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Southwark Council

Canada Water Area Action Plan:

St George's Wharf Study

Prepared for

London Borough of Southwark

December 2009

Contents

Appendices

1 Executive summary

LOCATION

St George's wharf is located between South Dock and the River Thames in Rotherhithe, Southeast London 4km downstream from Tower Bridge and 2.4km upstream from Greenwich.

DESCRIPTION

The site services the marina in South Dock, providing car parking and a boat repair yard. The site (outlined red on the aerial plan) extends to 0.69 hectare and is broadly rectangular in shape, consisting of two main elements:

- "Northern section" – working boat yard: 0.24 hectare (blue on aerial plan);
- "Southern section" – car park: 0.45 hectare (green on aerial plan).

A location and aerial site plan is attached at **Appendix 1**.

CURRENT SITUATION

The council is preparing an Area Action Plan (AAP) for Canada Water and sought advice on the feasibility of mixed use development options at St George's Wharf. The council is keen to encourage new development that could be used to generate more activity around South Dock.

INSTRUCTIONS

We have been asked to look into the feasibility of the following options for the southern section of the site:

Option 1 - A scheme providing 60 residential dwellings together with around 850 sq m (net) of retail space.

Option 2 - A scheme providing a 50 bedroom hotel (1,662 sq m net assuming 33 sq m / bedroom), around 35 dwellings and 850 sq m (net) of retail space.

On the basis of feedback from soft market testing, we have appraised the feasibility of a further option as follows:

Option 3 - A scheme providing 80 – 100 bedroom budget 2/3* hotel, together with up to 30 dwellings and 850 sq m (net) of retail space.

FEASIBILITY

We have investigated market conditions and undertaken a residual based approach to development of the site, mirroring the approach of a developer in the market to determine whether the schemes are feasible. A positive residual land value indicates overall feasibility.

	Residual appraisal output:
Option 1 – Residential and retail :	**£2,650,000**
Option 2 – 50 bedroom hotel, residential and retail :	**- £4,250,000**
Option 3 – 80 bedroom hotel, residential and retail :	**£2,035,000**

COMMENTS

- Site offers excellent opportunity for a developer to realise significant value from river side residential development.
- 50 bedroom boutique hotel not viable and it is considered unlikely that it will become viable in this location for the foreseeable future.
- Alternative larger format, 80-100 room 2/3* hotel potentially viable. Operator may be attracted as owner occupier or on a 'turn key' rental basis[1].
- Retail element under all options is potentially viable, with a range of occupiers likely to be attracted to the site to include local store and restaurant / bar fronting river.
- We would highlight that residential development is the main driver of viability and significant further value could be released with a higher density for the residential element.

2 Introduction

The council is preparing an Area Action Plan (AAP) for Canada Water and sought advice on the feasibility of mixed use development options at St George's Wharf, which forms a car park and working boat yard located in Rotherhithe on the South Bank of the river Thames.

BNP Paribas Real Estate (BNPPRE) have been appointed to undertake a feasibility study which will inform the allocation of the site in the draft AAP and Site Allocations development plan document. Any policies, including site allocations need to be soundly based and capable of being implemented within the lifetime of the plan. This study addresses this by undertaking a financial appraisal of the preferred options.

The AAP for Canada water and the surrounding area will look forward and provide a vision for the area over the next 10 – 15 years. The council are at the second stage in preparing the APP, which is consultation on preferred options. In relation to the St George's Wharf site the council have already undertaken some capacity modelling for the car park element of the site which considers that it could accommodate:

1. A scheme providing 60 residential dwellings together with around 850 sq m (net) of non-residential floor space.
2. A scheme providing a 50 bedroom hotel (1,662 sq m net assuming 33 sq m / bedroom), around 35 dwellings and 850 sq m (net) of other non-residential floor space.

One of the key aims of the council for the immediate area is to encourage new development that could be used to generate more activity around South Dock, which is bounded on three sides by housing. Further, consultation with local people has shown that there is a desire for more retail/leisure amenities in the area.

This feasibility report is structured as follows:

Section **three** outlines the site location and description;

Section **four** outlines market investigations in the context of the development proposals including soft market testing of hotel scenarios.

Section **five** outlines the financial appraisal work undertaken and the feasibility of the options developed by the council and a further option considered.

Section **six** provides a summary and conclusion.

[1] Hotel completed by developer to required specification, let to hotel operator.

3 Site location and description

3.1 Location

St George's wharf is located between South Dock and the River Thames in Rotherhithe, south east London, 4km downstream from Tower Bridge and 2.4km upstream from Greenwich. The Thames Path passes in front of the site, adjoining the river.

The site is currently accessed from Calypso Way, via Rope Street and Plough Way, which leads from the A200. The A2 is approximately 2km away, providing access to the National Motorway network via the M25. In terms of public transport links, Canada Water station is within 15 minutes walking distance, providing access to the London Underground network via the Jubilee Line. Surrey Quays station, due to re-open in 2010, provides access to the East London Line. Greenland Pier is located approximately 100m to the north providing access to regular river services between Greenwich and Central London.

There are several significant schemes proposed in the locality including the redevelopment of Canada Water, and several wharf schemes along the Thames including Marine Wharf, Convoys Wharf, Cannon Wharf and New Capital Quay. A location and aerial site plan is attached at **Appendix 1**, along with a plan illustrating development schemes in the vicinity.

3.2 Description and context

South Dock is a working dock and the largest marina in London, offering approximately 200 berths. The site services the marina providing car parking and the boat repair yard. The site extends to 0.69 hectare and is broadly rectangular in shape. It is outlined red on the attached aerial plan.

The north section of the site, closest to the entry lock into South Dock, is currently being used as a working boat yard. This area of the site, extending to approximately 0.24 hectare and outlined blue on the attached aerial plan, is surfaced with concrete hard standing and there are several small shipping containers on this section of the site. There is also a small curved roof shed, which although we were not able to access internally, appeared to be the being used as a store / office for the boat yard.

The southern section of the site, which is currently a car park, extends to approximately 0.45 hectare and is outlined green on the attached site plan. It is surfaced in tarmac and gravel with drainage points cut into it at intervals. Building materials appeared to be stored under a yellow canopy on part of this section of the site, which is also overgrown in places with buddleia. We understand from the council that this part of the site is underused as a car park, and this section of the site is most likely to come forward for development, whilst the working boat yard element is maintained. The whole site is fenced with painted metal railings on a small brick plinth.

Immediately surrounding the site are areas of public open space to the south, the Thames Path and river Thames to the east, South Dock lock to the north and Calypso way to the west. At the far south west corner of the site, Plough Way terminates in a large turning circle that is adjacent to the site, and could provide prominent access / dropping off point for a hotel scheme.

A site plan and aerial photograph are attached at **Appendix 1**. Photographs of the site are attached at **Appendix 2**.

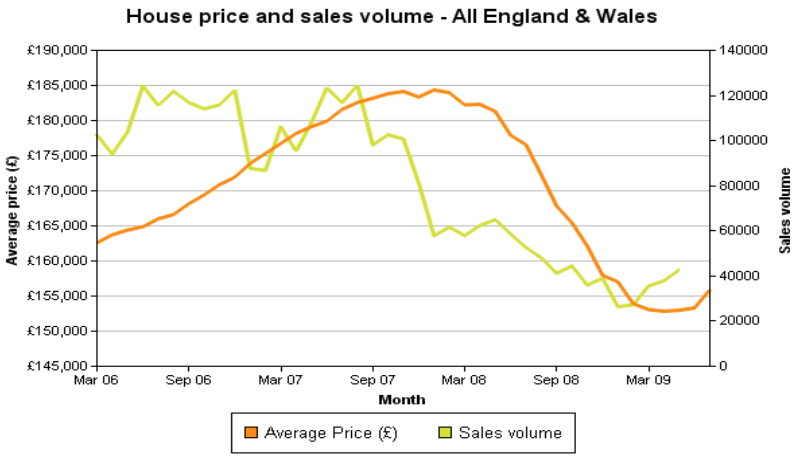
4 Market review and soft market testing

4.1 Residential

Following an extended period of rapid growth, house prices reached historic highs in real terms in mid 2007. Since then prices in the residential market have fallen significantly across most sectors and regions. The US sub prime lending "credit crunch" in the last quarter of 2007 and the subsequent restricted money supply between lending institutions resulted in the tightening of mortgage availability and was the catalyst for the market downturn since late 2007.

The collapse of Lehman Brothers in September 2008 prompted a significant worsening of the crisis in the financial markets which has also been reflected in the housing market in the UK. The first quarter of 2009 saw further serious falls in the market after a torrid 2008. The reduced availability and significant tightening of lending criteria by mortgage lenders made it more difficult for many buyers to enter the market, in spite of the reduced prices. The situation has been compounded by the wider economy going into recession since mid 2008 and the resulting increase in unemployment has been adversely affecting confidence among buyers. Further increases in unemployment are likely, which is currently viewed as the main downside risk to a tentative recovery in house prices over the last three to six months.

According to the Halifax house price index, which suffers less from the lag associated with Land Registry data, house prices nationally stood at £163,533 at the end of September, which was the third consecutive monthly increase and the fifth so far in 2009 by their measure. The Halifax survey shows that nationally prices have risen by 5.9% since reaching a trough in April 2009; an increase in the average price of just over £9,000. The national average price is currently at a similar level to that in mid 2005, although it is still some 18% down from a peak of just under £200,000 reached in September 2007. Demand for housing has increased from the low point of autumn 2008 due to better affordability and low interest rates coupled with low levels of property available for sale. Further supporting these figures, Bank of England industry wide figures show that the number of mortgages approved rose by 22% from the first to the second quarters of 2009. The graph below based on Land Registry data furthers the suggestion that (a) house price falls have started to reverse, and (b) transactional volumes have marginally increased since their lows in late 2008.



Source: Land Registry Data (September 2009)

There is, however, debate as to whether the recent signs of a market improvement can be sustained. The improvements are from the extremely

weak base of late 2008. The supply of mortgage finance is still restricted compared with long term trends and difficult to obtain for many, in particular first time buyers. Consumer confidence is also low due to rising unemployment. Three possible scenarios are being suggested for the housing market:

- A '*Double Dip'* where prices fall in the second half of 2010 driven by increased unemployment and limited bank lending.
- A '*Steady- State'* where prices remain relatively stable yet people are still cautious to enter the maret.
- A '*Resurgence'* driven by increased buyer interest in a market where supply is still constrained.

There are obvious risks associated with extrapolating trends from limited data sets, however, our in house view is of the opinion that we are moving towards a steady state where activity is driven by an increase in mortgage funding yet tempered by lower levels of housing supply. Reports from the RICS suggest that the ratio of sales to stock of property on the market have increased for seven consecutive months in the period leading to July 2009, and their view is that the housing market is steadily improving.

The speed of the turnaround has been significant, however, it is still judged by many as being tentative and the rise in the Land Registry index in September echoes the message already reported by a range of other house price indices. Yet it also shows that the rise in prices was not universal across England and Wales. With housing market activity still at exceptionally low levels and further rises in unemployment looming, many expect house prices to resume their downward trend in 2010.

Site specific residential market

In the locality there is a wide mixture of owner occupied house and flats, a developing private rented sector, and public housing. The more expensive properties are the new, purpose-built flats by the river on the peninsular, with views of Canary Wharf and Tower Bridge. There are also apartments being created out of old industrial buildings on the dockside.

In the new developments, prices are typically higher than many other parts of South London, but lower than much of the rest of Docklands. River and dock views carry a premium. The existing housing stock in the area is predominantly 1980s flats by the river and small houses, many arranged in cul-de-sacs and closes around Surrey Quays Road. Surrey Quays shopping centre proves all the amenities of a high street, including a 24-hour supermarket and a cinema.

Agents report an upturn in demand over recent months, broadly in line with the upturn experienced throughout the London. They do, however, still regard prices as having fallen by at least 18% for apartments and slightly less for houses.

We have reviewed the residential market in the vicinity, and broadly consider that residential values in this location to be within the range of £200,000 for a studio to in excess of £500,000 for a four or five bedroom house. A more detailed breakdown in terms of average value for different unit types is contained within scheme assumptions included at **Appendix 4.**

A schedule of residential comparables considered is attached at **Appendix 3**.

4.2 Hotel

UK Hotel Market

Having traded strongly in the first half of 2008, the impact of the worsening economic conditions began to impact on the hotel industry in the second half with hoteliers reporting falls in occupancy, average room rates and profits.

The corporate market has significantly contracted since September 2008 with companies drastically cutting back on costs. One of the first areas of savings during economic downturns is the cutting or down-scaling of business trips requiring overnight accommodation and recent trends suggest that this time is no different. Market evidence shows that corporate nights are significantly down with those remaining in the market down-scaling form 4 and 5-star hotels towards limited service and budget operations. Also conference and meeting bookings are significantly down as companies either downsize, or cancel and bring more meetings in-house. However, even the Budget operators have not been exempt from experiencing trading difficulties with Premier Inn expecting a 5% to 10% decrease in revenues over the year. The leisure/tourist market has also reduced, although the expense of travelling abroad has seen more people take breaks or holidays at home in the UK on “staycations” compensating for some of the lost foreign leisure business.

The Q1 2009 performance data for UK hotels (sourced from HotStats produced by Tri Hospitality Consulting) showed a sharp decline in trading in London, with mid and upper-scale hotels being hardest hit especially those in provincial financial districts. The worst impacted markets being those that had seen an influx of new hotels over the last few years leading to saturated or over-supplied markets, a problem exacerbated by shrinking demand and discounted room rates. Over Q2 2009 the impact of the recession on hotel performance appears to have lessened. The first signs of the slowing rate of decline appeared in April with better than expected figures with year on year falls in occupancy, room rates and Revenue Per Average Room (RevPAR) less pronounced than in previous months. The May and June monthly performance data indicated a further slowing of the decline with occupancy volumes particularly strong.

The performance data for August indicates that London occupancies despite strong recent performances fell back again with a 2.5% year on year drop against a 2.3% reduction over the first seven months. This fall was not unexpected as the corporate market was forecasted to be quieter than usual and in the leisure market many people visit other areas of the UK as can be seen in the provincial figures below. Average room occupancy rates and RevPAR levels fell back again during the month by 7.3% and 10.0% respectively against falls of 8.2% and 10.8% respectively over the first seven months due to discounting to achieve volume, but were better than expected performance given the reduced occupancy levels. These falling occupancies and room yields have resulted in gross operating profit levels going backwards by 12.4% compared to 14.3% over the first seven months.

Overall, occupancies were down year on year by 0.6%, stronger than the 3.2% fall over the first seven months. Again, the impact of discounting to achieve volume can be seen in the drop in average room rates of 8.3% compared to a 8.0% reduction over the first six months although RevPar figures were improved with a 9.1% drop compared to 12.1%. Again, falling revenues saw Gross Operating Profit margins to fall by 13.4% in August although further cost saving limited the impact compared to a 19.7% reduction over the first seven months.

The main reason for the generally improved occupancies is the discounted offers being given by operators which have attracted both foreign guests taking advantage of the weaker Pound and from the increasing number of UK residents taking breaks within the UK. This has allowed leisure custom to take

up slack from the corporate market which continues to remain significantly depressed compared to recent historic levels, although there are small signs of improvement over recent months.

In previous recessions, occupancy levels have historically flattened out first with a time lag of a few more months before room rates start levelling. With occupancies showing signs of steadying, it might be expected that we might see room rates begin to level towards the end of 2009. However, with some uncertainty remaining in the global economic situation combined with the global swine flu pandemic being experienced, it maybe that rates do not begin to stabilise until well into 2010.

Demand/Transactions

The credit crunch, the economic slowdown and the wider problems in the property market resulted in a marked decline in hotel transactions in 2008 with very few deals completed after September. With hotel trading suffering the trend of few transactions has continued in 2009. The small number of "market" transactions that have taken place have tended to be either at the budget end of the market as can be seen from the Travelodge deal or where vendors have been compelled to dispose of assets accepting significant discounts.

For example, the leasehold Le Meridien Piccadilly Hotel (266 rooms) in the heart of London's West End was original put to the market in October 2008 at £90m but was sold in Q2 for £68m in Q2, a discount of around 24%. Most recently the five star Stafford Hotel in St James, London was sold in September by Daniel Thwaites for £77.5m having originally achieved an agreed a price in excess of £100m in December 2008. We understand that both were sold to enable the Vendor's to restructure its debt financing.

However, there have been an increasing number of casualties as the impact of declining trade puts pressure on companies especially those with high rents or loan payments to income ratios. Towards the end of 2008, GuestInvest and Folio Hotels went into administration with the Real Hotel Company, which operated the Purplehotels brand following in January 2009, and the parent company of Four Pillars in March and hotel owning subsidiaries of WG Mitchell in April. We have also seen a number of hotel developments at 27 Poultry in the City and the Silken in Aldwych collapse and return to the market.

On the development side, hotel chains have sought to benefit from the difficulties being experienced in other parts of the property market, especially looking to acquire sites from the residential sector which are no longer viable. Similarly, 1960s and 1970s office buildings have also been targeted as they typically convert well to budget hotels.

Both Premier Inn and Travelodge, who account for over 60% of the UK budget hotel market have continued their expansion in 2009 through a combination of development of new hotels, the acquisition and re-branding of existing hotels and the conversion of other buildings to hotels. For example, Travelodge bought 12 properties for conversion in the year to July for £77m which in time will add another 1,443 bedrooms and made comment that they are being offered more locations and going concerns, often in prime locations which would have been unviable a year ago. Premier Inn have secured new sites Belfast and London in the last few weeks and received planning consent on 10 sites in the year to June.

Other hotel operators such as IHG, Accor and Wyndham have been keen to get in on the action whilst Jury's Inn have secured funding of £60m for expansion. However, with many hotel companies relying on partnerships with developers and operators, the lack of available funding to undertake these developments, has meant that much of their pipelines remain unfilled at present whilst other opportunities remain unexploited.

In the second half of 2009, we are likely to see more distressed or discounted sales as owners and operators seek to rescue their investments or avoid administration, with many experts expecting many to appear towards the end of 2009 as the impact of falling trade works through to profits and leads to an inability to service loans.

Over recent weeks, there appears to be increasing interest from parties looking to purchase hotels but most appear to be seeking “bargains” or heavily discounted opportunities. However the continued absent of significant numbers of purchasers is likely to lead to prolonged sale periods and heavily discounted values. As with most sectors, hotel transactions both as existing trading entities or development land have been very limited over the last year. As a result we have considered historic levels in view of the current limited comparable information and market sentiment. Of the deals seen in the market, the most prominent is the acquisition of the Ham Yard site in Soho in September for £30m by Firmdale Hotels who plan to spend another £60m developing a 100-bedroom boutique hotel and 50,000sq.ft. of housing, a third of which will be affordable accommodation. Firmdale propose to finance the project by raising over £50m from the sale and leaseback of two of its six London hotels, the Knightsbridge Hotel and Number 16 in Kensington.

The most recent comparable hotel development site transaction in the market was the sale of a site in Gillingham by Christie & Co for £1,800,000, a price agreed in December 2008 before completing in August 2009. The development will comprise a 120 bedroom budget/limited service hotel branded/operated as an Ibis hotel under a franchise agreement from Accor. The sale equates to a land price of £15,000 per bedroom which we feel reflects a high price even by 2008 levels before considering values in the current market.

Historically premium budget/limited service hotel development sites achieved land values per room of between £8,000 and £12,000 depending location, lease or management agreement terms etc. From the limited activity, market sentiment indicates levels are now between £7,000 and £9,000 per bedroom although in truth many schemes are no longer viable as land and development/construction costs exceed values up to the crisis events of September 2008.

Site specific soft market testing

The viability of a hotel is one of your key considerations. We have reviewed the proposals drawn up and also consider how they might be altered to maximise use of the site. We have also considered the appropriate size, quality, type and format of operator and target market.

In reviewing hotel based opportunities for the site we have undertaken ‘soft market testing’. We have liaised directly with representatives from the major hotel groups that would wish to operate in the area, presented the site to them and sought their views on the feasibility of the site, likely success of various models, and potential changes to feasibility in the future.

None of the main hotel groups we approached expressed an appetite for a 50 bedroom hotel. The general views are as follows:

- Location is fairly distant from transport links, although the river ferry being very close offers a significant benefit.
- The 260 bed Hilton located to the north is known to trade badly, suffering from low occupancy and room rates compared with a typical Hilton branded hotel. Hilton attempted to sell on the hotel last year to budget operators without success.
- Hotel supply as part of the Canada Water regeneration is likely to satisfy demand over the next few years.

- The general consensus is that this is not, at the moment, a location that would be appropriate for a boutique 4/5* hotel.
- 50 bedrooms would not provide enough accommodation under budget / mid market models, since efficiencies would not be there that would bring a hotel to the threshold of viability.
- However, a model such as 2/3* (Travelodge, Ibis, Etap) might work with 80 or more bedrooms, although there may be difficulty in terms of occupancy rates on more than 100 bedrooms.
- Unlikely to attract significant use from Canary Wharf, since there are rooms in more convenient locations.
- The market appeal is likely to be limited to local business use and friends and family demand locally – there are a lot of flats, limiting the accommodation that can be offered to visitors.

In relation to the alternative format referred to above, we have used this information as the basis of creating a further option, which is discussed in more detail under section 5.

4.3 Retail

Central London Retail and Restaurant Market

The health of the retail and leisure markets tend to generally reflect what is happening in the economy as a whole and the employment, the housing sector plus the service and manufacturing sectors. It is clearly apparent that the retail and leisure markets have deteriorated markedly. This has been particularly evident after the collapse of confidence in the banking system and some of the UK high street banks.

It is not necessary to over emphasise the down turn as this will be apparent to us all, however, whilst most cities and towns across the UK have suffered, it is fair to point out that the down turn in the Central London retail and leisure markets has been limited relative to other parts of the UK.

This has been because unemployment in the form of the capital's office workers has not been hit as much as many provincial towns, but more particularly because the level of tourists visiting London has grown as the strength of the Pound has weakened as a result of the economic downturn.

The areas where the Central London retail market has held up are particularly the fashion based tourist shopping locations such as Oxford Street, Regent Street, Covent Garden, Knightsbridge, Sloane Street and Kings Road, amongst others. However, other less tourist or fashion based locations are being somewhat harder hit by the domestic spending downturn.

Rotherhithe Market

There is currently no established retail scene in the vicinity of the subject site; however, Princes Court has recently completed on the opposite side of the dock, offering high quality residential accommodation. In addition to this Lewisham Borough Council have approved a number of residential led mixed use schemes for the area, which will not only boost the level of critical mass, crucial for a successful retail offer, but also boost the requirements of potential retailers, thus pushing rental levels upwards.

There are two very distinct 'micro' markets that exist in this area. The less prestigious, inland developments located around the Old Kent Road and indeed the Surrey Quays Retail Park, dominated by Tesco that offer the mass market multiple retail offer and the waterfront/wharf developments which tend to attract

fashionable restaurant and bar operators together with convenience shopping, for example Tesco Metro or Costcutter.

Rental Levels and Yields

In terms of rental values, we anticipate a supermarket/convenience operator paying in the region of £161 per sq m for a 325 sq m unit but this could increase to £215 per sq m depending on the concentration of nearby residential accommodation and prominence.

We anticipate that rental levels for A3 / A4 operators will be in the region of £215 per sq m for ground floor space and in the region of £161 per sq m for a mezzanine floor.

In terms of yield, this is somewhat dependent on covenant but in the current market if well let with a convenience store and multiple A3 operators on normal institutional lease terms we would expect to achieve a yield in the region of 7.5-8%. This assumes a letting of at least 10 years uninterrupted income. If a unit was let to a non-institutional covenant an appropriate yield might be more in the region of 9%.

Tenant Mix

A likely strategy for a developer would be to secure two tenants: a supermarket/convenience store fronting the dock and a restaurant/bar operator river facing. Their may be a possibility to include a café on the dock side of property and subdivide the river fronting units if tenants required the use of a mezzanine.

Incentives

We have direct experience of units being delivered to “developers shell” condition in established retail locations in Central London and attractive suburbs, where tenants are still requesting lengthy void periods of between 12 and 18 months.

This has to be contrasted with the subject location which most retailers and restaurateurs will consider somewhat as a “pioneering location” given that there is very limited natural pedestrian flow and no other similar nearby facilities. However, this should not prove a long term deterrent to development as the commercial element will become a destination both for the leisure and the retail as the development becomes established and other Thameside developments are completed. In this instance therefore, we anticipate a mixture of capital contribution and rent free might be required by in-going tenants up to the equivalent of 12-24 months. This is primarily to offset against the high cost of fit out, especially for restaurant and bar operators.

5 Financial appraisals

5.1 Overview

We have considered the proposals developed by the council, and have appraised the site in accordance with these proposals in addition to a further option for the site. In summary, development proposals appraised are as follows:

1. **Residential / retail scheme**. A scheme providing 60 residential dwellings together with around 850 sq m (net) of non-residential floor space.

2. **Boutique hotel / residential / retail scheme**. A scheme providing a 50 bedroom 4/5* hotel (1,662 sq m net assuming 33 sq m / bedroom), around 35 dwellings and 850 sq m (net) of other non-residential (retail) floor space.

3. **Larger budget hotel / residential / retail scheme**. A scheme providing an 80 – 120 bedroom budget 2/3* hotel, together with 30 residential dwellings and 850 sq m (net) of other non-residential (retail) floor space.

5.2 General methodology

Given the lack of directly comparable transaction evidence, and nature of the feasibility appraisal work, we have undertaken residual based appraisals of the site. The approach of a residual appraisal is to calculate the total gross development value (i.e. income) of each element and subtract from this the total development cost, including pre-construction costs, interest, marketing costs and profit. Also subtracted are associated site costs including fees interest and stamp duty.

The sum that remains equates to the residual 'value' of the site. The assumptions adopted have been taken to broadly mirror the approach a commercial developer would take in the market place in relation to each assumption.

Residual appraisals can be supported by a cash flow to allow for more detailed treatment of the timing of expenditure and income, and are considered in the market to be a more precise reflection of a developer's assumptions, particularly in relation finance costs, when appraising a site. We have adopted the straight line method in appraising the hotel options, and a full cash flow method in appraising the retail / residential elements. All residual appraisals undertaken are summarised and included as an appendix to this report.

In accordance with your brief we will assume affordable housing at 35%, and that social housing grant is not available.

In appraising the financial viability of a hotel element, we follow the appropriate profits and / or investment methodology depending on the likely model that would work in this vicinity. This may include a 'turn key' rental based solution, and / or more traditional profits based approach, supported by a residual appraisal in order to determine viability.

5.2.1 Sensitivity:

Where any of the options assessed are not currently viable, in accordance with your brief, we have outlined the level of inflation that would be required to achieve viability and the likelihood of this over the 15 year life of the AAP.

5.3 Financial appraisals

5.3.1 Option 1 Residential / retail scheme.

A scheme providing 60 residential dwellings together with around 850 sq m (net) of non-residential floor space.

We have undertaken a residual appraisal based on the following assumptions:

- Residential unit mix as outlined in our brief. 3% x studio, 37% 1 bedroom; 30% x 2 bedroom; 20% x 3 bedroom; 7% x 4 bedroom; 3% x 5 bedroom. A summary of the unit mix is attached at **Appendix 4**.
- 35% affordable housing, in accordance with policy. Unit mix the same as private, except no affordable studio units.

In addition to the capacity of the site, we have made the following additional main assumptions in the appraisal of this option:

- Private capital values ranging from £200,000 for a studio to £540,000 for a five bedroom house, reflecting a range of £5,000 - £4,370 per sq m. It is possible higher figures would be reached for top floor apartments overlooking the Thames, however, a 'blended' figure has been adopted since the siting of each unit type is to be determined.
- Affordable capital values reflecting an average blended rate of £1,657 per sq m.
- Build costs: £1,400 per sq m applied to Gross Internal Area flats 85% gross : net ratio. £1,100 per sq m for housing.
- Contingency: 5%
- Professional fees: 8%
- Developer's profit on cost (return for risk): 20% Gross Development Value.
- Environmental improvement, likely works to boat yard, parking, river walk etc: £300,000.
- S106 community payments at c£7,500 per unit.
- S106 community payment at £10,9000 per 100 sq m of retail
- Retail space: Estimated rental value of £215 per sq m, gross yield of 8%, build costs at £1,100 per sq m, six months rent free on letting

Based on this appraisal and, with planning consent in place for a scheme as outlined, this would generate a surplus available for land purchase in the order of **£2,650,000** in the current market.

This demonstrates viability of the proposals, it is likely that this viability will improve further with time. A number of the residential units may achieve premium pricing, where they benefit from river views. In undertaking the appraisal we have had regard to this, however, we have applied an overall blended rate reflecting the potential for some units to benefit from views.

A residual appraisal summary is included at **Appendix 5**.

5.3.2 Option 2 Boutique hotel / residential / retail scheme.

A scheme providing a 50 bedroom 4/5 hotel (1,662 sq m net assuming 33 sq m / bedroom), around 35 dwellings and 850 sq m (net) of other non-residential floor space*

Residential and retail element:

The residential / retail element would be broadly based on the same assumptions as Option 1, however, the size of the scheme would be scaled

down to 35 dwellings, with the same mix basis as outlined above. A summary of the unit mix is attached at **Appendix 4**.

The residential / retail element generates a surplus land value in the order of **£1,500,000**. A residual appraisal of this element is included at **Appendix 5**.

Hotel element

5-star hotels, boutique or large branded only tend to be located in the West End and City with a couple of small operations in Bayswater. The area surrounding the property is not a high end residential location nor is it in a major commercial area, being remote from the heart of Canary Wharf.

Canary Wharf currently has two centrally located 5 star hotels - Marriott and Four Seasons both of which have experienced recent trading difficulties and which have very low occupancies at the weekend.

- The site is located near the Hilton Docklands, a 4-star hotel on the river, which has quoted rack rates of above £200 but has never traded well and is currently offering rooms at £108. In undertaking our appraisal, we assume that a hotel will not be built until 2011 and rates and occupancy have recovered somewhat.

- Given the location and likely pricing we have assumed an occupancy during the week from the corporate / commercial orientated guests at 65% Monday to Thursday.

- Considering the same factors we perceive there will be very limited demand for such accommodation in the area and therefore have assumed a 40% occupancy on Friday, Saturday and Sunday based on discounted rate. Relative to local competition and the Hilton and hotels on Canary Wharf price structures we have assumed average room rate of £200 during the week and £150 at the weekend net of VAT.

- We have also assumed additional 25% income above bedrooms from telephone / bar and restaurant etc. We have also assumed general budget market trend of 27.5% net operating profit/EBITDA based on the small quantum of rooms and likely high service costs associated with 5 star service.

Based on this appraisal and, with planning consent in place for a scheme as outlined, the boutique hotel scheme would generate a **negative** land value of **£5,790,000**, reflecting a negative land value of **£72,375** per bedroom.

An appraisal of the hotel element under this scenario is included at **Appendix 5**.

Overall, netting the positive residential / retail element from the negative hotel element under this scenario generates a negative net residual land of **£4,250,000.** The scheme is thus not viable.

Sensitivity

In accordance with your instructions, we have undertaken sensitivity analysis to illustrate where room rates / occupancy levels would need to reach in order to generate a viable, or at least land value neutral, scheme.

In comparison with the assumptions outlined above, occupancy rates would need to increase to 80% in the week and 55% at weekends, and room rates would need to increase to £280 / night in the week and £210 / night at the weekend. All other costs would need to remain the same, therefore the increase in income would represent a nearly 40% rise in room rates in real terms, i.e. over and above general inflation. Whilst there is a chance this may

occur over the next 15 years, as the area evolves, its is unlikely that this format hotel will be viable here for the *foreseeable* future.

5.3.3 Option 3 Alternative format hotel / residential / retail

Based upon feedback from the soft market testing we have undertaken, and the appraisal outlined above we have established that a full service boutique hotel is unlikely to be viable.

Feedback from operators in the market indicated that an alternative format may work under a different model, such as a budget hotel offering more rooms.

On the basis of this feedback, we have therefore undertaken appraisals based on a scheme providing 80 – 100 bedroom budget 2/3* hotel. Although the hotel operators we consulted indicated that it would be at the limit of possibilities for this area in the current market. Key assumptions are as follows:

- Occupancy demand anticipated to be reasonable during the week from corporate/commercial orientated guests. Assumed level of 80% Monday to Thursday.
- Occupancy at the weekend likely to be leisure orientated based on people visiting the area. Assumed level of 45% Friday, Saturday and Sunday.
- Based on local competition and budget hotel price structures assume average room rate of £60 during the week and £40 at the weekend net of VAT. Have also assumed additional 10% income above bedrooms from telephone / satellite TV etc.
- We have also assumed general budget market trend of 40% net operating profit / EBITDA.

Some 2/3* budget operators prefer to take leases from owners / developers on a turnkey rental basis, in addition to the more traditional owner occupier or franchisee model. In undertaking the appraisal work, we have looked at values on both bases, taking the higher of the two figures. On the basis of the above assumptions, an 80 bedroom hotel development generates a surplus land value in the order of up to **£680,000**, reflecting a positive land value of £8,500 per bedroom.

As the number of rooms increases past 80, we have assumed, on the basis of feedback received, that occupancy levels would be likely to tail off. At 100 rooms, on the basis of our appraisal, the residual land value strays into the negative at **-£420,000**.

We would, however, highlight that this type of budget / 2/3* hotel operation would be unlikely to generate the same level of support for other uses such as retail / leisure that the council is seeking to encourage at ground level.

Residential / retail element

Keeping within the bounds of the capacity study we have been supplied with, under an 80 bedroom scheme (assuming 26 sq m / room, smaller than the 4/5* Boutique option), the residential / retail element might be compressed to 30 residential units with 850 sq m of retail as was the case before. A unit mix summary is contained within **Appendix 4.**

On this basis, the residential / retail element generates a surplus land value in the order of **£1,400,000**.

Overall, adding the positive residential / retail element to the 80 bedroom hotel element under this scenario generates a positive net residual land of **£2,035,000.** This indicates that this scheme could potentially be viable as at today's date.

6 Conclusions

6.1 Summary of residual appraisals

We have investigated market conditions and undertaken a residual based approach to development of the site, mirroring the approach of a developer in the market to determine whether the schemes are feasible. A positive residual land value indicates overall feasibility.

	Residual appraisal output:
Option 1 – Residential and retail	**£2,650,000**
Option 2 – 50 bedroom hotel, residential and retail	**- £4,250,000**
Option 3 – 80 bedroom hotel, residential and retail	**£2,035,000**

6.2 Commentary

Overall, the site offers excellent opportunity for a developer to realise significant value from river side residential development.

In terms of the hotel element to the scheme, which the council is keen to see in order to generate visitor footfall and improve the viability of the retail offer at the site, we would comment as follows:

- 50 bedroom boutique hotel not viable and it is considered unlikely that it will become viable in this location the foreseeable future.
- Alternative larger format, 80-100 room 2/3* hotel is potentially viable.
- Operator may be attracted as owner occupier or on a 'turn key[2]' rental basis.

In relation to the non-residential retail element on ground floor under all options, we would comment as follows:

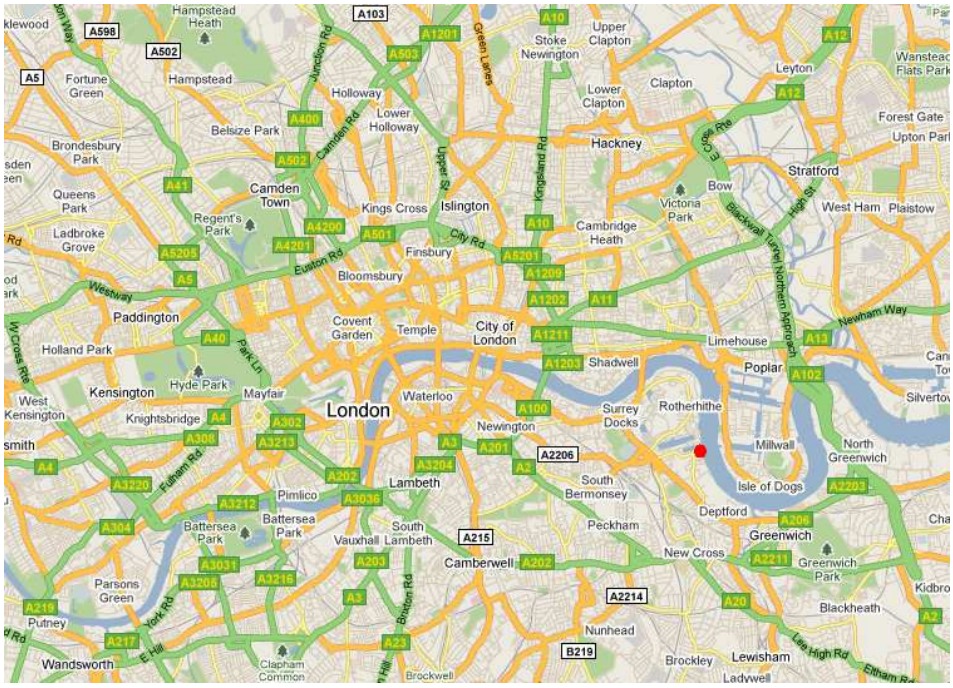
- Potentially viable, with a range of occupiers likely to be attracted to the site to include local convenience store / small supermarket and bar / restaurant.
- The vitality of retail offering would be enhanced with a hotel on the site, however, a budget hotel is less likely to generate significant custom than a higher quality hotel.

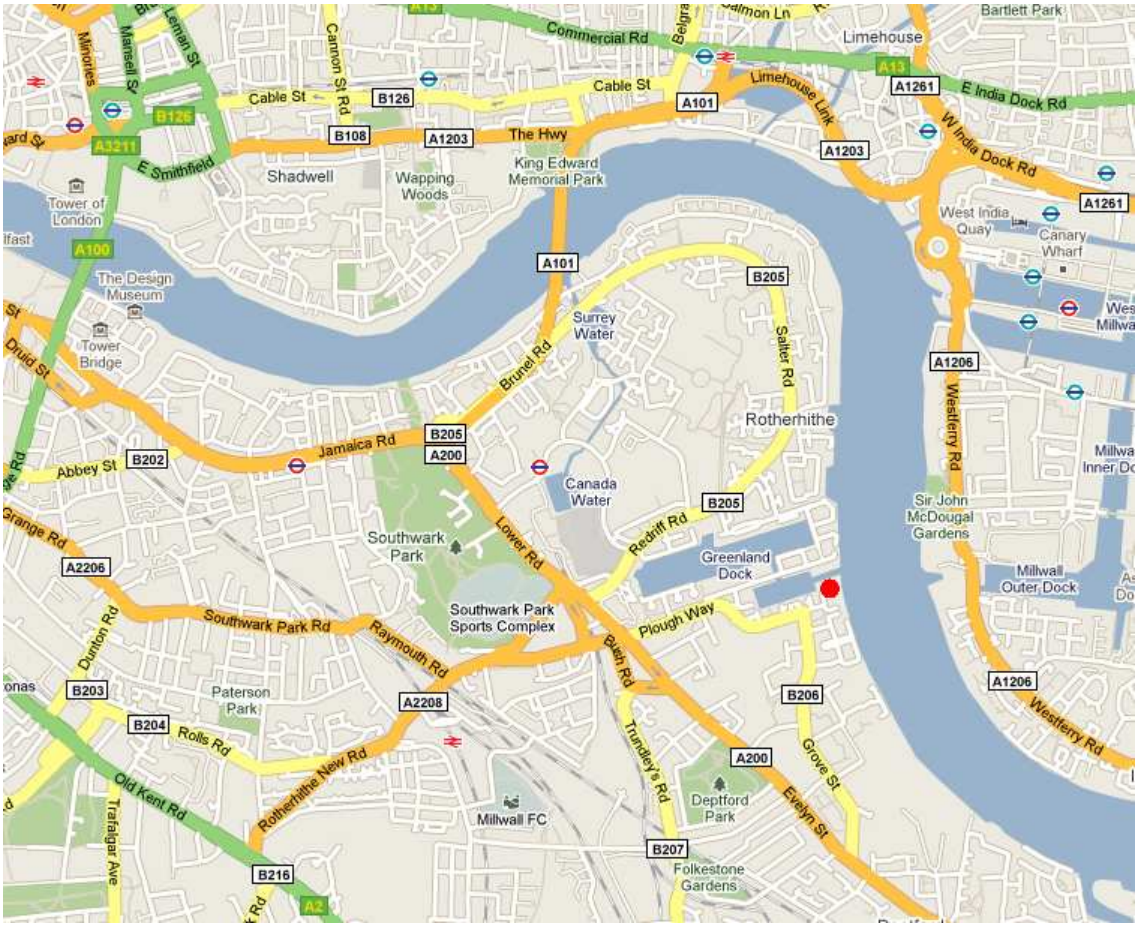
We would highlight that residential development is the main driver of viability and significant further value could be released with a higher density for the residential element.

[2] Hotel completed by developer to required specification, let to hotel operator.

Appendix 1 - Location

Site plan and aerial photograph



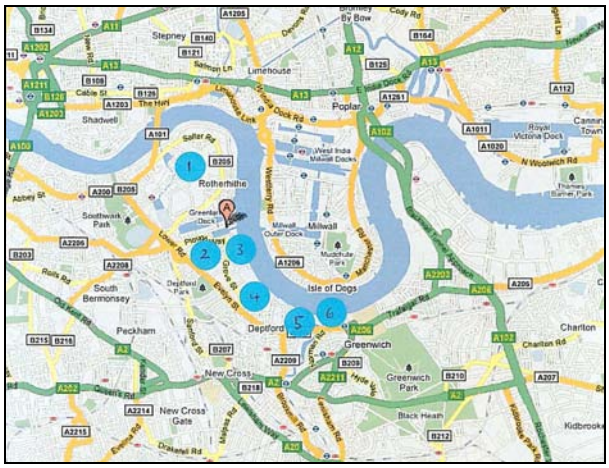


AERIAL SITE PLAN

Development Pipeline in the Surrounding Area

The development schemes planned in the vicinity are marked on the map overleaf and include the following:

- Canada Water (1)
- Cannon Wharf (2)
- Marine Wharf (3)
- Convoy's Wharf (4)
- New Capital Quay (5)
- Wood Wharf (6)



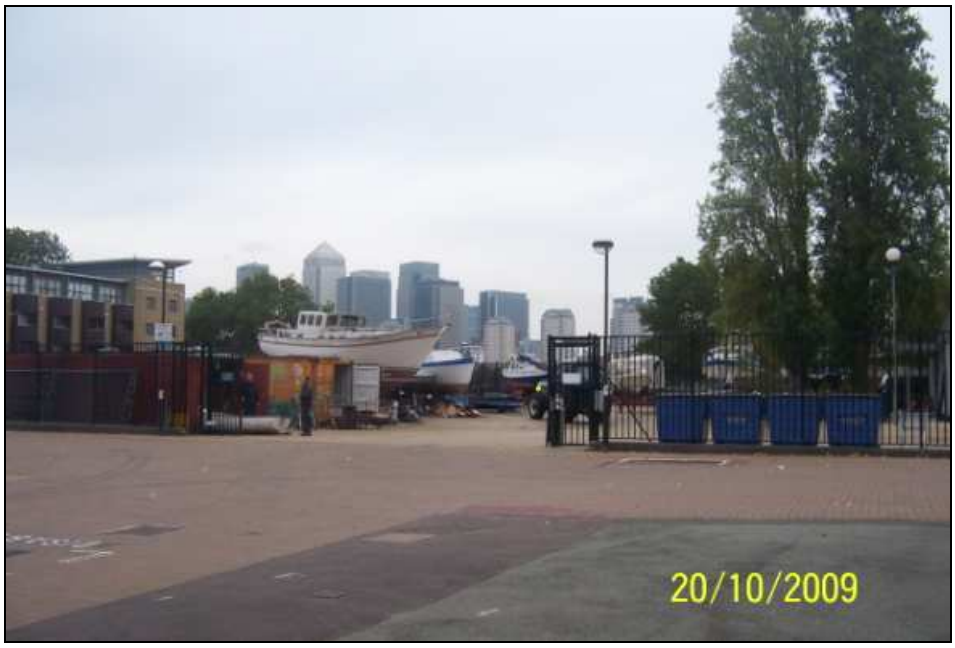
Canada Water Redevelopment

Convoy's Wharf

New Capital Quay

Wood wharf

Appendix 2 - Photographs



Current entrance to the site from the end of Calypso Way

View toward site and loader from southern edge of South Dock

View across South Dock

View of approach from Rope Walk and turning circle from south west corner of site

Appendix 3 - Schedule of comparables

A3.1.1 November 2009

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	5 bedroom house Holyoake Court Bryan Road London		1,475 sq ft (137 sq m)	£530,000 (Will deal at) £550,000 (Asking)	£359 psf (£3,868)	The property has five bedrooms with the master bed benefiting form an en suite. All of the rooms have floor to ceiling windows and there is a garage and off street parking. The agent has reported good interest in the property although no offers have been received as at 2/11/09.	Chesterton Humberts 0845 303 0760
Re-sale	5 bedroom house Redwood Close SE16 5NJ		1,149 sq ft (106 sq m)	£439,950 (Asking)	£383 psf (£4,122)	The property is offered freehold. All of the bedrooms are doubles with the master bedroom and en suite located on the second floor. The agent said they were looking to achieve the asking price so no discount will be offered at this stage, although he conceded they may have to in the near future.	Truepenny's Dulwich 0845 308 8071

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	4 bedroom end of terrace house Princes Court Surrey Quays		1,644 sq ft (153 sq m)	£645,000 (Asking) £625,000 (Will deal at)	£380 psf (£4,092) The above figures are based on	The property is a 3 storey townhouse and has four double bedrooms, fitted kitchen, balcony off the reception room, underground parking, and communal landscaped garden. Surrey Quays underground station is located 0.6 miles from the property.	Hastings International 0845 305 3191
Re-sale	4 bedroom terraced house Plover Way Surrey Quays		1,517 sq ft (141 sq m)	£585,000 (Will deal at) £600,000 (Marketed price)	£385 psf (£4,144)	This property is offered freehold and benefits from four bedrooms, 2 bathrooms and a large living/dining room. The property has been fitted out to a high specification and has a garage and driveway.	Kinleigh Folkard & Hayward 0845 303 4709
Re-sale	4 bedroom terraced house Rope Street Surrey Quays		1,430 sq ft (133 sq m)	£560,000 (Will deal at) £575,000 (Marketed price)	£391 psf (£4,208)	This unit is located adjacent to the south dock and has been refitted to a high standard. It has a large balcony off the master bedroom which also benefits from an en suite. The garage and study are located on the ground floor. Surrey Quays underground station is located 0.6 miles away.	Kinleigh Folkard & Hayward 0845 303 4709

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	3 bedroom apartment Channel House Water Gardens Square SE16		1,347 sq ft (127 sq m)	£850,000 (asking) £800,000 (Would deal at, this represents £593 psf)	£631 psf (£6,729)	This is the penthouse apartment in the scheme. The property comprises three double bedrooms, large open plan kitchen with integrated Siemens appliances, reception room, main bathroom and two terraces. The property also benefits from air conditioning and under floor heating throughout, 24 hour concierge and two secure parking spaces. Canada Water underground station is located 300m away.	Alex Neil 020 7394 9988
Re-sale	3 bedroom apartment Pacific Wharf 165 Rotherhithe Street		1,400 sq ft (130 sq m)	£775,000 (asking)	£553 psf (£5,959)	A three bedroom Penthouse with balconies, direct views of the River Thames towards the city. Property has wood flooring, fully fitted open plan kitchen and underground parking. Other benefits include concierge and very close proximity to the Jubilee Line. The agent insisted that this property ahs been priced correctly and wouldn't benefit from a significant discount..	Hastings International 0845 305 3191

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	3 bedroom apartment Bombay Wharf Rotherhithe		1128 sq ft (105 sq m)	£795,000 (According to the agent this property has been priced to sell, however a deal could be achieved at circa £770,000)	£704 psf (£7,586) Would deal at: £682 psf (£7,348)	A three bedroom split level apartment on the ground floor The property benefits from high ceilings and picture windows. The patio garden is approximately 550 sq ft leading from the reception room and has views overlooking the Thames. It is located within Old Rotherhithe Village. This property had been subject to an AST, and as the vendor is not in occupation he is under no pressure to sell at a reduced level.	Jeffersons 0845 305 5517
Re-sale	2 bedroom apartment Rainbow Quay Rotherhithe London SE16		840 sq ft (78 sq m)	£340,000 (Vendor will accept this price) £365,000 (marketing price)	£404 psf (£4,359)	Originally built by Fairclough Homes in 1997 this property benefits form a private balcony with a view on to the quay. It also has underground parking and 114 years remaining on the lease.	Alex Neil 020 7394 9988
Re-sale	2 bedroom apartment Rope Street SE16		733 sq ft (68 sq m)	£335,000 (vendor will do a deal at) £350,000 (marketing price)	£457 psf (£4,919)	According to the agent, an offer of ‘around £335,000’ will secure a sale on the property. The property has a large reception room with a fitted kitchen, master bedroom with en suite and a second bedroom. Located next to the dock and the balcony provides views over it.	Foxtons Canada Water

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	2 bedroom apartment Greenland Dock Dunnage Crescent		515 sq ft	£339,000 (Marketing price)	£658 psf (£7,085)	This is a modern two bedroom apartment that has direct marina views. It has a separate kitchen and living space, although there is no en suite with the master bedroom. There is allocated off street parking and the property is offered to the market as share of the freehold. According to the agent the vendor is seeking £339,000.	Housemartins
Re-sale	2 bedroom apartment Rushcutters Court Boat Lifters Way		711 sq ft (66 sq m)	£320,000 (will deal at) £335,000 (marketing price)	£450 psf (£4,845)	The apartment has two bedrooms and two bathrooms with a balcony offering docks views, secure parking and located within 0.5 miles to Canada Water underground Station.	Hastings International 020 7231 4973
Re-sale	1 bedroom apartment 98 Rope Street Surrey Quays		500 sq ft (46 sq m)	£240,000 (will deal at) £265,000 (marketing)	£480 psf (£5,217)	This property benefits from views of Greenland Dock, has a separate fitted kitchen, is located on the second floor and has off street parking.	Hastings International 020 7231 4973

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Re-sale	1 bedroom apartment The Pump House		850 sq ft (79 sq m)	£375,000 (Asking)	£441 psf (£4,765)	This property is located adjacent to Canada Water underground station. It has an open plan kitchen, one bathroom, allocated parking and is located on the ground floor.	Kinleigh Folkard & Hayward 0845 303 4709
Re-sale	1 bedroom apartment Christian Court		546 sq ft (51 sq m)	£349,950 (Asking)	£641 psf (£6,900)	A 1 bedroom riverside penthouse apartment with two terraces and excellent views of Canary Wharf. The property has a vaulted ceiling and secure parking as well as a porter and tennis courts in the communal gardens.	Chesterton Humberts
Re-sale	1 bedroom apartment Frederick Square		450 sq ft (42 sq m)	£265,000 (Asking)	£588 psf (£6,339)	Good Sized refurbished one double bedroom riverside apartment situated on the top floor in Sovereign Crescent. Property comprises separate fully fitted kitchen, one double bedroom, main bathroom suite with Jacuzzi bath, reception with partial views to the Thames. Other benefits include Oak wood flooring, neutral decor, Large loft space, secure underground parking and situated within close proximity to Canada Water on the Jubilee Line.	Hastings International

Developer	Property Address	Photo	SIZE SQ FT (sq m) NSA	PRICE	Price per sq m (sq ft)	DETAILS / SPECIFICATION	Contact
Retail	Car Phone Warehouse Surrey Quays Shopping Centre		2,943 sq ft	£73,000 p.a.	£24.80 psf	Carphone Warehouse has taken this unit within the shopping centre on a 10 year lease.	September 2009
Retail	146 Tanner Street SE1		345 sq ft	£6,000 p.a	£17.39 psf	10 year lease with 6 months rent free.	October 2008

Waterside Mixed Use Developments – upstream

Battersea Reach – St Georges

- Large scale mixed use development
- Retail rents between £20 and £22.50 per sq ft

Imperial Wharf – St Georges

- Large scale mixed use development
- Retail rents vary between £22.50 and £27 per sq ft

Albion Riverside

- Resi/Retail Mixed use development
- Retail rents vary between £25 and £27.50 per sq ft depending on size and prominence.
- BNP Paribas were letting agents on the retail

Appendix 4 - Scheme summaries

Option 1 - Mixed use residential and retail scheme

Boatyard 0.45 hectare

5,280	sq m	Gross residential floor space
80-100%		Net to gross rate
35%		affordable (hab rooms)
4,224	sq m	Net Sales Area (NSA)
70.45	sq m	Average dwelling size
60		dwellings
24	cp spaces	0.4 spaces per unit

Residential accommodation

proportion	unit type	number	size (sq m)	total size (sq m)	Private units (65%)	Sales Value	Sales Value (per sq m)	Total	Affordable (35%)
3%	Studio	2.00	42	84	1	£200,000	£4,762	£200,000	1
37%	1 bed	22.00	50	1,100	14	£250,000	£5,000	£3,500,000	8
30%	2 bed	18.00	74	1,332	12	£350,000	£4,730	£4,200,000	6
20%	3 bed	12.00	87	1,044	8	£380,000	£4,368	£3,040,000	4
7%	4 bed	4.00	106	424	3	£480,000	£4,528	£1,440,000	1
3%	5 bed	2.00	120	240	1	£540,000	£4,500	£540,000	1
		60.00		**4,224**	39			£12,920,000	21

Non-residential accommodation

Type	size (sq m)	Net : Gross	
Retail	1,068	80%	854 sq m

Option 2 - Mixed use residential and retail scheme - Option 2 - Residential / Retail / Hotel (4/5* boutique)

Boatyard 0.45 hectare

2,078	sq m	Gross residential floor space
85 - 100%		Net to gross rate
35%		affordable (hab rooms)
2,447	sq m	Net Sales Area (NSA)
70.45	sq m	Average dwelling size
35		dwellings
14	cp spaces	0.4 spaces per unit

Residential accommodation

proportion	unit type	number	size (sq m)	total size (sq m)	Private units (65%)	Sales Value	Sales Value (per sq m)	Total	Affordable (35%)
3%	Studio	1.00	42	42	1	£200,000	£4,762	£200,000	0
37%	1 bed	13.00	50	650	8	£250,000	£5,000	£2,000,000	5
30%	2 bed	11.00	74	814	7	£350,000	£4,730	£2,450,000	4
20%	3 bed	7.00	87	609	5	£380,000	£4,368	£1,900,000	2
7%	4 bed	2.00	106	212	1	£475,000	£4,481	£475,000	1
3%	5 bed	1.00	120	120	1	£540,000	£4,500	£540,000	0
		35.00		**2,447**	23			£7,565,000	12

Non-residential accommodation

Type	size (sq m)	Net : Gross	
Retail	1,068	80%	854 sq m

Hotel

50 4/5* bedrooms	33 sq m / room	1650 total sq m

Option 3 - Mixed use residential and retail scheme - Option 3 - Residential / Retail / Hotel (budget)

Boatyard 0.45 hectare

2,426	sq m	Gross residential floor space
85-100%		Net to gross rate
35%		affordable (hab rooms)
2,112	sq m	Net Sales Area (NSA)
70.45	sq m	Average dwelling size
30		dwellings
12	cp spaces	0.4 spaces per unit

Residential accommodation

proportion	unit type	number	size (sq m)	total size (sq m)	Private units (65%)	Sales Value	Sales Value (per sq m)	Total	Affordable (35%)
3%	Studio	1.00	42	42	1	£200,000	£4,762	£200,000	0
37%	1 bed	11.00	50	550	7	£250,000	£5,000	£1,750,000	4
30%	2 bed	9.00	74	666	6	£350,000	£4,730	£2,100,000	3
20%	3 bed	6.00	87	522	4	£380,000	£4,368	£1,520,000	2
7%	4 bed	2.00	106	212	1	£475,000	£4,481	£475,000	1
3%	5 bed	1.00	120	120	1	£540,000	£4,500	£540,000	0
		30.00		**2,112**	20			£6,585,000	10

Non-residential accommodation

Type	size (sq m)
Retail	1,068

Hotel

80 beds 2/3* bedrooms	26 sq m / room	2080 total sq m

Appendix 5 - Appraisal summaries

St George's Wharf
Option 1 - Residential above retail

Appraisal Summary for Part 1

REVENUE

Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Residential - Private Studio	83.98	£4,762.79	399,979	
Residential - Private 1 Bed	650.04	£5,001.82	3,251,383	
Residential - Private 2 Bed	887.97	£4,726.94	4,197,381	
Residential - Private 3 Bed	696.03	£4,369.96	3,041,623	
Residential - Private 4 Bed	318.01	£4,528.20	1,440,013	
Residential - Private 5 Bed	120.03	£4,498.85	539,997	
Residential - Affordable 1 Bed	450.02	£1,657.97	746,120	
Residential - Affordable 2 Bed	443.98	£1,657.97	736,106	
Residential - Affordable3 Bed	348.01	£1,657.97	576,990	
Residential - Affordable 4 Bed	106.00	£1,657.97	175,745	
Residential - Affordable 5 Bed	120.03	£1,657.97	199,006	
Totals	4,224.10		15,304,342	**15,304,342**

Rental Area Summary	**m²**	**Rate m²**	**Gross MRV**
Retail	849.97	£215.28	182,982

Investment Valuation				
Retail				
Current Rent	182,982	YP @	8.0000%	12.5000

GROSS DEVELOPMENT VALUE	17,591,612
NET REALISATION	**17,591,612**

OUTLAY

ACQUISITION COSTS			
Residualised Price		2,624,215	
Stamp Duty	4.00%	104,969	
			2,729,183

CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Retail	1,062.53	£1,100.00	1,168,783	
Residential - Private Studio	98.85	£1,399.95	138,385	
Residential - Private 1 Bed	764.68	£1,399.95	1,070,514	
Residential - Private 2 Bed	1,044.69	£1,399.95	1,462,514	
Residential - Private 3 Bed	818.85	£1,399.95	1,146,349	
Residential - Private 4 Bed	318.01	£1,099.96	349,798	
Residential - Private 5 Bed	120.03	£1,099.96	132,028	
Residential - Affordable 1 Bed	529.45	£1,399.95	741,204	
Residential - Affordable 2 Bed	522.39	£1,399.95	731,320	
Residential - Affordable3 Bed	409.42	£1,399.95	573,168	
Residential - Affordable 4 Bed	106.00	£1,099.96	116,596	
Residential - Affordable 5 Bed	120.03	£1,099.96	132,028	
Totals	5,914.93		7,762,686	**7,762,686**
Contingency		5.00%	388,134	
Road/Site Works			200,000	

			588,134
Section 106 Costs			
Section 106		569,900	
			569,900
PROFESSIONAL FEES			
Professional fees	8.00%	621,015	
			621,015
MARKETING & LETTING			
Marketing	1.50%	227,365	
Letting Agent Fee	10.00%	18,298	
Letting Legal Fee	5.00%	9,149	
			254,812
DISPOSAL FEES			
Sales Agent Fee	2.00%	303,153	
Sales Legal Fee	0.50%	87,958	
			391,111
FINANCE			
Debit Rate 8.00% Credit Rate 3.00% (Nominal)			
Land		495,350	
Construction		661,098	
Total Finance Cost			1,156,448
TOTAL COSTS			**14,073,289**
PROFIT			
			3,518,322

Performance Measures	
Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
Development Yield% (on Rent)	1.30%
Equivalent Yield% (Nominal)	8.00%
Equivalent Yield% (True)	8.42%
Gross Initial Yield%	8.00%
Net Initial Yield%	8.00%
	27.98%
Rent Cover	19 yrs 3 mths
Profit Erosion (finance rate 8.000%)	2 yrs 10 mths

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Circle Version: 3.00.003 Date: 06/1/2010

St George's Wharf
Option 2 - Residential above retail (on part) 4/5* 50 bed hotel on remainder

Appraisal Summary for Part 1

REVENUE				
Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Residential - Private Studio	41.99	£4,763.04	200,000	
Residential - Private 1 Bed	399.84	£5,002.00	2,000,000	
Residential - Private 2 Bed	518.03	£4,727.17	2,448,818	
Residential - Private 3 Bed	434.97	£4,369.83	1,900,743	
Residential - Private 4 Bed	106.00	£4,528.30	480,000	
Residential - Private 5 Bed	120.03	£4,499.96	540,130	
Residential - Affordable 1 Bed	250.00	£1,657.97	414,493	
Residential - Affordable 2 Bed	295.99	£1,657.97	490,743	
Residential - Affordable3 Bed	174.01	£1,657.97	288,503	
Residential - Affordable 4 Bed	106.00	£1,657.97	175,745	
Totals	2,446.86		8,939,174	**8,939,174**
Rental Area Summary	**m²**	**Rate m²**	**Gross MRV**	
Retail	854.00	£215.28	183,849	
Investment Valuation				
Retail				
Current Rent	183,849	YP @	8.0000%	12.5000
GROSS DEVELOPMENT VALUE				11,237,288
NET REALISATION				**11,237,288**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			1,543,688	
Stamp Duty		4.00%	61,748	
				1,605,436
CONSTRUCTION COSTS				
Construction	**m²**	**Rate m²**	**Cost**	
Retail	1,067.50	£1,099.96	1,174,207	
Residential - Private Studio	49.42	£1,399.95	69,186	
Residential - Private 1 Bed	470.48	£1,399.95	658,648	
Residential - Private 2 Bed	609.44	£1,399.95	853,186	
Residential - Private 3 Bed	511.80	£1,399.95	716,494	
Residential - Private 4 Bed	106.00	£1,099.96	116,596	
Residential - Private 5 Bed	120.03	£1,099.96	132,028	
Residential - Affordable 1 Bed	294.13	£1,399.95	411,767	
Residential - Affordable 2 Bed	348.20	£1,399.95	487,463	
Residential - Affordable3 Bed	204.67	£1,399.95	286,528	
Residential - Affordable 4 Bed	106.00	£1,099.96	116,596	
Totals	3,887.67		5,022,699	**5,022,699**
Contingency		5.00%	251,135	
Road/Site Works			150,000	
				401,135

Section 106 Costs			
Section 106		382,400	
			382,400
PROFESSIONAL FEES			
Professional fees	8.00%	401,816	
			401,816
MARKETING & LETTING			
Marketing	1.50%	148,017	
Letting Agent Fee	10.00%	18,385	
Letting Legal Fee	5.00%	9,192	
			175,594
DISPOSAL FEES			
Sales Agent Fee	2.00%	197,356	
Sales Legal Fee	0.50%	56,186	
			253,543
FINANCE			
Debit Rate 8.00% Credit Rate 3.00% (Nominal)			
Land		296,852	
Construction		450,357	
Total Finance Cost			747,209
TOTAL COSTS			**8,989,831**
PROFIT			
			2,247,458

Performance Measures	
Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
Development Yield% (on Rent)	2.05%
Equivalent Yield% (Nominal)	8.00%
Equivalent Yield% (True)	8.42%
Gross Initial Yield%	8.00%
Net Initial Yield%	8.00%
	27.91%
Rent Cover	12 yrs 3 mths
Profit Erosion (finance rate 8.000%)	2 yrs 10 mths

St Georges Wharf, Rotherhithe Hotel Development Assessment

Scenario: **Option 2 - 50 Bedroom 5* Boutique Hotel 33 sq m / bedroom**

Business Assessment

5-star hotels, boutique or large branded are only really located in West End and City with a couple of small operations in Bayswater. The area surrounding the property is not a high end resdiential location nor is it in a major commercial area, being adrift from the heart of Canary Wharf.
Canary Wharf currently has twocentrally located 5 star hotels - Marriott and Four Seasons both of which have experienced recent trading difficulties and which have very low occupancies at the weekend.
The property is to be located near the Hilton Docklands, a 4-star hotel has quoted rack rates of above £200 but has never traded well and is currently offering rooms at £108.
If we say that hotel wont be built until 2011 and rates and occupancy have recovered somewhat.
Given the location and likely pricing we have assumed an occupancy during the week from the corporate/ commercial orientated guests at 65% Monday to Thursday.
Considering the same factors we percieve there will be very limited demand for such accommodation in the area and therefore have assumed a 40% Friday, Saturday and Sunday based on discounted rate.
Based on local competition and the Hilton and hotels on Canary Wharf price structures we have assumed average room rate of £200 during the week and £150 at the weekend net of VAT.
We have also assumed additional 25% income above bedrooms from telephone etc. from bar/restauant etc.
We have also assumed general budget market trend of 27.5% net operating profit/EBITDA based on the small quantum of rooms and likely high service costs associated with 5 star service.

Potential Turnover Calculations:

Day	**Mon**	**Tues**	**Wed**	**Thurs**	**Fri**	**Sat**	**Sun**
Bedrooms	50	50	50	50	50	50	50
Occupancy	65%	65%	65%	65%	40%	40%	40%
Rooms Used	33	33	33	33	20	20	20
Average Room Rate	£200	£200	£200	£200	£150	£150	£150
Daily Assumed Turnover	£6,500	£6,500	£6,500	£6,500	£3,000	£3,000	£3,000
Weekly Turnover							35000
Weeks							52.14
Annual Turnover							£1,825,000
Assumed Income from Other Sources							25%
Assumed Total Turnover							**£2,281,250**
Assumed Net Operating Profit (NOP)						27.5%	**£627,344**

Valuation

Market Value at Day One

NOP	£627,344	£646,164	£665,549	£685,515	£706,081
Terminal Value					£8,306,834
Cashline	£627,344	£646,164	£665,549	£685,515	£9,012,915
Cap Rate	8.50%				
Discount Rate	10.50%				
NPV			£7,520,847	£ per bed	Yield
		Say	**£7,500,000**	93750	8.36%
NOP		£627,344			
Yield	8.0%	12.50			
MV			**£7,840,000**	£98,000 per bedroom	

Residual Valuation

Value based on Day One Value

Hotel Value				**£ 7,670,000**	Average of MV at day 1 figures
Develeopment Costs per bedroom	£100,000	£10,000,000			
Contigency	5%	£500,000			
Fees	12%	£1,200,000			
			£11,700,000		
Developers Profit	15%		£1,755,000		
Total Development Cost				**£13,455,000**	
Residual Land Value			**-£ 5,790,000**	**-£72,375**	**per bedroom**

St George's Wharf
Option 3 - Residential above retail (on part) budget 2/3* 80 bed hotel remainder

Appraisal Summary for Part 1

REVENUE

Sales Valuation	**m²**	**Rate m²**	**Gross Sales**	
Residential - Private Studio	41.99	£4,761.95	199,954	
Residential - Private 1 Bed	349.87	£5,000.05	1,749,367	
Residential - Private 2 Bed	444.26	£4,729.77	2,101,248	
Residential - Private 3 Bed	347.83	£4,367.78	1,519,245	
Residential - Private 4 Bed	106.00	£4,481.12	474,999	
Residential - Private 5 Bed	120.03	£4,499.96	540,130	
Residential - Affordable 1 Bed	199.93	£1,657.97	331,478	
Residential - Affordable 2 Bed	222.13	£1,657.97	368,285	
Residential - Affordable3 Bed	173.91	£1,657.97	288,338	
Residential - Affordable 4 Bed	106.00	£1,657.97	175,745	
Totals	2,111.95		7,748,788	**7,748,788**

Rental Area Summary	**m²**	**Rate m²**	**Gross MRV**
Retail	854.00	£215.28	183,849

Investment Valuation				
Retail				
Current Rent	183,849	YP @	8.0000%	12.5000

GROSS DEVELOPMENT VALUE	10,046,902
NET REALISATION	**10,046,902**

OUTLAY

ACQUISITION COSTS

Residualised Price		1,373,074	
Stamp Duty	4.00%	54,923	
			1,427,996

CONSTRUCTION COSTS

Construction	**m²**	**Rate m²**	**Cost**	
Retail	1,067.50	£1,099.96	1,174,207	
Residential - Private Studio	49.42	£1,399.95	69,186	
Residential - Private 1 Bed	411.65	£1,399.95	576,289	
Residential - Private 2 Bed	522.30	£1,399.95	731,194	
Residential - Private 3 Bed	409.52	£1,399.95	573,308	
Residential - Private 4 Bed	106.00	£1,099.96	116,596	
Residential - Private 5 Bed	120.03	£1,099.96	132,028	
Residential - Affordable 1 Bed	235.23	£1,399.95	329,310	
Residential - Affordable 2 Bed	261.15	£1,399.95	365,597	
Residential - Affordable3 Bed	204.76	£1,399.95	286,654	
Residential - Affordable 4 Bed	106.00	£1,099.96	116,596	
Totals	3,493.56		4,470,964	**4,470,964**

Contingency	5.00%	223,548	
Road/Site Works		150,000	
			373,548

Section 106 Costs			
Section 106		344,900	
			344,900
PROFESSIONAL FEES			
Professional fees	8.00%	357,677	
			357,677
MARKETING & LETTING			
Marketing	1.50%	133,246	
Letting Agent Fee	10.00%	18,385	
Letting Legal Fee	5.00%	9,192	
			160,823
DISPOSAL FEES			
Sales Agent Fee	2.00%	177,661	
Sales Legal Fee	0.50%	50,235	
			227,896
FINANCE			
Debit Rate 8.00% Credit Rate 3.00% (Nominal)			
Land		264,919	
Construction		408,798	
Total Finance Cost			673,717
TOTAL COSTS			**8,037,522**
PROFIT			
			2,009,380

Performance Measures	
Profit on Cost%	25.00%
Profit on GDV%	20.00%
Profit on NDV%	20.00%
Development Yield% (on Rent)	2.29%
Equivalent Yield% (Nominal)	8.00%
Equivalent Yield% (True)	8.42%
Gross Initial Yield%	8.00%
Net Initial Yield%	8.00%
	27.80%
Rent Cover	10 yrs 11 mths
Profit Erosion (finance rate 8.000%)	2 yrs 10 mths

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Circle Version: 3.00.003 Date: 06/1/2010

St Georges Wharf, Rotherhithe Hotel Development Assessment

Scenario: **Option 3 - 80 Bedroom Hotel i.e. Travelodge**

Business Assessment

Occupancy demand anticipated to be reasonable during the week from corporate/commercial orientated guests. Assumed level of 80% Monday to Thursday.
Occupancy at the weekend likely to be leisure orientated based on people visiting the area. Assumed level of 45% Friday, Saturday and Sunday
Based on local competition and budget hotel price structures assume average room rate of £60 during the week and £40 at the weekend net of VAT.
Have also assumed additional 10% income above bedrooms from telephone etc.
We have also assumed general budget market trend of 40% net operating profit/EBITDA

Potential Turnover Calculations:

Day	**Mon**	**Tues**	**Wed**	**Thurs**	**Fri**	**Sat**	**Sun**
Bedrooms	80	80	80	80	80	80	80
Occupancy	80%	80%	80%	80%	45%	45%	45%
Rooms Used	64	64	64	64	36	36	36
Average Room Rate	£60	£60	£60	£60	£40	£40	£40
Daily Assumed Turnover	£3,840	£3,840	£3,840	£3,840	£1,440	£1,440	£1,440
Weekly Turnover							19680
Weeks							52.14
Annual Turnover							£1,026,171
Assumed Income from Other Sources							10%
Assumed Total Turnover							**£1,128,789**
Assumed Net Operating Profit (NOP)						40%	**£451,515**

Some 2/3* budget operators prefer to take leases from owners/developers on a turnkey basis. E.g. Travelodge have been paying between £3,000 and £5,000 a bedroom outside London and from £5,000 upwards in London
Traditionally tenants rental bids have ranged bewteen 50 at 60% of NOP in London hotels although for some prime london sites we have seen bids up to 80%

NOP		**£451,515**	
Rent Bids	50%	£225,758	£2,822 per bedroom
	60%	£270,909	£3,386 per bedroom
	70%	£316,061	£3,951 per bedroom
	80%	£361,212	£4,515 per bedroom

Given the location and the small size of the hotel in terms of bedrooms we would assume that a rent bid of £4000 per bedroom might be considered appropriate for the property.

Valuation

Market Value at Day One

NOP	£451,515	£465,061	£479,013	£493,383	£508,185
Terminal Value					£5,978,642
Cashline	£451,515	£465,061	£479,013	£493,383	£6,486,827
Cap Rate	8.50%				
Discount Rate	10.50%				
NPV			£5,412,947	£ per bed	Yield
		Say	**£5,400,000**	67500	8.36%
NOP		£451,515			
Yield	8.0%	12.50			
MV			**£5,640,000**	£70,500 per bedroom	

Rental Investment Valuation

Rent per bedroom		£4,500		
Total Rent		£360,000		
Yield	6.50%	15.38		
Value		£5,538,462		
Less purchasers costs	5.75%	£318,462		
Net Value			**£5,220,000**	£65,250 per bedroom

Residual Valuation

Value based on Day One Value

Hotel Value (average)				**£ 5,520,000**	Average of MV at day 1 figures
Develeopment Costs per bedroom	£50,000	£3,600,000			
Contigency	5%	£180,000			
Fees	12%	£432,000			
			£4,212,000		
Developers Profit	15%		£631,800		
Total Development Cost				**£4,843,800**	
Residual Land Value			**£ 680,000**	**£8,500 per bedroom**	

Value based on Investment

Hotel Value (average)				**£ 5,220,000**	
Develeopment Costs per bedroom	£50,000	£3,600,000			
Contigency	5%	£180,000			
Fees	12%	£432,000			
			£4,212,000		
Developers Profit	15%		£631,800		
Total Development Cost				**£4,843,800**	
Residual Land Value			**£ 380,000**	**£4,750 per bedroom**	