Camden Methodist Church

Viability review

Prepared on behalf of the London Borough of Camden

2nd July 2018

Planning reference: 2016/6490/P

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1.0 INTRODUCTION

1.1 We have been instructed by the London Borough of Camden to undertake a viability review in respect of the proposed redevelopment of Camden Methodist Church.

1.2 A November 2016 report was provided by the Wesley Group. We have already provided a review of this report, dated 25th January 2017, in respect of this scheme.

1.3 The existing site measures 0.04 hectares (0.099 acres) and comprises D1 and C2 space, although we understand the basement C2 space is no longer in use due to safety concerns. The local area surrounding the development site is made up of mostly retail and residential property.

1.4 We understand that the application is for hotel development above the existing Church building. However we have considered the valuation impact of including an element of residential development within this scheme. In consultation with the Council's Planning Officer it is considered that a notional conversion of the upper floor from hotel to residential use would represent the most planning suitable approach, from an amenity perspective and also in terms of maximising achievable values having regard to outlook, noise impact, *etc*.

1.5 This report deals with the following two matters:

1) We have firstly updated our January 2017 report to make allowances for any market changes since then.

2) Secondly, we have considered the alternative scheme – with upper floor residential – to consider whether this has the potential to be viable. This scenario entails a loss of 2 hotel rooms per floor, to make way for the creation of a separate stairwell to provide access to the residential upper floor. We have been guided by the sketch drawings that have been provided by architects Manolo & White.

1.6 We are advised that the scheme will need to be referred back to the Planning Committee, given the long time that has elapsed since it was last placed before Committee.

Policy DP1 requires 50% of additional floor space to be provided as residential accommodation for extensions over 200 sqm, resulting in this instance for a requirement to deliver 288 sqm of residential floorspace. The applicant considers that the proposed scheme cannot facilitate the provision of on-site residential accommodation without reducing the hotel below a sustainable critical scale of operation and also points to the difficulties on site provision would generate in terms of the need for separate entrance and service cores. The applicant does not have alternative sites in the local area. In consequence of the above a payment in lieu sum has been calculated at £201,600 (£700 x 288 sq.m).

Update to January 2017 BPS report

1.7 The proposed scheme was shown, based on our suggested appraisal assumptions, to have a viability deficit of -3.3m-£4.0m. This is on the basis of a benchmark land value of nil with the hotel element let to The Wesley (Methodist International Centre), a social enterprise hotel operator. The conclusion was that the scheme cannot viably provide any contribution towards affordable housing.

1.8 This recognised that the nature of The Wesley operating as a social enterprise, significantly impacts the viability of the proposed development and thus the ability of the scheme to support residential either on-site or by way of a payment in lieu.

	January 2017	June 2018
Hotel Capital values	We agreed to £4.4-£5.1m as capital value for 39 rooms (£113,000 per room)	We have checked on hotel market trends and have identified an improvement in yields and potentially also in room rates (as discussed further below).
Benchmark Land Value	Negligible existing use value, due to level of refurbishment costs. However, some level of landowner premium could still have been justified.	This conclusion still applies.
Proposed D1 space -capital value	£260,124	This conclusion still applies.
Profit	15% on GDV	This remains a reasonable profit.
Construction costs	Our Cost Consultant estimated these at £7m.	Applying cost inflation to bring them up to present-day, gives £7.64m.

1.9 We have updated our cost consultant's estimate to allow for cost inflation over this period. The Tender Price Index (TPI) was 298 in Q1 2017 and is now 316 in Q2 2018. The location factor for Camden was 124 in Jan 17 and is now 128. This is an increase of 9.46% to the £7.0m build costs, which would give £7.64m.

1.10 We have considered changes that occurred in the hotel market since early 2017. Savills' *Hotel Investment Report* shows a sharpening of yields over late 2016 and the whole of 2017. Based on this data, we suggest that a 0.5 percent point reduction is suitable. This pushes the capital values up to £4.8m-£5.5m.

1.11 With respect to hotel room rates, it should be noted that general commercial rates are unlikely to be applicable however our local research of commercial hotel rates has identified the following:

- York & Albany, NW1 7PS – at the time of our January report, it had double and superior double rooms for £175 and £250 per night respectively. This is currently very similar, at £175 and £255 per night respectively, and the

minor increase may not necessarily represent a general inflation of rates but rather month-to-month variation.
- Holiday Inn London Camden Lock, NW1 7BY - our January report cited double and superior rooms for £199 and £230 respectively per night. This is now £212 and £256 respectively

1.12 By comparison average daily room rates (ADR) projected at £137 for the proposed hotel reflect its social enterprise nature and its target market.

1.13 There is limited evidence of an increase in room rates. Some of the hotels appear to show an increase thus we have applied a 10% increase. Combined with the suggested yield shift detailed above, this gives a £5.4m-£6.1m range of capital values.

1.14 Based on the above adjustments, it is therefore clear that the £1m potential increase in capital values, when taken in combination with the £0.64m increase to construction costs (plus additional finance costs and professional fees on top of this), is insufficient to overcome the substantial deficit range of £3.3m-£4.0m. The increase may also be notional given the room pricing structure.

Alternative scenario – BPS assessment

1.15 We have considered the appraisal with the top floor switched to residential. This involves a loss of hotel space on each floor to make way for a residential access core. The sketch plans and drawings by Manolo & White shows 26 hotel rooms, reduced from the original 39. This reduces our latest estimate of capital value from £6.1m to £4.1m.

1.16 The residential floorspace is shown as comprising 3 two-bed flats. The floor’s GIA is shown as 242 sqm which is 2,604 sq ft. Assuming an 80% GIA to NIA ratio, this gives 694 sq ft per apartment, and 2,083 sq ft in total.

1.17 We have applied £775,000 to each apartment based on nearby comparable evidence including among others:

- 2 bed flat for sale Pratt Mews, London NW1, £800,000. This is 700 sq ft.
- 2-bed flat of sale Pratt Mews, £900,000. This is 807 sq ft.

1.18 The total residential value is £2,325,000, and with the £4.1m hotel value, this gives a total of £6.3m, which is higher than the maximum revenue we calculated for the proposed scheme (as per para. 1.13, above).

1.19 Our Cost Consultant, Neil Powling, has estimated the cost of provided the access core, which he has estimated at £250,000 which includes the cost of the lift, lift shaft and stairwell. The £7.64m build cost is increased by circa £130,000, which accounts for the higher rate per sqm of residential, and the reduction in hotel floor space due to the loss of the floor and the encroachment by the new core.

1.20 Taking the increase in build costs that we calculate as a result of adding in residential (due to the cost of the access core), but also the lower BCIS rate for residential than hotel, this would add circa £130,000 to the costs (after allowing for adjusted finance and professional fees).

1.21 In conclusion, it can be seen that the addition of residential does actually have a limited impact on viability, in spite of the loss of hotel floor area as a result of the extra core being provided. This is because the much higher values per sqm of the residential floorspace (£868 per sq ft, compared to £421 sq ft) help counteract the negative impact of loss floorspace to the new access core. Taking our upper value of £6.1m as the hotel GDV (for the proposed scheme), the alternative scheme is shown to very similar – with a circa £70,000 improvement in viability shown. However, a high degree of accuracy cannot be achieved at this stage given that the alternative scheme is only is in sketch form.

1.22 In conclusion, it appears that the alternative scheme (hotel, with residential on the top floor) generates a broadly similar residual land value to the proposed scheme. And both schemes are shown to generate a viability deficit. The deficit for the alternative scheme is in the region of -£2.9m thus this scheme can be considered unviable, although as already stated this viability position is little different from that of the proposed scheme.