

# **Viability Study**

**Sidcup Library, Hadlow Road  
DA14 4AQ**

**By**

**Turner Morum LLP**

**Private & Confidential**

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## 1. BACKGROUND AND RELEVANT EXPERIENCE

- 1.1. My name is Nicholas Bignall of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2013 following the award, in 2009, of an Honours Degree in Land Management from University of Reading and in 2010 a Master's Degree in Urban Planning & Development.
- 1.2. In 2010 I joined the practice of Turner Morum Chartered Surveyors and was made an Associate in 2015 and a Partner in 2018. I am a specialist in the field of development site appraisals and associated subjects.
- 1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs & the South East. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. I have also provided Expert Witness evidence at planning appeals and Local Plan Examinations. Full details of some of my recent case experience can be viewed at **Appendix 7**.
- 1.4. Turner Morum were appointed by the applicant to undertake a viability assessment in regards to their proposed development on the site at Sidcup Library, Hadlow Road, DA14 4AQ. The proposed scheme is for the redevelopment of the site to create a 4-storey building comprising 32 self-contained flats with provision of associated vehicular access and parking, cycle parking, amenity space and refuse/recycling storage.
- 1.5. The subject site is situated on Hadlow Road within the London Borough of Bexley. The rear car park leads directly on the St John's Road which is broadly parallel to Hadlow Road. The site is located 0.5 miles to the south of Sidcup overground train station and 0.5 miles to the north east of the closest junction to the A20 which provides a direct link to the M25. A location plan can be viewed as per **Appendix 1**.

- 1.6. I have carried out a development appraisal adopting a bespoke valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**.
- 1.7. In undertaking this viability I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)* (see **Appendix 8**).
- 1.8. I am also aware of viability guidance documents such as the RICS *Financial Viability in Planning (2012)*, *Viability Testing Local Plans* (the Harman report) and the RICS *Assessing viability in planning under the NPPF 2019 for England (2021)*. I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF) and the 2017 Mayoral Affordable Housing & Viability Supplementary Planning Guidance (SPG).

## 2. MECHANICS OF THE ASSESSMENT

- 2.1. My residual appraisal analysis can be summarised as follows: -
- **Appendix 2 Tab 1A** – Appraisal showing the viability of the proposed scheme with 25% affordable housing (8 units) all of which are assumed to be delivered as shared ownership.
- 2.2. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

### REVENUES

- 2.3. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents. I have considered a number of local schemes including Boomtown at 2 Maidstone Road, DA14. This development comprises the conversion of a former office building and a 2-storey roof extension to provide a total of 39 residential dwellings. Construction was completed in August 2021 and as of the end of September 2021 6 units remain unsold. The

current price list (and asking prices on Rightmove) show 1 bed values ranging from £245k - £275k, a 2 bed at £315k and finally a 3 bed at £450k. I have also included in the comparable research undertaken a 2-bed duplex apartment for sale called The Coach House on Wren Road, DA14. This is on the market at a guide price of £380k so above the asking price for flats in the Boomtown development. Although the floorplan is not provided, I would assume this is a larger flat as split over 2 levels and includes a private roof terrace garden. The comparable evidence outlined above is included as per **Appendix 3**. On the basis of this evidence, I have adopted the following average value assumptions:

- 1 bed flat - £550 psf (c. £300k per unit)
- 2 bed flat - £515 psf (c. £380k per unit)
- 3 bed flat - £510 psf (c. £422k per unit)

2.4. Affordable values have been benchmarked at c. 70% of OMV for shared ownership. To support the position on shared ownership I have cross referenced using a Discounted Cashflow Analysis. The basic premise of the DCF model is to take the full market value of the units and discount them over an assumed 30-year staircasing period. A capital receipt is then calculated for each tranche payment, based on the discounted Market Value figure for the year in which it falls, whilst accounting also for the rent paid on the retained share of the property, and any associated costs. This produces a yearly income total, the sum of which produces a gross revenue figure, from which one would then deduct appropriate costs and marketing fees etc.

2.5. For a DCF the standard assumptions include 4 25% tranche payments (including initial deposit) in Years 1, 10, 20 and 30. Over this 30-year staircasing period whereby purchasers will step up to 100% equity with a corresponding reduction in rents over the period – this is then capitalised with a discount rate of 6% taking account of anticipated management costs, allowance for bad debts and inflation (1.5%). I have also assumed a rent charge of 2.0% on the retained portion of the unit.

## DEVELOPMENT COSTS

- 2.6. Fees and marketing costs in respect of the development are included at 3% of Market Housing Gross Development Value ("GDV"), and the cost of disposing of the affordable units to a Registered Provider is included at 0.5% of affordable GDV, as per standard industry benchmarks.
- 2.7. The construction costs are derived from the BCIS database for Q4 2021 using the 5-year average dataset. In addition to the base build costs for Flats (apartments) generally I have then made the following adjustments as recommended under BCIS guidance;
- Locational Weighting – LB Bexley 1.25
  - Externals – 10%
  - Contingency – 5%
- 2.8. The result of the above analysis shows an average ranging from £185 psf using the median build cost and £225 psf using the upper quartile build cost. From my own professional experience of undertaking various residual appraisal assessments across the London Boroughs it is very rare for a scheme to be incurring a build cost below the £200 psf threshold. This position is further reinforced as a result of the pressure on tender prices from sharply rising material prices and longer supply times that have resulted from Brexit and COVID-19. This is confirmed as per the BCIS five-year forecast included as per **Appendix 4**.
- 2.9. For the purpose of this assessment, I have taken the average £ psf from the median, mean and upper quartile BCIS build costs, which after the adjustments outlined above shows an average of £203 psf. This is applied to the gross area in my appraisal of 29,125 sq ft resulting a build cost of £5.925m. In addition, I have included a cost of £4,500 per dwelling for the incoming Part L Building Regulations which would not be factored into the latest BCIS sample data.

- 2.10. An allowance for Technical Fees is included at 10% of the Standard Build Cost which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the adopted allowance for professional fees within the Bexley Local Plan Viability Assessment (March 2021) is 10% of standard build costs so I am in line with this position.
- 2.11. I have then made an allowance for Developer Profit at 20% (of GDV) for the Market Housing and 6% (of GDV) for the affordable housing. These assumed returns are within industry accepted industry parameters and the above allowances result in a blended return of 17% on GDV in the 25% shared ownership model (Tab 1A).
- 2.12. I have not included any S106 costs in my appraisal model however CIL has been calculated included at an assumed cost of £110k as advised by the applicant. During the course of the application process should either of the assumptions on CIL/S106 prove to be inaccurate I would reserve the right to amend the appraisal in line with the accurate planning obligations.
- 2.13. With regards to the calculation of finance, I have included within my appraisal a quarterly cashflow to reflect the cost of finance for my appraisal analysis. This can be seen as per **Tab 5A of Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.
- 2.14. I have made the assumption that construction will commence on site within Q2 Year 1 (this is assumed to be following a period of site preparation) and will be completed by Q3 Year 2.
- 2.15. I have assumed all of the residential sales will be achieved in the quarters post completion; this includes a portion of off-plan sales although the monies from these sales would go into escrow and would not be accessible by the developer until after the development is completed.

- 2.16. The affordable is assumed to be disposed of via a 'golden brick' payment. The cashflow works on a finance rate on debit of 6.5% which I believe is reasonable in the current climate.

### 3. VALUATION METHODOLOGY

- 3.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing, Alternative or Benchmark Land Value.
- 3.2. In this instance the case is somewhat more complex due to the landowner being the Local Authority. Where this occurs, it is often considered acceptable to reference the agreed (or proposed) purchase price in the adoption of the Benchmark Land Value. The reason for this is that with the 'reasonable' landowner being the Local Authority there is a direct correlation between what can be received in terms of a land purchase price and also the ability of the developer to comply with policy requirements. If the land price requested by the Local Authority is too high, whilst they will receive a large income of funds through the sale, this will restrict the ability of the developer to deliver S106/affordable housing. I understand from the applicant the proposal is for a £1.8m land purchase and this is the figure reflected in my analysis.
- 3.3. For this viability assessment I have sought to sense test this position with reference to an Existing Use Value calculation. In this regard I have considered comparable evidence of achieved sales of D1 (now F1) sites in and around the London Boroughs – a full schedule is included as per **Appendix 5**. This shows average achieved sales values ranging from £130 psf - £980 psf. I am advised by the applicant the existing site is comprised of at least 15,000 sq ft floorspace and if I include an assumed sales value of £130 psf which is the lowest of all the comparable evidence this equates to £1.950m. This would seem to suggest that the adopted £1.800m is a reasonable assumption within my viability as a



Benchmark Land Value. I would also reserve the right to review this EUV calculation on receipt of a full measured survey of the library.

- 3.4. This approach to assessing the sites Benchmark is recommended in various pieces of viability guidance including the Mayor's "Homes for Londoners Affordable Housing and Viability Supplementary Planning Guidance" (SPG) (August 2017).

#### 4. SUMMARY CONCLUSION

- 4.1. The outturn of my analysis can be summarised as follows:

Tab	Total Units	Affordable % (Units)	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
1A	32	25%	£1,262,591	£1,800,000	-£537,409	NON-VIABLE

#### 5. SENSITIVITY ANALYSIS

- 5.1. I have carried out sense testing on the level of GDV and build cost to observe the impact on viability as per the schedule below;

##### 25% Affordable Housing

	Market Revenue			
		-5%	0%	5%
	5%	-£1,479,269	-£936,244	-£393,219
	0%	-£1,129,353	-£537,409	-£43,303
	-5%	-£779,436	-£236,411	£306,614

#### 6. NON-TECHNICAL SUMMARY

- 6.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed

“Viable”. However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered “Non-Viable”.

6.2. The inputs I have adopted within my analysis can be seen within the summary table below compared with the Bexley Local Plan Viability Assessment and CIL Review (March 2021):

Input:	Assessment Allowance:	Local Plan Viability Allowance:	Comments:
<b>Market Revenues</b>	£520 psf	£307 - £511 psf	
<b>Affordable Revenues</b>	SO £366 psf	£199 psf LAR / £271 psf SO	
<b>Fees and Marketing (Market):</b>	3%	3.5%	
<b>Transaction Costs (Affordable):</b>	0.5%	-	
<b>Standard Construction Costs:</b>	£203 psf	£195 psf	
<b>Professional Fees:</b>	10%	10%	
<b>Developer Profit:</b>	20% / 6%	18% / 6%	
<b>Finance Rate:</b>	6.5%	6%	
<b>Benchmark Land Value:</b>	£1.8m	Variable	

## 7. CONCLUSIONS

7.1. You will note from the table above and the appraisal included as **Appendix 2** shows the proposed scheme incurring a deficit even when the affordable contributions are reduced. In these circumstances the scenarios tested should therefore be considered technically ‘non-viable’.

- 7.2. In my experience, where certain deficits are incurred in viability the developer can chose to take the 'commercial decision' to proceed with a scheme at a certain level of affordable provided that the deficit does not increase any further beyond that point. This 'commercial decision' would be reached on an individual site basis formed on the assumptions within this appraisal. On this basis the applicant has advised me that they are prepared to proceed with the scheme as per the 25% shared ownership proposal, but are only able to do so with an agreed land value of £1.8m. Should the Council seek to increase the land value this would impact the ability of the applicant to deliver this level of affordable housing.
- 7.3. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

**Turner Morum LLP**

**October 2021**