369 – 377 Kentish Town Road, NW5 2TJ

Independent Viability Review

Prepared on behalf of the London Borough of Camden

3rd April 2019

BPS

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1.0 INTRODUCTION

1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Affordable Housing Solutions (AHS) on behalf of KTR Carwash Project Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site currently comprises two buildings: a double height open sided store and a single storey store/warehouse. The area between the warehouses is concrete hard standing. The site also includes an advertising hoarding.

1.3 The site is triangular in shape and borders a railway line at its southern boundary. It is subject to a number of restrictive covenants in favour of Network Rail requiring the payment of compensation to allow development. The site's proximity to the railway line also creates a number of building constraints.

1.4 The location is predominantly commercial. The site is not located in a conservation area but does border the Kentish Town conservation area. The properties are not listed. The site is allocated for mixed-use development in the Kentish Town Neighbourhood Plan as Policy SSP1.

1.5 The proposals are for:

Redevelopment including change of use from car wash (Sui Generis) and erection of part six and part seven storey building plus basement to provide 14 flats (10 x 2-bed units and 4 x 1-bed) (Class C3) at 1st floor and above (with terraces at 5th floor rear and 6th floor level (north elevation); and retail (Class A1) or restaurant (Class A3) use at ground and basement level incorporating widened pavement to Kentish Town Road.

1.6 The basis of our review is the Financial Viability Report prepared by AHS, dated February 2019, which concludes that the scheme currently shows a deficit of approximately £655,000 and therefore no affordable housing can viably be offered.

1.7 Policy H4 of Camden's Local Plan applies a sliding scale of contributions for 1 or more new homes which generates a requirement of 28% delivery from this scheme or 4 units.

1.8 We have downloaded documents available on London Borough of Camden's planning website. We have also received a live version of the Argus appraisal included in AHS's report.

1.9 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.

1.10 We have searched the London Borough of Camden planning website and have not identified any other recent or outstanding planning applications relating to the site.

1.11 A Land Registry search shows that the site was purchased for £400,000 in March 2011 by Paul Nicholas Michael. We have not been advised as to whether this individual is connected to the applicant. There is no option for purchase on the title documents.

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have reviewed the Financial Viability Report prepared by Affordable Housing Solutions on behalf of the applicant for the proposed scheme which concludes that the proposed scheme generates a residual value of £695,000 which is approximately £655,000 below their Benchmark Land Value of £1,350,000. On this basis they conclude the scheme cannot provide any affordable housing.

2.2 The National Planning Policy Framework states at paragraph 64:

Where a major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the homes to be available for affordable home ownership.

2.3 Exemptions to this requirement do not include viability. In order to conform with the NPPF the current proposals should include a minimum of 10% affordable housing regardless of viability.

Benchmark Land Value

2.4 AHS have instructed Colliers to undertake a Red Book valuation of the site for use as the Benchmark Land Value. Colliers have approached the site value using four methods:

- Existing Use Value (EUV): £480,000
- EUV with an extra floor: £545,000
- Market Value – only residential: £1,100,000
- Market Value – residential and commercial: £1,350,000

2.5 AHS have adopted the 'Market Value – residential and commercial' figure of £1,350,000 within their report as their Benchmark Land Value.

2.6 Both market value approaches rely on adjustments to non-policy compliant sales of development land to purportedly represent policy compliant values. We consider that there is insufficient detail supporting these adjustments to adequately verify this approach and that it does not represent a standard industry recognised method. We have outlined these issues further in Section 3.

2.7 Furthermore, due to the site's proximity to railway lines, any development would incur a number of abnormal build costs which have not been accounted for in Colliers' valuation. NPPG states at paragraph 014 that site specific abnormal costs should be taken into account when assessing Benchmark Land Value. Within their report AHS identify £1,080,000 of site-specific abnormal build costs.

2.8 Given the issues related to Colliers' market valuations, we have approached the Benchmark Land Value on an EUV plus basis, as directed by NPPG. Colliers' have provided two EUVs based on the existing use of the site and the existing use with the assumption that an extra floor could be added to the double height open sided store unit to provide additional revenue.

2.9 We consider this latter approached to be problematic for a number of reasons as outlined in Section 3. Overall, we consider that it is not reasonable for this valuation to be predicated on an assumption of an extension that is only included for the purposes of establishing a higher benchmark value, as there is no evidence of genuine appetite for this work to be undertaken or a consent which would enable it.

2.10 We are of the opinion that of the proposed the site should be assessed on an EUV plus basis as this conforms with national regional and local plan policies and guidance. In following this approach it should be noted that we have received contradictory information from AHS and Colliers relating to the rental value of the scheme. From the information we have been provided, we understand that the current passing rent is £22,200 p.a. which we have used for the purposes of assessing the EUV. We have accepted Colliers' suggested capitalisation yield assumption of 6% which is keen in relation to the low-quality covenants and uses on site but is balanced by our suggested approach to a site premium, this generates a value of £359,000 after accounting for purchaser's costs.

2.11 AHS state that a 50% landowner's premium should be added to the EUV. We consider a 50% premium to be excessive. The purpose of premium is to provide an incentive to the land owner to surrender the existing use in light of the other options open to the land owner. The Mayor's Affordable Housing and Viability SPG provides helpful advice in this regard under paragraph 3.46:

Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary.

2.12 The properties are currently income producing but of poor quality as evidenced by the photograph below. We do not consider this property to offer significant potential nor the uses to represent an investment opportunity of significance moving forward, therefore we consider a limited incentive is all that should be required for this site to come forward.

2.13 AHS suggest that a significant uplift in rent could be achieved on site although we have been provided with limited and contradictory information to support this assertion. Furthermore, the site is impacted by a significant number of abnormal costs as a result of its location close to railway tracks, significantly reducing the value a developer would be willing to purchase the site for redevelopment, regardless of the landowner's aspirations.

2.14 It is clear from the market approach taken to establishing site value by Colliers, references to development opportunities for expanding the existing use to be more income generative and the claim to an excessive premium that AHS have tried every possible approach to bolstering the benchmark land value. The site is clearly occupied by low value uses and suffers from a number of significant constraints in terms of its development, it is therefore inappropriate in our view for this site to be seen as a premium development opportunity and this should be reflected in the site value.

2.15 Reflecting the Mayor's SPG we have adopted a 10% landowner's premium which coupled with the optimistic yield represents the maximum site value we feel is consistent with relevant policy and guidance. Applying this premium, we calculate an EUV plus benchmark of £395,000.

Proposed Development

2.16 The scheme is for a mixed-use development including fourteen residential units and ground floor and basement retail space.

2.17 AHS have relied on a pricing schedule produced by Goldschmidt & Howland for the proposed residential units, dated January 2018. We note that the areas used by Goldschmidt & Howland are slightly below those outlined within the area schedule included in the scheme's Design and Access Statement, dated January 2019. We have reviewed the assumed sales values with reference to recent transactions and asking prices in the local area. We consider that the values proposed by Goldschmidt & Howland are below our expectations given the new-build values in the locality and the units' updated areas. We have made alterations to the values generating an increased private residential GDV of £9,830,000, an increase of £580,000 on the overall values proposed by Goldschmidt & Howland.

2.18 Ground rents have been assigned at £300 p.a. for one-bedroom units and £350 p.a. for two-bedroom units and the income has been capitalised at 5%. We accept that AHS's proposed ground rental levels are reasonable. This results in a capitalised value of £94,000

2.19 AHS have largely relied on a valuation undertaken by Goldschmidt & Howland for the commercial elements of the scheme. The commercial elements are split between the ground and basement floor. Goldschmidt & Howland have valued the proposed commercial rent at £108,000 p.a., assuming a rate of £40 psf for the ground floor space and £24.61 psf for the basement space. They suggest a yield of 5.5%. AHS have adopted these assumptions and included a 6-month void/rent-free period within their appraisal, producing a net value of £1.81m.

2.20 The areas used by Goldschmidt & Howland are larger than those outlined by the area schedule in the scheme's Design and Access Statement, dated January 2019. We broadly agree with Goldschmidt & Howland's rental rates per square foot for the commercial space and have applied these to the updated areas, generating a reduced rent of £95,360 p.a. With reference to evidence identified from the scheme's surrounding area we have capitalised this rent at a yield of 5% and applied a 6-month void/rent-free period. On this basis we calculate a value of £1.76m after accounting for purchaser's costs.

2.21 The ambiguity in respect of the correct floor areas attributable to the scheme should be addressed to ensure the accuracy of the appraisal results so on this basis our views may need to change.

2.22 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan for the proposed scheme prepared by Bristow Johnson, dated 13 December 2018, and concludes that:

The results of our benchmarking yield an adjusted benchmark of £3,401/m² that compares to the Applicant's £3,398/m². We are therefore satisfied that the Applicant's costs are reasonable.

2.23 We have been provided with a live version of the Argus appraisal included in AHS's report to which we have applied our amendments which include: increased residential values and alterations to the commercial valuations. We have used a blended profit target of 17.10% on GDV, which reflects a profit breakdown of 17.5% on the private residential and 15% on the commercial element. We have updated the scheme's Argus appraisal to include our benchmark land value of £395,000 as the fixed land cost and included profit as a cost within our appraisal. After these updates, our appraisal generates super profit or surplus of £1m. We attach our appraisal summary at Appendix 5.

2.24 We have modelled a policy compliant appraisal in line with our assumptions outlined at paragraphs 4.29-35. This shows a deficit of -£90,000 representing 0.9% of GDV. We consider this to represent a breakeven position and suggest that policy compliance can be achieved.

2.25 We understand there may be further costs incurred by the scheme which are likely to be evidenced through a late stage review including the potential as advised by AHS for the scheme to incur Network Rail monitoring costs. We have not been provided with a figure for these costs. If an evidenced figure of these costs is provided this would potentially alter our above viability conclusions.

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

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

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

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

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

3.4 We note the Mayor's Affordable Housing and Viability SPG published August 2017 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:

The Mayor considers that the 'Existing Use Value plus' (EUV) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used.

3.5 Additionally, Planning Policy Guidance, published July 2018, states clearly that:

Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*
- *be informed by market evidence including current uses, costs and values wherever possible. Where recent market evidence is used to inform assessment of benchmark land value this evidence should be based on developments which are compliant with policies, including for affordable housing. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.*

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to *accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).*

3.6 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.

3.7 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.

3.8 The NPPF recognises 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 is set out in PPG as follows:

To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+).

3.9 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. This is corroborated in the Mayor of London's Affordable Housing and Viability SPG which states:

3.10 *Premiums above EUV should be justified, reflection the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower premium or no premium would be expected* *compared with a site occupied by profit-making businesses that require relocation. The premium would be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary.*

The Proposed Benchmark

3.11 The site currently comprises two buildings: an open sided store and a single storey store/warehouse. These units are in poor condition and built to a low quality as evidenced by the photographs below:

3.12 The area between the warehouses is concrete hardstanding. The site is currently occupied by a car wash operator. We understand the site also includes an advertising hoarding which is let separately.

3.13 AHS have instructed Colliers to undertake a Red Book site valuation for the purposes of assessing financial viability based on the definition of site value in the 'RICS Professional Guidance, England – Financial Viability in Planning, 1st Edition, 2012'.

3.14 The term Red Book valuation is intended to imply that the valuation has enhanced status. It is clear that its purpose is limited to establishing viability in a planning context and therefore it has no higher status than our own assessments. Furthermore, since the ruling in *Parkhurst Road Ltd v Secretary of State for Communities And Local Government & Anor [2018] EWHC 991(Admin) (27 April 2018)* where the most senior judge in the Planning Division of the High Court highlighted significant flaws within the RICS Guidance, it has prompted the RICs to review its guidance. It is also noted that the guidance is out of step with the new NPPF and NPPG. It would consequently be a mistake to assume this represented an acceptable basis for determining site value in a current planning context.

3.15 Colliers have assessed the site value using four approaches, as outlined below. AHS have adopted the highest of these values as their Benchmark Land Value.

Colliers' Existing Use Value (EUV):

3.16 Colliers' EUV approach is based on the assumption of the site's continued use as a car wash including an advertising hoarding revenue. Colliers state that the car wash operator's lease is for a term of 15 years, with a 6-month break option for redevelopment. They write that the rent is set at £15,000 p.a., whilst the advertising hoarding is let separately for a rent of £15,000 p.a. on a rolling licence. They state that they have not been provided with copies of the leases, however they have been advised by AHS of this information.

3.17 Colliers have capitalised the stated passing rent of £30,000 p.a. at a yield of 6%, producing a capital value of £480,000, after accounting for purchaser's costs.

Colliers' EUV with an extra floor:

3.18 Colliers do not consider the existing buildings to maximise the rental value of the site. They suggest that the void area of the largely open sided store could be converted to provide a first floor, for which they have allowed a build cost of £59,000 (£50 psf plus 10% professional fees).

3.19 We consider this approach to fall into the category of an AUV as it contemplates a hypothetical development for which there is currently no consent or development scheme in contemplation.

3.20 Colliers have calculated the additional rental value in this scenario by dividing the passing rent by the occupied floor area, arriving at a rental rate of £7.37 psf. They have multiplied the assumed first floor area by this rate producing extra rent of £8,000 p.a., resulting in a total rental value of £38,000 p.a.

3.21 Colliers have capitalised this rent at 6%, arriving at a value of circa £630,000. They have deducted their construction costs from this figure, calculating a value of £545,000, after accounting for purchaser's costs. AHS propose that a 50% premium should be added to this figure to generate an EUV+ of £818,000.

3.22 We do not consider this approach to be realistic for the following reasons:

a) There is no consent for this alteration which therefore does not comply with relevant planning guidance

b) There is no intention to deliver this extension, therefore it is simply a device to enhance land value and reduce affordable housing delivery and should be excluded for this reason

c) The extension in the context of the existing buildings condition, the prevailing lease does not in our view represent a practical or viable development option as it would necessitate investment in a structure forming part of a group of buildings which are clearly at the end of their economic life and as such would be highly unlikely in our view to come forward other than as part of a whole site redevelopment.

Colliers' Market Value – only residential:

3.23 Colliers have also valued the site using a market comparable method, based on recent development land sales, analysed on a per habitable room basis. They have not identified any policy compliant schemes as required by NPPG when using market evidence, but have sought to adjust their evidence to reflect a policy compliant purchase price. They have used a formula in line with the following example to calculate the adjustments to each development:

The weighting for a compliant scheme of ≥ 25 additional dwellings is 120 (50% private x 2 = 100, 30% affordable rent x 0 = 0, 20% intermediate x 1 = 20. Total 120) but for a private scheme would be 200 (100% x 2 = 200). Therefore, we apply 120/200 or 60% to the actual price to get to the adjusted price for policy compliant affordable level.

3.24 This is a novel and unique approach to adjustment and has no precedence that we are aware of.

3.25 In order to account for commercial value in the identified land sales, Colliers state they have calculated the land value attributable to the commercial elements and deducted this from the overall sale prices. No detail of the value inputs or residual calculations has been provided to support this process. As such the analysis is not open or transparent

3.26 After making their adjustments, Colliers have identified a range in values from £24,000 to £191,000 per habitable room across six sales. We have outlined these developments at Appendix 1.

3.27 Taking into account the different locations and consented densities of these sites, Colliers conclude that the sale of 254 Kilburn High Road is the most similar to the proposed. We note that although this development includes a similar density to the proposed, it is considerably larger providing 60 units. This scheme was 100% private. After Colliers' adjustments, they calculate that this scheme produces a land value of £41,000 per habitable room. They have applied this rate to the proposed development, producing a value £1,558,000.

3.28 They have deducted the cost of removing restrictive covenants held by National Rail of £465,000 from this figure, generating a residential market value of £1,093,000.

3.29 To base site value on analysis using a novel approach to securing an "policy compliant" adjustment on a partially disclosed calculation simply fails to comply with NPPG, Regional policy and guidance and Local Plan policy and guidance. 246 Kilburn High Road clearly offers few points of comparability with the subject site. Furthermore, the proposed site value should be seen in context with the residual value of the proposed scheme. It is to be supposed the applicant has sought to maximise site value through its development proposals yet AHS compute this generate a residual value of £695,000. When sense checking this conclusion with Colliers assessment there is significant disparity in values generated. Given the paucity of comparability and limited regard to NPPG in the analysis we see this approach to be fundamentally flawed in terms of establishing a suitable benchmark land value.

Colliers' Market Value – residential and commercial:

3.30 Colliers have also calculated a market value including the proposed commercial space. To their 'Market Value – only residential value', Colliers have sought to add the residual value of the proposed commercial space.

3.31 Colliers have applied a rent of £40 psf to the proposed commercial space, which they have capitalised at a yield of 6%. They have allowed for a 6-month void and 12-month rent free period, producing a value of £1,000,000, after accounting for purchaser's costs.

3.32 Using an assumption that residual values are 25% of Net Development Value, they produce a residual value of £250,000 for the commercial space. No evidence has been provided to support this assumption. Adding this figure to their 'Market Value – only residential value', they calculate a total figure of £1,350,000.

3.33 AHS have adopted £1,350,000 as the Benchmark Land Value.

3.34 This novel and unsupported approach to deriving "additional site value" simply further compounds what is already a significantly flawed valuation and carries nil credibility for the purposes of assessing a suitable benchmark.

BPS Approach to Benchmark Land Value

3.35 Colliers have been instructed to base their Red Book valuation on the definition of site value included in the 'RICS Professional Guidance, England – Financial Viability in Planning, 1st edition, 2012'.

3.36 The RICS 2012 Guidance Note's market value approach was specifically criticised during the Parkhurst High Court decision, April 2018, with Justice Holgate stating ***"an opportune moment has arrived for the RICS to consider revisiting the 2012 Guidance Note".***

3.37 Since the publication of this guidance note there have been significant updates to national and local planning policy. The updated NPPF and NPPG were published in July 2018, whilst the Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance and the Camden Local Plan were published in 2017. Colliers do not refer to National Regional or Local plan policies or guidance in their valuation which is in our view a major oversite when providing what purports to be a formal valuation and should immediately raise significant questions as to the reliability of this report.

3.38 NPPG places significant weight on an EUV approach to assessing Benchmark Land Value. Although Colliers have provided an EUV of the site, AHS have largely ignored this method favouring the market value approach although as stated this does not accord with prevailing policy.

3.39 Colliers' market value approach relies on a number of assumptions which are without relevant supporting evidence or detailed explanation:

- The assumptions relating to comparative residential tenures' impacts on land value are generalisations which have not been evidenced with actual market or scheme specific evidence.

- Colliers have not evidenced their methodology when removing the value of commercial floorspace from the identified land sales.

- In calculating their 'Market Value – residential and commercial', Colliers assume that residual land values represent 25% of Net Development Value. This assumption has not been evidenced and appears to be a figure simply imagined.

3.40 We consider that in order to accurately adjust non-policy compliant sales to policy compliant levels considerably more detail is required relating to the costs and value inputs of the identified developments and how these justify the land values paid and also to establish relevant points of comparability, noting the subject site's proximity to the railway, configuration and significant site abnormal development costs which are discussed below.

3.41 At paragraph 5.1 of AHS's viability assessment they outline that the proposed development will incur £1,080,000 of site-specific abnormal build costs due to its proximity to railway lines and location as a 'gateway' development. Colliers make no reference to these costs despite NPPG stating at paragraph 014 that Benchmark Land Value should reflect the implications of site-specific abnormal costs. If applied to Colliers' 'Market Value – residential and commercial' the value would be reduced to £270,000.

3.42 Colliers approach to calculating the site's market value is not an industry standard approach nor is there any evidence of this being used elsewhere or having any form of precedence in a planning context and we do not consider it acceptable in consequence. On this basis we have dismissed this approach site value.

<u>BPS EUV:</u>

3.43 Within their report Colliers state that the car wash was recently let for a term of 15 years at £15,000 p.a. We have been provided with a copy of a lease for the Car Wash which is dated 2009 and expired 2013, with a stated passing rent of £15,000 p.a. This lease is within the Landlord and Tenant Act and therefore the tenant benefits from security of tenure. Upon request for further information AHS now advise that the tenant is holding over on this previous lease which expired in 2013.

3.44 AHS suggest that this rent is lower than would be achievable on site if the lease were renewed. We have not been provided with any evidence to support this assertion and we note that Colliers applied a rent of £15,000 p.a. within their EUV.

3.45 Colliers state within their report that the advertising hoarding is let at a rent of £15,000 p.a. on a rolling license. We have since been provided with the lease for the advertising hoarding dated April 2018 for a term of one year at £7,200 p.a.

3.46 AHS state that the hoarding was let at £15,000 p.a. to Clear Channel in early 2018 and there were discussions to increase this rent to £26,000 p.a. which broke down as the landlord was unwilling to grant a lease of 5-years given the planned development work. We have also been provided with a letter from Clear Channel dated 2009 confirming a two-year extension to an existing lease with rent payable at £25,000 p.a. in the first year, rising to £30,000 p.a. in year two. This letter refers to multiple advertising hoardings. As stated above we have been advised Clear Channel were paying a lower rent of £15,000 p.a. in early 2018.

3.47 Given the uncertainty relating to the advertising hoarding's rent and the conflicting information we have been provided by Colliers and AHS, we have used the passing rent of £7,200 p.a. in our assessment of EUV. In order to alter this rent, we require clear and recent evidence of interest to let the hoarding at a higher level.

3.48 On the information provided we understand the site is currently let for a combined rent of £22,200 p.a. for car washing and adverting use. We have used this rent in assessing our EUV.

3.49 Colliers have capitalised their stated rent at a yield of 6%. We have been unable to identify significant evidence of sales to assess this yield. Given the essentially temporary nature of the operations on site and its location we consider the yield to be full and this is reflected in our assessment of the relevant premium.

3.50 We calculate an EUV of £359,000 after accounting for purchaser's costs.

3.51 Colliers have also undertaken an EUV on the assumption that the open sided store could be converted to provide a first floor. We consider this approach to be problematic on a number of bases:

- In its current operation as a car wash, it is unclear how a first floor would be beneficial to the operator. The site already benefits from a warehouse for storage, therefore this added space would likely be surplus to the tenant's requirement and have limited impact on rental value.

- Our Cost Consultant considers a build cost of £50 psf to underestimate the costs. He suggests that a minimum cost of £80 psf would be required. Furthermore, Colliers have not included any contingency in their costs.

- We have not been provided with any evidence that there would be or has historically been genuine appetite for this work to be undertaken. We consider that this valuation is predicated on an assumption that is only included for the purposes of establishing a higher benchmark value and there would be limited actual interest in undertaking the work.

- We consider this to represent an AUV approach for which no consent exists and which should exclude any land owner premium

3.52 We consider that the Benchmark Land Value should be based on an EUV plus approach ignoring this hypothetical potential. We calculate an EUV of £359,000 on this basis.

3.53 AHS suggest that a 50% landowner's premium should be added to the EUV. Their justification for this premium is that the site is currently underused.

3.54 We consider a 50% premium to be excessive for the site. The properties are income producing but of poor quality. AHS suggest that significant additional rent could be gained from the units on site however we have been provided with limited and contradictory information to support this assertion.

3.55 Furthermore, the site is impacted by a significant number of abnormal development costs as a result of its location close to railway tracks, reducing the value a developer would be willing to purchase the site for redevelopment, regardless of the aspirations of landowner's and this should in accordance with guidance be reflected in the value of the site.

3.56 We consider that a 10% landowner's premium would be sufficient recognising the land owner's limited alternative options. Applying this premium, we calculate an EUV+ of £395,000. This approach is fully supported by Mayoral Guidance.

4.0 RESIDENTIAL UNIT VALUES

4.1 The residential element of the proposed scheme, as sought by the planning application, is for fourteen residential units comprising a mixture of one and two bedroom flats.

4.2 AHS have relied on a pricing schedule produced by Goldschmidt & Howland, dated January 2018, for their residential valuation of the scheme.

4.3 All units are proposed for private sale and the values have been assumed on average as follows:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No. of units
One-bedroom	538	£475,000	£883	4
Two-bedroom	786	£675,000	£859	8
Penthouse units	974	£975,000	£999	2
Total	**10,384**	**£9,250,000**	**£886**	**14**

4.4 The room areas used in Goldschmidt & Howland's schedule do not correlate with the area schedule in the scheme's Design and Access Statement. Overall there is a difference of 283 sq ft between the total areas stated. For the purposes of our report we have used the areas from this schedule, as the Design and Access statement is dated more recently than Goldschmidt and Howland's assessment. However this difference should be clarified.

4.5 This equates to updated average floor areas and rates per square foot as follows:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No. of units
One-bedroom	538	£475,000	£883	4
Two-bedroom	813	£675,000	£831	8
Penthouse units	1,006	£975,000	£969	2
Total	**10,667**	**£9,250,000**	**£867**	**14**

4.6 We consider Flats 13 and 14 to be 'penthouse' apartments given their size and location within the scheme. We have included these units separately in the above tables. Flat 14 is split over two floors and benefits from a large terrace.

4.7 Upon request Goldschmidt & Howland have provided evidence of six sales of second-hand flats from the area surrounding the development to support their valuation. These are all second-hand conversions and range from one to four bedrooms. The values show a range from £465,000 to £1,025,000 (£674-£869 psf).

4.8 AHS have also provided evidence from two new build developments as follows:

- **St Martins Walk, Vicars Rd, NW5 -** AHS have identified three two-bedroom sales ranging from £600,000-£610,000 measuring 753-765 sq ft. We consider this development to be in a worse location to the proposed as it is further from Kentish Town and other amenities and is largely surrounded by local authority housing.
- **Founders House, 180 Kentish Town Road, NW5 -** AHS have identified six sales from this development with values ranging from £470,000 to £600,000.

They have largely assumed the number of bedrooms in these units and have not provided floor areas. This development is a conversion of a former public house on Kentish Town Road. With reference to the properties' EPC Certificates, we understand these units' floor areas to be as follows:

Unit no.	GIA (sq ft / sq m)	Achieved Price	Price psf	Date
2	667 / 62	£550,000	£824	Dec-17
3	495 / 46	£470,000	£949	Apr-18
4	624 / 58	£550,000	£881	Jan-18
5	495 / 46	£475,000	£959	Feb-18
6	624 / 58	£535,000	£857	Mar-18
7	678 / 63	£600,000	£885	Mar-18

As can be seen the majority of this evidence shows values ranging from £850-£960 psf, with smaller units at the higher end of this range. Goldschmidt & Howland's evidence appears to be slightly below these values especially taking into account the updated floor areas.

4.9 We have undertaken our own research into second-hand transactions in the area surrounding the subject site and note that values are generally well below new build sales rates. Our evidence is attached at Appendix 2, all properties are located within 0.25 miles of the subject property.

4.10 We have identified sales of one-bedroom flats ranging between £408,000 and £488,500. 13a Gaisford Street is smaller than the proposed one-bedroom units, but benefits from a rear garden and being some distance from the railway line. 59 Fortess Road is smaller than the proposed units at 443 sq ft and is above a shop, positioned on a busy road. Given the proposed one-bedroom units will be larger, new-build and will benefit from a better outlook at upper floors, we would anticipate a value above the evidence of second-hand properties identified.

4.11 The smaller two-bedroom units identified ranged in value between £600,000 to £675,000 (£902-£978 psf). 18a Willies Road is smaller than the proposed units and is in a less attractive building. 31a Gaisford Street is again smaller than the proposed. Both these properties are smaller than the average proposed, we consider that the proposed units should be valued above this range given their larger size, better outlook and new-build design.

4.12 The larger two-bedroom units identified ranged in value between £775,000 and £900,000 (£806-£871 psf). The value assumed by Goldschmidt & Howland for the penthouse units is significantly above the levels identified. We would expect a premium in the sale of these units above the identified second-hand units.

4.13 We have also identified the following new-build development in the local area:

The Maple Building

4.14 Fifty residential units within a converted early 20th century factory. Approximately 0.2 miles north west of the subject on Kentish Town Road, further from the train station and the railway lines. The development includes a concierge and a resident's gym.

4.15 There are 3 x two-bedroom units currently listed on the market with the following asking prices:

Unit no.	No. of Bedrooms	Floor	GIA (sq ft / sq m)	Asking Price	Price psf
307	2	3	977 / 91	£925,000	£947
309	2	3	846 / 79	£845,000	£999
503	2	5	1,234 / 115	£1,575,000	£1,276

4.16 We have identified the following sales from this scheme, although we have not been able to verify the bedroom numbers from these units:

Unit no.	GIA (sq ft / sq m)	Achieved Price	Price psf	Date
304	69 / 743	£770,000	£1,037	Aug-18
301	110 / 1,184	£1,150,000	£971	Jul-18
211	69 / 743	£765,000	£1,030	Jun-18
404	69 / 743	£775,000	£1,043	Jun-18
409	76 / 818	£875,000	£1,070	Jun-18
204	69 / 743	£730,000	£983	May-18
113	67 / 721	£775,000	£1,075	Mar-18

4.17 We consider the Maple Building to be a more desirable development than the proposed, given the additional on-site amenities.

Leighton Road

4.18 A new build development of a similar size to the subject. It is positioned on a quieter residential road approximately 0.2 miles east of the subject. Both flats listed are duplex units over the ground and lower ground floors, they have two bathrooms and have small rear gardens. The asking prices are listed below:

No. of Bedrooms	GIA (sq ft / sq m)	Asking Price	Price psf	Amenity
2	828 / 77	£749,500	£906	Patio
2	839 / 78	£850,000	£1,013	Patio

Holmes Studios

4.19 A 9-unit development approximately 0.2 miles south west of the subject. The scheme benefits from a 24-hour concierge. We have identified asking prices as follows:

No. of Bedrooms	Floor	GIA (sq ft / sq m)	Asking Price	Price psf	Amenity
1	Lower Ground	494 / 46	£430,000	£870	Patio
2	First	786 / 73	£750,000	£954	Balcony
2	Second	786 / 73	£795,000	£1,011	Balcony

4.20 We have identified the following sales from this scheme, although we have not been able to verify the bedroom numbers from these units:

Unit no.	GIA (sq ft / sq m)	Achieved Price	Price psf	Date
5	73 / 786	£755,000	£961	Jul-18
8	96 / 1,033	£1,020,000	£987	May-18
2	73 / 786	£735,000	£935	May-18

4.21 We consider The Maple Building to be a more desirable development than the proposed given its better amenity provision and would expect lower values than this property.

4.22 We consider Leighton Road to be of a similar desirability as the proposed scheme, although it is positioned in quieter surroundings. The identified asking prices are both for split level units benefiting from patios and we would expect some added value for this better amenity. We have not identified any sales values from this development.

4.23 Holmes Studios is also a relatively similar development to the proposed in a quieter location, although it does benefit from a 24-hour concierge. We would expect values within this scheme to be broadly similar to the proposed, if slightly higher given this scheme benefits from a concierge. The majority of values within this development range from £950-£1,000 psf, whilst Goldschmidt & Howden have largely assumed values between £800-£900 psf.

4.24 We consider that the majority of the evidence provided of new-build sales by both ourselves and AHS suggest that the values adopted by Goldshmidt & Howland are lower than could be achieved, especially once the updated floor areas have been taken into account. The only evidence which does not support this assumption is from St Martin's Walk. We consider this development to be in a less desirable location than the proposed.

4.25 We have produced a pricing schedule for the scheme attached at Appendix 3. We have included a height premium in line with Goldschmidt & Howland's assumptions. This produces average values as follows:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No of units
One-bedroom	538	£505,000	£938	4
Two-bedroom	813	£727,500	£895	8
Penthouse units	1,006	£995,000	£989	2
Total	**10,667**	**£9,830,000**	**£931**	**14**

4.26 We calculate a residential GDV of £9,830,000, which is £580,000 above the values proposed by Goldschmidt & Howland.

Ground Rents

4.27 Ground rents have been assumed at £300 per annum for each of the one-bedroom units and £350 per annum for each of the two-bedroom units. The income has been capitalised at a yield of 5% and the investment has been valued by AHS at £94,000. We consider these assumptions reasonable.

Parking

4.28 There is no provision for car parking, however the plans include 32 bicycle parking spaces for the residential units.

Policy Compliant Iteration

4.29 AHS have not provided a policy compliant iteration of the scheme. In line with Policy H4 of LB Camden's Local Plan the proposed development would require a provision of 28% affordable housing in order to achieve policy compliance. This would result in the provision of four affordable units.

4.30 LB Camden policy states that affordable housing should be offered at a 60:40 split between social-affordable rented and intermediate housing. Given the limited number of affordable units to be provided, we suggest that a split of 3:1 between social-affordable rented and intermediate housing would be reasonable.

4.31 We have assumed that units 1, 4 and 7 would be available for affordable rent and unit 3 would be available for intermediate rent.

4.32 We have sought to value the affordable rented units with reference to the London Affordable Rent levels for 2018/2019. These are £150.03 per week for one-bedroom units. We understand these are due to be updated imminently and reserve the right to apply any updated rate.

4.33 We have used our bespoke affordable housing calculator assuming a 5.5% discount rate over a 30-year cash flow. This produces a value of £105,866 (£197 psf) for the affordable rented units.

4.34 We have valued the intermediate unit on an intermediate rent basis. We have previously been advised that a target rent level of £215 per week is considered reasonable for two-bedroom units in LB Camden. Again, we have used our bespoke affordable housing calculator assuming a 5.5% discount rate over a 30-year cash flow. This produces a value of £132,263 (£168 psf) for our designated intermediate rented unit.

4.35 We have produced a policy complaint appraisal of the scheme including our valuations above. We have assumed a 'golden brick' payment for affordable housing and reduced the profit target to 6% on this element.

5.0 COMMERCIAL UNIT VALUATION

5.1 AHS have relied on an assessment of commercial values undertaken by Goldschmidt & Howland, dated January 2018. This assessment values 311 sq m (3,348 sq ft) of ground floor and basement retail space split as follows:

Floor	NSA sq m	NSA sq ft	Annual Rent (£)	Rent psf
Basement	154	1,658	£40,800	£24.61
Ground	157	1,690	£67,600	£40
Total	**311**	**3,348**	**£108,400**	**£32.38**

5.2 Goldschmidt & Howland have recommended the use of a 5.5% yield. AHS have applied this yield within their appraisal and included a 6-month rent-free period. On this basis they calculate value of £1.81m after accounting for purchaser's costs.

5.3 The areas used by Goldschmidt & Howland within their valuation do not align with those stated within the area schedule in the scheme's Design and Access statement. This document is dated more recently than Goldschmidt & Howland's assessment, therefore we have used these updated areas. Applying Goldschmidt & Howland's rental values on a per square foot basis and AHS's assumptions on yield and void/rent-free period, this alteration has the following impact on value after accounting for purchaser's costs:

Floor	NSA sq m	NSA sq ft	Annual Rent (£)	Rent psf	Value
Basement	100	1,076	£26,480	£24.61	£1,151,000
Ground	160	1,722	£68,800	£40	£442,000
Total	**311**	**2,798**	**£95,360**	**£34.05**	**£1,593,000**

5.4 We have sought to identify rental transactions and asking prices in the subject's surrounding area to test whether the rent assigned by Goldschmidt & Howland is reasonable. Our evidence of recent transactions and asking prices is shown in the table below:

Address	Description	Date	Transaction details	Rent £psf
130-132, Petherton Road, London, N5 2RT	Ground and lower ground floors of a recently refurbished 1950s terrace. Two entrances, small rear garden area, kitchen and WCs. Previously used as an office. In a residential area of Petherton Green, 3 miles east of the subject. 1,649 sq ft / 153 sq m	16/10/18	£32,500 p.a. on a 5-year lease with a break after 3 years.	£20

11 Kentish Town Road, London, NW1 8NH	Ground floor currently used as an A3 restaurant with a basement storage area and walk in fridge. Agreement to supply food for the adjoining bar, 20 covers in the restaurant. Located in Camden Town, next to the train station, in a more desirable location. 870 sq ft / 81 sq m	28/09/18	Asking price of £65,000 p.a.	£75
56, Chetwynd Road, London, NW5 1DJ	Ground floor corner unit with double frontage. In Dartmouth Park, in a more residential location. 0.5 miles north of the subject. 743 sq ft / 69 sq m	02/07/18	Let for £37,000 p.a.	£50
148-154, Stoke Newington High Street, London, N16 7JP	Ground floor recently refurbished retail unit. Approximately 3 miles east of the subject 1,166 sq ft / 108 sq m	04/06/18	Let for £46,025 p.a. on a 15-year lease.	£39
121, Kentish Town Road, London, NW1 8PB	Ground floor mid terrace retail unit. Approximately 0.5 miles South of the subject, closer to Camden Town. 1,055 sq ft / 98 sq m	15/03/18	Asking price of £30,000 p.a.	£28
60, Camden High Street, London, NW1 0LT	Ground floor retail unit. In Camden, roughly 1-mile South of the subject in a much more desirable retail area. 1,238 sq ft / 115 sq m	01/03/18	Asking price £55,000 p.a.	£44

5.5 Rental values appear varied in the subject's surrounding area and ranged between £20 psf to £75 psf. Although the majority of the evidence is between £28 psf and £50 psf.

5.6 130-132 Petherton Road is in a less desirable area, but is split over ground and basement, similar to the unit in the subject. 121 Kentish Road is of similar size to the ground floor unit proposed in the subject but is in worse condition and in a less desirable location. We suggest that these units would achieve lower values psf than the proposed.

5.7 148-154 Stoke Newington High Street is of a similar size to the ground floor area proposed in the subject and has been recently refurbished. We would expect the proposed unit to achieve a similar price psf.

5.8 50 Chetwynd Road is considerably smaller than the proposed unit in a similar location. 60 Camden High Street is in a more desirable location and is of similar size to the ground floor unit. 11 Kentish Town Road is a smaller unit in a significantly more desirable location than the proposed. We suggest that these units would achieve higher values psf than the proposed.

5.9 Based on the above, we are of the view that a rental value of £40 psf for the ground floor space is reasonable. We accept that the basement area would be let at a discounted rent and accept Goldschmidt & Howland's rent of £24.61 psf. This equates to approximately 60% of the assumed ground floor rent.

5.10 We have applied these rates to the floor areas stated within the scheme's Design and Access Statement generating a total rent of £95,360 p.a.

5.11 We have sought to identify sales in the area, to assess the assumed retail yield:

Address	Description	Date	Transaction details	NIY
81 Golders Green Road, Golders Green NW11 8EN	Ground floor retail unit with residential accommodation on the two upper floors, let on long leases. Ground floor occupied by Holland & Barrett with 3 years remaining on the lease at a rent of £30,000 p.a. 868 sq ft / 81 sq m	03/07/18	Sold for £590,000	4.86%
144-146, High Road, London, N22 6EB	Two separate ground floor retail units. Current total passing rent of £152,500 p.a. with rent review due next year. Advertised as a potential residential development opportunity although no planning application has been made since sale. In Wood Green, North London 4,396 sq ft / 408 sq m	15/05/18	Sold for £3,000,000	4.75%
2, Englands Lane, London, NW3 4TG	Ground floor café unit with a mezzanine seating area. On a residential road between Belsize Park and Chalk Farm, a more affluent area but less prime for retail. 2,661 sq ft / 247 sq m	25/01/18	Sold for £2,580,000	4.95%

5.12 Goldschmidt & Howland have assumed a yield of 5.5% in their valuation and included a rent-free period of 6 months. We have been unable to identify any evidence of sales reflecting Net Initial Yields above 5% from the area surrounding the proposed scheme, however this is based on only three sales.

5.13 The sales we have identified reflect yields ranging from 4.75% to 4.95%. We are therefore of the view that Goldschmidt & Howland's yield of 5.5% is above the levels expected in the subject's location.

5.14 We note that 144-146 High Road represents the lowest yield identified. The properties included in this sale were advertised as a potential redevelopment opportunity and, although no planning applications have yet been forthcoming, it is reasonable to assume that the purchase price included an element of hope value.

5.15 Excluding this sale our identified range narrows to between 4.86% and 4.95%. We are of the opinion that a yield of 5% is appropriate. We accept the allowance of a 6-month void/rent-free period.

5.16 When applied to the market rent, this results in a total commercial value of approximately £1.76m, having accounted for purchaser's costs.

6.0 BUILD COSTS

6.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Bristow Johnson, dated 13th December 2018, and concludes that:

The results of our benchmarking yield an adjusted benchmark of £3,401/m² that compares to the Applicant's £3,398/m². We are therefore satisfied that the Applicants costs are reasonable.

6.2 Neil's full cost report can be found at Appendix 4.

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

- Professional fees of 12%
- Letting agent fees of 10%
- Letting legal fees of 5%
- Residential sales and marketing fee of 2.5%
- Commercial sales fee of 1.5%
- Sales legal fee of 0.5%

6.4 We consider the professional fees allowance too high and have reduced this to 10% within our appraisal. Generally, we accept that the other percentages are realistic and in line with market norms.

6.5 AHS have included a cost of £465,000 within their appraisal to cover the release of restrictive covenants from Network Rail and associated insurance and legal fees. We have been provided evidence of this cost.

6.6 We have been advised by AHS that there may also be additional costs for Network Rail monitoring. We have not been provided with a figure for these costs and have therefore not included any costs for this purpose at this stage. If a figure is provided which is supported by evidence, we accept that this figure should be included in the development appraisal.

6.7 Mayoral CIL charges have been assumed at £750,000. The Council should confirm whether the assumed charges are realistic.

6.8 Finance has been included at 6.75% assuming that the scheme is 100% debt financed.

6.9 The developer profit target adopted by Affordable Housing Solutions is 18.5% on GDV for the private residential units and 15% for the commercial units. We consider that the assumed profit on private residential units is overstated and that a level of 17.5% is reasonable for a development of this size. We accept that a 15% target on commercial units is reasonable. We consider that if any affordable housing is brought forward a target of 6% should be applied.

BPS Chartered Surveyors

3rd April 2019

Appendix 1: Colliers' Development Land Evidence

246-248 Kilburn High Road, Camden – Sold July 2018 for £2,605,245 and measures 0.2 acres. Development permitted for 27 units and 77 habitable rooms (84% private and 16% intermediate). Colliers calculate an adjusted value of £24,167 per habitable room. In a similar retail orientated area, slightly further from transport links.

10-11 King Mews, Camden – Sold June 2017 for £3,200,000 and measures 0.27 acres. Permission for development of 5 units, 16 habitable rooms, 100% private. Colliers calculate an adjusted habitable room value of £190,410. We note that Colliers state permission was granted in 2015. We understand permission was granted in August 2018, after purchase.

724 Holloway Road, Islington – Sold June 2017 for £4,800,000 and measures 0.13 acres. Permission for development of 10 units, 28 habitable rooms (100% private), and 19,397 of office space. Colliers have calculated an adjusted value of £30,598 per habitable room. Next to Upper Holloway Overground station and adjacent to a railway line. Colliers suggest it is a less desirable area than the subject, but we would suggest only marginally so. The only planning application matching Colliers' description on this site (ref: P2016/4533/FUL) was registered in 2016 and was granted at committee on 6th February 2018 subject to conditions and the prior completion of a S.106 agreement. No S.106 agreement has been signed therefore permission is not implementable.

Marine Ices, 4-8a Haverstock Hill & 45-47 Crogsland Road, Camden – Sold March 2017 for £9,323,100 and measures 0.089 acres. Permission for development of 19 units, 51 habitable rooms (100% private), and 11,367 sq ft flexible commercial floorspace. Colliers calculate an adjusted value of £69,202 per habitable room. In Chalk Farm, which Colliers concede is a significantly more desirable location and suggest it will therefore reflect a higher value than the subject.

254 Kilburn High Road, Camden – Sold February 2017 for £12,750,000 and measures 0.423 acres. Development permitted for 60 residential units, 185 habitable rooms (76% private, 9% intermediate and 15% social rented), and 10,279 sq ft of B1/B8 space. Colliers calculate an adjusted value of £40,833 per habitable room. Considerably larger scheme than that proposed in the subject.

The Old Dairy, 7 Wakefield Street, Camden – Sold January 2017 and measures 0.48 acres. Development permitted for 13 units, 44 habitable rooms (100% private). Colliers calculate an adjusted value of £111,767 per habitable room. In a more desirable location close to King's Cross and St Pancras Stations. Includes a town house and 11,862 sq ft of office space. Colliers state permission was granted in 2015. We understand that originally permission was granted in 2012 although a variation of the scheme was granted in 2015 subject to a S.106. We note that subsequent variations have more recently been granted subject to a S.106 such as application 2017/2950/P granted October 2017. The inclusion of 13 residential units was only granted in October 2017.

Appendix 2: Second-Hand Residential Sales Evidence

Address	Description & GIA	Date	Sale Price	Price psf
13a Gaisford Street, London, Greater London NW5 2EB	One-bedroom flat on the lower ground floor of a converted mid terrace property. Large rear garden, modern interior. Approximately 0.3 miles south east of the subject on a quiet residential road, away from the railway line. 536 sq ft / 50 sq m	18/12/18	£488,500	£911
Second Floor Flat, 59 Fortess Road, London, Greater London NW5 1AD	One-bedroom flat on the second floor above a retail unit. High quality interior with period features. Approximately 0.2 miles north of the subject on a busy road, further from the railway line but also close to Tufnell Park station. 443 sq ft / 41 sq m	04/05/18	£408,000	£921
29c Islip Street, London, Greater London NW5 2DJ	One-bedroom unit on the second floor of a converted end of terrace period property. Modern interior with slight restricted height in parts from the windows. Approximately 0.1 miles south east of the subject, on a quieter residential road away from the railway line. 567 sq ft / 53 sq m	15/03/18	£445,000	£785
18a Willes Road, London, Greater London NW5 3DS	Two-bedroom flat on the first floor of a small purpose-built block. Private garden, relatively modern interior. On a quiet residential road, 0.25 miles south of the subject, further from the railway lines. 665 sq ft / 62 sq m	06/09/18	£600,000	£902
31a Gaisford Street, London, Greater London NW5 2EB	Two-bedroom flat on the lower ground floor of a converted mid terrace unit. Very modern interior, private rear garden. On a quiet residential road, approximately 0.2 miles south east of the subject away from the railway lines. 690 sq ft / 64 sq m	19/04/18	£675,000	£978
17 Falkland Road, London, Greater London NW5 2PU	Two-bedroom duplex flat on the first and second floors of a converted semi-detached period house. Interior in slight need of updating. Approximately 0.2 miles north east of the subject on a quieter road in the Kentish Town conservation area. 932 sq ft / 87 sq m	30/11/18	£775,000	£831

30a Gaisford Street, London, Greater London NW5 2ED	Two-bedroom duplex flat on the ground and lower ground floors of a converted period mid terrace house. Modern interior, large rear garden. On a quiet residential road, approximately 0.2 miles south east of the subject away from the railway lines. 1,116 sq ft / 104 sq m	31/08/18	£900,000	£806
53b Gaisford Street, London, Greater London NW5 2EB	Two-bedroom duplex flat on the first and second ground floors of a converted period mid terrace house. High quality interior, high ceilings. On a quiet residential road, approximately 0.2 miles south east of the subject away from the railway lines. 1,033 sq ft / 96 sq m	20/08/18	£900,000	£871

Appendix 3: BPS Pricing Schedule

Flat	Floor	Beds	Outdoor Amenity	Sq M	Sq Ft	Value	£ psf
1	First	1	No	50	538	£490,000	£910
2	First	2	No	78	840	£730,000	£869
3	First	2	Yes	73	786	£695,000	£884
4	Second	1	No	50	538	£500,000	£929
5	Second	2	No	78	840	£740,000	£881
6	Second	2	Yes	73	786	£705,000	£897
7	Third	1	No	50	538	£510,000	£948
8	Third	2	No	78	840	£750,000	£893
9	Third	2	Yes	73	786	£715,000	£910
10	Fourth	1	No	50	538	£520,000	£966
11	Fourth	2	No	78	840	£760,000	£905
12	Fourth	2	Yes	73	786	£725,000	£923
13	Fifth & Sixth	2	Yes	97	1044	£1,070,000	£1,025
14	Fifth	2	Yes	90	969	£920,000	£950
Total				**991**	**10,667**	**£9,830,000**	**£922**

Appendix 4: Build Cost Report

Project: 369-377 Kentish Town Road, Camden

2019/0910/P

Cost Report

1 SUMMARY

1.1 The appraisal construction cost is £5,390,000 plus a 5% contingency. The allowances for inflation in the cost plan have been excluded.

1.2 The cost plan includes an allowance of 26.8% for preliminaries. A detailed estimate of the preliminaries has been provided based on a construction period of 65 weeks. The abnormal construction problems are summarised at 2.7 and 5.1 of the FVR and further details are provided in the Design & Access Statement and the Basement Impact Assessment. These issues are reflected in the high cost of preliminaries that are approximately 10% higher than we would expect on a typical project without these abnormal issues. At this early design stage this appears a reasonable estimate of the cost although in a competitive tender a more efficient and lower cost may well be obtained.

1.3 The BCIS rate for the commercial space in the table at 3.13 has been derived from the BCIS rate for offices generally discounted to 80.5% (informed by the residential ratio of shell & core : fit out – we consider this a more appropriate basis than using a BCIS shell only office rate which would be less).

1.4 The results of our benchmarking yield an adjusted benchmark of £3,401/m² that compares to the Applicant's £3,398/m². We are therefore satisfied that the Applicants costs are reasonable.

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 its projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

BCIS average costs are provided at mean, median and upper quartile rates (as

2.2 well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.

2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

2.5 BCIS costs are available on a quarterly basis – the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).

2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant’s cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant’s cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant’s elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.

To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not

2.8 provided we frequently download additional material from the documents made available from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

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

3 <u>GENERAL REVIEW</u>

3.1 We have been provided with and relied upon the Financial Viability Report (FVR) issued Feb 2019 by Affordable Housing Solutions Ltd for KTR Carwash Project Ltd. Included at Appendix 3 is the Interim Stage 2 Cost Plan Nr 1 issued 13th Dec 2018 by Bristow Johnson in the sum, before additions for inflation, and excluding risk, of £5,390,000.

3.2 The appraisal construction cost is £5,390,000 plus a 5% contingency. The allowances for inflation in the cost plan have been excluded.

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

3.4 The cost plan is dated December 2018 ie base 4Q2018. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 4Q2018 is 321 and for 1Q2019 322 – both figures are forecasts.

3.5 The cost plan includes an allowance of 26.8% for preliminaries. A detailed estimate of the preliminaries has been provided based on a construction period of 65 weeks. The abnormal construction problems are summarised at 2.7 and 5.1 of the FVR and further details are provided in the Design & Access Statement and the Basement Impact Assessment. These issues are reflected in the high cost of preliminaries that are approximately 10% higher than we would expect on a typical project without these abnormal issues. At this early design stage this appears a reasonable estimate of the cost although in a competitive tender a more efficient and lower cost may well be obtained.

3.6 The allowance for overheads and profit (OHP) is 6%; we consider this allowance reasonable.

3.7 The allowance for contingencies is 5.4%; we consider a 5% addition for new build reasonable. This difference in the cost plan amounts to £21,500; however the construction cost in the appraisal is £5,390,000 with a 5% addition for contingencies. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.8 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking.

3.9 Sales have been included in the Appraisal at average figures of £886/ft² (Net Sales Area).

3.10 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 128 that has been applied in our benchmarking calculations.

3.11 Refer to our attached file "Elemental analysis and BCIS benchmarking". We have included the GIA used in the cost estimate of 1,586m². The NIA used to calculate the revenues is 1,265m² giving an overall efficiency of 80%. The efficiency of the commercial space appears to be 71% and the residential space 83% although the residential areas at basement and ground have not been adjusted in the commercial/ residential split.

3.12 The building comprises a basement and ground floor of commercial space with 6 floors of flats over – an 8 storey building. BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. We have benchmarked the flats as 6+ storey.

3.13 We have calculated a blended rate for benchmarking as the table below:-

Blended rate calculation:-			BCIS	Blended
	m² GIA	%	£/m²	£/m²
Commercial - assume shell only	416	26.23%	1,882	494
Residential	1,170	73.77%	2,487	1,835
	1,586	100.00%		2,328

3.14 The BCIS rate for the commercial space has been derived from the BCIS rate for offices generally discounted to 80.5% (informed by the residential ratio of shell & core : fit out – we consider this a more appropriate basis than using a BCIS shell only office rate which would be less).

3.15 The results of our benchmarking yield an adjusted benchmark of £3,401/m² that compares to the Applicant's £3,398/m². We are therefore satisfied that the Applicants costs are reasonable.

BPS Chartered Surveyors

Date: 6th March 2019

Appendix 5: Proposed Scheme Argus Appraisal

Kentish Town Rd

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Residential units	14	10,667	921.53	702,143	9,830,000

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground rents	14			336	4,704	4,704
Basement	1	1,076	24.61	26,478	26,478	26,478
Ground floor	1	1,722	40.00	68,880	68,880	68,880
Totals	**16**	**2,798**			**100,062**	**100,062**

Investment Valuation					
Ground rents					
Current Rent	4,704	YP @	5.0000%	20.0000	94,080
Basement					
Market Rent	26,478	YP @	5.0000%	20.0000	
(1mth Unexpired Rent Free)		PV 1mth @	5.0000%	0.9959	527,415
Ground floor					
Market Rent	68,880	YP @	5.0000%	20.0000	
(1mth Unexpired Rent Free)		PV 1mth @	5.0000%	0.9959	1,372,010
					1,993,505

GROSS DEVELOPMENT VALUE		**11,823,505**
Purchaser's Costs	111,860	
		111,860

Kentish Town Rd

NET DEVELOPMENT VALUE				**11,711,645**
NET REALISATION				**11,711,645**
OUTLAY				
ACQUISITION COSTS				
Fixed Price			395,000	
				395,000
Stamp Duty			25,491	
Agent Fee		1.00%	3,950	
Legal Fee		0.80%	3,160	
				32,601
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Residential units				
- Construction Breakdown			5,390,000	
				5,390,000
Contingency		5.00%	269,500	
CIL			750,000	
Zero carbon tax			32,200	
				1,051,700
PROFESSIONAL FEES				
Professional Fees		10.00%	539,000	
Restrictive covenant			465,000	
				1,004,000
MARKETING & LETTING				
Letting Agent Fee		10.00%	9,536	

Kentish Town Rd

Letting Legal Fee	5.00%	4,768	
			14,304
DISPOSAL FEES			
Residential Sales and Marketing Fee	2.50%	248,102	
Commercial sales Fee	1.50%	28,491	
Sales Legal Fee	0.50%	59,118	
			335,711
Additional Costs			
Private Residential Profit	17.50%	1,736,714	
Commercial Profit	15.00%	284,914	
			2,021,628
FINANCE			
Debit Rate 6.750%, Credit Rate 0.000% (Nominal)			
Land		45,192	
Construction		316,219	
Other		94,168	
Total Finance Cost			455,579
TOTAL COSTS			**10,700,522**
PROFIT			
			1,011,122
Performance Measures			
Profit on Cost%	9.45%		
Profit on GDV%	8.55%		
Profit on NDV%	8.63%		
Development Yield% (on Rent)	0.94%		
Equivalent Yield% (Nominal)	5.00%		
Equivalent Yield% (True)	5.16%		

Kentish Town Rd

IRR	19.48%
Rent Cover	10 yrs 1 mth
Profit Erosion (finance rate 6.750%)	1 yr 4 mths

Appendix 6: Policy Compliant Scheme Argus Appraisal

Kentish Town Rd

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Residential units	10	8,269	923.33	763,500	7,635,000
Affordable units	4	2,400	187.44	112,465	449,861
Totals	**14**	**10,669**			**8,084,861**

Rental Area Summary	**Units**	**ft²**	**Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground rents	14			246	3,450	3,450
Basement	1	1,076	24.61	26,478	26,478	26,478
Ground floor	1	1,722	40.00	68,880	68,880	68,880
Totals	**16**	**2,798**			**98,808**	**98,808**

Investment Valuation					
Ground rents					
Current Rent	3,450	YP @	5.0000%	20.0000	69,000
Basement					
Market Rent	26,478	YP @	5.0000%	20.0000	
(1mth Unexpired Rent Free)		PV 1mth @	5.0000%	0.9959	527,415
Ground floor					
Market Rent	68,880	YP @	5.0000%	20.0000	
(1mth Unexpired Rent Free)		PV 1mth @	5.0000%	0.9959	1,372,010
					1,968,425

GROSS DEVELOPMENT VALUE **10,053,286**

Kentish Town Rd

Purchaser's Costs			-111,409	
				-111,409
NET DEVELOPMENT VALUE				**9,941,877**
NET REALISATION				**9,941,877**
OUTLAY				
ACQUISITION COSTS				
Fixed Price			395,000	
				395,000
Stamp Duty			25,491	
Agent Fee		1.00%	3,950	
Legal Fee		0.80%	3,160	
				32,601
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Residential units				
- Construction Breakdown			5,390,000	
				5,390,000
Contingency		5.00%	269,500	
CIL			750,000	
Zero carbon tax			32,200	
				1,051,700
PROFESSIONAL FEES				
Professional Fees		10.00%	539,000	
Restrictive covenant			465,000	
				1,004,000

Kentish Town Rd

MARKETING & LETTING			
Letting Agent Fee	10.00%	9,536	
Letting Legal Fee	5.00%	4,768	
			14,304
DISPOSAL FEES			
Residential Sales and Marketing Fee	2.50%	1,725	
Commercial sales Fee	1.50%	28,491	
Sales Legal Fee	0.50%	9,842	
			40,058
Additional Costs			
Private Residential Profit	17.50%	1,348,200	
Commercial Profit	15.00%	284,914	
Affordable Residential Profit	6.00%	26,992	
			1,660,105
FINANCE			
Debit Rate 6.750%, Credit Rate 0.000% (Nominal)			
Land		44,294	
Construction		291,178	
Other		109,609	
Total Finance Cost			445,081
TOTAL COSTS			**10,032,850**
PROFIT			
			-90,973
Performance Measures			
Profit on Cost%	-0.91%		
Profit on GDV%	-0.90%		
Profit on NDV%	-0.92%		

Kentish Town Rd

Development Yield% (on Rent)	0.98%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
IRR	5.00%
Rent Cover	-11 mths
Profit Erosion (finance rate 6.750%)	N/A