

41-43 Russell Hill Road – **DRAFTv2**

Private and Confidential



Hexagon Housing Association

November 2018



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1 Introduction

1.1 Instruction – 41-43 Russell Hill Road, CR8

1.1.1 We refer to Bulbul Ali's email, dated 7 September 2018, to Kwajo Mensah instructing Jones Lang LaSalle (hereafter "JLL") to provide valuation advice relating to a proposed development at the above (the "Site"). The proposed development will produce 28 residential units designated for private sale and shared ownership (the "Units"). The development will include a mixture of one, two and three bedroom flats spanning two 3 storey blocks. In addition, there will be provision for a mixture of under-croft and off-site street parking as well as hard and soft landscaping.

1.1.2 It is our understanding that Hexagon Housing Association ("Hexagon") is proposing to acquire the freehold interest in the Site and are currently in negotiation regarding a land and build contract with Buxworth Homes (the "Developer"). We understand the proposed contract will comprise a consideration of £5,400,000 for building works.

1.1.3 Accordingly, JLL has been asked to provide valuation advice regarding the following:

- Market Value of the Units, subject to vacant possession ("MV-VP");
- Market Value of the Site; and
- Market Value of the Site, on the special assumption the entire scheme is delivered as shared ownership, with values based on the aggregate values provided by Hexagon.

1.1.4 A copy of our Terms of Engagement is attached at Appendix 1.

1.2 Basis of Valuation

1.2.1 We confirm that our valuation and report will be prepared in accordance with the current RICS Valuation – Global Standards 2017 published by the Royal Institution of Chartered Surveyors and the RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (the "RICS Red Book"). Our advice is on the basis of Market Value (MV).

1.3 Market Value (MV)

1.3.1 The basis of Market Value is defined in the RICS Red Book as follows:

"The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."

1.4 Purpose of Valuation

1.4.1 Our valuation has been prepared for Hexagon's internal use and we understand will be used for acquisition purposes only.

1.5 Status of Valuer

1.5.1 In preparing this valuation we have acted as external valuers, subject to any disclosures made to you.

1.6 Personnel

- 1.6.1 The valuation has been prepared by Sam Cook MA (Hons) under the direction of Kwajo Mensah MRICS, a Director of JLL.
- 1.6.2 We confirm that the personnel responsible for this valuation are qualified for the purpose of the valuation in accordance with the RICS Valuation Standards.

1.7 Inspection

- 1.7.1 We undertook an external inspection of the Site on 13 November 2018.

1.8 Valuation Date

- 1.8.1 The date of valuation is 26 September 2018.

1.9 Restrictions on use

- 1.9.1 Our valuation cannot be used for loan security purposes without the prior written consent of JLL.

1.10 Conflict of Interest

- 1.10.1 We do not have any conflict of interest in providing the advice that you have requested.

1.11 Sources of Information

- 1.11.1 We have had sight of planning application documents relating to application ref. 18/04264/FUL. This included the following:
- Design and Access Statement;
 - Proposed Site Plan, prepared by DC Architects, dated July 2018;
 - Proposed Floor Plans, prepared by DC Architects, dated May 2018;
 - Proposed Elevations, prepared by DC Architects, dated August 2018; and
 - Existing Site Plan, prepared by DC Architects, dated July 2018.
- 1.11.2 We have also been provided with details of a fixed price design and build contract and aggregate values, sent under cover of Bulbul Ali's email, dated 13 November 2018. The latter has informed our valuation of the 100% shared ownership option only.

2 Location and Description

2.1 The Site

- 2.1.1 The Site is presently occupied by two detached houses along Russell Hill Road, Purley. The surrounding area is predominantly characterised by detached family housing and a number of modern low-rise flatted developments which have been built in the past 10 years.
- 2.1.2 The development opportunity is bordered to the east by Russell Hill Road and to the west by Oscar Close, a small gated development of modern detached houses. To the south of the Site is Russell Hill Lodge, an assisted living residence, while the northern aspect borders Russell Hill Road Day Nursery. Both the nursery and retirement home are situated within converted detached houses, in keeping with the character of the surrounding area.

2.2 Communications

- 2.2.1 The subject site is accessed via Russell Hill Road which links up with the A23 Purley Way and the A235 Brighton Road to the south. Purley Way leads to Waddon and Valley Retail Park to the north while Brighton Road provides direct access to central Croydon. To the south, Brighton Road connects with the M23 and junction 7 of the M25.
- 2.2.2 In terms of public transport connectivity, Purley station is situated circa 500 metres to the south of the Site. From here, Southern and Thameslink run regular services to London Victoria and London Bridge stations as well as Gatwick Airport.
- 2.2.3 There are also a number of bus routes within the vicinity of the Site including lines 289, 60, 166 and 359. These services provide a connection to local town centres and neighbourhoods including Croydon, Old Coullson and Streatham.

2.3 Local Amenities

- 2.3.1 There are a range of amenities within close proximity of the Site. Purley High Street and Brighton Road are home to a mixture of chain and local independent retailers including a number of charity shops, an optician's, a Boot's pharmacy, a dry cleaners and a Costa Coffee.
- 2.3.2 In addition, there is a Tesco Extra located approximately 500 metres south of the Site with ample parking provision.
- 2.3.3 Purley Leisure Centre, which includes a swimming pool and gym, is within walking distance of the Site. PureGym Purely is a 20 minute walk east of the Site.
- 2.3.4 There are also a number of schools in the surrounding area including Thomas More Catholic School and the Ofsted rated 'Good' Christ Church of England Primary School.

3 The Proposed Development

3.1 The Units

3.1.1 We have had sight of the proposed layouts from which we have derived the following schedule of accommodation:

Unit Type	Size (sqft.)	Shared Ownership	Private
1 bed flat	538 - 603	4	4
2 bed flat	667 - 915	8	8
3 bed flat	936 - 947	2	2
Total	20,839	14	14

3.1.2 We note the Units will be contemporary in style with open-plan configurations, a mixture of single and double bedrooms, storage space and en-suite shower rooms to the larger units. All but one of the proposed units benefit from private amenity space in the form of either a balcony or terrace.

3.2 Proposed Specification

3.2.1 We have had sight of a schedule of specification for the shared ownership units, a summary of which is provided below:

Item	Specification
Kitchen units	Symphony Gallery with soft close hinges, end panels and carcass to match range
Kitchen sink	1.5 bowl stainless steel sinks
Kitchen worktops	Silestone worktop from Symphony Group, 100mm upstand
Kitchen taps	Bristan Chocolate Easyfit Kitchen Sink Mixer Chrome Plated 0.5 bar min pressure
Oven	Zanussi Single Fan oven ZOB142X stainless steel
Dishwasher	Fully integrated Zanussi A-rated dishwasher 450 width ZDVV12001FA
Hob splash back	Coloured glass splash back
Fridge / freezer	Integrated A+ rated tall 50/50 fridge freezer Zanussi ZBB28440SA
WC	Roca Hall white, wall hung with dual flush concealed cistern and soft close seat
Basin	White wall hung, semi recessed, pop up waste and chrome trap
Bath	1700x700mm pressed steel bath with anti-slip finish
Bathroom radiator	Chrome ladder towel radiator
Walls	White on smooth plaster finish (or as agreed)
Woodwork	White satinwood
Floor finish	80/20 carpet 50oz on underlay to bedrooms, engineered hardwood flooring with a minimum 4mm wearing course laid over acoustic underlay to halls and living / dining rooms, tiles to wet areas

3.2.2 We have assumed that all building works in respect of the proposed units will be carried out in accordance with best practice, adhering to all necessary legislation. We have assumed that a New Homes warranty will be made available upon completion.

3.3 Sustainability

3.3.1 The Code for Sustainable Homes has recently been abolished by the Government. Elements of the Code will now be incorporated into building regulations, which will be retitled as 'The New National Technical Standards' and set at the equivalent of a Code Level 4. We have assumed the proposed development will achieve the current sustainability standards.

3.4 Services

3.4.1 We have assumed that all mains services will be in place for the proposed development, including gas, electricity and drainage.

3.5 Environmental Considerations

3.5.1 For the purpose of this valuation, we have assumed that there is no contamination or adverse ground conditions that could affect our opinion of value.

3.6 Deleterious Materials

3.6.1 We are not aware of the presence of any deleterious materials on the land and as such, have not made any adjustment to our valuation in this regard.

4 Legal and Statutory Enquiries

4.1 Tenure

- 4.1.1 We understand Hexagon is interested in acquiring the freehold interest in the Site.
- 4.1.2 We have not carried out our own investigation of title, nor have we seen a report on title. We have based our valuation upon the information supplied to us and assumed that the land has good title, free from onerous covenants and other encumbrances.
- 4.1.3 We have assumed that Hexagon is satisfied that there are no title restrictions upon the land which would prevent the development as proposed.
- 4.1.4 In providing our valuation, we have assumed the Units will benefit from minimum 125-year leases.

4.2 Planning

- 4.2.1 We have not made any planning enquiries of the London Borough of Croydon as this is outside the scope of our instructions.

4.3 Statutory and Tax Matters

- 4.3.1 We are unaware of the VAT situation in relation to the Site, although we assume that this will be investigated by your legal advisors. Our valuation does not reflect VAT.

5 Valuation Approach

5.1 Private Units

5.1.1 We understand 14 units will be provided for outright sale.

5.2 Shared Ownership Units

5.2.1 We understand a further 14 units will be provided for shared ownership. Based on our recent experience and given affordability and Council set eligibility income thresholds in the area, we would expect prospective buyers to purchase up to a 40% equity share initially and pay rent on the retained equity at a rate of 2.75%. In undertaking our valuation, we have capitalised this rental income on the retained equity at an appropriate rate, accounting for the risks embodied in the proposed development. We have also made an allowance for potential staircasing in the future. Our valuation has provided a proxy unit value for these dwellings.

5.3 Residual Valuation

5.3.1 In arriving at our opinions of land value, we have carried out a residual valuation. This involves assessing the Gross Development Value (GDV) of the proposed Site and deducting from the gross receipts the costs to be incurred in constructing the development. These include the costs of construction, professional fees, finance, legal fees on the acquisition of the Site and the disposal of the proposed units.

5.3.2 We would stress that any value produced by the residual valuation method can be volatile as it is sensitive to a wide range of inputs. Due to the residual nature of the exercise, relatively small changes in the cost or revenue can have a disproportionate impact on the value of the Site.

5.3.3 A summary of our assumptions is as follows:

- **Indicative timescale** – we have assumed construction will commence in December 2018 and complete in May 2020;
- **Construction costs** – we have adopted the design and built contract provided by Hexagon of £5,400,000. We have not made any further allowance for contingency;
- **Professional fees** – we have allowed for a rate of 10% of the cost of construction;
- **Finance** – we have adopted a debt finance rate of 5.5%;
- **Developer's profit** - we have made an allowance of 17.5% for profit on GDV for the private units;
- **Stamp duty** - we have made an allowance for the payment of stamp duty for the private units;
- **Grant funding** – we have made an allowance for grant funding of £28,000 per unit for the 100% shared ownership valuation;
- **Community Infrastructure Levy (CIL)** – in line with borough specific and London wide obligations, we have allowed for a CIL payment of £140/sqm. for the private units;
- **S106 Obligations** – we have been informed that the vendor will meet all S106 obligations except any relating to car club membership;
- **Legal fees (acquisition)** - we have assumed legal fees relating to the Site's acquisition at a rate of 0.5% of the land value;

- **Selling costs (proposed units)** - we have allowed for sales agents' fees of 1% and sales legal fees of 0.5%; and
- **Marketing fees** - we have made an allowance of £2,500 per unit and £2,000 per unit for the private and shared ownership units respectively.

6 Comparable Evidence

6.1 Market Commentary

6.1.1 In calculating our opinion of value for the completed units we have adopted the comparable method of valuation and have carried out research into recent property sales in the local area. Our research has consisted of evidence gathered from similar new build / modern developments in the locality. In addition, local agents' views have been sought in relation to achieved prices for new build and second-hand properties within close proximity to the Site in order for us to form an opinion of the Market Value of the Units. We have had regard of the following:

- **10 Plough Lane, CR8** – A modern three storey development situated circa 400 metres west of the Site. The development was built in 2013 and is finished to a high specification with modern kitchens featuring wall and base level cabinetry, integrated appliances, full height fridge / freezers, gas hobs and under-mounted sinks. Bathrooms are fully tiled with format tiles to walls and floors. Bathrooms include vanity units with integrated sinks with monobloc taps, recessed toilets with concealed cisterns and dual flush chrome plates, and bathtubs with shower attachments and screens. The bedrooms are fitted with carpets while the common areas contain laminate wood flooring. The units benefit from lift access and share a large communal garden. All units come with allocated parking.

We are aware of the following achieved sales and marketed prices in the past 6 months:

Address	Unit	Size (sqft.)	Price	£PSF	Status	Date
Flat 7	1 bed flat	689	£308,000	£447	Sold	Mar. 18
Flat 4	2 bed flat	988	£400,000	£405	Market	-

We would expect the Units to achieve higher sales rates relative to the above scheme given their new build premium. In addition, the larger than average sizes of the units at Plough Lane account for a depressed £/sqft. rate.

- **4 Woodcote Valley Road, CR8** – A newly built low-rise development situated approximately 400 metres south west of the Site. Completed in 2013, the units are finished to a good internal standard with modern kitchens containing gas hobs, laminate worktop surfaces, over-mounted sinks with drainers, integrated appliances and recessed ceiling lighting. Bathrooms and en-suites have tiling to select walls, vanity units, recessed toilets with concealed cisterns and dual flush plates and chrome heated towel rails. Bedrooms are fitted with carpets while common areas feature wood panelled flooring. Additional features include underfloor central heating, multi-room audio and electric blinds. The units benefit from allocated parking to the front of the development.

We are aware of the following achieved prices:

Address	Unit	Size (sqft.)	Price	£PSF	Date
Flat 10	2 bed flat	861	£410,000	£476	Apr. 18
Flat 7	2 bed flat	904	£420,000	£465	Apr. 18

Given the proximity of the above scheme and the level of internal finish, we would expect to achieve similar values at the Site. A marginal uplift in value relative to the above scheme has been apportioned as a result of the new build premium of the Units.

- **3 Russell Hill, CR8** – A modern flatted development situated circa 300 metres west of the Site. The development was completed in 2015 and is finished to a high specification. The integrated kitchens

contain built-in Siemens fridge / freezers, washer dryers, dishwashers, ovens, microwaves and gas hobs. The kitchens also feature wall and base level cabinetry and under-mounted sinks. Porcelanosa bathroom suites and en-suite shower rooms are fully tiled with white sanitaryware, chrome fittings and recessed LED lighting. Ample storage space is provided to all units and there is underfloor heating throughout. The bedrooms are carpeted while the common areas have laminate wood flooring. There is underground parking and lift access to all flats. Most of the units benefit from private outdoor amenity space while a communal garden open to all residents is provided.

We are aware of the following achieved and marketed prices:

Address	Unit	Size (sqft.)	Price	£PSF	Status	Date
Flat 2	2 bed flat	818	£395,000	£483	Sold	Nov. 17
Flat 3	2 bed flat	839	£450,000	£536	Market	-
Flat 5	2 bed flat	812	£435,000	£536	Market	-

We would anticipate achieving broadly comparable values as the above scheme. We note however, the achieved price for Flat 2 is substantially lower than the current marketed prices at the development and as such, have relied upon the marketed prices with caution. While the Units benefit from a new build premium, the above scheme includes underground parking and is finished to a high specification.

- **62 Woodcote Valley Road, CR8** – A recently completed development by Mantle Developments, situated circa 1 kilometre south west of the Site. Internally, the flats are finished to a high specification with modern fully integrated kitchens featuring induction hobs, under-mounted sinks with monobloc taps, full height fridge / freezers and gloss splashbacks. Bathrooms and en-suite shower rooms have format tiling to select walls, chrome heated towel rails and white sanitaryware. Bedrooms are fitted with carpet. The development benefits from a communal garden and allocated parking.

Help to Buy is available on all units. We are aware of the following asking prices:

Address	Unit	Size (sqft.)	Price	£PSF
Flat 5	2 bed flat	947	£475,000	£502
Flat 1	2 bed flat	829	£450,000	£543

Given the high specification of the above scheme and large sizes of the flats, we would expect the Units to achieve marginally lower capital values.

- **Serene Court, CR8** – A new build development located circa 900 metres west of the Site. The development comprises 9 two and three bedroom flats. Each unit comes with parking and benefits from private amenity space in the form of a garden, balcony or terrace. Internally, the flats will be finished to a high standard with underfloor heating, integrated AEG kitchens with Schueller units and designer bathrooms with StoneKast sanitaryware, Hansgrohe thermostatic showers and chrome heated towel rails. The development benefits from bicycle storage and a communal garden while there is a secure CCTV entry phone system.

Help to Buy is available on selected plots. We are aware of the following price list.

Plot	Unit	Size (sqft.)	Price	£PSF
6	3 bed flat	1,243	£550,000	£442
4	3 bed flat	1,072	£500,000	£466
2	3 bed flat	1,072	£475,000	£443
8	2 bed flat	891	£450,000	£505
7	2 bed flat	970	£450,000	£464

We note the larger than average sizes of the units at the above scheme. As such, we anticipate the Units will achieve marginally lower capital values.

- **Verdun Heights, CR8** – A new build development currently under construction, located approximately 300 metres from the Site. The development consists of a part two, part three storey building comprising 28 units. There is a basement area for parking, secure cycle storage and associated landscaping. Internally, the scheme is finished to a high specification and includes bespoke German designer kitchens with Quartz stone worktops, integrated Siemens appliances, stainless steel under-mounted sinks with Quartz stone drainers and Porcelanosa tiles to the floor. The bathrooms include Renaissance cultura double ended baths, Hansgrohe concealed thermostatic mixer valves and diverters, Duravit Stark basins, Duravit wall-mounted WCs with soft close seats and Porcelanosa tiles to floors and walls. There is underfloor heating with individual room thermostats, dedicated TV, Sky and BT points in living rooms and master bedrooms and the units are pre-wired for Virgin Media fibre broadband and Sky plus/Sky Q.

The scheme launched in March 2018 and to date, 10 units have sold. We are aware of the following price list:

Plot	Floor	Unit	Size (sqft.)	Price	£PSF
11	1	1	608	£340,000	£559
6	G	1	608	£340,000	£559
19	2	1	608	£340,000	£559
1	G	2	828	£450,000	£543
16	1	2	828	£455,000	£550
9	1	2	829	£455,000	£549
17	2	2	829	£440,000	£531
4	G	2	840	£450,000	£536
21	2	2	840	£450,000	£536
2	G	2	996	£455,000	£457
28	3	2	1,076	£575,000	£534
7	G	3	995	£525,000	£528
2	G	3	995	£525,000	£528
10	1	3	995	£525,000	£528

We are of the opinion that the Units will achieve marginally inferior capital values relative to the above scheme. While the two developments are located within close proximity of each other and both benefit from a new build premium, the above units will likely be finished to a superior specification and also benefit from access to secure underground parking.

- 6.1.2 We have tried to obtain detailed and reliable information on each comparable transaction referred to above but we are not in a position to guarantee that we have obtained full disclosure of information from the respective sources.

7 Valuation

7.1 Market Value (MV-VP)

7.1.1 Subject to the foregoing, therefore, we consider that the Market Value of the Units, subject to vacant possession and no restriction on use, is:

Unit Type	MV-VP (Nov. 18)
1 bed flat	£330,000 - £352,500
2 bed flat	£385,000 - £445,000
3 bed flat	£492,500 - £505,000

7.1.2 The above Market Values reflect a blended sales rate for the proposed development of £554/sqft.

7.2 Site Value

7.2.1 Subject to the foregoing, therefore, we are of the opinion that the Market Value of the Site, subject to restrictions on use, as of the date of this report, is:

£2,890,000
(two million, eight hundred and ninety thousand pounds)

7.3 Site Value (100% Shared Ownership)

7.3.1 Subject to the foregoing, therefore, we are of the opinion that the Market Value of the Site on the special assumption the entire scheme is delivered as shared ownership, with values based on the aggregate values provided by Hexagon, as of the date of this report, is:

£3,810,000
(three million, eight hundred and ten thousand pounds)

7.4 Hexagon's Offer (28 units)

7.4.1 Based on our experience, we would expect a realistic apportionment for the land element to be in the region of 25% - 35% of the estimated GDV.

7.4.2 On the special assumption that the entire scheme is delivered as shared ownership, with values based on the aggregate values provided by Hexagon, the Market Value of the Site, exclusive of grant funding, equates to 32.7% of the aggregate Market Value (restricted) of £9,260,000. On balance, we are therefore of the view that another Registered Provider could offer up to **£4,030,000** (inclusive of grant funding) for the acquisition of the Site, subject to internal approval / break-even metrics.

8 Confidentiality and Publication

- 8.1.1 Finally, and in accordance with our normal practice we confirm that the Report is confidential to the party to whom it is addressed for the specific purpose to which it refers. No responsibility whatsoever is accepted to any third party and neither the whole of the Report, nor any part, nor references thereto, may be published in any document, statement or circular, nor in any communication with third parties without our prior written approval of the form and context in which it will appear.

Yours faithfully

Kwajo Mensah MRICS
Director
For and on behalf of
Jones Lang LaSalle Limited

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