

The Unicorn, 227 Camden Road, NW1 9AA

Addendum Report 1

Prepared on behalf of the London
Borough of Camden

Issued: 1st September 2023

Planning Reference: 2022/4514/P



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1.0 Introduction

- 1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to provide a review and analysis in response to the ET Planning ('ETP') letter dated 1st August 2023. This BPS Addendum follows on from our report of the 7th July 2023 which was issued in response to ETP's Financial Viability Assessment ('FVA') dated 19th May 2023, prepared on behalf of Warwick Classic Cars ('the Applicant') in connection with the redevelopment of the above site.
- 1.2 This addendum should therefore be read in conjunction with the above reports.
- 1.3 BPS concluded in their previous report that the proposals produced a surplus of £4,275,789 noting that our position above is not yet conclusive pending a further BLV assessment from the Applicant.
- 1.4 ETP's response, dated 1st August 2023, addresses the following areas of disagreement;
- Income
 - 1) Private Sales Values (GDV)
 - 2) Commercial Public House Value (GDV)
 - Expenditure
 - 1) EUV of existing Public House and Ancillary Residential
 - 2) Benchmark Land Value
 - 3) Legal Fees for sales units (apartments)
 - 4) CIL Calculation
 - Build Cost
- 1.5 This Addendum provides a response to ETP's latest report as requested by the Council.

2.0 Development Values

Private Residential Values

2.1 Our previous positions were as follows;

Input	ET Planning May 23	BPS July 23	Overall
Residential GDV	£4,701,387 (£797 psf)	£5,925,700 (£1,100 psf)	Disagreed

2.2 In their response, dated 1st August 2023, ETP have provided further second hand transactions for flats on Brecknock Road, a street adjacent to Camden Road in which the site is located. The sales evidence included ranges from £310,000 to £718,000 (£626 psf to £1,022 sq ft). We note that 15C Brecknock Road in ETP's evidence is incomparably large at over 1,000 sq ft, therefore we have excluded this transaction from our analysis.

2.3 Based on the above ETP say they agree with our assumption that new build properties could achieve c. £1,000 psf in this location. However, in their response, ETP are of the view that because the proposed units will be situated above commercial space, the achievable values will likely be dampened based on a perceived reduction to the mortgage-ability of the units.

2.4 They say that the closest comparable sales evidence supports a GDV of £4,975,576 (£9,084.49m² / £843.97ft²). We note that no such evidence has been provided.

2.5 In our opinion, whilst we welcome ETP's revised consideration, their values are ultimately too low and do not reflect the new-build premium the proposed units are likely to achieve.

2.6 We have identified the following asking prices for second-hand flats situated above commercial spaces, located close to the subject site.

Address	Sq ft	Asking Price	Asking £psf	Description
York Way, Camden, London N7	771	£700,000	£908 psf	Recently refurbished 2 bedroom apartment located above a restaurant.
229a Camden Rd, London N7 0HR	442	£425,000	£962 psf	Situated directly across from the subject. Dated development completed in 2017, 1 bedroom flat with commercial space to the ground floor.

2.7 We note that these are asking prices, therefore less weight should be applied in comparison to the achieved data listed in our previous review.

- 2.8 Overall, we acknowledge that potential buyers may face additional challenges securing mortgage for flats situated above commercial spaces in comparison to 100% residential led schemes.
- 2.9 We have therefore revised our values to reflect a discount to market value, noting that new build properties are likely to achieve higher values than second-hand properties similarly situated above commercial spaces.
- 2.10 Our revised values are as follows;

Unit	Type	Sq m	Sq ft	BPS £psf	Assumed Values
Flat 1	3B6P	103	1107	£ 900	£ 995,876
Flat 2	2B3P	66	705	£ 1,000	£ 705,035
Flat 3	1B2P	50	543	£ 1,100	£ 596,751
Flat 4	3B6P	95	1023	£ 900	£ 920,313
Flat 5	2B3P	64	692	£ 1,000	£ 692,119
Flat 6	1B2P	50	538	£ 1,100	£ 592,015
Flat 7	2B4P	73	780	£ 1,000	£ 780,383

- 2.11 Our amendments result in a total private residential value of £5,282,492 or £981 psf.
- 2.12 If a policy compliant offer is not made we suggest that this scheme be subject to a pre-implementation and late stage viability review so that the sales values can be assessed over the lifetime of the development.

Retail Commercial Value

Input	ET Planning May 23	BPS July 23	Overall
Commercial GDV	£2,423,323	£2,518,250 (£472 sf) (4.8% yield / £30 psf pa)	Disagreed

- 2.13 ETP say we are in agreement though we note there is a 4% difference between our figures. Though the positions are arguably within acceptable margins we consider that ETP's value is insufficiently supported. We have therefore maintained our assumption the retail unit would achieve £2,518,250 (£472 sf) (4.8% yield / £30 psf pa). Further clarity from ETP is required.

3.0 Benchmark Land Value

- 3.1 In the FVA, the benchmark proposed by ETP for viability testing had been based on an Existing Use Value Plus (EUV+) approach.
- 3.2 On the basis of the evidence provided at the time of our review, it was clear to us that the building is uninhabitable in its existing condition and is not capable of being income producing without capital expenditure. We therefore adopted a £nil benchmark land value on an EUV basis in our review, dated 7th July 2023. Thus, our previous positions were as follows;

Input	ET Planning May 23	BPS July 23	Overall
BLV	£2,575,000	£nil	Disagreed

- 3.3 We highlighted that the Applicant has the option to present an appropriate AUV, compliant with the relevant guidance, with supporting documentation such as a report on condition, detailed costings, and comparable evidence as appropriate.
- 3.4 ETP have since responded with the following AUV assessment, assuming refurbishment works to the building;
- Capital Value £2,750,000 (£380 psf / 7244 sq ft)
 - Refurbishment Costs & Contractors Profit £155,379
 - Sales & Marketing, Legal £61,875 (3%)
 - Interest (6.5%) £44,687.50
 - Profit (15%) £412,500
 - EUV £2,075,558
- 3.5 To determine the capital value ETP have relied upon a Bank Lending Valuation prepared by Savills, dated March 2022, which we note to be an open market valuation. The evidence upon which the valuation relies is also dated, with transactions from 2018 to 2021.
- 3.6 NPPG advocates the use of EUV as opposed to an unrestricted open market valuation. The EUV assumes the property will be sold assuming it will only be used for the existing use for the foreseeable future, disregarding any hope value where there may be an expectation that it will be possible develop the land or to change the use of property on the open market.

- 3.7 We refer to Savills' transactional evidence which includes a public house at 9 Eden Grove, located just 1 mile from the subject site. Savills report the property has restricted use due to a problem obtaining permission for development. The public house was refurbished to a modern standard in 2018 and sold for £823,266 (£253 psf) as shown on Land Registry (we note this figure is higher than the price shown in Savills' report). In contrast, Savills valued the Subject site, which was in inferior condition at the time and is larger in comparison, considerably higher at £384 psf £2,750,000, which, in our opinion indicates the inclusion of hope value.
- 3.8 We have therefore conducted our own research and have identified recent transactions of similar properties in the area surrounding the property:

Address	Primary use type	Achieved price (£)	Description
Nambucca, 596 Holloway Road, Islington, London, N7 6LB	Hotels and Leisure - Drinking Establishment (Pub/Bar) (A4)	£2,300,000 (£280 psf) 8,200 sq ft 01/12/2022	Ground Floor open plan with a raised area and stage to the rear. It is decorated in a traditional style and fitted with a bar servery and exposed timber flooring throughout. Male and female customer wc's are situated to the rear. A former trade kitchen also exists. Basement Cold beer store with numerous rooms, storage areas and a small office. First Floor One bedroom manager's flat with an open plan kitchen and living area, a bathroom and a double bedroom. Access to the large flat roof area is via the kitchen/living room. Four additional bedrooms and a shower room with wc and wash hand basin. Second Floor Six rooms, a small domestic kitchen, bathroom with wc and wash hand basin, in addition to a separate shower room and wc. The entire property is subject to a leasehold occupation, which expires in August 2023. The rent passing is £42,000 per annum. We understand the venue is now closed with potential for redevelopment.
Old City Arms Public House, 107 107a and 109 Hammersmith Bridge Road, London, W6 9DA	Hotels and Leisure - Drinking Establishment (Pub/Bar) (A4)	£1,930,000 (£190 psf) 10,161 sq ft 22/06/2022	Ground Floor Public House Basement Ancillary storage areas, includes vaulted areas beneath pavement. Upper Floors Currently in office use and comprises three rooms, a kitchenette, and a set of male and female toilets. Second Floor Residential dwelling addressed 109. Open and operating as a public house with office use. Located on the river in Hammersmith, less central in comparison to the subject.
Baring Public House, 55 Baring Street, Islington, London, N1 3DS	Hotels and Leisure - Drinking Establishment (Pub/Bar) (A4)	£1,025,000 (£272 psf) 3,772 sq ft 09/02/2022	Basement Cold beer store and ancillary storage areas. Ground Floor Open plan trading area decorated in a traditional style, fitted with a single bar servery and a set of customer WC's. First Floor Function room, trade kitchen, mechanical hoist, domestic bathroom with separate WC. Second Floor Two rooms and a domestic kitchen Entire property let to T&S Taverns let on a 15 year lease 09/02/2022 (Reversion 28/02/2037 Investment let at £80,000 p.a.5 yearly rent reviews

			Purchased by a T&S Taverns Public House & Bars, which indicates the property is likely to have been purchased for continued use.
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- 3.9 Two of the three transactions listed are partly income-producing therefore we would expect the subject to achieve values below comparable sized units on the basis of vacant possession.
- 3.10 Baring Public House is a useful comparable as it is a modern Public house in good condition with residential accommodation over, purchased by T&S Taverns. Baring Public House is smaller and of good condition, located on a corner plot in a predominantly residential location marginally less central to the subject. We therefore consider it reasonable to apply a rate of £280 psf to the existing property, subject to refurbishment. This results in a capital value of £2,028,320. We consider this to be optimistic assumption, given that our assumption of the value per square foot is positioned at the upper end of the comparable evidence we have identified.
- 3.11 We note that the refurbished Public House has a lower value than the proposed Public House in our assessment. This is because the proposed scheme will be of new condition as opposed to a refurbishment and it has been valued on an investment basis as an income producing asset, whereas the AUV scheme assumes vacant possession.
- 3.12 ETP have included refurbishment costs of £155,379 (£21 psf). We have applied this to our appraisal (appendix 1) and have adopted the following remaining inputs;
- Sales & Marketing, Legal 3% (Agreed)
 - Interest 6.5% (Agreed)
 - Profit 15% (Agreed)
 - Professional Fees 6% (ETP have not included an allowance for professional fees)
- 3.13 ETP have not specified a timescale for the works, we have therefore assumed a pre-construction period of 2-months, construction period of 3-months and sales period of 12 months. This generates a total AUV of £1,489,410.
- 3.14 We note ETP have applied a 10% landowners premium. PPG is clear that if costs are required to realise the EUV then this constitutes an Alternative Use Value (AUV). 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.
- 3.15 We have therefore adopted £1,489,410 as the Benchmark Land Value.

4.0 Development Costs

Construction Costs

- 4.1 It appears ETP excluded part of their build costs from their appraisal, they have subsequently amended their build cost to align with the cost plan provided in the FVA.
- 4.2 Our Cost Consultant, Neil Prowling, reviewed the cost plan at the time of our review and concluded the following.

“Our benchmarking results in an adjusted benchmark of £3,581/m² that compares to the Applicant’s £3,509/m². We therefore consider the Applicant’s costs to be reasonable.”

- 4.3 Noting that the Cost in ETP’s appraisal did not reflect the full costs included in the cost plan, we have amended our appraisal to reflect the costs for the development in full.

5.0 Conclusion

5.1 The following table summarises our **latest** respective positions:

Input	ETP 25/08/2023	BPS 01/09/2023	Comments
Income			
Private Sales Values	£4,975,030 (£844 psf)	£5,282,492 (£981 psf)	Disagreed – We have revised our values but consider ETP’s values to be understated.
Commercial – Public House	£2,456,250 (£685 sf) (4% yield / £30psf pa)	£2,456,250 (£685 sf) (4% yield / £30psf pa)	Agreed
Commercial – Retail	£2,423,323	£2,518,250 (£472 sf) (4.8% yield / £30 psf pa)	Ambiguous – ETP say they agree though we note there is a 4% difference between our figures. Further clarity from ETP is required.
Expenditure			
AUV	£2,086,518	£1,489,410	Disagreed – We consider ETP’s capital value to be insufficiently supported.
Landowner Premium	10%	0%	Disagreed – Landowner premium is not required when adopting an AUV approach.
Benchmark Land Value	£2,295,170	£1,489,410	Disagreed
Build Costs	£4,720,170	£4,720,170	Agreed
Contingency	5%	5%	Agreed
Professional Fees	10%	10%	Agreed
Private Marketing & Agent Fees	3%	3%	Agreed
Private Legal Fees	£0	£0	Agreed
CIL	£354,982	£354,982	Ambiguous - We require confirmation from the Council on this input.
Finance	6.5%	6.5%	Agreed
Profit: Private Residential Commercial	17.5% 15%	17.5% 15%	Agreed
Development Timeframes			
Pre-construction Period	0 months	0 months	Agreed
Construction Period	12 months	12 months	Agreed
Sales Period	1 month	1 month	Agreed
Viability Position	-£99,116 No affordable housing can be provided	+£509,368 Surplus identified	Disagreed – We have identified a surplus.

- 4.4 Overall, we have identified a surplus amounting to £509,368, which we suggest could be used to contribute towards affordable housing.
- 4.5 We suggest that if a Policy Compliant offer is not made, that the scheme be subject to a pre-implementation and late stage review.

6.0 Author Sign Off

- 6.1 This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.
- 6.2 The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.
- 6.3 The following persons have been involved in the production of this report:



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For and on behalf of
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1st September 2023

Appendix 1: AUV Argus Appraisal

The Unicorn
 AUV Refurbishment Scheme
 BPS

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	Unit Price	Gross Sales
Refurbished Site	1	2,028,320	2,028,320

NET REALISATION **2,028,320**

OUTLAY

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost	
Refurbished Site	1 un	155,379	155,379	155,379
Contingency		5.00%	7,769	7,769

PROFESSIONAL FEES

Other Professionals	6.00%	9,789	9,789
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DISPOSAL FEES

Sales Agent Fee	3.00%	60,850	60,850
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MISCELLANEOUS FEES

Profit	15.00%	304,248	304,248
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FINANCE

Timescale	Duration	Commences
Pre-Construction	2	Aug 2023
Construction	3	Oct 2023
Sale	12	Jan 2024
Total Duration	17	

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)		
Construction	876	
Total Finance Cost		876

TOTAL COSTS **538,910**

PROFIT **1,489,410**

Performance Measures

Profit on Cost%	276.37%
Profit on GDV%	73.43%
Profit on NDV%	73.43%
IRR% (without Interest)	Out of Range
Profit Erosion (finance rate 6.500)	20 yrs 5 mths

Appendix 2: Proposed Scheme Argus Appraisal

The Unicorn

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private Residential	1	5,387	981.00	5,284,647	5,284,647

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Public House	1	3,275	30.00	98,250	98,250	98,250
Retail	<u>1</u>	<u>4,029</u>	30.00	120,870	<u>120,870</u>	<u>120,870</u>
Totals	2	7,304			219,120	219,120

Investment Valuation

Public House					
Current Rent	98,250	YP @	4.0000%	25.0000	2,456,250
Retail					
Current Rent	120,870	YP @	4.8000%	20.8333	2,518,125
Total Investment Valuation					4,974,375

GROSS DEVELOPMENT VALUE 10,259,022

Purchaser's Costs			(338,258)
Effective Purchaser's Costs Rate	6.80%		(338,258)

NET DEVELOPMENT VALUE 9,920,765

NET REALISATION 9,920,765

OUTLAY

ACQUISITION COSTS

Fixed Price	1,489,410		
Fixed Price		1,489,410	1,489,410
Stamp Duty		63,970	
Effective Stamp Duty Rate	4.30%		
Agent Fee	0.50%	7,447	
Legal Fee	0.50%	7,447	
			78,865

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Construction Costs	1,345	3,508.65	4,719,134
Contingency		2.50%	117,978
			4,837,113

Section 106 Costs

Section 106 Costs		354,982	
			354,982

PROFESSIONAL FEES

Architect	10.00%	471,913
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APPRAISAL SUMMARY**BPS SURVEYORS****The Unicorn**

471,913

MARKETING & LETTING

Marketing	1.00%	52,846	52,846
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DISPOSAL FEES

Sales Agent Fee	1.00%	99,208	
Sales Legal Fee	1.00%	99,208	198,415

MISCELLANEOUS FEES

Profit (Private Residential)	17.50%	924,813	
Profit (Commercial)	15.00%	746,156	1,670,969

FINANCE

Timescale	Duration	Commences
Construction	12	Apr 2017
Sale	1	Apr 2018
Total Duration	13	

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)

Land	95,534	
Construction	161,349	
Total Finance Cost		256,883

TOTAL COSTS**9,411,397****PROFIT****509,368****Performance Measures**

Profit on Cost%	5.41%
Profit on GDV%	4.97%
Profit on NDV%	5.13%
Development Yield% (on Rent)	2.33%
Equivalent Yield% (Nominal)	4.40%
Equivalent Yield% (True)	4.53%

IRR% (without Interest)	17.38%
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Rent Cover	2 yrs 4 mths
Profit Erosion (finance rate 6.500)	10 mths