

Addendum Report - 101 & 102 Camley Street

8th October 2014

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors has been appointed by the London Borough of Camden to review a viability submission of the above two sites provided by the Shaw Corporation (SC) on behalf of Regent Renewal Limited (the Applicant).
- 1.2 Our interim report, dated the 17th September 2014, highlighted various points of concern regarding:
- a) Flaws in both the applicants AUV scheme and market value approaches offered in support of alternative benchmark land values.
 - b) The applicant's reluctance to accept an outturn review of viability with a proposal for a review only in the event that implementation is delayed beyond 12 months from issue of the consent.
 - c) 101 - The applicant's appraisal applies a developer's profit target rate of 20% on all revenue. We would typically expect this rate to apply to the private market elements of the scheme alone, with a lower say 6% profit target applied to the affordable element.
 - d) 102 - We note that developer profit has similarly applied a rate of 20% to all revenue streams including that arising from the affordable housing element.
 - e) 101 - The application of a 50% rental discount to an element of the office accommodation appears to include some minor calculation errors. In effect the rental discount has been applied to 25% of the area and market value rent has been applied to 75%. Whereas they propose 20% of the area at a discount rent and 80% at market value. This reflects an overestimation by suites reflecting a higher capitalisation yield which overstates the impact of the discount by circa c£162,233.
- 102 - The application of a 50% rental discount to an element of the office accommodation appears to include some minor calculation errors. In effect the rental discount has been applied to suites reflecting a higher capitalisation yield which overstates the impact of the discount by circa £56,000.

- f) 101 - Professional Fees have been assumed at a rate of c15.58%, based on a composite of a number of separate rates. No evidence has been provided that these reflect actual quotes, though this may be the case. We usually expect fees to fall within a range of 8-12%. The proposed rate represents some c£1.6m to c£3.39m above the norm and further clarity regarding this aspect is clearly needed. The submission argues that extra fees will be required to deliver a scheme in this location but quotes a rate of 13.75%.
- g) 102 - Professional Fees have been assumed at a rate of c15.63%, based on a composite of a number of separate rates. No evidence has been provided that these reflect actual quotes, though this may be the case. We usually expect fees to fall within a range of 8-12%. The proposed rate represents some c£1.98m to c£3.69m above the norm and further clarity regarding this aspect is clearly needed. The submission argues that extra fees will be required to deliver a scheme in this location but quotes a rate of 13.75%.
- h) Whilst we accept the proposed interest charge rate appears appropriate we are unable to reconcile the level of cost associated with bank costs in the appraisal.
- 1.3 In response to our concerns above SC provided further clarification in form of a further note concerning 101 and 102. We subsequently attended a meeting on the 23rd September 2014 with the Council and Chris Shaw where the following additional information was provided:
- i) Montagu Evans land sale comparables and further analysis
- j) The final terms for the acquisition of the reversionary freehold interests held by the Council in 101 and 102.
- k) Section 106 payment amendments.
- 1.4 Further discussions with SC have followed this meeting and the following additional information has since been provided:
- Revised Appraisals for 101 and 102
 - Cash flows for 101 and 102
 - Revised Land Sale Comparable analysis

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 SC has now confirmed that its clients are willing to accept an outturn review mechanism. We are aware the SC has proposed that the assessment will take place when 50% of the residential units sold, provided this reflects the scheme's deficit generated using their proposed benchmark land value.
- 2.2 Having regard to the circumstances outlined more fully in this report we acknowledge that it would be very problematic to pursue a significantly lower benchmark figure than that which has been proposed as the figures are essentially based on previously agreed industrial land values. We maintain our objection to the suggestion that the sites would be more appropriately benchmarked by reference to other market transactions without a considerably more detailed analysis which demonstrates their relative comparability and evidence that these transactions themselves did not represent an overbid.
- 2.3 Based on provision of 25% affordable housing for both 101 and 102 (by floor area), 30 and 37 units respectively and reflecting the proposed benchmark land values of 101 - [REDACTED] the schemes show respective deficits of -£5,382,453 and -£2,620,755 respectively. It is therefore clear that the applicant in making this affordable housing offer is reliant on net increases in unit prices to ensure viability. This approach reflects a higher degree of risk to the applicant than would be the case in respect of a scheme which merely sought to balance affordable housing provision against achieving the target profit level.
- 2.4 We had sought to secure a lower target profit margin to reflect the lower risk associated with delivery of the affordable element to provide a blended profit rate of approximately 18.5%. However and integral to the delivery of this level of affordable housing we acknowledge that the higher blended profit rate or 20% is appropriate in this instance to reflect the additional risk adopted by the applicant in respect of assumed net growth in sales values.
- 2.5 We have been unable to reconcile our relative positions concerning the calculation of market value of the discounted office accommodation, however the sums involved are relatively marginal and have a very limited impact on overall viability.
- 2.6 We have further considered the proposed breakdown of professional fees and in particular the allowances to reflect the additional issues involved in development in proximity to a main line railway. We have discussed these figures with our retained Quantity Surveyors and are now satisfied that the approach taken is reasonable. The difference between adopted rate and stated rate being accounted for by bank lending costs.
- 2.7 We have considered the development cashflows provided and we are able to confirm that we are satisfied that interest charges identified in the appraisals reflect an appropriate cost.

- 2.8 We note that the applicant had previously sought to value the affordable housing element at a figure above the two RP offers they have so far received. The latest appraisals now show a changed position to adopt the higher of the RP offers. This has the effect of depressing viability although we recognise it is difficult to justify higher values of this element when RP offers indicate a lower level.
- 2.9 Therefore in consequence of our findings and recognising that both schemes are effectively in deficit we confirm that in our view the scheme would deliver the maximum reasonable level of affordable housing possible in the current market.
- 2.10 We are however of the view that some scope exists to generate savings in fees, possibly also enhanced affordable and private housing values, therefore the incorporation of an outturn review in the S106 Agreement, in accordance with Council policy would seem to be highly desirable.

3.0 Review Mechanism

- 3.1 Having highlighted Council policy to seek an outturn review of viability in all instances where schemes fail to meet policy required levels of affordable housing, SC made the following proposal:

We propose that if a review mechanism is to be applied and is not accepted on the terms we have proposed- which we feel reflects both the deficit and risk and are entirely focused towards the development being funded to the deliver the substantial intrinsic benefits i.e.:

- (i) A review at Implementation in the event the development does not materially commence within 12 months of a clean consent as part of a continuous development process.*
- (ii) A review at Implementation as in (i) above irrespective of the Implementation date.*

then the specific point at which the review takes place is at a point where 50% of the private housing on the site is sold. The Councils policy clearly provides the above.

- 3.2 We regard the provision for an outturn review as especially relevant in this instance given the wide margin between the proposed residential sales values and the sales values achieved a relatively short distance eastwards, within the more established Kings Cross regeneration areas.

4.0 Benchmark Land Value

- 4.1 The proposed benchmark land values for 101 and 102 are based on an extrapolation of the 2009 purchase price of 103 Camley St, at £4.25m. This figure has been updated by multiplication of the Knight Frank land value index. With a 30% premium added to the resultant figure.

4.2 Looking at each element of this in turn.

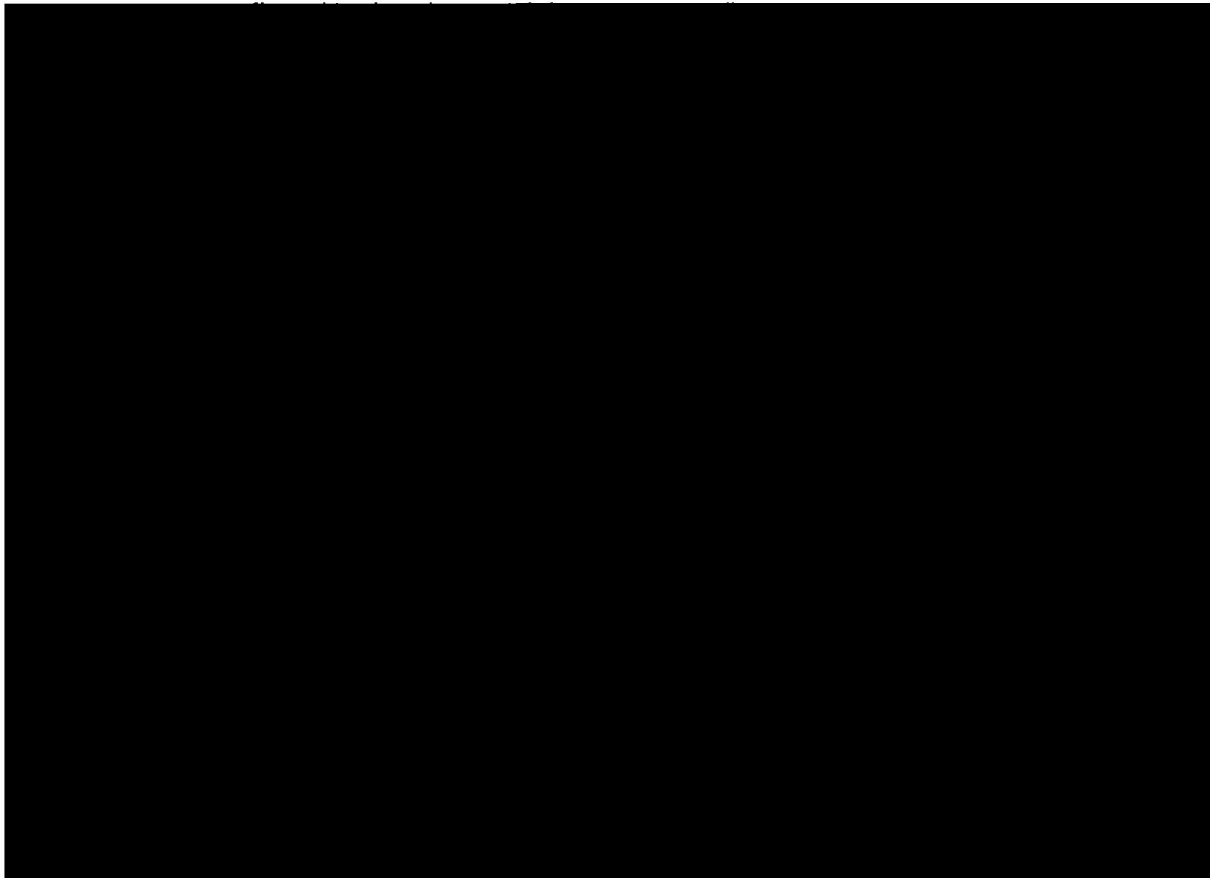
103 Camley St land sale

4.3 The site purchase of 103 took place before the Council's land allocations plan had been adopted. At the time of the purchase the site was under used having formerly been a Council depot. When this site value was considered as part of plans to redevelop this site in November 2011 the applicant had sought to underpin site value by reference to an all student housing alternative use value. The applicant sought to reinforce this proposition by reference to appeal decisions.

4.4 The proposed land value reflected the purchase price together with a 30% premium. It was finally agreed that an additional contribution of £500,000 would be made to secure agreement.

4.5 The relevant 103 Committee Report stating what the £500,000 payment reflected:

"A negotiated position taking the middle line between the higher 'student value and an uplifted 'existing use value' (EUV) based on the known purchase price of the site in 2009 was finally agreed by officers as advised by BPS. This has resulted in the recovery of £500,000 not previously



approach generates a land value below existing use value and is therefore overly punitive.

- 4.11 We have also considered the market value approach advocated by the applicants which seeks to suggest that a much high land value could be applied. In considering this evidence we have concluded, as we have with most similar exercises, that the absence of critical information concerning these transactions renders analysis and comparison a relatively broad brush exercise and capable of delivering a wide range of answers.
- 4.12 Therefore in conclusion we are of the view that the 103 land price represents a fair and realistic starting point for comparison.

Indexation

- 4.13 In using historic land sales evidence it is appropriate to consider movements in land prices over the intervening period. The applicant proposed use of the Knight Frank land price index. We do not have access to the basic assumptions or land transactions analysis which has influenced this index. The KF index suggests a 25.33% increase.
- 4.14 By comparison the Land Registry House Price Index suggests a 65% increase. In that site value is primarily based on an industrial land use together with an element of residential hope value, it would seem inappropriate to fully inflate land value by a purely residential based index, therefore we have accepted the more general Knight Frank figure.

Premium

- 4.15 The potential for higher value land use arising out of redevelopment has if anything become more significant since the 103 site was considered in 2011. In that 103 S106 clearly accepts a 30% premium we are of the view it would be difficult to justify a lower level premium.
- 4.16 The applicant has taken the adjusted land value for 103, applied the premium and then applied a rate per acre to each of the sites.
- 4.17 We have checked this calculation and are satisfied this has been applied correctly.

5.0 Profit

- 5.1 The applicant has proposed a blended profit rate of 20% of gross development value. We would expect to see the profit margin reduced in respect of the affordable housing element to a figure circa 6%. This reflects the forward sale of this element and the 6% reflects a construction management risk rather than a fuller development risk such as would apply to the market sale elements.

- 5.2 In our discussions with SC we have not managed to reach agreement on this point.
- 5.3 However in recognition of the substantial deficits generated by the appraisals for these sites we are willing to consider the risks inherent with a scheme in deficit.
- 5.4 We are aware that applicant's now have the opportunity to seek a review of the affordable housing contributions under S106 BA where the affordable housing contributions would otherwise prevent development from proceeding. We are assured that in this instance the applicant is willing to proceed with development despite the apparent deficit. We have assumed that this stance is based on the assumption of net increases in sales values redressing the deficit.
- 5.5 On the basis of the deficits as outlined we accept that the developer would be justified in seeking a higher blended return from that which would result from the 20% and 6% we would generally see, therefore accept the 20% proposed.
- 5.6 It is worth noting that the updated GLA Development Appraisal Toolkit - Guidance Notes 2014 now states their default developer's profit level at a flat rate of 20% irrespective of the level of affordable housing as evidenced by the following extract:
- "The 2014 Toolkit, following the BNP Paribas Real Estate review, takes a composite benchmark of 20% Developer Return on the market element of the scheme. This replaces the approach previously adopted which shows a 17% Developer Return and a 6% Internal Overhead on build costs. The 20% Developer Return is seen to be competitive in current market circumstances. However, scheme specifics may suggest a lower or higher developer return is appropriate and should be amended reflecting site specifics where necessary."*
- 5.7 Whilst assumptions in the toolkit are not mandatory this position will make it increasingly more difficult to argue for the differential rates of profit that logic and common practice until this point have previously applied.

6.0 Office Valuation Methodology

- 6.1 During the meeting we raised the point regarding the valuations of the office elements in both 101 and 102 appraisals being overstated. This was discussed and SC confirmed that the valuations correctly reflected their proposal of 80% of the total office floor area at full market lets and 20% at discounted lets.
- 6.2 We maintain our approach is more accurate however the impact of the variations between our two calculations are relatively minimal and in no way significantly impact upon the apparent deficit positions

7.0 Professional Fees

- 7.1 We have discussed the proposed fee breakdown with our retained Quantity Surveyor and have concluded that the allowances appear to be largely capable of justification given the additional difficulties associated with development in proximity to a main line railway.
- 7.2 Should any savings on these estimated costs be secured these will be identified through the re-appraisal process.
- 7.3 The higher fee levels are in part a reflection of the costs associated with securing bank funding which again appear reasonable.

8.0 Reversionary Freehold

- 8.1 In our interim reports for 101 and 102, we briefly stated that appraisals included allowances for the acquisition of 3rd party land. The freehold interests currently owned by the Council.
- 8.2 We can now confirm that these figure of [REDACTED] for 101 and [REDACTED] for 102 represent the purchase price for reversionary freehold of the subject sites from the Council. We have not been privy to these negotiations and accept the figures provided to us by the applicant at face value in this context.

9.0 Affordable housing

- 9.1 In the original appraisals for 101 and 102, a gross development value for the affordable units was proposed at [REDACTED] and [REDACTED] respectively. In the latest appraisal for 101 and 102 a lower gross development value has been adopted at £[REDACTED] and £[REDACTED] respectively.
- 9.2 This lower figure is based on the higher of two offers received from Registered Providers, this one being from Origin.
- 9.3 Given that two offers have been obtained at lower levels than were shown in the appraisal we are of the view that it would be difficult to insist on a higher value being maintained in the appraisal.

10.0 S106/278 Payments

- 10.1 A figure of £2,000,000 has been included for 101 and £2,075,000 for 102 appraisals for both S106 and 278 works. SC has highlighted some amendments which are stated below:

“The GLA has requested a contribution towards a Boris bicycle stand of £150,000 to be funded equally by 101 and 102 Camley Street.”

Aside of this we have assumed that the CIL and other S106 items assessed by DP9 - broken down as Appendix 7 in the Toolkits submitted - remain unchanged.

The Council's Legal Department has advised concerning the S106 Agreements as follows:

- (i) 101 - S106 charge £17,000 + monitoring fee £8,755 = £25,755*
- (ii) 102 - S106 charge £15,000 + monitoring fee £9,000 = £24,000"*

10.2 We have not analysed these inputs.

11.0 Montagu Evans Land Sale Comparable Analysis

11.1 Montagu Evans has sought to justify a higher land value than that identified from analysis of 103 Camley St by reference to market sales of other sites.

11.2 In analysing these sales we are of the view that a ranges of additional information is required to justify the application of a sales figure to another site with its own unique constraints. This level of analysis has not been undertaken. For example it is a highly relevant consideration to determine whether a site sale is in an area where residential units sell for significantly higher prices. This factor has not been analysed by Montagu Evans.

11.3 To illustrate this point further we have undertaken a brief exercise researching residential sale values in the surrounding areas of each site sale. Our research demonstrates that no site is genuinely comparable. The majority of the sites are within higher value areas compared to 101 & 102. This is despite the fact that majority of our unit sales evidence is drawn from second-hand unit sales evidence.

11.4 The degree of ambiguity thrown up by such analysis is such that without intimate knowledge of each transaction direct analysis such as this can be very misleading. Furthermore there is no assurance that the land sales themselves do not represent overbids.

11.5 Our full comparable analysis can be found in Appendix 1.

APPENDIX 1

Lawn Road, NW3:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
14-Aug-14	35 Hillfield Court, NW3 4BJ	Flat	2	£999,995	936	£1,068
15-May-14	9 Parkstead Lodge, 31 Upper Park Rd, NW3 2UL	Flat	1	£614,098	566	£1,085
16-May-14	146 Wendling, Haverstock Rd, NWS 4QX	Flat	3	£538,748	554	£972
17-Jun-14	12 Chestnut House, Maitland Parks Villas, NW3 2EE	Flat	1	£597,226	745	£802
05-Jun-14	16 Allingham Court, Haverstock hill, NW3 2AH	Flat	2	£723,910	786	£921
				Average		£970

Bruges Places, 15-20 Baynes Street, NW1:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
28-Jul-14	188a Royal College Street, NW1 9NN	Flat	2	£679,571	1057	£643
31-Mar-14	249C Royal College Street, NW1 9LT	Flat	1	£436,310	433	£1,008
Asking Price	37 Camden Rd, NW1	Flat	2	£999,995	884	£1,131
06-Feb-14	59 Reachview Close, NW1 0TY	Flat	1	£359,476	489	£735
24-Sep-13	11 Baynes Street, NW1 0TE	Flat	3	£532,068	631	£843
				Average		£872

Fitzpatrick building:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
07-Apr-14	113 Conisone Way, N7 9DE	Flat	2	£362,670	496	£731
02-Apr-13	26A Cantelowes Rd, NW1 9XR	Flat	2	£942,299	1012	£931
23-May-14	42 St Williams Court, 1 Gifford Street, N1 0GJ	Flat	1	£472,801	535	£884
Asking Price	Blackthorn Avenue, Barnsbury, N7	Flat	2	£499,950	690	£725
Asking Price	Cottage Rd, N7	Flat	2	£775,000	905	£856
				Average		£825

Carlow House:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
30-Apr-14	130 Mayford, Oakley Square, NW1 1PA	Flat	1	£268,196	336	£798
10-Jul-14	2 2C Crowndale Rd, NW1 1TT	Flat	3	£606,525	748	£811
06-Dec-13	4 84 Albert Street, NW1 7NR	Flat	1	£729,154	654	£1,115
11-Mar-14	18 Silsoe House, 50 Park Village East, NW1 7QH	Flat	2	£654,550	839	£780
Asking Price	Arlington Rd, NW1	Flat	1	£500,000	570	£877
				Average		£876

Twyman House:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
Asking Price	37 Camden Rd, NW1	Flat	2	£999,995	884	£1,131
31-Mar-14	249C Royal College Street, NW1 9LT	Flat	1	£436,310	433	£1,008
09-Apr-14	61A Kentish Town Road, NW1 8NX	Flat	1	£401,195	441	£910
Asking Price	31-39 Camden Rd, NW1	Flat	2	£1,050,000	884	£1,188
10-Feb-14	14C Wilmot Place, NW1 9JP	Flat	1	£490,713	566	£867
				Average		£1,021

145 City Road:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
11-Jul-14	3 28 Westland Place, N1 7JH	Flat	2	£807,054	872	£926
11-Jul-14	18 Merino Court, 154 Lever St, EC1V 8BG	Flat	2	£1,130,904	1063	£1,064
30-May-14	4 Merino Court, 154 Lever St, EC1V 8BG	Flat	1	£652,139	578	£1,128
Asking Price	Eagle Apts, City Rd, EC1V	Flat	1	£694,888	772	£900
Asking Price	City Rd, EC1V	Flat	1	£575,000	553	£1,040
				Average		£1,012

1-5 St Pancras Way:

Date of Sale	Property	Type	Beds	HPI Sale Price	Sqft	£ Per Sqft
01-May-14	15 Dulverton, Royal College Street, NW1 0SB	Flat	2	£494,539	663	£746
24-Jan-14	5 York House, Plender Street, NW1 0DS	Flat	2	£431,270	556	£776
15-Jul-13	32 Crowndale Court, Crowndale Rd, NW1 1TY	Flat	2	£465,466	784	£594
09-Aug-13	3 Camelford, Royal College Street, NW1 0SD	Flat	2	£470,033	660	£712
Asking Price	Arlington Rd, NW1	Flat	1	£500,000	570	£877
				Average		£741