65 Gresham Street
London
EC2V 7NQ

T: +44 (0)20 7911 2468
F: +44 (0)20 7911 2560

gva.co.uk

Our Ref: JGK/EH17/02B813341

27 September 2018

London Borough of Southwark
160 Tooley Street
London
SE1P 5LX

For the attention of: Sarah Parsons

Dear Sirs

Property: Ruby Triangle, Old Kent Road, SE15 1LE

Further to the amendments to the scheme and updated viability note from GL Hearn we set out below an indication as to the current viability position of the above scheme.

The scheme has undergone minor revisions, namely;

- Increase in the provision of B1 floorspace in Block B at level 1 and 2.
- Subsequent loss of residential amenities and 13 residential units.

The revised scheme includes the provision of 1,298 habitable rooms as affordable housing which equate to a provision of 35.18%. The affordable provision equates to 71:29 in favour of social rented tenure.

In their response GL Hearn has highlighted a number of inputs in our Viability Report with which they have provided further commentary on, these are;

- Development Programme
- Affordable Housing
- Construction Costs
- Developers Profit
- CIL and S106 Costs
- Benchmark Land Value

We discuss each of these in further detail below.

Development Programme

We had reduced the pre-construction timescale for Blocks B1 and B2 as we considered the time period excessive. We acknowledge GL Hearn's comments regarding this and accept that a construction of this scale would involve an element of phasing.

GL Hearn have also suggested that our construction timing for Block B1 is ambitious given that this block include significant basement and podium

GVA is the trading name of GVA Grimley Limited registered in England and Wales number 6382509. Registered office, 3 Brindleyplace, Birmingham B1 2JB

Regulated by RICS

levels as well as being linked to the construction of B2. They have suggested an amended construction period of 24 months.

It is noted that GL Hearn has accepted our other timescale amendments. The updated programme is as follows.

Block	Item	Agreed Position
A	Pre-Construction	6
	Construction	18
B1	Pre-Construction	11
	Construction	24
	Private Disposal	18
B2	Pre-Construction	11
	Construction	30
	Private Disposal	23
C1	Pre-Construction	9
	Construction	28
	Private Disposal	16
C2	Pre-Construction	9
	Construction	24

Affordable Housing

We have been provided with confirmation of the offer from A2D which confirms a rate of £380 per Sq. Ft for the on-site affordable housing.

Construction Costs

GL Hearn have highlighted the minor difference between the respective cost positions and have applied GVA costs to their appraisal. The scheme amendments have resulted in a £900,000 increase in build costs; we have incorporated this into our appraisal. In the time available our QS has been unable to review this.

Developers Profit

There is disagreement over the level of profit on the private element of this scheme with GVA applying 17.50% on GDV and GL Hearn maintaining a position of 20% on GDV. GL Hearn stipulates that the scale and risk of this development warrant a profit target of 20% as a minimum. The developers return of 17.5% on GDV on the private element equates to a sum of £73,813,460 on the GL Hearn 'without Grant' appraisal. The scheme also includes an allowance for developers contingency which is a further risk allowance for the developer.

In terms of the specific project risk the values may appear high in the current market but proposed infrastructure works along the Old Kent Road (Bakerloo extension) could add significantly to residential GDV. The affordable housing agreement outlines that approximately 15% of the affordable housing value will be paid upon grant of consent, further de-risking the scheme.

We consider a profit target for the private element of 17.5% on GDV to be appropriate.

CIL and S106 Costs

We note Southwark Council have provided updated CIL and S106 costs for the scheme. We have applied these in our appraisal.

Benchmark Land Value

GL Hearn are willing to accept our EUV of £18.95 million but insist that a premium of 30%, as per their original report, should be added. They highlight that national, local and Mayoral Guidance all advocates a premium over EUV.

Our EUV was based on market evidence both lettings and disposals and the resulting rate of £174 per Sq. Ft was in line with recent industrial disposals. We are of the view that there should not be a premium over what, based on the comparable transactional evidence, is the Market Value of the site rather than the EUV.

Moreover Mayoral Guidance states that;

"Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower or no premium would be expected..."

In this case we are of the view that this site would require ongoing capital investment as a number of the buildings on site appear to be in a poor condition and in need of refurbishment. This is reflected somewhat in the rents and yield applied in calculating our MV/EUV but it is clear that based on the Mayoral Guidance no premium would be applied.

The New PPG requires applicants to justify the premium with policy adjusted comparables. The applicants have provided no evidence for us to review that justifies a premium. It is not for GVA to make a case for a premium - this is for the applicant to justify with evidence.

Southwark Council SPD considers that if the uplift between EUV and Market Value is over 20% that the landowner can be considered to have accrued a competitive return and be willing to release land for development at this level. The market value is the value of the proposed scheme with planning consent. Our stand back review is a sense check of the value of the proposed scheme with planning consent when compared to policy compliant market evidence. This highlights that there will be significant uplift through grant or consent and that there are issues with standardised viability assumptions as they appear not to reflect the current market expectations.

We are satisfied that our approach is consistent with National, Mayoral and Southwark guidance.

Conclusion

Based on our profit target of 17.5% on residential GDV, 20% on commercial costs (equating to 16.67% on GDV) and 6% on affordable housing the blended target profit for the amended scheme is 15.33%. We have tested whether the scheme with grant can achieve this on an appraisal basis;

AH Content	Affordable Mix	Profit on Cost %	Profit on GDV %	Comments
35.18%	71:29	14.21%	12.41%	Unviable

The with grant scheme produces an outturn just below the target rate and is therefore marginally unviable. We have produces a sensitivity analysis to test the value and cost changes to achieve the target return. With only a 5% movement in costs or values the scheme becomes potentially viable in the short to medium term. Alternative a 2.5% increase in sales value and 2.5% decrease in costs will also result in a viable position. Overall, in light of this analysis, the scheme would be considered viable.

We note that A2D has agreed to purchase the remaining units within Block B1 using additional grant and internal funding. This would increase the provision of affordable housing on-site. We understand that the units are being purchased at close to private values, as such we have not created an appraisal to reflect this, but it should be noted that the affordable units would be part purchased at the grant of consent with the remainder over the development period, therefore the movement of these units to affordable at values close to market value would help improve the viability position in terms of timing of receipts.

Yours sincerely

Jacob G Kut MRICS
RICS Registered Valuer
Senior Director
02079112892
Jacob.Kut@gva.co.uk

Ed Higham MRICS
RICS Registered Valuer
Surveyor
02079112582
Edward.Higham@gva.co.uk