BNP PARIBAS REAL ESTATE

Real Estate for a changing world

Financial Viability Assessment

Cluney Mews, Harrington Square, London NW1

Prepared for

Salboy (Mornington Crescent) Limited

August 2023

BNP PARIBAS REAL ESTATE

Contents

Appendices

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1 Introduction

Salboy (Mornington Crescent) Limited ("the Applicant") have commissioned BNP Paribas Real Estate to undertake a Viability Assessment of their proposed development at Cluney Mews, Harrington Square, London, NW1 ("the site").

The site currently comprises a secure surfaced area car park for 16 cars.

The Applicant intends to submit a planning application for the development of eleven apartment.

Policy H4 of the Camden Local Plan 2017 adopts a sliding scale for developments over 100 sq m up to 25 dwellings. This is a requirement of 2% affordable housing for each unit; therefore 11 dwellings results in a requirement of 22%. This is a requirement of 2.42 dwellings. Policy H4 also has a guideline tenure mix of 60% social affordable rent and 40% intermediate housing.

The development has a single access and core which may render it unattractive to a Registered Provider in operational terms both from a management and service charge recovery perspective.

We have been appointed to assess the viability of the proposed development assuming a 100% private development.

This will assess the level of surplus or deficit generated by the development based on reasonable evidenced market facing assumptions and best practice in assessing the financial viability of residential led development for planning purposes.

This will assist the Applicant in its conversation with the London Borough of Camden ("LBC") in agreeing a suitable affordable housing contribution either on site or through a financial contribution.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The firm offers clients an integrated service from 55 offices within the United Kingdom and over 5,000 experts across 30 countries, we combine local knowledge with global reach and we have circa 50 dedicated research employees analysing nearly 200 markets. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France and named the World's Best Bank for Financial Inclusion in 2020 by Euromoney. BNP Paribas is a leading bank in the Eurozone and a leading global player operating in 68 countries across continents.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ('RPs').

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Tom Glasson, MSc MRICS, RICS Registered Valuer, and reviewed by Anthony Lee MRTPI MRICS, RICS Registered Valuer.

The Development Viability Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority ('GLA') to review its 'Development Control Toolkit Model' (commonly referred to as the 'Three Dragons' model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model and advising on areas that required amendment in the re-worked toolkit and other available appraisal models and submitted our report in February 2012.

Anthony Lee was a member of the working group under the chairmanship of Sir John Harman that drafted '*Viability testing local plans: Advice for planning practitioners'*. He was also a member of the *'Developer Contributions Expert Panel'* advising MHCLG on the viability section of the 2019 Planning Practice Guidance.

In addition, we were retained by the then Homes and Communities Agency ('HCA'), now Homes England ("HE") to advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report Structure

This report is structured as follows:

Section two provides a brief description of the Development;

Section three describes the methodology that has been adopted;

Section four reviews the assumptions we have adopted in our appraisals;

Section five sets out the results of the appraisals;

Finally, in **Section six**, we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Professional Standard ('PS') *'Assessing viability in planning under the National Planning Policy Framework for England 2019'* (first edition, March 2021). However, paragraph 2.2.3 of the PS acknowledges that statutory planning guidance takes precedence over RICS guidance and practice statements. Conflicts may emerge between the PS and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

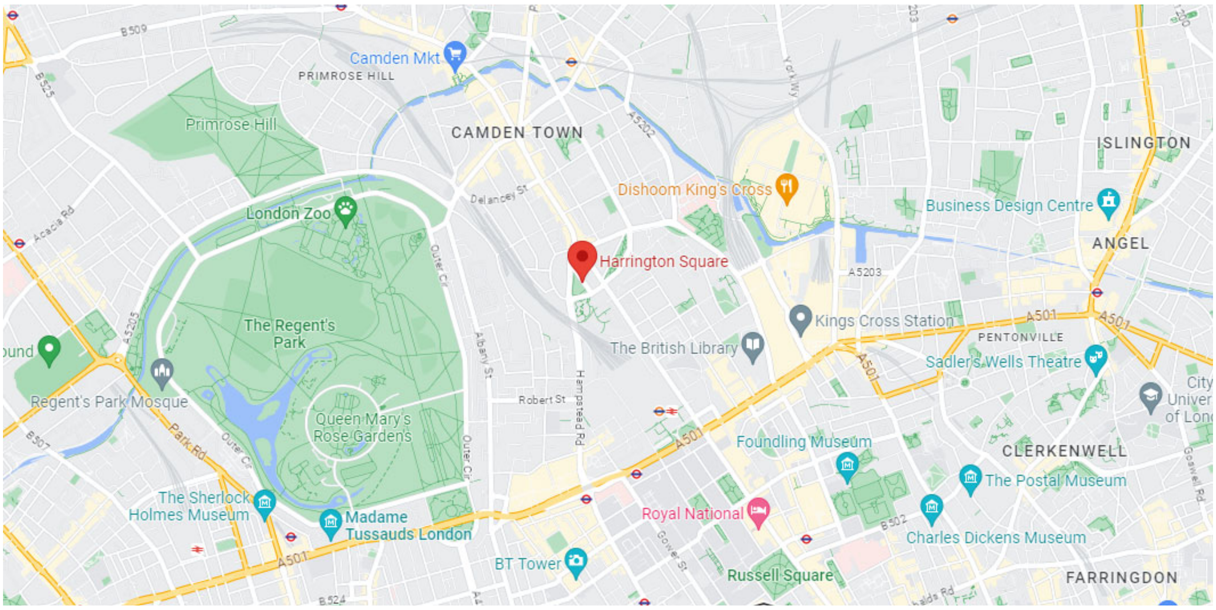
In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to the Salboy (Mornington Crescent) Limited only. No liability to any other party is accepted.

2 Description of the Development

2.1 Site Description

The site is located in central London in the LBC, towards the south of the borough.



(Site Location: Source - Google Maps)

Specifically the site is located at the northern apex of Harrington Square which is situated in between the Marylebone/Euston Road (A501) to the south and Camden Town and Primrose Hill to the north.

Regents Park is located to the west and Kings Cross Station and St Pancras International Station (which have both undergone significant regeneration) are located to the east.

To the south of the A501 is Marylebone and Fitzrovia, both considered to be prime residential areas where a number of private medical practices, universities and the British Museum are located.

Harrington Square is located to the north of Euston station which is currently being reconfigured to accommodate HS2.

The British Library is located on Euston Road between Euston Station and St Pancras International Station.

The site is well located for public transport being within walking distance of three of central London's main national and international railway stations (served by numerous operators running services to the north of London as well as Eurostar).

The site is also within short walking distance of Mornington Crescent Underground (Northern Line) Station.

Harrington Square is actually a three sided triangle with the eastern side being the subject site and housing owned by LBC and period properties.

The south of the square accommodates two tower blocks.

The west of the is completely occupied by Greater London House which was formerly the Black Cat cigarette factory which was constructed in the communal gardens of Mornington Crescent to the west in the 1920s.

Given prevailing fashions at the time and an example of corporate branding, the building has an Egyptian theme including a number of large black cats on the elevations.

The building is now occupied by ASOS.

The centre of the square is public open space.

The site currently comprises secure car parking for 16 cars.

(Source: Inspection Photo)

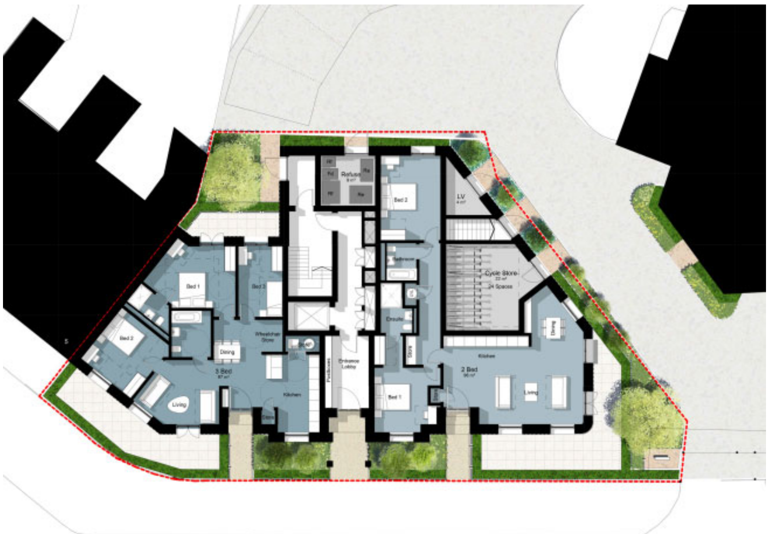
2.2 The proposed development

The Applicant intends to submit a planning application for the development of the site to provide 11 flats in a building of five floors (including basement).

Figure 1: Harrington Square Elevation

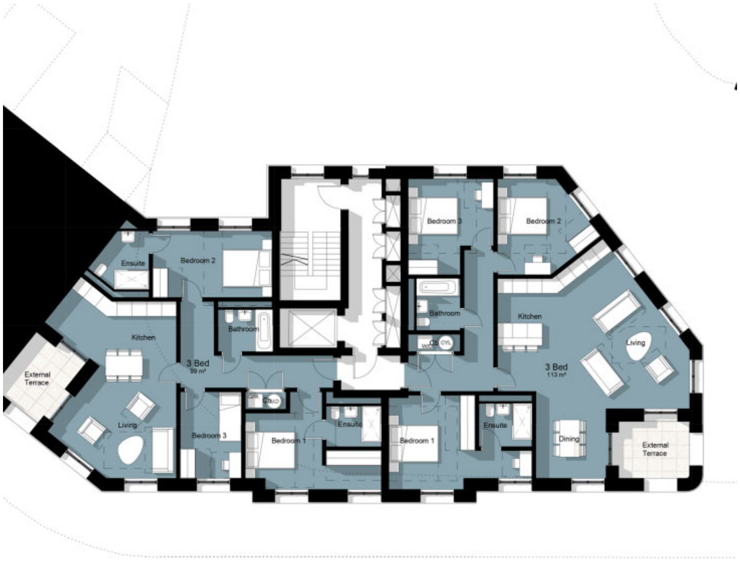
(Source: Design and Access Statement August 2023 Studio Power)

Figure 2: Ground Floor Plan



(Source: Design and Access Statement August 2023 Studio Power)

Figure 3: Third Floor Plan



(Source: Design and Access Statement August 2023 Studio Power)

All of the flats are lateral and provide open plan living room and kitchen.

The table below provides a summary of the proposed accommodation.

Table 2.2.1 Apartments at Proposed Development

Unit	Bed	Floor	Area Sq Ft	Comment
1	3	Gr	1,044	One of the bedrooms is en suite, one bedroom is a single
2	2	Gr	1,033	Two of the bedrooms are en suite (has a lift provision)
3	3	1st	947	One of the bedrooms is en suite, one bedroom is a single
4	2	1st	710	No ensuite, one bedroom is a single
5	1	1st	538	No ensuite
6	3	2nd	947	One of the bedrooms is en suite, one bedroom is a single
7	2	2nd	710	No ensuite, one bedroom is a single
8	1	2nd	538	No ensuite
9	3	3rd	1,065	Two en suite, one bedroom is a single
10	3	3rd	1,205	One en suite
11	3	4th	1,453	Large terrace third bedroom off the open plan living room (not ensuie) bedroom 2 has WC bedroom 1 on suite
Total			**10,190**	

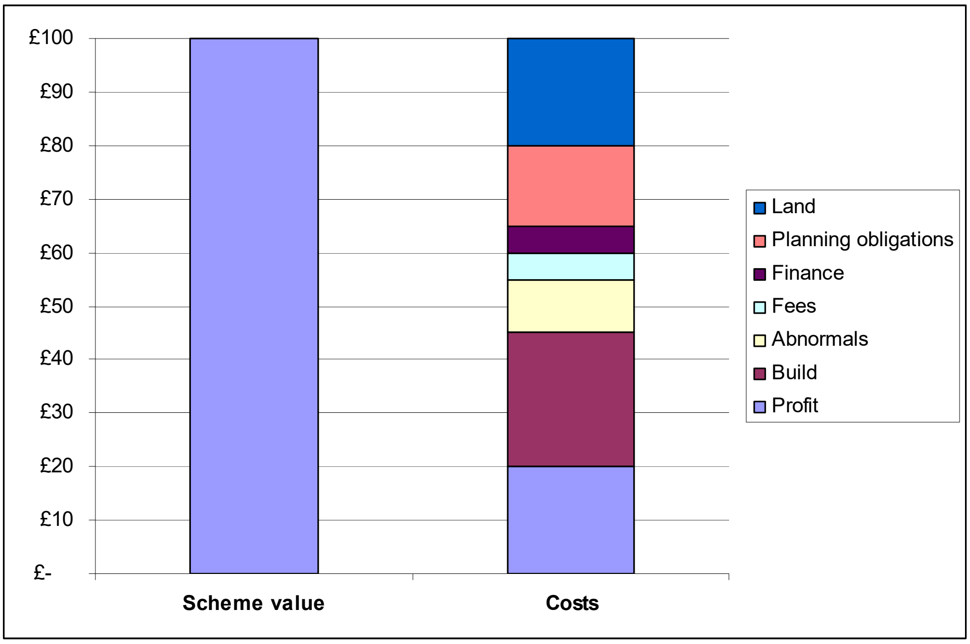
3 Methodology

We have used Argus Developer to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com.

Argus is a cash-flow backed appraisal model. This cash-flow approach allows the finance charges to be accurately calculated over the development period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Appraisal models can be summarised via the following diagram. The total scheme value is calculated, as represented by the left hand bar. This includes the sales receipts from the private housing and any commercial floorspace. The model then deducts the build costs, abnormal costs, fees, interest, planning obligations and developer's profit. A 'residual' amount that is left after all these costs are deducted is the land value that the developer would pay to the landowner. This Residual Land Value ('RLV') is represented by the blue portion of the right hand bar in the diagram.

Figure 3.1: Inputs to a residual valuation



The RLV is normally a key variable in determining whether a scheme will proceed. If a proposal generates sufficient positive land value it will be implemented. If not, the proposal will not go ahead, unless there are alternative funding sources to bridge the 'gap'.

When running a development appraisal, it is necessary to identify the key variables – sales values, build costs etc – with some degree of accuracy in advance of implementation of a scheme. Below we consider some key variables in more detail (please note that this is not an exhaustive list):

- Scheme value will be assessed with reference to the value of existing nearby comparable premises (usually demonstrated through the completion of sales and / or letting transactions). Care must be taken to consider the rate at which the local market will be capable of absorbing the additional supply generated by the development proposals and whether this will impact upon achievable values.

- Development costs are subject to national and local monitoring and can be reasonably accurately assessed in ‘normal’ circumstances. This might include site wide infrastructure costs where land has not previously been developed. Developers will also build in contingency allowances to mitigate the risk of unforeseen development costs being incurred. The risk of unforeseen costs is higher when seeking to conserve and convert historic buildings.

- Abnormal costs will be linked to the specifics of the site and the development proposals and can therefore be more difficult to assess in advance.

- Finance costs will be determined by the cost of securing finance (i.e. the interest rate and bank fees that are charged) and the phasing of costs and receipts across the development period. Where costs are incurred earlier in the development period, finance costs will be higher.

- Developer’s profit is closely correlated with risk. The greater the risk, the higher the profit level required by lenders. Typically, developers and banks are targeting 17.5% profit on GDV on a typical new build development scheme whilst riskier projects involving heritage assets may require a higher rate of return.

The RLV is then compared to an appropriate benchmark, often considered to be the Existing Use Value (‘EUV’) of the site plus, where appropriate, a landowner’s premium in line with the requirements of the Planning Practice Guidance.

4 Appraisal assumptions

This section of the report sets out the general principles and assumptions which we have used to undertake a development appraisal of the scheme.

4.1 Housing Market Commentary

4.1.1 National economic and housing market context

The positive economic start to 2020 was curtailed by the outbreak of COVID-19, declared a global pandemic by the World Health Organisation in March 2020. The long term consequences of the virus continues to impact global financial markets and supply chains. The FTSE 100 initially fell from 6,474 points to 5,152 points between 9 to 19 March 2020, representing a fall of 20.42% - the largest fall since the 2008 financial crisis. The Bank of England ("BoE") responded to the COVID-19 outbreak by lowering the base rate to 0.25% and introducing financial arrangements to help the bridge the downward economic pressure caused by COVID-19. These changes to the base rate have since been reversed as a result of factors discussed below.

The UK Government introduced a series of restrictive and economically disruptive measures to slow and mitigate the spread of the COVID-19. The UK Government pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants/loans to support businesses, including the furlough scheme which has since ended. Importantly for the housing market, a Stamp Duty holiday ran from June 2020 until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme allowed for the full easing of restrictions within the UK, which has in turn led to a positive rebound in economic activity.

However, the rebound in economic activity has seen inflation rates increase above the BoE's inflation target of 2%, with inflation currently standing at 7.9% at the time of writing.

Despite the economic headwinds facing the UK, the housing market has outperformed expectations in 2020 and 2021. According to the Office of National Statistics reporting on Land Registry Data ("ONS Data"), in December 2020 house prices were 7% higher than 12 months prior. They were a further 8.1% higher than the previous 12 months in December 2021.

However, in the third and fourth quarters of 2022, annual house price growth has fallen back, largely (although not exclusively) as a result of the Government's September 'Fiscal Event' which saw unfunded cuts to taxes and a consequent fall in sterling and increase in bond yields. Nationwide's Chief Economist, Robert Gardener, commented in Nationwide's February 2023 House Price Index Report that "*Annual house price growth slipped into negative territory for the first time since June 2020, with prices down 1.1% in February compared with the same month last year. Moreover, February saw a further monthly price fall (-0.5%) – the sixth in a row – which leaves prices 3.7% below their August peak (after taking account of seasonal effects).The recent run of weak house price data began with the financial market turbulence in response to the mini-Budget at the end of September last year. While financial market conditions normalised some time ago, housing market activity has remained subdued.*"

As a consequence according to ONS Data house price growth totalled 8.1% in 2022.

The instillation of a new Chancellor (and Prime Minister), who effectually reversed the majority of the proposals in the Mini Budget, has led to a degree of stability. However significant headwinds remain domestically and globally.

Both Nationwide and Halifax indicate that whilst the market remains resilient, house price growth is expected to continue to be somewhat muted as a result of continuing pressure on household budgets and the impact of higher interest rate rises. Robert Gardner (Nationwide) comments in July 2023 that *"While activity is likely to remain subdued in the near term, healthy rates of nominal income growth, together with modestly lower house prices, should help to improve housing affordability over time, especially if mortgage rates moderate once Bank Rate peaks".*

Halifax observe the resilience the UK housing market however Kim Kinnaird, Director of Mortgages also comments; *"Prospects for the UK housing market remain closely linked to the performance of the wider economy. Several factors are providing support, notably strong wage growth, running at around +7% annually. And, while the uptick in unemployment is likely to restrain that somewhat, it seems unlikely to reach levels that would trigger a sharp deterioration in conditions. "Expectations of further Base Rate increases from the Bank of England were tempered by a better-than expected inflation report for June. However, while there have been recent signs of borrowing costs stabilising or even falling, they will likely remain much higher than homeowners have become used to over the last decade".*

In their August 2023 Housing Market Update, Savills reflect demand remains subdued as a result of elevated mortgage rates and lower mortgage approvals. However, overall activity remains robust with completions rising in June.

On a broader economic scale CBRE offer a cautiously optimistic medium term view in their Q2 2023 Economic Outlook stating *"Although inflation is declining gradually, it remains persistently high. Despite this, and the recent instability in the global banking sector, we are more optimistic about the economic outlook and now expect the UK to avoid a recession this year. This partly reflects improving business confidence and the resilient labour market. Moreover, as inflation returns to sufficiently low levels, GDP will start to recover more substantially. In 2024, we expect GDP growth of 1.2%"*.

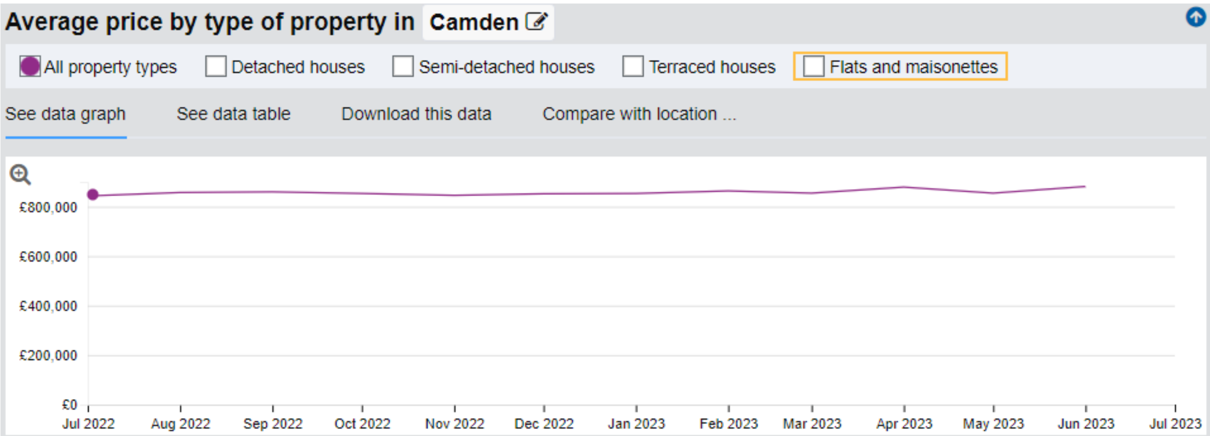
Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years.

Additionally, positive growth will be further encouraged as more certainty emerges on the deal now agreed for the UK's exit from the EU and employment growth, wage growth and GDP growth return towards trend levels. In their April 2023 Housing Market Update, Savills are forecasting 6.2% cumulative growth across the UK between 2023 and 2027.

4.1.2 Local housing market

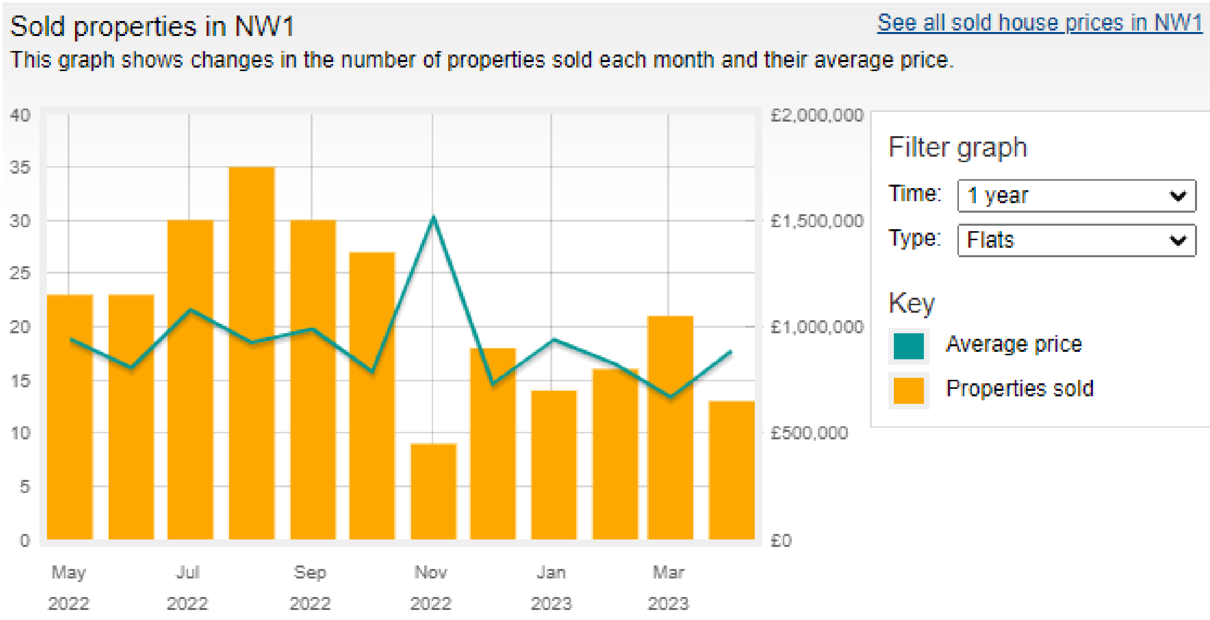
General house prices in the LBC (shown in purple in the Figure 4.1.2.1 below) have increased by 4.4% in the 12 months to June 2023 (latest available data).

Figure 4.1.2.1: Average house prices: LBC



(Source: Land Registry)

Rightmove (which also uses Land Registry data) shows a more volatile picture in the NW1 postcode over with a fall of 5.8% from May 2022 to April 2023. However, this is also likely to be more as a result of the sales volumes November 2022 onwards. As can be noted, the volume of properties sold from November 2022, was much lower in comparison to the earlier months of 2022.



(Source: Righmove)

4.2 Market Housing Revenue

In order to price the units we have had regard to a variety of market evidence.

The proposed development is located in Central London in an area which is surrounded by distinctive residential areas. For example, to the west of the site is the Regents Park which is surrounded by large regency properties. To the south is Marylebone and Fitzrovia, both prime Central London residential locations, to the north is Camden Town and Primrose Hill which again have their own unique characteristics. The area is dominated to the east by St Pancras and Kings Cross stations with Islington to the west of this.

There are a number of new build developments in the area, many of which are part of the Kings Cross regeneration or located to the north in Camden.

St Matthews Lodge Roof Extension, 50 Oakley Square: The development is single floor extension on top of the exiting building to provide five flats. Pricing is not currently publicly available for the units.

Grand Central Apartments, Purchase Street and Brill Place: Located to the south of the site this is a development of 150 flats of which 106 are private.

The development also incudes a new school and community centre.

We understand that the private units were sold in 2022. Sold prices are not currently available, however asking prices reflected £1,621 per square foot on average.

Table 4.2.1 provides examples of asking prices per unit type.

Table 4.2.1 Grand Central Apartments

Type	Area	Average Asking Price	Per Sq Ft
One Bed	591	£825,000 to £975,000	£1,317 to £1,650
Two Bed	769 to 770	£1,145,000 to £1,265,000	£1,487 to 1,645
Three Bed	1,443	£2,750,000	£1,906

Tribeca (Ugly Brown Building) 1 – 6 St Pancras Way: The development of 73 residential units, of which 37 are private and anticipated to be build for rent.

Agar Grove Estate, Agar Grove: A development of 496 units of which 21 are private.
Phase 1 and 2 are complete and sold and Phase 3 is anticipated to launch in Autumn 2023. Currently publicly available achieved prices

reflect £840 per sq ft.

Asking prices from previous phases in 2021 averaged £973 per sq ft and are summarised in Table 4.2.2.

Table 4.2.2 Agar Grove Estate

Type	Area	Average Asking Price	Per Sq Ft
One Bed	575 to 634	£570,000 to £590,000	£931 to £1,000
Two Bed	773 to 839	£765,000 to £795,000	£930 to £1,009

St Pancras Commercial Centre 63 Pratt Street: A development of office and 33 residential units of which 19 are private. The private units are anticipated to be for build to rent. Construction commenced for Phase 1 (106 units) completed in Q1 2022 and the private units were sold by Q1 2023.

Kings Cross Central Gas Holders, Triplets York: This was a unique development and the first of its kind in London. Argent built high specification apartments in the retained and refurbished gas holders overlooking Regents Canal. The latest sale of an apartment was for £2,800,000 in February 2022 achieving £2,000 per sq ft. There is currently a four bedroom apartment available for £7,200,000 reflecting £2,545 per sq ft.

Kings Cross Central S4 Cappella: This is a development located in the Kings Cross regeneration which comprises 176 units of which 120 are affordable. Completion is anticipated in Q2 2024.
Sold prices are not yet publicly available. There are 16 units remaining with asking prices in 2022 and 2023 averaging £1,600 per sq ft. These are summarised in Table 4.2.3.

Table 4.2.3 Kings Cross Central S4 Capella

Type	Area	Average Asking Price	Per Sq Ft
Studio	449	£650,000 to £685,000	£1,448 to £1,526
One Bed	556 to 558	£750,000 to £850,000	£1,349 to £1,523
Two Bed	797 to 872	£1,170,000 to £1,750,000	£1,468 to £2,007
Three Bed	1,044 to 1,172	£1,700,000 to £2,050,000	£1,459 to £1,796

Kings Cross Central S5 Cadance This is a development located in the Kings Cross regeneration which comprises 163 units of which 103 are affordable. Completion is anticipated in August 2023. Sold prices are not yet publicly available.

The scheme sold out in Q1 2023 and asking prices in £1,809 per sq ft. These are summarised in Table 4.2.4.

Table 4.2.4 Kings Cross Central S5 Cadance

Type	Area	Average Asking Price	Per Sq Ft
Two Bed	896 to 902	£1,720,000 to £2,150,000	£1,907 to £2,062
Three Bed	1,449 to 1,455	£1,995,000 to £2,000,5000	£1,371 to £1,381

There are also two other developments in Kings Cross central R8 which will be social rent and Triangle which will be build to rent.

Noting that the majority of the new build in the area is unique to the Kings Cross regeneration, we have also undertaken a search of Land Registry sold prices since January 2022.

Based on this data, all of the properties are second hand (some of which will have been refurbished) this is in line with our research above and knowledge of the immediate area.

Note that the data does not accurately distinguish between the number of bedrooms so the figures reported below are based on the rate per sq ft.

Based on a 0.5 km radius, the search area extends as far Albany Street where beyond to the West is the Outer Circle of Regents Park which is predominantly grand regency properties. To the east, the each area extends to Pancras Road and Regents Canal to the east Euston station to the south Camden to the north.

Based on this search parameter, the average unit price is £765,000 and the average area is 856 sq ft. The average rate per sq ft is £894. Capital values range from £180,000 to £2,900,000 with rates per sq ft ranging from £512 to £5,224.

The second hand Land Registry Data referred to above is attached as **Appendix 1.**

We are aware of one sale on Harrington Square in recent years this being Flat E 17-18 Harrington Square which was a second floor two bedroom apartment presented in good decorative order which would however benefit from modernisation. The flat extended to 968 sq ft and sold in December 2019 for £730,000 reflecting £750 per sq ft.

In addition, a three bedroom flat sold in April 2020 in Dalehead tower block to the south of the Square (floor area not stated) for £449,000.

We have also reviewed asking prices for flats in close location to the proposed development.

To the east of the site there is a two bed flat for sale on Crowndale Road for £720,000. The flat extends to 993 sq ft and the asking price reflects £725 per sq ft.

Again to the east of the site there is a one bed flat for sale on Oakley Square for £420,000. The flat extends to 467 sq ft and the asking price reflects £899 per sq ft.

To the east there is a three bedroom flat available on Eversholt Street for £550,000. The flat extends to 860 and the asking price reflects £639 per sq ft. There is also a one bedroom flat available on Eversholt Street for £420,000. The flat extends to 431 and the asking price reflects £974per sq ft.

Finally there are two one bedroom apartments for sale on Mornington Crescent with asking prices of £449,000 (£896 per sq ft) and £530,000 (£861 per sq ft).

Having regard to the spectrum of evidence set out above we have arrived at the following values for the units at the proposed development.

This reflects their characteristics and location in the context of the comparable evidence as well as the scale of the development.

Table 4.2.5 Proposed Development Achievable Prices

Unit	Bed	Floor	Area Sq Ft	Value	Per Sq ft
1	3	Gr	1,044	£950,000	£910
2	2	Gr	1,033	£920,000	£891
3	3	1st	947	£1,200,000	£1,267
4	2	1st	710	£875,000	£1,232
5	1	1st	538	£700,000	£1,301
6	3	2nd	947	£1,250,000	£1,320
7	2	2nd	710	£895,000	£1,261
8	1	2nd	538	£725,000	£1,348
9	3	3rd	1,065	£1,350,000	£1,268
10	3	3rd	1,205	£1,370,000	£1,137
11	3	4th	1,453	£1,900,000	£1,308
Total			**10,190**	**£12,135,000**	**£1,191**

4.3 Development programme

Assuming an implementable planning permission is in place, we have assumed a pre-construction period of six months to discharge all necessary planning conditions and procure an appropriate construction delivery method.

This period would also allow for the required time for any potential application for a Judicial Review to expire.

We have assumed a construction period of 18 months.

We have assumed 35% pre sales prior to practical completion.

We have assumed a post completion rate of sale of two units per month.

This results in a post completion sales period of four months (when rounded to whole units).

4.4 Construction Costs

We have been provided with a Budget Estimate dated August 2023 prepared by Artal as set out below.

Table 4.4.1 Artal Budget Estimate Summary

Element	Cost
Substructure	£437,900
Frame	£310,725
Upper Floors	£139,750
Roof (including roof terrace)	£70,800
Stairs	£37,500
External Walls	£1,079,073
External Windows and Doors	£181,314
Internal Walls	£153,441

Element	Cost
Internal Doors	£86,900
Wall Finishes	£59,233
Floor Finishes	£94,655
Ceiling Finishes	£54,421
Fixtures Fittings and Equipment	£470,428
Mechanical and Electrical Instillations	£649,000
Abnormal Provisionals and External Works	£580,195
Preliminaries (14%)	£616,747
Design Development/Pricing Risk (5%)	£251,104
Contractor OH&P (10%)	£527,319
Total	**£5,800,504**

The above cost equates to £390 per sq ft.

A copy of the Artal Estimate is attached as **Appendix 2**.

We note that the Artal cost plan adopts a contingency allowance of 5%. In our experience, for the purposes of viability assessments supporting planning applications, a general allowance of 5% is applied.

We have therefore not applied any additional contingency within our appraisal.

We have assumed professional fees of 10%.

4.5 Developer's Profit

Profit serves the dual function of mitigating risk and providing a developer with a return on capital. We have recently experienced a range from 17% to 20% of GDV when considering developments across the south east. We have taken into consideration the uncertainty that is now apparent following a series of national and international events, including the ongoing supply chain issues associated with the Coronavirus pandemic and Brexit; the UK's trading relations with other countries; increases in commodities pricing including energy costs as a result of interlocking geopolitical events (including but not limited to the above).

We consider a profit of 17.5% of GDV to be reasonable.

We have applied this for the purposes of our appraisals.

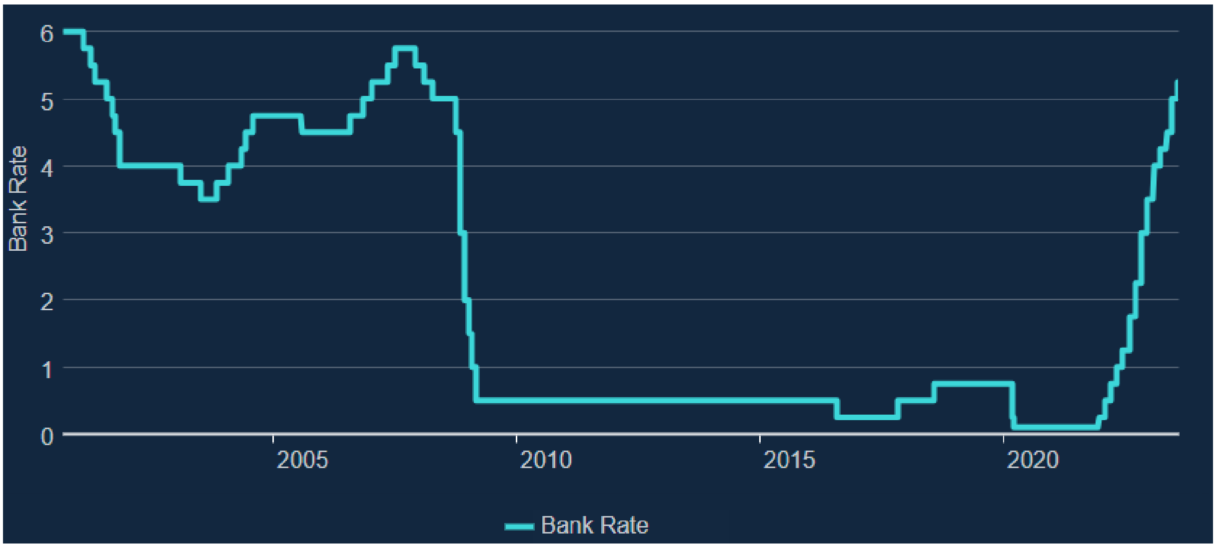
4.6 Finance costs

In our experience, until the geopolitical events of 2022, including the government's September 2022 'Fiscal Event', development finance rates generally ranged between 6% to 7% as a blended total cost of finance across the capital stack (accounting for the risk pricing for respective tranches such as senior debt, mezzanine and equity) inclusive of fees.

Prior to May 2022, the Bank of England base rate had been below 1% (as low as 0.1%) since March 2009.

As respective countries' economies emerged from periods of lockdown in order to mitigate the impacts of the Covid 19 Pandemic, competition for supply of essential goods increased, resulting in an inflationary environment. This was also exacerbated by Russia's large scale invasion of Ukraine in March 2022 along with the global community's response (including sanctions).

Furthermore, the September 2022 Fiscal Event saw unfunded cuts to taxes and a consequent fall in sterling and increase in bond yields. In part, in response to the reaction of the market the Bank of England have increased the base rate as illustrated by the graph below.



(Source –*Bank of England Base Rate Over Time: Bank of England*)

As can be seen the base rate has increased from 0.25% in December 2021 to 5.25% in August 2023.

Whilst is it noted that there is not a direct correlation between the base rate and the total blended cost of finance, the changes briefly summarised above have had an impact on both the availability and cost of development finance.

We have adopted an interest rate of 7%, with no additional allowance for fees.

It should be noted that although a bank would not provide 100% of the funding required for the Development it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual cost) of committing equity to the project.

The Applicant have informed us that they are currently seeing higher rates of finance when the rate and fees are considered. We have therefore also run a sensitivity appraisal adopting a finance rate of 9.5%.

4.7 Planning Obligations

We have been advised that conversations with the Section 106 financial obligation package are ongoing with the LBC.

We have been provided with the following provisional sums for the purposes of our appraisal.

Table 4.7.1 Potential Section 106 Financial Contributions

Element	Cost
Construction Management	£7,565
Carbon Offsetting	£8,750
Child Yield Offsetting	£8,750
Highway Contribution	£8,750
Section 106 Monitoring Fee	£8,750
Travel Plan Monitoring Fee	£5,196
Total	**£47,761**

The development will be liable for MCIL 2 which took effect in 2019 and is subject to indexation.

The 2023 indexed rate based on the sites location is £86.06 per sq m.

There are no buildings on site to offset, so the total estimated liability is £118,849 based on the GIA of 1,381 sq m which informs the Artal cost estimate.

The LBC adopted their CIL charging Schedule in October 2020 and the site is located in Zone 2 where the rate is £322 per sq m.

The LBC index their rates every year based on the Royal Institution of Chartered Surveyors Community Infrastructure Levy (the 2023 figures are not yet published).

Based on the 2022 figures the CIL rate is £334 per sq m.

There are no buildings on site to offset so the total estimated liability is £461,254 based on the GIA of 1,381 sq m which informs the Artal cost estimate.

We have adopted these figures for the purposes of our appraisals.

4.8 Sales Marketing and Letting Fees

We have assumed the following sales and marketing fees.

- Marketing fees of 1.5% of the residential units;
- Disposal agency fees of 1.5% of the residential units; and
- Legal fees of 0.25% of the units.

5 Analysis

5.1 Benchmark Land Value

As noted in Section 1 and 2 the site currently comprises a secure surface level car park for 16 cars.

Secure dedicated off street car parking in central London can be particularly valuable as much of the on street parking is metered or residential permit holders only.

We have reviewed Lonres which is a subscription-based database and search engine used by valuers and estate agents in central London. It lists sales and availability of houses, flats and car parking spaces.

Based on our search there is limited availably of private car parking for sale or rent in the area and surrounding areas as demonstrated by Table 5.1.1.

Table 5.1.1 Postcodes and Corresponding Areas Where Lonres Does Not Have Car Parking for Sale or Rent

Postcode	Area
NW1	Euston, Camden Town, Somers Town, Primrose Hill, Regents Park
N1	Barnsbury, Canonbury, Kings Cross, Islington, Pentonville, De Beauvoir Town, Hoxton, Angel
W1U	Marylebone, Marylebone Village, Baker Street
W1G	Marylebone and Harley Street
W1B	Portland Street, Regent Street
W1W	Great Portland Street, Fitzrovia
W1T	Fitzrovia, Tottenham Court Road
WC1E	University College London
WC1H	St Pancras
WC1X	Kings Cross, Finsbury West
EC1R	Finsbury, Finsbury Estate, Clerkenwell, Mount Pleasant, Exmouth Market

We have therefore extended our search radius and have identified the following private spaces available for sale or to rent.

Table 5.1.2 Car Parking Available for Sale or to Let in Extended Search Radius

Address	Description	Asking Price/ Rent Per Month
Garage 6, Rear of Springfield Court, Eaton Avenue, NW3	Lock Up Garage	£125,000
Parking Space, 33 - 35 Branston Mews, W1H 2DZ	Secure Underground Space	£150,000
Garage, Orchard Court, Portman Square W1H	Double garage in porterd block	£750,000
Parking Space 1, Lexham Gardens, W8	Surface Level Space	£75,000
Parking Spaces 447, Mayfair Car Park, Park Lane, W1K	Secure Underground Space	£80,000

Address	Description	Asking Price/ Rent Per Month
Parking Spaces 404, Mayfair Car Park, Park Lane, W1K	Secure Underground Space	£85,000
Parking Spaces 432, Mayfair Car Park, Park Lane, W1K	Secure Underground Space	£85,000
Parking Spaces 402 Mayfair Car Park, Park Lane, W1K	Secure Underground Space	£85,000
Numerous Garages, Pembrooke Gargens Close	Garage	£85,000

We are also aware of the following historic sales of car parking.

Table 5.1.3 Historic Sales of Car Parking

Address	Description	Date	Price
Parking Spaces 408 Mayfair Car Park, Park Lane, W1K	Secure Underground Space	Jun -22	£85,000
Garage 1 Porchester Gardens, W2	Garage	Nov - 21	£120,000
Parking Spaces 419 Mayfair Car Park, Park Lane, W1K	Secure Underground Space	Jun -21	£90,000
Parking Spaces 418 Mayfair Car Park, Park Lane, W1K	Secure Underground Space	Jun -21	£90,000
Garage 32, Cumberland Terrace Mews NW1	Lock Up Garage	Mar-21	£75,000
Garage 62 Chester Court Albany Street NW1	Lock Up Garage	May-19	£90,000
Garage 9 Chester Close NW1	Lock Up Garage	May-19	£75,000

There are no examples of sales of car parking in the other Postcodes referenced in Table 5.1.1.

The evidence above demonstrates that there is a lack of supply for car parking in this part of central London; however, we consider there would be demand for a secure parking space given the central location and amount of residential units in the area.

We note that the majority of the sales and availability are in underground or lock up garages.

Reflecting the fact that the spaces on the subject site are at ground floor, albeit in a secure compound, we have assumed a value of £60,000 per space.

This results in a value of £960,000.

We have also added a 15% premium to this figure to reflect that the 16 spaces are located in one location.

This results in a Benchmark Land Value of £1,100,000.

5.2 Appraisal results

Based on the assumptions outlined in Section 4 above we have arrived at a residual land value of £1,760,000.

A copy of our appraisal is attached as **Appendix 3**.

When compared to the Benchmark Land Value of £1,100,000 this results in a surplus of £660,000.

It should however be noted that residual appraisals are very sensitive to small changes in inputs.

For example a 2.5% increase in sales values coupled with a 2.5% decrease in construction costs results in an increased residual land value of £2,100,000. Conversely a 2.5% decrease in sales values coupled with a 2.5% increase in construction costs results in a decreased residual land value of £1,430,000.

As noted in Section 4.6 the Applicant has advised us that their finance costs are higher than the 7% we have assumed for our appraisal. As such we have also undertaken a sensitivity appraisal which assumed a finance rate of 9.5%. This results in a residual land value of £1,560,000 reducing the surplus to £460,000.

6 Conclusions

Our appraisals result in a surplus of £460,000 to £660,000 (depending on approach to finance) which could be provided as on-site units (up to a policy compliant level) or a cash contribution again up to a policy cap.

We understand that the Applicant would be happy to work with the LBH and their advisors once they have had the opportunity to review this report in order to agree an approach which maximises affordable housing as well as ensures deliverability of the proposed development.

This should also be considered once the full suite of other Section 106 contributions has been refined.

Appendix 1 Second Hand Land Registry Data

Address	Date sold	Sold price	New build	Category	Subcatego	Floor area m²	Floor area sq ft	Per Sq Ft	Tenure
263a, Hampstead Road, London, Greater London NW1 3EA	30/01/2023	£ 690,000	FALSE	House	Flat	70	753	£ 916	Leasehold
Flat 8, Regent House, 1 - 6, Pratt Mews, London, Greater London NW1 0AD	13/01/2023	£ 1,100,000	FALSE	House	Flat	95	1,023	£ 1,076	Leasehold
Flat 6, Glenridding, Ampthill Square, London, Greater London NW1 2JY	20/12/2022	£ 530,000	FALSE	Maisonett	Flat	76	818	£ 648	Leasehold
4a, Hurdwick Place, London, Greater London NW1 2JE	14/12/2022	£ 565,000	FALSE	House	Flat	61.8	665	£ 849	Leasehold
71b, Bayham Street, London, Greater London NW1 0AA	02/12/2022	£ 615,000	FALSE	Maisonett	Flat	64	689	£ 893	Leasehold
26, Camden High Street, London, Greater London NW1 0JH	02/12/2022	£ 975,000	FALSE	Retail	High_Stree	156	1,679	£ 581	Freehold
Flat 12, Clarendon House, Werrington Street, London, Greater London NW1 1PL	23/11/2022	£ 444,000	FALSE	House	Flat	48	517	£ 859	Leasehold
21c, Arlington Road, London, Greater London NW1 7ER	07/11/2022	£ 825,000	FALSE	House	Flat	74	797	£ 1,036	Leasehold
Flat 15, Silsoe House, 50, Park Village East, London, Greater London NW1 7QH	28/10/2022	£ 435,000	FALSE	House	Flat	45	484	£ 898	Leasehold
34, Mornington Terrace, London, Greater London NW1 7RS	27/10/2022	£ 2,900,000	FALSE	House	Semi_Deta	248	2,669	£ 1,086	Freehold
Flat 24, Calstock, Royal College Street, London, Greater London NW1 0RX	26/10/2022	£ 470,500	FALSE	House	Flat	62	667	£ 705	Leasehold
Flat 3, 11, Mornington Crescent, London, Greater London NW1 7RH	21/10/2022	£ 715,000	FALSE	House	Flat	84	904	£ 791	Leasehold
12, Albert Street, London, Greater London NW1 7NZ	20/10/2022	£ 1,560,000	FALSE	House	Terraced	119	1,281	£ 1,218	Freehold
24b, Mornington Crescent, London, Greater London NW1 7RG	14/10/2022	£ 425,000	FALSE	House	Flat	48	517	£ 823	Leasehold
35a, Mornington Terrace, London, Greater London NW1 7RS	13/10/2022	£ 980,000	FALSE	House	Flat	92	990	£ 990	Leasehold
Flat 35, St. Matthews Lodge, 50, Oakley Square, London, Greater London NW1 1NB	11/10/2022	£ 380,000	FALSE	House	Flat	39	420	£ 905	Leasehold
Flat 6, Clarendon House, Werrington Street, London, Greater London NW1 1PL	29/09/2022	£ 350,000	FALSE	House	Flat	56	603	£ 581	Leasehold
Flat 2, 17 - 19, Delancey Street, London, Greater London NW1 7NP	26/09/2022	£ 495,000	FALSE	House	Flat	51	549	£ 902	Leasehold
Flat 1, Regent House, 1 - 6, Pratt Mews, London, Greater London NW1 0AD	23/09/2022	£ 995,000	FALSE	House	Flat	102	1,098	£ 906	Leasehold
6, Goldington Crescent, London, Greater London NW1 1UA	22/09/2022	£ 570,000	FALSE	House	Flat	58	624	£ 913	Leasehold
1, Bridgeway Street, London, Greater London NW1 1QU	07/09/2022	£ 460,000	FALSE	House	Flat	65	700	£ 657	Leasehold
Flat 23, Cobden House, Arlington Road, London, Greater London NW1 7LL	10/08/2022	£ 515,000	FALSE	House	Flat	57	614	£ 839	Leasehold
57b, Oakley Square, London, Greater London NW1 1NJ	08/08/2022	£ 765,000	FALSE	House	Flat	61	657	£ 1,165	Leasehold
Flat 7, Aldenham House, Aldenham Street, London, Greater London NW1 1PR	01/08/2022	£ 412,500	FALSE	House	Flat	56	603	£ 684	Leasehold
Flat 3, 66, Plender Street, London, Greater London NW1 0LB	28/07/2022	£ 755,000	FALSE	House	Flat	82	883	£ 855	Leasehold
Flat 8, Newlyn, Plender Street, London, Greater London NW1 0DD	20/07/2022	£ 276,000	FALSE	House	Flat	28	301	£ 916	Leasehold
Flat 22, 3, St Pancras Way, London, Greater London NW1 0PB	15/07/2022	£ 485,000	FALSE	House	Flat	42	452	£ 1,073	Leasehold
Flat 19, Dartington, Plender Street, London, Greater London NW1 0DE	15/07/2022	£ 430,000	FALSE	Maisonett	Flat	61	657	£ 655	Leasehold
Flat 23, Lydford, Royal College Street, London, Greater London NW1 0SA	01/07/2022	£ 390,000	FALSE	House	Flat	41	441	£ 884	Leasehold
28, Albert Street, London, Greater London NW1 7NU	20/06/2022	£ 2,500,000	FALSE	House	Terraced	254	2,734	£ 914	Freehold
Flat 43, Silsoe House, 50, Park Village East, London, Greater London NW1 7QH	17/06/2022	£ 665,000	FALSE	Maisonett	Flat	78	840	£ 792	Leasehold
Flat 4, 11, Mornington Crescent, London, Greater London NW1 7RH	30/05/2022	£ 730,000	FALSE	House	Flat	88	947	£ 771	Leasehold
Flat 25, Cartmel, Hampstead Road, London, Greater London NW1 3SH	17/05/2022	£ 180,500	FALSE	House	Flat	26	280	£ 645	Leasehold
Flat 6, Buttermere, Augustus Street, London, Greater London NW1 3TE	09/05/2022	£ 400,000	FALSE	House	Flat	70	753	£ 531	Leasehold
Flat 38, Westerham, Bayham Street, London, Greater London NW1 0JU	28/04/2022	£ 500,000	FALSE	House	Flat	63	678	£ 737	Leasehold
Flat 5, Buttermere, Augustus Street, London, Greater London NW1 3TE	05/04/2022	£ 472,000	FALSE	House	Flat	72	775	£ 609	Leasehold
31, Medburn Street, London, Greater London NW1 1RH	01/04/2022	£ 750,000	FALSE	House	Flat	80	861	£ 871	Leasehold
Flat 172, Mayford, Oakley Square, London, Greater London NW1 1PA	31/03/2022	£ 450,000	FALSE	Maisonett	Flat	77	829	£ 543	Leasehold
49, Arlington Road, London, Greater London NW1 7ES	25/03/2022	£ 1,150,000	FALSE	House	Terraced	135	1,453	£ 791	Freehold
Flat 16, Goldthorpe, Camden Street, London, Greater London NW1 0HH	25/03/2022	£ 485,000	FALSE	Maisonett	Flat	88	947	£ 512	Leasehold
23, Charrington Street, London, Greater London NW1 1RE	16/03/2022	£ 820,000	FALSE	House	Flat	82	883	£ 929	Leasehold
Flat 3, Kirkstone, Harrington Street, London, Greater London NW1 3SL	14/03/2022	£ 302,700	FALSE	House	Flat	42	452	£ 670	Leasehold
46, Albert Street, London, Greater London NW1 7NU	18/02/2022	£ 2,595,000	FALSE	House	Terraced	215	2,314	£ 1,121	Freehold
Flat 20, Cubitt Court, 100, Park Village East, London, Greater London NW1 3DL	08/02/2022	£ 415,000	FALSE	House	Flat	47	506	£ 820	Leasehold
69c, College Place, London, Greater London NW1 0DR	27/01/2022	£ 530,000	FALSE	House	Flat	70	753	£ 703	Leasehold
31, Mornington Crescent, London, Greater London NW1 7RE	24/01/2022	£ 1,750,000	FALSE	House	Flat	31	334	£ 5,244	Freehold
13c, Mornington Terrace, London, Greater London NW1 7RR	07/01/2022	£ 777,999	FALSE	House	Flat	79	850	£ 915	Leasehold
		£ 35,981,199					40,244	£ 894	
		£ 765,557					856		

Appendix 2 Artal Cost Plan

SALBOY

HARRINGTON SQUARE

BUDGET ESTIMATE - REVISION 4

Date of issue 31/08/2023

SALBOY
HARRINGTON SQUARE

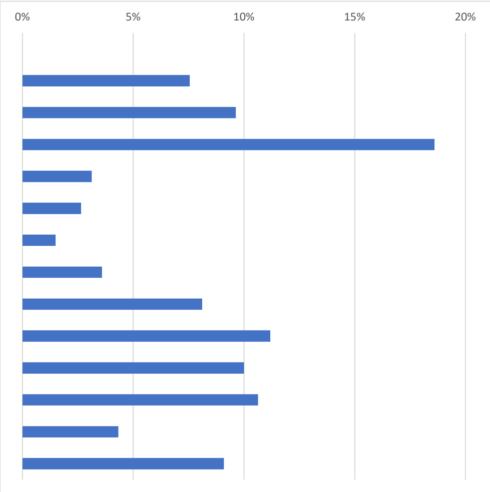
ARTAL

BUDGET ESTIMATE
OVERALL GRAPHICAL SUMMARY

DESCRIPTION: Residential scheme | **USE CLASS:** Residential | **STOREYS:** 4 Storeys + Basement | **UNITS:** 11 | TOTAL **GIFA: 14,865** ft2

CURRENT COST PLAN REVISION (Cost Plan Nr 3)

ELEMENTAL COST ANALYSIS	%
Demolition/Alterations	0%
Substructure	8%
Frame, Upper Floors, roof, stairs	10%
External Walls	19%
External Windows and doors	3%
Internal Walls	3%
Internal Doors	1%
Internal Finishes	4%
Fixtures, Fittings and Equipment	8%
MEP Services	11%
External Works	10%
Main contractors preliminaries	11%
Contingency	4%
Main contractors overheads and profit	9%



AREAS

	m2	ft2	UNITS
Basement	145	1,561	
GF	295	3,175	2
1F	256	2,756	3
2F	256	2,756	3
3F	256	2,756	2
4F	173	1,862	1
TOTAL	1,381	14,865	11

COST SUMMARY

TOTAL COST	**£**	**5,800,504**
COST / FT2	**£**	**390**

ARTAL

BUDGET ESTIMATE

OVERALL SUMMARY

GIFA (ft2)	14,865
GIFA (m2)	1,381

Ref	Element	Total		£/m2		£/ft2	
A	Demolition/Alterations			£	-	£	-
	Demolition/Alterations (a)	£	-	£	-	£	-
B	Substructure	£	437,900	£	317.1	£	29.5
	Substructure (b)	£	437,900	£	317	£	29
C.1	Frame	£	310,725	£	225.0	£	20.9
C.2	Upper Floors	£	139,750	£	101.2	£	9.4
C.3	Roof (incl roof terrace allowance)	£	70,800	£	51.3	£	4.8
C.4	Stairs	£	37,500	£	27.2	£	2.5
C.5	External Walls	£	1,079,073	£	781.4	£	72.6
C.6	External Windows and Doors	£	181,314	£	131.3	£	12.2
C.7	Internal Walls	£	153,441	£	111.1	£	10.3
C.8	Internal Doors	£	86,900	£	62.9	£	5.8
	Superstructure (c)	£	2,059,503	£	1,491	£	139
D.1	Wall finishes	£	59,233	£	42.9	£	4.0
D.2	Floor finishes	£	94,655	£	68.5	£	6.4
D.3	Ceiling Finishes	£	54,421	£	39.4	£	3.7
	Internal Finishes (d)	£	208,309	£	151	£	14
E	Fixtures, Fittings and Equipment	£	470,428	£	340.6	£	31.6
	Fixtures, Fittings and Equipment (e)	£	470,428	£	341	£	32
F	Mechanical and Electrical Installations	£	649,000	£	469.9	£	43.7
	MEP Services (f)	£	649,000	£	470	£	44
G	Abnormals, Provisionals and Externals Works	£	580,195	£	420.1	£	39.0
	External Works (g)	£	580,195	£	420	£	39
	Total 1 (Excl VAT)	£	4,405,334	£	3,190	£	296
H	Main contractors preliminaries (14%)	£	616,747	£	446.6	£	41.5
I	Design Development / Pricing Risk Contingency Allowance /Inflation (5%)	£	251,104	£	181.8	£	16.9
J	Main contractors overheads and profit (10%)	£	527,319	£	381.8	£	35.5
	Total 2 (Excl VAT)	£	5,800,504	£	4,200	£	390
	Overall Construction Total	£	5,800,504	£	4,200	£	390

Appendix 3 Proposed Development Appraisal

APPRAISAL SUMMARY **BNP PARIBAS REAL ESTATE**

Harrington Square

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Private Sales	11	10,190	1,190.87	1,103,182	12,135,000
NET REALISATION				**12,135,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			1,762,673		
Stamp Duty		5.00%	88,134		
Agent Fee		1.00%	17,627		
Legal Fee		0.50%	8,813		
				1,877,247	
CONSTRUCTION COSTS					
Construction	**Units**	**Unit Amount**	**Cost**		
Construction	1 un	5,800,504	5,800,504	**5,800,504**	
Section 106			47,761		
MCIL 2			121,259		
Borough CIL			461,254		
				630,274	
PROFESSIONAL FEES					
Professional Fees		10.00%	580,050		
				580,050	
MARKETING & LETTING					
Marketing		1.50%	182,025		
				182,025	
DISPOSAL FEES					
Sales Agent Fee		1.50%	182,025		

Harrington Square

Sales Legal Fee	0.50%	60,675	
			242,700
Additional Costs			
Profit on Private	17.50%	2,123,625	
			2,123,625
FINANCE			
Debit Rate 7.000% Credit Rate 0.000% (Nominal)			
Land		267,123	
Construction		371,434	
Letting Void		60,017	
Total Finance Cost			698,575
TOTAL COSTS			**12,135,000**
PROFIT			
			0
Performance Measures			
Profit on Cost%	0.00%		
Profit on GDV%	0.00%		
Profit on NDV%	0.00%		
IRR	6.77%		
Profit Erosion (finance rate 7.000%)	N/A		

Appendix 4 Proposed Development Appraisal Finance Sensitivity

APPRAISAL SUMMARY — BNP PARIBAS REAL ESTATE

Harrington Square Finance Sense

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Private Sales	11	10,190	1,190.87	1,103,182	12,135,000
NET REALISATION				**12,135,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			1,557,732		
Stamp Duty		5.00%	77,887		
Agent Fee		1.00%	15,577		
Legal Fee		0.50%	7,789		
				1,658,985	
CONSTRUCTION COSTS					
Construction	**Units**	**Unit Amount**	**Cost**		
Construction	1 un	5,800,504	5,800,504	**5,800,504**	
Section 106			47,761		
MCIL 2			121,259		
Borough CIL			461,254		
				630,274	
PROFESSIONAL FEES					
Professional Fees		10.00%	580,050		
				580,050	
MARKETING & LETTING					
Marketing		1.50%	182,025		
				182,025	
DISPOSAL FEES					
Sales Agent Fee		1.50%	182,025		

Harrington Square Finance Sense

Sales Legal Fee	0.50%	60,675	
			242,700
Additional Costs			
Profit on Private	17.50%	2,123,625	
			2,123,625
FINANCE			
Debit Rate 9.500% Credit Rate 0.000% (Nominal)			
Land		327,212	
Construction		508,670	
Letting Void		80,955	
Total Finance Cost			916,837
TOTAL COSTS			**12,135,000**
PROFIT			
			0
Performance Measures			
Profit on Cost%	0.00%		
Profit on GDV%	0.00%		
Profit on NDV%	0.00%		
IRR	9.26%		
Profit Erosion (finance rate 9.500%)	N/A		