RAPLEYS

Financial Viability Assessment Report for
LCR Developments Ltd

FORMER RESERVOIR SITE GONDAR GARDENS WEST HAMSTEAD LONDON

Date: 27 July 2017

Our Ref: 615/NW6/23/2

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2 BACKGROUND

The site is located in NW6 fronting onto Gondar Gardens and is between West Hampstead Thameslink Station and Cricklewood Station. The site is approximately 1.6km west of Hampstead. A Site Location Plan and Site Plan are included within the submitted application documents and identify the land the subject of this application.

The Application Site is located towards the east side of Gondar Gardens leading to the junction of Mill Lane and Agamemnon Road. Gondar Gardens is predominantly characterised by 3 storey residential units. To the north and east boundaries are residential and the south backs onto Gondar Gardens. Gondar Gardens leads onto Mill Lane which connects the A5 and the B510, Fortune Green Road. Mill Lane contains a number of local services and facilities including recognised high street chains.

The Application Site has good public transport links with numerous bus routes connecting central London, Hampstead and further north. The site benefits from good access by road with close proximity to the A5 and the North Circular. West Hampstead and Cricklewood operate on the Thameslink line while West Hampstead also provides access to the London Overground Network. Kilburn and West Hampstead are located within close proximity to the site and provide access to the London Underground service via the Jubilee line.

THE SITE

The Application Site is 3.07 acres in size and comprises of a redundant reservoir that occupies roughly one third of the site. The former reservoir site is locally listed and consists of an enclosed brick structure. We understand that the redundant reservoir has not been in operation since the 1990s and has remained dormant since this time.

The site is designated as open space and a site of natural conservation importance. The site is generally rectangular and fronts Gondar Gardens to the west. More information on the site can be found in the documents contained within the application and specifically the D&A Statement produced by RPP.

3 ASSUMPTIONS

In undertaking this report, unless otherwise specifically stated, we have made the following assumptions:

- We assume that the site is held freehold with vacant possession and free from all encumbrances such as onerous covenants, easements and rights of way.
- We assume that there are no items that could lead to adverse development costs such as contamination, adverse ground conditions, right of light issues or the designation of an area of archaeological significance.
- We assume that all services including gas, water, drainage and electricity are available to the site and are capable of servicing the proposed development without significant expenditure.
- We assume that the site does not fall within a flood zone and therefore no overly onerous costs are required to deal with flood prevention measures.
- We have not arranged nor undertaken any investigations to determine whether any deleterious sub-standard or hazardous materials have been used in the construction, services or finishes of the existing structures or have been since incorporated.
- We have assumed that planning permission will be granted for the development as described in Section 4 below.

If any of these assumptions prove to be incorrect they could have a significant impact on our conclusions.

4 PROPOSED DEVELOPMENT

Full details relating to the design and layout of the proposed development can be found in the Design & Access Statement prepared by RPP and forming part of the planning application. For the sake of completeness we summarise below the main proposals.

The proposed development includes the partial demolition of the existing reservoir, including the roof and most of the internal structure, and the erection of six 4-6 storey buildings and four 2-3 storey link buildings with common basement levels within the retaining walls of the existing reservoir. The development also includes a site-wide biodiversity -led landscaping and planting scheme including external amenity space. Drop off area, retention pond and slope stabilisation.

The proposed scheme will provide 82 private residential units and 15 extra care bed nursing home. A schedule of accommodation can be found at **Appendix 1**. The accommodation can be summarised as providing:

- 7no. 1-bedroom flats
- 62no. 2-bedroom flats
- 13no. 3-bedroom flats

The layouts for each of the flats are detailed in the planning drawing submitted with the application. The application also includes the following associated communal facilities: reception area, guest suite, restaurant, café, bar, lounge, library, exercise pool, gymnasium, therapy rooms and cinema. Also included in the application are associated support facilities including staff office, welfare and training spaces, storage, laundry, kitchen, cycle storage, car parking and plant areas.

We have not been provided with any details of the specification of these units. In the assessment of "Outturn" Market Values, which have been provided by Savills we understand that they have assumed that the specification of the common parts and apartments will be of a very high quality and reflective of the luxury retirement living that the scheme will deliver.

We further assume that the various units will have adequate headroom and will provide good natural light.

In terms of any common parts within the new block, we assume that the approach will be of suitable quality providing for a smart finish to the entrance lobbies, staircases and corridors. We assume that video/audio entry phone systems will be provided to the flats.

We assume that all units will be provided with a minimum 10 year NHBC or similar guarantee upon completion.

We assume that all external areas will be finished with suitable landscaping in keeping with a development of this size.

5 INTRODUCTION TO VIABILITY

In preparing our advice we have had regard to Paragraph 173 of National Planning Policy Framework (NPPF) March 2012, RICS Guidance Note "Financial Viability and Planning (First Edition) August 2012" (FVIP), Viability Testing Local Plans (Harman Report) LHDG June 2012, and DCLG Guidance April 2013.

DEFINITION OF VIABILITY

Paragraph 173 NPPF states:

> *"pursuing sustainable development requires careful attention to viability and costs in plan making and decision taking. Plans should be deliverable. Therefore the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing landowner and willing developer to enable the development to be deliverable".*

The RICS FVP defines financial viability as:

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

DCLG Guidance April 2013 defines viability as:

> *"the current cost of building out the entire site (at today's prices) is at a level that would enable the developer to sell all the market units on the site (in today's market) at a rate of build-out evidenced by the developer and make a competitive return to a willing developer and a willing landowner".*

It is clear from these definitions that the landowner and developer are separate entities, both of whom act willingly and expect to receive a competitive return from the scheme.

A scheme is considered viable, in planning terms, if the Gross Development Value is equal to, or in excess of, the sum of the site value, the cost of development, the cost of the planning obligations and the cost of providing a competitive return to the willing developer and willing landowner.

In summary, the viability assessment process is as follows:

GROSS DEVELOPMENT VALUE

less

COSTS

less

PLANNING CONTRIBUTIONS

less

PROFIT

equals

RESIDUAL LAND VALUE

compared to

APPROPRIATE BENCHMARK VALUE

COMPETITIVE RETURN TO A WILLING LANDOWNER

A willing landowner will, in the context of paragraph 173 NPPF require a competitive return in order to release the site for development.

The Harman Report refers to the competitive return as a "Threshold Land Value" and states that it:

> *"should represent the value at which a typical willing landowner is likely to release land for development before payment of taxes (such as capital gains tax)".*

The RICS FVIP refers to the competitive return in the context of "Site Value" and states that:

> *"site values should equate to the market value subject to the following assumption; that the value has regard to development plan policies and all other material planning considerations and disregard that which is contrary to the development plan".*

There are a number of ways in which a competitive return to the willing landowner may be assessed, but the essential points to note are that the landowner is not compelled to sell at any price and they will have an expectation that the price received for the land will be in accordance with the market, taking into account assumed planning permissions and planning policy.

As such the landowner will expect to receive a return in excess of the value of the site as it currently stands in order to be sufficiently incentivised to release the land for the proposed development.

COMPETITIVE RETURN TO A WILLING DEVELOPER

A willing developer will require a competitive return in order to bring the development forward. This is more commonly referred to as profit.

The Harman Report refers to developer's profit and states:

> *"a normal level of developer's profit margin, adjusted for development risk, can be determined from market evidence and having regard to the profit requirements of the providers of development finance. The return on capital employed (ROCE) is a measure of the level of profit relative to the level of capital required to deliver a project, including build costs, infrastructure etc".*

The RICS FVIP defines profit as:

> *"the amount by which on completion or partial completion of a development, the estimated value or the price realised on sale of a developer's interest exceeds the total outlay, including such figure for the land as is considered appropriate in the circumstances (including accrued interest). This return is commonly expressed as profit on cost, profit on value, development yield and internal rate of return on capital employed".*

The usual approach on a scheme of this nature is to calculate profit either on the basis of a percentage of gross development value in respect of private housing and a percentage of cost in respect of affordable housing or, alternatively, to adopt a single blended percentage on all costs.

6 VIABILITY APPROACH

We have considered the level of profit required by a willing developer and tested whether once the anticipated revenue and all the costs, including planning obligations, likely to be incurred in bringing the development forward are taken into account, a residual land value can be generated that provides a competitive return to the willing landowner such that they would be sufficiently motivated to release the site and thereby enable the proposed development to come forward. If the development is unable to generate a residual land value such that the landowner would not receive a competitive return from the developer, the land will not be released.

In this context we have had regard to the current residential development market and economic circumstances as well as the specifics of the subject scheme. Taking into account the complex construction process to deliver this scheme taking into account the part retention of the former reservoir structure as well as the specialist market for which this scheme is aimed there is clearly additional risk associated with the delivery of this scheme than other more straightforward brownfield developments. As such we are of the opinion that a reasonable developer would seek returns of 20% on GDV equivalent to 25% return on Cost. We assess profit on any affordable tenure units at 6% on Cost.

We have therefore appraised the scheme on the assumption of an average 20% return on the Gross Development Value (GDV) of the private tenure units and 6% return on cost for any affordable tenure units to test whether the resultant residual land value would provide the landowner with a competitive return and result in a viable scheme.

We have used Argus Visual Developer Version 7.60.001 (Argus) to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by the majority of local authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending purposes.

7 APPRAISAL INPUTS

We have adopted inputs that reflect cost and values as at the date of this report. There is a possibility that our assumptions may change in accordance with the market as the scheme evolves and further information comes to light. We set out below our assumptions in respect of these inputs.

8 PRIVATE UNIT SALES VALUES

We have been provided with a market revenue report, prepared by Savills, which is attached as **Appendix 2** in support of the values we have adopted in this report.

PRIVATE TENURE FLATS

We have therefore adopted the following GDV for the subject units, on the basis of 100% private tenure, at **£** equivalent to an average sales rate of **£** **per sq ft**.

We have assumed that the units would be marketed off plan during the construction period and that % of sales revenue would fall within the first months of the sales period, the remaining units to be sold over months of the sales period.

It is important to note that the values we have adopted assume all the units are in private tenure. Introducing affordable housing within the scheme is likely to deter some prospective purchasers for the private tenure units, thereby depressing values. For the purpose of our appraisals we have not reflected a reduction in the private tenure values by the introduction of affordable housing, but we reserve the right to make these amendments if necessary.

EXTRA CARE SPACES

There are 15 extra care units on the site. We have been provided sales advice from Savills who have valued the extra care rooms at per unit. We have adopted these values in out appraisals.

GROUND RENTS

We have not included any income streams in relation to ground rents as the economic model of the proposed development does not include the retention of ground rents.

9 AFFORDABLE HOUSING VALUES

In our assessment of affordable housing we have taken into consideration the following planning policies:

- Camden Local Plan - Policy H4 – Maximising the supply of Affordable Housing
- London Plan Affordable Housing Policy

Policy H4 of the local plan states the Council will aim to maximise the supply of affordable housing and exceed a borough-wide strategic target of 5,300 additional affordable homes from 2016/17 to 2030/31. This includes an appropriate mix of affordable housing types to meet the needs of the users demand.

The council seeks to negotiate the maximum reasonable amount of affordable housing on all developments that provide one or more additional homes and involve a total additional residential floor space of 100 sqm GIA or more.

In considering the quantity and tenure of affordable housing sought by the Council, it will take into account the character of the development, size and constraints on developing the site, access to transport/shops/community facilities, the impact on creation of mixed/inclusive and sustainable communities, the financial viability of the development having regard to costs and whether an alternative approach could better meet the objectives of this Policy and Local Plan.

As part of the London Plan Affordable Housing Policy, this dictates that we must create a strong and diverse intermediate housing sector, 60% of the affordable housing provision should be for social or affordable housing and 40% for Intermediate rent or sale (Policy 3.11). The affordable housing policy also makes family housing a priority. The London Plan states that although they have set an overall target the borough should set their own affordable housing targets based on the needs of the borough and the availability of resources to maximise affordable housing output.

The purpose of this Financial Viability Assessment (FVA) report is to establish the appropriate quantum of affordable housing that the subject scheme can viably deliver.

With regard to the subject scheme it would be necessary to deal with any affordable housing contribution via an off-site payment as the scheme has been specifically designed to integrate high quality housing for people of pensionable age with exemplary level of communal facilities and on-site services for the residents. In addition to the on-site restaurant, lounges, games rooms, gym and swimming pool the scheme also provides for care bed facilities that are made available to the residents if or when necessary.

The cost of the services on-site cannot be separated out between private and affordable tenure tenants and it would not be appropriate or feasible to exclude certain residents from parts of the building. These additional on-site services and service charges would not be feasible from an on-site affordable housing perspective.

Taking into account the design, layout and nature of the subject development it would not therefore be feasible to deliver on-site affordable housing. This rational has been applied to similar retirement communities and confirmed by LB Camden in their decision to grant planning permission for the Pegasus Life scheme at the former Bartrams Convent Hostel on Rowland Hill Street (Planning Reference: 2014/6449/P). In the Planning Officer's report to Committee the issue of on-site affordable housing was considered and it was agreed by the Council to be inappropriate for schemes of this nature. This report is attached at **Appendix 3**. The Council accepted that the most appropriate means to deal with affordable housing for scheme of this nature is by way of an off-site affordable housing contribution.

The formula used in the Pegasus scheme to work out the maximum target offsite affordable housing contribution was a slightly amended version of the Council's existing policy for commuted sum payments and reflects the high proportion of built space given over to communal and back of house facilities, which are non-saleable. The formula is as follows:

Offsite Payment = Gross External Area (GEA) x £ per sqm x 50% (Council's Target AH provision)

The above formula is split into three sections; Area (GEA), Charging Rate and Affordable Housing Target Provision. The GEA is defined in planning policy (CPG8 - 6.13) as the NIA x 1.25 when common areas or exterior walls have been excluded. This method for establishing GEA was also used in the Pegasus scheme and so we have adopted the method in our workings. The charging rate is proposed in Policy CGP8 6.11 as for market residential scheme in relation to Policy DP3. The Councils target level of affordable housing is currently set at 50% of units on schemes providing over 25 units.

We have therefore used the above information on the proposed scheme to work out the maximum target offsite affordable housing contribution:

Offsite Payment = Gross External Area (GEA) x per sqm x 50% (Council's Target AH provision)

Therefore:

8,056 sqm (NIA) x 1.25 (for GEA) x x 50% = £

In summary this would allow for a maximum commuted sum payment of **£** This is subject to the viability of the scheme which we set out below.

10 COSTS

CONSTRUCTION COSTS

A full cost plan for the proposed scheme has been provided by Quantem Consulting LLP and is attached at **Appendix 4**.

They estimate that the total inclusive construction cost is **£** They have assumed total floor areas for the flats and communal areas as 151,642 sq ft (14,088 sq m). This is an overall build cost of £ per sq ft inclusive of abnormals, prelims, OH&P and contingency but exclusive of professional fees.

In our development appraisals we have separated out the construction costs in terms of site preparation / demolition and abnormal costs associated with the basement sub-structure works to account for part retention of the former reservoir. We have also reflected the 5% contingency as set out in the cost plan. Our overall construction cost is £ as set out in the cost plan.

PROFESSIONAL FEES

We have adopted all professional fees at 10%, which is considered reasonable for a scheme of this size.

SECTION 106 COSTS

We have not been informed as to the anticipated s.106 financial contributions that the Local Authority intends to levy against the scheme. In the absence of such information we have made an allowance as set out below:

Once we are provided with further information in this regard we reserve the right to amend our viability assessment.

COMMUNITY INFRASTRCUTURE LEVY (CIL)

We understand that the following CIL rates are applicable to the private tenure sales units for this location:

LB Camden CIL: £250 per sq m

Mayor of London CIL: £50 per sq m

We have carried out initial calculations to deal with indexation of these charges. These are as follows:

LB Camden CIL

£250 per sqm (Index Q4 2014: 259 to Index Q4 2016: 283 - therefore 9.27% increase)

Current CIL Rate is therefore: **£**

Mayoral CIL

£50 per sqm (Index Q4 2011: 223 to Index Q4 2016: 283 - therefore 26.91% increase)

Current CIL Rate is therefore: **£**

We assume any affordable housing units will be CIL exempt. We further understand that the CIL rates are applicable to both C2 & C3 uses.

These calculations are based on our internal assessment. We are not specialist in calculating CIL liability and we recommend that further advice is taken to confirm the exact CIL liability. The calculation of CIL liability for a scheme of this nature is complicated taking into account the nature of the development. For sake of clarity we confirm that the adopted CIL figure in our appraisals is based on applying the above rates (LB Camden CIL £ per sq m and Mayoral CIL £ per sq m) to the Gross Internal Area of the entire building. At this stage there are no credits applied for existing floor space (of which there isn't any) nor on-site affordable housing. We reserve the right to amend our adopted CIL figures once further information is available.

SECTION 278 HIGHWAY WORKS

We have assumed that there will be no off-site highway works. If it is the case that a cost does arise in this regard we will need to take account of this and amend our appraisal.

ACQUISITION AND PREPARATION COSTS

We have taken into account Stamp Duty Land Tax on the following cumulative basis:

Property Value	SDLT Rate
£0 - £150,000	0%
£150,001 - £250,000	2%
£250,000 <	5%

On the basis above we have assumed a SDLT payment of in our appraisals. We have assumed agents fees of and legal fees of

We have also made an allowance for planning costs directly related to the subject scheme at inclusive of the applicable local authority planning fee.

MARKETING COSTS

We have assumed marketing fees of , sales and legal costs on the private tenure sales units at 2.0%

FINANCE

We have included finance costs at inclusive of arrangement fees and a debit rate of 0.50%.

TIMESCALES AND PHASING

For the purpose of this appraisal we have assumed the following:

Timescale	Period
Site purchase/ Planning	4 months
Pre-Construction	3 months
Construction - demolition / main works	24 months
Private sales	18 months
Total	**49 months**

11 VIABILITY APPRAISALS

Taking all of the above factors into account we have carried out a development appraisal of the site based on 0% affordable housing, s.106 costs at per unit and a CIL payment of

We have used the adopted sale values as set out in this report together with the cost assumptions as set out above and carried out detailed appraisals for the site to arrive at the following residual land values:

% Affordable Housing	Residual Land Value
0%	£

We therefore assess the residual land value of the proposed scheme with 0% affordable housing at

Full details for the appraisal can be found at **Appendix 5**.

12 BENCHMARK LAND VALUE

The subject site benefits from an extant planning consent granted at appeal under the reference APP/X5210/A/14/2218052 on the 16 December 2015. The consent included the "*redevelopment of the reservoir street frontage to provide 28 residential units (Class C3 use) in two blocks, from lower ground to third floor level, with basement parking, following substantial demolition of the roof and internal structure of the reservoir and its subsequent new landscaping, in accordance with application reference 2013/7585/P, dated 15 November 2013.*"

The Developer instructed Carter Jonas to carry out an independent formal valuation of the site subject to this extant consent which forms the basis of our Benchmark Land Value. Their report is attached at **Appendix 6**. For ease of reference we have summarised their conclusion below. Full details are set out in their report.

In summary the Carter Jonas valuation concluded from a total scheme GDV of and a residual land value based on the extant consent of (say). We have therefore adopted this as our benchmark land value.

13 CONCLUSION

We therefore set out below our assessment of the residual land value of the proposed scheme against our adopted Benchmark Land value of .

% Affordable Housing	Residual Land Value	BLV
0%	£	£

At 0% affordable housing, this generates a land value of , allowing for CIL contributions of and s.106 financial contributions of against a BLV of therefore producing a deficit of c. .

We therefore conclude that the scheme cannot viably deliver any contribution to the commuted sum affordable housing payment of

14 QUALITY ASSURANCE

This report has been prepared within the quality system operated at Rapleys LLP according to British Standard ISO 9001:2008	
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