

PRIVATE AND CONFIDENTIAL

# Riverside Studios and Queen's Wharf , Hammersmith, W6

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*Review of Viability Assessment*

November 2013

**STRUTT  
& PARKER**

# Riverside Studios and Queen's Wharf

## Review of Viability Assessment

This report has been prepared by the London Residential Development and Investment Department of Strutt & Parker LLP for:

London Borough of Hammersmith and Fulham

It is a review of the financial viability assessment prepared for the above site by:

Affordable Housing Solutions

# 1. EXECUTIVE SUMMARY

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- 1.1 Strutt & Parker have been instructed by the London Borough of Hammersmith and Fulham (LHBF) to carry out a review of the viability assessment provided by the Applicant's advisor as part of the planning application for redevelopment of the Riverside Studios and Queen's Wharf sites.
- 1.2 The planning application was submitted on behalf of Mount Anvil (the 'Applicant').
- 1.3 The viability assessment on behalf of the Applicant has been undertaken by Affordable Housing Solutions (AHS).
- 1.4 The planning application being assessed is for the:

*The demolition of the existing buildings and the redevelopment of the site via a comprehensive proposal comprising the erection of a six to eight storey building with balconies and roof terraces and the provision of 165 residential units and 8,633sqm of commercial floor space for television and film recording studios, storage, dressing rooms, offices, theatre, cinema and other facilities ancillary to those uses including café, restaurant bar and other uses for the sale of food and drink, together with car and cycle parking, storage and plant space and the creation of a riverside walk along the River Thames.*

- 1.5 The proposed scheme provides no affordable housing on-site and no off-site contribution. A payment in lieu of £230,000 is offered.
- 1.6 Strutt & Parker initially reviewed the information provided by AHS and concluded that several assumptions required further consideration including: private sales values and the Site Value Benchmark (SVB).
- 1.7 Further consideration was given by the Applicant to the SVB and a revised AUV scheme was submitted.
- 1.8 Our appraisals demonstrate that on the basis of an SVB of £33.5m (RLV of AUV scheme) the proposed scheme with provision of bespoke space for Riverside Studios as well as the assumed S.106, CIL and PIL contributions cannot viably provide a further contribution towards affordable housing.

## 2. INTRODUCTION

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### 2.1 Client Instruction

Strutt & Parker have been asked to examine the development economics of the proposed redevelopment of the Site so that the level of planning obligations can be considered. This report constitutes a review of the viability assessment prepared by Savills.

### 2.2 Confidentiality

This report is provided on a private and confidential basis. It is purely to assist in planning discussion with LBHF. The report contains private and confidential information provided by the Applicant.

The report must not be recited or referred to in any document, or copied or made available (in whole or in part) to any other person without our express prior written consent.

### 2.3 Basis of Appraisals Herein

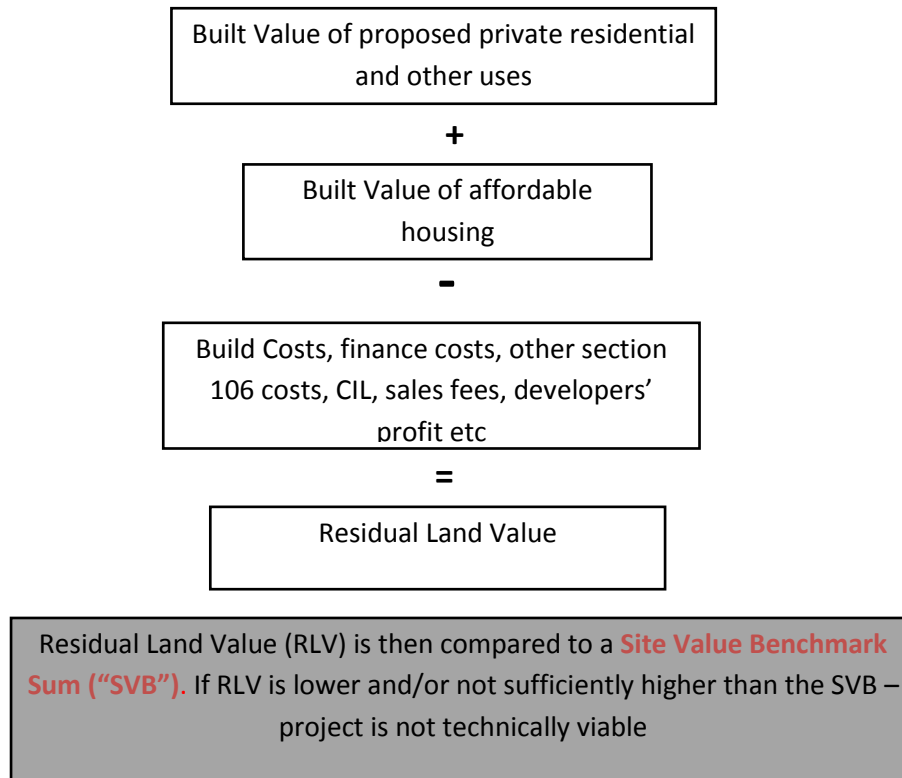
This report has been prepared in line with RICS valuation guidance and with regard to relevant guidance on preparing financial viability assessments for planning purposes. It does not constitute a formal “Red Book” valuation and should not be relied upon as such

### 3. VIABILITY AND PLANNING

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3.1 Scheme viability is assessed using residual valuation methodology.

3.2 A summary of the residual process is:-



3.3 If the Residual Land Value driven by a proposed scheme is reduced to significantly below an appropriate Site Value Benchmark ("SVB"), it follows that it is commercially unviable to pursue such a scheme, and that the scheme is unlikely to proceed.

3.4 The 'land residual' approach (as summarised above) can be inverted so that it becomes a 'profit residual' based upon the insertion of a specific land cost/value (equivalent to the viability benchmark sum) at the top. By doing this, the focus is moved onto the level of profit driven by a scheme. This is a purely presentational alternative.

## 4. APPROACH

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- 4.1 The viability assessment provided by AHS follows local and national guidance on these matters including:
- National Planning Policy Framework “NPPF
  - The 2012 GLA Toolkit Guidance Notes, and;
  - ‘Viability Testing Local Plans’ – Advice for Planning Practitioners – Local Housing Delivery Group – June 2012, and;
  - ‘Financial Viability in Planning’ – RICS – August 2012.
- 4.2 AHS submitted a report wherein the main viability appraisals were undertaken on the GLA Development Control Model 2012. Although a useful tool for examining small scale schemes with short development periods we have found in the past that the GLA model is not always of sufficient complexity to allow it to properly appraise a scheme with a range of commercial uses and/or a development period of over a year. As such when carrying out our review we have used Argus Developer which is a commercially recognised tool within the industry and is widely used by registered valuers when carrying out loan security valuations.
- 4.3 Strutt & Parker have examined the submitted report and supporting information in detail, made specific enquiries on a number of issues and carried out a modified appraisal (using Argus Developer) in order to advise LBHF of the validity of the assumptions, methodology and conclusions made by the Applicant.
- 4.4 The following sections examine the different elements of the scheme and the assumptions used. We have provided commentary on each section and justification for divergence of opinion where appropriate.

## 5. Proposed Scheme

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### 5.1 Subject Site

5.1.1 We understand that the subject site is approximately 0.62 ha (1.5 acres) of previously developed land and is currently split into two parts, comprising:

- Queen's Wharf – an existing three/four storey building. The building is vacant having previously been used for offices and is now becoming derelict.
- Riverside Studios is an operational TV recording studio with cinema and ancillary recreational facilities including a restaurant and cafe. The studios comprise a building of two and four storeys with a basement which were converted to current use in the 1950/60s.

### 5.2 Surrounding area

5.2.1 The site is bounded by Crisp Road to the east, Chancellors Wharf to the south and by Queen Caroline Street and the Queen Caroline Estate to the north and east.

5.2.2 The Queen Caroline Estate is a post war development of predominately five storey residential blocks.

5.2.3 The Chancellors Wharf development is a 1980's residential complex. The blocks are a mix of 3 and 4 storey buildings comprising a mix of houses fronting Crisp Road and flats to the rear facing the River.

### 5.3 Existing Planning Use

5.3.1 Queens Wharf – The building is vacant and the previous use was Class B1 (offices). The building provides approximately 7,370 sqm of office floorspace (GIA) including a partial basement which comprises a car park and plant.

5.3.2 This part of the site benefits from a planning permission for the erection of a four to seven storey building comprising 81 residential units (C3) and provision of 676 sq.m of class A3 floorspace (café restaurant use) within the ground floor (GEA), car parking at basement level, cycle parking, landscaping and creation of a riverside walkway. – Planning ref 2012/01985/FUL.

- 5.3.3 We would note that 7 of the units within the extant planning permission are identified as affordable housing (DMS) within the S.106.
- 5.3.4 We understand that this part of the site is in the ownership of A2 Dominion and that they intend to implement the consented scheme in 2014 unless a comprehensive redevelopment of the two sites can be achieved.
- 5.3.5 Riverside Studios – the planning application describes the studio buildings as a non-descript manufacturing building which has been adapted over the last 100 years. However, the Applicant is keen to highlight that the studios have a long history and that the current use of the site does provide local interest and strong links with Hammersmith.
- 5.3.6 We understand that the requirements of a modern competitive facility means that the redevelopment of solely the footprint of the existing Riverside Studios is now not enough to accommodate what is required for the complex to remain competitive. As such in order for the facility to remain in the location a new premises would have to expand over a neighbouring site.
- 5.3.7 Evidently if the extant permission on the Queens Wharf site were to be implemented then the Riverside studios would need to look for alternative premises.
- 5.3.8 Hammersmith Embankment strategic site and estate regeneration area (HTC) requires the replacement of suitable accommodation for the Riverside Studios key activities in an appropriate location and 40% of new housing to be affordable as well as requirements for high quality design and increased permeability.
- 5.3.9 We also understand from the planning statement that a predominately residential use is preferred but that a small proportion of offices is not ruled out.

#### 5.4 **Development Proposal**

- 5.4.1 The overarching objective is highlighted as ensuring the delivery and retention of Riverside Studios on the site.
- 5.4.2 The proposed scheme which this review appraises comprises the demolition of the existing structures on the site and the redevelopment of a new building comprising the Riverside Studios complex, encased within a residential development of 165 units.



5.4.3 The scheme will consist of the following elements:

- Three recording and performance studios
- Cinema
- Front of house comprising a large foyer, restaurant, arts and performance space.
- Rehearsal Space
- Back of house offices
- Restaurant and café facilities
- 165 residential units (18 studios, 33 one beds, 68 two beds and 46 three beds)
- A new podium courtyard accommodation 742 sqm of communal garden
- Basement providing vehicular and cycle storage for both the commercial and residents

A summary of areas within the proposed development

Use	Area (GIA)
<b>Residential</b>	19,188 sqm
<b>Basement Car Parking</b>	2,769 sqm
<b>Commercial (Riverside Studios)</b>	8,633.2 sqm
<b>Shared Plant and Substation</b>	492 sqm
<b>Total</b>	31,082 sqm

## 6. SITE VALUE BENCHMARK

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- 6.1 We consider that this should be based upon Market Value (having regard to development plan policies and all other material planning considerations, and disregarding that which is contrary to the development plan) as per guidance provided by the RICS (Financial Viability in Planning – GN 94/2012).
- 6.2 By default, this means we have also taken into account guidance on deriving SVBs (or the equivalent thereof) provided by:-
- National Planning Policy Framework “NPPF” (and, in particular, references to ‘competitive returns’), and;
  - The 2012 GLA Toolkit Guidance Notes, and;
  - ‘Viability Testing Local Plans’ – Advice for Planning Practitioners – Local Housing Delivery Group – June 2012, and;
  - ‘Financial Viability in Planning’ – RICS – August 2012.
- 6.3 When arriving at a Market Value for a site it is necessary to give consideration to:
- Existing Buildings and Uses
  - Potential expansion within existing uses
  - Potential for redevelopment for other uses
  - Planning policy
  - The current market for development land
- 6.4 All of the above will be considered by the market when bidding on development land and are therefore value drivers.
- 6.5 As such when arriving at a suitable SVB for planning purposes the established method of considering, EUV/CUV and AUV as well as Market Value (qualified) and in some instances purchase price paid should be considered in order to come to a comprehensive view.

### **EUV**

- 6.6 The EUV/CUV refers to the Market Value of the asset on the special assumption that it only reflects the current use of the property and disregards any prospect of development other than for continuation/expansion of the current use.
- 6.7 The Applicant has disregarded EUV in this instance on the basis that the existing buildings demonstrate an underdevelopment of land.

## AUV

6.8 The AUV refers to the value of the asset under an alternative planning use for which planning permission might reasonably be expected to be obtained.

6.9 The Applicant originally submitted an AUV scheme comprising:

### 10.1 Alternative Use Scheme (AUV)

The Proposed AUV Development briefly comprises of the following:

Summary	GIA (sq. m.)	GIA (sq. ft.)
Café / Restaurant (A3) Retail (A1) - -	1,266.1	13,629
Offices (B1) - -	9,100.8	97,963
Affordable Residential (C3)	6,134.3	66,031
Private Market Residential (C3)	12,876	138,601
Gym (D2) - -	1,243.3	13,383
Car Parking - -	2,286.4	24,611
Shared Plant - -	610.8	6,575
<b>TOTAL</b>	<b>33,517.7</b>	<b>357,979</b>

6.10 We understand from the planning statement that the site specific policy for the Subject Site states that

- Replacement of suitable accommodation for the Riverside Studios key activities in an appropriate location will be sought; and
- that a predominately residential use is preferred but that a 'small' proportion of offices is not ruled out.

6.11 In that the proposed AUV did not allow for provision of space for Riverside Studios and that there is a significant proportion of office space we questioned whether the scheme represented development for which planning permission might reasonably be expected to be obtained.

6.12 Following conversations between the Applicant and the Council it was confirmed that an AUV scheme with a reduced quantum of office space and provision of some leisure space would be acceptable in planning terms.

6.13 Subsequently the Applicant submitted an AUV scheme with:

- 94 space basement car park including gym; totalling 4,600 sqm GIFA footprint.

- Office space totalling 1,862 sqm GIFA (excluding basement)
- Retail/Café/Gym/Cinema shell only space totalling 2,839 sqm GIA (including shared plant space)
- 202 Residential apartments; 121 nr private apartments 14,668 sqm and 81 nr affordable apartments 6,960 sqm GIFA (excluding basement)
- Bridging over the existing storm relief sewer below the proposed basement.

### **MV (qualified)**

6.14 Market Value is defined by the RICS (and no other professional body) as “The estimated amount for which an asset should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

6.15 Within their Financial Viability in Planning Guidance note the RICS go on to comment that the most appropriate SVB is Market Value (assuming that any hope value accounted for has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan) – RICS - “MV (qualified)”.

6.16 What has not been examined within the Applicant’s submission is the MV of the site(s) with the benefit of the extant planning permissions and having regard to development plan policies where planning permission is not in place.

# 7. RESIDENTIAL VALUES

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## 7.1 Private Residential Values

7.1.1 The Applicant has adopted the comparable method of valuation in arriving at values for the proposed residential units. Having taken into consideration a number of comparable schemes they have individually priced the units.

7.1.2 The average values assumed by the Applicant for each unit type are as follows:

Unit Type	Average (sqft)	NIA	Total Capital Value	£/sqft
Studio	463		£344,167	£747
1 Beds	644		£489,091	£761
2 Beds	933		£790,000	£850
3 Beds	1,490		£1,463,804	£974
Total	979		£869,030	£877

## 7.2 Comparable Evidence

7.2.1 The Applicant's consultant dpa2 has listed key comparables including:

- Fulham Reach
- Fulham Riverside
- Imperial Wharf
- Chelsea Reach

7.2.2 We would comment as follows:

7.2.3 The majority of the comparable new build development currently being marketed in London are located along the river Thames in either Hammersmith and Fulham or the Nine Elms Regeneration area (Wandsworth/Lambeth). The off plan nature of the sales means that it is not always possible to obtain certainty on achieved prices however we have been able to examine asking prices and gain detailed insight on marketing from our new homes sales team.

## Fulham Reach



<b>Developer</b>	<b>Berkeley Homes</b>
Status	Launched Q3 2011
Purchaser Profile	Investors, Pied a Terre, Professionals, Downsizers
Facilities	Club, pool, gym, spa,
Transport Links	10 minute walk from Hammersmith Broadway serving 3 underground lines, direct access into West End, City, Kings Cross, Paddington and Heathrow

This is the closest comparable to the proposed development in terms of location. The first phase of this St James's Group development on the river close to Hammersmith Bridge is due to complete at the end of this year. Distillery Wharf comprises 124 units and we understand has fully sold (prior to completion) apart from the penthouses. Fulham Reach provides on-site leisure facilities including, residents' lounge, swimming pool, gym, screening room and wine cellar. We understand from the developer that the scheme has achieved over and above its asking prices at c.£1,200psf.

We appreciate that Fulham Reach offers significant amenities to potential purchasers and that this will command a premium over what can be achieved at the subject site. However, we consider that the views offered by some of the subject units are superior to those within the Fulham Reach development. When considered we do not accept that superior facilities merit a 25% discount (from understood average achieved) when pricing the subject scheme

Asking prices for Fulham Reach (which we understand to have been exceeded) are as follows:

Floor	Bed	Sq Ft	Price	£PSF
1	2	965	£879,950	£912
1	2	1085	£854,950	£788
1	2	1073	£984,950	£918
1	2	832	£984,950	£1,184
1	2	896	£749,950	£837
3	2	965	£914,950	£948
3	2	1085	£889,950	£820
3	2	1073	£1,014,950	£946
3	2	832	£809,950	£973
3	2	896	£784,950	£876
6	3	1501	£1,894,950	£1,262
6	2	1073	£1,059,950	£988
2	2	896	£794,950	£887

2	2	832	£819,950	£986
2	2	1073	£1,019,950	£951
2	2	1101	£899,950	£817
2	2	965	£899,950	£933
5	2	832	£864,950	£1,040
5	2	1073	£1,064,950	£992
5	2	1101	£944,950	£858
1	3	1814	£2,329,950	£1,284
2	3	1568	£2,089,950	£1,333
3	2	1048	£1,259,950	£1,202
4	2	1048	£1,274,950	£1,217
1	3	1568	£1,999,950	£1,275
2	3	1814	£2,354,950	£1,298
3	2	1048	£1,259,950	£1,202
5	2	1035	£1,179,950	£1,140
		31092	£32,883,600	<b>£1,058</b>

### Imperial Wharf - Chelsea Creek



Developer	Berkeley Homes
Status	Launched June 2012
Purchaser Profile	Investors, Pied a Terre, Professionals
Facilities	On-site restaurants, retail, gym swimming pool and spa.
Transport Links	Adjacent to Imperial Wharf overground station no direct link into West End/City

Chelsea Creek is the last phase of the Imperial Wharf developments which have been developed by St George. Previous phases of Imperial Wharf occupy the river frontage however Chelsea Creek does not benefit from river frontage.

At the end of Q2 2013 five blocks are under construction: - Dockside is 50 units, due to complete in Q3 2014, two units remain available including a penthouse. - Quayside is 21 units due to complete Q4 2014, one penthouse remains available. - Waterside is 21 units due to complete in Q4 2014, one penthouse remains available. - Countess House is 48 units due to complete in 2015, two units remain available including one penthouse. - The Tower is 48 units due to complete in 2016, only four units remain available.

A summary from Molior shows the asking prices to be as follows:

Unit type	Average
1 Beds	£794,950
2 Beds	£1,146,617
3 Beds	£2,451,617

### Fulham Riverside



Developer	Barratts
Status	Launched October 2013
Purchaser Profile	Investors, Pied a Terre, Professionals
Facilities	On-site restaurants, retail, and gym
Transport Links	Imperial Wharf overground station no direct link into West End/City

This Barratts scheme is situated in the Sands End area of Fulham close to Berkley Homes Imperial Wharf development. There is planning permission for 463 units in total.

There is little to no information on pricing available in the public domain and the developer is not willing to share pricing information at this stage. However the Applicant has stated within their submission that they understand the prices to range from £510,000 for a one bed to £1,450,000 for a 3 bed duplex with penthouses starting at £5m.



## Chelsea Reach



Developer	Bellway
Status	Launched 2011, completed Q3 213
Purchaser Profile	Investors, Pied a Terre, Professionals
Facilities	none
Transport Links	Fulham Broadway

This is a 41 unit Bellway scheme close to Fulham Broadway. We understand that the scheme completed in Q3 2013 and that the average achieved prices were circa £836psf (according to land registry).

We would note that the scheme launched and the majority of units sold in 2011. As such the completed prices represent exchange prices from over 2 years ago.

In addition the scheme is in an inferior location to the subject and does not benefit from river frontage.

We would expect values at the subject scheme to achieve a significant premium over the inferior location and take account of market movement.

## Sovereign Court



Developer	St George
Status	Launched Q3 2013
Purchaser Profile	Investors, Pied a Terre, Professionals
Facilities	None.
Transport Links	Hammersmith Broadway

In July 2013 St George West London was granted planning permission for a mixed use development on the King Street Mall including 294 private residential units.

From the marketing material it would appear that there are no leisure facilities provided on site.

We have looked at the availability on the St George website and from our best estimate we believe the asking prices for apartments up to the 6th floor to range from c.£970psf to £1,200psf.

We are aware that Sovereign Court is currently being marketed in Asia but that the achieved 43 sales through the UK market before going overseas. We understand that achieved values within the UK market to be in the region of £900psf-£950psf.

This scheme is in an inferior location to the subject site and does not offer direct river views. We would expect the subject scheme to achieve a premium over and above Sovereign Court.

### 7.3 Conclusions

7.3.1 Given the information and reasons laid out above we believe that the Applicant may have applied overly conservative values to the proposed units. Our experience elsewhere in the Borough would suggest that there is scope for the achievable values at this scheme to be more in the region of in excess of £1,000psf on average.

7.3.2 We have therefore undertaken a unit by unit pricing exercise (Appendix 1). A summary of which can be seen below:

Unit Type	Average NIA (sqft)	Average Capital Value	£/sqft
Studio	463	£402,222	£870
1 Beds	644	£526,061	£820
2 Beds	933	£878,676	£948
3 Beds	1,490	£1,693,261	1,124
<b>Total</b>			<b>£1,004</b>

7.3.3 We have adopted the same private residential rate within our AUV appraisal.

## 8. Commercial Values

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- 8.1 Within the proposed scheme the commercial uses are assumed to be transferred to the Riverside Studios at a peppercorn rent.
- 8.2 Within the revised AUV there are rents and yields assumed for office, gym, cinema and restaurant/café use. We have reviewed these and our findings are as follows:
- 8.3 **Café/Restaurant**

The Applicant's consultant stated that their search did not yield requirements for café and restaurant space within W6 and the wider area. However they believe that the location would support retail café and restaurant demand and have applied an anticipated rent accordingly. We would note however that we have not seen any comparable evidence for the rent or yield assumed within their appraisal.

The A3 space within the suggested AUV is river facing with only pedestrian footfall and no frontage onto a road. It is not an established retail area although as mentioned by the Applicant the River Café is located close by to the south of the subject site along the Thames.

The path along the Thames is popular especially at weekends however, as there is a lack of other commercial uses in the vicinity the footfall during the week is relatively low. The suggested retail space would need to have a USP to become a destination space.

Given the location it is difficult to find directly comparable space. However we have tried to analyse new build retail lettings transactions within other residential schemes.

### Langham

Langham Square is a St James Group development adjacent to East Putney underground station. It comprises 104 residential units above office accommodation, retail units, cafes and restaurants.

We are aware of the following unit which is on the market at the scheme.

Use Class	GIA (sqft)	Rent pa	£psf
A3 Restaurant	3,895	£100,000	£25.00

Langham Square will benefit from significant levels of footfall, being adjacent to

East Putney Underground station and on the busy A205 south circular.

#### Battersea Reach

Battersea Reach is a large development by St George to the east of Wandsworth Bridge Road and north of York Road. The development comprises some 1,500 residential units in addition to bars cafes, restaurants and health and leisure facilities.

We understand that there are two remaining A3 units currently on the market:

Use Class	GIA (sqft)	Rent pa	£psf
A3 Restaurant	5,490	£109,800	£20.00
A3 Restaurant	3,594	£79,966	£22.25

Although Battersea Reach is a large development with significant residential accommodation it is comparable to the proposed AUV in that it is somewhat isolated and that the commercial units do not front on to a street scene therefore relying on passing trade from the Thames Path or residents. Day time trade during the week is understood to be limited.

#### 8.4 Office

The rent and yield adopted by the Applicant for the suggested office space within the AUV has been derived from comparable evidence gathered within the Hammersmith area.

The subject site is not in an established office location and as such it is hard to find directly comparable transactions, especially within the immediate postcode. The Applicant provided a large number of transactions as evidence to support the £30psf rent they assumed within their report.

We would note that the transactions provided are all more or less centred around Hammersmith Broadway which is a recognised business district out the prime central London office locations.

The majority of the transactions listed were for relatively small footplates and some are too dated to consider as truly relevant information when deriving value for the suggested office space within the AUV.

As well as reviewing the transactional evidence provided we have also consulted with our specialist office team who are active in the Hammersmith area.

Our office team are currently letting 5,213 sqft within Hammersmith Embankment Waterfront (commercial phase of Fulham Reach) at over £40psf. In addition to this

we understand that they are marketing space within 10 Hammersmith Grove (only new build office building in central Hammersmith) at c.£50psf for the best space.

It is our understanding that high quality new build office space is at a premium within the Hammersmith area. The subject site is not ideally located and the proposed office space does not offer a particularly favourable outlook. However having reviewed the evidence and spoken to our expert agents we believe that rents of slightly in excess of £30psf could be secured.

In terms of investment yield we have consulted our office investment team. Their view is that high quality new build office space in that location would achieve in the region of 5.75% to 6% yields on a multi let basis.

In the revised AUV the office space is considerably smaller and is not multi level (all at ground floor). We have therefore applied a yield of 6.5% within our appraisal.

#### **8.5 Gym**

We have spoken to our in house leisure team and consider the rental level assumed for the gym space to be reasonable.

We would however anticipate a sharper yield.

#### **8.6 Cinema**

The Applicant has not provided a view on what value they consider appropriate to be attached to the basement cinema space.

There is little to no evidence of cinema sales in new developments without the benefit of a tenant in place.

In attaching a value to the cinema space within our appraisal we have had consideration to the HOTS for the proposed cinema on King Street (details of which are P&C).

# 9. Further Appraisal Assumptions

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## 9.1 Development Profit

9.1.1 The applicant has adopted a developer's return of 20% profit on GDV within their appraisals. We consider this to be at the mid to upper end of the range of returns upon which development finance is available in the current funding market. We therefore consider this assumption to be reasonable given the scope of development proposed.

## 9.2 Development Finance

9.2.1 The applicant has applied an interest rate of 6.75% to their appraisals. We consider this to be at the lower end of the scale in the current funding market and therefore consider this cost to be reasonable.

## 9.3 Build Costs

9.3.1 Within the Applicant's original submission they included cost estimates for the proposed scheme and the AUV scheme which had been prepared for them by Faithful and Gould a construction project and cost management consultancy.

9.3.2 As a matter of course for a scheme of this size and location we deemed it prudent to instruct an independent QS to review the costs as submitted.

9.3.3 Their response is attached at Appendix 2.

9.3.4 In summary it concludes that costs assumed by the Applicant in relation to the proposed scheme and AUV are reasonable as per the plans provided.

## 9.4 Professional Fees

9.4.1 The Applicant has allowed for 12% of costs for professional fees. We consider this assumption to be reasonable given the scope of development proposed.

## 9.5 Timescales

9.5.1 We consider the timescales assumed by the Applicant to be appropriate for a scheme of this type and scale.

## 9.6 Ground Rents

9.6.1 We consider the ground rent assumptions to be reasonable.

## 9.7 Affordable Housing

9.7.1 In the Applicant's revised AUV scheme they have put forward values for the affordable housing equating to £230psf (after RP on costs). We consider this to be a conservative estimate and are not of the view that this element has been overstated.

## 9.8 Parking

9.8.1 The Applicant originally assumed that the proposed parking spaces could be sold for an additional £20,000 each. Given comparable evidence we consider this to be overly conservative. At Fulham Reach for example a right to park is available for an additional £50,000.

9.8.2 We have assumed £40,000 per space within our appraisals.

## 9.9 CIL/S.106

9.9.1 We understand from LBHF that the CIL and S.106 costs assumed within the Applicant's appraisals are yet to be confirmed.

9.9.2 We have therefore broadly maintained the Applicant's assumptions within our appraisal.

9.9.3 We would note however that on the revised AUV scheme the Applicant has assumed that S.106 would only be payable on the private units. We do not consider this to be realistic and have therefore assumed £18,000 per residential unit (regardless of tenure) within our appraisal of the AUV.

## 9.10 Sales Rates

9.10.1 It is well documented and understood within the London new build property market that the majority of new build residential schemes of this scale sell well in excess of 60% of their stock prior to completion. In addition to this it is more often than not a stipulation of development funding that in excess of 60% off plan sales be achieved.

9.10.2 Research released by CBRE on 13<sup>th</sup> August 2013 and compiled by Molior suggests the following:

**The Top Five London Boroughs for Pre-Completion Sales**

	<b>Borough of London</b>	<b>Percentage of Homes Sold Under Construction</b>
1.	Newham	97%
2.	City of London	84%
3.	Sutton	83%
4.	Haringey	78%
5.	Tower Hamlets	73%
5.	Wandsworth	73%

(Source: Mollor 2013)

9.10.3 Fulham Reach, Battersea Power Station and Embassy Gardens sold the entirety of their first phases prior to completion.

9.10.4 St Peter's Place had sold 58% of its units two months after launch. From July 2013 even if sales only progress at 2 units per month the whole development will have sold prior to the anticipated completion in Q1 2014.

9.10.5 From the plans, cost estimate and design specification provided to us we consider the proposed scheme to be of very high quality. As such we would expect the demand for the residential units to be strong.

9.10.6 As such we have assumed that 80% of the units could be sold prior to PC.



# 10. VIABILITY ASSESSMENT RESULTS

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## Proposed Scheme

- 10.1 As a starting position we have appraised the proposed scheme as submitted by the Applicant but allowing for variances in the elements we consider to require further consideration.
- 10.2 As can be seen at Appendix 3, our appraisal demonstrates a residual land value derived by the proposed scheme with no provision of affordable housing of in the region of **£31.3m**.
- 10.3 The Applicant's appraisal for the proposed scheme shows a residual land value of £37,105,000.
- 10.4 Having examined the Applicant's appraisal on the GLA toolkit the difference in RLV for the proposed scheme is due to:
- Professional Fees
  - Finance
  - Marketing
- 10.5 In order to establish whether a nil provision of affordable housing is the maximum justifiable on viability terms it is necessary to compare the RLV of the proposed to an SVB. If the RLV of the proposed is higher than the SVB it would suggest that the scheme could viably make a contribution towards affordable housing (whether on site or by way of a further payment in lieu).

## SVB

- 10.6 The initial feedback from LBH&F was that the AUV proposed by the Applicant would not reasonably be expected to achieve planning permission due to the lack of provision of space (or allowance for relocation) for Riverside Studios and the significant quantum of office space. Both of which are contrary to the site specific allocation within the development plan.
- 10.7 We understand that the revised AUV is considered acceptable by the Council. As such we have appraised the revised AUV in order to arrive at an RLV assuming the site had planning permission on this basis.

- 10.8 As can be seen at Appendix 4 our appraisal demonstrates that an RLV of circa **£33.5m** would be driven by the current proposed AUV.
- 10.9 Our appraisals suggest that the revised AUV (which has been accepted in principle by the Council) drives a residual land value of circa £2m over the RLV of the proposed scheme.
- 10.10 As such we consider that the proposed scheme cannot technically viably offer anything further in terms of financial planning obligations than is already allowed for within the appraisal.
- 10.11 The financial contributions allowed for within the appraisal amount to
- S.106 - £2,970,000 (£18,000 per unit)
  - PIL - £230,000
  - CIL - £1,081,450