Crescent Hotel, 49-50 Cartwright Gardens, WC1H 9EL

Independent Viability Review

Prepared on behalf of the London Borough of Camden

4th August 2023

Planning Reference: 2023/0004/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 DS2 on behalf of SLP Crescent Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site currently comprises a 28 bedroom hotel (including one staff bedroom) Use Class C1, in a Listed building. The building was originally constructed as two adjacent terraced houses in the early 19th Century. The hotel is said to have ceased trading in October 2022 in anticipation of the proposed development. No accounts or records of trade have been made available.

1.3 The location is mixed in nature with a mix of hotels and residential (in the form of houses and studios in the crescent itself. Further afield, offices, retail/leisure provision and housing are all located in the immediate vicinity. The site is located in the Bloomsbury Conservation area and is Grade II Listed.

1.4 The proposals are for a change of use and alteration/refurbishment works to create 31 shared living units as follows:

'Change of use from hotel (Class C1) to shared living accommodation (Sui Generis) with associated internal and external works, landscaping and cycle storage.'

1.5 The basis of our review is the FVA prepared by DS2, dated December 2022, which concludes that the scheme currently shows a deficit of approximately £2.49m and therefore no affordable housing can viably be offered.

1.6 We have downloaded documents available on the Council's planning website.

1.7 We have not received a live version of the Argus appraisal included in the report, despite our request.

1.8 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.

1.9 We have searched the Council's planning website and have not identified any other recent or relevant planning applications relating to the site.

1.10 A Land Registry search shows that the applicant does not currently own the property. The following titles are registered at the subject address:

NGL784593 – Leasehold title for 49 Cartwright Gardens for 99 years from 25th March 2000, proprietor listed as Rita Maria Cockle, no rent is detailed.

NGL784595 – Leasehold title for 50 Cartwright Gardens for 99 years from 25th March 2000, proprietor listed as Rita Maria Cockle, no rent is detailed.

NGL972159 - Freehold title for 49-63 Cartwright Gardens, owned by the Worshipful Company of Skinners in August 2017, the value registered as at that date is £950,000. The freehold is subject to a number of leases in addition to the two listed above.

1.11 We understand that the interests to be valued for the purposes of viability are the long leasehold interests held under the first two titles above.

1.12 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.

1.13 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

2.1 Our analysis presents the following outturn financial position for the project:

Input	DS2	BPS	Comments
Income			
Private Rental Value	£614,900 pa (£19,835/u pa)	£614,900 pa (£19,835/u pa)	Agreed
OPEX	30% (£5,951/u)	23% (£4,500/u)	Disagreed
Yield	4.5%	4.25%	Disagreed
Stabilisation	None	None	Agreed
GDV	£9,565,111 (£1,807psm/£168psf)	£11,185,393 (£2,113psm/£196psf)	Disagreed
Ground Rents	£nil	£nil	Agreed
Car Parking	£nil	£nil	Agreed
Expenditure			
EUV	£5.3m	-	Disagreed
AUV	-	£5.3m	Disagreed
Landowner Premium	20%	Nil	Disagreed
Benchmark Land Value	£6.36m	£5.3m	Disagreed
Build Costs	£2.015m (£2,702 psm/ £251 psf)	£2.015m (£2,702 psm/ £251 psf)	Agreed
Contingency	10%	10%	Agreed - Refurbishment
Project Insurance	£30,225	£30,225	Agreed
Mains Upgrade	£13,000	£13,000	Agreed
Professional Fees	8.23% (£523,609)	8.23% (£523,609)	Agreed
Shared Living Disposal – Agent Fees Marketing Fees Legal Fees	1% £1.50psf 0.5%	1% £1.50psf 0.5%	Agreed
CIL	£nil	£nil	Ambiguous - We require confirmation from the Council on this input.
Finance	7%	7%	Agreed
Target Profit: Shared Living	15%	12.5%	Disagreed
Development Timeframes			
Pre-construction Period	6-months	6-months	Agreed
Construction Period	9-months	9-months	Agreed
Sales Period	Sale at practical completion	Sale at practical completion	Agreed

Viability Position	-£2,488,628 No affordable housing can be provided	+£256,381 Small surplus identified	Disagreed – We have identified a small surplus which we suggest could be provided as a payment in lieu.
Actual Profit	-11.02%	14.79%	Disagreed – DS2 calculate that the applicant will return an actual loss.

3.0 Conclusions And Recommendations

3.1 We have reviewed the FVA prepared by DS2 on behalf of the applicant which concludes that the proposed scheme generates a residual land value of £3,871,372 which is approximately £2,488,628 below their benchmark land value of £6,360,000. On this basis the scheme cannot provide any affordable housing contribution.

Benchmark Land Value

3.2 DS2 have been advised by Avison Young who have approached the Benchmark Land Value on an Existing Use Value Plus (EUV+) basis. They suggest that the premises are capable of supporting an EBITDA of just over £300,000. They have applied a yield of 5.5%, which results in an EUV of £5.3m.

3.3 We are in receipt of advice from Melvin Gold, who concludes that the assessment of EUV presented is reasonable.

3.4 DS2 have added a Landowner Premium of 20%, resulting in a BLV of £6.36m. We do not consider a Landowner Premium to be reasonable in this instance and have concluded a BLV of £5.3m as this value is contingent on an assumption of significant expenditure.

Development Value

3.5 The scheme includes 31 co-living units and shared amenity in the form of a kitchen/diner and laundry.

3.6 We have reviewed the information provided by DS2 in support of their private sales values and we have also undertaken our own research into recent transactions in the local area. We are of the view that the values proposed are below current market expectations. Whilst we consider the rental value fair, the OPEX is overstated, and we have made a 25 bps adjustment to the yield. These changes are detailed in Section 5 of this report. Overall, our suggested revisions result in an increase of approximately £11,185,393 on the values proposed by applicant's agent which reflects an increase of just under 17%.

Car Parking

3.7 No car parking is proposed.

Ground rents

3.8 The Leasehold Reform (Ground Rent) Act 2022 is now in full force. We therefore consider the omission of capitalised ground rents as being a reasonable assumption.

Affordable Housing

3.9 No Affordable Housing is proposed.

Development Costs

3.12 Our Cost Consultant, Neil Powling, has analysed the Stage 2 Order of Cost Estimate R3 for the proposed scheme prepared by CHP, dated 10th December 2022, and concludes that:

'Our benchmarking results in an adjusted benchmark of £3,093/m² that compares to the Applicant's £3,009/m².

3.13 We therefore consider the Applicant's costs to be reasonable.

3.14 We have reviewed the other cost outlined within the FVA and consider them broadly reasonable. We have amended the target developer profit to 12.5%.

Recommendations

3.15 We not been provided with a live version of the Argus appraisal included in DS2's report despite our requests, however, we have replicated their appraisal and applied our amendments. These amendments are outlined in the table included at Section 2.

3.16 After these changes we identify a surplus of £256,381. On this basis we calculate that the scheme would be able to contribute towards or provide affordable housing, which we would recommend be provided in a PiL.

3.17 We have undertaken sensitivity analysis to test the impact of changes to gross rents and base build costs. We include our sensitivity analysis in Appendix 2. We find that simultaneous changes of less than 2.5% to gross rents and base build costs erode the current surplus.

3.18 The surplus identified is marginal and we would recommend that if a policy compliant offer is not made, the scheme should be subject to reviews at pre-implementation and late stage in order that the viability can be assessed over the lifetime of the development.

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

<u>Viability Benchmarking</u>

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 landowners and developers with a competitive return. In relation to landowners this is to encourage landowners 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 landowner. We are of the view that where sites represent an ongoing liability to a landowner 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 DS2 for viability testing is based on an Existing Use Value Plus approach, although this value is dependent upon works expenditure of £202,500 (£7,500 per room). DS2 have relied upon advice from Avison Young ('AY') which comprises a Market Value dated 23rd August 2022 and subsequent letter dated 22nd December 2022 confirming that in their opinion, the Market Value equals the Existing Use Value in this instance.

5.12 AY assess the EBITDA as £301,563, which they have capitalised at a NIY of 5.5% to reach an EUV of £5.3m. AY quote a range of yield comparables which include two hotels with a shorter headlease length.

5.13 DS2 have applied a Landowner Premium of 20% on the basis that the hotel has been valued on an EUV basis and is only vacant now due to the Applicant's decision to ready the site for this planning application.

5.14 The property is a 27 room hotel held under a 76 year lease at a current rent of £500, which increases to £1,000 in 2033 and £1,500 in 2066. We have not been provided with a copy of the lease and assume this to be the case. The AY report describes the property as '*dated and tired'* and that '*the outdoor terrace has been poorly maintained'*. The property is considered to be in a strong location but is poorly presented and 9-11* of the rooms do not have en-suites.

5.15 *The DS2 report states that 9 of the rooms are not en-suite on pages 5 and 15, and that 11 are not en-suite on page 20. We are unable to account for this discrepancy.

5.16 Photographs included in the AY report concur with the above description.

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

5.17 We have approached the Benchmark Land Value on an Existing Use Value basis. The most recent use of the property was as a hotel which has been categorised on the planning application form as Use Class C1.

5.18 We have received sector specialist advice from our retained consultant, Melvin Gold, and his report is included in Appendix 3. In summary, he finds the 'As Is' EBITA and level of expenditure proposed for this scenario by Avison Young to be reasonable.

5.19 We have reviewed the yield evidence presented by AY and find it to be reasonably comprehensive and in line with other transactions we have seen in the Bloomsbury area. In line with the AY approach, we have assumed the business to be currently trading based on DS2's information that the business ceased trading only for the development opportunity. We assume this to be the case.

5.20 We therefore find the DS2 assessment of EUV to be reasonable. It should be noted however that had it been intended that the hotel business continue it is normal practice for operators to continue to spend money upgrading and replacing interior fixtures and fittings. It appears such expenditure has not been made more recently and this is relevant to the assessment of EUV.

5.21 We do not consider it reasonable, however, to add a Landowner Premium in this instance for the following reasons:

a) The EUV figure is contingent upon capital expenditure of £202,500 and therefore under PPG, '*Where it is assumed that an existing use will be refurbished or redeveloped this* *will be considered as an AUV when establishing BLV…Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.'*

b) The proposals are not policy compliant and therefore the following condition under PPG has not been met: '*The premium should provide a reasonable incentive for a landowner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements*.'

5.22 On this basis we have adopted a figure of £5.3m as the Benchmark Land Value.

6.0 Development Values

6.1 The residential element of the proposed scheme, as sought by the planning application, is for 31 shared living units.

Private Residential Values

6.2 All 31 units are proposed to be for private rental and the values have been assumed as follows:

Unit type	Size Range sq ft	Size Range sq m	Avg NSA sq ft	Avg NSA sq m	Avg Rental value £ pw	Avg Rent psf pa	No of units
Size A	<161	<15			£350		14
Size B	161<215	15<20			£400		14
Size C	215<269	20<25			£450		2
Size D	>269	>25			£425		1
Total/ Average			**5,293/ 171**	**491.8/ 15.9**	**£614,900/ £19,835 pa**	**£194**	**31**

6.3 The units will be accessed from communal hallways and 2 stair cores and will be equipped with a shower room and kitchenette. Additional communal space will be comprised of a communal kitchen/diner and laundry room all at basement level.

6.4 DS2 have cited asking prices at a number of self-contained studios, student and co-living schemes across London. They have included comment where possible on what bills are included, the size and specification of the units.DS2 have assumed that the bills will be included in the rent at the subject scheme.

6.5 We consider the co-living comparables to be the most useful and we have undertaken our own research, we have identified the following updated asking rents:

Address	Description	Size sqm (sq ft)	Rent per unit pw (pcm)	Ave Rent psm pa (psf pa)
Gravity Co-Living Finsbury Park, 161 Queen's Dr, Finsbury Park, London N4 2AR	All rents are inclusive of bills. The rent also includes a regular cleaning service and WIFI. On-site amenities include Co-working area, shared lounge, CCTV, bike storage and a laundry room. All units include en-suite bathroom and private kitchenette. We find the Gravity scheme to be inferior to the subject due to its location and smaller average unit sizes. Asking rents provided are averages depending on term length and are quoted as 'start from'. Upper floors and double occupancy available on application. Shorter leases also available via Airbnb.	9 sq m (95 sq ft) to c.20 sq m (210 sq ft)	£323 pw (£1,400 pcm) to £407 pw (£1,763 pcm)	£1,866 (£173) to £1,058 (£98)
Gravity Co-Living Camden Town	All rents are inclusive of bills. The rent also includes a regular cleaning service and WIFI. On-site amenities include, CCTV, bike storage and a laundry room. Unit prices here for 1 bedroom apartments. We find the Gravity scheme to be inferior to the subject due to its location and we note the large unit sizes. Asking rents provided are averages depending on term length and are quoted as 'start from' and are based on 1st floor units. Other floors and double occupancy available on application. Shorter leases also available via Airbnb.	c.47 sq m (505 sq m)	£649 pw (£2,813 pcm)	£718 (£67)
The Collective, Old Oak, NW10 6FF	Large conversion, Cosy Studios, stu~~Two~~dios (ensuite and shared kitchenette) and one bed flats with shared amenities (gym, spa, cinema, lounge, concierge, outdoor terrace and restaurant) includes bills, wifi and cleaning. Inferior location to subject and larger room sizes. Asking rents depend on term, average shown here assumes single occupancy, except for the one bed flat.	12 sq m (129 sq ft) to 29 sq m (£312 sq ft)	£292 pw (£1,266 pcm) to £453 pw (£1,964 pcm)	£1,266 (£118) to £812 (£76)
Sunday Mills, Earlsfield	Folk scheme with co-working space, gym and roof terrace,	17 sq m (186 sq ft)	£399 pw (£1,730 pcm)	£1,221 (£112)

	dining room, living room. Inferior location to subject, larger unit sizes. Asking rents depend on term, rents shown are for 12 months.	to 25 sq m (274 sq ft)	to £478 pw (£2,070 pcm)	to £994 (£92)
The Collective Canary Wharf	Wifi, cleaning and bills included. Members' bar and lounge, swimming pool, games room, gym, cinema, laundry and spa. Prices vary depending on unit and term. Average minimum studio prices shown.	12 sq m (129 sq ft) to c.29.5 sq m (318 sq ft)	£410 pw (£1,777 pcm) to £478 pw (£2,071 pcm)	£1,777 (£165) to £842 (£78)
No26 Co-Living, 26 Dingwall Road, Croydon CR0 9XF	No. 26 consists of 183 residential apartments in East Croydon. Amenities include 2x roof terraces, a co-working area, weekly cleaning service, communal lounge, and on-site management. There is parking available on site for an additional £130pcm. All bills are included in the rent. Comparable is in an inferior location and the unit sizes are bigger than the subject, which will result in a reduced price on psf basis. Average for range of studio types shown.	36 sq m (388 sq ft) to 41 sq m (£442 sq ft)	337 pw (£1,460 pcm) to £371 pw (£1,608 pcm)	£486 (£45) to 471 (£44)
Folk at The Palm House, 55-59 Palmerston Rd, Harrow HA3 7RR	Folk includes a range of new build self-contained studio flats, some with terraces. Rent includes all the bills and gym membership. Amenities include on-site café, bar, co-working, cinema, and roof terrace. We consider the subject to be a superior location although the average room sizes are smaller.	17 sq m (183 sq ft) to c.23 sq m (248 sq ft)	£334 pw (£1,450 pcm) to £394 pw (£1,710 pcm)	£1,024 (£95) to £892 to (£83)

6.6 It can be seen that prices of units across London can be widely varied. Whilst the above rents are asking prices, they represent minimum charges averaged across term lengths. There is scope for higher rents depending on occupancy, term length and unit.

6.7 We agree with DS2 that the subject benefits from a location superior to the comparables listed above, although the amenities at the subject scheme are generally acknowledged to be inferior to the comparables. The comparable evidence available supports a current gross rental value at the level put forward by DS2.

6.8 Co-Living schemes are a relatively new product and therefore limited evidence is available on achieved rental values, average occupancy levels and lease term lengths, although there are strong correlations to both the upper end of the PBSA and BtR markets. We consider that the evidence available does indicate that achievable rents could be even higher at the subject and we, therefore, recommend that the scheme GDV is kept under review as more evidence becomes available. This uncertainty further reinforces the need to retain late stage review provisions within the S106 especially given the considerable rise in rented accommodation charges across London at present.

6.9 The rents achievable are at the upper end of the range seen at similar developments in London, we therefore consider that an OPEX of 30% is too high in this instance, noting there are limited communal facilities in this scheme which would generate higher levels of cost. We are seeing OPEX's of around £4,500 per unit on other schemes with greater amenity provision. In this case, we see no reason to allow for a greater level of OPEX on a £ per unit basis. This equates to around 23% of gross rents receivable.

6.10 We have allowed for OPEX at a level of £4,500 which we are willing to review should a sufficiently documented and detailed breakdown of costs be provided.

6.11 DS2 have assumed net income is capitalised at 4.5%. We have recently reviewed other co-living schemes in Hammersmith where the yield was agreed at 4.25% and Hounslow where the agreed yield was 4.5% In addition, we have advised on a student accommodation scheme in Hounslow where the yield level proposed by the applicant was 4.37%. For confidentiality reasons, we are unable to give more detail about the schemes. Considering the inferior locations of the above schemes, we find the 4.50% yield adopted by DS2 to be excessive.

6.12 In our view, the location is superior to Hammersmith, whilst the subject scheme has inferior amenities. We therefore consider a 4.25% yield in this instance to be reasonable.

6.13 Overall, we have therefore adopted a GDV of £11,185,393 for the scheme which equates to £360,819 per unit.

Ground Rents

6.22 The Leasehold Reform (Ground Rent) Act 2022 was granted Royal Ascent on the 8th February 2022 and is now in 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). We therefore 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.

6.23 We therefore consider the omission of capitalised ground rents as being a reasonable assumption.

Parking

6.16 The proposed scheme is car free.

Affordable Residential Values

6.17 The proposed scheme includes no affordable housing.

6.18 The Council's planning policy under Housing: Camden Policy Guidance January 2021 states that Affordable Housing policy for Large-scale purpose-built shared living should be governed by Policy H16 of the London Plan.

6.19 The London Plan March 2021, Policy H16 states that such schemes should deliver, '*a cash in lieu contribution towards conventional C3 affordable housing. Boroughs should seek this contribution for the provision of new C3 off-site affordable housing as either an:*

a) Upfront cash in lieu payment to the local authority, or
b) In perpetuity annual payment to the local authority

In both cases developments are expected to provide a contribution that is equivalent to 35% of the units…to be provided at a discount of 50% of the market rent. All large-scale purpose-built shared living schemes will be subject to the Viability Tested Route set out in Policy H5 Threshold approach to applications, however, developments which provide a contribution equal to 35% of the units at a discount of 50% of the market rent will not be subject to a Late Stage Viability Review.'

6.20 The proposed scheme is therefore not policy compliant.

7.0 Development Costs

Construction Costs

7.1 Our Cost Consultant, Neil Powling, has analysed the Stage 2 Order of Cost Estimate R3 for the proposed scheme prepared by CHP, dated 10th December 2022, and concludes that:

'We have adopted the same GIA of 741m² used in the Applicant's cost plan; the GIA calculated by Holder Mathias is slightly more at 747m² (based on IPMS2). The GIA calculated by CHP is stated as in accordance with the RICS Code of Measurement 6th Edition 2007.

Our benchmarking results in an adjusted benchmark of £3,093/m² that compares to the Applicant's £3,009/m². 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 DS2 have applied the following additional cost assumptions:

- Professional fees of 8.23%
- Marketing fees of £1.50 psf
- Sales agent fees of 1%
- Sales legal fees of 0.5%

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 £nil. We request the Council verify this amount.

7.6 Finance has been included at 7% assuming that the scheme is 100% debt financed. We consider this finance allowance reasonable.

Profit

7.7 The developer profit target adopted by DS2 is 15% on GDV. Generally, we would expect to see a lower profit target for co-living units, to reflect the reduced risk, typically we are agreeing 12.5% on GDV for this type of scheme.

7.8 This is based on our considerable experience of the sector. DS2 have not provided any evidence of a higher required target return.

7.9 We have therefore assumed a target 12.5% developer profit.

Development Timeframes

7.10 DS2 have assumed a 6 month pre-construction period and a 15 month construction period, which have been confirmed as reasonable by our Cost Consultant.

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:

Clare Jones MRICS
RICS Registered Valuer
RICS Membership no. 0095561
For and on behalf of
BPS Chartered Surveyors

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

August 2023

Appendix 1: Build Cost Report

Project: The Crescent Hotel, 49-50 Cartwright Gardens Camden WC1H 9EL 2023/0004/P

Independent Review of Assessment of Economic Viability

Cost Report

1 SUMMARY

1.1 We have adopted the same GIA of 741m² used in the Applicant's cost plan; the GIA calculated by Holder Mathias is slightly more at 747m² (based on IPMS2). The GIA calculated by CHP is stated as in accordance with the RICS Code of Measurement 6th Edition 2007.

1.2 Our benchmarking results in an adjusted benchmark of £3,093/m² that compares to the Applicant's £3,009/m². We therefore consider the Applicant's costs to be reasonable.

1.3 The duration allowed in the Applicant's appraisal comprises a pre-construction period of 6 months and a construction period of 9 months. The results determined from the BCIS duration calculation provides an estimated average construction duration from start on site to construction completion of 42 weeks (9.7 months) with a 90% confidence interval for this estimate of 37 to 48 weeks (8.5 to 11.1 months). We consider the Applicant's allowance for pre-construction reasonable. We also consider the duration for construction compared to BCIS a reasonable allowance.

1.4 The areas and costs included in the appraisal are broadly consistent with the areas and costs in the estimate plan.

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 and also 30-year average prices. We have previously considered 5-year data more likely to reflect current regulations, specification, technology and market requirements, but because of reduce sample sizes in the last 5 years we consider the default values the most appropriate for benchmarking.

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 Dec 2022 by DS2 LLP together with at Appendix C the Stage 2 Order of Cost Estimate R3 issued 10 December 2022 by CHP - Base 4Q2022 with inflation to 3Q2023 (current).

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

3.3 The base date of the cost estimate is 4Q2022 with an addition for inflation to 3Q2023 (which is current). Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 4Q2022 is 375 (Provisional) and for 3Q2023 385 (Forecast). The increase in TPI from 4Q2022 to 3Q2023 is 2.67%. The adjustment in the estimate is 3%.

3.4 The design information used to produce the cost plan has been scheduled. There is no structural or services information listed.

3.5 The cost plan includes an allowance of 8.5% for preliminaries. The allowance for overheads and profit (OHP) is 8.4%. We consider taken together these allowances reasonable.

3.6 The allowance for contingencies in the estimate is 7.75% with a further Main Contractors D&B risk of 4.14%. The contingency in the appraisal is 10%. We consider an allowance of 10% reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.7 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking.

3.8 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 130 that has been applied in our benchmarking calculations.

3.9 We have adopted the same GIA of 741m² used in the Applicant's cost plan; the GIA calculated by Holder Mathias is slightly more at 747m² (based on IPMS2). The GIA calculated by CHP is stated as in accordance with the RICS Code of Measurement 6th Edition 2007.

3.10 The works comprise the conversion of a 5-storey building to shared living flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above.

3.11 Our benchmarking results in an adjusted benchmark of £3,093/m² that compares to the Applicant's £3,009/m². We therefore consider the Applicant's costs to be reasonable.

3.12 The duration allowed in the Applicant's appraisal comprises a pre-construction period of 6 months and a construction period of 9 months. The results determined from the BCIS duration calculation provides an estimated average construction duration from start on site to construction completion of 42 weeks (9.7 months) with a 90% confidence interval for this estimate of 37 to 48 weeks (8.5 to 11.1 months). We consider the Applicant's allowance for pre-construction reasonable. We also consider the duration for construction compared to BCIS a reasonable allowance.

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

BPS Chartered Surveyors
Date: 12th July 2023

Appendix 2: BPS Appraisals

49-50 Cartwright Gardens

Development Appraisal
BPS Surveyors
01 August 2023

49-50 Cartwright Gardens

Appraisal Summary for Phase 1

Currency in £

REVENUE

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**	**Net MRV at Sale**
Shared Living	31	5,293	116.17	19,835	475,379	614,900	475,379
Totals	**31**	**5,293**			**475,379**	**614,900**	**475,379**

Investment Valuation					
Shared Living					
Current Rent	475,379	YP @	4.2500%	23.5294	11,185,393
Total Investment Valuation					**11,185,393**
GROSS DEVELOPMENT VALUE				**11,185,393**	
Purchaser's Costs			(760,607)		
Effective Purchaser's Costs Rate		6.80%			
				(760,607)	
NET DEVELOPMENT VALUE				**10,424,786**	
NET REALISATION				**10,424,786**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price		5,300,000			
Fixed Price			5,300,000		
				5,300,000	
Stamp Duty			254,500		
Effective Stamp Duty Rate		4.80%			
Agent Fee		1.50%	79,500		
Legal Fee		0.30%	15,900		
				349,900	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Build Costs	8,041	250.59	2,014,994		
Contingency		10.00%	201,499		
				2,216,494	
Other Construction					

49-50 Cartwright Gardens

Project Insurance			30,225	
Mains Upgrade			13,000	
				43,225
PROFESSIONAL FEES				
Architect		8.23%	165,834	
				165,834
MARKETING & LETTING				
Marketing	5,293 ft²	1.50	7,940	
				7,940
DISPOSAL FEES				
Sales Agent Fee		1.00%	104,248	
Sales Legal Fee		0.50%	52,124	
				156,372
MISCELLANEOUS FEES				
Shared Living Profit		12.50%	1,398,174	
				1,398,174
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			476,648	
Construction			53,819	
Total Finance Cost				530,468
TOTAL COSTS				**10,168,405**
PROFIT				
				256,381

Performance Measures

Profit on Cost%	2.52%
Profit on GDV%	2.29%
Profit on NDV%	2.46%
Development Yield% (on Rent)	4.68%
Equivalent Yield% (Nominal)	4.25%
Equivalent Yield% (True)	4.37%
IRR% (without Interest)	9.73%
Rent Cover	6 mths
Profit Erosion (finance rate 7.000)	4 mths

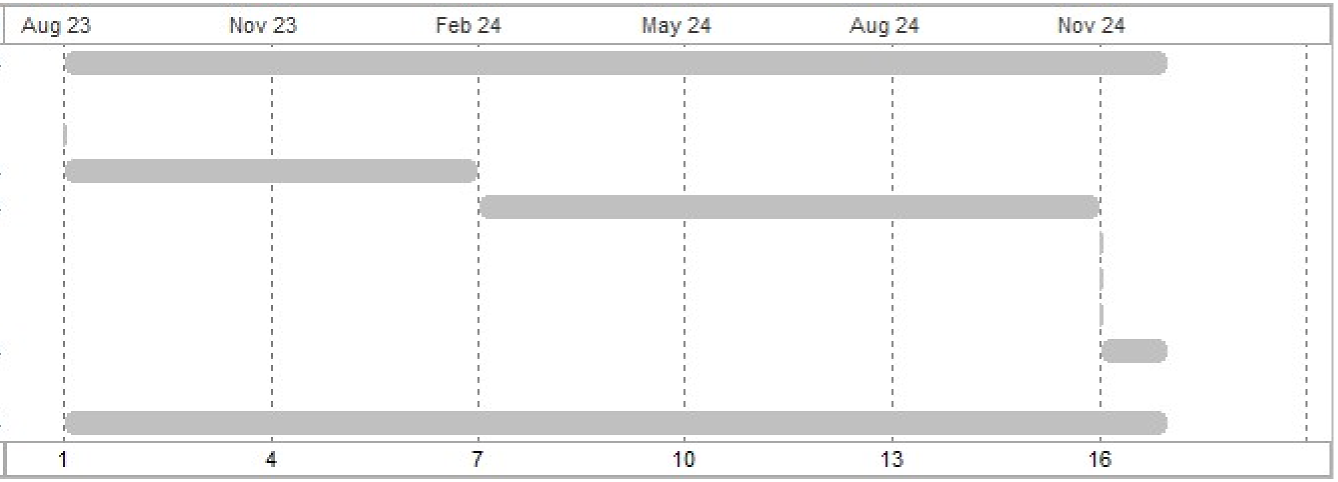
TIMESCALE AND PHASING CHART BPS SURVEYORS

49-50 Cartwright Gardens

Project Timescale	
Project Start Date	Aug 2023
Project End Date	Nov 2024
Project Duration (Inc Exit Period)	16 months

Phase 1

	Start Date	Duration	End Date
Project	Aug 2023	16	Nov 2024
Purchase	Aug 2023	0 Month(s)	
Pre-Construction	Aug 2023	6 Month(s)	Jan 2024
Construction	Feb 2024	9 Month(s)	Oct 2024
Post Development	Nov 2024	0 Month(s)	
Letting	Nov 2024	0 Month(s)	
Income Flow	Nov 2024	0 Month(s)	
Sale	Nov 2024	1 Month(s)	Nov 2024
Cash Activity	Aug 2023	16	Nov 2024



49-50 Cartwright Gardens

Table of Profit Amount and IRR%

	Construction: Gross Cost				
Rent: Total MRV	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	1,914,244	1,964,619	2,014,994	2,065,369	2,115,744
-5.000%	-£65,372	-£126,252	-£187,131	-£248,011	-£308,891
584,155	5.7681%	5.0135%	4.2625%	3.5149%	2.7707%
-2.500%	£156,384	£95,504	£34,625	-£26,255	-£87,135
599,528	8.5156%	7.7565%	7.0008%	6.2485%	5.4996%
0.000%	£378,140	£317,260	£256,381	£195,501	£134,621
614,900	11.2516%	10.4880%	9.7278%	8.9709%	8.2174%
+2.500%	£599,896	£539,016	£478,137	£417,257	£356,377
630,273	13.9763%	13.2084%	12.4438%	11.6825%	10.9245%
+5.000%	£821,652	£760,772	£699,893	£639,013	£578,133
645,645	16.6901%	15.9179%	15.1490%	14.3834%	13.6210%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost
Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Build Costs	1	£2,014,994	2.00 Up & Down

Rent: Total MRV
Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Shared Living	1	£614,900	2.00 Up & Down

Appendix 3: Melvin Gold Report

Clare Jones, MRICS
Director
BPS Chartered Surveyors
215a High Street
Dorking
Surrey
RH4 1RU

21 July 2023

Dear Clare

Re: The Crescent Hotel, 49-50 Cartwright Gardens, London WC1H 9EL

Thank you for involving me in your latest assignment for the London Borough of Camden relating to The Crescent Hotel in London WC1. Predominantly my work in this regard comprised a review of the report on the hotel, and the financial estimates contained therein, prepared by Avison Young. As you are aware, my initial reaction to the report prior to me quoting for this work and to being formally retained was that I felt it was a fair reflection of the hotel and the market. In the course of the assignment my views are little changed from this and consequently I have prepared this brief letter report summarising the situation as I perceive it, and drawing on key aspects of the Avison Young report.

Introduction and Background

I have not visited the hotel or its location in the course of this work although the area is well known to me and I have done work in the past that has involved me in Independent hotels in the area. In my understanding the hotel is currently closed in any case, pending the current planning application which would result in redevelopment. Prior to closure the hotel was trading as a fairly low grade 27-bedroom hotel. Avison Young describe the hotel in reasonable detail and they note that:

- Not all bedrooms have en-suite bathrooms. "there are 6 single bedrooms with basins only and a further 3 with shower and basin only. There are shared facilities for these rooms. The remaining 18 bedrooms have full en-suite facilities."
- "The average room size at circa 15 square metres is considered small, especially for serviced accommodation" and "Some rooms are as small as 7.5 square metres".
- "The property is relatively dated and tired as at the date of valuation" (which was August 2022).

Avison Young summarise the hotel as follows "The existing accommodation is laid out over basement level, ground floor level and three upper floors with hotel rooms on each floor. The hotel accommodation comprises 27 hotel rooms, the majority of which have en-suite facilities. The hotel also benefits from a reception area, kitchen, dining areas and rear outdoor yard." Thus the hotel's business is predominantly from the sale of bedrooms although Breakfast is provided on site. Avison Young do not differentiate between the various revenue types and this is typical of the way that such hotels present their accounts.

The planning application envisages the hotel will change use to 'Shared Living' and the hotel, as the most recent use, is considered as an Existing Use in order to envisage the Benchmark Land Value. My work is solely focused on the hotel aspects in keeping with my expertise, and I envisage financial estimates that would be appropriate for BPS Chartered Surveyors to utilise in their valuation of the hotel.

The London Hotel Market
I do not significantly disagree with Avison Young's market commentary although I note that their report was prepared in August 2022 and their valuation was confirmed by a short letter in December 2022. I present some commentary by way of update.

Supply
London is the largest and arguably the most dynamic hotel market in Europe. It is now generally agreed that there are significantly more than 150,000 hotel rooms in the city and supply has grown consistently, become more widespread in location terms and more varied in the type of supply.

Until the onset of the Covid-19 pandemic there was a significant pipeline of new hotel openings. Over 5,000 rooms entered the market in each year from 2017 to 2019, perhaps 6,500 rooms in 2019. It was expected that some 8,000 new rooms would open in 2020 but with the onset of the pandemic and various lockdown periods some projects were delayed although have subsequently opened. Knight Frank estimated that there were 5,000 new hotel rooms in London in 2022 and recently STR opined that there were more than 27,000 rooms now in the London hotel development pipeline, albeit at various stages of the development process and not all projects will materialise.

In terms of the overall supply trend, and most relevant to the subject hotel, it is fair to say that development activity is heavily skewed towards branded hotels at all tiers of the market. These tend to be far larger than the smaller independent properties that were once far more commonplace and this trend, exacerbated by the Covid pandemic, has seen an increasing number of Independent hotels exit the market for redevelopment, especially for alternate uses. Specific research on this is still rather scant but in their 2022 annual report, published in May 2023, Whitbread, owner of the UK's largest hotel brand Premier Inn, stated "Following the pandemic, we believe that total UK hotel supply contracted by 4% between 2019 and 2022, led by a decline in the independent sector that reduced by over 10%. The decline of the independent sector accelerated as customers migrated from independent to budget branded hotels". Although the comment is somewhat self-serving it does accord with the views of most commentators.

Demand
London is among the world's most dynamic and resilient hotel markets and while overall market occupancy levels are typically in excess of 80% there can be fluctuations in Occupancy and/or Average Room Rate caused by economic, geopolitical and security events, as well as by supply changes. The market has always demonstrated resilience and recovered relatively quickly to resume a growth trend.

As will be well known to readers of this report, in early 2020 the Coronavirus Covid-19 global pandemic commenced, and this has continued to have a significant impact around the world although the worst effects have subsided post-vaccine. This began as primarily a health issue and subsequently affected the social environment in almost every country, and as a consequence tourism and the economy suffered deeply.

On 23 March 2020 the UK Government ordered all hotels in the country to close unless they were solely accommodating keyworkers or a social purpose (such as the homeless). Hotels in England were permitted to open from 4 July 2020 but many did not open immediately and the pace of re-opening was slow, especially in London, and some remained closed. There were subsequent lockdown periods and restrictions and generally conditions remained far from normal. Demand was weak and/or patchy and international travel remained disrupted to some extent, both by rules and regulations in some countries and by traveller concerns. China and Asia Pacific were slower to open up than other regions.

Apart from international travel generally, some market segments were more constrained than others. Leisure demand, especially independent leisure travel, was fastest and strongest to re-emerge whereas group leisure travel; conferences, exhibitions and networking events; and business travel, were slower to emerge and arguably have still not normalised. There is some evidence that Corporate travel has also been affected by environmental concerns with some companies questioning the need for the same level of travel as pre-pandemic given both familiarity with video-call technology and pressure from the move towards net-zero. Domestically, weddings and social events appear to have largely normalised, the volume of events held back or cancelled during the Covid period has now largely been absorbed and a normal pattern has re-emerged.

2020 and 2021 were hugely disrupted by the pandemic environment and performance was almost unrecognisable from the many decades prior. In 2022 the market demonstrated signs of recovery and this especially manifested in Average Room Rate performance which was well above 2019 levels. This was partly a reflection of some discounted segments of demand being slower to recover as discussed above. Thus Occupancy remained below the long term norm but Average Room Rate grew.

Avison Young have made similar observations and commentary and subsequent to the date of their report the market has continued to improve although most commentary and data still reflects that Occupancy levels remain below London norms but Average Room Rate remains relatively high. To a great extent this has been necessary since labour shortages, rising wage rates, high energy costs and rising food and beverage prices have all put cost pressures onto hoteliers' financial performance and these can only be mitigated by higher revenues.

The Local Hotel Market
Avison Young have provided commentary and analysis on the local hotel market and I am broadly in agreement with this. Their supply analysis is focused on an area of 0.5 mile from The Crescent Hotel and observes that they "have identified 107 hotels with 11679 bedrooms including The Crescent Hotel, of which 4 are aparthotels with a total of 190 bedrooms." This indicates that the average hotel in the area has 109 bedrooms.

The data is largely presented in pie charts (which do not entirely add to the total reported) that illustrate that there are now 24 hotels in the area with less than 25 bedrooms and 47 with 26 to 75 bedrooms. These 71 hotels have 2,371 rooms. In contrast there are 34 hotels in the area with more than 75 bedrooms and these have 7,155 rooms and this evidences the above mentioned trend towards larger, chain-affiliated hotels (although around Russell Square there is the Royal National Hotel and others in the Imperial Hotels group which are among the largest Independent unbranded hotels in the UK). As discussed previously, the smaller independent hotels – often under-invested over a period of years – are finding it hard to complete in the 21st century hotel industry.

Performance trends are described and are in line with the trends described earlier. We have not sought to further update the STR/Costar data presented within the Avison Young report and not enough small Independent hotels provide data to STR to make a more specific data set available.

Avison Young Financial Estimates for The Crescent Hotel (as a Hotel)
Within their August 2022 report Avison Young present their hotel valuations with two sets of financial estimates which result in a very similar value. Initially we discuss these estimates.

From the commentary under the heading 'Yield Considerations' on pages 44 to 46 of their report it appears that primarily Avison Young rely on a future post-refurbishment scenario of the hotel as a 31 bedroom property. This is supported by 5 year financial estimates which are included as Appendix 2 to their report. Although not explicit it appears that these estimates are in future inflated values using an underlying rate of inflation of 2.5%.

They also present a Fair Market Operating Profit scenario for a single year of trading in 2022 values. This is a more simplified schedule that is intended to represent 'as is' trading for the hotel, albeit that the hotel is currently closed and in the valuation methodology Avison Young have assumed a capital expenditure cost of £7,500 per room (£202,500 in total) to enable the hotel to operate to an appropriate standard (they were not explicit about this but it is a reasonable assumption that is what is intended).

In this 'as is' scenario Avison Young have assumed 27 bedrooms, Occupancy of 85% and a net Average Room Rate of £90. This results in Revenue of £753,907 (including any breakfast or incidental revenues). Costs and Expenses are 60% of Revenue resulting in Net Operating income of £301,563, 40% of Revenue. This is after the above-mentioned capital Expenditure.

Earlier in their report Avison Young stated "We have been provided with limited trading data in the form of Companies House Accounts submitted by the business. These showed a Net Profit of £157k-£171k in YE 31 Oct 2018 and 2019 respectively before a Net Loss of £1k and £99k in YE 31 Oct 2020 and 2021 respectively." Often filings at Companies House can be on a different basis to an operating profit and loss estimate and might include depreciation and apportioned costs etc. Thus it is not surprising that Avison Young's estimates are higher. Reconciliation is not possible. Overall we are broadly in agreement with the 'as is' scenario although we provide a sense check and more detailed analysis below.

The post-refurbishment scenario is more difficult to consider, not least because of the quantum of capital expenditure which Avison Young have assumed. They explain that they have assumed total Capex of £4,531,500 which is calculated as SLP's estimated capex of £3,776,250 plus 20% as a profit element from the works. Even allowing for expansion to 31 bedrooms this equates to £146,177 per bedroom which is almost as much as the £196,000 per bedroom resulting from the valuation. In addition the capex is substantially above the £2,015,000 which DS2 have assumed will be required to create the shared living units.

Overall we have disregarded this scenario since such significant expenditure would likely result in an entirely different repositioning of the hotel. It is unlikely that any investor would invest roundly £150,000 per bedroom to end up with a resultant value of roundly £200,000 for a hotel that approximately has that value on an 'as is' basis.

Given that BPS Chartered Surveyors are intending to produce an Existing Use valuation I have concentrated on an 'as is' scenario.

Financial Estimates for The Crescent Hotel on an 'As Is' Basis

In Table 1 overleaf I present my earnings estimates for The Crescent Hotel on an 'As Is' basis. Although I have extrapolated the figures into a full Profit and Loss Account format to test the underlying assumptions, these resultant figures mirror the FMOP scenario prepared by Avison Young and discussed above. These figures are in 2022 values the same as Avison Young. To extrapolate them to 2023 values would have necessitated an inflationary scenario in terms of revenues and costs that would ultimately have ended with the same or similar profitability for valuation purposes, and that was considered unnecessary.

The figures, and my underlying modelling, are recognisable in terms of industry norms and ratios and are appropriate given the available information. In previous assignments I have reviewed data in the market area related to Branded Budget hotels as well as some Independent hotels, and the figures used in this exercise bear analysis and correlation against that data.

We have included an FF&E Reserve of 3% of revenue which is intended to reflect likely future capital expenditure to maintain the property at an acceptable operating standard. I have noted that Avison Young have included capital expenditure to re-open the property at such a standard at an amount of £7,500 per bedroom and £202,500 in total. I recommend that BPS adopt at least a similar figure within their valuation. It seems prudent given the comments that Avison Young have made about the current condition of the property. My financial estimates on that basis are in Table 1 below.

Table xx

Financial Estimates for The Crescent Hotel on an 'As Is' Basis in 2022 values

	Year 1	Ratio	Year 2	Ratio	Year 3	Ratio	Year 4	Ratio	Year 5	Ratio
	£	%	£	%	£	%	£	%	£	%
Revenues										
Rooms	753,908	100%	753,908	100%	753,908	100%	753,908	100%	753,908	100%
Total Revenue	**753,908**	**100%**	**753,908**	**100%**	**753,908**	**100%**	**753,908**	**100%**	**753,908**	**100%**
Departmental costs and expenses										
Rooms	236,727	31.4%	236,727	31.4%	236,727	31.4%	236,727	31.4%	236,727	31.4%
Total Dept. Costs	**236,727**	**31.4%**	**236,727**	**31.4%**	**236,727**	**31.4%**	**236,727**	**31.4%**	**236,727**	**31.4%**
Gross Profit	**517,181**	**68.6%**	**517,181**	**68.6%**	**517,181**	**68.6%**	**517,181**	**68.6%**	**517,181**	**68.6%**
Undistributed Costs										
Admin. & General	56,543	7.5%	56,543	7.5%	56,543	7.5%	56,543	7.5%	56,543	7.5%
Sales & Marketing	15,078	2.0%	15,078	2.0%	15,078	2.0%	15,078	2.0%	15,078	2.0%
Property Operation & Maintenance	30,156	4.0%	30,156	4.0%	30,156	4.0%	30,156	4.0%	30,156	4.0%
Utilities	33,926	4.5%	33,926	4.5%	33,926	4.5%	33,926	4.5%	33,926	4.5%
Total Undistributed Costs	**135,703**	**18.0%**	**135,703**	**18.0%**	**135,703**	**18.0%**	**135,703**	**18.0%**	**135,703**	**18.0%**
Income Before Fixed Charges	**381,477**	**50.6%**	**381,477**	**50.6%**	**381,477**	**50.6%**	**381,477**	**50.6%**	**381,477**	**50.6%**
Fixed Costs										
Property Taxes	45,486	6.0%	45,486	6.0%	45,486	6.0%	45,486	6.0%	45,486	6.0%
Insurance	11,309	1.5%	11,309	1.5%	11,309	1.5%	11,309	1.5%	11,309	1.5%
Ground Rent	500	0.1%	500	0.1%	500	0.1%	500	0.1%	500	0.1%
FF&E Reserve	22,617	3.0%	22,617	3.0%	22,617	3.0%	22,617	3.0%	22,617	3.0%
Total Fixed Costs	**79,912**	**10.6%**	**79,912**	**10.6%**	**79,912**	**10.6%**	**79,912**	**10.6%**	**79,912**	**10.6%**
Net Operating Profit/EBITDA	**301,565**	**40.0%**	**301,565**	**40.0%**	**301,565**	**40.0%**	**301,565**	**40.0%**	**301,565**	**40.0%**
Statistics										
Room Occupancy	85.0%		85.0%		85.0%		85.0%		85.0%	
Average Room Rate	90.00		90.00		90.00		90.00		90.00	
RevPar	76.50		76.50		76.50		76.50		76.50	
Rooms Let	8,377		8,377		8,377		8,377		8,377	
Double Occupancy Percentage	80.0%		80.0%		80.0%		80.0%		80.0%	
Number of Guests	15,078		15,078		15,078		15,078		15,078	

Source: Melvin Gold Consulting estimates (with reference to Avison Young report)

As an established hotel I have assumed that the hotel would trade at a stabilised level of operation and would not require a period to build up to optimum operation. This is debatable but the approach is suitable for the envisaged valuation.

I consider my financial modelling and estimates to be appropriate for use within the valuations that BPS Chartered Surveyors are preparing for the London Borough of Camden, as an Existing Use valuation in relation to the planning application.

As is usual in such reports we have, by necessity, made a number of assumptions (generally following research) which lead us to the conclusions contained herein. This report sets out our opinion, after considering all the factors of which we were aware.

We have used our best endeavours to research and consider the specific issues highlighted in respect of this existing hotel, albeit current closed pending the planning application. Whilst we have used all reasonable care and skill in undertaking the assignment we are not responsible and cannot be held responsible for any losses or other liabilities arising from the conduct of this assignment, or from any actions taken as a result of the information provided. Our report is submitted as part of the planning application process to support the assignment that you are retained for. Although you may rely on it for your purpose, and that of London Borough of Camden, it does not represent commercial advice for the subject development or for any other purpose. We recognise it may enter the public domain through the planning process but it does not constitute advice to any third party who may receive it and they should retain their own independent advice.

We thank you for having retained us on this most interesting and important assignment and remain at your service for further advice or discussion concerning this report or any other hotel industry related matters.

Yours faithfully

Melvin Gold
Hotel Industry Consultant