Branch Hill House, Hampstead
NW3 7LS
Independent Viability Review

Prepared on behalf of the London Borough of Camden

7th July 2020

Planning reference: 2019/6354/P

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Contents

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 Almax Group ('the Applicant') in respect of the proposed redevelopment of Branch Hill House.

1.2 The site has an approximate area of 0.34 hectares and currently comprises an Edwardian house with a 1960's extension located in a gated wooded enclave approximately 0.3 miles from Hampstead Heath station. The total built floorspace is 19,625 sq ft and the structures ranges from two to four storeys including a part basement. The building is not listed but is neighboured by the Branch Hill Estate which is a Grade II Listed 1970's estate.

1.3 The last formal use was a residential care home (C2) and the internal layout of the 1960s extension is designed specifically for this use. The building was deemed to be no longer fit for purpose as a care home as it could not comply with Care Quality Commission (CQC) standards. The care home use ceased in 2015 and the building is now providing temporary guardian let accommodation while planning consent is pursued.

1.4 A planning application has been submitted under reference 2019/6354/P and is described as:

Change of use of Branch Hill House from care home (Use Class C2) to residential (Use Class C3) to provide 34 residential units and associated external alterations, demolition of the 1960s care home extension and erection of replacement building, including basement, comprising residential accommodation (Use Class C3), ancillary plant, access and servicing and car parking.

1.5 We have searched the planning history and found no alternative consent or relevant applications. We understand that the Applicant does not yet own the site and the property falls under the title NGL15151 which is shared with the neighbouring Branch Hill Estate. The Registered Proprietor on the title is The London Borough of Camden.

1.6 This is the second time we have been asked to review an FVA in relation to this consent. Our first report, dated 27th April 2020, was prepared in response to a submission by Knight Frank which concluded that a 100% private scheme delivered a residual land value of £9,808, which equated to a total deficit of -£10,240,000 when assessed against a suggested EUV plus benchmark land value of £18,840,000. This was later reduced to a deficit of -£3,271,000 when the incorrect nature of the approach taken to establish a suitable benchmark land value was raised and consequently reduced to £11,840,000. However, in both scenarios the Applicant was willing to offer 7 affordable units despite the apparent deficit this would created. Our assessment concluded that a 100% private scheme actually delivered a £8,600,000 surplus and that the offer of 7 intermediate units was insufficient.

1.7 This latest submission has been prepared by James Brown and concludes that a 100% private scheme delivers a deficit of -£7,450,000. However, despite this conclusion the Applicant is still willing to provide the original offer of 7 intermediate units as a goodwill gesture. It is not clear why the Applicant has maintained this offer of provision but it appears independent from the differing views of their advisors on the scale of the apparent deficit.

1.8 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.

1.9 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.

1.10 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 of a 100% private scenario can be found in Appendix A which produces a surplus of £8,131,108. We therefore still do not agree with the Applicants assertion that the scheme is unable to viably deliver any affordable housing.

2.2 This latest submission by James Brown agrees with the majority of our previous assumptions, including:

- Build cost – as was put forward initially by Savills and agreed to by our Cost Consultant Neil Powling
- Build cost contingency of 10%
- Professional fees of 12%
- Sales and marketing budget of 3%
- Profit of 20% of GDV

2.3 We therefore view it as appropriate that this report is read in conjunction with our previous report dated April 2020, for clarification on items which are considered to be agreed. This latest report therefore focusses on the following items which are not agreed:

- Sales values
- Ground rent values
- Acquisition costs
- CIL
- Sales agent fees
- Finance Costs
- Benchmark land value

2.4 Our previous report agreed to the sales values that had been proposed by Savills. We analysed the available supporting information and considered this appropriately justified their proposed values. In the latest submission by James Brown, he states that he has not formed an opinion on what values would have been prior to the recent Coronavirus outbreak but has simply made an arbitrary 10% reduction to the previously agreed figures in the expectation that the market is going to fall by this amount as a consequence of the outbreak.

2.5 We find this approach to be flawed. As of yet there is no evidence that the gloomy projections favoured by Applicant appointed consultants will materialise in part or in full. This is particularly true for high value London property, whose buyers will be more resilient than those purchasing properties of up to £500,000 and whose income is less secure. Furthermore, with the bank of England base rate cut from 0.75% to 0.25% we would expect that demand will remain as mortgage terms become more attractive. Even if there is an initial slump, it is forecast that this will be somewhat temporary and in the short term, so of less consequence when completions are not due for a couple of years allowing time for any kneejerk market reaction to subside and the market re-stabilise.

2.6 Therefore while we accept there has been pause in the market owing to the lockdown which started on 27th March 2020 (prior to our previous report), the most reliable market evidence is still that which was drawn upon at this time (and agreed to by the Applicant). There is no justification for moving away from these values, as this would be based purely on a pessimistic and unevidenced forecast. This is especially true as marketing values have remained at the same level as prior to the market shut down and even once sales are competed there will be a three month lag before the values are published.

2.7 Therefore at this stage we have maintained our previous values and do not accept the proposition that values should be reduced by 10% without evidence.

2.8 Anecdotally the BBC reported that the Nationwide Buildings Society had reported that *UK house prices were 0.1% lower in June than the same month a year ago - the first annual fall since December 2012, according to the Nationwide.*

2.9 The scale of this decrease is marginal and until Land Registry data is available it will not be possible to form a clear view on price movements.

2.10 James Brown has suggested removal of capitalised ground rental income from the appraisal, his reasons for doing so is that other viability consultants have done so elsewhere.

2.11 The situation is that Government have stated that a bill will be brought before Parliament but as yet have not set a timescale for this. Consequently it remains lawful to charge ground rents and units can be sold on this basis once consent has been granted. It is convention that all planning viability assessments are undertaken on a current day basis. We are generally receptive to the idea that this income is potentially higher risk and less likely to arise on scheme's with long delivery programmes.

2.12 However, in this case, particularly as this is a relatively short programme and that here has been no recent progress with the draft bill we do not agree that it is reasonable to completely exclude them. We have therefore valued the freehold interest in line with current policy rather than making under evaluation to provide greater security for the developer. Essentially the potential restriction of ground rents should be perceived as a developer risk, and that which is reflected in the 20% return which is sought.

2.13 Acquisition costs have been disputed. These were previously applied at 5.95% and have been increased to 6.65% by James Brown although no breakdown is provided. We have instead used the SDLT calculator to establish the correct levy of £252,000 relative to the benchmark land value which had been fixed as the purchase price. We have then applied a further 1% for agent's fees and 0.5% for legal fees which equates to a total of £290,562.

2.14 We have included CIL contributions as confirmed by the Council, at £435,000 for Mayoral CIL and £3,514,000 for Borough CIL. We have not had sight of any S106 Heads of Terms and are not aware what these costs may be. These have been excluded until they can be confirmed but if any contributions are required these will obviously reduce the final surplus accordingly. This does not include any deduction for affordable housing at this stage, as both ours and the Applicant's assessment is based on a 100% private scenario. If the offer of 7 intermediate units is accepted then the Council have confirmed that this would result in a CIL reduction of £321,081 after affordable housing relief.

2.15 James Brown has stated that the legal fees associated with the plot sales would be above average due to the size of the scheme and higher value of the flats. We do not agree with this as we have worked on developments of varying sizes and values and maintain that standard conveyancing fees should be applied at a rate if £1,000 per transaction or £34,000 in total.

2.16 A finance rate of 6.75% was previously adopted by the Applicant and agreed to by BPS. The latest appraisal increases the interest rate to 7% on the basis of a hypothetical bank financing arrangement which includes mezzanine financing.

2.17 Finance is assessed in generic terms in planning viability as the assessment is not "personal" to the applicant. The convention is that there is an assumption of 100% debt financing, as distinct from borrowing from multiple sources.

2.18 As our assessment must be based on current market conditions rather than in relation to the Applicants personal borrowing ability, and should reflect the current market. We note that the bank of England base rate has in fact fallen from 0.75% to 0.25% since that previous assessment, we see no reason why the finance rate should be increased, and if anything should be reduced. However, we have maintained the 6.75% which was previously agreed.

2.19 The principal difference in the approach therefore remains that of the benchmark land value. The value of £12,000,000 put forward by James Brown has been taken as a combination of 5 different approaches, each of which arrives at the same value.

Basis of Approach	Value	BPS Comments
EUV	£12,000,000	Assuming a value based on property in current condition. However building no longer suitable for ongoing use without investment therefore this would require refurbishment and become an AUV.
AUV based on refurbished care home	£12,000,000	Agreed method to establish a suitable benchmark as discussed below.
AUV to single C3 dwelling	£12,000,000	No consent for C3 use.
Market value for D1 conversion development opportunity	£12,000,000	Market value not recognised as a method of determining a benchmark

		land value and only D1 use permitted under GDPO is that for a state school or nursery for which the Council have confirmed there is no demand.
Market value for general development	£12,000,000	Market value not relevant.

2.20 Having considered the approaches above we consider the only potentially compliant method of determining a benchmark land value should reflect AUV approach to reinstate the building to its current lawful use. Following our assessment of a 30 bed care home in our previous report, illustrative plans have now been provided for a 47 bed scheme. Previously our valuation assumed a high end care home at weekly rents of £3,000 in line with Chelsea Court Place which was cited as the only relevant comparable for the product which was being assumed.

2.21 The plans which have now been provided show that the increase in assumed rooms has had the effect of reducing rooms sizes and impacts on design such that the hypothetical refurbishment would fall substantially short of the quality and luxury of Chelsea Court Place. The build cost provided also targets a mid-range build which is inconsistent with the assumptions around value generated. This cost has been assessed by our Cost Consultant, Neil Powling. His summary findings are as follows:

I am not convinced that their costs really reflect a high end care home: the finishes are £339/m² and the fittings £260/m² - I suspect a detailed cost plan based on a high end design and specification would yield higher costs than these. However I have taken the costs of their building works subtotal £5,269,000 as a starting figure, but I think the further additions should be brought into line with works of alteration and refurbishment and reflecting this site. The only external works allowance in the RLF figures is for external services that I have deducted. I have adjusted for prelims and OHP at the same rates use in the proposed scheme in the refurb section. I have allowed £2M external works (the proposed scheme works are £2.197M). I have allowed a contingency at 10%. The calculations to amend the RLF cost are in the table below resulting in a build cost of £4,318/m² (£401/ft²)

		GIA m²	2,330
RLF Sub Total building works		5,269,000	
Ddt ext services		79,000	
		5,190,000	
Add prelims as refurb of proposed scheme 20%		1,038,000	
Add OHP as proposed 6%		373,680	
		6,601,680	
External works (proposed £2.197M)	2,000,000		
Add prelims 20%	400,000		
OHP 6%	144,000	2,544,000	
		9,145,680	
Add 10% contingency		914,568	
			£/m²
		10,060,248	4,318

2.22 In light of the above considerations we have revalued the assumed refurbished property based on rents which more appropriately reflect the quality of the build and design which would be delivered. We have based revenues on £2,000 per week, which is still above the London average reflecting the desirable location, this has generates a reduced GDV of £14,565,000 or £310,000 per key. This is again still above the London average and in line with similar turnkey sales. The residual benchmark land value on this revised basis is £2,683,000.

2.23 We note this figure is below the previous AUV based on the 30 bed care home which we considered to be a more valuable development and may be preferred by the applicant as an approach to the benchmark. We still have concerns with the logistics of designing a 30 bed care home and if the applicant wishes to pursue this route further we ask that illustrative plans can be provided to demonstrate how this scheme can be achieved. Guidance suggests that adequate information should be provided to enable relevant consideration to be given as to whether the development would receive a positive recommendation for approval.

2.24 We have also included sensitivity analysis as shown in Appendix E.

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 development provides 34 residential apartments, which were valued in the first assessment three months ago at a total GDV of £64,840,000 or an average of £1,363/sq ft. The values were provided by Knight Frank and supported by the Savills New Homes Team with an accompanying market research report. We assume they were also agreed as reasonable by Applicant as they were submitted on the Applicant's behalf. The values were as follows:

- 10x 1 beds ranging from 549 – 581 sq ft priced at £710,000 to £780,000
- 10x 2 beds ranging from 797 – 1,916 sq ft priced at £1,320,000 to £2,060,000
- 14x 3 beds ranging from 1,625 – 2,885 sq ft priced at £2,175,000 to £3,915,000

4.2 The pricing had been informed by a number of local new is build schemes where sales have completed within the past year. We made the following analyses which confirmed that their assumed values were reasonable, and perhaps if anything, conservative.

4.3 Hampstead Manor is the redevelopment of a Grade II Listed mansion with a range of new buildings. These range from 1 bed apartments to townhouses. The development is located on Kidderpore Avenue approximately 0.8 miles from both West Hampstead, Hampstead and Cricklewood stations. Kidderpore Avenue is a prime residential street and the properties have access to the grounds which formerly served the buildings when in use as Westfield College.

4.4 The heat map below demonstrates that the areas are similar in value, and the accommodation is also of a high specification aimed at the luxury market. We consider this to provide useful comparable data but consider the subject site to be preferable due to its exclusive nature and setting closer to the station.

4.5 We have found that one beds of less than 600 sq ft sold for an average of £723,000, two beds between 700-800 sq ft sold for an average of £1,193,000, units between 1,000-2,000 sq ft sold for an average of £1,890,000 and the one unit in excess of 2,000 sq ft sold for £3,570,0000. These produce an average value of £1,331/sq ft and are broadly in line with the proposed values. These were developed by Mount Anvil and are set in an around a historic grade II Listed building. We consider this a strong comparable for the subject site.

4.6 While no recent sales are available due to the Coronavirus outbreak we have had regard to the marketing values as an indicator of how values may have been impacted. We have found that on average, values are still higher than in 2019, suggesting that the developers have not seen interest impacted negatively since the outbreak.

4.7 While James Brown has not provided his own evidence or opinion of values, he has highlighted that both Savills (in previous FVA) and BPS have ignored values achieved to Kidderpore Green, by Barratt, which achieved an average of sub £1,000 sq ft. Kidderpore Green is located close to Hampstead Manor, but provides an inferior product in new build homes rather than the exclusivity of the historic building setting that Hampstead Manor and Branch Hill House share. Barratt also do not hold the same reputation as Mount Anvil and in light of the generous build costs that have been applied for the subject development, we would expect the proposed development to be of a far superior quality than Barratt which is known as a volume builder. Sales also completed early 2019 so are of less relevance. We therefore do not consider this to be a good comparable which was why it was largely ignored by both BPS and Savills.

4.8 Novel House has also been cited as a relevant comparable although no sales data is yet available and asking prices have been relied upon instead. It is located in close proximity to the subject site and comprises 17 apartments ranging from studios to 4 beds. The setting of the subject site is superior, but this development offers 17 underground parking spaces, which would be more desirable to purchasers and would warrant higher values.

4.9 The asking prices range from £1,095,000 for a 1,087 sq ft one bed unit (1,014/sq ft) to £3,495,000 for a 1,776/sq ft two bed unit (1,991/sq ft) and £3,650,000-£3,850,000 for the three bed units ranging from 1,698-2,545 sq ft (1,487/sq ft-£2,267/sq ft). While we acknowledge there may be a reduction from asking price to achieved value, this suggests that the proposed pricing is pessimistic.

4.10 Mount Vernon is a recent development less than 0.2 miles from the subject site, close to Hampstead Station. The development includes a swimming pool and underground parking which would make this more attractive to purchasers than the subject site. However, the setting is less exclusive than the sheltered enclave of the Branch Hill House Estate. There is currently a 1,574 sq ft first floor two bed apartment being marketed at Mount Vernon at an asking price of £3,000,000; which equates to £1,906 sq ft. Since lockdown has eased this property has gone back on the market at the same price, again suggesting that the market in Hampstead has proved more resilient than the 10% reduction which James Brown has applied without supporting market evidence to justify this conclusion.

4.11 Generally, we are satisfied that the previously agreed values are still appropriate. The quality of finish which has been costed, plus the 100% private tenure (the intermediate units proposed are recued private rentals rather formal affordable housing) indicate that this will be an exclusive and highly desirable development. We do not agree that an arbitrary 10% reduction in value is warranted or adequately evidenced. We also note that James Brown aside from suggesting the reduction has not otherwise offered a view on the unit pricing.

4.12 While the affordable offer of 7 units is not agreed or the tenure accepted, we have provided an indicator of value based on intermediate values of £420/sq ft. At this stage this is just provisional as we understand that the potential pepper potting of tenures might create management issues for a Registered Provider and the Council wish to see this redesigned for access off a separate core. Therefore, as with the Applicants assessment, we have used the 100% private scheme as a basis for comparison but are willing to explore an on-site provision further when the tenure, design and mix of units can be agreed.

Ground Rents

4.13 Capitalised ground rents have been omitted on the basis that the Government have expressed their intention to restrict rents to a peppercorn following the consultation into unfair leasehold practices. This is this the same approach as was taken in the initial FVA. However, we previously made the decision to include ground rents based on annual rents of £300 per one bed, £350 per two bed and £400 per three bed per annum capitalised at 5%. This equates to £242,000 in the 100% private scenario and £199,000 with the inclusion of 7 intermediate units.

4.14 While the draft bill is in preparation there are still no parliamentary timescales confirmed, and it is not certain that this will have been passed by the time the units can be sold. This is of particular importance a ground rents are unlikely to be a political priority in the immediate future and we have seen many late stage reviews which have been supplied without ground rent income on this same basis but have yet found they still being charged.

4.15 We therefore still consider it premature to omit this value which is still relevant in relation to current day policies and as such should be reflected in the viability assessment. This conclusion is as per our previous assessment.

5.0 DEVELOPMENT COSTS

5.1 The build costs have not been updated from our previous assessment. We consider these to be agreed. Our Cost Consultant, Neil Powling, reviewed the cost information that was previously provided. The full report can be found in Appendix D and the key findings are as follows:

Our benchmarking results in an adjusted benchmark for the new build section of £4,309/m² that compares to the Applicant's £ 4,309/m²; and for the refurbishment section of £4,330/m² that compares to the Applicant's £ 4,331/m². We therefore consider the Applicant's costs to be reasonable.

5.2 Professional fees have been applied at 12% which is in excess of the 10% which is considered as the industry standard. 12% can be considered reasonable if the complexity of the development warrants it, such as conversion of Listed buildings. As a partial refurbishment, albeit not of a Listed building, we have agreed to the use of 12%.

5.3 We have included CIL contributions as confirmed by the Council, at £436,000 for Mayoral CIL and £3,514,000 for Borough CIL. We have not had sight of any S106 Heads of Terms and are not aware what these costs may be. These have been excluded until they can be confirmed but if any contributions are required these will obviously reduce the final surplus accordingly. For the purposes of assessing the provision of 7 intermediate units, this results in CIL relief of £321,081; or a total CIL cost of £3,629,011.

5.4 In respect of residential marketing, costs of 1.5% and sales agent fees of 1.5% have been adopted. Typically, disposal costs range from 2.5% to 3% so this is the higher end of expectations but within a reasonable range. This is as was greed in our previous assessment.

5.5 Legal fees of £1,750 per plot have been included. Typical legal fees range from £800-1,200 per transaction so this is far in excess and we do not consider the size of the development to justify these costs as suggested by James Brown. We have maintained our standard assumption of £1,000 per sale as the mid-way point of this range.

5.6 Increased acquisition costs of 6.65% have been put forward. This is a minor issue and one which we have agreed to. We have also adjusted the purchasers' costs in relation to the AUV benchmark land value so this has had a proportionate impact on both the land value and development costs and therefore no adjustment to the overall viability position.

5.7 The previous assessment adopted a finance rate of 6.75% which we felt was adequate and within the typical range of 6-7%. James Brown has increased this to 7% debit rate and 0.5% credit rate. He states that neither we nor Savills provided any evidence for the use of 6.75% in the first assessment. As a standard assumption which was agreed to we did not consider it necessary to provide evidence. In support of his rate, he has broken down a rate of 7.6% based on a funding arrangement which involves bank finance, equity fiancé and mezzanine finance plus a separate bank lending fee of 1.5%.

5.8 When providing a generic viability assessment of a development we must disregard the personal financing arrangements of the Applicant. Our assessment must reflect market norms including the generic approach to finance costs adopted in viability assessment. We do not accept that a higher rate should be applied form what was previously put forward. We note, the Bank of England has reduced the base rate since previously reporting. Therefore, we consider a reduced rate of 6.5%, still a mid-point of the standard range, to be more appropriate.

5.9 A profit margin of 20% of residential GDV has been targeted. 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 consider 20% to be at the upper end of expectations. However, acknowledging the risks involved with restoring a building of such local importance we have agreed that a higher margin is not unreasonable. While this should not necessarily apply to the new build element of the development, at this stage we agree to accept this but reserve the right to reconsider this if necessary. This as was agreed previously.

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 £8,131,108 shown at the bottom of the appraisal is the overall surplus which is generated.

6.0 BENCHMARK LAND VALUE

6.1.1 The latest report proposes a benchmark land value of £12,000,000 although the logic behind this figure appears dependent upon a number of approaches reaching the same figure in their calculation. In summary, the various approaches taken are:

- EUV in existing condition based on a market value of £10,000,000 plus 20% landowners premium - £12,000,000.
- AUV based on a C2 47 bed replacement care home also producing a value of £12,000,000.
- AUV based on a single C3 dwelling with a GDV of £32,000,000 and residual value of £12,00,000.
- Market value for a conversion opportunity to D1 use - £12,000,000
- Market value for the site as development land - £12,000,000.

6.1.2 None of the above approaches have been specially selected as the approach to establishing benchmark land value but James Brown considers the cumulative coincidence of the £12m figure to adequately justify adopted of this figure.

6.1.3 Before analysing each approach, we have simply disregarded the approaches of AUV conversion to C3 use and the assessment of development land value. The site has no consent for C3 use and is effectively the subject of the current application so has limited place as a basis for establishing site value other than on an assumption of full policy compliance. Equally land transactions should only be used as a basis for cross checking site values and should themselves be fully reflective of policy compliant development to accord with NPPG. It is not clear from the FVA how the analysis proposed meets this requirement.

6.1.4 On this basis of the options remaining a benchmark land value must be either an EUV based approach which is the clear preference of NPPG reflecting the current condition or an AUV based on works which can be carried out without the need for a change of use, unless granted under permitted development rights. In the case of C2 this would include D1 but only to a state school and not a private school or nursery. We discuss this in more detail later.

6.1.5 To explain the process we have already been through, a benchmark land value of £18,840,000 was initially adopted in the first FVA which was based on what was described as an EUV of £15,700,000 plus a landowner's premium of 20%. This was disputed by BPS as it was solely reliant on comparisons drawn with open market land sales where there was clearly either significant hope value, an intention to redevelop or an existing use which was not C2. Knight Frank's approach was clearly in contravention with the approach set out in NPPG for deriving an EUV.

6.1.6 We note that the EUV report dated 17 April 2019 by Knight Frank included within the original Savills FVA also stated:

We comment however that it is very unlikely that interest will come from those contemplating an on-going 'care home' use. The size, configuration, layout and condition of the property as it currently stands suggests that this property is no longer fit for purpose for such a use, and would not comply with current *institutional standards (e.g. Care Quality Commission standards) without significant and alterations which are likely to be too costly for such an operator.*

6.1.7 When this initial approach to determining an EUV was identified contrary to NPPG a supplementary report was provided by Knight Frank, dated 13th March 2020, which provided a valuation based on the assumed refurbishment of the existing space creating a 30 bed care home using the following assumptions:

- EBITDA valuation of the GDV - £20,550,000 (£685,000 per bed)
- Refurbishment costs of £6,162,240 (£315/sq ft)
- Professional fees of 10%
- No contingency or profit
- Finance rate of 6.75% debit/1% credit 12 months construction

6.2 This has produced a residual AUV value of £11,840,000 (£395,000 per room) which sits in direct contradiction with Knight Frank's earlier assessment of the viability of resurrecting care home use. This was a reduction of £7,000,000 from the previously assumed benchmark figure but similar to the £12,000,000 which is being targeted by James Brown in the latest FVA.

6.3 We consequently provided our own opinion of the AUV to reinstate the former care home use making the following assumptions.

- EBITDA valuation of the GDV -
- Refurbishment costs of
- Professional fees of
- Finance rate of

6.4 We arrived at an AUV of £3,465,000 which assumed that the care home could accommodate 30 bedrooms of a luxury nature. No illustrative scheme was provided to support the 30 bedrooms, but based on the GIA we felt it would be achievable. However there were still concerns with the quality of the space in the 1960s extension which is of a poor quality and any rational developer would otherwise demolish and rebuild to a new build specification. Therefore our assessment of an AUV was the best estimate we were able to provide with the limited information that was available.

6.5 The first approach, EUV of £12,000,000, is described as the existing use value in its current state. We have visited site and have found the building to be unsuitable for ongoing use without refurbishment. As was suggested in Knight Frank's previous assessment, the building would not meet care quality standards. Therefore, the site does not generate an EUV in its current state, only market value for the development opportunity which cannot be a consideration for determining benchmark land value. Instead we assess the AUV after consideration of the investment required. In this context we note NPPG describes and EUV which is dependent on an assumption of investment must be treated as an AUV i.e. no land owner premium.

6.6 James Brown has also considered the market value for a conversion opportunity to D1 use – (£12,000,000) but fails to interpret this in relation to the site or permitted uses. Under the General Permitted Development Order, a C2 property can be this ability is limited to delivery of a state school or nursery. The transactions which have been cited include clinics, art gallery, youth centre and fee paying schools; which we consider to be irrelevant in establishing the value of a state funded school or nursery.

6.7 However, more importantly, we have spoken to the Council who have confirmed that there is no requirement for state funded education in this location. Even if this were to be a plausible option, we would expect to see the AUV take into account the level of works and investment which would be required and the residual value of the alternative use rather than an estimate of market value which is not accepted in PPG. Therefore, this approach has also been disregarded.

6.8 As per our previous assessment, we conclude that the only value which can be generated from the site in terms of a benchmark land value to be the AUV following refurbishment of its former and lawful C2 use.

6.9 Our previous assessment of AUV, based on 30 bedrooms, made the following assumptions. Please revert to our previous report for a detailed explanation of how this was reached.

Assumption	Proposed	BPS	Comments
Weekly fees	£3,500	£3,000	Reduced in line with Innovative Care which was cited as the most comparable facility – high end luxury facility
Occupancy	93%	93%	Agreed
Payroll costs	50%	45%	Reduced in line with Innovative Care which was cited as the most comparable facility
Other costs	12%	25%	Increased – further breakdown given in Section 5.
Resultant GDV	£20,553,000 £685k/bed)	£13,945,000 £465k/bed)	
Refurb costs	£314/sq ft	£440/sq ft	Report stated costs would be equivalent to proposed scheme refurb costs but appraisal adopted lower rates so we consider this to be an error and have updated accordingly
Professional Fees	10%	12%	12% adopted in proposed scheme so consider these more appropriate for the AUV
Finance	6.75%	6.75%	Agreed

6.10 In the latest submission plans have been provided which aim to show that 47 care beds can in fact be provided in the existing building. We have also been provided with a reduced build cost estimate reflecting an average and mid range product. However, the assumed weekly rents/value per key remains that which was proposed by BPS; £3,000 per week per bed or £465,000 per key.

6.11 Our value per key was based on the provision of a luxury care home, for which Chelsea Court Place was stated to be the only relevant comparable - offering superior facilities and care at premium pricing. Typical London Care Home rents range from £1,000 to £1,500 per week. Therefore £3,000 per week repre4sents a considerable premium but one which we felt was justified by the build costs and exclusivity of a small development in a character building.

6.12 With the increase to 47 bedrooms it has become apparent from the plans that while this could be achieved, the room sizes would not be sufficient to achieve premium values. Neither would the layout, which has a smaller proportion of communal space per bed and narrow corridors which would provide a luxury product that would be able to command the premium £3,000 per week fees.

6.13 We have engaged directly with Chelsea Court Place regarding the size of their bedrooms and client expectations. They have confirmed that their smallest bedroom is 22 sq m excluding en suite with the majority of bedrooms at circa 30 sqm, again excluding en suite. Furthermore, the en suite bathrooms are all large enough for wheelchair access plus two carers assistance.

6.14 The bedrooms in the proposed scheme are significantly smaller, ranging from 15.5 sqm to 22.3 sq m including a small en suite of approx. 4 sq m. This would lead to the smallest bedrooms to barely meet minimum room sizes, 12 sq m. Even the largest room would be sub 20 sq m and therefore we do not consider this to be comparable to Chelsea Court Place.

6.15 Our Cost Consultant Neil Powling has reviewed the cost plan and has responded with the following commentary:

I have adjusted the RLF costs where I think they are not sufficient to reflect the prelims RLF have used for refurb works, a realistic allowance for externals and an appropriate contingency for works to an existing building. This gives a construction cost of £10.06M. Note this is for an ordinary standard care home NOT a high end.

Even if we accept their areas we don't have confirmation in the form of a proper measured survey. The Applicant's scheme is in my view a paper exercise and would not be capable of delivery in the form they assume.

I have looked at BCIS care home analyses, I attach one for Leithland Glasgow which is a new build rebased to Camden and a current TPI 2Q2020. The total cost inc. externa works is £4,449/m² but the contingency only 0.45% - increasing this by 4.5% to give a 5% contingency which is the minimum I would expect (10% for refurb) gives a cost of £4,649/m² and compares to the cost calculated below of £4,318/m². This gives some indication of potential care home cost.

Turning to the RLF cost: I am not convinced that their costs really reflect a high end care home: the finishes are £339/m² and the fittings £260/m² - I suspect a *detailed cost plan based on a high end design and specification would yield higher costs than these. However I have taken the costs of their building works subtotal £5,269,000 as a starting figure, but I think the further additions should be brought into line with works of alteration and refurbishment and reflecting this site. The only ext works allowance in the RLF figures is for ext service that I have deducted. I have adjusted for prelims and OHP at the same rates use in the proposed scheme in the refurb section. I have allowed £2M ext works (the proposed works are £2.197M). I have allowed a contingency at 10%. The calculations to amend the RLF cost are in the table below resulting in a build cost of £4,318/m^2 (£401/ft^2)*

		GIA m^2	2,330
RLF Sub Total building works		5,269,000	
Ddt ext services		79,000	
		5,190,000	
Add prelims as refurb of proposed scheme 20%		1,038,000	
Add OHP as proposed 6%		373,680	
		6,601,680	
External works (proposed £2.197M)	2,000,000		
Add prelims 20%	400,000		
OHP 6%	144,000	2,544,000	
		9,145,680	
Add 10% contingency		914,568	
			£/m^2
		10,060,248	4,318

I have provided you with the results of my measurements of the GIA and of the bedrooms. I calculated the GIA as 2,015m^2 but RLF have used 2,330m^2 in their cost which is the figure I have used below to calculate the £ /m^2 from the build cost. With regard to the differences between the Applicants areas and my measurement - I am afraid the file provided doesn't help – I am unable to open it. What I require are proper dimensioned survey drawings of the existing that tie up with the proposed drawings in order to verify the measurements. Without that I remain with the details I have given you which are the best I can do based on the information I have available.

6.16 Therefore, there are still serious concerns with the practicalities of the design, and even if it were appropriate many costs have been excluded or understated. However, in the interest of reaching a conclusion we have agreed to use Mr Powling's estimate as above.

6.17 However as stated, the speciation and quality of refurbishment also do not justify high end rents or the standards that would be expected for a high end care home. The previous report identifies evidence of national turnkey sales which have achieved between £113,000 and £325,000 per bed. Which we have found to be a fair assessment of the care home market. This also corresponds with the average weekly London care home rents which range from £1,000 - £1,500 per week. The previously suggested GDV equated to £685,000 per bed was substantially above any of the turnkey evidence. Our amended valuation of £465,000 was still in excess of typical London values, but still demonstrated a fair premium to allow for the luxury that we thought was being proposed. By reducing the construction costs to a mid rage level and acknowledging the cramped and claustrophobic layout of the illustrative 47 unit scheme, we have had to assume that this would not achieve values significantly above London averages, although we do accept that the setting would still be desirable. However this suggests that the development should reflect the calibre of the setting rather than the setting being relied upon to drive values that are not appropriate for the facility itself.

6.18 We therefore consider average care bed values to fall within a band of circa £150,000-£250,000 and would expect the proposed scheme to achieve close to this. In terms of the rents, we have applied an average weekly rate of £2,000 to our previous calculation of GDV which includes the following:

- 93% occupancy rate
- 45% payroll costs
- 25% other expenses

6.19 A further explanation of the evidence behind this included in our previous report. It has not been disputed in the latest FVA so we consider this to be accepted. Following these deductions, we produce a GDV of £14,565,000. This equates to a value of £310,000 per key, which is also in line with expectations and slightly above the typical range of £150,000 - £250,000.

6.20 All other assumptions are agreed as per our previous AUV appraisal are considered to be agreed. Based on the above amendments our revised benchmark land value is therefore £2,683,000 as can be seen in Appendix C. It is therefore felt that 47 bedrooms are not an efficient use of the space and would not allow the high-end refurbishment that the Applicant was initially intending. However, if they wish to revert back to the 30 bedroom scheme we ask that they can provide illustrative plans so this too can be assessed with a greater degree of certainty.

6.21 Please note we have not included a profit although we consider it reasonable that a developer would expect to see a return on their investment to account for the risk. We reserve the right to do so at a later stage.

Quality Standards Control

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

RICS Registered Valuer
RICS Membership no. 0085834
For and on behalf of BPS
Chartered Surveyors

LIMITATION OF LIABILITY/PUBLICATION

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Appendix A

Branch Hill House
100% private

Development Appraisal
BPS Surveyors
06 July 2020

Branch Hill House
100% private

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Residential	34	47,555	1,363.47	1,907,059	64,840,000
Rental Area Summary	**Units**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**	
Ground Rent	1	12,100	12,100	12,100	
Investment Valuation					
Ground Rent					
Current Rent	12,100	YP @	5.0000%	20.0000	242,000
GROSS DEVELOPMENT VALUE				**65,082,000**	
NET REALISATION				**65,082,000**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price		2,683,000			
Fixed Price			2,683,000		
				2,683,000	
Acquistion		6.65%	178,420		
				178,420	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Residential	62,947	441.48	27,790,000		
Borough CIL			3,514,093		
Mayoral CIL			435,000		
				31,739,093	
PROFESSIONAL FEES					
Professional Fees		12.00%	3,334,800		
				3,334,800	
MARKETING & LETTING					
Marketing		1.50%	972,600		
				972,600	
DISPOSAL FEES					
Sales Agent Fee		1.50%	976,230		
Sales Legal Fee			34,000		
				1,010,230	
Additional Costs					
Dev. Management Fee		20.00%	13,016,400		
				13,016,400	
FINANCE					
Debit Rate 6.750%, Credit Rate 1.000% (Nominal)					
Land			578,528		
Construction			2,970,627		
Other			467,195		
Total Finance Cost				4,016,350	
TOTAL COSTS				**56,950,892**	
PROFIT					
				8,131,108	

Branch Hill House
100% private

Performance Measures

Profit on Cost%	14.28%
Profit on GDV%	12.49%
Profit on NDV%	12.49%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
Rent Cover	671 yrs 12 mths
Profit Erosion (finance rate 6.750)	1 yr 12 mths

Appendix B

Branch Hill House
7 Intermediate

Development Appraisal
BPS Surveyors
06 July 2020

Branch Hill House
7 Intermediate

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Private	27	43,239	1,363.70	2,183,889	58,965,000
Intermediate	1	4,316	420.00	1,812,720	1,812,720
Totals	**28**	**47,555**			**60,777,720**

Rental Area Summary	**Units**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Rent	1	9,700	9,700	9,700

Investment Valuation

Ground Rent					
Current Rent	9,700	YP @	5.0000%	20.0000	194,000

GROSS DEVELOPMENT VALUE				**60,971,720**
NET REALISATION				**60,971,720**
OUTLAY				
ACQUISITION COSTS				
Fixed Price		2,683,000		
Fixed Price			2,683,000	
				2,683,000
Stamp Duty			123,650	
Effective Stamp Duty Rate		4.61%		
Acquistion Costs		6.65%	178,420	
				302,069
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Construction	1 un	27,790,000	27,790,000	
CIL			3,629,011	
				31,419,011
PROFESSIONAL FEES				
Professional Fees		12.00%	3,334,800	
				3,334,800
MARKETING & LETTING				
Marketing		1.50%	884,475	
				884,475
DISPOSAL FEES				
Sales Agent Fee		1.50%	914,576	
Sales Legal Fee			34,000	
				948,576
Additional Costs				
Profit Private		20.00%	11,831,800	
Profit Affordable		6.00%	108,763	
				11,940,563
FINANCE				
Debit Rate 6.750%, Credit Rate 1.000% (Nominal)				
Land			603,528	
Construction			2,918,577	
Other			424,401	
Total Finance Cost				3,946,506

Branch Hill House
7 Intermediate

TOTAL COSTS		**55,459,001**
PROFIT		
		5,512,719

Performance Measures

Profit on Cost%	9.94%
Profit on GDV%	9.04%
Profit on NDV%	9.04%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
Rent Cover	568 yrs 4 mths
Profit Erosion (finance rate 6.750)	1 yr 5 mths

Appendix C

Branch Hill House - 47 Bed Care Home

Development Appraisal
Prepared by JRB
BPS Surveyors
01 July 2020

APPRAISAL SUMMARY — BPS SURVEYORS

Branch Hill House - 47 Bed Care Home

Appraisal Summary for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Care Homes (47 Bed)	1	25,080	580.74	14,565,000	14,565,000
NET REALISATION				**14,565,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			2,682,946		
				2,682,946	
Acquistion Costs		6.65%	178,416		
				178,416	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Care Homes (47 Bed)	25,080	364.66	9,145,680		
Developers Contingency		10.00%	914,568		
				10,060,248	
PROFESSIONAL FEES					
Professionals		12.00%	1,097,482		
				1,097,482	
FINANCE					
Debit Rate 6.750%, Credit Rate 0.000% (Nominal)					
Land			215,391		
Construction			330,518		
Total Finance Cost				545,908	
TOTAL COSTS				**14,565,000**	
PROFIT					
				0	
Performance Measures					
Profit on Cost%		0.00%			
Profit on GDV%		0.00%			
Profit on NDV%		0.00%			
IRR% (without Interest)		6.03%			
Profit Erosion (finance rate 6.750)		N/A			

Appendix D

Project: Branch Hill House, Branch Hill, Hampstead, Camden NW3 7LS
2019/6354/P

Independent Review of Assessment of Economic Viability

Interim Draft Report
Appendix A Cost Report

1 SUMMARY

1.1 The allowance for contingencies to both new build and refurbishment is 5% which we consider reasonable; however in our benchmarking we have allowed 10% for adjustments to the refurbishment works that is consistent with our practice of allowing up to 10% for the increased uncertainty and risk of construction works to existing buildings.

1.2 We have included the GIA used in the cost estimate of 5,848m². The NIA used to calculate the revenues is 4,418m² giving an efficiency of 75.5%.

1.3 Our benchmarking results in an adjusted benchmark for the new build section of £4,309/m² that compares to the Applicant's £ 4,309/m²; and for the refurbishment section of £4,330/m² that compares to the Applicant's £ 4,331/m². We therefore consider the Applicant's costs to be reasonable.

1.4 The areas and costs included in the appraisal are consistent with the areas and costs in the cost plan.

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 Assessment Report issued by Savills January 2020 for Alma Group including the Viability Cost Plan Ver 3.0 issued January 2020 by RLF - Base 4Q2019.

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

3.3 The cost plan is Base Date 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 332 and for 1Q2020 333 – both figures are forecasts.

3.4 The cost plan includes an allowance for new build works of 14% for preliminaries and for the refurbishment element of works 20.3%. We consider the differentially higher cost of preliminaries for the refurbishment works to be fair and overall consider the costs reasonable.

3.5 The allowance for overheads and profit (OHP) for both new build and refurbishment is 6%. We consider these allowances reasonable.

3.6 The allowance for contingencies to both new build and refurbishment is 5% which we consider reasonable; however in our benchmarking we have allowed 10% for adjustments to the refurbishment works that is consistent with our practice of allowing up to 10% for the increased uncertainty and risk of construction works to existing buildings. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

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

3.8 Sales have been included in the Appraisal at average figures of £1,363/ft² (Net Sales Area).

3.9 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 135% that has been applied in our benchmarking calculations.

3.10 We have adopted the same GIAs used in the Applicant's cost plan for both new build and refurbishment works; we assume this to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

3.11 Refer to our attached file "Elemental analysis and BCIS benchmarking". We have included the GIA used in the cost estimate of 5,848m². The NIA used to calculate the revenues is 4,418m² giving an efficiency of 75.5%.

3.12 The proposed building comprises a basement, ground floor and four floors above - a 6 storey building of flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We have benchmarked as 6 storey flats.

3.13 Our benchmarking results in an adjusted benchmark for the new build section of £4,309/m² that compares to the Applicant's £ 4,309/m²; and for the refurbishment section of £4,330/m² that compares to the Applicant's £ 4,331/m². We therefore consider the Applicant's costs to be reasonable.

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

BPS Chartered Surveyors
Date: 26th February 2020

Branch Hill House, Branch Hill, Hampstead, Camden NW3 7LS
Elemental analysis & BCIS benchmarking

		GIA m²		**5,848**		**4,702**		**1,146**		**6,377**		
			Total		**New build**		**Refurb**		**External works**		**LF100**	**LF135**
			£	**£/m²**	**£**	**£/m²**	**£**	**£/m²**	**£**	**£/m²**	**£/m²**	**£/m²**
	Demolitions		**307,010**	**52**	**188,967**	**40**	**118,043**	**103**				
1	**Substructure**		**2,483,920**	**425**	**2,287,462**	**486**	**196,458**	**171**			**153**	**207**
2A	Frame		1,404,188	240	1,177,134	250	227,054	198			139	188
2B	Upper Floors		1,511,414	258	1,298,753	276	212,661	186			76	103
2C	Roof		838,341	143	590,684	126	247,657	216			92	124
2D	Stairs		183,041	31	159,948	34	23,093	20			34	46
2E	External Walls & balconies		3,648,302	624	2,926,757	622	721,545	630			215	290
2F	Windows & External Doors		978,900	167	601,200	128	377,700	330			81	109
2G	Internal Walls & Partitions		554,368	95	426,107	91	128,260	112			79	107
2H	Internal Doors		426,975	73	319,875	68	107,100	93			44	59
2	**Superstructure**		**9,545,529**	**1,632**	**7,500,458**	**1,595**	**2,045,070**	**1,785**			**760**	**1,026**
3A	Wall Finishes		670,042	115	507,116	108	162,926	142			76	103
3B	Floor Finishes		660,115	113	512,334	109	147,781	129			65	88
3C	Ceiling Finishes		229,680	39	178,245	38	51,435	45			40	54
3	**Internal Finishes**		**1,559,837**	**267**	**1,197,695**	**255**	**362,142**	**316**			**181**	**244**
4	**Fittings**		**1,119,596**	**191**	**937,554**	**199**	**182,042**	**159**			**74**	**100**
5A	Sanitary Appliances		64,300	11			64,300	56			32	43
5B	Services Equipment (kitchen, laundry)		274,400	47	274,400	58		0			24	32
5C	Disposal Installations		87,278	15	73,610	16	13,668	12			20	27
5D	Water Installations		196,227	34	159,176	34	37,051	32			36	49
5E	Heat Source		624,064	107	605,707	129	18,356	16			19	26
5F	Space Heating & Air Treatment		301,969	52	226,392	48	75,577	66			76	103
5G	Ventilating Systems, smoke extract & control		283,004	48	236,504	50	46,500	41			16	22
5H	Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)		842,889	144	659,832	140	183,058	160			87	117
5I	Fuel Installations		0								6	8
5J	Lift Installations		247,000	42	247,000	53		0			36	49
5K	Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)		157,391	27	142,953	30	14,438	13			13	18
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)		707,891	121	531,760	113	176,130	154			27	36
5M	Special Installations - (window cleaning, BMS, medical gas)		85,000	15	72,500	15	12,500	11			20	27
5N	BWIC with Services		109,125	19	91,041	19	18,084	16			17	23
5O	Management of commissioning of services		96,785	17	80,746	17	16,039	14				
	Sub contract prelims	12.3%	396,820	68	331,058	70	65,762	57				
5	**Services**		**4,474,143**	**765**	**3,732,679**	**794**	**741,464**	**647**			**429**	**579**
6A	Site Works		1,518,000	260					1,518,000	238		
6B	Drainage											
6C	External Services		609,137	104	82,850	18	22,286	19	504,000	79		
6D	Minor Building Works - asbestos removal		70,000	12	35,000	7	35,000	31				
6	**External Works**		**2,197,137**	**376**	**117,850**	**25**	**57,286**	**50**	**2,022,000**	**317**		
	SUB TOTAL		**21,687,172**	**3,708**	**15,962,666**	**3,395**	**3,702,506**	**3,231**	**2,022,000**	**317**	**1,597**	**2,156**
7	**Preliminaries 14%/20.3%**		**3,270,000**	**559**	**2,236,000**	**476**	**750,000**	**654**	**284,000**	**45**		
	Overheads & Profit 6%		**1,500,000**	**256**	**1,093,000**	**232**	**268,000**	**234**	**139,000**	**22**		
	SUB TOTAL		**26,457,172**	**4,524**	**19,291,666**	**4,103**	**4,720,506**	**4,119**	**2,445,000**	**383**		
	Design Development risks											
	Construction risks 5%		1,325,000	227	965,000	205	237,000	207	123,000	19		
	Employer change risks											
	Employer other risks - rounding		7,828	1	2,334	0	5,494	5				
	TOTAL		**27,790,000**	**4,752**	**20,259,000**	**4,309**	**4,963,000**	**4,331**	**2,568,000**	**403**		
				4,752		4,309		4,331				
	Benchmarking					2,484		2,556				
	Add demolitions				40		103					
	Add external works				25		50					
	Add additional cost of substructure				280							
	Add additional cost of frame & upper floors				236		93					
	Add additional cost of external walls				332		339					
	Add additional cost of windows & external doors				19		220					
	Add additional cost of internal doors				9		34					
	Add additional cost of floor finishes				21		41					
	Add additional cost of fittings				99		59					
	Add additional cost of services equipment (white goods)				66							
	Add additional cost of heat source & heating				55		-52					
	Add additional cost of ventilating				32		21					
	Add additional cost of elerctrical				26		47					
	Add additional cost of protective				14		-6					
	Add additional cost of communications				86		132					
					1,340		1,083					
	Add prelims - 14%/ 20.3%				188		220					
	Add OHP 6%				92	1,619	78	1,381				
						4,103		3,937				
	Add contingency 5%/ 10%					205		394				
	Total adjusted benchmark					4,309		4,330				

Appendix E

Branch Hill House
100% private

Development Appraisal
BPS Surveyors
07 July 2020

Branch Hill House
100% private

Table of Profit on GDV% and Profit Amount

	Sales: Rate /ft²				
Construction: Rate /ft²	-10.000%	-5.000%	0.000%	+5.000%	+10.000%
	1,227.13 /ft²	1,295.30 /ft²	1,363.47 /ft²	1,431.65 /ft²	1,499.82 /ft²
-10.000% 397.33 /ft²	11.080% £6,492,552	14.658% £9,064,359	17.865% £11,627,035	20.760% £14,183,909	23.387% £16,737,375
-5.000% 419.41 /ft²	8.079% £4,734,048	11.824% £7,311,830	15.184% £9,881,983	18.214% £12,444,660	20.960% £15,000,585
0.000% 441.48 /ft²	5.071% £2,971,448	8.984% £5,555,695	12.494% £8,131,108	15.660% £10,699,607	18.532% £13,262,284
+5.000% 463.56 /ft²	2.050% £1,201,373	6.135% £3,794,000	9.799% £6,377,342	13.100% £8,950,386	16.093% £11,517,231
+10.000% 485.63 /ft²	-0.979% (£573,702)	3.276% £2,026,093	7.092% £4,615,647	10.534% £7,197,071	13.651% £9,769,664

Sensitivity Analysis : Assumptions for Calculation

Sales: Rate /ft²
Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Residential	1	£1,363.47	2.00 Up & Down

Construction: Rate /ft²
Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Residential	1	£441.48	2.00 Up & Down