Financial Viability Statement

2 Heaton Road, London Borough of Southwark, London, SE15 3NL

September 2023

Prepared on behalf of:

Vanquish Iconic Developments

CBRE

Contents

Declaration ... 3
1 Introduction ... 5
2 Planning Policy Context ... 7
3 Approach & Methodology ... 11
4 Viability Assessment Assumptions ... 14
5 Site Value (or 'Benchmark Land Value') ... 20
6 Appraisal Results ... 22
7 Conclusions ... 23

Appendices

A Location Plan ... 25
B Proposed Floor Plans ... 26
C BCIS Cost Data ... 27
D Commercial Comparables ... 28
E Policy Compliant Viability Appraisal ... 29
F Scenario Test Appraisal ... 30
G Sensitivity Test Appraisal ... 31

Declaration

A declaration of conformity with the RICS Professional Statement Financial Viability in Planning, September 2019, 1st Edition.[1], is set out within the following sub-sections.

Instruction and Purpose of Report

In accordance with an instruction and our appointment dated 31 July 2023, CBRE has been instructed by Vanquish Iconic Developments ('the Applicant') to objectively assess, and report upon, the financial viability of the change of use application for the basement/ground floor of 2 Heaton Road, London Borough of Southwark, SE15 3NL ('the Site') for the following:

'Change of use of ground and basement floor office units (Use Class E) into a 2-bed 3-person residential unit (Use Class C3) on ground floor level including enclosing part of the site at the front to form a private terrace and minor alterations to the fenestration, and residential amenity space for the sole use of the 2-bed 3-person residential unit occupier on the basement floor' (the Proposed Development').

The purpose of this viability assessment ('VA") is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by London Borough of Southwark ('LBS' or 'the Council') as well as the London Plan, national planning policy and guidance.

Objectivity, impartiality, and reasonableness

CBRE places the utmost importance on the integrity, impartiality, and potential conflicts of interests in carrying out its services and seeks to identify and assess all relationships which may result in a conflict of interest or pose a threat to impartiality. CBRE aims to inspire confidence by being open and impartial, offering transparency of process, being fair and maintaining the confidentiality of our clients.

In undertaking this instruction and carrying out the viability assessment, CBRE always confirms that we have acted impartially, with objectivity, without interference and with reference to all appropriate available sources of information.

CBRE confirms that adequate time has been provided to produce this report.

CBRE confirms that there is no instruction in place to undertake an Area-Wide viability assessment concerning existing and future planning policies against which the proposed development scheme will, in due course be considered.

CBRE has set out a full explanation of the evidence provided with reasoned justification.

Conflict(s) of interest

CBRE confirms, to the best of its knowledge, that no conflict or risk of conflict of interest exists in carrying out this viability assessment on behalf of the Applicant(s) and in respect of the site.

Contingent Fee

In preparing this report, no performance related or contingent fees have been agreed between CBRE and the Applicant(s).

[1] *RICS (May 2019) Financial viability in planning: conduct and reporting, 1st Edition*

Declaration

Status

This report does not constitute a formal valuation and cannot be regarded, or relied upon, as such.

This report provides a guide for feasibility in line with the purpose for which the assessment is required, in accordance with the National Planning Policy Framework ('NPPF')[2] and national Planning Practice Guidance for Viability ('PPGV')[3], and as stated within the relevant guidance published by the RICS[4].

The conclusions of this report are based upon the input assumptions as stated herein and as available at the time of production. The input assumptions and conclusions of this report are valid at the date of publication and should be subject to review should further information be made available or in the event of material economic or property market change, or in respect of relevant legislative and policy changes.

Publication

This viability assessment has been prepared on the basis that it is expected to be made publicly available, other than in exceptional circumstances.

Where information may compromise delivery of the Proposed Development or infringe other statutory and regulatory requirements, these exceptions will be discussed and agreed with the Local Planning Authority ('LPA') and documented early in the process. Commercially sensitive information will be presented in aggregate form following these discussions. Any sensitive personal information will not be made public.

[2] *MHCLG (2021) National Planning Policy Framework (NPPF)*

[3] *MHCLG (2019) National Planning Practice Guidance – Viability*

[4] *RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021 (effective from 1 July 2021) ('RICS Viability Guidance')*

1 Introduction

Instruction

1.1 CBRE has been appointed by the Applicant to objectively assess, and report upon, the financial viability of the Proposed Development at the Site.

1.2 The purpose of the VA is to test the financial viability of the Proposed Development at the Site, taking into account the policy requirements set by the Council, the London Plan, national planning policy and guidance.

Context

Subject Site, Location & Access

1.3 The Site comprises a 7-storey block containing 9 residential units (on floors 1-6) with B1 use at basement and ground floor levels. Practical completion of the block was achieved in November 2020.

1.4 The Site occupies an area of 0.24ha and is located within the Peckham Rye area of the London Borough of Southwark. The character of the surrounding area is a mix of residential and commercial uses. The Site is located 0.7 miles to Peckham Rye station, 0.9 miles from Queens Road station and 0.8 miles from Nunhead station.

1.5 A location plan is provided within **Appendix A**.

Planning History

Relevant planning history pertaining the Site includes the following, summarised in Table 1.1.

Table 1.1: Planning History | 2 Heaton Road

Application Reference	Description	Decision
19/AP/1939	Demolition of existing single storey building and construction of 7 storey block containing 9 residential units with B1 use at basement and ground floor levels.	Approved 03/10/2019
20/AP/0062	Details of Condition 8 (Cycle Storage) as required by planning permission LBS reg no 19/AP/0062 for the demolition of existing single storey building and construction of 7 storey block containing 9 residential units with B1 use at basement and ground floor levels.	Granted 13/02/2020

Source: London Borough of Southwark

Date of Appraisal

1.6 The date of appraisal is the stated date on the cover of this report.

Document Structure

1.7 The viability assessment report is structured as follows:

- **Section 2**: presents the relevant planning policy context.
- **Section 3**: confirms the approach and methodology to this viability assessment together with a brief review of the relevant current guidance for undertaking viability assessments.

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- **Section 4**: sets out a summary of the principal assumptions and evidence used within this financial viability assessment.
- **Section 5**: derives the benchmark land value ('BLV') as appropriate to apply to the Site.
- **Section 6**: summarises the results of viability assessment for the Proposed Development.
- **Section 7**: sets out concluding recommendations to the Applicant and the Council in respect of the level of affordable housing provision (and other Section 106 planning obligations, as applicable) that can be supported by the Proposed Development in accordance with the National Planning Policy Framework ('NPPF').[5] and national Planning Practice Guidance ('PPG').[6].

[5] *MHCLG (2021) National Planning Policy Framework*

[6] *MHCLG (2019) National Planning Practice Guidance – Viability*

2 Planning Policy Context

2.1 This section of the document presents the relevant national and local planning policy context to viability assessment of the Proposed Development at the Site.

National Planning Policy Framework

2.2 The NPPF presents the Government's planning policies for England and how these are expected to be applied.

2.3 Paragraph 2 of the NPPF states that planning law requires planning applications to be determined in accordance with the development plan unless material considerations indicate otherwise[7]. The NPPF, along with emerging plans, are material considerations that must be accorded weight within planning decision-making.

Deliverability & Viability

2.4 The NPPF confirms that it is the applicant's responsibility to demonstrate whether the circumstances affecting the development justify the requirement for the submission of a viability assessment at the application stage.

2.5 The LPA, as decision maker, must determine the weight to be given to the submitted viability assessment having regard to all the circumstances in the case including the following:

- whether the Plan and viability evidence underpinning it is up to date; and
- whether there have been any changes in site circumstances since the Plan was brought into force.

2.6 All viability assessments, including those undertaken at plan-making stage, should reflect the recommended approach in national planning guidance[8].

Planning Practice Guidance for Viability ('PPGV')

2.7 The Government's national planning guidance for understanding viability in both plan making and decision taking is set out within PPGV[9].

2.8 Detailed guidance is provided regarding viability assessment in decision-taking upon individual schemes at the application stage. Firstly, it is the responsibility of the applicant to demonstrate the circumstances justifying the need for viability assessment. Whilst not stated as exhaustive, examples stated in PPGV are:

- where development is proposed on unallocated sites of a wholly different type to those used in viability assessment that informed the plan;
- where further information on infrastructure or site costs is required;

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[7] *Section 38(6) of the Planning and Compulsory Purchase Act 2004*

[8] *MHCLG (2021) National Planning Policy Framework (NPPF): Paragraph: 58*

[9] *MHCLG (2019) Planning Practice Guidance: Viability*

- where particular types of development are proposed which may significantly vary from standard models of development for sale (for example BTR or housing for older people); or
- where a recession or similar significant economic changes have occurred since the plan was brought into force.

2.9 Paragraph 20 confirms that the inputs and findings of any viability assessment should be set out in a way that aids clear interpretation and interrogation by decision makers. Reports and findings should clearly state what assumptions have been made about costs and values (including gross development value, benchmark land value ('BLV') including the landowner premium, developer's return and costs).

2.10 Paragraph 10 confirms the applicant's viability assessment must be based upon and refer back to the viability assessment that informed the plan, and transparently present evidence of any change in site circumstances since the plan was brought into force. It should reflect the Government's recommended approach to defining key inputs as set out in PPGV.

Adopted Local Policy

LB Southwark Local Plan (2022)

2.11 The Southwark Local Plan ('SLP') was adopted on 23 February 2022. The plan provides strategic policies, development management policies, area visions and site allocations which set out the strategy for managing growth and development across the borough from 2019 – 2036. Relevant policies of the SLP include:

P1 Social Rented and Intermediate Housing

2.12 Development that creates 9 homes or fewer (inclusive) must provide the maximum amount of social rented and intermediate homes or a financial contribution (e.g., 'PIL') towards the delivery of new council social rented and intermediate homes with a minimum of 35%, subject to viability.

2.13 Viability appraisals and reviews are required for all development. These must be published for public scrutiny.

2.14 For schemes providing 9 homes or less (inclusive) social rented and intermediate housing can either be provided on-site or a payment in lieu can be provided to go towards the delivery of council homes. Where on-site social rented and intermediate housing is being provided and 35% of habitable rooms cannot be delivered as a whole housing unit, the equivalent payment in lieu should be provided.

2.15 Housing requirements will be calculated in habitable rooms. A habitable room is defined as a room within a dwelling that is intended to be used for sleeping, living, cooking or dining, regardless of what it is actually used for. This excludes enclosed spaces such as bath or toilet facilities, corridors, landings, hallways, lobbies, utility rooms and kitchen with an overall floor area of less than 11m².

2.16 For social rented and intermediate housing calculation purposes, habitable rooms under 28m² will be counted as 1 habitable room. Habitable rooms exceeding 28m² will be counted as set out in the table below.

Table 2.1: Habitable Room Calculation | SLP

Area (m^2)	Habitable Rooms
0-28	1
28.1 – 42	2
42.1 - 56	3
56.1 – 70	4
70.1 - 84	5
84.1 – 98	6
98.1 – 112	7
112.1 – 126	8
126.1 – 140	9
140.1 – 154	10

Source: LBS

London Plan 2021

2.17 The London Plan is the statutory Spatial Development Strategy for Greater London. It sets out a framework for how London will develop over the next 20-25 years and the Mayor's vision for Good Growth

2.18 The Plan is part of the statutory development plan for London, meaning that policies in the Plan should inform decisions on planning applications across the capital. Boroughs local plans must be in 'general conformity' with the London Plan, ensuring the planning system for London operates in a joined-up way and reflects the overall strategy for how London can develop sustainably, which the London Plan sets out.

2.19 Policy H2 (Small Sites) states that boroughs should proactively support well-designed new homes on small sites (below 0.25 hectares in size) through both planning decisions and plan making in order to:

- Significantly increase the contribution of small sites to meeting London's Housing needs;
- Diversify the sources, locations, types and mix of housing supply;
- Support small and medium-sized housebuilders;
- Support those wishing to bring forward custom, self-build and community-led housing; and
- Achieve the minimum targets for small sites as a component of the overall housing targets.

2.20 Policy H4 also notes that major developments of 10 or more units triggers an affordable housing requirement. Boroughs may also require affordable housing contributions from minor housing development in accordance with Policy H2 (Small Sites).

GLA's Affordable Housing and Viability Supplementary Planning Guidance ('AHSPG') (2017)

2.21 The AHSPG provides guidance to support the implementation of London Plan policy and advises on viability assessments.

2.22 The GLA's long term aim is for half of all new homes to be affordable. The aims of the SPG are to:

- Increase the amount of affordable housing delivered through the planning system;

- Embed the requirement for affordable housing into land values; and
- Make the viability process more consistent and transparent.

2.23 Part 3 provides guidance on viability assessments. Paragraph 3.38 states that the process for establishing an appropriate benchmark land value ('BLV') for a viability assessment is key, because this indicates the threshold for determining whether a scheme is viable or not.

2.24 Paragraph 3.47 states that:

"The Mayor considers that the 'Existing Use Value plus' (EUV+) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used."

2.25 Paragraph 3.51 states that:

"If an applicant seeks to use an 'alternative use value' (AUV) approach it must fully reflect policy requirements. Generally the Mayor will only accept the use of AUV where there is an existing implementable permission for that use. Where there is no existing implementable permission, the approach should only be used if the alternative use would fully comply with development plan policies, and if it can be demonstrated that the alternative use could be implemented on the site in question and there is market demand for that use."

2.26 The following documents are taken into consideration for the completion of this report:

- The Affordable Housing SPD adopted in 2008;
- The Development Viability SPD adopted in March 2016;
- The Section 106 and CIL SPD adopted in 2015 and amended in November 2020;
- LB Southwark Local Plan (2022); and
- The London Plan (Adopted 2021).

3 Approach & Methodology

The Role of Viability Assessment in Planning

3.1 This chapter provides the approach and methodology to this viability assessment set within the context of the legislative planning framework and recognised national practice guidance for undertaking viability assessments.

RICS Financial Viability in Planning: Conduct and Reporting (1st edition, May 2019)

3.2 This RICS professional statement sets out mandatory requirements on conduct and reporting in relation to Financial Viability Assessments ('FVAs') for planning in England, whether for area-wide or scheme-specific purposes. It recognises the importance of impartiality, objectivity and transparency when reporting on such matters. It also aims to support and complement the Government's reforms to the planning process announced in July 2018 and subsequent updates, which include an overhaul of the NPPF and PPGV and related matters.

3.3 The statement focuses on reporting and process requirements, and the need for the assessment of viability to be carried out having proper regard to all material facts and circumstances. The additional requirements became effective on 1 September 2019.

RICS Guidance Note: Assessing viability in planning under the National Planning Policy Framework 2019 for England (1st edition, March 2021)

3.4 The RICS Viability Guidance[10], effective from 1st July 2021, supplements the RICS Professional Statement and gives added guidance to RICS members and other stakeholders in the planning process on undertaking and understanding FVAs in both a plan-making and decision-taking context.

3.5 The RICS Viability Guidance, which replaces the earlier 2012 publication, provides best practice guidance for practitioners in carrying out and interpreting the results of viability assessments under the NPPF and PPGV.

PPGV

3.6 PPGV sets out the Government's recommended approach and confirms the principles for conducting viability assessment as follows:

[10] *RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021*

'Viability assessment is a process of assessing whether a site is financially viable, by looking at whether the value generated by a development is more than the cost of developing it. This includes looking at the key elements of gross development value, costs, land value, landowner premium, and developer return'.[11]

3.7 PPGV confirms that the minimum landowner's return should be referred to as the 'benchmark land value' ('BLV'), which should be established on the basis of the existing use value ('EUV') of the land, plus a premium for the landowner. This approach is referred to as the 'existing use value plus' ('EUV+').

3.8 PPGV also confirms that alternative uses can be used in establishing the BLV. For the purposes of viability assessment the AUV refers to:

'…the value of land for uses other than its existing use.'[12]

3.9 Where AUV is used this should be supported by evidence of the costs and values of the alternative use to justify the land value. PPGV confirms the Government's position that valuation based on AUV includes the premium to the landowner (i.e. the AUV is equal to the EUV+ as a BLV)[13].

Methodology

3.10 In order to determine the viability of the Proposed Development at the Site, a residual valuation model with cash flow has been prepared using proprietary software Argus Developer.

3.11 The methodology for undertaking this viability assessment follows the residual appraisal method, which is that accepted by the RICS and recommended within RICS Viability Guidance[14]. The methodology is also consistent with the Government's recommended approach as set out in PPGV[15].

3.12 The assessment calculates the cost to acquire, construct, and deliver the capital costs of the development scheme, which is set against the value of the development on the assumption it is completed in the current market. No allowance is made for underlying inflation.

3.13 This method is an industry standard approach for developers in calculating an appropriate bid to acquire land and premises for development. The residual land value ('RLV') represents the sum available following the deduction of all costs, including allowance for developer's profit, from the net achievable revenue which can be derived from the proposed scheme.

Benchmark Land Value ('BLV')

3.14 As set out above, both the Government's PPGV and RICS Guidance set out a requirement for viability assessment to compare the RLV of the Proposed Development, as derived through the viability assessment,

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[11] MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 010

[12] MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 017

[13] MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 017

[14] RICS (2021) Assessing viability in planning under the National Planning Policy Framework 2019 for England RICS guidance note, England 1st edition, March 2021

[15] MHCLG (2019) National Planning Practice Guidance – Viability

with the BLV (i.e. minimum return at which it is considered a reasonable landowner would be willing to sell their land) in order to determine whether the proposed development is viable or unviable.

4 Viability Assessment Assumptions

4.1 This section presents the principal assumptions used in the viability assessment of the Site for the Proposed Development.

Development Outputs

Land Analysis

4.2 The area of the Site associated with the Proposed Development equates 0.24 hectares/0.59 acres.

Proposed Development

4.3 The Proposed Development seeks a change of use of ground floor and basement floor office unit (Use Class E) into a 2 bed, 3-person residential unit (C3), including enclosing part of the Site at the front to form a private terrace and minor alterations to the fenestration.

4.4 The proposed floor plans for the scheme are provided within **Appendix B**.

4.5 The proposed residential unit extends to 71m^2 (NIA) / 79m^2 (GIA) on the ground floor, with the residential amenity space on the basement level (for the benefit of the ground floor flat occupier) on the basement level extending to 120m^2. The total GIA for the Proposed Development is 199m^2.

Development Value

4.6 The value to be adopted is based on the special assumption that the development is complete on the publication date of this document in the prevailing market conditions.

Residential | Open Market Value

4.7 CBRE has conducted a market pricing analysis of current new-build and re-sale apartments in the locality of the Site to inform estimated open market values ('OMVs') within the viability appraisal of the Proposed Development.

Asking Prices (New Build)

4.8 CBRE has researched the current pricing for the 2-bedroom apartments in the SE15 location.

Alfred Fagon, Copeland Road, SE15

4.9 Alfred Fagon, Copeland Road, is a 67-unit apartment scheme in Peckham, approximately 0.2 miles from the Site. Features include open plan living areas, under lit kitchen units and quartz fashioned worktops and a communal roof terrace. The pricing for the units within the development is set out within Table 4.1.

Table 4.1: Asking Prices (New Build) | Alfred Fagon SE15

Floor Level	Asking Price	Floor area (ft²)	Price (£/ft²)
6	£595,000	787	£756
5	£590,000	769	£768
6	£580,000	787	£737
3	£570,000	777	£733
3	£520,000	734	£708

Source: Rightmove

4.10 CBRE notes that the asking £/ft² rates range from £708 - £768/ft². CBRE comments that the asking prices are likely to be higher than the transacted prices. The data in Table 4.1 provides a useful indication of marketing prices for 2-bed units in the subject location. CBRE also comment that the units on the upper floors of the development are marketed at higher prices and £/ft^2 values, which is consistent with residential schemes whereby units on upper floors command a premium.

4.11 CBRE also notes that the units within the development have been on the market since Q4 2022, suggesting there is limited interested at the current pricing, likely due to the tightening lending criteria and increasing mortgage rates.

Achieved Sales Transactions (Secondary Market)

4.12 Due to limitation in the volume of comparable new build transactional evidence, CBRE has reviewed the achieved sales data within a 0.5 mile radius of the Site. The evidence is summarised in the following table.

Table 4.2: Achieved Sales Transactions (Secondary Market) | Within 0.5 miles of the Site

Address	No. Beds	Date Sold	Area (ft²)	Sold Price	£/ft²	Comments
Flat 18, Pioneer Centre, Frobisher Place, SE15 2EE	2	11/05/2023	1,056	£780,000	£737	Grade 2 listed building in close proximity to Queens Road Peckham. Residents benefit from communal gym, swimming pool and tennis court. Superior specification and location to Proposed Development.
Flat 5, Pioneer Centre, Frobisher Place, SE15 2EE	3	20/12/2022	1,184	£755,000	£638	Ground floor flat. Grade 2 listed building in close proximity to Queens Road Peckham. Residents benefit from communal gym, swimming pool and tennis court. Superior specification and location to Proposed Development.
Flat 17 Penny Black Court, 89 Queens Road, Peckham, SE15 2EZ	2/3	12/04/2023	818	£557,000	£681	Sold new in July 2016 for £575,000. Occupies the 4th floor of a residential block (commercial on the ground floor) on the Queens Road.
Apartment 72, 2 Woods Road, Peckham, SE15 2BB	2/3	16/11/2022	850	£589,995	£694	Mid-floor flat. Sold new in May 2017 for £590,000. Located 0.3 miles from Queens Road station, Peckham.

Source: LandInsight

4.13 CBRE notes that the above transactions represent recent sales in close proximity to the subject site. The £/ft² values range from £638 - £737/ft², dependent on size, specification and micro location. CBRE also note that there has been a stagnation in prices for new-build flats in the Peckham location, with a number of transactions failing to exceed their original sold price.

4.14 CBRE consider that the £/ft² values achievable within the Proposed Development are expected to be in lower than the range set out in Table 4.2, owing to the additional non-habitable space located on the basement floor.

4.15 Factoring in the comparable evidence, CBRE consider the residential flat with associated non-habitable space on the basement level could achieve £825,000 (£401/ft²) in the current market. This has been calculated using the following methodology:

- Ground Floor Flat: £575,000 (£752/ft²) plus;
- Non-habitable basement floorspace: £250,000 (£193/ft²).
- Total value: £825,000 (£401.46/ft²)

Development Costs

Construction Costs

4.16 CBRE has utilised BCIS build costs data to advise on the costs of conversion for the Proposed Development. The BCIS data sheet is attached at **Appendix C**. CBRE has adopted the median BCIS rate for the cost of conversion, which is £1,478m² / £137.31/ft².

4.17 In addition to the base construction cost, CBRE[16] had adopted an external cost allowance of 5%.

Community Infrastructure Levy ('CIL')

4.18 CIL was introduced under the Planning Act 2008 and is legislated by the CIL Regulations 2010 (as amended). Local authorities in England and Wales can elect to charge CIL on new development to assist in funding infrastructure associated with planned growth.

4.19 The London Borough Southwark CIL Charging Schedule was approved on 1 April 2015 and was revised on 1 December 2017. The Site location falls within CIL Zone 3[17], attracting a rate of £54/m² for Residential Use, as shown in Table 4.3.

[16] *CBRE reserves the right to instruct QS input on the costs for a more detailed assessment of the change of use application, if required.*

[17] *As per LBS Policy Map*

Table 4.3: London Borough of Southwark | CIL Charging rates (per m²)

Development Type	CIL Zones	Proposed CIL rate (/m²)
Office	Zone 1	£76
	Zones 2-3	£0
Hotel	Zone 1	£272
	Zones 2-3	£136
Residential	Zone 1	£435
	Zone 2	£218
	Zone 3	£54
All retail	Zones 1-3	£136

Source: London Borough of Southwark

Mayoral CIL

4.20 The Proposed Development will also attract a Mayoral CIL charge[18], MCIL2. The Proposed Development is situated within Band 2 and therefore attracts the following charging rate:

- Residential Development: £60/m²

4.21 There are no other CIL charges applicable to the Proposed Development (Use Classes).

Indexation

4.22 LBS CIL is indexed in accordance with the 'Annual CIL Rate Summary 2022' which confirms that the calculation of the chargeable amount is as defined by CIL Regulations 2010 (as amended), and indexed via the 'BCIS All-In Tender Price Index'[19].

4.23 The table below table below details the estimated[20] indexed CIL liability calculation for the Proposed Development including a table of CIL payment instalments in accordance with LBS's Instalment Policy. The CIL payment calculation is set out in Table 4.4 & 4.5 respectively.

[18] *Mayor of London (2019) MCIL2 Charging Schedule*

[19] *For CIL liable developments granted planning permission (determined) from 2020 the RICS Community Infrastructure Levy (CIL) Index.*

[20] *Any estimated calculation and/or figures provided by CBRE is indicative only and subject to change. Any estimated calculation and/or figures given are not a final representation of the total CIL liability and do not constitute legal or tax advice. CBRE accepts no liability or responsibility for any claims, losses, additional costs, damages or expenses which may arise or which may be sustained as a result of relying on the guidance, estimated calculation or figures provided by CBRE in connection with CIL liability. The client should in all cases seek specialist legal or tax advice on CIL.*

Table 4.4: Southwark CIL | Indexed Calculation

Indexed CIL Liability Calculation – Proposed Development			
R	Residential (Use Classes C3 & C4)		£54
A(i)	Proposed Floorspace (Sqm GIA)		199
A(ii)	Existing Floorspace[21] (Sqm GIA)		-
A	Net Additional Floorspace (Sqm GIA)		199
Ip	Index Rate when PP Granted (Assumed 2023)		355
Ic	Index Rate when Charging Schedule adopted		317
Residential	CIL Liability = (R * A * Ip) / Ic		£12,034
Instalment 1	100%	*within 60 days commencement of development*	£12,034.16

Table 4.5: Mayoral CIL | Indexed Calculation

Indexed CIL Liability Calculation – Proposed Development			
R	Residential (Use Classes C3 & C4)		£60
A(i)	Proposed Floorspace (Sqm GIA)		199.00
A(ii)	Existing Floorspace (Sqm GIA)		0.00
A	Net Additional Floorspace (Sqm GIA)		199
Ip	Index Rate when PP Granted (Assumed 2020)		355
Ic	Index Rate when Charging Schedule adopted		317
Residential	CIL Liability = (R * A * Ip) / Ic		£13,371
Instalment 1	100%	*Within 60 days from commencement*	£13,371.29

Affordable Housing Payment In Lieu

4.24 LBS policy states that an affordable housing payment, equivalent to 35% of the Proposed Development, is chargeable per habitable room for sites of 10 units or less, where affordable housing cannot be provided on-site.

4.25 CBRE has calculated that are 4 x habitable rooms located within the Proposed Development, being the 2 x bedrooms (2 habitable rooms total) and the open plan sitting/kitchen room (32m^2 and thus counts as 2 x habitable rooms) on the ground floor. 35% of the total number of habitable rooms is liable for a payment in lieu which equates to 1.4 habitable rooms.

4.26 LBS has confirmed, in line with BNP Paribas[22] small sites viability testing, that the payment in lieu for CIL zone 3 is £82,000 per Habitable Room. Therefore, the requested payment in lieu is as follows:

[21] *CBRE has assumed the existing floorspace has not been in lawful use for 6 continuous months in the last three years and is therefore liable for CIL. CBRE reserves the right to revisit this input if future information comes to light.*

[22] *BNP Paribas (2019) New Southwark Plan Evidence Base: Housing Policy Additional Small Sites Viability Testing*

- 1.4 (habitable rooms) x £82,000 = £114,800 (Affordable Housing Payment in Lieu)

Other Development Costs

4.27 Other development costs are summarised in Table 4.13.

Table 4.13: Other Development Costs | Proposed Development

Cost heading	Rate	Commentary
Cost of Land Acquisition	Prevailing Rate	
Professional Fees	8.00%	Of base build costs. Industry standard rate between 8% - 12%.
Residential Sales Agent & Marketing Fee	2.00%	Of Residential GDV.
Residential Legal Fee	£1,000	Per Unit.
Finance	8.00%	Total blended cost of capital for financing the Proposed Development via the market, which takes into account arrangement, monitoring and related fees/credit. Assumes 100% debt finance.
Developer's Return	17.50%	Total blended target return for risk on GDV.

Source: CBRE Analysis

Development & Disposal

4.28 The development programme, as informed by the Applicant, is summarised in Table 4.14.

Table 4.14: Development & Disposal Programme | Proposed Development

Duration	Stage	Description
Month 1:	Purchase	Assumes grant of planning permission
Months 2 – 6:	Construction	Overall construction period.
Months 7 - 9:	Sale	Reflects the estimated time to dispose of the 1-bed residential unit on the open market.

Source: CBRE Analysis

5 Site Value (or 'Benchmark Land Value')

5.1 Establishing the minimum level of financial return at which a reasonable landowner would be willing to release their land for development represents a critical component of a viability assessment. It must represent a premium over the existing use value ('EUV') and a reasonable incentive, in comparison with other options available, for the landowner to sell land for development, whilst allowing a sufficient contribution to comply with policy requirements.

5.2 Whilst not directly featuring as a cost in an appraisal conducted on a residual basis, this 'minimum return' forms the BLV against which the RLV derived from the appraisal is tested in order to determine the viability of the Proposed Development and scope for planning obligations (including affordable housing).

5.3 The Government's PPGV requires that the BLV should:

'…be informed by market evidence including current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value… This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.' [23]

5.4 Paragraph 016 of PPGV provides further elaboration. It states:

'Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners.' [24]

5.5 The approach adopted for arriving at an appropriate BLV for the Site follows that set out within Chapter 3 of this document and accords with the relevant RICS Guidance, PPGV and the NPPF (2021). It considers:

- the existing use value ('EUV') of the subject site;
- the alternative use value ('AUV') of the subject site;
- the premium; and
- available comparable evidence of land transactions.

Existing Use Value ('EUV')

5.6 The Site comprises a commercial shell unit on the ground and basement floor. CBRE understands the space has been marketed with limited interested at open market rental levels.

5.7 The accommodation at the Site is summarised as follows:

- Ground Floor GIA[25]: 79m^2

[23] *MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 014*

[24] *MHCLG (2019) National Planning Practice Guidance – Viability: Paragraph: 016*

[25] *Areas provided by Casson Conder Architects*

- Basement Floor GIA: 120m^2
- Total GIA: 199m^2

5.8 CBRE has considered commercial transactions within close proximity to the Site. The evidence is contained within **Appendix D**.

5.9 The comparable evidence demonstrates a range of achievable rents from £13.15 - £37.50/ft². CBRE considers that based on the comparable evidence, a rental rate of the lower end of this range of £14/ft^2 is appropriate to apply to the existing Site, with a combined 12 month rent free/void period to allow for fit out works in the current market.

Investment Transactional Evidence

5.10 There is a dearth of available evidence for investment yields for the nature of the accommodation at 2 Heaton Road.

5.11 Investment agent advice suggests that an 8% yield is appropriate to apply to the subject property.

5.12 The BLV calculation, based on EUV plus premium.[26] methodology is set out in Table 5.1.

Table 5.4: Benchmark Land Value | Subject Site

Area (ft^2)	ERV (£/ft^2)	ERV (per annum)	Net Initial Yield	Gross Capital Value	Net Value (following 12 months' rent free/void period)
2,142	£14	£29,988	8%	£374,850	£344,862
				Less Purchasers' Costs @ 3.76%	£12,951
				Existing Use Value (EUV)	£331,911.38
				Landowner premium EUV @ 10%	£33,191.14
				BLV (as EUV plus premium)	**£365,103**

Determining the EUV+ BLV

5.13 Reflecting on the above analysis, when assessed consistently with the methodology of NPPF, PPGV, and RICS Guidance, it is CBRE's professional view that the BLV for the Site equates to **£365,103 (£170/ft^2).**

[26] *A 10% premium is applied to the EUV of the property, the lower end of the range, to reflect that the property is currently empty and not income generating.*

6 Appraisal Results

6.1 This chapter presents the results of the assessment of financial viability arising from the Proposed Development at the Site.

Viability Appraisal

6.2 A policy compliant viability appraisal has been undertaken for the Proposed Development at the Site.

6.3 By way of analysis set out in chapter 5 of this document, it is considered that, if acting reasonably and when fully accounting for adopted planning policy, guidance and all other relevant factors, including a minimum 'premium' at which the vendor would be incentivised to dispose of the Site, this results in a BLV of *£365,103*.

6.4 The policy compliant viability appraisal demonstrates that, when incorporating LBS CIL, affordable housing PIL and the minimum risk-adjusted developer's return on GDV, the residual land value ('RLV') generated equates to *£160,374*. The RLV falls substantially below the BLV.

6.5 A copy of the policy compliant viability appraisal for the Proposed Development is provided within **Appendix E.**

Scenario Test

6.6 CBRE has scenario tested the implications on financial viability of reducing the level of affordable housing PIL to £0, to assess whether the Proposed Development returns to a financially viable position.

6.7 When reducing both the affordable housing PIL to zero the RLV is *£269,675*. This demonstrates that the financial viability of the Proposed Development remains challenged, but that the viability deficit is substantially reduced.

6.8 A copy of the 'Scenario Test' viability appraisal for the Proposed Development is provided within **Appendix F.**

Sensitivity Testing

6.9 CBRE has undertaken sensitivity testing key appraisal variables in order to seek to return the Proposed Development to a financially viable position.

6.10 Utilising the Scenario Test appraisal as a baseline, CBRE has produced a Sensitivity Analysis Report which illustrates that an increase in sales values of 10.38% and decrease to construction costs of approximately 10.38% would return an RLV that meets the BLV whilst providing the minimum risk-adjusted developer's return.

6.11 A copy of the Sensitivity Analysis Report is provided within **Appendix G**.

6.12 This sensitivity scenario would carry significant risk and should be treated with a high degree of caution and, CBRE would advise, given very limited weight.

7 Conclusions

7.1 CBRE has been appointed by the Applicant objectively assess, and report upon, the financial viability of the Proposed Development at the Site.

7.2 The purpose of the viability assessment is to test the financial viability of the Proposed Development at the Site, accounting for the policy requirements set by the Council as well as national planning policy and guidance.

7.3 By way of analysis set out in chapter 5 of this document, it is considered that, if acting reasonably and when fully accounting for adopted planning policy and all other relevant factors, the 'premium' at which the vendor would be incentivised to dispose of the Site represents a total minimum BLV of *£365,103*.

7.4 The policy compliant viability appraisal demonstrates that, when incorporating CIL liability, affordable housing PIL, and the minimum risk-adjusted developer's return on cost, the residual land value ('RLV') generated equates to *£160,374*. The RLV falls substantially below the BLV.

7.5 The delivery of the Proposed Development on a basis of compliance with the Council's adopted development plan fails to generate an RLV sufficient to meet the minimum BLV and the Proposed Development is not financially viable on this basis.

7.6 CBRE has subsequently run a Scenario Test to assess the implications on financial viability of removing the affordable housing PIL. This generates a RLV of *£269,675*, which remains below the BLV.

7.7 The commercial decision whether to proceed with the Proposed Development will therefore be at the discretion of the Applicant.

7.8 Given the commercial risks, it would be CBRE's recommendation that the Proposed Development does not contribute a payment in lieu of on-site provision and any sums towards planning obligations.

7.9 Should the Applicant wish to make a concession in the provision of affordable housing PIL it would be at their risk and discretion.

Appendices

A Location Plan

LEGACY HOUSE, 2, HEATON ROAD, LONDON, SOUTHWARK, SE15 3NL

0m 20m 40m 60m 80m 100m

Scale: 1:1250 **Paper Size: A4**

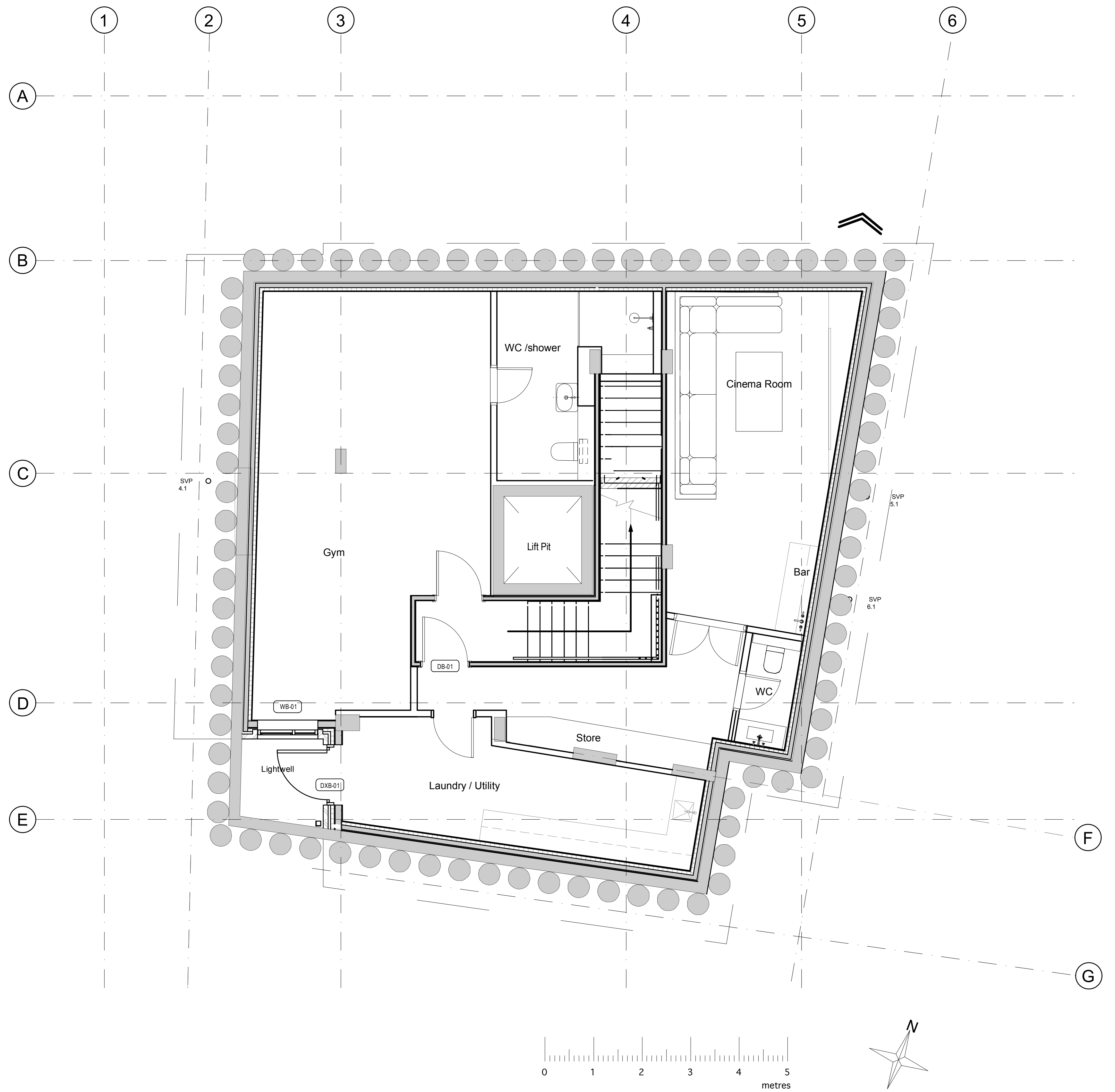
Notes:

OS Partner

EMAPSITE™ PLANS

B Proposed Floor Plans

No dimension should be scaled off this drawing
Site dimensions must be checked before
manufacture. If in doubt please ask.



letter	date	revision	initial

date March 2023

job name

Heaton Road

title

Proposed Basement Plan

scale

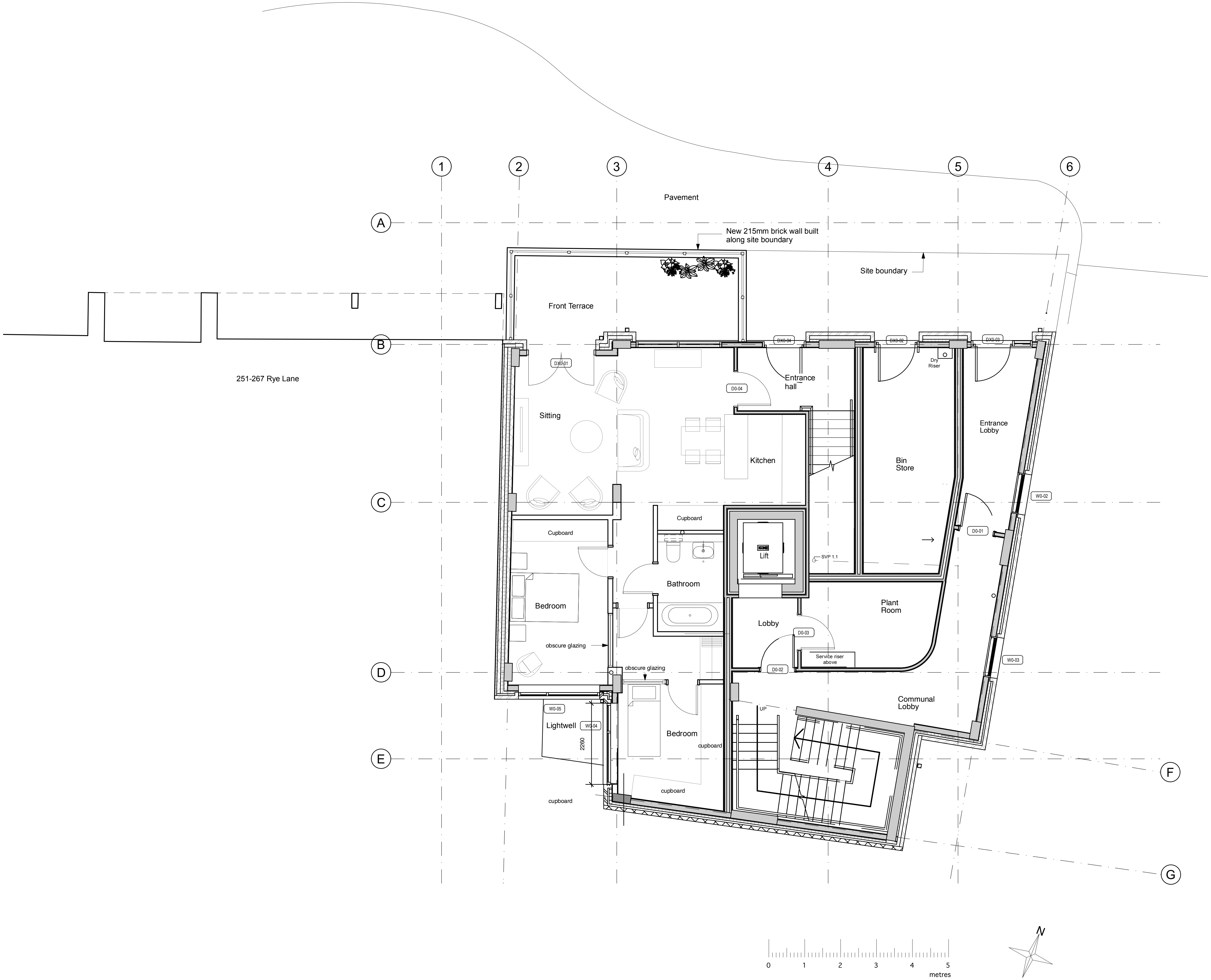
1:100@A3

job no. 1217

drawing no. PL 06

Casson Conder Partnership Architects
167-169 Great Portland Street London W1W 5PF
Tel 020 7584 4581 info@cassonconder.co.uk

No dimension should be scaled off this drawing
Site dimensions must be checked before
manufacture. If in doubt please ask.



A	05/23	bedroom window W0-04 widened bedrooms made smaller	
letter	date	revision	initial

date
March 2023

job name
Heaton Road

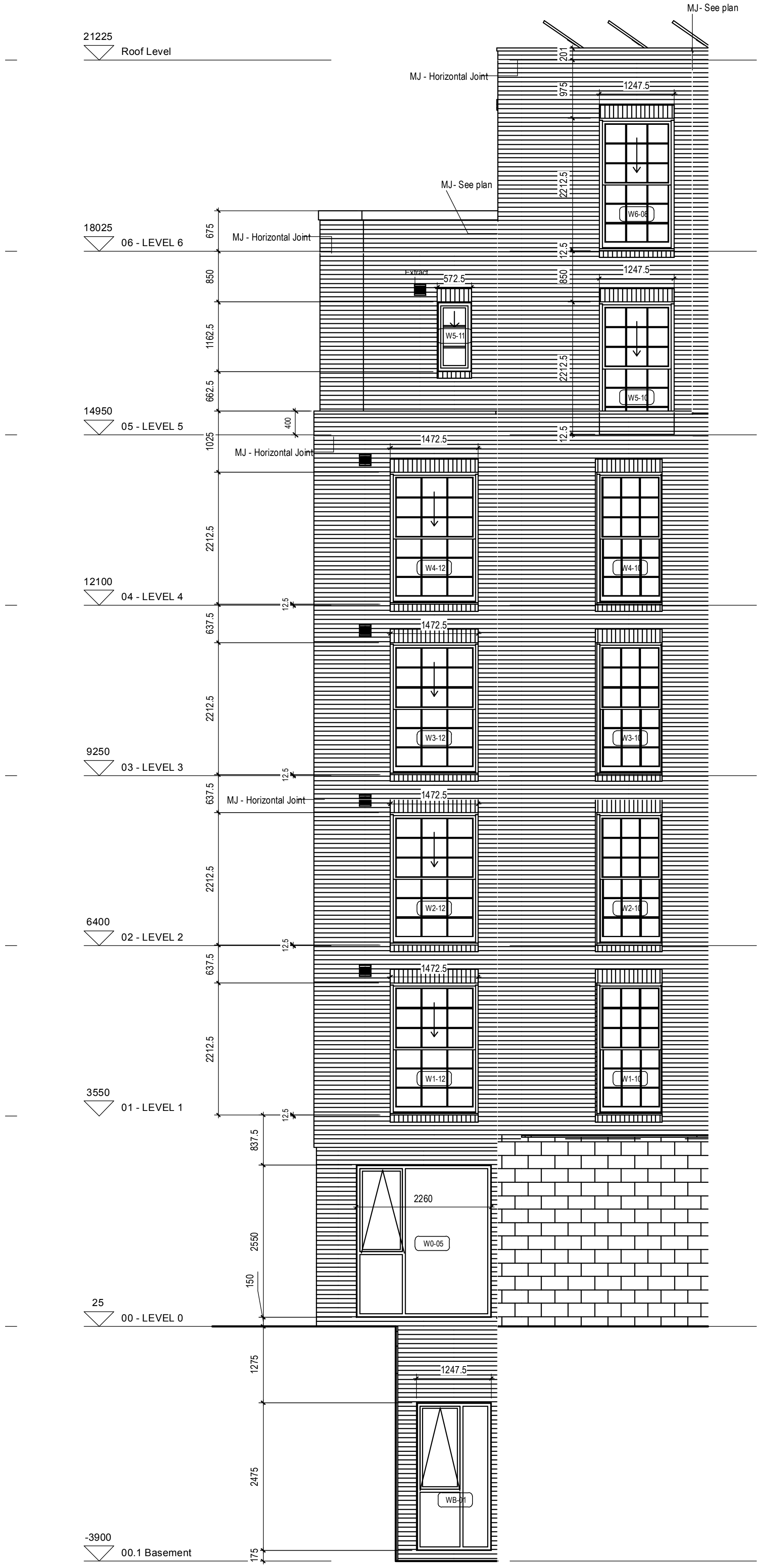
title
Proposed Ground Floor Plan

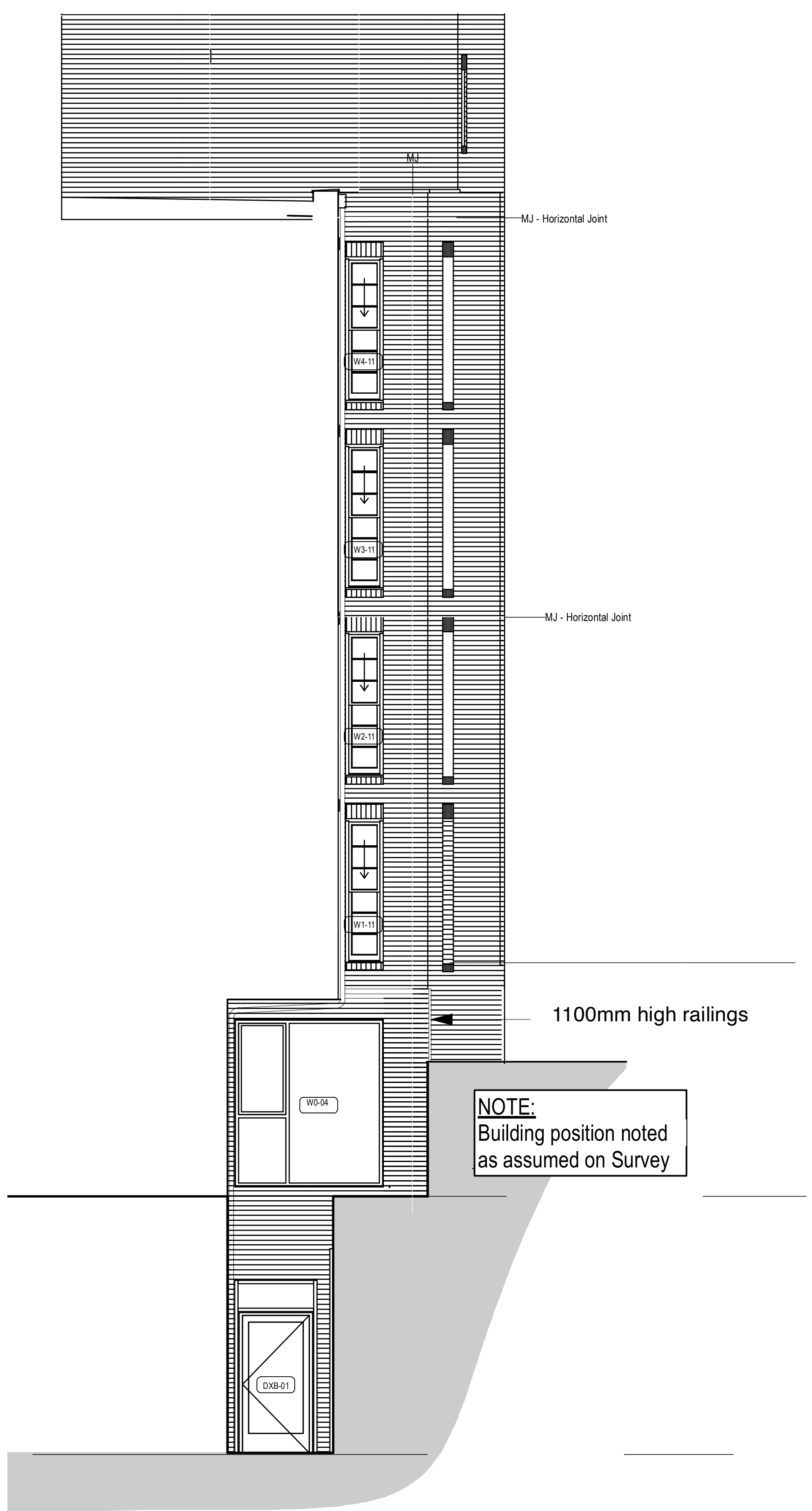
scale
1:100@A3

job no. drawing no.
1217 PL 07A

Casson Conder Partnership Architects
167-169 Great Portland Street London W1W 5PF
Tel 020 7584 4581 info@cassonconder.co.uk

No dimension should be scaled off this drawing
Site dimensions must be checked before
manufacture. If in doubt please ask.





letter	date	revision	initial
A	May 23	W0-04 made larger	

date
April 2023

job name
2 Heaton Road, Peckham

title
Proposed Rear Elevation & Section

scale
1:100@A3

job no. 1217
drawing no. PL 08A

Casson Conder Partnership Architects
167-169 Great Portland Street London W1W 5PF
Tel 020 7584 4581 info@cassonconder.co.uk

No dimension should be scaled off this drawing
Site dimensions must be checked before manufacture. If in doubt please ask.

letter	date	revision	initial

date April 2023

job name

2 Heaton Road, Peckham

title

Proposed Front Elevation

scale

1:100@A3

job no. 1217

drawing no. PL 09

Casson Conder Partnership Architects
167-169 Great Portland Street London W1W 5PF
Tel 020 7584 4581 info@cassonconder.co.uk

C BCIS Cost Data

BCIS®

£/M2 STUDY

Description: Rate per m2 gross internal floor area for the building Cost including prelims.

Last updated: 26-Aug-2023 07:42

Rebased to London Borough of Southwark (128; sample 46)

MAXIMUM AGE OF RESULTS: 5 YEARS

Building function (Maximum age of projects)	£/m² gross internal floor area						Sample	
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest		
Rehabilitation/Conversion								
816. Flats (apartments)								
Generally (5)	1,564	505	1,203	1,478	1,693	3,174	7	
1-2 storey (5)	1,544	-	-	-	-	-	1	
3-5 storey (5)	1,620	505	-	1,401	-	3,174	4	
6 storey or above (5)	1,463	1,083	-	-	-	1,843	2	

D Commercial Comparables

EG

*Please note, some of these values are EG calculated

Lettings

Location	Accommodation			Lease details			
Address	Floor/Unit name	Size (sq ft)	Primary use type	Deal date	Achieved rent (£/Sq Ft)*	Achieved rent (£/annum)*	Comment
28 Peckham Rye, London, SE15 4JR		818	Retail - Financial & Professional Services (A2)	22/04/2022	24.45	20,000	Located in high footfall location on the Peckham Rye road. Small area inflates £/ft2 rate. Rental achievable lower for subject property.
Ground Floor, 180, Rye Lane, London, SE15 4NF	Ground Floor	3,099	Retail - General Retail (A1)	26/11/2021	14.52	45,000	High footfall location. Acquired by Viridan Housing Association. - change of use application/planning permission sought.
190, Rye Lane, London, SE15 4NF	Basement, Ground	6,787	Hotels and Leisure - Gymnasium (D2)	15/10/2021	13.26	90,000	Acquired by Anytime Fitness. Large area deflates rate per ft2 achievable.
182 Rye Lane, Peckham, London, SE15 4NF		1,100	Retail - Betting Shop	20/08/2021	37.50	41,250	Acquired by Future Leisure Limited. 10 year lease with 3 months rent free incentive.
199-201 Rye Lane, Peckham, London, SE15 4TT		3,043	Retail - General Retail (A1)	19/08/2021	13.15	40,000	Acquired by Eggfree Cake Box - 6 months rent free incentive.
134 - 136 Peckham Rye East Dulwich London SE22 9QH	Retail Unit	1,516	Retail - Mixed-use Retail (A1/2/3/4/5, B1 or D1)	20/07/2021			Ground floor retail below residential. Let to Apple Tree Children's Café. Asking rent £45,000 (£29/ft2)
Ground Floor Shop, Basement And First Floor Offices, 34 East Dulwich Road, London, SE22 9AX		1,226	Retail - General Retail (A1)	22/03/2021	21.61	26,500	Let to Bikes & Workshop. 9 year and 9 month lease. 6 months' rent free incentive.

E Policy Compliant Viability Appraisal

Development Appraisal
CBRE
01 September 2023

APPRAISAL SUMMARY	CBRE

Appraisal Summary for Phase 1 2 Heaton Road - Full AH Payment in Lieu

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Residential Unit	1	2,055	401.46	825,000	825,000
NET REALISATION				**825,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			160,374		
				160,374	
Stamp Duty			207		
Effective Stamp Duty Rate		0.13%			
Agent Fee		1.00%	1,604		
Legal Fee		0.80%	1,283		
				3,094	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Residential Unit	2,142	137.31	294,118		
Contingency		5.00%	15,441		
Borough CIL			12,034		
Mayoral CIL			13,371		
				334,964	
Other Construction					
External Works		5.00%	14,706		
				14,706	
Section 106 Costs					
AH Payment in Lieu			114,800		
				114,800	
PROFESSIONAL FEES					
Professional Fees		8.00%	24,706		
				24,706	
DISPOSAL FEES					
Sales Agent & Marketing Fee		2.00%	16,500		
Sales Legal Fee	1 un	1,000.00 /un	1,000		
				17,500	

FINANCE

Timescale	Duration	Commences	
Purchase	1	Aug 2023	
Construction	4	Sep 2023	
Sale	3	Jan 2024	
Total Duration	8		
Debit Rate 8.000%, Credit Rate 0.000% (Nominal)			
Total Finance Cost			10,481

TOTAL COSTS	**680,625**
PROFIT	
	144,375

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
Profit on NDV%	17.50%
IRR% (without Interest)	109.63%
Profit Erosion (finance rate 8.000)	2 yrs 5 mths

F Scenario Test Appraisal

Development Appraisal
CBRE
01 September 2023

APPRAISAL SUMMARY	CBRE

Appraisal Summary for Phase 2 2 Heaton Road - £0 contribution

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Residential Unit	1	2,055	401.46	825,000	825,000
NET REALISATION				**825,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			269,675		
				269,675	
Stamp Duty			2,984		
Effective Stamp Duty Rate		1.11%			
Agent Fee		1.00%	2,697		
Legal Fee		0.80%	2,157		
				7,838	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Residential Unit	2,142	137.31	294,118		
Contingency		5.00%	15,441		
Borough CIL			12,034		
Mayoral CIL			13,371		
				334,964	
Other Construction					
External Works		5.00%	14,706		
				14,706	
PROFESSIONAL FEES					
Professional Fees		8.00%	24,706		
				24,706	
DISPOSAL FEES					
Sales Agent & Marketing Fee		2.00%	16,500		
Sales Legal Fee	1 un	1,000.00 /un	1,000		
				17,500	
FINANCE					
Timescale	**Duration**	**Commences**			
Purchase	1	Aug 2023			

Construction	4	Sep 2023	
Sale	3	Jan 2024	
Total Duration	8		
Debit Rate 8.000%, Credit Rate 0.000% (Nominal)			
Total Finance Cost			11,236
TOTAL COSTS			**680,625**
PROFIT			
			144,375
Performance Measures			
Profit on Cost%		21.21%	
Profit on GDV%		17.50%	
Profit on NDV%		17.50%	
IRR% (without Interest)		102.77%	
Profit Erosion (finance rate 8.000)		2 yrs 5 mths	

G Sensitivity Test Appraisal

Development Appraisal
CBRE
01 September 2023

Table of Land Cost and Profit Amount

	Sales: Rate /ft²				
Construction: Rate /ft²	-10.380%	-5.190%	0.000%	+5.190%	+10.380%
	359.79 /ft²	380.62 /ft²	401.46 /ft²	422.30 /ft²	443.13 /ft²
-10.380%	(£239,871)	(£271,585)	(£303,015)	(£334,445)	(£365,875)
123.06 /ft²	£129,389	£136,882	£144,375	£151,868	£159,361
-5.190%	(£222,719)	(£254,915)	(£286,345)	(£317,775)	(£349,205)
130.18 /ft²	£129,389	£136,882	£144,375	£151,868	£159,361
0.000%	(£205,567)	(£237,905)	(£269,675)	(£301,105)	(£332,534)
137.31 /ft²	£129,389	£136,882	£144,375	£151,868	£159,361
+5.190%	(£188,415)	(£220,753)	(£253,005)	(£284,435)	(£315,864)
144.44 /ft²	£129,389	£136,882	£144,375	£151,868	£159,361
+10.380%	(£171,263)	(£203,602)	(£235,940)	(£267,764)	(£299,194)
151.56 /ft²	£129,389	£136,882	£144,375	£151,868	£159,361

Sensitivity Analysis : Assumptions for Calculation

Sales: Rate /ft²
Original Values are varied by Steps of 5.190%.

Heading	Phase	Rate	No. of Steps
Residential Unit	2	£401.46	2.00 Up & Down

Construction: Rate /ft²
Original Values are varied by Steps of 5.190%.

Heading	Phase	Rate	No. of Steps
Residential Unit	2	£137.31	2.00 Up & Down