

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

Independent Viability Review

Prepared on behalf of the London
Borough of Camden

July 2023

Planning Reference: 2023/0904/P



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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 This is an addendum to the report we issued in May 2023 which should be read in conjunction with this document. The purpose of this addendum is to respond to Gerald Eve's rebuttal dated 2nd June 2023.
- 1.3 As a brief recap, 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.
- 1.4 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.
- 1.5 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.”

- 1.6 GE have concluded in their latest addendum that the scheme produces a residual profit of c.£5.8M, against a profit target of £50M and is therefore technically unviable.
- 1.7 The areas of disagreement as per the previous report are: build costs, affordable values, lab/office rents, private sales values, and finance rate (all of which we discuss in turn in this report).
- 1.8 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.
- 1.9 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

Our revised respective positions are now as follows:

Input	Gerald Eve	BPS	Comments
Income			
Private Sales Values	£39,627,500 (£1,294 psf)	£39,627,500 (£1,294 psf)	Agreed – We accept the Savills compromise position.
Affordable LAR / Intermediate Rent	£151 / £242psf	£151 / £242psf	Agreed – GE have submitted a full detailed valuation and have improved the affordable values. We accept they are full and reasonable.
Hotel	£80,000,000	£80,000,000	Agreed – Reasonable assumption.
Offices	£67.50 - £82.50 @ 4.5% – 4.75% yield	£67.50 - £82.50 @ 4.5% – 4.75% yield	Agreed – Reasonable assumption.
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	£6.29M	£9.9M	Some ambiguity - We have been advised of higher estimates by the council than what was originally envisaged.
S106	£2.9M	£8.2M	Some ambiguity - We have been advised of higher estimates by the council than what was originally envisaged.
Finance	8%	8%	Agreed – GE have accepted our position.
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	-£44.3M No further affordable housing contributions can be provided	-£44.3M Agreed	Agreed – We agreed with GE’s conclusions and appraisal.

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, in Gerald Eve's view the scheme cannot provide any further affordable housing contributions over and above the £6M affordable in lieu payment. 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 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 note Savills have revised their pricing upward slightly and we accept their position as a compromise agreement.

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

3.7 On the offices, we consider that the valuation has been priced fairly. In respect of the potential for fitted lab accommodation, both parties acknowledge that there is potential for higher rents to be achieved but these will come at a substantial landlord cost; all things being equal we are content the costs represent lab enabled space and the appropriate rents as of today's date. Any gains from subsequent conversion to lab space would be captured at review.

Ground rents

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

Affordable Housing

- 3.9 GE have revised the affordable values to £151psf and £241psf which is considered agreed and concluded.

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 a 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 costs outlined within the FVA and consider them to be reasonable, noting the applicant team have accepted our 8% finance rate.
- 3.12 We note a higher CIL/S106 amount has been advised by the council.

Recommendations

- 3.13 We agree with GE’s conclusions the scheme is unviable as of today’s date and any future improvements in viability will be picked up in the review mechanism (if applicable). We are recommending that viability reviews are included as part of the S106 for the avoidance of doubt.
- 3.14 We note that the c.£6M of additional affordable housing contributions are considered unviable by Gerald Eve, which we agree with given the outcome of our assessment. This helps explain the substantial difference envisaged between the council and Gerald Eve.

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:

$$\text{Gross Development Value} - \text{Development Costs (including Developer's Profit)} \\ = \text{Residual Value}$$

- 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 Viability Inputs

5.1 We discuss the remaining inputs which are disputed in turn below.

Private Residential Values

5.2 Savills have submitted a rebuttal which seeks to review BPS' previous comments on private sales values together with an updated view on the market. We note Savills have revised their position from £1,272 psf to £1,294 psf. We have considered Savills' latest rebuttal and consider it to be a reasonable compromise position.

5.3 We would point out with current elevated interest rates and negative market sentiment we are unable to robustly defend a higher sales rate at present. Moreover, there is no better new build achieved evidence identified in the locality since our previous review.

Office accommodation/lab rents

5.4 It was not initially clear from the FVA accompanying the S73 application the scale of fit out costs being assumed. We now accept that fitted lab specification has not been assumed, but rather Cat A office accommodation which is lab enabled (has the potential to be later converted into fitted laboratory accommodation).

5.5 Both parties have agreed that whilst it is possible to achieve slightly higher rents for fitted lab accommodation in Kings Cross, this however comes at a substantially higher cost to the landlord who must fit out the accommodation on behalf of the occupier; we acknowledge that the fitouts are highly bespoke and highly specialised and are therefore difficult to quantify in terms of cost at this stage not knowing who the exact end occupiers will be.

5.6 We are content that the applicant team have fairly priced the cost of delivering Cat A standard office accommodation and applied the appropriate valuation assumptions as of today's date. If there are any net gains from fitted lab accommodation i.e. rents higher than the costs required, in the future this will be picked up in the review mechanism.

Finance Rate

5.7 The applicant team have accepted our finance cost of 8%, this is considered concluded.

Build Costs

5.8 Our cost consultant Neil Powling has reviewed the applicant's full cost plan and concluded:

“...Our benchmarking results in a 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.”

- 3.17 We have reviewed the other costs outlined within the FVA and consider them to be reasonable, noting the applicant team have accepted our 8% finance rate.

Affordable Rents

- 5.9 GE have now provided a full schedule to support their valuation, noting they have increased the values to £151psf and £241psf for the affordable and intermediate rent units respectively. GE have now fully justified their valuation and we have accepted it as being full and reasonable.

CIL/S106

- 5.10 We understand from the council that higher CIL/S106 amounts are being sought from what was originally envisaged. We have been advised £9.9M for CIL and £8.2M for S106. We note that c.£6M of this is for additional affordable housing payments sought in line with the policy, albeit we agree with Gerald Eve that these payments are unviable and cannot be sustained.

Argus Appraisal

- 5.11 We are content with adopting GE’s appraisal given the advisors are now in agreement.

Conclusion

- 5.12 In conclusion we agree with GE that the scheme is in technical financial viability deficit as of today and is arguably deliverable based on the sensitivity analysis produced by GE.

6.0 Author Sign Off

- 6.1 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.
- 6.2 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.
- 6.3 The following persons have been involved in the production of this report:



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