The Hoo, 17 Lyndhurst Gardens
NW3 5NU
Independent Viability Review

Prepared on behalf of the London Borough of Camden

16th July 2020

Planning reference: 2019/6151/P and 2019/6305/L

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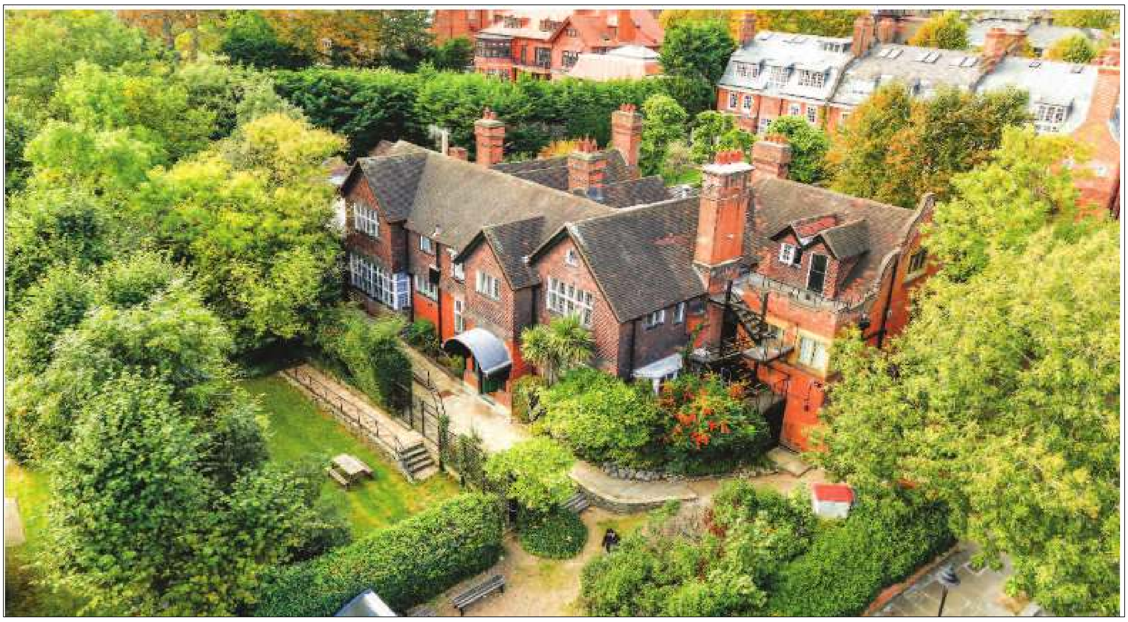
1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been instructed by the London Borough of Camden ('the Council') to review a viability assessment dated June 2020 prepared by James Brown on behalf of Jaga Developments ('the Applicant') in respect of the proposed redevelopment of The Hoo, 17 Lyndhurst Gardens.

1.2 The site is occupied by a Grade II Listed building of 11,377 sq ft which was designed by renowned architect Horace Field and constructed between 1888-1890. Its last formal use was as a D1 NHS healthcare facility which ceased in approximately 2018 and has since been allowed to fall into some disrepair internally, but appears to be structurally sound. We understand it was originally constructed as a single large detached dwelling but alterations have been made to make it suitable for the various uses it has served over time.



1.3 Lyndhurst Gardens is a primarily residential road, and the property overlooks Lyndhurst House Preparatory School. It is located within the Fitzjohns Netherall Conservation Area with a PTAL rating of 3 and approximately 0.5 miles from Belsize Park Station. A site visit was conducted on 6th July 2020 and photos can be found in Appendix A.

1.4 A planning application has been submitted under reference 2019/6151/P (Listed Building Consent under 2019/6305/L) and is described as:

Change of use from non-residential institution (Class D1) use to 3 x residential dwellings (Class C3); external alterations including erection of a rear infill extension, a new glass link element, hard and soft landscaping including a summer house with internal cycling parking, a bin store, and other associated works.

1.5 We have searched the planning history and found no alternative consent or relevant applications. We understand that the Applicant purchased the site at auction in 2019 for £5,500,000. It was marketed with development potential but without the benefit of consent for C3 use.

1.6 The development attracts a maximum offsite affordable housing contribution of £816,000. However the FVA has concluded that the scheme delivers a deficit of -£2,230,000 after accounting for a benchmark land value of £5,500,000 and that it therefore cannot support any of this contribution.

1.7 Our assessment seeks to scrutinise the latest assumptions made by the Applicant to arrive at this conclusion and ascertain whether this is the maximum affordable housing that can be delivered.

1.8 Our advice is set at this stage in the context of costs and values prevailing in period prior to the outbreak of the Coronavirus Pandemic. In relation to the considerable economic impacts of this virus the RICS has issued the following guidance for practitioners to add to valuation advice:

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

1.9 We consider that it is possible there will be adverse impacts on development viability revealed by the passage of time which are not currently reflected in our assessment. Our report is evidence based as such it is not possible simply to reflect an intuitive based approach to adjustment however, we do recommend that the viability of the scheme be kept under review as more evidence becomes available.

2.0 CONCLUSIONS AND RECOMMENDATIONS

2.1 We have assessed the proposals and made amendments as described below. An amended appraisal can be found in Appendix A which produces a surplus of £2,683,040. We therefore still do not agree with the Applicant's assertion that the scheme is unable to viably deliver any affordable housing and advise that the full off site contribution of £816,000 can be made.

2.2 We have found that the proposed sales values are generally reasonable but highlight that the unique nature of the building combined with lack of parking makes it difficult to draw on comparable most similar value evidence directly. However they seem to be in a reasonable range and are agreed as appropriate.

2.3 The cost plan which has been provided has been assessed by our Cost Consultant, Neil Powling. We have reduced the total build cost by £1,668,118 in accordance with his report which can be found in Appendix B and states:

Our benchmarking results in an adjusted benchmark of £4,769/m² that compares to the Applicant's £6,215/m². The difference is £1,446/m² amounting to £1,668,118. We are therefore unable to conclude that the Applicant's costs are reasonable. If a more detailed Stage 2 or Stage 3 cost plan is provided we may reach a different conclusion; we would expect conversion and fit out costs of this type of building and market to be high.

2.4 The main area of contention is the determination of benchmark land value. James Brown has proposed a value of £5,500,000 without consideration of the condition of the building, the market or its suitability for ongoing use. Many of the comparable transactions which have been drawn on reflect the sale of established fee paying schools in good condition. The subject property has not been in use for approximately two years and we are aware that the previous occupier vacated due to the expensive running costs associated with the age of the building. A condition survey has also identified issues such as decay and damp ingress which will require investment before it can be brought back into use. Therefore the benchmark land value must become an AUV following restoration/refurbishment.

2.5 We have assumed a GDV for a refurbished facility of £6,500,000 which has been arrived at using a rent of £40/sq ft and a yield of 7%. Evidence to support this can be found in the body of the report. This produces an average value of £571/sq ft for the refurbished facility which is broadly in line with other sales.

2.6 Neil Powling has advised that costs of £2,100,000 would be required to refurbish this building to a suitable condition for a new D1 use, but highlights that there are still concerns that the building would not be suitable due to the convoluted nature of the building, age and layout. We have also allowed 10% for contingency and 10% for professional fees, 7% finance rate and acquisition costs of 5% SDLT, 1% agents and 0.25% legal fees as per the assumptions in the proposed scheme development.

2.7 This has produced a residual AUV of £2,544,000 which forms our benchmark land value.

2.8 To show consistency we have applied the same acquisition costs to the proposed scheme as the benchmark land value so these effectively cancel each other out with a proportionate impact on both the benchmark land value and development costs.

2.9 All other development costs associated with the proposed development are agreed, including:

- CIL/S106 provisional figure of £669,320 TBC by Council
- Professional fees of 10%
- Marketing budget of 0.5% of GDV
- Sales agent fees of 1.5%
- Sales legal fees of £5000 (total)
- Finance rate of 7%
- Profit of 20% of GDV

2.10 Please note that to avoid distorting associated land purchase costs we have fixed the land purchase price at the benchmark land value and inputted the target return of 20% as a cost. The residual profit which is shown at the bottom of the appraisal is therefore surplus which remains; £2,217,935.

2.11 We have also included sensitivity analysis as shown in Appendix D.

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 landowner 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 DEVELOPMENT REVENUE

Private Residential Values

4.1 The existing property is to be divided into three houses which will all benefit from the original period features and grandeur of the Listed Building architecture. The build cost, which is discussed in further detail in the following section, also allows for a high specification as is typical of this location. The units have been valued by James Brown at an average of £1,244 or total GDV of £15,450,000.

Main House	7 beds	7,298 sq ft	£9,000,000	£1,233/sq ft
The Lodge	5 beds	2,185 sq ft	£2,650,000	£1,213/sq ft
The Annexe	5 beds	2,939 sq ft	£3,800,000	£1,293/sq ft

4.2 The largest unit, The Main House, is described in the report as a 7 bedroom with 2 ancillary staff bedrooms. It the large principle dwelling but is connected to the east and west by the smaller properties. While it is not clear from the drawings, we assume that the main lawn which is located at the front access is for the exclusive use of the Main House with a separate roof terrace. Two of the bedrooms are described as staff bedrooms and include their own bathroom and kitchenette so could be considered an internal annexe. However as the application does not recognise staff bedrooms as a specific use, we consider this to be a 7 bedroom house. It also includes a pool, gym and large cinema room.

4.3 This has been valued at £9,000,000 or £1,233/sq ft. House of this size and nature are less common and harder to value. Typically larger houses of this size are detached and site on a good size plot with parking.

4.4 17 Wadham Gardens is a 5 bedroom property of 7,179 sqft which sold in November 219 for £13,000,000 equating to £1,810/sq ft. It is located 0.3 miles from Swiss Cottage station and close to Primrose Hill on a residential road. It has driveway parking, pool, home cinema and is superior to the subject property.

4.5 Gardnor House is a 5 bedroom house of 4,600 sq ft which sold for £10,800,000 in May 2019, equating to £2,347/sq ft. This too is a significant Grade II Listed building which was built circa 1736. It was sold in good internal condition with a high specification with the benefit of driveway parking and garage. It is in a prime location close to Hampstead Station and Heath and is superior to the subject site but demonstrates that there appears to be a premium for Listed and period property with a history, which we would also expect to appeal to potential purchasers of the subject site.

4.6 12 Oakhill Avenue is a detached house of 7,859 sq ft which sold in October 2019 for £10,200,000 equating to £1,299/sq ft. It included garaging, driveway parking and garden. It was sold in good internal condition but not new.

4.7 These suggest that if this property were detached and sold with parking it could achieve circa £10,000,000. However overall we agree that £9,000,000 is not unreasonable as this may deter purchasers of houses of this nature who would expect on-site parking.

4.8 The Lodge is located to the east adjoining the road. It is described in the report as a 5 bedroom property but we are only able to identify 4 bedrooms in the plans. It too has a garden area which borders the road so offers limited privacy. It is arranged over 3 floors with a large terrace accessed from the master bedroom which occupies the second floor.

4.9 The Annexe is located to the west of the plot and is accessed via two passage ways which run at the north and south border of the site but do not share any access with the other properties. It too has a garden area and roof terrace which offers greater privacy. It is arranged over two floors at lower ground and ground level due to sloping levels. It also has a sun deck at roof level.

4.10 Perrins Walk is a terraced character property in good refurbished condition spanning 2,116 sq ft and comprising 3/4 bedrooms. It has designated parking and an attractive mature garden with separate roof terrace. It is located close to Hampstead Station and a short walk from Hampstead Heath. It sold in March 2020 for £4,075,000 equating to £1,926/sq ft. This is superior to both The Lodge and The Annexe and we would not expect the subject site to achieve these values.

4.11 10 Elsworthy Terrace is 5 bedroom townhouse of 3,500 sq ft which sold in May 2019 for £5,650,000 equating to £1,614/sq ft. This is close to Primrose Hill and has a private rear garden but no parking. We would expect values here to be higher per sq ft.

4.12 25 Courthope Road is a terraced property of 2,600 sq ft and comprising 5 bedrooms with a small garden area. It sold in August 2019 for £2,800,000, or £1,079/sq ft. As far as we are aware it has no parking and is located 0.2 miles from Gospel Oak Station and 0.4 miles from Hampstead Heath station. This is a lower value area than the subject site and we would expect the subject properties to achieve a higher value per sq ft.

4.13 Generally the available evidence supports the proposed values but we recognise the difficulties in valuing such properties which are unique in their arrangement within the existing building, close proximity, access etc, and consider The Lodge and Annexe to be reasonable but perhaps slightly conservative but within a reasonable range.

5.0 DEVELOPMENT COSTS

5.1 The cost plan which has been provided has been assessed by our Cost Consultant, Neil Powling. His full report can be found in Appendix B and his key findings are as follows:

The status of the design is stated in the estimate as "Feasibility". The design information used to produce the cost plan has been scheduled comprising layout drawings for all floors, sections and elevations. We also note that services and drainage overlay drawings are available from the web site. There is no structural or services information listed, although Structural Consultants (Price & Myers) and M+E Consultants (Scotch Partners) are identified in the Design & Access Statement. A landscape Masterplan is available from the planning web site. In our view a Stage 2 Estimate could be prepared.

Our benchmarking results in an adjusted benchmark of £4,769/m² that compares to the Applicant's £6,215/m². The difference is £1,446/m² amounting to £1,668,118. We are therefore unable to conclude that the Applicant's costs are reasonable. If a more detailed Stage 2 or Stage 3 cost plan is provided we may reach a different conclusion; we would expect conversion and fit out costs of this type of building and market to be high.

5.2 We have therefore reduced the construction costs accordingly which has reduced the total by £1,668,118 from £7,171,966 to £5,503,848.

5.3 Professional fees have been applied at 10% which is in line with expectations and agreed as reasonable.

5.4 A total figure of £669,320 has been allowed for CIL and S106 contributions. We have not had sight of any Heads of Terms but have allowed these as a reasonable estimate at this stage pending confirmation from the Council.

5.5 An allowance of 0.5% has been made for marketing and 1.5% for agents' fees. As a small site of only 3 properties, we expect on site marketing to be limited. However the total of £77,000 is reasonable for the provision of furnishings etc that would be required to achieve such values. Generally agents' fees are around 1-1.5% and with such few units we also agree that the upper end of this scale is appropriate.

5.6 Legal fees of £5,000 have been included which equates to £1,666 per transaction which is higher than we would expect but as the subdivision of the existing property has resulted in flying freeholds which can be more complex legally, this is also an agreed assumption.

5.7 We have amended the acquisition costs to 5% SDLT, 1% agents' fees and 0.25% legal fees. This is in line with the assumptions made in the AUV assessment as explained in the following section. It is important to adopt the same costs, so they do not impact either the proposed scheme or AUV disproportionately.

5.8 Finance has been allowed at 7% which is within the typical range of 6-7% and we agree this is acceptable.

5.9 A profit margin of 20% of costs has been targeted. This equates to 17of GDvand have app;ied% on GDV. PPG advises that return on residential development should range from 15-20% of GDV, dependent on-site specific risks. The Three Dragons Technical Study advances on this point, stating:

Build types and Developer Returns

57. The only significant variable of built form was the height of the development. Sales cannot be completed until the building is occupied. Taller buildings take longer to build out.

58. We found that up to 5 storeys the base result of Developer Return (at 15% of GDV) could apply as these typically had a one year build out time. 59. Buildings of 6 to 20 storeys required, on average, another year to build out and so the required Developer Return increased to 17.5%.

60. Buildings over 20 storeys take, on average, three years to build out and so required a Developer Return of 20%.

61. The storey height was found to be the most significant factor to inform a range of Developer Returns for the area plan assessment. Other scheme specific factors may apply, for example a mix of building heights within the same built form, or where parts of a building can be occupied before the whole building is completed. Factors that are not height related, such as major substructure work in poor ground or over tunnels, may also need to be considered, so the figures above should be considered a broad average, rather than a statistically accurate guide to Developer Returns applicable in every circumstance.

5.10 Therefore, we agree that while only 2 storeys, the risk of the Listed building justifies a return of 17% and have applied the same.

5.11 To show a true surplus or deficit we have inputted the target margin into the appraisal as a cost. The residual profit of £2,683,040 shown at the bottom of the appraisal is the overall surplus which is generated.

6.0 BENCHMARK LAND VALUE

6.1 The existing property is Grade II listed but has been vacant for approximately 2 years. It has a GIA of 11,377 sqft and is arranged over 4 floors starting at lower ground level in the west wing. Its last formal use was D1 and it was previously occupied by an NHS mental healthcare trust.

6.2 The property was initially being marketed at £7,000,000 in 2018 but did not sell at this price. It was later purchased by the Applicant at auction for £5,500,000 in 2019. At the time the property was initially put on the market the trust released a statement which said 'While it is a beautiful building, it is old and expensive to run, and hard to access for our service users with a physical disability. It no longer fits the needs of modern mental health services'.

6.3 The property has been valued by James Brown at £5,500,000 which is described as an EUV but to which no landowner's premium has been applied, although they reserve the right to at a later stage.

6.4 The report does acknowledge that providing a D1 valuation is difficult due to the individual nature of the comparable which have been found, and the various uses which are permitted under the D1 use class. However they have been able to source a number of transactions which they consider relevant. These range from £476/sq ft to £983/sq ft which highlights the variation which can be expected. The benchmark land value proposed equates to £498/sq ft. While these transactions have been identified it has not been explained how these relate to the subject site or have informed the valuation.

6.5 Of these we have found that four transactions are of fee paying schools which are relevant in terms of D1 values but do not take into account the suitability of the subject site for school use, the demand for a new school, the established trading of the schools in question or the cost of refurbishment needed. What these values represent, which range from £579-£983/sq ft (16 New End, 1-3 Awkwright Road, 90 Fitzjohns Avenue, 2 Parkhill Road) is the market value of an established facility. This cannot be simply applied to a site in need of refurbishment but with potential for school use.

6.6 88 Compayne Gardens was sold in 2017 for £6,175,000 as an established nursery investment with a lease with 11 years unexpired and a passing rent of £213,000 per annum, (£21/sqft) which equates to a yield of 3.5%. However the lease was subject to 5 year rent reviews which was due two months after the sale took place. We are not aware what the rent increased to and consider this to be historic.

6.7 12-14 Marsefield Gardens were sold with development potential and C3 use. Therefore we do not consider this relevant.

6.8 85-87 Fordwych Road is described as 4,921 sq ft property which sold in April 2019 for £2,350,000 equating to £476/sq ft. We have seen marketing details which provide a GIA of 7,190 sq ft and downloaded the EPC certificate which state a useful floor area of 6,921 sq ft. We have therefore used the latter as we understand there to be a basement which may have been included in the GIA but does not offer useful space. This reduces the capital value to £339/sq ft.

6.9 We understand this was also previously NHS mental healthcare clinic but its last use was as a children's' charity. The condition was suitable older but operational. At the same time the property was being marketed for sale it has been vacated again and was being marketed for unrestricted D1 use at a rent of £250,000 per annum, equating to £36/sq ft. The lease to a school commenced in May 2019 and the sale transacted in June 2019. This resulted in a yield of 10.6%.

6.10 We are also aware of a D1 building of 3,315 sq ft in Cambridge Gardens, NW6, which is currently being marketed at £100,000 which equates to £31/sq ft. Its is spread over 4 floors including basement and has a garden with disabled access. 116 Heath Street is a newly refurbished unit of just 650 sq ft currently being marketed at £29,500 per annum equating to £48/sq ft, however we would expect the size of the unit to attract a higher rent per sq ft.

6.11 In light of the above we would expect a D1 facility of this size to achieve circa £30-35/sq ft, and perhaps higher for a newly refurbished property. The configuration of the building may preclude certain D2 uses as we suspect that the internal reconfiguration potential will be limited due its Listed protection and original walls and features. However it is in a good location with lots of nearby schools and nurseries and may also be suitable for clinical uses, providing that the space can be suitably arranged. We have therefore assumed a rent of £40/sq ft based on general D1 use assuming a good refurbished condition.

6.12 There is a lack of evidence for D1 yields as the D1 use class tends to attract owner occupiers rather than investment sales. However as the refurbishment required is significant we would not expect a D1 occupier to be willing to undertake such a project. As such we have taken advice from Bernard Gordon & Company who have advised that yields can vary from around 6-9%, but for property of this size and annual rent would tend to attract a secure tenant and so we have adopted a yield of 7%.

6.13 This generates a GDV of £6,500,000 assuming that the building were in a suitable condition for D1 use. In its current state the layout has been adapted to provide multiple small consulting rooms which serve the former use but would not necessarily be practical for other D1 uses or even different clinics. The building is also older and would need modernisation to meet current standards imposed by various regulating bodies.

6.14 We have also had regard to the Condition Survey by SDA Consulting which has been submitted as part of the application. While this is has been prepared in relation to the proposed development, it focusses on issues with the existing building and so we have assumed that these would also need to be remedied for any reoccupation, including ongoing D1 use. The survey did not include a full structural survey but did comment that the structure appears to be sound. However, there is general decay to the windows, doors, damp ingress etc and the building is likely to require significant internal reconfiguration to make it suitable for alternative uses.

6.15 Neil Powling has advised based on his assessment that a cost of £2,100,000 would be required to refurbish the building to a shell and core condition for ongoing D1 use. This excludes contingency and fees which we have included at 10% and 10% as has been assumed in the proposed scheme assessment and which reflects the risk of the Listed Building. However while the Listed Building may seem an attractive setting, as was raised by the vacating NHS trust, the cost of running the building is expensive which may deter tenants.

6.16 We have also been advised that a 12 month programme would be needed for the refurbishment.

6.17 In accordance with the assumptions made in the proposed scheme valuation we have adopted acquisition costs of 5% stamp duty, 1% agents, 0.25% legal fees and finance rate of 7%.

6.18 As this is a development project, it includes risk which a rational developer or investor would want to see from their investment. Therefore in line with standard assumptions we have set the profit at 15% of GDV.

6.19 This has produced a residual AUV of £2,544,000. While James Brown has discussed the application of a landowners premium, PPG states that where investment is required this becomes an AUV rather than EUV and as such a landowners premium is not justified. Therefore our total benchmark land value is £2,544,000.

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The signatories below verify that this document has been prepared in accordance with our quality control requirements. These procedures do not affect the content and views expressed by the originator. This document must only be treated as a draft unless it has been signed and approved by the Originators and a Business/ Associate Director.

Signed

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

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Appendix A

The Hoo
Proposed Scheme

Development Appraisal
Prepared by BPS
BPS Surveyors
16 July 2020

APPRAISAL SUMMARY	BPS SURVEYORS

The Hoo
Proposed Scheme

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Main House & Link	1	7,298	1,233.21	9,000,000	9,000,000
The Lodge	1	2,185	1,212.81	2,650,000	2,650,000
The Annexe	1	2,939	1,292.96	3,800,000	3,800,000
Totals	**3**	**12,422**			**15,450,000**

NET REALISATION				**15,450,000**
OUTLAY				
ACQUISITION COSTS				
Fixed Price		2,544,000		
Fixed Price			2,544,000	
				2,544,000
Stamp Duty		5.00%	127,200	
Agent Fee		1.00%	25,440	
Legal Fee		0.25%	6,360	
				159,000
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Construction	1 un	5,503,848	5,503,848	
CIL/ MCIL/ S.106			669,320	
				6,173,168
PROFESSIONAL FEES				
Professionals		10.00%	550,385	
				550,385
MARKETING & LETTING				
Marketing		0.50%	77,250	
				77,250
DISPOSAL FEES				
Sales Agent Fee		1.50%	231,750	
Sales Legal Fee			5,000	
				236,750
Additional Costs				
Dev. Management Fee		17.00%	2,626,500	
				2,626,500
FINANCE				
Debit Rate 7.000%, Credit Rate 0.500% (Nominal)				
Land			161,110	
Construction			145,123	
Other			93,674	
Total Finance Cost				399,907
TOTAL COSTS				**12,766,960**
PROFIT				
				2,683,040
Performance Measures				
Profit on Cost%		21.02%		
Profit on GDV%		17.37%		
Profit on NDV%		17.37%		
IRR% (without Interest)		47.49%		

Appendix B

Project: The Hoo, 17 Lyndhurst Gardens, Hampstead NW3 5NU 2019/6151/P

Independent Review of Assessment of Economic Viability

Appendix A Cost Report

1 SUMMARY

1.1 The status of the design is stated in the estimate as "Feasibility". The design information used to produce the cost plan has been scheduled comprising layout drawings for all floors, sections and elevations. We also note that services and drainage overlay drawings are available from the web site. There is no structural or services information listed, although Structural Consultants (Price & Myers) and M+E Consultants (Scotch Partners) are identified in the Design & Access Statement. A landscape Masterplan is available from the planning web site. In our view a Stage 2 Estimate could be prepared.

1.2 We consider the allowances for preliminaries at the upper end of the range we would expect and the OHP high. The nature of this project may result in higher levels than usual of these two items of cost when tenders are procured.

1.3 The allowances for fit-out works are priced at lump sum rates of £2,000/m² for the Lodge and Annexe and £2,500/m² for the Main House and Link. We assume the rates to be inclusive of finishings, fittings and services costs.

1.4 The allowances for both Design Development and Construction Risk are 5% each. We generally consider a total contingency of 10% appropriate for works to existing buildings – this allowance amounts to 10.3% because the percentage additions are accumulative.

1.5 Our benchmarking results in an adjusted benchmark of £4,769/m² that compares to the Applicant's £6,215/m². The difference is £1,446/m² amounting to £1,668,118. We are therefore unable to conclude that the Applicant's costs are reasonable. If a more detailed Stage 2 or Stage 3 cost plan is provided we may reach a different conclusion; we would expect conversion and fit out costs of this type of building and market to be high.

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 Viability Report issued by James R Brown June 2020 for Jaga Developments (London) Ltd. The Report includes an Indicative Estimate issued by Gardiner & Theobald 11 March 2020 base 1Q2020.

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

3.3 The estimate is based on construction costs prepared using current prices 1Q2020. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2020 is 332 (Equivalent sample Prov 45) and for 3Q2020 332 (forecast).

3.4 The status of the design is stated in the estimate as "Feasibility". The design information used to produce the cost plan has been scheduled comprising layout drawings for all floors, sections and elevations. We also note that services and drainage overlay drawings are available from the web site. There is no structural or services information listed, although Structural Consultants (Price & Myers) and M+E Consultants (Scotch Partners) are identified in the Design & Access Statement. A landscape Masterplan is available from the planning web site. In our view a Stage 2 Estimate could be prepared.

3.5 The cost plan includes an allowance of 18% for preliminaries. The allowance for overheads and profit (OHP) is 10%. We consider the allowances for preliminaries at the upper end of the range we would expect and the OHP high. The nature of this project may result in higher levels than usual of these two items of cost when tenders are procured.

3.6 The allowances for fit-out works are priced at lump sum rates of £2,000/m^2 for the Lodge and Annexe and £2,500/m^2 for the Main House and Link. We assume the rates to be inclusive of finishings, fittings and services costs.

3.7 The allowances for both Design Development and Construction Risk are 5% each. We generally consider a total contingency of 10% appropriate for works to existing buildings – this allowance amounts to 10.3% because the percentage additions are accumulative. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

3.8 We have extracted the cost information provided by the Applicant into an approximation of a standard BCIS/NRM Group Element format to facilitate our benchmarking.

3.9 Sales have been included in the Appraisal at average figures of £1,244/ft^2 (Net Sales Area).

3.10 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 130 that has been applied in our benchmarking calculations.

3.11 We have adopted the same GIA used in the Applicant's cost plan; we assume this to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

3.12 The building is a single building of 4 storeys from basement/lower ground to 2nd floor converted into three separate dwellings (the Link is part of the Main House). We have benchmarked as Rehabilitation/ conversion works to a one-off detached house of 3 units or less.

3.13 Our benchmarking results in an adjusted benchmark of £4,769/m^2 that compares to the Applicant's £6,215/m^2. The difference is £1,446/m^2 amounting to £1,668,118. We are therefore unable to conclude that the Applicant's costs are reasonable. If a more detailed Stage 2 or Stage 3 cost plan is provided we may reach a different conclusion; we would expect conversion and fit out costs of this type of building and market to be high.

3.14 The areas and costs included in the appraisal are consistent with the areas and costs in the estimate.

BPS Chartered Surveyors
Date: 8th July 2020

The Hoo, 17 Lyndhurst Gardens, Hampstead NW3 5NU
Elemental analysis & BCIS benchmarking

	GIA m²		1,154	LF100	LF130
		£	**£/m²**	**£/m²**	**£/m²**
	Demolitions and structural alterations	**186,125**	**161**		
1	**Substructure**	**130,000**	**113**	**288**	**374**
2	**Superstructure**	**1,518,550**	**1,316**	**805**	**1,047**
3	**Internal Finishes - fit out**	**2,647,000**	**2,294**	**423**	**550**
4	**Fittings**			**311**	**404**
5	**Services - assume inc in fit-out**			**748**	**972**
6A	Site Works	530,000	**459**		
6B	Drainage				
6C	External Services				
6D	Minor Building Works				
6	**External Works**	**530,000**	**459**		
	SUB TOTAL	**5,011,675**	**4,343**	**2,575**	**3,348**
7	**Preliminaries 18%**	**902,102**	**782**		**603**
	Overheads & Profit 10%	**591,378**	**512**		
	SUB TOTAL	**6,505,155**	**5,637**		**3,950**
	Design Development risks 5%	325,258	282		
	Construction risks 5.3%	341,521	296		395
	Employer change risks				
	Employer other risks	-2	0		
	TOTAL	**7,171,932**	**6,215**		**4,345**
			6,215		
	Benchmarking		3,054		
	Add demolitions	161			
	Add external works	459			
	Add additional cost of fit-out - Provisional	367			
		988			
	Add prelims 18%	178			
	Add OHP 10%	117	1,282		
			4,336		
	Add contingency 10%		434		
	Total adjusted benchmark		4,769		
	Difference	1,668,118	1,446		

Appendix C

The Hoo AUV

Development Appraisal
Prepared by BPS
BPS Surveyors
16 July 2020

The Hoo AUV

Appraisal Summary for Phase 1

Currency in £

REVENUE

Rental Area Summary	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Existing	1	11,377	40.00	455,080	455,080	455,080

Investment Valuation					
Existing					
Current Rent	455,080	YP @	7.0000%	14.2857	6,501,143

NET REALISATION				**6,501,143**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			2,543,318	
				2,543,318
Stamp Duty		5.00%	127,166	
Agent Fee		1.00%	25,433	
Legal Fee		0.25%	6,358	
				158,957
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Existing	11,377	184.58	2,100,000	
Developers Contingency		10.00%	210,000	
				2,310,000
PROFESSIONAL FEES				
Architect		10.00%	210,000	
				210,000
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			194,377	
Construction			77,453	
Letting			31,867	
Total Finance Cost				303,696
TOTAL COSTS				**5,525,971**
PROFIT				
				975,171

Performance Measures	
Profit on Cost%	17.65%
Profit on GDV%	15.00%
Profit on NDV%	15.00%
Development Yield% (on Rent)	8.24%
Equivalent Yield% (Nominal)	7.00%
Equivalent Yield% (True)	7.32%
IRR% (without Interest)	27.35%
Rent Cover	2 yrs 2 mths
Profit Erosion (finance rate 7.000)	2 yrs 4 mths

Appendix D

The Hoo
Proposed Scheme

Development Appraisal
Prepared by BPS
BPS Surveyors
16 July 2020

The Hoo
Proposed Scheme

Table of Profit Amount and Profit on GDV%

	Construction: Gross Cost				
Sales: Gross Sales	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	5,228,656	5,366,252	5,503,848	5,641,444	5,779,040
-5.000%	£1,925,463 13.118%	£1,768,340 12.048%	£1,611,217 10.977%	£1,454,094 9.907%	£1,296,971 8.836%
-2.500%	£2,228,822 14.796%	£2,071,699 13.753%	£1,914,576 12.710%	£1,757,453 11.667%	£1,600,330 10.624%
0.000%	£2,532,182 16.390%	£2,375,059 15.373%	£2,217,935 14.356%	£2,060,812 13.339%	£1,903,689 12.322%
+2.500%	£2,835,541 17.905%	£2,678,418 16.913%	£2,521,295 15.921%	£2,364,172 14.929%	£2,207,049 13.937%
+5.000%	£3,138,900 19.349%	£2,981,777 18.381%	£2,824,654 17.412%	£2,667,531 16.443%	£2,510,408 15.475%

Sensitivity Analysis : Assumptions for Calculation

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

Heading	Phase	Amount	No. of Steps
Construction	1	£5,503,848	2.00 Up & Down

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

Heading	Phase	Amount	No. of Steps
Main House & Link	1	£9,000,000	2.00 Up & Down
The Lodge	1	£2,650,000	2.00 Up & Down
The Annexe	1	£3,800,000	2.00 Up & Down