Styles Garden Site

Development Appraisal

Author:	Cushman & Wakefield
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Subject/title:	Plot 4 – Loughborough Road Site Appraisal

Purpose of report

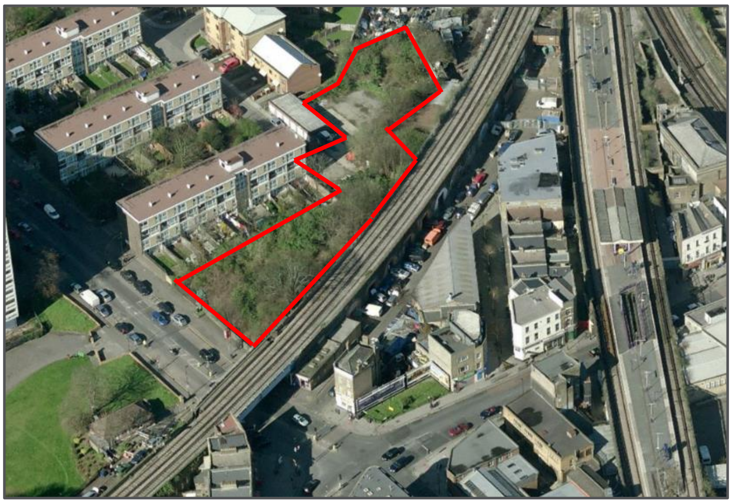
The purpose of the report is to provide our opinion of potential residual land value achievable for the Loughborough Junction[1]. Cushman & Wakefield have undertaken appraisals of the same site based on a bespoke financial model and using value inputs drawn from the Loughborough Junction Masterplan.

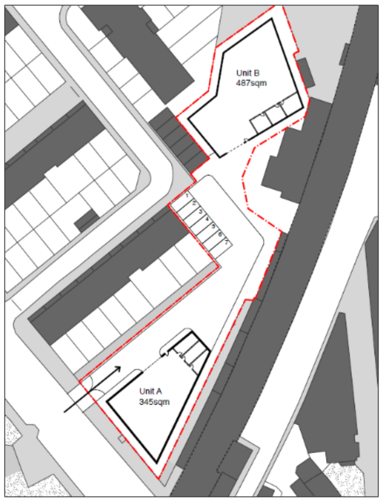
We have been provided with plan drawings by the Council and areas for a proposed scheme comprising light industrial use. These were informed by the masterplan design work and informal input from Lambeth Council planners.

1.1. Site Location

The site is located within the Loughborough Junction Masterplan and is located on Loughborough Road. The site encompasses all of Plot 4 and part of Plot 3 from the LJ masterplan.

[1] For the sake of good order we would confirm that this advice is tendered in the course of the provision of development consultancy services by DTZ and is excluded from the requirements of the RICS Valuation Standards (6th Edition) under the specific exclusion of Valuation Standard VS1.1(d) and is provided as a guide only. We have not undertaken full verification or research. The opinions detailed above are totally dependent on the adequacy and accuracy of the information supplied and the assumptions made. It should be noted that should these prove to be incorrect; the accuracy of our advice will be affected.





Unit	Use	GIA (sqm)	GIA (sqft)	NIA (sqm)	NIA (sqft)
A	Light Industrial	345	3,714	311*	3,342*
B	Light Industrial	487	5,242	438*	4,718*

* The net internal area (NIA) has been calculated by Cushman and Wakefield as being 90% of the gross internal area (GIA).

Appraisal Key Assumptions

1.2. Cost / Revenue Inputs

Use	Build Cost (£ sq ft)	Rental Value (per sq ft)	Yield
Light Industrial	**£75.0**	**£12.0**	**7.0%**

1.3. Key appraisal inputs

Developer Profit On Cost	**15%**
Professional fees	**9%**
Contingency	**7.50%**
Finance	**7.00%**
Rent free period	**6 months**
Letting period	**6 months**
Commercial Sales Agent Fee	**1.00%**
Commercial Legal Fee	**0.50%**

Agency letting Fee	**10.00%**
Agency Legal Fee	**5.00%**
CIL (psm)	**N/A**
MCIL (psm)	**£35**
Marketing	**£20k**
S.106	**£0**
Purchaser costs	**5.80%**
Planning fee	**£20k**

1.4. Other Assumptions

- Demolition and clearance - We have assumed that the site does not require any major demolition works. We have however included a £60,000 cost provision for any required site clearance.
- Timescale – we have assumed a 12 month build period (including pre-construction) followed by a 6 month letting period and a 6 month rent free period. We have therefore capitalised the revenue 12 months after practical completion.
- The massing for the scheme is based on the proposed plan drawings provided by Lambeth Council.
- CIL – We have assumed the site is only liable for Mayoral CIL at £35 psm of net increase in space. No Borough CIL is due (industrial use being exempt).
- S106 – We have assumed there is no S106 charge.
- Planning – We have assumed the scheme is planning policy compliant and this is reflected in the build costs.
- We have assumed parking provision is inclusive of the rent paid by the tenant(s).

- Rent - We would have assumed a market rent of £13 psf (£140 psm) reflecting the market rate for industrial unit sizes of 1,500 – 4,500 sqft. Within this size range demand is greatest. However, the proposed units are relatively large and therefore we have reduced the rent to £12 psf to reflect the less desirable unit size and rental level to incentivise a lettings.

- Build Cost – According to the BCIS database (Q2 2015), build costs for general industrial units in the Lambeth area range from circa £50 psf to £90 psf depending on type, specification and size. C&W are aware of several recent industrial developments of similar size and type to this scheme, where build costs of circa £70 psf have been assumed. Based on this evidence we have therefore assumed £75 psf for the scheme taking a conservative view. Buildings with higher plant requirements may incur a higher build cost, however we have assumed an average rate.

- Rent Free / letting – We would assume a 6 month letting period followed by a 6 month rent free period. Rental income us therefore receivable after this period.

- Finance – We have assumed a finance rate of 7% reflecting a rate that a lender in the market would apply rather than a rate the GLA may achieve.

- We assume there are no major utility upgrade costs associated with the site but we have assumed a £20k to reflect the cost of connecting the site to the necessary services.

- Our comments and findings are based on drawings provided to us by London Borough of Lambeth.

- Based on the drawings provided we assume the use is for industrial B1c / B2 / B8 use.

- We have assumed a yield of 7% based on comparable evidence from the local industrial market.

1.5. Appraisal Results

Appraisal Summary	
Net Development Value	**£1,381,716**
Less	
Construction Costs	**-£671,667**
Contingency	**-£50,375**
Demo / Landscaping / Utility	**-£80,000**
S106 / CIL	**-£26,208**
Stamp Duty	**£0 (N/A)**
Planning	**-£20,000**
Professional Fees	**-£60,450**
Marketing + Letting	**-£20,000**
Sales, Letting & Legal Fees	**-£35,234**
Finance Costs	**-£287,574**
Profit	**-£179,623**
Total Costs	**-£1,431,131**

Residual Land Value	**-£49,415** **(Negative Land Value)**

1.6. Site Constraints & Viability Issues

- Proposed unit sizes. The scheme proposes two units of 3,300 and 4,700 sqft, with the second unit at the higher end of the size band. Based on research of industrial demand in the area, we are of the view that some smaller units of 1,000 - 2,000 sqft (93 – 186 sqm) on one of the unit sites would be more appropriate, improve rental values achievable and overall viability.
- Site size. The size of the site and development opportunity (only 2 units) is relatively small and this may limit the breadth of potential developers who might interested in acquiring the site to deliver the scheme envisaged unless additional incentives were provided (e.g. such as a higher developer return).
- The building footprints for both units are not conventional rectangular layouts/footprints which occupiers and the market would seek, therefore there is a risk that units as designed may be difficult to let. This may extend the letting period and/or the level of rent an occupier is willing to pay. We have adjusted the rent to reflect the irregular shape. The irregular layouts are a challenge associated with the irregular shape of the site.
- The site lies next to Network Rail railway lines which run along the South East boundary of the site and may constrain the extent of development in proximity to the railway. This could have the effect of reducing the developable floor area and value realised. This will require further detailed consultation with Network Rail as part of the design of the scheme.
- The scheme provides no standalone demised yard space for each unit and we therefore have concerns as to whether there is enough yard space to meet occupier operational requirements and also parking. This has a bearing on the ability to let the building.
- Access. Further work needs to be done to ascertain whether larger vehicles can service (including turning) the units as part of the design process. This has a bearing on the ability to let the building.
- It is unclear at the moment whether there is any contamination present in the site. With sites where there is a history of industrial use this risk is higher. Remediation of a contaminated site has a significant bearing on cost and viability. Prior to detailed design stage, a Phase 1 and Phase 2 geoenvironmental survey will be required to establish whether any contamination is present.
- Industrial adjacency issues with residential. The occupier of the industrial units will need to be of a nature that does not cause substantial issues with adjacent residential dwellings. E.g. in terms of noise, emissions, vehicle movements and odours etc. This could reduce the range of potential occupiers and therefore demand for the units, compared to say an established industrial estate.
- Delivery. The two likely routes would be either (i) delivery of the scheme by a developer with letting risk or (ii) delivery via a developer in return for development management fee (typically 4% on construction costs) with the Council taking on the letting risk. Where the developer takes 100% risk this will incur higher costs reflected in the developer's profit (typically 15% Profit on Cost for industrial developments). For the purpose of this study we have assumed the scheme is delivered by a developer, buying the land from the Council and taking marketing risk for letting the units). This route incurs a higher cost therefore negatively impacting viability compared to route (i) but is more appropriate, conservative approach at this stage.
- Finance Costs. Should the scheme be delivered by a developer who is required to obtain funding from the market we would typically assume a rate of 7.00%. We have assumed this rate reflecting the delivery route assumed in the previous point. Should development finance

is be provided by the GLA it is likely that a much lower rate would be chargeable and this would reduce a key appraisal cost and improve viability.

1.7. Disclaimer

This report is confidential to Lambeth Council. It includes commercially confidential information and it is recommended that it is not distributed to any third party. In the event that it is distributed to any party, C&W accepts no liability to such third parties.

No part of this report constitutes a formal valuation in accordance with the RICS Professional Standards ("PS"), RICS Global Valuation Practice Statements ("VPS"), RICS Global Valuation Practice Guidance – Applications ("VPGAs") and United Kingdom Valuation Standards ("UKVS") contained within the RICS Valuation - Professional Standards 2014, (the "Red Book").

Any figures included are strictly prepared from cash flow modelling for the purposes of assessing the scheme as currently defined and the potential residual land receipt based on important assumptions. Cash flow modelling is used as a tool to aid decisions making and its results are crucially dependent upon the assumptions used. As such, all figures in this report are:

- Not suitable for publication in any Public Accounts, or for any other purpose for which formal valuation is required
- Not suitable for loan security purpose
- Not suitable to support, substantiate, or inform any financial decisions.

Appendix 1 – Ground Floor Plan of proposal

Site area: 2196sqm
GIA unit A: 345sqm
GIA unit B: 487sqm

Scale @ A4 1:2000