

1 Hampshire Street, London NW5 2TE

Independent Viability Review

Prepared on behalf of London Borough of Camden

21 July 2017



82 South Street, Dorking, RH4 2HD
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Planning Reference: 2017/2883/P

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors have been instructed by London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Bidwells on behalf of Redtree Ventures Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.
- 1.2 The site currently comprises two buildings which form one commercial premise, comprising a two storey building and a large hall/studio building with a mezzanine at first floor level. It is reported that the property is occupied and currently operates as a film and photographic studio.
- 1.3 The location is predominantly residential in nature. The site is not located in a conservation area nor is it listed.
- 1.4 The proposals are for:

Redevelopment of the site to provide 4 storey building with 334 sqm of commercial floorspace (Class B1) and 16 residential units (5x 2-bed, 6x 1-bed and 5x 3-bed) (Class C3) with terraces at front and rear following demolition of existing photographic studio (Class B1c).
- 1.5 The basis of our review is an Assessment of the Economic Viability of the Proposed Scheme prepared by Bidwells, dated May 2017, which concludes that the scheme is currently shows a deficit of approximately [REDACTED] and therefore no affordable housing can viably be offered. We have also downloaded documents available on Camden's planning website. We have received a live version of the Argus appraisals included in the report.
- 1.6 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.
- 1.7 We have searched the Camden planning website and have not identified any other recent or outstanding planning applications relating to the site. A Land Registry search shows that the applicant does not currently own the property.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have reviewed the Assessment of Economic Viability prepared by Bidwells on behalf of the applicant for the proposed scheme which concludes that the proposed scheme generates a residual land value of [REDACTED] which is approximately [REDACTED] below their benchmark land value of £3.73million. On this basis the scheme cannot provide any affordable housing contribution.
- 2.2 Bidwells have approached the Benchmark Land Value on an Alternative Use Value (AUV) basis. They suggest that the existing building could be refurbished and a mezzanine added to provide an office of approximately 800 sq m. Our figures assume this mezzanine can be provided however we have significant reservations over the ability to install this and the space it then creates, specifically the ceiling heights, impact of supporting columns on the space below and the availability of natural daylight. There needs to be plans showing feasibility and an assessment of the above factors in order to continue to support this element of the assessment or we would recommend rebasing our assessment of the surplus to reflect our EUV assessment.
- 2.3 We have been provided with an appraisal showing the scheme which includes costings for refurbishment and fit out from Anderson Bourne Quantity Surveyors. The residual value of the land, as shown in the appraisal, is £3.73million. This figure has been adopted by Bidwells as the Benchmark Land Value.
- 2.4 We have reviewed Bidwells assessment of AUV. We have been provided with a live Argus appraisal for the refurbishment scheme as well as a full cost plan. Neil Powling, our Cost Consultant, has reviewed the Cost Plan for the refurbishment and comments that:
- The BCIS mean average cost (max 5 years) for refurbishment of offices is [REDACTED]m² that compares to the Applicants estimated cost for the AUV scheme of [REDACTED]/m². It may be that the BCIS rate is too high to use as a comparator for this scheme, but we suggest that the Applicant's rate is unrealistically low. We suggest a rate of [REDACTED]/m² should be used to calculate a viability benchmark.*
- 2.5 We have, therefore, re-run Bidwells appraisal of the AUV scheme, using an increased build cost of [REDACTED]. This results in a residual value of [REDACTED].
- 2.6 We have also taken into consideration that the property is currently occupied and appears from photographs to be in a reasonable condition. The Design and Access statement states that “the specialised layout of the existing building and its lack of potential for providing natural light to the internal spaces do not make that building particularly suitable for renovation for alternative uses”. We have, therefore, considered the Existing Use Value of the property based on sales values achieved in the surrounding area for light industrial/ancillary office space. On this basis we arrive at a value of [REDACTED]. To this we have added a Landowner's Premium of [REDACTED] to arrive at a benchmark figure of [REDACTED].
- 2.7 Having taken the above into consideration, and taking into account the arbitrary nature of the Landowner's Premium, we consider the Benchmark Land Value should be £3.38million.
- 2.8 The scheme includes 16 residential flats, all of which are proposed to be for private sale. Bidwells have provided a pricing scheme showing the total GDV of this element of the scheme as [REDACTED]. We have reviewed the comparable evidence

presented and added more recent transactions in the locality that we have been able to identify. Having reviewed the proposed sales values we have made some adjustments to reflect the size of the flats and their private space, and their location within the building. We arrive at a GDV of [REDACTED].

- 2.9 Ground rents have been assigned at [REDACTED] per flat and the income has been capitalised at [REDACTED]. We are satisfied that this is a reasonable approach.
- 2.10 There is no car parking included in the scheme, but space for 28 bicycles within the ground floor of the residential space.
- 2.11 We have reviewed the proposed value for the commercial space. Bidwells propose a rent of [REDACTED] to arrive at a rental income of [REDACTED] per annum. This has been capitalised at a yield of [REDACTED] to result in a total value of [REDACTED]. We have reviewed the transaction evidence presented by Bidwells as well as carrying out our own research into rental values in the area surrounding the subject property. We are of the view that rents of [REDACTED] would be achievable for the proposed units given the size and nature of the accommodation. There is limited yield evidence for the immediate area so Bidwells have consulted market reports to arrive at a yield of [REDACTED] for the space. We consider this yield to be appropriate. When applied to our revised market rent this yield results in a value of [REDACTED] for this element of the scheme.
- 2.12 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan for the proposed scheme prepared by Anderson Bourne, dated 26th April 2017, and concludes that:
- Our benchmarking of the Application scheme yields an adjusted benchmark of [REDACTED] that compares to the Applicants [REDACTED] a difference of [REDACTED] amounting to [REDACTED]. We have reduced this difference to allow for costing an increased GIA of 1,421m² (from the cost plan figure of 1,316m²). We therefore consider the appropriate construction cost to include in the appraisal is [REDACTED] inclusive of a [REDACTED] contingency.*
- 2.13 We have been provided with a live version of the Argus appraisal included in Bidwells report to which we have applied our amendments which include: build costs, residential GDV and commercial GDV. We have used a blended profit target of 18.48% on GDV, which reflects a profit of 23.11% on costs. The resulting residual value is [REDACTED]. When compared to our benchmark of £3.38million it shows that the scheme generates a surplus of [REDACTED]. We therefore conclude that the scheme would be able to contribute towards or provide some affordable housing.

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:
- $$\text{Gross Development Value} - \text{Development Costs (including Developer's Profit)} = \text{Residual Value}$$
- 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.

The Proposed Benchmark

- 3.10 The benchmark proposed by Bidwells for viability testing is based on an Alternative Use Value whereby the existing space is refurbished to provide circa 800 sq m of office space through the introduction of a mezzanine floor. Bidwells note that planning permission would not be required for this conversion.
- 3.11 In the absence of plans showing how this mezzanine space could be installed there remain significant questions about its feasibility of introducing this mezzanine as we have no indication of slab to slab heights in the current space or how a mezzanine floor might impact on the availability of natural light or how columns for its support may impact the ground floor. These questions really need to be answered to give support to this approach.
- 3.12 Bidwells have provided a cost plan prepared by Anderson Bourne to identify the cost of refurbishment and fit out. They have then used Argus developer to provide an appraisal of the scheme of refurbishment and letting. On this basis they have arrived at a residual land value of £3.73million, which they have adopted as their Benchmark Land Value.
- 3.13 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan for the refurbishment, included in the report, and comments as follows:

The BCIS mean average cost (max 5 years) for refurbishment of offices is [REDACTED] that compares to the Applicants estimated cost for the AUV scheme of

██████████ It may be that the BCIS rate is too high to use as a comparator for this scheme, but we suggest that the Applicant's rate is unrealistically low. We suggest a rate of ██████████ should be used to calculate a viability benchmark.

- 3.14 Based on these concerns we have, therefore, re-run Bidwells appraisal to test the rate suggested by Neil. The resulting residual land value is £3.38million.
- 3.15 The property is currently occupied by Hampshire Street Studio on an owner-occupier basis. The current GIA of the property is reported to be 609 square metres (6,555 sq ft).
- 3.16 Photographs included in the Design and Access statement downloaded from the Camden planning website appear to show the property in satisfactory condition however we note comments that the building is “not well equipped to meet the modern standards for film shoots”. Further, the document states that “the specialised layout of the existing building and its lack of potential for providing natural light to the internal spaces do not make that building particularly suitable for renovation for alternative uses”.
- 3.17 For this reason we are concerned that the Alternative Use Value scheme of refurbishment may not well suited to the building and may not be a realistic option and further information should be provided in justification of this approach.
- 3.18 We have approached the Benchmark Land Value on an Existing Use Value basis. The current use of the property is as a photographic studio which has been categorised on the planning application form as Use Class B1 (c) Light Industrial. We have identified transactions of similar properties in the area surrounding the property:

Address	Description	Date	Sale Price	Price psf
50 Rochester Place NW1 9JX	Ground floor commercial unit within a former warehouse building Used as a car mechanic workshop 100.5 sq m (1,082 sq ft)	15/08/2015	£1,100,000	£1,017psf
128-130 Grafton Road NW5 4BA	Mid terrace commercial building over ground and mezzanine level with industrial area at ground floor and offices and kitchen at mezzanine level Forecourt with off street parking Let at £17,500pa until March 2019 288 sq m (3,100 sq ft)	01/10/2014	£1,275,000	£411psf

75 Bayham Street NW1 0AA	Mid-terrace warehouse and office building over three floors Ground floor warehouse with vehicular access and large rear building with mezzanine First and second floor used as offices 295.3 sq m (3,179 sq ft)	01/10/2014	£1,950,000	£613psf
377 Camden Road N7 OSH	Detached building former tramworks used as office/studio space with basement, ground and mezzanine levels Car parking up to 4 cars 413.7 sq m (4,453 sq ft)	15/03/2016	£2,955,011	£664psf
Lamb Works North Road N7 9DP	Single storey industrial/warehouse unit with ground and first floor offices 779sq m (8,386 sq ft)	01/03/2016	£3,025,000	£361psf
5 Gorst Road NW10 6LA	Purpose built light industrial unit Modern specification	01/04/2016	Let Five year lease	£13.25psf per annum

- 3.19 It can be seen that there is significant variation in the prices achieved for light industrial/ workshop space. Prices seem to be highest for properties which are occupied or are fit for occupation, and properties with separate office space. The lowest values are for properties in a more industrial or manufacture type use.
- 3.20 377 Camden Road is a useful comparable as it is located approximately 1.4miles south west of the subject property, albeit in a busier location. Making adjustments for location, and for quantum given the size of the subject, we consider it reasonable to apply a rate of [REDACTED] to the existing property. This results in a value of [REDACTED]. To this we suggest the addition of a Landowner's Premium of [REDACTED], which reflects the nature of the property and in our view the relatively limited options available to the land owner to secure enhanced or even ongoing longer term value from the property given its limited suitability for its current purpose. This generates a value of [REDACTED]
- 3.21 This figure is below of assessment of the AUV approach therefore it is not unreasonable in our view that the higher value be adopted as a benchmark subject to clarification about the deliverability in impact of any mezzanine structure. On this basis we have adopted a figure of £3.38million resulting from our assessment of the AUV scheme as the Benchmark Land Value.

4.0 RESIDENTIAL UNIT VALUES

4.1 The residential element of the proposed scheme, as sought by the planning application, is for 16 residential units comprising the following accommodation:

Floor	One bedroom	Two bedroom	Three bedroom	Total
First	3	2	1	6
Second	3	2	1	6
Third	0	1	3	4
Total				16

4.2 All of units are proposed to be for private sale and the values have been assumed as follows:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No of units
One bedroom	427			6
Two bedroom	676			5
Three bedroom	900			5
Total	10,441			16

4.3 The flats will be accessed from a communal entrance of Hampshire Street leading to a communal stairwell and lift. On each floor there is a terrace at the rear of the building with each flat having its own private entrance. Each flat has a private terrace overlooking Hampshire Street. There is lift access to all floors.

4.4 Bidwells include a schedule of comparable transactions within the local area, including flats at Hargrave Place, closely located to the subject property, which reportedly sold in summer 2016, and they note new-build developments at Camden Road and Allcroft Road, some of which are currently being offered for sale with others recently sold.

4.5 We have undertaken our own research into transactions in the area surrounding the subject site and have identified the following additional market evidence, all properties are located within 0.25miles of the subject property:

Address	Description & GIA	Date	Sale Price	Price psf
23c Oseney Crescent NW5 2AT	One bedroom second floor flat conversion with communal hallway and private entrance off first floor Separate kitchen and reception rooms 627 sq ft (58.25 sq m)	31/03/2017	£485,000	£774psf
21c South Villas NW1 9BS	One bedroom second floor flat conversion Separate kitchen and reception rooms 501 sq ft (47 sq m)	12/12/2016	£478,000	£954psf

36a Hilldrop Crescent N7 0HZ	Two bedroom ground floor flat conversion with private garden Separate kitchen and reception rooms 761 sq ft (70.7 sq m)	17/01/2017	£600,000	£788psf
55d Brecknock Road N7 0BX	Two bedroom first floor flat conversion Shower room only Kitchen/reception room 627 sq ft (58.3 sq m)	13/01/2017	£520,000	£829psf
Burrow Lodge Torriano Cottages NW5 2SJ	Two bedroom ground floor flat with small courtyard garden and off street parking Recently refurbished 0.1mi from subject 588 sq ft (55 sq m)	31/03/2017	£590,000	£1,003psf
Flat 1 Greatfield Peckwater Street NW5 2UE	Three bedroom ground floor flat within purpose built part local authority block Separate kitchen/reception rooms and small private balcony, communal gardens 812 sq ft (75.5 sq m)	07/09/2016	£580,000	£714psf

4.6 It can be seen that prices of flats in the area can be widely varied. This is, in part, because the size of flats can range significantly. Other factors influencing value include parking provision and private outdoor space, as well as whether the flat is purpose built or within a conversion.

4.7 Generally we have found that the values proposed by Bidwells are broadly reasonable. We have, however made some adjustments to reflect our view of value. We have considered the location of the properties which is an attractive residential location within walking distance of transport links and the amenities of Brecknock Road/ York Way. We have also considered the position of the flats within the building and the space available to them.

4.8 Our revised values are as follows:

Floor	Flat No.	Beds	Persons	NSA sq m	NSA sq ft	Value	£psf
First	1	2	3	63	678	████████	████████
	2	2	3	61	657	████████	████████
	3	1	1	40	431	████████	████████
	4	1	1	40	431	████████	████████
	5	1	1	39	420	████████	████████
	6	3	5	86	926	████████	████████
Second	7	2	3	63	678	████████	████████
	8	2	3	61	657	████████	████████
	9	1	1	40	431	████████	████████

	10	1	1	40	431	██████	██████
	11	1	1	39	420	██████	██████
	12	3	5	86	926	██████	██████
Third	13	3	4	79	850	██████	██████
	14	2	3	66	710	██████	██████
	15	3	4	79	850	██████	██████
	16	3	5	88	947	██████	██████
				970	10,441	██████	██████

4.9 Overall, the values reflect an increase of ██████ on the vales proposed by Bidwells.

Ground Rents

4.10 Ground rents have been assumed at ██████ per annum for each of the residential units. The income has been capitalised at a yield of ███ and the investment has been valued by Bidwells at ██████. We find these inputs to be reasonable.

Parking

4.11 The plans do not show any parking spaces and we assume that none are provided within the scheme. There is a cycle store with 28 spaces located at Ground Floor level. We assume that this is provided for the residential units only.

5.0 COMMERCIAL UNIT VALUATION

- 5.1 The proposed scheme includes 334 sq m (3,595 sq ft) of ground floor office space.
- 5.2 We note from the plans we have downloaded from the Camden planning website that the commercial space is split into three units with the following areas:

Unit	GIA sq m	GIA sq ft
Unit 1	109 sq m	1,173 sq ft
Unit 2	84 sq m	904 sq ft
Unit 3	141 sq m	1,518 sq ft
Total	334 sq m	3,595 sq ft

- 5.3 Bidwells have provided evidence of three transactions in the area surrounding the subject property and concluded that rental values should be in the region of [REDACTED] to [REDACTED]. They have assigned a rental value of [REDACTED] to the proposed space, to arrive at a rental income of [REDACTED]. This has been capitalised at a yield of [REDACTED] to result in a total value of [REDACTED].
- 5.4 We have sought to identify any additional transactions in the surrounding area to test whether the value assigned to this element of the scheme is reasonable. Our research can be summarised as follows:

Address	Description	Date	Transaction details	Rent £psf
Fusion House Rochester Mews NW1 9JB	Part first floor modern purpose built office space Lift, WCs and shower rooms within the building 232 sq m (2,500 sq ft)	01/01/2017	Let £106,250 per annum Lease terms unknown	£42.50psf
Fusion House Rochester Mews NW1 9JB	Part first floor modern purpose built office space Lift, WCs and shower rooms within the building 418 sq m (4,500 sq ft)	01/11/2016	Let £189,000 per annum 5 year lease	£42.00psf
Bedford House Camden High Street NW1 7JR	Second floor office open plan space within a four storey building with communal entrance and lift Close to Camden Station 572 sq m (6,146 sq ft)	01/03/2017	Let £144,927 per annum 5 year lease 6 months rent free	£49.50psf
6 Greenland Place NW1 0AP	Self-contained office with private entrance arranged over ground and first floors 344 sq m (3,706 sq ft)	01/12/2016	Let £176,035 per annum Lease terms unknown	£47.50psf
350 Euston Road NW1 3AX	First floor office space within modern purpose built office space 1,488 sq m (16,020 sq ft)	May 2017	Let £768,159	£47.95psf

8-14 St Pancras Way NW1 0QG	Former warehouse converted into offices with manned reception area, bicycle parking and showers Ground floor space 269 sq m (2,900 sq ft)	<i>On the market</i>	<i>Asking rent only</i>	£55.00psf
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- 5.5 It can be seen from the above transactions that generally the highest rents are paid for offices close to good transport links, and in particular those closest to Camden Town underground station. We have considered that while the property is located north east of Camden Town it is well connected with Kentish Town, Camden Road and Caledonian Road all within walking distance. JLL Central Office Market Report Q1 2017 shows average prime office rents in Camden at £53psf. The property is located in a mostly residential area, rather than an office area, but we are of the view that [REDACTED] could be readily achievable given the office units will be self-contained and smaller than the units identified above.
- 5.6 Based upon the above, we are of the view that a total rent of [REDACTED] could be generated from the office space.
- 5.7 Bidwells note that yield evidence in this location is sparse and they have consulted research by Colliers and MSCI and Levy LLP which has led them to arrive at a yield of [REDACTED] which is applied within their appraisal.
- 5.8 Our own research has revealed few local investment transactions of real relevance.
- 5.9 We have consulted the most recent Knight Frank Yield Guide (July 2017) which shows City Prime yields as between 4.00% to 4.25%. Acknowledging the nature of location of the property, we have also taken into account the Colliers 'London Offices Snapshot' April 2017, which indicates yields of 4.5% in prime areas of Camden/Kings Cross. Having regard to the market data and given the lack of transaction evidence, we are satisfied that a yield of [REDACTED] is appropriate. When applied to the market rent this results in a value of approximately [REDACTED], having accounted for purchasers costs.

6.0 BUILD COSTS

6.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Anderson Bourne, dated 26th April 2017, and concludes that:

Our benchmarking of the Application scheme yields an adjusted benchmark of [REDACTED] that compares to the Applicants [REDACTED] a difference of [REDACTED] amounting to [REDACTED]. We have reduced this difference to allow for costing an increased GIA of 1,421m² (from the cost plan figure of 1,316m²). We therefore consider the appropriate construction cost to include in the appraisal is [REDACTED] inclusive of a [REDACTED] contingency.

6.2 Neil's full cost report can be found at Appendix 1.

6.3 The applicants consultants have applied the following additional cost assumptions:

- Professional fees of [REDACTED]
- Marketing fees of [REDACTED]
- Letting agent fees of [REDACTED]
- Legal Fees of [REDACTED] for the commercial lettings
- Disposal fees of [REDACTED] for the ground rents and commercial space

6.4 Generally, we accept that these percentages are realistic and in line with market norms.

6.5 CIL charges have been assumed at [REDACTED] psf for the commercial space and [REDACTED] psf for the residential space. An allowance for the existing floor space of 6,986 sq ft has been made and the resulting total CIL amount is [REDACTED]. We have not verified this amount.

6.6 Finance has been included at [REDACTED] assuming that the scheme is 100% debt financed.

6.7 The developer profit target adopted by Bidwells is 20% on GDV. Generally we would expect to see a lower profit target for the commercial unit, to reflect the reduced risk, typically around 15-17% on GDV for commercial units. We have tested a blended profit target and reduced the profit target to 18.48% on GDV to reflect the inclusion of the commercial space.

BPS Chartered Surveyors

Appendix 1: Build Cost Report

1 SUMMARY

- 1.1 The GIA is given in the cost plan as 1,316.2m². The area schedule issued by SADA Architecture gives an NIA for the flats of 970m², landlord storage and circulation areas of 116.9m² and an office area of 334m² - a total GIA of 1,420.9m². These are the areas we have use for calculating a blended construction rate. We have assumed the office will be finished to shell & core only.
- 1.2 We consider the allowance of [REDACTED] for Overheads and Profit (OHP) to be higher than we would expect. We have allowed [REDACTED] in our calculations. The allowance for contingencies is [REDACTED] which we consider reasonable.
- 1.3 Our benchmarking of the Application scheme yields an adjusted benchmark of [REDACTED] that compares to the Applicants [REDACTED] a difference of [REDACTED] amounting to [REDACTED]. We have reduced this difference to allow for costing an increased GIA of 1,421m² (from the cost plan figure of 1,316m²). We therefore consider the appropriate construction cost to include in the appraisal is [REDACTED] inclusive of a [REDACTED] contingency.
- 1.4 The BCIS mean average cost (max 5 years) for refurbishment of offices is [REDACTED] that compares to the Applicants estimated cost for the AUV scheme of [REDACTED] it may be that the BCIS rate is too high to use as a comparator for this scheme, but we suggest that the Applicant's rate is unrealistically low. We suggest a rate of [REDACTED] should be used to calculate a viability benchmark.

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 on 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 been 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 GENERAL REVIEW

- 3.1 We have been provided with and relied upon the Assessment of Economic Viability issued by Bidwells dated May 2017 for Redtree Ventures Ltd
- 3.2 We have also downloaded a number of files from the planning web site.
- 3.3 The Feasibility cost plan is in the total sum of ██████████ dated 26th April 2017. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 2Q2017 is 286 and for 3Q2017 284 - both figures are forecasts.
- 3.4 The GIA is given in the cost plan as 1,316.2m². The area schedule issued by SADA Architecture gives an NIA for the flats of 970m², landlord storage and circulation areas of 116.9m² and an office area of 334m² - a total GIA of 1,420.9m². These are the areas we have use for calculating a blended construction rate. We have assumed the office will be finished to shell & core only.
- 3.5 We have calculated a blended construction rate for benchmarking purposes as the table below:-

3.6	Blended rate calculation	GIA m ²	%	BICS £/m ²	Blended £/m ²
	Flats inc landlord	██████	████	██████	██████
	Offices	████	████	████	████████████████
3.7		██████	██████		██████

The cost plan includes an allowance of ████████ for preliminaries and an allowance for overheads and profit (OHP) of ██████. We consider the preliminaries at the upper end of the range we would expect, but the OHP higher than we would expect. We have allowed ██████ in our calculations The allowance for contingencies is ██████ which

3.8 we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.9 Sales have been included in the Appraisal at average figures of [REDACTED] (Net Sales Area).

3.10 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 126 that has been applied in our benchmarking calculations.

3.11 The building is a 4 storey building of flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. We have benchmarked this building as 3-5 storey flats.

3.12 Refer to our attached file “Elemental analysis and BCIS benchmarking - proposed scheme”.

3.13 Our benchmarking yields an adjusted benchmark of [REDACTED] that compares to the Applicants [REDACTED] a difference of [REDACTED] amounting to [REDACTED]. We have reduced this difference to allow for costing an increased GIA of 1,421m² (from the cost plan figure of 1,316m²). We therefore consider the appropriate construction cost to include in the appraisal is [REDACTED] inclusive of a [REDACTED] contingency.

3.14 Refer to our attached file “Elemental analysis and BCIS benchmarking - AUV scheme - refurbishment as offices”.

The BCIS mean average cost (max 5 years) for refurbishment of offices is [REDACTED] that compares to the Applicants [REDACTED]. It may be that the BCIS rate is too high to use as a comparator for this scheme, but we suggest that the Applicant’s rate is unrealistically low. We suggest a rate of [REDACTED] should be used to calculate a viability benchmark.

BPS Chartered Surveyors

Date: 17th July 2017

1 Hampshire St, Camden NW5 2TE
Elemental analysis & BCIS benchmarking
AUV scheme - Refurbishment as B1 office inc new mezzanine

Rehab offices
generally mean

		GIA m ²	801	LF100	LF126
		£	£/m ²	£/m ²	£/m ²
Demolitions - facilitating works					
1	Substructure				
2A	Frame				
2B	Upper Floors				
2C	Roof				
2D	Stairs				
2E	External Walls				
2F	Windows & External Doors				
2G	Internal Walls & Partitions				
2H	Internal Doors				
2	Superstructure				
3A	Wall Finishes				
3B	Floor Finishes				
3C	Ceiling Finishes				
3	Internal Finishes				
4	Fittings				
5A	Sanitary Appliances				
5B	Services Equipment (kitchen, laundry)				
5C	Disposal Installations				
5D	Water Installations				
5E	Heat Source				
5F	Space Heating & Air Treatment				
5G	Ventilating Systems				
5H	Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)				
5I	Fuel Installations				
5J	Lift Installations				
5K	Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)				
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)				
5M	Special Installations - (window cleaning, BMS, medical gas)				
5N	BWIC with Services				
5O	Management of commissioning of services				
5	Services				
6A	Site Works				
6B	Drainage				
6C	External Services				
6D	Minor Building Works - works to existing building				
6	External Works				
	SUB TOTAL				
7	Preliminaries				
	Overheads & Profit				
	SUB TOTAL				
	Design Development risks				
	Construction risks				
	Employer change risks				
	Employer other risks				
	TOTAL				

Benchmarking

