JAMESTOWN ROAD – BPS REVIEW OF FINANCIAL VIABILITY ASSESSMENT

In November 2024, we undertook a Financial Viability Assessment ('FVA') of 4C Jamestown Road Limited's proposed development comprising 187 Purpose Built Student Housing Accommodation ('PBSA') units and 27 C3 affordable housing units.

Camden Council has commissioned BPS to review the FVA and their report claims a surplus of £5.2 million against our £22.2 million deficit. However, BPS's claimed surplus is based on a number of erroneous assumptions which do not withstand scrutiny. When these assumptions are corrected, all of BPS's claimed surplus is eliminated and their appraisal would show a deficit.

1. Agreed items/matters not in dispute

The following appraisal inputs are not disputed by BPS:

- PBSA investment yield (4.5%);
- Office investment yield (6.5%);
- Intermediate housing value;
- Professional fees;
- Sales agent and legal fees;
- Commercial letting agents and letting legal fees;
- Community Infrastructure Levy and S106 (not disputed but BPS seek confirmation of the amount from the Council);
- Finance rate;
- Profit on affordable housing;
- Profit on commercial;
- Development programme.

1.1 PBSA investment yield

Although BPS do not dispute the PBSA investment yield, there is some confusion in their report on the issue of stabilisation. As valuers familiar with residential assets for rent are aware, the yield sheets issued by Knight Frank, CBRE and others quote yields based on stabilised assets (i.e. fully let assets, other than normal levels of voids). It is entirely standard practice to make an adjustment to a yield for an asset which has not yet been occupied in comparison to an asset that is already operation (and is 'stabilised'). The author of the BPS report does not appear to be familiar with this concept and misinterprets stabilisation of the asset for 'stable' levels of yields (i.e. constant over time):

"As for the yield guide, it is unclear why a 250-basis point adjustment has been made, as we have checked the Knight Frank April 2024 Prime Yield Guide and found that the sentiment for Prime London student accommodation is already stable at 4.25%. If BNPPRE are inferring that the current market is not stable, then we consider that they should provide evidence for this assumption".

For the avoidance of doubt, we are not suggesting that the yield is 'unstable' or 'subject to fluctuation'. When we refer to "stabilisation" we are referring to the distinction between an 'up and let investment' and a development opportunity that is yet to be constructed and occupied. This can be noted in the text above the table of yields on Knight Frank's yield schedule which notes that "*yields are reflective of income-focused transactions of prime, **stabilised** institutional-grade assets*" (emphasis added).

We also note that BPS suggest that the 4.5% yield applied to the rental income is "*on the lower end of our expectations*" based on their observation that two of the comparable sales we cited were still under offer. We provide at Appendix 1 details of completed student housing investments which range from 4.75% to 5.33%. These comparable sales demonstrate that BPS's reported capital value of £397,000 per bed is out of kilter with achieved values. For example, the most comparable scheme is Vega London, which is a similar Zone 2 location to the subject site. This achieved a value of £330,000 per bed, which demonstrates that our value of £341,000 per unit is more realistic than the £397,000 reported by BPS.

1.2 C3 affordable housing percentage

BPS incorrectly assert that the C3 affordable housing provides 93 habitable rooms, whereas the correct number is 105. It appears that BPS have counted the kitchen/dining/living rooms as one habitable room, whereas these spaces count as two habitable rooms in line with paragraph 1.3.19 of the Mayor of London's Housing Supplementary Planning Guidance.

1.3 Clarification on BPS information request

On page 6 of their report, BPS suggest that they sent us a request to provide information listed in a table on that page. The email we received requested (a) our live Argus appraisal (b) detailed design specifications ("if available") and (c) live version of affordable housing calculations. We replied with items A and C and noted that the design specification was contained within the application documentation. The other items in their table noted as "*not provided*" were never requested.

2. Matters in dispute:

The matters in dispute are as follows:

- Capital value of PBSA;
- Capital value of social rented housing;
- Capital value of commercial floorspace;
- Profit on PBSA;
- Construction costs;
- Benchmark Land Value.

We address these matters in turn in the following sections.

3. Capital value of PBSA

BPS have increased the capital value of the PBSA from £63.8 million to £74.18 million by increasing the rents and reducing the operating costs ('Opex'). BPS have increased the rents as follows:

- Standard studio: from £362 to £403 per week
- Premium studio: from £384 to £440 per week
- Wheelchair accessible studio: from £386 to £450 per week

These increases are based solely on asking rents with no evidence of rents actually charged at the other schemes that BPS have cited. Homes for Students (the organisation which will be operating the scheme at Jamestown Road advised on the rent levels that the market could reasonably absorb, having regard to the rents that they are achieving at other nearby schemes. They can discuss achievable rents further with BPS if required, but in short, they have advised that the rents they previously provided (and used in the FVA) are the reasonable maximum in this area.

With regards to Capex, BPS have reduced the capex from £3,250 per room to £3,000 per room "*based on other schemes*" but they have not identified these schemes and the services provided. Homes for Students have provided an operating budget as part of the due diligence for the scheme and their year 1 costs total £3,261.23 per unit per annum (see Appendix 1). BPS's reduction in Opex results in an overstatement of capital value of £1.04 million. Homes for Students would be happy to review operating budgets for the schemes that BPS have relied upon to explain the differences.

4. **Capital value of social rented housing**

BPS have increased the GDV of social rented housing from £2.9 million to £3.55 million. Their social rents are overstated as they have applied the rent caps, which reflect the absolute maximum rents that RPs can charge in the highest value locations in the country. While January 1999 capital values may result in rents that equate to the rent caps in Westminster or parts of Royal Borough of Kensington & Chelsea, the January 1999 capital values in this part of Camden do not. Consequently, BPS's rents are overstated and should be adjusted downwards.

5. **Capital value of commercial floorspace**

BPS have increased the capital value of the commercial from £2.05 million to £2.6 million. This is largely because they have applied a rent of £45 per square foot to the basement space, whereas our £45 per square foot reflected a blended rent across basement and ground floors, with a much lower rent for the basement space and a higher rent for the above ground space.

All of the comparable rental evidence that is available is for ground floor space or above. BPS have not provided any evidence to support such a high rent for basement space which undermines their overall assumed rent of £56.50 per square foot.

6. **Profit on PBSA**

BPS have reduced their profit on the PBSA from 15% to 12.5% of GDV. There are numerous development proposals which have been supported by FVAs which apply a profit of 15% of GDV to the PBSA. Furthermore, funders will require schemes to show a minimum profit of 15% of GDV.

We note that BPS appear to acknowledge that their 12.5% profit is an outlier (implicitly at least) as they have also modelled the scheme with a 15% profit.

7. **Construction costs**

BPS have reduced the construction costs from £51.58 million to £41.53 million, which also reduces the professional fees allowance by £1.00 million. This reduction is based on a crude comparison of the elements of the costs to BCIS benchmarks and not a review of rates and quantities, as one would expect in a cost plan review. The assessment is very high level with little detail or justification.

Gardner & Theobald (G&T) have reviewed the costs section of the BPS report and have drafted a response which we understand will be submitted to the Council alongside this note. In summary, G&T do not accept that anything in the BPS report warrants a reduction in their construction costs which are benchmarked against live PBSA developments.

8. **Benchmark Land Value**

BPS have reduced the Benchmark land value reduced from £11.7 million to £8.3 million. Although the existing building is in poorer condition than some of the comparable evidence, BPS have failed to account for the central location of the Site (more central than their highest comparable rents), which would make it very attractive to a range of occupiers. BPS have applied a rent of £20 per square foot which is low considering that they have assumed a refurbishment for which they have allowed costs totalling £1.6 million.

The yield of 10% that they apply to the yard space as open storage is completely unrealistic – reducing this to 5% (which is more reflective of current market conditions in this sector) would add £1.17 million to the BLV.

7. Conclusions

As noted in the sections above, we do not agree with BPS's assertions regarding the main appraisal inputs (GDV and costs), which are either unevidenced or misinterpret the available evidence. When their erroneous and unwarranted reduction to construction costs is corrected, this change alone would entirely eliminate their claimed £5.5 million surplus and would result in a deficit of an equivalent amount. Consequently, when BPS's appraisal is corrected to address the errors outlined above, it will demonstrate that the Proposed Development is providing more than the maximum viable proportion of affordable housing.

BNP Paribas Real Estate
23 December 2024

APPENDIX 1: STUDENT HOUSING INVESTMENT TRANSACTIONS

PBSA London Investment Comparables - 2024

Name	Location	Completion Date	Beds / Units	Vendor	Investment Strategy	Purchaser	Price	Price Per Bed	NIY	Comment	Image
Grove Crescent Road	Stratford	Jul-24	397	Watkin Jones	Forward Funding - JV	Housing Growth Partnership	£120m	£302,267	4.75%	JV between Watkin Jones and Housing Growth Partnership. Micro location off pitch in comparison to central Stratford. Land value of £63k pb, c.£25m.	
Pavilion Court	Wembley	Apr-24	699	DWS	Investment	Apollo	£125.25m	£179,185	5.33%	Purchase by Apollo from DWS. 4.60% off 23/24 and 5.33% off 24/25 (which they were effectively buying off).	
Hallsville Quarter	Canning Town	Apr-24	375	Crosstree	Forward Funding - JV	Linkcity (Bouygues)	£125m	£333,333	N/A	JV between Crosstree RE and Linkcity (Bouygues). Project forms part of the wider £33.7bn Canning Town and Custom House regeneration programme.	
Vega London	Vauxhall	Nov-23	841	Downing	Investment	Blackstone iQ	£277.5m	£330,000	4.90%	Opened in 2021 and built to a BREEAM Excellent standard. Purchased by iQ. Ensuites and studios with gym, games and cinema rooms, private dining area, study room, lounge and sky terrace. iQ consider they got a 25bps discount for quantum and also not a Zone 1 location.	

APPENDIX 2: HOMES FOR STUDENTS OPERATING BUDGET

33-35 Jamestown Road, Camden, London, NW1 7BW		
Service	**£/Bed /Annum - Including VAT**	
Fixed FM Charges		
Reception / Customer Service Assistant Costs	£	215.29
Security, Key Holding & Intruder Alarm Monitoring	£	9.82
Cleaning of Common Areas , Deep Cleaning, Window Cleaning & Cleaning Operatives	£	315.18
Maintenance, Statutory, Planned, & Reactive, Grounds (up to £250 comp limit) & Maintenance Operatives	£	572.12
Property Manager/Deputy Manager	£	457.69
Off Site Resource	£	38.15
Management Fee	£	206.00
Tenancy Protection Scheme	£	25.20
Laundry Discount	£	-
Pest Control	£	4.37
Catering & Vending	£	-
Internet Costs (ISP)	£	78.93
Office Costs & CAFM Hardware & Software & Accreditations	£	80.03
Subtotal (Inc VAT)	**£**	**2,002.80**
Variable Costs		
HMO Licence	£	-
Energy	£	669.50
Water	£	104.03
Contents Insurance	£	4.16
TV Licences Common Area	£	1.05
Property Insurance	£	270.00
Sinking Fund Budget (Inc Redecoration)	£	-
Waste Disposal	£	50.55
Direct Marketing Budget	£	159.14
Subtotal (Inc VAT)	**£**	**1,258.43**
Total Per Bed (Inc VAT)	**£**	**3,261.23**