

Viability Report

**St Mary's Regeneration
Recreation Centre
22 Elephant and Castle
London
SE1 6TF**


London Borough of Southwark

Prepared by:

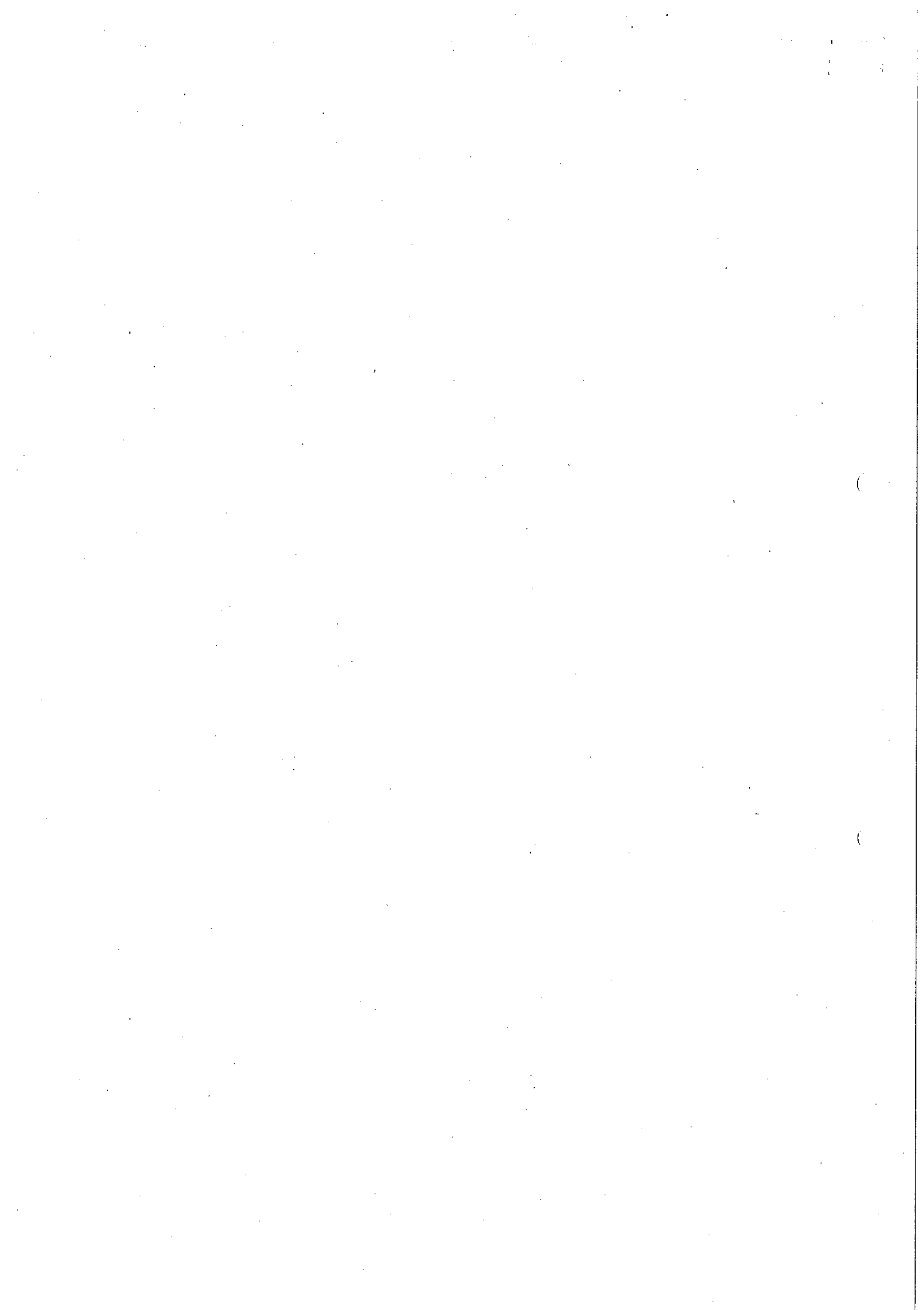

Principal Surveyor
DVS

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Date:
20th September 2012



REVIEW OF DEVELOPMENT APPRAISALS:

St Mary's Regeneration

1.0 Instruction:

1.1 I refer to my fee quote to you dated 10th October 2011 with regard to the undertaking of viability appraisals in respect of the above scheme which has now been submitted separately from the other phases of the Elephant and Castle regeneration.

1.2 This report should be read in conjunction with the main Heygate Report dated 13th July 2012 which covers methodology and common issues.

1.3 We have reviewed information supplied by Savills which included the following:

a) Savills Financial Viability Report

b) Gardner and Theobald Construction Cost Estimate

c) Savills existing use valuation report

1.4 My assessment has been made by comparing the residual value of the proposed scheme with an appropriate benchmark figure having regard to the National Planning Policy Framework and the recently published RICS Guidance Note into Financial Viability in Planning.

1.5 The principal objective of our Brief and the subject of this report are to establish whether there is financial justification for the provision of no affordable housing in this development. This justification is however linked to the Council's policy requirement of providing a new leisure on the site and the aim of the redevelopment is to maximise the financial receipts for the council to assist in achieving this aim. It has been recognised that this policy will have an impact on the delivery of affordable housing from this scheme.

2.0 The existing property and planning policy context:

2.1 The St Mary's site is currently occupied by a two-storey building which formerly housed a recreational swimming pool together with offices; changing room facilities; storage; and plant areas associated with the Elephant and Castle Leisure Centre. The

Elephant and Castle Leisure Centre remains operational, I understand that the swimming pool closed approximately 14 years ago.

2.2 The land uses surrounding St Mary's Residential vary, and include community; residential; retail and commercial land uses together with open space and significant transport infrastructure.

2.3 Specifically the with the retail and leisure, the Elephant and Castle Shopping Centre is to the east of St Mary's Residential, comprising a supermarket and other retail units; the London Palace Superbowl bowling alley; Bingo Hall; the Charlie Chaplin Public House; the Coronet Theatre; cafes, restaurants and hot food takeaways; and an external market space.

2.4 There is a mixed use 44 storey Strata Tower is located to the south east of St Mary's Residential.

2.5 The site itself comprises 0.36 hectares.

3.0 Proposed Development

3.1 The Development comprises a single planning application seeking full planning permission for a residential led mixed-use development. Accordingly, planning permission is being sought for the following:

3.2 "Redevelopment to provide a 37 storey building (building height 127m AOD) and 4 storey pavilion building (building height 20.5m AOD), comprising 284 residential units, 809 sqm (GEA) retail (A1-A3), 413 sqm (GEA) commercial (B1) uses, car parking, cycle parking, servicing and plant areas, landscaping and public realm improvements and associated works."

3.3 Proposed Residential Accommodation Schedule

Unit Type	Number of units	Average area (NSA) per unit sqm	Average area (NSA) per unit sqft
Studios	12	37	398
1 beds	109	51	548
2 beds	135	71	769
3 beds	28	113	211
Totals	284	18,797	202,331

3.4 In addition to the residential units the scheme also provides for retail floorspace (809 sqm GEA, Use Classes A1-A3) at ground floor, primarily along the Elephant and Castle frontage. The retail floorspace is proposed as flexible floorspace to allow for a suitable range of tenants to take space.

3.5 There is also some commercial floorspace (413 sqm GEA, Use Class B1) to located at ground floor with frontage onto the Brook Drive extension. The space is flexibly designed to cater for a range of occupiers and functions.

4.0 Applicant's approach and methodology:

4.1 The Southwark Core Strategy seeks to maximise affordable housing on sites, with a minimum target of 35% being provided. However, at Elephant and Castle there is also a pressing need for, and a key objective of the Council to deliver, a new leisure centre to serve the area.

4.2 As set out in Section 6 of the Planning Statement, Lend Lease entered into a contract with Southwark Council to purchase the Site for a residential development. The sale of the Site is to be used by Southwark Council to part-fund the development of a new public leisure centre on the adjacent site.

4.3 This transaction strategy has been approved by Southwark's Cabinet. The anticipated financial contribution will provide a significant element of the required sum and will assist in meeting the Council's desire for the new Leisure Centre to be open to the community by the spring of 2014.

4.4 The financial contribution required to part-fund the new Leisure Centre is based on the enabling residential development being solely private tenure. Funds that might otherwise be applied for off-site affordable housing will be applied instead as a contribution towards the funding for the new Leisure Centre. This is considered to provide a significantly greater financial contribution for the public leisure centre than a mixed tenure scheme. The proposed Development will, therefore, serve as enabling development for the new Leisure Centre and will form a significant planning gain for the Site. As a result there is no affordable housing provision within the proposed scheme.

4.5 As set out in the applicant's Housing Statement, there is significant housing development planned within the Elephant and Castle Opportunity Area to meet the targets set in the SPD / OAPF, including over 2,700 residential units by Lend Lease

as part of separate planning applications on the former Heygate Estate, which will include as much affordable housing as is financially viable in line with planning policy. There is also a clear policy aspiration for the delivery of a new leisure centre within the Central Character Area.

4.6 In this case, it is considered that the significant planning benefits arising from the enabling of the new leisure scheme on an adjacent site outweigh the normal preference for on-site affordable provision, off site provision or a commuted financial sum, and this Development can be seen as an exception to affordable planning policies. The financial viability assessment submitted with this planning application demonstrates that no affordable housing can be provided after the financial contribution to the Leisure Centre is factored into the Development's viability.

4.7 The applicant has provided three Argus development appraisals to support the view set out above, showing the following:

- i) Scenario 1 – 35% Affordable Housing
- ii) Scenario 2 – 3.5% Affordable Housing
- iii) Scenario 3 – 100% Private Housing

4.8 These figures have been benchmarked against the Existing Use Value and a Market Value.

5.0 Review of assumptions and evidence

Benchmark Land Value

5.1 The methodology that has been adopted appears to be reasonable and follows the guidelines.

5.2 However, the details relating to the comparable evidence is fairly limited.

5.3 Savills have made adjustments to the values in line with their own indices but have not provided these.

5.4 The Strata deal is too old and would require too much adjustment to reflect the current market and planning requirements.

5.5 Chambers Wharf is an interesting comparable but does not provide a policy compliant affordable housing provision as it is only 31% it is also not clear whether the section

106 was policy compliant. The planning permission dates from 2007 and the policy position between the two dates needs to be considered. It is also necessary to consider how the potential values of the two schemes compare.

- 5.6 Kings Reach Tower – This is a commercial use consent close to the Thames and the South Bank in an established commercial market close to Blackfriars Station. Since the sale they have managed to secure a residential consent. This was the acquisition of a building that is to be refurbished/converted not a cleared site.
- 5.7 Savills undertook a detailed valuation of the leisure property and am inclined to agree that the land value for the existing use is likely to be minimal. I have reviewed the appendices and the assumptions adopted seem to be reasonable.
- 5.8 The market value approach is very difficult as a residual valuation on policy compliant approach is currently producing negative values. The comparables produced by Savills require significant adjustment and already have planning consent. If the site was to be marketed I would expect to see a significant discount to reflect the lack of planning permission.
- 5.9 The Local Authority have agreed a sale with Lend Lease on the site which is above the market value suggested by Savills, however, I understand that allowances will be made to this figure if the assumptions in the agreement regarding planning obligations differ and are more onerous than originally anticipated.
- 5.10 It is my view that the market value of the site is circa £9 million reflecting the uncertainty over the planning.

Residential Sales Values

- 5.11 Whilst I am reasonably comfortable with the average sales values adopted there is some doubt in our mind whether the penthouse units might not achieve more. A penthouse suite of 2,077 sq ft with views of Westminster and St. Paul on the 36 floor valued at £1,525,000, equating to £734 per sq ft, appears relatively inexpensive. In comparison Unit 41.05 on the 41/42 floor of Strata achieved £1,575,000 for 1,897 sq ft, equating to £830 per sq ft. Given that there are only three penthouse units the impact of this pricing does not have a significant effect on the viability of the scheme.
- 5.12 In summary, the values adopted for the residential at St. Mary's seem broadly appropriate.

Commercial Values

- 5.13 A report was provided by Kalmars Commercial, I do not have any particular issues with this aspect of the report particular as the commercial element of the scheme is fairly small and any adjustments to value will have minimal impact on the overall viability.

Development Cost

- 5.14 There were 3 scenarios put forward:

Scenario 1 - 35% affordable housing, 65% private

Scenario 2 - 3.5% affordable housing, 96.5% private

Scenario 3 - 100% private, no affordable

- 5.15 With regards to build cost assessment, only scenario 3 had a build cost submission from G&T.

- 5.16 No build costs were submitted for Scenarios 1 & 2. DVS provided an indicative assessment for the purposes of the development appraisal.

- 5.17 No costs were allowed in the assessments for demolition of existing buildings, a figure of £300,000 has been advised as an estimate.

- 5.18 G&T confirmed the following further to their response to our email of 24 August 2012:

- a. GIA should be 28,512m²
- b. Their cost plan assumed 100% private
- c. That they have incorrectly described the GIA including basement as GEA excluding basement car park

- 5.19 For avoidance of doubt, the build cost that I will be comparing against based on the information from G&T is circa £66,646,953. This comprises the following:

Original cost plan	- £53,087,177
Design Development to reflect revised areas, uplift in specifications, etc.	- £ 2,637,700
On Costs (Preliminaries, Overheads and Profit)	- £10,922,076
TOTAL	- £66,646,953

5.20 Fees and Contingencies were excluded from this assessment and have been allowed elsewhere in the development appraisal.

5.21 It is assumed at this stage that cost to comply with CSH4 were included in the build costs, similar with the E&C Regeneration Scheme.

5.22 In summary, 2 approaches were carried out in order to arrive at build costs:

- a. Option 1 - Using G&T Information and adjusting it to suit the revised area schedule
- b. Option 2 - Using Cost Information as E&C Regen scheme and uplifting the cladding rate as called for in the specifications

5.23 It appears that G&T 100% private, based on Option 2, only equates to the DVS blended rate for 35% affordable based on the blended rate for E&C Regeneration Scheme. And as tolerance is very minimal, I am happy for you to adopt the following:

Scenario 1 - £65,447,633

Scenario 2 - £66,527,022

Scenario 3 - £66,646,953

5.24 See appendix 2 for cost summary analysis.

Fees

5.25 The headline figure adopted is approximately 11.5% but the actual figure equates to around [REDACTED] and this is explained by a separate project management fee of [REDACTED] and development management fee of [REDACTED]

5.26 The same observations apply as set out in my report for the Heygate scheme, I would expect the fees to be a maximum of 12.5% and the DMF is profit. If a DMF is to be included this should require an adjustment to the target profit rate.

5.27 These figures are significantly higher than similar schemes we are currently reviewing for LBS.

Other Development Costs

- 5.28 A number of items have been included which comprise Warranties, Maintenance, Service Charge Voids, Non recoverable VAT and Third Party Costs, there is minimal information regarding these costs and they amount to £934,714 or 1.33% addition to the build costs.
- 5.29 These costs are essentially legitimate although the levels have not been explained but the impact on viability will be minimal.

Planning Obligations

- 5.30 I have been advised that the figures adopted are broadly correct although there are some issues that need to be addressed. The CIL calculation is possibly £80K understated. I have raised this with Savills and await revised figures.
- 5.31 Where the scheme includes AH the CIL could be reduced as there is scope for exemption.

Finance

- 5.32 The rates adopted are the same as in the Heygate Scheme, it could be argued that the risk factors on a scheme of this nature could be lower; therefore a more attractive rate could be adopted. The rates adopted are somewhat different to that adopted on another scheme being reviewed by the same firm of a similar nature although these may reflect the strength of the developers covenant although I would expect developments of this type to be undertaken by similar respected and established companies. The rate adopted are:

Debit Rate [REDACTED]
Credit Rate 1%

- 5.33 I would anticipate a Finance rate of between 6.5-7% and within my appraisal I have adopted 7% which reflects a blended rate to include any fees.
- 5.34 The credit rate of 1.0 % is not very generous as there is a strong argument that any money received reduces the need for the developer to have to borrow money for future phases and so the interest rates for debit and credit should be the same. However in a single phase development like this the cashflow will not be positive until the scheme is complete so it has little impact.

Ground Rents

- 5.35 The ground rents adopted appear to be inline with what I would expect; the yield adopted is within the 5-6% range I would have anticipated.

Sales Rates

- 5.36 The sales period is shown in the appraisal as 6 months post completion, with 70% sold at point of completion with the remainder sold over the remaining 6 months. The sales profile adopted appears to reflect sales rates of approximately 14 units per month post completion with 12-13 per quarter across the build period, although in reality the profile is more likely to be in line with the Heygate approach.
- 5.37 The approach taken on the Heygate scheme assumes 25% pre-sales prior to construction commencing on a particular phase, once construction has commenced marketing will resume on that phase after month 9 and it is assumed that a further 55% will be sold prior to practical completion. The remainder of the units are then sold in the next 1-2 quarters. This therefore assumes 80% are sold at completion with the remainder sold in the following 6 months.
- 5.38 I have adopted 80% sales on completion with the remainder being sold over the following 5 months.

Affordable Housing

- 5.39 The values have been discounted from the market sales I assume to reflect the finish, however, I take issue with this on the Shared Ownership tenure and wonder whether an RSL would expect a standard specification. These properties are not high end specification. However the impact of the reduction is minimal and in view of the affordability criteria it makes them more attractive.
- 5.40 The calculations for the target rents appear reasonable and the rent cap is applied in respect of 2 & 3 bed units but wasn't initially for the 1 bed. Savills argument on Heygate suggested that an RSL would seek to maximise the target rent as they are well below the LHA, this was raised with Savills and a revised calculation was provided adopting a consistent approach.
- 5.41 In scenario 1 Savills have assumed that the entire social rented will be contained within the Pavilion part of the development and the shared ownership would occupy

the first 9 floors of the tower. This seems like an appropriate assumption and ensures minimal issues with the private accommodation.

5.42 In scenario 2 Savills have assumed the entire social rent will be included in the Pavilion with no presence in the Tower.

5.43 In scenario 3 Savills have included a capital contribution of £3.5 million this amount equates to the surplus between the residual value and the existing use value.

Profit

5.44 The adopted target rate is 25% on cost which represents approximately 20% on GDV, as a single scheme I do not have issue with the figure provided the development management fee is removed.

5.45 However, there also needs to be adjustment to the profit rate if affordable housing is included in the scheme and this does not appear to be the case. I have adopted 6% on costs for the affordable element and this results in a blended rate of approximately 24.02% on the Scenario 1 and 24.02% on Scenario 2.

6.0 Conclusion

6.1 The applicant's report detailed and was evidenced but where queries were raised additional information was provided.

6.2 I have undertaken my own appraisals (appendix 3) having regard to the comments above which result in the following outcomes.

Scenario 1 - -£4.8 million

Scenario 2 - £6.3 million

Scenario 3 - £7.7 million – Excluding Capital Contribution

6.3 Assessed against either a benchmark figure of £9 million or the Existing Use Value the proposed scheme could not support 35% on site affordable housing.

6.4 The proposed scheme can not support 3.5% on site affordable housing when benchmarked against a £9 million market value.

6.5 The implications of onsite affordable housing could have a knock on effect on the value of the private accommodation or the sales rates; however, this has not been factored into the appraisals at this time.

- 6.6 The capital contribution Savills have calculated has been assessed against the existing use value whereas if the residual value in scenario 3 was assessed against the market value it would not produce a surplus.
- 6.7 The DVS appraisal with 100% private housing when is benchmarked against the market value is unviable and does not produce a surplus for a capital contribution.
- 6.8 I have undertaken a development appraisal adopting a fixed land value of £9 million and the offered £3.5 million contribution included, results in a profit of 18.42% on cost or 15.52% on GDV which would potentially impact on funding the project.
- 6.9 The key element of this case is the benchmark on which to assess the viability, the existing use value is minimal and it is my view that it would be unrealistic to expect a landowner to assess viability against this figure as they would expect a realistic return.
- 6.10 The Local Authority have agreed a sale on the site with Lend Lease and it is my understanding that the Local Authority will get the same amount of money from the developer of the site, however, it is the division of this amount between Estates and Planning which is the issue, although in view of the policy to contribute towards the leisure centre all the monies should be used for this purpose.
- 6.11 The only issue that I am aware of is if the leisure scheme does not go ahead then the capital contribution will then go into the affordable pot.
- 6.12 Overall the offer being made is potentially the best that will be achieved particularly having regard to the deal that has been agreed with the Estates Team.



Chris Kench MRICS

Principal Surveyor

DVS – Property Specialists for the Public Sector

Appendix 1 – Residential Analysis

Appendix 2 – Cost Analysis

Appendix 3.1 – Appraisal – 35% Affordable

Appendix 3.2 – Appraisal – 3.5% Affordable

Appendix 3.3 – Appraisal – 100% Private

Appendix 1

Assessment of Residential – St. Mary's

Savills have provided a report into proposed Residential Values as Appendix 7 to their main report.

They conclude that private sale values on the site should be:

£526 per sq ft for the low rise podium blocks

£652 per sq ft for the tower

Further concluding that an average for the whole scheme be in the order of £638 per sq ft. Savills have provided comparables of several nearby developments:

Printworks, Amelia Street SE17 3BY

DVS had previously requested all the sales data from Printworks, an eight storey development in SE17. In this report they drew on three units, one, two and three beds which sold between 2010 and 2011. This equated to £464 per sq ft, £443 per sq ft and £536 per sq ft respectively. Whilst it is a relatively new development of 97 apartments over eight floors I consider the evidence can be only given limited weight as the sales are now relatively historic in an area which has seen considerable improvement in sales values over the last two years. It is worth noting that the scheme is located in the postcode SE17 and I have been informed by agents that purchasers are likely to pay less for developments in SE17 than those schemes in a SE1 postcode.

Tribeca Square, New Kent Road / Deacon Way SE17

This is a consented scheme where construction has yet to commence lying between the E&C shopping centre and the former Heygate Estate. I understand that the development was launched in South East Asia during late 2011 where reservations averaged £585 per sq ft. It is also worth noting that only units on the lower floors appear to have been released, with the highest being on the 12th floor, where the impact of the shopping centre and the railway line will be most noticeable. The three units on the 11th and 12th floors have achieved between £589 per sq ft and £598 per sq ft. Given the market unit building is 23 storeys high I would expect the average sales price would be well above £600 sq ft on a tower that is just over half the height of that proposed at the subject site.

Metro Central, Newington Causeway SE1

This scheme, developed in 1997, is a converted 1960's office block. It benefits from a swimming pool and gym. The applicant provided evidence of a two bed flat on the 2nd floor that sold in April 2012 for £269,000 which equates to £467 per sq ft whilst a one bed flat on the 9th floor is currently being marketed for £289,995 which equates to £650 per sq ft. The position is comparable but I would expect a new development to achieve a premium on these prices.

South Central, 9 Steadman Street, SE17

This 10 storey development is located next to the railway line just south of the centre of Elephant and Castle. Savills provided three units as evidence. One sold in 2010, a second 2 bed sold in June 2011 for £291,500 equating to £408 per sq ft. A ground floor live/work unit at £365,000 equating to £411 is currently on the market. Whilst this does build up a picture of sales values in the locality I do not consider this evidence reflects the values which are likely to be obtained in the proposed development, where even the podium buildings, if sold as private market sale, should achieve considerably higher values due to their better location.

O-Central, 83 Crampton Street SE17

This development appears to have been built over five and seven storeys and is located south of the centre of Elephant and Castle. The applicant has provided evidence of six transactions and two properties that are being currently marketed. They show a spread of values between £416 per sq ft for a two bed on the 4th floor which sold for £285,000 in December 2011 and £526 per sq ft for a two bed unit on the 5th floor which sold in January 2011. This difference is likely to reflect the views offered and possibly a higher specification / having the benefit of a terrace of the higher unit. However, both two bed units that are currently on the market, which are on the 1st and 4th floors, are being marketed at £516 per sq ft and £526 per sq ft respectively. This supports the values that have been adopted in the pavilion buildings and lower floors of the tower.

Strata, Walworth Road SE1

This development, built between 2007 and 2010, provides the best comparable evidence being close to the subject scheme and of a similar height. However, caution is needed in making direct comparisons mainly due to the impact of the recession on the sales. The scheme was launched prior to the recession and following the downturn many sales failed to complete and the unsold units had to be re-marketed. Whilst it would be too strong that this has blighted this development I consider it has had an impact and if an identical scheme was launched fresh today it is likely to achieve better values. I have inspected several units from the 11th to 37th floor and consider that the specification was below the standard that you would expect for a landmark tower development, this may have been driven by the impact of the recession but the kitchens and bathrooms, whilst acceptable, in the units I inspected had utilised relatively basic fittings and ceramic tiles. This point is somewhat subjective but it was an impression enhanced by signs of wear in the common parts. The fact that there are only 23 parking spaces for the whole of the development, half the number of the proposed scheme, may have impacted desirability to potential purchasers.

Analysis of sales between July 2011 and the start of 2012 show an average sale price of £674 per sq ft suggesting, whilst acknowledging half of these sales are at floors 35 and above, that values have risen since sales in 2010. The evidence provided by the applicant of units that have sold since February 2011 only appear to pick up the units high in the tower, from level 34 upwards. These high values do not reflect what the whole building would average from the 11th floor up, which goes some way to explain the higher value, of £696 per sq ft, equated by the applicant.

Apartment	Floor	Beds	Sale date	Area / sq ft	Price	Price / sq ft
1411	14	2	21 Oct 2011	715	£392,000	£548
1505	15	2	23 Aug 2011	747	£368,500	£493
1511	15	2	24 Aug 2011	715	£400,000	£559
1708	17	2	11 Aug 2011	747	£400,000	£535
2002	20	2	09 Dec 2011	715	£415,000	£580
2403	24	1	02 Dec 2011	378	£265,000	£701
2602	26	1	01 July 2011	567	£345,000	£608
3405	34	1	07 Oct 2011	464	£310,000	£668
3506	35	1	07 Oct 2011	464	£312,000	£672

3701	37	3	09 Dec 2011	1,243	£1,125,000	£905
3705	37	1	22 Aug 2011	466	£305,000	£655
3706	37	1	22 Aug 2011	466	£305,000	£655
3801	38	3	14 Sep 2011	1,079	£820,000	£760
3804	38	2	07 Oct 2011	468	£310,000	£662
3805	38	1	07 Oct 2011	468	£315,000	£673
4103	41	1	25 Nov 2011	1,066	£553,000	£519
4105	41	3	19 Jan 2012	1,863	£1,575,000	£845
				12,631	£8,515,500	£674

Metropolis, 157 New Kent Road SE1

This was not provided as evidence by Savills but this five storey development just to the north of Heygate is nearing completion. The immediate surroundings are currently inauspicious, located next to a children's nursery and a row of tertiary shop units, but is likely to improve. This predominantly brick fronted building is selling well and achieving within a few percent of asking price. Ground rents are £250 per annum for one bed and £300 per annum for two beds. All units either have a balcony or terrace.

We are aware that four units have exchanged, and all but one are under offer, of the 10 market units in this phase.

Clearly these units reflect what prices are achievable for new build low rise flats in this location where regeneration is several years away.

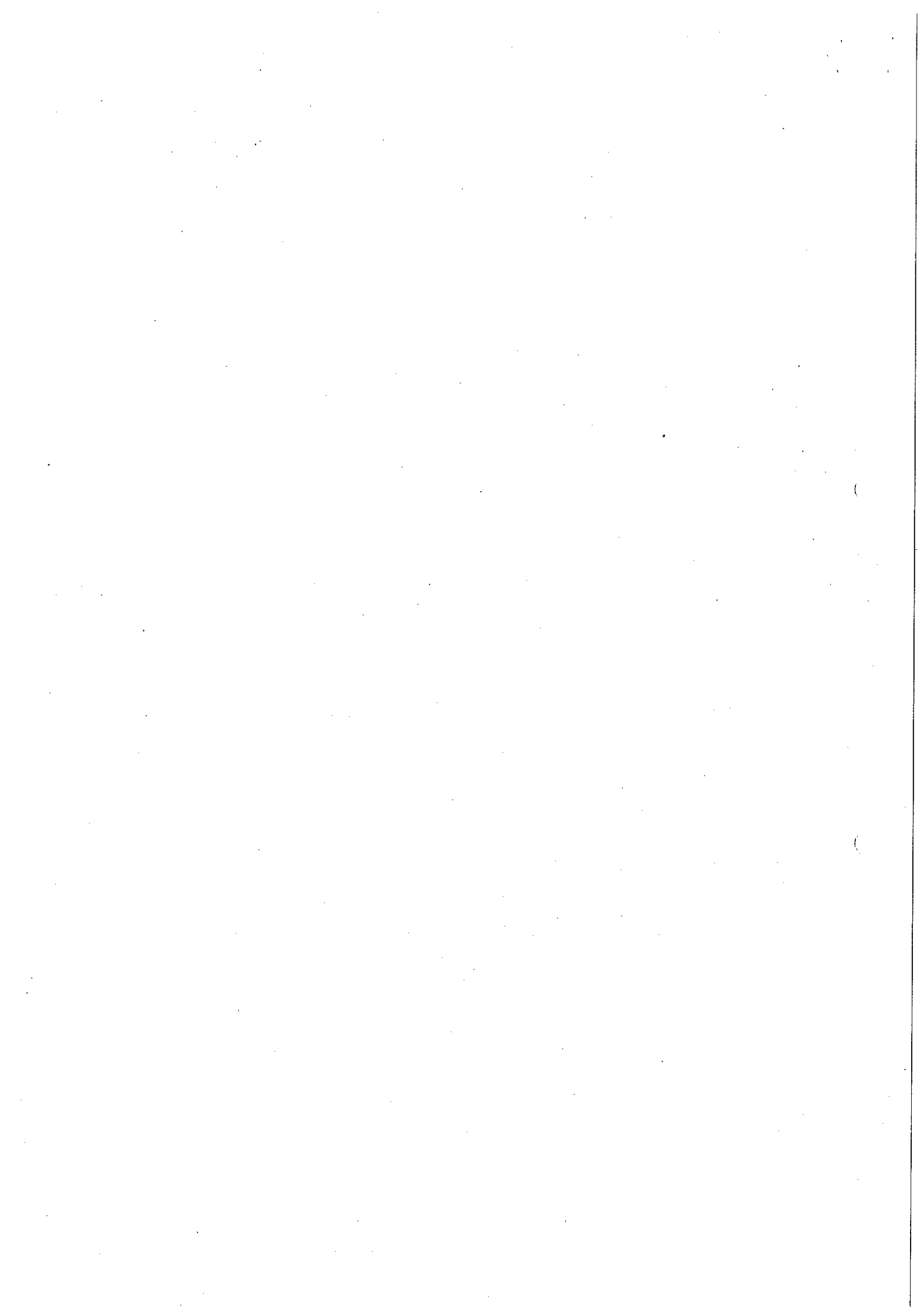
Address	Floor	Beds	Size (sq ft)	Price	Price per sq ft
5	2	2	800	£375,000	£469
6	2	2	822	Available	
7	2	1	553	£275,000	£497
8	2	2	781	£382,000	£489
9	3	3	1004	£475,000	£473
10	3	3	900	£440,000	£489
11	3	2	781	£385,000	£493
12	4	3	1069	£552,000	£516
13	4	2	772	£455,000	£589

15	2/3	2	915	£475,000	£519
					£504

Conclusion

Whilst I am reasonably comfortable with the average sales values adopted there is some doubt in our mind whether the penthouse units might not achieve more. A penthouse suite of 2,077 sq ft with views of Westminster and St. Paul on the 36 floor valued at £1,525,000, equating to £734 per sq ft, appears relatively inexpensive. In comparison Unit 41.05 on the 41/42 floor of Strata achieved £1,575,000 for 1,897 sq ft, equating to £830 per sq ft. Given that there are only three penthouse units the impact of this pricing does not have a significant effect on the viability of the scheme.

In summary, the values adopted for the residential at St. Mary's seem broadly appropriate.



Valuation Office Agency

Development Appraisal

Appendix 3.1

35% AH - Scenario 1

St Mary's Development
Elephant & Castle
London SE1

Report Date 20/09/2012

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.1****35% AH - Scenario 1****Timescale (Duration in months)**

Project commences Jul 2012

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Phase 2

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Phase 3

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Project Length 51 (Merged Phases - Includes Exit Period)**Assumptions****Expenditure**

- Professional Fees are based on Construction
- (Manual relations applied to some Professional Fees)
- Purchaser's Costs are based on Gross Capitalisation
- Purchaser's Costs Deducted from Sale (Not added to Cost)
- Sales Fees are based on Net Capitalisation
- Sales Fees Added to Cost (Not deducted from Sale)

Receipts

- Show tenant's true income stream On
- Offset income against development costs Off
- Rent payment cycle Quarterly (Adv)
- Apply rent payment cycle to all tenants On
- Renewal Void and Rent Free apply to first renewal only Off

- Initial Yield Valuation Method Off
- Default Capitalisation Yield 0.0000%
- Apply Default Capitalisation to All Tenants Off
- Default stage for Sale Date Off
- Align end of income stream to Sale Date Off
- Apply align end of income stream to all tenants On
- When the Capital Value is modified in the cash flow Recalculate the Yield
- Valuation Tables are Annually in Arrears

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.1
35% AH - Scenario 1****Assumptions**

Rent Free method	Defer start of Tenant's Rent
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Finance

Financing Method	Basic (Interest Sets)
Interest Compounding Period	Quarterly
Interest Charging Period	Monthly
Nominal rates of interest used	
Calculate interest on Payments/Receipts in final period	Off
Include interest and Finance Fees in IRR Calculations	Off
Automatic Inter-account transfers	Off
Manual Finance Rate for Profit Erosion	Off

Calculation

Site Payments	In Arrears
Other Payments	In Arrears
Negative Land Receipts	In Arrears
	In Advance
Initial IRR Guess Rate	8.00%
Minimum IRR	-100%
Maximum IRR	99999%
Manual Discount Rate	Off
IRR Tolerance	0.001000

Letting and Rent Review Fees are calculated on	Net of Deductions
Development Yield and Rent Cover are calculated on	Rent at Sale Date(s)
Include Tenants with no Capital Value	On
Include Turnover Rent	Off
Net of Non-Recoverable costs	On
Net of Ground Rent deductions	On
Net of Rent Additions/Costs	On

Value Added Tax

Global VAT Rate	0.00%
Global Recovery Rate	0.00%
Recovery Cycle every	2 months
1st Recovery Month	2 (Aug 2012)
VAT Calculations in Cash Flow	On

Residual

Land Cost Mode	Residualised Land Value
Multi-Phasing	Separate Land Residual for each phase
Target Type	Profit on Cost

Phase Number	Target Value	Locked Value	Treat Neg Land as Revenue
Phase 1	25.00%	No	No
Phase 2	6.00%	No	No
Phase 3	6.00%	No	No

Distribution

Construction Payments are paid on	S-Curve
Sales Receipts are paid on	Single curve
Sales Deposits are paid on	Monthly curve

Appendix 3.1**35% AH - Scenario 1****Assumptions****Interest Sets****Interest Set 1**

Debit Rate	Credit Rate	Months	Start Date
6.500%	2.500%	Perpetuity	Jul 2012

Loan Set 1

Debit Rate	Credit Rate	Months	Start Date
0.000%	0.000%	Perpetuity	Jul 2012

Inflation and Growth**Growth Sets****Growth Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

Inflation Sets**Inflation Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

APPRAISAL SUMMARY

VALUATION OFFICE AGENCY

**Appendix 3.1
35% AH - Scenario 1**

Summary Appraisal for Merged Phases 1 2 3

REVENUE

Sales Valuation	Units	Unit Amount	Gross Sales
Car Parking	25 units at	£30,000	750,000
	m ²	Rate m ²	Gross Sales
1 Bed Private (10 T)	203.00	£6,748.77	1,370,000
2 Bed Private (10 T)	284.00	£6,734.15	1,912,500
1 Bed Private (11-20 T)	2,030.00	£6,985.22	14,180,000
2 Bed Private (11-20 T)	2,840.00	£7,041.37	19,997,500
1 Bed Private (21-28 T)	1,624.00	£7,334.98	11,912,000
2 Bed Private (21-28 T)	2,272.00	£7,588.03	17,240,000
2 Bed Private (29-36 T)	870.00	£7,913.79	6,885,000
3 Bed Private (29-36 T)	2,438.00	£7,444.63	18,150,000
Studio SR (Pav)	444.00	£1,665.40	739,438
2 Bed SR (Pav)	903.00	£1,242.25	1,121,752
3 Bed SR (Pav)	618.00	£976.23	603,310
1 Bed S/O (1-9 T)	1,694.00	£2,134.27	3,615,453
2 Bed S/O (1-9 T)	2,482.00	£2,134.27	5,297,258
3 Bed S/O (1-9 T)	95.00	£2,134.27	202,756
Totals	18,797.00		103,226,966

Rental Area Summary	Units	Unit Amount	Gross MRV
Ground Rents - 1 Bed T	76 units at	£300	22,800
Ground Rents - 2 Bed T	88 units at	£375	33,000
Ground Rents - 3 Bed T	21 units at	£500	10,500
Totals			66,300

	m ²	Rate m ²	Gross MRV
Office	371.98	£161.46	60,060
Retail	776.00	£269.10	208,821
Totals	1,147.98		268,881

Investment Valuation

Office					
Market Rent	60,060	YP @	7.0000%	14.2857	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	829,460
Retail					
Market Rent	208,821	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	3,016,555
Ground Rents - 1 Bed T					
Current Rent	22,800	YP @	6.0000%	16.6667	380,000
Ground Rents - 2 Bed T					
Current Rent	33,000	YP @	6.0000%	16.6667	550,000
Ground Rents - 3 Bed T					
Current Rent	10,500	YP @	6.0000%	16.6667	175,000
					4,951,015

GROSS DEVELOPMENT VALUE 108,927,981

Purchaser's Costs 5.80% (287,159)
NET DEVELOPMENT VALUE 108,640,822

NET REALISATION 108,640,822

OUTLAY

ACQUISITION COSTS

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.1****35% AH - Scenario 1**

Residualised Price			(4,768,532)	
Stamp Duty		4.00%	200,491	
Agent Fee		1.25%	62,653	
Legal Fee		0.50%	25,061	
				(4,480,326)
CONSTRUCTION COSTS				
Construction	m²	Rate m²	Cost	
Office	387.00	£1,343.16	519,801	
Retail	776.00	£1,376.19	1,067,924	
1 Bed Private (10 T)	279.65	£2,093.31	585,400	
2 Bed Private (10 T)	391.24	£2,093.31	818,983	
1 Bed Private (11-20 T)	2,796.53	£2,093.31	5,854,001	
2 Bed Private (11-20 T)	3,912.38	£2,093.31	8,189,834	
1 Bed Private (21-28 T)	2,237.22	£2,093.31	4,683,201	
2 Bed Private (21-28 T)	3,129.91	£2,093.31	6,551,867	
2 Bed Private (29-36 T)	1,198.51	£2,093.31	2,508,858	
3 Bed Private (29-36 T)	3,358.59	£2,093.31	7,030,569	
Car Parking	1,665.00	£1,750.06	2,913,851	
Studio SR (Pav)	563.74	£2,708.43	1,526,845	
2 Bed SR (Pav)	1,146.52	£2,708.43	3,105,272	
3 Bed SR (Pav)	784.66	£2,708.43	2,125,203	
1 Bed S/O (1-9 T)	2,333.65	£1,923.40	4,488,552	
2 Bed S/O (1-9 T)	3,419.20	£1,923.40	6,576,496	
3 Bed S/O (1-9 T)	130.87	£1,923.40	251,719	
Totals	<u>28,510.69</u>		<u>58,798,375</u>	58,798,375
Contingency		5.00%	3,287,379	
Demolition			300,000	
Road/Site Works			3,494,519	
Abnormals			3,154,689	
				10,236,587
Other Construction				
Service Charge Voids			17,614	
Non Recoverable VAT			149,100	
Third Party Costs			200,000	
Maintenance	185.00 units	1,000.00 /un	185,000	
Warranties	284.00 units	1,000.00 /un	284,000	
				835,714
PROFESSIONAL FEES				
Architect		12.50%	8,308,776	
				8,308,776
MARKETING & LETTING				
Marketing		2.00%	1,832,940	
Letting Agent Fee		10.00%	33,518	
Letting Legal Fee		5.00%	16,759	
				1,883,217
DISPOSAL FEES				
Sales Agent Fee		1.25%	1,213,261	
Sales Legal Fee		0.25%	271,602	
				1,484,863
Additional Costs				
Secton 106			4,566,960	
CIL			917,840	
				5,484,800
FINANCE				
Multiple Finance Rates Used (See Assumptions)				
Total Finance Cost				5,060,419
TOTAL COSTS				87,612,425

**Appendix 3.1
35% AH - Scenario 1
PROFIT**

21,028,397

Performance Measures

Profit on Cost%	24.00%
Profit on GDV%	19.30%
Profit on NDV%	19.36%
Development Yield% (on Rent)	0.38%
Equivalent Yield% (Nominal)	6.48%
Equivalent Yield% (True)	6.48%
Gross Initial Yield%	6.77%
Net Initial Yield%	6.77%
IRR	30.68%
Rent Cover	62 yrs 9 mths
Profit Erosion (finance rate 6.500%)	3 yrs 4 mths

RENT & SALES SCHEDULE

VALUATION OFFICE AGENCY

Appendix 3.1
35% AH - Scenario 1
RENT AND CAPITALISATION

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Rent £ m ²	Gross MRV £ pa	Adjustment	Net MRV £ pa	Yield%	YP	Net Capital Value
Office	1	371.98	371.98	161.46	60,060	0	60,060	7.00	14.2857	\$ 829,460
Retail	1	776.00	776.00	269.10	208,821	0	208,821	6.50	15.3846	\$ 3,016,555
Ground Rents - 1 Bed T	76	0.00	0.00	0.00	22,800	0	22,800	6.00	16.6667	380,000
Ground Rents - 2 Bed T	88	0.00	0.00	0.00	33,000	0	33,000	6.00	16.6667	550,000
Ground Rents - 3 Bed T	21	0.00	0.00	0.00	10,500	0	10,500	6.00	16.6667	175,000
Totals			1,147.98		335,181	0	335,181			4,951,015

§ Rent Free Periods granted to these tenants. See full schedule for extra detail.

SALES

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £ pm ²	Per Unit £ pa	Gross Sales £ pa	Adjustment	Net Sales £ pa
1 Bed Private (10 T)	4	50.75	203.00	6,748.77	342,500	1,370,000	0	1,370,000
2 Bed Private (10 T)	4	71.00	284.00	6,734.15	478,125	1,912,500	0	1,912,500
1 Bed Private (11-20 T)	40	50.75	2,030.00	6,985.22	354,500	14,180,000	0	14,180,000
2 Bed Private (11-20 T)	40	71.00	2,840.00	7,041.37	499,937	19,997,500	0	19,997,500
1 Bed Private (21-28 T)	32	50.75	1,624.00	7,334.98	372,250	11,912,000	0	11,912,000
2 Bed Private (21-28 T)	32	71.00	2,272.00	7,588.03	538,750	17,240,000	0	17,240,000
2 Bed Private (29-36 T)	12	72.50	870.00	7,913.79	573,750	6,885,000	0	6,885,000
3 Bed Private (29-36 T)	21	116.10	2,438.00	7,444.63	864,286	18,150,000	0	18,150,000
Car Parking	25	0.00	0.00	0.00	30,000	750,000	0	750,000
Totals			12,561.00			92,397,000	0	92,397,000
Studio SR (Pav)	12	37.00	444.00	1,665.40	61,620	739,438	0	739,438
2 Bed SR (Pav)	12	75.25	903.00	1,242.25	93,479	1,121,752	0	1,121,752
3 Bed SR (Pav)	6	103.00	618.00	976.23	100,552	603,310	0	603,310
Totals			1,965.00			2,464,500	0	2,464,500
1 Bed S/O (1-9 T)	33	51.33	1,694.00	2,134.27	109,559	3,615,453	0	3,615,453

RENT & SALES SCHEDULE**VALUATION OFFICE AGENCY**

Appendix 3.1
35% AH - Scenario 1

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £ pmt ²	Per Unit £ pa	Gross Sales £ pa	Adjustment	Net Sales £ pa
2 Bed S/O (1-9 T)	35	70.91	2,482.00	2,134.27	151,350	5,297,258	0	5,297,258
3 Bed S/O (1-9 T)	1	95.00	95.00	2,134.27	202,756	202,756	0	202,756
Totals			4,271.00			9,115,467	0	9,115,467

Appendix 3.1
35% AH - Scenario 1

Valuation Office Agency

Development Appraisal

Appendix 3.2

3.5% AH - Scenario 2

St Mary's Development
Elephant & Castle
London SE1

Report Date 20/09/2012

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.2****3.5% AH - Scenario 2****Timescale (Duration in months)**

Project commences Jul 2012

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Phase 2

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Phase 3

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Project Length 51 (Merged Phases - Includes Exit Period)**Assumptions****Expenditure**

- Professional Fees are based on Construction
- (Manual relations applied to some Professional Fees)
- Purchaser's Costs are based on Gross Capitalisation
- Purchaser's Costs Deducted from Sale (Not added to Cost)
- Sales Fees are based on Net Capitalisation
- Sales Fees Added to Cost (Not deducted from Sale)

Receipts

- Show tenant's true income stream On
- Offset income against development costs Off
- Rent payment cycle Quarterly (Adv)
- Apply rent payment cycle to all tenants On
- Renewal Void and Rent Free apply to first renewal only Off

- Initial Yield Valuation Method Off
- Default Capitalisation Yield 0.0000%
- Apply Default Capitalisation to All Tenants Off
- Default stage for Sale Date Off
- Align end of income stream to Sale Date Off
- Apply align end of income stream to all tenants On
- When the Capital Value is modified in the cash flow Recalculate the Yield
- Valuation Tables are Annually in Arrears

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.2****3.5% AH - Scenario 2****Assumptions**

Rent Free method

Defer start of Tenant's Rent

Finance

Financing Method

Basic (Interest Sets)

Interest Compounding Period

Quarterly

Interest Charging Period

Monthly

Nominal rates of interest used

Calculate interest on Payments/Receipts in final period

Off

Include interest and Finance Fees in IRR Calculations

Off

Automatic Inter-account transfers

Off

Manual Finance Rate for Profit Erosion

Off

Calculation

Site Payments

In Arrears

Other Payments

In Arrears

Negative Land

In Arrears

Receipts

In Advance

Initial IRR Guess Rate

8.00%

Minimum IRR

-100%

Maximum IRR

99999%

Manual Discount Rate

Off

IRR Tolerance

0.001000

Letting and Rent Review Fees are calculated on

Net of Deductions

Development Yield and Rent Cover are calculated on

Rent at Sale Date(s)

Include Tenants with no Capital Value

On

Include Turnover Rent

Off

Net of Non-Recoverable costs

On

Net of Ground Rent deductions

On

Net of Rent Additions/Costs

On

Value Added Tax

Global VAT Rate

0.00%

Global Recovery Rate

0.00%

Recovery Cycle every

2 months

1st Recovery Month

2 (Aug 2012)

VAT Calculations in Cash Flow

On

Residual

Land Cost Mode

Residualised Land Value

Multi-Phasing

Single Land Residual at project start

Target Type

Profit on Cost

Target Value

24.86%

Distribution

Construction Payments are paid on

S-Curve

Sales Receipts are paid on

Single curve

Sales Deposits are paid on

Monthly curve

Interest Sets**Interest Set 1**Debit Rate
7.000%Credit Rate
1.000%Months
PerpetuityStart Date
Jul 2012

Appendix 3.2**3.5% AH - Scenario 2****Assumptions****Loan Set 1**

Debit Rate	Credit Rate	Months	Start Date
0.000%	0.000%	Perpetuity	Jul 2012

Inflation and Growth**Growth Sets****Growth Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

Inflation Sets**Inflation Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

APPRAISAL SUMMARY

VALUATION OFFICE AGENCY

Appendix 3.2 3.5% AH - Scenario 2

Summary Appraisal for Merged Phases 1 2 3

REVENUE

Sales Valuation	Units	Unit Amount	Gross Sales
Car Parking	25 units at	£30,000	750,000
	m²	Rate m²	Gross Sales
1 Bed Private (1-10 T)	1,897.00	£6,317.87	11,985,000
2 Bed Private (1-10 T)	2,766.00	£6,220.17	17,205,000
3 Bed Private (1-10 T)	95.00	£5,263.16	500,000
1 Bed Private (11-20 T)	2,030.00	£6,985.22	14,180,000
2 Bed Private (11-20 T)	2,840.00	£7,041.37	19,997,500
1 Bed Private (21-28 T)	1,624.00	£7,334.98	11,912,000
2 Bed Private (21-28 T)	2,272.00	£7,588.03	17,240,000
2 Bed Private (29-36 T)	870.00	£7,913.79	6,885,000
3 Bed Private (29-36 T)	2,438.00	£7,444.63	18,150,000
Studio Private (Pav)	296.00	£6,378.38	1,888,000
2 Bed Private (Pav)	602.00	£5,598.01	3,370,000
3 Bed Private (Pav)	412.00	£5,230.58	2,155,000
Studio Private (Pav)	148.00	£1,665.40	246,479
2 Bed Private (Pav)	301.00	£1,242.25	373,917
3 Bed Private (Pav)	206.00	£976.23	201,103
Totals	18,797.00		126,289,000
			127,039,000

Rental Area Summary

	Units	Unit Amount	Gross MRV
Ground Rents - 1 Bed T	109 units at	£300	32,700
Ground Rents - 2 Bed T	123 units at	£375	46,125
Ground Rents - 3 Bed T	22 units at	£500	11,000
Ground Rents - Studio P	8 units at	£250	2,000
Ground Rents - 2 Bed P	8 units at	£375	3,000
Ground Rents - 3 Bed P	4 units at	£500	2,000
Totals			96,825

	m ²	Rate m ²	Gross MRV
Office	371.98	£161.46	60,060
Retail	776.00	£269.10	208,821
Totals	1,147.98		268,881

Investment Valuation

Office					
Market Rent	60,060	YP @	7.0000%	14,2857	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	829,460
Retail					
Market Rent	208,821	YP @	6.5000%	15,3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	3,016,555
Ground Rents - 1 Bed T					
Current Rent	32,700	YP @	6.0000%	16.6667	545,000
Ground Rents - 2 Bed T					
Current Rent	46,125	YP @	6.0000%	16.6667	768,750
Ground Rents - 3 Bed T					
Current Rent	11,000	YP @	6.0000%	16.6667	183,333
Ground Rents - Studio P					
Current Rent	2,000	YP @	6.0000%	16.6667	33,333
Ground Rents - 2 Bed P					
Current Rent	3,000	YP @	6.0000%	16.6667	50,000
Ground Rents - 3 Bed P					
Current Rent	2,000	YP @	6.0000%	16.6667	33,333
					5,459,765

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.2****3.5% AH - Scenario 2**

GROSS DEVELOPMENT VALUE 132,498,764

Purchaser's Costs	5.80%	(309,900)	
NET DEVELOPMENT VALUE			<u>132,188,865</u>

NET REALISATION 132,188,865**OUTLAY****ACQUISITION COSTS**

Residualised Price		6,309,862	
Stamp Duty	4.00%	252,394	
Agent Fee	1.25%	78,873	
Legal Fee	0.50%	31,549	
			6,672,679

CONSTRUCTION COSTS

Construction	m ²	Rate m ²	Cost	
Office	387.00	£1,343.16	519,801	
Retail	776.00	£1,376.19	1,067,924	
1 Bed Private (1-10 T)	2,613.31	£2,093.31	5,470,463	
2 Bed Private (1-10 T)	3,810.44	£2,093.31	7,976,437	
3 Bed Private (1-10 T)	130.87	£2,093.31	273,956	
1 Bed Private (11-20 T)	2,796.53	£2,093.31	5,854,001	
2 Bed Private (11-20 T)	3,912.38	£2,093.31	8,189,834	
1 Bed Private (21-28 T)	2,237.22	£2,093.31	4,683,201	
2 Bed Private (21-28 T)	3,129.91	£2,093.31	6,551,867	
2 Bed Private (29-36 T)	1,198.51	£2,093.31	2,508,858	
3 Bed Private (29-36 T)	3,358.59	£2,093.31	7,030,569	
Car Parking	1,665.00	£1,750.06	2,913,851	
Studio Private (Pav)	375.83	£2,788.45	1,047,971	
2 Bed Private (Pav)	764.35	£2,788.45	2,131,345	
3 Bed Private (Pav)	523.11	£2,788.45	1,458,661	
Studio Private (Pav)	187.91	£2,644.24	496,887	
2 Bed Private (Pav)	382.17	£2,644.24	1,010,559	
3 Bed Private (Pav)	261.55	£2,644.24	691,612	
Totals	<u>28,510.69</u>		<u>59,877,794</u>	59,877,794

Contingency	5.00%	2,993,890	
Demolition		300,000	
Road/Site Works		3,494,519	
Abnormals		3,154,689	
			9,943,098

Other Construction

Warranties	284.00 units	1,000.00 /un	284,000	
Maintenance	274.00 units	1,000.00 /un	274,000	
Service Charge Voids			17,614	
Non Recoverable VAT			149,100	
Third Party Costs			200,000	
				924,714

PROFESSIONAL FEES

Architect	12.50%	8,733,749	
			8,733,749

MARKETING & LETTING

Marketing	2.00%	2,509,350	
Letting Agent Fee	10.00%	35,871	
Letting Legal Fee	5.00%	17,935	
			2,563,156

DISPOSAL FEES

Sales Agent Fee	1.25%	1,642,092	
Sales Legal Fee	0.25%	330,472	

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.2
3.5% AH - Scenario 2**

Additional Costs		1,972,584
Secton 106	4,566,960	
CIL	917,840	
		5,484,800
FINANCE		
Multiple Finance Rates Used (See Assumptions)		
Total Finance Cost		9,697,124
TOTAL COSTS		105,869,678
PROFIT		26,319,186

Performance Measures

Profit on Cost%	24.86%
Profit on GDV%	19.86%
Profit on NDV%	19.91%
Development Yield% (on Rent)	0.35%
Equivalent Yield% (Nominal)	6.43%
Equivalent Yield% (True)	6.43%
Gross Initial Yield%	6.70%
Net Initial Yield%	6.70%
IRR	22.33%
Rent Cover	71 yrs 12 mths
Profit Erosion (finance rate 7.000%)	3 yrs 2 mths

VALUATION OFFICE AGENCY

RENT & SALES SCHEDULE

Appendix 3.2

3.5% AH - Scenario 2

RENT AND CAPITALISATION

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Rent £ m ²	Gross MRV £ pa	Adjustment	Net MRV £ pa	Yield%	YP	Net Capital Value
Office	1	371.98	371.98	161.46	60,060	0	60,060	7.00	14.2857	\$ 829,460
Retail	1	776.00	776.00	269.10	208,821	0	208,821	6.50	15.3846	\$ 3,016,555
Ground Rents - 1 Bed T	109	0.00	0.00	0.00	32,700	0	32,700	6.00	16.6667	545,000
Ground Rents - 2 Bed T	123	0.00	0.00	0.00	46,125	0	46,125	6.00	16.6667	768,750
Ground Rents - 3 Bed T	22	0.00	0.00	0.00	11,000	0	11,000	6.00	16.6667	183,333
Totals			1,147.98		358,706	0	358,706			5,343,098
Ground Rents - Studio P	8	0.00	0.00	0.00	2,000	0	2,000	6.00	16.6667	33,333
Ground Rents - 2 Bed P	8	0.00	0.00	0.00	3,000	0	3,000	6.00	16.6667	50,000
Ground Rents - 3 Bed P	4	0.00	0.00	0.00	2,000	0	2,000	6.00	16.6667	33,333
Totals			0.00		7,000	0	7,000			116,667

§ Rent Free Periods granted to these tenants. See full schedule for extra detail.

SALES

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £ pm ²	Per Unit £ pa	Gross Sales £ pa	Adjustment	Net Sales £ pa
1 Bed Private (1-10 T)	37	51.27	1,897.00	6,317.87	323,919	11,985,000	0	11,985,000
2 Bed Private (1-10 T)	39	70.92	2,766.00	6,220.17	441,154	17,205,000	0	17,205,000
3 Bed Private (1-10 T)	1	95.00	95.00	5,263.16	500,000	500,000	0	500,000
1 Bed Private (11-20 T)	40	50.75	2,030.00	6,985.22	364,500	14,180,000	0	14,180,000
2 Bed Private (11-20 T)	40	71.00	2,840.00	7,041.37	499,937	19,997,500	0	19,997,500
1 Bed Private (21-28 T)	32	50.75	1,624.00	7,334.98	372,250	11,912,000	0	11,912,000
2 Bed Private (21-28 T)	32	71.00	2,272.00	7,588.03	538,750	17,240,000	0	17,240,000
2 Bed Private (29-36 T)	12	72.50	870.00	7,913.79	573,750	6,885,000	0	6,885,000
3 Bed Private (29-36 T)	21	116.10	2,438.00	7,444.63	864,286	18,150,000	0	18,150,000
Car Parking	25	0.00	0.00	0.00	30,000	750,000	0	750,000
Totals			16,832.00			118,804,500	0	118,804,500

RENT & SALES SCHEDULE

VALUATION OFFICE AGENCY

Appendix 3.2
3.5% AH - Scenario 2

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £/m ²	Per Unit £/pa	Gross Sales £/pa	Adjustment	Net Sales £/pa
Studio Private (Pav)	8	37.00	296.00	6,378.38	236,000	1,888,000	0	1,888,000
2 Bed Private (Pav)	8	75.25	602.00	5,598.01	421,250	3,370,000	0	3,370,000
3 Bed Private (Pav)	4	103.00	412.00	5,230.58	538,750	2,155,000	0	2,155,000
Totals			1,310.00			7,413,000	0	7,413,000
Studio Private (Pav)	4	37.00	148.00	1,665.40	61,620	246,479	0	246,479
2 Bed Private (Pav)	4	75.25	301.00	1,242.25	93,479	373,917	0	373,917
3 Bed Private (Pav)	2	103.00	206.00	976.23	100,552	201,103	0	201,103
Totals			655.00			821,500	0	821,500

Appendix 3.2
3.5% AH - Scenario 2

Valuation Office Agency

Development Appraisal

Appendix 3.3

100% Private - Scenario 3

St Mary's Development
Elephant & Castle
London SE1

Report Date 20/09/2012

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.3****100% Private - Scenario 3****Timescale (Duration in months)**

Project commences Jul 2012

Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Phase 2

Stage Name	Duration	Start Date	End Date	Anchored To	Aligner	Offset
Phase Start		Jul 2012				
Pre-Construction	12	Jul 2012	Jun 2013	Purchase	End	0
Construction	33	Jul 2013	Mar 2016	Pre-Construction	End	0
Sale	6	Apr 2016	Sep 2016	Income Flow	End	0
Phase End		Sep 2016				
Phase Length	51					

Project Length 51 (Merged Phases - Includes Exit Period)**Assumptions****Expenditure**

Professional Fees are based on Construction
 (Manual relations applied to some Professional Fees)
 Purchaser's Costs are based on Gross Capitalisation
 Purchaser's Costs Deducted from Sale (Not added to Cost)
 Sales Fees are based on Net Capitalisation
 Sales Fees Added to Cost (Not deducted from Sale)

Receipts

Show tenant's true income stream On
 Offset income against development costs Off
 Rent payment cycle Quarterly (Adv)
 Apply rent payment cycle to all tenants On
 Renewal Void and Rent Free apply to first renewal only Off

Initial Yield Valuation Method Off
 Default Capitalisation Yield 0.0000%
 Apply Default Capitalisation to All Tenants Off
 Default stage for Sale Date Off
 Align end of income stream to Sale Date Off
 Apply align end of income stream to all tenants On
 When the Capital Value is modified in the cash flow Recalculate the Yield
 Valuation Tables are Annually In Arrears
 Rent Free method Defer start of Tenant's Rent

Finance

Financing Method Basic (Interest Sets)
 Interest Compounding Period Quarterly
 Interest Charging Period Monthly
 Nominal rates of interest used
 Calculate interest on Payments/Receipts in final period Off
 Include interest and Finance Fees in IRR Calculations Off

TIMESCALE & ASSUMPTIONS**VALUATION OFFICE AGENCY****Appendix 3.3
100% Private - Scenario 3****Assumptions**

Automatic Inter-account transfers	Off
Manual Finance Rate for Profit Erosion	Off

Calculation

Site Payments	In Arrears
Other Payments	In Arrears
Negative Land	In Arrears
Receipts	In Advance

Initial IRR Guess Rate	8.00%
Minimum IRR	-100%
Maximum IRR	99999%
Manual Discount Rate	Off
IRR Tolerance	0.001000

Letting and Rent Review Fees are calculated on	Net of Deductions
Development Yield and Rent Cover are calculated on	Rent at Sale Date(s)
Include Tenants with no Capital Value	On
Include Turnover Rent	Off
Net of Non-Recoverable costs	On
Net of Ground Rent deductions	On
Net of Rent Additions/Costs	On

Value Added Tax

Global VAT Rate	0.00%
Global Recovery Rate	0.00%
Recovery Cycle every	2 months
1st Recovery Month	2 (Aug 2012)
VAT Calculations in Cash Flow	On

Residual

Land Cost Mode	Residualised Land Value
Multi-Phasing	Single Land Residual at project start
Target Type	Profit on Cost
Target Value	25.00%

Distribution

Construction Payments are paid on	S-Curve
Sales Receipts are paid on	Single curve
Sales Deposits are paid on	Monthly curve

Interest Sets**Interest Set 1**

Debit Rate	Credit Rate	Months	Start Date
7.000%	2.500%	Perpetuity	Jul 2012

Loan Set 1

Debit Rate	Credit Rate	Months	Start Date
0.000%	0.000%	Perpetuity	Jul 2012

Appendix 3.3**100% Private - Scenario 3****Assumptions****Inflation and Growth****Growth Sets****Growth Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

Inflation Sets**Inflation Set 1**

Inflation/Growth for this set is calculated in arrears
This set is not stepped

Rate	Months	Start Date
0.000%	Perpetuity	Jul 2012

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.3
100% Private - Scenario 3****Summary Appraisal for Merged Phases 1 2****REVENUE**

Sales Valuation	Units	Unit Amount	Gross Sales	
Car Parking	25 units at	£30,000	750,000	
	m²	Rate m²	Gross Sales	
1 Bed Private (1-10 T)	1,897.00	£6,317.87	11,985,000	
2 Bed Private (1-10 T)	2,766.00	£6,220.17	17,205,000	
3 Bed Private (1-10 T)	95.00	£5,263.16	500,000	
1 Bed Private (11-20 T)	2,030.00	£6,985.22	14,180,000	
2 Bed Private (11-20 T)	2,840.00	£7,041.37	19,997,500	
1 Bed Private (21-28 T)	1,624.00	£7,334.98	11,912,000	
2 Bed Private (21-28 T)	2,272.00	£7,588.03	17,240,000	
2 Bed Private (29-36 T)	870.00	£7,913.79	6,885,000	
3 Bed Private (29-36 T)	2,438.00	£7,444.63	18,150,000	
Studio Private (Pav)	444.00	£6,378.38	2,832,000	
2 Bed Private (Pav)	903.00	£5,598.01	5,055,000	
3 Bed Private (Pav)	618.00	£5,230.58	3,232,500	
Totals	18,797.00		129,174,000	129,924,000

Rental Area Summary	Units	Unit Amount	Gross MRV
Ground Rents - 1 Bed T	109 units at	£300	32,700
Ground Rents - 2 Bed T	123 units at	£375	46,125
Ground Rents - 3 Bed T	22 units at	£500	11,000
Ground Rents - Studio P	12 units at	£250	3,000
Ground Rents - 2 Bed P	12 units at	£375	4,500
Ground Rents - 3 Bed P	6 units at	£500	3,000
Totals			100,325

	m ²	Rate m ²	Gross MRV
Office	371.98	£161.46	60,060
Retail	776.00	£269.10	208,821
Totals	1,147.98		268,881

Investment Valuation

Office					
Market Rent	60,060	YP @	7.0000%	14.2857	
(0yrs 6mths Rent Free)		PV 0yrs 6mths @	7.0000%	0.9667	829,460
Retail					
Market Rent	208,821	YP @	6.5000%	15.3846	
(1yr Rent Free)		PV 1yr @	6.5000%	0.9390	3,016,555
Ground Rents - 1 Bed T					
Current Rent	32,700	YP @	6.0000%	16.6667	545,000
Ground Rents - 2 Bed T					
Current Rent	46,125	YP @	6.0000%	16.6667	768,750
Ground Rents - 3 Bed T					
Current Rent	11,000	YP @	6.0000%	16.6667	183,333
Ground Rents - Studio P					
Current Rent	3,000	YP @	6.0000%	16.6667	50,000
Ground Rents - 2 Bed P					
Current Rent	4,500	YP @	6.0000%	16.6667	75,000
Ground Rents - 3 Bed P					
Current Rent	3,000	YP @	6.0000%	16.6667	50,000
					5,518,098

GROSS DEVELOPMENT VALUE 135,442,098

Purchaser's Costs 5.80% (309,900)

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.3****100% Private - Scenario 3**

NET DEVELOPMENT VALUE

135,132,198

NET REALISATION

135,132,198**OUTLAY****ACQUISITION COSTS**

Residualised Price		7,730,746
Stamp Duty	4.00%	309,230
Agent Fee	1.25%	96,634
Legal Fee	0.50%	38,654

8,175,264**CONSTRUCTION COSTS**

Construction	m ²	Rate m ²	Cost
Office	387.00	£1,343.16	519,801
Retail	776.00	£1,376.19	1,067,924
1 Bed Private (1-10 T)	2,613.31	£2,093.31	5,470,463
2 Bed Private (1-10 T)	3,810.44	£2,093.31	7,976,437
3 Bed Private (1-10 T)	130.87	£2,093.31	273,956
1 Bed Private (11-20 T)	2,796.53	£2,093.31	5,854,001
2 Bed Private (11-20 T)	3,912.38	£2,093.31	8,189,834
1 Bed Private (21-28 T)	2,237.22	£2,093.31	4,683,201
2 Bed Private (21-28 T)	3,129.91	£2,093.31	6,551,867
2 Bed Private (29-36 T)	1,198.51	£2,093.31	2,508,858
3 Bed Private (29-36 T)	3,358.59	£2,093.31	7,030,569
Car Parking	1,665.00	£1,750.06	2,913,851
Studio Private (Pav)	563.74	£2,788.45	1,571,955
2 Bed Private (Pav)	1,146.52	£2,788.45	3,197,017
3 Bed Private (Pav)	784.66	£2,788.45	2,187,992
Totals	<u>28,510.69</u>		<u>59,997,723</u>

59,997,723

Contingency	5.00%	2,999,886
Demolition		300,000
Road/Site Works		3,494,519
Abnormals		3,154,689

9,949,094**Other Construction**

Warranties	284.00 units	1,000.00 /un	284,000
Maintenance	284.00 units	1,000.00 /un	284,000
Service Charge Voids			17,614
Non Recoverable VAT			149,100
Third Party Costs			200,000

934,714**PROFESSIONAL FEES**

Architect	12.50%	8,749,490
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8,749,490**MARKETING & LETTING**

Marketing	2.00%	2,583,480
Letting Agent Fee	10.00%	35,871
Letting Legal Fee	5.00%	17,935

2,637,286**DISPOSAL FEES**

Sales Agent Fee	1.25%	1,689,152
Sales Legal Fee	0.25%	337,830

2,026,983**Additional Costs**

Secton 106		4,566,960
CIL		917,840

5,484,800**FINANCE**

APPRAISAL SUMMARY**VALUATION OFFICE AGENCY****Appendix 3.3****100% Private - Scenario 3**

Multiple Finance Rates Used (See Assumptions)

Total Finance Cost

10,150,400

TOTAL COSTS**108,105,755****PROFIT****27,026,443****Performance Measures**

Profit on Cost%	25.00%
Profit on GDV%	19.95%
Profit on NDV%	20.00%
Development Yield% (on Rent)	0.34%
Equivalent Yield% (Nominal)	6.43%
Equivalent Yield% (True)	6.43%
Gross Initial Yield%	6.69%
Net Initial Yield%	6.69%
IRR	21.86%
Rent Cover	73 yrs 2 mths
Profit Erosion (finance rate 7.000%)	3 yrs 3 mths

VALUATION OFFICE AGENCY

RENT & SALES SCHEDULE

Appendix 3.3
100% Private - Scenario 3
RENT AND CAPITALISATION

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Rent £ m ²	Gross MRV £ pa	Adjustment	Net MRV £ pa	Yield%	YP	Net Capital Value
Office	1	371.98	371.98	161.46	60,060	0	60,060	7.00	14.2857	\$ 829,460
Retail	1	776.00	776.00	269.10	208,821	0	208,821	6.50	15.3846	\$ 3,016,555
Ground Rents - 1 Bed T	109	0.00	0.00	0.00	32,700	0	32,700	6.00	16.6667	545,000
Ground Rents - 2 Bed T	123	0.00	0.00	0.00	46,125	0	46,125	6.00	16.6667	768,750
Ground Rents - 3 Bed T	22	0.00	0.00	0.00	11,000	0	11,000	6.00	16.6667	183,333
Totals			1,147.98		358,706	0	358,706			5,343,098
Ground Rents - Studio P	12	0.00	0.00	0.00	3,000	0	3,000	6.00	16.6667	50,000
Ground Rents - 2 Bed P	12	0.00	0.00	0.00	4,500	0	4,500	6.00	16.6667	75,000
Ground Rents - 3 Bed P	6	0.00	0.00	0.00	3,000	0	3,000	6.00	16.6667	50,000
Totals			0.00		10,500	0	10,500			175,000

§ Rent Free Periods granted to these tenants. See full schedule for extra detail.

SALES

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £ pm ²	Per Unit £ pa	Gross Sales £ pa	Adjustment	Net Sales £ pa
1 Bed Private (1-10 T)	37	51.27	1,897.00	6,317.87	323,919	11,985,000	0	11,985,000
2 Bed Private (1-10 T)	39	70.92	2,766.00	6,220.17	441,154	17,205,000	0	17,205,000
3 Bed Private (1-10 T)	1	95.00	95.00	5,263.16	500,000	500,000	0	500,000
1 Bed Private (11-20 T)	40	50.75	2,030.00	6,985.22	354,500	14,180,000	0	14,180,000
2 Bed Private (11-20 T)	40	71.00	2,840.00	7,041.37	499,937	19,997,500	0	19,997,500
1 Bed Private (21-28 T)	32	50.75	1,624.00	7,334.98	372,250	11,912,000	0	11,912,000
2 Bed Private (21-28 T)	32	71.00	2,272.00	7,588.03	538,750	17,240,000	0	17,240,000
3 Bed Private (29-36 T)	12	72.50	870.00	7,913.79	573,750	6,885,000	0	6,885,000
2 Bed Private (29-36 T)	21	116.10	2,438.00	7,444.63	864,286	18,150,000	0	18,150,000
Car Parking	25	0.00	0.00	0.00	30,000	750,000	0	750,000
Totals			16,832.00			118,804,500	0	118,804,500

RENT & SALES SCHEDULE**VALUATION OFFICE AGENCY**

Appendix 3.3

100% Private - Scenario 3

Areas (Sq Metres)	Units	Area/Unit m ²	Total Net Area m ²	Sales £ pm ²	Per Unit £ pa	Gross Sales £ pa	Adjustment	Net Sales £ pa
Studio Private (Pav)	12	37.00	444.00	6,378.38	236,000	2,832,000	0	2,832,000
2 Bed Private (Pav)	12	75.25	903.00	5,598.01	421,250	5,055,000	0	5,055,000
3 Bed Private (Pav)	6	103.00	618.00	5,230.58	538,750	3,232,500	0	3,232,500
Totals			1,965.00			11,119,500	0	11,119,500

Appendix 3.3
100% Private - Scenario 3