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Ingestre Road, London, NW5

FINANCIAL VIABILITY ASSESSMENT

Prepared by DS2 LLP

100 Pall Mall, SW1Y 5NQ

Tel: 0207 004 1765

www.ds2.co.uk

On behalf of **Four Quarters Ingestre Road Ltd**

September 2018



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CONTENTS

1	INTRODUCTION.....	1
2	SITE DESCRIPTION.....	3
3	DEVELOPMENT PROPOSALS	4
4	PLANNING POLICY.....	7
5	VIABILITY METHODOLOGY.....	12
6	DEVELOPMENT TIMINGS	14
7	DEVELOPMENT VALUE.....	15
8	DEVELOPMENT COSTS	17
9	SITE VALUE.....	19
10	APPRAISAL RESULTS AND SENSITIVITY TESTING.....	21
11	CONCLUSIONS.....	22

APPENDICES

- 1 Site location plan
- 2 Full set of application drawings
- 3 Accommodation Schedule
- 4 Savills Desktop Appraisal
- 5 Bonfield Proposed Scheme Construction Costs
- 6 Service Charge Void Calculation
- 7 Proposed Scheme Argus Appraisal

TABLES

- 1 Development areas
- 2 Residential housing mix
- 3 Residual Analysis Methodology
- 4 FVA Results

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1 INTRODUCTION

- 1.1 This Financial Viability Assessment (“FVA”) has been prepared by DS2 to robustly examine the financial viability of the proposed redevelopment of the Former Ingestre Road Care Home (hereafter “the Site”). The Site is located within the administrative boundary of the London Borough of Camden (LBC).
- 1.2 DS2 is instructed to test the maximum level of affordable housing and additional financial obligations, including Section 106 obligations, LBC Community Infrastructure Levy (CIL) and Mayoral CIL, which can be supported by the development without impeding the viability of the project and the chances of delivery.
- 1.3 The following report has been collated in accordance with planning policy and professional best practice guidance, including the RICS Guidance Note ‘Financial Viability in Planning’ (94/2012). DS2 can confirm that our instruction is not on a contingent fee or success related basis. The report is an objective and impartial view on the development viability of the proposed scheme.
- 1.4 ARGUS Developer has been used to demonstrate the project’s financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer has previously been accepted by LBC for viability testing.
- 1.5 To inform the report, information prepared by the following independent consultants has been relied upon:
- Barton Willmore – Planning Consultants
 - Barton Willmore – Architects
 - Bonfield Costs – Cost Consultants
 - Savills – Care valuation
 - Extra Care Solutions – Care Consultancy
- 1.6 This FVA has been structured as follows:
- **Site Description** – summary of the location and nature of the existing asset;
 - **Development proposals** – review and description of the proposed development;
 - **Planning policy** – review of the key national, regional and local planning policies concerning the delivery of affordable housing and financial viability;
 - **Viability methodology** – description of the methodology employed within the wider context of best practice for FVAs;

- **Development timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;
- **Development value** – review of the residential values alongside any additional revenue streams that comprise the scheme Gross Development Value (GDV);
- **Development costs** – review of the development costs for the proposed project;
- **Site Value** – analysis in relation to the proposed Site Value / Benchmark Land Value for the financial appraisals;
- **Appraisal results and Sensitivity Testing** – summary of the financial appraisal outputs and supplementary results of scenario and sensitivity testing;
- **Conclusions** – statement with the formal affordable housing offer and concluding rationale.

1.7 The appraisals and figures in this FVA do not represent formal 'red book' valuations and should not be relied upon as such. This report has been prepared to accompany the planning application for the purposes of Section 106 discussions only and should only be used for the consideration of these matters.

1.8 This report is reliant upon market evidence. Readers should be mindful that market evidence is subject to variation over time and in the event that this report is older than six months from the date issued, a summary update is advisable.

2 SITE DESCRIPTION

- 2.1 A detailed site description is contained within the Barton Willmore Planning Statement submitted with the planning application. A summary is provided below.

Site Location

- 2.2 The Site is located in the London Borough of Camden and is situated north of Kentish Town and centrally between Gospel Oak Station (to the west) and Tufnell Park (to the east).
- 2.3 Access to the site can either be from the west off Highgate Road via Little Green Street or from the east from Ingestre Road.
- 2.4 Surrounding the Site is The Ingestre Road Estate which is a residential estate and comprised of a variety of flat roofed buildings which range from two to five storeys.
- 2.5 A Site location plan is attached at **Appendix One**.

Ownership

- 2.6 The site is in the full unencumbered ownership of the applicant.

3 DEVELOPMENT PROPOSALS

Proposed Development

- 3.1 The Application has been submitted by planning consultants Barton Willmore on behalf of the Applicant for the redevelopment of the Site.
- 3.2 A full assessment of the proposed development at the Site (hereafter “the Development”) is contained within the Design and Access Statement prepared by Barton Willmore.
- 3.3 The Application description of the development is as follows:

“Demolition of the existing buildings and the erection of a six storey plus single storey basement building accommodating 50 Assisted Living residential units with ancillary communal and support facilities, together with access, parking, plant, landscaping, infrastructure and other associated works.”

- 3.4 The proposed development is for the demolition of the former care home and the construction of 50 extra care units (C2/C3) within a five storey plus basement.
- 3.5 The total site area extends to approximately 0.46 acres (0.18 hectares) and has road frontage to Ingestre Road.
- 3.6 The redevelopment of the site will deliver a 6 to 8 storey modern and high quality ‘Extra care’ later living facility delivering 50 later living apartment which will:
- Provide an opportunity for residents to own their own units, with secure leaseholds;
 - Include a range of nursing personal and domestic care services. These services will be available 24 hours a day, 7 days a week. Nursing and care will be provided by an on-site team coordinated by the end operator;
 - Offer additional services including management, security and emergency support, activities organiser meals and transportation co-ordination and valet services will also be available on site.
 - Be restricted to accommodating persons who are aged 55 years and older.

- 3.7 The healthcare analysts Laing & Buisson use the term ‘Extra Care’ as the umbrella term for a range of facilities which have variously been described as assisted living, housing with care, extra care, close care, very sheltered housing, enhanced sheltered and category two-and-a-half housing. The common features of extra care which set it apart from nursing and residential homes on the one hand and sheltered, age restricted or retirement housing.

- 3.8 The proposed development aligns with the common features associated with new build extra care developments including a range of communal facilities and provision of 24 hour on-site support.
- 3.9 A full set of application drawings for the proposed scheme is included at Appendix Two. An accommodation schedule for the development is included at Appendix Three. The headline development areas are shown in Table 01 below.

Table 01: Development areas

Use	GIA (Sqft)
Residential (Use Class C3)	85,971
Communal/Facilities area	23,250
Circulation Area	9095
Total	118,316

Residential

- 3.10 The development will provide 50 homes which are comprised of one, two and three bed homes. The table below indicates the proposed mix:

Table 02: Residential housing mix

Unit Type	No. of units	%
One bed	1	2%
Two Bed	41	82%
Three Bed	8	16%
Total	50	100%

- 3.11 A one-bedroom apartment will be 588 sqft in size and two-bedroom apartments will range in size between 753 sq ft and 955 sqft and the three bedrooms apartments will be 963 sq ft.
- 3.12 All of the units will have a private outdoor space which will range between 75 sqft and 434 sqft depending on the size of the apartment.

Ancillary Accommodation

- 3.13 The scheme proposes 23,250 sqft (GIA) of communal facilities spread across basement, ground and first floors.
- 3.14 The basement space includes a laundry store, gym, male and female changing amenities, residential refuse room, commercial refuse room, scooter charging room, staff cycle storage, residential cycle storage, staff changing rooms and car parking.

- 3.15 The ground floor proposes a reception area, commercial kitchen and store, residents lounge and bar, bar store, male and female amenities, two multi-use rooms, staff facilities, staff office, two guest suites and cycle storage with the first floor having a hobby room.
- 3.16 The proposals also include a hairdressers and café/newsagents which front Ingestre Road.
- 3.17 In addition, the scheme includes a landscaped courtyard to the first floor.

Car Parking

- 3.18 All of the car parking is contained within the basement, of the 10 spaces proposed 8 are disabled and 2 are concierge. The two concierge spaces are for electric vehicles which will be owned by the management company, with residents afforded access to the electric cars on a booking basis for shopping/ medical appointments, to assist residents in the transition from no longer having access to their own private vehicle. Cycle and scooter charging spaces are also provided for the residents.

4 PLANNING POLICY

- 4.1 The Barton Willmore Planning Statement submitted as part of the Application provides an overall review of the planning policy context in relation to the Development. The following section of this FVA therefore provides a summary review of the key national and local planning policy that guides the delivery of affordable housing and other planning obligations, with reference to the importance of considering financial viability and balancing the requirements of obtaining planning obligations with the risks of non-delivery.

National

National Planning Policy Framework

- 4.2 The updated Government's National Planning Policy Framework (NPPF) was published in July 2018.
- 4.3 At the heart of NPPF is a presumption in favour of sustainable development, which should be seen as a golden thread running through both the plan-making and decision-taking process. This means approving development proposals that accord with the development plan without delay, and where there are no relevant development plan policies, granting permission unless any adverse impacts of doing so would significantly and demonstrably outweigh the benefits of development.
- 4.4 The definition of affordable housing, included within the Glossary (Annex 2) of the NPPF, states that social rented, affordable rented and intermediate tenure types all make a valid contribution towards affordable housing delivery, providing housing to eligible households whose needs are not otherwise met by the market.
- 4.5 The NPPF sets out government's expectation that all viability assessments should be made publicly available. However, the government response document goes on to state that it acknowledges there will be circumstances where some information contained within the viability assessment may be commercially sensitive and should not be made publicly available.

National Planning Practice Guidance

- 4.6 The National Planning Practice Guidance (NPPG) was finalised in March 2014 and subsequently updated in line with the New NPPF published July 2018. The NPPG, in alignment with the NPPF, contains important guidance on development viability.

The London Plan (incorporating minor alterations (March 2016))

- 4.7 The London Plan identifies the Mayor's requirement to maximise affordable housing. Policy requires LPA's to set an overall target for affordable housing provision within development proposals, taking account of several key criteria, including viability.
- 4.8 Policy 3.11 sets a pan-regional target tenure split of 60% social and affordable rent housing and 40% intermediate housing. However, the policy notes that it is for each local authority to identify their own local requirements in relation to tenure split.

4.9 Policy 3.12 requires LPA's to seek the maximum reasonable amount of affordable housing when negotiating on individual residential or mixed-use sites, having regard to the following:

- The need to encourage rather than restrain residential development;
- The need to promote mixed and balanced communities;
- The size and type of affordable housing needed in particular locations; and
- The specific circumstances of individual sites.

4.10 In response to national guidance, the London Plan emphasises the need to consider development viability in relation to the proposed development on individual sites and in relation to borough target setting, to ensure that overall development is encouraged rather than restrained.

4.11 There will be a comprehensive review of the London Plan that will commence in the autumn of 2017. The consultation process will reflect the proposed policies of the new Mayoral administration, of which there will be a significant emphasis on housing delivery. The Mayoral administration's direction of travel for the new housing policies is contained within the SPG and the draft London Housing Strategy September 2017.

4.12 The London Plan identifies the Mayor's requirement to maximise affordable housing. Policy 3.11 requires Local Planning Authority (LPA) to set an overall target for affordable housing provision within development proposals, taking into account a number of key criteria, including viability.

4.13 Within the London Plan there is no policy or direct reference to the definition of C2 and the qualification or otherwise of care or extra care provision.

The Mayor's Affordable Housing and Viability SPG (August 2017)

4.14 The GLA published the draft SPG in November 2016 for consultation. Following a period of consultation, the final SPG was adopted in August 2017. The Mayor's guidance is, therefore, a material consideration in the determination of planning applications.

4.15 The SPG represents the new Mayoral administration's policy objectives in relation to the delivery of new homes, including affordable housing. The overarching objectives of the SPG are clear in seeking to enhance housing and economic opportunities for all persons across the capital. The SPG proposes the following guidance on existing policy:

- The Mayor will treat information submitted as part of, and in support of, a viability assessment transparently. In very exceptional circumstances, there may be legitimate reasons for keeping elements of viability information confidential.
- To enable the delivery of more affordable homes the Mayor will make funding available to increase the proportion of affordable homes above that which is viable on a nil-grant basis. Funding will be available on a tariff basis, details of which are set out in the Mayor's Homes for Londoners: Affordable Homes Programme 2016-21.

- The Mayor considers that the Existing Use Value (plus a premium) approach is usually the most appropriate approach to benchmark land value for planning purposes. Alternative approaches will only be considered in exceptional circumstances.
- The SPG provides further guidance on the practical application, methodologies, and approach to site value, amongst others, for viability assessments.

4.16 The Mayor's Housing Supplementary Planning Guidance (SPG) (March 2016) sets out the following non-statutory guidance (para 3.7.4):

- **Sheltered accommodation** (also called retirement housing) (use class C3); self-contained residential accommodation specifically designed and managed for older people (minimum age 55) in need of no or a low level of support. Each household has self-contained accommodation and the schemes normally include additional communal facilities such as a residents' lounge. A warden, scheme manager, community alarm/telecare or house manager interacts with residents on a regular basis and is the first point of contact in an emergency.
- **Extra care accommodation** (also called close care, assisted living, very sheltered or continuing care housing) (use class generally C3 – see use class section below); Self-contained residential accommodation and associated facilities designed and managed to meet the needs and aspirations of people who by reason of age or vulnerability have an existing or foreseeable physical, sensory or mental health impairment. Each household has self-contained accommodation and 24-hour access to emergency support. In addition, extra care accommodation includes a range of other facilities such as a resident's lounge, a guest room, laundry room, day centre activities, a restaurant or some kind of meal provision, fitness facilities and classes and a base for health care workers. The exact mix of facilities will vary on a site by site basis. Some domiciliary care is provided as part of the accommodation package, according to the level of need of each resident. Extra care housing aims to create a balanced community, bringing together a balanced proportion of people with different levels of care needs.
- **Use class C2 - Residential Institutions;** Residential/nursing care (including end of life/hospice care and dementia care): Nursing or residential care home providing non-self-contained residential accommodation for people who by reason of age or illness have physical, sensory or mental impairment, including high levels of dementia. Accommodation is not self-contained; meals and personal services are routinely provided to all residents. Communal facilities are likely to include a dining room and residents lounge. There will be a scheme manager and in house care team who provide a consistent presence. Personal or nursing care is a critical part of the accommodation package. Nursing homes include 24-hour medical care from a qualified nurse."

4.17 In the context of considering viability, the Mayor's Affordable Housing SPG at para. 3.7.20 recognises that because of the ancillary services and layout required for new specialist older people's housing, development costs are usually significantly higher than for general needs housing, even when associated direct or indirect revenue streams are netted off.

4.18 The Mayor's Affordable Housing SPG goes on to recognise that it is therefore important that viability assessments to identify developer contributions are sufficiently sensitive to take these

additional net costs into account. Paragraph 3.7.23 of the Mayor's Affordable Housing SPG goes on to provide that "with requirements to take account of the circumstances of individual sites, as well as viability and the need to encourage rather than restrain development, this approach addresses developer concerns that such obligations may limit [new specialist older people's housing] development" and that "In reality, this approach should help make acceptable, development which might otherwise not be so in planning terms, supporting the thrust of Policy 3.8Be to increase provision in light of need [of older Londoner's]".

- 4.19 The Mayor's Affordable Housing SPG at paragraph 3.1.70 has also identified that an independent review of the way in which the planning system can help meet the housing needs of older people highlights the need for many boroughs to take a pro-active approach to increase provision of C3 'sheltered' and 'extra care' accommodation, especially in the private sector. The SPG highlights that the consultants found that, "...at present, across London as a whole, most specialist housing for older Londoners is in the social rented sector", but "...given that more than 60% of older people in London are home owners, LPAs should seek to encourage provision of a range of housing options which reflects the diversity of tenure amongst older households."

The Draft New London Plan (including Minor Suggested Changes July 2018)

- 4.20 Policy H15 states that specialist older persons should provide affordable housing in line with Policy H5 and H6 of the Draft Plan, which in short sets a strategic target of 50% affordable housing and a 'threshold approach' for schemes delivering 35% affordable housing.
- 4.21 Policy H15 indicates that the affordable housing tenure split requirements for specialist older person accommodation may differ from the tenure requirements set out in Policy H7 of the Draft Plan. It highlights that, where they do, they should be clearly set out in Development Plan Documents or Supplementary Guidance.
- 4.22 Despite the draft London Plan policy set out above that states that self-contained accommodation is "generally" C3, the SPG at paragraph 3.7.18 recognises that even if units within a building have their own front door this does not mean that the use falls outside of Class C2.

- "Consultants suggest that the most robust way of distinguishing between the two is the 'front door' test – if the unit of accommodation has its own front door then it is usually C3, if not it is C2. However, development management experience suggests in many cases this may require some refinement to take appropriate account of the components of care and support and level of communal facilities such as those associated with some Extra Care schemes where units may have their own front door, but functionally are effectively C2. Providing the proposal is justified by identified need and addresses wider policy considerations, the planning system should not be used to restrict development of either – this is an evolving market and provision should not be constrained by what, in need terms, might appear to be an arbitrary and perhaps dated planning distinction".

- 4.23 It can be seen that the draft policy H15 and the SPG rely heavily on the 'front door test' and, generally, assess self-contained accommodation as C3, but without reference to the provision of care as set out and defined by the Order. Notwithstanding that presumption, both are not

prescriptive (ref use of the term ‘generally’) and the SPG recognises the need to consider all matters where an operation is functionally C2, but with own front doors.

Local

Camden Local Plan (2017)

- 4.24 Policy H1 indicates that the Council will seek to achieve provision of at least 16,800 additional homes between 2016/2017 and 2030/31. This equates to 1,120 dwellings per year. The target represents a significant increase on past delivery and is higher than the minimum London Plan Target for Camden
- 4.25 Policy H4 provides an affordable housing target of 50% for developments with capacity for 25 or more additional dwellings, including Extra Care Developments.
- 4.26 The Council will seek to negotiate the maximum reasonable amount of affordable housing with a guideline mix of affordable housing types is 60% social-affordable rented housing and 40% intermediate housing; Camden work on a cascade mechanism where the priority is for onsite provision, however where this isn't possible or off-site provision would create a better contribution, the council may accept provision of affordable housing off-site in the same area, or exceptionally a payment-in-lieu.
- 4.27 It is acknowledged in LBC Policy H8 that in the case of any market-led development aimed at older people, particularly where the development contains self-contained homes, the Council will expect the development to make a contribution to the supply of affordable housing in accordance with Policy H4, which provides that the Council will seek to negotiate the maximum reasonable amount of affordable housing.
- 4.28 Paragraph 3.220 of Camden's Local Plan states, "We anticipate that further needs for affordable housing for older people will be met primarily through redeveloping or reconfiguring the existing sheltered housing stock" and at paragraph 3.220 that "There is a growing market for leasehold housing designated for older people, although the supply in Camden is very limited at present."

Summary

- 4.29 In summary, national, regional and local affordable housing policy support the delivery of the maximum reasonable amount of affordable housing that can be viably delivered, alongside other forms of planning gain and local CIL. The policy intent however also seeks to encourage rather than restrict delivery, so development proposals must remain commercially viable.

5 VIABILITY METHODOLOGY

- 5.5 The methodology adopted in producing this FVA has been framed by national, regional and local adopted planning policy as well as non-adopted best practice guidance.

Methodology

- 5.6 The most common method for valuing development land is the Residual Valuation Method, set out in the RICS's 'Valuation Information Paper 12' (VIP12), and the RICS 'Financial Viability in Planning' (FVIP) Guidance Note (94/2012).
- 5.7 The methodology underpinning a residual valuation is a relatively simple concept. In short, the gross value of the completed development is assessed, including, amongst others, the aggregated value of any residential properties, commercial income, car parking income and ground rents. Secondly, the cost of building the development is deducted along with professional fees, finance costs and developer's profit. This is illustrated below:

Table 03: Residual Analysis Methodology

Gross Development Value	
Residential sales income	
Commercial sales income	
Any additional income (ground rents)	
Less	
Costs	
Build costs	
Exceptional development costs (e.g. listed building works)	
Professional fees	
Planning obligations (e.g. CIL, site specific s.106 obligations)	
Marketing costs and disposal fees	
Finance costs	
Less	
Developer's Profit	
Equals	
Residual Land Value	

- 5.8 The output is the 'Residual' Land Value (RLV). Simply, if the RLV produced by a scheme is lower than an appropriate benchmark value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and /or planning obligations can be reduced. If the RLV is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and /or other planning obligations.
- 5.9 Alternatively, the benchmark value can be inserted into the appraisal as a fixed cost and the level of profit generated by the scheme becomes the benchmark by which viability is measured. If a sufficient level of developer's profit is generated the scheme is deemed to be viable.

- 5.10 Through scenario testing it is possible to determine the maximum reasonable level of affordable housing and other obligations that ensure a scheme remains financially viable and retains the highest possible chance of coming forward whilst balancing commercial requirements with policy requirements of the development plan.

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6 DEVELOPMENT TIMINGS

- 6.1 The following section sets out the adopted pre-construction, construction and sale timings applied within the ARGUS appraisal of the Development.

Pre-construction

- 6.6 A 6-month pre-construction period has been adopted within the proposed programme. This includes demolition, which in isolation is estimated to take five months. Also included in the pre-construction period are allowances for the following:

- Signing the Section 106 legal agreement
- Discharging of pre-commencement conditions;
- Detailed/ technical design stage;
- Tender period for build contract package(s); and
- Site mobilisation.

Construction

- 6.7 Taking into account the nature and scale of the development, a 24-month construction period has been adopted. This is in line with DS2's experience of similar sized developments.

Residential sales timings

- 6.8 Advice on residential sales timings is provided in Savills Desktop appraisal report, they note that generally the retirement product is slower to sell than non-age restricted accommodation due to the nature of the buyer profile and the fact that the buyer is not only buying the real estate but also the lifestyle concept and in some cases the care packages associated with the scheme.
- 6.9 The residential sales programme assumes that a marketing campaign is conducted in advance of practical completion and will result in the pre-sales of the residential units. A total level of off-plan sales of 20% has been adopted. This is lower than a non-age restricted product as typically the buyer would like to see the product before they buy.
- 6.10 The revenue from the pre-sale of the market units will be received at practical completion. It is assumed that the remaining un-sold units would be purchased following practical completion, reflecting the sale of 3 units per month.

7 DEVELOPMENT VALUE

Residential Value

- 7.5 In assessing the appropriate value for the proposed C2 residential units, we have had regard to the pricing report provided by Savills, a copy of which is attached at **Appendix Four**.
- 7.6 In summary, Savills have advised that the 50 extra care units would achieve a GDV of £37.1m reflecting an average blended value of £875 per sqft.
- 7.7 Savills note that there is only one extra care scheme and no enhanced shelter scheme within the 1-mile catchment area, and on this basis extended their comparable search to all retirement schemes (C2 and C3 use class).

Ground Rent Income

- 7.8 A ground rent income of £500 per unit has been applied and capitalised at 8%, less purchasers costs.

Commercial Values

- 7.9 The proposed commercial space is ancillary to the proposed Assisted Living Use and will be open to the public on the terms set out below.

A1 Use (Café and Hairdressers)

- 7.10 A cafeteria (8am to 6pm Mon-Saturday, Sundays and Bank Holidays 11am to 4pm) will provide hot food and refreshments, which will be open to the public.
- 7.11 On-site hairdressing and beauty treatment facility (10am to 7pm Monday to Saturday, closed Sundays and Bank Holidays), again for the use of residents and public alike;
- 7.12 The proposed retail space has been valued at £15 per sqft and capitalised at 6% on the basis that there will be tenants on the premises and it will have additional trade from the public. It is considered that the additional trade would be minimal due to the location of the site off a main thoroughfare.

D2 Use (Gym)

- 7.13 A mini- gym, for the use of residents to cater for the wider health and well-being aspects of life for those wishing to maintain a higher degree of activity. Opening hours will be 24/7 for residents via controlled access. A discounted membership rate will be offered to residents of the wider community who are over the age of 50 with access to these facilities available between 11am to 4pm, 7 days a week.

- 7.14 The gym use will receive minimal value due to the restricted age use and times that the general public could use the facility. It has therefore been valued at £8 per sqft with a yield of 7%.
- 7.15 Security arrangements will be in place to restrict access for these residents to the wider building, with controlled access to the basement gym only.
- 7.16 In regard to the values there are minimal comparables in the vicinity due to the unique nature and operation of the ancillary uses.

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8 DEVELOPMENT COSTS

8.5 This section provides a summary of the development costs on a present-day basis. The overall costs comprise:

- Build costs as advised by the Applicant's cost consultants, Bonfield;
- Additional development costs;
- Professional fees;
- Planning obligations including CIL;
- Sales, letting, disposal and marketing costs;
- Financing costs.

Construction Costs

8.6 The Applicant's cost consultants, have provided a cost estimate for the Development, a copy of which is attached at **Appendix Five**.

8.7 In summary, the cost plan sets out a headline construction cost of £22.9m inclusive of prelims (12%) and exclusive of contingency (5%) which has been applied separately. The headline construction cost equates to £267 per sqft on the developments GIFA.

Professional Fees

8.8 Professional fees have been included at 12% on the headline construction costs, in line with current industry practice for schemes of this scale and nature.

Sales, disposal and marketing costs

8.9 The following fees have been adopted in line with industry norms for a development of this type;

- Residential marketing – 1.5% (of residential GDV)
- Residential sales agent fee – 1.00% (of residential GDV)
- Residential sales legal fee – 0.5% (of residential GDV)

Planning Obligations

8.10 The Applicant has been advised by Barton Willmore in respect of the planning obligations. The following indicative figures have been included within the Argus appraisal of the Development.

- London Borough of Camden CIL - £2,984,000

- Mayoral CIL - £298,400
- S106 - £138,760

8.11 These figures have not been formally discussed with LBC and should the level of contribution change, DS2 reserve the right to amend this FVA.

Exceptional Costs

FF&E Budget

8.12 The Applicant has advised that a suitable FF&E cost applicable for the proposed scheme is £20,000 per unit.

Service Charge Voids

8.13 A budget of £199,755 has been applied for the cost of service charge voids. A copy of the calculation is attached at **Appendix Six**.

Finance

8.14 We have assumed a 6.75% finance rate in our appraisal. This is an 'all in' rate, which includes the basic margin (4.5-5%), commitment fees, arrangement fees (2-3%) and exit fees (0.5%-1%), as well as bank management/monitoring cost.

8.15 For the purposes of our appraisal we have assumed that development is 100% debt financed however we would note that in the current lending environment, and for the foreseeable future many of the more traditional lenders are not actively seeking to provide development finance (i.e. senior debt) and in reality, in order to secure finance developers are having to source debt from niche operators, who are by their nature, more expensive than the traditional lenders. In addition, costs for secondary unsecured debt and private equity are significantly higher.

Profit Expectation

8.16 The proposed profit level reflects the risk profile of the project, given the scale, nature and location of the development amongst other things. DS2 have adopted a 17.5% profit on GDV which is in line with current market expectations.

9 SITE VALUE

9.5 As discussed in Section 5, to arrive at an appropriate Current Use Value, due regard should be given to the NPPF, Local Planning Policy and RICS Guidance Note for Undertaking FVAs.

9.6 In reaching a conclusion over an appropriate value, one should consider an appropriate site value to meet the requirements of the NPPF in relation to the development viability and encourage land owners to bring sites forward for development. The NPPF is clear that an appropriate Benchmark Land Value (BLV) must provide a competitive return to a willing landowner, to ensure that there is an incentive for a site to be released for development.

9.7 The RICS Guidance Note on Financial Viability in Planning states that:

“For a development to be financially viable, any uplift from current use value to residual land value that arises when planning permission is granted should be able to meet the cost of planning obligations while ensuring an appropriate Site Value for a land owner and a market risk adjusted return to the developer in delivering that project (the NPPF refers to this a ‘competitive returns’ respectively). This return to the landowners will be in the form of a land value in excess of the current use value...”

9.8 At paragraph 024 the NPPG expands on the principle of competitive return:

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

9.9 With regard to the Current Use Value (CUV), which is also referred to as the Existing Use Value (EUV), the RICS Guidance Note on Financial Viability in Planning notes the following definition. The EUV is;

“The estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after properly marketing and where the parties had each acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause market value to differ from that needed to replace the remaining service potential at least cost.”

Current Use value

9.10 In order to arrive at a BLV the CUV of the Site has been assessed.

- 9.11 The Site is comprised of a purpose-built Care Home, located on Ingestre Road, that was deemed surplus to the LBC requirements and no longer fit for purpose.
- 9.12 The Elderly Persons Home closed in June 2013 and comprises a two/three storey 1970s purpose built 48 bed care home in the Ingestre Road Housing Estate.
- 9.13 The site has been vacant since 2013 and whilst in theory it could be refurbished we understand from Savills that the existing layouts are no longer fit for purpose and therefore there would be no demand for it. As such for the purposes of Planning and Viability the current use value is effectively £1.
- 9.14 From a planning viability perspective, we believe that there are two alternative approaches that could be pursued in relation to BLV.
- 9.15 One alternative BLV would be to consider an AUV for the site. For example, this could be for the site to come forward as a C2 scheme on a new build / redevelopment within the bulk and massing of the Proposed Scheme. At this stage DS2 has not looked at this option in detail but reserves the right to do so.
- 9.16 Another alternative BLV would be to consider the price paid for the site. DS2 understand that the site was sold to the Applicant by LBC and the monies received as a result of the sale were to be reinvested by the Local Authority into refurbishing existing and new build care facilities in the borough. We understand that, under the terms of the sale, there were no obligations on the purchaser to provide a minimum level of affordable housing as part of any redevelopment. By comparison we are aware that other Boroughs have included covenants / conditions on disposals which require minimum levels of affordable housing. Given the approach LBC has taken it could be argued that they have prioritised land receipt (and the facilities it will provide with these monies) over the provision of affordable housing. Given this it wouldn't be unreasonable to use the acquisition price as our BLV given that it could be argued that the acquisition price reflected the sum required to incentivise the Vendor to release the site. Again at this stage we have not looked at this option in detail but reserve the right to do so.

10 APPRAISAL RESULTS AND SENSITIVITY TESTING

- 10.5 A copy of the Argus appraisal summary of the Development is attached at **Appendix Seven**.
- 10.6 As noted in Section 9 of this report, the Site's CUV will act as the benchmark land value against which the viability of the development will be assessed. The results of the financial appraisal are provided below.

Table 04: FVA Results

Scheme	Benchmark Land Value	Residual Land Value	Surplus/Deficit
Application Scheme	£1.00	-£3,812,764	(-£3,812,765)

- 10.7 As the results of Table 04 note, when comparing the Residual Land Value to the Benchmark Land Value there is a deficit of £3.8m. The results therefore indicate that the proposals include a level of planning obligations in excess of the maximum reasonable contribution required by viability.

11 CONCLUSIONS

- 11.5 DS2 has been appointed by the Applicant to produce an FVA assessing the financial viability of the proposed scheme.
- 11.6 The results outlined in Section 10 of this report demonstrate that the proposed scheme includes a level of planning obligations above which the scheme can viably support. In this instance there is a deficit of £3.8m.
- 11.7 Whilst the FVA demonstrates that the Proposed Scheme is unviable and therefore unable to provide any affordable housing obligations, the Applicant is conscious of the Council's prioritisation of affordable housing and, on a without prejudice basis, is willing to make an affordable housing offer. The Applicant would welcome the opportunity to discuss this offer with the Council.
- 11.8 We would be happy to meet with LBC or their advisors to discuss any points contained within this submission and the supporting documentation.

Prepared by:



**Rachel Leigh MRICS
Associate**

Email: Rachel.leigh@ds2.co.uk
Tel: 0207 004 1766
Mob: 07711 556 890

Reviewed by:



**Steve Billington
PARTNER**

Email: Steve.Billington@DS2.co.uk
Direct: 020 7004 1761

For and on behalf of:

**Four Quarters Ingestre Road Ltd
11-12 Ingestre Road
Kentish Town
London
NW5 1UX**

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