Former Ingestre Road Care Home, 11-12 Ingestre Road, NW5 1UX

Addendum note

Prepared on behalf of the London Borough of Camden

28 March 2019

Planning reference: 2018/4449/P

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1.0 INTRODUCTION

1.1 BPS were instructed by the London Borough of Camden to undertake an independent viability assessment for the proposed redevelopment of the Former Ingestre Road Care Home, NW5 1UX. We provided a report on 18 December 2018 reviewing a Financial Viability Assessment ('FVA') prepared by DS2 on behalf of the applicant, Four Quarters Ingestre Road Ltd. Our previous review concluded that the residual value of the proposed scheme produced a surplus of £480,277 against a Benchmark Land Value which could be used towards affordable housing. The original DS2 report set out a conclusion that the scheme was in deficit.

1.2 DS2 have provided a response dated 15th February 2019. This response states that our previous report recommended a payment in lieu of £480,277. This is not correct. Our report identified this as the surplus, from which an on-or off-site contribution may be taken, or alternatively a payment-in-lieu (hereafter 'PIL') depending on the method sought by the Council. This £480,277 was the identified surplus based on the information available to us at the time of our earlier report. Following a number of points of clarification provided by DS2 this addendum now states our updated views.

1.3 DS2's February 2019 reports an offer from the applicant to make a £480,277 in lieu payment (PIL). This offer is made on a without prejudice basis and so consequently this offer is dependent on the application receiving consent.

1.4 We requested the Council confirm whether a payment in lieu will be acceptable or whether on-site affordable housing is to be pursued. The Council have reiterated that the preference is a cascade approach whereby the first preference is for on-site affordable housing, then off-site, then a PIL as the final option. To our knowledge, the applicant has not provided any evidence of engagement with Registered Providers or any other means of demonstrating why affordable housing could not be provided on the site.

1.5 We have contacted DS2 who claim that after service charge considerations and management complications, the surplus identified (£480,277) would be unable to support an onsite affordable unit. A clear means of demonstrating that the surplus is not sufficient to support on-site affordable housing would be to engage with a Registered Provider known for investing in smaller pockets of units and to assess the level of interest in this proposition.

1.6 This addendum report has reviewed the additional information provided by the applicant in DS2's response in order to identify any changes in the apparent surplus from our previous reporting.

1.7 The discussion of a surplus in this report is presented on the basis of the cash surplus which can be applied to the provision of affordable housing and does not presume acceptance of a payment in lieu approach. A PIL contribution towards affordable housing is the recommended approach only after the applicant has demonstrated and the Council have accepted that on-site and off-site contributions are not practical.

2.0 AREAS OF CONTENTION

Residential values

2.1 Our previous review revised DS2's £875 per sq ft valuation of the private residential units to £1,005 per sq ft. DS2's valuation was based upon advice from Savills. Savills note at paragraph 6.1 of their response of 13 February 2019 that their value of £875 per sq ft "*factors in the services and facilities provided by the operator*".

2.2 Our increased values are based upon an analysis of comparable evidence and had regard to the valuation report provided by Savills. We have restated these suggested increases below:

	No. units	Av. area	Savills values	BPS revised values	Tot. value	Av. £psf
1B2P	1	588	£520,000	£598,000	£598,000	£1,017
2B4P	35	811	£708,000	£814,200	£28,497,000	£1,003
2B4P(A)	6	955	£838,333	£957,859	£5,747,156	£1,003
3B5P	8	963	£847,500	£974,625	£7,797,000	£1,012
	50		£37,120,125		£42,639,156	£1,005

2.3 Savills note that the operator of the proposed care home is new to the market and have adjusted their assumptions in respect of sales rate to reflect this. We did not receive information on the operator and so have limited ability to factor any potential impact this may have into the valuation. However planning is an impartial process and should not make adjustments for factors personal to the applicant.

2.4 Savills' response notes factors such as nearby London Overground train tracks and local authority estates that may adversely impact unit values. They also note the on-site presence of gym, hairdresser and café facilities; however, they state that senior living developments tend not to see considerable value benefits to residential units when these amenities are open to the general public. They are of the view that while these facilities are open to the public, it is "*difficult for an operator to justify a premium*". Presumably however they would not form part of the development if there was a nil benefit.

2.5 Savills have provided additional comparable evidence justifying their previous valuation, as well as further analytical narrative of our own evidence. The further evidence provided is of new-build residential schemes as opposed to retirement schemes. As noted above, Savills are of the view that there will be no premium attributable to these units in comparison to the open residential market given the limited exclusive facilities available on site.

2.6 This view does stand at variance to evidence provided at the recent Gondar Gardens Inquiry where reports were provided by Alder King on the relationship of values of this type of scheme to prevailing residential values indicate a typical 158% premium was achievable.

2.7 A key consideration is therefore whether the 'extra care' facilities in the proposed development are enough to justify a premium over general market values. Savills describe the proposed as "*essentially more comparable to a residential development which may have 24 hours concierge and accessibility to local facilities*", therefore we assume care facilities will be minimal.

2.8 An estimated service charge schedule of costs has been provided totalling £545,550 (£10,911 per unit). The schedule allows for £40,000 for one-hour domestic assistance to each apartment. There is also a £200,000 allowance for staff costs "*for the provision of 24 hour care*" separate from £10,000 for staff training and uniforms and £3,000 for a 24-hour emergency monitoring services. These costs are separate from on-site caterers "*including running costs, staffing and maintenance*", which have their own budget of £100,000. This implies some care is being provided that might warrant a premium on value. We are also of the view this level of care closely resembles typical sheltered scheme such as McCarthy & Stone and Churchill provide which do as indicated above achieve premiums over prevailing market values.

2.9 We requested further information regarding service costs and mandatory or elective services. We were provided with a Framework Operational Plan ('FOP') by Extracare Solutions prepared September 2018. This explains that a 'care menu' will be available to residents to provide bespoke care services that will be tailored to individual needs, although it is not clear how the care menu impacts upon service charge.

2.10 Shared facilities as detailed in the FOP would be nursing and domestic care services coordinated by the end operator; landscaped courtyard space; communal bars, lounges, and hobby areas; a cafeteria (which will be open to the public); a mini-gym (discounted for members and restricted to public over the age of 55); hairdressing (open to the public); care consultation rooms; guest suites similar to hotel rooms and staff/ laundry facilities. The building will employ a full-time Manager differing from the 24-hour nursing services.

2.11 The FOP provides more clarity regarding the levels of care covered by the service charge. It appears that these care elements are all mandatory and that there will be no elective services. On this basis we are satisfied the service charges are reasonable.

2.12 We requested clarification regarding the coding in the unit pricing schedule, with some units described as '2B4P(A)'. Barton Willmore have since confirmed that 12% of the scheme will be adaptable dwellings as signified by this coding.

Clawback (deferred management fees/ event fees)

2.13 Our previous review assumed there were no clawback schemes (meaning event and management fees) that would require part of the future value of the property to be paid back to the developer are included in the scheme. We stated "*any clawback schemes or re-sale provisions intended for the units will need to be clarified in the S106 agreement.*" In our previous report we go on to say that if these measures were to be put into place for the proposed scheme, these would be a material aspect of the valuation of the residential units proposed.

2.14 DS2 reference the recent Gondar Gardens planning inquiry and express their agreement in this incidence with the appellant, who sought to argue that any value derived from management/ event fees that doesn't offset operational losses benefits the operator and not the developer, and therefore these are not of material consideration when valuing the asset for the purposes of viability. This appeal is yet to be decided however we appreciate the similarities with this case and will take into account the Inspectors' decision as and when it is made.

2.15 The applicant has offered on a without prejudice basis the inclusion of a clause capturing any receipts secured as part of any sale of the operating functions prior to practical completion "*should any sale take place*". This would be split 60/40 in favour of the Council and "*the Council's split would be secured as the form of a payment in lieu of affordable*." This appears to be in addition to the £480,277 payment currently offered and to be paid on first occupation. We are not satisfied that a review prior to practical completion would capture the full beneficial uplifts of any event fees.

2.16 There needs to be full clarity offered on whether it is intended that such fees will be chargeable on this scheme as this would have a material impact on achievable sales values and is as stated above part of the value generated by the scheme. event fees appear to be the latest favoured mechanism to avoid schemes such as this making full affordable housing contributions and therefore it is critical that such practices should not be allowed to thwart policy through lack of clarity.

Service charges

2.17 DS2 have calculated £199,755 in service charge voids whilst units are being sold. This is the equivalent of £839.31 per unit per month. No explanation was given regarding the adoption of this service charge. This has now been updated to £216,402 service void.

Commercial Values

2.18 DS2 did not provide any evidence to justify the commercial valuations in their initial report. They valued the 1,017 sq ft café at £10 per sq ft per annum capitalised with a yield of 6% (£169,500 total). The hairdressers (also use class A1) was also valued at £10 per sq ft per annum, capitalised at 6% (£66,333). We assumed a rent of £35 per sq ft per annum for the café unit and £55 per sq ft for the hairdressers, reflecting the discount per quantum of the larger unit. We also improved the yield to arrive at the following revised values:

	Sq ft	Rent	Rent per annum
Café	1,017	£35 per sq ft	£35,595
Hairdressers	398	£55 per sq ft	£21,890
			£57,485
Yield	5.50%		
YP	18.1818		
Capital value			£1,045,182
			Say £1.045m

2.19 DS2's response regarding the retail valuations is to note that the location is set apart from the main thoroughfare and therefore will not attract passing trade or the footfall of our comparable evidence. They have provided a selection of comparable evidence in which rents range £10.62-£31.05 per sq ft per annum depending on size, condition and location/ All units are within 1 mile of the subject site.

Address	Rental summary
6 Brecknock Road, N7	£10.62 per sq ft per annum across 1,851 sq ft Let February 2019 Secondary stock 1 mile of site
74 Queens Crescent, NW5	£25.64 per sq ft per annum across 507 sq ft Let December 2018 On shopping parade 0.9 miles of site
742 Holloway Road, N19	£27.54 per sq ft per annum across 690 sq ft Let May 2018 On shopping parade 1 mile of site
308 Kentish Town, NW5	£31.05 per sq ft per annum across 950 sq ft Let February 2019 Located opposite train station on retail parade 0.5 miles of site
183 York Way, W7	£19.54 per sq ft across 870 sq ft Let March 2018 Located amongst other retail uses 1 mile of site

2.20 We appreciate that evidence suggests premiums are obtainable for properties in locations with better footfall than the subject, or along a retail parade. However, we do not feel that a rent beneath the **6 Brecknock Road** can be justified (which achieved £10.62 per sq ft per annum in February 2019). This rate is the quoted asking rent based on a new lease.

2.21 We accept that the evidence provided demonstrates that our adopted rent may be overstated. However, we do not feel the evidence justifies a rent as low as £10 per sq ft. Looking at the 507 sq ft unit at Queens Crescent (the closest in size to the hairdressing unit at the proposed scheme), this achieved £26 per sq ft on a shopping parade. We have made an adjustment to £35 per sq ft, which allows for a discount for the location of the unit but appreciates its smaller size, leading to higher rates per sq ft. For the 1,017 sq ft café unit we have amended our valuation to £25 per sq ft, lower than evidence provided by DS2 along retail parades but superior to the rent of the 6 Brecknock Road unit, which is almost double the size (discount per quantum) and is secondary stock.

2.22 This changes the capital values of these units as follows:

	Sq ft	Rent	Rent per annum
Café	1,017	£25 per sq ft	£25,425
Hairdressers	398	£35 per sq ft	£13,930
			£39,355
Yield	5.50%		
YP	18.1818		
Capital value			£715,545
			£506 per sq ft

2.23 The gym had been valued at £8 per sq ft per annum capitalised at 7%, with a capital value of £266,286, measuring 2,330 sq ft. Again, no evidence was provided to justify this valuation. Our previous report accepted the 7% yield but applied a £10 per sq ft per annum rental value (a total £23,300 per annum rent), which when capitalised gave a rounded value of £333,000.

2.24 DS2 do not provide any additional evidence in their note but retain their original position on the basis that the location is secondary. We require evidence of D2 property achieving a sub-£10 per sq ft rent prior to adjusting our position, which we note is already beneath the level indicated by our own research. We retain our view that the appropriate capital value of the gym floorspace is £333,000.

3.0 RECOMMENDATIONS

3.1 After changes to the capital values of the on-site retail, the residual value of the scheme falls to £291,539. The revised viability surplus against a Benchmark Land Value of £1 is therefore £291,538, although we consider this would be enhanced if a premium were applied to anticipated values.

3.2 We recommend the applicant demonstrate why the identified viability surplus would be insufficient to support affordable housing on-or off-site and only once the Council have accepted that these scenarios are not practical will a PIL be considered.

3.3 We remain unconvinced a premium should not be attached to residential values and this is related to the potential imposition of event fees which would serve to supress values rather than generate premiums which are usually achievable for schemes of this nature. Further clarity is required on this aspect prior to finalising our views on the level of surplus attaching to this scheme

3.4 Assuming a PIL is accepted, an on the basis of the residual value of the proposed scheme falling to £291,538 following a revision to retail values, bearing in mind the applicants continued position of a £1 Benchmark Land Value, the current without-prejudice offer of £480,277 offered by the applicant appears reasonable.