Bacton Low Rise Estate

Independent Viability Review

Prepared on behalf of London Borough of Camden

5 April 2017

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Planning Reference: 2016/5358/P

1.0 INTRODUCTION

1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Arcadis on behalf of The Property Services Department of the London Borough of Camden ('the Applicant') in connection with a Minor Material Amendment to a planning application for an additional 20 units at the redevelopment of Bacton Low Rise Estate, Gospel Oak.

1.2 The site is located to the west of Wellesley Road and bounded by the mainline railway to the north.

1.3 The full planning application seeks the following Minor Material Amendment (relevant part highlighted in bold):

Variation of conditions: 3 (detailed drawings), 6 (overlooking), 7 (refuse & recycling), 9 (cycle storage), 10 (car parking), 11 (Electric vehicle charging points), 12 (car club bay), 13 (motorcycle parking), 23 (Wheelchair units), 25 (contaminated land measures), 26 (biodiverse roofs), 27 (bird and bat details), 28 (lighting strategy), 29 (landscaping details), 32 (building foundations), 34 (drainage details), 36 (CCTV strategy), 37 (car club parking), 40 (re-appraisal of financial viability), 43 (energy efficiency), 44 (code for sustainable homes), 45 (car free), 47 (construction management plan) and 58 and 59 (approved plans) of planning permission 2012/6338/P dated 25/04/2013 (as amended by planning permissions 2014/3633/P and 2015/1189/P) (for the redevelopment of Bacton Low Rise Estate, Gospel Oak District Housing Office and Vicar's Road workshops following the demolition of all existing buildings, to provide a total of 294 residential units and associated works), as well as adding a condition 61 (levels plans), namely to; ***provide 20 additional Class C3 residential units (19 market and 1 intermediate units), alter the housing mix, reconfigure the employment floorspace, deliver the outstanding parts of the development as a single phase, various external alterations and reconfigurations, revise the on-site car parking provision and the amount of cycle storage, and associated works***

1.4 Arcadis have approached the assessment of viability through providing an appraisal of the combined Phases 1, 2 & 3, rather than net impact of the additional 20 units. We understand Phase 1 is now complete so the appraisal represents a mixture of completed works and forecast works.

1.5 Whilst this approach is holistic and therefore reasonable it makes strict compliance with PPG's requirements to base viability assessment on current costs and values more difficult.

1.6 We have been provided with two viability reports by Arcadis, both dated September 2016. Arcadis have provided appraisals based on a number of scenarios. The differences being the allowances made for inflation in costs and anticipated growth in sales values. There is also a non-inflation scenario.

1.7 Recognising the PPG's requirement to assess viability on a current costs and values basis we have focussed mainly on their 'Council' scenario without inflation.

1.8 We have also had reference to their scenario based on what they suggest are the requirements of a 'typical' (non-council) developer. This reflects the fact that the council exhibits different development criteria from the commercial development market. Planning consent runs with the land and therefore as with other aspects of the planning process viability in a planning context should be generic and not personal to the attributes of the applicant.

1.9 Based on the results of their viability assessment for the Council-led scheme, Arcadis advise that the development is not viable with an apparent deficit of -£2.25million. This is based on a scheme which includes 107 Social Rent units and 11 Intermediate units out of a total of 314 residential units (37.5% affordable on a unit basis). Reflecting the same appraisal but adopting more generic typical developer assumptions including finance assumptions, this deficit increases to -£31.95million.

1.10 The addition of 20 further residential units is said by Arcadis to improve the viability of the scheme. Given that 19 of the additional units are market sale and 1 unit affordable we consider this statement to be reasonable. No comparison appraisals have been provided to establish the extent of the uplift generated and it is not readily possible to identify this on the information available given that the appraisals are provided on a scheme wide basis.

1.11 The Council owns the site and will act as developer of the scheme and Arcadis have consequently not included (or included at a relatively low rate) certain costs that would typically be inputted in a viability assessment by a private developer, including a land cost (viability benchmark) and Developer's Profit requirement. We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any further affordable housing contributions.

1.12 The initial planning application for redevelopment of the site was approved in April 2013 (Ref: 2012/6338/P). This was for *the redevelopment of Bacton Low Rise Estate, Gospel Oak District Housing Office and Vicar's Road workshops following the demolition of all existing buildings (99 Class C3 residential units Nos. 121-219 Bacton Low Rise; Class B1 offices at 115 Wellesley Road; Class B1 workshops at 2-16 Vicar's Road), to provide within buildings ranging from 2-8 storeys in height a total of 290 Class C3 residential units, comprising 176 market, 10 intermediate and 104 social rent units, 3 employment units (Class B1), new and altered public realm, landscaping, vehicular and pedestrian links/accesses, vehicular and cycle parking, bin storage and associated works.*

1.13 Since then two Minor Material Amendment applications have been approved:

- 2015/1189/P for the removal and replacement of four trees on Vicar Road
- 2014/3633/P for four additional units in Phase 1

1.14 This most recently submitted application seeks the following:

- 20 additional residential units (19 market and 1 intermediate), a revised unit mix and associated amendments to the fenestration;
- A revised location for the employment units (within the approved building footprint);
- One additional car parking space and additional cycle parking spaces;
- A revised landscaping strategy including the removal and replacement of trees;
- To deliver the outstanding parts of the development as a single phase rather than the previously proposed two phases.

1.15 We understand that Phase 1 of the original application was completed in December 2015 and is now largely occupied. Due to the former residents of the remaining blocks having now vacated, the proposed Phases 2 and 3 have been merged into a single Phase 2 although are still referred to as separate phases in the Arcadis report.

1.16 Arcadis state in their report that the applicant is willing to accept a mechanism within the S106 which could trigger an Affordable Housing contribution in the event of future improved viability.

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have reviewed two documents supplied by Arcadis dated September 2016 on behalf of the Applicant.

2.2 The information provided is limited in that we have not been provided with a full cost plan, rather a summary table which reflects actual costs incurred from Phase 1 and a contractor bid for Phases 2 & 3.

2.3 The appraisal also includes values from Phase 1 which we understand has recently been completed and is now partially occupied. There are no sales values provided for the Phase 1 properties. Examination of Land Registry records also does not identify any completed sales. 46 of the units were due to be retained by the Council as Social Rented properties but we note that Phase 1 was also expected to include 21 private residential units with an estimated value of approximately [redacted]. The residential values for Phase 1 reflect estimated values provided by Savills dating from November 2015. An updated schedule dated September 2016 has been provided for Phases 2 & 3. The appraisal has been worked from the average sales rate derived from the latter of these two schedules to provide an up to date figure for Phase 1 as well as Phases 2 & 3.

2.4 Arcadis have provided us with a number of scenarios based around the Council as developer and comparison to a typical private developer approach. The scenarios look at the impact of inflation on overall viability. For the purposes of this review we have focused on the base scenarios which do not allow for any inflation and are based solely on 'current day' costs and values, which we consider to be an appropriate approach and which accords with PPG's requirement for appraisal inputs to be based on a current cost and value basis. We would, however, point out that some information provided, including summary build cost information and sales values could now be considered dated.

2.5 We have reviewed the residential values included within the report and generally we are satisfied that the sales values accord with market evidence in relation to Phases 2 and 3. Ground rents on the private units are set at £250 per unit but this income has not been capitalised within the appraisal. Further, affordable rents have not been included or capitalised within the appraisal of the council based scheme, reflecting the Council's current practice on this basis.

2.6 Income from shared ownership units has been included at 25% of market value but no value has been attributed to the rental income from these units in the council based appraisal. The inclusion of these income streams in the appraisal increases viability of the developer based scenario.

2.7 No value has been attributed to the commercial element of the scheme which again would serve to increase viability if included. Again, this is reportedly because the Council will retain the units and do not account for revenue on a capitalised basis.

2.8 Our Cost Consultant has undertaken an exercise limited by the available information, he concludes:

There is no cost plan as such – Appendix B is a Construction Cost Summary with a target cost for Phase 1 of [redacted] and for Phase 2 [redacted] a total of [redacted]. Our benchmarking (although of limited relevance in these circumstances) uses current BCIS data which is on a current tender firm price basis.

In conclusion – we are unable to verify the costs that are included in the current Financial Viability Report. Nor are we able to relate these to build costs examined in detail in 2013. However it is apparent that BCIS TPI inflation forecasts have changed significantly since September 2016. No doubt this is also true of other inflation considered that would also have been influenced by economic forecasts at that time. We suggest that inflation should be revisited and current forecasts accounted for in the viability appraisals

2.9 Our Cost Consultant notes that he was involved in the 2013 review of the original scheme and notes that we were satisfied with the proposed costs at that time when benchmarked on an elemental basis.

2.10 No allowance for land value has been made in either scenario but we do note that an allowance of just over [redacted]m has been made to reflect decanting/ disturbance costs and buy-outs. We assume, although this is not verified, that this figure relates to the actual costs associated in securing the site for development.

2.11 This is consistent in the approach taken for the original viability assessment undertaken in February 2013 and unlike a market value approach most of the costs are based on statutory compensation allowances for Rent Act protected tenancies. The site is owned by the Council and previously generated income through rented housing, no allowance has been to reflect this loss of income.

2.12 We note that the scheme as originally consented provided for 8 social rent and 10 intermediate tenure units over the number of units lost in clearing the site for development. The addition of the extra 20 units adds 1 further intermediate unit. The income from the new affordable rented housing in the scheme is not included in the appraisal but this is to a large extent balanced by the income lost from the housing previously on site not being included within a site value benchmark.

2.13 There are some inconsistencies within the reports provided by Arcadis with the second report received having removed the 'typical developer scenario'. Without a review of the build costs and without information relating to the achieved sales values at Phase 1 we cannot confirm whether the apparent deficit of £2.25million is fully justified, but note the costs appear broadly consistent with our 2013 detailed cost review.

2.14 It can be seen that our review exercise is comparatively limited in the extent to which we have been able to verify the various inputs, especially in terms of costs, although there is some reassurance in this regard that the costs are based on an actual contractor estimate. We have run our own appraisals for both the council and developer scenarios and our respective estimates of the residual values arising are contrasted below with those of Arcadis;

	Council Based Developer	Typical Developer
Arcadis	-£2.25m	-£31.95m
BPS	-£2.34m	-£21.91m

2.15 It can be seen that although there is some variance in the figures we agree with Arcadis' assessment that the scheme cannot deliver additional affordable housing based on the evidence available to us.

2.16 The main difference between the figures in the typical developer scenario between Arcadis and BPS are in our estimate of finance cost. We have made assumptions based on an annual finance rate of 6.5% over a development period of 36 months and have made a simplistic interest calculation. A change in these assumptions will vary the cost of finance but we have not been provided with any information regarding the development programme. Further, if the affordable units were to be sold to a registered provider, phased payment receipts may assist the cash flow.

2.17 In the typical developer scenario we have also added a value for the ground rent investment and commercial space.

2.18 Given the limitations of the information provided to us we recommend that an outturn review mechanism is included within the S106 which is based on actual costs and values generated by the scheme.

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

3.1 Development appraisals work to derive a residual value. This approach can be represented by the formula below:

Gross Development Value - Development Costs (including Developer's Profit) = Residual Value

3.2 The residual value is then compared to a benchmark land value. Existing Use Value (EUV) and Alternative Use Value (AUV) are standard recognised approaches for establishing a land value as they help highlight the apparent differences between the values of the site without the benefit of the consent sought.

3.3 The rationale for comparing the scheme residual value with an appropriate benchmark is to identify whether it can generate sufficient money to pay a realistic price for the land whilst providing a normal level of profit for the developer. In the event that the scheme shows a deficit when compared to the benchmark figure the scheme is said to be in deficit and as such would be unlikely to proceed.

3.4 We note the Mayor's Housing SPG published March 2016 states a clear preference for using EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. This is evidenced through the following extract:

"…….either 'Market Value', 'alternative use value', 'existing use value plus' based approaches can address this requirement where correctly applied (see below); their appropriate application depends on specific circumstances. **On balance, the Mayor has found that the 'Existing use Value plus' approach is generally most appropriate for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements, he therefore supports this approach**. The 'plus' element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements." [Emphasis original]

3.5 We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of "market Value" by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.

3.6 Furthermore the RICS guidance is in conflict with PPG in that PPG adopts a different level of emphasis in respect of the importance of planning policy. This is evident from the PPG extract set out below:

reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;

3.7 The requirement to reflect policy is unambiguous. PPG is statutory guidance whereas RICS guidance is a simply a material consideration.

3.8 There is also a high risk that the RICS Guidance in placing a very high level of reliance on market transactions is potentially exposed to reliance on bids which might

a) Represent expectations which do not mirror current costs and values as required by PPG.

b) May themselves be overbids and most importantly

c) Need to be analysed to reflect a policy compliant position.

To explain this point further, it is inevitable that if site sales are analysed on a headline rate per acre or per unit without adjustment for the level of affordable housing delivered then if these rates are applied to the subject site they will effectively cap delivery at the rates of delivery achieved of the comparable sites. This is an essentially circular approach which would effectively mitigate against delivery of affordable housing if applied.

3.9 The NPPF recognises at paragraph 173 the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This has translated to the widely accepted practice when using EUV as a benchmark of including a premium. Typically in a range from 5-30%. Guidance indicates that the scale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending the liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable.

<u>The Proposed Benchmark</u>

3.10 The site and most of its immediate vicinity is in the Council's ownership. The Bacton Low Rise Estate is considered to be in poor condition and to have a number of design constraints which have led the Council to the view that the entire site is in need of comprehensive regeneration.

3.11 In contrast to privately led development appraisals, the Council has not included a land cost (viability benchmark), i.e. reflecting the fact that this is a Council-led scheme which will be retained in Council ownership. The previously received income from affordable housing in the scheme has not been capitalised and included as a land cost, this is partly counteracted by the fact that future rental income streams (post-completion) have also not been given a capital value in the appraisal.

3.12 The applicant has included [redacted] of "Decanting & Disturbance Payments". This is an increase of approximately £3m over the estimate previously reported in 2013. We have not been able to verify these costs.

3.13 The exclusion of land cost has the effect of improving the scheme's Residual Value, thereby enabling the delivery of a higher proportion of affordable housing than would otherwise have been the case. Arcadis suggest that this approach is consistent with the approach taken on other recent Council-led schemes within the Borough of Camden.

3.14 Comparison with a typical developer approach is difficult in that a private developer would not have the capability to secure vacant possession of the site. In our appraisal we have assumed that VP is capable of being secured at a similar cost to the Council but the lost income from units then demolished has been included as a land value reflecting capital value rates for social rent tenure properties.

4.0 RESIDENTIAL VALUES

4.1 The proposed amendment retains the same development footprint as the current consent. The application proposes a change in the number and types of residential units. Including the proposed additional 20 units, Phases 2 and 3 (now merged into Phase 2) of the development will deliver a total of 247 residential units, providing the following accommodation:

	Phase 2	Phase 3	Total
Private	89	87	176
Social Rent	51	10	61
Intermediate	10	0	10
			247

4.2 Arcadis have also included the completed Phase 1 in their appraisal which indicates that the completed scheme will provide a total of 314 residential units across all Phases.

4.3 Arcadis provide a pricing schedule produced by Savills for the proposed residential units, generating a total value of [redacted] for the 176 private units in Block D, E and F (Phases 2 and 3).

4.4 A value of [redacted] is stated for the 21 units within Block C (which we understand to be the completed Phase 1). This reflects the sales rate derived from the estimated values applied to Phase 2.

4.5 Within the appraisal, Arcadis has included a total private sale income of [redacted]. There appears to be some discrepancies between the number of each type of unit within the Savills price list and the appraisal with a total number of private sale units of 196 in the appraisal instead of Savills 197. The appraisal shows an additional shared ownership unit bringing the total number of shared ownership units to 11.

4.6 The estimated private sales values are based on the findings of a Residential Report prepared by Savills, which presents detailed analysis of the market. This does not include any comparable sales evidence.

4.7 The private units in Phases 2 and 3 are comprised of the following mix of unit types and average estimated values:

Unit type	No. of units	Average area sq m	Average estimated value per unit	Estimated value per sq m
1B2P	80	54.8	[redacted]	[redacted]
2B3P	12	64.9	[redacted]	[redacted]
2B4P	55	83.1	[redacted]	[redacted]
3B5P	21	104.6	[redacted]	[redacted]
3B6P	2	119.9	[redacted]	[redacted]
4B8P	6	167.3	[redacted]	[redacted]
Total	**176**	**74.9**	[redacted]	[redacted]

4.8 We have been unable to identify any sales of new built flats within the immediate area, including the completed Phase 1 of the scheme. We have, however, had regard to our own research of recent sales of second hand properties, all located within a 0.25mile radius of the site and mostly of flats within purpose built blocks rather than more attractive conversions which command a higher sales price. Our research can be summarised as follows:

Address	Description	Date sold	Price	Floor area sq m	Floor area sq ft	£ per sq m	£ per sq ft
114b Malden Road, London NW5 4BY	One bedroom conversion flat above retail premises, located south of subject site	19/12/2016	£418,000	37.16	400	£11,249	£1,045
340 Weedington Road, London NW5 4PJ	One bedroom purpose built second floor flat within large residential block, small balcony	07/10/2016	£247,000	48.3	520	£5,114	£475.00
Flat 64, Southfleet, Malden Road, London NW5 4DE	Two bedroom second and third floor maisonette with small balcony, in a purpose built block located south of the subject site	17/06/2016	£499,950	76.9	827	£6,501	£604.53
22 Kiln Place, London NW5 4AJ	Three bedroom second and third floor flat - purpose built	15/12/2016	£465,000	77.5	834	£6,000	£557.55
31 Kiln Place, London NW5 4AJ	Three bedroom ground and first floor flat with rear garden - purpose built	30/11/2016	£487,000	79.06	851	£6,160	£572.27

273 Weedington Road, London NW5 4PR	Three bedroom ground floor flat with small patio garden, within purpose built residential block	30/06/2016	£549,950	85	915	£6,470	£601.04
Flat 13, Lenham, Queens Crescent, London NW5 4EF	Four bedroom first and second floor maisonette with terrace area within purpose built block, located south of subject closer to Chalk Farm	30/09/2016	£617,500	90.6	976	£6,816	£632.68

4.9 Recognising that the proposed scheme itself will bring substantial improvements to the immediate locality, it is reasonable to assume that the scheme would be unlikely to achieve the housing values evidenced from the more affluent surrounding areas and more attractive townhouse conversions.

4.10 Based on the above evidence, it would appear that the proposed values are in line with our expectations for new-built purpose built blocks in the specific area.

4.11 The viability assessment by Arcadis has assumed that 100% of the private residential units will be sold post completion (none off-plan). We do not have any information regarding the Applicant's proposed sales programme and we suggest it would be reasonable to assume that a number of the units could be sold off-plan. In that the Council has funding for the scheme such sales are not essential and can sometimes reflect a discount to potential value given the upfront commitment by the purchaser.

4.12 A total of approximately [redacted] million has been included in the appraisal for the shared ownership income. This is based on 25% of the market value of 11 shared ownership units. No rental income from the remaining 75% of the equity has been capitalised or included in the appraisal.

4.13 Ground rents have been assumed at £250 per annum on each private residential unit. This will generate a total of approximately £49,000 per annum. It is usual for development appraisals to account for the capital value of ground rents. However, no ground rent values have been included in the appraisal, which we estimate would amount to circa £900,000. We have previously been advised that there is no intention of selling any ground rents (i.e., freehold interests) to investors, and that these rental incomes will be used for the general maintenance of the estate; furthermore, it is reported that the Council has limited scope for borrowing against future ground rental incomes, so did not consider it appropriate to assign a capital value to ground rental incomes in the appraisal. We have however included capitalised ground rents in our typical developer scenario.

4.14 In Arcadis' 'Council model', no income has been included for the Social Rent element of the scheme as it is reported that the council do not capitalise revenue streams. Arcadis have also reported a 'Typical developer' scenario in which they have arrived at a capitalised value based on a what is suggested to be a typical RP offer price of £120psf, resulting in a value of £13.27million. We have not had sight of any RP offer given that the units will be retained by the council however this price is broadly within our expectations for social rent tenure.

4.15 The development is intended to be car-free, with the exception of limited accessible parking to serve the wheelchair accessible units. The leasehold or freehold contracts for the other units are intended to prevent occupants from securing a residents parking permit. The site is well located for local transport links and we do not expect a significant reduction in value as a consequence of this.

5.0 COMMERCIAL VALUES

5.1 The scheme proposes two commercial units of 87 sq m and 172 sq m fronting Wellesley Road and opposite St Martin's Church.

5.2 No capital value has been assigned to the proposed commercial space in the development, which reflects the Council's intention of retaining ownership of these units and its policy of not capitalising income. Arcadis advise that the Council has not yet decided on the occupancy of this non-residential area.

5.3 We have considered that the units will be well located and accessible for residents of the estate but are likely to serve only this limited catchment. There is no parking outside and the units.

5.4 If the Council were to let this space it would provide an additional income stream which would add value to the completed scheme. We have assumed a rent equivalent to [redacted] sq m and a capitalisation yield of [redacted]%.

6.0 BUILD COSTS

6.1 Despite our requests we have not received a full cost plan however our Cost Consultant, Neil Powling, has received a number of cost estimate summaries and with this limited information, concludes that:

"We are unable to verify the costs that are included in the current FVR. Nor are we able to relate these to build costs examined in detail in 2013. However it is apparent that BCIS TPI inflation forecasts have changed significantly since September 2016. No doubt this is also true of other inflation considered that would also have been influenced by economic forecasts at that time. We suggest that inflation should be revisited and current forecasts accounted for in the viability appraisals."

6.2 Arcadis report states that the HCA approved a grant for £32,000 per unit for all units in Phase 1 only. A grant totalling £1,472,000 has been included in the appraisal for 11 intermediate units. We assume that this grant is still available but we have no details about when it will be received.

6.3 A total cost of [redacted] for 'Decanting/ Disturbance Costs and Buy-outs' has been included in the appraisal. It is not clear where how this cost has been calculated and if it specifically relates to just Phases 2 and 3.

6.4 In Arcadis' Council model, no developer's profit margin has been included. This reflects the fact that the applicant is a Local Authority and not a private developer. We would note, however, that other Council-led schemes in Camden we have recently reviewed have included some level of profit in order to cover development risks and project management fees etc. It may therefore have been legitimate to include a lower level of profit as a development cost, to protect the applicant against the risks associated with the financing and delivering the scheme. This would have the effect of reducing viability. In the generic developer appraisal a percentage of 20% has been applied to the private sales. In our appraisal we have also included a profit margin of 6% on the affordable element and 15% on the commercial element consistent with typical profit margin expectations.

6.5 A development management fee of 0.25% has been applied to the private sales values in both scenarios. We would usually expect these fees to be included within the construction costs but we have been unable to verify whether this is the case.

6.6 In the Council model, no finance costs are included. In the typical developer model a 6.5% Fixed Annual Rate has been included.

6.7 Professional fees of just 4.8% on the residential build costs have been included. This is considerably below our expectations for project of this scale which would be in the region of 10% however we assume that the development contract would be let on a design build basis and that fees are incorporated within the build cost estimate.

6.8 Total Section 106 contributions of £2,246,555 have been included in the appraisal. Mayoral and Borough CIL has been calculated by Quod at a total of £653,857. We have not verified these costs.

BPS Chartered Surveyors

Appendix A Cost Report

1 SUMMARY

1.1 There is no cost plan as such – Appendix B is a Construction Cost Summary with a target cost for Phase 1 of [redacted] and for Phase 2 [redacted] a total of [redacted] Our benchmarking (although of limited relevance in these circumstances) uses current BCIS data which is on a current tender firm price basis.

1.2 Proper consideration of the Construction Cost Summary would require full details of the basis of the costs: in the case of Phase 1 the contract sum in the amount of [redacted] and for Phase 2 the revised Rydon offe[redacted]. We reviewed the costs of this project in February 2013 and concluded "*In summary we are satisfied that these 1Q2013 costs are a reasonable and fair estimate and benchmark closely to a BCIS mean average price housing and flats project adjusted to a Camden Location Factor and using 5 year maximum benchmark figures*." However we have insufficient information to relate the costs considered in February 2013 to the costs in this current Financial Viability Report.

1.3 The Applicant has downloaded BCIS forecast all-in Tender Price Index (TPI) data on 19th Sep 2016. At that time the economic forecasts following the European referendum remained fairly gloomy. The forecasts have progressively picked up since then so that the cumulative increase from 2016 to 2020 that showed an increase in Sep 2016 of 3.71% is currently showing an increase in the TPI to 2020 of 15.04% as the table at paragraph 3.8 below.

1.4 The allowance for contingencies in the appraisals is 5.83%. We consider 5% to be reasonable.

1.5 In conclusion – we are unable to verify the costs that are included in the current Financial Viability Report. Nor are we able to relate these to build costs examined in detail in 2013. However it is apparent that BCIS TPI inflation forecasts have changed significantly since September 2016. No doubt this is also true of other inflation considered that would also have been influenced by economic forecasts at that time. We suggest that inflation should be revisited and current forecasts accounted for in the viability appraisals.

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's 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. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of it's projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

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 occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. 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 available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. 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 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

2.5 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).

2.6 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 ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

2.7 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 BCIS benchmark allowance.

2.8 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 from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or 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.

2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

3 <u>GENERAL REVIEW</u>

3.1 We have been provided with and relied upon the Phase 2MMA Financial Viability Report (FVR) dated September 2016 issued by Arcadis.

3.2 We have also downloaded a number of files from the planning web site.

3.3 There is no cost plan as such – Appendix B is a Construction Cost Summary with a target cost for Phase 1 of [redacted] and for Phase 2 [redacted] a total of [redacted] Our benchmarking (although of limited relevance in these circumstances) uses current BCIS data which is on a current tender firm price basis.

3.4 Proper consideration of the Construction Cost Summary would require full details of the basis of the costs: in the case of Phase 1 the contract sum in the amount of [redacted] and for Phase 2 the revised Rydon offer [redacted]. We reviewed the costs of this project in February 2013 and concluded "*In summary we are satisfied that these 1Q2013 costs are a reasonable and fair estimate and benchmark closely to a BCIS mean average price housing and flats project adjusted to a Camden Location Factor and using 5 year maximum benchmark figures.*" However we have insufficient information to relate the costs considered in February 2013 to the costs in this current Financial Viability Report.

3.5 The target cost includes an amount for a Value Engineering (VE) target omission of [redacted] although we have not seen the VE schedule referred to. It is reassuring to see allowance made for a VE exercise.

3.6 The target cost omits Rydon inflation base date 3Q2016 in the amount of [redacted]

3.7 The Applicant has downloaded BCIS forecast all-in Tender Price Index (TPI) data on 19th Sep 2016. At that time the economic forecasts following the European referendum remained fairly gloomy. The forecasts have progressively picked up since then so that the cumulative increase from 2016 to 2020 that showed an increase in Sep 2016 of 3.71% is currently showing an increase in the TPI to 2020 of 15.04% as the table below.

3.8

2016	2017	2018	2019	2020	Cum increase
Applicant's BCIS data as at 19th Sep 2016					
2.60%	-1.80%	-2.20%	1.10%	4.10%	3.71%
Current BCIS data as at 17th March 2017					
4.00%	1.80%	0.00%	2.80%	5.70%	15.04%

3.9 The allowance for contingencies in the appraisals is 5.83%. We consider 5% to be reasonable.

3.10 Market sales have been included in the Appraisal at average figures of [redacted]t² (Net Sales Area).

3.11 We have downloaded current BCIS data consideration of inflation. The Location Factor for Camden is currently 126.

3.12 In conclusion – we are unable to verify the costs that are included in the current FVR. Nor are we able to relate these to build costs examined in detail in 2013. However it is apparent that BCIS TPI inflation forecasts have changed significantly since September 2016. No doubt this is also true of other inflation considered that would also have been influenced by economic forecasts at that time. We suggest that inflation should be revisited and current forecasts accounted for in the viability appraisals.

BPS Chartered Surveyors

Date: 21st March 2017