128-130 Grafton Road, Kentish Town NW5 4BA

Independent Viability Review

Prepared on behalf of the London Borough of Camden

5th December 2019

Planning reference: 2018/3059/P

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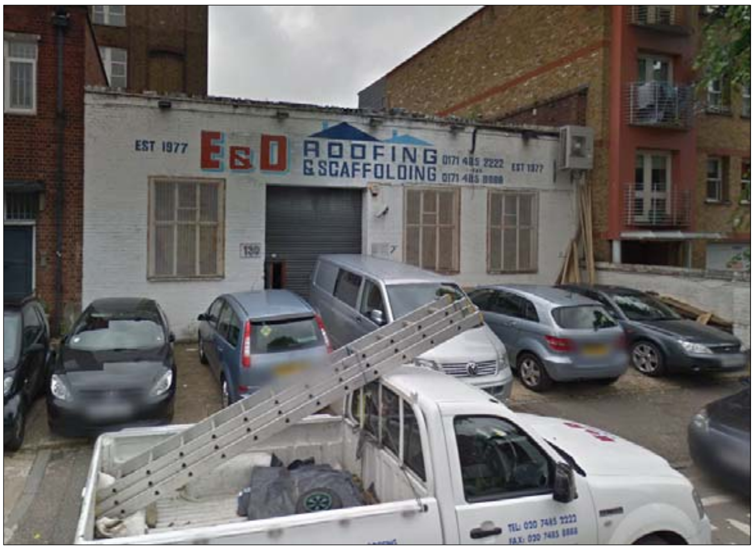
1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden ('the Council') to review a viability assessment prepared by S106 Management on behalf of ETA Bridging Ltd (the Applicant') in respect of the proposed development at 128-130 Grafton Road, Kentish Town, London, NW5 4BA.

1.2 The Financial Viability Assessment (FVA) provided is dated November 2018. This has not been updated by the Applicant but the proposal is being considered by BPS in the context of the current day market.

1.3 The site is currently occupied by a single storey brick built building with a pitched corrugated metal roof and mezzanine floor. It is currently in use as office/storage premises for a roofing and scaffolding company who have been in occupation for circa 20 years. There is parking at the front of the building for approximately 5 cars and a dropped kerb to the public highway. The structure is connected to the neighbouring buildings to the sides and rear, but does not form a uniform terrace. A site visit was carried out on 2nd December 2019.



1.4 A planning application has now been submitted under reference 2018/3059/P and is described as:

Demolition of existing two-storey industrial building (Class B8) and erection of a 5-storey plus basement, mixed use development comprising office space (Class B1) at basement level and 8 x 2-bed and 1 x 3-bed flats (Class C3) at upper floor levels.

1.5 The Applicant has concluded that the scheme delivers a deficit of -£1,212,446 and therefore cannot provide any contribution towards affordable housing. Our assessment seeks to assess the cost and value assumptions to ascertain whether this position is correct.

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have assessed the proposed assumptions and disagree with the conclusions of the Applicant's report. When assessed against a reduced benchmark land value of £716,000 and making other amendments as discussed below, we can conclude that the proposed scheme of 100% private development in fact delivers a surplus of approximately £1,170,000. An amended appraisal can be found in Appendix A.

2.2 In accordance with Camden Local Plan Affordable Housing Policy H4 the requirement for smaller sites of less than 25 units is on a sliding scale of 2% for the first home and increasing by 2% each additional home. This would equate to 1.62 units on a scheme of this size.

2.3 We have not sought to model an on-site provision in absence of guidance for how this requirement would be met in terms of number of units, tenure split or whether an off-site contribution would be considered appropriate instead. However we can confidently confirm that the above surplus should allow a policy compliant provision as either on site or an offsite contribution to be viably delivered. Should the Council have a preferred mix or contribution which they wish to see tested once confirmed then we will be happy to reassess on this basis.

Amendments to assumptions made

2.4 The most significant change we have made to the proposed viability position is the benchmark land value. The proposed value of £2,500,000 is based on an estimate of market value which is in contradiction with the Mayors SPG and PPG which advocates the use of an EUV plus valuation. We instead adopted an EUV approach to determining the benchmark land value.

2.5 Upon visiting the site we found the premises to be in a fairly poor condition and likely to require investment before being remarketed. The building is also single storey with a maximum height of 6.1 m to the apex of the roof and only a restricted height, temporary mezzanine floor. The building is currently let at circa £25,000 per annum but this is a discounted rent owing to the uncertainty surrounding the development and requirement for vacant possession should consent be granted.

2.6 The valuation report provided also cited a market rent of £45,000 per annum as being achievable for the property in its existing condition for continued use if development uncertainty were not an issue. We have assessed the available market evidence and agree that this is a reasonable expectation.

2.7 Capitalising this annual rent at 6.5% and applying a land owner's premium of 10%, which reflects the older condition of the building and requirement for refurbishment if it were to be relet, we consider a benchmark land value of £716,000 to be more appropriate.

2.8 Our Cost Consultant, Neil Powling, has reviewed the cost information that has been provided. The full report can be found in Appendix B and his key findings are as follows:

Our benchmarking results in an adjusted benchmark of £2,762/m² that compares to the Applicant's £2,690/m². We therefore consider the Applicant's costs to be reasonable.

2.9 However he has also highlighted the following:

The basement cost is £517/m² that compares to a BCIS substructure cost of £205/m². The total cost for the basement and the fitting out as offices (omitting the £70,000 estimate for foundations etc? is £558,000 + £230,900 - £70,000 = £718,900. We suggest that the viability is considered both with and without the basement to verify that the best viability outcome is determined.

2.10 This casts some doubt over the decision to create a basement however we have included it at the agreed costs and values on the assumption that the reprovision of the existing employment space is a requirement of any redevelopment as the loss of employment space would be resisted. If this is not the case we are happy to reassess the development with the basement omitted.

2.11 The Applicant has adopted a profit margin of 20% of total GDV. We have reduced this to 17.5% of residential GDV and 15% of commercial GDV in line with guidance and risk profile.

2.12 A total sales and marketing allowance of 3% has been made. We have broken this down to 1.5% for agent's fees, 1% marketing and £1,200 legal fees per plot sale.

2.13 Finance costs have been determined on at an a base interest rate of 7%, plus additional costs of 2% for an arrangement fee (£32,644) and miscellaneous fees of £10,000 including a £5,000 valuation fee, £2,500 of monitoring fees and £2,500 of other bank fees. Typically 7% is considered sufficient as an all-inclusive rate and therefore we consider these additional costs excessive and unjustified in the context of a viability assessment which disregards the individual position of the developer.

2.14 All other assumptions as listed below are agreed:

- Residential values averaging £817/sq ft
- Commercial value based on a rent of £30.75/sq ft capitalised at 6%
- Purchasers costs of 6%
- CIL costs of £179,300 to be confirmed by the Council
- Professional fees of 10%
- Commercial letting agents, legal marketing fees of 10%, 5% and 2% respectively

3.0 PRINCIPLES OF VIABILITY ASSESSMENT

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 PPG now firmly defines the approach to be taken to determine land value through the following extracts

How should land value be defined for the purpose of viability assessment?

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

In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 013 Reference ID: 10-013-20190509

Revision date: 09 05 2019

What factors should be considered to establish benchmark land value?
Benchmark land value should:

- *be based upon existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*

- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

This evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

In plan making, the landowner premium should be tested and balanced against emerging policies. In decision making, the cost implications of all relevant policy requirements, including planning obligations and, where relevant, any Community Infrastructure Levy (CIL) charge should be taken into account.

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

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 014 Reference ID: 10-014-20190509

Revision date: 09 05 2019

What is meant by existing use value in viability assessment?

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

Sources of data can include (but are not limited to): land registry records of transactions; real estate licensed software packages; real estate market reports; real estate research; estate agent websites; property auction results; valuation office agency data; public sector estate/property teams' locally held evidence.

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 015 Reference ID: 10-015-20190509

Revision date: 09 05 2019

How should the premium to the landowner be defined for viability assessment?

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. Market evidence can include benchmark land values from other viability assessments. Land transactions can be used but only as a cross check to the other evidence. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Policy compliance means that the development complies fully with up to date plan policies including any policy requirements for contributions towards affordable housing requirements at the relevant levels set out in the plan. A decision maker can give appropriate weight to emerging policies. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 016 Reference ID: 10-016-20190509

Revision date: 09 05 2019

Can alternative uses be used in establishing benchmark land value?

For the purpose of viability assessment alternative use value (AUV) refers to the value of land for uses other than its existing use. AUV of the land may be informative in establishing benchmark land value. If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan. Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

Plan makers can set out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued. Where AUV is used this should *be supported by evidence of the costs and values of the alternative use to justify the land value. Valuation based on AUV includes the premium to the landowner. If evidence of AUV is being considered the premium to the landowner must not be double counted.*

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 017 Reference ID: 10-017-20190509

Revision date: 09 05 2019

4.0 PRIVATE RESIDENTIAL VALUES

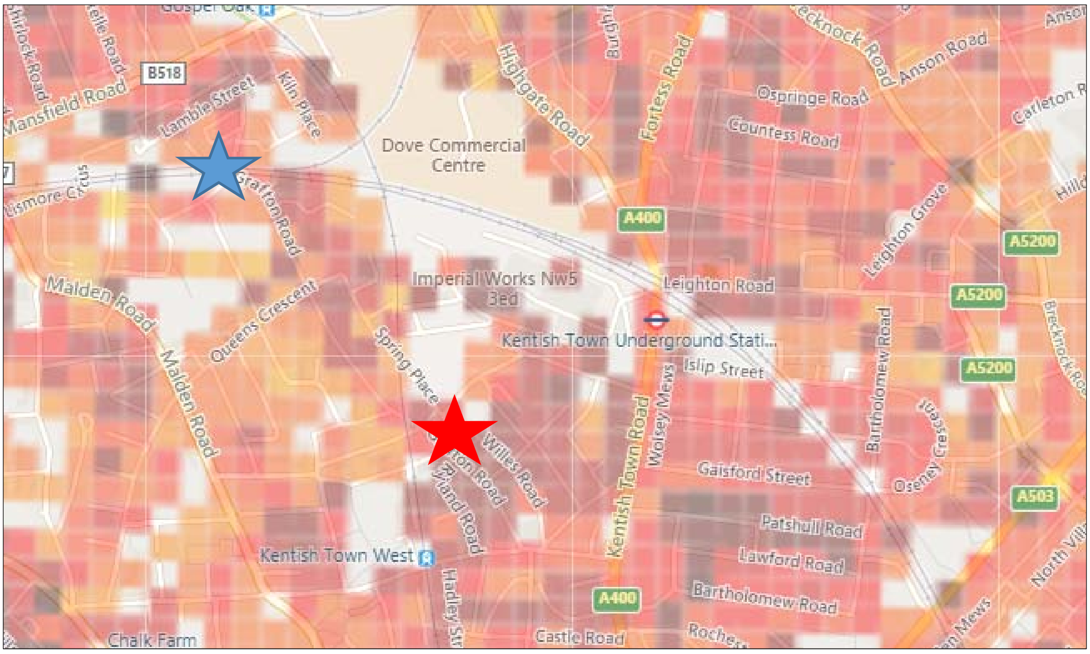
4.1 The proposed values have been provided by S106 Management. The plot schedule within the report provides a total private GDV of £5,357,088 based on an average value of £8,811/sq m (£819/sq ft). However the appraisal adopts a different total of £5,365,899.

4.2 The values range from £572,715 to £590,337 (700 and 721 sq ft) for the two bed units and £704,880 for the three bed unit (861 sq ft).

4.3 The average value has been derived from sales within the last year from the reporting date of November 2018. As almost 12 months has passed we now consider this evidence to be of limited reliability and have instead used more recent sales to assess whether the proposed values are still appropriate.

4.4 Vicars Road is a development of 21 apartments in a stepped building of a maximum of 6 storeys located next to the railway line and just south of Gospel Oak Station. The available sales values are shown below. One bed units sold for between £412,500 to £510,000, two bed units from £570,000 to £600,000 and three bed unit at £689,000. The average sales value is £780/sq ft.

4.5 The subject site is in a marginally higher value area, approximately 0.2 miles from Vicars Road. The units are similar sized to those at the proposed scheme and provides a good indication of sale in the local area. The House Price Index for apartments in Camden has shown a slight increase since December 2018 to the latest published results, July 2019. This again suggests that the pricing proposed is reasonable.



4.6 Flat H 116 Grafton Road is a second hand two bed flat in good internal condition and located a few properties away from the site. The first bedroom has an en-suite and there is a small Juliet balcony off the kitchen/reception room. It is located on the first floor. It sold in May 2018 for £530,000, which equates to £660/sq ft. Updated to today's value in terms of the House Price Index equates to an increase of 9%, or to £577,700 or £718/sq ft. This was a permitted development of a former office building circa 2015 and so we would expect the proposed development to achieve a premium in relation to this transaction.

4.7 We are therefore satisfied that with the evidence available the proposed pricing appears reasonable in todays market.

Office Space

4.8 The development proposals include 1,410 sq ft (net) of office space at basement level. This is accessed from the same communal hallway as the residential element. There are two light wells at the front of the building and a small patio/light well at the rear of the building. This is likely to lead to limited natural daylight in this space.

4.9 We understand that the existing building does not have a basement and this is to be newly constructed for the purposes of this development.

4.10 The rent has been assumed at £30.75/sq ft. This has then been capitalised at 6% to arrive at a stated total value of £688,270. However a rent of £30.75/sq ft would produce a total annual rent of £43,357 when applied to the lettable area of 1,410 sq ft, which would actually equate to net value of £722,625.

4.11 We have analysed the rents achieved locally for new and good quality second hand office space, which is summarised below. We have typically found these to be circa £35/sq ft, indicating that the proposed value is below expectations for good quality office space. However we also acknowledge that the proposed space is likely to achieve lower than market rent due to the reduced natural light and basement position.

Address	Date	Lease terms	sq ft	Rent	£/sq ft	Comments
Ground Ryland House 24a Ryland Road NW5 3EH	11/03/2019	5 years, 5 month rent free, tenant only break 2022	2500	£ 83,750	£ 34	Good condition
Unti 7&8 Holmes Studio, 45 Homles Road, NW5 3AN	01/09/2018	5 years, tenant only break 2021	1895	£ 66,325	£ 35	New courtyard offices, gated
293-299 Kentish Town Road NW5 2TJ	15/08/2018	10 years	7749	£ 290,588	£ 38	Opposite station
Ground 74a, Holmes Road NW5 3AT	15/05/2018	5 years, break 2021	2045	£ 71,575	£ 35	New build, corner position

4.12 Neil Powling has broken down the construction of the basement as follows:

The basement cost is £517/m² that compares to a BCIS substructure cost of £205/m². The total cost for the basement and the fitting out as offices (omitting the £70,000 estimate for foundations etc? is £558,000 + £230,900 - £70,000 = £718,900. We suggest that the viability is considered both with and without the basement to verify that the best viability outcome is determined.

4.13 As the completed value of the basement floor/office space is only £688,270 according to the Applicants appraisal which would mean that it is being provided at a loss. This casts some doubt over the decision to create a basement; however the Council have commented that the reprovision of the existing employment space is a requirement of any redevelopment as the loss of employment space would be resisted.

4.14 We have instead adopted our higher valuation of £722,625 which is still lower than market evidence but reflects the secondary nature of a basement location with residential located immediately above.

Ground Rents

4.15 The ground rent value has been omitted. While this has not been explained in the report we assume this to be due to the Government's intention to reduce ground rents to a peppercorn. While the relevant legislation has not yet been passed, we accept that it is now imminent and to rely on a ground rent value poses a risk to the accuracy of our valuation. We therefore agree with the decision to omit them for the purposes of this assessment.

5.0 DEVELOPMENT COSTS

5.1 Our Cost Consultant, Neil Powling, has reviewed the cost information that has been provided. The full report can be found in Appendix B and his key findings are as follows:

The estimate has published the costs in three sections: the main section in the sum of £1,632,000 includes the shell costs for the whole building excluding the basement together with the fitting out of the flats. The second section is for the basement in the sum of £558,000. A separate note states if the basement is omitted then the costs of apartments would increase by £70,000 to allow for foundations, slab and drainage. The third section is for the fitting out of the offices in the sum of £230,900. The GIA of the whole building is 900m²: 737m² for the residential floors and 183m² for the basement office.

The basement cost is £517/m² that compares to a BCIS substructure cost of £205/m². The total cost for the basement and the fitting out as offices (omitting the £70,000 estimate for foundations etc? is £558,000 + £230,900 - £70,000 = £718,900. We suggest that the viability is considered both with and without the basement to verify that the best viability outcome is determined.

We note that although a lift is included on the drawings, there does not appear to be any provision for a lift installation in the costs.

Our benchmarking results in an adjusted benchmark of £2,762/m² that compares to the Applicant's £2,690/m². We therefore consider the Applicant's costs to be reasonable.

5.2 Professional fees 10% have been applied which is a standard and reasonable assumption for a site of this nature. An additional 5% has been allowed for contingency. As this has not been included in the build cost assessment it is reasonable to show as a separate allowance and we are satisfied this has not resulted in double counting.

5.3 An allowance of £179,300 has been made for CIL based on a charging rate of £550/sq m in relation to residential space and £25/sq m in relation to office space. We are have not verified this figure in relation to the breakdown of space and net chargeable area following deduction of existing space. We have accepted the use of this figure at this stage and suggest that the Council confirm once a CIL calculation has been provided and we can review if necessary.

5.4 No S106 contributions have been included and we are not aware of any agreed Heads of Terms so have not made any provisional allowance. However in light of the surplus we advise that contributions can be made if required.

5.5 Acquisition costs have been included at £451,500 for SDLT (4.8%, 1.5% for agent's fees and 0.35% for and legal fees (£32,349). We agree these are reasonable assumptions.

5.6 A total sales and marketing budget of 3% has been made with a further £10,000 for legal fees. For the size of the development, which is unlikely to have any on site marketing suite and instead relying on third party agency, we consider this to be excessive. We have instead reduced this to 2.5% of which 1% is for marketing and 1.5% as sales agent fees. We have also included a separate allowance of £1,200 per unit for legal fees; or £10,800 overall.

5.7 The commercial unit disposal costs include 10% for letting agent fees, 5% for letting legal fees and a further 2% for marketing. Purchasers cost of 6% have also been deducted. We consider all of these costs to be reasonable.

5.8 The target profit margin is set at 20% of total GDV. 15% of commercial revenue is the commonly accepted standard return as commercial development is considered lower risk than residential. We have therefore applied a lower rate to the office revenue. Return on residential development is also advised at between 15-20%, dependent on site specific risks. This is considered to be a medium risk project on the basis which will be delivered over a short space of time and of a relatively straightforward construction. We therefore consider a mid-range return of 17.5% of residential revenue to be more appropriate.

5.9 Finance costs have been determined on at an a base interest rate of 7%, plus additional costs of 2% for an arrangement fee (£32,644) and miscellaneous fees of £10,000 including a £5,000 valuation fee, £2,500 of monitoring fees and £2,500 of other bank fees. Typically 7% is considered sufficient as an all-inclusive rate and therefore we consider these additional costs excessive and unjustified in the context of a viability assessment which disregards the individual position of the developer.

5.10 The cash flow assumes a two month planning period, 18 month construction period and sale completing between months 16 to 20 (average 2.25 per month). Neil Powling has agreed this is reasonable and this programme has been adopted in our own Argus appraisal.

6.0 BENCHMARK LAND VALUE

6.1 The Applicant has assigned the site two benchmark land value options as advised by the valuation report by WRE dated 17th September 2018:

- £2,500,000 with tenant in occupation
- £2,700,000 with full vacant possession

At the time of the valuation we understand that the tenants were occupying the premises under the terms of an old lease at a passing rent of £17,500 per annum. As such the former of the two values was adopted for the purposes of the assessment.

6.2 Although not considered as a benchmark land value, the report also refers to an offer of £3,500,000 which had been made to purchase the site subject to planning consent being granted. This offer had not been evidenced.

6.3 The suggested benchmark land values have not been established from an evidenced rent and yield as we would expect to support an EUV. Both are described as market value and the report also states:

'properties like this are rarely on the market for purchase and if they did become available then they would command a value far in excess of market value to reflects its considerable development potential..'

6.4 The Mayor's SPG states:

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

6.5 We therefore consider this approach to be incorrect and have instead sought to value the site through an EUV plus approach.

6.6 We conducted a site visit, photos from which can be found in Appendix C. The building was found to be a poor but useable condition for light industrial use with ancillary office space. The ground floor is concrete floor and primarily open plan storage with a toilet/kitchenette and stairs up to a mezzanine floor/ancillary office space. The building extends to a maximum height of circa 6.1 metres to the apex of the corrugated roof from 5 metres at the front wall. The property is accessed via a 3.7 metre shutter door with secondary pedestrian door. There is also a forecourt area on which approx. 5 cars could be parked off road, but which would block the access to the building. The ancillary office space/mezzanine floor has a restricted head height of circa 1.8 metres which appears to be an addition made by the tenant.

6.7 There was evidence of cracks in the corrugated metal roof which would require attention. Water ingress has also caused damage to the internal ceiling panels of the mezzanine area, although we were unable to take photos of this area due to the ongoing tenant operations.

6.8 We have had regard to the ratings assessment which is summarised below.

Floor	**Description**	**Area m²/unit**	**Price per m²/unit**	**Value**
Ground	Area Under Supported Floor	59	£93.16	£5,496
Mezzanine	Office	59	£133.08	£7,852
Ground	Store	113.5	£133.08	£15,105
Total		**231.5**		**£28,453**

Additional details

Description	**Area m²/unit**	**Price per m²/unit**	**Value**
Hard Surfaced, Fenced Land	58	£15.00	£878
Total	**58**		**£878**

6.9 Since the valuation report has been produced, the previous lease has expired and we understand the tenants are occupying the premises on a rolling contract, although a new draft unsigned lease, due to come into effect on 25th December 2019, has also been provided by the Applicant. This has a contractual term of 10 years with an initial break date of 25th June 2021 at a rent of £25,000 per annum, increasing to £27,500 per annum in December 2021.

6.10 Section 9 of the valuation report also states that an annual rent of £45,000 (average £14/sq ft) could be achieved in the current market although no relevant transactions have been identified to justify this. This would suggest that the draft lease and rent of £25,000 (£8/sq ft) is reflective of development uncertainty.

6.11 1 Hampshire Street is a B1 light industrial unit of 6,985 sq ft which was sold in April 2019 for £3,100,000, equating to £444/sq ft. The property is let at a rent of £46,000 per annum for use as a studio, equating to £7/sq ft. It was sold with a resolution to grant consent for 16 residential units in a 4 storey building, so we would expect that the rent would be reduced to reflect this uncertainty and that the draft lease at the subject site similarly has a reduced rental value.

6.12 However this is a strong comparable in terms of location, size and development potential, which suggests that the cited offer of £3,500,000 is optimistic of a proposed development of only 9 new units and lower value office space. The building appears to be in a better condition than the subject site as shown in photos below which would generate a higher EUV land value and therefore help justify a lower affordable provision – or 0% as was consented.

6.13 On this basis we also do not consider this suitable as a comparable for a land transaction value. 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.

6.14 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.

6.15 3 Kentish Town Industrial Estate is a newly refurbished two storey B1 property on an established business park with separate male and female toilets, kitchen, separate office rooms and board room. It is 2,500 sq ft and currently on the market with an asking rent of £62,500, which equates to £25/sq ft. We recognise the limitations of using an asking rent as opposed to achieved rent, but as a superior facility and with what could be considered an aspirational rental value, we would expect the subject site to achieve a much lower rent.

6.16 Unit 4 Roman Way Industrial Estate, N7 8XH, is a unit of 2,344 sq ft including a small warehouse storage area and ancillary office, similar to the subject site. It was let over two years ago in June 2017 for £28,750 on a ten year lease with rent review and break date in June 2022. This suggests in the current market that a higher rent could be achievable.

6.17 The evidence above suggests that the rent as per the draft lease, of £25,000 per annum, is below expectations and offered at a reduced rent in light of the development potential and uncertainty of the tenancy if vacant possession is sought. We therefore agree that the proposed rent of £45,000 per annum could be considered reasonable as a market rent and have adopted the same for the purposes of establishing an EUV.

6.18 A yield of 6% has been applied to the value of the proposed office by the Applicant which we consider reasonable. The existing space is of a lower quality and would require refurbishment and investment for longer term use. This carries a greater risk to a potential investor and would justify a higher yield. We have therefore adopted a higher rate of 6.5%.

6.19 A landowner's premium is applied to reflect the additional incentive that the landowner would require to release the land for development. This is typically between 0-20% dependent on the existing site, its potential for ongoing use and the value it can deliver in terms of a policy compliant development.

6.20 Due to the condition of the building we have adopted land owners premium of 10% but the actual premium which will be available to the landowner will be the equivalent of the uplift in value from the EUV to the residual value of a policy compliant scheme.

6.21 We have therefore adopted a benchmark land value of £716,000 for the purposes of our assessment.

6.22 Please note this assumes that the existing tenant would be willing to remain in situ at market rent. This therefore negates the need for marketing and rent free periods in determining the capital value. We have also not assumed any refurbishment works which may be required if the property were to be relet. We reserve the right to review these assumptions at a later date if necessary.

Quality Standards Control

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.

The following persons have been involved in the production of this report:

Signed

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For and on behalf of BPS Chartered Surveyors

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LIMITATION OF LIABILITY/PUBLICATION

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Appendix A

128-130 Grafton Road
Amended Appraisal

Development Appraisal
Prepared by BPS
BPS Surveyors
05 December 2019

128-130 Grafton Road
Amended Appraisal

Appraisal Summary for Phase 1

Currency in £

REVENUE						
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**	
Resi	9	6,555	818.60	596,211	5,365,899	
Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Commercial	1	1,410	30.75	43,358	43,358	43,358
Investment Valuation						
Commercial						
Market Rent	43,358	YP @	6.0000%	16.6667		
		PV 8mths @	6.0000%	0.9619	695,092	
GROSS DEVELOPMENT VALUE				**6,060,991**		
Purchaser's Costs			(41,706)			
Effective Purchaser's Costs Rate		6.00%				
				(41,706)		
NET DEVELOPMENT VALUE				**6,019,286**		
NET REALISATION				**6,019,286**		
OUTLAY						
ACQUISITION COSTS						
Fixed Price		716,000				
Fixed Price			716,000			
				716,000		
Stamp Duty		4.80%	34,368			
Agent Fee		1.00%	7,160			
				41,528		
CONSTRUCTION COSTS						
Construction	**Units**	**Unit Amount**	**Cost**			
Construction	1 un	1,632,201	1,632,201			
Contingency		5.00%	81,610			
S106			179,300			
				1,893,111		
Other Construction						
Basement			558,000			
				558,000		
PROFESSIONAL FEES						
Architect		10.00%	219,020			
				219,020		
MARKETING & LETTING						
Marketing		1.00%	53,659			
Marketing Commerial		2.00%	13,902			
Letting Agent Fee		10.00%	4,336			
Letting Legal Fee		5.00%	2,168			
				74,064		
DISPOSAL FEES						
Sales Agent Fee		1.50%	90,289			
Sales Legal Fee			10,800			
Sales Legal Fee Commerical			5,000			
				106,089		
Additional Costs						
Private profit		17.50%	939,032			
Commericial profit		15.00%	104,264			
				1,043,296		
FINANCE						
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)						
Land			86,828			

128-130 Grafton Road
Amended Appraisal

Construction	110,732	
Total Finance Cost		197,560
TOTAL COSTS		**4,848,669**
PROFIT		
		1,170,616

Performance Measures

Profit on Cost%	24.14%
Profit on GDV%	19.31%
Profit on NDV%	19.45%
Development Yield% (on Rent)	0.89%
Equivalent Yield% (Nominal)	6.00%
Equivalent Yield% (True)	6.23%
IRR% (without Interest)	40.84%
Rent Cover	26 yrs 12 mths
Profit Erosion (finance rate 7.000)	3 yrs 1 mth

Appendix B

Project: 128-130 Grafton Road, Camden NW5 4B
2018/3059/P

Independent Review of Assessment of Economic Viability

Appendix A Cost Report

1 SUMMARY

1.1 The estimate has published the costs in three sections: the main section in the sum of £1,632,000 includes the shell costs for the whole building excluding the basement together with the fitting out of the flats. The second section is for the basement in the sum of £558,000. A separate note states if the basement is omitted then the costs of apartments would increase by £70,000 to allow for foundations, slab and drainage. The third section is for the fitting out of the offices in the sum of £230,900. The GIA of the whole building is 900m²: 737m² for the residential floors and 183m² for the basement office.

1.2 The basement cost is £517/m² that compares to a BCIS substructure cost of £205/m². The total cost for the basement and the fitting out as offices (omitting the £70,000 estimate for foundations etc? is £558,000 + £230,900 - £70,000 = £718,900. We suggest that the viability is considered both with and without the basement to verify that the best viability outcome is determined.

1.3 We note that although a lift is included on the drawings, there does not appear to be any provision for a lift installation in the costs.

1.4 Our benchmarking results in an adjusted benchmark of £2,762/m² that compares to the Applicant's £2,690/m². We therefore consider the Applicant's costs to be reasonable.

2 METHODOLOGY

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

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 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 Affordable Housing Financial Viability Analysis for ETA Bridging Ltd issued by S106 Management 21st November 2018 including at Schedule 4 the Budget estimate issued November 2018 by David R Parker for ETA Bridging Ltd.

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

3.3 The cost plan is priced upon competitive tender return levels current November 2018. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 4Q2018 is 336 (sample 15) and for 4Q2019 339 – both figures are forecasts.

3.4 The cost plan includes an allowance for preliminaries, scaffolding and an NHBC warranty amounting to 13.5%. The allowance for overheads and profit (OHP) is 9%. We consider the former a little low and the latter a little high – but taken together reasonable.

3.5 The provision in the HCEAT for contingencies is 5% which we consider reasonable. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

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

3.7 Sales have been included in the Appraisal at average figures of £673/ft² (Net Sales Area).

3.8 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.

3.9 The building comprises a basement fitted out as an office with 5 floors of flats above a 6 storey building. BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6+ storey. We have benchmarked the residential element as 6+ storey flats.

3.10 The estimate has published the costs in three sections: the main section in the sum of £1,632,000 includes the shell costs for the whole building excluding the basement together with the fitting out of the flats. The second section is for the basement in the sum of £558,000. A separate note states if the basement is omitted then the costs of apartments would increase by £70,000 to allow for foundations, slab and drainage. The third section is for the fitting out of the offices in the sum of £230,900. The GIA of the whole building is 900m²: 737m² for the residential floors and 183m² for the basement office.

3.11 The basement cost is £517/m² that compares to a BCIS substructure cost of £205/m². The total cost for the basement and the fitting out as offices (omitting the £70,000 estimate for foundations etc? is £558,000 + £230,900 - £70,000 = £718,900. We suggest that the viability is considered both with and without the basement to verify that the best viability outcome is determined.

3.12 We note that although a lift is included on the drawings, there does not appear to be any provision for a lift installation in the costs.

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

3.14

Blended calculation			BCIS	Blended
	m²	%	£/m²	£/m²
Offices	183	20.3%	2,994	609
Flats	717	79.7%	2,503	1,994
	900	100.0%		2,603

3.15 Our benchmarking results in an adjusted benchmark of £2,762/m² that compares to the Applicant's £2,690/m². We therefore consider the Applicant's costs to be reasonable.

BPS Chartered Surveyors
Date: 11th October 2019

128-130 Grafton Road, Camden NW5 4B

Elemental analysis & BCIS benchmarking

		Total		Flats & basement		Office - fit out			
	Office GIA						**183**		
	Residential GIA				**717**				
	GIA m²		**900**		**717**		**183**	**LF100**	**LF132**
		£/m²	**£**	**£**	**£/m²**	**£**	**£/m²**	**£/m²**	**£/m²**
	Demolitions & asbestos removal	**26,000**	**29**	**26,000**	**36**		**0**		
1	**Substructure - basement shell inc foundations £70,000**	**465,400**	**517**	**465,400**	**649**		**0**	**155**	**205**
2A	Frame	45,000	50	45,000	63		0	142	187
2B	Upper Floors	61,600	68	61,600	86		0	79	104
2C	Roof	77,600	86	77,600	108		0	87	115
2D	Stairs	70,000	78	70,000	98		0	34	45
2E	External Walls	235,500	262	223,500	312	12,000	66	214	282
2F	Windows & External Doors	156,500	174	135,500	189	21,000	115	85	112
2G	Internal Walls & Partitions	94,300	105	69,300	97	25,000	137	73	96
2H	Internal Doors	34,700	39	32,700	46	2,000	11	45	59
2	**Superstructure**	**775,200**	**861**	**715,200**	**997**	**60,000**	**328**	**759**	**1,002**
3A	Wall Finishes	50,700	56	40,700	57	10,000	55	76	100
3B	Floor Finishes	78,900	88	65,800	92	13,100	72	65	86
3C	Ceiling Finishes	65,800	73	56,600	79	9,200	50	40	53
3	**Internal Finishes**	**195,400**	**217**	**163,100**	**227**	**32,300**	**177**	**181**	**239**
4	**Fittings**	**114,600**	**127**	**109,600**	**153**	**5,000**	**27**	**71**	**94**
5A	Sanitary Appliances	68,600	76	48,600	68	20,000	109	32	42
5B	Services Equipment (kitchen, laundry)							24	32
5C	Disposal Installations	1,500	2		0	1,500	8	20	26
5D	Water Installations	27,200	30	24,200	34	3,000	16	33	44
5E	Heat Source	27,400	30	23,400	33	4,000	22	20	26
5F	Space Heating & Air Treatment	42,300	47	18,800	26	23,500	128	78	103
5G	Ventilating Systems, smoke extract & control	6,500	7	5,000	7	1,500	8	15	20
5H	Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)	70,600	78	56,100	78	14,500	79	92	121
5I	Fuel Installations	8,100	9	7,100	10	1,000	5	6	8
5J	Lift Installations							35	46
5K	Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)							13	17
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)	32,300	36	17,300	24	15,000	82	28	37
5M	Special Installations - (window cleaning, BMS, medical gas)	18,000	20	18,000	25		0	21	28
5N	BWIC with Services	7,000	8	6,000	8	1,000	5	17	22
5O	Management of commissioning of services - acoustic testing	11,500	13	11,500	16		0		
5	**Services**	**321,000**	**357**	**236,000**	**329**	**85,000**	**464**	**434**	**573**
6A	Site Works	12,000	13	9,500	13	2,500	14		
6B	Drainage	2,000	2		0	2,000	11		
6C	External Services	46,000	51	40,000	56	6,000	33		
6D	Minor Building Works								
6	**External Works**	**60,000**	**67**	**49,500**	**69**	**10,500**	**57**		
	SUB TOTAL	**1,957,600**	**2,175**	**1,764,800**	**2,461**	**192,800**	**1,054**	**1,600**	**2,112**
7	**Preliminaries - inc NHBC & scaffolding 13.46%**	263,500	293	**244,500**	341	**19,000**	104		
	Overheads & Profit 9%	200,000	222	**180,900**	252	**19,100**	104		
	SUB TOTAL	**2,421,100**	**2,690**	**2,190,200**	**3,055**	**230,900**	**1,262**		
	Design Development risks								
	Construction risks - 5% contingency in HCEAT								
	Employer change risks								
	Employer other risks								
	TOTAL	**2,421,100**	**2,690**	**2,190,200**	**3,055**	**230,900**	**1,262**		
		2,421,100	**2,690**	**2,190,200**					
	Flats excluding basement			1,702,200	2,374				
	Benchmarking		2,603		2,545		1,266		
	Add demolitions	29		36					
	Add external works	67		69		57			
	Add additional cost of fittings	34		59					
		129		164		57			
	Add prelims 13.5%	17		22		8			
	Add OHP 9%	13	160	17	203	6	71		
	Total adjusted benchmark (exc contingency)		2,762		2,748		1,337		

Appendix C


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