02 Centre Site, 255 Finchley Road, NW3 7LU

Addendum Report Financial Viability Review

Prepared on behalf of the London Borough of Camden

December 2022

Planning reference: 2022/0528/P

BPS Chartered Surveyors

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1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden ('the Council') to review a viability assessment prepared by Gerald Eve ('GE') on behalf of Finchley Road Ltd. ('the Applicant') in respect of the proposed redevelopment of the 02 Centre Site, 255 Finchley Road, NW3 6LU. The original Financial Viability Assessment (FVA) provided is dated January 2022.

1.2 In brief the development includes c.1,800 residential dwellings (a mixture of studios, 1, 2 and 3 bedroom units) (35% affordable by area), together with commercial uses including cinema, gym, nursery/creche, retail, bars & restaurants, medical, workspace, community and convenience retail. The list is non-exhaustive and the applicant could put forward a range of uses within the now broad use class 'E' and F2/Sui Generis. We acknowledge that the mix assessed is as envisaged in the FVA.

1.3 We issued our initial BPS viability review report in June 2022. We have had several all parties meeting involving the applicant, their advisors, BPS (the council's advisor) and the council to discuss viability.

1.4 We have since received GE's latest rebuttal/addendum dated November 2022. The growth model has been provided as an explanation from the applicants as to how they view the prospects for scheme delivery i.e. the assumptions they have adopted to see it go forward. This report seeks to respond to said document together with other comments made from Gerald Eve on the viability assessment received via email.

2.0 SUMMARY TABLE

Input	GE	BPS	Comments
Private Sales Values	£1,176psf	Agreed	Agreed - this is a reasonable assumption and has been evidenced.
Affordable Sales Values	£405psf / £219psf	Agreed	Agreed - this is a reasonable assumption and has been evidenced.
Commercial Value	Various	Agreed	Agreed - this is a reasonable assumption and has been evidenced.
Ground Rents	£nil	£nil	Agreed
Build Costs	£751,541,435	Adopted	Agreed - Our QS has made some comments on the costs, but overall are considered broadly reasonable.
Professional Fees	10%	Agreed	Agreed - Industry standard
Contingency	5%	Agreed	Agreed - This is an agreed cost (already included in the build cost stated above).
Private Marketing & Sales Fees	3.5%	Agreed	Agreed - We have accepted 3.5% as an all-in rate.
Commercial	1.5% sales agents/legals 10% letting agents / 5% letting legals	Agreed	Agreed - We accept this, but dispute that an additional marketing fee is required for the commercial.
CIL/S106	£245,223,062	Adopted	Some ambiguity - We require confirmation from the Council on this input.
Finance	7%	7%	Agreed - We have accepted this now.
Profit (blended)	13.2% IRR target	Agreed	Agreed - we consider this profit target to be appropriate in this instance.
Construction Period	14 years	Agreed	Agreed - our QS has commented the timescales could be shorter, but we acknowledge that it is likely predicated on a sales rate.
Sales Period	60% off-plan, c. 6 units a month	Agreed	Agreed - we consider this to be reasonable.
Benchmark Land Value	£170,000,000	Agreed	Agreed - we consider this to be reasonable.
Surplus/Deficit (current day)	-£208,688,982 2.25% IRR	Adopted	Agreed - we are content with the baseline appraisals.
Surplus/Deficit (future)	£291,238,545 11.81% IRR	Adopted	Agreed - we are content with the baseline appraisals.

3.0 FURTHER COMMENTS

3.1 **Benchmark Land Value ('BLV')**– We previously commented that we accept the proposed benchmark land value is broadly realistic albeit we have only undertaken a limited exercise to verify this.

3.2 We maintain that £170,000,000 is a reasonable assumption for the benchmark land value. We understand there are elements of confidentiality around the benchmark land value and comments we made from our previous report may be redacted. We can confirm that we have had sight of the confidential information, we have undertaken further analysis on the BLV and can confirm it is a realistic cost.

3.3 **Finance** – In light of the current economic climate we accept that 7% is a sensible assumption (up from our previous assumption of 6.75%).

3.4 **Argus** – GE have provided to us their appraisal now in Argus format at our request (previously an excel in house model has been used). We have reviewed this and we consider their appraisals to be broadly reasonable and we are content with adopting them as baseline appraisals.

3.5 **Build costs** – our QS Neil has provided an updated report which we've attached as appendix 1. We note Mr Powling has made some comments and raised some queries, but overall has accepted the build cost as being broadly reasonable.

3.6 **Growth Model** – We note from RICS guidance (Assessing viability in planning under the National Planning Policy Framework 2019 for England 1st edition, March 2021):

"While the prospect of future value and cost change may be reflected in current market pricing, there is always some uncertainty and therefore market prices cannot be analysed or interpreted in a static environment. Simply using current costs and values, and ignoring changes over the life of a development, can distort the analysis in all but the simplest of cases. For example, where residual development values are positive, equal growth in both values and costs will always increase current residual land values, and the use of current values and costs in FVAs in a rising market has been shown in peer-reviewed academic research (e.g. Town Planning Review, (2019), 90, (4), 407–428) to have been instrumental in reducing the level of developer contributions over time.

It is recommended that, where assessors consider that the impacts of value and cost change are a significant factor in the market, these changes are identified and taken into account in the FVA, and sensitivity testing of these projections is undertaken in accordance with Valuation of development property, RICS guidance note. Any assumptions made concerning projections of costs and values in FVAs must be stated, and the evidence used to underpin projections explained.

3.7 We interpret this Guidance as accepting that a growth model is a recognised appraisal method in the view of the RICS to assess viability, given the project timescales we acknowledge this may be appropriate in this case. However it should be recognised that Growth models are highly dependent on the growth predictions utilised and in this regard we highlight that there are few if any growth predictions which are site specific and which cover periods beyond a relatively short period of years. As such assumptions of growth should be seen as speculative, rather than definitive.

3.8 **Residual land value** – The scheme on a current day basis is undoubtedly in significant deficit producing a negative residual land value of -£208,688,982. We note even with the growth model the scheme is producing a residual value of £291,238,545 / 11.81% IRR or 17.5% on GDV which explains how the scheme could proceed. (this equates to 26% profit on GDV in comparison to the ungrown GDV).

3.9 **Conclusions** – We maintain that the scheme is providing the maximum reasonable level of affordable housing at 35% on-site. The viability of this scheme is predicated on a growth model and based on its assumptions we can envisage why a competent developer could proceed with this scheme, albeit there are clearly material risks that the scheme viability could also deteriorate.