

Land adjacent to Harrington Square NW1

Addendum Report 1

Prepared on behalf of the London
Borough of Camden

23rd May 2024

Planning Reference: 2023/3824/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 BNP Paribas Real Estate ('BNPPRE') letter dated April 2024. This BPS Addendum follows on from our report of the November 2023 which was issued in response to BNPPRE's Financial Viability Assessment ('FVA') dated August 2023, prepared on behalf of Salboy (Mornington Crescent) 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 surplus of +£2,371,473.
- 1.4 BNPPRE address the following inputs in their latest response:
 - 1.4.1 Construction Costs
 - 1.4.2 Marketing and Sales Fees
 - 1.4.3 CIL and S106 Charges
- 1.5 Having considered BNPPRE's latest comments, the following table summarises our current respective positions.

2.0 Summary Table

2.1 Our analysis presents the following outturn financial position for the project:

Input	BNPPRE FVA August 2023	BPS Review November 2023	BNPPRE Addendum April 2024	BPS Addendum May 2024	Comments
Income					
Open Market Sales	£12,135,000 (£1,191 psf)	£12,135,000 (£1,191 psf)	£12,135,000 (£1,191 psf)	£12,135,000 (£1,191 psf)	Agreed
Expenditure					
EUV	£960,000	£660,000	£660,000	£660,000	Agreed
Landowner Premium	15%	10%	10%	10%	Agreed
Benchmark Land Value	£1,100,000	£726,000	£726,000	£726,000	Agreed
Build Costs	£5,800,504	£5,097,012	£5,650,908	£5,136,259	Disagreed
Contingency	5%	5%	5%	5%	Agreed
Professional Fees	10%	10%	10%	10%	Agreed
OMS Marketing & Agent Fees	3%	3%	3%	3%	Ambiguous – While adopted we consider this percentage should include legal fees.
OMS Legal Fees	0.5%	0%	0.5%	0%	Disagreed – We consider 3% outlined above sufficient to include marketing, agent and legal fees.
CIL	£630,274	£402,141	£685,151	£476,277	Disagreed
Finance	7% - 9.5%	7%	7%	7%	Agreed
Profit: OMS	17.5%	17.5%	17.5%	17.5%	Agreed

Development Timeframes					
Construction Period	18 months	18 months	18 months	18 months	Agreed
Pre-Sales	35%	35%	35%	35%	Agreed
Sales Period	4 months	4 month	4 months	4 month	Agreed
Viability Position	+£480,000 to +£660,000	+£2,508,126	+£1,129,000	+£2,371,473	We have identified an additional surplus which we suggest could provide as contribution towards affordable housing.

2.2 Our updated conclusions are as follows:

- We have increased our Build Costs by approximately £40,000.
- We have increased the S106/ CIL charges by £74,000 in line with the Council's advice.
- We maintained a 3% inclusion for marketing, sales and legal fees.

2.3 The above revisions reflect a reduction of -£136,653 on our previously reported surplus.

2.4 We conclude the scheme can adequately afford the affordable housing PiL at a policy compliant level (£1,933,400).

2.5 This Addendum provides a response to BNPPRE's latest report as requested by the Council.

2.0 Response to BNPPRE

Construction Costs

3.1 Our Cost Consultants, GBA, have provided the following commentary;

'We previously reported on a scheme on this site in November 2023 and found proposed costs of £5,800,504 (including 5% contingency) to be £703,492 or 13.8% higher than our own assessment with use of BCIS rates. At that time the submitted construction costs information was limited to an overall summary with an elemental breakdown with a lump sum provided for external works and abnormal costs.

We conclude that the overall construction costs put forward in the budget estimate are £514,649 or 10.02% higher than we consider to be reasonable. We consider that the difference is associated with party wall and incoming power costs, which are presented as lump sums and not substantiated by any calculation or description.'

3.2 Analysing differences between the Applicant's proposed costs and GBA's construction costs, GBA say the difference appears to result from two sums:

- Party wall at £250,000
- Incoming power at £400,000

3.3 With reference to these figures, GBA state that;

'There is no breakdown showing how these sums have been calculated and what they are for. We need further information to ascertain whether they are reasonable and applicable. Until we have this information, we are not able to review them and complete our own assessment.'

3.4 GBA's full cost report can be found at Appendix 1.

3.5 In lieu of the necessary information, we have amended the build costs to £5,136,259. This represents an inflationary increase of £39,247 our previous figure.

3.6 Whilst allowing for cost inflation, it is noted that BNPPRE have not reassessed the sales values to capture any uplift. Should the Build Costs continue to be a point of contention we consider the development values should also be re-examined.

Marketing and Sales Fees

3.7 BNPPRE have appended proposal prepared by Savills in which they quote £425,000 marketing package for the 11 units, in addition to a 1.75% sales fee. This equates to 5.25% of

GDV before including legal fees, which is above the 3% included in our viability review as standard. We note BNPPRE have also included fees below this level at 3.5%.

3.8 We have included a breakdown of the estimated costs, provided by Savills below.

Item	Estimated Cost
Show apartment interior design and dressing	£100,000
Second show apartment dressing	£40,000
Marketing hoarding	£25,000
CGIs / photography	£50,000
Scheme concept & branding	£20,000
Digital brochure & floor plan design	£40,000
UK Advertising	£50,000
UK APAC Digital Marketing	£50,000
Contingency	£50,000
TOTAL	£425,000

3.9 Clearly, these services are not compulsory and the list provided represents a range of options available to developers where prices will vary. To proceed with the above offer would be a matter of developers choice and the offer cited is therefore personal to the Applicant and should be disregarded for the purpose of viability.

3.10 We have reviewed a multitude of applications this past year where a 3% marketing, sales and legal has been agreed as standard across all sites. We occasionally encounter schemes of significant scale where overseas marketing is considered appropriate in order to maintain higher than average sales rates where marketing allowances above 3% are considered reasonable. There is no indication this scheme is or needs to be marketed overseas.

3.11 Have not been made aware of any mitigating circumstances to support BNPPRE's inclusion of fees at 3.5%. We therefore maintain our assumption at 3%.

3.12 If this item remains the only point of contention we suggest this issue could be included within any late stage review provisions should a payment below policy requirement be made.

CIL and S106 Costs

3.13 In their latest response, the Applicant's planners have calculated a CIL & S106 costs of £685,151.

3.14 The Council have provided a breakdown of the following charges. Calculated using a GIA figure of 1,381 sqm, the CIL charges are as follows:

- Mayor's CIL **£118,849.70**
- Camden CIL **£283,291.06**

S106 Contributions

- Open space contribution £62,289
- Construction management plan (CMP)
- CMP implementation support contribution of £10,116
- CMP Impact Bond of £16,000
- Pedestrian, Cycling and Environmental facilities contribution of £22,000
- Travel Plan monitoring contribution of £5,196
- Carbon offset contribution of £11,314.50
- Highways estimate of £47,220.54 for repaving the footway and crossover adjacent to the site
- Basement Construction Plan (BCP)
- Car free
- Total: **174,136.04**

3.15 The affordable housing contribution PiL is **£1,933,400.00**

3.16 We have applied these figure to our assessment pending further clarification on the modelling used to generate the Applicant's figures.

4.0 Author Sign Off

- 4.1 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.
- 4.2 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.
- 4.3 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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May 2023

Appendix 1: Build Cost Report

1.0 REVIEW & COMMENTARY:

- 1.1 This Addendum Report is related to BNP Paribas Real Estate response dated April 2024 and ARTAL Budget Estimate – Revision 5 dated 26/04/2024.
- 1.2 We previously reported on a scheme on this site in November 2023 and found proposed costs of £5,800,504 (including 5% contingency) to be £703,492 or 13.8% higher than our own assessment with use of BCIS rates. At that time the submitted construction costs information was limited to an overall summary with an elemental breakdown with a lump sum provided for external works and abnormal costs.
- 1.3 The currently proposed costs are based on the marginally lower GIA of 1,352m² (29m² lower than was stated in the ARTAL Budget Estimate – Revision 4). We understand the scheme has not changed in terms of GIA and the difference is a result of re-measurement. The breakdown of the GIA is as follows:

Residential area	1207 m ²
Basement plant room	<u>145 m²</u>
Total	<u>1,352 m²</u>

- 1.4 Revised construction costs are shown in the budget estimate to be £5,650,908 in total, this concurs with the appraisal summary. The breakdown of the proposed costs is as follows:-

Build cost	£3,221,160
External works and services and abnormals	<u>£1,070,560</u>
Sub-total	£4,291,720
Preliminaries 14%	£600,841
Contingency 5%	£244,628
OHP 10%	<u>513,719</u>
Total	<u>£5,650,908</u>

- 1.5 Date basis for the costs is assumed to be 2Q2024.
- 1.6 Costs are presented in an elemental summary and partially quantified breakdown. In addition to The ARTAL Budget Estimate, the Applicant has submitted two budget tender submissions at:
- Tender submission #1 at £7,067,763 total cost.
 - Tender submission #2 as a budget between £6,079,500 and £8,106,000

Tender submission #1e is presented in elemental summary with a number of lump sums. Tender submission # 2 is presented as a lump sum range between two figures. No breakdown is provided. No information is provided by the Applicant as to whether these “Budget Tender Submissions” were submitted in a competitive tender process, or what information the tenders are based on.

Tender submission #1 includes £350,000 design fees which indicates a design and build contract, and also includes construction preliminaries at approximately 33% which is about 2x what we would usually expect for a contract of this value and duration.

It should also be noted that both “Budget Tender Submissions” are about 25% higher than the Applicant’s own submitted construction cost estimate and about 35% higher than GBA costs based on BCIS data.

It should be noted that presented documents don’t contain usual information provided in competitive tender returns, such as proximate quantities, indication of provisional sums, construction duration, prelims breakdown, list of exclusions and clarifications, reference to the drawings / specifications and other documents the tender return was based on.

- 1.7 We previously assessed construction costs for the scheme on this site in November 2023 and concluded that the proposed costs were 13.8% higher of construction costs at £5,097,012 assessed with use of BCIS rates. It should be noted that All-in Tender Price index has change between 4Q2023 (the time of our previous assessment) and now 2Q2024 insignificantly from 388 to 391, which equates to 0.77% please see Appendix A. If we uplift previously calculated construction sum of £5,097,012 by 0.77% the construction costs calculated with use of BCIS rates would be £5,136,259 or £3,799/m².
- 1.8 Analysing differences between the Applicant’s proposed costs and our construction costs assessment calculated with use of BCIS rates we noticed that the difference appears to result from two sums in particular:
 - Party wall at £250,000
 - Incoming power at £400,000

There is no breakdown showing how these sums have been calculated and what they are for. We need further information to ascertain whether they are reasonable and applicable. Until we have this information, we are not able to review them and complete our own assessment.

2.0 CONCLUSION:

- 2.1 The difference between costs in the budget estimate and our assessment of costs using BCIS is £514,649 or 10.02% - see Appendix B.
- 2.2 We conclude that the overall construction costs put forward in the budget estimate are £514,649 or 10.02% higher than we consider to be reasonable. We consider that the difference is associated with party wall and incoming power costs, which are presented as lump sums and not substantiated by any calculation or description.

APPENDIX A

CALCULATION OF COSTS USING BCIS M2 RATES

Construction costs as calculated by GBA in November 2023					£5,097,012
BCIS All-in TPI 4Q2023 (previous report)	388				
BCIS All-in TPI 2Q2024 (current date)	391				
Inflation uplift in the period	0.77%				£39,247
Total	<u>1,352</u>	m2	£3,799	/m2	<u>£5,136,259</u>

APPENDIX B

COMPARISON OF DEVELOPMENT APPRAISAL AGAINST COSTS USING BCIS M2 RATES

Cost using BCIS m2 rates - Appendix A	£5,136,259
Cost from development appraisal	£5,650,908
Difference £	£514,649
Difference %	10.02%

APPENDIX C

BCIS DATA

BCIS®

BCIS All-in TPI #101
 BCIS All-in TPI

Base date:
1985 mean = 100
 Updated:
08-Mar-2024
 Series no.
#101

			Percentage change		
Date	Index	Equivalent sample	On year	On quarter	On month
2Q 2022	365	Provisional	10.3%	4.6%	
3Q 2022	371	Provisional	9.4%	1.6%	
4Q 2022	375	Provisional	9.0%	1.1%	
1Q 2023	379	Provisional	8.6%	1.1%	
2Q 2023	383	Provisional	4.9%	1.1%	
3Q 2023	386	Provisional	4.0%	0.8%	
4Q 2023	388	Provisional	3.5%	0.5%	
1Q 2024	390	Provisional	2.9%	0.5%	
2Q 2024	391	Forecast	2.1%	0.3%	
3Q 2024	392	Forecast	1.6%	0.3%	
4Q 2024	394	Forecast	1.5%	0.5%	
1Q 2025	398	Forecast	2.1%	1.0%	
2Q 2025	402	Forecast	2.8%	1.0%	
3Q 2025	404	Forecast	3.1%	0.5%	
4Q 2025	408	Forecast	3.6%	1.0%	
1Q 2026	413	Forecast	3.8%	1.2%	
2Q 2026	417	Forecast	3.7%	1.0%	
3Q 2026	420	Forecast	4.0%	0.7%	
4Q 2026	423	Forecast	3.7%	0.7%	
1Q 2027	430	Forecast	4.1%	1.7%	

Appendix 2: Argus Appraisal

APPRAISAL SUMMARY**BPS SURVEYORS**

Land adjacent to Harrington Square

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private Residentail	11	10,190	1,190.87	1,103,182	12,135,000

NET REALISATION**12,135,000****OUTLAY****ACQUISITION COSTS**

Fixed Price	726,000				
Fixed Price			726,000		
				726,000	
Stamp Duty			25,800		
Effective Stamp Duty Rate	3.55%				
Agent Fee	1.00%		7,260		
Legal Fee	0.50%		3,630		
				36,690	

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost	
Private Residentail	14,865	345.53	5,136,259	
				5,136,259

Section 106 Costs

Mayor's CIL			18,850	
Camden CIL			283,291	
Section 106 Costs			174,136	
				476,277

PROFESSIONAL FEES

Other Professionals	10.00%	513,626		
			513,626	

DISPOSAL FEES

Sales Agent Fee	3.00%	364,050		
			364,050	

MISCELLANEOUS FEES

Developers Profit	17.50%	2,123,625		
			2,123,625	

FINANCE

Timescale	Duration	Commences
Construction	18	Apr 2017
Sale	4	Oct 2018
Total Duration	22	

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)

Land	78,817		
Construction	294,089		
Other	14,094		
Total Finance Cost			387,000

TOTAL COSTS**9,763,527****PROFIT**

Land adjacent to Harrington Square

2,371,473

Performance Measures

Profit on Cost%	24.29%
Profit on GDV%	19.54%
Profit on NDV%	19.54%
IRR% (without Interest)	42.24%
Profit Erosion (finance rate 7.000)	3 yrs 2 mths