

Our ref: SEM
E: simon.mills@bidwells.co.uk
DD: 22/09/2023

BPS Chartered Surveyors
215A High Street
Dorking
RH4 1RU

By email only

Dear Sir / Madam

1 HAMPSHIRE STREET – FURTHER ADDENDUM TO FINANCIAL VIABILITY ASSESSMENT

Following our letter dated 31st August 2023, we understand that BPS Chartered Surveyors have now responded and have provided further commentary in support of their assumptions.

We understand that BPS's position has not changed and that there is still a difference of opinion in relation to the Gross Development Value, the Developer's Profit, the Affordable Housing Contribution, and crucially the Benchmark Land Value.

For clarity, although BPS's benchmarking exercise identified higher construction costs, we were nonetheless content to adopt our own construction costs for the purposes of the review, as demonstrated by the fact that four of the six scenarios tested in our August 2023 letter adopted the lower sum. However, due to the unprecedented level of build cost inflation experienced in recent months, we reserved the right to revisit construction costs at a later date should discussions become protracted.

We therefore strongly refute BPS's claim that Bidwells has taken an "*opportunistic approach which simply serves to reduce overall viability whilst having no apparent regard to their client's own assessment*". On the basis of the above, this is clearly false, and it is disappointing that BPS has made this flippant allegation, and ask them to formally withdraw it.

It is evident from Bidwells' previous submissions that we have taken a balanced approach to the assessment, testing the impact of both party's assumptions and inputs in an attempt to reconcile areas of difference and reach agreement on the overall viability position.

Appraisal

Whilst we do not necessarily agree with the assumptions that BPS have adopted in their report, we have prepared an appraisal based on BPS's inputs set out below:

- Gross Development Value (£2,897,100)



Victoria House, 199 Avebury Boulevard, Central Milton Keynes MK9 1AU
T: 01908 202190 E: info@bidwells.co.uk W: bidwells.co.uk

- Developer's Profit (10% on cost)
- Affordable Housing Contribution (£434,200)

This generates a Residual Land Value of £1,071,651. A copy of the appraisal has been provided with this letter.

Benchmark Land Value

In BPS's rebuttal they have once again disputed the Red Book Valuation prepared by Glenny Chartered Surveyors.

We do not understand why the Red Book 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.

In this instance the Red Book Valuation excludes any development hope value as it was prepared for an owner occupier, and it is therefore possible to equate the Market Value to the Existing Use Value. For transparency we have included the covering letter of the Valuation Report that was prepared.

It is entirely correct to adopt this approach. The Red Book Valuation provided by Glenny represents the highest standard of valuation information, being compliant with the International Valuation Standards. It is frankly ridiculous for BPS to simply dismiss the valuation and not to provide any alternative or meaningful evidence with which to challenge to it. We consider that the approach taken by BPS is therefore contrary to Section 4 of the RICS Professional Statement document "*Financial viability in planning: conduct and reporting*" which states that:

"Where the originator of the FVA and the reviewer have different views, this should be supported; both should supply appropriate evidence or explanations of why they interpreted the evidence differently and reached an alternative opinion."

On this basis it is entirely reasonable for BPS to provide their own assessment of the EUV and BLV based on the evidence independently available to them. They have failed to do so. This is surprising as Professional Statements set out mandatory requirements which all RICS Members and RICS-regulated firms are required to follow.

In their response, BPS has also questioned why the Applicant would proceed on the basis of our assumptions. Although the Proposed Scheme is shown as unviable based on current day development economics and the adopted Benchmark Land Value, the Applicant is in a unique position as both landowner and developer. In the context of an overall development strategy, in reality the Applicant is able to trade-off developer's profit and Benchmark Land Value and would therefore be willing to proceed to deliver the Proposed Scheme on this basis. We have reiterated this point multiple times in previous submissions, but this appears to have been repeatedly ignored by BPS.

Conclusion

We remain of the view that the Red Book Valuation provides a robust assessment of the EUV, and that a 20% landowner premium is appropriate.

BPS has stated that Bidwells has “*not sought to find areas of common ground*” however we cannot seek to achieve this where BPS has not provided their own reasonable assessment of the EUV and the BLV, which is contrary to their obligations under the RICS Professional Statement. In lieu of this, the Red Book Valuation represents the best available evidence to inform the BLV.

Adopting Bidwells’ proposed BLV but BPS’s assumptions in every other regard, the updated appraisal demonstrates a deficit of c. -£1,18m. It is therefore demonstrated that the Proposed Scheme cannot viably make the full Council-assessed, or indeed any, level of affordable housing contribution, regardless of whether Bidwells’ or BPS’ development costs and revenues for the Proposed Scheme are adopted.

Kind regards



Simon Mills MRICS
Senior Surveyor

APPENDIX 1

APPRAISAL SUMMARY (ASSUMING BPS'S ASSUMPTIONS)

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises
BPS's Assumptions

**1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises
BPS's Assumptions**

Project Pro Forma for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate	ft ²	Unit Price	Gross Sales
Residential Accommodation	5	3,197	906.19	579,420	2,897,100	

TOTAL PROJECT REVENUE **2,897,100**

DEVELOPMENT COSTS

ACQUISITION COSTS

Residualized Price			1,071,651		1,071,651
Land Transfer Tax			43,083		
Effective Land Transfer Tax Rate		4.02%			
Agent Fee		1.00%	10,717		
Legal Fee		0.50%	5,358		
					59,157

CONSTRUCTION COSTS

Construction	ft ²	Build Rate	ft ²	Cost
Residential Accommodation	3,238	208.31		674,493
AH Financial Contribution				434,200
Mayoral CIL				25,890
CLBC CIL				205,922
				1,340,505

PROFESSIONAL FEES

Professional Fees		5.00%	33,725		33,725
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DISPOSAL FEES

Sales, Marketing and Legals		3.00%	86,913		86,913
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TOTAL COSTS BEFORE FINANCE **2,591,951**

FINANCE

Timescale	Duration	Commences
Construction	5	Apr 2017
Sale	2	Sep 2017
Total Duration	7	

Debit Rate 7.00%, Credit Rate 2.00% (Nominal)		
Total Finance Cost		41,776

TOTAL COSTS **2,633,727**

PROFIT

263,373

Performance Measures

Profit on Cost%	10.00%
Profit on GDV%	9.09%
Profit on NDV%	9.09%
IRR% (without Interest)	43.35%

APPENDIX 2

RED BOOK VALUATION COVERING SHEET

National Westminster Bank plc
Personal & Business Banking
74 High Street
Watford
WD17 2BQ

Reference PP005508
Contact Details m.mekonen@glenny.co.uk

Valuation Report Covering Letter

For the attention of Vishal Ashar

29 May 2022

Dear Sirs

Terms of Reference

Addressee:	National Westminster Bank
Reliance:	<p>Addressees:</p> <p>(a) each subsidiary or subsidiary undertaking (as defined in the Companies Act 2006) of NatWest Group plc named as lender, hedging counterparty or in any other capacity under or in connection with the credit agreement with K SPARK LIMITED (as amended from time to time, the "Facility Agreement") and each of their respective transferees, successors, or assignees.</p> <p>(b) each subsidiary or subsidiary undertaking (as defined in the Companies Act 2006) of NatWest Group plc as lead manager and, where applicable, as hedging counterparty, liquidity facility provider or other support provider in connection with any securitisation or syndication of, or referable to, any loan made under the Facility Agreement; and</p> <p>(c) any other manager, note trustee and/or security trustee in connection with any securitisation of, or referable to, any loan under the Facility Agreement,</p> <p>(together the "Beneficiaries").</p> <p>The Beneficiaries may disclose the report (and any other advice, letters, certificates or other documents relating to such report) where such disclosure or partial disclosure is without reliance on the Supplier:</p> <p>(a) where disclosure is requested or required by any applicable law or regulation, by any court of competent jurisdiction or any competent judicial, governmental, supervisory or regulatory body or in connection with legal proceedings relating to the report;</p> <p>(b) to any affiliates of any Beneficiary;</p>

	<p>(c) to their respective agents or advisers, or any of them, in connection with the loan and/or hedging transactions under or in respect of the Facility Agreement or any securitisation of, or referable to, any loan made under the Facility Agreement;</p> <p>(d) to any financial institution or other entity in connection with the loan and/or hedging transactions under or in respect of the Facility Agreement, and their respective advisers;</p> <p>(e) to future owners, or prospective purchasers, of any property financed under the Facility Agreement;</p> <p>(f) to the rating agencies (and their respective legal advisors) in connection with any securitisation of, or referable to, any loan made under the Facility Agreement and to potential investors in such securitisation;</p> <p>(g) where disclosure is required by the rules of any stock exchange, listing authority or similar body on which their shares or other securities are listed; and</p> <p>(h) to any potential transferee or assignee of any lender under the Facility Agreement.</p> <p>The Beneficiaries may also make reference to the information referred to above, without reliance on or reference to the Supplier and include all or part thereof, in any offering materials (but not for the avoidance of doubt in any prospectus issued subject to any regulation, directive or other legal requirement applicable to prospectus content and/or publication) related to any securitisation of, or referable to, any loan made under the Facility Agreement.</p> <p>Please note the exclusions and limitations of liability are set out in the Service Agreement agreed between Glenny LLP and National Westminster Bank plc. Under the terms of this Agreement liability is limited to £5.0 million for a Market Value up to and including £5.0 million.</p>
Property Address:	Unit 3, 1 Hampshire Street, Kentish Town, London, NW5 2TE
Tenure:	Leasehold; 999 Years from completion (Title not registered)
Borrower / Customer Name:	K SPARK LIMITED/ Omar Diallo
Unique Reference Number for the Transaction:	PB00095350
Valuation Date:	12 May 2022
Instruction Date:	4 May 2022

Instruction and Purpose of the Valuation Report:	In accordance with your letter dated 4 May 2022 (attached) we are instructed to provide you with a report and valuation for loan security purposes.
Proposed Loan Details:	£558,750 fully amortising over 300 months
Purchase Price:	£745,000
Basis of Valuation:	<p>We confirm that we have acted independently, with integrity and objectivity and that the report has been prepared in accordance with the requirements of the RICS Valuation – Global Standards 2020 (which incorporate the International Valuation Standards 2020) and the UK national supplement.</p> <p>Our valuation has been prepared in accordance with the Service Agreement between National Westminster Bank plc and Glenny LLP, using the Standard Report template required by the Bank.</p> <p>No allowance has been made for any expenses of realisation, or for taxation (including VAT) which might arise in the event of a disposal. The property has been considered free and clear of all mortgages or other charges which may be secured thereon.</p>
Reinstatement Cost Estimate:	Where we provide a Reinstatement Cost Estimate in our report it is given as an indication only without reliance. Where the property is part of a larger building, part of which is not included in our valuation, the figure provided is for the property subject to the valuation only and not the whole building.
Inspection:	The property was inspected specifically for this valuation. All significant parts of the property were inspected.
Personnel:	<p>The valuation has been prepared by Michael Mekonen MRICS.</p> <p>We confirm the personnel responsible for this valuation are MRICS or FRICS qualified for the purpose of the valuation in accordance with the RICS Valuation – Professional Standards and are RICS Registered Valuers.</p>
Status:	In preparing this valuation we have acted as independent valuers. <u>Any</u> disclosures made to you at the point of instruction are repeated below.
Disclosures:	<p>We have confirmed that we have no other involvement with this property.</p> <p>We have confirmed that we have no other involvement with this Borrower/Customer.</p>
Assumptions:	No Special Assumptions have been made other than vacant possession for valuation purposes.

