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The Aylesham Centre, Peckham

Financial Viability Assessment Executive Summary

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EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

The Southwark Local Plan 2022 (adopted February 2022), states that a viability appraisal is required for all developments, and, in exceptional circumstances, developments can follow the fast-track route where 40% affordable housing is provided (with a minimum of 25% social rent and a minimum of 10% intermediate). Schemes following the fast-track route are not subject to a viability appraisal.

25% of the proposed homes will be Social Rent and 10% intermediate (calculated by habitable room). This accords with the tenure mix requirement of Southwark Plan Policy P1. For the purposes of London Plan Policy H6, this equates to an affordable housing tenure mix of 71.4% Social Rent and 28.6% intermediate (calculated by habitable room) or 69% Social Rent and 31% intermediate (calculated by unit). There is a clear public benefit (on the basis of housing need) to justify the slight over-weighting towards Social Rent over intermediate when calculated by habitable room.

This viability assessment is based on advice from independent consultants in respect of the key inputs including the market values for both residential and commercial elements, construction costs and land value.

The report demonstrates that the proposed affordable housing is more than the maximum viable provision and concludes that, whilst there is a viability gap on a present-day basis, Berkeley has confidence in its own ability as an urban regeneration specialist to bring value growth and a placemaking premium to the development.

1 SITE DESCRIPTION AND LOCATION

- 1.1 The Site is located within Peckham town centre within the administrative boundary of the London Borough of Southwark ('LBS') (the Local Planning Authority ('LPA')) Rye Lane bounds the Site to the west, Hanover Park to the south and McKerrell Road to the east. Peckham Bus Station, fronting onto Peckham High Street, bounds the Site to the north.
- 1.2 The Site is 2.7ha and accommodates the Aylesham Centre alongside an associated surface car park (353 spaces), service yard, and petrol filling station. The Aylesham Centre comprises retail units fronting on to Rye Lane with additional retail units within a covered mall, including a Morrison supermarket.
- 1.3 The Site is well-connected locally and has a Public Transport Accessibility Level (PTAL) rating of 6a/6b, on a scale of 0 to 6b, where 6b represents the greatest level of access to public transport services. Peckham Rye Rail Station is situated 0.3 miles south of the Site which has access to the Overground Line and Southern Railway services. The Site is also 0.6 miles east of Queens Road Peckham Train station which also has access to the Overground Line and Southern Railway services.
- 1.4 The surrounding area is characterised by typical town centre uses, with a broad mix of convenience and comparison retailers; leisure and other commercial uses; and residential. Building heights within the surrounding area are mixed, ranging from three storeys along Rye Lane and Hanover Park to 20 storeys at the Clifton Estate. The existing buildings (on the Site) are not listed at either Statutory or Local level. The closest listed buildings are located at 58 Peckham High Street and Baptist Chapel, Rye Lane. Immediately north of the Site, is the former Jones and Higgins building and immediately to the south of the Site is 47-79 Rye Lane, both of which are locally listed. The western part of the Site (fronting onto Rye Lane) falls within the Rye Lane Peckham Conservation Area.
- 1.5 The wider surrounding area is undergoing a significant period of change, with a number of significant planning permissions approved in the last 10 years, including Peckham Place, 97 Peckham Road, Peckham Rye Station, Eagle Wharf and Sumner house and Flaxyard. In addition, a number of sites have been allocated for development within the Site's vicinity, including Blackpool Business Park and Copeland Industrial Estate.

1.6 The Site boundary is illustrated in the red line plan below.

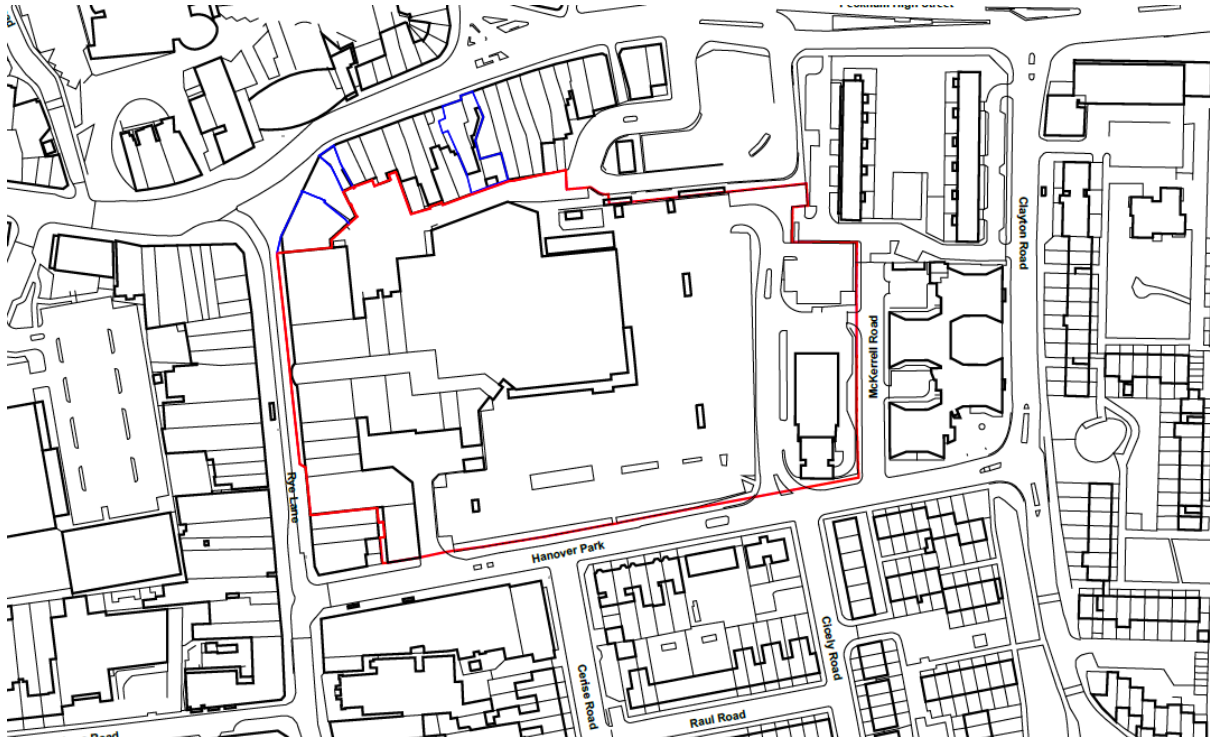


Figure 1: Planning application boundary in red

Ownership

1.6 The Site subject to the planning application is wholly owned by Berkeley except for the existing petrol filling station. This is owned by Morrisons, however Berkeley has entered a contract to purchase this part of the site subject to planning. The blue line delineates the extended ownership.

2 DEVELOPMENT PROPOSALS

2.1 A planning application seeks consent for the following:

“Demolition of existing buildings and phased redevelopment to provide a replacement supermarket and associated service yard and car parking (Use Class E(a)); flexible retail, leisure (including drinking establishment), and commercial accommodation (Use Class E/Sui Generis); dwellings (Use Class C3); landscaping; and associated works.”

2.2 The Proposed Development will be delivered in two phases, as shown on the below plan:

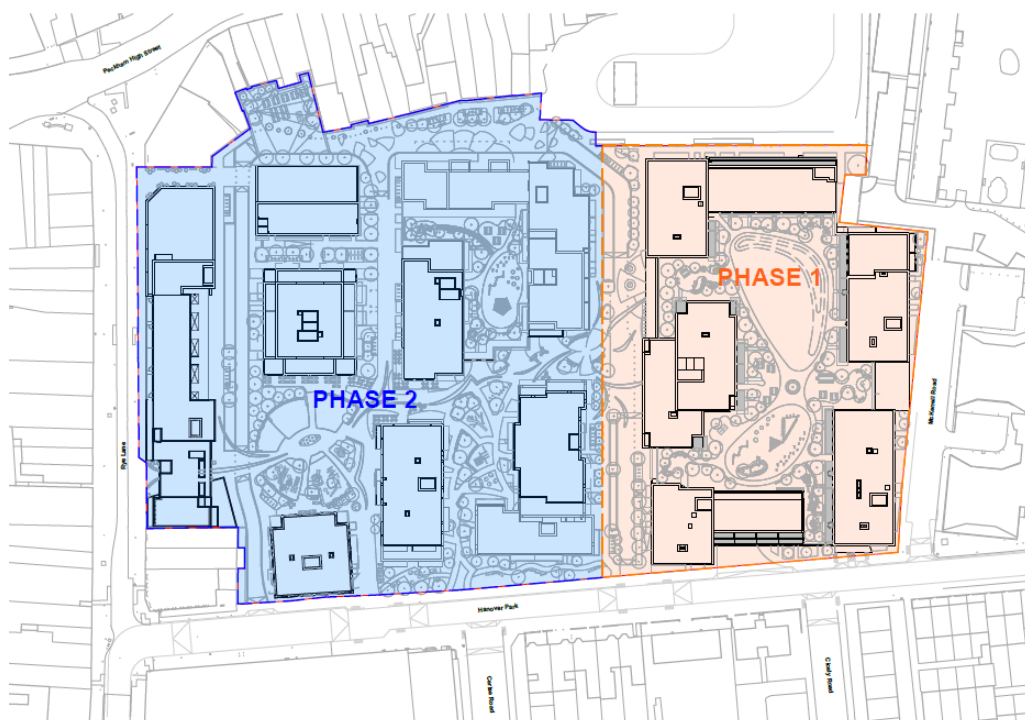


Figure 2: Phasing Plan

- 2.3 Phase 1 – Includes the construction of the new Morrisons store to the east of the site; 145 car parking spaces located within a basement (140 Morrisons spaces and 5 residential blue badge spaces) and 392 homes, majority of which are located above podium.
- 2.4 Phase 2 – Demolition and redevelopment of the existing Morrisons and Aylesham shopping centre to provide a mixture of flexible retail, leisure, and commercial accommodation as well as 485 homes.
- 2.5 25% of the proposed homes will be Social Rent and 10% intermediate (calculated by habitable room). This accords with the tenure mix requirement of Southwark Plan Policy P1. For the purposes of London Plan Policy H6, this equates to an affordable housing tenure mix of 71.4% Social Rent and 28.6% intermediate (calculated by habitable room) or 69% Social Rent and 31% intermediate (calculated by unit). There is a clear public benefit (on the basis of housing need) to justify the slight over-weighting towards Social Rent over intermediate when calculated by habitable room.
- 2.6 All residential properties will have access to private amenity, in the form of a balcony. In terms of communal amenity, the Proposed Development will offer two podium gardens and seven rooftop terraces.

- 2.7 The Proposed Development will also incorporate two new public squares and green corridors running north to south and east to west through the site. The Proposed Development also promotes active frontages in what is a town centre location at ground level with new retail and non-residential provisions through the development.
- 2.8 The Proposed Development will provide a 145-space basement car park, which will include 140 spaces for the Morrisons store, comprising 6% Blue Badge bays and a further 6% as designated Parent and Child spaces. The additional five spaces will be designated as Blue Badge spaces for residential use. A further 5 Blue Badge residential spaces are provided at ground floor level (11 in total). Given the Site is located within a PTAL rating of 6a/6b the Proposed Development will be “car free” from a residential perspective bar the forementioned Blue Badge spaces.
- 2.9 The Proposed Development will provide a minimum of 1,865 cycle parking spaces (including 1,609 long stay and 256 short stay spaces).
- 2.10 In summary, the incumbent tenant, Morrisons, is key to the delivery of the Site and a new retail facility will be constructed for the retail operator as part of the phase one works. Once completed, Morrisons will vacate their existing building located in phase two and occupy the new phase one building.
- 2.11 This will allow development to proceed. The phasing of the Proposed Development is thus dictated by the need to ensure that Morrisons will continue trading throughout and given their long lease on the Site, their agreement is fundamental to unlocking the delivery of 877 new homes and the accompanying commercial and community spaces.

3 APPRAISAL METHODOLOGY

- 3.1 This report has been prepared following guidance in national and local adopted policy and best practice guidance. This report has been prepared by James Walker BSc (Hons) MRICS of Berkeley Partnership Homes, a Chartered Surveyor with over 20 years' experience in the preparation of viability reports for planning purposes, following guidance in national and local adopted policy and best practice guidance including the RICS Guidance Note 'Assessing Viability in Planning under the National Planning Policy Framework 2019 for England' (1st Edition, adopted July 2021).
- 3.2 A residual valuation has been prepared using Argus to calculate the residual margin, adopting a Benchmark Land Value (BLV) in line with guidance. This residual margin is then assessed against the benchmark margin to determine if the scheme is viable.
- 3.3 As explained in part 2 above, the cooperation of Morrisons is key to the delivery of this scheme. However, in order to remain in line with viability guidance, the valuation of both the land interests and the proposed new supermarket assumes arms length transactions in order to avoid the use of 'price paid'. The planning consent will not be restricted to Morrisons as the supermarket operator.

4 BENCHMARK LAND VALUE

- 4.1 In line with guidance, we have adopted an EUV+Premium approach to arrive at a Benchmark Land Value (BLV).
- 4.2 The Site is made up of the following buildings:
- Petrol Station
 - Morrisons
 - Retail fronting Rye Lane
 - Retail in Aylesham Centre
 - Retail fronting Hanover Park
- 4.3 The BLV is based on its Existing Use Value (EUV), ignoring any alternative uses or 'hope value', which is consistent with the Affordable Housing and Viability SPG and Southwark SPD and National Guidance to the NPPF.
- 4.4 In addition to the valuation of the freehold interest of the above elements of the site, Morrisons has a lease that runs until 2034, which is inside of the 1954 L&T Act, which is also a land interest that needs to be acquired in order for this site to be brought forward for development prior to the expiry of this lease.

5 BENCHMARK DEVELOPMENT MARGIN

- 5.1 The appraisal adopts a fixed Benchmark Land Value and calculates a residual margin with which we compare with a benchmark margin. We consider that this site has considerable development risk over and above what may be considered normal including, for example, the risks associated

with tall buildings. Notably The London Plan Viability Evidence states that buildings over 20 storeys require a developer return of 20% on GDV.

5.2 A summary of the developer returns adopted in our appraisal is as follows:

- 20% on GDV for the private housing element.
- 6% on GDV for the affordable housing element.
- 15% on GDV for the commercial space.

This derives a blended site-wide profit target of 17.6 % for the Proposed Development accounting for the current mix of uses.

6 VIABILITY OUTCOME AND CONCLUSION

Summary of Appraisal

Revenues	£
Residential	434,310,752
Commercial	40,814,256
Total Revenue	475,125,008
Costs	
Build (inc abs, fees and contingency)	369,439,969
Sales costs and finance	95,765,806
S106 & CIL costs	10,790,543
Land Cost	48,554,923
Total Costs	532,932,655
Profit Margin (residual)	-57,807,647
Benchmark Profit Margin	83,852,796
Deficit to Benchmark Profit Margin	-141,660,443

- 6.1 The FVA illustrates that on a present-day basis, the Proposed Development would deliver a profit return of -12.17% of Gross Development Value against a target profit of 17.6% providing in excess of the maximum amount of planning obligations including affordable housing shown to be viable, and that the Proposed Development is extremely challenged financially.
- 6.2 The viability of the Proposed Development, on an objective and non-Applicant specific basis, demonstrates that the scheme is not viable without significant growth.

Sensitivity Test

- 6.4 The RICS Professional Statement titled 'Financial Viability in Planning: Conduct and Reporting', 2019, requires the use of sensitivity testing to consider the impact of changes in inputs on overall scheme viability.
- 6.5 The following table shows the results of adjustments to market values and base build costs of +/- 5% showing the resulting margin as a percentage of Gross Development Value.

		Residential Market Sale Values		
		-5%	0%	+5%
Build Cost	-5%	-12.21%	- 7.06%	-2.30%
	0%	-17.52%	-12.17%	-7.21%
	+5%	-22.83%	-17.27%	-12.13%

- 6.6 This analysis demonstrates that minor adjustments to the costs and values do not alter the conclusion that the Proposed Development, at present day costs and values, is not viable.