

# **Phase 1c Agar Grove Estate Regeneration: Wrotham Road, London NW1 9SS**

## **Independent Viability Review**

Prepared on behalf of The London Borough of Camden

20<sup>th</sup> November 2019



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Planning Reference: 2019/4280/P

## 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 Arcadis on behalf of the London Borough of Camden who is also 'the Applicant' in connection with a planning application for the redevelopment of the above site.
- 1.2 We understand that regeneration of the Agar Grove Estate site began in 2014. Phase 1a which involving the construction of block A on the site is now completed and Phase 1b which includes Blocks F, G, H is now on site and is due to be completed mid-2020. Phase 1c, the subject of this report, will include the construction of Blocks J, K, L and I and this is due to commence in 2020.
- 1.3 Blocks J, K, L and I are proposed to be built at the north of the site. Both blocks will thus have some frontage facing on to Agar Grove Road. Blocks J,K & L will be located on the east side of the site, while Block I will be more central and sits between Block J,K,L and Blocks H, G and F. The part of the site in which Block I and J,K & L will be located currently comprises of several residential blocks which were formally used as social housing.
- 1.4 The location is mixed in nature. The area immediately surrounding the estate is predominately residential with some commercial units. A number of industrial units are located to the east and south of the site. A railway line runs close to both the east and south border of the Estate. The site is not located in a conservation area nor is it listed.
- 1.5 The proposal is for minor amendments to the original consent under S73 for Phase 1c of the regeneration (2013/8088/P) to incorporate the following:
- Variation of condition 60 (approved plans) and removal of conditions 6 (lifetime homes) and 41 (Code for Sustainable Homes) of planning permission 2013/8088/P dated 04/08/2014 (as amended) (for Demolition of all existing buildings except Lulworth House and Agar Children's Centre, and erection of new buildings to provide a total of 493 Class C3 residential units, comprising 240 market, 37 intermediate and 216 social rent units), namely to allow adjustments to footprint, height, massing and external appearance of Block I and Block JKL, including revised balcony design; revised flat layouts; changes to unit type and mix; 14 additional Class C3 residential units; and associated landscaping.*
- 1.6 The proposed changes are summarised in the Planning Statement (CMA Planning, August 2019) downloaded from the Council's website as the following:
- Adjustments to the building footprint
  - Adjustments to the block heights and massing
  - Alterations to the elevations, including revised balcony design
  - Revised flat layouts
  - Changes to the unit type and mix
  - Increase in overall unit number from 493 to 507 (+14 residential units)
- 1.7 The applicant seeks permission to amend the planning permission granted for the next phase of development which comprises of Block I and Block J,K & L. This phase

is due to commence in 2020. We understand that the applicant seeks to make these changes after experience from the earlier development phases and changes in building regulation and the housing market.

- 1.8 The basis of our review is *Agar Grove Estate Regeneration: Financial Viability Report* prepared by Arcadis, dated August 2019, which concludes that the scheme currently shows a surplus of £5,572,323 based on current day costs and values but with no allowance made for land value or developers return. The MMA for this phase of the development, results in an increase in Residual Land Value (or Surplus) of £759,287 on current day costs and values compared to the previous position.
- 1.9 The surplus identified by Arcadis based on project inflated figures is £6,776,827 which is an increase of £677,811 to the previously reported position. The inflation is based on current CIP programme inflations levels for costs and values. When considering viability current convention is to work with current day costs and values.
- 1.10 Arcadis conclude that the possible surplus of £6,776,827, *“whilst this may appear a large figure that could be reinvested into additional affordable housing, it is currently being used to cross subsidise other phases of the scheme that are loss leading”*.
- 1.11 Overall, Arcadis suggest that the net increase in surplus in the proposed scheme is so minor that a further increase in affordable housing provision above that already provided in the consented scheme is not justified.
- 1.12 We note that the applicant has made the following omissions and reductions in costs in comparison to a typical development appraisal of a private-sector developer:
  - No developers profit/return
  - No benchmark land value
  - No finance costs
- 1.13 These omissions serve to substantially enhance overall viability.
- 1.14 Arcadis note that *“Even if a typical developers margin of 20% on Private value, and 6% on Affordable Housing value were sought, this would create an effective cost to the scheme of £9,852,286, instantly making the scheme negative in terms of surplus, and that would be before any finance or land costs were included.”*
- 1.15 We have downloaded documents available on the London Borough of Camden’s planning website to assist in our review.
- 1.16 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any additional affordable housing contributions.
- 1.17 The site has existing planning consent for the regeneration of the Agar Grove Estate (2013/8088/P) which was for:

*“Demolition of all existing buildings and structures except Lulworth House and Agar Children’s Centre (249 existing Class C3 residential units and 2 retail units), and erection of new buildings ranging between 4 and 18 storeys in height along with the refurbishment and extension of Lulworth House (extending from 18 to 20 storeys in total) to provide a total of 493 Class C3 residential units, comprising 240 market, 37 intermediate and 216 social rent units; a community facility (Class D1);*

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*2 retail units (Class A1 / A3); business space (Class B1(a)); refuse and recycling facilities; car and cycle parking facilities; landscaping / amenity space; and associated works”.*

- 1.18 The subject of this report, proposal 2019/4280/P seeks alterations to the original planning consent. The changes have been summarised above (paragraphs 1.5 and 1.6).
- 1.19 The Council owns the site and will act as developer of the scheme.

## 2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have reviewed the *Agar Grove Estate Regeneration: Financial Viability Report* prepared by Arcadis on behalf of the applicant which concludes that the scheme currently shows a surplus of £5,572,323 based on current day costs and values but with no allowance made for land value or developers return. The MMA for this phase of the development, results in a net increase in Residual Land Value (or Surplus) of £759,287 on current day costs and values compared to the previous position.
- 2.2 The surplus identified by Arcadis based on inflated projected figures is £6,776,827 which is an increase of £677,811 to the previously reported position. Inflation is based on CIP programme rates but has been excluded for the purposes of our review which works to current day costs and values in accordance with planning viability standard practice.
- 2.3 Arcadis suggest that the possible surplus of £6,776,827, “whilst this may appear a large figure that could be reinvested into additional affordable housing, it is currently being used to cross subsidise other phases of the scheme that are loss leading”.
- 2.4 Arcadis have not included a developer’s profit, a charge of finance cost or a benchmark land value which are all elements which would usually be included within a viability appraisal. This is because the London Borough of Camden is acting as both developer and landowner and is stated within Arcadis’ report that “*LBC is a Borough Council that is not commercially driven and therefore not considered a typical developer that would require both a ‘competitive return’ as a landowner and as a developer*”.
- 2.5 We note that Arcadis have included from some land assembly costs relating to leaseholder acquisitions, these have been calculated in line with RICS guidance and standard industry practice.

### The Proposed Scheme

- 2.6 The scheme includes 125 residential units of the following tenures:

Units	No. of units	Tenure
Private Sale	84	67%
Social Rent	5	4%
Intermediate	36	29%
Total	125	

- 2.7 We note that the amendments to the previously consented scheme will provide 14 additional residential units (3 x intermediate and 11 x private).
- 2.8 Arcadis have sought advice from Savills in respect of the private residential sales values and Savills have provided details of a number of schemes in the area surrounding the site, some of which are now dated. We have also undertaken our own research in order to identify some more recent transactions of new build properties in the area.

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- 2.9 We are satisfied that the private residential values proposed by Arcadis are broadly reasonable.
- 2.10 No value has been attributed to the social rented units and it has been confirmed that this is because the units are a re-provision of the existing units on site whereby no existing use value has been allowed for. This is standard practice for the Council on Estate renewal projects. This approach effectively omits value of the both the existing and proposed affordable housing but also any accrued repairing liabilities. We have found that the GLA typically expect land value to be set at a zero value for estate renewal projects. However we would normally expect a value to be included in respect of the capitalised income from the affordable housing. The Council's approach in this respect serves to depress viability, however as will be seen from our report the Council has also omitted to include other allowable costs such as fees and profit, that serve to improve viability. The Council's approach therefore differs substantially from that of a private developer or Registered Provider and in our view and on balance serves overall to show an enhanced viability and delivers more affordable housing than would be achievable by an alternative developer.
- 2.11 We do not have any detail regarding the mix of the five social rented units which will be re-provided on site. For the purposes of our valuation we have assumed that all five units are two bedroom units and we have taken the total NIA of 3,724 sq ft from Arcadis' appraisal to calculate an average unit size of approximately 745 sq ft.
- 2.12 Using the London Affordable Rent for 2019/20 of £164.24 per week for two bedroom units we calculate a unit value of £95,000. This equates to an average value of £127psf. The total value for the five units could be in the order of £475,500 however we require more detail regarding the mix of units and proposed rent levels for the units in order to confirm.
- 2.13 The Council's appraisal assumes that the intermediate units are of shared ownership tenure and the values adopted equate to approximately 25% of market value. We are aware that the Council generally prefers intermediate rent products to shared ownership through concerns about affordability. In this instance the level of discount assumed would place unit values in a range from £100,000 to £180,000 which we consider to be affordable to a wide range of incomes and as such would be an acceptable tenure in this instance.
- 2.14 Capitalised ground rents have not been included in the applicant's appraisal. A draft bill concerning leasehold reform will be put before Parliament in the second half of 2020. Under current proposals ground rents will be limited to a nominal sum. Given the anticipated construction period we consider it unlikely that the majority of private units would be able to charge significant ground rents even if the Council intended to do so as such excluding revenue from this element is in our view reasonable.
- 2.15 We are advised from the Planning Statement, dated August 2019, downloaded from the Council's website that car parking spaces will be made available to disabled residents and existing residents who currently hold a car-parking permit. All other units will not have parking provisions. No value has been attributed to the parking spaces and we do not have details of the permit system. We recognise that the Council will not benefit from new additional income under this arrangement as such the approach appears appropriate.
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### Development Costs

- 2.16 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan for the proposed scheme prepared by Arcadis, dated August 2019, and concludes that:

*Because of the lack of detailed cost information, we have undertaken a limited benchmarking exercise. This results in an adjusted benchmark of £2,916/m<sup>2</sup> that compares to the Applicants £3,112/m<sup>2</sup>. The equivalent figure for Block A in the December 2013 exercise updated to a current cost and Camden location is £2,730/m<sup>2</sup>. We are aware of design changes described in the Design & Access Statement that will have increased the cost but are unable to confirm if the difference of about £380/m<sup>2</sup> is a reasonable reflection of changes in the design and specifications.*

- 2.17 The applicant's consultants have allowed for sales and marketing costs of 2.5% of market sale units which is in line with market norms.
- 2.18 We note that there is no allowance for professional fees or legal fees which would usually be included within a viability appraisal which are likely to be significant and would effectively reduce the surplus reported.
- 2.19 CIL/S106 charges have been assumed at £40,903 (uninflated) or £42,563 (inflated). We have not verified these amounts and the Council should confirm the appropriate levels of planning obligations. Reflecting normal practice we have used the uninflated, current day figure in our own appraisals.
- 2.20 Compensation and leaseholder buyback costs have been included within the appraisal are within Section 5 of this report. These are typically included in estate renewal projects.
- 2.21 No allowance has been made for profit. Arcadis state that "if a typical developers margin of 20% on Private value, and 6% on Affordable Housing value were sought, this would create an effective cost to the scheme of £9,852,286, instantly making the scheme negative in terms of surplus, and that would be before any finance or land costs were included." It is suggested that LBC is not commercially driven and because of this the Council would be willing and able to proceed with the development as submitted.
- 2.22 A sum of £500,000 has been included within Arcadis' appraisal for grant funding.

### Conclusions

- 2.23 We have not suggested any revisions to Arcadis' appraisal as we have generally found the inputs to be reasonable. It is noted that the apparent surplus is exaggerated particularly due to the omission of developer profit and nil land value assumptions within the appraisal and we have also noted further omissions including professional fees which we would normally expect to see within a viability appraisal for a typical developer.
- 2.24 It is noted that if a typical developer level of profit was sought from this scheme, the appraisal would show a negative residual value even before a land value is and a typical market value for the affordable units were included.
- 2.25 We are therefore satisfied that the appraisal demonstrates that the scheme cannot viably deliver an improved level of affordable housing. However the methodology adopted differs substantially from a private sector or Registered Provider approach and in our view were a more conventional approach to be adopted it would show a



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substantial deficit in comparison to the Council's figures. The level of information provided reflects the standard required by the Council for its own internal purposes but has left some areas of ambiguity as evidenced by our analysis of construction costs. However overall we remain of the view that even allowing for this ambiguity the scheme appears to maximise affordable housing delivery.

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### 3.0 BENCHMARK LAND VALUE

- 3.1 Arcadis have not included a benchmark land value in their report as the London Borough of Camden is acting as both developer and landowner for this scheme. It is stated within Arcadis' report that *"LBC is a Borough Council that is not commercially driven and therefore not considered a typical developer that would require both a 'competitive return' as a landowner and as a developer"*.
- 3.2 Arcadis state that the Council is, in effect, gifting the land value to the scheme at zero cost. This approach is typical of estate renewal projects. It is also relevant to note that securing vacant possession of the land would only be possible through grounds of redevelopment, as such we do not consider that the land has independent development value outside of an estate renewal scheme.
- 3.3 We note that some land assembly buyback costs have been allowed for, these are reported to have been calculated in line with RICS guidance and standard industry practice. These costs are unavoidable and relate to the purchase of leasehold interests acquired under right to buy provisions.
- 3.4 We are advised from a Support Information and Compensation handout provided to us by the Council that compensation will be provided to current tenants of the Agar Grove Estate (in low-rise homes and Lulworth). All council tenants will receive a payment of £6,400 and will be entitled to a disturbance payment to cover removal costs, reconnection of appliances in their new home and for the change of address/redirection of mail. Residents who sell their homes to the Council will receive the full market value for the property, compensation for the loss of their homes of up to 10% of market value (to a maximum of £64,000), removal costs, legal and surveyors fees for purchase of a new property and stamp duty if the new property is brought within one year.
- 3.5 Arcadis have calculated the total leaseholder buyback costs in their appraisal as £5,563,323 for forecasted buybacks and £6,730,215 for accrued buybacks. Arcadis have also calculated the total forecasted home loss and disturbance pay-out to be £307,100, this is calculated at £8,300 for 37 units.
- 3.6 These costs reflect standard costs informed by statutory guidance and should rightly be seen as development costs of the project.

## 4.0 RESIDENTIAL UNIT VALUES

### Private Residential Values

- 4.1 The residential element of the proposed scheme, as sought by the planning application, is for 125 residential units comprising of the following accommodation:

Units	No. of units	Tenure
Private Sale	84	67%
Social Rent	5	4%
Intermediate	36	29%
Total	125	

- 4.2 We note that this is an increase on the extant consent of 14 units.
- 4.3 The applicant has sought advice from Savills in respect of the private residential values. 85 of the residential units are proposed for private sale and based on the advice provided by Savills the values have been assumed as follows:

Unit type	Avg Area (sq ft)	Avg Value	Avg Value £psf	No of units
1b1p	398	£407,500	£1,023	1
1b2p	589	£521,802	£886	43
1b2p M4 (3)	624	£515,000	£825	5
2b3p	678	£601,250	£887	2
2b3p M4 (3)	786	£633,333	£806	3
2b4p	767	£639,659	£834	22
2b4p DUPLEX	996	£740,000	£743	8
3b5p	926	£740,000	£799	1
Total				85

- 4.4 Savills have prepared a report *Comparable Analysis*, dated October 2019, in support of their advised values. This report provides a commentary on several new build developments in the area. We have summarised Savills findings below:

Development	Average £psf
Plender Street	£917
Euston Reach	£1,270
Maple Building	£1,157
Queens Park Palace	£906
Camden Courtyards	£1,090
West Hampstead Square	£995
ONYX	£1,460
Thirty2	£1,065
Kilburn Quarter	£756
Mode	£1,157
XY	£1,142

- 4.5 We note that many of the achieved sales values provided by Savills can now be considered dated. Most of the transactions took place in 2017 with some going back as far as 2014. However, the achieved sales values at the XY are useful because the transactions took place between April 2018 and January 2019 and therefore help provide a more up to date representation of current market values for the area. The XY development offers residents a 24hr concierge service and benefits from

being closer to Kings Cross Railway Station than the proposed development and therefore would reasonably be expected to attract higher values.

- 4.6 We have undertaken our own research into transactions in the area surrounding the subject site and have identified the details of new build market evidence which is included at Appendix 2 and is summarised below as average values:

Development	Avg 1b Value	1b £psf	Avg 2b value	2b £psf	Avg 3b value	3b £psf
13 Mandela Street	£540,000	£1,024	£725,000	£990	-	-
Arlington Lofts	£692,850	£1,124	£1,060,334	£960	£1,198,144	£1,066
Camden Courtyards	£717,360	£1,092	-	-	-	-
XY (York Road)	£611,403	£1,071	£696,530	£909	-	-
Mode	£676,667	£1,201	£868,333	£1,082	£1,115,000	£1,164
St Augustine's Road*	-	-	£795,000	£827	£995,000	£890
51 - 53 Agar Grove	-	-	£775,000	£857	£900,000	£762

- 4.7 Prices of flats in the area can be widely varied. The asking prices at St Augustine's Road are particularly useful given that it is located just over 400 ft from the proposed development. The achieved values from 51-53 Agar Grove are also particularly useful due to its closeness to the subject site. However, we do note that both these developments are of a much smaller scale than the regeneration of the Agar Grove Estate. Furthermore, from our research we have found some additional achieved values from the XY development to provide further evidence along with the values already provided by Savill's. These additional transactions took place between January and March 2019. The XY development and Agar Grove share access to extensive transport links and both developments are estate renewal projects.
- 4.8 We note that Phases 1a and 1b of the Agar Grove regeneration development have been completed on site. Block A (Phase 1a) contains 38 affordable units and Blocks F, G and H (Phase 1b) contains 34 affordable units and 23 private units. According to Savills comparable report, marketing will begin for the private units in Q2 2020. Therefore, we do not have any sales evidence from the private units already built on site. Savills do provide indicative asking prices based on the latest pricing on blocks J, K, L (July 2019). They have included the indicative prices in the following table:

Indicative Asking Prices based on latest pricing of blocks J,K,L in July 2019

Type	Floor	Unit Type	Area Sq Ft	Asking Price	Asking £/sqft	Date
WCA Type 05	G	1	614	£515,000	£839	Pre Launch
Duplex 03	G	2	893	£675,000	£756	Pre Launch
Type 01	1	1	667	£525,000	£787	Pre Launch
Type 17	1	2	700	£612,500	£875	Pre Launch
Type 05	2	2	753	£632,500	£839	Pre Launch
Duplex 01	G	2	1044	£765,000	£733	Pre Launch
Type 20	5	3	926	£740,000	£799	Pre Launch

Source – Savills Intel

- 4.9 The proposed development will benefit from its access to transport links. With Camden Road Railway Station being situated a 7-minute walk away and Camden Town Station located a 13-minute walk away. Within a 20-minute walk of the estate is Kings Cross Railway Station. Camden Town and Camden Market are easily accessible from Agar Grove on foot.

- 4.10 Generally, we have found that the values proposed by Arcadis are broadly reasonable given the location and nature of the scheme and the available sales evidence.

#### Ground Rents

- 4.11 Capitalised ground rents have not been included in the applicant's appraisal. We are satisfied that the omission of ground rent values is reasonable given impending legislation restricting such rents to nominal levels.

#### Parking

- 4.12 We are advised from the Planning Statement, dated August 2019, downloaded from the Council's website that car parking spaces will be made available to disabled residents and existing residents who currently hold a car-parking permit. All other units will not have parking provisions.
- 4.13 No value has been included within Arcadis' appraisal for the car parking spaces and we do not have any detail regarding the operation of the permit system. In that this approach will not generate any new or additional income to the Council it appears appropriate for no value to be ascribed to this element.

#### Affordable Residential Values

- 4.14 The proposed scheme comprises of the following mix of private and affordable units:

Units	No. of units	Tenure
Social Rent	5	64%
Intermediate	36	33%
Total	41	

- 4.15 It has been confirmed that no value is attributed to the social rented units since they are being re-provided to replace the units currently on site. This approach differs from a private sector developer or Registered Provider approach where we would expect to see value ascribed to this element in the appraisal.
- 4.16 The intermediate units have been assumed to be shared ownership units which have been valued at 25% of market value. This appears to represent a substantial discount to the suggested market values indicating capital values of £100,000 to £185,000 which are well below the levels usually associated with this tenure where we would expect values to be circa 65% of market value.
- 4.17 We are aware that Camden generally does not accept shared ownership tenure because of concerns about affordability, promoting instead intermediate rent products. At the levels indicated it is reasonable to assume these units will be accessible to purchasers on much lower income levels than would conventionally be the case and because of this we assume this tenure is considered acceptable in this instance.
- 4.18 The accommodation schedule provided by Savills shows values for each unit which have been valued tenure-blind. We have not been provided with a unit-by-unit schedule identifying which of the units will be allocated as affordable housing.
- 4.19 Within their appraisal, Arcadis have applied an average value of £863psf to the private residential units. The value adopted for the intermediate units is £247psf

within Plot I and £213psf for Plot JKL, equating to 27% and 25% of market value respectively.

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## 5.0 DEVELOPMENT COSTS

- 5.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Arcadis, dated August 2019, and concludes that:

*Because of the lack of detailed cost information, we have undertaken a limited benchmarking exercise. This results in an adjusted benchmark of £2,916/m<sup>2</sup> that compares to the Applicants £3,112/m<sup>2</sup>. The equivalent figure for Block A in the December 2013 exercise updated to a current cost and Camden location is £2,730/m<sup>2</sup>. We are aware of design changes described in the Design & Access Statement that will have increased the cost but are unable to confirm if the difference of about £380/m<sup>2</sup> is a reasonable reflection of changes in the design and specifications.*

- 5.2 Mr Powling's full cost report can be found at Appendix 2. This conclusion clearly indicates a level of ambiguity as to whether the proposed costs are fully justified. In reaching our overall conclusions we have considered the non-standard approach to the appraisal including the omission of a capital value for the affordable housing, a nil land value, a nil profit assumption and exclusion of fees and finance costs as well as ambiguity.
- 5.3 The applicant's consultants have allowed for sales and marketing costs of 2.5% of market sale units which is reasonable. We note that there is no allowance for professional fees or legal fees which would usually be included within a viability appraisal and would effectively reduce the surplus reported.
- 5.4 CIL/S106 charges have been assumed at £40,903 (uninflated) or £42,563 (inflated). We have not verified these amounts and the Council should confirm the appropriate levels of planning obligations.
- 5.5 Grant funding has been included at a sum of £500,000.
- 5.6 We are advised from a Support Information and Compensation document provided to us by the Council that compensation will be provided to current tenants of the Agar Grove Estate (in low-rise homes and Lulworth). All council tenants will receive a payment of £6,400 and will be entitled to a disturbance payment to cover removal costs, reconnection of appliances in their new home and for the change of address/redirection to mail. Residents who sell their homes to the Council will receive the full market value for the property, compensation for the loss of their homes up to 10% of market value (to a maximum of £64,000), removal costs, legal and surveyors fees for purchase of a new property and stamp duty if the new property is brought within one year.
- 5.7 Arcadis have calculated the total leaseholder buyback costs in their appraisal as £5,563,323 for forecasted buybacks and £6,730,215 for accrued buybacks. Arcadis have also calculated the total forecasted home loss and disturbance pay-out to be £307,100; this is calculated at £8,300 for 37 units.
- 5.8 No allowance has been made for profit. Arcadis state that *"if a typical developers margin of 20% on Private value, and 6% on Affordable Housing value were sought, this would create an effective cost to the scheme of £9,852,286, instantly making the scheme negative in terms of surplus, and that would be before any finance or land costs were included."* It is suggested that LBC is not commercially driven and because of this the Council would be willing and able to proceed with the development as submitted.

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**6.0 AUTHOR SIGN OFF**

This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

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20<sup>th</sup> November 2019



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## Appendix 1: BPS Residential Values Research

### **13 Mandela Street, Camden, NW1 ODU:**

Planning consented for: “Change of use from alternative medicine training centre (Class D1) on ground and first floors, and erection of a mansard roof extension...to provide seven self-contained residential flats (3x 2-bed, 2 x 1-bed and 2 x studio)”.

All 7 flats are private. From the achieved sales values that we found, all transactions have taken place between January and October 2018.

This development is located approximately 0.4 miles from the proposed development. It is a less than 10-minute walk from Camden Town Station and is an approximately 15-minute walk from Kings Cross Train Station.

### **Arlington Lofts, 142-152 Arlington Road, Camden, NW1 7HP:**

Planning consented for: “Extensions and alterations to existing building to provide 21 residential dwellings (16 private tenure and 5 affordable housing units) including change of use from use from Class D2 (assembly and leisure) to C3 (residential), following partial demolition and remodelling of the rear elevation, erection of part three, part four storey rear extension, roof extension above existing roof levels...and creation of private amenity space...with balconies and roof terraces to the upper floors.”

Of the 21 residential units, 16 are private and 5 are for social rent. From the achieved values of the private units that we have found, all transactions have taken place between August 2018 and May 2019.

This development is located approximately 0.6 miles from Agar Grove. It is a 3-minute walk from Camden Town Station and is located close to Camden Road and Kings Cross Train Stations.

### **Camden Courtyards, 79 Camden Road/86-100 St Pancras Way, Camden, NW1 9EU:**

Planning consented for: “Redevelopment of the site to create 166 residential units, including affordable housing, following demolition of all existing business use buildings (Class B1) on the site and construction of a new building ranging from 5 to 7 storeys in height, together with associated works to create a lower ground floor, landscaping and public realm improvements.”

Of the 164 residential units, 82 are private, 15 for social rent and 67 intermediate. From the achieved sales values of the private units that we have found, all transactions have taken place between March and June 2018.

The development is located approximately 0.25 miles from Agar Grove. It is located just along from Camden Road Train Station (1-minute walk).

### **XY (Maiden Lane Estate), 1-55 Maiden Lane, 2-16 Maiden Lane, Camden, NW1 9XZ:**

Planning consent for: “Redevelopment of eastern part of Maiden Lane Estate following the demolition of Nos 1-55 and 2-16 Maiden Lane (Class C3 residential use) and the North Western Industrial Estate (Classes B2/B8) to provide 10 new blocks including a 20 storey residential tower and 9 mixed use blocks of 3-7 storeys

incorporating 265 units of class C3 residential (141 market / 71 social rented / 53 intermediate flats), classes B1/A1/A3/A4/D1 uses and a new energy centre, together with cycle parking and increased and improved areas of public realm and landscaping.”

Of the 265 residential units, 141 are private, 71 for social rent and 53 intermediate. From the achieved sales values of the private units that we have found, all transactions have taken place between January 2018 and March 2019.

This development is located on the opposite side of the train tracks running along the East boundary of Agar Grove (approximately 0.2 miles). This is a useful comparison due to its closeness to Agar Grove but also because it is the redevelopment of an existing estate, like the proposed development.

**Mode, 1 Centric Close, Oval Road, Camden, NW1 7EP:**

Planning consented for: “Demolition of existing buildings (Class B1(c) & B8) and the erection of a part 4, part 5, part 6 and part 7 storey building comprising 1,219 sqm of commercial floorspace (Use Class B1) at basement and ground floor levels and 76 residential units (28 x 1-bed; 35 x 2-bed and 13 x 3-bed) (Class C3) including disabled car parking, landscaped courtyard and communal amenity areas.”

Of the 76 residential units, 49 are private, 16 social rent and 11 intermediate. We note that this development is currently under construction and thus the averages provided in this report are from the asking prices.

This development is located 1 mile from Agar Grove. It is a 6-minute walk to Camden Town Station and a 25-minute walk to Euston Train Station.

**Belvedere House, 4 St Augustine’s Road, Camden, NW1 9RN:**

Planning consented for: “Erection of five storey building to create 9 residential units comprising 2 x 2 bedroom and 7 x 3-bedroom flats (Class C3)”.

All 9 of the apartments are private. The values quoted for this development are the asking prices of units currently on the market and all of which have private balconies. The development has an internal lift and communal garden.

This development is only 414 ft from the proposed development. Therefore, is a useful comparable in terms of location. However, we do note that this development is of a much smaller scale than the proposed.

**51-53 Agar Grove, Camden, NW1 9UE:**

Planning consented in 2015 for “erection of a basement and 4-storey pair of buildings fronting Agar Grove and a basement and 3-storey building fronting St Paul’s Crescent, to create 8 (3x1, 3x2 and 2x3-bed) residential units (Class C3) and associated works, following demolition of remaining parts of 51 & 53 Agar Grove”.

All 8 of the apartments are private. We have found the achieved values of three of the apartments. One sold in July 2018 and the two others sold in March 2019. We note that the three bed and one of the two beds are penthouse apartments and therefore are likely to have achieved higher values than the average 2 or 3 bed flat in the area.

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This development is located 0.2 miles from the proposed development. It is a useful comparison given its location, but we note that it is a much smaller scale scheme than the proposed.

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## Appendix 2: Build Cost Report

### Project: Agar Grove Estate Regeneration -

### Block I & Block J, K & L

2019/4280/P

#### 1 SUMMARY

- 1.1 The Stage 2 Cost Plan issued by Arcadis is in group element format only; we suggest a more detailed cost plan to include an elemental format summary is provided. Provision in this form will facilitate a full elemental benchmarking exercise.
- 1.2 The appraisal includes a total construction cost of £31,903,498 and a contingency of £2,058,989 - a total of £33,962,487. We are unable to reconcile this with the cost plan total of £34,812,461.
- 1.3 There is also included in the construction cost an allowance for Main Contractors design fees stated as 4% but calculated as 3.3% on a conventional arrangement. There are also provisions in the appraisal for pre and post-contact fees of £1,509,410 and £606,166 amounting to 6.6%. The total fee included is therefore 9.9% which we consider to be within a reasonable range.
- 1.4 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking. The information provided by the Applicant is only sufficient to provide group elements. We have also included two columns (blue font) of Block A from the December 2013 analysis and updated to a current cost and location to provide elemental information.
- 1.5 Refer to our attached file “Elemental analysis and BCIS benchmarking”. We have included the GIA used in the cost estimate of 11,187m<sup>2</sup>. The NIA used to calculate the revenues is 7,782m<sup>2</sup> giving an efficiency of 70.37%. Based on these figures the efficiency is less than we would expect.
- 1.6 Because of the lack of detailed cost information, we have undertaken a limited benchmarking exercise. This results in an adjusted benchmark of £2,916/m<sup>2</sup> that compares to the Applicants £3,112/m<sup>2</sup>. The equivalent figure for Block A in the December 2013 exercise updated to a current cost and Camden location is £2,730/m<sup>2</sup>. We are aware of design changes described in the Design & Access Statement that will have increased the cost but are unable to confirm if the difference of about £380/m<sup>2</sup> is a reasonable reflection of changes in the design and specifications.

#### 2 METHODOLOGY

- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant’s costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to

benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of its projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.

- 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 £/m<sup>2</sup> 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 Financial Viability Report issued by Arcadis August 2019 including at Appendix B the Arcadis Build Cost Review of the Stage 2 Cost Plan issued by Arcadis in the sum of £34,812,461 (3,112/m<sup>2</sup>). The information is in group element format only; we suggest a more detailed cost plan to include an elemental format summary is provided. Provision in this form will facilitate a full elemental benchmarking exercise.
- 3.2 The appraisal includes a total construction cost of £31,903,498 and a contingency of £2,058,989 - a total of £33,962,487. We are unable to reconcile this with the cost plan total.
- 3.3 We have also downloaded a number of files from the planning web site.
- 3.4 The cost plan is costed on a base date of 2Q2019. Our benchmarking uses current

- BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 2Q2019 is 333 and for 4Q2019 339 - both figures are forecasts.
- 3.5 The cost plan includes an allowance of 16% for preliminaries. The allowance for overheads and profit (OHP) is 6%; we consider both of these allowances reasonable.
- 3.6 The allowance for construction risk is 4.4% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.
- 3.7 There is also included in the construction cost an allowance for Main Contractors design fees stated as 4% but calculated as 3.3% on a conventional arrangement. There are also provisions in the appraisal for pre and post-contact fees of £1,509,410 and £606,166 amounting to 6.6%. The total fee included is therefore 9.9% which we consider to be within a reasonable range.
- 3.8 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking. The information provided by the Applicant is only sufficient to provide group elements. We have also included two columns (blue font) of Block A from the December 2013 analysis and updated to a current cost and location to provide elemental information.
- 3.9 Sales have been included in the Appraisal at average figures of £844/ft<sup>2</sup> (Net Sales Area).
- 3.10 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 132 that has been applied in our benchmarking calculations.
- 3.11 Refer to our attached file “Elemental analysis and BCIS benchmarking”. We have included the GIA used in the cost estimate of 11,187m<sup>2</sup>. The NIA used to calculate the revenues is 7,782m<sup>2</sup> giving an efficiency of 70.37%. Based on these figures the efficiency is less than we would expect.
- 3.12 Both of the blocks: I and J,K & L are 6 storey blocks of flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. We have benchmarked as 6+ storey flats.
- 3.13 Because of the lack of detailed cost information, we have undertaken a limited benchmarking exercise. This results in an adjusted benchmark of £2,916/m<sup>2</sup> that compares to the Applicants £3,112/m<sup>2</sup>. The equivalent figure for Block A in the December 2013 exercise updated to a current cost and Camden location is £2,730/m<sup>2</sup>. We are aware of design changes described in the Design & Access Statement that will have increased the cost but are unable to confirm if the difference of about £380/m<sup>2</sup> is a reasonable reflection of changes in the design and specifications.

BPS Chartered Surveyors

Date: 2<sup>nd</sup> October 2019