Royal National Throat, Nose and Ear Hospital, Camden, WC1X 8DA

Independent Viability Review

Prepared on behalf of the London Borough of Camden

May 2023

Planning Reference: 2023/0904/P

BPS
Chartered Surveyors

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1.0 Introduction

1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Gerald Eve ('GE) on behalf of Groveworld Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site fronts onto Grays Inn Road and extends back eastward encased by Wicklow Street to the north and Swinton Street to the south. It is immediately bounded to the east by a London underground underpass and the UCL Ear Institute to the north. The Water Rats Public House and the Point A Hotel London adjoins the site on the south western boundary.

1.3 The site measures approximately 1.32 acres (0.53 ha) in size and currently comprises a mixture of hospital buildings which vary in height and in age which reflects the organic development of the hospital over time, noting the original building dates back to 1877. We understand the original façade will be reincorporated into the hotel part of the proposed development and the hospital use is being relocated. We understand from GE the buildings are typically D1 medical in terms of layout and range in condition from poor to very good, but typically are in reasonable, albeit dated condition.

1.4 The site was granted consent in July 2022 for a scheme comprising of 100,537 sq.ft. NIA flexible lab space, 182 room hotel, 72 residential units (28 are affordable), and a gym 12,370 sq.ft. BPS reviewed the pre-application, full application, and are now instructed to review the latest S.73 application. GE were the original viability advisor to the applicant.

1.5 The applicant is now seeking to amend the scheme to include 114,640 sq.ft NIA of office accommodation (flexible-lab enabled), 2,937 sq. ft. NIA of permanent affordable workspace, 10,374 sq.ft. of temporary affordable workspace, 182 room hotel, 72 residential units within two blocks 54,885 sq. ft. (including 28 affordable units) and 24,546 sq. ft. NIA of laboratory space.

1.6 The current proposals are for:

"Variation of Condition 2 (Approved Plans), 18 (Cycle Secure & Covered Parking), 31 (Gym House of Operation), 41 (SuDS), and 54 (External Amenity Space Details for Swinton Street Flats) of planning permission ref 2020/5593/P dated 20/07/22 for the redevelopment of the former Royal National Throat, Nose and Ear Hospital site, comprising: Retention of 330 Gray's Inn Road and a two-storey extension above for use as hotel (5 above ground storeys in total),

demolition of all other buildings, the erection of a part 13-part 9 storey building plus upper and lower ground floors (maximum height of 15 storeys) for use as a hotel (including a cafe and restaurant); covered courtyard; external terraces; erection of a 7-storey building plus upper and lower ground floors maximum height of 9 storeys) for use as office together with terraces; erection of a 10 storey building plus upper and lower ground floors (maximum height of 12 storeys) for use as residential on Wicklow Street and office and/or provision of education space at lower ground and basement floors; erection of a 5 storey building plus upper and lower ground floors (maximum height of 7 storeys) for use as residential on Swinton Street and associated residential amenity space; together with a gymnasium; new basement; rooftop and basement plant; servicing; cycle storage and facilities; refuse storage; landscaping and other ancillary and associated works."

1.7 The basis of our review is Financial Viability Assessment 330 Grays Inn Road, London prepared by Gerald Eve, dated February 2023, which concludes that the scheme currently shows a deficit of -£42.1M and therefore no additional affordable housing payments can viably be offered, noting there is a policy requirement for an additional £6M payment in lieu.

1.8 We have downloaded documents available on Camden's planning website.

1.9 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.

1.10 A Land Registry search shows that the applicant does currently own the property. The site is held under Land Registry title no. LN50128 and is owned freehold Title Absolute by 330 Grays Inn Road Limited, with a price paid of £55,000,000 (January 2019).

1.11 The advice set out in this report is provided in the context of negotiating planning obligations and therefore in accordance with PS1 of the RICS Valuation – Global Standards 2020, the provisions of VPS1–5 are not of mandatory application. Accordingly, this report should not be relied upon as a Red Book Valuation. The Valuation Date for this Viability Review is the date of this report, as stated on the title page. This Viability Review has been undertaken in accordance with the Terms & Conditions provided to the Council and with any associated Letters of Engagement and should only be viewed by those parties that have been authorised to do so by the Council.

1.12 This Viability Review adheres to the RICS Professional Statement on Financial Viability in Planning (published May 2019). In accordance with this Statement, we refer you to our standard terms and conditions which incorporate details of our Quality Standards Control & Statement on Limitation of Liability/ Publication.

2.0 Summary Table

Input	Gerald Eve	BPS	Comments
Income			
Private Sales Values	£38,977,500 (£1,272 psf)	£41,876,678 (£1,367psf)	Disagreed – Savills have understated the private values.
Affordable LAR / Intermediate Rent	£100 / £240psf	£100 / £240psf	Some ambiguity – Previously adopted input, but valuation should be shown and justified.
Hotel	£80,000,000	£80,000,000	Agreed – Broadly reasonable.
Offices	£67.50 - £82.50 @ 4.5% – 4.75% yield	£67.50 - £120psf (max)	Some ambiguity – Unclear what accommodation is being provided as lab space and the specification to which the landlord works are being undertaken.
Ground Rents	£nil	£nil	Agreed
Expenditure			
Benchmark Land Value	£19,400,000	£19,400,000	Agreed – Based on previous application and still valid.
Build Costs	£179,454,449	£179,454,449	Agreed – Our QS has accepted the costs.
Contingency	5%	5%	Agreed – Our QS has accepted the costs
Professional Fees	12%	12%	Agreed – Our QS has accepted the costs
Private Marketing, Agent and Legal Fees	2.5%	2.5%	Agreed – Industry standard
Commercial Marketing, Agent and Legal Fees	1.5%	1.5%	Agreed – Industry standard
CIL	£6,291,458	£6,291,458	Some ambiguity - We require confirmation from the Council on this input.
S106	£2,918,277	£2,918,277	Some ambiguity - We require confirmation from the Council on this input.
Finance	8.5%	8%	Disagreed – Too high/unproven.
Profit (Blended)	15.2%	15.2%	Agreed – Based on previous application and still valid.
Development Timeframes			
Pre-construction Period	8.3 months	8.3 months	Agreed
Construction Period	73 months	73 months	Agreed
Sales Period	60% off-plan, 3-4 units a month	60% off-plan, 3-4 units a month	Agreed
Viability Position	-£42.1M No further affordable	-£32M Inconclusive	Disagreed – Inconclusive at this stage.

	housing contributions can be provided		

3.0 Conclusions And Recommendations

3.1 We have reviewed the Financial Viability Assessment prepared by Gerald Eve on behalf of the applicant which concludes that the proposed scheme is in deficit by -£42.1M. On this basis the scheme cannot provide any further affordable housing contributions i.e. the £6M affordable in lieu payment in Gerald Eve's view. We acknowledge that the applicant has maintained their 50% by habitable room affordable housing contribution.

3.2 This is a s.73 application (non-material amendment) to a previous full application which was granted consent back in 2022, BPS and GE were the original viability advisors, advising the council and the applicant respectively. It is recommended that all of the previous reports are read in conjunction with the latest.

Benchmark Land Value

3.3 GE have maintained the previously agreed benchmark land value of £19.4M. This has already been interrogated in full and is considered valid today.

Development Value

3.4 The scheme includes a 184 room hotel, 72 residential units (28 are affordable), 24,546 sq.ft. of lab space, 114,640 sq.ft. of office/flexible lab accommodation, 10,374 sq.ft. temporary affordable workspace, and 2,937 sq.ft. of permanent affordable workspace.

3.5 On the private sales values we remain in disagreement with Savills, whom have rehashed their previous assessment and not offered any new, better evidence to justify their sales value. We would point them to our previous assessment which justifies our higher valuation, which we don't seek to repeat here.

3.6 Savills have on the hotel provided some new evidence to justify their value which we are broadly in agreement with.

3.7 On the offices, C&W have ignored the lab market which this site is situated in a prime location for. We have included our lab evidence which is indicated rents of c.£110 for Kings Cross. We fully appreciate that to achieve these rents substantial amounts of landlord fit out costs are required. We have asked our QS if they could provide any clarity on the level of fit out being indicated by way of the cost assumptions, but they do not have sufficient information. Clarity is sought from the applicant on this matter.

Ground rents

3.8 Ground rents are no longer chargeable and have been excluded from the assessment.

Affordable Housing

3.9 GE have adopted the previously agreed amounts of £100psf LAR and £240psf Intermediate Rent.

Development Costs

3.10 Our Cost Consultant, Neil Powling has reviewed the Cost Plan for the proposed scheme prepared by the applicant and concludes that:

"…Our benchmarking results in an construction cost of £186,175,820 that compares to the Applicant's £179,454,449. We therefore consider the Applicant's costs to be reasonable."

3.11 We have reviewed the other cost outlined within the FVA and consider them to be reasonable, other than the finance rate which we consider to be too high. Should the applicant submit evidence justifying their finance rate we are willing to update our valuation accordingly.

Recommendations

3.12 We have identified a deficit of -£59M, this is provisional however as indicated by the sensitivity analysis below, higher lab rents could result in the scheme producing a surplus.

Table of Profit Amount and Profit on GDV%

Rent: Rate /ft²				
0.00 /ft²	+10.00 /ft²	+20.00 /ft²	+30.00 /ft²	+40.00 /ft²
-£58,989,189 -17.799%	-£37,073,612 -10.321%	-£15,274,475 -3.947%	£6,497,080 1.566%	£27,873,473 6.298%

4.0 Principles Of Viability Assessment

4.1 Development appraisals work to derive a residual value. This approach can be represented by the formula below:

Gross Development Value – Development Costs (including Developer's Profit) = Residual Value

4.2 The residual value is then compared to a benchmark land value. Existing Use Value (EUV) and Alternative Use Value (AUV) are standard recognised approaches for establishing a land value as they help highlight the apparent differences between the values of the site without the benefit of the consent sought.

4.3 The rationale for comparing the scheme residual value with an appropriate benchmark is to identify whether it can generate sufficient money to pay a realistic price for the land whilst providing a normal level of profit for the developer. In the event that the scheme shows a deficit when compared to the benchmark figure the scheme is said to be in deficit and as such would be unlikely to proceed.

4.4 Development appraisals can also be constructed to include a fixed land value and fixed profit targets. If an appropriate benchmark is included as a fixed land value within a development appraisal this allows for interest to be more accurately calculated on the Benchmark Land Value, rather than on the output residual value. By including fixed profit targets as a cost within the appraisal, programmed to the end of development so as not to attract interest payments, the output represents a ‘super’ profit. This is the profit above target levels generated by the scheme which represents the surplus available towards planning obligations

4.5 This Viability Review report adheres to the RICS Professional Statement on Financial Viability in Planning: Conduct and Reporting (published May 2019). In accordance with this Statement, Section 8 below incorporates details of our Quality Standards Control & Statement on Limitation of Liability/ Publication. This report has been prepared according to the Professional Statement’s requirement for objectivity and impartiality, without interference and with reference to all appropriate available sources of information. Where information has not been obtainable, we have stated this expressly in the body of the report.

5.0 Benchmark Land Value

Viability Benchmarking

5.1 Planning Policy Guidance, published May 2019, states:

Benchmark land value should:

- *be based on existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. These may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

The evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

[…] Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).

5.2 The NPPF recognises the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This is set out in PPG as follows:

To define land value for any viability assessment, a benchmark land value should be established on the basis of existing use value (EUV) of the land, plus a premium for the *landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The Premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+).*

5.3 The RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England', published March 2021, supports the NPPG's definition of Benchmark Land Value.

5.4 NPPG further defines EUV as follows:

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

5.5 The Mayor of London's Affordable Housing and Viability SPG published August 2017 states a clear preference for using EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. This is evidenced through the following extract:

The Mayor considers that the 'Existing Use Value plus' (EUV) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used.

5.6 Guidance indicates that the sale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending this liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable. This view is corroborated in the Mayor of London's Affordable Housing and Viability SPG which states:

Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a *lower premium of no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary.*

5.7 While EUV is the primary approach to defining BLV, in some circumstances an Alternative Use Value approach can be adopted. This is the value of the land for a use other than its existing use. NPPG outlines:

If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan.

[…] Plan makers can ser out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued.

5.8 The RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England', published March 2021, supports the definition of AUV from NPPG and reiterates that any AUV must reflect relevant policy requirements.

5.9 When adopting an AUV approach, the premium to the landowner is implicit and therefore an additional landowner premium should not be added as this would be double counting.

5.10 NPPG and RICS guidance are clear that if refurbishment or redevelopment is necessary to realise an existing use value then this falls under the AUV provision of NPPG and no landowner premium should be added.

<u>The Proposed Benchmark</u>

5.11 The benchmark proposed by Gerald Eve is £19,400,000 which is based on the site in its existing use, assuming refurbishment and therefore a technical AUV. This was previously agreed with BPS as part of the full application which was granted consent.

<u>Our Assessment of Benchmark Land Value</u>

5.12 Having previously undertaken a substantial scrutiny exercise of Gerald Eve's benchmark, we are fully satisfied the applicant has demonstrated a robust benchmark which remains valid today.

6.0 Development Values

6.1 The residential element of the proposed scheme, as sought by the planning application, is for 72 residential units, 28 of which are affordable (approximately 50% by habitable room).

Private Residential Values

6.2 44 units are proposed to be for private sale and the values have been assumed as follows by Savills on behalf of the applicant:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No of units
Studio	467	£650,000	£1,392	16
One bedroom	610	£764,545	£1,254	11
Two bedroom	933	£1,114,500	£1,195	15
Three bedroom	1,232	£1,725,000	£1,400	2
Total	**696**	**£885,852**	**£1,272**	**44**

6.3 BPS and the applicant team failed to come to an agreement at the previous assessment and continue to disagree on an appropriate private sales value.

6.4 Savills in their latest submission have not provided any more recent, or better, nor more relevant achieved evidence since their previous submission in 2022. On this basis we would refer Savills back to our previous in-depth commentary of the subject scheme, comparables and justification our private sales rate of £1,367psf which we maintain is valid in today's market.

Ground Rents

3.15 The Leasehold Reform (Ground Rent) Act 2022 was granted Royal Ascent on the 8th February 2022, with the relevant Act now in full force. The reforms put an end to ground rents for new, qualifying long residential leasehold properties in England and Wales. Now the act is in force, any ground rent demanded as part of a new residential long lease cannot be for any more than a peppercorn (no financial value). Now the act is in full force, we acknowledge that in light of an effective ban on future ground rents that they should no longer be included as a future revenue stream for planning & viability purposes. We understand the act covers single 'dwellings' and will therefore capture student and retirement accommodation providing they are occupied or intended to be occupied as single dwellings.

3.16 We therefore consider the omission of capitalised ground rents as being a reasonable assumption. We have therefore removed the ground rents from our appraisal.

Affordable Residential Values

6.5 The proposed scheme includes 28 affordable housing units, 15 which are London Affordable Rent and 13 Intermediate Rent. The affordable housing units equate to approximately 50% by habitable room.

6.6 GE have adopted £100psf for LAR and £240psf for Intermediate Rent which is based upon the previous assumed amounts, with no further comments provided.

6.7 We have maintained these values for the purpose of the assessment, but for clarity GE should provide an updated valuation with a full printed cash flow to justify their valuation.

Commercial Valuation

6.8 The proposed scheme comprises of the following commercial areas:

- 2,937 sq. ft. NIA of affordable workspace (retained building) £30psf @5.25% yield;
- 10,374 sq.ft. NIA Affordable Workspace – Ward Building – Nil value;
- 24,545 sq.ft. NIA Ear Institute £67.50 - £72.50 psf @4.65%-4.75% yield;
- 114,621 sq.ft. NIA of Offices £67.50 - £82.50 psf @ 4.5 – 4.75% yield;
- 50,732, 182 room hotel.

Offices/labs

6.9 GE have relied upon a Cushman & Wakefield ('C&W') report which the applicant has commissioned to justify the office values at the subject scheme. The report provides a comprehensive view of the local office market, includes 3 no. rental comparables and 3 no. investment comparables to justify the values adopted.

6.10 C&W have informed GE's valuation with office rents at the subject site ranging from £67.50psf - £82.50psf. Overall we consider Cushman's assessment to be fair in valuing generic office accommodation at the subject site.

6.11 We do however question why lab space / life science accommodation has not been considered by either GE or C&W given the applicant is bringing forward lab enabled space and lab space for the ear institute (presumably this will revert to market lab accommodation upon their exit). The site is situated in the knowledge quarter with the Francis Crick Institute being 650 metres north west of the subject site, it is keenly positioned to service lab space demand.

6.12 We have identified the following life science transactions across London's Knowledge Quarter, wider London Transactions and from the Golden Triangle locations:

245 Hammersmith Road, London, W6 8PW

6.13 Part 3rd floor let to Resolution Therapeutics, 6,271 sq. ft. £90psf £564,390 per annum, 7 year lease, FRI, unknown lease incentives, deal date 30/12/2022. BNP landlord's agent, landlord L&G/MEC.

6.14 3rd floor remaining accommodation let to Orchard Therapeutics, 17,382 sq. ft. £54psf £938,628 per annum, 10 years, FRI, unknown lease incentives, deal date 01/12/2022. BNP landlord's agent, landlord L&G/MEC.

6.15 9th Floor let to Achilles Therapeutics, 24,604 sq. ft. £59.50psf, £1,463,938. 10 years, FRI, unknown lease incentives, deal date 01/02/2020. BNP landlord's agent, landlord L&G.

Rolling Stock Yard, 188 York Way, N7 9AS

6.16 Life Science REIT acquired the building for £77M from Newmark, Argo and Investec (JV partners) in March 2020. Nine storey building in King's Cross Knowledge Quarter, 53,900 sq. ft. of high quality and laboratory space constructed to high sustainability standards.

6.17 Life science REIT let 2nd floor to Syncona at £110psf, 7,322 sq. ft., up from £65psf. Lease is for 5 years with a tenant break at year 3. Landlord had undertaken £2m / £158psf of refurb works prior to the letting. Works included creating a combination of office space and plug and play laboratories. Lab space is highly flexible, with mobile benching and the ability to sub-divide into smaller rooms. Other features include, changing lobby, meeting rooms, breakout areas. Communal areas of the building are include "Co-lab" space with lounge, seating area and a high-end coffee machine with mezzanine seating areas.

6.18 We note the 1st floor remaining lab accommodation is on the market with Montagu Evans at £120psf (5,942 sq.ft.).

6.19 Newmark (previous landlord) let floors 7-8 to Xero at £69.50psf, 10,650 sq.ft. Grade A office space, full access raised floors, suspended ceiling, LED lighting, floor to ceiling height of 2.75m, four-pipe fan coil air conditioning. Building amenities include reception, café, work lobby, 10th floor communal terrace, lift, CCTV, 6x lifts. Open plan offices, no landlord fit out.

6.20 The difference between standard grade A office accommodation and lab fitted space in the same building at a substantial premium is indicated between the two different transactions.

5-10 Brandon Road, Kings Cross, N7 9AA

6.21 Gerald Eve are marketing 113,000 sq. ft of life science / lab accommodation within Kings Cross. Quoting rent is £110 psf. This is London’s first purposes built combined GMP manufacturing, office space, and laboratory building. Landlord is Kadans Life Science whom are offering fitted lab accommodation “Fully Lab Enabled”, or “Cat A Laboratories & Offices”

Tribeca, 2-6 St Pancras Way, NW1 0TB

6.22 Reef Group have let 37,127 sq.ft. of new build lab accommodation (shell & core only) at £65psf to London BioScience Centre Innovation Centre.

4000 John Smith Drive, Oxford Business Park South, Oxford, OX4 2GX

6.23 Arlington has let 16,390 sq.ft. of new build lab accommodation at £63psf to Omass Therapeutics in December 2022. 10 year lease.

6.24 Investment evidence of life science transactions is set out below:

Oxford Biomedica HQ, Oxford, OX4 6LT

6.25 Kadans Life Science has acquired Oxford Biomedica HQ for £60M, 5.4% yield. This is a sale and leaseback deal (lowest relevance in hierarchy of evidence).

194, 196 and 198 Cambridge Science Park, CB4 0AB

6.26 Cadillac Fairview / Stanhope PLC JV have acquired a trio of science parks from Legal & General PLC for £85M at 4% yield (Q4 2022 deal).

1, 2 and 26 Cambridge Science Park, CB4 0FW

6.27 Brockton Everlast Inc Limited have acquired a trio of science parks from Tuspark Holdings for £180M at 4.7% yield (Q4 2022 deal).

6.28 We are not aware of any more relevant London life science investment deals. Oxford and Cambridge are in the golden triangle for life science (Oxford, Cambridge, and London are the Golden Triangle locations) hence the relevance despite geographic distance.

6.29 Our QS had advised that it is unclear the level of fit out being assumed by the applicant based on the cost information provided by the applicant team, clarity is sought so that we can establish the appropriate rental level. Fitted lab space in Kings Cross is achieving c.£110psf, we note from Savills’ latest report “Spotlight Life Science, Trends and Outlook 2023”:

"The rental premium for fitted lab space when compared to conventional office space is, on average, 70% higher across Cambridge, Oxford, and London" Steven Lang, Director, Commercial Research.

6.30 At this stage we are unable to conclude the "office" values for the report and look to the applicant to prove the case for appropriate lab values.

6.31 Affordable Values were previously agreed at £30psf @ 5.25% yield which is in line with what was previously agreed. We are not sure why the Ward Building has a nil value.

Hotel Valuation

6.32 The hotel comprises of 182 rooms. Savills have provided an update valuation and have calculated an overall value of £80,000,000 or £439,560 a key, an improvement on the previously agreed valuation of £78,580,000.

6.33 As part of the previous exercise BPS commissioned Melvin Gold who is a hotel expert to undertake a critique of Savills' revenue assumptions, with Savills and Gerald Eve deciding to adopt Mr Gold's figures for the purpose of the exercise. BPS disagreed with Savills' yield assumptions, with Gerald Eve submitting a substantial rebuttal which proposed a reasonable compromise solution based on detailed, balanced and reasonable comments and evidence which we adopted.

6.34 We understand since our 2022 review the back of house areas for the hotel have been reduced in the latest application, with the room numbers staying the same. Savills have increased their valuation based on improved operational trading conditions. We do not propose undertaking another comprehensive scrutiny exercise of the revenues given the room numbers remain unchanged from last year.

6.35 Savills have provided some updated evidence from the previous submission (2022 deals), with information provided including date, address, number of rooms, price a key, but no yield data has been provided. There is no further commentary on relevance of each transaction, comparison to the subject scheme, or on how Savills have formed their view on yield.

6.36 Notwithstanding the lack of analysis from Savills, or justification of the yield, we are content with the price a key is broadly reasonable for the hotel valuation assuming purchaser's costs have been taken off (as per our previous valuation); we have therefore adopted Savills increased valuation as a net value.

7.0 Development Costs

Construction Costs

7.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by the applicant and concludes that:

"The Scheme Cost Plan/ Financial Overview is provided at Appendix 6. This overview comprises a single page summary; we suggest a full elemental cost plan should be provided to support the current application.

The allowance for contingencies in the appraisal is 5% which we consider reasonable. Allowances in the cost plan of 2.5% for Main Contractor D&B risk and 5.25% Residual risk allowance have both been excluded from the construction cost in the appraisal.

In the absence of a detailed elemental cost plan we have relied on elemental benchmarking information from our January 2021 report to adjust current BCIS average build cost data. The results and a comparison to the Applicants construction cost of £179,454,499 are provided in the table at 3.11 below.

Our benchmarking results in an construction cost of £186,175,820 that compares to the Applicant's £179,454,449. We therefore consider the Applicant's costs to be reasonable."

7.2 Mr Powling's full cost report can be found at Appendix 1.

Additional Costs

7.3 GE have applied the following additional cost assumptions:

- Professional fees of 12%
- Letting agent & legals 15% (% of annual market rent)
- Commercial disposal fees 1.5%
- Residential agents, legals, marketing 2.5%

7.4 Generally, we accept that these percentages are realistic and in line with market norms.

7.5 CIL/S106 charges have been assumed at £6,291,458 for CIL, £2,918,277 for S106. We have not verified this amount.

7.6 Finance has been included at 8.5% assuming that the scheme is 100% debt financed. We consider this finance allowance to be too high and unproven. We've adopted 8% which is line with our understanding.

Profit

7.7 The developer profit target adopted by GE is 15.2% on GDV. This is the previously agreed profit and is considered appropriate today.

Development Timeframes

7.8 GE have advised an 8.3 month pre-construction period, 73 months construction period. Savills have advised 60% off-plan sales, with 3-4 units a month thereafter.

7.9 We have adopted these timescales for the purposes of our appraisal.

8.0 Author Sign Off

8.1 This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

8.2 The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

8.3 The following persons have been involved in the production of this report:

Tom Mason
RICS Registered Valuer
RICS Membership no. 6715622
For and on behalf of
BPS Chartered Surveyors

Andrew Jones
RICS Registered Valuer
RICS Membership no. 0085834
For and on behalf of
BPS Chartered Surveyors

May 2023

Appendix 1: Build Cost Report

Project: 330 Grays Inn Road, Camden
2023/0904/P

Independent Review of Assessment of Economic Viability

Interim Draft Report
Appendix A Cost Report

1 SUMMARY

1.1 The Scheme Cost Plan/ Financial Overview is provided at Appendix 6. This overview comprises a single page summary; we suggest a full elemental cost plan should be provided to support the current application.

1.2 The allowance for contingencies in the appraisal is 5% which we consider reasonable. Allowances in the cost plan of 2.5% for Main Contractor D&B risk and 5.25% Residual risk allowance have both been excluded from the construction cost in the appraisal.

1.3 In the absence of a detailed elemental cost plan we have relied on elemental benchmarking information from our January 2021 report to adjust current BCIS average build cost data. The results and a comparison to the Applicants construction cost of £179,454,499 are provided in the table at 3.11 below.

1.4 Our benchmarking results in an construction cost of £186,175,820 that compares to the Applicant's £179,454,449. We therefore consider the Applicant's costs to be reasonable.

2 METHODOLOGY

2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant's costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of its projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element-by-element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to

40 years. We generally consider both default and maximum 5-year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an overall £ per sqm and on a group element basis i.e., substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher-than-normal cost of external wall and window elements.

2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

2.5 BCIS costs are available on a quarterly basis – the most recent quarters use forecast figures; the older quarters are firm. If any estimates require adjustment on a time basis, we use the BCIS all-in Tender Price Index (TPI).

2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However, if the Applicant's cost plan does not distinguish different categories, we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

2.7 To undertake the benchmarking, we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.

2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also, any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element-by-element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

2.11 We have considered the duration of the construction period by reference to the average duration calculation resulting from use of the BCIS Duration Calculator, and if we consider appropriate have drawn attention to any significant divergence between the Applicant's duration and the BCIS calculation. The duration is expected to be the result of a programme in appropriate detail for the stage of the project that should be prepared by a specialist in the field. We consider our experience of construction and duration sufficient for benchmarking comparisons using BCIS, but do not possess the appropriate qualifications and experience for undertaking a more detailed examination of the construction duration.

3 GENERAL REVIEW

3.1 We have been provided with and relied upon the Financial Viability Assessment issued February 2023 by Gerald Eve on behalf of 330 Grays Inn Road Ltd together with the Scheme Cost Plan/ Financial Overview at Appendix 6. This overview comprises a single page summary; we suggest a full elemental cost plan should be provided to support the current application.

3.2 We have also downloaded a number of files from the planning web site.

3.3 The base date of the cost plan is assumed to be 1Q2023. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2023 is 379 (Provisional) and for 2Q2023 382 (Forecast).

3.4 The cost plan includes an allowance of 15.5% for preliminaries. The allowance for overheads and profit (OHP) is 5%. We consider both of these allowances reasonable.

3.5 The allowance for contingencies in the appraisal is 5% which we consider reasonable. Allowances in the cost plan of 2.5% for Main Contractor D&B risk and 5.25% Residual risk allowance have both been excluded from the construction cost in the appraisal. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.6 Residential sales have been included in the Appraisal at average figures of £1,272/ft² (Net Sales Area).

3.7 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 132 that has been applied in our benchmarking calculations.

3.8 We have adopted the same GIA of 35,717m² used in the Applicant's cost plan; we assume this to be the GIA calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

3.9 The buildings are a mixed development of flats, offices and hotel. There are three basements and overall 15 storeys above. BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We have benchmarked accordingly.

3.10 In the absence of a detailed elemental cost plan we have relied on elemental benchmarking information from our January 2021 report to adjust current BCIS average build cost data. The results and a comparison to the Applicants construction cost of £179,454,499 are provided in the table at 3.11 below.

3.11

		Applicant				BPS Current April 2023	
						BCIS	
	GIA m²	£	£	£/m²	£/ft²	£/m²	£
Utilities & demolition		4,960,000	4,593,606				4,593,606
Basement & substructures		43,620,000	40,434,672				40,434,672
Hotel	8,328	54,940,000	50,928,274	6,115	568	6,764	56,327,272
Retained hosp/ Aff B1	554	380,000	348,806	630	58	978	541,878
Offices	8,197	31,370,000	29,076,387	3,547	330	3,676	30,133,502
Lab enabled	4,351						
Lab enabled/ gymn	2,890	18,380,000	17,036,961	2,353	219	2,300	16,654,300
Resi block A - Affordable	3,183						
Resi block B - Private	4,269	35,970,000	33,343,748	4,474	416	4,513	33,631,906
Ear Institute	3,945	3,980,000	3,691,995	936	87	978	3,858,683
	35,717	193,600,000	179,454,449				186,175,820

3.12 Our benchmarking results in an construction cost of £186,175,820 that compares to the Applicant's £179,454,449. We therefore consider the Applicant's costs to be reasonable.

3.13 The areas and costs included in the appraisal are consistent with the areas and costs in the cost plan.

BPS Chartered Surveyors
Date: 24th April 2023

Appendix 2: Argus Appraisal

330 Grays Inn Road, Camden
BPS Review, S.73 application

Development Appraisal
BPS Surveyors
11 May 2023

330 Grays Inn Road, Camden
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Appraisal Summary for Merged Phases 1 2

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Residential Block A (LAR)	15	15,661	100.00	104,407	1,566,100
Residential Block A (IR)	13	8,590	240.00	158,585	2,061,600
Residential Block B (Private)	44	30,634	1,367.00	951,743	41,876,678
Totals	**72**	**54,885**			**45,504,378**

Rental Area Summary	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Affordable workspace (retained building)	1	2,937	30.00	88,110	88,110	88,110
GF - Wicklow - Office	1	6,138	72.50	445,005	445,005	445,005
4th Floor - Office	1	13,744	77.50	1,065,160	1,065,160	1,065,160
5th Floor - Office	1	13,167	77.50	1,020,443	1,020,443	1,020,443
6th Floor - Offfice	1	6,978	80.00	558,240	558,240	558,240
7th Floor - Office	1	6,978	82.50	575,685	575,685	575,685
LG - B2 Office	1	13,383	67.50	903,353	903,353	903,353
LG - B1 Office	1	6,198	67.50	418,365	418,365	418,365
GF - Swinton - Office	1	6,429	72.50	466,103	466,103	466,103
1st Floor - Office	1	13,940	72.50	1,010,650	1,010,650	1,010,650
2nd Floor - Office	1	13,564	75.00	1,017,300	1,017,300	1,017,300
3rd Floor - Office	1	14,120	75.00	1,059,000	1,059,000	1,059,000
Affordable Workspace - Ward Building	1	10,374		0	0	
LG - B2 - Ear Institute	1	11,624	67.50	784,620	784,620	784,620
LG - B1 - Ear Institute	1	9,071	67.50	612,293	612,293	612,293
GF - Wicklow - Ear Institute	1	3,850	72.50	279,125	279,125	279,125
Hotel GDV	1	50,732		0	0	
Totals	**17**	**203,227**			**10,303,450**	**10,303,450**

Investment Valuation

Affordable workspace (retained building)					
Market Rent	88,110	YP @	5.2500%	19.0476	
(9mths Rent Free)		PV 9mths @	5.2500%	0.9624	1,615,100
GF - Wicklow - Office					
Market Rent	445,005	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	8,943,701
4th Floor - Office					
Market Rent	1,065,160	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	21,407,562
5th Floor - Office					
Market Rent	1,020,443	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	20,508,831
6th Floor - Offfice					
Market Rent	558,240	YP @	4.5000%	22.2222	
(2yrs Rent Free)		PV 2yrs @	4.5000%	0.9157	11,359,935
7th Floor - Office					
Market Rent	575,685	YP @	4.5000%	22.2222	
(2yrs Rent Free)		PV 2yrs @	4.5000%	0.9157	11,714,933
LG - B2 Office					
Market Rent	903,353	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	18,155,558
LG - B1 Office					
Market Rent	418,365	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	8,408,290
GF - Swinton - Office					
Market Rent	466,103	YP @	4.7500%	21.0526	
(1yr Rent Free)		PV 1yr @	4.7500%	0.9547	9,367,718

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1st Floor - Office					
Market Rent	1,010,650	YP @	4.5000%	22.2222	
(1yr 6mths Rent Free)		PV 1yr 6mths @	4.5000%	0.9361	21,023,927
2nd Floor - Office					
Market Rent	1,017,300	YP @	4.5000%	22.2222	
(1yr 6mths Rent Free)		PV 1yr 6mths @	4.5000%	0.9361	21,162,262
3rd Floor - Office					
Market Rent	1,059,000	YP @	4.5000%	22.2222	
(1yr 6mths Rent Free)		PV 1yr 6mths @	4.5000%	0.9361	22,029,722
LG - B2 - Ear Institute					
Market Rent	784,620	YP @	4.6500%	21.5054	
(3yrs 9mths Rent Free)		PV 3yrs 9mths @	4.6500%	0.8433	14,229,325
LG - B1 - Ear Institute					
Market Rent	612,293	YP @	4.6500%	21.5054	
(3yrs 9mths Rent Free)		PV 3yrs 9mths @	4.6500%	0.8433	11,104,113
GF - Wicklow - Ear Institute					
Market Rent	279,125	YP @	4.7500%	21.0526	
(4yrs Rent Free)		PV 4yrs @	4.7500%	0.8306	4,880,777
Hotel GDV					
Manual Value					80,000,000
Total Investment Valuation					**285,911,753**

GROSS DEVELOPMENT VALUE			**331,416,131**
Purchaser's Costs		(14,001,999)	
Effective Purchaser's Costs Rate	4.90%		
			(14,001,999)
NET DEVELOPMENT VALUE			**317,414,132**
NET REALISATION			**317,414,132**
OUTLAY			
ACQUISITION COSTS			
BMLV	19,400,000		
BMLV		19,400,000	
			19,400,000
Stamp Duty	5.00%	970,000	
Agent Fee	1.00%	194,000	
Legal Fee	0.50%	97,000	
			1,261,000

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Affordable workspace (retained building)	6,537	456.63	2,984,990
GF - Wicklow - Office	29,525	456.63	13,482,001
4th Floor - Office	16,609	456.63	7,584,168
5th Floor - Office	16,030	456.63	7,319,779
6th Floor - Offfice	9,960	456.63	4,548,035
7th Floor - Office	9,884	456.63	4,513,331
LG - B2 Office	17,601	456.63	8,037,145
LG - B1 Office	7,985	456.63	3,646,191
GF - Swinton - Office	11,599	456.63	5,296,451
1st Floor - Office	17,429	456.63	7,958,604
2nd Floor - Office	17,060	456.63	7,790,108
3rd Floor - Office	16,985	456.63	7,755,861
Affordable Workspace - Ward Building	13,832	456.63	6,316,106
LG - B2 - Ear Institute	22,842	456.63	10,430,342
LG - B1 - Ear Institute	11,505	456.63	5,253,528
GF - Wicklow - Ear Institute	7,882	456.63	3,599,158
Hotel GDV	88,177	456.63	40,264,264
Residential Block A (LAR)	19,124	456.63	8,732,592
Residential Block A (IR)	10,582	456.63	4,832,059

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Residential Block B (Private)	41,848	456.65	19,109,889	
Totals	**392,996 ft²**		**179,454,600**	
Contingency		5.00%	8,972,730	
CIL			6,291,458	
				194,718,788
Other Construction				
UCL payment			2,800,000	
Office void (manual cost)			2,034,420	
				4,834,420
Section 106 Costs				
Section 106 Costs			2,918,277	
				2,918,277
PROFESSIONAL FEES				
Professional fees		12.00%	21,534,552	
				21,534,552
MARKETING & LETTING				
Letting Agent Fee		10.00%	1,030,345	
Letting Legal Fee		5.00%	515,173	
				1,545,518
DISPOSAL FEES				
Commercial disposal (all-in)		1.50%	4,078,646	
Residential disposal (all-in)		2.50%	1,137,609	
				5,216,256
MISCELLANEOUS FEES				
Developer's profit (blended)		15.20%	36,086,948	
Developer's profit (blended)		15.20%	12,160,000	
				48,246,948
FINANCE				
Debit Rate 8.000%, Credit Rate 0.000% (Nominal)				
Total Finance Cost				49,666,200
TOTAL COSTS				**349,341,959**
PROFIT				
				(31,927,827)
Performance Measures				
Profit on Cost%		-9.14%		
Profit on GDV%		-9.63%		
Profit on NDV%		-10.06%		
Development Yield% (on Rent)		2.95%		
Equivalent Yield% (Nominal)		4.63%		
Equivalent Yield% (True)		4.77%		
IRR% (without Interest)		3.27%		
Rent Cover		-3 yrs -1 mths		
Profit Erosion (finance rate 8.000)		N/A		

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Table of Profit Amount and Profit on GDV%

Rent: Rate /ft²				
0.00 /ft²	+10.00 /ft²	+20.00 /ft²	+30.00 /ft²	+40.00 /ft²
(£31,927,827) -9.634%	(£3,501,937) -0.975%	£24,218,947 6.258%	£51,290,738 12.365%	£75,105,996 16.969%

Sensitivity Analysis : Assumptions for Calculation

Rent: Rate /ft²
Original Values are varied in Fixed Steps of £10.00

Heading	Phase	Rate	No. of Steps
GF - Wicklow - Office	1	£72.50	5 Up only
4th Floor - Office	1	£77.50	5 Up only
5th Floor - Office	1	£77.50	5 Up only
6th Floor - Offfice	1	£80.00	5 Up only
7th Floor - Office	1	£82.50	5 Up only
LG - B2 Office	1	£67.50	5 Up only
LG - B1 Office	1	£67.50	5 Up only
GF - Swinton - Office	1	£72.50	5 Up only
1st Floor - Office	1	£72.50	5 Up only
2nd Floor - Office	1	£75.00	5 Up only
3rd Floor - Office	1	£75.00	5 Up only
LG - B2 - Ear Institute	1	£67.50	5 Up only
LG - B1 - Ear Institute	1	£67.50	5 Up only
GF - Wicklow - Ear Institute	1	£72.50	5 Up only