Viability Report

Elephant and Castle Town Centre, London, SE1

Prepared for London Borough of Southwark

Executive Summary


Exterior Photo

Exterior Photo

Location:

The Site is located within Southwark in the Elephant and Castle town centre. It is positioned immediately south of the main Elephant and Castle roundabout and comprises the Shopping Centre to the east of the A3 and the London College of Communication (LCC/UAL) buildings to the west (East and West phases respectively).

The area benefits from a central position, only 1.5 miles south of the City of London. The area is well-known for its major road junction and roundabout which offers access to the A201 and the A3, and its landmark shopping centre. Elephant and Castle is predominantly a residential area, being historically known for its high concentration of social housing and student housing. The area also has some older secondary office space.

Elephant and Castle shopping centre is located approximately 1.1 miles south of Waterloo, 2.3 miles north of Brixton, 1.4 miles east of Westminster and 3.5 miles west of Canary Wharf. The shopping centre occupies a site situated between St Georges Road, New Kent Road, London Road and Walworth Road. It was constructed in 1965 as the first covered shopping mall in Europe.

Description:

West Site

London College of Communication Campus

Located on the West Site this property comprises the campus for The London College of Communication. The majority of the building is four storeys, however there is a sixteen storey tower towards the centre of the site which houses administrative uses. The buildings date from the 1960s with the college having been in occupation since 1964.

East Site

Elephant and Castle Shopping Centre and Hannibal House

The site formally comprised a mixed used building of concrete frame construction that housed retail and leisure units. The retail and leisure accommodation was arranged primarily over three floors plus basement ancillary space and was known as the Elephant and Castle Shopping Centre. The two main shopping levels comprised T-shaped malls. The property also contained a substantial amount of leisure accommodation at third floor level including a bowling alley, bingo club and cinema. Along with the shopping centre, the property also contained Hannibal House, an office block arranged over 12 floors.

These buildings are now vacated and are currently in the process of being demolished.

Viability Conclusions

Based on our assessment we are of the view that the current affordable housing offer represents the maximum reasonable position.

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Our Ref: JGK/JF01/02C100863

18 June 2021

London Borough of Southwark
160 Tooley Street
London
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For the attention of: Victoria Lewis

Dear Sirs

Property: Elephant and Castle Town Centre, London, SE1
Applicant: Elephant and Castle Properties Co Limited

In accordance with your instructions and provision of initial information on 8 April 2021, we have inspected the above property externally in order to review the viability assessment prepared by the Applicant.

Our instructions are to provide an independent assessment of the viability case made by the Applicant in respect of the proposed development at the above property.

In undertaking this exercise we have specifically had regard to the NPPF 2019, Viability PPG, GLA Guidance and London Borough of Southwark planning policy. We have also reviewed comparable evidence for the proposed scheme.

We have prepared this advice in accordance with the RICS Guidance 'Financial Viability in Planning: conduct and reporting', issued in 2019.

Conflict of Interest

As far as we are aware, we have no conflict of interest in relation to the provision of viability advice in respect of the property.

In accordance with best practice and the RICS guidance (paragraph 2.3 of RICS Financial Viability in Planning: Conduct and Reporting May 2019), we confirm that our instruction to prepare this report has not been on the basis of performance related fees or similar arrangements. We confirm that in undertaking this assessment we have acted reasonably, fairly and with transparency.

Professional Indemnity

See our "General Terms of Appointment – Clause 4: Limitation of Liability".

Date and Extent of Inspection

The Property was inspected externally on 22 April 2020 by Jacob Kut MRICS, Juliet Farrow MRICS and Edward Higham MRICS, who are RICS Registered Valuers within the Valuation Consultancy department within our Gresham Street office.

All valuations are reported exclusive of VAT.

We draw your attention to our accompanying report, the Definitions and Reservations for Valuations to which our advice is subject and to the Letter of Appointment agreed between us.

Yours faithfully

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1. Introduction

We have been instructed by the London Borough of Southwark to undertake a review of the Viability Assessment prepared by DS2 on behalf of Elephant and Castle Properties Co. Limited ("The Applicant") in relation to the redevelopment of the Property.

We have been instructed to determine whether it would be viable for a policy compliant scheme to be delivered in terms of mix, recognising the proposed scheme provides 35% affordable housing. We have also been asked to consider if a greater amount of affordable housing could be provided at social rent levels rather than the current discounted market rent to reflect he Emerging Southwark Plan.

In undertaking this exercise we have had regard to the following national guidance:

- National Planning Policy Framework (NPPF) 2019
- National Planning Practice Guidance (NPPG)
- The London Plan 2021
- GLA Affordable Housing And Viability Supplementary Planning Guidance (August 2017)
- The Housing SPG (November 2012) published by the Greater London Authority;
- RICS Guidance where appropriate.

The specific London Borough of Southwark documents we have had regard to are as follows:

- Southwark Saved Unitary Development Plan (April 2007)
- Southwark Affordable Housing SPD (2008)
- Southwark Core Strategy (April 2011)
- Southwark Development Viability SPD (2016)
- New Southwark Plan (Emerging)

Policy P4 of the New Southwark Plan (Emerging) sets the policies relating to affordable housing and build to rent in the Borough. The policy requires any new development over 100 units to provide a minimum of 35% affordable housing with 15% social rent equivalent and 20% affordable rent capped at London Living rent equivalent. However, we have been advised that only the uplift in habitable rooms over the existing consent have to meet the emerging policy requirements.

Our assessment has been undertaken in accordance with your brief, our fee proposal and our Terms of Engagement, which have been prepared in accordance with RICS Valuation – Global Standards 2020.

Conflicts of Interest

In assessing any potential conflicts, we have adhered to the RICS Professional Statement – Conflicts of Interest, (1st Edition, March 2017) and the RICS Rules of Conduct.

As far as we are aware, we have no conflict of interest in relation to the provision of valuation advice in respect of the property. We have no ongoing or previous fee earning relationship with the borrower/vendor/parties nor the property. We are providing our advice as External Valuers in accordance with the provisions of the Red Book. Avison Young (UK) Limited is a regulated firm.

Limitation of Liability and Professional Indemnity Insurance

Our total liability in connection with this instruction and this Viability Report is, as set out in the terms of appointment we provided to you. We confirm that we hold professional indemnity insurance to cover our liabilities arising in connection with this instruction and this Valuation Report.

Nature and Source of the Information Relied Upon

In preparing our advice, we have been provided with information by applicant The extent to which this has been relied upon, and verified by us in arriving at our opinion of value, is referred to in our report.

Date and Extent of Inspection

The property was inspected externally on 22 April 2021 by Jacob Kut MRICS, Juliet Farrow MRICS and Edward Higham MRICS, all RICS Registered Valuers within the Valuation Consultancy Department of our London City office. Access was available to the boundary of the property as demolition has commenced.

2. Location and situation

The two sites are situated within the London Borough of Southwark in Elephant and Castle town centre. The sites sit to the immediate south of the Elephant and Castle roundabout, either side of the Newington Butts roadway (A3 trunk road). The Shopping Centre (East site) sits to the east of the road whilst the London College of Communication campus (West site) sits on the west side.

The area benefits from a central position, only 1.5 miles south of the City of London. The area is well-known for its major road junction and roundabout which offers access to the A201 and the A3, and its former landmark shopping centre. Elephant and Castle is predominantly a residential area, being historically known for its high concentration of social housing and student housing. The area also has some older secondary office space.

The area has strong communication links with numerous buses serving the local area stopping on Newington Butts itself. To the east of the former shopping centre is the Elephant and Castle Railway station which is served by South-eastern rail and Thameslink. To the north of the Elephant and Castle roundabout is the Underground station which provides access to the Northern and Bakerloo lines.

The West site is bound by St George's Road to the north, Newington Butts to the east, The London Metropolitan Tabernacle to the southeast, Brook Drive and Pastor Street to the south west and Oswin Street to the west. The site is predominantly surrounded by low rise post war residential accommodation albeit is adjacent to the Tabernacle church.

The East site is bounded by New Kent Road to the north, the Elephant and Castle roundabout to the north west, Elephant and Castle Rail Station, Viaduct and Arches and Elephant Road to the east, Walworth Road to the south and Newington Butts to the west. This site sits close to a number of recent developments which predominantly provide new build residential towers. Other nearby uses include student accommodation, a new leisure centre and new retail units including a supermarket.

3. Planning Policy Context

National Planning Policy Framework 2019

The National Planning Policy Framework (NPPF) (2019) sets out the Government's planning policies for England and how these are expected to be applied. It provides a framework within which locally-prepared plans for housing and other development can be produced. The NPPF places greater importance in achieving high quality design and undertaking engagement with local communities and it also provides a clearer framework in which to demonstrate doing so. At the same time, there is greater potential to increase the density and value of development in suitable, central locations. The NPPF imposes an incentive to process housing applications as quickly as possible and to work with developers in an attempt to speed up implementation and delivery, with implications for underperformance.

It also highlights that the planning system should be plan-led with 'Succinct and up-to-date plans' which 'should provide a positive vision for the future of each area' (Para. 15) with one of the key objectives being sustainable development. Within this framework it is outlined that plans 'should set out the contributions expected from development. This should include setting out the levels and types of affordable housing provision required along with other infrastructure' (Para. 34). It goes on to state that 'where a need for affordable housing is identified, planning policies should specify the type of affordable housing required, and expect it to be met on-site unless: a) off-site provision or an appropriate financial contribution in lieu can be robustly justified; and b) the agreed approach contributes to the objective of creating mixed and balanced communities.' (Para. 62)

National Planning Guidance

The Planning Practice Guidance last updated 1 September 2019 defines the benchmark value as follows:

"..to define land value for any viability assessment, 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 of 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 its sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called "Existing Use Value plus" (EUV plus)".

The next section of the PPG goes on to define the factors that should be considered to establish the Benchmark Land Value. In summary it provides that the Benchmark Land Value should:-

- Be based upon existing use value.
- Allow for a premium to landowners.
- Reflect the implications of abnormal costs, site specific infrastructure costs and professional site fees.

The PPG goes on to state that the viability assessment should be undertaken using Benchmark Land Values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and value. Market evidence can also be used as a cross check of benchmark land value but should not be used in place of benchmark land values.

In effect, the assessment of benchmark value has two components.

(a) The existing use value
(b) A" plus".

In certain circumstances the PPG advises that an Alternative Use Value may be appropriate. The PPG states that;

"For the purposes of viability assessment Alternative Use Value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing the Benchmark Land Value. If applying alternative uses when establishing the Benchmark Land Value these should be limited to those uses which would fully comply with up to date development plan policies including any policy requirements for contribution awards affordable housing at the relevant levels set out in the plan." Paragraph: 017 Reference ID: 10-017-20190509

Within the definition of AUV falls extant consents. The applicant has an extant consent and that forms the basis for their assessment.

The London Plan

The London Plan is a regional spatial strategy for Greater London and covers the 32 Boroughs and the City of London. The aim of the plan is to set out a framework to co-ordinate and integrate economic, environmental, transport and social considerations over the next 20-25 years. The plan forms a London wide development context within which each Borough sets their local planning agendas.

The London Plan establishes the need for regional growth in housing and employment and identifies further development in the CAZ and associated opportunity areas as a means by which this requirement can be met. The London Plan seeks that the development should maximise the potential of sites, create or enhance the public realm, provide or enhance a mix of uses, respect local context, character and communities and be sustainable.

Policies within the plan state that whilst the Borough should seek the maximum reasonable amount of affordable housing it should not be at the cost of residential development. Negotiations should be site specific and take into consideration individual circumstances. Affordable housing is required to meet the needs of specific households which cannot be met on the open market.

The New London Plan (2021) has now been adopted. The new plan is a material consideration in planning decisions, includes a strategic target for 50% of all new homes delivered across London to be affordable. Specific measures to achieve this aim include:

1. Requiring residential and mixed-use developments to provide affordable housing through the threshold approach (Policy H6 Threshold approach to applications)
2. Using grant to increase affordable housing delivery beyond the level that would otherwise be provided
3. Affordable housing providers with agreements with the Mayor delivering at least 50 per cent affordable housing across their portfolio
4. Public sector land delivering at least 50 per cent affordable housing across its portfolio
5. Strategic partners with agreements with the Mayor aiming to deliver at least 60 per cent affordable housing across their portfolio.

The New London Plan also includes a specific policy in relation to the Build to Rent sector which recognises that the development model differs from traditional for sale schemes. It requires that the planning system should take a positive approach to the Build to Rent sector which has the potential to accelerate delivery. If the Build to Rent proposal meets specific criteria the affordable housing offer can be solely at Discounted Market Rent provided it is genuinely affordable. To qualify under Build to Rent fast track policy, at least 30% of the affordable housing must be at London Living Rent levels and a minimum of 35% affordable housing should be provided.

Homes for Londoners - Affordable Housing and Viability Supplementary Planning Guidance

The Mayoral Affordable Housing and Viability SPG was released in late 2017 and sets out the Mayor's approach to viability in the capital. This established a threshold approach to viability whereby schemes offering 35% affordable housing (50% on public land) can follow a fast track application route which does not require a viability assessment. Schemes offering below the threshold are required to submit viability appraisals.

The guidance also sets out the requirement for scheme viability appraisals, which includes the approach to establishing the Benchmark Land Value. This guidance states that Alternative Use Values would only be acceptable in 'exceptional circumstances' (paragraph 3.48).

London Borough of Southwark

Affordable Housing

Core Strategy Policy 6 sets the policies relating to affordable housing in the Borough. Those which apply to the subject site are as follows:

- Requiring as much affordable housing on developments of 10 or more units as is financially viable;
- Requiring a minimum of 35% affordable housing units on developments with 10 or more units.

For a development of 15 housing units or more, the amount of affordable housing to be provided will be calculated in terms of habitable rooms. A habitable room is defined in the Core Strategy as a room which can be used for sleeping and includes bedrooms and living rooms. Any rooms over 27.5 square metres are counted as two habitable rooms.

Saved Southwark Plan Policy 4.4 on Affordable Housing sets the policies for dwelling mix and size. It states that the affordable housing provision must be an appropriate mix of dwelling type and size to meet the needs of the Borough. The affordable tenure housing should not be distinguishable from the private housing development.

The London Borough of Southwark follows the sequential test to ensure they secure as much affordable housing as possible. This is in accordance with National and Regional Policy. This test is set out below:

1. All housing, including affordable should be provided on site.
2. In exceptional circumstances the affordable housing can be provided off-site. This site should be in the local area of the proposed development.
3. In exceptional circumstances a pooled contribution may be allowed in lieu of off-site affordable housing.

In cases 2 and 3, at least as much affordable housing must be provided as would have been if the minimum 35% affordable housing policy requirement were achieved on-site. Affordable housing should be delivered at the same time as private housing. If a planning permission is granted which is not compliant with the affordable housing policy a review clause may be incorporated in the Section 106 Agreement to test viability again prior to implementation.

The Emerging New Southwark Plan includes a policy for Private Rented Homes. This scheme provides 100 homes and therefore is subject to policy P4. We have been advised that only the uplift in habitable rooms over the existing consent are subject to the emerging policy requirements. The affordable housing requirement is for a minimum of 35%. Of the total number of homes provided 15% should be at social rent equivalent and a minimum of 20% at affordable rent capped at London Living Rent equivalent. There are additional requirements including a 30 year minimum term for the units to be rented out. Our Brief includes testing this emerging policy.

Existing S106 Agreement

The section 106 agreement for the subject property and relating to the extant consent is dated 10th January 2019.

The extant consent provides 35% affordable housing by habitable room. The tenure split is as follows:

- 38% social rent
- 15% London Living Rent (LLR)
- 47% Discounted Market Rent (DMR)

The units are distributed between the sites as follows:

- East Site – 165 units (553 habitable rooms) (41 LLR and 124 DMR)
- West Site – 165 units (622 habitable rooms) (116 social rent, 12 LLR and 37 DMR)

The Section 106 agreement includes three reviews where viability is reassessed to see if the agreed tenure provision can be varied to increase the quantum of social rent and London Living Rent habitable rooms. This is capped with tenure splits as follows:

i) Following Viability Review 1 or Viability Review 2, additional London living rent habitable rooms up to a maximum of 389 to be provided on the East site with a commensurate decrease in the number of Discounted Market Rent habitable rooms; or

ii) following Viability Review 3, additional London living rent habitable rooms up to a maximum of 172 to be provided on the West site with a commensurate decrease in the number of Discounted Market Rent habitable rooms; or

iii) where the west site provides open market for sale units, up to a maximum of 15 additional social rent equivalent habitable rooms to be provided on the West site with a commensurate decrease in the number of intermediate habitable rooms

The units provided at London Living Rent should be affordable for households with an income up to £60,000 per annum. Discounted Market Rent units must be affordable to those with an income of up to £90,000 per annum.

In respect of the discounted market rent units the developer covenants that the rental levels inclusive of service charge shall not exceed 80% of market rent. The annual rental increases will be linked to CPI plus 1%.

Social rent equivalent units are where weekly rents are set as follows:

- £155 per week for a 1 bed
- £182 for a two bed
- £216 per week for a 3 bed

These are All index linked at CPI plus 1%.

In addition to affordable housing 10% of the retail units must be affordable and 10% of the workspace (use class B1).

The agreement details agreed costs (all to be indexed). These are as follows:

Contribution	Sum
Carbon Green Fund Contribution East Site	£1,213,473
Carbon Green Fund Contribution West Site	£1,021127
Administrative Cost East Site	£42,031.67
Administrative Cost West Site	£22,889.85
Children's Play Space Contribution West Site	£117,708
Construction industry employment and training contribution East site	£1,413,350
Construction industry employment and training contribution West site	£709,650
East site new cycle hire docking station installation contribution	£219,000
West site new cycle hire docking station installation contribution	£219,000
Employment in the end use contribution East site	£610,600

Employment in the end use contribution West site	£141,900
Independent business advisor contribution	£192,900
Legible London contribution East site	£7,760
legible London contribution West site	£3,860
New Kent Road environmental improvement contribution	£20,000
Relocated cycle hire docking station contribution	£50,000
relocation fund contribution	£634,700
Tree replacement contribution	£6,000
West site NYU cycle hire docking station contribution	£219,000
Administrative costs – East Site	£42,031.67
Affordable Housing Evaluation Report Monitoring Contribution – East Site	£21,780
Affordable Housing Evaluation Report Monitoring Contribution – West Site	£21,780
Archaeology contribution – East Site	£5,585.50
Archaeology contribution – West Site	£5,585.50
Corsica Studios Contribution	£125,000
New Kent Road environmental improvement contribution	Up to £20,000
Railway station contribution	£30,000
Relocation fund contribution	£634,700
Independent business advisor contribution	£192,900 of which £78,570 has already been paid
CPZ Contribution	£25,000

Review mechanism

The Section 106 agreement includes three opportunities for a viability review:

- The first review date is 36 months from the date of planning permission where the development has not been substantially commenced.
- The second review date is when 75% of the residential units on the East side have been occupied or where contracts have been exchanged on 75% or more of the residential units on the East site.
- The final review date is when 75% of the residential units on the West site have been occupied or alternatively where contracts have been exchanged on 75% or more of residential units on the West site if they are being sold.

Target returns are specified and are set at a profit of 11% ungeared IRR are for Viability Review 1 and 2. These reviews cover both the East and West Site due to he point at which the review takes place.

For Viability Review 3 the target returns are 12.5% profit on GDV where the residential units are built to rent or 17.5% profit on GDV where sold; 15% profit on GDV in respect of the commercial element and 6% profit on GDV in respect of the affordable housing element where the developer has opted to provide the residential units for sale. This review covers only the West site due to point in time which it takes place. The metrics are therefore slightly different with regards to the target rate of return as the project being assessed is much smaller.

At viability review it has been agreed that any surplus above the target return will be shared on a 50/50 basis with the portion attributable to the council translated into additional affordable housing to deliver a mix more consistent with the emerging policy P4 in the new Southwark plan. The overall provision of affordable housing will remain at 35%. It should be noted however that policy P4 cannot be fully complied with given the delivery at the council's request for social rented homes on the site rather than social rent equivalent and that the affordable housing component comprises 38% social rented homes which is higher than the 34% social rent equivalent required under policy P4.

Viability reviews are to be conducted by reference to the application viability appraisal and the appraisal model which has been agreed by the council and the developer. The inputs will be varied reflecting the actual outcome with the application viability appraisal start date fixed at the date of the section 106 deed. Accordingly the rents and build costs adopted in the appraisal will reflect the actual incurred around amounts rather than the currently agreed input. Where actuals are not available then reference will be made to best evidence at the review date.

The site value shall be fixed at £142 million. Site value shall be subject to indexation in accordance with the MSCI UK quarterly index capital value shopping centres for the East site and MSCI UK quarterly index capital value offices for the West site. Indexation of the site value for the West site shall be calculated from the earlier of the date of purchase or the date the West site is commenced. There are a number of inputs which are fixed including purchases costs at 6.8% of gross development value, designed contingency at 2.5% of construction costs, construction contingency at 5% of construction costs, professional fees at 12% of construction costs and commercial marketing at £2.00 per square foot.

4. Description

The Existing Property

The subject property comprises two sites containing a variety of building types and uses. Below we address each of the main uses:

West Site

London College of Communication Campus

Located on the West Site this property comprises the campus for The London College of Communication. The majority of the building is four storeys; however there is a sixteen storey tower towards the centre of the site which houses administrative uses. The buildings date from the 1960s with the college having been in occupation since 1964.

The university building comprises a mix of lecture accommodation, classrooms, exhibition space and specialist studios. The office block comprises basic specification office accommodation. The accommodation is dated with a poor layout making it difficult to navigate.

East Site

Elephant and Castle Shopping Centre

The main shopping centre site comprised a three storey 1960s building which contained the former shopping centre. The former shopping centre had upper and lower level shopping galleries which provide a mix of units. A third level provides a bowling alley and bingo club. Located above the shopping centre was a 16 storey tower which provided office accommodation.

This site also comprised the London Coronet Theatre, Charlie Chaplin public house, market stalls, newsagent and dental surgery as well as the London Underground Northern Line Station entrance and ticket hall.

These buildings are now vacated and are currently in the process of being demolished.

The existing Northern Line Station entrance is a building adjacent to the shopping centre at the north west corner of the site. Access to platforms is via two lifts and a spiral staircase.

Photo Description

Photo Description

Photo Description

Extant consent

The site has planning consent under reference 16/AP/4458 (granted 10 January 2019) for the redevelopment of the two sites to deliver a new shopping centre, leisure space, food and beverage space, a new campus for LCC, a new headquarters for UAL and 979 residential units with associated cycle storage, disabled parking, servicing, plant areas, new landscaping, new public realm and other pubic benefits including a new entrance ticket hall for London Underground and other associated works. Buildings will range in height up to 35 storeys.

The affordable housing component is secured in perpetuity and equates to 35% of the total number of habitable rooms. The equates to 330 homes with the following tenure composition:

- 116 social rented homes (West Site) – 11.8%
- 53 London Living Rent Level homes (Intermediate tenure) (East and West Site) – 5.4%
- 161 Discounted Market Rented Homes (Intermediate tenure) (East and West Sites) – 16.4%

An application for a minor material amendment (reference 20/AP/3675) was consented on 12 March 2021. This consent is for an enlargement and reconfiguration of the consented LUL station box, including provision of an additional basement level and minor elevational changes to the station entrance. This permission has yet to be implemented.

Proposed Development

Under a section 73 application the applicant is seeking to vary the existing permission as follows:

- Office accommodation within Building E2;
- Reduction in cinema area and provision of additional leisure at basement level;
- Reduction in retail area on the east side, offset by an increase in retail area on the west site;
- Provision of four additional residential units (0.4% increase);
- Reconfiguration of residential community amenity space;
- Provision of additional University of Arts London floorspace;
- Minor alterations to building heights (up to 670mm) and positioning (up to 700mm);
- Alterations to pedestrian routes and walkways; and
- Reconfiguration of internal layouts and elevational changes

The development description is as follows:

'*Minor material amendment under s73 of the Town and Country Planning Act 1990 (as amended) to planning permission 20/AP/3675 to amend office, leisure, retail and educational floorspace areas, amendments to residential unit mix, alterations to residential communal amenity space, minor alterations to building heights, elevations and positioning, alterations to pedestrian routes and walkways, and associated and ancillary works'.*

The development will provide 35% affordable housing and 10% affordable workspace on the commercial and retail floorspace consistent with the consented scheme.

The unit mix of the proposals has been varied to provide additional two and three bedroom units in place of studio and 1 bedroom units. The West Site residential provision does not change maintaining the unit number and mix. The East site has an increase in habitable rooms from 1,603 habitable rooms to 1,680 (an increase of 77) due to the new configuration on the East Site.

The applicant is maintaining 35% affordable housing by habitable rooms and therefore due to the proposed unit configurations an additional 7 affordable units will be provided (27 habitable rooms). The applicant has offered to provide the additional units in line with the requirements of P4 with 3 units (12 habitable rooms) at social rent equivalent and 4 units (15 habitable rooms) at LLR rates.

In summary the affordable housing provision is as follows:

- 35% affordable housing (by habitable rooms) resulting in the provision of 337 affordable homes
- 116 social rented units situated on the west site in Block W3 which will be owned and managed by wither Southwark or a Registered Provider
- 221 affordable homes which will be tenure blind, provided in perpetuity and delivered alongside the private homes with shared amenities unlike most other market for sale schemes
    - 161 of the intermediate homes would be available at a 20% discount to market for households earning up to £90,000 per annum
    - 57 intermediate homes at London Living Rent levels
    - 3 at social rent equivalent levels

Main differences between extant consent and proposals

The table below summarises the main differences in the proposed and consented schemes:

	Consented scheme		Proposed Scheme		Difference in floor area (sq ft)
	Units	Floor area (sq ft)	Units	Floor area (sq ft)	
West					
Social units	116	98,392	116	98,392	none
Private units	333	257,674	333	257,674	0
Intermediate units	49	37,842	49	37,842	0
Retail		9,343		35,812	+26,469
Office		26,469		0	-26,469
Leisure / sui generis		11,743		11,743	none
East					
Social units	0	0	3	2,380	+2,380
Private units	316	239,944	313	248,011	+8,067
Intermediate units	165	123,339	169	121,254	-2,085
Retail		133,881		108,945	-24,936
Office		0		56,478	+56,478
Leisure / sui generis		24,175		25,908	+1,733
	979	**962,802**	**983**	**1,004,461**	

5. Floor Areas

In accordance with your instructions we have not measured the property. We have been provided with the following floor areas by the applicant which we assume have been correctly prepared under the RICS Professional Statement – RICS Property Measurement 2nd edition, January 2018 and in compliance with the RICS Code of Measuring Practice, 6th edition published by the Royal Institution of Chartered Surveyors.

A breakdown of the floor area differences (GIA) between the proposed and consented schemes on a site by site basis is as follows:

East Site

Use	Consented		Proposed		Difference in sq ft
	sq m	sq ft	sq m	sq ft	
Residential	50,428	542,807	48,395	520,924	-21,883
Retail	17,132	184,409	14,370	154,679	-29,730
Leisure	2,895	31,162	3,306	35,586	+4,424
LUL	3,965	42,679	4,314	46,436	+3,757
UAL	41,405	445,683	43,870	472,217	+26,533
LUL (below B2)			4,732	50,935	+50,935
Workspace			7,019	75,553	+75,553
Estate Management			274	2,949	+2,949
Plant			3,275	35,252	+35,252
Shared space	5,668	61,010	3,793	40,828	-20,183
Ramp			562	6,049	6,049
Totals	**121,493**	**1,307,751**	**133,910**	**1,441,407**	**+133,657**

West Site

Use	Consented		Proposed		Difference in sq ft
	sq m	sq ft	sq m	sq ft	
Residential	56,043	603,247	56,043	603247	none
Retail	1,102	11,862	3,962	42,647	+30,785
Flexible Use	2,860	30,785	0	0	-30,785
Cultural Venue	2,848	30,656	2,860	30,785	+129
Totals	**62,853**	**676,550**	**62,853**	**676,550**	**none**

The proposed unit changes (isolated to the East Site) are as follows:

Unit Type	Consented	S73	Change
Studio	12	11	-1
1 Bed	174	151	-23
2 Bed	232	255	+23
3 Bed	63	68	+5
Totals	**481**	**485**	**+4**

There are also changes to the amenity provision on the East site. The proposals decrease the external communal amenity area by 684 sq m (7,363 sq ft) and the external private amenity space by 74 sq m (797 sq ft).

We have used a conversion factor of 10.764 in converting metric floor areas to imperial. We have rounded metric areas to two decimal places and imperial areas to the nearest whole unit.

6. Methodology and Approach

From our inspection of the site it was clear that the existing shopping centre is no longer in use and is being demolished. It is therefore not considered appropriate to use the Existing Use Value approach to assess the benchmark land value. The university campus remains in use but does appear to be undergoing some works as it is covered in cladding. Whilst the university is still useable and therefore an Existing Use Value would be possible to ascertain, it is subject to a planning consent with the shopping centre which is in the process of being demolished. On this basis, we do not consider that an adopting a mixture of Existing Use Value (for the university site) and Alternative Use Value (on the shopping centre site) is appropriate. Under the existing permission one consent has been granted for both the shopping centre site and College site. Accordingly, if the extant consent is assumed to be implemented on the Shopping centre site, it logically follows that the College site should be assessed on the same basis.

The Section 106 Agreement covers the process for undertakingthe review mechanisms. This is not a review mechanism, but an independent Financial Viability Appraisal triggered by a Section 73 application. Therefore we do not consider adopting the review mechanism structure appropriate. Instead we consider it appropriate and to be consistent with planning policy to adopt an appropriate Benchmark Land Value based in this case on an Alternative Use Value (AUV) reflecting the Extant consent.

As the site has planning consent for a mixed use scheme we consider it most appropriate to compare the value of the consented (extant) scheme with the new proposals. In order to do this, we have undertaken a residual land valuation of the extant consent using the inputs outlined in section 7 of our report. We have them compared this to the residual land value of the proposed S73 scheme to see if a surplus is generated which can impact either the tenure of affordable housing provision in the proposed scheme.

We do not consider that the differences between the consented and proposed scheme are enough to generate differing values. For example, for the new office location, we do not consider it to be superior or more valuable than that in the consented scheme. We therefore consider that the inputs into each appraisal will be consistent with the only variances reflecting changes in floor area.

7. Appraisal Inputs – Proposed Scheme

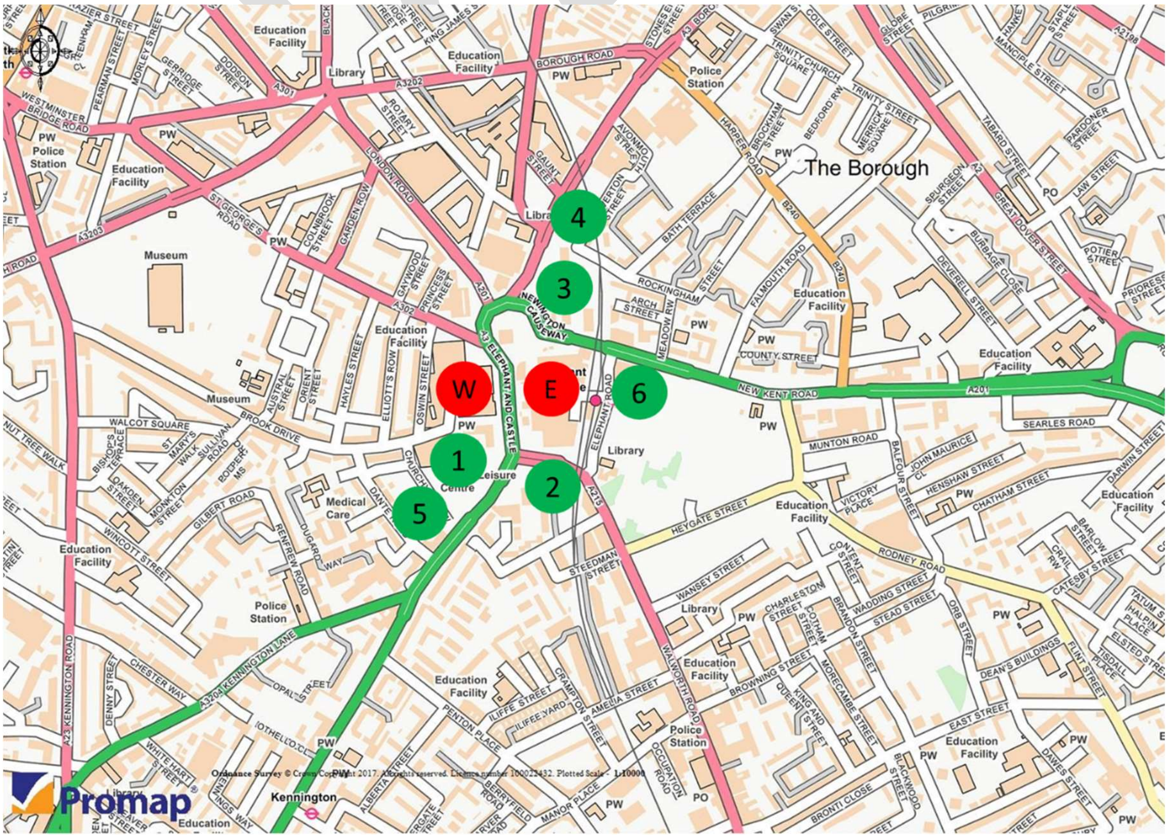
Gross Development Value

The GDV consist of a mix of residential units and commercial floorspace. We have valued both the residential and commercial space using the investment method, with comparable evidence information on market rents and investment yields.

Residential Values

The extant consent is for a Build to Rent scheme. We have therefore considered only rental evidence. However we have undertaken a high level review of sales evidence as a sense check.

The location of the various sales comparisons and their proximity to the subject property are indicated in green on the map below and referenced numerically whilst the subject property is marked red;



In addition to the residential sales comparable evidence, we have researched the local rental market to gain evidence of recent rental transactions in the Elephant & Castle area. We have concentrated upon the same buildings as those discussed above, however since a number of the new build towers in the immediate vicinity of the subject property are still in the construction phase, many of these rental comparables are within the older residential tower blocks.

1. One the Elephant, Churchyard Row, Elephant & Castle, SE1

This development by Lend Lease is located approximately 0.5 miles to the south-west of the subject property in Elephant & Castle. The scheme comprises 284 dwellings (studios, one, two and three bedroom apartments) in a new build 37 storey tower and four storey pavilion. Each of the 254 units within the tower benefit from balconies and good views across the city, whilst the Pavilion offers boutique style living, with units accessed from open walkways. The development provides numerous amenities including retail and business space on the ground floor of the Pavilion, a 24 hour concierge, a function room, a new local park, public leisure centre, play area and bicycle parking.

We are aware of the following availability in Lend Lease's One the Elephant development which was completed in mid-2016:

Beds	Average Area (Sq. Ft)	Min Rent (pcm)	Max Rent (pcm)	Average Rent (pcm)	Average Rent per Sq. Ft (p.a.)
1	555	£1,700	£1,950	£1,794	£38.90
2	795	£1,950	£2,600	£2,265	£34.28
3	1,194	£3,300	£4,008	£3,654	£36.66

Overall, units currently available within this building are at rents ranging between **£29.75** and **£40.30** per Sq. Ft per annum.

2. Strata, Walworth Road, London, SE1 6SX

This scheme was completed in 2010 and comprises a residential tower of 43 storeys in height and an adjacent Pavilion building. The scheme offers 408 residential apartments, in a range of sizes from studios to three-bedroom units. Unlike many of the other local schemes, none of these apartments benefit from outside space. They do, however, benefit from floor to ceiling windows offering good views over the city.

We are aware of the following availability in the Strata development which was completed in 2010:

Beds	Average Area (Sq. Ft)	Min Rent (pcm)	Max Rent (pcm)	Average Rent (pcm)	Average Rent per Sq. Ft (p.a.)
1	526	£1,300	£1,746	£1,716	£39.34
2	787	£1,842	£2,600	£2,179	£33.44

Overall, units currently available within this building are at rents ranging between **£28.60** and **£40.62** per Sq. Ft.

3. Metro Central Heights, Newington Causeway, SE1 6BB

This development by St George comprises over 450 apartments within a ten-storey grade II listed building at Elephant and Castle. The 1960's building was originally used by the Department of Health as their headquarters. After the building was vacated in the early 1990's, it was redeveloped into a residential scheme. The iconic building offers a wide range of facilities including a concierge service, a private swimming pool, gym, Jacuzzi, meeting room, landscaped courtyard and the 'right to park'.

We are aware of the following availability in Metro Central Heights, a redevelopment undertaken by St George in the late 1990s:

Beds	Average Area (Sq. Ft)	Min Rent (pcm)	Max Rent (pcm)	Average Rent (pcm)	Average Rent per Sq. Ft (p.a.)
Studio	324	£1,018	£1,257	£1,125	£41.79
1	467	£1,148	£1,450	£1,321	£34.23
2	647	£1,450	£2,000	£1,687	£31.87

Overall, units currently available within this building are at rents ranging between **£25.86** and **£44.70** per Sq. Ft.

4. Signal Building, 91 Newington Causeway, SE1 6BN

This mixed-use scheme comprises a 22-storey tower offering 38 private residential units, 11 intermediate units, a café and office space, which was completed in 2014. The apartments benefit from good views across the London skyline, having floor to ceiling windows and communal viewing terraces. Many of the apartments also benefit from private balconies.

We are aware of the following available units in the Signal Building (also known as the Pioneer Building):

Bedrooms	Floor	Size (Sq. Ft)	Asking Rent (pcm)	Asking Rent (per Annum)	Asking Rent per Sq. Ft (p.a.)	Status
1	11	516	£1,495	£17,940	£34.77	Available
2	14	660	£1,907	£22,884	£34.67	Available
2	12	660	£1,907	£22,884	£34.67	Available
3	17/18 (Duplex)	1,239	£3,185	£38,220	£30.85	Available

The above listings are the only units currently available to let at this scheme with rents ranging from £30.85 to £34.67 per Sq. Ft.

5. UNCLE Elephant & Castle, SE11 4JF

This development comprises one 44 storey block with 470 flats, a theatre, cafe uses and a pavilion building for retail/marketing suite. The development is located 1.7 miles to the north east of the subject site. The scheme completed in February 2018 and Realstar agreed to forward purchase the 278 PRS units, the remaining 179 affordable units are managed by Peabody.

There is a 45th floor communal Sky Lounge with a cocktail bar and co-working we set out below details of the units that are currently available for rent;

Beds	Average Area (Sq. Ft)	Min Rent (pcm)	Max Rent (pcm)	Average Rent (pcm)	Average Rent per Sq. Ft (p.a.)
1	569	£1,846	£2,100	£1,987	£41.92
2	793	£2,400	£2,900	£2,600	£39.49

Overall, units currently available within this building are at rents ranging between **£38.22** and **£45.34** per Sq. Ft.

6. Elephant Central, SE17 1LA

This development is situated adjacent to the subject site. The scheme was developed by the applicant and the BTR provider is Get Living. Construction commenced in December 2013 and completed in July 2017. This phase of the development included 373 BTR units, all of which were for private occupation. The amenities include a residents only 'Club Room' as well as a private residents courtyard area.

We set out below details of the units that are currently available for rent.

Beds	Average Area (Sq. Ft)	Min Rent (pcm)	Max Rent (pcm)	Average Rent (pcm)	Average Rent per Sq. Ft (p.a.)
1	498	£1,668	£1,841	£1,767	£42.68
2	711	£2,080	£2,600	£2,288	£38.73

Overall, units currently available within this building are at rents ranging between **£38.22** and **£45.34** per Sq. Ft. The applicant has also provided rental data for this block that provides a summary of the rental position of the BTR units as at December 2020. The averages for the one and two bed units are broadly in line with the above with the 3 bed units averaging £38 per Sq. Ft.

Residential Rents Conclusion

We summarise the above rental evidence below;

Scheme	Studio Bed Rent PCM (£ / Sq. Ft)	1 Bed Rent PCM (£ / Sq. Ft)	2 Bed Rent PCM (£ / Sq. Ft)	3 Bed Rent PCM (£ / Sq. Ft)
One the Elephant		£1,794 (£38.90)	£2,265 (£34.28)	£3,654 (£36.66)

Strata		£1,716 (£39.34)	£2,179 (£33.44)		
Metro Central Heights	£1,125 (£41.79)	£1,321 (£34.23)	£1,687 (£31.87)		
Signal		£1,495 (£34.77)	£1,907 (£34.67)	£3,185 (£30.85)	
Uncle		£1,987 (£41.92)	£2,600 (£39.49)		
Elephant Central		£1,767 (£42.68)	£2,288 (£38.73)		

Of the above evidence we consider UNCLE Elephant & Castle and Elephant Central to be the most relevant as these blocks are generally more modern, purpose built PRS stock. We have created a pricing model and based on the evidence available we agree with DS2 that the blended value applied in 2018 of £47.50 per Sq. Ft is optimistic but not unreasonable. We have maintained rents at this level for this assessment.

We have created our own pricing model based on the comparable evidence with average rents as follows;

East Site

Beds	Average Area	Average Rent PCM	Average Rent PA	Average Rent Per Sq. Ft
Studio	463.83	£1,945	£23,345	£50.33
1B	569.71	£2,185	£26,224	£46.03
2B	812.67	£2,714	£32,563	£40.07
2B D	1018.98	£3,000	£36,000	£35.33
3B	1099.31	£3,615	£43,375	£39.46
3B D	1255.79	£3,600	£43,200	£34.40

West Site

Beds	Average Area	Average Rent PCM	Average Rent PA	Average Rent Per Sq. Ft
Studio	471.46	£1,765	£21,175	£44.91
1B	600.62	£2,136	£25,637	£42.68
2B	833.72	£2,607	£31,281	£37.52
3B	1070.89	£3,616	£43,393	£40.52

Overall our pricing models, on average, return a lower value per Sq. Ft. than is currently being adopted.

Although the input rental level, at £47.50 per Sq. Ft, is some way above the comparable evidence, consideration should be given to the fact that this scheme will significantly enhance the local area and, in our view, have a positive impact on the local market due to the variety of new commercial and leisure uses that will be provided as well as improvements to the transport and public realm.

Another point we have considered, as a cross check, at high level is the relativity of the capitalised rental values compared to current sales values in the local area. The rate adopted of £47.50 equates to a capitalised value of £1,125 per Sq. Ft. when accounting for the operation expenditure and capitalising at 3.25%. For context, resales at One the Elephant are currently in the region of £1,050 per Sq. Ft with resales values at Strata and Elephant Park both marginally below £1,000 per Sq. Ft. There would be some uplift over these values for the subject site due to the new build premium and placemaking benefits but overall we are of the view that the current rental levels when analysed in this manner can be taken as producing a GDV broadly supported by the capital values being achieved locally.

Affordable Rental Value

The proposed scheme includes the following mix of affordable units;

- 119 units at Social Rent / Social Rent Equivalent,
- 57 units at London Living Rent
- 161 units at Discount Market Rent

For the social rent units DS2 have assumed a blended rent of £271 per Sq. Ft. The rents are defined in the S.106 agreement and we also note that they are to be indexed annually by CPI +1%. We have valued the social rent equivalent on this basis, and we are of the view that the value applied by DS2 of £271 per Sq. Ft. is correct.

The annual rental values for the London Living Rent units are provided by the GLA. The rents applied by DS2 are consistent with the 2021-22 data for the St George's South Ward for the west site and North Walworth Ward for the east site.

East Site

Beds	LLR Rent PCM	LLR Rent PA
Studio	£1,026	£12,310
1B	£1,026	£12,310
2B	£1,140	£13,678
3B	£1,254	£15,045

West Site

Beds	LLR Rent PCM	LLR Rent PA
Studio	£1,117	£13,405
1B	£1,117	£13,405
2B	£1,241	£14,895
3B	£1,365	£16,800

The discount market rent units are set at maximum of 80% of market rent but with a cap on the rents if the gross household income required exceeds a cap of £90,000. The DMR rents are as follows;

East Site

Beds	DMR Rent PCM	DMR Rent PA
1B	£1,765	£21,174
2B	£2,100	£25,200

3B	£2,100	£25,200

West Site

Beds	DMR Rent PCM	DMR Rent PA
1B	£2,100	£25,200
2B	£2,100	£25,200
3B	£2,100	£25,200

Operational Expenditure

The percentage of operating costs can vary significantly depending on the size of the scheme and thus the extent to which operators can benefit from economies of scale. JLL research from late 2018 suggests a cost range of 21.3% to 35% with an average 26.6%. This is based on a case study of 7 PRS schemes. Another factor to consider is vacancy rates which JLL suggest are between 2.3% and 8%.

Based on our experience larger BTR schemes would generally have lower OPEX costs due to the benefits from economies of scale. The previous agreed position, which has been adopted by DS2, is a 23% deduction from the gross rental income. We are of the view that this is a reasonable position.

Investment Yield

We have looked at comparable PRS investment evidence to establish the appropriate yield for the scheme. We have included a table below that demonstrates PRS investment evidence.

We note that many of the figures below are estimates only as the buildings in question have not been completed and as such there is no evidence of the actual correlation between achieved rents and the adopted purchase price. The figures provided below reflect assumptions as to a yield based on fully let buildings.

This approach is in line with RICS guidance on Build to Rent (valuing residential property purpose built for renting – 1st edition July) which states at para 5.4.2:

“Where a building is being developed and a capitalisation rate is applied to the anticipated ‘stabilised’ net rent, a valuer should make an allowance for let up to determine the market value on the special assumption of completion. For build-to-rent, ‘stabilised’ is taken to mean the likely longer-term steady state of occupation following the initial let up period. When this will be achieved will vary from asset to asset.”

We have considered the following transactions of build to rent schemes;

Asset	Location	Date	Unit	Sale Price	NIY
Vida House	Deptford	Jan-17	138	£43,750,000	3.60%
5 Bedford Park	Croydon	Jan-17	82	£23,000,000	4.24%
Eclipse	Walthamstow	Feb-17	111	£43,850,000	3.75%
Britannia Music School	Ilford	Mar-17	206	£71,400,000	3.75%
East Tower	Sutton Point	May-17	180	£54,500,000	3.90%

Cheviot House	London	Nov-17	97	£28,000,000	3.50%
Montrose Crescent	Wembley	Nov-17	148	£66,100,000	3.60%
Hounslow Place	Hounslow	Dec-17	255	£102,500,000	3.40%
Triangle Site	St Andrews Park	Mar-18	207	£77,000,000	3.70%
Hale Wharf	Tottenham	Nov-18	108	£41,200,000	3.97%
Berol Yard	Tottenham Hale	Jun-19	166	£64,000,000	3.95%

The applicant has adopted a new yield of 3.25% for the BTR units, with the affordable at 3%. On balance, and taking into consideration BTR market reports outlining current market sentiment, we are of the view that a yield of 3.25% should be applied to the rental income. We note that whilst the affordable element was previously included at 3.00% and this has been adopted by DS2, we are of the view that with the passage of time it is now clear that this should be aligned with the yield applied to the private rented income.

Retail Comparable Evidence

Rental

The applicant provided the following rental evidence for retail in modern developments close to the subject property.

Elephant One, Brook Drive SE1 6SQ

797 sq ft unit let in September 2019 at a rent reflecting £29.49 per sq ft.

Stead Street, London SE17 1BZ

1,004 sq ft unit let in October 2020 at a rent reflecting £18.17 per sq ft.

Viaduct Gardens, Embassy Gardens, Legacy 2, SW8 5BL

1,633 to 2,522 sq ft of new build accommodation available to let in this new build development at a rent reflecting £36.65 to £45.32 per sq ft.

Nine Elms Lane, Riverlight 4, SW8 5BP

Thames fronting modern scheme close to Vauxhall. 3,884 sq ft available at a quoting rent reflecting £43.33 per sq ft.

New Union Square, London SW8 5BB

Part of the Embassy Gardens development, this new build property is offering between 1,216 sq ft and £1,851 sq ft at a rent which reflects £52.97 to £53.89 per sq ft.

280 Borough High Street, London SE1 1JS

New build scheme on borough high street with retail at street level. 2,097 sq ft unit quoting a rent reflecting £38.15 per sq ft.

We requested information from the applicant on lettings which have taken place in Elephant central which is also associated with the developer of the subject property. These lettings are rather historic now (taking place in 2016 to 2018) but show a range of £17.19 per sq ft for a large supermarket unit of 17,683 sq ft and £27.59 to £34.59 per sq ft for restaurant units of 1,198 and 1,859 sq ft respectively. Whilst these are pre-pandemic rents, they are also for a less established location, the regeneration of the subject property will transform the area and attract a greater range of retailers.

Investment

The applicant has provided the following retail investment evidence:

16-18 Marshalsea Road, London SE1 1HL
This ground floor commercial unit totalling 1,310 sq ft is let to a martial arts studio for a term of 5 years expiring in September 2022 with a break option from September 2020. The passing rent of £50,000 per annum reflects £38.17 per sq ft. Held leasehold on a 999 year term at a ground rent of £350 per annum (doubles twice over the term). The property is currently available at a price of £950,000 which reflects a yield of 5% and £725 per sq ft.

Strata, Walworth Road, London SE1 6SP
In November 2019 a 6,600 sq ft retail unit and 4,000 sq ft office unit sold in this new build development. The passing rent at the point of sale is unknown. The retail unit sold for £2,501,995 reflecting £379 per sq ft and the office sold for £1,423,267 reflecting £356 per sq ft.

Units at Blackfriars Circus, London SE1 0RX
This property comprises 7 retail units at ground floor level of this new residential scheme featuring over 300 units. The units total 10,812 sq ft and the quoting price of £4,789,260 reflects £443 per sq ft. We have been unable to find information on this investment to clarify the details.

Retail Conclusions

The retail market on both the occupational and investment side is currently experiencing a period of turbulence and uncertainty. This has been caused by both the Covid pandemic and lockdowns and the rise in internet shopping which had increased in popularity pre-pandemic. This has resulted in a dearth of both occupational and investment evidence. The applicant therefore refers to market sentiment referred to by the major property firms who report their research online. Sentiment from all the firms has shown a significant rise in yields over the last 12 months with an increase of at least 100 basis points. Shopping centres are performing poorer than high street retail as these are more for destination retail rather than convenience retail found on the high street which can be accessed during lockdowns.

The applicant has adopted a rent of £44 per sq ft on the retail accommodation in both the proposed and consented scheme. They have capitalised this at a yield of 6.25%. Based on the evidence we have collated we are satisfied that this is a reasonable assumption.

Affordable Retail

The applicant has valued the affordable retail based on the following:

Months 0 – 12: rent free
Months 13 – 24: 15% of market rent (£6.60 per sq ft)
Months 25 – 36: 25% of market rent (£11 per sq ft)
Months 37 – 48: 50% of market rent (£22 per sq ft)
Months 49 – 60: 75% of market rent (£33 per sq ft)
Months 61 until the end of 15 years from the first letting either:

- 75% of market rent
- X% of turnover (where X is to be agreed with the landlord at the point of lease – up to 15% maximum)
- Whichever is the higher although turnover rent is capped at 100% of market rent.

A capitalisation rate of 6.25% has also been applied.

Offices

Elephant and Castle is currently not an established office market. Therefore we have had regard to fringe London office locations including Camden, Dalston and Watford.

Rental

The applicant has provided the following office rental comparables:

83 Crampton Street, London SE17 3BQ
This 900 sq ft ground floor unit let in August 2019 for a rent reflecting £27.77 per sq ft. the applicant refers to this location being comparable but inferior as it has poorer transport connections. The subject property is situated very close to the Elephant and Castle Underground and Railway Station.

8 Boundary Row, London SE1 8HP
In February 2019 this 1,920 sq ft office unit on the second floor let at a rent reflecting £55 per sq ft. This building offers contemporary office accommodation with air conditioning, raised floors and shower facilities. It is located close to Southwark Station with access to the Jubilee Line. The applicant considers this a more established office location.

Trident House, 46-48 Webber Street, London SE1 8QW
Contemporary office property close to Blackfriars Road. Good specification including full air conditioning, under floor trunking and courtyard. The applicant refers to a May 2020 letting of the first and second floor of 4,316 sq ft which achieved a rent of £49 per sq ft. This is in a more central location than the subject property near Waterloo station.

5 – 13 Trinity Street, London SE1 1DB

Purpose built contemporary low-rise office building located off Borough High Street. The specification is good and the space has a contemporary feel with timber floors, exposed brickwork, comfort cooling and perimeter trunking. In February 2020 1,447 sq ft on the ground and second floor was let. The quoting rent was £48.50 per sq ft.

120 Webber Street, London SE1 0DG

Modern mixed use block close to Borough and Southwark stations. Specification includes raised floors, suspended ceilings and air conditioning. The applicant refers to the quoting price on 4,316 sq ft being £52.13 per sq ft.

The applicant has adopted a rent of £50 per sq ft on the office accommodation. We consider this a reasonable assumption for new build office accommodation in an emerging office location / regeneration area. A 12 month rent free has been adopted which assuming a ten year term with break option in year five is reasonable. It may be possible to achieve higher rental levels albeit there would be some risk of not achieving 100% occupancy at higher rents.

Investment

The applicant has adopted a 5% yield on the proposed office accommodation within both the proposed and consented schemes. They refer to a dearth of comparable evidence which has led them to also regard data from large agencies including Savills and Knight Frank who refer to prime city yields currently being 4% to 4.25%. This shows no change from December 2017 when the reported prime city yields were at the same level. As the site is not a prime city location they have adjusted to reflect the nature of the unestablished office accommodation. This is reasonable as it is difficult to predict the type of occupiers that may be attracted to the location as well as the risks associated with the required incentives to establish the area. The supporting evidence supplied by the applicant is as follows:

81 County Street, London SE1 4AD

Small modern office suite with basic specification available on a virtual freehold. The quoting price of £825,000 for this 1,500 sq ft office reflects £550 per sq ft and 5% yield.

153 Wandsworth Road, London SW8 2GB

Unit 4 is currently available comprising 5,125 sq ft. Limited information available but quoting price is understood to reflect £975 per sq ft and a yield of 4.89%.

Harlequin Building, 65 Southwark Street, London SE1 0HR

Modern office building over ground and six upper floors. Average rent at the point of sale in November 2019 was £53.70 per q ft. The sale price was £60,475,000 reflecting £1,186 per sq ft and a net initial yield of 4.41%. We have not been able to find additional information on this sale so do not know the unexpired lease term. This property does have a strong Bankside location which is an established office area.

3 Cathedral Street, Palace House, London SE1 9DE
This office building comprising 45,012 sq ft arranged over ground and five upper floors. The space is let to Kaplan Estates Limited for a term of 15 years expiring in August 2032. The property sold in June 2019 for £48.8 million which reflects £1,072 per sq ft and a net initial yield of 5%. The property is located in South bank and close to Borough Market.

In addition to this local evidence we have had regard to comparable locations:

69 – 73 Dalston Lane, London E8
A 2017 office campus providing commercial and retail space. Comprises lower floors of a larger residential scheme. Located in the heart of Dalston, an upcoming office market in a fringe location. Multi-let to seven tenants producing a topped up passing rent of £945,788 per annum reflecting a low average of £28.59 per sq ft. 13.5% vacant with WAULT to expiry of 8.44 years and 4.25% to break. This property is currently on the market quoting £14.77 million which reflects 6% yield and £446 per sq ft. This location is poorer than the subject being in Zone 2 and not on the Underground network.

51 Clarendon Road, Watford
Located in north London fringe market which has established office location. This good quality building is fully let to four tenants with a WAULT of 8.1 years at a passing rent of £1.04 million per annum. 51% of the income is contracted to the Secretary of State until 2030 which provides secure long term income. Headline rents in Watford are lower than expected in Elephant and Castle. The sale price of £16.9 million reflects 5.6% net initial yield and £410 per sq ft. Inferior building in poorer location but well let to good tenant.

Camden Works, Oval Road, London NW1
Located on the outskirts of Camden Town. Formerly a piano manufacturing site, the campus comprises three neighbouring warehouse style buildings totalling 44,221 sq ft of office accommodation. 85% occupied at point of sale in March 2020. Headline rents at circa £57.50 per sq ft. This building sold for £43.02 million reflecting 5.15% net initial yield and £973 per sq ft. Older converted building close to established office areas.

Power Road Studios, London W4
This converted 1930s factory building comprises 57,164 sq ft of workspace over for studio buildings. 84% let to a diverse range of occupiers generating a passing rent of £2.15 million per annum. Planning permission has been granted for a new 30,000 sq ft building. This building sold in February 2020 for £41.58 million reflecting a net initial yield of 5.2% and £727 per sq ft. Chiswick is a more established office location and this property has planning permission for extension.

Offices Conclusions

Having reviewed the evidence, and considered the nature of this market, we consider a 5% yield to be appropriate. We have also had regard to the capital value per sq ft which based on a rent of £50 per sq ft and a yield of 5% reflects circa £936 per sq ft net. This is consistent with our evidence for similar fringe locations including Camden.

Leisure

The proposed leisure content, forming part of the Consented Scheme, comprised a cinema and a proposed music venue, referred to in the planning application as Assembly and Leisure (Class D2). Although the S73 Application looks to keep both the cinema and the music venue, it looks to reduce the size of the cinema, add a leisure area/health club and increase, slightly, the overall leisure content and size.

The proposed cinema and the proposed leisure area/ health club are to be contained within the Elephant and Castle Shopping Centre (East Site) and the proposed music venue is to be contained within the London College of Communication (LCC/UAL) (West Site). The proposed cinema is to be situated within Plot E2 of the East Site and will be a multi-screen cinema (up to six screens) situated at first and second floor level and the proposed leisure centre will be located at basement level within the East site. The proposed music venue will include a lounge and exhibition space on the ground floor and ancillary bar on the first floor, with capacity for 500 standing.

The floor areas of the leisure content, contained within the Consented Scheme, can be compared to the floor areas of the leisure content contained within the Section 73 Application as follows:

Consented Scheme	**Net Internal Area (NIA)**		**Gross Internal Area (GIA)**	
	m²	**ft²**	**m²**	**ft²**
Cinema (East Site)	2,246	24,175	2,895	31,161
Music Venue (West Site)	1,091	11,743	2,848	30,658
Total	3,337	35,918	5,743	61,819
Section 73 Application	**Net Internal Area (NIA)**		**Gross Internal Area (GIA)**	
	m²	**ft²**	**m²**	**ft²**
Cinema (East Site)	1,257	13,530	1,598	17,201
Leisure / H&F (East Site)	1,150	12,378	1,400	15,068
Leisure Plant /Ancillary	233	2,508	308	3,315
Music Venue	1,091	11,743	2,848	30,658
Total	3,731	40,159	6,154	66,242
Difference between Consented Scheme and Section 73 Application	**Net Internal Area (NIA)**		**Gross Internal Area (GIA)**	
	Amount %	**Amount %**	**Amount %**	**Amount %**
Total	394	4,241	411	4,423

	11.81	11.81	7.15	7.15

In summary, therefore, the cinema is being reduced in size by just under half, a new leisure/ health and fitness club, of just over 15,000 sqft GIA, is being included within the Scheme and the proposed Music Venue is being kept at the same size of 11,743 sqft NIA/30,658 sqft GIA. Overall, the leisure content is being increased by 4,423 sqft GIA under the Section 73 Scheme.

We have endeavoured to verify the floor areas by reviewing the planning application and relevant floor plans for the proposed development. However, we are unable to verify the floor areas in this way and have, therefore, relied upon the floor areas provided, and summarised above, in coming to our conclusions.

Rental

The Applicant's adviser considers the following rental values to be appropriate for the leisure content:

Use	£ Per Annum	£ Per ft 2 NIA	£ Per ft 2 GIA
Leisure Consented	£483,500	£20.00	£15.52
Leisure S 73	£518,160	£20.00	£16.05
Music Venue	£516,692	£44.00	£16.85

In support of these opinions and, specifically, the cinema and leisure area, the Applicant's adviser has produced two (former) D2 Use transactions from 2019, one at £14.32 per sqft and one at £20.0 per sqft. The Applicant has not sought to differentiate between the cinema and leisure area, both being (former) D2 space. However, it is worth highlighting that, following the changes to the Use Classes Order from 1st September 2020 indoor health and fitness falls within Class E and cinemas have become Sui Generis. The Applicant has produced no further rental evidence in respect of the Music Venue, concluding that the adopted rent is at the level that was agreed as part of the (original) viability assessment.

In reviewing this evidence, we comment, firstly, that the majority of (former) D2 leisure space is analysed on a Gross Internal Area Basis. In this context, and particularly given the fallout from Covid-19, the rental valuation of the Applicant at £20 psf in respect of the leisure and £44 psf in respect of the music venue look high. However, we believe that this is partly explained by the respective differences between Gross Internal Areas and Net Internal Areas. The Applicant's estimated rental values in respect of both the cinema and the music venues equate to around £16 per sq ft on a Gross Internal Area Basis. Moreover, if the estimated rental value on the proposed leisure is assessed over the entire leisure area, including the leisure plant, then it equates to around £14.56 per sqft, overall, which is more in line with our expectations.

We are not aware of any relevant post Covid-19 rental evidence in respect of the cinema and the most recent relevant evidence was set out in our original assessment which we repeat below:

Vue Cinema, Westfield, Shepherd's Bush, London

The Vue Cinema at Westfield is currently let on a 21year lease from 2009. The commencing rent is understood to have been £1.45m although the current rent, following RPI uplift, is understood to be £1.58m per annum which, at 97,600 sq. ft. equates to around £16 psf.

Odeon, Panton Street, London

We settled the latest rent review on these premises at a rent of £155,000 per annum. The premises extend to circa 9,418 sq. ft. and so this rent equates to just over £16 psf. The premises are located just off Leicester Square.

Everyman, Maida Vale

The premises are held on a 20 year lease from 2011. The current passing rent is understood to be £95,000 per annum with effect from August 2016 rising to £110,000 per annum in August 2021 and £130,000 per annum in August 2026. The premises are understood to extend to around 5,488 sqft and the current rent, therefore, equates to around £17.31 per sq. ft.

Everyman, Kings Cross

The Applicant referred to this property in their original assessment identifying that the current rent equating to £22 per sq. ft. was agreed with effect from 2015 but was subject to 18 months' rent free and is believed to reflect the "culturally prestigious location with limited competition".

Our records indicate that the rent on the Odeon (Millennium Leisure Park) Greenwich, may equate to a rent of around £20 per sq. ft. We have been heavily involved with the iScene Development, Ilford where the rent paid by Cineworld is believed to be just under £15 per sq. ft. and have been involved in another scheme in Greenwich where a rent of £14 per sq. ft. was being proposed.

We conclude, therefore, that (pre-Covid-19) cinema rents in London have typically varied from around £14 per sq. ft. to over £20 per sq. ft. Against this background, we believe that the property may be capable of attracting a rent from a cinema operator that is higher than £15 per sq. ft. This is especially so given the cinematic history associated with Elephant & Castle and its proposed regeneration. The nearest competitors are probably a couple of small independents, Moving Pictures Cinema, in between Elephant and Caste Borough, and Shortwave, a 52 seat independent cinema and café bar in Bermondsey (approximately ½ a mile away) and then Curzon Mondrian and the BFI Imax and Southbank Cinemas, which are around one mile distant. Having said this, we believe it is reasonably likely that a cinema operator would require a reasonable rent free and/or landlord's contribution towards fitting out works which might "temper" any potential increase in rent per sq. ft. We are also mindful of the fact that the cinema sector has been one of the worst affected leisure sectors during Covid-19 and the government lockdowns and there has been a dearth of transactional evidence which makes any valuation subject to significant uncertainty.

Unfortunately, there has also been a dearth of comparable evidence relating to music venues and their use is slightly obscure –(former) D2 Assembly and Leisure did include music and dance halls but did not include nightclubs, which were sui generis, nor music venues that are predominantly drinking establishments – like public houses and wine bars – which fell under the A4 Use Class category. Our perception is that the latter are typically capable of achieving much higher rents per sq. ft. than the former. However, following the changes to the Use Classes Order from 1st September 2020, both drinking establishments (former A4) and venues for live music performance both now fall under the sui generis classification.

The Applicant's advisor is not able to offer any supporting evidence in respect of the estimated rental value of the music venue and refers back to the assumption of what was reportedly agreed as part of the initial viability assessment. However, we recall that the Applicant attached a rent of £469,720 per annum to the music venue, not £516,692 per the S73 Application. At the time, we considered this to be high, at £40 per sq. ft., on a NIA basis, albeit that, at just over £15 per sq. ft. on a GIA basis we considered it to be in line with the comparables provided and, indeed, other D2 Use available.

Nightclubs and similar types of venues have been devastated by the Covid -19 pandemic and we are aware of very little relevant evidence, over and above that which we included in our initial critique of the Financial Viability Assessment, which may be of relevance in respect of the proposed music venue. Much of that evidence is now historic. However, since that critique, we are aware that Club 701, 516 Old Kent Road, SE1 was let in January 2019 for a 10-year term. The initial rent was £78,000 per annum, before rising to £84,000 pa at the start of year 5. The space is understood to extend to 4,500 sqft GIA, and so the initial rent equates to £17.33 psf.

In conclusion, we see no justification for increasing the proposed rent on the music venue from £469,720 per annum to £516,692 per annum. Moreover, we consider the rent of £469,720 per annum to be extremely high when analysed on a Net internal Area basis albeit more in line with our expectations and some of the wider (pre Covid-19) evidence available on a Gross Internal Area basis. For the purposes of this exercise, we have retained the original proposed rent of £469,720 per annum in arriving at our opinion of value.

Given the inclusion of a health and fitness club within the S73 application, we consider it important to consider relevant health and fitness club evidence as part of this update.

We are aware of the following gym rental evidence in the local area:

Snap Fitness Elephant & Castle, 130-138 Newington Butts, SE11 – the premises were let in April 2017, and extend to 5,167 sqft of space. The premises were let for a 15-year term, with 6 months' rent-free, and 5-yearly rent reviews to open market rent. The commencing rent was £80,000 pa, equating to £15.48 psf.

Gymbox Elephant & Castle, Unit 7, 38 New Kent Road, SE1 – the property was let in April 2019 for a 25-year term that commenced in June 2017. The 1st year is at a peppercorn, the 2nd and 3rd years are on a turnover rent, whilst the 4th and 5th years are at £374,713 pa and £464,643 pa respectively. There is a rent review after year 5 and then every 5 years, which is RPI-linked, and collared and capped. The space reportedly extends to approximately 27,125 sqft, equating to £13.81 psf and rising to £17.12 per sqft in year 5.

The Gym, Waterloo, SE1 – the property was let for a 20-year term from April 2012. The rent review in April 2017 led to a passing rent of £162,953 pa. The reviews are subject to indexation and capped/collared at 3%/2%. The gym extends to 14,500 sqft, and so this rent equates to £11.24 per sqft psf.

PureGym, Waterloo, SE1 – the latest rent review in March 2017 has triggered a rent of £436,231 pa. The rent is arrived at via compounded 3% rent review increases which have likely left the property over-rented. The space extends to 18,343 sqft, equating to £23.77 psf.

The Applicant's adviser has included the proposed health and fitness club with the proposed cinema on the basis that they are both (former) D2 at a rent of £20 per sqft on a NIA basis which equates to £16.05 per sqft on a GIA basis or £14.56 per sqft on a GIA basis if all the plant and ancillary are taken into account. Notwithstanding the reasonably strong supply of existing health and fitness clubs both within Elephant & Castle and nearby Waterloo, which may make these rents difficult to achieve, we consider that they are broadly in line with the pre Covid-19 evidence available.

Rent Free

We note that the Applicant's adviser has included an assumed rent free of 6 months for the purposes of their assessment but acknowledge that a greater rent free might be appropriate given the fallout from Covid-19. We also consider it likely that a greater rent free may be required against current market conditions and highlight that it is not uncommon for Cinema operators, in particular, to also require reasonably sized Landlord's contributions towards their fit out.

Investment

We set out below a comparison of the Applicant's adviser's valuation of the leisure content of Consented Scheme and the Scheme being proposed by the S73 Application.

Consented Scheme

Leisure

Market Rent	£483,500 per annum
Yp in perp 5.5%	18.18
6 month's rent free	0.9736
Gross Development Value	£ 8,558,695

Music Venue

Market Rent	£516,692 per annum
Yp in perp 6.25%	16.00

6 month's rent free	0.971
Gross Development Value	£ 8,020,238

S73 Application Scheme

Leisure

Market Rent	£518,160 per annum
Yp in perp 5.5%	18.18
6 months' rent free	0.9736
Gross Development Value	£ 9,172,231

Music Venue

Market Rent	£516,692 per annum
Yp in perp 6.25%	16.00
6 month's rent free	0.971
Gross Development Value	£ 8,020,238

In the initial FVA, the Applicant's adviser applied a Net Initial Yield of 5% to their opinion of Market Rent, subject to six month's rent free. For the purposes of this update, The Applicant's adviser has increased the yield by 0.5% to 5.5% and highlights a couple of yields at 5.5% and 5.75% from 2018. The Applicant's adviser also points to CBRE's UK Investment Yield Market Watch (March 2021) which showed yields of prime leisure assets increasing from 4.5% in March 2020 to 5.25% in March 2021. We are aware of several reasonably strongly covenanted investment sales of similar sized health and fitness clubs in central London where the yields have ranged from around 5% to just under 7%. Unfortunately, we are not aware of any post Covid-19 evidence relating to cinemas although we would have expected a strongly covenanted central London cinema to have been able to achieve a yield of 5.5% and below before Covid-19 as we highlighted in our initial FVA critique.

Similarly, we are not aware of any post Covid-19 yield evidence in respect of music venues. We note that the Applicant's adviser has adopted a yield of 6.25% in arriving at their opinion of the Gross Development Value of the music venue. We consider it likely that this element will attract a higher yield than the other leisure element given the greater likelihood of weaker covenant and given the fact that its market will be less readily identifiable.

We note that the Applicant's adviser's figures show that the Gross Development Value will increase by around £613,536, following the introduction of the health club and the slight increase in the overall size of the leisure content.

Conclusions

We have reviewed the Applicant's Adviser's approach to the leisure content of the proposed development. Under the Consented Scheme, the proposed leisure content involved a proposed new cinema and a proposed music venue. Although both the cinema and the music venue are being retained under the S73 Application, the cinema is being significantly reduced in size and the Applicant has introduced a proposed health and fitness club. Overall, the leisure content is being increased by 4,424 sqft GIA and we would expect this to result in an increase in the Gross Development Value, when comparing the two schemes and which has been provided for by the Applicant's adviser.

On the face of it, the Applicant's estimated rental value in respect of the music venue looks much too high but this is largely because the NIA of the venue is a much lower percentage of the GIA than might normally be expected to be the case. Indeed, when the rent is analysed on a GIA basis, it is more in line with our expectations albeit that there has been a lack of transactional activity in this sector and, indeed, the cinema sector, post Covid-19 which increases the valuation uncertainty surrounding any appraisal.

We also note that the Applicant's adviser has increased the rental value of the proposed music venue, from £469,720 per annum under Consented Scheme to £516,692 per annum under the S73 application. We considered the estimated Market Rent for the music venue under the Consented Scheme to have been 'full' and consider it unlikely that the rental value would have since improved, particularly given the strong negative impact that Covid-19 has had on this type of property. However, there has been no change in the size of the music venue and we see no difference between the Market Value of the music venue, under the Consented Scheme, and the Market Value of the music venue under the S73 Application even if the Market Values in the S73 Application may have been overstated by the Applicant's adviser.

As we have highlighted, the difference between the two schemes from a leisure perspective revolves around reducing the size of the cinema and introducing a health and fitness club, with a small increase in the overall area allocated to leisure. Notwithstanding the lack of cinema evidence, in particular, we consider that multiscreen cinema and health and fitness club rents have been broadly in line with one another on a rate per sqft basis historically and we do not see significant additional value being created by the introduction of the proposed health and fitness club, particularly given the existing local competition and the rents that are being paid locally. However, we consider that the overall slight increase in the size being allocated to leisure needs to be reflected and the yields will be covenant led. We consider this to have been reasonably captured by the valuations put forward by the Applicant's Adviser, even if the valuations themselves may be optimistic in the current market and given our comments set out above.

Additional Revenue

The scheme includes several payments from external parties. This include advertising revenue, credit from TFL for the station improvements and a payment from the London College of Communication. The payments are as follows;

Source	Value
Commercialisation	£25,000,000

LUL TFL Credit	£25,000,000
LCC Contribution	£190,000,000
Grant Funding East	£9,585,000
Grant Funding West	£9,280,000

Within the appraisal the grant funding and TFL contribution have been combined as 'additional revenue'.

GDV Conclusions

We summarise the Gross Development Value inputs we have adopted compared to the applicant below:

Input	Applicant	Avison Young
Average Private Residential Rents	£47.50 per Sq. Ft	£47.50 per Sq. Ft
Discount Market Rent	80% of MRV capped at incomes of £90k	80% of MRV capped at incomes of £90k
London Living Rents	East Site – North Walworth 2021/22 rates West Site – St. Georges 2021/22 rates	East Site – North Walworth 2021/22 rates West Site – St. Georges 2021/22 rates
Social Rents	£271 per Sq. Ft	£271 per Sq. Ft
Operational Expenditure	23%	23%
BTR Investment Yield	3.25% - PRS 3.00% - Affordable	3.25% - PRS 3.25% - Affordable
Office Rents	£50 per Sq. Ft	£50 per Sq. Ft
Affordable Office	75% of Market Rent	75% of Market Rent
Office Yield	5.00%	5.00%
Leisure Rents	£20.00 per Sq. Ft	£20.00 per Sq. Ft
Leisure Yield	5.50%	5.50%
Retail Rents	£44 per Sq. Ft	£44 per Sq. Ft
Affordable Retail	Stepped as per S.106	Stepped as per S.106
Retail Yield	6.25%	6.25%
Music Venue	£44.00 per Sq. Ft	£40.00 per Sq. Ft
Commercialisation	£25,000,000	£25,000,000
LUL TFL Credit	£25,000,000	£25,000,000
LCC Contribution	£190,000,000	£190,000,000
Total Grant	£18,865,000	£18,865,000

Costs

We now consider the costs of delivering the proposed scheme.

Construction Costs

DS2 has provided us with a cost plan prepared by Gardiner & Theobald. The cost plan outlines a total cost for the building works, excluding inflation and contingency, of £704,418,721 which equates to a rate of £333 per Sq. Ft on the scheme GIA.

Our QS has reviewed the cost plan and his is of the view that a cost figure of £698,739,763 is reasonable. A breakdown of our QS's analysis can be found at appendix 1.

Contingency

The appraisal includes a design contingency of 2.50% and a construction contingency of 5.00%. This is in line with the rates previously agreed.

Professional Fees

Professional fees have been included at 12.00% which is in line with the original FVA.

Developers Return

In this case the developers return was previously examined on an IRR basis with the agreed target rate of 11% at the time of the original consent. We have maintained this assumption but have undertaken a sensitivity on the target rate of return as we are of the view that, based on current market sentiment, there could be movement in this figure given the scheme is consented and the greater interest in Build to Rent. That said, the rate adopted is not financially significant to the outturn in this case as the same rate would be applied to both the consented and extant scheme. Furthermore, there is no evidence of outturn IRR's for schemes of this scale over a 10 year period. Most BTR schemes will not have a programme akin to this scheme.

Other Development Costs

These cost items have been advised by the applicant and are as follows;

Cost	Value	Comment
'Other Development Costs'	£15,158,000	
West Site – Other Development Costs	£1,000,000	
East Site – Other Development Costs	£700,000	
East Site – Utilities Connections	£2,700,000	
Land Costs	£4,000,000	
NwR Arches Refurb	£700,000	

These costs have been included in the appraisals. Whilst further investigation into these costs could be undertaken we note that they are included in both the proposed S.73 scheme and the existing consent. As such any changes would impact the benchmark scheme as well as the proposed scheme, effectively a neutral outcome.

Marketing and Disposal Costs

In addition to the above our cost assumptions for fees are as follows;

- Build to Rent marketing cost at 1% of GDV
- Investment sales agent fees at 1.00% of GDV;
- Investment legal agent fees at 0.50% of GDV;
- Commercial letting agent fees at 10.00% of GDV;
- Commercial letting legal fees at 5.00% of GDV;
- Commercial marketing costs - £2 per Sq. Ft on commercial NIA.

Whilst the BTR marketing costs appear high at face value it is consistent in both appraisals and we note that there are currently no allowances for on-boarding which we assume would come out of these allowances.

In line with statutory requirements and market convention we have deducted the following costs from the gross RLV:

- Stamp duty at the prevailing rate;
- Agent fees at 1.00%; and
- Legal fees at 0.50%

Mayoral and Borough CIL

DS2 has provided us with the estimated obligations for both Borough and Mayoral CIL. They are as follows;

Obligation	Value
East Site – S106 Contribution	£3,642,732
East Site – Borough CIL	£7,353,493
East Site – Mayoral CIL	£2,976,153
East Site Total	**£13,972,378**
West Site – S106 Contribution	£1,667,550
West Site – Borough CIL	£4,429,631
West Site – Mayoral CIL	£1,330,715
West Site Total	**£7,427,896**

Development Programme

The table below demonstrates the development timescales;

Building	Phase/Block	Start Month	Duration	End Month
	Pre Construction/Lead In	1	9	9
East	Demolition	10	13	22
	Substructure / Basement	22	28	49
	LUL Box	22	34	55
	Building E1 L1 PT Slab	31	1	31
	Building E1	31	33	63

	Building E4	53	14	66
	Building E3	38	29	66
	Building E2	34	14	69
	Building E5	62	7	68
	External Works	62	8	69
	Building E2 Phase 2	119	9	127
West	Vacant Possession	78	1	78
	Demolition	78	31	109
	Basement	95	15	109
	North West Tower (W1)	106	19	124
	West Block (W3)	106	11	116
	North East & South Tower (W2)	106	23	128

Development Cost Conclusions

Our cost elements are summarised in the table below;

Cost Component	DS2 Input	AY
Construction	£704,418,721	£698,739,763
Professional Fees	12%	12%
Contingency	7.5%	7.5%
Mayoral CIL – East	£2,976,153	£2,976,153
Mayoral CIL – West	£1,330,715	£1,330,715
Borough CIL – East	£7,353,493	£7,353,493
Borough CIL - West	£4,429,631	£4,429,631
S106 Costs – East	£2,976,153	£2,976,153
S106 Costs - West	£1,667,550	£1,667,550
'Other Development Costs'	£15,158,000	£15,158,000
West Site – Other Development Costs	£1,000,000	£1,000,000
East Site – Other Development Costs	£700,000	£700,000
East Site – Utilities Connections	£2,700,000	£2,700,000
Land Acquisition	£4,000,000	£4,000,000
NwR Arches Refurb	£700,000	£700,000
Purchasers Costs	6.80%	6.80%
Build to Rent marketing cost	1% of GDV	1% of GDV
Investment sales agent fees	1.00% of GDV;	1.00% of GDV;
Investment legal agent fees	0.50% of GDV;	0.50% of GDV;
Commercial letting agent fees	10% of Annual Rent	10% of Annual Rent
Commercial letting legal fees	5.00% of Annual Rent	5.00% of Annual Rent

Commercial marketing costs	£2 per Sq. Ft (NIA)	£2 per Sq. Ft (NIA)
Developers Target Return	11% IRR	11% IRR but tested at lower rates in sensitivity analysis

8. Benchmark Land Value

The updated Viability PPG (September 2019) along with the Mayoral SPG (August 2017) which we have summarised above, outline the key principles in development viability including with regards to the Benchmark Land Value (BLV).

Both the Viability PPG and Mayoral SPG are clear that the preferred method of calculating a BLV should be the Existing Use Value of the site with an allowance for a landowner's premium. In circumstances where an AUV is used they must comply with up to date plan policies and it should be demonstrated that there is likely to be demand for the AUV scheme. Given the existing buildings are currently being demolished in order to facilitate the construction of the consented scheme we are of the view that the exiting use value of the East site is nominal.

DS2 have valued the existing consent and applied the residual as the benchmark land value. This would form a suitable AUV, if the Viability PPG AUV requirement outlined in paragraph 17 are met. The text states that;

"Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued." (Paragraph: 017 Reference ID: 10-017-20190509).

The paragraph above outlines four key AUV tests. These are that the proposed AUV would be acceptable if it;

i. would comply with up to date development plan policies
ii. can be demonstrated that the alternative use could be implemented on the site in question
iii. can be demonstrated there is market demand for that use
iv. can be explained why this alternative use has not been pursued.

In this case the AUV scheme is an existing planning consent that is in the process of being implemented. It is similar to the proposed S.73 scheme and there is undoubtably demand for the various uses outlined.

The main changes between the S.73 scheme and the consented scheme are as follows;

- Office accommodation within Building E2;
- Reduction in cinema area
- Provision of additional leisure area at basement level
- Reduction in retail area on the East Site
- Increase in retail area on the West Site;
- 4 additional residential units
- Reconfiguration of residential unit mix

- Provision of additional UAL floorspace;

The consented and S.73 schemes are perhaps best compared by referring to the area schedules on page 16 of the DS2 report which we have included in section 5 of this report.

The table below summarises the GDV inputs that we have applied to the consented scheme;

Input	Avison Young Assumption	Comments
Average Private Residential Rents	£47.50 per Sq. Ft	As per proposed
Discount Market Rent	80% of MRV capped at £90k	As per proposed
London Living Rents	East Site – North Walworth 2021/22 rates West Site – St. Georges 2021/22 rates	As per proposed
Social Rents	£271 per Sq. Ft	As per proposed
Operational Expenditure	23%	As per proposed
BTR Investment Yield	3.25% - PRS 3.25% - Affordable	As per proposed
Office Rents	£50 per Sq. Ft	As per proposed
Affordable Office	75% of Market Rent	As per proposed
Office Yield	5.00%	As per proposed
Leisure Rents	£20.00 per Sq. Ft	As per proposed
Leisure Yield	5.50%	As per proposed
Retail Rents	£44 per Sq. Ft	As per proposed
Affordable Retail	Stepped as per S.106	As per proposed
Retail Yield	6.25%	As per proposed
Music Venue	£40.00 per Sq. Ft	As per proposed
Commercialisation	£25,000,000	As per proposed
LUL TFL Credit	£17,500,000	Lower in Consented – S76 includes improved station configuration
LAC Contribution	£190,000,000	As per proposed
Total Grant Funding	£18,480,000	Lower than proposed due to fewer affordable units

Development Costs

For the consented scheme we have applied the following costs;

Cost Component	Avison Young Assumption	Comments
Construction	£698,739,763	See appendix 1
Professional Fees	12%	As per proposed
Contingency	7.5%	As per proposed
Mayoral CIL – East	£2,613,485	Revised

Mayoral CIL – West	£1,280,280	Revised
Borough CIL – East	£7,351,665	Revised
Borough CIL - West	£4,261,744	Revised
S106 Costs – East	£2,774,446	Revised
S106 Costs - West	£1,636,554	Revised
'Other Development Costs'	£15,158,000	As per proposed
West Site – Other Development Costs	£1,000,000	As per proposed
East Site – Other Development Costs	£700,000	As per proposed
East Site – Utilities Connections	£2,700,000	As per proposed
Land Acquisition	£4,000,000	As per proposed
NwR Arches Refurb	£700,000	As per proposed
Purchasers Costs	6.80%	As per proposed
Build to Rent marketing cost	1% of GDV	As per proposed
Investment sales agent fees	1.00% of GDV;	As per proposed
Investment legal agent fees	0.50% of GDV;	As per proposed
Commercial letting agent fees	10% of Annual Rent	As per proposed
Commercial letting legal fees	5.00% of Annual Rent	As per proposed
Commercial marketing costs	£2 per Sq. Ft (NIA)	As per proposed
Developers Target Return	11% IRR	As per proposed

Appraisal Results

Our consented scheme appraisal, based on the assumptions listed above, generates a residual land value of £56,092,189 which we have rounded to say £56.1 million. We attach our appraisal at appendix 2.

9. Conclusions

Testing Policy Compliance

The applicants proposals are in compliance with Southwark Policy P4 for the additional housing provision in excess of the extant consent. The policy requires 15% of all units to be available at social rent equivalent and 20% of all unit to be available at London Living Rent Levels. We have been advised that only the uplift in habitable rooms over the existing consent are subject to the emerging policy requirements. There is an uplift of 77 habitable rooms in the S.73 and therefore the requirement would equate to 12 habitable rooms as social rent and 15 habitable rooms at London Living Rent. We have therefore assumed that 3 of the additional units will be social rented and 4 of the additional units will be provided as LLR. This mix ensures that there is no gain in DMR units. We have calculated a blended rate to apply to the units in the east site as it is the east site that has seen the uplift in unit count.

The results are as follows;

Approach	Benchmark Land Value	% Affordable Housing	Residual Land Value	Surplus/ (Deficit)
Policy Target Provision	£56,100,000	35%	£51,135,677	(£4,964,323)

We attach our appraisal at appendix 3.

Sensitivity Analysis

We have undertaken a sensitivity in order to test the impact of adjusting the target IRR, the results are as follows;

Target IRR (Percentage Change In IRR)	Base Position	10.00% (-1.00%)	9.00% (-2.00%)	8.00% (-3.00%)	7.00% (-4.00%)
Existing Scheme (BLV)	£56,092,189	£64,822,749	£74,407,787	£84,940,791	£96,525,053
Section 73 Scheme	£51,135,677	£59,955,747	£69,638,843	£80,277,671	£91,976,995
Surplus / (Deficit)	-£4,956,512	-£4,867,002	-£4,768,944	-£4,663,120	-£4,548,058

In our view there could be some adjustment in the target rate of return, however the above table demonstrates that lowering the target return would not have an impact on our conclusions.

Land Evidence

Best practice dictates that our residual land value conclusions should be checked with land evidence to ensure that the results are commercially consistent with assumptions made by land buyers. However, this large regeneration project includes a wide number of uses and special circumstances which means it will be extremely difficult to find useful/relevant comparable evidence. Accordingly, in this instance we have not looked for land evidence to compare our residual land value results to, as we are comparing two appraisals of virtually identical schemes with minor differences between them. Accordingly, the land value cross check is less important as any changes to inputs in one will result in the same changes being required in the other. This will effectively result in the same differences between the two appraisals.

Additionally, the proposed and consented schemes provide 35% affordable housing. The quantum is policy compliant albeit the mix is not. Land evidence is typically helpful where schemes do not provide the policy levels of affordable housing. Land evidence is difficult to interpret when the issue revolves around tenure mix, especially in a scheme of this nature where 25% provision has been made.

10. General Comments

We confirm that we meet the requirements as to competence and the definitions of an External Valuer within the RICS Valuation – Global Standards effective from 31 January 2020.

The Valuation Report has been prepared by Juliet Farrow MRICS and Edward Higham MRICS, both RICS Registered Valuer within the Valuation Consultancy Department.

The valuation has been discussed with and approved by Jacob Kut MRICS, an RICS Registered Valuer and Principal / Senior Director in the same department.

Appendix 1

QS Build Cost Review

Elephant and Castle Town Centre
London Borough of Southwalk
Viability Cost Assessment (S73 Application)

AVISON YOUNG

17 May 2021

Summary - Adjusted S73 Proposed Schemes (Appendices 13 & 14 of DS2 FVA)

GIA (m²)	193,746 m²
GIA (ft²)	2,085,482 ft²

Ref	Element	G&T S73 Cost plan issue date 24/03/21 WEST	G&T S73 Cost plan dated March 2021 EAST	TOTAL G&T EAST & WEST COMBINED	AY S73 Assessment 17/05/21 incorporating previous adjustments to Consented Scheme WEST	AY S73 Assessment 17/05/21 incorporating previous adjustments to Consented Scheme EAST	TOTAL AY EAST & WEST COMBINED	AY Combined £/m²	AY Combined £/ft²	Combined Variance East & West	Combined Variance £/m²	Combined Variance £/ft²	Comments
1.0	Demolition & Enabling Works	7,000,000	16,930,882	**23,930,882**	7,000,000	16,930,882	**23,930,882**	124	11	0	0	0	Additional £2m for asbestos removal to West based upon experience from East Site
2.0	Basement	28,856,000	89,898,890	**118,754,890**	28,630,523	89,810,380	**118,440,903**	611	57	(313,987)	(2)	(0.2)	
3.0	Block W3 (Mansion Block) / Block E1	38,779,000	83,247,861	**122,026,861**	38,558,395	81,679,065	**120,237,460**	621	58	(1,789,401)	(9)	(0.9)	Adjustment for removal of Cat A Office Fit Out to West W3 Block.
4.0	Block W2 (E) / Block E2	117,132,000	102,449,421	**219,581,421**	116,076,820	99,832,289	**215,909,109**	1,114	104	(3,672,312)	(19)	(1.8)	
5.0	Block W1 (NW) / Block E3	35,469,000	104,364,104	**139,833,104**	35,049,241	101,776,821	**136,826,063**	706	66	(3,007,041)	(16)	(1.4)	
6.0	Kiosk / Block E4	105,000	6,715,447	**6,820,447**	105,000	6,513,523	**6,618,523**	34	3	(201,924)	(1)	(0.1)	
7.0	Block E5		150,000	**150,000**		150,000	**150,000**	1	0	0	0	0	
8.0	External Works Incl. Services	3,211,000	0	**3,211,000**	3,211,000	0	**3,211,000**	17	2	0	0	0	East External Works now included within Shared Works below
9.0	Miscellaneous (Utilities, Sewer Connections, PV Installation) / Shared Works	5,300,000	15,114,727	**20,414,727**	5,300,000	15,114,727	**20,414,727**	105	10	0	0	0	
	Total Construction Cost 2Q 2021 (Excl. VAT & Fees)	**£ 235,852,000**	**£ 418,871,332**	**£ 654,723,332**	**£ 233,930,979**	**£ 411,807,687**	**£ 645,738,666**	**3,333**	**310**	**(£8,984,666)**	**(£46)**	**(4.3)**	
10.0	Project Risk / Contingency (Design & Construction) - 7.5%	17,689,000	31,232,000	48,921,000	17,544,823	29,615,760	47,160,584	243	23	(1,760,416)	(9)	(0.8)	AY East 7.5% on all packages excluding Demolition & Enabling Works.
11.0	Balance		668	668	197	553	750	0	0	82	0	0	
	Total Project Cost 2Q 2021 (Excl. VAT & Fees)	**£ 253,541,000**	**£ 450,104,000**	**£ 703,645,000**	**£ 251,476,000**	**£ 441,424,000**	**£ 692,900,000**	**£ 3,576**	**£ 332**	**(£10,745,000)**	**(£55)**	**(5.2)**	
12.0	Inflation to Present Day	5,887,717	0	5,887,717	5,839,763	0	5,839,763	30	3	(47,954)	(0)	(0.0)	
	Total (including rebasing of Consented Scheme to current day) Excl. VAT & Fees	**£ 259,428,717**	**£ 450,104,000**	**£ 709,532,717**	**£ 257,315,763**	**£ 441,424,000**	**£ 698,739,763**	**£ 3,606**	**£ 335**	**(£10,792,954)**	**(£56)**	**(5.2)**	

Elephant and Castle Town Centre
London Borough of Southwalk
Viability Cost Assessment (S73 Application)

AVISON YOUNG

17 May 2021

Summary - Adjusted S73 Proposed Schemes (Appendices 13 & 14 of DS2 FVA)

GIA (m²)	**193,746** m²
GIA (ft²)	**2,085,482** ft²

Ref	Element	G&T S73 Cost plan issue date 24/03/21 WEST	G&T S73 Cost plan dated March 2021 EAST	TOTAL G&T EAST & WEST COMBINED	AY S73 Assessment 17/05/21 incorporating previous adjustments to Consented Scheme WEST	AY S73 Assessment 17/05/21 incorporating previous adjustments to Consented Scheme EAST	TOTAL AY EAST & WEST COMBINED	AY Combined £/m²	AY Combined £/ft²	Combined Variance East & West	Combined Variance £/m²	Combined Variance £/ft²	Comments
13.0	Unapproved Changes		7,441,153	7,441,153		7,441,153	7,441,153	38	4	0	0	0	
14.0	Value Engineering (Accepted only)		(742,943)	(742,943)		(742,943)	(742,943)	(4)	(0)	0	0	0	
15.0	Anticipated effect of tendering process		(15,522,428)	(15,522,428)		(15,522,428)	(15,522,428)	(80)	(7)	0	0	0	
16.0	Balance		218	218	237	218	455	0	0	237	0	0	
	Total Project Cost 2Q 2021 incl. approved changes & VE (Excl. VAT & Fees)	**£ 259,428,717**	**£ 441,280,000**	**£ 700,708,717**	**£ 257,316,000**	**£ 432,600,000**	**£ 689,916,000**	**£ 3,561**	**£ 331**	**(£10,792,717)**	**(£56)**	**(5.2)**	
17.0	Block E2 - Day 2 Cost		£ 3,691,000	3,691,000		£ 3,472,354	3,472,354	18	2	(218,646)	(1)	(0.1)	Day 2 Preliminaries reduced to 18% and OH&P to 5% more in line with Day 1 costs with allowance for changed working conditions requiring increased Preliminaries.
18.0	Balance		£ 19,000	19,000		£ 646	646	0	0	(18,354)	(0)	(0.0)	
	Total Estimated Project Cost incl. Block E2 Day 2 costs (Excl. VAT & Fees)	**£ 259,428,717**	**£ 444,990,000**	**£ 704,418,717**	**£ 257,316,000**	**£ 436,073,000**	**£ 693,389,000**	**£ 3,579**	**£ 332**	**(£11,029,717)**	**(£57)**	**(5.3)**	

Elephant and Castle Town Centre
London Borough of Southwalk
Viability Cost Assessment (S73 Application)

AVISON YOUNG

17 May 2021

Summary - Adjusted Consented Schemes (Appendices 19 & 20 of DS2 FVA)

GIA (m^2)	**184,351**	m^2
GIA (ft^2)	**1,984,354**	ft^2

Ref	Element	G&T Consented Cost plan issue date 25/03/21 WEST	G&T Consented Cost plan issue date 24/03/21 EAST	TOTAL G&T EAST & WEST COMBINED	AY Assessment 17/05/21 incorporating previous adjustments to Consented Scheme WEST	AY Assessment 17/05/21 incorporating previous adjustments to Consented Scheme EAST	TOTAL AY EAST & WEST COMBINED	AY Combined £/m²	AY Combined £/ft²	Combined Variance East & West	Combined Variance £/m²	Combined Variance £/ft²	Comments
1.0	Demolition & Enabling Works	7,000,000	16,022,899	**23,022,899**	7,000,000	16,022,899	**23,022,899**	125	12	0	0	0	
2.0	Basement	28,856,000	73,173,092	**102,029,092**	28,630,523	73,084,582	**101,715,105**	552	51	(313,987)	(2)	(0.2)	
3.0	Block W3 (Mansion Block) / Block E1 (N)	40,021,000	77,266,344	**117,287,344**	39,800,395	75,697,548	**115,497,943**	627	58	(1,789,401)	(10)	(0.9)	
4.0	Block W2 (E) / E4 (E)	117,132,000	6,023,166	**123,155,166**	116,076,820	5,821,242	**121,898,062**	661	61	(1,257,104)	(7)	(0.6)	
5.0	Block W1 (NW) / Block E3 (S)	35,469,000	101,447,658	**136,916,658**	35,049,241	98,860,375	**133,909,616**	726	67	(3,007,041)	(16)	(1.5)	
6.0	Kiosk / Block E2 (W)	105,000	91,779,595	**91,884,595**	105,000	89,162,463	**89,267,463**	484	45	(2,617,132)	(14)	(1.3)	
7.0	External Works Incl. Services	3,211,000	2,826,321	**6,037,321**	3,211,000	2,826,321	**6,037,321**	33	3	0	0	0	
8.0	Miscellaneous (Utilities / Sewer Connections / PV Installation)	5,300,000	9,010,000	**14,310,000**	5,300,000	9,010,000	**14,310,000**	78	7	0	0	0	
	Total Construction Cost 2Q 2021 (Excl. VAT & Fees)	**£ 237,094,000**	**£ 377,549,075**	**£ 614,643,075**	**£ 235,172,979**	**£ 370,485,430**	**£ 605,658,410**	**3,285**	**305**	**(£8,984,666)**	**(£49)**	**(4.5)**	
9.0	Project Risk / Contingency (Design & Construction) - 7.5%	17,782,000	27,114,000	44,896,000	17,637,923	26,584,227	44,222,150	240	22	(673,850)	(4)	(0.3)	
	Total Project Cost 2Q 2021 (Excl. VAT & Fees)	**£ 254,876,000**	**£ 404,663,075**	**£ 659,539,075**	**£ 252,810,903**	**£ 397,069,657**	**£ 649,880,560**	**£ 3,525**	**£ 328**	**(£9,658,515)**	**(£52)**	**(4.9)**	
10.0	Inflation to Present Day	5,918,722	838,870	6,757,592	5,870,768	826,579	6,697,346	36	3	(60,246)	(0)	(0.0)	
11.0	Balance			0	330	764	1,094	0	0	1,094	0	0	
	Total (including rebasing of Consented Scheme to current day) Excl. VAT & Fees	**£ 260,794,722**	**£ 405,501,946**	**£ 666,296,668**	**£ 258,682,000**	**£ 397,897,000**	**£ 656,579,000**	**£ 3,562**	**£ 331**	**(£9,717,668)**	**(£53)**	**(4.9)**	

Appendix 2

Consented Scheme Appraisal

Elephant & Castle Town Centre
Consented Scheme

Development Appraisal
Avison Young
08 June 2021

Elephant & Castle Town Centre
Consented Scheme

Summary Appraisal for Merged Phases 1 2 3 4 5 6

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
West - Car parking	34	0	0.00	60,000	2,040,000
West - Building W3 (Social Rent)	116	98,392	271.00	229,864	26,664,232
Additional Revenue	1	352,432	539.11	190,000,000	190,000,000
Totals	**151**	**450,824**			**218,704,232**

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**	**Net MRV at Sale**
West - W1 Tower 1 (Open Market)	81	62,754	47.50	36,800	2,295,228	2,980,815	2,295,228
West - W2 Tower 2 (Open Market)	99	75,304	47.50	36,131	2,754,244	3,576,940	2,754,244
West - W3 - Mansion Block (Office)	1	23,822	50.00	1,191,100	1,191,100	1,191,100	1,191,100
West - W1 (Retail)	1	2,424	44.00	106,656	106,656	106,656	106,656
West - W2 (Retail)	1	5,985	44.00	263,340	263,340	263,340	263,340
West - W2 Tower (Music Venue)	1	11,743	40.00	469,720	469,720	469,720	469,720
West - W2 Tower 3 (Open Market)	153	119,616	47.50	37,136	4,374,955	5,681,760	4,374,955
West - Commercialisation	1			500,000	500,000	500,000	500,000
West - W3 - Affordable Office Space	1	2,647	50.00	132,350	55,587	132,350	132,350
West - W1 Affordable Retail Space	1	934	44.00	41,096	0	41,096	41,096
West - W1 Tower 1 (Intermediate)	15	11,315	29.28	22,087	255,103	331,303	255,103
West - W2 Tower 2 (Intermediate)	17	13,435	29.28	23,140	302,900	393,377	302,900
West - W2 Tower 3 (Intermediate)	17	13,092	29.28	22,549	295,167	383,334	295,167
East - E1 (Retail)	1	14,328	44.00	630,432	630,432	630,432	630,432
East - E1 Affordable Retail space	1	6,694	44.00	294,536	0	294,536	294,536
East - E4 (Retail)	1	14,865	44.00	654,060	654,060	654,060	654,060
East - E3 (Retail)	1	46,952	44.00	2,065,888	2,065,888	2,065,888	2,065,888
East - E3 (Open Market) - Tower 3	90	63,115	47.50	33,311	2,308,431	2,997,963	2,308,431
East - E3 (Open Market) - Tower 2	65	47,497	47.50	34,709	1,737,203	2,256,108	1,737,203

WITHOUT PREJUDICE

Elephant & Castle Town Centre
Consented Scheme

East - E3 - Tower 3 (Intermediate Market)	56	43,591	29.75	23,158	998,561	1,296,832	998,561
East - E3 - Tower 2 (Intermediate Market)	60	42,535	29.75	21,090	974,371	1,265,416	974,371
East - E2 (Open Market) - Tower 1	161	129,332	47.50	38,157	4,730,318	6,143,270	4,730,318
East - E2 (Retail)	1	51,042	44.00	2,245,848	2,245,848	2,245,848	2,245,848
East - E2 (Leisure)	1	24,175	20.00	483,500	483,500	483,500	483,500
East - Commercialisation	1			1,000,000	1,000,000	1,000,000	1,000,000
East - E2 (Intermediate) - Tower 1	49	37,213	29.75	22,594	852,457	1,107,087	852,457
Totals	**877**	**864,410**			**31,545,068**	**38,492,730**	**31,957,463**

Investment Valuation

West - W1 Tower 1 (Open Market)					
Current Rent	2,295,228	YP @	3.2500%	30.7692	70,622,386
West - W2 Tower 2 (Open Market)					
Current Rent	2,754,244	YP @	3.2500%	30.7692	84,745,963
West - W3 - Mansion Block (Office)					
Market Rent	1,191,100	YP @	5.0000%	20.0000	
(6mths Rent Free)		PV 6mths @	5.0000%	0.9759	23,247,892
West - W1 (Retail)					
Market Rent	106,656	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	1,655,544
West - W2 (Retail)					
Market Rent	263,340	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	4,087,637
West - W2 Tower (Music Venue)					
Market Rent	469,720	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	7,291,125
West - W2 Tower 3 (Open Market)					
Current Rent	4,374,955	YP @	3.2500%	30.7692	134,614,006
West - Commercialisation					
Current Rent	500,000	YP @	6.0000%	16.6667	8,333,333
West - W3 - Affordable Office Space					
Manual Value					2,138,362
West - W1 Affordable Retail Space					

Elephant & Castle Town Centre
Consented Scheme

Manual Value					483,318
West - W1 Tower 1 (Intermediate)					
Current Rent	255,103	YP @	3.2500%	30.7692	7,849,337
West - W2 Tower 2 (Intermediate)					
Current Rent	302,900	YP @	3.2500%	30.7692	9,320,004
West - W2 Tower 3 (Intermediate)					
Current Rent	295,167	YP @	3.2500%	30.7692	9,082,061
East - E1 (Retail)					
Market Rent	630,432	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	9,785,742
East - E1 Affordable Retail space					
Manual Value					3,463,956
East - E4 (Retail)					
Market Rent	654,060	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	10,152,502
East - E3 (Retail)					
Market Rent	2,065,888	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	32,067,292
East - E3 (Open Market) - Tower 3					
Current Rent	2,308,431	YP @	3.2500%	30.7692	71,028,650
East - E3 (Open Market) - Tower 2					
Current Rent	1,737,203	YP @	3.2500%	30.7692	53,452,393
East - E3 - Tower 3 (Intermediate Market)					
Current Rent	998,561	YP @	3.2500%	30.7692	30,724,949
East - E3 - Tower 2 (Intermediate Market)					
Current Rent	974,371	YP @	3.2500%	30.7692	29,980,631
East - E2 (Open Market) - Tower 1					
Current Rent	4,730,318	YP @	3.2500%	30.7692	145,548,243
East - E2 (Retail)					
Market Rent	2,245,848	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	34,860,681
East - E2 (Leisure)					
Market Rent	483,500	YP @	5.5000%	18.1818	

WITHOUT PREJUDICE

Elephant & Castle Town Centre
Consented Scheme

(6mths Rent Free)		PV 6mths @	5.5000%	0.9736	8,558,695
East - Commercialisation					
Current Rent	1,000,000	YP @	6.0000%	16.6667	16,666,667
East - E2 (Intermediate) - Tower 1					
Current Rent	852,457	YP @	3.2500%	30.7692	26,229,440
					835,990,812
GROSS DEVELOPMENT VALUE				**1,054,695,044**	
Purchaser's Costs		6.80%	(24,716,026)		
Purchaser's Costs		6.80%	(900,979)		
Purchaser's Costs		6.80%	(690,370)		
Purchaser's Costs		6.80%	(14,773,266)		
Purchaser's Costs		6.80%	(15,766,733)		
Effective Purchaser's Costs Rate		6.80%		(56,847,375)	
NET DEVELOPMENT VALUE				**997,847,669**	
Additional Revenue				35,980,000	
NET REALISATION				**1,033,827,669**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			56,092,189		
				56,092,189	
Stamp Duty		5.00%	2,804,609		
Agent Fee		1.30%	729,198		
Legal Fee		0.50%	280,461		
				3,814,269	
Other Acquisition					

Elephant & Castle Town Centre
Consented Scheme

Other Development Costs			15,158,000	
				15,158,000

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost
West - Block W3 (Mansion Block) - Residential	1 un	37,380,676	37,380,676
West - Block W2 - Residential	1 un	119,488,972	119,488,972
West - Block W1 - Residential	1 un	37,813,780	37,813,780
West - Demolition & Enabling	1 un	7,699,744	7,699,744
West - Kiosk*	1 un	115,496	115,496
West - External Works (Incl services)	1 un	3,531,982	3,531,982
West - Utilities	1 un	4,949,835	4,949,835
West - PV Installation	1 un	274,991	274,991
West - Basement	1 un	31,492,528	31,492,528
West - Sewer Connections	1 un	604,981	604,981
West - Block W3 (Mansion Block) - Office	1 un	6,398,302	6,398,302
West - Block W2 - Retail	1 un	621,058	621,058
West - Block W2 - Music Venue	1 un	7,570,222	7,570,222
West - Block W1 - Retail	1 un	739,102	739,102
East - Basement	1 un	30,777,737	30,777,737
East - Demolition & Enabling Work	1 un	17,208,372	17,208,372
East - Sewer Connections	1 un	8,031,866	8,031,866
East - External Lighting / Power / Security	1 un	1,161,000	1,161,000
East - PV Installation	1 un	268,750	268,750
East - Relocate London Cycle*	1 un	107,500	107,500
East - Relocate TFL Bus Stop*	1 un	107,500	107,500
East - External Works	1 un	3,035,430	3,035,430
East - Basement (Retail)	1 un	34,015,028	34,015,028
East - Basement (LUL)	1 un	13,699,067	13,699,067
East - E1 (Retail)	1 un	3,489,067	3,489,067
East - E3 (S) Retail	1 un	11,432,161	11,432,161
East - E2 (W) Retail	1 un	24,714,207	24,714,207
Totals			**406,729,354**

WITHOUT PREJUDICE

Elephant & Castle Town Centre
Consented Scheme

	ft²	Build Rate ft²	Cost	
East - E1	438,747	177.34	77,809,054	
East - E4 (E) (Retail)	19,849	314.97	6,251,934	
East - E3 Residential	321,851	294.37	94,742,517	
East - E2 Residential	329,526	215.60	71,045,047	
Totals	**2,172,243**		**249,848,552**	**656,577,906**
West - CIL / MCIL			5,542,023	
West - Other Development Costs			1,000,000	
West - Est S106			1,636,554	
East - CIL / MCIL			9,965,150	
Est.S106			2,774,446	
East - Other Development Costs			700,000	
East - Utilities connections			2,700,000	
				24,318,173
PROFESSIONAL FEES				
Professional Fees		12.00%	78,789,349	
				78,789,349
MARKETING & LETTING				
West - Open Market Marketing		1.00%	3,162,338	
Commercial Marketing	205,611 ft²	2.00 /ft²	411,222	
East - Open Market Marketing		1.00%	3,569,643	
Letting Agent Fee		10.00%	857,853	
Letting Legal Fee		5.00%	428,926	
				8,429,982
DISPOSAL FEES				
Sales Agent Fee - PRS & Commercial		1.00%	7,791,434	
Sales Legal Fee		0.50%	4,039,238	
				11,830,673
MISCELLANEOUS FEES				
East - Land Acquisition			4,000,000	

WITHOUT PREJUDICE

Elephant & Castle Town Centre
Consented Scheme

NwR Arches Refurb		700,000	
			4,700,000
TOTAL COSTS			**859,710,540**
PROFIT			
			174,117,128
Performance Measures			
Profit on Cost%	20.25%		
Profit on GDV%	16.51%		
Profit on NDV%	17.45%		
IRR	11.00%		

WITHOUT PREJUDICE

Appendix 3

Proposed S.73 Scheme Appraisal

Elephant & Castle Town Centre
P4 Scheme

Development Appraisal
Avison Young
30 June 2021

Elephant & Castle Town Centre
P4 Scheme

Summary Appraisal for Merged Phases 1 2 3 4 5 6 7

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
West - Car parking	34	0	0.00	60,000	2,040,000
West - Building W3 (Social Rent)	116	98,392	271.00	229,864	26,664,232
Additional Revenue	1	373,604	508.56	190,000,000	190,000,000
Totals	**151**	**471,996**			**218,704,232**

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**	**Net MRV at Sale**
West - W1 Tower 1 (Open Market)	81	62,754	47.50	36,800	2,295,228	2,980,815	2,295,228
West - W2 Tower 2 (Open Market)	99	75,304	47.50	36,131	2,754,244	3,576,940	2,754,244
West - W3 - Mansion Block (Retail)	1	23,822	44.00	1,048,168	1,048,168	1,048,168	1,048,168
West - W1 (Retail)	1	2,424	44.00	106,656	106,656	106,656	106,656
West - W2 (Retail)	1	5,985	44.00	263,340	263,340	263,340	263,340
West - W2 Tower (Music Venue)	1	11,743	40.00	469,720	469,720	469,720	469,720
West - W2 Tower 3 (Open Market)	153	119,616	47.50	37,136	4,374,955	5,681,760	4,374,955
West - Commercialisation	1			500,000	500,000	500,000	500,000
West - W3 - Affordable Retail Space	1	2,647	44.00	116,468	0	116,468	116,468
West - W1 Affordable Retail Space	1	934	44.00	41,096	0	41,096	41,096
West - W1 Tower 1 (Intermediate)	15	11,315	29.28	22,087	255,103	331,303	255,103
West - W2 Tower 2 (Intermediate)	17	13,435	29.28	23,140	302,900	393,377	302,900
West - W2 Tower 3 (Intermediate)	17	13,092	29.28	22,549	295,167	383,334	295,167
East - E1 (Retail)	1	12,837	44.00	564,828	564,828	564,828	564,828
East - E1 Affordable Retail space	1	1,426	44.00	62,744	0	62,744	62,744
East - E4 (Retail)	1	14,106	44.00	620,664	620,664	620,664	620,664
East - E4 Affordable Retail space	1	1,567	44.00	68,948	0	68,948	68,948
East - E3 (Retail)	1	32,540	44.00	1,431,760	1,431,760	1,431,760	1,431,760
East - E3 (Open Market) - Tower 3	77	60,084	47.50	37,065	2,197,572	2,853,990	2,197,572
East - E3 (Open Market) - Tower 2	62	47,383	47.50	36,301	1,733,033	2,250,693	1,733,033
East - E3 - Tower 3 (Intermediate)	71	49,783	28.64	20,081	1,097,855	1,425,785	1,097,855
East - E3 - Tower 2 (Intermediate)	65	45,822	28.64	20,190	1,010,503	1,312,342	1,010,503
East - E3 Affordable Retail space	1	3,616	44.00	159,104	0	159,104	159,104

WITHOUT PREJUDICE

Elephant & Castle Town Centre
P4 Scheme

East - E2 (Open Market) - Tower 1	174	140,544	47.50	38,367	5,140,397	6,675,840	5,140,397
East - E2 (Retail)	1	32,163	44.00	1,415,172	1,415,172	1,415,172	1,415,172
East - E2 (Leisure)	1	25,908	20.00	518,160	518,160	518,160	518,160
East - Commercialisation	1			1,000,000	1,000,000	1,000,000	1,000,000
East - E2 (Intermediate) - Tower 1	36	28,051	28.64	22,316	618,603	803,381	618,603
East - E2 (Workspace)	1	42,154	50.00	2,107,700	2,107,700	2,107,700	2,107,700
East - E2 (Workspace Phase 2)	1	8,676	50.00	433,800	433,800	433,800	433,800
East - E2 (Retail Phase 2)	1	5,813	44.00	255,772	255,772	255,772	255,772
East - E2 (Affordable Workspace)	1	5,648	50.00	282,400	169,440	282,400	282,400
East - E2 (Affordable Retail space)	1	4,220	44.00	185,680	0	185,680	185,680
East - E5 (Retail)	1	657	44.00	28,908	28,908	28,908	28,908
Totals	**889**	**906,069**			**33,009,649**	**40,350,647**	**33,756,649**

Investment Valuation

West - W1 Tower 1 (Open Market)					
Current Rent	2,295,228	YP @	3.2500%	30.7692	70,622,386
West - W2 Tower 2 (Open Market)					
Current Rent	2,754,244	YP @	3.2500%	30.7692	84,745,963
West - W3 - Mansion Block (Retail)					
Market Rent	1,048,168	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	16,269,957
West - W1 (Retail)					
Market Rent	106,656	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	1,655,544
West - W2 (Retail)					
Market Rent	263,340	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	4,087,637
West - W2 Tower (Music Venue)					
Market Rent	469,720	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	7,291,125
West - W2 Tower 3 (Open Market)					
Current Rent	4,374,955	YP @	3.2500%	30.7692	134,614,006
West - Commercialisation					
Current Rent	500,000	YP @	6.0000%	16.6667	8,333,333
West - W3 - Affordable Retail Space					
Manual Value					1,369,748
West - W1 Affordable Retail Space					

WITHOUT PREJUDICE

Elephant & Castle Town Centre
P4 Scheme

Manual Value					483,318
West - W1 Tower 1 (Intermediate)					
Current Rent	255,103	YP @	3.2500%	30.7692	7,849,337
West - W2 Tower 2 (Intermediate)					
Current Rent	302,900	YP @	3.2500%	30.7692	9,320,004
West - W2 Tower 3 (Intermediate)					
Current Rent	295,167	YP @	3.2500%	30.7692	9,082,061
East - E1 (Retail)					
Market Rent	564,828	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	8,767,418
East - E1 Affordable Retail space					
Manual Value					737,915
East - E4 (Retail)					
Market Rent	620,664	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	9,634,120
East - E4 Affordable Retail space					
Manual Value					810,878
East - E3 (Retail)					
Market Rent	1,431,760	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	22,224,180
East - E3 (Open Market) - Tower 3					
Current Rent	2,197,572	YP @	3.2500%	30.7692	67,617,609
East - E3 (Open Market) - Tower 2					
Current Rent	1,733,033	YP @	3.2500%	30.7692	53,324,099
East - E3 - Tower 3 (Intermediate)					
Current Rent	1,097,855	YP @	3.2500%	30.7692	33,780,140
East - E3 - Tower 2 (Intermediate)					
Current Rent	1,010,503	YP @	3.2500%	30.7692	31,092,412
East - E3 Affordable Retail space					
Manual Value					1,871,178
East - E2 (Open Market) - Tower 1					
Current Rent	5,140,397	YP @	3.2500%	30.7692	158,166,055
East - E2 (Retail)					
Market Rent	1,415,172	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	21,966,696
East - E2 (Leisure)					
Market Rent	518,160	YP @	5.5000%	18.1818	

WITHOUT PREJUDICE

(6mths Rent Free)		PV 6mths @	5.5000%	0.9736	9,172,231
East - Commercialisation					
Current Rent	1,000,000	YP @	6.0000%	16.6667	16,666,667
East - E2 (Intermediate) - Tower 1					
Current Rent	618,603	YP @	3.2500%	30.7692	19,033,941
East - E2 (Workspace)					
Market Rent	2,107,700	YP @	5.0000%	20.0000	
(1yr Rent Free)		PV 1yr @	5.0000%	0.9524	40,146,667
East - E2 (Workspace Phase 2)					
Market Rent	433,800	YP @	5.0000%	20.0000	
(1yr Rent Free)		PV 1yr @	5.0000%	0.9524	8,262,857
East - E2 (Retail Phase 2)					
Market Rent	255,772	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	3,970,165
East - E2 (Affordable Workspace)					
Manual Value					4,562,702
East - E2 (Affordable Retail space)					
Manual Value					2,183,731
East - E5 (Retail)					
Market Rent	28,908	YP @	6.2500%	16.0000	
(6mths Rent Free)		PV 6mths @	6.2500%	0.9701	448,718
					870,164,801
GROSS DEVELOPMENT VALUE				**1,088,869,033**	
Purchaser's Costs		6.80%	(24,189,261)		
Purchaser's Costs		6.80%	(646,363)		
Purchaser's Costs		6.80%	(710,260)		
Purchaser's Costs		6.80%	(14,273,854)		
Purchaser's Costs		6.80%	(19,320,956)		
Purchaser's Costs		6.80%	(30,513)		
Effective Purchaser's Costs Rate		6.80%		(59,171,206)	
NET DEVELOPMENT VALUE				**1,029,697,827**	
Additional Revenue				43,865,000	

WITHOUT PREJUDICE

Elephant & Castle Town Centre
P4 Scheme

NET REALISATION				**1,073,562,827**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			51,135,677	
				51,135,677
Stamp Duty		5.00%	2,556,784	
Agent Fee		1.30%	664,764	
Legal Fee		0.50%	255,678	
				3,477,226
Other Acquisition				
Other Development Costs			15,158,000	
				15,158,000
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
West - Block W3 (Mansion Block) - Residential	1 un	37,374,414	37,374,414	
West - Block W2 - Residential	1 un	119,489,090	119,489,090	
West - Block W1 - Residential	1 un	37,813,817	37,813,817	
West - Demolition & Enabling	1 un	7,699,751	7,699,751	
West - Kiosk*	1 un	115,496	115,496	
West - External Works (Incl services)	1 un	3,531,986	3,531,986	
West - Utilities	1 un	4,949,840	4,949,840	
West - PV Installation	1 un	274,991	274,991	
West - Basement	1 un	31,492,559	31,492,559	
West - Sewer Connections	1 un	604,981	604,981	
West - Block W3 (Mansion Block) - Retail	1 un	5,038,450	5,038,450	
West - Block W2 - Retail	1 un	621,059	621,059	
West - Block W2 - Music Venue	1 un	7,570,230	7,570,230	
West - Block W1 - Retail	1 un	739,103	739,103	
East - Basement	1 un	56,186,686	56,186,686	
East - Demolition & Enabling Work	1 un	17,785,719	17,785,719	
East - Shared works	1 un	15,877,867	15,877,867	
East - Basement (Retail)	1 un	21,150,727	21,150,727	
East - Basement (LUL)	1 un	17,007,477	17,007,477	
East - E1	1 un	84,226,111	84,226,111	

WITHOUT PREJUDICE

Elephant & Castle Town Centre
P4 Scheme

East - E1 (Retail)	1 un	1,576,915	1,576,915	
East - E4 (E) (Retail)	1 un	6,842,390	6,842,390	
East - E3 (S) Residential Tower 3	1 un	95,877,958	95,877,958	
East - E3 (S) Retail	1 un	11,037,557	11,037,557	
East - E2 (W) Retail	1 un	31,885,601	31,885,601	
East - E2 (W) Residential	1 un	72,987,202	72,987,202	
East - E2 Day 2	1 un	3,473,000	3,473,000	
East - E5 (Retail)	1 un	157,573	157,573	
Totals			**693,388,550**	**693,388,550**
West - CIL / MCIL			5,760,346	
West - Other Development Costs			1,000,000	
West - Est. S106			1,667,550	
East - CIL / MCIL			10,329,646	
East - Est.S106			3,642,732	
East - Other Development Costs			700,000	
East - Utilities connections			2,700,000	
				25,800,274
PROFESSIONAL FEES				
Professional Fees		12.00%	83,206,626	
				83,206,626
MARKETING & LETTING				
West - Open Market Marketing		1.00%	3,162,338	
Commercial Marketing	238,886 ft²	2.00 /ft²	477,772	
East - Open Market Marketing		1.00%	3,630,143	
Letting Agent Fee		10.00%	1,018,109	
Letting Legal Fee		5.00%	509,054	
				8,797,415
DISPOSAL FEES				
Sales Agent Fee - PRS & Commercial		1.00%	8,109,936	
Sales Legal Fee		0.50%	4,198,489	
				12,308,425
MISCELLANEOUS FEES				
East - Land Acquisition			4,000,000	
NwR Arches Refurb			700,000	

WITHOUT PREJUDICE

Elephant & Castle Town Centre
P4 Scheme

		4,700,000
TOTAL COSTS		**897,972,193**
PROFIT		
		175,590,633
Performance Measures		
Profit on Cost%	19.55%	
Profit on GDV%	16.13%	
Profit on NDV%	17.05%	
IRR	11.00%	

Appendix 4

Definitions and Reservations for Valuations

Definitions and Reservations for Valuations

Information

All information supplied by the Client, the Client's staff and professional advisers, local authorities, other statutory bodies, investigation agencies and other stated sources is accepted as being correct unless otherwise specified.

Tenure

Title Deeds and Leases are not inspected (unless specifically stated) and, unless we are informed to the contrary, it is assumed that a property is free of any onerous covenants, easements, other restrictions or liabilities including mortgages, grants and capital allowances which may affect the value.

No responsibility or liability will be accepted for the true interpretation of the legal position of the client or other parties.

Tenants

Tenants' status is investigated only where we are so instructed and so specified in the valuation.

Plans

Any plans supplied are for identification purposes only unless otherwise stated. The valuation assumes site boundaries are as indicated to us. The reproduction of Ordnance Survey sheets has been sanctioned by the Controller of Her Majesty's Stationery Office, Crown Copyright reserved.

Site Areas

Site areas are normally computed from plans or the Ordnance Survey and not from a physical site survey. They are approximate unless otherwise indicated.

Floor Areas and Dimensions

Floor areas and dimensions are taken from inspection unless otherwise specified but are nevertheless approximate. Where provided by us, areas quoted are calculated in accordance with the RICS Professional Statement – RICS Property Measurement 2nd edition, January 2018 on the basis agreed with the Client, i.e. adopting either (1) The Code of Measuring Practice, 6th edition published by the Royal Institution of Chartered Surveyors, or (2) The International Property Measurement Standards (IPMS): Office Buildings, or (3) The International Property Measurement Standards (IPMS): Residential Buildings.

The following bases are those most frequently used under the Code of Measuring Practice, 6th edition:

Net Internal Area - Measured to the internal faces of external walls, excluding toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Gross Internal Area - Measured to the internal faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Gross External Area - Measured to the external faces of external walls, including toilets, permanent corridors, internal walls and partitions, stairwells, plant rooms etc.

Net Sales Area (NSA) – the GIA of a new or existing residential dwelling, subject to certain Conditions.

The following bases are those used under The International Property Measurement Standards (IPMS): Office Buildings:

IPMS1 - The sum of the areas of each floor level of a building measured to the outer perimeter of external construction features and reported on a floor by floor basis.

IPMS 2 - Office - The sum of the areas of each floor level of an office building measured to the internal dominant face and reported on a component by component basis for each floor of a building.

IPMS 3 - Office - The floor area available on an exclusive basis to an occupier, but excluding standard facilities and calculated on an occupier-by-occupier or floor-by-floor basis for each building.

IPMS 2 – Residential: The sum of the areas of each floor level of a residential building measured to the internal dominant face, which may be reported on a component-by-component basis for each floor of a building.

IPMS 3 – Residential: The floor area available on an exclusive basis to an occupier.

Ground Conditions

Soil stability, mining and geological reports are not undertaken by us or normally inspected. Unless we are instructed to the contrary, we assume that the ground and any adjoining or nearby areas are not contaminated, that there are no dangerous materials in the vicinity and that it is capable of development without the need for abnormal costs on foundations and services.

Condition of Buildings, Plant Etc

Our inspection of a property does not constitute a structural survey. When preparing our valuation we have regard to apparent defects and wants of repair and take into account the age of the property. We do not however carry out the detailed search for defects which is undertaken as part of the structural survey neither do we necessarily set out the various defects when making the report. We do not inspect woodwork or other parts of the structure which are covered, unexposed or inaccessible.

Definitions and Reservations for Valuations

We do not arrange for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or any other deleterious materials or permanent woodwool shuttering or composite panelling has been used in the construction.

Unless so instructed we do not arrange for any investigations to be carried out to determine whether or not any deleterious or hazardous material or techniques have been used in the construction of the property or has since been incorporated and the services are not tested.

We are therefore unable to report that the property is free from defect in these respects.

For valuation purposes we assume unless otherwise stated that the property (including associated plant and machinery, fixtures and fittings) is in serviceable order and will remain so for the foreseeable future. It will be assumed that the building/s is/are in good repair, except for defects specifically noted.

Asbestos Regulations

The Control of Asbestos Regulations 2012 came into force on 6 April 2012, updating previous asbestos regulations to take account of the European Commission's view that the UK had not fully implemented the EU Directive on exposure to asbestos (Directive 2009/148/EC). Your legal advisers should enquire as to compliance with these regulations and property owners will need to be able to provide confirmation as to the existence and condition of asbestos.

Fire Safety

The Regulatory Reform (Fire Safety) Order 2005 (The Order) replaces previous fire safety legislation including both the Fire Precautions Act 1971 and the Fire Precautions (workplace) Regulation 1997. Consequently any fire certificate issued under the Fire Precautions Act 1971 will cease to have any effect. The Order came into force completely on the 1st April 2006.

The Order applies to the majority of premises and workplaces in England and Wales although does not include people's private homes. It covers general fire precautions and other fire safety duties, which are needed to protect 'relevant persons' in case of fire in and around most 'premises'.

Under the order, anyone who has control in a premises or anyone who has a degree of control over certain areas may be classified as a 'responsible person'. It is thus the duty of such individual to comply with the requirements of the Order and make certain that all measures are taken to ensure the safety of all the people he or she is directly or indirectly responsible for.

The responsible person must then carry out a Fire Risk Assessment. In short this is a five-point process whereby fire hazards must be identified, relevant persons at risk recognised, potential risks reduced, staff training implemented and the whole assessment regularly reviewed. The assessment must pay particular attention to those at special risk such as disabled people, those who have special needs and young persons. Furthermore the responsible person must provide and maintain clear Means of Escape, Signs, Notices, Emergency Lighting, Fire Detection & Alarm and Extinguishers.

This approach is different from previous legislation, as it is now necessary to consider everyone who might be on your premises, whether they are employees, visitors or members of the public.

The Risk Assessment must be regularly reviewed and if necessary amended. Finally if the responsible person employs five or more people, the premises are licensed or the Inspector requires it then the Risk Assessment must be formally recorded.

The Smoke and Carbon Monoxide Alarm (England) Regulations 2015 effective 1 October 2015 require that landlords of residential property must provide (1) a smoke alarm on each storey of the premises on which there is a room used wholly or partly as living accommodation and (2) a carbon monoxide alarm in any room of the premises which is used wholly or partly as living accommodation and contains a solid fuel burning combustion appliance. The landlord has a responsibility to ensure that the detectors are checked and in proper working order.

It is assumed that the property is compliant in regard to the above regulations.

Definitions and Reservations for Valuations

EWS1 Forms

Avison Young is not responsible for verifying the accuracy of any information contained within an EWS1 form provided to it for the purposes of Avison Young completing its Services. Avison Young shall be entitled to rely on the information contained within the EWS1 form as if it were true and accurate in all material respects. If the Client discovers that the information contained within the EWS1 form is inaccurate in any material way, the Client shall bring this to Avison Young's attention promptly so that the parties can discuss the impact it may have on the Services Avison Young has provided. Avison Young shall not be liable for any loss or damage or costs suffered or incurred by the Client arising either from the information contained within an 'EWS1' form or from Avison Young's reliance on it. For the avoidance of doubt Avison Young are not qualified to produce or complete EWS1 forms and under no circumstances shall we do so. EWS1 forms can only be completed by certain qualified practitioners.

Accessibility

From 1 October 2010, the Equality Act 2010 replaced previous anti-discrimination laws, including the Disability Discrimination Act, with a single Act to make the law simpler and to remove inconsistencies. The Equality Act protects the important rights of disabled people to access everyday facilities and services and to ensure that disabled workers are not disadvantaged. Our report will contain observations of a general nature on the extent to which we consider that the building would be regarded by the market as complying with the accessibility requirements of the Equality Act. We have not, however, carried out an in-depth study which would be required to reach a formal view.

Energy Performance Certificates

From 2008 Energy Performance Certificates (EPCs) are required for the sale, rental or construction of commercial buildings. The requirement was phased in over 6 months between 6 April and 1 October 2008. Commercial properties with a useful floor area of more than 10,000 sq m were affected from 6 April 2008, those exceeding 2,500 sq m had to comply from 1 July 2008 and the remaining properties had to comply from 1 October 2008. An EPC must be provided on the sale, rental or construction (or in some cases modification) subject to transitional arrangements. Non-compliance may lead to sanction under civil legislation, involving a financial penalty.

Unless stated to the contrary, our valuation assumes that the property has an Energy Performance Certificate (if required under the Energy Performance of Buildings (Certificates and Inspections) (England and Wales) Regulations 2007) and that the Certificate will be maintained as required.

Services

It is assumed that the services and any associated controls or software, are in working order and free from defect.

Composite Panels and Insurance

We will not test any panels within the property to see whether there are any polystyrene insulated composite panels. The presence of such panels may result in the property being uninsurable, which would have an adverse impact on value.

Defective Premises Act 1972

Obligations or liabilities or any rights thereunder, whether prospective or accrued, are not reflected in valuations unless actually specified.

Environmental Issues

Our Valuation Report does not constitute an Environmental Audit or survey and nothing contained in it should be treated as a statement that there are no contamination or pollution problems relating to the property or confirmation that the property, or any process carried on therein, complies with existing or proposed legislation on environmental matters. If we have been provided with third party reports, we have accepted their contents as being correct.

Enquiries

Enquiries of local authorities and statutory undertakers are made verbally in respect of contingent liabilities such as road widening, road charges, redevelopment proposals and the possible effect of any town planning restrictions, and on occasion in respect of rating assessments. Local searches are not undertaken. No responsibility is accepted for any inaccurate information provided.

Generally it is assumed that buildings are constructed and used in accordance with valid Town Planning Consents, Permits, Licences and Building Regulation Approval, with direct access from a publicly maintained highway, that Town Planning Consents do not contain restrictions which may adversely affect the use of a property and that there are no outstanding statutory or other notices in connection with a property or its present or intended use.

Definitions and Reservations for Valuations

It is further assumed unless otherwise stated that all necessary licences, permits etc either run with the property or are transferable to a new occupier as appropriate.

Flooding Risk

The valuer will make enquiries concerning flooding risk where it is perceived to be of relevance as published by the Environmental Agency. However we are not qualified to definitively assess the risk of flooding and our valuation will assume no difficulties in this regard. Further, Avison Young shall not undertake any additional enquiries to confirm this information.

Plant, Machinery, Fixtures and Fitting

Unless otherwise specified, all items normally associated with the valuation of land and buildings are included in our valuations and reinstatement cost assessments, including:-

Fixed space heating, domestic hot water systems, lighting and mains services supplying these, sprinkler systems and associated equipment, water, electricity, gas and steam circuits not serving industrial or commercial processes, sub-station buildings, lifts and permanent structures including crane rails where forming an integral part of the building structure, fixed demountable partitions, suspended ceilings, carpets, drains, sewers and sewerage plants not primarily concerned with treating trade effluent, air conditioning except where part of a computer installation or primarily serving plant and machinery.

Unless otherwise specified, the following items are excluded:-

All items of process plant and machinery, tooling and other equipment not primarily serving the building, cranes, hoists, conveyors, elevators, structures which are ancillary to, or form part of an item of process plant and machinery, sewerage plants primarily concerned with treating trade effluent, air conditioning where part of a computer installation or primarily serving plant and machinery, and water, electricity, gas, steam and compressed air supplies and circuits serving industrial and commercial processes.

Unless otherwise specified, no allowance is made for the cost of repairing any damage caused by the removal from the premises of items of plant, machinery, fixtures and fittings.

In the case of filling stations, hotels and other properties normally sold and valued as operational entities, all items of equipment normally associated with such a property are assumed to be owned and are included within the valuation unless otherwise specified.

Taxation and Grants

Value Added Tax, taxation, grants and allowances are not included in capital and rental values as, unless otherwise specified in the report, these are always stated on a basis exclusive of any VAT liability even though VAT will in certain cases be payable.

It is assumed for the purposes of valuation that any potential purchaser is able to reclaim VAT, unless otherwise stated. In particular it should be noted that where a valuation has been made on a Depreciated Replacement Cost basis the Replacement Cost adopted is net of VAT unless otherwise stated.

Unless otherwise specified Avison Young will not take into account of any existing or potential liabilities arising for capital gains or other taxation or tax reliefs as a result of grants or capital allowances, available to a purchaser of the property.

Market Value (MV)

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Market Value provides the same basis as the OMV basis of value supported by the first four editions of the Red Book, but no longer used as a defined term.

Fair Value

1. The estimated price for the transfer of an asset or liability between identified knowledgeable and willing parties that reflects the respective interests of those parties (IVS 2013).
2. The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date (IFRS 13).

Depreciated Replacement Cost

The current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Note that this basis of valuation may not reflect the price achievable for the property on the open market.

Definitions and Reservations for Valuations

Operational Entities

The RICS advises that the most appropriate basis of valuation of properties normally sold as operational entities is Market Value as defined above. Such properties include public houses, hotels and other leisure uses, together with nursing homes, residential care homes, private hospital and petrol filling stations.

Our valuations reflect the following:-

a) The market's perception of trading potential with an assumed ability on the part of the purchaser to renew existing licenses, consents, registrations and permits;

b) That the property is offered with vacant possession throughout, although in the case of nursing and residential care homes, subject to the contractual rights of the patients/residents occupying the home from time to time;

c) That trade fixtures, fittings, furniture, furnishings and equipment are included.

Our valuations also specifically assume, unless otherwise specified that the business will continue to operate at a level not significantly worse than that indicated to us.

Existing Use Value

The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its Market Value to differ from that needed to replace the remaining service potential at least cost.

Market Rent

The estimated amount for which an interest in real property should be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion.

Insurance

Insurance is usually arranged by clients (or their brokers) based on reinstatement cost assessments or occasionally on an indemnity basis and other methods of valuation are not appropriate.

Reinstatement Cost Assessment

A Reinstatement cost assessment is our opinion of the likely cost of reinstating all the buildings, normally for insurance purposes, on the basis that:-

a) the accommodation provided will be similar in construction, design and area to the existing buildings;

b) the works will be in compliance with conditions imposed by local Authorities in connection with the construction of the building;

c) unless reported separately, allowances are made to cover the cost of necessary demolition and site clearance prior to rebuilding, external works such as hardstandings, private roadways and fences and professional fees which would normally be incurred.

Unless otherwise stated, the reinstatement cost does not include any allowance for:-

a) any loss of rent incurred during rebuilding;

b) planning restrictions which a planning authority might impose;

c) special foundations required for plant and machinery or due to adverse ground conditions;

d) any plant, machinery, equipment, tanks, loose tools, office furniture and equipment (refer to the heading "Plant, Machinery, Fixtures and Fittings" for details of items normally included);

e) any effect of inflation on building costs occurring after the valuation date;

f) VAT (except on professional fees) which will normally be payable in addition.

Note - A reinstatement cost assessment is not a valuation. The valuer's assessment of the reinstatement cost assessment should be regarded as an informal estimate and should not be used to arrange insurance cover.

Apportionment of Values

Apportionments provided between buildings, land and plant and machinery are normally for depreciation purposes only. In normal circumstances apportionments are not valuations and they should not be used for any other purpose unless specified in our report.

Definitions and Reservations for Valuations

Future Useful Economic Life

Future useful economic life of buildings is normally assessed in bands of years, most frequently subject to a maximum of fifty years. This applies to freehold properties and to leasehold properties where the future life is less than the unexpired term of the lease. An average figure is usually provided for groups of buildings forming a single asset. The figures are appropriate for depreciation purposes only.

Compliance with Valuation Standards

Where applicable our valuations are in accordance with the RICS Valuation – Global Standards effective from 31 January 2020, published by the Royal Institution of Chartered Surveyors ("RICS"), the Insurance Companies (Valuation of Assets) Regulations 1981, the Financial Conduct Authority (FCA) "Listing Rules" ("Source Book") and "City Code on Takeovers and Mergers" ("Blue Book") as amended and revised from time to time. A copy is available for inspection.

RICS Investigations

The valuation may be investigated by the RICS for the purposes of the administration of the Institutions conduct and disciplinary regulations. Guidance on the operation of the RICS monitoring scheme including matters relating to confidentiality is available from www.rics.org.

Total Valuation

Where provided this is the aggregate of the value of each individual property. It is envisaged that properties would be marketed singly or in groups over an appropriate period of time. If all properties were to be sold as a single lot, the realisation would not necessarily be the same as the total of the valuations. This assumption is not applicable to valuations made for taxation purposes.

Legal Issues

Any interpretation of leases and other legal documents and legal assumptions is given in our capacity as Property Consultants (including Chartered Surveyors and Chartered Town Planners) and must be verified by a suitability qualified lawyer if it is to be relied upon. No responsibility or liability is accepted for the true interpretation of the legal position of the client or other parties.

Date, Market Conditions and Validity of Valuation

Valuations may be relied upon for the stated purpose as at the date specified. In normal market conditions the value may not change materially in the short term. However the property market is constantly changing and is susceptible to many external facets which can affect business confidence. If any reliance is to be placed on the valuation following any changes which could affect business confidence, then further consultation is strongly recommended. In any event, the valuation should not be considered valid after a period of three months.

Valuations and Reports

Valuations and Reports are only for the use of the party to whom they are addressed. They may be disclosed only to other professional advisors assisting in respect of that purpose. No responsibility is accepted to any third party for the whole or any part of the contents.

Reports should be considered in their entirety and should only be used within the context of the instructions under which they are prepared.

Neither the whole nor any part of a valuation, report or other document or any reference thereto may be included in any published article, document, circular or statement or published in any way without prior written approval of Avison Young of the form and context in which it may appear.

Warranties

The client warrants and represents that, to the best of its knowledge, information and belief, the information supplied by and on its behalf to Avison Young is true and accurate and that it will advise and instruct its third party advisers to advise Avison Young in the event that it and/they receive notice that any such information is either misleading or inaccurate.

Contact Details

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