BPS
Chartered Surveyors

Land at Midland Crescent, Finchley Road, London, NW3 6NA

Application: 2014/5527/P

Independent Review of Assessment of Economic Viability

30th October 2014

1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden ('the Council') to review a viability submission provided by Douglas Birt Consulting (DBC) on behalf of Stadium Capital Holdings (the applicant) in respect of a proposed development on land at Midland Crescent, Finchley Road.

1.2 The site is bounded by Finchley Road to the east and by over-ground train lines to both the north and south. It is triangular in shape, tapering towards the west, and is 0.15 acres in size. The site has recently accommodated billboard advertisements which faced Finchley Road.

1.3 The current planning application proposed a scheme comprising 9 residential units, 60 bedrooms of student housing, and 757 sqm GIA of office (B1) space.

1.4 A previous planning application (2013/4575/P) was refused on Appeal, primarily on design grounds. This previous application proposed to provide 9 residential flats, 92 student bedrooms (with communal kitchens, lounge and common room areas), and 808 m^2 of office space. The main alteration to the scheme is therefore a reduction in the number of student bedrooms from 92 to 60, while the commercial office space has been reduced from 808 sqm to 757 sqm (GIA). As per the previous application, the proposal also includes 9 residential dwellings.

1.5 As the scheme will provide over 1,000 sqm of net additional residential floorspace, it triggers an affordable housing requirement under the Council's Development Policy DP3. Under DP3, this scheme is required to provide one unit of affordable housing unit on site. However, DBC argues that the on-site provision is impracticable in this scheme.

1.6 The applicant is not currently offering to make any affordable housing contributions, but will provide £227,000 of Mayoral CIL payments and £290,923 of S106 contributions. DBC assert that the due to the viability position of the scheme, it cannot reasonably make any contributions towards affordable housing.

1.7 DBC's development appraisal of a scheme with nil affordable housing contributions shows a profit output of 18.5% on GDV, which falls short of the applicant's profit target of 20% on GDV, which indicates that the scheme is marginally unviable and cannot viably make any affordable housing contributions.

1.8 Our review has sought to scrutinise the costs and value assumptions included in the applicant's viability submission, in order to determine whether there may be scope for an affordable housing contribution to be made while ensuring the scheme is economically viable.

2.0 CONCLUSIONS & RECOMMENDATIONS

2.1 Following our review of the latest viability assessment, we have reached the conclusion that the scheme cannot viably make any affordable housing contributions. There is, however, the potential for improvements in viability over time to lead to the scheme generating a surplus, therefore we recommend that the Council seeks agreement to a deferred contributions mechanism, based on outturn costs and values, which would trigger an affordable housing payment if a surplus were to be generated.

2.2 DBC's development appraisal for the proposed scheme, with nil affordable housing contributions, shows a profit output of 18.5% on GDV, which falls short of the applicant's profit target of 20% on GDV. This indicates that the scheme is marginally unviable with a -245,000 profit deficit.

2.3 We have highlighted below where our views on costs and values differ from those included in the appraisal. There are a number of inputs into the benchmark land value (AUV) appraisal which we question, although the combined impact of our suggested changes is minimal as they largely counteract each other. We also suggest that somewhat lower student housing values can be justified than have been adopted in the appraisal, which would have the impact of further increasing the profit deficit. This strengthens the conclusion that the scheme, on present day costs and values, cannot support an affordable housing contribution.

2.4 We summarise in the remainder of this section our findings in respect of the key cost and value inputs.

Costs

2.5 Our cost consultant, Neil Powling, has reviewed the cost plan for the proposed scheme and has reached the conclusion that it is reasonable, and suitably reflects the high level of abnormal costs associated with this scheme.

2.6 The site is highly constrained by its location next to railway lines and to Finchley Road, which is likely to add complications to any construction project, and may cause costs to rise above the estimates that have been adopted in the appraisal.

Values

2.7 With respect to the student housing, DBC has reduced the yield from [redacted]% to [redacted]% since the previous appraisal, which suitably addresses the comment, in our previous report, that lower yields could be expected given the buoyant performance of the London student housing market.

2.8 We suggest that the weekly gross rents per room that appear to have been assumed by DBC are somewhat higher than we would expect in this locality, and for this reason we consider that the overall capital valuation of the student housing is somewhat optimistic.

2.9 We have concluded that the residential values and the commercial values are also reasonable, taking into account the site's drawbacks including its close proximity to railway lines.

Benchmark Land Value - AUV

2.10 The AUV estimate is of a hypothetical mixed use development which is largely based on a scheme (2008/4958/P) that gained consent in 2008 and has since lapsed. It includes 283 m^2 (NIA) of retail space on the ground floor. Unlike the 2008 scheme the AUV scheme includes residential uses, totalling 8 dwellings.

2.11 The alternative use valuation is the same as was used in the previous (August 2013) appraisal, and includes the same cost and values inputs, and consequently the same residual value of £854,000.

2.12 A landowner premium of 20% has been added to the AUV in order to arrive at the benchmark figure of £1.025m. We remain to be convinced that it is suitable in this instance to apply a landowner premium.

2.13 We are of the opinion that this landowner premium added to the AUV estimate is inappropriate because it has been applied to the Market Value of the property assuming redevelopment within the site's lapsed consent for office and retail use. It is not possible in our view to establish a premium for two reasons:

a) The AUV represents market value for this use therefore it is not possible to seek a figure above market value.

b) It is evident that the proposed scheme is less viable therefore there should be no hope value attached to the site in relation to securing a higher value consent

2.14 He also considers the costs applied in the AUV to be reasonable and to be consistent with those agreed as part of the previous application's viability assessment.

2.15 If this premium were to be omitted, this would reduce the benchmark by £171,000. However, this change is more than cancelled out by the increase in residential sales value which we consider to be suitable alternative use scheme, to reflect the strong recent price inflation is Camden and maintain consistency with the residential values in the proposed scheme.

2.16 We conclude that £500,000 higher residential sales value can be justified in the AUV appraisal, which even allowing for the omission of the landowner premium, would still result in a high benchmark land value (£329,000 higher) and consequently would further increase the proposed scheme's profit deficit. However, this may be largely counteracted by the build costs of the AUV's commercial space, which our cost consultant suggests may be overstated by as much as £293,000. Overall, therefore, we accept that the AUV of £854,000 remains broadly reasonable and is potentially somewhat overstated.

3.0 PLANNING POLICY CONTEXT

3.1 We have had reference to national planning policy including the National Planning Policy Framework. We have also had regard to the local planning policy context including the London Plan (2011) Housing Policies and the Council's Core Strategy.

3.2 The Council's Core Strategy policy CS6 sets a target mix of 60% social rented and 40% intermediate tenure for affordable housing provision within the Borough.

3.3 Development Policy DP3 states that affordable housing contributions will be expected from all residential developments with a capacity to provide 10 or more dwellings, with a 50% negotiating target being applied on a sliding scale from 10% for schemes with a capacity of 10 dwellings, to 50% for those of 50 dwellings. The 50% target operates subject to the financial viability of the development.

3.4 The proposed scheme will provide, in addition to student accommodation, 9 flats totalling 1,114 meter^2 (GEA), which triggers an affordable housing requirement of 11% under DP3, equating to 111.4 sqm^2.

3.5 The applicant suggests that the proposed scheme cannot feasibly provide any onsite affordable housing because of the practical difficulties associated with the management of a single affordable unit located within a flatted scheme. Camden Planning Guidance (CPG8) sets out how affordable housing payments-in-lieu should be calculated, by using a £2,650 per sqm multiplier, applied to the area of the required on-site affordable housing. This results in a maximum payment-in-lieu of £295,210 when applied to this scheme.

4.0 PLANNING HISTORY

4.1 In 2005, outline permission was granted for the erection of a five-storey (inclusive of basement) building which would have accommodated retail and office uses. This building was intended to be constructed upon the eastern section of the site. A Reserved Matters application (reference: 2008/4958/P) was granted on 2nd January 2009. An adaptation of this scheme has been applied in DBC's alternative use valuation.

4.2 The current application (2014/5527/P) was registered on 8th September 2014 and is a modified version of 2013/4575/P. The previous planning application (2013/4575/P) was refused on Appeal, primarily on design grounds. This previous application proposed to provide 9 residential flats, 92 student bedrooms (with communal kitchens, lounge and common room areas), and 808 m^2 of office space.

5.0 VIABILITY BENCHMARK

5.1 As per the previous application (2013/4575/P), DBC has used a benchmark figure of £1.025m for the purposes of testing the viability of the proposed scheme. Using an Excel based model, DBC has calculated the site value at £854,500 and then added a landowner premium of 20% in order to arrive at the benchmark figure of £1.025m.

5.2 The AUV estimate is of a hypothetical mixed use development which is largely based on a scheme (2008/4958/P) that gained consent in 2008 and has since lapsed. The scheme includes 283 m^2 (NIA) of retail space on the ground floor. Unlike the 2008 scheme, the AUV scheme has been modified to include 8 residential dwellings.

5.3 Planning Officers have confirmed that they are satisfied that the AUV scheme is acceptable in principle in terms of planning policy. We note that the inclusion of residential uses would be a requirement under the Council's most recent planning policy, as detailed in Development Policy DP1, which requires mixed use schemes to provide 50% of the net additional floorspace as housing, and the AUV scheme does includes policy-compliant level of housing.

5.4 We therefore consider that the Alternative Use Value approach taken by DBC is suitable in this case, given that the AUV scheme is based effectively on the resumption of a formerly consented scheme and appears to be consistent with current planning policy. Moreover, the fact that the site is undeveloped and has a limited existing use value (it is currently only being used for billboard advertising), lends support to the view that consideration of an alternative use is appropriate when arriving at a benchmark land value.

5.5 Although we accept the use of an AUV approach, we remain to be convinced that it is appropriate to add a landowner premium to AUV. We discuss below our review of the the cost and value inputs into the AUV appraisal, and then discuss the issue of landowner premium issue in more detail.

<u>Residential values</u>

5.6 With regards to the value of the 8 hypothetical apartments, the estimated sales value is £[redacted] per sqft (£[redacted] per sqm). This is the same figure per sqft as was applied in the previous AUV appraisal (August 2013). In our review of the previous submission, we concluded that the values ascribed to the apartments were unlikely to be overstated, given the disadvantages of this site and the location of these apartments above commercial uses.

5.7 Whilst the proposed scheme's values have increased from £[redacted] per sqft to £[redacted] per sqft (£[redacted] per sqm) from the previous appraisal (August 2013) to the most recent appraisal, the values of the AUV apartments have remained static at £675 per sqft. This increase in the disparity in values acts to improve the viability position of the proposed scheme.

5.8 We note that the Land Registry House Price Index for Camden has inflated by 21.3% between August 2013 and September 2014, which compares to the 14.2% growth applied to the proposed scheme's apartments, although this is not unreasonable given that the strongest growth in the Borough has been further south, in the Central London area.

5.9 Irrespective of the precise level of achievable residential values in this locality, it is highly unlikely that a £125 per sqft (£1,346 per sqm) difference between the proposed scheme's and AUV scheme's apartments' respective values can be justified. If DBC were to reduce this differential the effect would be a further worsening of the viability position in the form of an increased profit deficit.

5.10 The differential between the proposed and AUV apartments' was previously £25 per sqft. If this difference were to be restored (by increasing the AUV apartments' values by £100 per sqft) this would increase the GDV of the AUV scheme by £648,000 and in turn increase the AUV residual from £854,000 to £1.33million.

Commercial values

5.11 The office space in the AUV scheme has been valued at £[redacted] per ft^2 (161 per sqm) per annum. We have not been provided with any evidence in support of this estimate. Our research shows that somewhat higher rents can be achieved in the Finchley Road area, it should be noted that the appraisal makes no allowance for letting incentives and void periods, which are both likely to be high in this locality, especially voids. On balance, therefore, we consider that the capital values applied to the office to be in line with what we would expect in this secondary office location.

Costs

5.12 Our Cost Consultant, Neil Powling, has reviewed the build costs that have been included in the AUV appraisal. He considers that residential element to be reasonably costed in comparison with BCIS rates, but suggests that the cost of the commercial element is potentially understated.

5.13 The rate applied to the commercial element is £1[redacted] per sqm, totalling £[redacted]. Neil Powling suggests that a BCIS rate of £[redacted] per sqm is appropriate, which generates a £[redacted] build cost. This is a difference of £293,000. Neil's cost rate is based on a reasonably high level of internal specification (although not including air conditioning). Given that the rent per sqft ascribed to the offices is relatively low for this location, at £[redacted] per sqft (£[redacted] per sqm), this implies that a modest specification (or partial fitout, with the tenant undertaking the remaining works) is more realistic. We therefore suggest that the discrepancy in costs is likely to be considerably lower than £293,000, although we have highly limited amounts of detail concerning the AUV scheme, so are unable to give a more definitive view.

5.14 We are satisfied that the finance costs and other cost inputs into the AUV appraisal are reasonable and are consistent with the approach taken for the proposed scheme.

Landowner Premium

5.15 DBC has calculated the site value at £854,500 and then added a landowner premium of 20% which results in a benchmark figure of £1.025m. We remain to be convinced that it is suitable in this instance to apply a landowner premium.

5.16 DBC's rationale for adding a premium to the AUV is that it is required in order to incentivise the landowner to sell. In other words, any alternative use values or existing use values ought to have a premium added to them in order to provide a competitive return to the landowner, in line with the principles of the NPPF (para. 173).

5.17 According to DBC, without a premium over the AUV, there would be no particular incentive for the landowner to release the site.

5.18 We are not aware of any Appeal Decisions where AUV uplift has been supported. The Decisions we have viewed all relate specifically to the addition of a premium over the Existing Use Value (EUV):

- In 2009 an appeal case (APP/G1580/A/08/2084559) for a new residential development in Croydon it was concluded with an uplift of 20% on the site value which is based on its EUV.

- In a 2009 appeal case (APP/D3125/A/09/2104658) relating to a site in Oxford Street it was decided that a 10% premium is reasonable to apply to the EUV, to offset landowner inconvenience and assist with relocation.

5.19 RICS Guidance Note *Financial Viability in Planning* refers explicitly to the application of a premium to EUV but does not refer to AUV (para 3.4.1), and it also mentions (para 3.4.9) that when an AUV is estimated, this figure will equate to *Market Value* which by definition does not require a premium to be added to it in order to incentivise the landowner to sell.

5.20 "Where an alternative use can be readily identified as generating a higher value, the value for this alternative use would be the market value." This means that a premium over the AUV is not commended by RICS as by definition Market Value is the maximum that the market will pay for the site."

5.21 For a cleared site such as this, wherein the realisation of the value of any any alternative uses will require major expenditure (on a scale commensurate with the expenditure required for the application scheme), it is inappropriate to include a landowner premium over and the residual value that the alternative use scheme generates.

5.22 The following paragraphs from the National Planning Practice Guidance deal with the issue of suitable incentives for landowners:

"The National Planning Policy Framework states that viability should consider 'competitive returns to a willing landowner and willing developer to enable the development to be deliverable.' This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project.

"A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy."

5.23 This Guidance does not elaborate further on what a suitable level of incentive is, other than to say it will by its very nature vary between schemes. It is logical that an 'incentive' may be as little as £1 (i.e. a minimal sum). For example, if the residual value of a scheme exceeds the residual value of an alternative use scheme by even a negligible amount, then it can be said to be viable and represent the most advantageous and valuable outcome for the landowner. No further incentive (e.g. a 20% premium) over this figure would be required.

6.0 BUILD COSTS

6.1 Our cost consultant, Neil Powling, has reviewed DBK's Cost Plan for the proposed scheme by making an elemental comparison against BCIS average tender prices. He has concluded that the overall cost estimate is realistic, and his full report is included in Appendix One.

6.2 DBC states that it considers a profit of 20% on Gross Development Value (GDV) to be a minimum target level in the current market, which we accept is appropriate and has been supported by Inspectors' decision in recent Planning Appeals.

6.3 The interest rate of 7% applied in the appraisal is reasonable in the current market. It has been applied to an overall 23 month development period, which includes an 18 month build period and a 5 month post-completion sales period.

6.4 The land finance cost has been estimated at £[redacted] using a [redacted]% interest rate. This figure is c[redacted]% as a proportion of the land cost, which is realistic for this scheme which has a development period of c2 years.

6.5 The Professional Fees of 12% and a Contingency of 5% are both realistic for a scheme of this nature and are in line with the typical benchmark rates currently applied in viability assessments.

7.0 GROUND RENTS

7.1 Annual Ground Rents from the flats have been estimated at £400 per apartment. This total ground rent income has then been capitalised using a 7% yield, resulting in a capital sum of £51,429, which we consider to be reasonable although the yield is slightly higher than we would expect but the impact on overall scheme values of adopting a lower yield on the appraisal is minimal.

8.0 PRIVATE RESIDENTIAL VALUES

8.1 The value of the nine residential units has estimated by local estate agency Stadium Residential at £[redacted] per ft^2 (£[redacted] per sqm), which leads to a total of £[redacted]. Stadium Residential has only provided one comparable transaction to support this valuation of £800 per sqft, so we have undertaken our own research to determine whether this is a suitable estimate.

8.2 Since the previous application, the estimates values have been increased from £[redacted] per sqft (August 2013) to £[redacted] per sqft. In our previous (October 2013) report we concurred that £[redacted] per sqft was a fair reflection of the proposed units' likely values. In reaching this conclusion, we took account of the site's disadvantages including its close proximity to railway lines, but also its advantages such as being close to good public transport links.

8.3 Given that Land Registry's HPI growth for Camden totalled 21.3% between August 2013 and September 2014, it is evident that a £100 per sqft (£1,076 per sqm) increase (14%) is possibly not sufficient. However, according to other growth indices, the increase in NW3 has been more modest over this period, at around 10%. Therefore we conclude that an increase of 14% is a fair reflection of the changing local market over the last 12 months.

8.4 We have also considered more recent comparable sales in the local area to ensure that £[redacted] per sqft is indeed in line with typical market values for apartments of this calibre. It is apparent that the proposed units are at the bottom end of the local market, which includes many highly desirable streets.

8.5 The development consists of 2 one bedroom, 6 two bedroom and 1 three bedroom properties. Our analysis of local comparable sales evidence is set out below.

<u>One Bed Flats</u>

8.6 The one bedroom flats in the proposed scheme are both 53 m^2 and are both valued at £[redacted] (£[redacted] per sqm) compared to a local average of £9,497 per sqm for flats sold within a half mile radius. These comparable units are mostly second hand and as such we would expect the proposed flats to command a new build-premium. However, our further research indicates that properties located on Finchley Road tend to be of a lower value than most streets in the local area, partly because of the busy traffic along this road.

8.7 The following table details comparable sales along Finchley Road. These are [redacted]. It should be noted however that these comparable properties are not new builds.

<u>Comparable evidence: 1-bed apartments near Finchley Road</u>

Address	Price	Size (M^2)	Price PSM	Comments
Flat 56 Hillside Court, NW3 6HQ	385,000	47.1	8,174.10	Sold 02/05/2014
227B Finchley Road	359,000	50.12	7,162.81	Sold 28/02/2014: Located above retail
Finchley Road, NW3	435,000	38	11,447.37	Listed for Sale
Finchley Road, NW3	475,000	49.1	9,674.13	Listed for Sale
Finchley Road, NW3	499,950	52.86	9,458.00	Listed for Sale
Finchley Road, NW3	399,999	56.24	7,112.36	Listed for Sale
Average			8,838.13	

<u>Two Beds Flats</u>

8.8 The proposed two beds have an average value of £[redacted], which compares to an average of £735,634 for local properties sold within a half mile radius. The following table details achieved values and asking prices of comparable properties (please note, it is typical for achieved values to be discounted from the asking price).

Comparable evidence: 2 bed flats near Finchley Road

Address	Price	Size (per sqm)	Price PSM	Comments
Flat 18 St Johns Court	652,215	83.4	7,820.32	Sold 21/03/2014
Finchley Road	725,000	88.4	8201.36	Listed for Sale
Mandeville Court, Finchley Road	750,000	67	11194.03	Listed for Sale
Finchley Road	499,950	60.91	8208.01	Listed for Sale
Finchley Road	495,000	71	6971.83	Listed for Sale
Average			8,479.11	

Three-bed Flats

8.9 The single proposed 3 bed unit has a sales value of £[redacted] which compares to £1.028 million for flats sold within a ½ mile of the subject sire in the last year. The following table shows the relevant comparable evidence for the 3 bed flats along Finchley Road:

Comparable evidence: 3 bed flats near Finchley Road

Address	Price	Size (per sqm)	Price PSM	Comments
Finchley Road, NW3	999,950	125.11	7,992.57	Listed for Sale
Finchley Road, NW3	1,399,500	195	7,176.92	Listed for Sale
Finchley Road, NW3	825,000	100.55	8,204.87	Listed for Sale
Langland Mansions	1,250,000	135.81	9,204.04	Listed for Sale
Average			8,144.60	

8.0 STUDENT HOUSING VALUES

8.1 The proposed scheme will provide 60 units of student accommodation with a total area of 2,533 m^2. This includes 50 'cluster flats' - i.e., rooms that have access to a shared kitchen and lounge, with these facilities each shared by 6 rooms. The remaining 10 units are studio flats.

8.2 A net rent of £[redacted] per m^2 per annum has been applied in the appraisal. This equates to a net rent per bed of £[redacted] per week. The resulting rental income has been capitalised using a [redacted]% yield, resulting in a £[redacted] capital sum which equates to £[redacted] per bed. The rental level of £[redacted] per sqm has been applied uniformly to all the student rooms, although we would expect that in reality different rent levels would be applied to the 'cluster' and 'studio' rooms.

8.3 The net rents per sqm are consistent with those applied in the previous appraisal, which we agree were reasonable after comparison of the implied gross rents per *room* with those achieved at other schemes. This is despite the average size of the rooms having been reduced.

8.4 The net rent of £[redacted] per bed per week suggests that a *gross* rent of c£[redacted] per week has been assumed by DBC. We have inferred this based on our estimated deduction of 25% to account for management costs and vacancy costs, based on the level of these costs that was applied in other student schemes we have recently reviewed.

8.5 As with the previous appraisal, we have not been provided with any comparable evidence or commentary to justify the proposed rental and yield assumptions by DBC.

8.6 We have undertaken our own research into the rental market and investment market for student housing in London in order to ascertain whether the value ascribed to the student units are reasonable.

Rents

8.7 We have undertaken research into the rental market for student accommodation in London and have compiled the following table of average (gross) rents charged at other London schemes:

Comparable Student Housing Schemes	Average Gross Rent (£ per week)
ISL Students - West Hampstead	from £199
The Curve - Shadwell	£199
UNITE - Beaumont Court	£255.00
Victoria Hall - Wembley	£180.00
Pure Student Living - Highbury	£248.00
CRM Students - Tufnell Park	£209.00
CRM Students - The Arcade	£174.00
APT Students - Wembley	£187.00
Urbanest - Kings Cross	£245.00
Knight Frank - 2014 Insight - Average London Studio	£299.00
Knight Frank - 2014 Insight - Average London ensuite	£220.00

8.8 A highly suitable comparable scheme is the nearby ISL scheme in West Hampstead which is also predominantly comprised of 'cluster flats', with rents starting at £199 per week for ensuite rooms and £259 for studios. The specification is similar to the proposed student accommodation.

8.9 We note that other schemes in North London, which are in broadly comparable locations in terms of distance from Central London (a critical factor for rental values in this market), have rents in the region of £200 per week, with rent of around £180 for those further afield such as Tufnell Park and Wembley. In contrast, rents in the region of £250 per week are achievable for the more centrally located schemes such as Urbanest's King's Cross development.

8.10 In conclusion, the effective gross rent per week of c£[redacted] per room is [redacted], [redacted].

Yields

8.11 DBC has applied an investment yield of [redacted]% to capitalise the net rental income from the student rooms, but no evidence has been provided in support of this yield. We have referred to number of market research reports on the student housing investment market, and to comparable evidence of recent investment sales, in order to assess the suitability of the [redacted]% yield applied in the appraisal.

8.12 It should be noted that although the subject site is not a 'prime' location (Zone 1) for student housing in London, one of the key drivers of yields is security of income and given that, for example, King's College is actively seeking to develop new student housing in the area, this suggests that sufficient demand exists in the area. It may be possible for a nominations agreement to be arranged with a university which would improve the achievable yield by increasing the security of income. However, it should be noted that the disadvantages of the site, such as the views over railways and Finchley Road, may negatively impact on the proposed schemes appearance to investors.

8.13 We note a number of recent investment sales including The Curve, E1, which achieved a yield of 6% and Canto Court, E1, which achieved [redacted]%. CBRE's UK *Student Housing Market View Report* for Q2 2014 estimates that student housing yields for Zones 2-4 at 6.15% compared to 5.9% for Zone 1. In this context, [redacted]% is a [redacted] for the proposed student housing, having regarding to [redacted].

8.14 The Zone 2-4 yield estimate in the CBRE report for accommodation let direct to universities is 5.25%, and although one must consider the discount rents offered to universities compared with 'direct lets', there is still potential that higher capital values could be achieved if a long-term letting to a university were to be secured.

8.15 In order to support our review of the student housing units' estimated rents and yields, we have also compared the estimated capital value per bed (c.£[redacted]) with those achieved by other student housing schemes in London.

Comparison with other schemes

8.16 With regards to the recent investment deals in London student housing, we note the following transactions that completed in the first half of 2014. It should be noted that the transactions that have taken place are of relatively large developments.

8.17 Canto Court situated on Old Street, E1, sold for close to £32million for the 164 bed development reflecting a price of £196,000 per bedspace. This is in a better location than Midland Crescent.

8.18 Victoria Hall in Wembley sold for £41.5million and comprises of 435-beds, which indicates a price per bed of £95,400. This comparable scheme is arguable in a less desirable location than the proposed scheme.

8.19 Situated in Aldgate, E1, The Curve sold for £60million. At 350-beds this equates to cost of £171,428 per bedspace. As per Canto Court, this scheme is situated in a better location in comparison to the proposed scheme.

8.20 It is difficult to draw any precise conclusion from this evidence of capital values per bed, although it does tend to support our view that the student housing values adopted by DBC are [redacted]

9.0 OFFICE VALUES

9.1 The total sales value for the 757m^2 of offices is £[redacted], which is based upon a rent of £[redacted] per m^2 per annum (c£[redacted] per ft^2) capitalised at an [redacted]% yield.

9.2 Our research indicates that rents of around £[redacted] per sqft can be achieved locally for good quality offices, in the immediate area with a 108-110 Finchley Road.

9.3 The office space is shown in Thornton Firkin's Cost Plan as being completed to a "shell and core" level only, and the level of costs adequately reflects this. It is therefore in the case appropriate for office rents to be at a level below those of full fit-out offices, and for this reason we accept the rental estimate of £10 per sqft applied in the appraisal.

9.4 With regard to the yield, of [redacted], it is worth considered that the site in question is not in what would be regarded as a prime location and given the specifications that it is unlikely to offer accommodation in a configuration that would generate a high level of market interest. Therefore on balance we are of the view that the yield is reasonable.

9.5 The resultant value generated by the appraisal does not include voids and other letting incentives in either appraisal.

BPS Chartered Surveyors
30th October 2014

Appendix One: Review of Cost Plan

1 SUMMARY

1.1 We consider the Applicants costs for the main scheme to be reasonable comparted to an adjusted benchmark calculation.

1.2 We consider the residential element of the AUV scheme to be reasonable, but the costs of the commercial element to be low.

2 METHODOLOGY

2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the applicant costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS.

2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or upper quartile for benchmarking depending on the quality of the scheme. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

2.3 BCIS average prices are also available on an overall £ per sqm and for new build work (but not for rehabilitation/ conversion) on an elemental £ per sqm basis. We generally consider both. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.

2.4 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).

2.5 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should keep the estimates for different categories separate to assist more accurate benchmarking.

2.6 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal benchmark allowance.

2.7 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available on the planning website.

2.8 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs do not include these. Nor do elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

3 GENERAL REVIEW

3.1 We have been provided with the Affordable Housing Statement prepared by Douglas Birt Consulting dated September 2014. This includes as Appendix 3 Cost Model 3 prepared by DBK dated 18th August 2014. The estimate at 3Q2014 rates totals £[redacted].

3.2 The cost model has been prepared in a format that makes arrangement of cost data into BCIS elemental format impractical. We have extracted the information into BCIS group element format for the three main functional groups: commercial, student accommodation and residential flats. Refer to our pdf "Group elemental analysis & BCIS benchmarking".

3.3 We have downloaded current BCIS data for benchmarking including a Camden location factor of 120 that has been applied to all data in benchmarking.

3.4 The preliminaries have been calculated at 16%, although an allowance for abnormal preliminaries is made separately. This allowance rolled up with a further [redacted]% shows that the total preliminaries amounts to [redacted]% - this is a high figure but probably a fair allowance for the problems posed by this particular site. Overheads and profit are calculated at [redacted]% and a further provision of [redacted]% for contingencies. Both of these allowances we consider reasonable.

3.5 Our benchmarking results in a total adjusted benchmark figure of £[redacted] about £[redacted] less than the Applicants cost estimate. We therefore believe the Applicants costs to be reasonable.

3.6 We have considered the Applicants AUV of residential [redacted]ft² (762m²) @ £1[redacted]/m² and commercial [redacted]² ([redacted]m²) @ £[redacted]/m². Assuming these figures include a contingency we consider the allowance for residential to be reasonable but the commercial to be low; we would apply a figure of £[redacted]/m² for benchmarking purposes.

BPS Chartered Surveyors
Date: 29th October 2014