PLANNING COMMITTEE
Tuesday 14th November 2017

- ADDENDUM TO AGENDA -

Item 6.1 16/05418/OUT – Whitgift Shopping Centre and Surrounding Land, Croydon, CR0 1LP.

Paragraph 4.11 – Additional sentence to be added to the end of the paragraph as follows:

In the minimum parameter (where Tower 1 is not constructed), should either the student accommodation or the hotel be delivered in one of the other towers, this would result in indicative residential unit numbers of between 473 and 633.

Paragraph 9.36 – amend the second sentence to read:

These options could be delivered from the maximum or minimum residential floorspace.

Paragraph 9.58 – amend the second sentence to read

This is in comparison to a range of 60-90 affordable units that would have been achieved on site with the 2014 planning permission (due to the lower overall quantum of residential development associated with that scheme).

Viability
Updated viability information has been provided to Deloitte (the Council's Independent Advisors) since the officer report to this committee has been published. A report written by Deloitte, assessing the viability information, is attached to this addendum.

It is important to note that Deloitte are satisfied that the assumptions within the Commercial and Residential appraisals and the conclusions reached are reasonable. In addition, the level of return (or developer profit) sought by the developer in respect of both components is reasonable, having regard to the level of risk and cost exposure associated with delivering a project of this scale. Overall, the viability case made by the applicant in support of the affordable housing offer is a reasonable one.

Additional comments on the application
Three additional letters of support have been received from Croydon BID, the Whitgift Foundation and Develop Croydon. They have made the following points which should be new paragraphs 6.42 onwards:

Develop Croydon

6.42 Develop Croydon have made the following comments in support of the application:

- Strong support for the proposals to bring forward a mixed use retail led redevelopment of the Whitgift Centre and surrounding land.
- After many years of decline, recently a more optimistic picture is beginning to emerge in Croydon. The CLP Whitgift proposals have been pivotal to this.

- Croydon is seen as a major development opportunity for a number of reasons which include its Transport links and location at the centre of south London as well as the availability of substantial regeneration opportunities.
- Fundamentally important to address the decline in Croydon's retail offer and the town centre environment generally. The Whitgift Centre is an outdated shopping centre in urgent need of wholesale redevelopment. Much of the town centre around the Whitgift Centre is in urgent need of regeneration to create a vibrant town centre that will attract shoppers, visitors, investors and people wishing to live in the town centre.
- The proposals are fundamental to achieving the transformation of the heart of the town centre. It is a major coup for Croydon that these companies have joined forces to bring forward a scheme which will represent investment in Croydon of in excess of £1 bn.
- Delivery of the CLP scheme will bring major benefits:
- Croydon's town centre will be transformed and Croydon will be able to operate as one of the leading retail centres across London. This will in turn help transform Croydon's current image as an outdated town. This should encourage shoppers to come to Croydon and people to consider living in Croydon town centre.
- The scheme will provide a major catalytic effect for further development in and around the town centre coming forward.
- We have also seen a number of high-profile companies and organizations who have seen Croydon as a great place to do business, including HMRC, Superdrug, The Body Shop and EDF Energy.
- The CLP scheme is seen as pivotal to releasing Croydon's full potential. Without delivery of the CLP scheme, Croydon's plans for further regeneration will be seriously curtailed.
- This is a once in a generation opportunity to make a step change in the fortunes of Croydon.

The Whitgift Foundation

6.43 The Whitgift Foundation have made the following comments in support of the application:

- Given the uncertain political and economic climate, it is more important than ever that this investment is secured for the long term benefit of the people of Croydon.
- It is fundamental to the ongoing future of the Foundation that Croydon remains a strong and vibrant community, rich in diversity. It has long sought to protect land and contribute to the success of the town.
- Vital that the Grade 1 listed Almshouses are protected.
- Through its agreement with Westfield, guarantees have been secured that the Almshouses and its residents would be fully protected both during the redevelopment and subsequently.
- The height of the adjoining buildings will be reduced so that views out of the Almshouses will be greatly improved and this will enhance the long-term setting for one of the town’s oldest buildings.
- The freehold of the shopping centre and the majority of the Allders building is owned by the Foundation.
- There are deep rooted problems which require significant investment if the decline in the town centre is to be reversed and Croydon is to fulfil its function as London’s largest metropolitan centre.
- Whitgift shopping centre is now outdated and no longer fit for modern retailer requirements due to small size of retail units and configurations.
- There is a limited range of aspirational retailers

- Allders is entirely unsuitable for the requirements of a modern department store operator.
- There is a lack of permeability through the town centre.
- There has been a lack of investment of the town centre public realm and wider environment which results in Croydon being a less attractive town centre to visit compared to competing areas and shopping centres such as Kingston, Bluewater, Central London and Westfield Stratford.
- There are high vacancy rates and falling rents, creating an unattractive place for developers to invest.
- This Foundation have had a Development Framework Agreement with Westfield since November 2011. This provides for the Foundation to grant a long lease of all the land owned by it which is needed for the scheme in return for a geared ground rent.
- The Governors of the Foundation are convinced that the redevelopment will be the catalyst for significant regeneration and change so desperately needed for Croydon. It is the Foundation's view that the scheme presents the optimum opportunity for Croydon to reverse existing problems and bring investment that will transform Croydon Town Centre. The Foundation strongly supported the 2014 scheme and the current application will provide additional benefits.
- Scheme will transform Croydon's qualitative retail offer, bringing to Croydon many of the aspirational retailers currently absent from the town centre, attracting additional shoppers.
- The scheme will ensure the return to Croydon of a leading department store anchor tenant and the relocation of Marks and Spencer.
- The scheme will open up the Whitgift Centre and resolve the lack of permeability of the town centre.
- It will enable the introduction of a significant town centre leisure offer that will cater for families and which is currently severely lacking in the town centre and will also assist in generating a strong night time economy.
- It will provide a significant number of residential units.
- It will provide investment in public realm and pedestrian improvements to Poplar Walk.
- Only a comprehensive scheme of the scale and critical mass proposed by CLP will achieve LBC's long held regeneration objectives for the town centre. This provides by far the best prospect of delivery of a major retail investment in the town centre.
- For too long the compelling case for regeneration of Croydon's retail offer and the wider town centre has been held back due to wrangling between major land owners and it is essential that the opportunity which the Scheme presents is now taken.
- As well as transforming Croydon's retail offer, the Scheme will result in a step change in the image of Croydon and this will have a major catalytic effect in bringing forward development of other regeneration sites in Croydon.

Croydon BID

6.44 Croydon BID (Business Improvement District), have made the following comments in support of the application:

- Strong support for the Croydon Limited Partnership's (CLP) proposals to bring forward a mixed use retail led development of the Whitgift Centre and surrounding land.
- After many years of decline, a more optimistic picture has begun to emerge of Croydon more recently and the CLP Whitgift proposals have been pivotal to this increasing optimism.

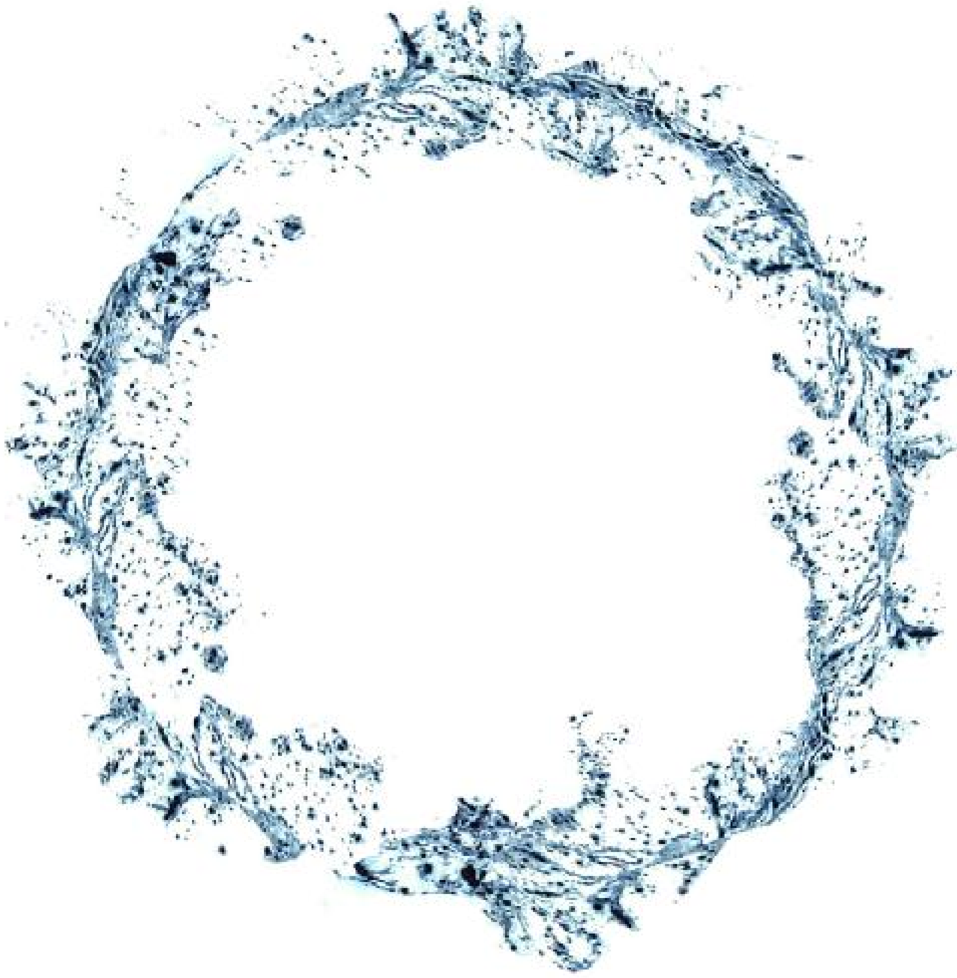
- Croydon is seen as a major development opportunity for a number of reasons which include its transport links and location at the centre of South London as well as the availability of substantial regeneration opportunities.
- Croydon still has a number of substantial structural problems which must be addressed if it is to achieve its true potential as one of the major centres in the London area.
- Fundamentally important to address the decline in Croydon's retail offer and the town centre environment generally. The Whitgift Centre is an outdated shopping centre in urgent need of wholesale redevelopment to attract a broader range of retailers. Much of the town centre around the Whitgift Centre is in urgent need of regeneration to create a vibrant town centre that will attract shoppers, visitors, investors and people wishing to live in the town centre.
- The CLP proposals are fundamental to achieving the transformation of the heart of the town centre.
- Delivery of the CLP scheme will bring the following major benefits:
- Croydon's town centre will be transformed and it will be able to operate as one of the leading retail centres in London. This will in turn help transform Croydon's current image as an outdated town. This should encourage shoppers to come to Croydon and people to consider living in Croydon town centre.
- We are in close contact with most of the developers who are promoting schemes across Croydon. I am in no doubt that the CLP scheme is seen as pivotal to releasing Croydon's potential. Without delivery of the CLP scheme, Croydon's plans for regeneration will be seriously curtailed. This is a once in a generation opportunity to make a step change in the fortunes of Croydon.
- We would therefore urge the London Borough of Croydon to support the proposed planning application which benefits from overwhelming support across the Croydon business and wider community.

One additional letter of objection has been received raising the following additional matters that should be included in the table below paragraph 7.2:

Summary of objections	**Officer Response**
Too much detail being left to reserved matters. Detailed design should be put to the planning committee in stages so that they can guide the design process. Too much being left for officers to decide without local representation.	Reserved matters applications are planning applications that require public consultation and any responses received to such consultation would be taken into account in the determination of such applications. Given the scale of the development, there is an expectation that reserved matters applications would be subject to pre-application discussions and pre-application presentations to the planning committee. The Chair of the Planning Committee is able to request at this meeting that any future reserved matters applications be presented to the Planning Committee
Allders arcade should be the location of a major retail/department store as it is the traditional centre of Croydon.	The area behind the retained Allders façade is proposed to be in retail use (A use classes).

Grammar School Yard – why isn't this the main entrance as it is opposite the main entrance to Drummond Place and through to Centrale.	The main entrance to the Galleria is located opposite Drummond Road and forms part of a longer aligned route between East Croydon Station and Old Town. The position of this route was established as part of the 2014 planning permission and is acceptable to Officers.
The Galleria should be a main entertainment space at its crossroads with the north-south mall. What is proposed is not convincing.	The developer has proposed an entertainment stage within the Galleria, the details of which are controlled by the Design Guidelines.
Housing is not spread across the site. Its focus on Wellesley Road takes the focus away from North End and it is facing onto a road that it is essentially a motorway. There should be residential on Poplar Walk and North End.	The focus of residential along Wellesley Road was established by the 2014 planning permission. Its location is considered to be acceptable to Officers.
Residential on Wellesley Road is a bland and unimaginative solution	Design details have not been finalised by this outline planning permission and more detail will be provided by subsequent reserved matters applications.
Wind and microclimate study is not believable. There will be a loss of light and increased wind.	The wind and the daylight/sunlight implications of the development have been assessed through the Environmental Statement and have found to be acceptable. Reserved matters applications are also required to be accompanied by a wind microclimate study and this is secured by planning condition.
Insufficient separation of pedestrians from traffic.	The traffic implications of the development have been fully assessed and found to be acceptable in the context of mitigation measures and the Public Infrastructure Measures. Reserved matters will control the final detail.
Traffic flows and location and access to car parking has not been addressed. Traffic should not cross Wellesley Road to access and exit the car park.	The traffic implications of the development have been fully assessed and found to be acceptable in the context of mitigation measures and the Public Infrastructure Measures.

Deloitte.



Whitgift Centre Redevelopment
Viability Review

13 November 2017

Deloitte Confidential: Public sector - For Approved External Use

Contents

1 Introduction

1.1 Instructions

Deloitte LLP has been instructed by the London Borough of Croydon (the "Council") to advise on viability matters in respect of the proposed redevelopment of the Whitgift Centre by the Croydon Limited Partnership ("CLP").

This report relates to the development appraisals submitted by CLP in relation to outline planning application 16/05418/OUT (the "Proposed Scheme").

1.2 Information received

Since November 2016, CLP has provided us with two sets of documents relating to the Proposed Scheme. These comprise separate viability assessments for each of the commercial and the residential elements of the Proposed Scheme. These can be summarised as:

- Residential Information prepared by Quod and culminating in a summary note dated November 2017. We refer to this information as "the Residential Report".

- Commercial Information principally prepared by CLP and CBRE and culminating in a summary note from CBRE dated November 2017. We refer to this as "the Commercial Report".

1.3 Structure of this report

This report reflects the approach that CLP have undertaken in respect of the commercial and residential elements. CLP's approach is to undertake an appraisal of the residential element of the Proposed Scheme in order to establish a Residual Land Value ("Residential RLV"), and in parallel to carry out a an appraisal of the commercial element of the Scheme. The appraisal undertaken in relation to the commercial element includes the Residential RLV as a notional receipt.

This report considers the Residential Assessment first, in order to reach an interim conclusion on the Residential RLV. It then turns to the Commercial Assessment. Our conclusions relate to the entirety of the Proposed Scheme.

1.4 Confidentiality

This version of our report has been prepared on the basis that it is able to be referred to at the Planning Committee Meeting of 14 November 2017

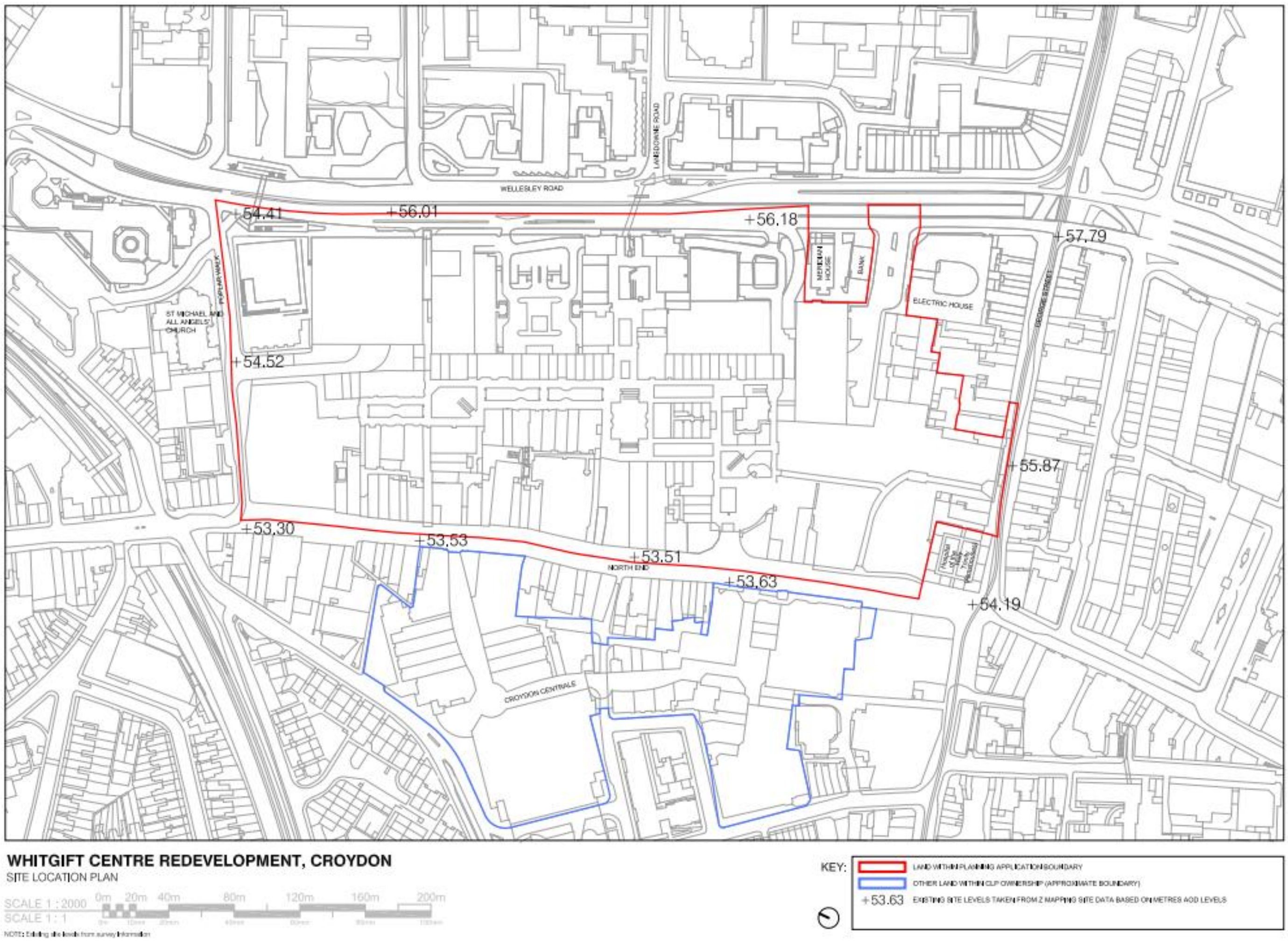
As a condition of our instruction we have signed a confidentiality agreement with CLP over the information provided. This report does not therefore detail any of the confidential information provided by CLP, but comments on the various assumptions adopted.

All copyright and other proprietary rights in the report remain the property of Deloitte LLP and any rights not expressly granted in these terms or in the Contract are reserved. No party other than our client is entitled to rely on the report for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document. The report makes use of a range of third party data sources.

2 The Proposed Scheme

2.1 Context

The Proposed Scheme will comprise the redevelopment of the existing Whitgift Shopping Centre and surrounding area to providing a retail-led mixed use development. The Site extents to 8.99 ha and is bounded by George Street to the south, Poplar Walk to the north, the A212 Wellesley Road to the east and the pedestrianised North End to the west as shown below:



The Site comprises a variety of uses as shown in the table below:

Existing Use	GEA (sq. m)
Whitgift Shopping Centre	81,112
Former Allders Department Store	46,956
Total Retail	128,068
Centre Tower & Blocks A, B, C & E	37,929
Link House	2,250
Focus House	1,706
Green Park House	8,791
Total Office	50,676

The redevelopment of Whitgift Shopping Centre is central to this Scheme. The existing centre is arranged across three levels; anchored by Marks & Spencer's, the Centre comprises 140 stores and is home to national retailers like H&M and Superdry, though the Centre is dated. As it stands, the Centre can be accessed on North End (the main entrance), Chapel Walk, Wellesley Road and Poplar Walk.

2.2 The Revised Application

The Outline Planning Application submitted in October 2016 builds on the principles of the 2014 consented application. It aims to comprehensively regenerate the area: refurbishing some existing buildings, and demolishing and redeveloping others. The planning application refers to land both within and outside the Central Croydon Conservation Area and seeks permission to demolish some buildings within the conservation area. It will deliver a new shopping centre, leisure facilities, restaurants and cafes, along with residential accommodation (indicatively providing 626-967 units).

Changes to the 2014 application include:

- Increased site area facilitated by the acquisition of Green Park House;
- Demolition (rather than refurbishment) of the Whitgift Car Park and the existing Marks and Spencer's store and integration of these areas into the scheme;
- Increased residential floorspace;
- Increased retail and leisure floorspace;
- Altered vehicular access and egress points on Wellesley Road;
- Improvement of the Poplar Walk environment and new public realm works, facilitated by the relocation of the vehicular access/egress points.

3 Methodology and approach

3.1 Residential Appraisal

CLP has undertaken a residual appraisal to establish a residual land value in respect of the residential element, independently of the commercial scheme.

The residual appraisal approach can be summarised as follows:

Gross Development Value

Total revenue from the Build to Rent units and ancillary retail space, expressed on a capital value basis

Less Purchaser's Costs

Net Development Value

Less

Total Development Costs, including:

Purchaser's Costs and Site Acquisition Costs
Construction Costs
Professional Fees
Sales and Marketing Costs
Finance Costs
Developer's Profit

Equals

Residual Land Value

The Residential Residual Land Value has then been incorporated into the appraisal of the commercial element.

3.2 Commercial Appraisal

The approach adopted by CLP has been to prepare an appraisal in accordance with a bespoke model, prepared by CBRE. The appraisal model follows a residual approach, derived from deducting the total development costs from the gross development value of CLP's proposed scheme, held on a 250 year lease.

The residual appraisal approach can be summarised as follows:

Gross Development Value

Total estimated annual rental value + other income streams– annual management and headlease rental payments multiplied by a capitalisation rate appropriate for a 250 year leasehold interest

Plus

Residential Residual Land Value

Less Purchaser's Costs on the Commercial Element

Net Development Value

Less

Total Development Costs, including:

Land acquisition costs, including the Council's interests
Purchase price of CLP's existing interest
Authority Costs (e.g. S106)
Construction costs
Tenant incentives
Leasing costs
Professional Fees
Finance Costs

Equals

Development Profit

This appraisal methodology is standard market practice for determining the profitability of a development proposal assessed on the basis of the return to a developer who is assumed to sell the completed development.

CLP also derives other performance metrics from the commercial appraisal, as explained in Section 7.

3.3 The Overall Approach

The approach of carrying out two separate appraisals for what is a single scheme appears to us to be a pragmatic one in this case, given the different nature of the two parts and the different approach to delivery.

Having considered each appraisal in detail, we are satisfied that in principle they correctly relate to each other and in particular that it is appropriate to assume that the land value assessed for the residential scheme is a receipt to the commercial scheme.

3.4 Residential Appraisal Policy Requirements

We are satisfied that the appraisals that have been provided by CLP in support of their affordable housing proposal have been carried out in a form that is compliant with the Greater London Authority ("GLA") Affordable Housing and Viability Supplementary Planning Guidance ("SPG").

Of particular note, the appraisals have been constructed to ascertain the Residential Land Value ("RLV") of the residential scheme being considered, such that it can then be compared with the Benchmarks Land Value ("BLV") as required.

This approach is considered in the following sections on the residential appraisal.

3.5 Benchmark Land Value

Where a site is to be developed for residential purposes, the methodology for determining whether it can support the policy compliant level of affordable housing involves comparing the Residual Land Value ("RLV") that is produced from the appraisal of the proposed scheme with the Benchmark Land Value ("BLV") to establish whether the RLV equals or varies from the BLV. This is usually done by first carrying out the appraisal of the scheme assuming full compliance with all planning policies including the provision of affordable housing. If the scheme on this basis produces a RLV that equals or exceeds the BLV, then no further testing is required. If it does not, then the affordable housing proportion is reduced until the RLV and BLV are equal. This indicates the amount of affordable housing that the scheme can provide.

Thus, the BLV is highly significant in the assessment of a residential scheme and the testing of an offer of affordable housing.

In this case, CLP has proposed a BLV which has been derived by considering a range of approaches. One of these is to identify the proportion of the overall site that is to be used for residential development and then to calculate the BLV by comparing this with the estimated cost of assembling the overall site, which relies in part on the exercise of compulsory purchase powers by the Council.

We consider this approach to be a reasonable one in the circumstances, and we therefore proceed on the basis that the BLV proposed is carried over into the commercial appraisal.

4 Residential Appraisal Summary

4.1 The Proposed Residential Scheme

As part of the wider planning application (Ref: 16/05418/OUT) CLP is seeking Outline Permission for a GEA of between 93,570 – 139,465 sq m of residential floorspace (Use Class C3), providing indicatively between 626 and 967 residential units in up to 5 residential towers ranging 25 to 40 storeys.

The proposal includes provision for a 15 year rental covenant for private units, with affordable units remaining in perpetuity.

The viability assessment provided assumes a 967 unit scheme across a Net Sales Area of 60,830 sq m. The Affordable Housing offer provides for the equivalent of 20% Affordable Housing of which 11.89% of all units are proposed at Affordable Rent Levels (80% Discount to Market-Rent) while the remaining 8.07% are proposed at London Living Rent Levels.

The proposal also assumes provision of retail units at ground floor level providing indicatively 2,150 sq m of retail space intended to serve local need.

4.2 Residual Appraisal Methodology

Following various updates, CLP has adopted a Residual Appraisal methodology in line with the Mayor of London's Affordable Housing and Viability SPG 2017 – Part 3 – Guidance on Viability Assessments.

On this basis, we have assessed their inputs and appraisal approach to determine whether they reflect a reasonable basis to support their conclusions on the Affordable Housing offer.

4.3 Residential Appraisal Summary

Appraisal Element	Description
Investment Sale (Residential Build To Rent)	Assumed disposal revenue, gross of SDLT, Agents and Legal purchasers' costs.
Investment Sale (Commercial)	The capitalised gross annual rent before costs.
Gross Development Value (GDV)	The total capitalised income from the completed development.
(*Less)* Purchasers Costs	Assumed at % of the total GDV to include: Stamp Duty Land Tax, Agents Fees and Legal Fees.
Net Development Value (NDV)	The price that a purchaser would pay.
Construction Costs	The estimated cost calculated by reference to the Gross Internal Area.

Professional Fees	**Expressed as a percentage of construction costs.**
Marketing, Agents and Legal Fees	**Expressed as a percentage of the residential GDV.**
Development Profit	**CLP targeted profit, expressed as a profit on GDV.**
Development Finance	**Finance costs on the initial land purchase on construction costs over the project lifecycle.**
Land Acquisition Costs	**Acquisition costs comprising: SDLT, Agents Fee and legal fee.**
Residual Land Value	**The residual sum once all costs have been deducted from the Net Development Value.**

5 Commentary on Residential Appraisal Inputs and Approach

In this section we set out our views on the key elements of the Residential Build to Rent appraisal.

5.1 Gross Development Value

5.1.1 Residential Build for Rent

CLP is proposing Build to Rent ("BTR") units rather than traditional Build For Sale ("BFS") units. The scheme assumes rental income based on 967 units (774 private, 193 affordable).

Private Rental Value Assumptions - We are satisfied that the CLP assumptions with regard to private rental reflect current market levels today.

Discount to Market Rent ("DMR") Units @80% - The DMR units have been input within the appraisal at 80% DMR which is the maximum threshold enabled to provide an Affordable Rented Unit.

London Living Rent ("LLR") Units - We have also reviewed the LLR levels put forward by the applicant. We are satisfied these are representative of an affordable product.

Investment Yield Assumptions –There is very limited income generating evidence at similar scale of transactions from which a net yield can be derived as the product is still maturing. We are of the opinion that the CLP assumption is reasonable and aligns with current market risk pricing for a forward-funded product in a Greater London location.

Cashflow Target Return – CLP has discounted future income at a target return level. Anecdotal information collated from investment agents and PRS appraisals we have reviewed confirms that the rate adopted is within a reasonable range.

Private Residential Values –The CLP Build to Rent Model used adopts an investment approach rather than a capital value comparable approach, and CLP has not provided us an assumed 'package price' for the affordable housing units. As a sense check we have considered the capital value across the elements on a build for sale basis. We are satisfied that this reflects a reasonable blended rate for private sales units.

5.1.2 Commercial Investment Sale – Retail Element

The appraisal includes capitalised income derived from the ground floor commercial space, which we understand is intended to be retail units ancillary to the residential units. We are satisfied that the assumed rent and capitalisation rate are reasonable.

5.2 Investment Sale – Purchaser's Costs

The Residential Appraisal includes an allowance for purchaser's costs on the residential and retail investment value. These purchaser's costs comprised an allowance for Stamp Duty Land Tax (SDLT), agent fees and legal fees. The inclusion of these costs is reasonable.

5.3 Construction Costs

CLP has provided construction costs within their appraisal.

It should be noted that CLP has reached its position on Construction costs based on a very early stage of design information, and thus there is a greater than usual element of judgement implicit in the approach. We have considered the proposed costs as compared with BCIS costs and our knowledge of schemes of similar scale (details of which are confidential).

We consider that the costs adopted by CLP in the appraisal are in the mid-range, of the figures that could reasonably be applied and we are therefore satisfied that the basis is a reasonable one.

5.4 Professional Fees

CLP has assumed professional fees as a proportion of construction costs. Professional fees would typically include: Architects and Planning advisors, Quantity Surveyors, Engineers and Project Management & CDM Fees.

We consider that the professional fees allowance, when considered as a percentage of construction costs, falls within an appropriate range.

5.5 Marketing / Letting and Legal Fees

CLP has assumed investment agent, and legal fees of as a proportion of the private and affordable residential GDV element. This cost has been applied to represent marketing, letting agents and letting legal fees for initial lettings only.

In the circumstances, we consider that the adopted allowance is reasonable.

5.6 Development Profit

CLP has adopted a target blended return, derived as a percentage of Gross Development Value.

CLP has assumed the scheme is 100% forward-funded, and GDV payments are profiled over the life of the development purchase and construction. Hence the developer can assume a lower profit requirement than would otherwise be the case. The forward-funding deal structure is widely assumed by the market when considering an institutional grade PRS product. On this basis we consider the approach adopted is a reasonable one.

5.7 Finance Costs

The investment appraisal determining GDV has been valued assuming no long-term financing, i.e. 100% internal funding. The CLP appraisal assumes income is offset against expenditure within each cashflow period before finance is applied.

We consider the rate of development finance and approach adopted for the project to be reasonable for this type of development.

5.8 Development Timescales / Phasing – Overview

The CLP appraisals assume a total development period of 87 months (7.25 years) comprising:

	Site Purchase	Pre-Construction	Construction	Forward-purchase revenue – Residential	Forward purchase revenue – Commercial
Cash-flow Period (month)	1	2 – 24	25 – 86	43 – 87	87
Duration (months)	1	23	62	45	1
Justification	Enable legal due diligence and transfer of funds.	To enable approval of reserved matters.	Construction period	Tranche payments assumed from forward purchaser	Income from commercial investment sale and final payment residential tranche.

The construction period appears reasonable providing an indicative rate of 1 tower annually or the equivalent delivery of 15.6 units per month.

5.9 Residual Land Value Output

Taking the above revenues and costs, the CLP appraisal provides a Residual Land Value output after purchaser's costs. We are satisfied that the appraisal correctly identifies the RLV.

5.10 Comparison with the Build for Sale Appraisal

We have been provided with an equivalent Build for Sale appraisal has been provided by CLP. Following the guidance in the GLA SPG, such an appraisal is not required for comparison purposes. We have therefore simply reviewed it to establish how it compares with the BTR approach in terms of the affordable housing proportion that it supports.

The appraisal has been run on a Residual Land Value basis, assuming a 20% affordable housing offer with a policy compliant 60/40% Affordable Rented/Intermediate Ownership tenure split.

The build for sale appraisal shows a Residual Land Value significantly below the Benchmark Land Value adopted. This indicates that the build for sale scheme is less viable and thus cannot support the same or higher level of affordable housing.

On this basis, we do not consider that the Build for Sale option requires further consideration.

5.11 Residential Appraisal Conclusion

The approach and assumptions adopted appear reasonable in the circumstances.

On this basis, we agree with CLP's position that the Scheme cannot reasonably support a higher proportion of affordable housing.

We recommend that a review mechanism is put in place to reflect any future changes that might allow for an increased affordable housing provision.

6 Commercial Appraisal Summary

6.1 Information Provided

In preparing our review, we have relied upon the CBREs 'Base Case Development Appraisal' document dated November 2016 together with updates provided to date. These culminate in a summary document from CBRE dated 1 November 2017 which provides an updated overview of the current assessment.

6.2 Appraisal Returns

Developers typically assess the viability of a scheme against a range of performance metrics. The metrics adopted are influenced by the financial requirements and development intentions of a specific developer. For example, a developer who intends to sell the scheme upon completion will often look at its profit arising at the point of disposal, either as a proportion of costs or gross development value.

A developer who intends to hold the scheme as an investment will often assess its viability upon the anticipated annual rental income at completion, as a proportion of costs expended upon the development. This is often referred to as Development Yield.

These metrics can be summarised as follows:

Performance Metric	Description
Profit on cost	The development surplus (profit) expressed as a percentage of total development costs.
Development Yield	The net income deriving from the completed scheme expressed as a percentage of the total project costs.

The CLP appraisal includes both a profit on cost and development yield analysis. CLP have advised that these two metrics form an important element of their consideration of the attractiveness of a development opportunity, but are part of a wider assessment. In common with other developers who intend to hold the asset as an investment, CLP is also interested in the likely future performance of the asset and the returns that can be obtained over time. For an asset such as this which is intended to make a significant improvement in the social, economic and environmental well-being of the area, there is a realistic prospect that there will be value improvement as the centre matures.

6.3 Appraisal Summary

The Commercial Appraisal follows a residual approach to reach an assessment of profit, derived by deducting the total development costs from the gross development value of CLP's proposed Scheme, held on a 250 year lease.

The Commercial Appraisal reflects the non-residential components of the Scheme only.

7 Commentary on Commercial Appraisal Inputs and Approach

This section provides a commentary on each of the key components within the Commercial Appraisal:

7.1 Retail and Leisure Rental Income

The Commercial Appraisal includes rental income from the two anchor stores; retail unit shops; a multi-screen cinema; food and beverage units; kiosks' and basement storage.

CLP has advised that it wishes to attract a broad range of retailers, including some independents, mid-market operators and higher end fashion brands. This approach is similar to that adopted in the best performing UK shopping centres of similar size to the Scheme.

CBRE has provided a supporting statement explain that these assumed headline rental values are comparable in "tone" to those being achieved at Westfield Stratford and Westfield London. CLP considers these centres to provide appropriate benchmarks. This approach appears to be a reasonable one, given the aspiration to create the pre-eminent shopping centre in south London.

The rental assumptions for the anchor stores are reasonable.

The rental assumptions for the cinema also appear reasonable and we understand reflect terms which CLP have agreed with the proposed operator.

The food and beverage rental value assumptions are reasonable.

7.2 Other Income

7.2.1 Car Parking Revenue

The CBRE appraisal assumes 3,000 car parking spaces. Given the scheme's location and the quantum of space proposed the assumptions behind the rental and capital values appear reasonable.

7.2.2 Commercialisation (including mall retail)

Revenue under a 'commercialisation' heading assumes income from marketing, exhibitions, promotions, vending, third party media, brand partnerships and events.

7.2.3 Centre Management Income

CBRE have assumed income will be generated in centre management income which includes items such as: restroom income, storeroom income, Management Suite Rental and gift card upfront income.

A ground rent deduction is made. The resultant net income has been capitalised.

7.3 Deductions

The Commercial Appraisal includes the following annual deductions:

7.3.1 Ground Rent

An agreement is in place between CLP and the Whitgift Foundation (the freeholder of the existing Whitgift Shopping Centre and other land within the CPO boundary) which provides that the Whitgift Foundation will collaborate with CLP and its subsidiary WLP to facilitate the creation of a single head-lease of the Scheme, in which the Whitgift Foundation will hold the freehold interest.

The Commercial Appraisal includes a ground rent payment which is consistent with the copy of the Whitgift Agreement that we have had sight of. This figure represents the actual sum payable.

7.3.2 Non-Recoverable Expenditure

Non-recoverable include an allowance for: bad debts, non-recoverable marketing, administration, legal fees, rates and other expenses, car parking costs and head office recharges.

At this stage, the figures put forward are estimates, albeit we understand benchmarked against the two other Westfield schemes in London.

7.3.3 Service Charge Shortfall

CLP has assumed that a proportion of the annual service charge estimate will be non-recoverable.

As an approach, this is consistent with what we would expect for a shopping centre development of this type, where key tenants will typically seek to limit their annual service charge liability as part of their negotiations to come into the scheme.

7.4 Capitalisation Rate

CLP has adopted a blended gross capitalisation rate

The Commercial Appraisal assumes that the net income is capitalised at 1 year post practical completion of the Scheme. This is a reasonable approach and allows for the rent free periods to fall away. We consider that the current assumed yield on a forward funded basis, is reasonable.

7.5 Land Assembly Costs

CLP has set out a total land assembly cost including committed funds, spend to date and a remaining estimate of future expenditure to assemble the remaining interests. The sums include the value of interests acquired (or to be acquired), and the relevant fees payable by CLP, including SDLT.

The sums set out (and the detailed breakdown set out in the supporting documents provided) are in accordance with those discussed at meetings of the Land Assembly Group.

7.6 Construction Costs

CLP cost advisors have prepared an updated Stage 1 cost estimate dated 18th December 2015. The cost plan includes an allowance for inflation and contingency based on a February 2017 start on site and an October 2020 centre opening. A paper produced by CBRE has stated that a saving has been targeted which would reduce that anticipated outturn construction cost. Based on earlier correspondence, we understand that savings are being anticipated during the detailed design phases and during procurement.

We consider that the target savings are ambitious. On this basis the developer could not reasonably adopt any further cost reductions. The construction costs applied are therefore reasonable to adopt for viability testing purposes.

7.7 Section 106 & Section 278 Costs

CLP has agreed the following Section 106 and Section 278 costs with the Council, which are reflected within the Commercial Appraisal:

Item	Sum
Improvements to Wellesley Road	£3,782,000
Employment and Training S106 Contribution	£2,500,000
Car Club Contribution	£180,000
Air Quality Contribution	£170,321
Monitoring Costs	£18,000
Zero Carbon Contributions	£849,679
Total	£7,500,000

7.8 CIL

CLP has agreed total CIL contributions with the Council and the GLA as follows:

Item	Sum
Mayoral CIL	£5,598,979
Croydon CIL	£24,518,289
Total	£30,117,268

This CIL allowance is reflected within the Commercial Appraisal.

7.9 Professional Fees

The Commercial Appraisal includes an allowance for professional fees, related to the construction cost estimate. These professional fees are in addition to the Development Consultants' fees and the Design Consultants fees incurred to date.

Overall the professional fees allowance appears reasonable given the scale of the proposed scheme.

7.10 Marketing Costs

CLP has adopted total marketing costs comprising a budget for management setup costs and a budget for marketing launch and support. These costs relate to the pre-opening of the centre and are one-off expenditure items. They are therefore treated as a separate cost to the annual management costs included elsewhere within the appraisal.

The principle of these cost items is not unreasonable and would to be expected for the launch of a major shopping centre. We consider the amount reasonable.

7.11 Lettings Costs

The Commercial Appraisal includes letting costs, summarised as follows:

Item	Comment
Letting Agents Fee	Letting agents fee as a % of retail / leisure ERV
Lettings Legal Fee	Letting legal fee as a % of retail / leisure ERV
Tenancy Coordination	CLP has advised that these are non-recoverable costs it would expect to incur for assisting tenants with enhancing the appearance and fit out of their unit.

We consider that these allowances are reasonable, particularly if two letting agents are ultimately appointed as would be expected for a development of this scale.

The Commercial Appraisal also includes an allowance for “Tenancy Coordination” costs. CLP has advised that these are non-recoverable costs it would expect to incur for assisting tenants with enhancing the appearance and fit out of their unit.

Such costs are not standard for retail development schemes but CLP advised that they reflect the approach it took at Westfield Stratford and Westfield London, where it has sought to create a high quality and coherent destination retail environment. CLP maintains that such costs should be assumed for the Scheme, in order to help Croydon achieve a similar retail stature as those other two centres.

7.12 Letting Incentives

The Commercial Appraisal includes letting incentives in the form of capital contributions towards fit out and rent free.

7.12.1 Capital Contributions

The capital contributions have been assumed for the two anchor stores.

The requirements from high quality department store operators for new premises on a national basis is limited, with the principal operators all adopting a cautious approach to opening additional stores. Schemes which have attracted such tenants have had to make significant capital contributions for fit out and offer reduced rents.

In this context, the assumptions which CLP have made do not appear unreasonable.

7.12.2 Rent Free Incentives

In the absence of any pre-lets at this stage, the incentives allowance has been based upon a commercial assessment by CBRE, having regard to comparable schemes elsewhere. It is appropriate to allow a significant incentives sum within the appraisal, particularly with retailers often seeking attractive proposals to relocate to a new centre. The CLP assumptions are broadly consistent with those we have seen adopted in other major recent retail development scheme proposals.

There are additional costs associated with managing tenant fit out and pre-opening marketing events. These costs have been benchmarked against Westfield Stratford City by CLP.

Generally, given the prevailing economic uncertainty, the approach to capital contributions appears reasonable.

7.13 Other Costs

CLP have included 'other costs' which comprise: Commercialisation Capex, Non-Recoverable Expenses Post Practical Completion and Project Contingency.

The 'Commercialisation Capex' heading relates to expenditure on items including provision of mall retail space, vending machines, advertising boards, exhibitions and events. Whilst CLP has not been able to provide a detailed breakdown of how these costs have been arrived at, we are satisfied that the provisional sum allowed for them is reasonable, particularly in the context of the corresponding commercialisation income which CLP has assumed.

The allowance for non-recoverable expenditure post practical completion, simply reflects the period between the scheme completing and the capitalisation of the net income at PC + 1 year.

7.14 Interim Income

An interim income payment has been included within the CBRE appraisal which comprises: an interim letting income and interim hoarding / marketing income. This income is offset against the overall total development costs.

7.15 Finance Costs

The Commercial Appraisal includes an annualised interest rate which has been applied over the total development. This finance rate is inclusive of any associated funding fees.

7.16 Commercial Appraisal Conclusions

The output of the commercial appraisal shows a profit on cost which we consider to be lower than the return a developer whose sole motivation was to build and sell the completed shopping centre.

From a revenue perspective, we consider in the round, the rental value and capitalisation assumptions are adopted are reasonable, particularly having regard to wider uncertainty about future retail demand. However, CLP has advised that it is considering the financial performance of the Scheme in a Development Yield basis and that the current yield is sufficient for its Board to proceed with the project.

Subject to planning permission being granted, we would expect CLP to be able to get greater commitment from prospective tenants, as well as the CLP Board being able to justify further expenditure on design development. Taken together these should help to improve the development yield to a level where CLP is able to commit to the main construction expenditure.

8 Conclusion

The viability position summarised within this report reflects the culmination of almost 12 months' discussions and negotiations between the Council and CLP. During this period, the Council has sought to increase the level of affordable housing from that original proposed and to review the appropriate level of financial contributions required in respect of S106, S278 and CIL payments. This has resulted in a number of viability iterations, culminating in the appraisals described within this report.

Having regard to the inputs adopted in their totality, we are satisfied that the assumptions which underpin both the Residential and Commercial appraisal and the conclusions reached, are reasonable.

In particular, the level of return (or development profit) sought by CLP in respect of both components is reasonable having regard to the level of risk and cost exposure associated with delivering a project of this scale.

Overall, the viability case made by the applicant in support of the affordable housing offer is a reasonable one.

Deloitte LLP
13th November 2017

Deloitte.
Real Estate