GREENING GOLDSWORTH ROAD

FINANCIAL VIABILITY ASSESSMENT ADDENDUM

For Goldsworth Road Development LLP
November 2020

By Quod

Contents

Disclaimer

This Financial Viability Statement has been produced in accordance with the NPPF (2019), PPG (2019) and RICS Viability Professional Statement on Financial Viability in Planning: Conducting and Reporting (2019).

When producing this Financial Viability Assessment Addendum Quod has acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information.

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1 Introduction and Summary

1.1 This updated Financial Viability Assessment (FVA) has been prepared by Quod on behalf Goldsworth Road Development LLP in respect of the proposed amendments to the application for a residential-led mixed-use development council ref PLAN/2020/0568. The amendments involve the reduction of height to Building T3 through the removal of four floors.

1.2 This updated FVA has been prepared, in accordance with the Council's planning policies on affordable housing. It is based on the structure of the original application submission FVA but with input and assumption updates which reflect fully the findings of the comprehensive review of the submission FVA by Kempton Carr Croft (KCC) and the subsequent peer review by Dixon Searle (DS). Both of these reviews were undertaken on behalf of the Council with the purpose to provide independent advice to inform planning decision making. This provides confidence that the project viability modelling which is set out herewith aligns fully with the KCC and DS viability reports.

1.3 The key findings of the updated FVA demonstrate that the scheme is generating a residual land value of £6.7m with the package of planning obligations and the proposed package of affordable housing. This is c. £8.4m below the residual land value reported by both KCC and DC and confirms, consistent with the previous conclusions of both of the Council's advisors, that the proposed package of affordable housing is in excess of what can be justified on the basis of the viability alone and therefore demonstrably represents the maximum reasonable in accordance with planning policy.

1.4 The reduction in height to Building T3 reduces the overall development profit on the scheme from 12.1% to 11.88% OR by £2.15m where the threshold land value identified by KCC of £15.1m is applied to the model. The reduction in overall market units means there is a reduction in Gross Development Value, the implication of this is that an already challenging scheme needing to achieve value improvements through investment in place making etc will need to work harder as it will be less responsive to value improvements which are needed to be secured over the delivery period to achieve the targeted return.

1.5 In response to the feedback from the Council's advisors this FVA introduces a review mechanism to be included in the S106 agreement meaning that where the targeted return is achieved the scheme will make additional contributions to affordable housing up to a level equivalent to 40%. The approach follows good practice for such mechanisms, relying on approaches that are being used widely in practice giving confidence that they are workable and do not present a risk to scheme delivery. The timing and content of the review will ensure that the level of any financial contribution is directly linked to actual achieved values.

1.6 The FVA is structured as follows:

- Section 2: Approach to Viability Update
- Section 3: Modelling Outcomes and Conclusions

  Section 4: Review Mechanism Overview

1.7 This document should be read alongside the wider planning documents prepared by Carter Jonas which support the proposed application variation to Building T3.

2 Viability Update

Baseline Viability

2.1 The original application (ref PLAN/2020/0568) was supported by a detailed viability submission informed by scheme specific evidence-based costs, revenues and programme. This identified the viability challenges facing the scheme and demonstrated the limitations on the scheme to support the full package of planning obligations, CIL and affordable housing targeted by planning policy. The Affordable Housing Statement and original Financial Viability Assessment (date) confirms that in accordance with planning policy the proposed affordable housing represents the maximum the scheme could support.

2.2 The Council appointed specialist independent advisors Kempton Croft Carr (KCC) to review the viability submission and on receipt of their report a peer review was undertaken by Dixon Searle (DS). The following five amendments were made to the appraisal:

1. **Build Cost** – The review concluded that build costs should be reduced by £13.1m, reflecting a modified approach to contractor preliminaries and profit.

2. **Retail Value** – The value of the commercial retail element should be increased, with rents raised from £20 psf to £25 psf.

3. **CIL** – The Council provided their own calculation of CIL liability of £8,114,630, a reduction of c. £304,847 to that assumed in the original submission. This is considered further below.

4. **SAMM** – Adjusted slightly to £587,724 from the £573,100 of the original submission.

5. **Land Value** – This was reduced on the basis of a lower rent level being considered appropriate for the existing premises alongside the removal of any premium as part of the EUV+ methodology. The threshold land value of £15.1m.

2.3 A further clarification raised by KCC related to the retail floor area where KCC correctly identified an error in the retail areas. This has been corrected.

2.4 The original viability model has been updated to reflect all of these changes and provides an agreed baseline for the scheme aside from the CIL figure. The model is run with a CIL allowance based on a higher overall figure, until the calculation is verified.

2.5 On the basis of the £15.1m land value the scheme residualises a developer return of 12.1%, which is below the targeted return threshold of 16.7%. This target profit is agreed by KCC and DS to be an acceptable return commensurate to risk for the scheme. This identifies, as confirmed by both KCC and DC that on the basis of the viability the scheme is unable to provide any additional element of affordable housing affordable beyond the 48 no. shared ownership units currently being offered.

2.6 The appraisal which represents this scheme configuration is within Annex 1a.

Updated Viability

2.7 The revised proposals for Building T3 respond positively to comments from the Council on the originally proposed height of this building. The proposals involve the removal of the top four residential floors which reduce the over height to 36 floors plus rooftop amenity. The details of this are set out within the suite of documents supporting this amendment. The floor area reduction in Building T3 equates to 26,748sqft or 2,484 sqm GIA resulting in an overall floor area of 220,973sqft or 20,528sqm GIA. All other floor areas within the proposed scheme remain consistent with the original application save for a slight adjustment in Building BB which does not have an impact on the cost or revenue associated with that element.

2.8 The same model structure and software, a residual appraisal in Argus Developer, is relied upon for this update incorporating all of the changes identified. The model has been adjusted to reflect the reduction in height proposed for Building T3 with the build cost and sales value adjusted to reflect this area reduction as follows:

1. **Area -** Each of the upper four residential levels (i.e. excluding the top floor residents lounge) includes 6,687sqft and 621 sqm of GIA floor area. These remain consistent across all the floors. On this basis the removal of four floors result in 26,748sqft (2,484qm) of GIA and 20,799 sqft or 1,932sqm of NIA being removed from Building T3.

2. **Build Cost** – The blended build cost for Building T3 is identified in the model at £256.25 psf. The overall modelled build cost is therefore reduced by the GIA reduction identified above multiplied by this blended build cost. This results in a build costs for Building T3 of £63,477,801.

3. **CIL** – The calculation of CIL liability for the revised scheme is adjusted by £328,479 to reflect the reduction in GIA floorspace in Building T3.

4. **SAMM** – The overall SAMM contribution for the scheme is adjusted to reflect the altered mix of homes within the scheme this delivers an overall contribution of £567,212.

5. **Sales revenue** – To reflect the revised sales value associated with the reduction of four floors the blended average value of the T3 building of £554.52 psf is applied to the reduced NIA floor area. This delivers a reduction in sales value across the 36 units of £11.5m

6. **Ground Rent** – The ground rent revenue is reduced by £277k to reflect the loss of 36 units of market accommodation.

2.9 All other inputs and assumptions remain consistent.

Updated Viability Outputs

2.10 On the basis of the £15.1m land value the updated financial model derives a developer return of 11.88% or £39.2m which is c. 16.1m below the threshold. The reduction in height to Building T3 negatively effects the scheme viability, having a marked effect on the overall profit level which reduces by £2.15m. The appraisal model of this revised scheme is within Annex 1b.

2.11 Furthermore, the loss of private market housing floorspace reduces the sensitivity of the scheme viability to improvements in the market so larger uplifts are necessary across the scheme sales value to deliver the threshold profit accepted by KCC and DS.

2.12 The scheme is financially challenging. The investment in place making and the longer-term vision for the regeneration of the wider town centre will be critical to being able to optimise the sales values to achieve the targeted developer return. Whilst this could be used to further reduce the contribution to affordable housing the applicant continues to take a long-term view and have confidence in the place making that is being invested in. The reduction in height of Building T3 will add to this challenge, requiring increased levels of market growth to reach this threshold when compared to the original scheme, but in view of the feedback from officers accepts that this change is appropriate.

2.13 To provide further reassurance a review mechanism is proposed. In the event that value growth and/or cost efficiencies are delivered and as a result the scheme wide viability improves it is proposed returns achieved over and above the targeted level of developer return are shared between the Council and the developer. Details are set out in section 3.

3 Review Mechanism

3.1 This section of the updated FVA provides details on the applicant's proposals for a review mechanism to be included in the s106 agreement.

3.2 The format and timing of this mechanism is critical to ensure the scheme is fundable and deliverable and aligns with good practice. The approach taken is based on GLA late stage review which is being widely used across London on schemes of a similar scale to these proposals. The formulas are evidenced to work and to be acceptable to funders – it is critical that any review mechanism does not risk scheme deliverability. The approach is summarised below:

1. Timing: The Developer will notify the Council of the date it is anticipated that 75% of the residential units will be occupied. Within 20 working days of occupation of 75% of the residential units the Developer shall, having applied the formulae set out below, confirm whether there is a positive surplus, and if so, the value of any contribution payable to the Council.

2. Method: The review formulas set out below in Figure 1 will be used to calculate the change in GDV from the grant of planning permission (adjusted to achieve the targeted developer return) to the point of the review mechanism (less a profit on the change) and the change in build costs less a profit on the change to determine if there is a positive surplus.

3. Council Review: The Council will assess the information provided by the Developer and assess whether in its view there is a positive surplus and, if so, the value of any contribution. The Developer will pay the Council's reasonable costs incurred in assessing whether there is a positive surplus and, if so, the amount of any contribution payable by the Developer

4. Surplus: Where there is a positive surplus this will be shared 60:40 Council:Developer payable as a contribution to be used by the Council for the provision of additional affordable housing within Woking.

5. Cap: The additional contribution will be called at 40% affordable housing calculated using the formula set out below in Figure 2.

6. Timing of Contribution: Any contribution will be paid within 20 working days of the Council confirming that a) there is a positive surplus and b) the value of the contribution (having applied the Formula in Figure 1).

7. The Developer shall not occupy more than 90% of the residential units until any contribution is paid.

Figure 1 – Review Formula

Review Mechanism = (((A + B) – C) – ((D + E) – F) – P) x 0.6
A = GDV achieved on sale of 75 per cent of residential units and GDV from other parts of the development sold / let and other income receipts (£) B = Estimated GDV for parts of the development that are yet to be sold/let and other income sources (£)

C = GDV determined as part of the assessment of viability at the time planning permission was granted adjusted to achieve the targeted developer return (£)
D = Build costs incurred at the time of review (£)
E = Estimated build costs for remainder of the development (£)
F = Total build costs determined as part of the assessment of viability at the time of planning permission was granted (£)
P= (A + B – C) * Y ; Developer profit on change in GDV (£)
Y = Developer profit as a percentage of GDV as determined at the time planning permission was granted (%)
Notes:
(A+B-C) = The change in GDV from the grant of planning permission (or previous review) to the late stage review (£)
(D+E-F) = The change in build costs from the grant of planning permission (or previous review) to the late stage review (£)
P = Development profit on change in GDV (£)
0.6 = Any surplus profit, after deducting the developer profit (P), will be shared between the LPA and the developer with 60 per cent used for additional affordable housing

Figure 2 – Review Cap

X = Review Cap

X = (((A * D) – (B * D)) * E) + (((A * D) – (C * D)) * F)
A = Average value of market housing per m^2 (£)
B = Average value of local cost rent housing per m^2 (£)
C = Average value of intermediate housing per m^2 (£)
D = Average habitable room size for scheme (m^2)
E = Affordable rent shortfall on-site (units) when compared to the policy target and tenure split. (Determined at the time planning permission was granted)
F = Intermediate housing shortfall on-site (units) when compared to the policy target and tenure split. (Determined at the time planning permission was granted)

4 Conclusions

4.1 In accordance with planning policy, a financial appraisal and supporting evidence was prepared and submitted in support of the application demonstrating the proposed 48 shared ownership affordable homes were in excess of what the scheme could support on the basis of viability evidence. This was subject to independent review by specialist advisors on behalf of the Council who, following amendments to build costs, retail values, planning obligations and land value concluded the proposed affordable housing represents the maximum the scheme can support. The developer return is 12.1% which is below the agreed targeted threshold of 16.7%.

4.2 Since the original submission there has been a reduction in the height of Building T3. The baseline viability has been updated to reflect the scheme changes and demonstrates that the reduction in market units represents a further challenge to the scheme viability. The Applicant commits to retaining the 48 shared ownership affordable homes along with the wider package of planning obligations in the form of CIL, SAMM as well as the wider benefits associated with the public realm investment, wider improvements to the town that the development brings should all be balanced against the package of affordable housing which can be supported.

4.3 Furthermore this FVA has set out the terms of a review mechanism to be included in the S106 agreement meaning that where the targeted return is achieved the scheme will make additional contributions to affordable housing up to a level which is targeted by policy. The approach follows good practice for such mechanisms, relying on approaches that are being used widely in practice giving confidence that they are workable and do not present a risk to scheme delivery. The timing and content of this review will ensure that the level of any contribution benefit from actual achieved values.

Annex 1a

Appraisal of scheme with KCC and DS amendments.

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position

Development Appraisal
Quod
11 November 2020

APPRAISAL SUMMARY QUOD

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position

Appraisal Summary for Merged Phases 1 2 3 4 5 6

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Building T1	135	81,956	516.46	313,538	42,327,571
Affordable Housing	48	37,179	383.28	296,875	14,250,000
Building T2	239	150,936	532.21	336,109	80,330,000
Building T3	331	191,937	554.52	321,548	106,432,500
Building BA	212	142,723	534.00	359,500	76,214,082
Building BB - Homeless Shelter	1	12,228	496.55	6,071,815	6,071,815
Totals	**966**	**616,959**			**325,625,968**

Rental Area Summary	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground Rents T1	183			250	45,750	45,750
Retail Sales for T1,T2,T3	1	26,500	25.00	662,500	662,500	662,500
Ground Rents T2	239			250	59,750	59,750
Ground Rents T3	331			250	82,750	82,750
Ground Rents BA	212			250	53,000	53,000
Totals	**966**	**26,500**			**903,750**	**903,750**

Investment Valuation

Ground Rents T1					
Current Rent	45,750	YP @	3.2500%	30.7692	1,407,692
Retail Sales for T1,T2,T3					
Market Rent	662,500	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	9,570,242

APPRAISAL SUMMARY						**QUOD**
Goldsworth Road Woking						
Baseline Appraisal Model - 48 Units Intermediate						
Updated to KCC position						
Ground Rents T2						
Current Rent	59,750	YP @	3.2500%	30.7692	1,838,462	
Ground Rents T3						
Current Rent	82,750	YP @	3.2500%	30.7692	2,546,154	
Ground Rents BA						
Current Rent	53,000	YP @	3.2500%	30.7692	1,630,769	
Total Investment Valuation					**16,993,319**	
GROSS DEVELOPMENT VALUE				**342,619,287**		
Purchaser's Costs			(977,116)			
Effective Purchaser's Costs Rate		5.75%				
				(977,116)		
NET DEVELOPMENT VALUE				**341,642,171**		
Income from Tenants				145,750		
Additional Revenue						
Car Parking Sales			432,000			
Car Parking Sales			560,000			
Car Parking Sales			736,000			
				1,728,000		
NET REALISATION				**343,515,921**		
OUTLAY						
ACQUISITION COSTS						
Fixed Price		15,100,000				

APPRAISAL SUMMARY QUOD

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position

Fixed Price			15,100,000	
				15,100,000
Stamp Duty		5.00%	755,000	
Agent Fee		1.00%	151,000	
Legal Fee		0.50%	75,500	
				981,500
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Building T1	107,478	240.73	25,873,713	
Affordable Housing	48,760	240.73	11,738,238	
Building T2	193,244	251.12	48,527,899	
Building T3	247,721	256.25	63,477,801	
Building BA	181,663	231.65	42,081,795	
Building BB - Homeless Shelter	18,596	255.06	4,743,056	
Totals	**823,962 ft²**		**196,442,502**	
Contingency		5.00%	9,822,125	
Incoming Services			1,250,820	
Facilitating works			2,787,290	
External Works			3,358,736	
Other Costs			4,937,000	
HiF			1,930,000	
CIL Payment			8,966,079	
SAMM			588,782	
				230,083,334
PROFESSIONAL FEES				
All Professional Fees		10.25%	20,135,356	
				20,135,356
MARKETING & LETTING				
Marketing		1.50%	4,579,562	
Letting Agent Fee		15.00%	135,563	
Letting Legal Fee		2.50%	22,594	

APPRAISAL SUMMARY			QUOD

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position

			4,737,719
DISPOSAL FEES			
Sales Agent Fee	1.25%	4,016,504	
Sales Legal Fee	0.25%	854,105	
			4,870,610
FINANCE			
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Total Finance Cost			26,164,217
TOTAL COSTS			**302,072,736**
PROFIT			
			41,443,186
Performance Measures			
Profit on Cost%	13.72%		
Profit on GDV%	12.10%		
Profit on NDV%	12.13%		
Development Yield% (on Rent)	0.30%		
Equivalent Yield% (Nominal)	5.13%		
Equivalent Yield% (True)	5.30%		
IRR	12.38%		
Rent Cover	45 yrs 10 mths		
Profit Erosion (finance rate 6.500)	1 yr 12 mths		

Annex 1b

Appraisal of proposed revised scheme with four floor height reduction to Building T3.

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position inc 4 floor Lower T3

Development Appraisal
Quod
11 November 2020

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position inc 4 floor Lower T3

Appraisal Summary for Merged Phases 1 2 3 4 5 6

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Building T1	135	81,956	516.46	313,538	42,327,571
Affordable Housing	48	37,179	383.28	296,875	14,250,000
Building T2	239	150,936	532.21	336,109	80,330,000
Building T3	295	171,138	554.52	321,692	94,899,082
Building BA	212	142,723	534.00	359,500	76,214,082
Building BB - Homeless Shelter	1	12,228	496.55	6,071,815	6,071,815
Totals	**930**	**596,160**			**314,092,551**

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Rents	183			250	45,750	45,750
Retail Sales for T1,T2,T3	1	26,500	25.00	662,500	662,500	662,500
Ground Rents	239			250	59,750	59,750
Ground Rents	295			250	73,750	73,750
Ground Rents	212			250	53,000	53,000
Totals	**930**	**26,500**			**894,750**	**894,750**

Investment Valuation

Ground Rents					
Current Rent	45,750	YP @	3.2500%	30.7692	1,407,692
Retail Sales for T1,T2,T3					
Market Rent	662,500	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	9,570,242

APPRAISAL SUMMARY						QUOD

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position inc 4 floor Lower T3

Ground Rents						
Current Rent	59,750	YP @	3.2500%	30.7692	1,838,462	
Ground Rents						
Current Rent	73,750	YP @	3.2500%	30.7692	2,269,231	
Ground Rents						
Current Rent	53,000	YP @	3.2500%	30.7692	1,630,769	
Total Investment Valuation					**16,716,396**	
GROSS DEVELOPMENT VALUE				**330,808,947**		
Purchaser's Costs			(961,193)			
Effective Purchaser's Costs Rate		5.75%				
				(961,193)		
NET DEVELOPMENT VALUE				**329,847,754**		
Income from Tenants				145,750		
Additional Revenue						
Car Parking Sales			432,000			
Car Parking Sales			560,000			
Car Parking Sales			736,000			
				1,728,000		
NET REALISATION				**331,721,504**		
OUTLAY						
ACQUISITION COSTS						
Fixed Price		15,100,000				

APPRAISAL SUMMARY				QUOD

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position inc 4 floor Lower T3

Fixed Price			15,100,000	
				15,100,000
Stamp Duty		5.00%	755,000	
Agent Fee		1.00%	151,000	
Legal Fee		0.50%	75,500	
				981,500
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Building T1	107,478	240.73	25,873,713	
Affordable Housing	48,760	240.73	11,738,238	
Building T2	193,244	251.12	48,527,899	
Building T3	220,973	256.25	56,623,702	
Building BA	181,663	231.65	42,081,795	
Building BB - Homeless Shelter	18,596	255.06	4,743,056	
Totals	**797,214 ft²**		**189,588,403**	
Contingency		5.00%	9,479,420	
Incoming Services			1,250,820	
Facilitating works			2,787,290	
External Works			3,358,736	
Other Costs			4,937,000	
HiF			1,858,000	
CIL Payment			8,637,600	
SAMM			567,212	
				222,464,481
PROFESSIONAL FEES				
All Professional Fees		10.25%	19,432,811	
				19,432,811
MARKETING & LETTING				
Marketing		1.50%	4,406,561	
Letting Agent Fee		15.00%	134,213	
Letting Legal Fee		2.50%	22,369	

APPRAISAL SUMMARY **QUOD**

Goldsworth Road Woking
Baseline Appraisal Model - 48 Units Intermediate
Updated to KCC position inc 4 floor Lower T3

			4,563,142
DISPOSAL FEES			
Sales Agent Fee	1.25%	3,869,074	
Sales Legal Fee	0.25%	824,619	
			4,693,694
FINANCE			
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Total Finance Cost			25,196,576
TOTAL COSTS			**292,432,204**
PROFIT			
			39,289,299
Performance Measures			
Profit on Cost%	13.44%		
Profit on GDV%	11.88%		
Profit on NDV%	11.91%		
Development Yield% (on Rent)	0.31%		
Equivalent Yield% (Nominal)	5.16%		
Equivalent Yield% (True)	5.33%		
IRR	12.25%		
Rent Cover	43 yrs 11 mths		
Profit Erosion (finance rate 6.500)	1 yr 11 mths		