

7 Torriano Mews, Kentish Town, NW5 2RZ

Addendum Report 1

Prepared on behalf of London Borough of Camden

21st June 2023

Planning Reference: 2023/0753/P



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1.0 BPS Response

- 1.1 Following our viability review dated 28th April 2023, we have received a response from S106 Affordable Housing ('S106AH'), dated 8th June 2023. The response lists areas of disagreement which include the Benchmark Land Value, development timescales, construction costs, finance rate and developer profit. We have dealt with each point in turn below.
- 1.2 This addendum should be read in conjunction with the above report.
- 1.3 We note that S106AH's revised position is that the scheme can viably contribute a payment in lieu (PIL) of £19,640. This is an increase to their previous position of £9,780.

Benchmark Land Value

- 1.4 Whilst we welcome S106AH's revision to their valuation, the parties remain in disagreement.
- 1.5 In our report we highlighted that the subject office space is of dated condition, and that the Applicants marketing efforts ultimately concluded that the space was unlettable, forming the basis of their application to covert the office space into residential use. As such, the marketing efforts indicate that on an EUV basis, the value of the subject would be relatively nominal given that it has been deemed as unlettable.
- 1.6 Moreover, in our report, we provided comparable evidence showing that newly decorated office spaces achieved rental values of £22.90 psf, therefore demonstrating that S106AH's rent of £28 psf is overstated. In their response, S106AH have now reduced their rent to a 'midpoint' between our positions and have adopted a revised rent of £24 psf. They have not offered any further comparable evidence for us to review to support their assumption.
- 1.7 We therefore disagree and maintain our rental assumption of £20 psf which is based on the comparable evidence we included within our initial review. We consider that this could even be optimistic given that the building is described by the Applicant as unlettable.
- 1.8 Similarly, in our report we included evidence to support our assumption of 12 months' rent free period. S106AH reference that they have "agreed to a 6 month rent free period on multiple occasions", yet they have not gone as far to provide any evidence of these, meaning that we are unable to assess the circumstances and the comparability to the subject scheme.
- 1.9 Moreover, even if we were to agree a 6-month rent free, there would still be a marketing and letting void and a 6-month allowance for this would not be unreasonable, As such, a 12-month combined void is likely realistic if not optimistic given that the marketing efforts deemed the

building to be unlettable and therefore we would expect a much longer letting void and rent free period to be applicable. Whilst we disagree with S106AH's position, in order to reach agreement we have modelled our BLV assessment with a 6-month void noting that it makes a limited difference to the overall valuation.

- 1.10 We have revised the purchasers costs to 5.75% as per S106AH's response, noting that the site is of low value, therefore the effective stamp duty rate is reduced.
- 1.11 We did not include a landowner premium, on the basis that the site is vacant and therefore it represents a liability for the landowner with empty property costs, which have not been factored into our valuation. If such costs were included it would significantly reduce the EUV. In addition, the lack of interest in the property for continued office use as demonstrated by the Applicant suggests there is lack of demand for continued use, therefore the landowner would not need further incentive to release the site for development.
- 1.12 Furthermore, we also highlighted that PPG states "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."
- 1.13 We disagree with the inclusion of a premium, but have on a without prejudice basis, applied a 10% premium to our EUV to demonstrate the viability of the scheme. Even if this is included, the scheme can provide a policy compliant contribution.
- 1.14 To conclude, we have included a revised BLV of £621,500 within our appraisal. As demonstrated above this is a very optimistic position on BLV and even when such an hopeful approach is taken, the scheme can still deliver a policy compliant PIL.

Gross Development Value

- 1.15 We were previously in agreement on the GDV of the scheme, though S106AH have since revised their sales values citing a -3.16% fall in house prices shown on the House Price Index from December 2022 to March 2023. We note S106AH's report was issued in March 2023; therefore, we question whether this evidence was considered in their original assessment.
- 1.16 S106AH state that it would be reasonable to assume that house prices have fallen a further -3.16% over March to June, though this is not based on any evidence given that the House Price Index has not been updated to show data from this period. S106AH have reduced their values by -3.16%, generating a revised position of £1,844,802.

- 1.17 We require further clarification from S106AH on their calculation as we have checked the Camden HPI and it can be seen that the house prices fell -0.28% over this period, not -3.16% as suggested. Furthermore, the Camden House Price Index shows house prices have increased by 0.75% and flats 0.83% in Q1 2023 from January to March 2023.
- 1.18 Ultimately, our values are based on the comparable transacted evidence available to us which we consider more appropriate than sole reliance on indices or future predictions. On this basis we have maintained our position on the values noting that no further comparable evidence has been provided to us and the Land Registry shows very nominal movements over the period.

Parking

- 1.19 Parking is not included in all the comparable transactions included in our review (The Maple Building, and Neos NW3) or the applicant's FVA used to assess the residential GDV. We therefore maintain our assertion that the two parking spaces at the proposed site could be sold to generate additional revenue.
- 1.20 We note that even if this component were to be removed from the appraisal, the scheme would still be viable.

Construction Costs

- 1.21 In their FVA, the Applicants construction costs were £394,121. Our Cost consultant, Neil Powling, calculated a current construction cost of £408,089 based on BCIS benchmarking, we therefore considered the Applicant's costs were reasonable, and both parties were in agreement.
- 1.22 In their response, S106M have provided a cost plan estimate, prepared by Ridge, dated 8 June 2023, showing costs of £510,000 (£2,125 m²). This is an increase of £115,879 or 29% on the costs included in the FVA.
- 1.23 Our Cost Consultant, Neil Powling has analysed the build cost plan for the proposed scheme prepared by Ridge, and concludes that:
- Our benchmarking using mean rates and a LF of 130 results in an adjusted benchmark of £2,102/m² that compares to the Applicant's £2,125/m². If the LF is adjusted to 132 the benchmark would be £2,134/m². We therefore consider the Applicant's costs to be reasonable.*
- 1.24 Based on our benchmarking we consider the Applicant's costs to be reasonable. Though we note that the GIA adopted in the cost plan is 240 sqm, compared to the 230 sqm included within the original report. Further explanation for the additional floorspace included is required as this may have further implications on the contribution calculations.

Development Timeframes

- 1.25 We have adjusted our sales period to 2 months as per S106AH's response.
- 1.26 We maintain our 6 month construction period assumption.

Developers Return

- 1.27 S106AH have revised their profit level to 16.5%, whilst we consider this to be above our expectations for a scheme of this nature, we have included this in our appraisal in order to reach an agreement.

Finance Costs

- 1.28 In their FVA, S106AH included finance costs at 7.5%. In their response they have adopted an 8% finance rate, increasing their previous position by 0.5bps.
- 1.29 We consider this to be high and we have not been provided with evidence of financing secured for the proposed development.
- 1.30 We have accepted 8% on a without prejudice basis, to demonstrate the viability of the scheme.

CIL Charges

- 1.31 S106M have not made an allowance for CIL charges in their appraisal.
- 1.32 The council have provided the following CIL charges payable
- 1.32.1 Camden CIL: £148,120 (230sqm x £644) and;
- 1.32.2 Mayoral: £18,400 (230sqm x £80).
- 1.33 We have included these in our appraisal.

Conclusions

- 1.34 Having considered S106M's latest comments, the following table summarises our **current** respective positions:

Input	S106M	BPS	Comment
Rental Value (BLV)	£24 psf	£20 psf	Disagreed – no further evidence has been provided
Rent free period	6 months	6 months – sensitivity test only	Agreed – we have sensitivity tested at 6 months rent free
Purchasers costs	5.75%	5.75%	Agreed

Land Owner Premium	15%	10% - sensitivity test only	Disagreed – we do not agree that there is scope for a premium in this instance, though we have sensitivity tested a 10% premium for demonstrative purposes only. We reserve the right to remove this from our appraisal.
GDV	£1,844,802.	£1,905,000	Disagreed – insufficient evidence provided.
Car Parking	£0	£30,000	Disagreed – insufficient evidence provided.
Construction Costs	£510,000	£510,000	Agreed – though the floor area has increased from 230 sqm to 240 sqm. Further explanation is required.
Finance	8%	8%	Agreed – without prejudice.
CIL	£0	£166,520	Included in our appraisal
Affordable Housing Contribution	£0	£46,000	Included in our appraisal
Sales Period	2 months	2 months	Agreed
Developer's Return	16.5%	16.5%	Agreed
Viability Position	+£19,640	+£77,816	

- 1.35 Overall, we have taken an optimistic approach on all inputs to demonstrate the viability of the scheme and the subsequent ability for the applicant to contribute to affordable housing at a policy compliant level.
- 1.36 The surplus, after accounting for CIL charges and AH contributions, is c. £78,000.
- 1.37 The main outstanding point of contention is the BLV. We have provided evidence to support our assumptions and reiterate that a value beyond this is unsupported by the evidence at hand. Furthermore, the foundation of the Applicant's application is to convert the commercial to residential whereby they have conducted a marketing exercise to demonstrate that the office space is unlettable in the current market. We therefore consider our value to be optimistic and refute that a higher rental value as proposed by S106AH could be achieved as the Applicant did not receive any offers at this level during their letting period.
- 1.38 We are willing to consider a further evidence but reserve the right to charge an additional fee should we be instructed to review.

Appendix 1: Build Cost Report

Project: 7 Torriano Mews, Kentish Town, NW5 2RZ

2023/0753/P

Addendum 20th June 2023

Independent Review of Assessment of Economic Viability

Interim Draft Report

Appendix A Cost Report

SUMMARY

The Viability Assessment relies on BCIS median costs last updated 11.2.23 (1Q2023) adjusted for a Camden location for 3-5 storey flats.

The Applicants construction cost in the HCA EAT (excluding contingency) is £394,121. We have calculated a current construction cost of £408,089 as the table at 3.10 below.

Based on our benchmarking we consider the Applicant's costs to be reasonable.

The duration allowed in the Applicant's appraisal comprises a pre-construction period of 3 months and a construction period of 8 months. The results determined from the BCIS duration calculation provides an estimated average construction duration from start on site to construction completion of 24 weeks (5.5 months) with a 90% confidence interval for this estimate of 21 to 28 weeks (4.8 to 6.5 months). We consider the Applicant's allowance for pre-construction reasonable. The BCIS durations suggest that the programme period might be reduced by up to 2 months.

ADDENDUM SUMMARY

We have downloaded current BCIS data for benchmarking purposes including a current Location Factor (LF) for Camden of 130 that has been applied in our benchmarking calculations. The LF when we downloaded BCIS data 19th April 2023 for our original report was 132.

We have adopted the same GIA used in the Applicant's cost estimate of 240m². The GIA adopted in our original report April 2023 was 230m²

Our benchmarking using mean rates and a LF of 130 results in an adjusted benchmark of £2,102/m² that compares to the Applicant's £2,125/m². If the LF is adjusted to 132 the benchmark would be £2,134/m². We therefore consider the Applicant's costs to be reasonable.

METHODOLOGY

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.

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.

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 on 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.

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.

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).

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.

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.

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.

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.

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.

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.

GENERAL REVIEW

We have been provided with and relied upon the Development Viability Assessment issued 6th April 2023 by S106 on behalf of NTA Planning.

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

The Viability Assessment relies on BCIS median costs last updated 11.2.23 (1Q2023) adjusted for a Camden location for 3-5 storey flats. 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).

The allowance for contingencies included in the HCA EAR is 5% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

Sales have been included in the Appraisal at average figures of £832/ft² (Net Sales Area).

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.

We have adopted the same GIA used in the Applicant's cost calculations of 230.2m²; we assume this to be the GIA calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

The building is a 3-storey building, currently offices, to be converted into flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above.

The Applicants construction cost in the HCA EAT (excluding contingency) is £394,121. We have calculated a current construction cost of £408,089 as the table at 3.10 below.

Current construction cost	Current BCIS	Applicant
GIA m ²	230	
BCIS median rate £/m ²	1,773	
Total construction cost £	408,089	394,121
5% contingency	20,404	19,706
Total including contingency £	428,494	413,827

Based on our benchmarking we consider the Applicant's costs to be reasonable.

The duration allowed in the Applicant's appraisal comprises a pre-construction period of 3 months and a construction period of 8 months. The results determined from the BCIS duration calculation provides an estimated average construction duration from start on site to construction completion of 24 weeks (5.5 months) with a 90% confidence interval for this estimate of 21 to 28 weeks (4.8 to 6.5 months). We consider the Applicant's allowance for pre-construction reasonable. The BCIS durations suggest that the programme period might be reduced by up to 2 months.

The areas and costs included in the HCA EAT are consistent with the areas and costs included elsewhere in the Viability Assessment.

ADDENDUM 20TH JUNE 2023

We have relied on the Viability Statement dated 8th June 2023 issued by S106 Affordable Housing for the further cost reporting in this addendum together with the Order of Cost Estimate Ver V.3 issued 8 June 2023 by Ridge & Partners LLP.

The Cost estimate mainly relies on BCIS median rates for element and sub element costs. We have extracted those costs into an elemental analysis.

The cost estimate includes an allowance of 15% for preliminaries. The allowance for overheads and profit (OHP) is 9%. We consider taken together these allowances reasonable.

The HCA DAT includes a contingency of 5%.

We have downloaded current BCIS data for benchmarking purposes including a current Location Factor (LF) for Camden of 130 that has been applied in our benchmarking calculations. The LF when we downloaded BCIS data 19th April 2023 for our original report was 132.

We have adopted the same GIA used in the Applicant's cost estimate of 240m². The GIA adopted in our original report April 2023 was 230m²

Our benchmarking using mean rates and a LF of 130 results in an adjusted benchmark of £2,102/m² that compares to the Applicant's £2,125/m². If the LF is adjusted to 132 the benchmark would be £2,134/m². We therefore consider the Applicant's costs to be reasonable.

BPS Chartered Surveyors

Date: 19th April 2023

Ver V.1 20th June 2023

Appendix 2: Argus Appraisal

APPRAISAL SUMMARY**BPS SURVEYORS**

7 Torriano Mews, Kentish Town, NW5 2RZ

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Residential	3	2,245	848.55	635,000	1,905,000
Parking	<u>2</u>	<u>0</u>	0.00	15,000	<u>30,000</u>
Totals	5	2,245			1,935,000

NET REALISATION**1,935,000****OUTLAY****ACQUISITION COSTS**

Fixed Price	565,000			
Fixed Price		565,000		
			565,000	
Stamp Duty			17,750	
Effective Stamp Duty Rate	3.14%			
Agent Fee	1.00%	5,650		
Legal Fee	0.80%	4,520		
				27,920
Other Acquisition				
Landowner Premium	10.0000%	56,500		
				56,500

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost	
Residential	3 un	170,000	510,000	
Contingency		5.00%	25,500	
				535,500

Section 106 Costs

Affordable Housing Contribution	46,000			
Camden CIL	148,120			
Mayoral	18,400			
				212,520

PROFESSIONAL FEES

Other Professionals	10.00%	51,000		
			51,000	

MARKETING & LETTING

Marketing	1.00%	19,050		
			19,050	

DISPOSAL FEES

Sales Agent Fee	1.00%	19,350		
Sales Legal Fee		3,000		
				22,350

MISCELLANEOUS FEES

Developer's Profit	16.50%	319,275		
			319,275	

FINANCE

Debit Rate 8.000%, Credit Rate 0.000% (Nominal)				
Land		35,245		
Construction		12,574		

APPRAISAL SUMMARY**BPS SURVEYORS****7 Torriano Mews, Kentish Town, NW5 2RZ**

Other	250	
Total Finance Cost		48,069

TOTAL COSTS **1,857,184**

PROFIT **77,816**

Performance Measures

Profit on Cost%	4.19%
Profit on GDV%	4.02%
Profit on NDV%	4.02%

IRR% (without Interest) 17.38%

Profit Erosion (finance rate 8.000) 6 mths