



LAMBETH DRAFT SITE ALLOCATIONS DEVELOPMENT PLAN DOCUMENT- VIABILITY ASSESSMENT



Prepared for
London Borough of Lambeth
June 2023

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1 Summary

- 1.1 This report tests the viability of sites identified for development in London Borough of Lambeth's ('the Council') Regulation 19 Draft Site Allocations Development Plan Document ('SADPD'). The report tests the ability of the sites in the Draft SADPD to be developed for residential and residential-led mixed use development applying the plan policies in the London Plan, the 2021 Local Plan and prevailing rates of Community Infrastructure Levy ('CIL'), subject to indexation, in the Council's Charging Schedule which came into effect on 1 January 2022.
- 1.2 The study takes account of the impact of the Council's Local Plan policies and the policies in the London Plan, in line with the requirements of the National Planning Policy Framework ('NPPF'); the National Planning Practice Guidance ('PPG') and the Local Housing Delivery Group guidance '*Viability Testing Local Plans: Advice for planning practitioners*'; and the RICS Professional Standard '*Assessing viability in planning under the National Planning Policy Framework 2019 for England*'.

Declaration

- 1.3 In preparing this report and the supporting appraisals, we have given full regard to the RICS Guidance Note ('GN') '*Assessing viability in planning under the National Planning Policy Framework for England 2019*' (first edition, March 2021). However, paragraph 2.2.3 of the GN acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the GN and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.
- 1.4 In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.
- 1.5 We are not aware of any conflicts of interest in relation to this assessment.
- 1.6 In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.
- 1.7 This report is addressed to London Borough of Lambeth only. No liability to any other party is accepted.

Methodology

- 1.8 The study methodology compares the residual land values generated by indicative developments on 11 of the site allocations which the Council expects to come forward over the life of the new Development Plan. The appraisals compare the residual land values generated by those developments (reflecting the relevant development plan policy requirements and CIL) to the sites' benchmark land values to reflect the existing value of land prior to redevelopment. If a development generates a higher residual land value than the benchmark land value, then it can be judged that the development is viable and deliverable. Following the adoption of policies, developers will need to reflect policy requirements in their bids for sites, in line with requirements set out in the Mayor of London's supplementary planning guidance on '*Affordable Housing and Viability*'.
- 1.9 The study utilises the residual land value method of calculating the value of each indicative development. This method is used by developers when determining how much to bid for land and involves calculating the value of the completed scheme and deducting development costs (construction, fees, finance, sustainability requirements and CIL) and developer's profit. The residual amount is the sum left after these costs have been deducted from the value of the development, and guides a developer in determining an appropriate offer price for the site. The residual land values have been established using *Argus Developer* which is development appraisal software widely used by developers, valuers and local planning authorities.
- 1.10 The housing and commercial property markets are inherently cyclical and the Council is testing the viability of its emerging SADPD policies at a time when both commercial and residential markets have experienced a period of growth. Forecasts for future house price growth point to short term

weakening in values in 2023 and 2024, with continuing growth in mainstream London housing markets and forecasts from 2025 onwards. We have allowed for this medium term growth over the plan period by running a sensitivity analysis which applies growth to sales values and inflation on costs to provide an indication of the extent of improvement to viability that might result. We have also run a 'downside' sensitivity analysis which assumes a fall in prices in 2023-2024 followed by slower growth in the subsequent years.

- 1.11 These sensitivity analyses are indicative only, but are intended to assist the Council in understanding the impact changes to values may have on the viability of the site allocations. These analyses underline the need for flexible application of plan policy requirements, which is already built into the new Local Plan.

Key findings

- 1.12 The key findings from our assessment of the viability of the emerging site allocations and our recommendations are summarised as follows.
- 1.13 The gross areas and massing for the site allocations are informed by studies undertaken by GIA Surveyors. The indicative schemes reflect the emerging Local Plan policies on limits on heights and mix of uses.
- 1.14 The results of the appraisals (summarised in Table 1.14.1) indicate that most of the site allocations are either viable or on the margins of viability. Site allocations which are not currently viable may become so over the life of the SADPD as a result of changes in values and costs; availability of grant funding; changes to the assumed tenure mix or percentage of affordable housing; or changes to the assumed proportion or level of discount for affordable workspace. Changes to affordable housing or affordable workspace would need to be agreed through a planning application that takes the viability tested route.

Table 1.14.1: Summary of appraisal results (threshold level of affordable housing; 10% of office floorspace provided as affordable at a 50% discount to market rent)

Site No	Site name	No of units	RLV £m	BLV £m	Surplus/deficit £m
SA1	Royal Street	138	£214.14	£158.93	£55.20
SA3	35-37 and Car Park Leigham Court Road	28	£1.26	£0.87	£0.39
SA7	6-12 Kennington Lane	117	£11.85	£8.59	£3.27
SA8	110 Stamford Street	30	£12.08	£1.73	£10.36
SA9	Gabriel's Wharf and Princes Wharf	51	£142.91	£43.47	£99.44
SA17	330-336 Brixton Road	60	£11.88	£6.15	£5.73
SA18	300-346 Norwood Road	170	£5.80	£51.96	(£46.16)
SA20	Tesco 13 Acre Lane	191	£5.46	£24.07	(£18.61)
SA21	51-57 Effra Road	174	(£2.96)	£14.48	(£17.44)
SA22	7 Hinton Road / 1-2 Welfit Street / 1-4 Hardess Street	65	£1.78	£2.22	(£0.45)
SA23	Sureway Church, Coldharbour Lane	34	(£1.58)	£3.24	(£4.82)

2 Introduction

- 2.1 The London Borough of Lambeth ('the Council') has commissioned this study to consider the viability of emerging site allocations identified in its draft SADPD, having regards to development plan policies and prevailing rates of Community Infrastructure Levy ('CIL') in the adopted Charging Schedule, subject to indexation. The aim of the study is to assess at high level the viability of indicative developments on each site.
- 2.2 In terms of methodology, we adopted standard residual valuation approaches to test the viability of opportunity sites and development typologies, with particular reference to the ability of those schemes to meet the development plan policies. However, due to the extent and range of financial variables involved in residual valuations, they can only ever serve as a guide. Individual site characteristics (which are unique and cannot always be readily established without detailed investigation), mean that the conclusions must always be tempered by a level of flexibility in application of policy requirements on a site by site basis.
- 2.3 This study forms part of the Council's evidence base for the Regulation 19 consultation on its Draft SADPD. The study has been undertaken in a form that meets the requirements set out within the NPPF, the PPG and the CIL regulations and has regard to the RICS Practice Statement on viability.
- 2.4 The Council has attempted to address a number of site-specific factors which may impact on viability, including identifying constraints on bulk and massing and daylight/sunlight impacts. Further more detailed investigations may be undertaken in support of planning applications which may result in changes to the schemes and/or scheme costs. An element of judgement has been applied within this study with regard to the individual characteristics of the sites tested. The schemes tested on the site allocations are informed by indicative floor areas and massing identified in work undertaken by the Council's design officers and architects which in turn has had regard to advice on daylight/sunlight matters provided by the Council's advisors. The quantum of development identified in this study may differ from the quantum of development in future planning applications that may come forward.
- 2.5 This position is recognised within Section 2 of the Local Housing Delivery Group guidance¹, which identifies the purpose and role of viability assessments within plan-making. This identifies that: *"The role of the test is not to give a precise answer as to the viability of every development likely to take place during the plan period. No assessment could realistically provide this level of detail. Some site-specific tests are still likely to be required at the development management stage. Rather, it is to provide high level assurance that the policies within the plan are set in a way that is compatible with the likely economic viability of development needed to deliver the plan"*.

Economic and housing market context

- 2.6 The positive economic start to 2020 was curtailed by the outbreak of COVID-19, declared a global pandemic by the World Health Organisation in March 2020. The virus continues to impact global financial markets and supply chains. The FTSE 100 initially fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall since the 2008 financial crisis. The Bank of England ("BoE") responded to the COVID-19 outbreak by lowering the base rate to 0.25% and introducing financial arrangements to help bridge the downward economic pressure caused by COVID-19. These changes to the base rate have since been reversed as a result of factors discussed below.
- 2.7 The UK Government introduced a series of restrictive and economically disruptive measures to slow and mitigate the spread of the COVID-19. The UK Government pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. The Chancellor's Winter

¹ Although this document was published prior to the NPPF and NPPG, it remains relevant for testing local plans. The approaches to testing advocated by the LHDG guidance are consistent with those in the PPG. The same cannot be said of some of the approaches advocated in the RICS guidance 'Financial Viability in Planning 2012' (particularly its approach to site value benchmark) but these have always been inconsistent with the LHDG guidance and the approach now advocated by the PPG. In any event, the focus of the RICS guidance is on testing individual plans rather than testing plan policies.

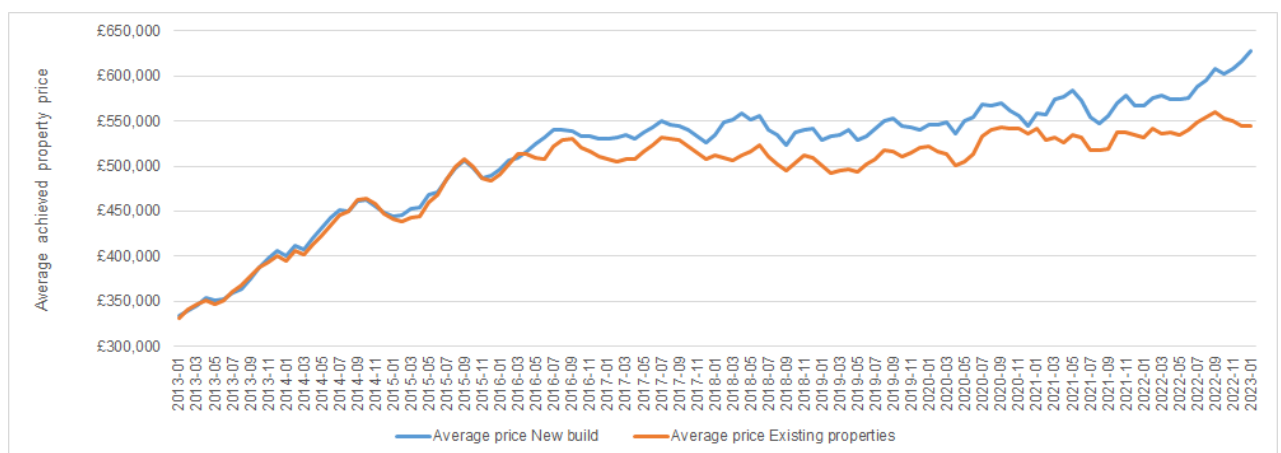
Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses, including the furlough scheme which has since ended. Importantly for the housing market, a Stamp Duty holiday ran from June 2020 until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme allowed for the full easing of restrictions within the UK, which has in turn led to a positive rebound in economic activity.

- 2.8 However, the rebound in economic activity has seen inflation rates increase above the BoE's inflation target of 2%, with inflation currently standing at 8.7% at the time of writing.
- 2.9 Despite the economic headwinds facing the UK, the housing market has outperformed expectations in 2020 and 2021. In 2020, house prices grew by 7.96% and a further minimum of 10.8% in 2021 (based on the latest date available to the HPI). Halifax's Managing Director, Russell Galley states in the Halifax February 2022 House Price Index Report that "The UK housing market shrugged off a slightly slower start to the year with average property prices rising by another 0.5% in February, or £1,478 in cash terms. This was an eighth successive month of house price growth, as the resilience which has typified the market throughout the pandemic shows little sign of easing. Year-on-year prices grew by 10.8%, the fastest pace of annual growth since June 2007, pushing the average house price up to another record high of £278,123".
- 2.10 However, in the third and fourth quarters of 2022, annual house price growth has fallen back, largely as a result of the Government's September 'Fiscal Event' which saw unfunded cuts to taxes and a consequent fall in sterling and increase in bond yields. Nationwide's Chief Economist, Robert Gardener, commented in Nationwide's February 2023 House Price Index Report that "Annual house price growth slipped into negative territory for the first time since June 2020, with prices down 1.1% in February compared with the same month last year. Moreover, February saw a further monthly price fall (-0.5%) – the sixth in a row – which leaves prices 3.7% below their August peak (after taking account of seasonal effects). The recent run of weak house price data began with the financial market turbulence in response to the mini-Budget at the end of September last year. While financial market conditions normalised some time ago, housing market activity has remained subdued."
- 2.11 Both Nationwide and Halifax indicate the house price growth is expected to continue to struggle as a result of continuing pressure on household budgets and the impact of higher interest rate rises. Robert Gardner comments that "it will be hard for the market to regain much momentum in the near term since economic headwinds look set to remain relatively strong, with the labour market widely expected to weaken as the economy shrinks in the quarters ahead, while mortgage rates remain well above the lows prevailing in 2021". Halifax observe in their February 2023 House Price Index report that recent falls in annual growth should be viewed in a wider context and reflecting a period of normalisation; "When comparing to January, there was a 1.1% increase in house prices through the month of February, although overall prices are flat compared to three months ago. Recent reductions in mortgage rates, improving consumer confidence, and a continuing resilience in the labour market are arguably helping to stabilise prices following the falls seen in November and December. Still, with the cost of a home down on a quarterly basis, the underlying activity continues to indicate a general downward trend".
- 2.12 In their December 2022 Housing Market Update, Savills reflect the weakening market is largely a consequence of the challenging mortgage environment and that demand will be supported by mortgage rates which are beginning to fall.
- 2.13 Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. There is a consensus that there is likely to be a short term reduction in values in 2023-2024 with a period of growth between 2025 – 2027. Additionally, positive growth will be further encouraged as more certainty emerges on the deal now agreed for the UK's exit from the EU and employment growth, wage growth and GDP growth return towards trend levels. In their December 2022 Housing Market Update, Savills are forecasting 6.2% cumulative growth across the UK between 2023 and 2027.

Local Housing Market Context

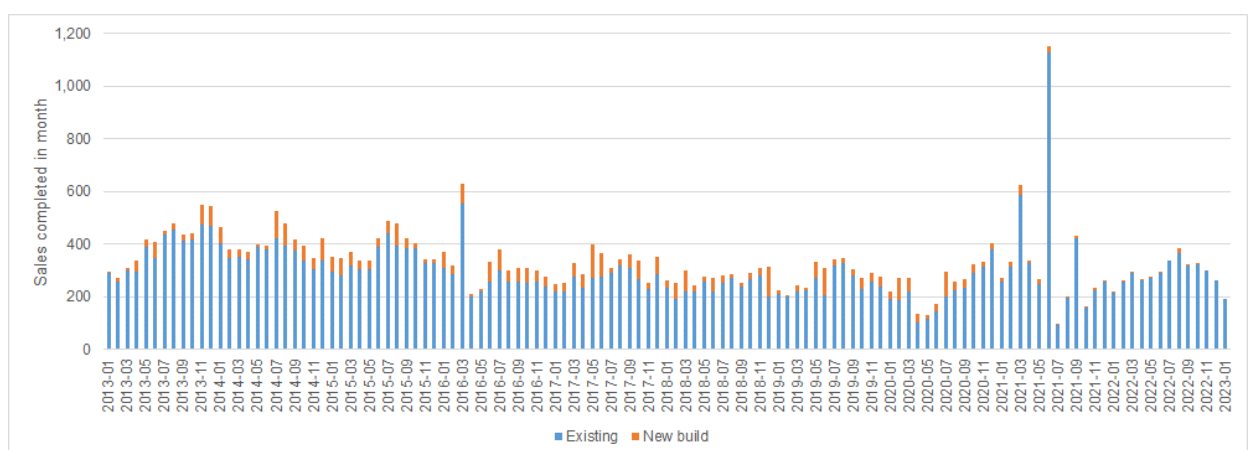
- 2.14 House prices in the London Borough of Lambeth have followed recent national trends, with values increasing rapidly from the middle of 2020 in response to fiscal stimulus and low interest rate, alongside a desire among many owner occupiers for additional space. The recent trajectory of residential property in Lambeth is shown in Figure 2.22.1. Values for new build properties have increased at a faster rate in Lambeth than existing properties.
- 2.15 Sales volumes fell below historic levels in March to June 2020, but have since recovered (see Figure 2.16.1) to over 200 sales per month. In June 2021, there was a significant increase in transactions as a result of the cessation of the Stamp Duty Holiday. In that month, almost 1,200 transactions were completed, and the following month saw a fall to below 100 transactions, which can be seen as a result of transactions completing more quickly than usual so that purchasers would qualify for the reduced Stamp Duty. The volume of transactions has also fallen every month since the government's 'Fiscal Event' in September 2023 which resulted in a significant increase in bond yields and a knock on impact on mortgage rates. .

Figure 2.16.1: Average sales value in Lambeth



Source: Land Registry

Figure 2.16.2: Sales volumes in Lambeth (sales per month)



Source: Land Registry

- 2.16 The future trajectory of house prices is currently uncertain, although JLL's most recent housing market forecast issued in February 2023 is that values in 'mainstream' markets are expected to fall

by 6% in 2023; and increase by 1.0% in 2024; 4.0% in 2025; 5.0% in 2026; and 5.0% in 2027, equating to cumulative growth of 8.9% over the period 2022-2026. In contrast, Knight Frank predict slightly lower cumulative growth in Prime Central London markets (which includes the northern areas of Lambeth Borough) with a fall of only 3.0% in 2023; no change in 2024; and increases of 3.0% in 2025; 4.0% in 2026; and 4.0% in 2027 equating to 8.1% cumulative growth. It should be noted, however, that Knight Frank predict cumulative growth for Greater London as a whole of only 2.5% over the same period, indicating that they expect higher growth in prime central London markets in comparison to 'mainstream' London markets.

National Policy Context

The National Planning Policy Framework

- 2.17 In February 2019, the government published a revised NPPF with a revised version published on 20 July 2021. The government also issued a revised PPG alongside the 2019 NPPF, with subsequent updates to the PPG in May and September 2019, and in July 2021.
- 2.18 Paragraph 34 of the NPPF states 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 (such as that needed for education, health, transport, flood and water management, green and digital infrastructure). Such policies should not undermine the deliverability of the plan”*.
- 2.19 Paragraph 58 of the NPPF states that *“Where up-to-date policies have set out the contributions expected from development, planning applications that comply with them should be assumed to be viable. It is up to the applicant to demonstrate whether particular circumstances justify the need for a viability assessment at the application stage. The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case, including whether the plan and the viability evidence underpinning it is up to date, and any change in site circumstances since the plan was brought into force. All viability assessments, including any undertaken at the plan-making stage, should reflect the recommended approach in national planning guidance, including standardised inputs, and should be made publicly available”*.
- 2.20 In London and other major cities, the fine grain pattern of types of development and varying existing use values make it impossible to realistically test a sufficient number of typologies to reflect every conceivable scheme that might come forward over the plan period. For this reason, London Plan H5 offers two options for developers – a “Fast Track” route which requires schemes to deliver 35% affordable housing (or 50% on public sector sites, or industrial sites where the existing quantum of industrial floorspace is not reprovided in the development) – and a “Viability Tested” route, under which a lesser quantum of affordable housing can be provided based on a proven viability case. The Viability Tested route enables schemes that cannot provide 35% affordable housing to still come forward rather than being sterilised by a fixed or ‘quota’ based approach to affordable housing.
- 2.21 The 2019 PPG indicates that viability testing of plan policies should be based on existing use value plus a landowner premium. The 2019 PPG also expresses a preference for plan makers to test the viability of planning obligations and affordable housing requirements at the plan making stage in the anticipation that this may reduce the need for viability testing developments at the development management stage. Local authorities have, of course, been testing the viability of their plan policies since the first NPPF was adopted², but have adopted policies based on the most viable outcome of their testing, recognising that some schemes coming forward will not meet the targets. This approach maximises delivery, as there is flexibility for schemes to come forward at levels of obligations that are lower than the target, if a proven viability case is made. The danger of the approach in the revised NPPF is that policy targets will inevitably be driven down to reflect the least viable outcome; schemes that could have delivered more would not do so.

² And also following the publication of Planning Policy Statement 3 which required that LPAs set affordable housing policies on the basis of both proven need *and* viability. The need for viability testing was established following the quashing in 2008 of Blyth Valley’s Core Strategy, which based its 30% affordable housing target on need alone, with no evidence on the viability of the policy.

Mayoral CIL

- 2.22 Lambeth is located in Mayoral CIL Band 2, which attracts a rate of £60 per square metre before indexation³. Parts of the borough (broadly aligned with the Central Activities Zone) are within the central London charging area where the following rates are charged; £185 per square metre for offices; £165 per square metre for retail; and £140 per square metre for hotels. Future receipts from the Mayoral CIL will be used to contribute towards strategic transport infrastructure, including Crossrail 2 (a north-east to south-west line which will pass through Clapham Junction).

Lambeth CIL

- 2.23 The Council approved its revised CIL Charging Schedule on 22 September 2021 and it came into effect from 1 January 2022. Table 2.32.1 below summarises the rates of CIL in the 2022 Charging Schedule. For C3 residential developments in the north of the borough (Waterloo and Vauxhall), the rate is £500 per square metre. In Kennington, Oval and Clapham, the rate is £350 per square metre. In Tulse Hill, Brixton and Herne Hill, a rate of £250 per square metre applies and in Streatham, West Norwood and Streatham Hill, a rate of £200 per square metre applies. In Waterloo and Vauxhall, and Kennington, Oval and Clapham, offices attract a CIL charge of £225 per square metre. In K Waterloo and Vauxhall, hotel developments attract a CIL charge of £200 per square metre and a nil rate applies to hotels in other areas. Across the borough as a whole, large retail developments attract a charge of £225 per square metre and student accommodation attracts a charge of £400 per square metre.

Table 2.23.1: CIL rates per net additional square metre in the Charging Schedule

Development type	Zone A – Waterloo and Vauxhall	Zone B – Kennington, Oval and Clapham	Zone C – Tulse Hill, Brixton and Herne Hill	Zone D = Streatham, West Norwood, Streatham Hill
Residential	£500	£350	£250	£200
Self-contained sheltered housing, self contained extra care schemes and care homes	£250	£175	£100	£100
Hotel	£200	£75		
Office	£225		Nil	
Large retail development	£225			
Other retail	Nil			
Student accommodation	£400			
All other uses not identified above	Nil			

London Plan

- 2.24 The Development Plan in Lambeth includes the 2021 London Plan, the Lambeth Local Plan 2021 and the South Bank and Waterloo Neighbourhood Plan 2019.
- 2.25 The 2021 London Plan sets a strategic target for 50% of all new housing supply to be delivered as affordable housing over the plan period, taking account of all sources of supply, including estate regeneration schemes. The 2021 London Plan mirrors previous policy which adopts two routes for schemes; a ‘fast track’ route, where schemes provide 35% affordable housing with a tenure mix that meets local requirements; and a ‘viability tested route’ for schemes that cannot viably deliver the full

³ The impact of indexation is discussed in section 6.

35% affordable housing. On sites in current industrial use, the fast track route only applies where schemes fully reprovide the existing industrial capacity. Public sector owned sites are also required to provide 50% affordable housing to qualify for the fast track route. Individual boroughs can set their own fast track threshold (in excess of 35%) and Lambeth's policy sets a threshold of 35%. On sites in mixed ownership (i.e. part public sector owned and part private), a blended affordable housing threshold would apply, with 50% sought on the public sector land and 35% on the private sector land.

Local Policy Context

- 2.26 There are numerous policy requirements that are now embedded in base build costs for schemes in London addressing London Plan requirements, which are mirrored in borough Local Plans (i.e. carbon reduction, secure by design, lifetime homes, landscaping, amenity space, internal space standards, car parking, waste storage, tree preservation and protection etc).
- 2.27 The following Local Plan and London Plan policies are relevant to the viability of the site allocations:
- Policy H2 seeks to maximise delivery of affordable housing in accordance with London Plan policy H6 which provides a threshold approach to delivery. Schemes on privately owned land that is not currently in industrial use, or sites in industrial use where there is no net loss of industrial floorspace which provide 35% affordable housing with a policy compliant tenure mix do not require supporting viability evidence. On such sites there are no post-implementation reviews providing the scheme is commenced no later than two years following grant of planning permission. Schemes which cannot provide 35% affordable housing must be supported by a viability submission and viability will be reviewed at a number of points pre and post implementation.
 - London Plan space standards set out in Policy D4 and the external amenity for residential units and child play-space requirements in Local Plan policy H5.
 - Accessibility standards set out in Policy D5 of the London Plan.
 - Local Plan Policy ED2 seeks affordable workspace on schemes in Waterloo, Vauxhall, Oval, Kennington, Clapham and Brixton which provide more than 1,000 square metres of net additional new or replacement B1 office floorspace at 10% of net rentable floorspace with the following discounts: Waterloo/Southbank and Vauxhall – 50% discount for 15 years; Oval, Kennington and Clapham – 80% discount for 15 years; and Brixton Creative Enterprise Zone – varying discounts between 50% and 80% of market rent.
 - The impact of requirements of Local Plan policy ED15 which requires financial contributions towards training and apprenticeships.
 - Low carbon requirements in London Plan policy S12C.
 - Limitations on car parking provision in London Plan policy T6.1 and cycle storage provisions in London Plan policy D4.

Development context

- 2.28 Lambeth is an inner-London borough located in south London. The borough is bordered by the River Thames to the north, the Borough of Southwark to the east; the London Borough of Wandsworth to the west; and the boroughs of Merton and Croydon to the south. The borough has numerous transport hubs routes, including mainline trains from central London (Waterloo, Vauxhall and Clapham Junction) providing services to the south via National Rail services and to the south and north via the London Underground Victoria Line. The Borough benefits from the extension of the Northern Line through the Nine Elms Vauxhall Opportunity Area, with a new Station at Nine Elms which provides accessibility to central London and to Battersea Power Station. Public Transport Accessibility Levels ('PTAL') are highest in Waterloo, Vauxhall, Oval, Kennington, Nine Elms,

Brixton, Clapham, Herne Hill and Streatham.

- 2.29 The London Plan designates Vauxhall as part of the Nine Elms Vauxhall Opportunity Area with potential for significant housing provision, much of which has been consented and constructed.
- 2.30 Developments in Lambeth range from small in-fill sites to major regeneration schemes. The bulk of development (in terms of volume of units) is expected to come forward on sites in Town Centres and highly accessible locations such as Waterloo, Vauxhall, Brixton, Oval and Kennington.
- 2.31 The Borough has significant opportunities for development through the recycling of previously developed sites, including vacant and under-utilised buildings, commercial buildings, car parks and surplus public sector land.

First Homes

- 2.32 Lambeth's Local Plan requires that 70% of affordable housing should be provided as social rent or London Affordable Rent, with the remaining 30% provided as intermediate housing, including London Living Rent and Shared Ownership. The Plan pre-dates the First Homes PPG, which was published in May 2021. Our appraisals therefore reflect a tenure mix of 70% rent and 30% shared ownership.
- 2.33 First Homes would, in most cases, generate slightly higher receipts for the Developer in comparison to shared ownership, as illustrated in Table 2.33.1. However, a key factor in the value of First Homes is the percentage discount applied and, as can be noted in Table 2.33.1, if a 50% discount is applied, the values are lower than shared ownership.

Table 6.21.1: Comparison of value of First Homes and Shared Ownership

Unrestricted market value per square metre	Shared Ownership value per square metre	First Homes value per square metre (30% discount)	First Homes value per square metre (50% discount)
£7,130	£4,635	£4,991	£3,565
£7,474	£4,859	£5,232	£3,737
£7,818	£5,083	£5,473	£3,909
£8,162	£5,306	£5,713	£4,081
£8,506	£5,530	£5,954	£4,253
£8,850	£5,754	£6,195	£4,425
£9,194	£5,977	£6,215*	£4,597
£9,538	£6,201	£6,215*	£4,769
£9,880	£6,423	£6,215*	£4,940

*these units are impacted by the £420,000 property price cap and require a higher discount than stated in the relevant column heading.

- 2.34 We understand that median incomes in Lambeth are insufficient to access a First Homes at a 30% discount and a discount of at least 50% would be required to make units affordable to eligible households. So if First Homes were provided on the Site allocations in place of shared ownership⁴, there would be an adverse impact on financial viability, as capital values of First Homes with a 50% discount are lower than shared ownership capital values.
- 2.35 There would also be other adverse viability impacts of incorporating First Homes into the site allocation appraisals. Developers will need to market the First Homes themselves, so a higher profit margin will need to be applied, reflecting the risk of disposing of the First Homes resting with the

⁴ In principle, this would leave the balance of 5% shared ownership (with an affordable housing tenure split of 70% rented, 5% shared ownership and 25% First Homes).

Developer, rather than being sold through a single transaction to a RP. Typically, a profit margin of 12% is applied to First Homes, which is lower than the 17.5% of GDV applied to market housing, but higher than the profit applied to affordable housing sold to RPs of 6%. This higher profit margin is a higher cost in the appraisal, which will reduce residual land values. In addition, the sales will complete following practical completion, whereas RPs will typically pay for traditional forms of affordable housing over the construction period. In comparison to 'traditional' forms of affordable housing, First Homes are therefore less effective at reducing developers' finance costs.

3 Methodology and appraisal approach

- 3.1 When establishing the extent to which developments in an area are viable and able to meet planning policy requirements, the key issue is the extent to which there is a 'surplus' above the value of the site in existing use (being the lowest value that a landowner would normally accept for their site). The ability of sites to accommodate policy requirements is therefore a key consideration in the plan making process; if the cumulative impact of policy requirements is too high, landowners may not bring their sites forward for development, or there may be a need for additional public investment to support growth to ensure the plan is deliverable. Viability at the plan making stage therefore helps to establish a level of policy requirements that can be viably provided in 'normal' circumstances.
- 3.2 It is important to note that sites across a local authority area are typically heterogeneous; variations between sites and site-specific factors will mean that there is no 'one-size fits all' policy and a degree of flexibility is required in the application of plan policies. Most councils' policy requirements for affordable housing are framed as targets which are subject to site-specific circumstances, including the viability of development. When a developer is unable to meet the policy targets in full, the onus is upon them to demonstrate why the scheme cannot do so by submitting a Viability Appraisal with the planning application. The planning authority will then procure valuation advice to validate appraisals submitted by applicants and this process frequently results in a change in the level of affordable housing provision.
- 3.3 The various inputs to an appraisal are summarised in figures 3.3.1 and 3.3.2. The same approach applies whether the appraisal is used for testing local plan policies, site allocations or specific schemes submitted for consideration by development management teams. Other than the inputs identified in figures 3.3.1 and 3.3.2, one of the other key factors is time and flows of income and cost at various points over the development period, which we consider later. Developments which have large upfront costs of providing on-site infrastructure, with sales revenues received much later will incur more interest than developments which have low upfront costs and early revenue receipts. Interest incurred by the Developer will be a contributing factor to the residual land value; the lower the interest cost, the higher the residual land value (all other factors remaining equal of course).

Figure 3.3.1: Appraisal model (residual land value)

GROSS DEVELOPMENT VALUE ('GDV') Private house and flat sales values Receipt from Registered Provider for affordable units Car parking sales Ground rents Investment value of commercial floorspace	A
LESS	
DEVELOPMENT COSTS Base build costs Site infrastructure Contingencies Professional fees Marketing costs and disposal fees Finance Planning obligations, CIL and other statutory costs	B
DEVELOPER'S PROFIT	C
RESIDUAL LAND VALUE	= A - (B + C)

Figure 3.3.2: Appraisal model (profit as output)

GDV Private house and flat sales values Receipt from Registered Provider for affordable units Car parking sales Ground rents Investment value of commercial floorspace	A
LESS	
DEVELOPMENT COSTS Site value Base build costs Site infrastructure Contingencies Professional fees Marketing costs and disposal fees Finance Planning obligations, CIL and other statutory costs	B
SITE VALUE	C
PROFIT	= A – (B + C)

- 3.4 There are alternative approaches to determining viability which do not rely so heavily on the traditional residual land valuation methodology. During recessionary periods, developers sometimes adopt deferred payment terms, which result in reduced initial outlay (and thus interest savings) as land is only 'drawn down' when required for building out. Developers may also work on a joint venture basis with landowners with no upfront land payment with the rewards to the landowner taken as a profit-share when the development is completed. This approach reduces finance costs, so there is potentially a greater profit for both parties to share in comparison to a 'traditional' approach of upfront land acquisition. This approach of course requires the landowner to take a share in the risk of development, which many landowners are not prepared to do.

Evidencing inputs to a development appraisal

- 3.5 Developments have unique characteristics that should be reflected in the inputs to a development appraisal. For example, sales values of individual units will be determined by aspect, location, height and internal specification, while build costs will be influenced by design, specification, ground conditions and so on.
- 3.6 When preparing a development appraisal, a valuer normally has regard to scheme-specific characteristics so that the result (in terms of residual land value) is reflective of these characteristics.
- 3.7 Inputs to an appraisal reflect the current day situation and circumstances may change very quickly. For example, sales values can change in response to changes in demand (up or down) over short periods of time. Although the impact of changes to inputs can be tested through sensitivity analyses, the base position will always be rooted in today's market conditions. Evidence provided in support of a development appraisal, whether area-wide or site specific, therefore has a short "shelf-life" and any user of an appraisal should have regard to the need to collect new and updated evidence if the viability of a scheme is to be re-visited.
- 3.8 Appraisals on specific schemes will have more detailed inputs than those provided for the purpose of area wide or plan testing. When assessing the viability of a development proposal, the following evidence would typically be produced by the Applicant:
- Sales values: a unit-by-unit pricing schedule, showing how aspect, height, specification and location have been considered. This pricing schedule would normally be supported by an

analysis of comparable sales within the vicinity (if schemes have recently been sold) or other relevant developments that share similar characteristics.

- **Sales rates:** the speed at which units in a development are sold is an important factor in determining viability. Off-plan sales which result in completion of a sale when a unit reaches practical completion will improve the overall cashflow profile of the development. In other words, the sooner a unit is sold, the sooner the developer receives payment and this reduces finance costs.
- **Receipt from affordable housing Registered Provider ('RP'):** developers will typically sell the affordable housing units to an RP which will take responsibility for selling equity stakes in shared ownership units and letting the rented units. The developer would either provide a valuation of the units, based on anticipated rental income and/or the value of equity stakes sold, or provide offers from RPs for the units available.
- **Commercial floorspace:** some developments will include an element of commercial floorspace, such as retail, office or leisure uses. Appraising the residual value of these elements is similar, except that the method for arriving at a capital value is based on capitalising the expected rental income. Developers therefore need to evidence both the rental income and also investment yields, both of which can be demonstrated through comparable lettings and investment sales.
- **Build costs:** a cost plan for the proposed development, reflecting scheme-specific characteristics, including design, ground conditions, access issues and site constraints. Alternatively, the developer could use benchmark data, such as the Building Cost Information Service ('BCIS') database which collates tenders for live developments.
- **Professional fees:** developments typically require professional inputs from a group of specialists, ranging from design to rights of light advice. Schemes do not require an identical level of professional inputs, as they will vary in complexity. For example, the structural engineering input to a 15 storey tower scheme will clearly be greater than would be the case for a 2 storey house. Consequently, professional fees will lie within a range of 6% to 12% (possibly more in very exceptional circumstances). Developers would need to demonstrate why the level of fees used in their appraisal is appropriate to the nature of the scheme under consideration. Developers would normally need to evidence professional fees by providing a breakdown of the total between the different disciplines.
- **Marketing costs:** marketing costs include the Selling Agent's fees, but also the cost of show homes, advertising, brochures and overseas marketing activities. Marketing costs typically account for 3% of GDV, but can sometimes be higher in exceptional circumstances. For example, on schemes being sold out over very long periods, the marketing home and other material may require updating and re-branding to reflect changes in customer requirements.
- **Finance costs:** it is now uncommon for banks to fund the entire development cost and unless developers have access to their own equity, they will need to source the balance elsewhere (either through mezzanine finance or external equity). The cost of funds can vary in relation to the type of developer, their perceived longevity and their experience in the type of scheme they are seeking funding for. Funds may also vary in relation to the type of development, with more complex schemes with lengthy build out periods perhaps attracting higher funding costs than simpler schemes. However, the market accepts a blended 6% finance rate (inclusive of arrangement and exit fees).
- **Development profit:** profits are to an extent scheme-specific but also must have regard to the general stance adopted by banks who might fund the development. The PPG identifies a range of 15% to 20% of GDV for private housing profit and we generally see profits in viability assessments ranging from 17-20%, with a reduced profit on the affordable housing (6% of cost). The primary purposes of profit are to enable the developer to secure a return on capital and to mitigate against risk (i.e. that the sales values anticipated in the appraisal are not achieved). Sales risk on the affordable housing is low, as there is strong demand from RPs for new stock

and the developer enters in a binding contract prior to commencement of construction. 'First Homes' are not a traditional affordable tenure and completed units are sold by the developer to individual purchasers and not to a RP. They therefore carry more risk than traditional affordable tenures, but arguably less risk than market housing due to the significant discount which widens the pool of potential purchasers. Profit levels for First Homes are yet to be established as schemes including them are yet to come forward, but a profit of 12% is reflective of the risks.

Appropriate benchmark land values and viability

- 3.9 The residual land value of a scheme is one half of the equation when testing its viability and ability to deliver affordable housing and other policy requirements. The other half of the equation is the benchmark or 'threshold' land value. There has been considerable debate over the past decade on what constitutes an appropriate benchmark land value but the 2019 PPG has provided significant clarity on the matter, indicating that benchmark land value should be based on existing use value plus a premium to incentivise a reasonable landowner to release land for development.
- 3.10 An existing use value is literally the value of the site assuming that the existing use continues and there is no change of use or redevelopment. In other words, it reflects the current situation with regards to the income that the existing buildings on site generate (or do not generate). If the building were to remain in its existing use, the landowner could continue to receive the income for as long as demand for the building remains. If the existing building is not currently let and there is doubtful future demand, clearly the landowner will be keener to release the site for development to avoid the burden of keeping the building empty (including empty rates, insurance costs, security costs etc).
- 3.11 If a development proposal fails to generate a residual land value that at least exceeds the existing use value, then it is unlikely to come forward, as the landowner would be better off retaining the existing building and continuing to receive the rental income. If the proposal generates a residual land value that is the same as the existing use value, then the decision to sell will be based on the landowner's assessment of likely future demand for the building, which will clearly include the age and facilities of the building in comparison to others, as well as demand for the particular type of space in the location. It is therefore important to consider the extent to which a 'premium' above existing use value is required to incentivise a sale for development. This premium is likely to range from zero to as much as 30%⁵, but should always be based on site-specific factors and characteristics.
- 3.12 Taking the existing use value plus an appropriate premium is an objective "floor" below which the residual land value of a scheme cannot fall if it is to be viable. It is readily understood and can be easily measured and tested. Developers often comment that "*land does not trade at existing use value plus a premium*" which is correct; developers will work from the other 'end of the telescope' (i.e. they will calculate what they can pay for a site based on a scheme and factoring in planning requirements). The issue from a plan making perspective that these transactions will be based on the current suite of planning policy requirements and the approach tells us nothing about whether currently unadopted policies would be viable.
- 3.13 A variant to existing use value is to consider an alternative use value (i.e. a scheme that the landowner might consider in place of a residential scheme). For example, rather than selling for residential development, the landowner could sell a site for a hotel. Alternative use values may be valid providing the proposed use would be acceptable in planning terms and also that the appraisal fully reflects any policy requirements that would attach to such a scheme. Furthermore, the alternative use would need to be realistic in commercial terms. Adding an incentive to an alternative use value would be inappropriate, as the landowner does not currently benefit from the income that derives from this use; it needs to be considered alongside other competing alternatives that would also require planning consent. This point is made clear in the 2019 PPG, which indicates that adding a premium to an AUV would be double counting.

⁵ This is the upper end of the range identified in the Mayor of London's 'Affordable Housing and Viability Supplementary Planning Guidance' 2017.

4 Appraisal assumptions

- 4.1 In this section, we outline the details of the site allocations identified in the SADPD and our inputs to the appraisals. The site allocations clearly relate to specific sites identified in the SADPD, with the quantum of development identified by the massing exercise undertaken by the Council's design officers and architectural advisors, having regard to limits on heights of buildings informed by discussions with officers. Appraisal inputs are based on local evidence specific to each site allocation.

Site allocations

- 4.2 The site allocations are identified in Table 4.2.1 overleaf with additional detail provided in Appendix 1. The developments on the site allocations are informed by a massing exercise undertaken by the Council's design officers and architectural advisors which have regard to prevailing heights of neighbouring buildings.

Residential sales values

- 4.3 Residential values in Lambeth reflect national trends in recent years although values in some parts of the Borough are also linked to the prime central London market to a degree. We have considered comparable evidence of new build schemes across the area to establish appropriate values for testing purposes. This exercise indicates that developments in the parts of the Borough where the sites are located have achieved sales values ranging from circa £7,653 per square metre (£711 per square foot) to £30,419 per square metre (£2,826 per square foot). As noted in paragraph 2.14, there has been a significant increase in new build sales values recently, with values in the Borough increasing by 10% since the beginning of 2022. Many of the sales in Table 4.3.1 were completed prior to this increase. We have therefore reflected this upwards adjustment in the estimated values applied to each site (see Table 4.3.2).

Table 4.3.1: Key residential comparable schemes

Scheme	Values per square foot			Values per square metre		
	Max	Average	Min	Max	Average	Min
The Dumont	£3,098	£2,826	£1,473	£33,347	£30,419	£15,855
Aykon London One	£3,546	£1,975	£1,273	£42,389	£24,682	£17,126
Southbank Place (Shell Centre) Waterloo	£5,211	£2,291	£1,404	£43,896	£23,605	£15,113
Oval Village 1, Kennington	£1,655	£1,268	£971	£16,211	£13,315	£10,452
Oval Village 2, Kennington	£1,467	£1,320	£1,165	£15,791	£14,208	£12,540
Brixton Centric (Site 2)	£911	£828	£717	£9,806	£8,913	£7,718
Brixton Centric (Brixton Town Hall Site 1)	£891	£829	£740	£9,591	£8,923	£7,965
Clapham Place (Reliance House)	£920	£888	£865	£9,903	£9,558	£9,311
The Park 6 (Thrayle House)	£989	£864	£667	£10,646	£9,300	£7,180
Clapham Park Estate – H1/2/3/6 – Parkside Place	£759	£757	£755	£8,170	£8,148	£8,127
75 Knollys Road	£732	£711	£679	£7,879	£7,653	£7,309

Table 4.3.2: Values applied to the site allocations

Site No	Site name	Sales value per square metre	Sales values per square foot
SA1	Royal Street	£16,500	£1,533
SA3	35-37 and Car Park Leigham Court Road	£8,525	£792
SA7	6-12 Kennington Lane	£13,200	£1,226
SA8	110 Stamford Street	£16,500	£1,533

Site No	Site name	Sales value per square metre	Sales values per square foot
SA9	Gabriel's Wharf and Princes Wharf	£16,500	£1,533
SA17	330-336 Brixton Road	£9,350	£869
SA18	300-346 Norwood Road	£8,100	£753
SA20	Tesco 13 Acre Lane	£10,065	£935
SA21	51-57 Effra Road	£9,350	£869
SA22	7 Hinton Road / 1-2 Welfit Street / 1-4 Hardess Street	£8,525	£792
SA23	Sureway Church, Coldharbour Lane	£8,525	£792

Affordable housing tenure and values

- 4.4 Local Plan Policy H2 requires that schemes providing 10 or more units should provide a minimum of 35% affordable housing (70% social/London Affordable Rent and 30% intermediate). All of the site allocations provide more than 10 units and are therefore required to meet this requirement, subject to viability. Where the existing use on a site is industrial, and where the redevelopment does not replace the same quantum of industrial floorspace, the affordable housing threshold is increased to 50%. In addition, the affordable housing threshold for sites in public ownership is also 50%. Blended thresholds are sometimes required where, for example, a development is brought forward on sites assembled from public and private landowners.
- 4.5 For the purposes of testing the viability of the sites which include an element of residential development, our appraisals assume that the rented housing is let at rents that do not exceed London Affordable Rents, as shown in Table 4.5.1. These rents are broadly equivalent to social/target rents and are therefore the lowest rents that are sought by Policy H2.

Table 4.5.1: Affordable housing rents (per week)

Rent type	1 bed	2 bed	3 bed	4 bed
London Affordable Rent (2022/23)	168.34	178.23	188.13	198.03

- 4.6 RPs are permitted to increase rents by CPI plus 1% per annum which we have reflected in our assessment.
- 4.7 The key issue for development viability is the capital value that each tenure will generate in terms of receipt from the acquiring RPs, as this will be one of the inputs that constitutes the Gross Development Value of a development. We have applied a capital value of £2,834 per square metre, or £263 per square foot.
- 4.8 The CLG/HCA 'Affordable Homes Programme 2021-2026' document clearly states that Registered Providers will not receive grant funding for any affordable housing provided through planning obligations on developer-led developments. Consequently, all our appraisals assume nil grant as a base position.

Rents and yields for commercial development

- 4.9 The site allocations also contain varying amounts of non-residential floorspace. Our assumptions on rents and yields for the office, light industrial and former D1 floorspace are summarised in Table 4.9.1. These assumptions are informed by lettings of similar floorspace in the area over the past two years (see tables 4.13.2 and 4.13.3). Our appraisals assume a 6-month rent-free period. We deduct 6.8% of capital value to reflect deduction of purchaser's costs. In parts of the borough where Local Plan policy ED2 on affordable workspace applies, 10% of the office floorspace is provided as affordable, defined for the purposes of running the appraisals as 50% of market rent in perpetuity⁶.

⁶ Policy ED2 does not require affordable workspace to be provided in perpetuity, but this assumption has been applied for modelling purposes as it provides a buffer.

Figure 4.2.1: Site allocations

Site	Description	Total no of units	Private units	Soc rent units	Inter-mediate units	Office floorspace sqm	Light industrial floorspace sqm	Community floorspace sqm	Retail floorspace sqm
SA1	Royal Street	138	90	34	14	62,950	-	3,132	1,500
SA3	35-37 and Car Park Leigham Court Rd	28	14	10	4	-	168	-	-
SA7	6-12 Kennington Lane	117	68	34	15	-	2,251	690	-
SA8	110 Stamford Street	30	20	7	3	1,554	-	-	-
SA9	Gabriel's Wharf and Princes Wharf	51	33	12	5	30,254	-	-	3,231
SA17	330-336 Brixton Road	60	37	16	7	3,585	1,289	400	-
SA18	300-346 Norwood Road	170	104	47	19	1,000	1,123	248	3,000
SA20	Tesco 13 Acre Lane	191	124	47	20	-	-	-	3,389
SA21	51-57 Effra Road	93	57	25	11	-	906	-	-
SA22	7 Hinton Rd / 1-2 Welfit St / 1-4 Hardess St	65	42	16	7	-	1,994	-	-
SA23	Sureway Church, Coldharbour Lane	34	22	8	4	-	200	1,060	200

Figure 4.2.2: Affordable housing blended thresholds and affordable workspace requirements (square metres)

Site	Description	AH threshold	Existing office floorspace	Proposed office floorspace	Net additional office floorspace	Affordable workspace requirement (sqm)
SA1	Royal Street	35%	21,286	62,950	41,664	4,166
SA3	35-37 and Car Park Leigham Court Rd	50%	-	-	-	-
SA7	6-12 Kennington Lane	42%	-	-	-	-
SA8	110 Stamford Street	35%	-	1,554	1,554	155
SA9	Gabriel's Wharf and Princes Wharf	36%	3,189	30,254	27,065	2,707
SA17	330-336 Brixton Road	38%	3,553	3,585	32	-
SA18	300-346 Norwood Road	39%	57	1,000	943	⁷ -
SA20	Tesco 13 Acre Lane	35%	-	-	-	-
SA21	51-57 Effra Road	35%	-	-	-	-
SA22	7 Hinton Rd / 1-2 Welfit St / 1-4 Hardess St	35%	-	-	-	-
SA23	Sureway Church, Coldharbour Lane	35%	-	-	-	-

⁷ Not in a location where affordable workspace is required.

Table 4.9.1: Commercial rents (£s per square metre) and yields applied in the appraisals

Commercial floorspace	Rent per square metre	Investment yield	Rent free period (months)
Offices (north of Borough)	£600	5.00%	24
Offices (Brixton)	£420	6.00%	18
Office (elsewhere)	£320	6.00%	6
Light industrial	£300	5.00%	6
Industrial	£225	5.00%	6
Retail (north of Borough)	£500	5.50%	12
Retail (elsewhere)	£350	6.00%	12
Retail (supermarket)	£250	4.50%	12
D1	£250	6.00%	6

Table 4.9.2: Key office lettings

Sign date	Address	Floor	Area leased (square metres)	Rent per square metre	Achieved or asking
15/06/2021	350 Kennington Ln	B,G,1-3	2,255	£561	Effective
16/06/2021	330 Clapham Rd	LL,G,1-5	1,904	£413	Effective
01/08/2021	340A Clapham Rd	B,G	1,616	£431	Achieved
30/12/2021	91 Waterloo Rd	8,12	992	£673	Asking
25/11/2021	Albert Embankment	G,1	706	£565	Asking
15/12/2021	9 Brighton Ter	2,4	511	£511	Asking
26/07/2021	20-22 Union Rd	G	499	£431	Asking
03/05/2022	3-4 Pear Pl	1-3	437	£599	Achieved
10/01/2022	29 Wootton St	G	328	£417	Effective
20/09/2021	9 Brighton Ter	2nd	323	£511	Asking
15/12/2021	9 Brighton Ter	1st	274	£474	Asking
29/04/2022	Albert Embankment	G	231	£533	Achieved
01/12/2022	No.1 Wandsworth Rd	1st	129	£522	Asking
01/12/2021	No.1 Wandsworth Rd	2nd	129	£522	Achieved
06/01/2023	2-6 Atlantic Rd	2nd	157	£403	Asking
02/03/2023	66-70 South Lambeth Rd	2nd	272	£431	Achieved
18/12/2022	60-62 Clapham Rd	B	117	£510	Effective
03/06/2021	Broomgrove Rd	G	347	£323	Asking
15/12/2022	31-33 Bondway	G,1	325	£269	Achieved
01/05/2022	Piano House	5th	315	£484	Asking
20/09/2021	9 Brighton Ter	5th	315	£511	Asking
23/06/2021	3 Albert Embankment	6th	290	£323	Achieved
30/11/2022	Piano House	1st	108	£533	Asking
24/02/2023	387 Coldharbour	3rd	22	£699	Asking

Table 4.9.3: Key light industrial lettings

Sign date	Address	Floor	Area leased (square metres)	Rent per square metre	Achieved or asking
06/03/2022	Hercules Rd	G	357	£350	Asking
30/08/2021	Carlisle Ln	G	713	£350	Asking
19/04/2023	Carlisle Ln	G	163	£323	Asking
23/07/2021	Hercules Rd	G	217	£323	Asking
06/10/2022	Miles St	G	232	£323	Asking
12/07/2022	Newport St	G	270	£307	Asking
01/09/2021	28 Zennor	G	195	£292	Achieved
01/03/2022	Salamanca St	G	267	£291	Asking
01/07/2021	28 Zennor	G	195	£288	Achieved
12/07/2022	Newport St	G	209	£286	Asking
16/09/2022	3 Weir Rd	G, 1	136	£280	Asking

Table 4.9.4: Key retail lettings

Sign date	Address	Floor	Area leased (square metres)	Rent per square metre	Achieved or asking
12/07/2022	Albert Embankment	G	557	£377	Asking
05/10/2022	210-224 Streatham High Rd	G	385	£415	Asking
11/03/2022	81 Black Prince Rd	G	346	£419	Asking
12/07/2022	Albert St	G	313	£377	Asking
12/07/2022	Goding St	G	309	£375	Asking
08/12/2021	Leake St	G	284	£322	Effective
05/09/2022	91-93 Westminster Bridge Rd	G	236	£297	Effective
08/06/2023	95-97 Clapham High	G	186	£403	Asking
15/12/2021	100-108 Lower Marsh	G	167	£236	Asking
29/07/2022	492 Brixton Rd	G, 1	167	£690	Achieved
01/09/2022	22 The Pavement	B	163	£490	Asking
01/11/2021	76-78 Clapham Park Rd	G	149	£302	Asking
07/06/2021	266-268 Streatham High Rd	G	146	£274	Achieved
27/09/2021	421 Brixton Rd	G	145	£1,176	Achieved
09/06/2022	512-514 Brixton Rd	G	144	£1,495	Asking
19/11/2021	70-86 Clapham Park	G	138	£290	Achieved
11/08/2021	156 Streatham High Rd	G	137	£991	Effective
01/11/2021	313 Railton Rd	G	133	£263	Achieved
07/01/2022	377 Brixton Rd	G	133	£494	Effective

Build costs

- 4.10 We have sourced build costs from the RICS Building Cost Information Service (BCIS), which is based on tenders for actual schemes. Base costs (adjusted for local circumstances by reference to BICS multiplier) are attached as Appendix 2 and summarised in Table 4.10.1. The appraisals adopt higher costs for developments incorporating buildings of 6 or more storeys based on higher cost thresholds indicated by the BICS data, as shown in Table 4.10.1. Demolition costs are included at £70 per

square metre of existing floorspace.

Table 4.10.1: BCIS build costs

Type of development	BCIS cost	Base cost per square metre	External works	Total (before policy costs)
Flats – 3-5 storeys	816. Flats – 3-5 storeys (mean)	£2,193	10%	£2,412
Flats – 6+ storeys	816. Flats – 6 storeys or above (mean)	£2,626	10%	£2,889
Offices	320. Offices – air conditioned generally (mean)	£2,900	10%	£3,190
Retail	345. Shops – Generally (mean)	£2,408	10%	£2,649
Light industrial	282.1 – Advance factories	£1,879	10%	£2,067
Community	630. Churches, Chapels	£4,037	10%	£4,441

- 4.11 As noted in Table 4.10.1, the base costs are increased by 10% to account for external works (including car parking spaces, where provided). Our appraisals incorporate a contingency equating to 5% of construction costs.

Accessibility standards

- 4.12 Our appraisals assume that 90% of units are constructed to meet wheelchair accessibility standards (Category 2) and that Category 3 standard applies to 10% of dwellings. These costs address both parts A and B of the requirements (i.e. that the communal areas are designed and fitted out to allow wheelchair access and also that the dwellings themselves are designed and fitted out to facilitate occupation by wheelchair users).
- 4.13 We have tested the impact of applying accessible and adaptable dwellings standards at the rates summarised in Table 4.13.1. These costs are based on the MHCLG ‘*Housing Standards Review: Cost Impacts*’ study, but converted into percentages of base construction costs (see calculations at Appendix 3) so that they can be applied to contemporary costs.

Table 4.13.1: Costs of accessibility standards (% uplift to base construction costs)

Standard	Flats	Houses
M4(2) accessible and adaptable	1.15%	0.54%
M4(3) (a) wheelchair user - adaptable	9.28%	10.77%
M4(3) (b) wheelchair user - accessible	9.47%	23.80%

Professional fees

- 4.14 In addition to base build costs, schemes will incur professional fees, covering design and valuation, highways consultants and so on. Our appraisals would typically incorporate a 10% allowance, which is at the middle to higher end of the range for most schemes.

Development finance

- 4.15 Our appraisals assume that development finance can be secured at a rate of 7%, inclusive of arrangement and exit fees, reflective of current funding conditions.

Commercial letting fees

- 4.16 Our appraisals incorporate an allowance of 10% of first year’s rent for letting agents fees and 5% of first year’s rent for letting legal fees.

Marketing costs

- 4.17 Our appraisals incorporate an allowance of 3% for marketing costs, which includes show homes and agents' fees, plus 0.25% for sales legal fees.

Mayoral CIL

- 4.18 The Borough is located within Mayoral CIL Band 2, which attracts a rate of £60 per square metre before indexation⁸. Office, retail and hotels in the CAZ are charged at higher rates of £185, £165 and £140 per square metre respectively. After indexation is applied, these rates increase to £64.55 (residential); £199.02 (offices); £177.50 (retail); and £150.61 (hotels) per square metre. These higher rates are applied to these uses in the appraisals. Future receipts from the Mayoral CIL will be used to contribute towards strategic transport infrastructure, including Crossrail 2 (a north-east to south-west line which is currently planned to provide services to Clapham Junction Station in Lambeth) to relieve pressure on existing transport networks.

Lambeth CIL

- 4.19 The Council approved its revised CIL Charging Schedule on 22 September 2021 and it is effective from 1 January 2022. Table 4.19.1 below summarises the rates of CIL in the 2022 Charging Schedule. For C3 residential developments in the north of the borough (Waterloo and Vauxhall), the rate is £500 per square metre. In Kennington, Oval and Clapham, the rate is £350 per square metre. In Tulse Hill, Brixton and Herne Hill, a rate of £250 per square metre applies and in Streatham, West Norwood and Streatham Hill, a rate of £200 per square metre applies. In Waterloo and Vauxhall, and Kennington, Oval and Clapham, offices attract a CIL charge of £225 per square metre. In K Waterloo and Vauxhall, hotel developments attract a CIL charge of £200 per square metre and a nil rate applies to hotels in other areas. Across the borough as a whole, large retail developments attract a charge of £225 per square metre and student accommodation attracts a charge of £400 per square metre.

Table 4.19.1: CIL rates per net additional square metre in the Charging Schedule (indexed rates shown in brackets)

Development type	Zone A – Waterloo and Vauxhall	Zone B – Kennington, Oval and Clapham	Zone C – Tulse Hill, Brixton and Herne Hill	Zone D = Streatham, West Norwood, Streatham Hill
Residential	£500 (£535)	£350 (£374)	£250 (£267)	£200 (£214)
Self-contained sheltered housing, self contained extra care schemes and care homes	£250 (£267)	£175 (£187)	£100 (£107)	£100 (£107)
Hotel	£200 (£214)	£75 (£80)		
Office	£225 (£241)		Nil	
Large retail development	£225 (£241)			
Other retail	Nil			
Student accommodation	£400 (£428)			
All other uses not identified above	Nil			

⁸ The impact of indexation is discussed in section 6.

- 4.20 The amended CIL Regulations specify that if any part of an existing building is in lawful use for 6 months within the 36 months prior to the time at which planning permission first permits development, all of the existing floorspace will be deducted when determining the amount of chargeable floorspace. This is likely to be the case for many development sites in Lambeth but not all existing floorspace will qualify. For the purposes of our appraisals, we have assumed that the existing floorspace is deducted from the proposed floorspace for the purposes of calculating the CIL liability for each site allocation.

Section 106 and Section 278 costs

- 4.21 We have applied notional contributions towards Section 106 amounting to £1,500 per residential unit. In addition, we have included £1,000 per unit to address Section 278 contributions.

Development and sales periods

- 4.22 Development and sales periods vary between type of scheme. However, our sales periods for residential schemes are based on an assumption of a sales rate of 6 units per month, with an element of off-plan sales reflected in the timing of receipts. This is reflective of current market conditions, whereas in improved markets, a sales rate of up to 8 units per month might be expected. We also note that many schemes in London have sold entirely off-plan, in some cases well in advance of completion of construction. Clearly markets are cyclical and sales periods will vary over the economic cycle and the extent to which units are sold off-plan will vary over time. Our programme assumptions assume that units are sold over varying periods after completion, which is a conservative approach. There are fewer opportunities for residential development in the Borough compared to other London boroughs which restricts supply and maintains pricing.
- 4.23 For commercial development, we have assumed that the completed floorspace is sold at practical completion. As noted earlier, our appraisals assume a 12 month rent-free period for ground floor retail included in some of the developments. These deferments are reflected in the sum paid by the Investor.

Developer's profit

- 4.24 Developer's profit is closely correlated with the perceived risk of residential development. The greater the risk, the greater the required profit level, which helps to mitigate against the risk, but also to ensure that the potential rewards are sufficiently attractive for a bank and other equity providers to fund a scheme. In 2007, profit levels were at around 13-15% of GDV. However, following the impact of the credit crunch and the collapse in interbank lending and the various government bailouts of the banking sector, profit margins have increased. It is important to emphasise that the level of minimum profit is not necessarily determined by developers (although they will have their own view and the Boards of the major housebuilders will set targets for minimum profit).
- 4.25 The views of the banks which fund development are more important; if the banks decline an application by a developer to borrow to fund a development, it is very unlikely to proceed, as developers rarely carry sufficient cash to fund it themselves. Consequently, future movements in profit levels will largely be determined by the attitudes of the banks towards development proposals.
- 4.26 The near collapse of the global banking system in the final quarter of 2008 is resulting in a much tighter regulatory system, with UK banks having to take a much more cautious approach to all lending. In this context, and against the backdrop of the current sovereign debt crisis in the Eurozone, the banks were for a time reluctant to allow profit levels to decrease. However, perceived risk in the UK housing market is receding, albeit there is a degree of caution in prime central London markets as a consequence of the outcome of the referendum on the UK's membership of the EU. We have therefore adopted a profit margin of 17% of private residential GDV for testing purposes, although individual schemes may require lower or higher profits, depending on site specific circumstances.
- 4.27 Our assumed return on the affordable housing GDV is 6%. A lower return on the affordable housing is appropriate as there is very limited sales risk on these units for the developer; there is often a pre-sale of the units to an RP prior to commencement. Any risk associated with take up of intermediate housing is borne by the acquiring RP, not by the developer.

Exceptional costs

- 4.28 Exceptional costs can be an issue for development viability on previously developed land. These costs relate to works that are 'atypical', such as remediation of sites in former industrial use and that are over and above standard build costs. However, in the absence of detailed site investigations, it is not possible to provide a reliable estimate of what exceptional costs might be. Our analysis therefore excludes exceptional costs, as to apply a blanket allowance would generate misleading results. A degree of the costs for addressing abnormal ground conditions is already reflected in BCIS data, as such costs are frequently encountered on sites that form the basis of the BCIS data sample.

Benchmark land value

- 4.29 Benchmark land value, based on the existing use value of sites is a key consideration in the assessment of development economics for testing planning policies and tariffs. Clearly, there is a point where the Residual Land Value (what the landowner receives from a developer) that results from a scheme may be less than the land's existing use value. Existing use values can vary significantly, depending on the demand for the type of building relative to other areas. Similarly, subject to planning permission, the potential development site may be capable of being used in different ways – as a hotel rather than residential for example; or at least a different mix of uses. Existing use value is effectively the 'bottom line' in a financial sense and therefore a key factor in this study.
- 4.30 We have arrived at a broad judgement on the likely benchmark land values based on the rateable values of the site allocations. Rateable values reflect the market rents of existing buildings, having regards to their existing condition and levels of demand. We have capitalised the notional market rent by applying varying investment yields depending on the use. The existing use values are summarised in Table 4.30.1. In each case, a notional 20% premium is added to the existing use values to arrive at a benchmark land value for testing purposes.

Table 4.30.1: Benchmark land values

Site No	Site name	Rateable value	Yield	Capital value	Net of PC	Premium	BLV
SA1	Royal St ⁹	n/a	n/a	£141,450,000	£132,443,820	£26,488,764	£158,932,584
SA3	35-37 and Car Park Leigham Court Road	£54,500	7.00%	£778,571	£728,999	£145,800	£874,799
SA7	6-12 Kennington Lane	£420,250	5.50%	£7,640,909	£7,154,409	£1,430,882	£8,585,291
SA8	110 Stamford Street	£84,535	5.50%	£1,537,000	£1,439,139	£287,828	£1,726,966
SA9	Gabriel's Wharf and Princes Wharf	£407,700	6.00%	£6,795,000	£36,221,910	£7,244,382	£43,466,292
SA17	330-336 Brixton Road	£301,245	5.50%	£5,477,182	£5,128,447	£1,025,689	£6,154,137
SA18	300-346 Norwood Road	£1,558,947	6.34%	£46,999,134	£43,301,004	£8,660,201	£51,961,205
SA20	Tesco 13 Acre Lane	£964,000	4.50%	£21,422,222	£20,058,261	£4,011,652	£24,069,913
SA21	51-57 Effra Road	£708,929	5.50%	£14,862,345	£12,068,931	£2,413,786	£14,482,717
SA22	7 Hinton Road / 1-2 Welfit Street / 1-4 Hardess Street	£128,700	6.50%	£1,980,000	£1,853,933	£370,787	£2,224,719
SA23	Sureway Church, Coldharbour Lane	£57,000	5.50%	£814,286	£762,440	£152,488	£914,928

⁹ EUV from site-specific assessment.

costs in 5% and 2.5% increments respectively. The full sensitivity analyses are attached as Appendix 5 and the outcomes are summarised in Table 5.8.1.

Table 5.8.1: Sensitivity analyses (residual land values - £ millions)

Site No	Site name	Resi values + 10% Costs -5%	Resi values + 10% Costs unchanged	Resi values unchanged Costs +5%	Resi values -10% Costs -5%
SA1	Royal Street	£232.03	£219.73	£201.84	£220.85
SA3	35-37 and Car Park Leigham Court Rd	£2.22	£1.89	£0.92	£0.96
SA7	6-12 Kennington Lane	£17.58	£15.61	£9.93	£10.02
SA8	110 Stamford Street	£14.23	£13.53	£11.38	£11.33
SA9	Gabriel's Wharf	£151.19	£145.35	£137.07	£146.31
SA17	330-336 Brixton Road	£21.20	£17.62	£8.30	£9.72
SA18	300-346 Norwood Road	£13.18	£10.08	£2.70	£4.62
SA20	Tesco 13 Acre Lane	£14.01	£8.27	£2.65	£2.52
SA21	51-57 Effra Road	£1.10	(£0.49)	(£4.71)	(£3.72)
SA22	7 Hinton Rd / 1-2 Welfit St / 1-4 Hardess St	£4.61	£3.46	£0.62	£1.25
SA23	Sureway Church, Coldharbour Lane	£0.26	(£0.57)	(£2.47)	(£1.72)

6 Conclusions

- 6.1 This report and its supporting appendices test the ability of specific site allocations in the Lambeth area to be viably developed having regard to policies in the London Plan and Local Plan.
- 6.2 The floor areas and massing for the site allocations are informed by studies undertaken by the Council's design officers and architectural advisors, following the principle of design-led optimisation of development capacity and having regard to London Plan and Local Plan policies.
- 6.3 We have reflected Local Plan policies in our appraisals, in terms of affordable housing, affordable workspace, accessibility requirements and reprovision of industrial capacity.
- 6.4 The results of our appraisals indicate that most of the site allocations are either viable or on the margins of being viable when the residual land values are compared to the sites' benchmark land values. In four cases, residual land values are significantly lower than benchmark land values, but there are reasonable prospects that these sites will become viable over the life of the SADPD.

Appendix 1 - Sites and typology details

Site	Description	Total no of units	Private units	Soc rent units	Inter-mediate units	Office floorspace sqm	Light industrial floorspace sqm	Community floorspace sqm	Retail floorspace sqm
SA1	Royal Street	138	90	34	14	62,950	-	3,132	1,500
SA3	35-37 and Car Park Leigham Court Rd	28	14	10	4	-	168	-	-
SA7	6-12 Kennington Lane	117	68	34	15	-	2,251	690	-
SA8	110 Stamford Street	30	20	7	3	1,554	-	-	-
SA9	Gabriel's Wharf and Princes Wharf	51	33	12	5	30,254	-	-	3,231
SA17	330-336 Brixton Road	60	37	16	7	3,585	1,289	400	-
SA18	300-346 Norwood Road	170	104	47	19	1,000	1,123	248	3,000
SA20	Tesco 13 Acre Lane	191	124	47	20	-	-	-	3,389
SA21	51-57 Effra Road	174	106	48	20	-	537	-	-
SA22	7 Hinton Rd / 1-2 Welfit St / 1-4 Hardess St	65	42	16	7	-	1,994	-	-
SA23	Sureway Church, Coldharbour Lane	34	22	8	4	-	200	1,060	200

Appendix 2 - BCIS costs

Appendix 3 - Accessibility standards

Accessibility standards

DCLG - Housing Standards Review - Cost impacts (September 2014)

Note: The percentage uplifts generated by this analysis (final table on this page) are applied to contemporary construction costs to provide a current cost of meeting accessibility standards.

Cost per dwelling (Table 45)					
	1B flat	2B flat	2B House	3B House	4b House
Cat 2	£940	£907	£523	£521	£520
Cat 3(a)	£7,607	£7,891	£9,754	£10,307	£10,568
Car 3(b)	£7,764	£8,048	£22,238	£22,791	£23,052

Dwelling construction costs (Tables 12 and 12b)					
Size sqm	50	67	72	96	117
Cost per unit	£81,966	£94,520	£78,044	£95,741	£121,045
Cost psm	£1,639.32	£1,410.75	£1,083.94	£997.30	£1,034.57

Standards as % of construction costs					
	1B flat	2B flat	2B House	3B House	4b House
Cat 2	1.15%	0.96%	0.67%	0.54%	0.43%
Cat 3(a)	9.28%	8.35%	12.50%	10.77%	8.73%
Cat 3(b)	9.47%	8.51%	28.49%	23.80%	19.04%

Cost uplifts applied in study			
		Flats	Houses
Cat 2		1.15%	0.54%
Cat 3(a)		9.28%	10.77%
Cat 3(b)		9.47%	23.80%

Appendix 4 - Development appraisals

Appendix 5 - Sensitivity analyses