

104A Finchley Road, South Hampstead, NW3 5EY

Addendum Report 1

Prepared on behalf of London Borough of Camden

Issued: 18th January 2024

Planning Reference: 2022/3553/P



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1.0 Introduction

- 1.1 BPS Chartered Surveyors have been instructed by London Borough of Camden ('the Council') to provide a review and analysis in response to the James R Brown ('JRB') letter dated 10th January 2024. This BPS Addendum follows on from our report of the 28th November 2023 which was issued in response to JRB's Financial Viability Assessment ('FVA') dated 25th October 2023, prepared on behalf of Trevelyan Developments Limited ('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 We concluded in our previous report that the proposals produced a deficit of -£1.9m
- 1.4 Having considered JRB's latest comments, the following table summarises our **current** respective positions:

Input	JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)	Comments
Income					
Private Sales Values	£21,490,409 (£927psf)	£21,490,409 (£927psf)	£21,490,409 (£927psf)	£21,490,409 (£927psf)	Agreed
Commercial	£2,589,623 (£472psf)	£2,727,594 (£497psf)	Unclear	£2,727,594 (£497psf)	Disagreed
Expenditure					
EUV	£3,260,000	£2,950,000	£3,260,000	£2,950,000	Disagreed
Landowner Premium	20%	0%	20%	0%	Disagreed
Benchmark Land Value	£3,910,000	£2,950,000	£3,910,000	£2,950,000	Disagreed
Build Costs (inc. contingency)	£11,103,431	£11,103,431	£11,103,431	£11,103,431	Agreed
Professional Fees	12%	10%	12%	10%	Disagreed
Private Marketing, Legal & Agent Fee	2.8%	2.8%	2.8%	2.8%	Agreed
Letting Agent Fee	10%	10%	10%	10%	Agreed
Letting Legal Fee	4.8%	4.8%	4.8%	4.8%	Agreed
CIL	£1,900,000	£1,900,000	£1,900,000	£1,900,000	Ambiguous - We require confirmation from the Council on this input.
Finance	8.5%	7.5%	8.5%	7.50%	Disagreed

Profit (Blended, on GDV):	18.20%	17.20%	18.20%	17.20%	Disagreed
Development Timeframes					
Pre-construction Period	4-months	4-months	4-months	4-months	Agreed
Construction Period	24-months	18-months	24-months	18- months	Disagreed
Pre-Sales	40%	40%	40%	40%	Agreed
Sales Period	10-months	6-month	10-months	10-month	Agreed
Viability Position	-£1.9m	+£568,229	-£1.9m	+£465,053	Disagreed
Actual Profit (on GVD)	10.22%	19.56%	10.22%	+19.34%	Disagreed

1.5 Our updated conclusions are as follows:

- We maintain our opinion that the proposed scheme generates a surplus and, therefore, affordable housing contribution can viably be provided.

2.0 Summary of JRB's Response Dated January 2024

2.1 Although some inputs were agreed between ourselves and JRB, we note the following points remain in disagreement:

- Commercial GDV
- BLV
- Professional Fees
- Finance Cost
- Profit Target
- Construction Period
- Sales Period

2.2 This Addendum provides a response to JRB's latest report as requested by the Council. The areas of disagreement are detailed in the following sections of this report.

3.0 Commercial GDV

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
£2,589,623 (£472psf)	£2,727,594 (£497psf)	Unclear	£2,727,594 (£497psf)

- 3.1 In our original report, we disagreed with JRB's assessment of the commercial GDV. In their latest letter, JRB does not provide any commentary on this input and does not confirm what their current position is. We, therefore, maintain our original assessment of the commercial values to be appropriate.

4.0 Benchmark Land Value

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
£3,910,000	£2,950,000	£3,800,000	£2,950,000

- 4.1 In our original assessment we commented on JRB's assessment of the BLV which was based on an open market valuation of the property undertaken by Avison Young in 2022. JRB have adopted the Avison Young's report without question or cross reference to either current trading data, or any more recent comparable information. The Avison Young valuation is dated January 2022 and was provided as limited extracts from a larger report. We have been unable to view the whole report. Critically the report was prepared on the basis of the property's open market value. As a formal valuation this would have been subject to the Red Book definition of market value which JRB as a surveyor should be aware of:

The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion (see IVS 104 paragraph 30.1).

- 4.2 It is relevant to consider this definition as it is central to the issue of whether a further land owner premium should be applied. JRB appears to consider that as the valuation appears to have been based on its fair maintainable trade it should be regarded as an EUV assessment. However, this is simply an attempt to opportunistically graft an alternative valuation basis onto the Avison Young report from that which it was prepared on.
- 4.3 It is clear from the definition that fundamental to the concept of open market value is the notion of a willing buyer and a willing seller. JRB imagines that a further incentive to sell would be necessary as an inducement to sell. However, this would only be the case where there was an unwilling seller so is clearly in error as an approach as this is part of the RICS Red book definition. Furthermore, open market value is the highest value which could be placed on a property and as such there no basis for assuming a higher than market value should be adopted in this instance.
- 4.4 The concept of a land owner premium is applicable to an EUV assessment. The purpose of viability in a planning context is to capture the uplift in land value generated by the consent sought over the existing use value. The premium allows for the land owner to participate in this uplift. JRB has not demonstrated any uplift in site value generated by the application scheme.

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- 4.5 The fact that Avison Young base their valuation on fair maintainable trade is irrelevant in considering whether a premium is appropriate.
- 4.6 In our review, we have reduced Fair Maintainable Operational Profit from 7.75 assumed by AV to 7.5. We stated in our report that we reserved the right to revisit our position should the past trading data of the petrol station have been provided. We note that such information has not been provided, therefore, we maintain the multiplier assumed in our original assessment.
- 4.7 In our assessment we have also assumed 6.8% purchaser's costs, which brings EUV to £2.945m. As stated in our report, FMOP multipliers do not carry information of the purchaser's costs. No new evidence have been supplied by JRB to support otherwise.
- 4.8 JRB provides evidence of a screenshot of an updated AY's assessment, which points to a lower Market Value than assessed in their 2022 report of £3.165m. Full updated report have not been provided. We do not consider this evidence to address any of the concerns expressed in our original review.
- 4.9 On this basis, we do not consider sufficient evidence have been provided to change our position on the EUV.
- 4.10 Overall, we maintain our original assessment to be appropriate.

5.0 Professional Fees

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
12%	10%	12%	10%

5.1 In our original assessment we used lower professional fees than JRB based on the assessment provided by our Cost Consultant, GBA. We note JRB maintains the professional fee of 12% to be reasonable for the proposed scheme, although this is not backed in any evidential way.

5.2 We have passed on JRB's Response to GBA, who advised as follows:

"We would agree that higher professional fees percentage would generally apply to smaller contract size, and also quite often for specialised projects such as refurbishment of listed buildings. The proposed development is neither of those. The proposed development cost of £11,103,431 is not considered as a "smaller contract size". However, we appreciate that it does pose structural challenges due to close proximity to the Metropolitan Line and a Thames Water sewer, but at the same time there is an element of repetition of units within the building, which would generally be reflected in lower percentage design fees. We have reviewed a very large number of construction costs and professional fees within viability assessments, and they included professional fees ranging between 6% and 10% for projects of construction costs ranging from £2.5M to £15M. In our opinion 10% is at the high end of the range and allows the particular challenges of this development."

5.3 On this basis, we maintain 10% to be appropriate.

6.0 Finance Cost

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
8.5%	7.5%	8.5%	7.5%

- 6.1 In our original assessment we disagreed with JRB's assessment of the proposed Finance Cost and consider the figure to be overstated. In their latest Response, JRB maintains the finance cost of 8.5% to be appropriate.
- 6.2 In support of their position, JRB provides Indicative Terms of the development finance provided by Quantum Development Finance to Lux One SPV 13 LTD dated September 2023. It is unclear what is the correlation between the borrower and the Applicant. We note the terms refer to the finance rate of 5.7% over the Bank of England base rate.
- 6.3 Although we appreciate that in some property based lending the base rate is related with the overall borrowing cost rate, the finance rate used for the purpose of the viability assessment is not directly impacted by the BOE rate. In accordance with accepted practice and noting that there are a wide variety of funding approaches across a range of developers viability assessments assume 100% bank lending to avoid a personalised approach as required by RICS Guidance. The assessment approach is not intended to be a mirror of terms offered to a specific developer. It is also clear from the evidence provided by JRB, where terms refer to 65% of the total development costs.
- 6.4 We note JRB includes T&C's of the lending offer made by CA Trading to Macar Developments, which refers to 9.75% finance rate. Again, the correlation between the Applicant and Macar Developments and the proposed development have not been clarified. We consider, therefore, such evidence to be of low relevance.
- 6.5 Moreover, the level of rate offered by the financial institutions depends on multiple factors, such as (but not limited to) the developer's experience. The viability assessment should not be tailored to the developer's individual circumstances. Given the approach adopted in respect of Planning Viability we have referenced a wide range of very recent viability assessments where the finance rates range between 6.5%- 7.5%. Therefore, we maintain our original opinion of 7.5% being an appropriate rate for the purpose of this assessment.

7.0 Profit Target

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
18.20%	17.20%	18.20%	17.20%

- 7.1 In our original assessment, we adopted a lower profit target in comparison to JRB, to reflect the inclusion of a lower profit rate in relation to the commercial space within the scheme in accordance with standard practice. JRB maintains the profit level of 18.20% on GDV to be appropriate.
- 7.2 We note no additional evidence have been provided to support JRB's position as such we see no reason to alter our original opinion .

8.0 Construction Period

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
24-months	18-months	24-months	

- 8.1 Construction period was assessed by our Cost Consultants by reference to the BCIS duration indicator which reflects actual construction period achieved for a wide range of similar projects.
- 8.2 We note JRB references evidence from the applicant which has not been provided in support of a 24 construction period.
- 8.3 We have passed on their Response to GBA, who advised as follows:

“Proposed 24 months construction time is based on assumption as stated in James R. Brown rebuttal, as there was no construction programme submitted. In our assessment we have used a BCIS duration calculator. BCIS estimated construction duration is average 16 months, with the top of the 90% confidence interval to be 18 months. We took into consideration the constraints of the site and presence of the semi-basement and concluded that 18 months would be a more reasonable construction duration for this project. It should be noted that approximately 15% of the GIA (commercial premises) will be shell and core only not requiring a fit-out. BCIS shows that individual projects may take up to 25 months, but the information submitted by the Applicant did not include any substantiation or evidence that such a time may be required. Please see the BCIS calculation attached”



- 8.4 On this basis, we maintain 18 months construction period to be appropriate.

9.0 Sales Period

JRB (Oct 2023)	BPS (Nov 2023)	JRB (Jan 2024)	BPS (Jan 2024)
10-months	6-month	10-months	10-months

- 9.1 In our original assessment we adopted 40% off plan sales rate and c.3 units to be sold post-completion, which translates to 6 months sales period.
- 9.2 We note JRB argues that the sales period should be maintained at 10 months, even with the assumption of 3 units per month being sold. We appear to agree on the assumption of the off-plan sales rate, however, it is unclear from JRB's report what "unit per month" level they consider appropriate.
- 9.3 For ease of reference, we have outlined below the calculation, which draws to the conclusion of 6 months sales period:
- Number of units sold off-plan: 12 (c. 40% of 31)
 - Number of units being left to sell post-completion: 19
 - Number of months, assuming 3 units are sold per month: 6
 - Number of months, assuming 2 units per month: 10
- 9.4 We, therefore, assume JRB is arguing that 2 units per month is more appropriate than 3, albeit this has not been clarified in their report.
- 9.5 In their Response, JRB provides additional evidence of Vabel Haverstock development, which we accept. On this basis, we have adopted 10 months sales period in our assessment.

10.0 Author Sign Off

- 10.1 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.
- 10.2 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.
- 10.3 The following persons have been involved in the production of this report:



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January 2024

11.0 Limitation of Liability/ Publication

- 11.1 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.
- 11.2 This report is provided for the stated purpose and for the sole use of the named clients. It is confidential to the clients and their professional advisors and BPS Chartered Surveyors accepts no responsibility whatsoever to any other person.
- 11.3 Neither the whole nor any part of this valuation report nor any reference hereto may be included in any published document, circular, or statement, or published in any way, without prior written approval from BPS of the form and context in which it may appear.

Appendix 1: Argus Appraisal

Finchley Rd on 25/10/23 (no affordable)

Development Appraisal
Prepared by JRB
BPS Surveyors
17 January 2024

Finchley Rd on 25/10/23 (no affordable)

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Private Residential	31	23,175	927.31	693,239	21,490,409

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	1,755	35.00	61,425	61,425	61,425
Education (or Commercial)	1	3,735	30.00	112,050	112,050	112,050
Totals	2	5,490			173,475	173,475

Investment Valuation

Commercial						
Market Rent (1yr Rent Free)	61,425	YP @	6.0000%	16.6667		
		PV 1yr @	6.0000%	0.9434	965,802	
Education (or Commercial)						
Market Rent (1yr Rent Free)	112,050	YP @	6.0000%	16.6667		
		PV 1yr @	6.0000%	0.9434	1,761,792	
Total Investment Valuation					2,727,594	

GROSS DEVELOPMENT VALUE

24,218,004

Purchaser's Costs			(185,476)		
Effective Purchaser's Costs Rate		6.80%		(185,476)	

NET DEVELOPMENT VALUE

24,032,527

NET REALISATION

24,032,527

OUTLAY

ACQUISITION COSTS

Fixed Price	2,950,000				
Fixed Price			2,950,000		
				2,950,000	
Stamp Duty		5.00%	147,500		
Agent Fee		1.00%	29,500		
Legal Fee		0.80%	23,600		
				200,600	

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Commercial	1,755	295.91	519,322
Education (or Commercial)	3,735	295.91	1,105,224
Private Residential	32,033	295.91	9,478,885
Totals	37,523 ft²		11,103,431
MCIL2/CIL/S.106/S.278			1,900,000
			13,003,431

PROFESSIONAL FEES

Professionals	10.00%	1,110,343	
			1,110,343

MARKETING & LETTING

Marketing	1.25%	268,630	
Letting Agent Fee	10.00%	17,348	
Letting Legal Fee		8,000	
			293,978

DISPOSAL FEES

Sales Agent Fee	1.50%	360,488	
Sales Legal Fee		40,000	
			400,488

Additional Costs

This appraisal report does not constitute a formal valuation.

Finchley Rd on 25/10/23 (no affordable)

Commercial Profit	15.00%	409,139	
Private Profit	17.50%	3,760,822	
			4,169,961

FINANCE

Debit Rate 7.500%, Credit Rate 2.000% (Nominal)			
Land		437,792	
Construction		840,736	
Other		160,146	
Total Finance Cost			1,438,673

TOTAL COSTS**23,567,474****PROFIT****465,053****Performance Measures**

Profit on Cost%	1.97%
Profit on GDV%	1.92%
Profit on NDV%	1.94%
Development Yield% (on Rent)	0.74%
Equivalent Yield% (Nominal)	6.00%
Equivalent Yield% (True)	6.23%
IRR% (without Interest)	9.13%
Rent Cover	2 yrs 8 mths
Profit Erosion (finance rate 7.500)	3 mths

This appraisal report does not constitute a formal valuation.