Financial Viability Assessment Report

Epsom Hospital Site, Epsom

Instructions

This Financial Viability Assessment (FVA) is submitted to Epsom and Ewell Borough Council ("the Council") to accompany a detailed planning application for the proposed residential led mixed use development at the Epsom Hospital site ("the Subject"). The application is made on behalf of Senior Living Urban (Epsom) Limited – a joint venture between Legal & General and Guild Living "(the Applicant").

In producing this FVA we can confirm that all those involved, including sub-consultants, have acted objectively and impartially and without interference. Additionally, all those involved have given full consideration to how the proposed development will be delivered and the associated performance metrics. The conclusions of this assessment have been made with reference to all the appropriate guidance / policy including:

- National Planning Policy Framework (updated June 2019);
- Planning Practice Guidance (PPG) – Viability (updated September 2019);
- RICS Financial Viability in Planning 1st Edition (July 2012); and
- RICS Financial Viability in Planning: Conduct and Reporting 1st Edition (May 2019).

This FVA has been carried out having regard to the Professional and Ethical standards set out within PS2 of the RICS Valuation – Global Standards 2020 (the Red Book), effective January 2020.

A copy of our Terms of Engagement are attached at **Appendix 1.**

We confirm that this report and all subsequent engagement with the Council and its reviewer has and will be conducted in a reasonable and transparent manner.

Confidentiality

We understand that the report will be submitted to the Council as a supporting document to the planning application. The report must not be recited or referred to in any document (save the consultants instructed by the Council to review the report) without our express prior written consent.

There may be elements of this report that are commercially sensitive and its content must not therefore be made public without our express written consent.

Report Limitations

Please note that the advice provided on values is informal and given purely as guidance. Our views on price are not intended as a formal valuation and should not be relied upon as such. No liability is given to any third party and the figures suggested are not in accordance with the RICS Valuation – Global Standards 2020 (incorporating the IVSC International Valuation Standards), together the 'Red Book', and neither Savills nor the author can accept any responsibility to any third party who may seek to rely upon it, as a whole or any part as such.

Conflicts of Interest

We can confirm that there are no known conflicts of interest between Savills and either the Applicant, the Council or the Subject.

Declaration of Previous Involvement with Local Planning Authority

We can confirm that Savills is not currently advising the Council in respect of this planning application or in connection with an area wide assessment for the borough.

Date of Appraisals

The date of our appraisal is the date of this report.

Contingent Fees

We confirm that, in preparing this report, no performance related or contingent fees have been agreed.

Confirmation of Reporting Timescales

We can confirm that an adequate amount of time has been allowed for in the preparation of this report and the timeframes stated within our Terms of Engagement were not extended.

Signatures to the Report

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Reviewed by:

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1. Executive Summary

1.1. Introduction

1.1.1. The Subject comprises a 1.5 hectare (3.7 acre) parcel of land housing surplus hospital buildings ("the Hospital Site") and key worker accommodation known as Woodcote Lodge ("Woodcote Lodge"). The site is situated immediately south of the Epsom General Hospital on Dorking Road approximately 0.6 miles south west of Epsom, Surrey.

1.1.2. The proposed scheme comprises residential-led mixed use development which will provide a range in retirement living and care assisted living products with a total of 305 new homes in addition to 24 replacement key worker homes. The residential accommodation will be supplemented by a number of dedicated on-site support facilities, ancillary commercial use and a children's day nursery.

1.1.3. We have assessed the development economics of the proposed scheme in order to identify the level of planning obligations the scheme can sustain. We have appraised the Residual Land Value (RLV) of the proposed scheme using Argus Developer (Version 6) and have based our appraisal upon the drawings and schedule of accommodation included within the appendices. The RLV is calculated by subtracting all associated development costs and a suitable level of developer profit from the Gross Development Value (GDV) of the proposed development, which is assessed by calculating all revenues and capital receipts realised by the developer. The assumptions adopted within our appraisal have been informed by market evidence and input from independent third party experts, where appropriate.

1.1.4. We have compared the RLV to our SVB to ascertain whether there is a deficit or surplus against our Benchmark. In this case our SVB has been determined by giving consideration to both the Existing Use Value (EUV) of the Subject plus a suitable landowner premium as appropriate.

1.1.5. The EUV has been established having regard to the site's current use as ancillary hospital accommodation and key worker housing housed within Woodcote Lodge. For valuation purposes we have assessed these two elements separately in two constituent parts.

1.1.6. For the former Hospital Site component, we have determined an EUV of say £7,000,000 largely on the basis of refurbishment and/or redevelopment of the existing and/or recently demolished accommodation, and car parking. To support our EUV assessment we have had regard to comparable evidence and the most recent reported asset valuation.

1.1.7. For Woodcote Lodge, we have been provided with and relied upon an independent Market Valuation prepared by SHW which concludes an EUV of £5,085,000 based upon a traditional investment valuation methodology. We have applied landowner's premium of 30% which produces an SVB equivalent to say £6,600,000.

1.1.8. Although we are aware of favourable pre-application advice received from the Council for alternative residential development, we have not investigated an Alternative Use Value of the Subject at this time but reserve the right to review in the future.

1.1.9. Based upon the above we have adopted a Site Value Benchmark of say £13,600,000.

1.1.10. We have appraised the proposed development and summarise the results in the table below.

Table 1 – Viability Appraisal Results

Residual Land Value	Site Value Benchmark	Surplus / (Deficit)
(£8,700,000)	**£13,600,000**	**(£22,300,000)**

1.1.11. The key issue facing the proposed development is the relatively high development cost associated with specialist schemes of this nature.

1.1.12. Given that the Residual Land Value generates a deficit against the SVB, the scheme is considered commercially unviable in development viability terms. The scheme is therefore unable to deliver an affordable housing contribution in addition to those other planning obligations sought.

2. Introduction

2.1. Client Instruction

2.1.1. We have been instructed by the Applicant to examine the economic viability of this mixed use development, to determine the level of planning obligations that the proposed development can support whilst remaining viable. A copy of Savills' Terms of Engagement can be found attached at **Appendix 1.**

2.2. Information

2.2.1. We have been provided with, and have relied upon, the following information from the Applicant:

- Floor Plans and Drawings EPS001-MPI-AZ-00-DR-A-20-500 dated 01.02.2021 produced by Marchese Partners as attached at **Appendix 2**;
- Area Schedule (ref: EPS001 Rev P06) dated 02.02.2021 produced by Marchese Partners as attached at **Appendix 3**;
- SHW Valuation Report for Woodcote Lodge, dated 19.08.19 - *confidential*;
- Net Book Value (NBV) confirmed by the Epsom and St Helier Hospitals NHS Trust;
- Build costs as advised by CAST, dated February 2021; and
- CIL estimate prepared by Nexus Planning.

3. The Subject

3.1. Location

3.1.1. The Subject is situated within the wider Epsom General Hospital complex fronting Woodcote Green Road approximately 0.6 miles south west of Epsom, Surrey. Epsom itself is situated 13.5 miles south-west of Central London between the towns of Ashtead and Ewell.

3.1.2. In terms of public transport, railway links provide services to London Waterloo and London Victoria within 40 minutes. The M25 motorway is located 3.6 miles to the south of the Subject, providing access to the national motorway network.

3.2. Description

3.2.1. The site extends over an area of 1.5 hectares (3.7 acres) and is currently occupied by hospital buildings and associated infrastructure in addition to key worker accommodation known as Woodcote Lodge.

3.2.2. The existing buildings on the surplus hospital section of the site comprise of a large four storey brick building occupying the frontage to Woodcote Road (Rowan House), a four-storey apartment block formerly used by NHS staff to the rear of this (since demolished) as well as other office administration buildings, temporary structures and a boiler house with its associated chimney stack. The site also contains a number of surface level car parking spaces located between the various buildings.

3.2.3. A separate smaller parcel of land forming part of the application site houses Woodcote Lodge. This building comprises a three-storey residential block currently providing doctors' and nurses' accommodation with a frontage to Woodcote Green Road. This building is of traditional brick construction and is configured across three separate sections as key worker accommodation providing a total of 24 flats. We understand there to be a total of 19 car parking spaces to the front and a further 53 car parking spaces to the rear. The demised red line boundary to this parcel extends to the south of York House along the boundary of 40 and 46 Woodcote Green Road to the west and the former Elective Orthopaedic Centre to the east.

3.3. Planning History

3.3.1. We understand that the wider application site has been subject to several planning applications relating to its historic hospital use. None of these applications are considered relevant to the current redevelopment proposal.

3.3.2. A formal pre-application submission was made to the Council for the demolition of all the buildings on the subject site (including Rowan House) and redevelopment comprising a total of 195 residential units arranged over 3 to 6 storeys (LPA Ref: 17/01070/PREAPP). The Council's pre-application advice confirms that the principle of the proposed redevelopment was acceptable subject to the NHS justifying the loss of healthcare floorspace and a more detailed assessment of the impact on the scheme on the visual character and appearance of the wider townscape. The Council's response also encouraged the applicants to maximise densities on the site as far as possible, particularly within the rear part of the site.

3.3.3. A full planning application was submitted to the Council under ref 19/01722/FUL for the *"demolition of the existing hospital buildings, accommodation block and associated structures and redevelopment of the site to provide a new care community for older people arranged in two buildings, comprising 302 to 308 care residences, 8 to 12 care apartments and 26 to 30 care suites proving transitional care, together with ancillary communal and support services Use Class C2, 24 key worker units Use Class C3, children's nursery Use Class D1 as well as associated back of house and service areas, car and cycle parking, altered vehicular and pedestrian access, landscaping, private amenity space and public open space."* This application was refused in November 2020 on grounds unrelated to viability.

3.3.4. The following table shows those other relevant planning history associated with the scheme:

Reference	Description of Development	Decision
20/01322/DEM	Demolition of the existing buildings and structures on site	Prior approval required and approved
20/01093/DEM	Demolition of the existing buildings and structures on site	Prior approval required and approved
20/00885/DEM	Prior Notification of the proposed demolition of buildings at Epsom General Hospital, including York House, Woodcote Lodge, Rowan House, Beacon Ward, the boiler house and ancillary buildings and structures, under Schedule 2, Part 11, Class B of the Town and Country Planning (General Permitted Development) (England) Order 2015 (as amended)	Prior approval required and approved

3.4. Proposed Development

3.4.1. The proposed scheme is set out across two buildings which are referred to as the Western Building and Eastern Building. These buildings will be supplemented with surrounding landscaping and undercroft car parking at ground level contained within the Western Building.

3.4.2. The submitted planning application seeks planning permission for:

> *"Demolition of the existing hospital buildings, accommodation block and associated structures and redevelopment of the site to provide a new care community for older people arranged in two buildings, comprising 267 care residences, 10 care apartments and 28 care suites proving transitional care, together with ancillary communal and support services Use Class C2, 24 key worker units Use Class C3, children's nursery Use Class E, as well as associated back of house and service areas, car and cycle parking, altered vehicular and pedestrian access, landscaping, private amenity space and public open space."*

3.4.3. The Western Building is set out over ground and 7 storeys and will accommodate 146 Guild Living Residences,10 Guild Care Residences and 28 Guild Care Suites (the full extra care provision). The 24 replacement key worker homes will be reprovided within the Western Building alongside a community hub and reception, and a dry & wet wellness multipurpose room and pool.

3.4.4. The Eastern Building covers a smaller footprint on the application site and will be set out over ground and 7 storeys. This building will accommodate 121 Guild Living Residences above ground level retail accommodation and a restaurant / café dedicated for resident's use. A children's day nursery will also be housed at ground level within the unit referred to as B1 038 on the accompanying drawings.

3.4.5. The proposed residential accommodation is summarised as follows:

- 267 Guild Living Residences;
- 10 Guild Care Residences;
- 28 Guild Care Suites; and
- 24 Key Worker Homes.

Table 2 – Proposed Residential Accommodation

Description	No. Homes	NSA Sq m	NSA Sq ft	Ave Size Sq ft
Guild Living Residences	267	19,864	213,815	801
Guild Care Residences	10	468	5,037	504
Guild Care Suites	28	757	8,146	291
Key Worker Homes	24	1,206	12,983	541
Total	**329**	**-**	**-**	

3.4.6. Scheme drawings and a detailed accommodation schedule are provided at **Appendix 2** and **Appendix 3** respectively. The proposed residential accommodation is described in greater detail within the Guild Living product Specification included at **Appendix 4**.

4. Methodology

4.1. Financial Viability Assessments

4.1.1. In line with the NPPF, site-specific financial viabilities may be a material consideration in determining how much and what type of affordable housing should be required in residential and mixed-use developments.

4.1.2. As such, viability appraisals can and should be used to analyse and justify planning obligations to ensure that Section 106 requirements do not make a scheme unviable.

4.1.3. The RICS define financial appraisals for planning purposes as:

> *"An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to a developer in delivering a project."*

4.1.4. The logic is that, if the residual value of a proposed scheme is reduced to significantly below an appropriate viability benchmark sum, it follows that it is unviable to pursue such a scheme, and the scheme is unlikely to proceed.

4.1.5. If a scheme is being rendered unviable because of Section 106 requirements, it may be appropriate to look at reducing the burden of those requirements in order to facilitate viability.

4.2. Residual Appraisal Methodology

4.2.1. The financial viability of development proposals is determined using the residual land valuation method. A summary of this valuation process can be seen below;

Built value of Proposed private residential and other uses	**+**	**Built Value of Affordable Housing**	**=**	**GDV**
GDV	**-**	Build Costs, Finance Costs, Section 106, Costs, CIL, Sales Fees, Developers Profit, etc	=	Residual Land Value

4.2.2. The RLV is then compared to a SVB. If the RLV is lower and/or not sufficiently higher than the Benchmark the project is not technically viable.

5. Site Value Benchmark

5.1. Introduction

5.1.1. In line with the latest RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting (May 2019) and the latest PPG we have assessed the SVB using the Existing Use Value (EUV) of the Subject, plus a suitable landowner premium. Existing Use Value is sometimes referred to as Current Use Value (CUV), and these two terms are interchangeable when used for Financial Viability in planning.

5.1.2. The latest guidance also requires us to investigate the Alternative Use Value (AUV) of the Subject where an existing planning consent may already exist or where the Subject may benefit from being converted to an alternative lawful planning use.

5.1.3. Having regard to the above, identifying an appropriate SVB requires judgement bearing in mind that national planning guidance indicates that appropriate land for housing should be 'encouraged' to come forward for development.

Existing Use

5.1.4. The application site is separated out into two constituent land parcels of varied sizes which enjoy alternate uses. We have therefore given separate consideration to each of the two respective land parcels for assessment purposes.

5.1.5. The former hospital site to the east is the larger of the two sites and comprises former Epsom hospital land housing a number of healthcare buildings alongside associated infrastructure and car parking. We have sought to establish the appropriate use class which might realistically be enjoyed by the former hospital site where taken in isolation. Following the advice of Nexus Planning we have assumed those uses previously enjoyed under the former D1 use class covers all existing buildings.

5.1.6. The remaining part of the Subject site known as Woodcote Lodge situated to the west is the smaller of the two sites and houses key worker accommodation providing 24 homes.

Former Hospital Site

5.1.7. As a starting point, a recent Net Book Value (NBV) has recently been confirmed to us at £5,357,624 by the Epsom and St Helier University Hospitals Trust based upon independent valuation advice. The NHS Trust’s accounting policy is to ensure that its land and buildings remain held at fair value whilst revaluing the whole estate every five years, and in between the five year period, to apply a revaluation by a third party expert.

5.1.8. We have also had regard to the recent NHS Surplus Land Register for the period April 2018 – March 2019. The majority of the Subject site is covered by Site Code RVR50 which is described as ‘Part of Epsom Hospital (Plot 2a)’ measuring 1.08 ha (2.67 ac) declared surplus in May 2018. Within this the NBV of land and buildings is stated as £5,238,000.

5.1.9. Notwithstanding the above, we have carried out our own assessment of the consistent elements of the former hospital site having regard to the site specific circumstances. We have relied upon the following schedule of accommodation for the buildings used in support of the planning application:

Table 3 – Existing Building Accommodation (former hospital site only)

Description	Size (Sq ft) GIA
Beacon Ward	5,705
Rowan House	47,900
York House (recently demolished)	2,443
Former Energy Building	10,172
Total	**66,220**

5.1.10. In addition to the above accommodation, we are advised by Mayer Brown that the application site currently accommodates a total of 187 car parking spaces excluding those additional spaces allocated to Woodcote Lodge which are excluded from our assessment.

5.1.11. It is reasonable to assume that the existing buildings would require at least some degree of refurbishment works in order to bring the buildings into a tenantable condition. We are also advised by Nexus Planning that the principle of demolition and rebuild to provide new accommodation would be permissible in planning terms and should also therefore be considered when determining EUV. The existing car parking would also realistically require some repairing and upgrade works in order to attract a commercial operator. In assessing refurbishment and/or demolition and redevelopment costs below we have sought advice from Cast.

5.1.12. Where we have considered EUV below on the basis of redevelopment, our approach adopts AUV methodology in accordance with planning viability guidance and we therefore exclude a landowner's premium to such elements.

<u>Beacon House</u>

5.1.13. We are unaware of whether the property is currently of a tenantable condition or whether refurbishment works would be sufficient to bring the property into a marketable condition. For this reason we have considered EUV on the basis of demolition and redevelopment on a like-for-like basis and consider the building would lend itself to a range of similar uses.

5.1.14. We have valued the redeveloped building adopting the investment method of valuation and have adopted a rent of £24 psf capitalised at 6.75% plus 3 months incentive. This produces a capital value of £1,860,000, allowing for purchaser's costs.

5.1.15. We have applied redevelopment costs of £1,369,000 equivalent to £240 psf to the property following advice provided by Cast. These costs are inclusive of demolition, construction and fit-out works, Prelims & OHPs, contingency and fees.

5.1.16. On this basis an EUV of say £490,000 is concluded for Beacon House.

<u>York House</u>

5.1.17. We understand that York House has recently been demolished by the Applicant to allow site works to be carried out. On the basis of minimal planning risk, we have adopted an identical approach to Beacon House, on the basis of redevelopment to provide an equivalent floorplate with modern specification.

5.1.18. Our appraisal produces a capital value of £800,000, allowing for purchaser's costs. We have applied redevelopment costs of £586,000 equivalent to £240 psf to the property following advice provided by Cast. These costs are inclusive of demolition, construction and fit-out works, Prelims & OHPs, contingency and fees.

5.1.19. An EUV of say £214,000 is derived on this basis for York House.

<u>Rowan House</u>

5.1.20. Rowan House most likely lends itself for occupation by educational, religious or specialist community or charity group. We are aware of a number of comparable transactions of a comparable scale and within comparable Greater London locations to Rowan House where a transacted price of between £150 psf and £627 psf GIA has been achieved depending on location, specification and condition etc.

5.1.21. Within our assessment we have assumed a good quality of accommodation with modern specification following refurbishment. Having regard to the comparable evidence, following refurbishment we would anticipate a capital value of at least between £250 - £350 psf to be achievable. This equates to a figure of between say £11,160,000 - £15,700,000, net of purchaser's costs. Even if the lowest figure of £150 psf is adopted this equates to a capital value of Say £6,700,000 allowing for purchaser's costs.

5.1.22. We have adopted refurbishment costs of £3,440,000 equivalent to £71.80 psf to the property following advice provided by Cast. These costs are inclusive of construction and fit-out works, Prelims & OHPs, contingency and fees.

5.1.23. On this basis a minimum EUV of say £3,260,000 is derived for Rowan House.

Car Park

5.1.24. The planning application confirms a total of 187 car parking spaces excluding those additional 60 spaces allocated to Woodcote Lodge. It is reasonable to assume that a number of these spaces will be retained by the above properties assuming redevelopment; we have therefore assumed that the 27 spaces to the front of Rowan House are retained for the hypothetical occupier whilst a further 21 are allocated back to Beacon House and York House having regard to anticipated future use. This leaves a surplus of 139 car park spaces capable of commercial operation which any reasonable landowner would seek to maximise economically.

5.1.25. We have prepared a valuation of the car parking element comprising 139 spaces on an investment basis following advice from Savills' Trade Team taking into account the estimated gross revenue and operational cost deductions including management, rates, profit and VAT to derive a net operating income. From this we have deducted a profit to establish the estimated rental value which we have capitalised at a yield to derive a capital value, allowing for purchaser's costs. This exercise suggests a realistically achievable capital value of £3,960,000 on an investment basis.

5.1.26. We acknowledge that the existing car park condition will require some upgrade works in order to be attractive to a commercial operator. Following advice received from Cast we adopt a total upgrading cost of £938,332. This figure includes an allowance for the cost of works, Prelims & OHP's, contingency and fees.

5.1.27. In support of our EUV assessment having regard to both the capital value and associated car park upgrade costs, we have adopted a net value of say £3,020,000.

5.1.28. Our overall assessment of EUV in accordance with the above derives an EUV of at least say £7,000,000 and is included within the table below:

Table 4 – Savills EUV Assessment Summary

Description	EUV
Beacon Ward	£490,000
Rowan House	£214,000
York House	£3,260,000
Former Energy Building	£3,020,000
Total	**£6,984,000**

5.1.29. We would highlight that the above figure excludes the separate EUV of the key worker accommodation known as Woodcote Lodge and is also representative of what we would consider to be a ‘worst case’ scenario for Rowan House in the context of the available comparable evidence. The above EUV is stated in the absence of any value being attributed to the energy centre where we reserve our position in this matter.

5.1.30. The above EUV assessment includes an assumption of refurbishment and/or redevelopment works and we therefore exclude a landowner’s premium in accordance with planning guidance.

5.1.31. In order to substantiate the above we have had regard to comparable hospital land transactions. We have reviewed the sale of land at the Sutton Hospital previously owned by the Epsom and St Helier Hospitals NHS Trust where a number of land parcels recently sold to the Council during the period 2015 – 2018. Sutton Hospital is managed by the same NHS Trust as the Subject and situated within close proximity to the Epsom Hospital and is therefore considered highly comparable.

5.1.32. According to Land Registry the four transactions which took place during the above period ranged in achieved sales prices of between £2m/acre - £3m/acre based upon a range in area of 1.04 acres – 4.94 acres. We are unaware of any underlying planning consent covering the above land parcels as at the date of the respective transactions supporting development for alternative use. When applied to the Subject this derives a land value of £5.34m - £8m based upon an area of 2.67 acres. Our adopted EUV for the Hospital Site falls at the lower end of this range.

5.1.33. Moreover, Savills is currently involved in the proposed redevelopment of a highly comparable hospital site situated in West London. Here on a confidential basis independent advisors considered both the redevelopment value of the site on the basis of both residential led redevelopment and on a restricted existing use basis. The latter effectively forming an EUV valuation of the existing hospital site. Here taking account of transactional evidence a site value equivalent to £2m/acre was applied. Where applied to the former hospital site area at the Subject this would equate to a SVB of £5.34m albeit for a substantially larger site area.

Woodcote Lodge

5.1.34. We have been provided with the SHW Valuation Report dated August 2019. SHW concluded a Market Value of £5,085,000 having regard to the existing tenancies on an investment basis. We have considered the underlying valuation assumptions for the purposes of this FVA on the assumption that the Trust remains holding over and conclude the above value to represent the minimum sum representing EUV. We would note that a higher Market Value was derived on both the Special Assumption of Vacant Possession (£5,240,000) and the Special Assumption of a new lease (£6,700,000) although the Special Assumption Valuations have been disregarded for the purposes of viability assessment. We reserve the right to update our assumptions in the future including where updated advice is provided to us.

Summary

5.1.35. The two constituent EUV assessments together derive a combined or total EUV of say £12,085,000.

5.1.36. We have applied a landowner’s premium of 30% to Woodcote Lodge given the quality and secure nature of this investment. This is equivalent to £6,610,500. At this stage we have not applied a landowner’s premium to the surplus hospital site but reserve our position in this matter.

5.1.37. The two assessments of EUV when taken together with a landowner’s premium generate a combined EUV of £13,610,500, say £13,600,000.

5.2. Adopted Site Value Benchmark

5.2.1. In conclusion to the above we adopt an SVB of £13,600,000.

5.3. Purchase Price of the Land

5.3.1. We understand and have confirmed with the Land Registry that the redundant hospital site was purchased unconditionally by the Applicant, Senior Urban Living Ltd for a price of £18,500,000 reflecting circa £7m/acre in March 2019.

5.3.2. The price paid excluded the Woodcote Lodge site. We understand the freehold interest of this site will be transferred to the Applicant at nil cost under a legally binding agreement which requires the reprovision of the existing key worker homes on-site. The replacement homes will be granted back on a long leasehold basis to the St. Kilda Trust at a peppercorn rent and without premium.

6. Development Revenue

6.1. Residential Values

6.1.1. Savills has prepared market commentary in support of the proposed residential accommodation which is included at **Appendix 5**. The report assesses a number of comparable transactions to form an opinion of value for the proposed units at the Subject, taking into account the location, size, aspect, provision of outside space, proposed accommodation and parking provision.

6.1.2. For the retirement living element we have adopted a blended Gross Development Value (GDV) for the proposed scheme of £135,155,000. For the care element we have adopted a blended Gross Development Value (GDV) for the proposed scheme of £12,920,000.

6.1.3. For the proposed key worker accommodation we have relied upon the independent SHW valuation advice which considered the Market Valuation with the Special Assumption of a new lease. We have therefore adopted a GDV of £6,700,000 in addition to the above sum for the proposed key worked housing on the assumption that a like-for-like replacement of the accommodation is being provided. We reserve the right to review our opinion of value where more a detailed specification is made available to us.

6.1.4. In accordance with the above we have adopted a total GDV of £154,775,000 for the residential element.

6.2. Ground Rents

6.2.1. On 7th January 2021, the MHCLG issued a press release setting out its intentions to make lease extensions cheaper whilst legislation will be brought forward via Parliament to set future ground rents in residential leases to zero or a de minimis sum.

6.2.2. It is unclear at this stage when these changes will be implemented and we have therefore included ground rents at a notional rent of £10 per annum capitalised at 10% reflecting a poor quality investment with significant risk, but reserve the right to review these assumptions.

6.3. Commercial Values

6.3.1. The commercial accommodation will be located within three independent ground floor units across the proposed scheme – one within Building A (ref A5-001) and two within Building B (ref B1-029 and B1-038).

6.3.2. Whilst the space is described on the accompanying planning drawings as ‘retail’ use, we understand that the use of unit B1-038 will be secured under the Section 106 as a children’s day nursery. Moreover, noting the changes introduced by the Town and Country Planning (Use Classes) (Amendment) (England) Regulations 2020 effective September 2020, the use of the commercial accommodation might reasonably be covered under Use Class ‘E’ which extends to a wider range than retail only and have reflected this within our assessment.

6.3.3. The commercial accommodation within the accommodation schedule will be housed across both the Western Building and Eastern Building and will provide a total area of 3,520 sq ft GIA as shown within the table below. For the general commercial accommodation we have applied a gross:net efficiency of 90% whilst we have made an 80% adjustment to reflect the gross:net efficiency of the children’s day nursery.

Table 5 – Proposed Commercial Accommodation

Drawing Ref.	Description	GIA Sq m (Sq ft)	NIA Sq m (Sq ft)
A5-001	Commercial	49 (527)	44 (474)
B1-029	Commercial	121 (1,304)	109 (1,173)
B1-038	Day Nursery	157 (1,690)	126 (1,356)
Total		**327 (3,520)**	**279 (3,003)**

6.3.4. In order to appraise the commercial element we have adopted the investment method of valuation, capitalising a rent at an appropriate yield in order to derive a capital value, allowing for purchaser's costs.

6.3.5. Our adopted values have been assessed based on recent comparable transactions and commercial agent sentiment. A copy of comparable retail letting evidence is attached in **Appendix 6**. The evidence demonstrates a wide range in achieved rents of £13 - £45 psf on an overall basis, albeit the upper end reflecting superior opportunities predominantly situated within superior local high street locations.

6.3.6. Whilst there is a dearth of comparable retail evidence within the immediate vicinity, our view is that the commercial offer would largely be reliant upon the adjacent hospital site and this will impact on the achievable rental values. Having regard to the comparable evidence, we have assumed that the proposed commercial element could achieve rental values in the order of £25 psf.

6.3.7. We have assumed that the property will be pre-let at practical completion following a sufficient marketing period and have applied a relatively conservative 3 months' rent free period for tenant fit-out followed by a 6 month rent free period.

6.3.8. Summarised below are the investment comparables that we deem to be of the most relevance to our assessment:

Table 6 – Commercial Investment Comparables

Address	Description	Date	Price (NIY)	Tenant
37 Upper High Street, KT17	767 sq ft retail and 2 apartments.	Aug-20	£600k (5.08% NIY)	Retail let until June 2024. Flats holding over
20-24 East Street, Epsom, KT17	Refurbished office, arranged over 4 storeys.	Feb-20	£6.76m (6.03% NIY)	Single-let to Skyguard Ltd at a rent reflecting £28.50 psf.
Renaissance House, 32-38 Upper High Street, Epsom, KT17	11,295 sq ft freehold office.	Jan-20	£2.99m (6.33% NIY)	Multi-let.
1 Waterloo Road, Epsom KT19	Mid terrace ground floor shop with ancillary 1st floor storage.	Jul-19	£282k (6.9% NIY)	Let FRI to JS Joshi as health food shop for 42 years from March 1979 (exp 2021) at £20,000 pa.
50-54 High Street, Epsom, KT19	4,101 sq ft comprising 2* retail units alongside 2 vacant flats on the uppers.	Jun-19	£2.80m (5.58% NIY)	50 High Street, let to Waterstones with 8.25 years unexpired. 54 High Street, let to HSBC, 1 year unexpired. 2 * vacant flats.
10D East Street, Epsom KT17	Mid terrace ground floor shop	Feb-18	£155k (7.9% NIY)	Let FRI to Mr E Gjokaj t/a Bridges Barbers for a 15 year term from Jan 18 at £12,500 pa. 5 yearly RR's and TOB in year 5.

6.3.9. The above investment sales transactions suggest a yield range of 5.08% - 7.9% NIY. Taking into account of location, specification and assumed covenant we have adopted a yield of 6.5% to capitalise the market rent. This derives a combined capital value of Say £665,000, gross of purchaser's costs, which is included within our appraisal.

Children's Day Nursery

6.3.10. The children's day nursery accommodation will be housed entirely within the Eastern Building and will provide a total area of 157 sq m (1,690 sq ft) GIA. We have applied a gross:net efficiency of 80% equivalent to 125 sq m (1,346 sq ft) NIA. We would note the lack of dedicated parking and outdoor amenity attached to the day nursery which will impact adversely on the property's marketability and which we have had regard to within our assessment.

6.3.11. We note there to be a dearth of directly comparable evidence available for children's day nurseries within the local vicinity. We have therefore had regard to the letting of comparable properties from a wider geographical radius and attach a schedule of comparable evidence at **Appendix 7**. The comparable evidence demonstrates achieved rental evidence of £24 - £26 psf on a net effective basis albeit for properties situated generally within superior locations.

6.3.12. In addition to the above letting evidence we have had regard to local day nurseries included within the VOA rating assessment which demonstrate a rateable value of £17.40 - £21 psf within the local area. These are as follows:

- St John Chandler Hall, Church Road, Epsom KT17 – Assessed to a blended rate of £19.30 psf based upon a total rateable value of £50,500 and measurement of 2,624 sq ft.
- 28 Worple Road, Epsom KT18 - Assessed to a blended rate of £17.40 psf based upon a total rateable value of £95,500 and measurement of 5,490 sq ft.
- 81 Bunbury Way, Epsom KT17 - Assessed to a blended rate of £18.60 psf based upon a total rateable value of £11,000 and measurement of 592 sq ft.
- 1A Hook Road, Epsom KT19 - Assessed to a blended rate of £21 psf based upon a total rateable value of £151,000 and measurement of 7,190 sq ft.

6.3.13. Having regard to the above, we have adopted a rent of £24 psf which is considered reasonable for the proposed accommodation assuming a good quality new build specification equivalent to say £40,500 per annum.

6.3.14. We have assumed that the property will be pre-let at practical completion following a sufficient marketing period and have a applied a 6 month rent free period.

6.3.15. Detailed below are the investment comparables which we are aware of and that we deem to be of the most relevance to our assessment.

Table 7 – Day Nursery Investment Comparables

Address	Description	Date	Price (NIY)	Terms / Comments
2 Wharf Street, London SE8	1,798 sq ft of day nursery accommodation	Mar 2017	£520,000 (7.2%)	Let FRI to Kiddies Palace Childcare Ltd at a rent of £37,500 pa
Lebanon Road, Putney SW18	5,638 sq ft day nursery over ground floor & basement	Feb 2017	£1,460,000 (6.15%)	20 year lease expiring 2033 with 5 yearly reviews. Long leasehold.
Loddon Vale Centre, Hurrican Way, Reading	Single storey purpose nursery with parking and outdoor accommodation	Mar 2017	£2,010,000 (7.21%)	Let FRI to Busy Bees Nurseries until 2025 at £154,000 pa. Review in 2020

6.3.16. The above investment sales transactions suggest a yield range of 6.15% - 7.2% NIY. Taking into account specification – including the restricted access, parking and outdoor space, alongside likely covenant we have adopted a yield of 6.75% to capitalise the market rent. This derives a capital value of say £470,000, gross of purchaser's costs, which is included within our appraisal.

Table 8 – Summary of Commercial Appraisal Inputs

Assumption	Commercial	Day Nursery
Rent	£25 psf	£24 psf
Yield	6.5%	6.75%
Incentive / Void	3 months	3 months

7. Development Costs

7.1. Introduction

7.1.1. The following assumptions have been adopted in assessing the costs of the proposed scheme.

7.2. Build Costs

7.2.1. We have adopted the build costs as advised by CAST, dated January 2021 which is included at **Appendix 8.** The costs include an allowance for demolition, preliminaries and, contractor's OH&P.

7.2.2. The CAST Cost Plan totals £106,188,719 which we have adopted within our appraisal. We have separated out demolition and enabling costs of £1,798,000 within our appraisal and have profiled the residual £104,390,719 over the construction phase. The estimated build cost represents £279 psf GIA or £322,800 per unit.

7.3. Contingences

7.3.1. The CAST Cost Plan is provided exclusive of contingency. We have applied a contingency of 5% at this stage but reserve the right to review.

7.4. Professional Fees

7.4.1. We have adopted professional fees of 10% which falls at the minimum end of a reasonable range for development of this nature. We have not been provided with a detailed breakdown of anticipated professional fees and therefore reserve the right to review our approach.

7.5. Sales, Marketing & Letting Fees

7.5.1. We have made the following allowances within our appraisal where applicable:

- Residential & Commercial sales agent: 1.5%;
- Residential & Commercial sales legal: £1,000/unit;
- Commercial lettings agent: 10%;
- Commercial lettings legal: 5%; and
- Residential & Commercial marketing: 1.25%.

7.6. Purchaser's Costs

7.6.1. We have deducted acquisition costs at an appropriate rate where applicable.

7.7. Planning Obligations

7.7.1. We have included the following estimated payments as advised by Planning Consultants, Nexus:

- Total CIL: £937,963

7.7.2. We have not made allowance for Section 106 costs within our assessment but reserve the right to review where such costs are advised to us in due course.

7.8. Profit

7.8.1. In assessing what constitutes an acceptable level of developer's return in the current market we have consulted with specialist colleagues within the Loan Security Valuation and Capital Markets departments of Savills, as well as applying our own development experience.

7.8.2. In the current market if a developer was buying a site such as the Subject they would normally seek a return of at least 20% Profit on GDV in order to justify the risk of delivering the scheme.

7.8.3. We have consulted with Savills' specialist Healthcare division concerning the application of a profit target for the GCR/GCS element. On the basis that this element has been assessed on a turnkey basis we have adopted a profit allowance of 15% on GDV.

7.8.4. The residential (GLR) component of the proposed development is at particular market risk given the large quantum of new housing being delivered at two specific dates where practical completion is achieved to both the Western Building and Eastern Building. This is further exasperated by the limited number of tenures being proposed within the scheme which will naturally attract an increased level of risk in respect of absorption levels.

7.8.5. Based on our experience and research we have included the following developer's return;

- 20% of GLR on GDV;
- 15% of GCR/GCS on GDV; and
- 15% of Commercial on GDV.

7.8.6. This produces a blended profit on GDV equivalent to 19% on total GDV.

7.9. Finance

7.9.1. In accordance with RICS guidance we have assumed that the development will be 100% debt financed, at a debit rate of 6.75%. We include a credit rate of 0.1%.

7.10. Timescales

7.10.1. We have not been provided with a development programme and so have made assumptions for appraising the scheme on the following basis having regard to our own experience and BCIS duration calculator. We have applied the following timescales within our appraisal:

- Purchase, demolition, planning and pre-construction: 9 months
- Construction: 19 months (Western Building) and 16 months (Eastern Building)
- Residential Sales: 50% sold on PC / 16 months (Western Building) and 50% sold on PC / 13 months (Eastern Building).
- Care Sales: We have assumed sale to a care provider within a single tranche encompassing both the Guild Care Residences and Guild Care Suites.
- Commercial Sales: Sale of the commercial accommodation within a single tranche at PC.

7.10.2. We have allowed a period of nine months for pre-construction to include the substantive demolition of the surplus hospital buildings and Woodcote Lodge, in addition to wider site preparation and enabling works.

7.10.3. Due to the nature of this development we have assumed a total 35 month build period (based upon a build period of 19 months (Western Building) and 16 months (Eastern Building) to facilitate appropriate market sale absorption. External areas including car parking and landscaping are assumed to coincide with the build phases.

7.10.4. Due to the large quantum of homes being provided we have allowed a 16 month sales period commencing May 2023 (Western Building) and 15 month sales period commencing September 2024 (Eastern Building). We have assumed that 50% of the units will be sold off plan with receipt at PC, and that approximately 4 units will be sold per month thereafter. We would note that these sales timings are considered to be increasingly optimistic in the present market and reserve the right to review these assumptions.

7.10.5. We are unaware of whether a resident 'decant' period will be required in respect of Woodcote Lodge or indeed in respect of the wider surplus hospital accommodation but have assumed vacant possession for appraisal purposes without undue delay. Where an extended timescale is necessary in this respect we reserve the right to review our appraisal timings.

7.10.6. Based upon the above timings a total period of 59 months has been assumed for development.

8. Conclusions

8.1. Results

8.1.1. We have appraised the proposed scheme against our SVB in order to fully understand the economics of the development and to establish the maximum level of planning obligations, including affordable housing, that the scheme can reasonably support.

8.1.2. A summary of our appraisal results is set out below. Please refer to **Appendix 9** for the full appraisal.

Table 9 – Viability Appraisal Results

Residual Land Value	Site Value Benchmark	Surplus / (Deficit)
(£8,700,000)	**£13,600,000**	**(£22,300,000)**

8.1.3. Given that the Residual Land Value generates a deficit against the SVB, the scheme is considered commercially unviable in planning viability terms. The scheme is therefore unable to deliver an affordable housing contribution in addition to other planning obligations.

8.1.4. However, the Applicant is willing to enter into discussions with the Council in respect of contributing towards Affordable Housing in some form. Note that given the appraisal results, any offer that may be brought forward will be on an ex-gratia basis.

8.2. Sensitivity Analysis

8.2.1. The value of development sites can be volatile and the residual approach adopted within this report is sensitive to changes in key variables. It is therefore useful to provide a sensitivity analysis, showing the effect on the RLV through small changes in key variables such as sales values and build cost. We set out below a sensitivity analysis showing the effect of increasing and decreasing the sales price and the build costs by 10% increments.

Table 10 – Viability Appraisal Sensitivity Results

Sensitivity Analysis		Private Sales Values				
		-10%	-5%	0%	+5%	+10%
Build Cost	-10%	(£8,000,000)	(£1,600,000)	£4,700,000	£10,900,000	£17,200,000
	-5%	(£15,000,000)	(£8,400,000)	(£1,900,000)	£4,400,000	£10,600,000
	0%	(£22,000,000)	(£15,300,000)	**(£8,700,000)**	(£2,200,000)	£4,100,000
	+5%	(£29,000,000)	(£22,300,000)	(£15,600,000)	(£9,000,000)	(£2,500,000)
	+10%	(£36,500,000)	(£29,500,000)	(£22,600,000)	(£15,900,000)	(£9,300,000)

8.2.2. The above table demonstrates that for the scheme to become economically viable in planning terms, where the RLV generates a surplus against the SVB, there would need to be a substantial increase in sales values matched by a substantial decrease in build cost.

8.2.3. Conversely, if there were either a decrease in sales values or an increase in build cost the RLV would decrease making the development even less commercially viable in planning terms.

8.2.4. Notwithstanding the above, we are of the opinion that the RLV of the proposed development creates a deficit against the SVB and is therefore, under planning terms, to contribute towards an affordable housing provision.

Appendix 1 – Terms of Engagement

Appendix 2 – Scheme Drawings

Appendix 3 – Schedule of Accommodation

Appendix 4 – Guild Product Specification

Appendix 5 – Residential Market Commentary

Appendix 6 – Commercial Letting Evidence

Appendix 7 – Children’s Day Nursery Evidence

Appendix 8 – CAST Cost Plan

Appendix 9 – Savills Appraisal

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