Our ref: MJD
E: Matthew.dawson@bidwells.co.uk
Date: 8th November 2023

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

Without prejudice

Dear Sir/Madam,

1 HAMPSHIRE STREET, NW5 – VIABILITY RESPONSE

Thank you for forwarding the most recent response from LB Camden's consultant, BPS Chartered Surveyors, in respect of scheme viability.

Whilst we intend to use this letter to progress the negotiations proactively, we first wish to correct a number of inaccuracies in BPS's statement, which misrepresent the Applicant's approach to the viability assessment.

Firstly - BPS states that "*The main points of disagreement identified in the course of the previous assessment include Residential GDV, BLV, build cost and profit target. We understand the only element addressed in their Response was the approach to the Benchmark Land Value*."

Respectfully, BPS's view on this is factually incorrect. We have addressed each of the remaining areas of disagreement in some detail over the course of three letters provided to BPS (dated 31st August, 22nd September and 27th October 2023). Each time, we have carried out appraisals using both BPS's and Bidwells' assumptions, showing how the differences in each consultants' opinions affect the overall viability of the scheme.

Secondly – BPS states that "*Strettons report is silent on the lack of demand for the units as demonstrated in ART's 2023 report*".

On the contrary, Strettons is open about the four offers previously made for the units, and the fact that none of them converted into completed sales. It should also be noted that the units have been and are being marketed at a difficult time in the UK property market due to the Covid-19 pandemic, ongoing cost-of-living crisis and wider socio-economic factors. However, it is clear that Strettons has accounted for this within their valuation, with the resulting EUV being 31% lower on a £-per-sq.ft. basis than the May 2022 valuation previously provided by Glenny (again, a report prepared in accordance with the requirements of the RICS valuation 'Red Book').

Thirdly - BPS states in respect of the rental assumption applied by Strettons that "*no evidence has been provided to support the assumption of the fit out cost levels*".

We would refer BPS to page 15 of Strettons' report, which clearly shows how Strettons has referred to BCIS data (rebased to the local area) in assessing fit out costs.

Fourthly - BPS states "*Bidwells claims of the units being incapable of being let/sold (purpose of the application) as well as attracting the market rent (Viability Assessment) is simply contradictory. Regardless of our previous comments, this issue still has not been addressed.*"

It should be noted that at no point has Bidwells stated that the existing units are incapable of being let or sold. BPS appears to be equating the fact that the units have not been let with them being in some way 'unlettable'. We would refer BPS back to our comments above on this point.

We will now turn to the specific areas of disagreement highlighted by BPS.

Residential GDV

As it stands, there is a c.£172k (c.6%) difference between Bidwells' (£2.725m or £852 per sq.ft.) and BPS's (£2.897m or £906 per q.ft.) assessments in this regard.

In response to BPS's previous report dated August 2023, Bidwells provided a detailed analysis of the comparables referred to by BPS in our letter of 31st August, finding that each scheme was likely to command a premium over the proposed development by virtue of location, size of the units and/or timing of relevant sales. This has not been acknowledged or commented on in either of BPS's subsequent responses. We would therefore be grateful if BPS could provide a reasoned analysis addressing our previous comments on this element of the assessment.

It should be noted, however, that we are in general agreement that the sales values demonstrated by the 'Parent Consent' provide good evidence to inform the estimated GDV of the Proposed Scheme, albeit some level of adjustment is necessary (as set out in our original report of March 2023).

Given the relatively minor difference of opinion, being just outside an often-quoted 5% valuation 'margin of error', we would propose to resolve this by adopting (on a without prejudice basis) a mid-point value of **£2,811,050**.

Build Cost

Contrary to BPS's statement, we do not consider this assumption to be in dispute. As per our previous response, our appraisal continues to adopt the Applicant's QS's assessment of build costs, being £674,493. This has been accepted as reasonable by BPS and is adopted in their most recent appraisal, but we reserve the right to revisit this given the length of time over which negotiations have taken place and the continuing cost inflation which is being experienced in the construction sector.

Developer Profit

BPS's statement does not provide any further commentary on their approach to developer profit, and we have therefore referred back to their September 2023 Addendum Report which set out their justification for a profit assumption of 10% on cost. Within the report, BPS disputes Bidwells' view that a 20% return (again on cost) is justified due to the site-specific and wider market risks presented by the scheme.

We note that BPS has referred to a case study at 'High Holborn, WC1V 7BW' to support their claim that a 10% profit on cost has been "*widely accepted on multiple conversion schemes that we have reviewed*". Whilst BPS has not provided a specific address or application number, we have deduced that this relates to application 2018/3833/P, located at 212-214 High Holborn, WC1V 7BW, for which BPS provided a review (dated 2nd June 2023) of the applicant's viability assessment on behalf of LB Camden. Within their review, BPS noted that the applicant had adopted a 10% profit on cost, and deemed this to be "*broadly acceptable"*.

Application 2018/2833/P sought permission for the following proposal:

"*Alterations and extensions to existing building including demolition at mezzanine and fourth floor levels; removal of modern additions at basement, ground, first, second, and third floor levels; construction of six storey rear extension above ground floor level; change of use from bank (Class A2) to retail (Class A1) at basement, ground and mezzanine levels and an uplift in office (Class B1) floorspace at upper levels including loss of 1 ancillary residential unit*."

It is evident that the above varies from the subject scheme in a number of key ways, being an entirely commercial (as opposed to residential) scheme with a significant element of 'new-build' space. The applicant's viability assessment has not been provided within the online application file and we have therefore been unable to ascertain why the applicant's consultant determined a profit of only 10% on cost to be appropriate; however, based on our experience this is an abnormally low target and it is unlikely that the developer could in practice obtain finance for any development project (residential/commercial or conversion/new-build) demonstrating this level of return.

Furthermore, it appears that the application remains undetermined despite having originally been submitted in July 2017. Therefore, alongside the other factors mentioned above, we consider that little weight can be given to this case study as an indicator of an appropriate developer return for the subject scheme.

Nevertheless, in the interests of reaching overall agreement with BPS, we would propose to adopt (without prejudice) a return of 15% on cost within the appraisal, representing the mid-point between our current respective assumptions. At this level, the profit target would equate to c.14% on GDV, which remains below any viability assessment for a residential scheme (conversion or otherwise) that we have ever undertaken or seen elsewhere.

Benchmark Land Value

There have been protracted discussions between Bidwells and BPS as to an appropriate level of EUV and landowner premium (together forming the Benchmark Land Value). As with other aspects of the viability assessment, this has largely been caused by BPS either misunderstanding or ignoring parts of Bidwells' various submissions dealing with this issue, and their unwillingness to acknowledge the simple fact that the valuation report provided by Strettons continues to represent the best available evidence submitted by either party.

BPS's suggestion of "*reaching a realistic view regarding the appropriate rental value of the property*" is welcomed; however, they appear to have applied an arbitrary discount to the general rental tone, rather than carrying out any detailed analysis and adjustment of values, to reflect their view that the subject properties are "*difficult to let*".

Contrary to BPS's claims, it is clear from Strettons' report that they have given appropriate consideration to the marketing history of the existing units, with their opinion of the £ per sq.ft. Existing Use Value of the units reflecting a c.30% discount against the level of the offers previously received. This also places the EUV of the units at the low end of the wide range of rental and sale comparables identified by Strettons. We would welcome rental analysis of equivalent depth and rigour from BPS.

BPS also questions the methodology adopted by Strettons in valuing the properties (comprising both the comparable and investment methods of valuation), stating that the former "*is typically used to establish the market value, which is inclusive of hope value, which is different from the definition of EUV which explicitly excludes hope value*". BPS is therefore of the view that the comparable method should be used only as a sense-check, having used the investment method as the primary means of valuation.

The definition of Existing Use Value, and the requirement for the Benchmark Land Value to be assessed in accordance with this, is not in dispute. We can only assume that BPS has overlooked the first page of

Strettons' report, which specifically states that the Basis of Valuation is Existing Use Value, and this is reflected throughout the report.

Whilst Strettons' report does indeed refer to the comparable method first, this has been used in tandem with the investment method to arrive at an opinion of EUV. As acknowledged by BPS themselves, it is entirely appropriate to draw upon both methods of valuation. Furthermore, it is apparent from Strettons' commentary that they have given the latter significant weight, with the final assessment of EUV being only 3% above the pure 'investment' valuation. We therefore consider BPS's criticism of the order in which the methods have been discussed by Strettons to be a rather moot point.

Notwithstanding this, it should be noted that the resulting £-per-sq.ft. figure represents a 24% discount against the nearby and recent sale comparable at 7 Torriano Mews, which is a much older property and, as far as we are aware, has no immediate prospect of redevelopment for a higher-value use.

Taking all of the above into account, it is difficult to see how BPS can consider that Strettons has overstated the EUV or taken a flawed approach to the valuation. We have therefore continued to adopt an EUV of £1.3 million in accordance with Strettons' advice.

In respect of landowner premium, it is acknowledged that this entails a more subjective assessment of the landowner's motives in choosing to retain or dispose of the site for redevelopment. Whilst Strettons' report demonstrates clear potential for the subject properties to provide the landowner with a substantial future income stream on the basis of continued office use, therefore supporting Bidwells' 20% premium on EUV, we are willing to test viability at 10% premium (as per BPS's assessment) on a without prejudice basis for the purpose of reaching overall agreement. This would result in a total Benchmark Land Value of £1.43 million.

Revised Appraisal

We have updated our appraisal to reflect the above adjustments in respect of GDV, profit and landowner premium, and to mirror BPS's appraisal, which adopts the Benchmark Land Value as a fixed acquisition cost. However, where BPS have manually entered the developer's profit requirement as a 'Miscellaneous Fee', we have set the appraisal to automatically calculate the total residual profit resulting from the scheme. This ensures that the output profit is a true reflection of all development costs and revenues, and which can then be compared with a developer's 'reasonable' profit requirement.

For the purpose of direct comparison, we have also adopted LB Camden's calculation of the required payment in lieu, being £434,200 (which for the avoidance of doubt we dispute and would refer BPS to James Neill's legal opinion on this point).

The appraisal provided at Appendix 1 shows that the scheme generates a loss of £211,481 when assessed on this basis. Evidently, this demonstrates that the scheme is unable to provide any level of financial return to the developer whilst maintaining the Benchmark Land Value, and is therefore unviable.

The second appraisal at Appendix 2 shows that, even if the Affordable Housing contribution is reduced to zero, a residual profit of only £227,446 (8.8% on cost) is generated, which remains £160,095 below the 15% 'reasonable' developer return proposed above.

Conclusion

The clear conclusion of this exercise is that the scheme is unable to provide any level of contribution towards Affordable Housing whilst remaining viable.

We consider that we have set out a fair and reasonable position on the appraisal inputs remaining to be agreed, having had due regard to BPS's own professional opinions on these matters. We urge BPS to reconsider their stance most particularly in respect of the subject site's EUV, which does not stand up to any level of scrutiny when assessed against the Strettons valuation report.

As BPS will be aware, the RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting' requires all members and regulated firms engaging in viability discussions to "*always try to resolve differences of opinion*" where possible. It is therefore hoped that BPS will take a positive and proactive approach in reviewing this letter and the compromise position offered therein.

Yours faithfully,

Matthew Dawson MRICS
Associate

Appendix 1 – Appraisal of the Proposed Scheme

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

Development Pro Forma
Bidwells LLP
November 9, 2023

PROJECT PRO FORMA	**BIDWELLS LLP**

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

Project Pro Forma for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Residential Accommodation	5	3,197	879.28	562,210	2,811,050
TOTAL PROJECT REVENUE				**2,811,050**	
DEVELOPMENT COSTS					
ACQUISITION COSTS					
Fixed Price		1,430,000			
Fixed Price			1,430,000		
				1,430,000	
Land Transfer Tax			61,000		
Effective Land Transfer Tax Rate		4.27%			
Agent Fee		1.00%	14,300		
Legal Fee		0.50%	7,150		
				82,450	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**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	
DISPOSAL FEES					
Sales, Marketing and Legals		3.00%	84,332		
				84,332	
TOTAL COSTS BEFORE FINANCE				**2,971,011**	
FINANCE					
Timescale	**Duration**	**Commences**			
Construction	5	Apr 2017			
Sale	2	Sep 2017			
Total Duration	7				

Debit Rate 7.00%, Credit Rate 2.00% (Nominal)

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

Total Finance Cost		51,520
TOTAL COSTS		**3,022,531**
PROFIT		
		(211,481)
Performance Measures		
Profit on Cost%	-7.00%	
Profit on GDV%	-7.52%	
Profit on NDV%	-7.52%	
IRR% (without Interest)	-15.98%	

Appendix 2 – Appraisal of the Proposed Scheme (zero Affordable Housing Contribution)

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

Development Pro Forma
Bidwells LLP
November 9, 2023

PROJECT PRO FORMA	**BIDWELLS LLP**

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

Project Pro Forma for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Residential Accommodation	5	3,197	879.28	562,210	2,811,050
TOTAL PROJECT REVENUE				**2,811,050**	
DEVELOPMENT COSTS					
ACQUISITION COSTS					
Fixed Price		1,430,000			
Fixed Price			1,430,000		
				1,430,000	
Land Transfer Tax			61,000		
Effective Land Transfer Tax Rate		4.27%			
Agent Fee		1.00%	14,300		
Legal Fee		0.50%	7,150		
				82,450	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Residential Accommodation	3,238	208.31	674,493		
Mayoral CIL			25,890		
CLBC CIL			205,922		
				906,305	
PROFESSIONAL FEES					
Professional Fees		5.00%	33,725		
				33,725	
DISPOSAL FEES					
Sales, Marketing and Legals		3.00%	84,332		
				84,332	
TOTAL COSTS BEFORE FINANCE				**2,536,811**	
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				46,793	

PROJECT PRO FORMA BIDWELLS LLP

1 Hampshire Street Redevelopment
Conversion of Ground Floor Commercial Premises

TOTAL COSTS		**2,583,604**
PROFIT		
		227,446
Performance Measures		
Profit on Cost%	8.80%	
Profit on GDV%	8.09%	
Profit on NDV%	8.09%	
IRR% (without Interest)	34.34%	