

39 Fitzjohns Avenue, NW3 5JT  
Addendum Report

6<sup>th</sup> August 2019



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## 1.0 Amendments to Development Appraisal

- 1.1 BPS Chartered Surveyors were instructed by the London Borough of Camden ('the Council') to review a viability assessment prepared by HEDC Ltd on behalf of 'the Applicant' in respect of the site at 39 Fitzjohns Avenue, Hampstead.
- 1.2 In our October 2018 report we drew the following conclusions in comparison to the applicant's FVA:

Item	Proposed	BPS	Comments
Benchmark Land Value	£14,000,000	£5,836,000	Residual value of refurbished property after condition was found to be poorer than was implied and costs of refurbishment underestimated
Sales Revenue	£32,825,000	£29,847,000	Reduced value for existing house due to underestimated refurbishment costs.
Ground Rents	£275,143	£90,000	Yield increased to 10% to capture potential risk of ground rent restrictions.
Construction Costs	£12,737,266 + 5% VAT	Agreed	
Professional Fees	10%	Agreed	
Marketing & Disposal	1.5% for flats 1% for existing house marketing Sales agent 1.5% Legal fees 0.25%	Agreed except legal fees which are reduced to £25,200	Legal fees of £3,900 per plot are excessive. Reduced to £1,200 per plot.
CIL	£111,990 Mayoral £964,236 Borough	Agreed	
Profit	20%	Agreed	
Finance	6.5%	Agreed	
Surplus/Deficit	-£6,785,160	-£299,000	

- 1.3 Therefore based on the current site and proposals we agreed that no affordable housing could be viably supported, although it was clear we took substantially different views on the proposed site value benchmark.
- 1.4 The application has been amended since we last reported with a reduction in the basement and associated build costs. However for clarity we have also reconfirmed our position on the late stage review and treatment of the valuation of any enhanced application on the single dwelling.

## Build Costs

1.5 The Applicant has updated the cost estimate to current day values and to account for the reduction in basement area; (approximately 25%). The total revised build cost is now £12,636,636 excluding VAT and contingency. Our Cost Consultant, Neil Powling has confirmed that he is satisfied these adjustments are reasonable and also that the estimate includes no works to the single dwelling. This latter point is relevant in respect of sales revenue and land value.

## Other Development Costs

1.6 Our other assumptions remain unchanged from our initial report. In summary these are:

- Stamp Duty on land purchase 5% reduced from 6%
- Agent and legal fees agreed at 1% and 0.5% respectively
- Build cost contingency agreed at 5%
- VAT on conversion works agreed at £335,000
- Professional fees agreed at 10%
- Marketing fees agreed at 1.5% for development and 1% for single dwelling resale
- Sales agent fees agreed at 1.5%
- Sales legal fees to £1,200 per plot sale; or £25,200
- Developer profit of 20% on new build GDV agreed, no developer profit on single dwelling resale as will not be developed by Applicant
- Finance rate of 6.5%
- Cash flow programming agreed

## Revenue - Proposed Development

1.7 The most recent amendments to the scheme involve a reduction to the new basement level and a loss of storage area. There is no loss of units or net sales area. As the basement is communal space it holds no independent value and creates no reduction in GDV.

1.8 We have assessed the previous sales values in relation to sales evidence which has become available since last reporting and have found that there is no robust evidence to suggest that any increase in sales values can be justified. The values were found in our October report to be at the lower end of expectations but within a reasonable margin of error.

1.9 Since reporting in October 2018, another development by the Applicant has been launched at 11 Fitzjohns Avenue. The development provides a range of 1, 2 and three bed properties which we consider to offer a high degree of similarity to the proposed development in terms of product, specification and location. The units currently being marketed are as follows

- Three ground bed apartment of 1,446 sq ft - £1,899,999 (£1,314/sq ft)
- Three bed ground/lower duplex of 1,252 sq ft - £1,695,000 (£1,354/sq ft)
- Two bed ground floor apartment of 747 sq ft - £985,000 (£1,319/sq ft)

- 1.10 This provides an average asking price of £1,329/sq ft for two and three bed units. The average sales value proposed at 39 Fitzjohns Avenue for 2 and 3 bed apartments is £1,069; or 20% lower.
- 1.11 While we accept there may be a discount to achieved values, these also suggest that the proposed values are potentially pessimistic. This highlights the importance of a late stage review to ensure that any uplift in value is captured.

#### Revenue - Single Dwelling

- 1.12 We had previously valued the single dwelling on the assumption that the refurbishment costs would be in the region of £5,000,000. We were not presented with any cost plan against which to assess the estimated costs as this had not been prepared by the Applicant and was not included within the total development costs.
- 1.13 The current assumption is that the single dwelling will be sold for refurbishment to remain as a single dwelling as there is currently no implementable consent for subdivision into multiple units.
- 1.14 However due to the condition, size and architectural style of the building it is in our view more likely to be purchased by a developer who would seek consent through a fresh application for a more valuable proposal than the current single unit such as full redevelopment.
- 1.15 In approaching the property's value we have assumed a value based on this application which reflects a refurbished single unit and so consequently we have adopted a lower value of £2,535,000 on this basis. We recommend any uplift in value from this would also be captured through the late stage review mechanism.
- 1.16 The Applicant has not contended this valuation so we consider it to be agreed.

#### Benchmark Land Value

- 1.17 Our benchmark land value was based on the residual value of the existing property as a refurbishment opportunity for its retention as a single dwelling. On this basis and recognising the combined scale and limitations offered by the northern wing we assumed that on this basis it would be demolished to enhance the value of remaining building. This produced an overall site value of £5,836,000.
- 1.18 Effectively, there is no value ascribed to the northern wing. If a separate application is sought to enable separate occupation of this element we recommend that this is reviewed against a nil land value to prevent the potential for an affordable housing contribution from being reduced by a value which has been artificially increased through a piecemeal approach to development.
- 1.19 We understand from Council Officers that this point has been agreed by the Applicant.

#### Conclusions on Final Position

- 1.20 We accept that in the current market there is no justifiable scope for an affordable housing contribution. However in accordance with the Mayor's Viability SPG, we advise that the S106 Agreement contains a provision for a late stage review against the agreed benchmark land value of £5,836,000.

- 1.21 The current application splits the existing site and the value for the single dwelling assumes a refurbishment value which has not been fully explored by the Applicant. To prevent this subdivision from artificially increasing the benchmark land value for any future applications on the single dwelling land, we recommend that the land value for this section of the development is also fixed within the S106 in accordance with the current EUV.
- 1.22 We therefore advise that any future applications relating to the site of the single dwelling are also viability tested against a nil land value, representing the current EUV rather than inflated as a result of any site wide application which is granted but not developed in accordance with the application consent.

# Appendix A

## Amended Appraisal

39 Fitzjohn's Avenue NW3  
Amended Appraisal

Development Appraisal  
Prepared by BPS  
BPS Surveyors  
05 August 2019

**39 Fitzjohn's Avenue NW3  
Amended Appraisal**

**Summary Appraisal for Phase 1**

Currency in £

**REVENUE**

Sales Valuation	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Unit Price	Gross Sales
New apartments off plan sales	12	10,904	1,060.16	963,333	11,560,000
Post PC sales 2B	4	5,382	1,132.48	1,523,750	6,095,000
3B and 4B sales	4	9,881	976.12	2,411,250	9,645,000
Existing house	1	12,500	203.76	2,547,000	2,547,000
<b>Totals</b>	<b>21</b>	<b>38,667</b>			<b>29,847,000</b>

**Rental Area Summary**

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Apartment ground rents	20	450	9,000	9,000

**Investment Valuation**

Apartment ground rents					
Current Rent	9,000	YP @	10.0000%	10.0000	90,000

**GROSS DEVELOPMENT VALUE**

**29,937,000**

Income from Tenants	6,000
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**NET REALISATION**

**29,943,000**

**OUTLAY**

**ACQUISITION COSTS**

Fixed Price			5,836,000		5,836,000
Stamp Duty		5.00%	291,800		
Agent Fee		1.00%	58,360		
Legal Fee		0.50%	29,180		
					379,340

**CONSTRUCTION COSTS**

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost	
Building works	33,578 ft <sup>2</sup>	376.34 pf <sup>2</sup>	12,636,636	<b>12,636,636</b>
Contingency		5.00%	631,832	
VAT on conversion works estimate			335,000	
				966,832

**PROFESSIONAL FEES**

Professional fees and other costs	10.00%	1,263,664		1,263,664
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**MARKETING & LETTING**

Marketing new apartments	1.50%	409,500		
Marketing existing house	1.00%	25,470		
				434,970

**DISPOSAL FEES**

Sales Agent Fee	1.50%	447,705		
Sales Legal Fee		25,200		
				472,905

**Additional Costs**

Developer's profit	20.00%	5,478,000		
Mayoral CIL @ 2017/18 rates		101,950		
Borough CIL @ 2017/18 rates		1,019,500		
				6,599,450

**FINANCE**

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)				
Land			855,881	
Construction			579,913	
Other			218,883	
Total Finance Cost				1,654,678

**TOTAL COSTS**

**30,244,474**

**PROFIT**



**39 Fitzjohn's Avenue NW3  
Amended Appraisal****(301,474)****Performance Measures**

Profit on Cost%	(1.00)%
Profit on GDV%	(1.01)%
Profit on NDV%	(1.01)%
Development Yield% (on Rent)	0.03%
Equivalent Yield% (Nominal)	10.00%
Equivalent Yield% (True)	10.66%
IRR	5.19%
Rent Cover	-33 yrs -6 mths
Profit Erosion (finance rate 6.500%)	N/A