

1 Hampshire Street, London NW5 2TE

Independent Viability Review

Prepared on behalf of London Borough of Camden

21 July 2017



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Planning Reference: 2017/2883/P

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors have been instructed by London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Bidwells on behalf of Redtree Ventures Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.
- 1.2 The site currently comprises two buildings which form one commercial premise, comprising a two storey building and a large hall/studio building with a mezzanine at first floor level. It is reported that the property is occupied and currently operates as a film and photographic studio.
- 1.3 The location is predominantly residential in nature. The site is not located in a conservation area nor is it listed.
- 1.4 The proposals are for:
Redevelopment of the site to provide 4 storey building with 334 sqm of commercial floorspace (Class B1) and 16 residential units (5x 2-bed, 6x 1-bed and 5x 3-bed) (Class C3) with terraces at front and rear following demolition of existing photographic studio (Class B1c).
- 1.5 The basis of our review is an Assessment of the Economic Viability of the Proposed Scheme prepared by Bidwells, dated May 2017, which concludes that the scheme is currently shows a deficit of approximately [REDACTED] and therefore no affordable housing can viably be offered. We have also downloaded documents available on Camden's planning website. We have received a live version of the Argus appraisals included in the report.
- 1.6 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.
- 1.7 We have searched the Camden planning website and have not identified any other recent or outstanding planning applications relating to the site. A Land Registry search shows that the applicant does not currently own the property.

2.0 CONCLUSIONS AND RECOMMENDATIONS

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

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

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

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

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

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 Housing SPG published March 2016 states a clear preference for using EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. This is evidenced through the following extract:
- “.....either ‘Market Value’, ‘alternative use value’, ‘existing use value plus’ based approaches can address this requirement where correctly applied (see below); their appropriate application depends on specific circumstances. **On balance, the Mayor has found that the ‘Existing use Value plus’ approach is generally most appropriate for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements, he therefore supports this approach.** The ‘plus’ element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements.” [Emphasis original]
- 3.5 We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of “market Value” by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.
- 3.6 Furthermore the RICS guidance is in conflict with PPG in that PPG adopts a different level of emphasis in respect of the importance of planning policy. This is evident from the PPG extract set out below:

reflect policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;

- 3.7 The requirement to reflect policy is unambiguous. PPG is statutory guidance whereas RICS guidance is simply a material consideration.
- 3.8 There is also a high risk that the RICS Guidance in placing a very high level of reliance on market transactions is potentially exposed to reliance on bids which might
- a) Represent expectations which do not mirror current costs and values as required by PPG.
 - b) May themselves be overbids and most importantly
 - c) Need to be analysed to reflect a policy compliant position.

To explain this point further, it is inevitable that if site sales are analysed on a headline rate per acre or per unit without adjustment for the level of affordable housing delivered then if these rates are applied to the subject site they will effectively cap delivery at the rates of delivery achieved of the comparable sites. This is an essentially circular approach which would effectively mitigate against delivery of affordable housing if applied.

- 3.9 The NPPF recognises at paragraph 173 the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This has translated to the widely accepted practice when using EUV as a benchmark of including a premium. Typically in a range from 5-30%. Guidance indicates that the scale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending the liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable.

The Proposed Benchmark

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

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

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

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

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

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

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

4.0 RESIDENTIAL UNIT VALUES

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

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

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

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

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

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

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

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

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

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

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

4.8 Our revised values are as follows:

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

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

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

Ground Rents

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

Parking

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

5.0 COMMERCIAL UNIT VALUATION

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

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

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

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

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

6.0 BUILD COSTS

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

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

- 6.2 Neil's full cost report can be found at Appendix 1.
- 6.3 The applicants consultants have applied the following additional cost assumptions:
- Professional fees of [REDACTED]
 - Marketing fees of [REDACTED]
 - Letting agent fees of [REDACTED]
 - Legal Fees of [REDACTED] for the commercial lettings
 - Disposal fees of [REDACTED] for the ground rents and commercial space
- 6.4 Generally, we accept that these percentages are realistic and in line with market norms.
- 6.5 CIL charges have been assumed at [REDACTED] psf for the commercial space and [REDACTED] psf for the residential space. An allowance for the existing floor space of 6,986 sq ft has been made and the resulting total CIL amount is [REDACTED]. We have not verified this amount.
- 6.6 Finance has been included at [REDACTED] assuming that the scheme is 100% debt financed.
- 6.7 The developer profit target adopted by Bidwells is 20% on GDV. Generally we would expect to see a lower profit target for the commercial unit, to reflect the reduced risk, typically around 15-17% on GDV for commercial units. We have tested a blended profit target and reduced the profit target to 18.48% on GDV to reflect the inclusion of the commercial space.

BPS Chartered Surveyors

Appendix 1: Build Cost Report

1 SUMMARY

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

2 METHODOLOGY

- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant's costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of it's projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.
- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5

to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

- 2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available on an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services - but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.
- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.
- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal

and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

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

3 GENERAL REVIEW

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

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

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

- 3.8 we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.
- 3.9 Sales have been included in the Appraisal at average figures of [REDACTED] (Net Sales Area).
- 3.10 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 126 that has been applied in our benchmarking calculations.
- 3.11 The building is a 4 storey building of flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. We have benchmarked this building as 3-5 storey flats.
- 3.12 Refer to our attached file “Elemental analysis and BCIS benchmarking - proposed scheme”.
- 3.13 Our benchmarking yields an adjusted benchmark of [REDACTED] that compares to the Applicants [REDACTED] a difference of [REDACTED] amounting to [REDACTED]. We have reduced this difference to allow for costing an increased GIA of 1,421m² (from the cost plan figure of 1,316m²). We therefore consider the appropriate construction cost to include in the appraisal is [REDACTED] inclusive of a [REDACTED] contingency.
- 3.14 Refer to our attached file “Elemental analysis and BCIS benchmarking - AUV scheme - refurbishment as offices”.
- The BCIS mean average cost (max 5 years) for refurbishment of offices is [REDACTED] that compares to the Applicants [REDACTED]. It may be that the BCIS rate is too high to use as a comparator for this scheme, but we suggest that the Applicant’s rate is unrealistically low. We suggest a rate of [REDACTED] should be used to calculate a viability benchmark.

BPS Chartered Surveyors

Date: 17th July 2017

**Rehab offices
generally mean**

Benchmarking

1 Hampshire St, Camden NW5 2TE
Elemental analysis & BCIS benchmarking
Proposed scheme

		GIA m ²	1,316	LF100	LF126
		£	£/m ²	£/m ²	£/m ²
Demolitions - facilitating works					
1 Substructure					
2A Frame					
2B Upper Floors					
2C Roof					
2D Stairs					
2E External Walls					
2F Windows & External Doors					
2G Internal Walls & Partitions					
2H Internal Doors					
2 Superstructure					
3A Wall Finishes					
3B Floor Finishes					
3C Ceiling Finishes					
3 Internal Finishes					
4 Fittings					
5A Sanitary Appliances					
5B Services Equipment (kitchen, laundry)					
5C Disposal Installations					
5D Water Installations					
5E Heat Source					
5F Space Heating & Air Treatment					
5G Ventilating Systems					
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)					
5I Fuel Installations					
5J Lift Installations					
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)					
5L Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)					
5M Special Installations - (window cleaning, BMS, medical gas)					
5N BWIC with Services					
5O Management of commissioning of services					
5 Services					
6A Site Works					
6B Drainage					
6C External Services					
6D Minor Building Works					
6 External Works					
SUB TOTAL					
7 Preliminaries					
Overheads & Profit					
SUB TOTAL					
Design Development risks					
Construction risks					
Employer change risks					
Employer other risks					
TOTAL					

Benchmarking

Add facilitating works

Add external works

Add additional cost of roof

Add additional cost of windows

Add additional cost of wall finishes

Add additional cost of fittings

Add additional cost of sanitary fittings

Add additional cost of heat source

Add additional cost of lift installation

Add prelims @

Add OHP @

Add contingency

Difference

**1 Hampshire Street, London
NW5 2TE**



Application no. 2017/2883/P

Addendum 7th November 2017

BPS Chartered Surveyors prepared an independent viability review on behalf of London Borough of Camden dated 21st July 2017. On the basis of our review we calculated that the scheme generates a surplus of [REDACTED] and concluded that the scheme would be able to contribute towards or provide some affordable housing.

Since the issue of our report and the subsequent response dated 4th October 2017, we have had further discussions with Andrew Haynes at Bidwells, who are the Applicant's viability consultants, in regard to the rent that should be attributable to the AUV scheme.

Bidwells are of the view that the same rent should be applied to the AUV scheme as we applied to the proposed scheme, [REDACTED]. In our report we had explained that the AUV scheme would present a lower quality of accommodation and therefore warrant a lower rent.

Bidwells suggest that the refurbished space will be just as good quality as the new build office space in the proposed scheme. We were concerned by architects plans for the proposed office space which showed that the first floor space is intersected with four overhead trusses which are below 1.5m over approximately two thirds of the width of the space. This would significantly reduce an occupier's options for the layout and use of the space. Having reviewed the additional information we remained of the view that a rent of [REDACTED] is appropriate for the space.

Bidwells have since provided additional information showing how the overhead trusses could be removed and an alternative support system could be implemented. This was accompanied by a revised cost plan allowing for the expense of these additional works. The floor areas have been slightly revised based on the reconfiguration.

On the basis of the information we have received we are of the view that a rent of [REDACTED] could be justified if the trusses are removed given that the space will be open plan and provide a more flexible workspace.

We attach an Argus appraisal prepared by Bidwells which incorporates the revised rental value and the additional build cost for the AUV scheme. The resulting residual land value is £4.3million. We are satisfied that this represents a realistic position and we will therefore adopt this value as our Benchmark Land Value.

The residual land value resulting from our appraisal of the proposed scheme was £4.34million. We have not proposed any amendments to this appraisal. When compared to our revised Benchmark Land Value this shows that the scheme generates a surplus of £40,000. This surplus could be contributed towards affordable housing.

BPS Chartered Surveyors

7th November 2017

1 Hampshire Street, NW5
AUV Scheme - Roof trusses removed
23 October 2017

Development Appraisal
Bidwells LLP
23 October 2017

APPRAISAL SUMMARY

BIDWELLS LLP

1 Hampshire Street, NW5
AUV Scheme - Roof trusses removed

Summary Appraisal for Phase 1

Currency in £

REVENUE

Rental Area Summary

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Studio to office refurbishment GF	1	4,740				
Studio to office refurbishment FF	1	3,511				
Totals	2	8,251				

Investment Valuation

Studio to office refurbishment GF						
Current Rent		YP @				
Studio to office refurbishment FF						
Current Rent		YP @				

GROSS DEVELOPMENT VALUE

Purchaser's Costs				
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NET DEVELOPMENT VALUE

NET REALISATION

OUTLAY

ACQUISITION COSTS

Residualised Price		4,302,232		
Stamp Duty	5.00%		4,302,232	
Agent Fee	1.00%			
Legal Fee	0.50%			

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost	
Studio to office refurbishment GF	5,016 ft²			
Studio to office refurbishment FF	3,608 ft²			
Totals	8,624 ft²			
Contractor's overheads & profit				
Contingency				
Mayoral CIL (indexed)				
Camden CIL (indexed)				

PROFESSIONAL FEES

Architect				
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MARKETING & LETTING

Office letting agent fee				
Office letting legal fee				

DISPOSAL FEES

Office investment sale agent fee				
Office investment sale legal fee				

FINANCE

Debit Rate 6.000%, Credit Rate 0.000% (Nominal)				
Land				
Construction				
Letting Void				
Total Finance Cost				

TOTAL COSTS

PROFIT

Performance Measures

Profit on Cost%	18.94%
Profit on GDV%	15.00%
Profit on NDV%	15.92%
IRR	50.88%

Supplementary Information for Planning Committee

22nd March 2018

Agenda Item: **5**
Application Numbers: **2016/2457/P**
Address: **1-3 and 4, 6 & 8 Ferdinand Place, London, NW1 8EE**

1. Additional supporting information

Independent Review of Affordable Housing Viability Assessment

- 1.1 Sections 7.9 – 7.14 of the committee report deal with the applicant's viability assessment, which indicates that a policy compliant affordable housing contribution is not viable, and the independent review of this information by BPS surveyors on behalf of the Council.
- 1.2 The review by BPS comprises three separate reports: the original assessment dated August 2016, an addendum report dated October 2016, and a second addendum report dated January 2017.
- 1.3 Redacted versions of these reports follow and are to be read in conjunction with the committee report.

ENDS

1-3 and 4-8 Ferdinand Place, NW1 8EE



Independent Viability Review

Application Reference: 2016/2457/P

05 August 2016

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 Savills on behalf of Leverton and Sons ('the Applicant') in connection with a planning application for the redevelopment of 1-3 and 4-8 Ferdinand Place, NW1 8EE.
- 1.2 The proposed scheme comprises the *demolition of existing buildings and erection of new buildings to provide replacement funeral directory facility at ground and basement levels of 4-8 Ferdinand Place. Provision of nineteen Class C3 residential units (5 x 1-bed, 8 x 2-bed and 6 x 3-bed units), split across eight units provided at first, second and third floor levels at 4-8 Ferdinand Place and eleven units at ground to fourth floor level at 1-3 Ferdinand Street.*
- 1.3 It should be noted the Council now has a duty under the Housing and Planning Act 2016 to provide starter homes on all sites other than where the viability of the scheme would impact the ability of these units to be delivered. The precise percentage requirement is yet to be determined but appears likely to be set at 20% of all housing but will be determined by regulations due to come before parliament in its next session. LPA's could be prevented from issuing consents unless schemes include an element of starter homes as such the proposed mix of housing offered by schemes may need to be reconsidered in this light.
- 1.4 The Councils Policy DP3 sets out that a contribution towards affordable housing is required when 1,000 sq.m GEA or more of additional floorspace is provided. A sliding scale is adopted for schemes providing between 10 and 50 units with the obligation increasing to 50% at 50 units, the policy states:.

The sliding scale is a simple straight-line scale, where every increase of 1 home in site capacity should provide an additional 1% in affordable housing floorspace. Sites with capacity for 10 additional homes should normally provide 10% affordable housing floorspace, sites with capacity for 20 additional homes should normally provide 20% affordable housing floorspace, and sites with capacity for 40 additional homes should normally provide 40% additional floorspace

The sliding scale will apply if the development adds less than 1,000 sq m to non-residential floorspace but has a residential element with capacity for an additional 10 to 49 homes (i.e. 1,000sq m to 4,900sq m residential floor space).

The sliding scale will not apply if the development includes an addition to non-residential floorspace of 1,000 sq m or more. In this case there is significant potential for the non-residential element to enhance the viability of the development, and we will seek 50% of residential floorspace as affordable housing (subject to DP3 criteria).

In all mixed-use schemes with capacity for 50 or more additional homes we will seek 50% of residential floorspace as affordable housing (subject to DP3 criteria).

- 1.5 The application Planning Statement notes that the subject site should provide approximately 18.5% of additional floor space equating to 342 sq.m.
- 1.6 The applicant's consultants conclude that the proposed scheme cannot provide any affordable housing contributions while remaining economically viable. This conclusion reflects a proposed £7.5 million benchmark land value and indicates a suggested deficit of -£5.99 million.
- 1.7 In preparing this report, we have referred to the viability submission compiled by Savills dated 1 June 2016 and its associated appendices. We have also reviewed the related documents set out on the Camden Planning Portal. On request, we have received a working model of the Savills scheme appraisal and further information regarding the floor area of existing units.
- 1.8 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can make any affordable housing contributions while remaining economically viable.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have concluded that the proposed benchmark is overstated and that anticipated revenues are understated. Based on our assessment we are of the view that there is a scheme surplus in the order of £644,000 which indicates the scheme could make an affordable housing contribution.
- 2.2 Savills have provided a benchmark land value analysis based on both a market value basis and the existing use value of the site. Savills propose a market value of £7.5 million with reference to comparable land sale information. The analysis provided does not have reference to planning policy. With regards to the EUV, Savills value the subject site's commercial space based on comparable industrial/office and residential information. On the basis of our market analysis, we consider that the existing use value of £2.97 million appears realistic. Allowing for an upper end premium of 20% we estimate a total benchmark land value of £3.56 million on this basis.
- 2.3 As per the Mayor's SPG, we have used the EUV benchmark for the purposes of our review. The SPG states that *the 'Existing use Value plus' approach is generally most appropriate for planning purposes*. This is also the Council's preferred method of benchmarking, and as there is a viable existing use on site, we deem this method of benchmarking acceptable for our purposes as this more accurately assesses the impact of the planning consent sought. PPG indicates the need to reflect planning policy whilst incentivising the land owner to release land for development. In this instance the land owner will be surrendering their existing use and replacing it with accommodation more fit for purpose, therefore there is already a commercial incentive to this development. There is in effect no upper limit to land owners value aspirations therefore the EUV plus approach seeks to reflect a cash incentive over the market value of the property assuming no redevelopment potential.
- 2.4 We have had reference to the currently advertised new build unit information provided by Savills. We consider that the proposed one bed flat values are reasonable; however, we regard the proposed sales rates for the two and three bed units to be potentially understated. We have adjusted the sales values for these units in line with our analysis of market evidence.
- 2.5 The applicant's consultants place a low valuation on the proposed commercial facility mainly due to the proportion of space on the lower ground floor level. The proposed unit will be a purpose built facility which will benefit the applicant's current business as it will remove many of the negative operational aspects of the existing facility. We have reviewed market evidence including capital sales achieved for comparable facilities in the locality of the subject site in order to value the proposed commercial unit and conclude it has been undervalued.
- 2.6 Our Cost Consultant, Neil Powling FRICS has reviewed the build cost plan provided by the applicant and concludes that the total costs appear overstated by £2.0 million. We have consequently adjusted the scheme appraisal to give a revised construction cost of [REDACTED] million including an allowance for contingency.
- 2.7 On the basis of our review, we have made adjustments to the residual valuation. Our total residual land value is £4.20 million. On this basis, there is a scheme surplus of approximately £644,000.

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

- 3.1 Development appraisals work to derive a residual value. This approach can be represented by the simple 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 GLA prefer EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. 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.
- 3.5 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.
- 3.6 The NPPF recognises at 173, the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This has translated to the widely accepted practice when using EUV as a benchmark of including a premium. Typically, in a range from 5-30%. Guidance indicates that the scale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending the liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable.

The Proposed Benchmark

- 3.7 The applicant's consultants analyse site value in line with both market value and existing use value. The higher market value benchmark figure has been adopted for the purposes of the viability review. We note the following extract from the Mayor of London's Housing SPG published March 2016:

".....either 'Market Value', 'alternative use value', 'existing use value plus' based approaches can address this requirement where correctly applied (see below); their appropriate application depends on specific circumstances. On balance, the Mayor has found that the 'Existing use Value plus' approach is generally most appropriate for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of the NPPF and Local Plan requirements, he therefore supports this approach. The 'plus' element will vary on a case by case basis based on the circumstances of the site and owner and policy requirements."
[Emphasis original]

- 3.8 The Mayor's SPG goes on to state:

"A 'Market Value' approach is only acceptable where, in line with the NPPG, the value reflects all policy requirements and planning obligations and any CIL charges....a market value approach should only be accepted where it can be demonstrated to properly reflect policy requirements and take account of site specific circumstances. In many cases this will require an adjustment of market comparable to take account of policy compliant planning obligations."

- 3.9 The Council's CPG2 states that the *Council's preferred measure of land value is existing use value, although other measures of land value may also be considered where they are appropriate ... we will seek to agree the benchmark value with the applicant, with the assistance of advice from any appointed independent verifier, and the starting point for these negotiations should be the Existing Use Value (EUV).*

Market Value

- 3.10 Savills have provided market evidence for comparable site sales in order to value the subject site. Savills have adjusted the purchase prices in line with the Savills Land Index. It has been found at appeal that the use of indices has only limited benefit in establishing a general market movement rather than specific site values. We are also cautious about use of an index where it is unclear on what data the index is founded or how it has been applied.
- 3.11 In order to apply the comparable evidence to the subject site, it is necessary to provide a basis of comparison. Savills adopt the value per hectare and value per residential unit in this regard. Simply applying a value per hectare does not have regard for planning policy. Establishing a value per private residential unit on comparable sites and applying this to a policy compliant scheme on the subject site provides a useful measure in order to reflect planning policy. However, in an urban context especially, many schemes are mixed use and therefore basing an analysis on site purchase price per residential unit can artificially skew the rate per unit upwards, suppressing any affordable housing contribution.
- 3.12 159-165 Camden High Street was sold for £9.9 million in November 2014. Savills have adjusted for planning risk and indexation to provide an adjusted value of £6.83 million. Applied to the subject site area, this provides a value of £9.72

million. The proposed development scheme for this site was not policy compliant delivering 0% affordable housing. This consent therefore was granted on site specific circumstances where the scheme could not be viably delivered with affordable housing. The permission on this site includes 43% of non-residential floor space. As per the design and access statement, the proposed scheme has approximately 37% of non-residential space.

- 3.13 Hawley Wharf has an adjusted purchase price of £10.145 million. Savills note that this site was purchased without the benefit of planning permission. The site has an allocation for a mixed use development to include residential, retail and other appropriate town centre uses. The Camden Site Allocations Local Development Document dated 9 September 2013 provides further detail in this context. The allocation essentially indicates a more valuable site for which no adjustment has been made.
- 3.14 We understand that 5-7 Buck Street was sold in May 2014 with a lapsed planning consent to include 12 residential units which are all private. Again, a significant amount of this development is for commercial space. Savills have allowed for a 10% discount as the consent had expired at the time of purchase. We would allow for a 20% discount as the lapsed consent gives clear indication that a residential development on this site would be acceptable. This significantly reduces planning risk unless, for example, new planning policy dictates otherwise in the interim period.
- 3.15 Clifford Pugh House was purchased in May 2014. The scheme was for private rented units which was considered when assessing the affordable housing contribution as rented units are generally accepted as generating a lower market value when compared to their private sale counterparts due to enhanced management costs, agent's fees letting costs etc. This difference was accounted for in the S106 agreement including provisions for further viability reviews in the event that units were sold rather than rented. This scheme provided a payment in lieu of £311,000 which was 40% of the policy compliant PIL. We are of the view that this comparator is not directly relevant to the subject site due to differing site and planning circumstances.
- 3.16 Savills consider that the EUV of the site is £3.0 million and the market value is £7.5 million. This would equate to a landowners premium over EUV of 250%. This is over and above what we consider to be a reasonable landowners premium for testing scheme viability.
- 3.17 It should be noted that the RICS Research Paper RICS Research - Financial Viability Appraisal in Planning Decisions: Theory and Practice (April 2015) highlights how RICS Guidance in respect of the Market Value approach is regularly misapplied:
- ...the market value approach is only theoretically correct if applied as per the assumptions set out in the RICS Guidance Note. A correct application of market value would protect the community from changes in market state and ensure that any site brought forward for development would be able to provide policy compliant planning obligations. If market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for sites and try to recover some or all of this overpayment via reductions in planning obligations.*
- 3.18 It is apparent that in failing to account for the individual site circumstances and the levels of affordable housing Savills' approach has the effect of translating land values with low levels of affordable housing to the subject site without

adjustment. This essentially circular approach simply serves to overstate land value. In light of this we regard the EUV plus approach to offer a more reliable indicator of an appropriate land value in this instance.

Existing Use Value

- 3.19 1-3 Ferdinand Place is a two storey building with office accommodation, specialist accommodation reflecting the operational requirements of a funeral directors and a single residential unit on the first floor with shared access.
- 3.20 4-8 Ferdinand Place is a single storey building which provides storage, a preparation area and a garage for the business vehicles.
- 3.21 The GIA of the existing commercial space within the Savills report (919 sq.m / 9,892 sq.ft) does not match the figure within the scheme application form. We have requested confirmation of the existing floor area with a breakdown by use type e.g. split between office and warehouse space. The applicants Architect has confirmed that the non-residential GIA is 885 sq.m and that the non-residential NIA is 865 sq.m. We have not been provided with a detailed breakdown of the areas by use.
- 3.22 Our Cost Consultant has carried out an analysis of the floor area based on the plans at Appendix 2 of the viability submission and on the basis of this analysis we accept to 865 sq.m appears broadly accurate. The applicant's consultants have valued this space as office and storage areas. Approximately 80% of the NIA is office/workshop space and the remaining 20% is storage.
- 3.23 Savills have adopted a rental rate of £17.50 sq.ft across the various uses on the basis of comparable industrial information and agent advice with regards to the office space. Savills have capitalised this at a yield of 6% to provide a total value of £2,676,435 with a rent free period of 3 months. We consider the rent free period to be reasonable, although we note this space would in practice be occupied by the applicant. It is realistic to assume a market approach to valuing the space recognising the generic approach required in assessing viability for planning purposes.
- 3.24 We note:
- The Left Hand Drive Car Centre, 176-178 York Way, N1 0AZ is currently advertised to rent for £165,000 per annum which equates to £14.99 sq.ft / £161 sq.m. Our rental rate excludes the large forecourt and yard. The site is currently used as a car sales and distribution centre. The brick built property comprises a warehouse, offices and storage. There is a part canopied forecourt with fronting on to York Way
 - A ground floor office is currently advertised to let for £22,000 (£23.97 sq.ft / £258 sq.m). The office space is mainly open plan with a separate meeting room.

On the basis of the information provided by Savills as well as our own research, we consider the proposed rental rate of £17.50 sq.ft to be reasonable.

- 3.25 We have analysed comparable sales in order to establish whether the applied yield is reasonable. Excluding the rent free period, the capital valuation is £291.67 sq.ft / £3,139.56 sq.m. Lamb Works sold in March 2016 for £3.03 million. This is an industrial building with offices and storage on the first and second floors. The building is dated and in need of investment. The sales rate is £361 sq.ft / £3,883 sq.m. We consider that the proposed yield is reasonable.

- 3.26 Savills have adopted a residential floor area of 1,023 sq.ft / 95 sq.m for the existing residential unit. The unit is valued at £550,000 (£537.63 sq.ft / £5,789 sq.m). We have no information in respect of the condition of the residential unit. This unit is larger than most of the two bed units we have seen which are currently advertised for sale. We note:
- A unit on Kentish Town Road is currently advertised for sale for £645,000 (£598 sq.ft / 6,450 sq.m). This unit has a similar floor area when compared to the subject unit at 1,079 sq.ft / 100 sq.m. The unit is in fair condition and is located within a short walk of Camden Road Overground Station
 - A unit on Grafton Road is currently for sale for £400,000 (£560 sq.ft / £6,033 sq.m). This is a second floor unit in fair condition with the benefit of parking.
- 3.27 We consider that the proposed valuation for the existing two bed unit is broadly in line with market evidence, however, we reserve our confirmation of this point until receipt of further information regarding the condition of the unit.
- 3.28 Savills have also deducted the following fees from the gross valuation which we consider to be reasonable:
- Purchasers costs of 6.4% on the commercial element
 - Letting agent and legal fees of 15%
 - Sales agent and legal fees of 1.50.
- 3.29 On the basis of our market analysis we consider that the existing use value of £2.97 million is reasonable. Applying an upper end premium of 20% provides a total benchmark land value of £3.56 million.

Summary

- 3.30 On the basis of our analysis, we calculate an EUV plus benchmark value of £3.56 million.
- 3.31 As per the Mayors SPG and the Councils planning guidance, we have used the EUV benchmark value for the purposes of our analysis.

4.0 RESIDENTIAL VALUES

- 4.1 We understand that the proposed residential units will not have the benefit of car parking. The Mouseprice House Price shown below notes the average sales prices for units sold in the locality of the subject site. It can be seen that the subject site is within a location which can see similar values when compared to the Belsize Park area.



4.2 The one bed units over both buildings A and B have been valued at an average of [REDACTED] sq.m). The applicant's consultants have provided evidence for the asking prices on the Camden Courtyards development for one bed units which provides an average value of £612,500 (£1,106 sq.ft / £11,905 sq.m). The Barratt website is currently advertising units on this development. The one beds are advertised as follows:

- Plot 154 advertised for £620,000 (£1,120 sq.ft / £12,062 sq.m)- 3rd floor
- Plot 113 advertised for £660,000 (£1,213 sq.ft / £13,069 sq.m) - 1st floor
- Plot 110 advertised for £670,000 (£1,221 sq.ft / £13,060 sq.m) - 1st floor.

We consider that the advertised prices on this comparable scheme have increased since the Savills residential research was compiled.

4.3 Savills note that the average asking price for the one bed units on the Plender Street development is £537,916 (£990 sq.ft / £10,758 sq.m). The subject site is within a micro-location which tends to see higher residential unit values. Therefore, we would expect to see higher sales values with reference to this comparator.

4.4 Savills further provide evidence which shows that the average one bed advertised value on the Princess Park development is £450,000 (£938 sq.ft / £10,000 sq.m).

4.5 We have had reference to second hand sales information and allowed for HPI increases. All units were built post 2005 and were in very good/excellent condition when sold. The transactions have occurred within the last year. We note that the units at the Lock House have the benefit of a private balcony and resident's gym.

Address	Purchase Price (+ HPI)	Sq.ft	Sq.m	£sq.ft	£sq.m	Comments
Flat 7 Geoff Marsh Court, NW5 4DX	£377,764	408	38	£926	£9,967	Built in 2005, 1st floor unit
Flat 3 Geoff Marsh Court, NW5 4DX	£333,445	412	38	£809	£8,706	1st floor unit
Flat 33 Lock House, NW1 3BF	£549,552	512	48	£1,073	£11,449	Built in 2008, 5th floor unit
Flat 111 Lock House, NW1 7BJ	£673,405	540	50	£1,247	£13,414	1st floor modern unit
Flat 7 Lock House, NW1 7BF	£505,507	495	46	£1,021	£10,989	Mid floor apartment
Average	£487,935	473	44	£1,031	£11,069	

4.6 In line with the evidence provided by Savills and our own market research we are of the view that the one bed units have been valued using broadly reasonable sales rates.

4.7 The two bed units have been valued at an average of [REDACTED] .

4.8 The asking price information for two bed units on the Regent Canalside development as provided by Savills shows an average unit value of £961,999 (£1,096 sq.ft / £11,732 sq.m).

4.9 Savills note an average asking price for two bed units in the Camden Courtyards development of £908,667 (£1,072 sq.ft / £11,502 sq.m). We have seen updated asking prices for the units on this development as listed below:

- Plot 142 advertised for £712,000 (£1,080 sq.ft / £11,615 sq.m)- 1st floor
- Plot 157 advertised for £742,000 (£1,127 sq.ft / £12,124 sq.m)- 4th floor
- Plot 150 advertised for £819,500 (£1,013 sq.ft / £10,898 sq.m)- 3rd floor
- Plot 156 advertised for £825,000 (£1,029 sq.ft / £11,074 sq.m)- 4th floor
- Plot 138 advertised for £905,000 (£969 sq.ft / £10,426 sq.m)- Ground floor
- Plot 139 advertised for £905,000 (£969 sq.ft / £10,426 sq.m)- Ground floor
- Plot 163 advertised for £1,275,000 (£1,395 sq.ft / £15,018 sq.m)- 6th floor.

4.10 The two bed units on the Plender Street development have an average asking price of £657,250 (£934 sq.ft). The units on the Princess Park Apartments development have average advertised values of £778,333 (£959 sq.ft / £10,378 sq.m).

4.11 The table below shows research for recent second hand two bed sales information.

Address	Purchase Price (+ HPI)	Sq.ft	Sq.m	£sq.ft	£sq.m	Comments
Flat 12 Lock House, NW1 7BF	£824,328	768	71	£1,073	£11,610	Modern 1st floor unit
Flat 60 Lock House, NW1 7BF	£904,822	732	68	£1,236	£13,306	3rd floor unit
Flat 143 Lock House, NW1 7BJ	£890,882	732	68	£1,217	£13,099	2nd floor unit
25 Canal Boulevard, NW1 9AQ	£791,762	973	90	£814	£8,758	Built in 2005 with car parking
7, 28 Belsize Park Gardens, NW3 4LH	£902,972	717	66.6	£1,259	£13,556	Victorian conversion
Average	£862,953	784	73	£1,100	£11,853	

4.12 We have also looked at currently advertised prices for other new build units within close proximity of the subject site. We note:

- A 4th floor unit at 79 Camden Road is currently for sale for £742,000 (£1,126 sq.ft / £12,124 sq.m). This unit has the benefit of a balcony and underfloor heating. Another 4th floor unit is currently for sale for £825,000 (£1,029 sq.ft / £11,074 sq.m)
- A 3rd floor unit at 79 Camden Road is currently for sale for £819,500 (£1,013 sq.ft / £10,898 sq.m)
- A 5th floor unit on the Regent Canalside development is currently for sale for £1,050,000 (£1,188 sq.ft / £12,785 sq.m). This is a Taylor Wimpey scheme comprising 52 apartments and two townhouses.

4.13 The sales rate for the two bed units appears to be lower than anticipated in line with second hand sales prices and currently advertised new build information. On this basis, we have increased the sales rate to [REDACTED] sq.m. this provides additional revenue of circa £110,000.

4.14 The three bed units have been valued at an average of [REDACTED] .

4.15 Savills note that the average advertised unit value for three bed units on the Plender Street development is £825,833 (£926 sq.ft / £9,603 sq.m).

4.16 The currently advertised values for the three bed units on the Central Courtyards development are as follows:

- Plot 162 advertised for £1,150,000 (£1,170 sq.ft / £12,596 sq.m)- 5th floor
- Plot 160 advertised for £1,170,000 (£1,215 sq.ft / £13,073 sq.m)- 5th floor

- Plot 161 advertised for £1,170,000 (£1,179 sq.ft / £12,690 sq.m)- 5th floor

4.17 We have had reference to second hand sales information for three bed apartments within the locality of the subject site as shown below.

Address	Purchase Price (+ HPI)	Sq.ft	Sq.m	£sq.ft	£sq.m	Comments
Flat 1 236 Camden Road, NW1 9HE	£1,256,309	1,238	115	£1,015	£10,924	Period conversion
6 Bellgate Mews, NW5 1SW	£1,221,227	1,175	109	£1,039	£11,194	Dated unit with private garden
Flat 81 Antrim Mansions, NW3 4XL	£1,143,014	1,087	101	£1,052	£11,317	Sold in good condition
Flat 1 Glenloch Court, NW3 4DD	£815,151	818	76	£997	£10,726	Refurbished unit
Average	£1,108,925	1,080	100	£1,027	£11,059	

4.18 On the basis of the information set out above we would expect the proposed units to achieve a slightly higher sales rate of [REDACTED] sq.m. This generates additional revenue of £178,000.

4.19 In adjusting the sales rate for the two and three bed units, we calculate an average sales rate of [REDACTED] sq.m.

4.20 Savills have adopted ground rents for 1, 2 and three bed flats at £300, £350 and £400 per annum respectively. The ground rent for the units on the Plender Street development are £300 pa for 1 beds, £400 pa for 2 beds and £500 pa for 3 beds. We understand that the ground rents for the Regent Canalside development are set at similar levels. Therefore, we have selected these rates for the purpose of our analysis. This generates additional revenue of say £18,200.

5.0 COMMERCIAL VALUES

5.1 The commercial values have been assessed on the basis of comparable evidence. The applicant's consultants have considered the office/light industrial evidence contained within the benchmark value report. Savills note that the ground floor space will attract a premium over EUV values whereas the lower ground floor space will see lower rental values due to limited natural light.

5.2 Rent has been assumed to be [REDACTED] sq.ft on the ground floor space and [REDACTED] sq.ft on the lower ground floor space. The applied yield is 6% and the combined rent free/void period is [REDACTED] months.

5.3 We consider that a lack of natural light can suppress rental values in the workspace context although if properly designed, this negative impact can be mitigated, especially in relation to commercial/storage and light industrial uses where access to natural light is of much less sensitivity compared to say office use. 56% of the proposed floor area for the funeral parlour is on the lower ground level. The plans for the proposed facility show that the majority of the space on the lower ground level is identified for storage use. The rooms which may be impacted negatively by location on the lower ground will be the staff room/workshop, chapel and show room. The existing facility is wholly situated on the ground and first floor levels.

5.4 In valuing the accommodation we have considered its more general value outside of the requirements of the proposed use.

- 5.5 The applicant's consultants have not provided a breakdown of the NIA for the proposed commercial space. However, we are able to calculate the floor area using assumptions provided within the submission. We calculate the lower ground level to be 5,395 sq.ft and the ground floor level to be 4,281 sq.ft. This shows that 56% of the space is on the lower ground level which is broadly in line with the GIA split measurements as noted on the submitted design and access statement.
- 5.6 We note that Providence Court, N1 0RN is a basement industrial facility (B1/B2/B8) which was under offer in November 2015 with an advertised rent of £13,500 pa (£9.94 sq.ft / £107 sq.m). The building is located on Providence Place, within a housing estate to the rear of Upper Street. The space was advertised in poor condition with no lift. This space would not be used to facilitate commercial business with members of the public. The proposed lower ground floor facility will be developed to a specification to allow for this and will include a lift and as such we would anticipate higher rental levels to be achievable.
- 5.7 We have researched comparable sales evidence for office/industrial facilities. 7-9 Cloudesley Road, N1 0EJ was sold in July 2015 for £1,100,000 (£607 sq.ft / £6,548 sq.m). This is a newly refurbished ground floor office with 61% of the total area located at basement level.
- 5.8 128-130 Grafton Road sold in January 2014 for £1.275 million (£412 sq.ft / £4,443 sq.m). This unit has 56% industrial space on the ground floor with office space on a mezzanine level. The unit was sold in fair condition and we would anticipate a superior value achievable on the subject development.
- 5.9 75 Bayham Street was sold in October 2014 for £1.96 million (£510 sq.ft / £5,491 sq.m). This is a terrace office/warehouse building over three floors. This had been used as a specialised workshop in the piano industry.
- 5.10 Given the nature of the proposed facility and the limited comparable evidence, we have considered a range of freehold values. In line with the evidence above, in selecting a higher rate of [REDACTED] sq.m on the ground floor level, we calculate total value of £3.38 million assuming the value ascribable to the lower ground floor is at a quarter rate to ground floor. Selecting the lower ground floor rate of [REDACTED] sq.m, we calculate a total value of £2.53 million. The applicant's consultants calculate a total freehold value of £2,326,171.
- 5.11 Based on our analysis we are of the view that the value of the proposed facility lies within a potential range of values £2.53m -£3.38m, this range exceeds the values applied by Savills.
- 5.12 For the purposes of this review, we have selected a capital value of £3.38 million. We have allowed for the three month rent free period as this is an acceptable market standard assumption although we note that in reality this wouldn't apply as the facility will be owner occupied.

6.0 BUILD COSTS

- 6.1 Our Cost Consultant, Neil Powling FRICS has reviewed the build cost plan provided by the applicant. Neil concludes that the build costs have been overstated. Neil calculates a revised construction cost of [REDACTED] including fees and contingency. This is a difference on the applicant's costs of £2,010,540.
- 6.2 Site acquisition costs are approximately 6.4% on the residualised land value which appears reasonable. Mayoral CIL is £79,400 and Borough CIL is £263,800.

- 6.3 The following build and disposal fees have been included:
- Marketing fees of 1.50% on sales revenue
 - Letting agent and legal fees of 15% on commercial annual rent
 - Sales agent and legal fees of 1.50% on net development value (NDV).
- 6.4 Finance costs have been calculated on the basis of a 7% debit rate and a 1% credit rate. The assumed time frame is 6 months for purchase, planning and pre-construction and 18 months for construction. A 6 month sales period has been allowed for with an assumption that 40% of the units will be sold off plan with receipt at practical completion and 2-3 units will be sold per month thereafter. These assumptions do not appear to be unreasonable and we have maintained them for the purposes of our review.
- 6.5 The profit on GDV is 19.85%. We generally see a profit on private housing of 20% and a profit on commercial space of 15%. We have allowed for this assumption within our appraisal. This provides a blended profit target of 19.12%.

Appendix 1: Build Cost Review

Project: 1-3 and 4-8 Ferdinand Place, Camden NW1 8EE

1 SUMMARY

- 1.1 Blenheim House Construction is a main contractor specialising in high quality fit-out refurbishment and new build developments with a head office in Chertsey Surrey. We would generally expect a cost plan to be prepared by an independent consultant at this early stage in the design process.
- 1.2 Blenheim House Construction (BHC) state on their web site that a large proportion of their work is design & build. We note that the cost plan includes an allowance for fees of 15%. If the procurement route is design & build we consider a rate of 8% to be reasonable. If a traditional procurement route is intended there seems little point in involving BHC at this stage.
- 1.3 The cost plan includes an allowance of 23.9% for preliminaries and scaffolding. We consider this extremely high for a project of this type and location and have applied the rate of 16% in our calculations. The allowance for overheads and profit (OHP) is 7.5%; we consider this at the upper end of the range we would expect. The allowance for contingencies has been costed at 5% but arranging the sequence of the estimate to a normal arrangement the allowance amounts to 5.7%. We consider 5% to be reasonable.
- 1.4 Our calculations indicate that the cost of the application scheme applying rates for preliminaries of 16%, OHP of 7.5% (as the application), contingency 5% and fees 8% results in a reduction in cost compared to the Applicants of £1,251,595.
- 1.5 Our adjusted benchmarking results in a benchmark cost for building A of [REDACTED] - compared to the Applicants figures adjusted in accordance with 3.14 this shows a difference in cost of £305,671.
- 1.6 Our adjusted benchmarking results in a benchmark cost for building B of [REDACTED] - compared to the Applicants figures adjusted in accordance with 3.14 this shows a difference in cost of £453,274.
- 1.7 The total reduction resulting from 1.4, 1.5 and 1.6 is £2,010,540 giving a revised construction cost of [REDACTED] (includes fees and contingency).

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.
- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking

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

- 2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available on an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services - but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.
- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having been used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.

- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.
- 2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.
- 3 GENERAL REVIEW
- 3.1 We have been provided with and relied upon the Viability Assessment Report issued by Savills dated 1st June 2016 together with Appendices 1 to 8.
- 3.2 Appendix 6 is the cost plan for the proposed scheme issued by Blenheim House Construction Ltd - there is no date or attribution shown on the cost plan. We have assumed the date to be the same as the date of issue of the Viability Report.
- 3.3 We have also downloaded several documents from the planning web site including the Design & Access Statement.
- 3.4 Blenheim House Construction is a main contractor specialising in high quality fit-out refurbishment and new build developments with a head office in Chertsey Surrey. We would generally expect a cost plan to be prepared by an independent consultant at this early stage in the design process.
- 3.5 Blenheim House Construction (BHC) state on their web site that a large proportion of their work is design & build. We note that the cost plan includes an allowance for fees of 15%. If the procurement route is design & build we consider a rate of 8% to be reasonable. If a traditional procurement route is intended there seems little point in involving BHC at this stage.
- 3.6 The cost plan is in itemised form with little similarity to a BCIS elemental format, but in sufficient detail that (with the exception of M&E services) we have been able to abstract the cost data into an approximation of a BCIS elemental format.
- 3.7 The cost plan includes an allowance for fees of 15% which amounts to 13.2% when

the cost plan is re-sequenced into a normal arrangement.

- 3.8 The total amount of the cost plan excluding fees is [REDACTED] m²). Including fees the total is [REDACTED] /m²).
- 3.9 Our benchmarking uses current BCIS data which is on a current tender firm price basis.
- 3.10 The cost plan includes an allowance of 23.9% for preliminaries and scaffolding. We consider this extremely high for a project of this type and location and have applied the rate of 16% in our calculations. The allowance for overheads and profit (OHP) is 7.5%; we consider this at the upper end of the range we would expect. The allowance for contingencies has been costed at 5% but arranging the sequence of the estimate to a normal arrangement the allowance amounts to 5.7%. We consider 5% to be reasonable.
- 3.11 Sales have been included in the Appraisal at average figures of £991/ft² (Net Sales Area). Kitchens have been included in the estimate at £10,000 per kitchen.
- 3.12 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 127 that has been applied in our benchmarking calculations.
- 3.13 Refer to our attached file “Elemental analysis and BCIS benchmarking”.
- 3.14 Our calculations indicate that the cost of the application scheme applying rates for preliminaries of 16%, OHP of 7.5% (as the application), contingency 5% and fees 8% results in a reduction in cost compared to the Applicants of £1,251,595.
- 3.15 Our adjusted benchmarking results in a benchmark cost for building A of [REDACTED] /m² - compared to the Applicants figures adjusted in accordance with 3.14 this shows a difference in cost of £305,671.
- 3.16 Our adjusted benchmarking results in a benchmark cost for building B of [REDACTED] /m² - compared to the Applicants figures adjusted in accordance with 3.14 this shows a difference in cost of £453,274.
- 3.17 The total reduction resulting from 3.14, 3.15 and 3.16 is £2,010,540 giving a revised construction cost of [REDACTED] (includes fees and contingency).

BPS Chartered Surveyors
Date: 1st July 2016

Elemental analysis & BCIS benchmarking

Add prelims @ say 16%
Add OHP @ 7.5%
Total adjusted benchmark
Total Applicant costs but with prelims @ 16% and OHP 7.5%
Difference to Applicants costs @ 16% prelims
Ditto full cost

1-3 and 4-8 Ferdinand Place, NW1 8EE



Addendum Report

Application Reference: 2016/2457/P

31st October 2016

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden (the Council) to review a viability submission prepared by Savills on behalf of Leverton and Sons (the applicant) in respect of a proposed development at 1-3 and 4-8 Ferdinand Place, NW1 8EE.
- 1.2 This addendum provides an update to our initial report dated 5 August 2016 and has been compiled in response to Savills' email dated 16th September 2016 as well as correspondence between our respective Cost Consultants. This addendum should be read in conjunction with our original report.
- 1.3 As noted in our initial report, the key areas of disagreement between Savills and BPS were:
 - The basis of the benchmark land value
 - The level of landowner's premium above EUV
 - Profit targets for commercial space
 - Proposed construction costs.
- 1.4 Following our initial review, the applicants Cost Consultants have provided further information to support the proposed build cost assessment. Furthermore, the proposed total build cost has been significantly reduced when compared to the initial submission. However, at the agreed scheme cost level the surplus identified within our August report for affordable housing contributions is no longer available.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 Savills have not sought to impose the market value of the subject site as the basis of the benchmark land value and instead considered the existing use value which is now in accordance with the Mayor's preferred basis for considering viability for planning purposes.
- 2.2 Savills contend that there should be a landowner's premium on the existing use value of 40%. We have considered the specific site circumstances and have seen no reason to move away from the position within our initial report of 20%. We have not encountered the need for such a high level of land owner incentive and weighing the arguments proposed for an abnormally high premium we consider this to be unjustified. We remain of the view that the EUV of the site plus premium is £3.56 million rather than £4.2 million as proposed by Savills. We consider that any review provision should adopt our benchmark land value.
- 2.3 Savills does not agree with our valuation of the proposed facility. We have reviewed the arguments put forward with regards to our analysis of comparable evidence, however, we see no justified reason to move away from our view as discussed within our August report.

- 2.4 We proposed a profit target of 15% for the commercial space. Savills note that this is too low. Due to the location and the nature of the current proposals, we consider that a 15% profit target is indeed reasonable and accords with typical returns sought from commercial development. Profit in this context must reflect the degree of development risk and we have not seen any arguments advanced by Savills that suggest this scheme would represent any undue or abnormal level of risk therefore higher profit levels appear unjustified.
- 2.5 Despite the areas of apparent disagreement, we also conclude that the proposed scheme cannot when adopting our appraisal assumptions, viably provide contributions towards affordable housing. We do however view the level of scheme deficit as being marginal in relation to the overall value of the scheme, consequently, we recommend that the Council includes a review mechanism within the S106 agreement in the event that consent is granted. The review mechanism should be based on the profit targets and benchmark land value we identified within our initial review.

3.0 BENCHMARK LAND VALUE

- 3.1 Savills have dropped their requirement to base the benchmark land value on a superficial analysis of market sale evidence. Instead an EUV approach is now considered which accords with our recommended approach as set out within our August review.
- 3.2 Savills propose a landowner's premium above EUV of 40%. We generally see land owner premiums of 5%-30% which must reflect the circumstances of the site. Although RICS Guidance notes that the typical range may extend to 40% we have not in practice seen premiums proposed at this level over several hundred viability reviews and consider this to be a disproportionate requirement given the circumstances of this scheme.
- 3.3 Savills adopt a EUV value of £2.98 million and with 40% premium, the proposed EUV plus benchmark is £4.2 million.
- 3.4 We would expect to see an uplift of 40% for development sites where there is, for example, an owner occupier who is faced with significant issues such as relocation costs, loss of good will and loss of key staff members. Such circumstances do not apply in this instance therefore we contend that a 20% uplift is a much more reasonable and proportionate level of incentive for the following reasons:
- a. The existing facility is not fit for purpose in many respects as noted in the design and access statement, hence the current application for redevelopment, therefore there is a strong existing incentive on the owner to redevelop the property.
 - b. The applicant in this instance will not suffer from relocation costs and any loss of custom will likely be a temporary shortfall.
- 3.5 We therefore remain of the view that a 20% premium is relevant in this case. Should the proposed scheme be granted consent we consider that our benchmark land value of £3.56 million should be adopted within the relevant review provision as opposed to Savills' proposed benchmark of £4.2 million.

4.0 COMMERCIAL VALUES

- 4.1 In order to ascertain whether the valuation for the proposed commercial facility is reasonable, we provided comparable evidence for industrial/office premises. We considered both rental and sales evidence.

- 4.2 Savills refer to our initial report at paragraph 5.6 where we state that the lower ground floor of the proposed facility will be developed to a standard to allow for public access. This statement was made to draw comparisons with Providence Court, N1 0RN which is in very poor condition with no lift access. This lower ground floor comparable was advertised to rent for £9.94 sq.ft and our key point was that a rent of [REDACTED] on the lower ground floor of the proposed facility appears low.
- 4.3 We agree that the lower ground floor level is to be used largely for industrial/storage use, however, the plans show that this level includes a chapel and a show room and therefore some level of access for the public will be required.
- 4.4 Savills contend that 128-130 Grafton Road is the most relevant evidence which shows a sales rate of £412 sq.ft / £4,443 sq.m. Unsurprisingly, this is the lowest value rate within the evidence we provided. This comparable is in fair condition and, as noted by Savills, is within an area inferior to the subject site. We anticipate that the proposed new build facility would achieve a higher sales rate when compared to this evidence.
- 4.5 Savills note that the remaining two comparable properties are in superior locations when compared to the subject site:
- 7-9 Cloudesley Road - Savills note that although this comparable provides a *large proportion of basement accommodation, the majority is used as fully functioning office space with only a small amount being provided within vaults.* This is a refurbished media style unit which has a large proportion of space on the lower ground floor. We accept that this comparator is within a superior location, however, the subject site does have a strong location in close proximity to Camden Stables
 - 75 Bayham Street - Savills note that this unit comprises a greater provision of office space over 3 floors. We accept that this unit has the benefit of a larger proportion of above ground floor space, however, we consider that the proposed commercial space will achieve superior standard.
- 4.6 On the basis of the arguments submitted by Savills, we have seen no reason to depart from our initial view with regards to the valuation of proposed facility.

5.0 PROFIT TARGET

- 5.1 Savills did not agree with our view that a 15% profit on GDV for commercial space was reasonable. Savills note that:

we may expect a slightly lower profit level on commercial space if there were a large pre-let in place de-risking development, however you state at 5.4 that you have given consideration to the proposed space in its more general value outside of the requirements of the proposed use, and given the location and nature of the space this would be highly unlikely. Even in the event that a pre-let were secured, we still consider 15% Profit on GDV to be an inadequate return, particularly taking into consideration current market uncertainty.

- 5.2 Due to the location of the development and in that the current proposals are for a total newly built facility; we are of the view that a 15% profit target is reasonable. We have regularly seen commercial developments provide for a profit on GDV of 15% or less in areas such as Camden. We have been provided with no compelling evidence to suggest this scheme is particularly higher risk or that current market circumstances have deteriorated to the point which suggests the market is in collapse or other such circumstances. Therefore, we see no reason to alter our view

as to an appropriate profit margin for this development. We consider that our assessment of profit should form the basis for any review of scheme viability should the proposed scheme be granted planning consent.

6.0 BUILD COSTS

6.1 Our Cost Consultant concluded within our initial review that the proposed construction costs appeared overstated by approximately £2.0 million. Our Cost Consultant has subsequently discussed the costs with Blenheim House Construction and received an updated cost plan, dated September 2016.

6.2 The current cost of [REDACTED] compares to the original application cost of [REDACTED]. Our Cost Consultant is broadly satisfied that the current build costs and fees are in consequence reasonable.

1-3 and 4-8 Ferdinand Place, NW1 8EE



Second Addendum Report

Application Reference: 2016/2457/P

7 January 2017

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden (the Council) to review a viability submission prepared by Savills on behalf of Leverton and Sons (the applicant) in respect of a proposed development at 1-3 and 4-8 Ferdinand Place, NW1 8EE.
- 1.2 To date, we have provided an initial viability review and an addendum report, dated 5th August 2016 and 31st October 2016 respectively. Following our addendum report, Savills have provided an additional addendum letter which disputes many of our assumptions. Furthermore, we understand that some changes have been made to the scheme following consultation with the Council. To reflect these changes, Savills have prepared a Viability Assessment Addendum Report, undated (received 24th January 2016).
- 1.3 This addendum is in two parts:
 - a) An analysis of the scheme amendments and residual land value calculated by Savills. We understand that the key change relates to the removal of the fourth floor of the building at 1-3 Ferdinand Place. This has an impact on the mix of residential units
 - b) Commentary on the letter compiled by Savills, dated 7 December 2016 which responds to our first addendum report.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have adjusted the appraisal in line with the scheme alterations. We have made the following adjustments of:
- Proposed valuation of commercial space - we maintain our view that the space has been undervalued, especially in relation to its costs of construction and is in effect reliant on a cross subsidy from the rest of the scheme for its viability. We have followed through this approach to identify a point at which potential value and costs broadly break even. For the lower ground floor commercial space, the appropriate rental rate is [REDACTED] sq.m excluding finance fees and a profit of 15%.
 - The proposed construction costs - our Cost Consultant has reviewed the proposed costs and is of the view that they are higher than anticipated. We have made an appropriate reduction to reflect the findings in our consultants cost report set out in full at Appendix 1.
 - Profit target - we have allowed for a profit target on GDV of 20% for private units and 15% for the commercial unit. This provides a blended profit target of 19.12% which compared to Savills' assumption of 19.84%.
- 2.2 We remain of the view that the relevant benchmark land value in this instance is £3.56 million which is inclusive of a landowner premium allowance of 20%.
- 2.3 We have reviewed the proposed residential values and conclude that the one and two bed units appear slightly undervalued. Given the relatively small margin in percentage terms this represents, we consider that the most appropriate means for addressing this uncertainty is through an outturn review of viability which is also consistent with the council's planning guidance.
- 2.4 On the basis of our revised appraisal, we calculate a residual land value of £2.77 million as compared to our EUV plus benchmark of £3.56 million. Therefore, the scheme remains in deficit.
- 2.5 Savills are opposed to the inclusion to a review mechanism within the s106 agreement. This is clearly a standard requirement of the Council's planning guidance and as such Savills' approach would not conform with this. The Mayors draft SPG supports the inclusion of viability review mechanisms for schemes which do not deliver a policy compliant level of affordable housing. Given the potential uncertainties relating to sales values and the proposed costs of the development and the absence of an affordable housing contribution we are of the view that a review mechanism is entirely reasonable and consistent with the requirement to maximise affordable housing delivery.

3.0 THE CURRENTLY PROPOSED SCHEME

- 3.1 Savills' June 2016 viability assessment report concluded that the proposed scheme generated a deficit of -£5.96 million after allowing for a benchmark land value of £7.5 million. Savills calculate that the revised scheme generates an increased deficit of -£6.15 million after allowing for the benchmark land value reflecting their view that the changes have reduced apparent viability. Savills outline that the enhanced deficit *is primarily due to the fact that the large duplex units have been removed which benefitted from a capital and £/sq ft value premium.*
- 3.2 At this level of proposed deficit, it is difficult to see why a rational land owner/developer would wish to proceed with this scheme.
- 3.3 Savills summarise that the key changes to the scheme are as follows:
- Removal of the proposed fourth floor of the building at 1-3 Ferdinand Place
 - New mix of proposed residential units
 - Amended elevations and provision of external amenity space to the units at 1-3 Ferdinand Place.
- 3.4 There are no proposed changes to the commercial element of the scheme.

RESIDENTIAL VALUES

- 3.5 The residential mix has been altered as summarised within the table below.

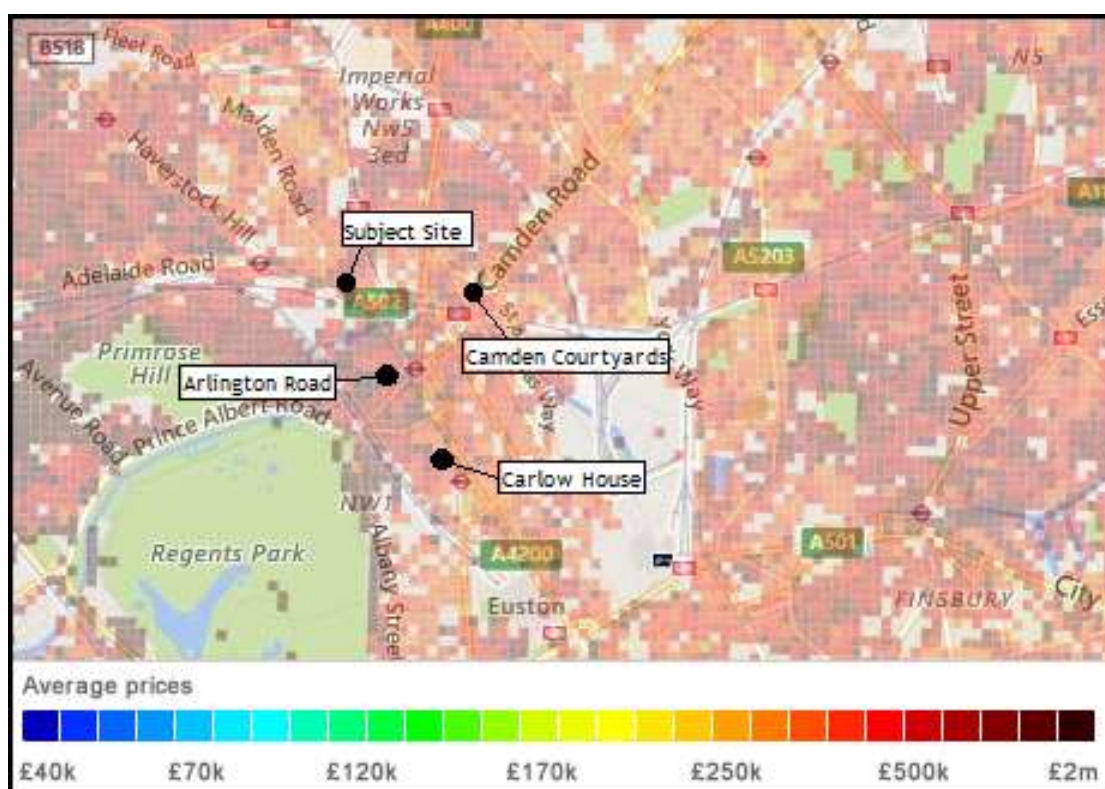
	Mix	Average Sq.ft	Average Sq.m
1 Bed	6	601	55.8
2 Bed	8	689	64.0
3 Bed	5	1,001	93.0
Total	19		

- 3.6 Within our report dated 5th August 2016, we concluded that the one bed units were valued at a reasonable level, however, we regarded the proposed sales rates for the two and three bed units as potentially understated.
- 3.7 Savills have provided an updated schedule of accommodation which has been supported by advertised and achieved sale prices for comparable new build units.
- 3.8 We have summarised the proposed values as shown below.

	Block A		Block B	
	Unit Value	Sales Rate (sq.ft)	Unit Value	Sales Rate (sq.ft)
1 Bed	██████	██████	██████	██████
2 Bed	██████	██████	██████	██████
3 Bed	██████	██████	██████	██████

- 3.9 In relation to the one bed units, we noted within our initial review report that the units within buildings A and B had an average proposed value of ██████ (██████ sq.ft / ██████ sq.m).
- 3.10 The Barratt London development at Camden Courtyards currently has 2x one bed units advertised for sale. Plot 118 is a 2nd floor unit on the market for £575,000 (£1,058 sq.ft / £11,386 sq.m). Plot 94 is a 3rd floor unit on the market for £585,000 (£1,076 sq.ft / £11,584 sq.m).

- 3.11 Carlow House, is a Galliard Homes development just north of Mornington Crescent. A one bed flat is currently for sale for £699,000 (£1,490 sq.ft / £16,038 sq.m). This development is within Regents Park, a high value area.
- 3.12 We have seen 2x one bed units which have been recently converted and are advertised in excellent condition. The units are situated on Arlington Road which is in very close proximity of Camden Town Underground Station. A first floor apartment is currently for sale for £599,950 (£1,263 sq.ft / £13,595 sq.m). A ground floor unit is also currently for sale at a unit price of £699,950 (£1,090 sq.ft / £11,736 sq.m). This property has the benefit of a private patio area.
- 3.13 The map below shows the developments discussed above in relation to the subject site.



Source: Mouseprice

- 3.14 We are of the view that the proposed one bed unit values appear slightly low. This issue could be revisited at review.
- 3.15 The proposed two bed units have been valued on average for £686,250 (£997 sq.ft / £10,732 sq.m).
- 3.16 A two bed flat is currently for sale at the Princess Road development, Primrose Hill for £1,095,000 (£1,418 sq.ft / £15,268 sq.m). Residential units in this micro location tend to see higher sales values when compared to the subject site. Therefore, this marketing price represents the ceiling of potential values.
- 3.17 Two units are also currently for sale on the Arlington Road development. A larger unit is advertised for £1,100,000 (£1,022 sq.ft / £11,000 sq.m) and a smaller unit is advertised for £699,950 (£1,090 sq.ft / £11,736 sq.m) situated on the third floor and ground floor respectively.

- 3.18 Two new build units are currently for sale on the Prince of Wales Road development for £895,000 (£1,081 sq.ft / £11,623 sq.m) and £999,950 (£976 sq.ft / £10,526 sq.m). The apartments have the benefit of a balcony as well as allocated parking.
- 3.19 Flat 12 at Grove View Apartments is a very modern unit with an allocated parking space. The unit sold for a HPI adjusted price of £715,860 (£864 sq.ft / £9,297 sq.m). This is a penthouse apartment within a church conversion. This type of unique property would attract a limited pool of potential purchasers which may impact the achievable value.
- 3.20 On the basis of the information submitted by Savills and our own research, we are of the view that the values attached to the two bed units are lower than anticipated.
- 3.21 The three bed units have been valued on average for [REDACTED] sq.ft / [REDACTED] sq.m). Based on the information provided by Savills, this appears to be reasonable.
- 3.22 Ground rent is set at £300, £350 and £400 respectively for 1, 2 and 3 bed units. The capitalisation yield is 5.50%. These assumptions appear reasonable.

BUILD COSTS

- 3.23 Blenheim House have provided an updated cost plan taking account of the revised scheme. Our Cost Consultant, Neil Powling FRICS has reviewed this information and concludes:
- “Our adjusted benchmarking results in a benchmark cost for building A of [REDACTED] m² - compared to the Applicants figure of [REDACTED] /m² this shows a difference in cost of £660,789.*
- Our adjusted benchmarking results in a benchmark cost for building B of [REDACTED] /m² - compared to the Applicants figure of [REDACTED] /m² this shows a difference in cost of £386,243.”*
- 3.24 A 5% contingency was previously included within the cost plan which has now been adopted within the appraisal.
- 3.25 Acquisition, marketing and letting percentage allowances have been maintained.
- 3.26 Planning obligations within the appraisal are:
- Borough CIL: £271,000
 - Mayoral CIL £95,000.
- 3.27 Finance costs have been maintained at a debit rate of 7% and a credit rate of 1%. Which equates to approximately 8% of construction costs.
- 3.28 Profit on GDV is 19.84%. We have included our revised assumption of a blended profit on GDV of 19.12% based on 20% and 15% on GDV for private residential and commercial space respectively.

4.0 REMAINING AREAS OF DISAGREEMENT

4.1 We noted within our initial report that the following aspects had not been agreed between BPS and Savills:

- The valuation of the proposed commercial space
- The valuation of the proposed residential two and three bed units
- The profit level
- The benchmark land value
- The proposed build costs.

Due to the scheme changes, we have dealt with residential unit values and build costs within the preceding section.

4.2 The disagreement in relation to the valuation of the proposed commercial space cannot be readily resolved through an outturn review as this space will not be traded on the open market. Our concern was that the valuation placed on the lower ground floor potentially understated the value of this space.

4.3 In an effort to resolve this position we have considered the costs of building the commercial space relative to the value assigned to it. In discussion with our Cost Consultant, we have identified an approximate cost of £1.56 million in relation to the development of the basement space at Block A. Allowing for finance fees and profit, the overall cost is approximately £1.9 million. The value ascribed to this space by Savills is say £900,000. Compared to the development costs, Savills' valuation shows a shortfall of say -£661,000 before allowing for finance fees and developer profit on this element. On this basis, the commercial area is effectively being cross subsidised by the rest of the scheme reducing its viability.

4.4 Assuming this space was valued at a level which covered its costs of development, we would expect this to translate to an overall rent of [REDACTED] 2 sq.ft / [REDACTED] sq.m. For the purposes of our modelling, we have adopted a rate of [REDACTED] sq.ft / [REDACTED] sq.m which does not account for profit and finance fees. We consider this to be a realistic approach to resolving the differences of opinion between us in respect of an appropriate rental and capital value for this element given the unusual nature of the space and the fact it will not be brought to the market.

4.5 In relation to the proposed residential sales values, as we previously concluded that the proposed scheme was not viable we are of the view that an outturn review mechanism would address remaining uncertainty. We note that Savills do not agree with the principle of a review mechanism for a scheme of this nature. Savills quote appeal cases. In response, we note that the Planning Inspectorate has also approved the use of late stage reviews in the following cases:

110 Walm Lane, Brent (appeal reference APP/T5150/A/14/2219081); 106 Manor Way, Greenwich (APP/E5330/A/13/2198251); Former BR Goods Yard, Midland Road, Nuneaton (APP/W3710/A/12/2176750); 80 Ruckholt Road, Waltham Forest (APP/U5930/A/12/2173087) and. Appeal Ref: The Swan Public House, 201 Swan Road, Feltham TW13 6RQ (APP/F5540/A/12/2184476).

4.6 Camden Planning Guidance, which is a material consideration, states that the Council will seek to “*negotiate deferred affordable housing contributions (similar to 'contingent obligations' referred to in London Plan policy 3.12) for developments where the provision of housing/ affordable housing falls significantly short of targets in Development Policies DP1 and DP3 due to financial viability, and there is a prospect of viability improving prior to completion.*”

Furthermore, *“The Council has regard to the arrangements for ‘contingent obligations’ suggested by the London Plan and the Mayor’s SPG. In the particular circumstances of Camden, the Council takes the following approach:*

- *re-appraisal of viability is expected after implementation when the development is substantially complete; and*
- *re-appraisal of viability and deferred affordable housing contributions are sought as part of planning obligations for developments that proceed as a single phase, as well as for phased schemes.”*

- 4.7 The approach to late stage reviews is also supported by the Mayors draft Housing and Viability SPG. In light of this scheme delivering no affordable housing and our assessment highlighting some potential ambiguity within both the commercial and residential scheme values, there seems to be no reason why a late stage review in this should impact on delivery of this scheme or conflict with the London Plan requirement for schemes to maximise their contribution towards affordable housing provision. We do not consider the appeal cases cited as representing any sort of precedence against review as evidenced by contrary decisions.

COMMERCIAL VALUES

- 4.8 The valuation of the commercial space has been maintained. This is reflective of a rental rate of [REDACTED] sq.ft and a capitalisation yield of 6%. A 3 month rent free period has been included.
- 4.9 We have reviewed all of the correspondence on this matter to date. Savills proposed a rent of [REDACTED] sq.ft / [REDACTED] sq.m on the ground floor space and [REDACTED] sq.ft / [REDACTED] sq.m on the lower ground floor space. The applied yield is 6% and the combined rent free/void period is 3 months.
- 4.10 Savills initially provided rental information for industrial space. Three of the five comparables were let before January 2014. Regarding the two transactions post-2015, we note:
- 30-36 Bastwick Street: the unit is situated on ground and mezzanine floors and achieved a rent of £16.89 sq.ft / £182 sq.ft. This space was in satisfactory condition when let and we expect the subject ground floor space to achieve a higher rate
 - 45 Holmes Road: we have very little information on this property including the rental levels.
- 4.11 Savills wrote in their initial report that following discussions with local agents the subject space would achieve a rental rate of between [REDACTED].sq.ft and [REDACTED] sq.ft in its current condition. The proposed rent of [REDACTED] sq.ft for the ground floor new build space appears low in comparison.
- 4.12 Given the limited evidence for accommodation of this type we do not consider there is adequate clarity available to provide a definitive opinion on rental values. We however regard the approach set out under 4.4 and 4.5 above as addressing this point.

PROFIT

- 4.13 Savills make reference to the uncertainty in the UK economy and the specific characteristics of the proposed commercial space to justify a higher profit level.

- 4.14 We note that the Draft Mayors SPG states *“profit requirements for affordable housing should reflect significantly lower levels of risk when compared to private residential units. Similarly, lower levels of return would normally be expected for commercial and private rented accommodation.”*
- 4.15 We accept the comments in relation to the additional risk associated with the large proportion of being below ground in which there may be difficulties in marketing the property, however we also consider these to be more than offset by the occupier already having been identified. Had this not been the case we doubt whether a substantial basement as proposed would have been included within the scheme design. The use class could also place further limitations on the pool of potential occupiers.
- 4.16 We propose a profit of 15% takes into account both the effective pre-let and risks associated with this space and reflects the Mayors Draft SPG and the characteristics of the proposed space. We welcome Savills’ view on this point.

BENCHMARK LAND VALUE

- 4.17 Savills quote the RICS Financial Viability in Planning Guidance note which states that site value should have regard to development plan policies. We have had reference to Planning Practice Guidance:

“In all cases, estimated land or site value should:

- reflect emerging policy requirements and planning obligations and, where applicable, any Community Infrastructure Levy charge;*
- provide a competitive return to willing developers and land owners (including equity resulting from those building their own homes); and*
- be informed by comparable, market-based evidence wherever possible. Where transacted bids are significantly above the market norm, they should not be used as part of this exercise.”*

- 4.18 We consider that there is a high risk that misapplication of the RICS guidance has the effect of importing characteristics and constraints from other sites unless transactions are analysed on a policy compliant basis reflecting the wording of PPG in relation to policy in this regard.
- 4.19 We agree with Savills that the viability testing process should generally not reflect the specific circumstances of the applicant, however, we note in relation to the EUV plus approach the Mayors SPG states *“Premiums above EUV should be justified, reflecting the circumstances of the site and landowner.”* Nonetheless, we remain of the view that the subject site is no longer fit for purpose and a premium of 20% is reasonable in line with the circumstances of the site and landowner.
- 4.20 Savills question our premium of 20% as subjective and suggest that comparable market evidence with planning permission should be reduced by 30% in order to ‘have regard to development plan policies’ without apparent justification or evidence to support this assumption.
- 4.21 In relation to the comparable evidence for the market value analysis, we note that RICS Information Paper 12 Valuation of Development Land (2012) indicates that there are two accepted methods of land valuation namely the residual method and

the comparison method. Importantly this document makes the following statements:

In relation to the comparison method

4.2 Typically, comparison may be appropriate where there is an active market and a relatively straightforward low density form of development is proposed (for example, if the land is greenfield within a rural economy where infrastructure costs are consistent and not excessive, or small residential developments, and small industrial estates), and it is likely that the density, form and unit cost of the development will be similar. Less frequently, it may be possible to compare larger sites for housing developments on this basis.

4.4 Generally, high density or complex developments, urban sites and existing buildings with development potential, do not easily lend themselves to valuation by comparison. The differences from site to site (for example in terms of development potential or construction cost) may be sufficient to make the analysis of transactions problematical. The higher the number of variables and adjustments for assumptions the less useful the comparison. Comparison is rarely appropriate where construction has begun.

4.5 Where the comparative method is used it is assumed that the valuer adopts standard valuation techniques. However, some of the elements of a residual valuation may also be relevant to a valuation on this method.

- 4.22 Savills proposed an EUV plus benchmark of £4.2 million and a market value of £7.5 million.
- 4.23 Should the proposed scheme be granted consent we consider that our benchmark land value of £3.56 million should be adopted within the relevant review provision as opposed to Savills' proposed EUV plus benchmark of £4.2 million.

Appendix 1: Build Cost Review

Project: 1-3 and 4-8 Ferdinand Place, Camden NW1 8EE
Amended scheme

1 SUMMARY

- 1.1 The cost plan includes an allowance of 23.2% for preliminaries and scaffolding. We consider this extremely high for a project of this type and location and have applied the rate of 16% in our calculations. The allowance for overheads and profit (OHP) is 7.5%; we consider this at the upper end of the range we would expect. The allowance for contingencies has been included in the appraisal at 5% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.
- 1.2 The cost plan includes for fees at 12% which we consider reasonable for a traditional form of procurement.
- 1.3 Both buildings A and B are 5 storeys (Block B in the original scheme was 6 storeys); BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. The elemental information makes no distinction for storey height resulting in an anomaly for flats below 6 storeys. We have adjusted for this anomaly in our benchmarking.
- 1.4 Our adjusted benchmarking results in a benchmark cost for building A of [REDACTED]/m² - compared to the Applicants figure of [REDACTED]/m² this shows a difference in cost of £660,789.
- 1.5 Our adjusted benchmarking results in a benchmark cost for building B of [REDACTED]/m² - compared to the Applicants figure of [REDACTED]/m² this shows a difference in cost of £386,243.
- 1.6 These differences between BCIS adjusted benchmarking and the applicant's figures appear to occur in particular from differences in preliminaries, overheads and profit, mechanical and electrical services costs (for which no detail has been provided).

2 METHODOLOGY

- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant's costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of it's projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.
- 2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available on an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services - but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.
- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available)

specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.

- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.
- 2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

3 GENERAL REVIEW

- 3.1 We have been provided with and relied upon the Viability Assessment Report issued by Savills dated 1st June 2016 together with Appendices 1 to 8 and the undated addendum report.
- 3.2 We have also downloaded a number of files from the planning web site used for our previous report dated 1st July 2016.
- 3.3 The cost plan is undated; the appraisal is dated 20.12.16 - we have assumed costs to be 4Q2016. Our benchmarking uses current 1Q2017 BCIS data which is on a current tender firm price basis.
- 3.4 The cost plan includes an allowance of 23.2% for preliminaries and scaffolding. We consider this extremely high for a project of this type and location and have applied the rate of 16% in our calculations. The allowance for overheads and profit (OHP) is 7.5%; we consider this at the upper end of the range we would expect. The allowance for contingencies has been included in the appraisal at 5% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.
- 3.5 The cost plan includes for fees at 12% which we consider reasonable for a traditional form of procurement.

- 3.6 Sales have been included in the Appraisal at average figures of £971/ft² (Net Sales Area).
- 3.7 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 126 that has been applied in our benchmarking calculations.
- 3.8 Both buildings A and B are 5 storeys (Block B in the original scheme was 6 storeys); BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. The elemental information makes no distinction for storey height resulting in an anomaly for flats below 6 storeys. We have adjusted for this anomaly in our benchmarking.
- 3.9 Refer to our attached file “Elemental analysis and BCIS benchmarking”.
- 3.10 Our adjusted benchmarking results in a benchmark cost for building A of [REDACTED]/m² - compared to the Applicants figure of [REDACTED]/m² this shows a difference in cost of £660,789.
- 3.11 Our adjusted benchmarking results in a benchmark cost for building B of [REDACTED]/m² - compared to the Applicants figure of [REDACTED]/m² this shows a difference in cost of £386,243.
- 3.12 These differences between BCIS adjusted benchmarking and the applicant’s figures appear to occur in particular from differences in preliminaries, overheads and profit, mechanical and electrical services costs (for which no detail has been provided).

BPS Chartered Surveyors
Date: 27th February 2017

1-3 and 4-8 Ferdinand Place, Camden NW1 8EE

Elemental analysis Amended scheme & BCIS benchmarking

	GIA m ²	5 storey		5 storey					
		Total		Building A		Building B			
		2,436		1,539		897		LF100	LF126
		£	£/m ²	£	£/m ²	£	£/m ²	£/m ²	£/m ²
Enabling & Demolitions									
1 Substructure									
2A Frame									
2B Upper Floors									
2C Roof									
2D Stairs									
2E External Walls									
2F Windows & External Doors									
2G Internal Walls & Partitions									
2H Internal Doors									
Terrace construction									
2 Superstructure									
3A Wall Finishes									
3B Floor Finishes									
3C Ceiling Finishes									
3 Internal Finishes									
4 Fittings									
5A Sanitary Appliances									
5B Services Equipment (kitchen, laundry)									
5C Disposal Installations									
5D Water Installations - M&E									
5E Heat Source									
5F Space Heating & Air Treatment									
5G Ventilating Systems									
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)									
5I Gas Installations									
5J Lift Installations									
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)									
5L Communication Installations (burglar, panic alarm, fire alarm, CCTV, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)									
5M Special Installations - (window cleaning, BMS, medical gas)									
5N BWIC with Services									
5O Management of commissioning of services									
5 Services									
6A Site Works									
6B Drainage									
6C External Services									
6D Minor Building Works - substation									
6 External Works									
SUB TOTAL									
7 Preliminaries & scaffolding 23.9%									
Overheads & Profit 7.5% (and fixed price risk)									
SUB TOTAL									
Design Development risks									
Construction risks - now in appraisal @ 5%									
Employer change risks									
Employer other risks									
SUB TOTAL									
Add fixed price to mid 2017 + risk on design quants etc									
TOTAL									
Add Fees calculated at 12%									
TOTAL INC FEES									

Benchmarking

5 storey anomaly in BCIS elemental costs building A

Add demolitions

Add external works

Add additional cost of substructure

Add additional cost of ext walls & windows

Add additional cost of int walls

Add terraces

Add additional cost of finishes (floors OK, walls low ceilings high)

Add additional cost of fittings

Add additional cost of sanitary

Add additional cost of lifts

Add prelims @ say 16%

Add OHP @ 7.5%

Total adjusted benchmark

Difference

TOTAL

Difference on prelims @ 16% v 23.2%

M&E

OHP say 5% v 7.5%

Other differences not identified