition, given the infrastructure assumptions and placemaking we are of the view that a regenerative impact will be achieved over and above the general tone put forward by S&P.

6.38 No comprehensive analysis or breakdown of residential pricing, or update in pricing has been provided by the Applicant which in our view would robustly deal with the Scheme's pricing. We therefore consider residential values can be adjusted.

6.39 We appreciate that there are over 3,400 units to value but greater detail of pricing could have been undertaken and presented as evidence. It is unclear as to the reasoning why this exercise was not undertaken robustly given the weight applied to the residential value on the viability of the Scheme.

6.40 We accept that the upside on each unit will vary proportionally, relative to its location within the Scheme. We have however tested a holistic upside through the sensitivity testing set out in section 11.

6.41 There is no commentary provided by S&P on market movements since 2011, and no comprehensive analysis of pricing to counter our view that adjustments should be made.

6.42 In light of LSH's request for the GLA to consider the reasonableness of the Applicant's proposed revenue assumptions, we are of the view that the residential pricing as set out by S&P is under the current day pricing level we would assume.

6.43 Given income caps there could be an improvement in affordable housing pricing. We have been unable to test the impact of any changes in the affordable housing residential mix as there are no underlying assumptions provided by S&P, behind the [redacted] per sq ft and [redacted] per sq ft rates suggested.

6.44 Notwithstanding our comments above, the income distribution for the sale of the residential units is considered to be ambitious.

7 Costs and Construction Programme

Introduction

7.1 In this section we review the cost inputs within S&P's FVA and LSH due diligence exercise. We provide a summary overview of the inputs, then review the source of each element, and finally provide comment and analysis of each. We also comment on the development timescales. As with previous sections of our report, this section has regard to the need for updating information, as set out in paragraph 1.5 above.

Summary of Information Provided

7.2 S&P has only provided a series of tables within its report to identify construction costs. We have not had sight of any cost reports, nor had any discussions with cost consultants.

7.3 In 2011 a breakdown of the estimated build costs for the Scheme was provided to LSH as estimated by cost consultant Franklin and Andrews. These costs were separated out into standard costs for construction of the units and those abnormals required for delivering development.

7.4 The build costs included sub structure, super structure and prelims, and the aggregated value is set out below:

Table 8: High level construction cost assumptions

House type	Standard Build Cost
Private Units	[redacted] (Average)
Private Tower	[redacted] (Average)
Affordable	[redacted] (Average)

7.5 So far as what is included in the infrastructure costs, the following have been qualified as being included:

a Enabling works and decontamination

b Marine Works

c Roads

d Footpaths / Landscaping

e Underground Drainage

f External Services

g Statutory Service connections

h Flood defenses

7.6 In the April 2013 FVA prepared by S&P, which LSH has reviewed also included a number of additional costs. These included:

a The Olympia building – necessary to meet required heritage, cultural and employment policies.

b The River bus – necessary to provide sufficient access.

c Archaeology works – necessary to develop the site.

d Bus improvements – necessary to provide sufficient access.

e Wharf and Jetty works – necessary to support the principle of the redevelopment of the site.

7.7 The following table is a summary of the notional S106 of the offer from the Applicant, comparing it with the 2011 permission, and also with comments from LB Lewisham:

Table 9: Summary of S106 historical and current negotiations

Item	2013 S106	2011 S106	LB Lewisham Comment
Health Building	[redacted]	£650,000	no option for off-site
Cultural - Listed Building Works		£12,493,743	LBL consider "not a S106 cost"
Employment - Listed Building Works			LBL consider "not a S106 cost"
Retail - Listed Building Works			LBL consider "not a S106 cost"
Restaurant/ Bar - Listed Building Works			LBL consider "not a S106 cost"
School		£6,964,248	LBL has implied that this should be index linked.
School post 16yrs education		£2,235,340	LBL consider £0 "unacceptable"
Leisure		£2,989,765	LBL consider £0 "unacceptable"

Children's play space	[redacted]	£475,000	LBL consider "acceptable", delivery to be within S106
Off-site adventure play	[redacted]	£100,000	LBL consider £0 "unacceptable"
Sayes Court Gardens improvements	[redacted]	£300,000	LBL consider £0 "unacceptable"
On-site publicly open space	[redacted]	£700,000	LBL consider only work beyond normal expectations to be acceptable
New Pier Path and Thames Path	[redacted]	£1,700,000	LBL consider only work beyond normal expectations to be acceptable
Deptford High St - Landscape enhancements	[redacted]	£500,000	LBL consider £0 "unacceptable"
Other Community facilities	[redacted]	£0	LBL consider £0 "unacceptable"
Community Trust	[redacted]	£3,000,000	Removal is "not agreed".
River Bus	[redacted]	£4,250,000	LBL wish TfL to confirm acceptability
Highway Works	[redacted]	£3,150,000	LBL "concerned with cap, if not deliver the necessary works".
New King Street improvements	[redacted]	£1,400,000	LBL want no cap on costs
Cycle path	[redacted]	£100,000	GE - In S&P report, but not in LBL summary
Green Travel Plan	[redacted]	£200,000	GE - In S&P report, but not in LBL summary
Archaeology Works	[redacted]	£3,140,000	LBL consider "not a S106 cost"
Bus Improvements	[redacted]	£6,000,000	LBL wish TfL to confirm acceptability
Heritage and Public Art	[redacted]	£300,000	"Acceptable"
Controlled Parking Zone	[redacted]	£250,000	"Acceptable"
Air quality monitoring	[redacted]	£100,000	LBL state "no capped cost" due to mitigation purposes
Telecoms Interference monitoring	[redacted]	£20,000	LBL state "no capped cost" due to mitigation purposes
Design Panel	[redacted]	£200,000	LBL state "no capped cost"
Professional fees	[redacted]	£400,000	LBL state "monitoring costs are on top
Wharf and Jetty	[redacted]	£7,239,100	LBL consider "not a S106 cost"
Employment /Training	[redacted]	£2,000,000	considered "unacceptable" LBL want a further £700K
Totals	[redacted]	**£60,857,196**	

7.8 Note that the payments highlighted in **orange** derive an income once complete.

7.9 S&P has assumed a Mayoral CIL level of [redacted]. We have not had sight of the make-up of this figure.

7.10 LSH highlight S&P's comments that its proposed appraisal accounts for all relevant costs, whilst reserving the right to include additional and extraordinary costs as and if relevant. LSH has therefore questioned what extraordinary costs S&P could be referring to and to what extent they should be expressed in any appraisal.

7.11 In relation to the construction and development timeframe the following table is a summary of S&P's assumptions, which are taken from the appraisal.

Table 10: S&P's assumed development programme

	Phase 1	Phase 2	Phase 3
Stage Name	[redacted]		
Phase Start			
Purchase			
Pre-Construction			
Construction			
Post Development			
Phase End			
Phase Length			
TOTAL			

7.12 No Gantt chart, or detailed construction programme was provided in S&P's report. No comment has been provided by LSH on construction programme.

7.13 The construction timeframe provided assumes the c.3,500 residential units will be constructed and sold in a period of c[redacted].

Analysis and Comments

7.14 Due to the complexity of the Scheme and impact of the development costs on viability, LSH instructed cost consultant Veale & Saunders, to interrogate the builds costs presented in 2011. Veale & Saunders concluded the budget costs presented were considered to be a reasonable forecast based upon the information available at the time.

7.15 In its report of November 2013, S&P applied the previously agreed 2011 construction costs to the Scheme. S&P has [redacted] to represent the "movement of the build cost index between 2011 and 2013". No new cost plan has been provided to support S&P's figures, but rather an amendment has been applied to that previously accepted in 2011. No indices have been provided to aid in the justification of the amendment. LSH has asked the GLA about the reasonableness of this approach, and whether a cost consultant is required to investigate the construction costs further.

7.16 Whilst we appreciate that costs can be indexed, we must take into consideration the evolution of the Scheme and that the work undertaken in 2011 may not fully reflect the Scheme as applied for. Nonetheless LSH are content with the Applicant's cost assessment and we have no reason to doubt the accuracy of the information. We are however concerned over the seemingly arbitrary use of the [redacted] applied by S&P, without any real justification.

7.17 LSH has identified that a particular area of debate to be considered is the proposed infrastructure costs. It was agreed in 2011 that these aggregated to circa [redacted]. LSH note the inconsistency in S&P's approach, in that S&P has [redacted] but not the infrastructure, and provide no justification for this. LSH note that if this exercise was undertaken such costs would reduce by circa [redacted].

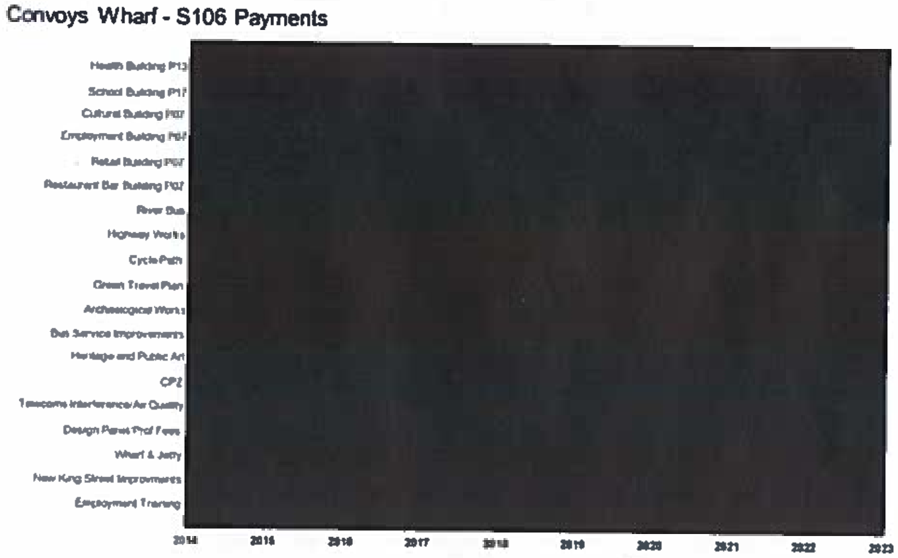
7.18 We have not reviewed the infrastructure costs but as a general rule of thumb we would normally expect these costs to be in the order of [redacted] of the total build costs. These are at a level closer to [redacted], which is at the [redacted] of the possible range, but not considered to be at an unreasonable level.

7.19 Clearly any placemaking/infrastructure costs would be a value driver over time. Following our comments in section 6 in relation to scheme specific regenerative growth, these high infrastructure costs have not been mentioned by S&P as a possible growth driver over and above that which is predicted in outer London residential forecasts. We are of the view "placemaking" will likely contribute to [redacted] the residential values achievable at this Scheme.

7.20 MCIL is a fixed cost and forms part of the costs of the Scheme. We would assume as detailed matters are finalised this figure may have some degree of variance.

7.21 In relation to the S106 costs, the timing of these payments is distributed evenly over certain time parameters, as set out in S&P's appraisal. The chart below is a graphical representation of the timing of the payments:

Chart 1: S&P's S106 payment timing assumptions



7.22 The following chart identifies the S106 payment distribution assumptions during the lifetime of the scheme.

Chart 2: S106 payment assumptions during the lifetime of the scheme

7.23 We note the position adopted by LB Lewisham in that it considers a number of costs to be "unacceptable"; others should "not be capped"; and, other costs are "not defined as S106 contributions".

7.24 Our role in reviewing the viability of the Scheme is not to identify the reasonableness of the particular cost, but to review the overall level of the financial contribution alongside the affordable housing offer. We are not instructed to identify what costs should be apportioned to S106 items, rather we comment and conclude as to whether the overall "pot" which has been offered by the Applicant and the level of contribution is the maximum reasonable that the Scheme can afford.

7.25 Any apportionment of the "pot" is a matter to be discussed between the GLA, the Applicant and LB Lewisham.

7.26 Whilst LB Lewisham may consider a particular cost as identified within Table 9 as not being a S106 contribution, it remains a cost to the Scheme and forms part of the make-up of the viability assessment.

7.27 LSH has asked the GLA to consider the appropriateness of the costs proposed and the impact if these costs can be valued engineered on the overall viability of the proposed scheme. We also consider this to be a matter for the GLA to comment.

7.28 In relation to the construction programme, it is noted that the phases overlap significantly. Clearly there will be a variance in programme as one developer will inevitably undertake development differently to another. Implications of delay will also differ for each developer. Whilst there is likely to be a degree of variance in programme, our role is to make sure the assumptions put forward by S&P are reasonable, and not to comment on the range of possible scenarios which could take place. We are of the view that the inevitable uncertainty is reasonably reflected in sensitivity testing which we provide in section 11.

Preliminary Conclusions

7.29 We note the protracted discussions between respective cost consultants and whilst there may be variations in the Scheme, we do not consider these variations warrant another full cost review. The necessary cost parameters are in place and have been agreed, and we are therefore happy to accept the 2011 costs as a starting point. We understand that the amount of information transferred between consultants was considerable and the level of analysis from LSH instructed cost consultant was at a level which adhered to RICS Guidance.

7.30 We are not prepared to accept a notional [redacted] in costs without justification. We comment further on inflation/deflation in section 10 (see paragraph 1.5 above).

7.31 We are not seeking to alter the infrastructure costs, and are prepared to agree with the inputs agreed by the consultants, and note that they are within a reasonable range, albeit at the [redacted]. We note LSH comments in relation to [redacted], and comment further on this in section 10.

7.32 As part of the masterplanning exercise, placemaking will contribute to the positive enhancement of the residential sales values. We do not believe that point has been adequately addressed by either S&P or LSH. We comment further on regenerative growth in section 10.

7.33 The construction timeframe adopted ambitious. We consider the deliver and sale of 3,500 units in [redacted] to be optimistic.

7.34 Clearly there is disagreement and dissatisfaction from LB Lewisham as to the quantum and makeup of the S106 payments. We have only modelled the notional offer put forward by the applicant.

7.35 Clearly, any alteration in the distribution of the S106 payments will alter the financial makeup and therefore the viability of the Scheme (see also paragraphs 7.21 and 7.22 above).

8 Site Value

Introduction

8.1 In this section we review the justification of Site Value referred to in S&P's FVA. We also provide comment where necessary on the views of LSH.

8.2 In particular in this section we have regard to the RICS GN and the principles set out in terms of methodology and approach in Section 4.

Summary of Information Provided

8.3 S&P has adopted a Site Value of [redacted] "with reference to previous discussions with LSH and finance costs and/or land value growth since then". S&P comment further that "the purchase price of the Site in 2008 was [redacted]", and "further costs have been incurred since".

8.4 LSH state that in its area wide CIL study "land values around Convoys Wharf were anticipated to be circa [redacted]m per hectare [[redacted] per acre]". Since the conclusion of the consultants agreeing the Site Value, the Mayoral CIL came into place. LSH comment that "it seems reasonable to assume that this additional cost to the scheme may well have resulted in the reduction of the potential EUV and therefore the Market Value of the Site".

Analysis and Comment

8.5 In Section 4 we outlined the principle of viability in a planning context. The RICS GN, which both consultants agreed is the basis for assessing Site Value, is very clear on the relationship of this in a planning context and by reference to the NPPF. In particular, the reference to providing a competitive return to a willing landowner as expressed in paragraph 173 of the NPPF, the RICS GN specifically addresses this as set out in paragraph 3.9 of this report. Site Value in the RICS is defined as follows:-

> "*Site Value should equate to the Market Value subject to the following assumption that the value has regard to the development plan policies and all other material*

planning considerations and disregard that which is contrary to the development plan."

8.6 We note that the discussions and agreement of Site Value began in 2009, when there was little viability in planning guidance available, and MCIL was not introduced.

8.7 Clearly we have not been party to the on-going discussions, but we would anticipate that the consultants have discussed this at some length and the question we should be focusing on is whether the Site Value meets the definition as set out in RICS GN 94/12.

8.8 We also note that the Site Value provided by S&P is [redacted] of a possible [redacted] of cost, which equates to [redacted] of the costs.

Preliminary Conclusions

8.9 We believe the agreed position of [redacted] is at the lower end of a range of possible Site Value having regard to the date of this report (see paragraph 1.5).

8.10 Notwithstanding the above we conclude that [redacted] is therefore an appropriate input. We are of the view that it meets the RICS definition of Site Value in RICS GN94/12.

9 Review of Financial Appraisal

9.1 We have reviewed the methodology, value, construction costs, and S&P's approach in determining a Site Value in the previous sections. Below we set out and review the proposed Scheme appraisal. In the next section we consider the sensitivity of this and the impact upon the proposed affordable housing payment in lieu of on-site provision.

Summary of Information Provided

9.2 S&P has used Argus Development software to undertake its financial assessment, which is an accepted appraisal tool.

9.3 LSH has also used Argus Development software, and its appraisal provides amended inputs where there are areas of disagreement, or inaccuracy.

9.4 We summarise S&P's appraisal inputs in the tables below. The first table illustrates the assumptions in November 2013.

Table 11: S&P appraisal assumptions – November 2013 submission

Value Item	Value £CV psf
Affordable P12, P15, P19, P05, P20	[redacted]
Private Resi P11	[redacted]
Private Resi P09/P10	[redacted]
Private Resi P15	[redacted]
Private Resi P14	[redacted]
Private Resi P06, P08, P18	[redacted]
Private Resi P03	[redacted]
Private Resi P01, P02, P04	[redacted]
Private Resi P02, P06, P14	[redacted]

Value Item	Rent £psf
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]
Employment P19	[redacted]
Employment P07 (S.106 Item)	[redacted]

Value Item	£CV
Car Parking	[redacted]
Car Parking	[redacted]
Car Parking	[redacted]

Value Item	£CV
Ground Rents	[redacted]
Ground Rents	[redacted]
Ground Rents	[redacted]

Value Item	£CV
Hotel P15	[redacted]
Hotel P16	[redacted]
Wharf Land	[redacted]

Value Item	Yield
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]
Employment P19	[redacted]
Employment P07 (S.106 Item)	[redacted]

Health P13 (S.106 Item)	[redacted]
Restaurant/Bar P08, P01, P02, P03, P04	[redacted]
Restaurant Bar P07 (S.106 Item)	[redacted]
Retail P08, P15, P14, P18, P01, P02, P06	[redacted]
Retail P07 (S.106 Item)	[redacted]
Cultural P09/P10	[redacted]
Cultural P16	[redacted]
Cultural P07 (S.106 Item)	[redacted]
Cultural P03	[redacted]
Hotel P15	[redacted]
Hotel P16	[redacted]
School	[redacted]

Health P13 (S.106 Item)	[redacted]
Restaurant/Bar P08, P01, P02, P03, P04	[redacted]
Restaurant Bar P07 (S.106 Item)	[redacted]
Retail P08, P15, P14, P18, P01, P02, P06	[redacted]
Retail P07 (S.106 Item)	[redacted]
Cultural P09/P10	[redacted]
Cultural P16	[redacted]
Cultural P07 (S.106 Item)	[redacted]
Cultural P03	[redacted]
Value Item	**Incentives**
Incentives for all uses - rent free	[redacted]
Purchaser's Costs (on GDV)	[redacted]

	Cost
Cost Item	**£**
Land	[redacted]
Stamp	[redacted]
Agents	[redacted]
Legal	[redacted]
Cost Item	**£psf**
Affordable P12, P15, P19, P05, P20	[redacted]
Private Resi P01, P02, P03, P04	[redacted]
Private Resi P06, P08, P09/10, P11, P14, P15, P18	[redacted]
Private Resi P02,, P06, P14	[redacted]
Cost Item	**£CV**
Car Parking	[redacted]
Car Parking	[redacted]
Car Parking	[redacted]
Cost Item	**£psf**
Hotel P15	[redacted]
Hotel P16	[redacted]
Cost Item	**£psf**
Employment P14, P13, P15, P04, P05, P06, P20	[redacted]

Cost Item	**£CV**
Mayoral CIL	[redacted]
Utilities/Infrastructure/Roads	[redacted]
River Bus	[redacted]
Highway Works	[redacted]
Cycle Path	[redacted]
Green Travel Plan	[redacted]
Archaelogical Works	[redacted]
Bus Service Improvements	[redacted]
Heritage and Public Art	[redacted]
CPZ	[redacted]
Telecoms Interference/Air Quality	[redacted]
Design Panel/Prof Fees	[redacted]
Wharf & Jetty	[redacted]
New King Street Improvments	[redacted]
Employment Training	[redacted]
Cost Item	
Professional fees (as a % of construction cost)	[redacted]
Marketing (as a % of GDV)	[redacted]
Letting Agent Fee (as a % of rent)	[redacted]

Employment P19	[redacted]	Letting Legal Fee (as a % of rent)	[redacted]
Employment P07 (S.106 Item)	[redacted]	**Cost Item**	
Health P13 (S.106 Item)	[redacted]	Sales Agent Fee (as a % of GDV)	[redacted]
Restauarant/Bar P08, P01, P02, P03, P04	[redacted]	Sales Legal Fee (as a % of GDV)	[redacted]
Restaurant Bar P07 (S.106 Item)	[redacted]	**Cost Item**	
Retail P08, P15, P14, P18, P01, P02, P06	[redacted]	Finance Debit (on land and construction)	[redacted]
Retail P07 (S.106 Item)	[redacted]	Finance Credit (on land and construction)	[redacted]
Cultural P09/P10	[redacted]	**Performance Measures**	
Cultural P16	[redacted]	Profit on Cost%	[redacted]
Cultural P07 (S.106 Item)	[redacted]	Profit on GDV%	[redacted]
Cultural P03	[redacted]	Profit on NDV%	[redacted]
School P17 (S.106 Item)	[redacted]	IRR	[redacted]
Contingency (on construction costs)	[redacted]		

Analysis and Comment

9.5 Given discussions between S&P and LSH have been on-going for over six years, and the exercise has been undertaken in accordance with RICS guidance, we are satisfied that the majority of the inputs put forward by S&P are reasonable.

9.6 We have commented throughout this report about the possible variance in inputs and possible upper and lower levels. The primary area, and the most important inputs, we consider do not reflect current market trends are the private housing pricing and build costs (largely as these are now out of date to when S&O provided their reports and LSH commented upon them). A summary of comments in relation to differences can be found in Table 1.

9.7 We therefore consider that:

- Prices on average should be raised by around [redacted]; and
- Costs should be [redacted] in line with the BCIS All-In Tender Price Index (as a crude proxy) by around [redacted].

9.8 As a result of these adjustments the present day outturn that arises is:

Table 12: Gerald Eve Appraisal Outputs – Present Day

	GE Present Day
IRR	[redacted]
Profit on cost	[redacted]
Profit on GDV	[redacted]
Affordable housing contribution	**As provided by Applicant**
S106 obligations	**As provided by Applicant**

Preliminary Conclusions

9.9 Our preliminary conclusions with regard to GDV and construction costs are set out in the previous sections of this report together with methodology and approach. We conclude that these are understated by [redacted] and [redacted] respectively, and as a consequence have an effect upon the overall return.

9.10 It is stressed that the outturn in Table 11 is on a present day basis whereas we consider that a growth basis is more appropriate in analysing the viability of the Scheme. Also the present day outturn should be subject to sensitivity testing as set out in section 11.

9.11 Therefore, in the next section we make adjustments to our appraisal considering the outturn approach around to consider the ability of the Scheme to meet the planning obligations.

10 Growth and inflation

10.1 In view of the magnitude of the Scheme and the time frame over which it is to be delivered, we consider it necessary to reflect anticipated future movements in both costs and values in order to consider the effect of an outturn approach to viability. This can then be compared with a present-day approach.

10.2 This section provides our underlying assumptions associated with the forecasting of cost and value inflation over the course of the proposed development.

Cost inflation

10.3 Rates used in the compilation of cost estimates are of the date it was undertaken and therefore do not take account of the impact of any inflation that may occur during the procurement or construction periods. The procurement and delivery of the works is set against a back drop of anticipated rising prices. Due to the long duration of the works and phased delivery the inflation on costs will be real and it is correct to build them into an appraisal.

10.4 Cost consultants can undertake analysis which identifies elemental costs spread over the proposed construction programme to deduce an anticipated inflationary exposure linked to the delivery programme. Whilst none has been prepared here we have experience in using this approach in other major regeneration projects.

10.5 We can apply an additional inflation factor throughout the construction phase to reflect building cost inflation incurred by the contractor in the course of his business, the principal ones being those for labour and materials. The combination of tender price inflation up to start on site and building cost inflation throughout the construction phase most accurately reflects the true grown construction cost for the scheme in the growth/outturn appraisal.

10.6 We have assumed building [redacted] throughout the construction phase to be [redacted] per annum, this being the long-term average rate provided which is commensurate with our experience of other schemes we have worked on.

Sales growth

10.7 In determining appropriate growth rates to apply to residential values, we rely upon data provided by the major property consultancy houses and our own in house research.

10.8 Each residential agency / research team has its own approach to analysing the London residential market and submarkets. Most London residential research typically differentiates between the property locational and product characteristics.

10.9 We have assumed residential sales value [redacted] throughout the scheme to be [redacted] per annum. This is an assumption of overall market [redacted] and does not take account of any regeneration effect that is likely to arise throughout the delivery of the scheme.

10.10 The financial appraisals of the scheme can be compared and summarised as follows:-

Table 13: Gerald Eve Appraisal Outputs - Growth

	GE Present Day	GE Growth
IRR	[redacted]	[redacted]
Profit on cost	[redacted]	**Not applicable**
Profit on GDV	[redacted]	**Not applicable**
Affordable housing contribution	**As provided by Applicant**	**See Table 9**
S106 obligations	**As provided by Applicant**	**See Table 9**

10.11 The above is measured against the risk profile of the Scheme which is set out in paragraph 4.26. It also is in accordance with the need to update financial information, as discussed in paragraph 1.5.

10.12 In the next section we make adjustments to our appraisal considering the sensitivity around the output in order to consider the ability of the Scheme to meet the planning obligation

11 Sensitivity Analysis

11.1 There are various methods and approaches that can be employed to measure an appraisal, from basic two-way sensitivity analysis to more sophisticated simulation analysis. In practice a variety of tests are often used by the development community.

11.2 Sensitivity analysis is a fairly simplistic approach to testing viability. In essence, uncertainties can be identified in respect of the inputs and their effects can then be looked at in terms of the development return and then the level of planning payment. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Benchmarks can be used as performance measures. In this instance we consider that given the length of the Scheme, [redacted] and that a reasonable target return for such a project is [redacted] of IRR (see paragraph 4.26).

11.3 From our preliminary conclusions of the previous sections of this report in reviewing S&P FVA and supporting documentation we consider that it is necessary to amend the appraisal and then undertake sensitivity analyses in order to test the robustness of the Scheme appraisal having regard to input variance. This also accords with the RICS GN.

11.4 In light of the adjustments, in formulating a judgment, based upon this analysis we have reflected the Scheme which has a resolution, reflecting 15% on-site affordable housing.

11.5 It follows that in considering the robustness of the Scheme appraisal we have looked at certain key inputs, on both a present day and growth model basis, as follows:-

- Residential sales values
- Construction costs (including utilities, infrastructure and roads);

11.6 It should also be noted that improvements will occur as a scheme progresses in terms of efficiencies in floor area, materials, timeframes, fixing costs, etc. It is therefore useful to understand variances in inputs in order to formulate a judgement on the overall viability of the Scheme.

Table 14: Present day sensitivity: residential values and construction costs

[redacted]

Table 15: Growth model sensitivity: residential values and construction costs

[redacted]

11.7 Clearly the Scheme is sensitive to both cost and sales value movement in terms of viability.

11.8 Whilst there is a potential downside, we believe the market for the units given their situation, location and nature is towards the upside.

11.9 On the basis of the adjustments set out in this report, and the information provided by the Applicant, we are of the view the Scheme can afford to provide 15% affordable housing onsite plus the planning obligations payments of [redacted] as set out in Table 9 of Section 7.

12 Conclusions and recommendations

12.1 We have undertaken a detailed assessment of the material submitted. Our brief was to consider a number of questions set by both LSH and the GLA, which we conclude upon respectively below.

12.2 In relation to the issues raised by LSH, we set out each question with a response as follows:

i. Does the GLA accept the topic areas previously agreed and applied to this viability assessment?

- We are unsure what is meant by "topic area", but refer to paragraph 1.5 (above) in respect of FVAs having to be up to date.

ii. Does [redacted] still reflect Market Value and therefore a reasonable land value benchmark, given the introduction of Mayoral CIL?

- We believe the agreed position of [redacted] of possible Site Values having regard to the date of this report. We conclude that [redacted] is therefore an appropriate input. We are of the view that it meets the RICS definition of Site Value in RICS GN94/12.

iii. Does a [redacted] in the build costs originally agreed in 2011 accurately represent the anticipate build costs of 2013?

- Given the need to provide an up to date FVA we do not consider a notional [redacted] in now historic costs to be justified. We have however had regard to the BCIS All-In Tender Price Index which suggests [redacted] in costs since 2011.

iv. Do the infrastructure items and costs proposed in 2011 still reflect the amended 2013 scheme?

- We are not seeking to alter the infrastructure costs, and are prepared to agree with the inputs historically agreed by the consultants. We note that these costs are within a reasonable range, albeit at [redacted] of this range. Given the historic nature of the infrastructure costs we also consider there is a need to reflect [redacted].

v. Do the proposed S106 costs represent that required by the Council to meet policy and what elements proposed are simply required to ensure the scheme can be delivered practically?

- Our role in reviewing the viability of the Scheme is not to identify the reasonableness of the particular cost, but to review the overall level of the financial contribution alongside the affordable housing offer. We are not instructed to identify what costs should be apportioned to S106 items, rather we comment and conclude as to whether the overall "pot" which has been offered by the Applicant and the level of contribution is the maximum reasonable that the Scheme can afford, having regard to planning policy. Any apportionment of the "pot" is a matter to be discussed between the GLA, the Applicant and LB Lewisham.

vi. Do the proposed revenues represent accurate up-to-date data?

- There would appear, on review of the available evidence, to be a strong propensity for an upside in values of all units. The general tone of [redacted] per sq ft is considered to be relatively easily achievable given the comparable evidence put forward and our updated analysis of it. In addition, given the infrastructure assumptions and placemaking we are of the view that a regenerative impact will be achieved over and above the general tone put forward by S&P. No comprehensive analysis or breakdown of residential pricing, or update in pricing has been provided by the Applicant which in our view would robustly deal with the Scheme's pricing. We therefore consider residential values can be [redacted] by [redacted] to an average of [redacted] per sq ft.

vii. Does the proposed timeline represent a reasonable approach to delivering the proposed scheme?

- The construction timeframe and the proposal to deliver and sell of 3,500 units in [redacted] is considered to be ambitious. Notwithstanding this view, given the scale and level of infrastructure cost the timeframe of delivery is a possibility.

viii. Can the scheme ultimately exceed a reasonable profit benchmark and therefore deliver additional affordable housing?

- We believe there is potential for [redacted] the AH, having regard to our sensitivity testing in section 11. In a present day assessment, where appropriate the approach of including a review mechanism prior to the implementation of any future phase can be an acceptable approach. As an alternative, with a growth approach the developer is in effect forecasting an outcome which has yet to happen and therefore taking all the risk associated with an offer based on that predicted outturn. Occasionally it is necessary to add in, when using a growth approach, a "check and balance" provision to ascertain whether the Scheme is progressing in the manner it was assumed. Any adjustment to affordable housing or planning obligation contribution would as a result necessitate a cap and collar. We can provide further detail of this approach if necessary.

ix. What is the impact of undertaking a sensitivity analysis of the proposed scheme, applying reasonable growth assumptions in line with RICS guidance?

- See section 11. Ultimately if sales growth increases above cost inflation, the Schemes viability is likely to improve.

x. What advice would the GLA provide to LBL to ensure the impact of growth on affordable housing delivery over the developments life time is reasonably accounted for?

- See the response to 12.2.viii above.

12.3 In respect of the GLA questions we comment as follows:

i. Is the Applicant's land value benchmark reasonable?

- See 12.i above.

ii. What would be an appropriate profit benchmark to assess viability?

- Given the length of the development programme, and the delivery profile we are of the view that measuring the Scheme on the basis of an IRR would be a better representation of viability rather than a return on cost or return on GDV. The rationale for measuring the Scheme against an IRR benchmark of [redacted] is set out in paragraph 4.26.

iii. Do the proposed standard costs and infrastructure costs appear reasonable?

- We have not reviewed the infrastructure costs but as a general rule of thumb we would normally expect these costs to be in the order of [redacted] of the total build costs. These are at a level closer to [redacted], which is at the [redacted], but not considered to be at an unreasonable level. We are not seeking to alter the infrastructure costs, and are prepared to agree with the inputs agreed by the consultants, and note that they are within a reasonable range, albeit at the [redacted] of this range. We also have reflected the requirement to measure a scheme's viability on up to date financial information, as set out in paragraph 1.5.

iv. Do the proposed revenue assumptions appear reasonable?

- See 12.vi above

v. What is the most appropriate way to consider growth/inflation over the scheme lifetime?

- We have modelled and provided sensitivity analyses in section 11, which identifies not only the potential for the Scheme to provide the proposed level of affordable housing and planning obligations, but also the potential upside. This upside may be caught by an appropriate review mechanism, which is referenced in paragraph 6.24, and 12.2.viii above.

vi. Does the proposed development timeline and phasing strategy appear reasonable for delivering a scheme that could become financially viable in future?

- See 12.2.vii and 12.2.viii above

vii. What would be the most appropriate mechanism for securing the maximum reasonable amount of affordable housing from the scheme over its lifetime?

- See 12.2.viii, and paragraph 6.24.

3. Planning History

3.1 In October 2002, an outline planning application (LPA ref: DC/02/52533) was submitted to the LB Lewisham by News International Plc.

3.2 The application description was as follows:

Comprehensive redevelopment to provide a mixed-use development of up to 447,045 sq.m. comprising: up to 37,980 sq.m. residential (3,524 units), up to 72,730 sq.m. employment space including waste recycling and processing facility, boat repair yard and river bus facility, a wharf with associated vessel moorings, up to 6,945 sq.m. retail, up to 3,370 sq.m. restaurant/bars, up to 23,320 sq.m. cultural/community use, up to 2,700 sq.m. leisure, 3,400 car parking spaces, together with revised vehicular access.

3.3 As an outline application, permission was sought for the broad principles of the development and more detailed matters relating only to certain aspects of the proposals. The approach was to identify 'development plots' defining the areas within the site where buildings will be located. The footprint, massing and detailed design of the buildings (including materials, hard and soft landscaping etc.) were to be addressed through the submission of either reserved matters applications following the grant of outline planning permission, or detailed planning applications for individual buildings or phases of the development.

3.4 The application was formally validated in February 2003. In July 2003, Lewisham's Strategic Planning Committee considered an interim report on the outline planning application. The report provided a review of the ongoing work by the LB Lewisham and other organisations on aspects of the application and related matters; sought endorsement of the Committee of the issues raised by the Head of Planning and mechanisms by which these should be resolved; sought endorsement of the Committee of the negotiating stance of the Head of Planning with the applicant and for negotiations to continue; and drew to the attention of the Committee the potential scope for legal agreements that officers had identified.

3.5 The recommendations in the interim report were agreed by the Committee and officers commenced negotiation, both to address the issues raised by the Council and other agencies and to progress matters relating to legal agreements. In parallel there was further consultation and liaison with local residents, businesses and community groups and other statutory consultees on aspects of the application, as well as on issues relating to implementation of the development should planning permission be granted.

3.6 Additional information was requested in respect of the environmental impact of the proposed development and transport and access issues. This additional information was received by LB Lewisham during June 2004 and further supplementary information received during April 2005. Receipt of the information was advertised and further public consultation undertaken.

3.7 The proposed development was considered by the Greater London Authority on 25 January 2005. A copy of the Strategic Planning Application Stage 1 Referral Report (PDU/0051a/01) is included at **Appendix 3**. The report states that the proposed development is acceptable in strategic planning terms, subject to the resolution of a number of detailed points. The report states that the conditional re-designation of the safeguarded wharf is supported, and the cruise liner terminal proposal was not considered appropriate at that time.

3.8 The Council's Strategic Planning Committee, at its meeting on 26 May 2005, resolved to grant planning permission subject to conditions and signing of a Section 106 Legal Agreement and referral to the GLA for consideration by the Mayor of London. A copy of the Committee Report is included at **Appendix 4**.

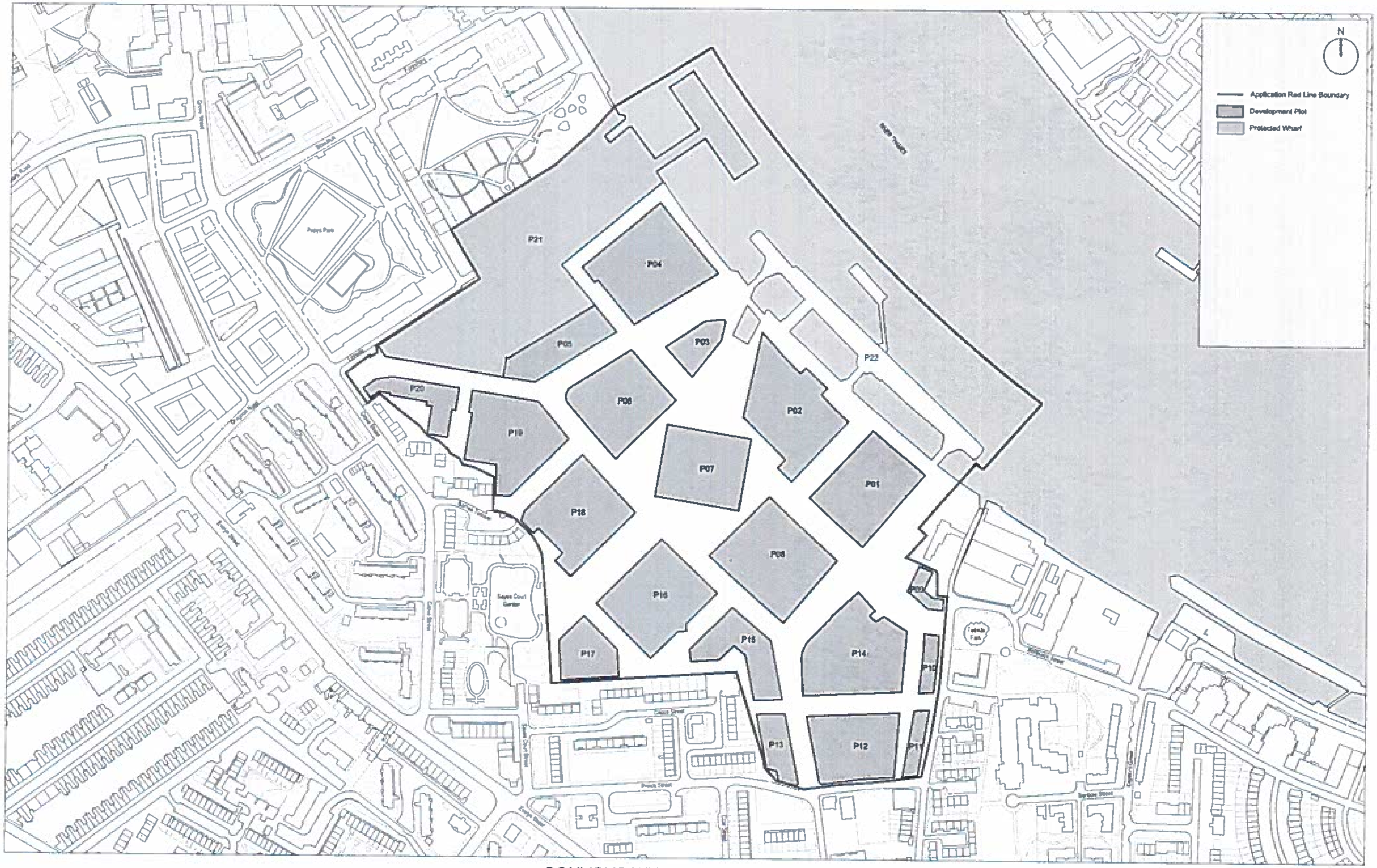
3.9 Between 2005 and 2008, a lengthy series of discussions have been held between officers of the LB Lewisham and GLA regarding outstanding matters identified by the GLA. In particular, the GLA had asked for further information to be submitted to make the case for the reduction of the safeguarded wharf area.

3.10 In early 2008 Convoys Investments S.àr.l secured an interest in the site. An amended outline planning application was submitted to LB Lewisham in July 2010. That submission was a result of the discussions identified above and was effectively an amendment to the submitted and resolved to grant outline planning application (LPA ref: DC/02/52533).

3.11 In October 2010, a number of revisions were made to the Scheme following discussion with LB Lewisham.

3.12 The application was considered by the Greater London Authority (GLA) on 2nd February 2011. A copy of the Stage 1 Referral Report (PDU/0051a/03) is included at **Appendix 5**. In addition, a Regulation 19 request was issued by LB Lewisham in March 2011.

3.13 An application In July 2011 was made for revisions to address the requirements of the Regulation 19 request and the comments raised by the GLA and other stakeholders. This application remains undetermined.



CONVOYS WHARF DEVELOPMENT

Key Development Plot Plan

1:1500@A1 / 1:3000@A3

April 2013

CON1-PA-03-006

STATUS: FOR APPROVAL

FARRELLS

CONVOYS WHARF LONDON SE8