

Viability Study

Blackheath Car Park

Hurren Close

Blackheath

SE3 9LE

Turner Morum LLP

October 2024

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1. BACKGROUND AND RELEVANT EXPERIENCE

- 1.1. The applicant has instructed Turner Morum LLP ('TM ') of 32–33 Cowcross Street, London, EC1M 6DF, to undertake a viability assessment of their proposed application scheme. This report has been prepared by Nicholas Bignall MRICS who is a Partner at TM and Theo Copley who is a Development Surveyor.
- 1.2. TM regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs & the South East. We are currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. We also provide Expert Witness evidence at planning appeals and Local Plan Examinations. Full details of some of our recent case experience can be viewed at **Appendix 6**.

2. SITE LOCATION & DESCRIPTION

- 2.1. The subject site is located adjacent to Blackheath Station in the town centre of Blackheath, situated in the London Borough of Lewisham. The site is accessed off Hurren Close, located less than 200 metres south west of Blackheath Park. The site area equates to 0.49 ha or 1.19 acres. A location plan can be viewed as per **Appendix 1**.
- 2.2. It is currently used as a surface car park (c. 163 spaces) adjacent to the mainline railway in the town centre of Blackheath. The car park is open 7 days a week with a section being used for the Blackheath Farmers Market on a Sunday and the Blackheath Bazar on a Saturday. There is also a licence for a coffee and bakery van which is a mobile unit on the site and some spaces have been let to film and product units on an ad-hoc basis.

3. PROPOSED SCHEME

- 3.1. The proposed scheme is for:

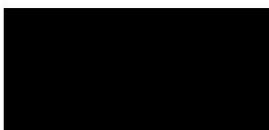
Erection of three buildings, comprising residential (Use Class C3), flexible commercial and learning and non-residential institution space (Use Class E and Use Class F1) and the associated provision of landscaping works, cycle parking, car parking, plant and associated ancillary works.

4. METHODOLOGY & VIABILITY GUIDANCE

- 4.1. TM have carried out a development appraisal adopting a bespoke residual valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**. This appraisal model follows the same principles and methodology as other toolkit models such as Argus or the HCA Toolkit.
- 4.2. In undertaking this viability, we are aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting* (2019). We are also aware of viability guidance documents such the *RICS Assessing viability in planning under the NPPF 2019 for England* (2021), the Planning Practice Guidance (PPG) on Viability published following updates to the National Planning Policy Framework (NPPF) and the 2017 Mayoral Affordable Housing & Viability Supplementary Planning Guidance (SPG).
- 4.3. In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information. We are not aware of any conflicts of interest in relation to this assessment.
- 4.4. In preparing this report, we have not agreed any 'performance-related' or 'contingent' fees. We address this report to Acorn Property Group only and it should not be reproduced without prior consent. This report has been provided for its stated purposes and singular use of the named clients and may not be relied upon by any third party.
- 4.5. This report has been prepared by:

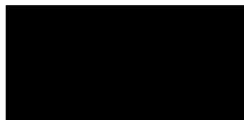
Nick Bignall MSc MRICS

Partner



Theo Copley MSc

Surveyor



5. RESIDUAL APPRAISAL METHODOLOGY

- 5.1. The widely accepted approach for assessing the viability of sites at the planning application stage and the plan-making stage is to produce a residual appraisal which generates a

Residual Land Value (RLV) output. This RLV is then compared with an appropriate Benchmark Land Value (BLV) which is usually an Existing Use Value (EUV) or an Alternative Use Value in certain cases.

5.2. The simple premise is that where the RLV exceeds the BLV, a surplus is generated and the scheme can be considered “viable”. However, if the BLV exceeds the RLV, a deficit is produced and the scheme can be considered technically “non-viable”.

5.3. The simplified structure of a viability assessment can be summarised as follows:

$$\begin{array}{r}
 \text{Gross Development Value (GDV)} \\
 \text{Minus} \\
 \text{Developer Costs} \\
 \text{Minus} \\
 \text{Developer Profit} \\
 = \\
 \text{Residual Land Value (RLV)} \\
 \text{Minus} \\
 \text{BLV / EUV / AUV} \\
 = \\
 \text{Surplus/Deficit (Viable/Non-Viable)}
 \end{array}$$

5.4. There are variations to the above methodology where the extent of the surplus is determined by measuring profit as an outturn against a target profit level; however, the principles remain the same. The above methodology is supported in guidance documents at both a national level with the PPG on Viability) and through professional bodies such as the RICS.

6. APPRAISAL MODELS TESTED

6.1. The residual appraisal analysis can be summarised as follows:

- **Appendix 2 Tab 1A** – Appraisal showing the viability of the proposed scheme with 49% affordable housing (22 units) with a 68/32 split as social rent and shared ownership respectively.
- **Appendix 2 Tab 1B** – Appraisal showing the same scheme as above but with the provision of affordable housing removed entirely. This scenario is intended to assess whether the scheme can viably make a contribution in-lieu of onsite affordable housing.

- 6.2. Below, we have expanded on the various appraisal inputs in sequential order as they appear in the residual appraisal analysis:

7. APPRAISAL INPUTS

GROSS DEVELOPMENT VALUE ('GDV')

- 7.1. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents. We have also been provided with the pricing schedules for the proposed scheme from 2 local agents; KFH and Hamptons. These values equate to an average of £825 psf and £869 psf respectively.
- 7.2. TM have also considered the comparable evidence from a number of local schemes with the overarching evidence included at **Appendix 3**. As a starting point, we have reviewed the achieved transactional evidence of new build dwellings within a c. 1 mile radius of the subject site. Firstly, there is the Merchant Taylor Almshouses located 0.8 miles south of the subject site. This site comprises 16 Grade II listed properties built in 1826 for the Merchant Taylors Company on Brandram Road. Most recently these houses were allocated as housing in need for residents over 57 years old. However, the developer Vfund acquired the site and these existing residents were moved into a new apartment block with the existing dwellings renovated and sold on the open market. This is clearly a distinct product from the subject site being a Grade II listed conversion as opposed to a new build development.
- 7.3. For the smaller dwellings (c. 603 sq ft) within this scheme the average market value equates to c. £440k or £733 psf. The larger dwellings ranging in size from 1,150 sq ft – 1,292 sq ft show a market value of c. £689k - £745k (c. £575 psf). There is a 1 bed dwelling on the market within this development at £435k currently marketed by Hamptons. This is included as per **Appendix 3**.
- 7.4. The other comparable within the schedule included at **Appendix 3** is the Acer Heights development at Parkside Avenue which is c. 1 mile west of the subject site. This falls within Phases 5 and 6 of the Peabody Trust development for 443 residential dwellings extending up to 8 storeys in height (see planning reference DC/19/111861). The schedule shows a range of 1 and 2 bed flats and an average market value of £705 psf. Although we would consider the subject site to be in a superior location, this comparable due to its size and scale would benefit from a place making premium which could offset to a certain extent the locational uplift.

- 7.5. In terms of contemporary asking price evidence, there are a number of dwellings on the market within the Kidbrooke Village Berkeley Homes development. This outline application is described as follows:

Demolition of existing buildings and construction of 1,257 residential units (Use Class C3) together with 1,957m² retail / commercial (Use Class A1), 1,305m² of retail / commercial (Use Class A2-A5), 345m² restaurant (Use Class A3), 5,713m² of community (Use Class D1), a 2,696m² supermarket (Use Class A1), a public square, publicly accessible open space and associated access, servicing, car parking, cycle parking and landscaping.

- 7.6. It is clear from the above description that this scheme is a much larger regeneration project than the proposed scheme as a standalone development. On this basis, one would expect a premium from the Berkeley Homes scheme not just reflective of the Berkeley product (and the associated resident benefits such as underground parking, concierge, gym/pool access etc.) also the sense of place making achieved through such a large-scale regeneration.

- 7.7. The 2nd schedule included as **Appendix 3** shows a range of asking price evidence. For the comparables located within Kidbrooke Village the average values are summarised below:

- 2 bed flats: £540k - £587k (£787 psf - £840 psf);
- 3 bed flats: £642k - £705k (£645 psf - £688 psf);
- 3 bed house: £880k (£683 psf)
- 4 bed houses: £995k - £1.300m (£657 psf - £858 psf).

- 7.8. As further contextual evidence, TM have also referred to the London Borough of Lewisham Local Plan Viability Assessment ('LPVA') dated May 2022 and undertaken by BNP Paribas ('BNP'). Within this assessment as per Figure 2.15.1 a map shows the assumed average new build values in Lewisham with the subject site sitting in an area where the values range from £739 psf - £788 psf. It is likely the location of the subject site would attract a premium meaning the values would be at the upper end of this scale.

- 7.9. Considering the evidence above and as per **Appendix 3**, TM have adopted what we consider to be an optimistic assumption and applied a midpoint between the 2 agents pricing showing a total average GDV for a fully private scheme of **£843 psf**. A copy of the full pricing schedule is included as per **Appendix 3**.

- 7.10. Affordable rent values have been calculated using a Discounted Cashflow taking into account factors such as standard levels for individual RPs management and maintenance costs, finance costs, voids, discount rate etc. We have referenced these assumptions against the LPVA which confirms average affordable rent values ranging from £207 psf for London Affordable Rent to £309 psf affordable rent. The LPVA notes that London Affordable Rent values will be more akin to social rent levels which we understand to be the Council preference in terms of majority affordable tenure. The approach in the TM assessment produces a value of c. £217 psf so more consistent with the values of a social rent product as per the LPVA.
- 7.11. To support the position on shared ownership, we have cross referenced using a Discounted Cashflow Analysis. The basic premise of the DCF model is to take the full market value of the units and discount them over an assumed 30-year staircasing period. A capital receipt is then calculated for each tranche payment, based on the discounted Market Value figure for the year in which it falls, whilst accounting also for the rent paid on the retained share of the property, and any associated costs. This produces a yearly income total, the sum of which produces a gross revenue figure, from which one would then deduct appropriate costs and marketing fees etc.
- 7.12. For a DCF the standard assumptions include 4 * 25% tranche payments (including initial deposit) in Years 1, 10, 20 and 30. Over this 30-year staircasing period whereby purchasers will step up to 100% equity with a corresponding reduction in rents over the period – this is then capitalised with a discount rate of 6.5% taking account of anticipated management costs, allowance for bad debts and inflation (2%). A rent charge of 2.0% on the retained portion of the unit is also assumed. The outturn capital value comes to £467 psf for the shared ownership.
- 7.13. In addition to the above residential GDV, the application scheme will also benefit from other commercial income. This includes income from the re-provision of the existing car park (with a reduced 18 no spaces) and the farmers market (£50k p.a. income). The estimated calculation for this capital value is included as per **Appendix 2 Tab 2a** and produces a gross figure of **£1.571m**.
- 7.14. Further to the above, the scheme will also deliver 3 commercial units split between a single unit in Block A and 2 units in Block C; it is assumed for this exercise these units will be delivered as Class E flexible commercial space.

- 7.15. Included as per **Appendix 3** is a lease comparables report that details tenancy evidence for Class E units similar to the proposed properties, that have all leased within the last 2 years and are c. 1.5 miles from the subject site. Included in this list is 7 – 13 Lee Road which is the most pertinent in terms of location to the subject scheme as it is only 0.07 miles south east. The property, a ground floor retail unit of 1,604 sq ft, leased in August 2023 for an asking rental value of £34,999 p.a., equating to £22 psf. We would suggest that the subject site would transact at a premium to this; reflecting the new build premium.
- 7.16. The first outlier from the report at **Appendix 3** is 9 Durnford Street, which leased in January 2024 for an asking rental value equating to £41 psf. TM contend that the location of this property is superior to the application site, being situated in the historic Greenwich Market approximately 1.25 miles north west of Blackheath Car Park, with easy access to the DLR at either Cutty Stark or Greenwich. The property is leased to Townhouse, which is a nail salon that was fully refurbished upon move in; the property is finished to an extremely high specification. For the reasons noted above, we can consider that this development would transact at a premium to the proposed dwellings.
- 7.17. Overall, the lettings indicate a range of achievable values from £18 psf - £40 psf. For the purpose of this assessment, TM have adopted a rental value towards the upper end of this scale at £31.25 psf for the unit located in the superior location of Block A and £29.25 for the units in Block C.
- 7.18. For further context, the LPVA as per Table 4.10.1 suggests rental values for retail and office units in the mid-borough area of between £30 - £35 psf. They have also suggested a 5%/6% yield with a 1 year rent free period. In this assessment, we have adopted a 5% yield with a 6-month rent free period.

DEVELOPMENT COSTS

- 7.19. Fees and marketing costs in respect of the development are included at 3% of Market Housing Gross Development Value (“GDV”), and the cost of disposing of the affordable units to a Registered Provider is included at 0.5% of affordable GDV, as per standard industry benchmarks. Disposal costs associated with the commercial element of the scheme are also included at 2% of GDV.
- 7.20. The construction costs are derived from a full site cost plan provided by Costplan Group dated July 2024. The total costs are assumed at £23.770m, equating to an average of £371 psf

(excluding contingency which is applied separately in the appraisal model at 5%). Full details of the cost plan can be viewed as per **Appendix 4**.

- 7.21. Although the cost plan may seem high on a £ psf basis, the report itself identifies a number of exceptional development costs related to the scheme and its location/setting which inflate the £ psf above what one may consider as benchmark averages. The cost plan identifies these additional costs of c. £3.509m meaning that once they are discounted to produce a more standard 'build cost' figure it equates to c. £317 psf.
- 7.22. An allowance for Technical Fees is included at 10% of the Standard Build Cost, which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the suggested allowance for professional fees in the LPVA is 10% (paragraph 4.18).
- 7.23. Developer Profit is reflected at 20% (of GDV) for the Market Housing, 6% (of GDV) for the affordable housing and 15% (of GDV) for commercial. These assumed returns are within industry accepted industry parameters; however, we acknowledge that there is a range of acceptable profit margins adopted for the purpose of viability testing. For example, the LPVA as per paragraph 4.35 adopts a benchmark of 17.5% on market housing GDV although noting that individual schemes may require lower or higher profits depending on site specific circumstances.
- 7.24. To observe the impact on the viability, TM have tested the conclusions with a 17.5% profit on market housing GDV in the Sensitivity Testing section of this report.
- 7.25. Estimated S106 costs have been included at a cost of c. £45k as advised by the applicant. CIL has been calculated based on the proposed scheme GIA and is applied adopting the latest Mayoral and local charge resulting in a cost of £1.065m assuming no affordable housing. Full details of these assumptions are included as per **Appendix 2 Tab 4**. During the course of the application process, should either of the assumptions on CIL/S106 prove to be inaccurate, TM would reserve the right to amend the appraisal in line with the accurate planning obligations.
- 7.26. Finance cost have been calculated using a quarterly cashflow to reflect the finance costs for each residual appraisal scenario. This can be seen as per **Tab 5A – 5B of Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.

- 7.27. The cashflows adopt the assumption that construction will commence on site within Q2 Year 1 (this is assumed to be following a period of site preparation and discharging pre-commencement conditions) and will be completed by the end of Q4 Year 2 (21-month construction programme).
- 7.28. All of the residential sales are assumed to be achieved in the 2-quarters post completion; this includes a portion of off-plan sales, although the monies from these sales would go into escrow and would not be accessible by the developer until after the development is completed.
- 7.29. The affordable dwellings are assumed to be disposed of via a 'golden brick' payment with 50% during the development programme and the remainder on practical completion. The cashflow works on a finance rate on debit of **7.5%**, which TM believe is reasonable in the current climate.

8. BENCHMARK LAND VALUE

- 8.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing or Alternative Use Value (EUV/AUV) as the Benchmark Land Value (BLV).
- 8.2. Within the analysis TM have adopted an EUV based on an independent Valuation Report prepared by Lambert Smith Hampton ('LSH') dated May 2024. This report has been prepared for the purpose of a viability submission and therefore disregards any potential development or hope value, considering only the value of the site in existing use on the assumption it remains in existing use. On this basis the report concludes a BLV of **£4.940m**. A copy of this report is included as per **Appendix 5**.
- 8.3. It is accepted in viability guidance/practice that a premium can be applied when adopting an EUV in a viability. This premium is intended to reflect the incentive required for a hypothetical landowner to sell their site. In this instance we have not applied a premium, but would reserve the right to amend this position, should an agreement failed to be reached.

9. SUMMARY CONCLUSIONS

- 9.1. Based on the assumptions as outlined in this report, the summary conclusions for the viability assessment are shown in the schedule below:

Tab	Total Units	Affordable % (Units)	RLV	EUV	Surplus / Deficit	Viable/ Non-Viable?
1A	45	49%	-£2,216,241	£4,940,000	-£7,156,241	NON-VIABLE
1B	45	0%	£3,886,352	£4,940,000	-£1,053,648	NON-VIABLE

- 9.2. It will be noted from the above summary table that the scheme shows as technically non-viable even when the level of affordable housing is reduced to 0% affordable housing.

10. SENSITIVITY ANALYSIS

- 10.1. In order to consider the viability of the proposed scheme, we have undertaken a sensitivity analysis by varying the level of affordable housing to try and achieve the break-even position (where the RLV is equal to the BLV)
- 10.2. In this instance, as per **Tab 1B**, we have reduced the affordable housing to 0%, however even with this reduction the scheme still shows a deficit, and therefore is technically non-viable.
- 10.3. In order to assess the viability further, we have undertaken a sensitivity analysis which tests the impact of revenue & cost variations on the viability of the scheme at the policy level of affordable housing contribution, by up to a 10% variation. This enables one to observe the impact on the overall viability conclusions. This assessment is summarised in the table below (using appraisal model **Tab 1B** of **Appendix 2** as the benchmark:

Tab 1B						
SENSITIVITY TABLE		Market Revenues - GDV				
		-10%	-5%	0%	5%	10%
Total Cost	10%	-£9,818,262	-£7,529,950	-£5,241,638	-£2,953,325	-£665,013
	5%	-£7,724,268	-£5,435,955	-£3,147,643	-£859,330	£1,428,982
	0%	-£5,630,273	-£3,341,960	-£1,053,648	£1,234,664	£3,522,977
	-5%	-£3,536,278	-£1,247,966	£1,040,347	£3,328,659	£5,616,971
	-10%	-£1,442,283	£846,029	£3,134,341	£5,422,654	£7,710,966

- 10.4. In addition to the above we have also tested the impact on the viability of reducing the target profit margin on the market housing element of the scheme to 17.5% on GDV which is consistent with the LPVA. The updated conclusions with this amendment are shown below:

Tab	Total Units	Affordable % (Units)	Residual Land Value	EJV	Surplus / Deficit	Viable/ Non-Viable?
1A	45	49%	-£1,567,491	£4,940,000	-£6,507,491	NON-VIABLE
1B	45	0%	£4,928,227	£4,940,000	-£11,773	NON-VIABLE

11. CONCLUSIONS

- 11.1. You will note from the summary table above and the appraisal included as **Appendix 2** that the proposed scheme incurs a deficit, even when the affordable contributions are reduced. In these circumstances, the scenarios tested should therefore be considered technically 'Non-Viable'.