BIDWELLS

Our ref: SEM
E: simon.mills@bidwells.co.uk
Date: 31/08/2023

Redtree (North London) Ltd.
44 Great Eastern Street
London
EC2A 3EP

By email only

Dear Sir / Madam,

1 HAMPSHIRE STREET – ADDENDUM TO FINANCIAL VIABILITY ASSESSMENT

Bidwells was instructed by Redtree (North London) Limited ("the Applicant") to prepare a Financial Viability Assessment ("FVA") in connection to the Proposed Scheme for the redevelopment of property at 1 Hampshire Street to provide five apartments subject to the following description:

> *"Ground floor alteration from commercial use to residential to provide five flats."*

The planning reference for the Proposed Scheme is 2022/3758/P.

Our FVA was issued in March 2023. Bidwells concluded that the Proposed Scheme is not able to make any contribution towards the provision of Affordable Housing whilst maintaining economic viability. This was on the basis that the Residual Land Value generated by our appraisal (£1,145,758) was significantly below the Benchmark Land Value that we had adopted (£2,256,000).

The Existing Use Value that we adopted for the purposes of our FVA was based on a formal Red Book Valuation prepared by Glenny Chartered Surveyors ("GCS") for loan security purposes. The Valuation Report for Unit 3 stated a Market Value of £745,000 for a 999 year leasehold interest in the property subject to vacant possession. Therefore, the Red Book Valuation reflects the definition of EUV as set out in the NPPG which is simply *"the value of the land in its existing use.[1]"*

A Landowner Premium of 20% was then applied to the EUV, which we considered reasonable given the location of the property and the nature of the scheme, to arrive at a Benchmark Land Value of £2,256,000.

BPS has subsequently reviewed our report on behalf of Camden London Borough Council ("CLBC"), and issued a report titled *"Independent Viability Review"*, dated 10th August 2023. BPS disagreed with Bidwells' assessment of the Benchmark Land Value, Gross Development Value, Developer's Profit, and the Residual Land Value.

[1] See NPPG Paragraph: 015 Reference ID: 10-015-20190509 at https://www.gov.uk/guidance/viability#para015

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Gross Development Value

When preparing our FVA we carried out a Unit-by-Unit Pricing Exercise to estimate the GDV that the Proposed Scheme might be capable of generating. On this basis we estimated that the Proposed Scheme could generate a GDV of £2,725,000 (£852 per sq.ft NSA).

To arrive at the estimated vacant possession values, we principally referred to the schedule of prices that was achieved by the residential dwellings already delivered by the Parent Consent. We made adjustments to reflect the following characteristics: the relatively larger size of the 1-bedroom apartments; the layout of the proposed dwellings; the amount and the utility of the amenity space proposed; and the ground floor location of the proposed dwellings.

BPS have disputed this figure in their FVA, instead adopting an estimated GDV of £2,897,100, which equates to an upward adjustment of approximately 6.3%.

BPS do not appear to have carried out a unit-by-unit pricing exercise but instead have applied a £ per sq.ft. rate by dwelling. We do not think this approach is appropriate as it does not consider the specifics of the dwellings being located on the ground floor, or ceiling prices dictated by the local market.

We have reviewed the evidence put forward by BPS to support the values that they have adopted.

Agar Place

We have reviewed the transactional evidence of 1-bedrom flats in Agar Place which we have set out in the table below:

Address	Date sold	Sold price	Beds	Floor area ft²	Price per ft²
12 Agar Place	25/06/2021	£547,000	1	635	£861
4 Agar Place	05/04/2022	£562,000	1	635	£885
Flat 4, 8 Agar Place	30/06/2021	£565,250	1	689	£821
Flat 5, 8 Agar Place	25/06/2021	£565,250	1	689	£821
6 Agar Place	18/03/2022	£565,550	1	635	£891
Flat 3, 8 Agar Place	25/06/2021	£568,750	1	689	£826
14 Agar Place	27/09/2021	£570,000	1	710	£802
Flat 10, 8 Agar Place	24/06/2021	£570,000	1	710	£802
Flat 9, 8 Agar Place	23/06/2021	£570,000	1	710	£802
Flat 8, 8 Agar Place	18/06/2021	£570,000	1	710	£802
Flat 11, 8 Agar Place	22/06/2021	£571,000	1	710	£804
10 Agar Place	16/11/2021	£575,000	1	710	£809
Flat 2, 8 Agar Place	28/06/2021	£580,000	1	689	£842
Flat 14, 8 Agar Place	29/06/2021	£600,000	1	667	£899
Flat 15, 8 Agar Place	24/06/2021	£600,000	1	667	£899
Flat 16, 8 Agar Place	21/06/2021	£600,000	1	667	£899
Flat 17, 8 Agar Place	17/06/2021	£600,000	1	667	£899

Based on the evidence available, we would expect comparable properties in Agar Place to command a higher unit-price due to the relatively larger size of the flats, and the specification ground-up construction of the properties relative to a refurbishment.

We would also expect properties in Agar Grove to command a premium by virtue of their location, and the better access to local services and amenities.

It is additionally worth noting that all of the available transactions took place prior to the Autumn Mini-Budget in September 2022, and values have generally fallen since then.

XY, Maiden Lane Estate

We were not able to find the transactional evidence for XY, Maiden Lane Estate, N7 9GY. BPS noted that the transactions were part of a bulk sale and therefore the properties have extremely limited weight as comparable evidence to inform the market value of the proposed dwellings.

Founders House, 180 Kentish Town Road

We have reviewed the transactional evidence of flats that sold in Founders House in the two-year period prior to issuing our report. These transactions are set out in the table below:

Address	Date sold	Sold price	Beds	Floor area ft²	Price per ft²
Apartment 1, Founders House	18/04/2021	£445,000	1	495	£899
Apartment 6, Founders House	24/03/2023	£495,000	2	624	£793
Apartment 7, Founders House	24/06/2022	£570,000	2	678	£841
Apartment 4, Founders House	20/05/2022	£565,000	2	624	£905
Apartment 2, Founders House	06/04/2021	£525,000	2	667	£787

The majority of the transactions in Founders House were for two-bedroom flats that were of a similar scale to the proposed one-bedroom flats. Therefore, despite the flats being of a similar size we would expect the proposed flats to achieve a lower price to reflect the number of bedrooms. We would also expect the Founders House properties to command a higher value due to their prominent position on the Kentish Town Road and the improved access to local services and amenities.

It is additionally worth noting that many of the transactions took place prior to the Autumn Mini-Budget in September 2022, and values have generally fallen since then.

Therefore, in the absence of compelling evidence to the contrary, we stand firm in our assessment of the GDV that we adopted of £2,725,000.

Construction Costs

The appraisal that we prepared for our FVA used a cost plan prepared by Anderson Bourne Cost Consultants to inform the base Construction Cost. The cost plan identified a gross Construction Cost of £674,493 (£208.31 per sq.ft.); this included allowances for external works, overhead and profits, preliminaries, and contingency. This figure did not include an allowance for professional fees, we therefore included an additional allowance of 5% of construction costs.

BPS has reviewed the Anderson Bourne Cost Plan and their benchmarking exercise resulted in an adjusted benchmark of £867,867 (£268.03 per sq.ft.). This represents an increase of £193,374, or c. 28.6% on the base construction cost that we adopted for our appraisal.

This represents a significant increase from the base construction cost that we adopted for our appraisal. However, BPS have chosen to ignore their own analysis and instead have adopted Bidwells' costs which date back to February 2023.

It should be noted that costs have continued to increase in the intervening period between assessments. However, in the interest of reaching an agreement we are minded to accept BPS's assessment of costs but reserve the right to revisit construction costs at a later date should discussions become protracted.

Developer's Profit

In our report that was issued in March 2023, we assessed that a Developer's Profit of 20% on Cost was reasonable as:

1. It reflects the market risk associated with a scheme of this nature.
2. It is in line with the funding requirements which we have observed with other similar schemes.

We are still of the opinion that a Developer's Profit of 20% on Cost is reasonable and disagree with BPS's assessment that a profit target of 10% on cost would be more reasonable.

We disagree with BPS's assessment that the "*project risk is minimal*" as "*the FVA already demonstrated that there is a demand for residential units*". As many of the transactions referred to by BPS completed prior to the "Autumn Mini-Budget" it is clear that we are dealing with a much more uncertain market.

Significant uncertainty and nervousness are being widely reported by the housebuilding industry as the cost-of-living squeeze is continuing to impact buyers and renters affordability, which in turn is impacting the number of residential transactions that are completing.

Rising interest rates, high inflation, and a weaker economy have continued to cause a slowdown in housing market activity. Inflation continues to outpace earnings and growth in total and regular pay fell in real terms on the year in March to May 2023.

We accept BPS's view that a conversion project potentially has lower construction risk than a new build scheme. However, it is clear from the above that there are significant macro-economic risks to the sales programme that must also be considered. We would also invite BPS to provide evidence of projects in London where a developer's profit of 10% on cost has been accepted as a reasonable profit margin.

On this basis we consider that 20% profit on cost is reasonable and would also note that this is in line with current hurdle rates required by lenders. Additionally, a developer's profit of 20% on GDV had previously been accepted for the Parent Consent, therefore a profit target of 20% on cost was considered reasonable given the specific circumstances of the Proposed Scheme.

Affordable Housing Contribution

In our report issued in March 2023 we tested a range of Affordable Housing Contributions and provided the output of these appraisals, as summarised below:

- No Affordable Housing Contribution. **RLV: £1,052,983**
- Applicant Calculated Affordable Housing Contribution. **RLV: £1,145,758**
- CLBC Calculated Affordable Housing Contribution. **RLV: £712,809**

When assessed against the BLV, it was demonstrated that the Proposed Scheme could not make any contribution towards affordable housing whilst maintaining economic viability.

DSP has not verified the appropriate contribution and have deferred assessment of the appropriate amount to CLBC.

The Applicant has provided James Neill's analysis of Policy H4 of the Camden Local Plan whereby he concludes that:

"In summary, the Council's proposed approach here in my view is clearly not in accordance with either Policy H4 or the explanatory text. The Council has to consider the proposal on its own merits and apply Policy H4 to the proposal before it, which relates the ground floor of the current existing building, unless it can point to some other redevelopment proposal with which it should be considered in conjunction (and there clearly is none). In my view:

a. there is no policy basis to require a higher affordable housing contribution merely because the site was recently redeveloped to provide residential floorspace. That is not what the Council says and reading it this way in my view is clearly a misinterpretation of it and therefore unlawful; and

b. seeking to assume that the proposal is part of a wider proposal for a total of 21 residential units (i.e the original 16 units plus the additional 5 units) is in my view irrational as that there is no such proposal since the development permitted by the 2017 Permission has been completed.

On either analysis (i.e either a misinterpretation of Policy H4 or an irrational application of it) I consider that the application of the 28% target to this particular area of floorspace would be unlawful."

On this basis we are firm in our assessment that the policy compliant affordable housing contribution is £100,200.

Benchmark Land Value

EUV

At present there is a fundamental difference in opinion between Bidwells and BPS as to an appropriate Benchmark Land Value.

In our FVA dated March 2023 we based our assessment of the EUV on a Red Book Valuation that was instructed by a prospective purchaser of Unit 3 and prepared by Glenny Chartered Surveyors. The date of the valuation was 29th May 2022. The Red Book Valuation identified a Market Value of £745,000 (against an asking price of £795,000) which we pro-rated to the GIA of Unit 1 and 2 to arrive at an EUV of £1,880,000.

BPS have disputed this assessment of the EUV on the basis that the "*PPG is clear that price paid for the land does not form a sufficient justification of informing an Existing Use Value of the property*".

Our assessment of EUV was not based on the price paid but an opinion of Market Value and we do not understand why the GCS valuation should be disputed in this way. It is a Red Book Valuation that was prepared for secured lending purposes by a RICS Registered Valuer working for a RICS regulated firm, with appropriate knowledge and experience of the local market and prepared with absolute impartiality in accordance with the International Valuation Standards. It therefore does not reflect the price paid but provides an independent assessment of Market Value of the unit in its existing office use. This therefore provides strong evidence to inform the EUV of the Site.

It should be further noted that the EUV that we assessed in our March 2023 FVA was significantly lower than the investment value of the commercial premises that we assessed in our FVA dated October 2021. In this report we arrived at an investment value of £2,655,750 for the three units based on a rent rate of £45 per sq.ft. and a capitalisation yield of 6%.

This was accepted as reasonable by BPS in their FVA dated August 2022, noting that the rental rate was "*in line with the evidence perhaps even slightly bullish noting the micro location is not typical of offices*" and that the yield is "*generally what we are adopting for class 'E' properties*". We would therefore question how BPS can conclude, just one year later, that the subject site could have an EUV as low as

£1. We do not understand how BPS can carry out an independent assessment of viability without arriving at their own reasonable view as to the specific level of EUV or without providing compelling evidence to the contrary.

Landowner's Premium

In our FVA dated March 2023 we applied a landowner's premium of 20% to the EUV which we considered reasonable given the location of the property and the nature of the scheme. The PPG states that:

> "*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.*"

We disagree with BPS's assessment that it is unreasonable that "*in the existing circumstances such a high level of landowner's premium would be required*" and the assertion that "*ART's report clearly proves that the commercial units are currently not lettable*" as this demonstrates clear disregard to the difficult market conditions that have been witnessed during the period where the units were marketed (i.e. during the series of lockdowns in the UK as a response to the COVID-19 pandemic).

On this basis we stand firm in our assessment of the EUV at £1,880,000, and without evidence to the contrary we stand firm in our assessment of the Landowner's Premium of 20%.

Conclusions

The main points of difference between Bidwells and BPS are summarised in the table below. As BPS did not provide their assessment of the residual land value, we have calculated this based on BPS's inputs.

	Bidwells (March 2023) No AH Contribution	Bidwells (March 2023) Applicant Calculated AH Contribution	BPS (August 2023) CLBC Calculated AH Contribution
GDV	£2,725,000	£2,725,000	£2,897,100
Construction Cost	£674,493	£674,493	£674,493
AH Contribution	£0	£100,200	£434,200
Developer's Profit	20% on cost	20% on cost	10% on cost
Residual Land Value	£1,145,758	£1,052,983	£1,071,651
BLV	£2,256,000.0	£1,052,983	£1
Landowner's Premium	20%	20%	Not stated
EUV	£1,880,000	£877,486	-
EUV £ per sq.ft. GIA	£531	£248	-

Based on the above, it is clear that the main area of disagreement between Bidwells and BPS is in relation to the BLV. We have therefore conducted a series of appraisals based on the assumptions set out in BPS's report, as summarised below, to quantify the impact of this disagreement on the overall viability position.

	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
GDV	£2,897,100	£2,897,100	£2,897,100	£2,897,100	£2,897,100	£2,897,100
Construction Cost	£674,493	£674,493	£867,881	£867,881	£674,493	£674,493
AH Contribution	£434,200	£434,200	£434,200	£434,200	£100,200	£0
Developer's Profit	10% on cost	20% on cost	10% on cost	20% on cost	10% on cost	10% on cost
Residual Land Value	£1,071,651	£870,627	£883,310	£682,284	£1,192,560	£1,285,334
Equivalent BLV	£1,071,651	£870,627	£883,310	£682,284	£1,192,560	£1,285,334
Landowners Premium	20%	20%	20%	20%	20%	20%
EUV	£893,043	£725,523	£736,092	£568,570	£993,800	£1,071,112
EUV £ per sq.ft.	£252	£205	£208	£161	£281	£302

Scenario 1 and Scenario 2

Scenario 1 uses the inputs adopted by BPS to calculate the residual land value that was not provided in their report. Scenario 2 uses the same inputs that BPS have adopted for their appraisal but tests developer's profit of 20% on cost.

Scenario 3 and Scenario 4

Scenario 3 and Scenario 4 use the inputs that BPS have adopted for their appraisal but test the impact of using the construction cost identified by their cost consultant and different developer's profit requirements on the residual land value.

Scenario 5 and Scenario 6

Scenario 5 and Scenario 6 use the inputs that BPS have adopted for their appraisal but test the impact of different affordable housing contributions on the residual land value.

Analysis

In each of the scenarios we have equated the residual land value to the BLV to understand the EUV that would be required to be able to make a contribution towards affordable housing.

For the reasons set out above and in the previous sections, it is clear that each of these scenarios does not provide a reasonable assessment of the EUV and our brief review of the available comparable evidence does not support figures this low. Additionally, these figures would be below the replacement cost of the Property.

Unless BPS can provide compelling evidence to dispute our EUV, on this basis it can be comprehensively demonstrated that the Proposed Scheme cannot viably make any contribution towards affordable housing.

Yours faithfully,

Simon Mills MRICS
Senior Surveyor
Signed for and behalf of Bidwells LLP