

08 May 2025

Jack Leafé
GLA Viability Team

Dear Jack

THE AYLESHAM CENTRE, PECKHAM, SOUTHWARK, SE15 5EW
Response to GLA Viability Team viability response

We write in relation to the Financial Viability Assessment Addendum ("FVA Addendum") dated December 2024, submitted on behalf of Berkeley Homes (Capital) Plc (the "Applicant") in support of the planning application at the Aylesham Centre, Peckham, Southwark, SE15 5EW (hereafter "the Site"). The planning reference is 24/AAP/2074.

This letter has been collated in response to an email provided by the GLA Viability Team ('GLAVT') dated 24 April 2025. This response supplements the DS2 letter dated 3 April 2025 to BPS Chartered Surveyors ('BPS') to which the GLAVT were copied in further to receipt of the BPS report dated 10 February 2025. The DS2 letter of 3 April also provides a response to a report from the GLAVT dated 26 March 2025.

This letter provides a concise response to the matters contained in the GLAVT email dated 24 April 2025. We have sought to avoid repetition so this response should be read in conjunction with the FVA Addendum and our correspondence of 03 April 2025.

We would note that the final BPS report dated 8 April 2025 concludes that many of the inputs are agreed but there remain some differences of opinion, for example on finance rates. However, BPS conclude that the immaterial of the differences in opinion the *'subject scheme generates a deficit of £41m and, therefore, no additional affordable housing can be viably offered'*.

The GLAVT email largely agrees with many of the key metrics being used (for example market values, affordable values and construction costs). The key departure from the Applicant and Council's conclusion is that the adoption of residential value growth over the development period, generating an additional c. £148m revenue, unsurprisingly significantly improves the viability outcome. The GLAVT email concludes that *'the scheme as proposed may not be maximising the benefits to the public'*.

We disagree as do the Council's advisors. The approach advocated by the GLAVT adopts a methodology which is largely unused in viability assessments for the purposes of plan making and / or development management and is being advocated at a time when the economic headwinds and geopolitical risks are unprecedented. These factors are creating significant risks to the sector and development has largely stalled in the capital as reflected in housing starts and completions.

It is our opinion that the intent of national policy and professional guidance is not for extremely risky growth assumptions to be adopted to underpin planning gain, the use of which puts the delivery of development at risk. Paragraphs 56 to 59 of national policy sets out the requirements to be considered when seeking planning obligations and we are of the opinion that the approach being advocated in this instance by the GLAVT, fails these key policy tests.

We would note that the Stag Brewery decision was published on 02 May. The Inspector allowed the appeal and in respect of the issue of value growth, the decision concludes that given the uncertainty around said growth and the existence of review mechanisms, such growth cannot be accounted for in determining the level of planning obligations to be secured at the date of consent.

In respect of the proposed scheme, the Applicant's intention, having pursued the viability tested route will be for any future planning consent to be subject to comprehensive reviews that are consistent with the policy and guidance requirements.

The table therefore below provides a concise summary in response to the GLAVT email, in the order in which they are presented.



Table One: Response to GLA emailed comments dated 24 April 2025

Overarching Comments & Growth	
Response	<p>As per our response of 03 April we are not in agreement that the use of significant levels of growth in the appraisal to underpin additional obligations is a robust approach and consistent with the intent of national policy guidance the Professional Standards and our response on this item is contained in our letter of 3 April 2025.</p> <p>In summary however, the GLAVT have applied upwards only growth analysis on the residential values which in essence creates significant additional risk and reduces the present day return to a level that is below the 15 to 20 percent as referenced in national planning policy guidance.</p> <p>The level of developer return has not been adjusted by the GLAVT to reflect the increased level of additional risk.</p> <p>The IMF have this month downgraded their economic growth outlook for the UK from 1.6 percent for 2025 to 1.1 percent in light of the geopolitical risks. The Bank of England are forecasting 1.5 percent for 2026 and 2027 with concerns raised about the UK's longer term economic potential (the BoE forecast for 2025 is 0.75 percent).</p> <p>The GLAVT appraisal illustrates a present day GDV for the private element of £496m as agreed with BPS (and indeed the GLAVT). The growth sensitivity is adding £148m of additional value to the calculation (i.e. £645m in total) equating to a 30 percent increase in the present-day valuation at a time when new build values are at best stagnant, and sales rates are at an all-time low. This is being used to support additional planning obligations and, if adopted, would put the delivery of the scheme at significant risk.</p> <p>The GLAVT refers to para 4.1.5 of the Professional Standards which states: <i>'Simply using current costs and values, and ignoring changes over the life of a development, can distort the analysis in all but the IP39 Assessing viability in planning under the National Planning Policy Framework 2019 for England simplest of cases'</i>.</p> <p>However, national planning guidance does not advocate the use of sensitivity testing to underpin the level of planning obligations being sought and the GLAVT have not historically adopted this approach.</p> <p>The RICS Professional Standard supports the use of sensitivity testing, as with all valuation exercises, but states at paragraph 2.3.9 that <i>'Valuation variation can be addressed in three different ways: first by the use of mandatory sensitivity testing of viability assessments; second by the use of site-specific assessments when deemed appropriate; and third by including policies that require the use of review mechanisms within individual planning agreements, whereby additional contributions can be obtained if development returns increase significantly above expected returns'</i>.</p> <p>The inference is that it is this third route which should be used to secure additional planning obligations.</p> <p>The application is being viability tested and as such any subsequent planning consent will be subject to viability reviews that will enable the local planning authority to benefit from additional obligations dependent on actual growth and inflation.</p> <p>As BPS have noted in section 2.3 of their report, the use of growth and inflation has been incorporated by both DS2 and BPS to stress test the outputs and examine the matter of deliverability, but these should be treated with significant caution and the evidence does not lend itself to using the metrics to underpin additional obligations.</p> <p>As such, the Applicant's position on this input is unchanged.</p>
Affordable Housing Values	
Response	<p>The GLA comments refer to an agreement between the parties. DS2 and BPS are agreed that £520 per sqft for London Shared Ownership and £216 per sqft for social rent, is reasonable.</p> <p>However, we note that the GLAVT appraisal includes London Shared Ownership values at £640 per sqft and social rented values £263 per sqft albeit with no commentary to support the inclusion and we assume this to be an error.</p> <p>No grant has been included in the analysis as the scheme would not benefit from the Accelerated Funding Route guidance which supports grant for affordable housing being delivered by way of planning gain.</p>



	<p>We understand that the Applicant has engaged directly with the GLA funding team who have confirmed that this scheme would not qualify for AFR funding in the current programme. Whilst other routes to funding may be available, no funding can be guaranteed at this stage and therefore the potential for the use of grant funding can have no bearing on the amount of affordable housing that can be offered now.</p> <p>The Applicant have confirmed their intention to engage with the GLA on the availability of funding once consent is achieved and the timing of delivery is clear. Any such funding, if secured, would be picked up in the review mechanisms as would any additional affordable housing being delivered.</p>
Commercial Property Values	
Response	<p>We note the comments in respect of the yields adopted for the commercial property as referred to in para 6.31 of the GLAVT report of March 2025 and the email of 24 April.</p> <p>We have referred back to the original FVA submitted back by the applicant in July 2024. Appendix 6 provided by CF Commercial refers to the individual commercial units, their size, Estimated Rental Value, incentives, voids and gross yield. The average capital value reported for the 69,624 sqft (GIA) of £334 per sqft.</p> <p>The BPS report dated October 2024 and states that the CF Commercial data is predicated on a GIA basis and not NIA (the CF Commercial information from July 2024 does however refer to this at the foot of the table). BPS conclude that the value of the rental units is 'somewhat understated'. Further to an assessment of yields and incentives, BPS conclude that the average capital values are £454 per sqft for the commercial and a significant increase to the value of the Morrison's store (considerably higher than the Applicant's position). This position is also reflected in their February 2025 response.</p> <p>It is worth highlighting the GLAVT have not included a 12-month rent free period for the proposed supermarket space, which was included by BPS and DS2, albeit no commentary has been included to support this assumption and therefore assume this to be an error.</p> <p>We have reassessed the original FVA, and the figures supplied by CF Commercial. The yields applied in the Applicant's assessment and the subsequent FVA Addendum are gross yields (see the CF Commercial evidence as part of the original FVA) and purchaser's costs are subsequently deducted. The difference in valuation comes down to the interpretation of rents, yields, voids and rent frees between the Applicant's advisors CF Commercial and BPS, and as BPS note in their report of April 2025 (pg.9) '<i>we consider any discrepancy could be captured at the review mechanism</i>'.</p>
Benchmark Land Value	
Response	<p>We note that the GLA appraisal does not include a premium on the majority of the Existing Use Value and have amended this input. We understand that the GLAVT are accepting the agreed position on the Benchmark Land Value and recognised a concession made by the Applicant on the premium applied.</p> <p>The GLA have excluded the value of £2.75m in relation to the existing Morrison's lease, however, no commentary has been provided to support the exclusion and therefore assume this to be an error.</p>
Market Sale Disposal Costs	
Response	<p>As stated in section seven of the FVA Addendum the costs applied are reflective of those being accrued in the market to secure what are currently extremely low sales volumes. Additional information was provided in November 2024 in response to the BPS original report. We note that BPS have maintained their original budget of 3 percent.</p> <p>The Applicant's position remains (2.5 percent marketing and 2 percent agents) as submitted given the current market conditions however we are not intending to submit further information on this matter at the current time.</p>
Finance Costs	
Response	<p>The GLAVT are maintaining the 7 percent finance cost in line with BPS's position. As explained in the FVA Addendum and reiterated in the correspondence of 3 April, finance rates for viability have been increased in recent years by c.1 percent whilst base rates have increased by 4.25 percent.</p>



	<p>As also noted in our 3 April response to the GLA, and the reference to 7 percent being 'relatively high', on an objective market basis, with 10-year risk free rates at 4.44 percent, that allows for a margin of c. 2.5 percent to allow for risk and fees which is unrealistic for as yet unsecured speculative development debt.</p> <p>The market has become inherently more difficult in a period of economic volatility and as such the 8 percent rate is maintained.</p>
Developer Return	
Response	<p>The matter under consideration relates to a 20 percent return on the GDV for the private development. BPS are agreed that this is reasonable given the scale of development, location and prevailing and foreseeable market conditions.</p> <p>The GLAVT does not explicitly state that the return remains in dispute recognising that the return is within the national planning policy range (and assumably recognising the unprecedented market conditions being experienced).</p>
Sales Programme	
Response	<p>As above, BPS and the GLAVT have maintained their positions in respect of the sales and marketing costs. The Applicant's appraisal is currently reflecting 65 percent off-plan sales and 6 sales per month post completion of each phase and BPS in their February 2025 report state that the viability review mechanisms should in due course pick up the actual sales values and timings. No further information is provided by the Applicant at this time.</p>
IRR Approach	
Response	<p>As noted in the 3 April response, the FVA and FVA Addendum was submitted on the basis of a return of development value approach (consistent with the NPPG requirement).</p> <p>Given recent dialogue with the GLAVT on IRRs (the GLAVT were quoting a 10 percent ungeared IRR on a 2,000-unit scheme in the capital), the return metric has not been considered here and the preferred metric, as reference in national policy and the majority of FVAs, is agreed with BPS.</p>

The table below reflects what we understand to be the respective positions of BPS, the Applicant and the GLAVT. The table is provided with the following caveats:

- The table adopts the BPS seven percent finance scenario given that this is their base position;
- The BPS appraisal includes the developer return as fixed line items and the residual (negative) output is the true developer return (as such the table below identifies the actual developer return as the fixed developer return less the negative profit);
- The GLAVT appraisal has been adjusted to the agreed BLV (increase of £4.1m), the agreed affordable housing values (reduction of £4.6m), the inclusion of Third-Party Costs (£5.3m, evidence has been provided to BPS and agreed) and adopted 12 months rent free for the proposed supermarket space (results in a lower value of £22.6m) - these are all subject to the GLAVT's verification.

Table Two: Respective Aylesham Centre Viability Outturns, April 2025			
Source	BLV	GDV	Return
BPS	£29,353,500	£575,693,018	£69,225,648
DS2	£29,353,500	£562,386,769	£39,348,000
GLAVT	£25,280,000	£725,670,509	£159,644,279
GLAVT (adjusted)	£29,353,500	£719,651,916	£136,419,362

It is worth noting that the GLAVT (adjusted) appraisal, attached at **Appendix One**, is producing a slight deficit of 0.11% assuming a 20 percent return on the market units which demonstrates that even with the inclusion of growth, the affordable housing offer is in excess of the maximum viable amount.



The key differences in the Return between the DS2 and BPS appraisals relate to the following:

- £13.1m in commercial property value;
- BPS have excluded £4.2 m in tenant's compensation and legal costs albeit have not dismissed the item but have requested further evidence;
- c. £9m in sales, marketing, legal and letting costs due to differences of opinion in the respective rates and the commercial GDV;
- one percent difference in the cost of finance equating to £5.2m.

As BPS have concluded, the above in aggregate is not material to their conclusion and the differences of opinion will be picked up as part of the review mechanism (early, mid and late-stage reviews to be incorporated into the Section 106 agreement).

The major difference between the BPS, DS2 and GLAVT respective positions relates to the use of growth, as noted adding £148m worth of additional revenue, which we remain firmly of the opinion is neither the intent of national policy or professional guidance nor warranted in respect of the current and foreseeable economic and geopolitical environment.

Indeed, the approach adopted by the Applicant in respect of using a present-day appraisal methodology to underpin planning obligations, has now been deemed to be consistent with the policy requirements, as per the Stag Brewery decision of 02 May.

DS2 LLP
May 2025