108 Kilburn High Road, NW6 4HY

Independent Viability Review

Prepared on behalf of the London Borough of Camden

10th February 2020

Planning reference: 2019/5282/P

BPS Chartered Surveyors

215a High Street, Dorking, RH4 1RU
www.bps-surveyors.co.uk
Tel: 01483 565 433

Contents

1.0 INTRODUCTION

1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to undertake a review of the Financial Viability Assessment (FVA) dated December 2019 prepared by Upside London Ltd (ULL) on behalf of Mr B Baker ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site currently comprises a ground floor retail unit with three upper floors previously used as office space (use class b1). We understand that the office space has not been occupied for 20 years and is in a poor condition. The ground floor retail unit is occupied by an amusement arcade which is not part of the proposed development and is consequently not included in either financial viability assessment. There is a top floor flat (27 Quex Mews) which is a one bedroom flat on the top floor of the adjacent building which is to be extended in the proposed plans. Access to the proposed development is provided from 110 Kilburn High Road which comprises a ground floor retail unit occupied by Poundland and residential accommodation on the upper four floors.

1.3 The location is predominantly commercial in nature and consists of primarily ground floor retail units along Kilburn High Road with either other commercial or residential accommodation above them. The site is approximately 0.2 miles (4 minute walk) form Kilburn High Road station which provides London overground services between Watford Junction and London Euston station. It benefits from several bus routes passing the property and has a high PTAL rating of 6a. The site is not located in a conservation area nor is it listed.

1.4 The proposals are for:

Conversion of upper floors of 108 Kilburn High Road from solicitors (Class A2); erection of three storey rear extension; part replacement mansard roof extensions across no's 108 and 110 and alterations to front elevation in association with provision of 7 x 1-bed units and 1 x 2-bed unit (Class C3) accessed via Quex Mews.

1.5 The basis of our review is Economic Viability Appraisal Report prepared by ULL, dated December 2019, which concludes that the scheme currently shows a surplus of £15,344 which should constitute a payment in lieu of affordable housing. We have also downloaded documents available on London Borough of Southwark's planning website. We have received a live version of the Argus appraisal included in the report.

1.6 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.

1.7 We have searched the London Borough of Camden's planning website and have not identified any other recent or outstanding planning applications relating to the site. There have been several previous applications for change of use for the upper floors of 108 Kilburn High Road for use from B1 or A2 use to C3 residential; all of which were withdrawn.

1.8 A Land Registry search shows that the applicant does currently own at least part of the property. 108 Kilburn High Road was purchased by Benny Dee (Kilburn) Ltd on 30th November 2018 for £1.9 million which is inclusive of the basement and ground floors. 110 Kilburn High Road was purchased by Benny Dee (Kilburn) Ltd on 19th October 2001 for £530,000. The long leasehold (999 years from 24th June 2006) for 27

Quex Mews is held by Benjamin baker and Suwiporn Baker as of 12 May 2016. We assume that there is a private arrangement for the proposed development between Mr B Baker and Benny Dee (Kilburn) Ltd which would not affect the viability of the proposed scheme.

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have reviewed the Economic Viability Appraisal Report prepared by ULL which concludes that the proposed scheme generates a residual land value of £836,600. This is £15,334 above their benchmark land value of £820,266, and on this basis the figure of £15,344 should represent the maximum affordable housing payment in lieu (PIL) of affordable housing. The policy compliant affordable housing PIL as required by the Council is for £123,092.50.

2.2 We have been provided with a live version of the Argus appraisal included in ULL report to which we have applied our amendments which include:

Increased Residential GDV

Decreased Benchmark Land value

Decreased Professional Fees

Decreased Developer Profit Target

Reduced Development Timings

2.3 We have fixed the land cost in the appraisal to our benchmark land value of £642,000 and have also inputted the target profit as a development cost. The resulting residual profit is £513,425 and our appraisal summary can be found in Appendix Two. We therefore conclude that the scheme would be able to contribute the policy compliant affordable housing contribution, for which we have created an appraisal which shows the proposed scheme generates a residual profit of £383,000 with the affordable housing PIL.

2.4 We have conducted sensitivity analysis on the proposed costs and values. The results of this can be seen in Appendix Four. This demonstrates that with a 5% upward movement in build costs and a 5% decrease in residential sales values the scheme would still be in surplus by £335,000 and therefore able to make a policy compliant PIL for affordable housing.s

<u>Benchmark land value</u>

2.5 The site currently comprises a ground floor retail unit with three upper floors previously used as office space (use class B1). We understand that the office space has not been occupied for circa 20 years and is in a poor condition. The ground floor retail unit is occupied by an amusement arcade and is not part of the proposed development and is consequently not included in either financial viability assessment. There is a flat on the 4th floor of 110 Kilburn High Road (27 Quex Mews) which we understand will be extended in the proposed scheme and has been included in the assessment of benchmark land value.

2.6 ULL have approached the Benchmark Land Value on an Alternative Use Value (AUV) basis for the office element and Existing Use Value (EUV) basis for the residential element. They suggest that the existing office space requires refurbishment before being tenantable for which they have accounted for a £325,000 allowance, which our Cost Consultant agrees is reasonable having reviewed the figure in his build cost estimate.

2.7 ULL have identified transactional evidence for rental units in the surrounding area. some of the evidence dates back as far as 2016 which we would consider too historic for relevance, and most of the evidence identified is for units in more affluent locations. They have accordingly adopted an estimated rental value (ERV) of £35 per sq ft (£61,799 pa) for the refurbished unit. They have capitalised the income at a yield of 6.5% without justification for capitalising the income at this yield. They have also deducted disposal fees, developer contingency, professional fees and agency fees. The total AUV for the office space is £516,171.

2.8 ULL have valued the existing residential unit at £285,000 and have deducted disposal fees of 3%, giving a gross value of £276,450. They have adopted a 10% landowner premium on the residential element which gives an EUV+ value of £304,095 for the residential element.

2.9 This gives an overall benchmark land value of £820,266 for the site.

2.10 We consider ULL's approach to benchmark land valuation to be reasonable, however we would consider the approach to be an Alternative Use Value (AUV) rather than an Existing Use Value (EUV) as described by ULL, due to the refurbishment of the office space to bring it into tenantable condition. We have similarly used the investment method of valuation to value the office space, allowing for the same refurbishment cost which our cost consultant considers reasonable, and separately valued the residential unit.

2.11 We have identified further transactional evidence for office rental values in the surrounding area, as well as asking price evidence. Most of the units identified are more desirable than the subject given their location and layout, however some of the evidence is for units on Kilburn High Road and above retail. Further analysis of the comparable evidence can be found in section 6 of our report. We have accordingly adopted a rental value of £27.50 per sq ft for the refurbished unit, which gives a ERV of £48,545 pa.

2.12 We have been unable to identify investment transactions for office units in the surrounding area and use evidence for units on the market, which if sold for the asking price would achieve yields of 5.1% and 6%. In light of this evidence and the location, condition and position of the subject property we agree that the yield of 6.5% used by ULL is reasonable for the subject, giving a total value for the property of £747,000.

2.13 We have similarly allowed for professional fees, contingency, disposal fees and agency fees which are aligned with the assumptions used by ULL. After deducting these costs and allowing for refurbishment the total AUV of £327,162 for the office space which is £189,000 below the value adopted by ULL.

2.14 We are unaware of the condition of the existing flat and have assumed that it is in a reasonable condition for the purposes of our assessment. The flat is held on a long leasehold by the applicant. We have considered the evidence identified for the proposed residential units in order to value the existing one bedroom flats. We suggest that the unit would not achieve values as high as the second hand units identified given the location. We have accordingly adopted a value of £325,000 (£629 per sq ft) for the existing one bedroom unit which is an increase of approximately £40,000 on the value adopted by ULL. We do not consider that a landowners premium is necessary for the residential element of the scheme, given that the use is being replaced and therefore no incentive is required to bring the unit forward for development.

2.15 We adopt an overall benchmark land value of £642,000 which is a decrease of £178,000 on the value proposed by ULL. Our calculation of benchmark land value can be seen in Appendix Three.

Proposed Scheme

2.16 The scheme includes 8 private residential units which are arranged over the upper 4 floors of the subject. Most of the units are provided in the existing office space, with a 4th floor extension providing two additional units, one of which is currently located in 110 Kilburn High Road. There is no lift access or parking and each unit has a single bathroom.

2.17 ULL have valued the proposed units based on Land Registry data for second hand units along Kilburn High Road. Most of the evidence is for units which are larger than the subject and only 5 of the 21 transactions they have identified occurred within the last 24 months, therefore we do not consider their evidence base to be of limited relevance. They have created a pricing schedule which gives a total value of £2.85 million for the proposed residential units which is an average of £710 per sq ft.

2.18 We have identified several new build developments from the surrounding area including Park Place, Noma, Abbey Road Cross and The Avenue. We have also identified asking price evidence for second hand studio units and transactional evidence for one and two bedroom units in the surrounding area. More detail on the comparable evidence can be found in section 4 of this report.

2.19 Generally we have found the values proposed by ULL to be lower than our expectations. We do not agree that the proposed units would achieve similar values to most of the new build evidence identified, given their location, specification and offered amenities. We reference individual sales and the asking price evidence for studios, as well as the achieved prices at The Avenue, which we suggest the proposed units would achieve a discount from but not as great as the discount proposed by ULL. We have created a revised pricing schedule which can be seen in section 4.29 which gives a total value of £3.05 million for the proposed residential units (average of £760 per sq ft), which is an increase of approximately £200,000 on the values proposed by ULL.

2.20 ULL have not included a value for the ground rental income given the government's intentions to restrict their income to peppercorn levels on new build developments. We find this to be a reasonable approach and suggest that the S106 agreement be written to include such a restriction to ensure that their value is not included at the expense of an affordable housing contribution.

Build costs

2.21 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by RLF, dated December 2019, and concludes that:

Our benchmarking results in an adjusted benchmark of £2,437/m² that compares to the Applicant's £ 2,422/m². We therefore consider the Applicant's costs to be reasonable

2.22 Mr Powling's full cost report can be found at Appendix 1. We have accordingly adopted the same build cost as the applicant for the proposed scheme.

2.23 We find the adoption of professional fees at 12% to be higher than expected and adopt a rate of 10% in our appraisal. We find all the additional assumptions on costs to be reasonable.

2.24 CIL charges have been assumed at £70,600 for Borough CIL and £9,600 for MCIL2. We have not verified these figures but have adopted them in our appraisal.

2.25 ULL have used a developer profit target of 20% on the private residential GDV. For a scheme of this size we would expect to see a lower profit target, to reflect the reduced risk. The London Plan Viability Study (December 2017) Technical Report Annex G recommends that buildings of up to 5 storeys in height require a profit target of 15%. We have accordingly adopted a profit target of 17.5% on the private residential which reflects a slight increased risk in the conversion from office use.

2.26 ULL have allowed for a 4 month purchase and pre construction period, 12 month construction period and 6 month sales period.

2.27 We consider these development timings to be longer than reasonable. We have adopted a reduced sales period of 3 months and shortened construction period of 10 months based on advice from Mr Powling and BCIS construction duration estimates.

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 Development appraisals can also be constructed to include a fixed land value and fixed profit targets. If an appropriate Benchmark Land Value is included as a fixed land value within a development appraisal, this allows for interest to be more accurately calculated on the Benchmark Land Value, rather than on the output residual value. By including fixed profit targets as a cost within the appraisal, programmed to the end of development so as not to attract interest payments, the output represents a 'super' profit. This is the profit above target levels generated by the scheme which represents the surplus available towards planning obligations.

4.0 PRIVATE RESIDENTIAL VALUES

4.1 The residential element of the proposed scheme, as sought by the planning application, is for 8 private residential units arranged on the upper floors. The units will be accessed through the existing access for 110 Kilburn High Road, which is provided through the rear of the building via Quex Mews. Unit 27 is the extension of a unit which is currently located in 110 Kilburn High Road which will be extended in the proposed development. Each unit has a single bathroom, other than 27 Quex Mews which has two, and there is no lift access or car parking associated with the development.

<u>ULL Valuation</u>

4.2 ULL have valued the units based on land registry data for second hand units along Kilburn High Road. Some of the transactions they have listed date to 2015, which we consider to be too historic for relevance, with only 5 of the 21 transactions occurring in the past 24 months. They do not provide descriptions of the properties beyond the size of the unit which has been taken from the EPC register. The average selling price of the units was £391,048 at a rate per sq ft of £656. Most of the evidence is for units which are larger than those proposed studios which would typically achieve higher values per quantum.

4.3 ULL have created a pricing schedule for the proposed units based on the transactional evidence provided. The values can be seen in the table below:

Unit	Floor	Beds	Sq m	Sq Ft	ULL Price	ULL £ / Sq Ft
1	1	Studio	40.7	438	£325,000	£742
2	1	Studio	41.2	443	£325,000	£733
3	2	Studio	42	452	£325,000	£719
4	2	Studio	41	441	£325,000	£736
5	3	Studio	42.3	455	£325,000	£714
6	3	Studio	41.3	445	£325,000	£731
7	4	2	66.1	711	£475,000	£668
27	4	1	58.2	626	£425,000	£678
			373	**4013**	**£2,850,000**	**£710**

4.4 This gives a total value of £2.85 million for the proposed residential units.

<u>BPS Valuation</u>

4.5 We have undertaken our own research into transactions in the area surrounding the subject site and have identified the following new build developments using Molior and Rightmove:

Park Place, 254 Kilburn High Road, NW6 2BS

4.6 New build 60 unit scheme with 45 private flats. North of the subject on the same road, closer to Brondesbury and Kilburn stations with some units overlooking greenspace (Kilburn Grange Park). The development includes a gym, gated courtyard, private balconies and a concierge. We have identified the following asking price data:

Bedrooms	Description	GIA	Asking Price	Asking Price psf
1	-	565 sq ft	£525,000	£929
1	Penthouse flat, 6th floor, park views	571 sq ft	£595,000	£1,042
2	1st floor, 1 bathroom, park views	774 sq ft	£715,000	£1,001

4.7 Molior lists asking prices as low as £515,000 for one bedroom units and up to £1.3 million for 3 bedroom penthouse flats.

4.8 Given the superior condition, amenities and purpose built nature of the development we find it reasonable to suggest that the proposed units would not achieve values as high as those in Park Place.

Noma, Kilburn High Road, NW6 5SN

4.9 195 unit scheme with 109 private units over 9 storeys. South of the subject towards Maida Vale and closer to Kilburn park station. Development includes landscaped gardens, concierge, residents gym and secure underground car parking. We have identified the following asking price data from Molior:

Noma	Max	Avg	Min
1 Bedroom	£510,500	£497,000	£480,000
2 Bedroom	£847,500	£785,696	£725,000

4.10 Molior lists the one bedroom units as ranging between 538 sq ft and 646 sq ft, with two bedroom units ranging between 775 sq ft and 936 sq ft.

4.11 Given the superior condition, amenities and purpose built nature of the development we find it reasonable to suggest that the proposed units would not achieve values as high as those in Park Place.

Abbey Road Cross, NW6 4DP

4.12 241 unit mixed use scheme consisting of a 14 storey tower and 127 private units. East of the subject, adjacent to a railway track but set back from Kilburn High Road. development includes a concierge. We have identified the following transactional data:

Unit	Beds	Price	Date	Sq M	Sq Ft	£ Sq ft
APARTMENT 5	1	£459,200	05/07/2019	50	538	£853
APARTMENT 9	1	£475,000	23/08/2019	50	538	£882
APARTMENT 13	1	£470,000	29/07/2019	50	538	£873
APARTMENT 17	1	£475,000	14/06/2019	50	538	£882

APARTMENT 37	1	£515,000	27/08/2019	50	538	£956
APARTMENT 27	2	£668,000	27/08/2019	76	818	£816
APARTMENT 6	2	£667,000	25/07/2019	80	861	£774
APARTMENT 10	2	£660,750	06/08/2019	80	861	£767

4.13 It can be seen that one bedroom flats sold for values between £459,200 and £515,000 at rates per sq ft between £853 and £956. The one bedroom units are smaller than the proposed one bedroom unit in the subject and are larger than the studio units. The two bedroom units sold for between and £660,750 and £668,000 at rates per sq ft between £774 and £816 and the units are larger than the two bedroom unit proposed in the subject.

4.14 Although the development is larger than the subject, will include a height premium and is purpose built, it is adjacent to the railway line and similarly in a commercial area. We find it reasonable to suggest that the proposed units would only achieve marginally lower values.

The Avenue, Brondesbury Park, NW6 7YG

4.15 New build development of 74 units, 68 private, set across a 5 storey building. North west of the subject, close to Brondesbury Park station and the railway line, residential location. High specification with gym, landscaped gardens and concierge. Sales launched in June 2017. We have identified the following sold prices for studio units:

Unit	Price	Date	Sq M	Sq Ft	£ Sq ft
FLAT 14	£400,000	07/02/2019	37	398	£1,004
FLAT 20	£408,500	02/11/2018	37	398	£1,025
FLAT 28	£423,000	24/10/2018	37	398	£1,062
FLAT 32	£437,000	20/11/2018	38	409	£1,068
FLAT 36	£446,500	26/11/2018	38	409	£1,091
FLAT 7	£493,500	25/10/2018	45	484	£1,018
FLAT 12	£500,000	10/01/2019	45	484	£1,032

4.16 Several of the units are smaller than the proposed units and sold for between £400,000 and £446,500 with each unit achieving a sales rate of over £1,000 per sq ft. Although the units are smaller than those proposed in the subject and are adjacent to a railway line which will cause noise disturbance, they are of superior quality and offer more amenities.

4.17 One bedroom units sold for a minimum of £500,000 while two bedroom units sold for upwards of £585,000. We find it reasonable to suggest the proposed units would achieve slightly lower overall values given the increased sizes.

Studio Units

4.18 Given the lack of evidence for new build studio units we have identified the following asking price evidence for second hand studios in the wider surrounding area:

Address	Description & GIA	Asking Price	Asking Price psf
Beckford Building, West Hampstead Square, West Hampstead, NW6	5th floor studio flat in a modern development with private balcony, residents gym, 24 hour concierge and health spa. In West Hampstead, 0.6 miles north east of the subject, between two railway lines. 42 sq m / 450 sq ft	£525,000	£1,167
Orwell Building, West Hampstead Square, West Hampstead, London, NW6	4th floor studio flat in a modern development with private balcony, residents gym, 24 hour concierge and health spa. In West Hampstead, 0.6 miles north east of the subject, between two railway lines. 41 sq m / 446 sq ft	£535,000	£1,200
Kingsgate Road	Studio flat on the ground floor of a converted mid terrace house. Modern interior, separate kitchen. Set back from Kilburn High road on a quiet residential road, slightly further from stations. 34 sq m / 365 sq ft	£315,000	£863
The Crescent, Television Centre, White City, London, W12	3rd floor studio flat with a balcony in the reconditioned former BBC television studios. 24 hour concierge, health club, residents lounge, landscaped gardens. In White City, 2.5 miles south west of the subject. 452 sq ft	£610,000	£1,350
Ruddall Crescent, Hampstead, London, NW3	Duplex studio unit within a period conversion, new build. Modern interior, spiral staircase between levels. In Hampstead, approximately 1.5 miles north east of the subject tin a more affluent location. 22 sq m / 234 sq ft	£450,000	£1,923

4.19 The units in the Beckford and Orwell buildings (West Hampstead Square) are of a similar size to the proposed units and are located between two railway lines. They are of superior condition and offer superior amenities in a purpose built block. The unit in The Crescent similarly offers more amenities and is of new build condition. We therefore find it reasonable to suggest the proposed units would achieve significantly lower values

4.20 The unit on Kingsgate Road is in a more desirable residential location near the subject but is smaller and of second hand condition, we therefore suggest that the proposed units would achieve higher overall values. The unit in Ruddall Crescent is smaller than the proposed units and is similarly converted from another use. It is in a significantly more desirable location, therefore we would expect the proposed units to achieve lower values.

Second hand evidence

4.21 We have identified the following additional market evidence for second hand units which are located within 0.25miles of the subject property. The table below lists one bedroom units which have been found using Rightmove sold house price data:

Address	Description & GIA	Date	Sale Price	Price psf
34a Charteris Road, London, Greater London NW6 7ET	Ground floor studio flat in a converted mid terrace unit. dated interior, private garden. West of the subject on a quiet residential road. 58 sq m / 624 sq ft	13/6/19	£585,000	£938
First Floor Flat, 19 Priory Terrace, London, Greater London NW6 4DG	First floor one bedroom flat in a converted period end of terrace house. Neutral interior. East of the subject, closer to West Hampstead station. 42 sq m / 447 sq ft	25/1/19	£371,000	£830
42c Priory Park Road, London, Greater London NW6 7UN	One bedroom unit on the raised ground floor of a mid terrace unit. Recently refurbished interior. West of the subject, just set back from Kilburn High Road. 45 sq m / 481 sq ft	11/7/19	£375,000	£780
66c Glengall Road, London, Greater London NW6 7ER	One bedroom flat on the second (top) floor of a converted mid terrace house. Modern interior, narrow rooms. West of the subject on a quiet residential road, slightly further from stations. 45 sq m / 480 sq ft	9/9/19	£363,000	£756
70d Messina Avenue, London, Greater London NW6 4LE	One bedroom flat on the second floor of a converted semi detached period house. Neutral interior. East of the subject, towards West Hampstead station. 49 sq m / 530 sq ft	27/6/19	£405,000	£764
Flat 1, 29 Victoria Road, Kilburn, London, Greater London NW6 6SX	One bedroom flat on the third (top) floor of a converted period mid terrace house. Dated interior, in need of modernising. Just set back from Kilburn High Road. 51 sq m / 550 sq ft	6/9/19	£507,000	£922

4.22 It can be seen that one bedroom flats and studios range between £363,000 and £585,000 at rates per sq ft between £764 and £938. 34a Charteris Road is listed as a studio unit by Rightmove however it is larger than the other one bedroom units and achieved the highest price, therefore this appears to be an error. All of the identified units are larger than the studio flats proposed in the subject development and are in more favourable residential locations, set back from Kilburn High Road in desirable period houses. 19 Priory Terrace, 42c Priory Park and 66c Glengall Road are only slightly larger in size than the proposed studio units. All of the units are smaller than the proposed one bedroom unit, number 27 Quex Mews.

4.23 The table below lists two bedroom units from the surrounding area:

Address	Description & GIA	Date	Sale Price	Price psf
332a Kilburn High Road, London, Greater London NW6 2QN	2 bedroom flat on the first floor above retail units. Also identified by ULL. Modern interior, small terrace, single bathroom. Next to Brondesbury station, will suffer from noise disturbance, 0.5 miles from the subject. 56 sq m / 600 sq ft	16/1/19	£400,000	£667
21a West End Lane, London, Greater London NW6 4NU	Lower ground floor two bedroom flat in a converted mid terrace unit. Modern interior, private garden. East of the subject, just set back from Kilburn High Road. 62 sq m/ 672 sq ft	23/8/19	£480,000	£714
78 Messina Avenue, London, Greater London NW6 4LE	Ground floor two bedroom flat in a converted mid terrace house. Private garden, neutral interior. On a quiet residential road east of the subject, towards West Hampstead station. 54 sq m / 580 sq ft	12/9/19	£575,000	£991
59 Priory Park Road, London, Greater London NW6 7UR	Two bedroom duplex flat on the upper two floors of a converted mid terrace house. Modern interior, two bathrooms, copious storage. West of the subject on a quiet residential road, slightly further from stations. 79 sq m / 851 sq ft	13/9/19	£642,000	£754
Second Floor Flat, 44 Priory Road, London, Greater London NW6 4SJ	Second floor flat in a converted end of terrace period house. Neutral interior, single bathroom, one single bedroom. East of the subject, on a quiet residential road toward West Hampstead. 74 sq m / 797 sq ft	31/7/19	£788,000	£989

4.24 It can be seen that prices of two bedroom flats in the area range between £400,000 and £788,000. The lowest value was achieved by 332a Kilburn Road which was one of the comparables provided by ULL and is smaller than the proposed two bedroom unit and next to a railway line, which will be detrimental to value. 21a West End Lane and 78 Messina Avenue are slightly smaller than the proposed two bedroom unit and are on the lower ground floor, although they do have the benefit of a private garden and residential location, therefore we would expect the proposed two bedroom unit to achieve a similar value given the new build condition and larger size. 44 and 59 Priory Park Road are larger than the subject and in a more affluent residential location, therefore we would expect the two bedroom unit to achieve a lower overall value compared to these properties.

Conclusion

4.25 Generally we have found that the values proposed by ULL are lower than our expectations. The comparable evidence identified from new developments is primarily for purpose built schemes with higher specification and more amenities on offer. While asking price data is not as strong evidence as achieved prices it has been considered with regard to the proposed development given the lack of direct comparable evidence.

4.26 The closest comparison for the proposed studio units is The Avenue, where studios sold for upwards of £400,000. There is also a studio unit on the market at Kingsgate Road which is close to the subject and smaller than the proposed units for £315,000 which given the new build premium and larger unit size we consider the proposed units would achieve a higher value than. We have identified smaller second hand one bedroom units which sold for between £363,000 and £375,000 which we consider the proposed units would achieve slightly lower values than, given their new build condition and internal layout.

4.27 One bedroom units at Abbey Road Cross sold for upwards of £460,000 and are smaller than the proposed one bedroom unit. The second hand evidence identified suggests that ULL have undervalued the one bedroom unit, while asking prices in the identified new build development value units at upwards of £480,000.

4.28 Two bedroom units in new build developments sold for and marketed for upwards of £585,000 which we would not expect the proposed unit to achieve. The second hand evidence identified shows that the values for two bedroom units vary greatly, however we would expect the proposed two bedroom unit to achieve a higher value than 332a Kilburn High Road given the size and location.

4.29 We have created a revised pricing schedule which is as follows:

Unit	Floor	Beds	Sq m	Sq Ft	BPS Price	BPS £ / Sq Ft
1	1	Studio	40.7	438	£350,000	£799
2	1	Studio	41.2	443	£350,000	£789
3	2	Studio	42	452	£350,000	£774
4	2	Studio	41	441	£350,000	£793
5	3	Studio	42.3	455	£350,000	£769
6	3	Studio	41.3	445	£350,000	£787
7	4	2	66.1	711	£500,000	£703
27	4	1	58.2	626	£450,000	£718
			373	**4013**	**£3,050,000**	**£760**

4.30 Overall, the values reflect an increase of £200,000 on the vales proposed by ULL.

Ground Rents

4.31 Ground rents have not been included by ULL on the grounds of the governments intentions to restrict ground rental income to nil or peppercorn levels. ULL accordingly do not consider it to be appropriate to include any provision for ground rental income and reference paragraph 49 of the Queen's Speech briefing paper (19th December 2019) and paragraphs 12 and 60 of the Housing, Communities and Local Government Select Committee Report on Leasehold Reform (3rd July 2019).

4.32 We find this approach to be reasonable given the apparent intent of the government to restrict ground rental income. We suggest that the S106 agreement for the proposed development be written to restrict ground rental income on the proposed scheme, to ensure that the applicant does not benefit from their income at the expense of an affordable housing contribution.

5.0 DEVELOPMENT COSTS

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

Our benchmarking results in an adjusted benchmark of £2,437/m² that compares to the Applicant's £ 2,422/m². We therefore consider the Applicant's costs to be reasonable.

5.2 Mr Powling's full cost report can be found at Appendix 1. We have accordingly adopted the same build cost as the applicant for the proposed scheme.

5.3 The applicant's consultants have applied the following additional cost assumptions:

- Professional fees of 12%
- Marketing fees of 1%
- Sales agent fees of 1.5%
- Legal Fees of £750 per unit

5.4 We find the assumption of professional fees at 12% to be higher than the typical rate of 10% which we have adopted in our appraisal. We accept that the rest of the percentages are realistic and in line with market norms.

5.5 CIL charges have been assumed at £70,600 for Borough CIL and £9,600 for MCIL2. We have not verified these figures but have adopted them in our appraisal.

5.6 Finance has been included at 7% assuming that the scheme is 100% debt financed. We would expect to see a finance cost of 6.5% in the current market however for the purposes of agreement with the applicant we have adopted a cost on finance of 7%.

5.7 The developer profit target adopted by ULL is 20% of residential GDV. Generally we would expect to see a lower profit target for a scheme of this size, to reflect the reduced risk. The London Plan Viability Study (December 2017) Technical Report Annex G recommends that buildings of up to 5 storeys in height require a profit target of 15% due to the longer construction period than smaller buildings. Given that this is not a high risk residential development, we see no reason why a profit target of 20% would be necessary, and adopt 17.5% as the target on GDV which represents an element of risk in the conversion from office use. This represents a profit target of 25% on costs.

5.8 ULL have allowed for a 4 month purchase and pre construction period, 12 month construction period and 6 month sales period.

5.9 We have considered the BCIS duration estimate for the proposed development which gives a 90% confidence interval for a 20 week construction duration estimate. Mr Powling considers this to be an unreasonably short amount of time, and recommends the adoption of a 40 week construction period which is within the 90% prediction interval range for the development. We have accordingly adopted a 10 month construction period.

5.10 Given that there are only 8 residential units in the scheme, we do not consider a 6 month sales period to be necessary. We have shortened the sales period to 3 months with 3 sales occurring each month for the first two months and two sales in the final month, to reflect some of the units being sold off plan.

6.0 BENCHMARK LAND VALUE

6.1 We note the Planning Policy Guidance, published May 2019, states:

Benchmark land value should:

- *be based on existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*

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. These 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.

The 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.

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

6.2 We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of “Market Value” by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.

6.3 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.

6.4 The NPPF recognises the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This is set out in PPG as follows:

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

6.5 Guidance indicates that the sale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending this liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable. This view is corroborated in the Mayor of London's Affordable Housing and Viability SPG which states:

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

<u>The site</u>

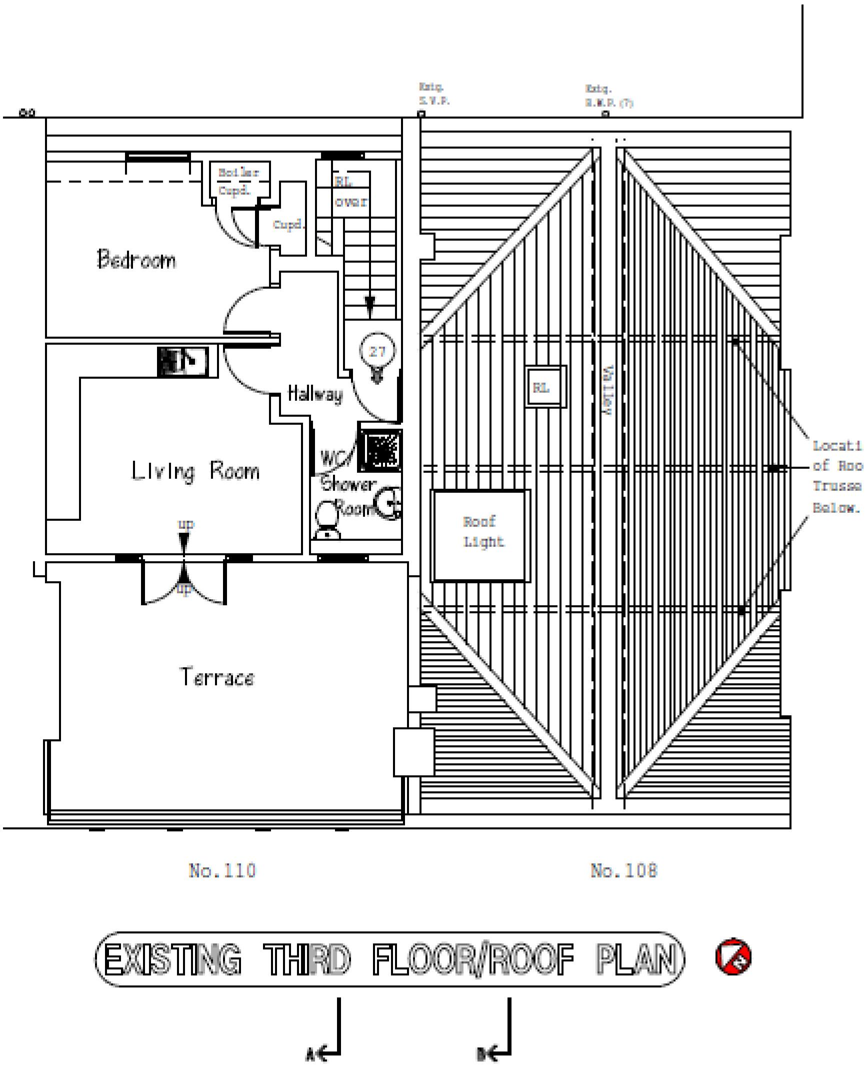
6.6 The site currently comprises a ground floor retail unit with three upper floors previously used as office space (use class B1) of 1,765 sq ft. We understand that the office space has not been occupied for circa 20 years and is in a poor condition. The ground floor retail unit is occupied by an amusement arcade and is not part of the proposed development and is consequently not included in either financial viability assessment.

6.7 The design and access statement describes the current property as the following:

The first, second and third floors have been unused for over 20 years. The accommodation was last occupied by a solicitor's firm over 20 years ago. All fixtures and fittings and services need complete renewal. New steel support is necessary for stability of the floors. New staircases are needed.

6.8 It is therefore clear that a significant level of refurbishment would be required in order to make the property tenantable. We have not conducted a site visit but have seen photos of the property provided by the planning officer which confirm that it is in need of refurbishment.

6.9 The proposed development also includes access being provided from 110 Kilburn High Road which comprises a ground floor retail unit occupied by Poundland and residential accommodation on the upper four floors. The units are to be largely unaffected by the proposed development, although the new residential units will use the same access as the residential units on the upper floors of 110 Kilburn High Road (24-27 Quex Mews). The only exception to this is the top (fourth) floor flat which is a one bedroom unit with a terrace overlooking Kilburn High Road, NSA of 517 sq ft, which will be extended to provide a larger unit in the proposed scheme. We are not aware of the condition of this unit. The plan of this unit, taken from documents on the planning website, can be seen below:



6.10 We have obtained the following measurements of the existing property:

Floor	Use	Sq M	Sq Ft
1	Office	54	581
1	Storage	4	43
2	Office	51	549
3	Office	49	527
3	Kitchen	6	65
Total		**164**	**1765**

ULL approach

6.11 ULL adopted the EUV approach to benchmark land value and have used the investment method of valuation. They have considered comparable rental evidence from the surrounding area which can be summarised as follows:

- 9a Canfield Place NW6 3BT: North of the subject, close to Finchley Road station (more affluent area). Ground floor office unit with NIA of 600 sq ft, let to Star Concerts Ltd in October 2019 on a 5 year term at £37.50 per sq ft
- Queens Studios Salusbury Road NW6 6RGL: West of the subject, between Queens Park and Brondesbury Park stations Several lettings which are as follows:
  - MAB management, 936 sq ft ground floor unit, 3 year term from May 2019, £40 per sq ft
  - Jan Design, 1,733 sq ft ground floor unit, 5 year term from April 2019, £40 per sq ft
  - Claridge Architects, 2,777 sq ft ground floor unit, 5 year term from April 2019, £40 per sq ft
  - Planet Organic, 2,885 sq ft ground floor unit, 15 year term from April 2019, £41.50 per sq ft
  - Bickerdike & Allen Partners, 4,962 sq ft 1st and mezzanine floors on a 10 year term from September 2018, £45.50 per sq ft
- 105-109 Salusbury Road NW6 6G: West of the subject. 1st floor office above retail, NIA of 4,674 sq ft. Holiday Place took 10 year lease in October 2018 achieving £37.50 per sq ft
- 13-15 Canfield place, NW6 3BT: North of the subject, close to Finchley Road station (more affluent area). Ground, first and second floor office unit with NIA of 2,631 sq ft, let to the Australian Council in February 2017 on a 7 year term at £39.15 per sq ft
- 167 Broadhurst Gardens NW6 3AU: North of the subject in West Hampstead, more affluent area. First floor unit above retail with NIA of 700 sq ft. Thor Explorations took a 5 year lease in December 2016 at rent of £40 per sq ft.

6.12 Some of the evidence identified by ULL is too historic for relevance and is mostly from areas more desirable than the subject. Based on the above evidence they have adopted an estimated rental value (ERV) of £35 per sq ft (£61,779 pa total) based on the unit being in good condition.

6.13 ULL have capitalised the income at a yield of 6.5% with no evidence to justify this assumption.

6.14 ULL have allowed for refurbishment costs of £325,000 (£144 per sq ft) for which they attach a detailed cost plan. They allow for 10% contingency, professional fees of 12% and legal letting, agent fees of 15% ERV and disposal fees of 3%. This gives an overall value of £516,171 for the commercial element which we consider to be an alternative use value (AUV) approach given the refurbishment work that has been considered.

6.15 ULL have valued the existing residential unit at £285,000 based on the evidence provided in their valuation of the proposed units and have deduced disposal fees of

3%, giving a gross value of £276,450 to the residential element. They have adopted a 10% landowner premium on solely the residential element of the scheme, reflecting the incentive required for the landowner to bring the site forward for development. This gives an EUV+ of £304,095 for the residential element of the site.

6.16 This gives an overall benchmark land value of £820,266 for the site.

BPS Approach

6.17 We consider ULL's approach to benchmark land valuation to be reasonable, however we would consider the approach to be an Alternative Use Value (AUV) rather than an Existing Use Value (EUV) as described by ULL. This is due to the proposed refurbishment of the B1 office space to bring it into tenantable condition. We have similarly used the investment method of valuation for valuation of the B1 space and valued the residential unit separately.

B1 Office Valuation

6.18 We have identified the following rental transactional evidence for B1 units in the surrounding area:

Address	Description	Date	Transaction details	Rent £psf
1st, Omni House, 252, Belsize Road, London, NW6 4BT	First floor unit in a converted period building, previously used as a recording studio. Open plan layout, ready for tenant fit out, private WCs. South East of the subject, close to Kilburn High Road station, set back from the main road. 5,575 sq ft	15/8/18	Let to VAT global, £181,250 pa.	£32.50
Ground and 1st, 16, Lonsdale Road, London, NW6 6RD	Second hand Grade B office space. In a refurbished development, commercial area. West of the subject near Queens Park station, set back on a quiet road. 1,646 sq ft	1/6/19	Let to the Hearth, passing rent of £70,000 pa, rent free period of 6 months and break after 3 years.	£42.50
Units 10 & 11, Quadrant Business Centre, Salusbury Road, London, NW6 6RJ	Ground floor office unit in a gated business centre. Self contained, high ceilings. West of the subject near Brondesbury Park station. 3,100 sq ft	15/5/18	Asking rent of £90,000 pa	£30

131, Salusbury Road, London, NW6 6RG	Ground floor unit in a converted period building. Second hand space with air conditioning, parking, kitchen and toilets. West of the subject near Brondesbury Park station. 1,890 sq ft	1/10/18	£55,000 rent pa on a 2 year lease	£29
1st, 173, West End Lane, London, NW6 2LY	1st floor unit above retail. Second hand grade B space. In West Hampstead, central location close to overground and underground stations. 445 sq ft	1/9/18	£12,500 rent pa on a 3 year lease	£28
Sumatra House, 215, West End Lane, London, NW6 1XJ	Ground floor unit in a purpose built office building. Open plan, recently refurbished. In West Hampstead, central location close to overground and underground stations 786 sq ft	20/7/18	£22,500 pa	£29

6.19 It can be seen that rental values range between £28 and £42.50 per sq ft. It is not a prime location for offices, however it is reasonable to suggest that most of the units are more desirable than the subject, being either in converted period buildings or purpose built blocks. 173 West End Lane is the closest comparison to the subject, given that it is positioned above retail units, however it is in the more upmarket location of West Hampstead and is smaller than the subject. Omni House is the closest comparable by location, although it is larger than the subject unit, and given the condition and location of Omni House we would expect it to achieve a higher rental value per sq ft. Given the evidence above, the ERV of £35 per sq ft adopted by ULL appears to be a higher rental value than we would expect for an office unit in this location.

6.20 We have identified the following units which are currently on the market from area immediately surrounding the subject:

Address	Description	Rent £psf
254 Kilburn High Road, London NW6 2BS	New build development comprising 10,278 sq ft ground floor flexible commercial space, planning permission for B1 use. Can be let to one tenant or divided into smaller units. Residential units above. North of the subject, closer to Kilburn and Brondesbury stations. 1,851 sq ft	£30
12, Colas Mews, London, NW6 4LH	Ground floor office in private news. Open plan, w/c, wood flooring, gas central heating. Just set back from Kilburn High Road, close to the subject site. Asking for £10,000 pa. 510 sq ft	£20

22a College Parade, Salusbury Road, Queens Parl. NW6 6RN	First floor office unit above retail. Second hand condition, open plan with separate meeting room, WC, kitchenette, available on a flexible short term lease. Asking for £25,000 pa. 960 sq ft	£26

6.21 254 Kilburn High Road and 12 Colas Mews are in close proximity to the subject. 12 Colas Mews has an asking rent that is below that identified by all of the transactional evidence and is for a significantly smaller unit. 254 Kilburn High Road is a purpose built new build unit and we would expect it to achieve a higher rental value than the subject.

6.22 Given the transactional and asking price evidence, we consider the ERV of £35 per sq ft that has been adopted by ULL to be too high. This is in light of the rental values achieved at Omni House and 173 West End Lane as well as the asking price evidence from 254 Kilburn High Road, which we consider to be more desirable than the subject. The asking rent for 12 Colas Mews is evidence of a bottom floor for B1 rental values in the area. 22a College Parade is similarly above retail and is of worse condition than the subject unit would be after refurbishment.

6.23 We have accordingly adopted a rental value of £27.50 per sq ft for the refurbished unit, which gives a ERV of £48,545 pa. This represents a slight increase on the asking rent for 22a College Parade and a slight discount on the values at 254 Kilburn High Road, 137 West End Lane, Omni House and the rest of the identified evidence provided by both ULL and us.

6.24 We have searched for investment transactions for similar properties in the surrounding area in order to assess whether the yield adopted by ULL is appropriate for the subject property. We have been unable to find transactional evidence however have found units on the market and can be seen below:

Address	Description	Date	Transaction details	Yield
8, Regent Street, London, NW10 5LG	Two ground floor offices with 8 flats above, for which £350 pa ground rental income per unit is collected. Unit 1 let to Clavex ltd expiring 15th October 2020 outside LTA passing rent £15,000 pa. Unit 2 845 sq ft let to Arm London ltd expiring Oct 2024 outside LTA passing rent £21,500, tenant break option Oct 2022. South west of the subject in Kensal Town, similar affluence. 1,383 sq ft sq ft	ON THE MARKET	Asking price £650,000, listed 9th January 2020	6% (asking)

4 Portsdown Mews, London, NW11 7ES	New two storey office building. Kitchenettes, electric heating, inset lighting, data cabling, open planned, double glazed. Let on three tenancies: ground floor to Yelverton Properties ltd, £18,000 pa, for 10 years from May 2019. Upper floor 1: Peter Martin ltd, £8,250 pa, 10 years from Feb 2019, rent review 5th year. Upper floor 2: let to PMRD ltd, £8,250 pa, 10 year lease. Total passing rent £34,500. North of the subject in Golders Green, are of similar affluence. 1,600 sq ft	ON THE MARKET	Asking Price £675,000, listed October 2019.	5.1% (asking)
2 Shepherds Bush Road, London, W6 7PJ	Office unit spread over the basement ground and first floors with a residential unit on the second floor. In Shepherds Bush, south west of the subject in a similarly affluent area. 206 sq m / 2,215 sq ft	23/10/19	Sold for £1.4 million on vacant possession (£632 per sq ft)	-

6.25 8 Regents Street is of a similar size to the subject unit and is multi let on leases with several years remaining. It is in a similar location to the subject. 4 Portsdown Mews is similarly multi let but on longer leases and has the benefit of being a new build property in a similarly affluent area.

6.26 2 Shepherds Bush Road was sold with vacant possession and also includes residential accommodation which will likely achieve higher rates per quantum, therefore increasing the overall value of the unit per sq ft.

6.27 This is not a prime location for office use in London as it is outside the West End core and is small unit above retail. It's current vacant status and need for refurbishment would also be detrimental to yields. We have been unable to find transactional evidence of any yields in the area immediately surrounding the subject, however we do consider the market evidence to be relevant. It's reasonable to suggest that the subject would not achieve a yield as high as 4 Portsdown Mews given the new build condition and length of lease the units are let on, while the existing leases and condition of 8 Regents Street make it more desirable and therefore the proposed unit would not achieve as high a yield.

6.28 We have accordingly adopted ULL's yield of 6.5% for the refurbished office space which we consider to be reasonable in light of the asking price evidence.

6.29 We have capitalised the income of £48,545 at the yield of 6.5% which gives a value of £747,000. ULL have allowed for disposal fees of 3% of the value and agency fees of 15% of the ERV which we have similarly adopted.

6.30 Our cost consultant, Neil Powling, has reviewed the refurbishment costs proposed by the applicant and concludes the following:

We have reviewed the costs for the refurbishment of the existing offices to No 108 at 1st, 2nd and 3rd floor levels – total GIA 209m² in the total sum (rounded) of £325,000. We are satisfied that this is a reasonable estimate of the costs.

6.31 Mr Powling's report can be found in Appendix 1. We have therefore adopted the refurbishment cost of £325,000 for our assessment of benchmark land value on the basis that the refurbishment will bring the property into tenantable condition. ULL have also allowed for a contingency of 10% and professional fees of 10% for the refurbishment which we consider to be a generous allowance, however have left in our valuation for the purposes of consistency.

6.32 We arrive at an AUV, calculated by the value of the refurbished office unit with the refurbishment and transaction costs deducted, of the commercial unit of £327,162 which is £189,000 below the value adopted by ULL.

Residential

6.33 In order to value the existing one bedroom residential unit we have considered the evidence provided in the valuation of the proposed residential units. In particular we find the second hand evidence for one bedroom units to be most relevant. 42c Priory Park Road, 66c Glengall Road and 70d Messina Avenue were of similar sizes to the existing unit and achieved values between £363,000 and £405,000 (£756 to £780 per sq ft). These units are all second hand but with modern interiors and are in more residential locations, therefore we would expect them to achieve higher values overall.

6.34 We have accordingly adopted a value of £325,000 (£629 per sq ft) for the existing one bedroom unit which is an increase of approximately £40,000 on the value adopted by ULL. This is on the basis of the unit being in a second hand and useable condition, which explains the discount when compared to the value of the proposed units.

6.35 We do not consider that a landowners premium is applicable to the residential element of the scheme, given that it is being replaced and extended in the proposed scheme, therefore no incentive is required for the landowner to bring the unit forward for development. We have accordingly removed the landowner premium from our assessment on benchmark land value.

<u>Conclusion</u>

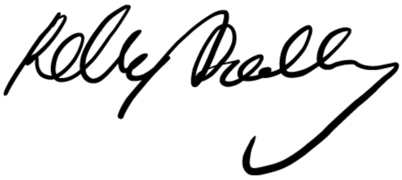
6.36 We adopt a benchmark land value of £642,000 which is a decrease of £178,000 on the value proposed by ULL. Our calculation of benchmark land value can be seen in Appendix Three.

7.0 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:



Arthur Boulding
RICS Membership no. 6878828
For and on behalf of BPS
Chartered Surveyors

Kelly Donnelly MRICS
RICS Membership no. 5699454
For and on behalf of BPS
Chartered Surveyors

8.0 LIMITATION OF LIABILITY/ PUBLICATION

This report is provided for the stated purpose and for the sole use of the named clients. It is confidential to the clients and their professional advisors and BPS Chartered Surveyors accepts no responsibility whatsoever to any other person.

Neither the whole nor any part of this valuation report nor any reference hereto may be included in any published document, circular, or statement, or published in any way, without prior written approval from BPS of the form and context in which it may appear.

Appendix One – Build Cost Report

Project: 108 Kilburn High Road, Camden NW6 4HY 19/5282/P

Independent Review of Assessment of Economic Viability

Interim Draft Report
Appendix A Cost Report

1 SUMMARY

1.1 We consider the allowances for preliminaries reasonable; the Overheads & Profit (OHP) is a little high in our view and we have adjusted OHP in our benchmarking at 8%. Nevertheless we consider the Applicants costings reasonable – see below.

1.2 Our benchmarking results in an adjusted benchmark of £2,437/m² that compares to the Applicant's £ 2,422/m². We therefore consider the Applicant's costs to be reasonable.

1.3 We have reviewed the costs for the refurbishment of the existing offices to No 108 at 1st, 2nd and 3rd floor levels – total GIA 209m² in the total sum (rounded) of £325,000. We are satisfied that this is a reasonable estimate of the costs.

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
2.10 applicant's cost estimate.

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 Economic Viability Appraisal Report issued by ULL Property for Mr B Baker including at Appendix 2 the Viability Cost Plan issued December 2019 by RLF. The re-issued cost plan includes at Appendix C a cost for refurbishing the existing offices for £324,548.17.

3.2

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

3.3

The cost plan is base dated 4Q2019. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 4Q2019 is 330 and for 1Q2020 331 – both figures are forecasts.

3.4

The cost plan includes an allowance of 17.4% for preliminaries. The allowance for overheads and profit (OHP) is 10%. We consider the allowances for preliminaries reasonable; the OHP is a little high in our view and we have adjusted OHP in our benchmarking at 8%. Nevertheless we consider the Applicants costings reasonable – see below.

3.5

The allowance for contingencies is 10% which we consider reasonable for these works of conversion and extension. 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 £710/ft² (Net Sales Area).

3.8

We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 136 that has been applied in our benchmarking calculations.

3.9

Refer to our attached file "Elemental analysis and BCIS benchmarking". We have included the GIA used in the cost estimate of 399m². The NIA used to calculate the revenues is 373m² giving an efficiency of 93%.

3.10 The building is a 4 storeys of flats above the existing ground floor – a 5 storey building; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We have benchmarked as 3-5 storey flats.

3.11 We have calculated a blended rate for benchmarking as the table below.

3.12

Blended calculation	GIA m²	%	BCIS £/m²	Blended £/m²
GIA of vertical extension	69	17.3%	2,662	460
GIA of horizontal extension	39	9.8%	2,251	220
GIA of conversion	291	72.9%	1,569	1,145
	399	100.0%		1,825

3.13 Our benchmarking results in an adjusted benchmark of £2,437/m² that compares to the Applicant's £ 2,422/m². We therefore consider the Applicant's costs to be reasonable.

3.14 We have reviewed the costs for the refurbishment of the existing offices to No 108 at 1st, 2nd and 3rd floor levels – total GIA 209m² in the total sum (rounded) of £325,000. We are satisfied that this is a reasonable estimate of the costs.

BPS Chartered Surveyors
Date: 31st January 2020

Appendix Two – Appraisal Summary

108-110 Kilburn High Road, London NW6 4HY
Mr B Baker
Not a Valuation

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Market Residential Flats	8	4,013	760.03	381,250	3,050,000
NET REALISATION				**3,050,000**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price			642,000		
				642,000	
Stamp Duty (Land cost includes VAT)			25,680		
Effective Stamp Duty Rate		4.00%			
				25,680	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Market Residential Flats	4,295	229.22	984,500	**984,500**	
Borough CIL			70,600		
MCIL2			9,600		
				80,200	
PROFESSIONAL FEES					
Professional Fees		10.00%	98,450		
				98,450	
MARKETING & LETTING					
Marketing		1.00%	30,500		
				30,500	
DISPOSAL FEES					
Effective Purchaser's Costs Rate		0.00%			
Sales Agent Fee		1.50%	45,750		
Sales Legal Fee	8 un	750.00 /un	6,000		
				51,750	
Developer's Profit					
Developer's Profit		17.50%	533,750		
				533,750	
FINANCE					
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)					
Land			52,177		
Construction			33,214		
Other			4,353		
Total Finance Cost				89,745	
TOTAL COSTS				**2,536,575**	
PROFIT					
				513,425	
Performance Measures					
Profit on Cost%		20.24%			
Profit on GDV%		16.83%			
Profit on NDV%		16.83%			
IRR% (without Interest)		40.87%			
Profit Erosion (finance rate 7.000)		2 yrs 8 mths			

Appendix Three – Benchmark land value calculation

BPS

Office	Sq Ft	1765	
	ERV psf	£27.50	
	ERV	£48,545	
	Yield	6.50%	£746,849
	Refurbishment		£325,000
	Contingency	10%	£32,500
	Professional Fees	10%	£32,500
	Disposal	3%	£22,405
	Agent	15%	£7,282
	Final		£327,162
	Rounded		£327,000
Residential	Value		£325,000
	Disposal	3%	£9,750
			£315,250
	Premium	0%	£0
	Final		£315,250
Total	Final		£642,412
	Rounded		**£642,000**

Appendix Four – Sensitivity Analysis

108-110 Kilburn High Road, London NW6 4HY
Mr B Baker
Not a Valuation

Table of Profit Amount and IRR%

	Construction: Gross Cost				
Sales: Gross Sales	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	935,275	959,887	984,500	1,009,112	1,033,725
-5.000%	£447,005	£419,048	£391,092	£363,135	£335,036
2,897,500	36.9549%	34.7614%	32.6059%	30.4877%	28.4063%
-2.500%	£508,171	£480,215	£452,258	£424,302	£396,345
2,973,750	41.1597%	38.9305%	36.7393%	34.5856%	32.4688%
0.000%	£569,338	£541,382	£513,425	£485,469	£457,512
3,050,000	45.3619%	43.0976%	40.8714%	38.6828%	36.5311%
+2.500%	£630,505	£602,549	£574,592	£546,635	£518,679
3,126,250	49.5612%	47.2624%	45.0018%	42.7788%	40.5928%
+5.000%	£691,672	£663,715	£635,759	£607,802	£579,846
3,202,500	53.7576%	51.4247%	49.1302%	46.8734%	44.6537%

Sensitivity Analysis : Assumptions for Calculation

Construction: Gross Cost
Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Market Residential Flats	1	£984,500	2.00 Up & Down

Sales: Gross Sales
Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Market Residential Flats	1	£3,050,000	2.00 Up & Down