BNP PARIBAS REAL ESTATE

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Review of "Financial Viability Assessment"

High Road West

Prepared for

London Borough of Haringey

December 2021

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Appendices

1 Introduction

London Borough of Haringey ("the Council") has commissioned BNP Paribas Real Estate ("BNPPRE") to advise on a viability assessment of the redevelopment ("the Development") of High Road West ("the Site") submitted by DS2 LLP ("DS2") on behalf of Lendlease (High Road West) Limited ("the Applicant").

This report provides an objective assessment of DS2's Viability Assessment Report to determine whether the affordable housing offer and Section 106 contributions as proposed have been optimised.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

The Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and registered providers on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority ("GLA") to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model and advising on areas that required amendment in the re-worked toolkit and other available appraisal models and submitted our report in February 2012.

Anthony Lee is a member of the RICS '*Experts in Planning Service'* panel, which was established in March 2009 to support the Planning Inspectorate on major casework and local development plan work submitted for independent examination. He was also a member of the working group under the chairmanship of Sir John Harman that produced guidance on 'Viability Testing Local Plans: Advice for planning practitioners' (2012). He was also a member of MHCLG's *'Developer Contributions Expert Panel'* which advised on the viability section of the 2019 Planning Practice Guidance.

In addition, we were retained by Homes England ("HE") to advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report structure

This report is structured as follows:

- **Section two** provides a brief description of the Development and planning history;
- **Section three** describes the methodology that has been adopted;
- **Section four** reviews the inputs the Applicant has adopted and where we disagree, the inputs we have adopted in our appraisals;
- **Section five** sets out the results of the appraisals;
- Finally, in **Section six,** we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Guidance Note ('GN') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the GN acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the GN and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to the London Borough of Haringey only. No liability to any other party is accepted.

2 Background and description of the Development

2.1 Site Background

The 8.57 hectare (21.17 acre) Application Site is located within the London Borough of Haringey. The Site is located to the west of the High Road, the Tottenham Hotspur Stadium and to the east of the railway line. White Hart Lane Station is within 0.1 mile providing access to the London Overground and onward journeys via the wider London Underground Network. The Site currently comprises a mix of uses including the Love Lane Estate (a housing estate owned by LB Haringey), industrial uses, and further residential and retail. The smaller plot to the west of the railway tracks, comprises Whitehall Lodge and the Whitehall and Tenterden Community Centre.

According to the planning application, the proposed Development is for:

"Hybrid Planning application seeking permission for 1) outline component comprising the demolition of existing buildings and for the creation of a new mixed-use development including residential (Use Class C3), commercial, business and service (Use Class E), leisure (Use Class E), community uses (Use Class F1/F2) and Sui Generis uses together with the creation of a new public square, park and associated access, parking and public realm works with matters of layout, scale, appearance, landscaping and access within the site reserved for subsequent approval and 2) detailed component comprising Plot A including the demolition of existing buildings and the creation of 60 residential units (Use Class C3) together with landscaping, parking and other associated works".

DS2 have provided an Illustrative Scheme showing "*the potential location of buildings, uses and open spaces*". DS2 go on to state that "*the Illustrative Scheme lies within the Outline Proposal parameters and comprises the proposed scheme on which this FVA is based*". We have therefore undertaken an assessment of the Illustrative Scheme in our review.

DS2 have included a breakdown of the proposed Development in Section 1.3 of their report. We have included a summary of the table below for ease of reference:

Table 2.1.1: Proposed Development Summary

Land use	Minimum GEA (sqm)	Maximum GEA (sqm)	Illustrative GEA (sqm)
Use Class B2: Industrial	0	7,000	0
Use Class B8: Storage and Distribution	0	1,000	0
Total Use Class B	**0**	**8,000**	**0**
Use class C3: Residential	235,000	280,000	245,685
Total Use Class C	**235,000**	**280,000**	**245,685**
Use Class E(a): Retail other than hot food	4,000	7,800	4,934
Use Class E(b): Sale of food and drink mainly for consumption on premises			
Use Class E(c): Commercial, professional (other than medical) or financial services			
Use Class E(d): Indoor sports, recreation or fitness	500	4,000	3,200
Use Class E(e): Medical or healthcare	0	1,000	0
Use Class E(f): crèche, day nursery or centre	0	2,000	0
Use Class E(g): offices for operational or administrative functions, R&D of products or processes, industrial processes	1,525	7,200	4,788

Land use	Minimum GEA (sqm)	Maximum GEA (sqm)	Illustrative GEA (sqm)
Total Use Class E	**6,025**	**22,000**	**12,922**
Use Class F1(d): Public libraries or reading rooms	500	3,500	1,415
Use Class F1(e): Public halls or exhibition halls			
Use Class F1(f): Public places of worship	0	0	655
Use Class F2(b): local community halls	500	2,500	927
Total Use Class F	**1,000**	**6,000**	**2,997**
Sui Generis: Energy Centre	200	1,800	1,700
Sui Generis: Public House	0	3,000	0
Sui Generis: Sub Station	0	500	0
Sui Generis: Cinema	0	3,000	0
Total Sui Generis	**200**	**8,300**	**1,700**
Residential Car Parking	4,000	15,000	7,865
Total	**246,225**	**339,300**	**271,169**

It should be noted that the viability conclusions could be significantly impacted by adjustments in use class areas within the scheme. As an example, the residential space for the Illustrative Scheme extends to 245,685 square metres, although it would be possible for the Applicant to increase this space to 280,000 square metres.

We note that the Illustrative Scheme is indicative only with DS2 stating in paragraph 1.3.2.7, "*the future form of the development will be defined by way of Reserved Matters Applications*".

DS2 state in paragraph 1.3.4.2 of their report that the "*Applicant is committed to delivering 35% affordable housing by unit as a minimum provision across the entire site. However, the target is to deliver 40% affordable housing by unit across HRW subject to viability and future as yet unsecured grant funding. Phase A (the part of HRW to the south of White Hart Lane) shall deliver 40% affordable housing by unit calculation. This commitment has been presented through consultation and the residents' ballot and is encapsulated in the Applicant's Development Agreement with LBH".* Given the significant flexibility that the Applicant is seeking, it is essential that scheme viability be revisited upon submission of reserve matters applications.

3 Methodology

DS2 have undertaken their assessment using Argus Developer ("Argus").

We have also used Argus to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuation. Further details can be access at www.argussoftware.com.

Argus is essentially a cash-flow model. Such models all work on a similar basis:

- Firstly, the value of the completed development is assessed.
- Secondly, the development costs are calculated, including either the profit margin required or land costs. In our appraisals we include profit as a development cost.

We are of the opinion that Argus provides an accurate reflection of the economics of the Development. Therefore, we have adopted this tool for the purposes of our assessment.

The difference between the total development value and total costs equates to the residual land value ("RLV"). The model is normally set up to run over a development period from the date of the commencement of the project until the project completion, when the development has been constructed and is occupied.

The cash-flow approach allows the finance charges to be accurately calculated over the development period. This approach can accommodate more complex arrangements where a number of different uses are provided or development is phased.

In order to assess whether a development scheme can be regarded as being economically viable it is necessary to compare the RLV that is produced with a benchmark land value. Benchmark land value should be based on EUV plus a site-specific premium or an Alternative Use Value, in line with the requirements of the Planning Practice Guidance. If the Development generates a RLV that is higher than the benchmark it can be regarded as being economically viable and therefore capable of providing additional affordable housing. However, if the Development generates a RLV that is lower than the benchmark it should be deemed economically unviable and the quantum of affordable housing should be reduced until viability is achieved.

4 Review of Assumptions

In this section, we review the assumptions adopted by DS2 for the purposes of running their appraisal of the Development.

4.1 Gross Development Value ("GDV")

4.1.1 Private residential sales values – build for sale

The proposed Development comprises 1,696 private residential build for sale units including studio, one, two and three bedroom apartments. DS2 have assumed an average capital value of £700 per square foot for the private residential units.

DS2 have included a breakdown of the private residential units in Section 1.3.5.1 of their report, which we have replicated below for ease of reference:

Table 4.1.1.1: Private residential unit mix

Unit type	Number of units
Studio	85
1 bed 2 person	622
1 bed 2 person (wch)	56
2 bed 3 person	279
2 bed 3 person (wch)	89
2 bed 4 person	396
3 bed 5 person	139
3 bed 5 person (wch)	30
Total	**1,696**

Market Commentary

The housing and commercial property markets are inherently cyclical. The downwards adjustment in house prices in 2008/9 was followed by a prolonged period of real house price growth. Between January 2010 and January 2015 the UK national average house price grew 17.50% (Land Registry House Price Index).

The June 2016 referendum on the UK's membership of the EU resulted in a decision in favour of exit. Initially, the economic impact, was a fall in the Pound Sterling to a 31-year low and stocks overselling due to the earnings of the FTSE being largely in US Dollars. As the Pound Sterling continued to remain below its pre-June 2016 levels the FTSE recovered and reported all-time highs. Despite this, since June 2016 the UK has been in a period of uncertainty in relation to many factors that impact the property investment and letting markets. However, the UK economy sustained momentum following the result of the UK's June 2016 referendum, and the performance of the UK housing market surprised many following 2016.

In March 2017 (the point at which Article 50 was triggered), the Sterling Exchange Rate Index ("ERI") was 10.5% lower compared with the end of March 2016. As reported in December 2020, the ERI was 25.8% lower than the January 2007 peak. This is a key consideration in the property market as the cheaper pound has made UK property relatively less expensive in comparison to alternative investments and resulted in increased interest from a higher volume of foreign investors.

The majority won by the Conservatives in the December 2019 General Election provided more certainty, resulting in the passing of the EU Withdrawal Bill in the House of Commons and subsequent exit from the EU in January 2020. Markets responded positively to increased certainty, with the FTSE 100 closing the year up 12% at 7,542 points. On the ground, agents reported the week of the General

Election to be the best week of 2019 for exchanges and 2020 started positively. However, market conditions were still tempered by heightened uncertainty relating to post EU exit trade and related arrangements prior to an agreed deal. A deal was agreed between the UK and EU negotiators on 24 December 2020 and has since been ratified by both sides. The trade agreement has eased the uncertainty surrounding the economic and political future relationship between the United Kingdom and the EU. However, the first half of 2021 saw a significant fall in UK exports, largely as a result of an increased administrative burden for exporters are reduced demand from EU countries. Imports from EU countries have not fallen to the same extent, resulting in a worsening of the UK's balance of trade.

A number of the leading residential property consultancy companies including; BNP Paribas Real Estate ("BNPPRE"), JLL, Knight Frank and Savills agreed that uncertainty regarding the outcome of the UK's exit from the EU weighed on buyer sentiment through 2019. This was eased somewhat by the result of the 2019 General Election. Knight Frank's UK Residential Market Forecast 2020-2024 identified that in the short-term, the removal of some of the uncertainty as result of the general election would *"pave the way for the release of some of the pent-up demand that has built in recent years, though the extent to which this translates into transactions will depend on the size of the pricing expectation gap between buyers and sellers".*

The positive start to 2020 economically was curtailed by the outbreak of COVID-19, a global pandemic as declared by the World Health Organisation in March 2020. The virus is impacting global financial markets, with the outlook continuing to be unclear. The FTSE 100 fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall of the FTSE 100 since the 2008 financial crisis. The Band of England ("BoE") responded to the economic impact of the COVID-19 by lowering the base rate to 0.25% and introducing financial arrangements to help the bridge the economic hardship caused by COVID-19.

In response to the challenges posed by the COVID-19 outbreak, The Royal Institution of Chartered Surveyors ("RICS") recommended that all forthcoming RICS independent valuations should, at the valuer's discretion, include a statement to material valuation uncertainty in response to the COVID-19 outbreak. However, in September 2020 the RICS removed this mandate. The economic shock caused by COVID-19 and valuation uncertainty led to a number of open-funded funds to suspend trading and gate their funds in order to protect existing investors. Corporations that suspended trading or gated their funds include Blackrock, Schroders, Royal London, Legal & General, Columbia Threadneedle, BMO, Aberdeen, Aviva Investors, Kames Capital and Janus Henderson.

The UK Government introduced a series of restrictive and economically disruptive measures to slow the spread of the COVID-19. The UK Government pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. On 19 March 2020, the BoE again lowered the base rate to a historic low of 0.1%. Furthermore, the Pound Sterling fell to a 30-year low against the US Dollar at a level of $1.00 being valued at £1.15. Since the commencement of the UK Government restrictions and financial support in March 2020, a number of packages and policy initiatives have been introduced to both attempt to curb the virus spread and sustain economic activity where possible.

The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses. As part of the March 2021 budget, the furlough scheme was extended to September 2021. This is a later date than the final step of the roadmap, which would provide some additional protection against any delays to the reopening of the economy or offer some transitional support as businesses scale back up. Additional measures announced in the March 2021 budget include widening access to grants to include 600,000 more self-employed people and additional funding for vaccine distribution. Importantly for the housing market, the Stamp Duty holiday was extended in England until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme has allowed for the easing of restrictions within the U.K, which has in turn led to a positive rebound in economic activity.

The BoE summarised the economic outlook in their 19 March 2020 press release published alongside the lowering of the base rate *"The spread of Covid-19 and the measures being taken to contain the virus will result in an economic shock that could be sharp and large, but should be temporary"*. The BoE stated in June 2020 that *"UK GDP contracted by around 20% in April, following a 6% fall in March. Evidence from more timely indicators suggests that GDP started to recover thereafter… and housing activity has started to pick up recently".* More recently The BoE maintained the 0.1% base rate in their August 2021 Monetary Policy Report stating that "*Global GDP growth is estimated to have risen sharply in 2021 Q2, as Covid vaccination programmes gathered pace and restrictions were eased further. UK GDP is expected to have risen by 5% in 2021 Q2, leaving it around 4% below its pre-pandemic level and slightly stronger than expected in the May'*

The International Monetary Fund ("IMF") produced a similar forecast for the UK economy in their July 2021 Global Economic Outlook. The IMF stated that the UK economy shrank by -9.8% in 2020. The IMF has forecast a return to positive economic growth in 2021 at rate of 7.0%, an increase from 5.3% as reported by the IMF in April. Furthermore, the IMF predict the global economy will grow by 6.0% in 2021 and at a rate of 4.9% in 2022. The IMF have stated that despite the prospect of economic growth the coronavirus continues to impact the global economy *"Economic prospects have diverged further across countries since the April 2021 World Economic Forecast. Vaccine access has emerged as the principal fault line along which the globally recovery splits into two blocs: those that can look forward to further normalization of activity this year (almost all advanced economies) and those that will still face resurgent infections and rising COVID death tolls. The recovery, however is not assured even in countries where infections are currently very low so long as the virus circulates elsewhere'.*

Despite the economic headwinds facing the UK, the housing market has outperformed expectations. In 2020, house prices grew by 7.96%. Halifax's Managing Director, Russell Galley states in the Halifax July 2021 House Price Index Report that, *"'House prices rose by 0.4% in July to add £1,122 to the cost of the average property, pulling back some of the ground lost during June (-0.6%, -£1,543). Annual price growth fell to +7.6%, its lowest level since March. This easing was somewhat expected given the strength of price inflation seen last summer, as the market began its recovery from the first lockdown, and with activity supported by the start of the stamp duty holiday. In cash terms, typical prices now stand at just over £261,000, a little below May's peak but still more than £18,500 higher than a year ago".*

Nationwide's Chief Economist, Robert Gardener, commented the following in Nationwide's August 2021 House Price Index Report "Annual house price growth increased to 11% in August, from 10.5% in July. Prices rose 2.1% in month-on-month terms, after taking account of seasonal effects. House prices are now around 13% higher than when the pandemic began. "The bounce back in August is surprising because it seemed more likely that the tapering of stamp duty relief in England at the end of June would take some of the heat out of the market". Both Nationwide and Halifax anticipate the house price growth will continue despite the winding down of Government support schemes. Halifax reported, "Although there remains some uncertainty over the impact on employment from the unwinding of government support schemes, on balance the risks to the macro-environment are receding, with consumer confidence improving, the labour market recovering, and the economy expanding as restrictions are lifted. Overall, assuming a continuation of recent economic trends, we expect the housing market to remain solid over the next few months, with annual price growth continuing to slow but remaining well into positive territory by the end of the year" (Halifax July 2021 House Price Index).

Savills have stated within their September 2021 Residential Housing Update article that the housing market is performing above expectations "*House prices rose 2.1% in August according to Nationwide, more than offsetting last month's fall of -0.6%. This brings annual house price growth to 11.0%, supporting our view that price growth will remain strong this year and on track to surpass our forecast of 9.0%'* Savills also forecast that they expect house prices to sustain momentum in the coming months "*This supply-demand mismatch is echoed by TwentyCI, who reported sales agreed in August to be 9% above the 2017-19 average, while new instructions are 19% below. The gap between supply and demand will continue to be a key driver of price growth".*

In the longer term, the UK property market is expected to return to pre COVID-19 levels once the restrictive measures are removed and the virus subsides, though economic headwinds may still remain, as reported in BNPPRE's COVID-19 Report, *"The lifting of the lockdowns will, mechanistically, trigger a rebound in activity but additional stimulus will probably be needed to maintain the momentum".*

Molior's July 2021 Quarterly Analysis indicates that the housing market is performing well in light of the shortage of construction materials and labour, *"London's private residential development industry has delivered a significantly better set of figures during Q2 2021 than it did in Q1. Construction starts and* *sales rose, while construction completions were the highest in a couple of years. Spare a thought for the construction project managers who managed to achieve the required build completions in the face of widely reported shortages of materials and manpower in recent months."* (Molior Quarterly Analysis July 2021).

Stamp duty changes introduced in December 2014 for residential property purchases continue to impact the housing market. The changes benefit first time buyers, who predominantly purchase lower priced properties, as an overall percentage on purchase price was replaced in favour of percentile charge tiers similar to income tax. As first noted in BNP Paribas Real Estate's Q2 2017 Housing Market Report, *"the market has become increasingly reliant on first-time buyers, especially with the depletion of mortgaged movers from the market. Income weakness clearly has potential to dent activity amongst this group given the high average loan-to-value ratios needed to gain the first step on the ladder."* The March 2020 Budget announced that a 2% surcharge in stamp duty would apply to foreign buyers of UK property from April 2021. Additionally, in response to the COVID-19 pandemic the UK. Treasury announced that stamp duty would be suspended on all purchases below £500,000, and higher value properties will only be taxed on the value above that amount. The reduction has been extended until 30 June 2021. This measure has increased transactions volumes as buyers look to take advantage of the stamp duty saving and therefore fuelling additional demand however the stamp duty holiday is no longer believed to be the main proponent of house price growth as noted by both Halifax and Nationwide.

In the March 2021 budget, the Chancellor announced a Government-backed mortgage scheme that that will help both first time buyers and current home owners to secure a mortgage with just a 5% deposit to buy a house of up to £600,000 available to lenders from 19 April 2021. The scheme is now available from lenders on high streets across the country, with Lloyds, Santander, Barclays, HSBC and NatWest and from Virgin Money in May 2021.

Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. There is a consensus that there will be a return to stronger sales value growth in 2022 - 2024, when it is anticipated that the COVID-19 outbreak may have largely subsided. Additionally, positive growth will be further encouraged as more certainty emerges on the deal now agreed for the UK's exit from the EU and employment growth, wage growth and GDP growth return towards trend levels.

Comparable new build schemes

DS2 have undertaken research into the local market and have provided a breakdown of their evidence both within the body of their report in Section 1.7. As stated above, DS2 have assumed an average capital value of £700 per square foot for the private residential units.

We have reviewed the evidence that DS2 rely upon in addition to undertaking further research through discussions with active local agents as well as using online research facilities.

- **The Vabel Lawrence, 50-56 Lawrence Road, N15 4EG:** The Vabel scheme is located circa 1.5 miles from the Application Site. The scheme comprises 47 residential units of which 42 are of private tenure. We understand that 20 of the private units were sold, with the remaining 22 units designated as build to rent tenure. The scheme launched on 1 February 2021 and had sold out during Q2, 2021. Although we have not been able to establish achieved values, the most recent pricing schedule identified an average value of £763 per square foot against an average unit size of 762 square feet. The scheme is significantly smaller than the proposed Development which DS2 state allows the price point to be maintained. Whilst we agree that a saturation of the market would result in a potential reduction in prices, the developer would be able to control when the units are released to the market. In addition, we note that the sales rate achieved at 50-56 Lawrence Road may indicate that the price point of the units could have been increased.

- **The Lane, 500 White Hart Lane, N17 7NA:** The Fairview Homes scheme is located circa 1.0 mile from the Application Site. The scheme comprises 144 residential units of which 115 are of private tenure. The scheme launched to the market in November 2019 with 111 units having sold by Q4, 2020. As identified by DS2 in their report, the average asking price equated to £583 per square foot. We are in agreement with DS2 that, as a result of location, the units at the proposed Development would be expected to achieve values in excess of those achieved at The Lane.

- **Hale Works, Ferry Lane, N17 9QQ:** The Anthology scheme is located circa 1.6 miles from the Application Site. The scheme comprises 279 residential units of which 235 are of private tenure. The scheme launched to the market in September 2018 with 51 units remaining unsold at the end of Q3, 2021. The most recent pricing schedule reflects an average value of £775 per square foot. DS2 state that the scheme offers superior transport links in comparison to the Application Site due to its close proximity to Tottenham Hale Station; however, we note that White Hart Lane Station and Northumberland Park are within 0.1 mile and 0.4 miles respectively of the Application Site. We note the comments with regards to the level of progression in relation to regeneration value growth and have addressed this element further below.

- **1 Ashley Road, Watermead Way, N17 9LJ:** The Argent Related scheme is located circa 1.2 miles from the Application Site. The scheme comprises 183 residential units, all of which are of private tenure. The scheme launched to the market in April 2019; however, we note that the scheme was not actively marketed during Q4, 2020. As of September 2021, 112 units had sold with 71 units remaining. Whilst we do not have access to the achieved values, we note that the most recent pricing schedule reflects an average value of £734 per square foot against an average unit area of 757 square feet.

It should be noted that it would not be appropriate to simply apply the current values achievable in each area. We note that in a scheme of this nature, once it has achieved maturity and 'bedded down' it is common to see an uplift in prices. This increase is not related to wider market movement but is more as a result of the scheme itself having become established. Given the wider regenerative effects of the proposed Development in particular, we consider that it will create a sense of place and a new urban quarter.

As a result of the timescales referred to be DS2, we consider that it would be reasonable to assume an uplift in sales values in the scheme for the later phases in the Development. A 'maturity' factor should always be taken into consideration for a scheme of this scale and nature. We have therefore assumed an increase in achievable values on a current day basis for the later phases of 2.5%.

After due consideration, we have adopted the average baseline value of £700 per square foot in our appraisal. However, this is then subject to 'maturity factor' in the later phases.

4.1.2 Affordable housing revenue

DS2 have assumed the following capital values for the affordable housing within the proposed Development:

Table 4.1.2.1: DS2 affordable housing values

Tenure	Capital value (£ per square foot)
Social rent	£110
Shared Ownership	£420

The proposed Development includes 916 affordable housing units equating to 35% by unit (40% by habitable rooms) with a tenure split by unit of 55% social rent and 45% intermediate.

DS2 state in paragraph 1.3.4.4 of their report that *"the intermediate units are proposed as shared ownership. However, under the Landlord offer existing resident leaseholders of the Estate can take up the option for a shared equity unit based on the value of their current property against the value of a new home in the Proposed Development that suits their requirements. The resident leaseholders have the alternative option of seeking a property elsewhere rather than on the regenerated estate and therefore the final number of shared equity units is uncertain at this stage. DS2 understand that there could be up to 46 shared equity units. As the final number of shared equity units, their unit size and* *the individual equity agreements are unknown at this stage (all of which impact a shared equity unit's value), for simplicity, the FVA has referred to all intermediate units as shared ownership*)".

For the shared ownership units, DS2 have assumed that they will be affordable to households with gross incomes of up to £90,000 per annum in line with the GLA's maximum household income cap.

Where applicable, to value the affordable housing units, we have used a bespoke model specifically created for this purpose. This model takes into account factors such as standard levels for individual RPs management and maintenance costs; finance rates currently obtainable in the sector, and a view on the amount of grant that may be obtainable.

The 'Shared Ownership and Affordable Homes Programme 2016-2021 – Prospectus' document provides a clear indication that Section 106 schemes are unlikely to be allocated Grant funding, except in exceptional circumstances. It is therefore considered imprudent to assume that Grant will be secured. Therefore, our affordable housing values are calculated without grant assumptions.

For rented tenures the model operates a 35 year discounted cashflow in order to arrive at a net present value of the units today. For the shared ownership tenure, the model values a percentage of the Initial Tranche sold to the purchaser and capitalises the net rent on the unsold equity. The rent on the retained equity is set at a level at which total housing costs (ie. the rent plus mortgage on the initial tranche) do not exceed 40% of net household incomes.

We consider the following capital values to be achievable for the affordable housing at the proposed Development:

Table 4.1.2.1: BNPPRE capital value for affordable housing

Tenure	Capital value (£ per square foot)
Social rent	£132
Shared Ownership	£471

It should be noted that London Affordable Rent tenure would achieve a higher value on a 'per square foot' basis which may improve the viability position of the Application Scheme. Should the Council wish to consider the impact of adopting London Affordable Rent in place of social rent, we would be able to undertake an updated assessment.

4.1.3 Ground rents

DS2 have not included ground rents within their assessment.

The Government has issued a number of consultations on leasehold reform confirming its intention to introduce legislation limiting ground rents to a peppercorn in future leases. Although legislation limiting ground rents has not yet been passed, Homes England's 'Help to Buy: Equity Loan 2021-2023 Programme – Builder participation and registration guidance' (8 September 2020) indicates that "*the ground rent charged on any leasehold Eligible Dwelling MUST NOT exceed a peppercorn per annum*". As Help to Buy will be an important factor in underpinning sales rates on the proposed development, we have not included ground rents within our appraisal. Furthermore, in May 2021, the government introduced its 'Leasehold Reform (Ground Rents) Bill' into parliament which seeks to restrict ground rents in new leases to a peppercorn. This Bill is now in its Report Stage in the House of Commons and is likely to become an Act of Parliament in early 2022.

4.1.4 Commercial revenue and yield

We have summarised the commercial space within the proposed Development in Table 4.1.4.1.

Table 4.1.4.1: Proposed Development commercial uses

Use type	Area (sq m)	Area (sq ft)
Retail	4,367 Split as follows: • 3,313 within Phase A • 1,054 within Phase B	47,006 Split as follows: • 35,661 within Phase A • 11,345 within Phase B
Office	4,014	43,209
Sports facilities	883	9,505

Retail

DS2 have assumed a rental value of £25 per square foot, capitalised at a 7% yield with an 18-month rent free period. DS2 have included comparable evidence on pages 48-49 of their report in support of their assumptions. We have reviewed the evidence provided by DS2 in addition to undertaking further research into the local market through discussions with active local agents as well as using online research facilities.

The evidence provided by DS2 reflects a blended average rent of £22.50 per square foot. We have identified further evidence including 44 Church Road (let in September 2021); 163-167 Fore Street (let in August 2021); 757 High Road (let in October 2020); and 163 Park (let in September 2020). The achieved rental values range between £12.83 per square foot and £23.98 per square foot. After due consideration, we have adopted the rental value of £25 per square foot in our appraisal.

We have reviewed the evidence provided by DS2 for the retail space and agree with the methodology that due to the dearth of yield evidence available within the local area, it is reasonable to take account of the capital value of the transactions. We have identified the following capital values in addition to those identified by DS2.

Table 4.1.4.2: Retail yield evidence

Address	Date	Area (sq ft)	Sale price (£ psf)
77 Fore Street, London N18 2TW	June 2020	829	£416.16
668 High Road, London N17 0AB	December 2020	3,276	£381.56

After due consideration, we have reduced the yield from 7% to 6.75% within our appraisal. We have adopted the 18 month rent free period.

Office

DS2 have assumed a rental value of £27.50 per square foot, capitalised at a 5% yield with an 18 month rent free period. DS2 have included comparable evidence on pages 50-51 of their report in support of their assumptions. We have reviewed the evidence provided by DS2 in addition to undertaking further research into the local market through discussions with active local agents as well as using online research facilities.

The evidence provided by DS2 reflects a blended average rent of £31.04 per square foot, although the search area undertaken by DS2 has been expanded to include new build office locations including Finsbury Park, Hackney and Ilford. We have identified office space within close proximity to the Application Site including 171 Park Lane (let in August 2020); White Hart Lane (let in May 2019); and Broad Lane (let in March 2021). The rental values range between £6.54 per square foot and £18.40 per square foot; however, we would expect the proposed Development office space to achieve significantly higher values due to the specification of the units being provided. We have therefore taken into account new build office space that has been let in the surrounding area, albeit further afield.

After due consideration, we have adopted the rental value of £27.50 per square foot, proposed by DS2, in our assessment.

We have adopted the yield of 5% within our appraisal; however, we have reduced the rent free period from 18 months to 12 months to reflect current market expectations.

Sporting facilities

DS2 have assumed a rental value of £15 per square foot, capitalised at a 7% yield with an 18 month rent free period. DS2 have included comparable evidence on pages 51-52 of their report in support of their assumptions. We have reviewed the evidence provided by DS2 in addition to undertaking further research into the local market through discussions with active local agents as well as using online research facilities.

The evidence provided by DS2 reflects a blended average rent of £15.65 per square foot, although the search area undertaken by DS2 has been expanded due to the dearth of evidence within close proximity to the Application Site. We consider the expansion of the search area to be reasonable. In addition to the transactions identified by DS2, we have also established that Rathbone Boxing Club has taken 3,154 square feet of space in the basement levels of 19-35 Rathbone Street, London W1T 1NJ on a 15 year lease in June 2019. The headline rental value equates to £31.70 per square foot. However, we have taken into account the location unit in comparison to the Application Site.

After due consideration, we have adopted a marginally increased rental value of £16.50 per square foot in our appraisal that we consider could be achievable at the proposed Development.

We consider the yield of 7% to be reasonable; however, we have reduced the rent free period to 12 months in our assessment reflecting current market expectations.

4.1.5 Car parking

In Section 1.3.2.5 of their report, DS2 state that the Illustrative Scheme comprises 7,865 square metres (GEA) of car parking spaces. In section 1.3.4.9 of their report, DS2 include a table which refers to 382 existing spaces and 75 proposed spaces. However, in their appraisal, DS2 have assumed 44 car parking spaces. Due to the range of figures provided, we request that DS2 provide clarification with regards to the number of car parking spaces within the proposed Development. For the purposes of running our assessment, we have adopted the 44 car parking spaces (on a 'subject to confirmation' and 'without prejudice' basis) included in the DS2 appraisal.

DS2 have applied a capital value of £25,000 per parking space. We consider this assumption to be reasonable and have adopted it within our appraisal.

4.1.6 Grant funding – affordable housing

DS2 have included grant funding in their appraisal; however, no reference has been made to it within the narrative of their report. We therefore request that further information is provided by DS2 in relation to the timings and quantum of grant that has been made available. We have adopted the grant funding in our report on a 'subject to confirmation' and 'without prejudice' basis. We have summarised the grant funding total amounts below for ease of reference:

- Grant funding[redacted]
- LBH Additional Affordable Revenue: [redacted];
- Mayor's Land Fund: [redacted].

Due to the lack of information provided by DS2 in relation to the timings of the above grant funding, we have assumed that each funding element will be received at construction commencement of each phase.

4.2 Development costs

4.2.1 Construction costs

DS2 have relied upon a construction cost plan prepared by Rider Levett Bucknall ("RLB"). RLB have concluded that the total cost (inclusive of contingency) equates to £728,290,563. A copy of the RLB cost plan can be found in Appendix 6 of the wider DS2 report.

The Council have instructed CDM Project Services ("CDM") to undertake a review of the RLB cost plan. CDM have concluded that the construction costs are above what is reasonable in the current market. We have adopted the total construction cost of £681,568,503 (excluding contingency) within our appraisal in line with advice received from CDM.

We have summarised the construction costs as advised by CDM in table 4.2.1.1.

Table 4.2.1.1: CDM construction cost breakdown

Phase	CDM Construction cost
1	£124,083,795
2	£110,167,107
3	£141,910,729
4	£166,722,690
5	£138,684,181
Total	**£681,568,503**

A copy of the CDM cost review can be found in Appendix 2. It should be noted that the CDM cost review is *"subject to clarification, substantiation and further information on the following:*

1. *Contingency within the building construction cost;*
2. *The costing of shared ownership at the same rate as private dwellings;*
3. *BREEAM standard anticipated;*
4. *Extent of basement parking;*
5. *Contamination allowances;*
6. *Contaminated water allowances;*
7. *River stone bed allowances;*
8. *Gas connections allowances;*
9. *Foul water diversion allowance;*
10. *Additional drainage allowances;*
11. *Electrical reinforcement allowances;*
12. *Water services reinforcement allowances;*
13. *Temporary works allowances;*
14. *Additional works allowances;*
15. *North / south network link allowance;*
16. *External transformation allowances;*
17. *Innovation and smart initiatives allowances;*
18. *Water feature allowance;*
19. *Mast allowance;*
20. *Mast legal cost allowances;*
21. *Mast transfer of services allowances.*

We therefore request that the Applicant provide the information requested.

4.2.2 Construction costs – site-wide infrastructure

DS2 have relied upon a cost estimate produced by RLB with regards to the site-wide infrastructure requirements. The total cost is stated as £73,233,798.

As with the wider construction costs, the Council have instructed CDM to undertake a review of the submitted cost estimate. CDM have concluded that the total infrastructure costs are above what is reasonable in the current market. We have adopted a total infrastructure cost of £72,414,082 within our appraisal. We note that the infrastructure costs are inclusive of a 5% contingency allowance.

As with the wider construction costs, we have provided a breakdown of the CDM costs in table 4.2.2.1.

Table 4.2.2.1: CDM infrastructure cost breakdown

Phase	CDM Construction cost
1	£6,517,267
2	£7,965,549
3	£18,103,520
4	£17,379,380
5	£22,448,365
Total	**£72,414,082**

4.2.3 Contingency

As noted in Section 4.2.2, the infrastructure costs are inclusive of a 5% contingency allowance. However, the CDM costs for build construction are provided exclusive of contingency. We have included a contingency allowance of 5% on the building works separately within our appraisal reflecting current market expectations.

4.2.4 Professional fees

DS2 have assumed a professional fees allowance of 10% of construction costs within their appraisal.

We have taken factors into account such as site constraints and scheme complexity and do not consider an allowance of 10% of construction costs to be above what is required for this scheme. We have also taken into account the monetary value of the percentage included within the appraisal. We have therefore assumed an allowance of 10% of construction costs within our appraisal.

It should be noted that the professional fees allowance is not included within the build cost rate and therefore is included separately in our appraisal.

4.2.5 Compensation costs

DS2 have included costs relating to secure tenants; resident leaseholders; non-resident leaseholders; and commercial leaseholders in their appraisal. We have addressed each of these costs below:

- **Secure tenants:** DS2 have assumed a Home Loss payment of [redacted] per unit. This is in line with 'The Home Loss Payments (Prescribed Amounts) (England) Regulations 2021'; therefore we have adopted this cost within our appraisal.

  DS2 have also referred to a disturbance allowance to cover relocation costs including the costs of removals, disconnection and reconnection of services and appliances amongst others. DS2 have assumed a cost of [redacted] per tenant which they describe as a 'lean estimate'. We request that DS2 provide further information regarding this assumption including whether or not it is a statutory payment, or an assumption that they have adopted within their assessment. We have adopted this cost on a 'subject to confirmation' basis pending receipt of further information from DS2.

- **Resident leaseholders:** DS2 have stated that resident leaseholders are entitled to a Home Loss payment calculated as [redacted] of the agreed EUV of their property. We consider this to be reasonable and have adopted it within our assessment.

DS2 have assumed a disturbance allowance [redacted] per resident leaseholder; however, DS2 have not provided any evidence / justification to support their assumption. We have therefore adopted this cost within our appraisal on a 'subject to confirmation' basis pending receipt of the relevant supporting evidence.

An allowance of [redacted] has been adopted to cover the costs of valuation, legal conveyance fees and stamp duty on the onward acquisition paid on behalf of the leaseholder. We consider this to be within the reasonable range and have therefore adopted it within our assessment.

- **Non-resident leaseholders:** DS2 have stated that non-resident leaseholders are entitled to a Home Loss payment calculated as [redacted] of the agreed EUV of their property. We consider this assumption to be reasonable and have therefore adopted it within our appraisal.

  DS2 have adopted a disturbance allowance of [redacted] per unit; however, as with the resident leaseholders, DS2 have not provided any evidence / justification to support their assumption. We have therefore adopted this cost within our appraisal on a 'subject to confirmation' basis pending receipt of the relevant supporting evidence.

  DS2 have adopted an allowance of [redacted] to cover the cost of valuation, legal conveyance fees and stamp duty on the onward acquisition paid on behalf of the leaseholder. We consider this to be within the reasonable range and have therefore adopted it within our assessment.

- **Commercial leaseholders:** DS2 have assumed a Basic Loss payment at [redacted] of the market value of the property, up to a cap of [redacted] per property interest. In addition, an Occupier's Loss Payment has been adopted at [redacted] of the EUV of the property capped at [redacted]. We consider this assumption to be reasonable and have therefore adopted it within our appraisal.

  We are in agreement with DS2 that the commercial leaseholders' professional fees are typically covered by the acquiring authority. However, DS2 have not provided any justification to support their assumed allowance of [redacted] of the EUV. We therefore request that DS2 provide justification to support this assumption. We have adopted this allowance on a 'subject to confirmation' basis pending receipt of the requested information.

4.2.6 Planning obligations

DS2 have included the following planning obligations within their appraisal:

- Combined Mayoral and Borough CIL: £10,000,000;
- Section 106 payment (including carbon offset): £1,253,650.

We have adopted the above planning obligation payments on a 'subject to confirmation' basis pending discussions with the Council. We understand that the figures provided by DS2 are subject to final verification by the Council.

4.2.7 Interest

DS2 have undertaken their assessment assuming Internal Rate of Return ("IRR") as the target profit measure; therefore, they have not applied finance costs within the appraisal.

We consider this assumption to be reasonable and have adopted it within our assessment.

4.2.8 Disposal costs

DS2 have assumed the following disposal costs within their appraisal:

- Residential marketing allowance: 1.5% of private GDV;
- Commercial marketing allowance: £2.50 per square foot;
- Residential sales agency fees: 1.5% of private sale GDV;
- Residential sales legal fees: £1,000 per unit;
- Commercial sales agency fee: 0.5% of commercial GDV;

- Commercial sales legal fee: 0.5% of GDV;
- Commercial lettings agency fees: 10% of first year's revenue; and
- Commercial lettings legal fees: 5% of first year's revenue.

Whilst we consider the majority of fees to be reasonable, we have concerns regarding the sales legal fees for the private residential build for sale units. We have reduced the allowance from £1,000 per unit to £800 per unit to reflect what is achievable in the current market.

We have removed the commercial marketing fee from our appraisal as we consider that the commercial sales agency fee would be sufficient to include marketing capabilities. However, it should be noted that we have increased the commercial sales agency fee from 0.5% to 1% of GDV in our assessment to reflect the all-inclusive nature of the agency and marketing allowances.

4.2.9 Developer's profit

DS2 have also undertaken an assessment of the scheme using a target Internal Rate of Return ("IRR"). We consider this to be a reasonable measurement of profit for the proposed Development due to it being a large, phased scheme. We note that DS2 have not provided any evidence to support their assumed IRR of 14% (ungrown) and have simply stated that they consider it to be "*a reasonable reflection of normal market requirements".*

We consider the IRR of 14% to be above what is reasonable in the current market. For the avoidance of doubt, in our experience, present-day target IRR rates of 12% are considered to be acceptable in planning terms for similar scale development schemes in London. This is a position that we adopted at the Westferry planning inquiry. In addition, we note that Barking Riverside is intended to deliver 10,800 residential units in addition to c. 706,000 square feet of commercial floorspace. The site was formerly occupied by a Power Station and landfill site and significant site remediation is required. We note that Barking Riverside Planning Report states that "*the primary aim is to maintain an internal rate of return (IRR) for the Applicant of at least 12% to ensure that the scheme and the railway are deliverable*".

The Barking Riverside Section 106 Agreement has been signed and dated 6 December 2017 and states in Section 22 "*it is agreed by the Parties that the updated Baseline Financial Model required to be submitted by BRL to the Council to support the Housing Strategy and each update thereof pursuant to the provision of paragraph 20.1 above in Part 3 of this Schedule shall test the viability of the Affordable Housing tenure set out in paragraph 19.2 above in Part 3 of this Schedule and shall aim to maintain an IRR of not less than 12% for BRL".*

The Section 106 also states in section 22.2.2 that in the event that "*the IRR exceeds the 12% threshold but not the 15% threshold, the additional revenue shall be retained by BRL*". However, in the event that *"the IRR exceeds 15% threshold, the additional revenue shall be split as 50% of that revenue being retained by BRL and the other 5% of that revenue shall be used by BRL to construct or procure the construction up to a maximum of 50% of Affordable Housing*".

It is clear that with the Barking Riverside scheme, the on-site affordable housing provision is subject to a 12% IRR; however, as part of the review mechanism, the developer is able to achieve 15% IRR prior to any additional payment being required.

On the basis of the above statements included in the Planning Report and Section 106 Agreement for Barking Riverside that the scheme is considered to be viable at a 12% IRR, it is unclear why the Applicant considers that an IRR of 12% is inappropriate for the proposed Development when the scale and nature of both developments are compared against each other.

We also note that the Thameside West scheme located in the London Borough of Newham comprising 3,300 residential units in addition to 22,702 square metres of commercial space was agreed between the GLA and the Applicant in 2020 at 13% IRR. For the avoidance of doubt, we had maintained that the IRR should be 12% for that particular scheme.

We have adopted an IRR of 12% (ungrown) within our appraisal.

4.3 Project timetable

DS2 have assumed the following programme timetable within their appraisal:

- Pre-construction period: 6 months;
- Construction period: as outlined in the table below:

Development Stage	Blocks	Duration (months)	Date Start	Date End
Pre-construction		6	January 2022	June 2022
Phase 1 – Construction	A1, A2, A3, D, G	48	September 2022	August 2026
Phase 2 – Construction	F	41	June 2025	June 2028
Phase 3 – Construction	B, C, E	37	February 2029	January 2032
Phase 4 - Construction	L1, M1, M2, J1, K2	75	June 2022	August 2028
Phase 5 - Construction	C2, H, I1, J2, K1, L2, M3, N1, N2, N3, N4	104	February 2023	October 2031
Total construction				**74 months**

We consider the above assumptions to be reasonable; however, we note that in the programme timetable included in the appendices of the DS2 report, Phase 2 is stated as 37 months rather than 41 months. We have therefore adopted a 31 month construction period in our assessment for Phase 2. DS2 have assumed 50% of the units to be sold off-plan after a marketing campaign conducted in advance of practical completion. The remainder of the private residential units will be sold at a sale rate of 5-6 units per month thereafter. Whilst we consider the off plan sales to be reasonable, we have increased the sales rate to 8-10 units per month.

DS2 have assumed a 6 month void period to account for letting the commercial units. We consider this to be in excess of what is reasonable in the current and have assumed that the commercial space is sold at PC of each phase, particularly noting the length of construction periods where tenants could be identified.

DS2 assume that the affordable housing revenue is received 20% at 'golden brick' with the remainder received quarterly through the construction period. We consider this assumption to be reasonable and have adopted it within our appraisal.

5 Appraisal Results

In this section, we consider the outputs of the appraisals and the implications for the provision of affordable housing at the proposed Development.

5.1 Viability benchmark

The Planning Practice Guidance ('PPG') notes at paragraph 013 *("How should land value be defined for the purpose of viability assessment?")* that *"a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements".*

PPG paragraph 017 indicates that alternative use value ('AUV') can be used to inform benchmark land value providing that it meets four conditions; firstly, that the alternative scheme must comply in full with all relevant planning policies; secondly, that it can be demonstrated that the scheme could be implemented on the site; thirdly, that it can be demonstrated that there is market demand for the proposed use; and fourthly, that there is an explanation as to why the alternative use has not been pursued.

DS2's report indicates that they have applied an EUV plus premium approach[1] for most of the Sites within HRW, with the exception of the Goods Yard Site and the B&M site. Both these sites have planning permission and DS2 have assessed the value generated by these permissions as AUVs.

Paragraph 1.9.1.6 of DS2's report indicates that CBRE have undertaken a "*valuation exercise…in order to inform the potential land assembly costs*". This valuation was undertaken in 2019 and DS2 say that they "*reserve the right to revisit the EUV valuation when the additional information on the current property interests is available*". This suggests that DS2 have based their benchmark land value on CBRE's valuation, yet later in the same paragraph, DS2 say that they have undertaken their own assessment of existing use value. It is therefore unclear what role CBRE's valuation plays in DS2's assessment of benchmark land value and the Applicant should clarify this matter.

DS2 provide a number of overlapping schedules of properties which we have distilled into a single schedule which is attached as Appendix 3.

5.1.1 Residential properties

Phase A incorporates existing Local Authority owned and privately owned residential properties.

DS2 have valued privately owned flats (including flats on the Local Authority estates acquired under the Right to Buy) at [redacted] per flat. These flats will be of varying sizes, but assuming an average of 500 square feet per flat, DS2's assumed value would equate to [redacted] per square foot [redacted] per square metre). This appears to be a reasonable assumption and has regard to the likely condition of the properties.

DS2 have attached values ranging from [redacted] to [redacted] to the Local Authority rented properties. In paragraph 1.9.2.3 of their report, DS2 indicate that the Council has supplied a schedule of rents which supports these values, but this schedule has not been made available to us.

We also note that DS2 have valued the existing rented properties using the following assumptions:

- Management: [redacted] per unit per annum;
- Reactive maintenance: [redacted] per unit per annum;

[1] Paragraph 1.9.1.1 of DS2's report indicates that their approach accords with "*the NPPG (July 2018)*". The viability section of the PPG was substantially re-written in 2019, including paragraphs 013, 014, 015, 016 and 017, all of which relate to benchmark land value. The Council may wish to raise the question of compliance with the updated paragraphs of the PPG with the Applicant.

- 3% voids and bad debts;
- Major repairs: 1% of works costs (£600 per unit per annum)
- Discount rate of 5%

These assumptions are typical of the inputs registered providers would typically apply when valuing new build properties for acquisition purposes, but the maintenance costs in particular are likely to understand the costs given the age and construction type of the blocks. Management costs may also be understated given the age of the blocks and associated high levels of turnover.

At present, we have not been able to run our own valuations of these properties, as we have not received a schedule of rents. We have therefore adopted DS2's values on a provisional basis, but reserve the right to revisit these after we have received a rental schedule.

5.1.2 Commercial properties

Phase A incorporates commercial properties which are predominantly in retail use, commensurate with their location on the High Road. The rateable value[2] of these properties ranges from [redacted] to [redacted] per square foot, with an average of [redacted] per square foot. DS2 have applied a slightly lower rent of [redacted] per square foot in their valuations, which appears reasonable. They have applied an investment yield of [redacted]% to arrive at a capital value for each of the properties. This capital value equates to [redacted] per square foot, which is at the lower end of the range indicated by sales of retail units in the area.

Phase B incorporates Nesta Works and Peacock Industrial Estate which are in industrial use. DS2 have applied a rent of [redacted] per square foot, which is significantly higher than the average rateable value of [redacted] per square foot. However, this rent is supported by comparable evidence, including lettings adjacent to High Road West. DS2 have applied an investment yield of [redacted] which results in a capital value of [redacted] per square foot. This capital value sits towards the upper end of the range identified by DS2's comparable evidence at Table 31 (which shows a range of [redacted] to [redacted] per square foot).

5.1.3 Consented development at 867 – 879 High Road

This site benefits from planning permission (reference HGY/2019/2929) for

"for the demolition of existing buildings & structures and redevelopment of the site for a residential led mixed-use scheme with up to 330 residential units (class C3), retail/café use (Use Class A1/A3), area of new public open space, landscaping and other associated works. Full details/permission is sought in respect of Block D, 867 and 869 High Road (Grade II listed) and proposed Block G to its rear. Outline permission is sought for the remainder of the site, with details of "scale", "layout", "appearance" and "landscaping" reserved in relation to proposed Blocks A, B and C and details of "appearance", "landscaping" and "layout" only reserved in relation to Block E."

We reviewed the Applicant's financial viability submission for this application (prepared by Quod) and the final position we reported to the Council on 28 February 2020 was that the Scheme as proposed would generate a residual land value of £9.49 million. This was also close to the Site's benchmark land value of £9.81 million.

We note DS2's suggestion that this residual land value could now be considered "light" as DS2 have adopted higher residential sales values, but this is not a like for like comparison. The High Road West scheme, taken as a whole, will have a more transformative effect on the area than the development at 867-879 High Road in isolation. Higher values would therefore be expected for the whole masterplan area. In any event, the difference is marginal at £15 per square foot. Furthermore, the note that DS2 append to their report draws the Council's attention to the "*significant risk associated with the £1.5 million revenue assumed for the ground rents in Quod's appraisals*". The 'Leasehold Reform (Ground Rents) Bill' reached its Report State in the House of Commons in November and will be enacted in early 2022. The effect of this will be to require that ground rents in new leases will be limited to a peppercorn. The £1.5 million of income included in the appraisals will therefore definitely not be

[2] Rateable value reflects the market rent of a property, as assessed by the Valuation Office Agency.

available, which would largely offset any differences in private sales values. Construction costs have also increased, which would offset any remaining increase in value not offset by the removal of ground rents.

5.1.4 Consented development at 44-52 White Hart Lane (Goodsyard Site)

This site also benefits from an extant planning permission (reference HGY/2018/0187) granted on appeal for:

"Hybrid Application with matters of layout, scale, appearance, landscaping and access within the site reserved for residential-led mixed use redevelopment to comprise the demolition of existing buildings/structures and associated site clearance and erection of new buildings/structures and basement to provide residential units, employment (B1 Use), retail (A1 Use), leisure (A3 and D2 Uses) and community (D1 Use) uses, with associated access, parking (including basement parking) and servicing space, infrastructure, public realm works and ancillary development. Change of use of No. 52 White Hart Lane (Station Master's House) from C3 use to A3 use".

DS2 have referred to Anthony Lee's proof of evidence submitted to the Inquiry which considered the appeal. This evidence refers to a residual land value of [redacted] and an EUV of [redacted]. However, the subsequently agreed Statement of Common Ground shows a residual land value of [redacted] (with grant) and we have therefore reflected this higher figure in our assessment.

5.1.5 Premium

DS2 have not applied a premium to their reported EUVs but have instead incorporated compensation into their appraisal as a development cost to reflect the likely deployment of the Council's Compulsory Purchase powers. DS2's approach is reasonable in these circumstances.

5.1.6 Summary on Benchmark Land Value

The schedule at Appendix 3 shows the following values for the various properties. A summary of this schedule is provided as Table 5.1.6.1.

Table 5.1.6.1: Benchmark land value

	South	North	Totals
Value of planning consents	[redacted]	[redacted]	[redacted]
Industrial	[redacted]	[redacted]	[redacted]
Care Home	[redacted]	[redacted]	[redacted]
LBH Residential	[redacted]	[redacted]	[redacted]
Residential	[redacted]	[redacted]	[redacted]
Retail/Residential	[redacted]	[redacted]	[redacted]
Commercial	[redacted]	[redacted]	[redacted]
Garages	[redacted]	[redacted]	[redacted]
Other	[redacted]	[redacted]	[redacted]
Workshops	[redacted]	[redacted]	[redacted]
Healthcare	[redacted]	[redacted]	[redacted]
Timber yard	[redacted]	[redacted]	[redacted]
Totals	[redacted]	[redacted]	[redacted]

5.2 Appraisal results

DS2 have concluded that the proposed Development including 35% affordable housing (by units) generates an IRR of 6.6% against their target IRR of 14%. DS2 therefore consider that the scheme generates a deficit against the target profit level.

In our review of DS2's appraisal assumptions, we have recommended the following amendments:

- Increase private residential values as a result of introduction of a 'maturity factor';
- Increase affordable housing values to reflect current market expectations;
- Adjust commercial revenue and yield to reflect what is achievable in the current market;
- Reduce construction costs in line with advice received from CDM;
- Reduce infrastructure costs in line with advice received from CDM;
- Adjust contingency allowances in line with CDM advice;
- Adjust disposal costs to reflect what is achievable in the current market;
- Reduce profit levels to reflect risk profile of the scheme; and
- Adjust programme timetable to reflect current market expectations.

We have undertaken an appraisal of the proposed Development assuming 35% affordable housing (by units) in line with the Applicant's proposals, taking into account the recommended amendments. We have summarised the appraisal results in Table 5.2.1.

Table 5.2.1: Appraisal results

Scenario	IRR%	Target IRR (%)	Surplus / deficit (%)
Proposed Development including 35% affordable housing	11.32%	12%	-0.68%

5.3 Sensitivity analyses – value growth and cost inflation

To provide a more comprehensive understanding of the financial performance of the project, we have undertaken a series of sensitivity analyses of the proposed Development. In all cases, the appraisals incorporate 35% affordable housing. We have summarised the results in Table 5.3.1.

Table 5.3.1: Sensitivity analyses

Change in values	Change in costs	IRR (%)	Target IRR (%)	Surplus / deficit (£)
0%	+5%	7.68%	12%	-4.32%
0%	+10%	4.61%	12%	-7.39%
+5%	0%	14.14%	12%	2.14%
+10%	+5%	12.72%	12%	0.72%

5.4 Review mechanism

For the avoidance of doubt, we recommend the Council include early, mid and late stage review mechanisms within the Section 106 Agreement, likely to be linked to reserved matters applications. We note on page 13 of the CDM report, as follows:

"It should be noted that there is potential for variance due to the early information the cost estimate is based compared to the cost when the works are undertaken.

It should be understood that the developer may choose to undertake value engineering exercises after the gaining of planning permission in order to reduce their costs.

The developer may also use different construction methodologies to reduce programme and therefore costs".

In addition, there is potential for 'real growth' in values achieved at the proposed Development providing sufficient justification for a review mechanism to be included within the Section 106 Agreement.

5.5 Further information / substantiation / clarification requests

- We request confirmation from the Council as to whether London Affordable Rent tenure should be viability tested at the proposed Development;
- As outlined in paragraph 4.1.5, we request that DS2 provide clarification with regards to the number of car parking spaces within the proposed Development;
- As outlined in paragraph 4.1.6, we request that further information is provided by DS2 in relation to the timings and quantum of grant hat has been made available;
- As outlined in paragraph 4.2.1, the CDM cost review is subject to substantiation, clarification and further information requests on 21 separate items. We request that this information is provided;
- As outlined in paragraph 4.2.5, there are a number of items within the Compensation costs that require further information, clarification or substantiation. We request that this information is provided;
- In paragraph 5.1.1, we have requested that a schedule of rents is provided for the residential properties. We request that this information is provided.

6 Conclusion

DS2 have concluded that the proposed Development with 35% affordable housing generates an IRR of 6.6% generating a deficit of -7.4% against the target IRR of 14%.

We have undertaken an assessment of the proposed Development with 35% affordable housing as proposed by the Applicant. Taking into account the recommended amendments outlined in paragraph 5 of this report, we have concluded that the proposed Development with 35% affordable housing generates a deficit of -0.68% against the target IRR of 12%.

For the reasons outlined in Section 5.4, we recommend the Council include early, mid and late stage review mechanisms within the Section 106 Agreement.