Independent Viability Review

4 & 5 Torriano Mews, Kentish Town, London, NW5 2RZ

Prepared on behalf of the London Borough of Camden
Planning Reference: 2020/4653/P

14th December 2020

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1.0 INTRODUCTION

1.1 We have been instructed by the London Borough of Camden (LB Camden) to review the Financial Viability Assessment (FVA) submitted in respect of the redevelopment of 4 & 5 Torriano Mews, Kentish Town, London, NW5 2RS (the site) which is currently subject to a planning application, reference 2020/4633/P.

1.2 The applicant, Torriano Limited, instructed S106 Affordable Housing to submit an FVA which has been presented to LB Camden and dated 22nd September 2020. A copy of the FVA has been listed on the publicly available planning file on the LB Camden website and in summary, the application is for the '***Change of use from office (Class B1) to residential to provide 6 flats (Class C3) including alterations to fenestration and addition of rooflights, smoke vent and pv panels'.***

1.3 In terms of its location, the site comprises an existing 3 storey terraced property accessed via a low and narrow undercroft under a residential property on Torriano Avenue, London, NW5. Central London is approximately 3.5 miles (5.6 km) to the South, Hampstead Heath is 1 mile (1.6 km) to the North West and Regents Park is 1.4 miles (2.3 km) to the South West.

1.4 Kentish Town station (Underground - Northern Line – Travelcard Zone 2) is approximately 0.4 miles (0.6 km) away. The overground lines are operated by Thameslink, with Northbound trains running to Luton and Southbound to Sutton, Orpington, and Sevenoaks, via London St Pancras. According on the Transport for London (TfL) online WebCAT planning tool, the site has a PTAL score (Public Transport Accessibility Level) of 4. This score is considered to be sufficiently high enough for the site to be deemed highly accessible.

1.5 The information contained in the planning application documents describes the site as occupying approximately 0.042 Acres (0.017 Hectares). The Gross Internal Area of the existing property is listed at 3,864 Sqft (359 Sqm) in the applicant's planning application form. The applicant's CIL form states an increase of 258 Sqft (24 Sqm) for the proposed floor space which totals 4,123 Sqft (383 Sqm). This is inconsistent with the stated areas listed on the submitted floor plans at 4,456 Sqft (414 Sqm) G.I.A. and the figure used in the agent's valuation appraisal software, HCA DAT, at 4,520 Sqft (420 Sqm).

1.6 For the benefit of this report, we have adopted the stated floor areas in the HCA DAT for the construction cost analysis and the floor areas as shown on the plans submitted and available on the LB Camden website at 4,456 Sqft (414 Sqm) for the sales value analysis.

1.7 S106 Affordable Housing derive the Benchmark Land Value (BLV) by applying an Existing Use Value Plus (EUV+) method which is consistent with the guidance outlined in paragraph 013 in the National Planning Policy Guidance: Viability 2019 (NPPG 2019) and paragraphs 3.43 to 3.46 on pages 40 and 41 in the Mayor of London, Homes for Londoners, Affordable Housing and Viability Supplementary

Planning Guidance 2017 (AH&V SPG 2017). In summary, the agent applies an investment valuation calculation which is cross referenced against the evidence supplied in an accompanying market report that supports the claimed EUV including a landowner's premium at £1,750,000.

1.8 As for the situation in relation to the FVA, the applicant claims that the scheme is unable to provide an affordable housing contribution as the residual site value of the proposed scheme does not exceed the Benchmark Land Value which renders the scheme financially unviable on a policy compliant basis. It is claimed that the scheme is in deficit by £199,418

1.9 The agent claims that adhering to LB Camden local plan policy H4 obliges the applicant to pay of £98,050 to make the scheme policy compliant, but as the agent's appraisal delivers a deficit of £199,418, the applicant is not in a position to offer such a contribution and therefore relies on the FVA process to secure approval without the requisite contribution.

1.10 Our assessment therefore seeks to scrutinise the assumptions made by the applicant to ascertain whether the scheme is in deficit by the amount claimed, or, if the scheme can generate a surplus, by how much.

2.0 CONCLUSIONS AND RECOMMENDATIONS

Conclusions

2.1 We have considered the observations, questions and further statements made by S106 Affordable Housing in their FVA dated the 22nd September 2020 and examined the available evidence.

2.2 We find that there a number of valuation inputs we disagree with and we summarise the effects on the viability of the proposed scheme as follows.

Valuation Input	S106 AH	BPS Surveyors	Effect on Viability
Benchmark Land Value	£ 1,750,000	£ 1,750,000	Nil
Residential Sales	£ 3,584,000	£ 3,900,000	+£ 316,000
Car Parking Spaces	Nil	£ 40,000	+£ 40,000
Ground Rent	Nil	£ 30,000	+£ 30,000
Acquisition Costs	£ 78,794	£ 103,250	-£ 24,456
Legal Fees On Disposal	£ 6,000	£ 10,000	-£ 4,000
Payment in Lieu	Nil	+£ 98,050	-£ 98,050
Developer's Profit	£ 716,800	£ 595,500	+£ 121,300
Viability Conclusion	-£ 199,418	+£ 184,437	+£ 482,355

2.3 The overall effect of the valuation input changes improves the scheme from a claimed deficit of -£199,418 to a **surplus of +£184,437**. We have included the claimed Payment in Lieu (PIL) input in our appraisal, so the surplus stated above is the additional amount over the policy compliant statutory contribution due. We therefore conclude the scheme is capable of generating a sufficient surplus to meet the requirements of the local plan financial viability policies.

Recommendations

2.4 The FVA outlines a requirement to pay for a suite of statutory contributions which total £140,608. A breakdown can be found in paragraph 6.9 in this report and we recommend these sums are checked for accuracy. Should there be any changes to the figures outlined, we should be notified as there may be an effect on the outcome of the viability and our subsequent recommendation.

2.5 It is considered prudent to ensure there is a late-stage review mechanism incorporated into the Section 106 agreement to capture a potential uplift in the surplus as a consequence of valuation input changes. Any such provision should be upwards only.

2.6 The advice set out in this report is provided in the context of negotiating planning obligations and therefore in accordance with PS1 of the RICS Valuation – Global Standards 2017, the provisions of VPS1–5 are not of mandatory application. Accordingly, this report should not be relied upon as a Red Book Valuation. The Valuation Date for this Viability Review is the date of this report, as stated on the title page. This Viability Review has been undertaken in accordance with the Terms & Conditions provided to the Council and with any associated Letters of Engagement and should only be viewed by those parties that have been authorised to do so by the Council.

2.7 This report has been prepared in awareness of the RICS Professional Statement Financial Viability in Planning: Conduct and Reporting enacted in September 2019.

3.0 PRIVATE RESIDENTIAL SALES VALUES

3.1 The residential element of the proposed scheme, as sought by the planning application, is for 6 residential units which are all proposed to be for private sale. The units are located on the ground, first and mezzanine floors of a converted office building. There are two car parking spaces which are currently on site. The location is predominantly residential in nature and is setback from Torriano Avenue making it very desirable for residential use. The layout of the proposed developments shows the units to be well laid out and designed which is unusual for a scheme converted from offices which typically suffer from unusual and undesirable internal configurations. Immediately adjacent to the subject building are other office buildings of similar design which have already been converted to residential uses. The site is approximately 0.4 miles (8-minute walk) from Kentish Town station.

3.2 The table below shows the values that have been adopted by S106 Affordable Housing:

Unit	Floor	Beds	Sq M	Sq Ft	Baths	S106 Val	£ PSF
1	G	2	61	657	2	£648,500	£988
2	G	2	70	753	2	£648,500	£861
3	1	2	66	710	2	£648,500	£913
4	1	2	76	818	2	£648,500	£793
5	M	1	54	581	1	£495,000	£852
6	M	1	55	592	1	£495,000	£836
Total			382	4,112	10	£3,584,000	£872

S106 Affordable Housing Approach

3.3 S106 Affordable Housing have provided evidence for similar new build and second hand one- and two-bedroom units which are currently on the market. These are summarised in the tables below:

1 Bedroom

Address	Description & GIA	Date	Price	Price psf
Willingham Terrace	New build ground floor, small one bedroom flat. Estate regeneration, closer to Kentish Town station. Pocket Living. 40 sq m / 430 sq ft	On Market	£350,000	£814

Willingham Terrace	New build ground floor, small one bedroom flat. Estate regeneration, closer to Kentish Town station. Pocket Living. 38 sq m / 409 sq ft	Sold April 2020	£340,000	£831
Torriano Avenue	Flat in converted Georgian terrace house. Road next to the subject. 54 sq m / 581 sq ft	On Market	£500,000	£860
Leighton Road	Basement flat in a converted Georgian terrace. Small terrace. Main road close to subject. 50 sq m / 536 sq ft	On Market	£450,000	£836
Leighton Road	First floor flat in a converted Georgian terrace. Main road close to subject 51 sq m / 549 sq ft	On Market	£485,000	£820
158b Leighton Road, NW52RE	Ground floor flat in a converted Georgian mid terrace house. Parallel road to subject. 51 sq m / 549 sq ft	Sold 29/5/2020	£450,000	£883

3.4 The Pocket Living units in Willingham Terrace are new build but significantly smaller than the subject and are closer to a major road, therefore we consider that the proposed units in the subject would achieve higher values. There is another of these units on the market for £365,000. The unit on Torriano Avenue is of a similar size to the proposed unit in the subject and although we are not aware of condition it would achieve a lower value than the subject due to the location. Leighton Road is a busier road and again we consider the subject's location to be more desirable along with the premium for new build condition.

2 Bedroom

Address	Description & GIA	Date	Asking Price	Price psf
Torriano Avenue	Duplex flat on the first and second in converted Georgian terrace house. Small roof terrace, single bathroom. Same road as subject. 75 sq m / 807 sq ft	On Market	£650,000	£805
Torriano Cottages	Ground floor flat with private courtyard. Same road as subject	On Market	£695,000	-
Leighton Road	Duplex flat on upper floors of purpose build development. Main road close to subject. 83 sq m / 893 sq ft	On Market	£700,000	£784

3.5 The unit on Torriano Avenue is of similar size to the larger two-bedroom units proposed in the subject although only has a single bathroom. Leighton Road is less desirable than the subject and we do not have enough information on the unit in Torriano Cottages to comment.

3.6 S106 Affordable Housing have not provided a full pricing schedule and consider that their values reflect the "backland location" and premium for newly converted products.

BPS Approach

3.7 All of the evidence identified by S106 Affordable Housing is for second-hand units bar the Willingham Terrace flats which are Pocket Living and a different product to the subject. We have searched the Molior database to find new build comparable evidence:

<u>Dalmeny Avenue (Ada Lewis House), 1 Dalmeny Avenue, N7 0LD</u>

3.8 Development by Southern Housing group of up to six storeys providing 45 flats, 39 of which are private sale. Approximately 0.4 miles east of the subject, just set back from the busy A503 (Camden Road). Sales launched in May 2018 and the scheme achieved 12 off plan sales. Scheme completed Q2 2019 and sold out by Q3. We have identified transactional evidence throughout 2019 which we summarise in the table below:

Beds	Count	Price	Sq M	Sq Ft	£ Sq Ft
1	21	£486,881	52	565	£862
2	14	£603,214	74	796	£758
3	4	£652,950	95	1,023	£638
Total	**39**	**£545,674**	**65**	**695**	**£802**

3.9 Overall, we consider the units in the subject scheme would achieve a premium on the units at Dalmeny Avenue due to the premium set back location.

IcoN7, 273 Camden Road, Islington, N7 0JN

3.10 This is a 21-unit scheme (15 private) over 6 storeys by Origin Housing Developments Ltd. 6 storeys and fronting the busy Camden Road, approximately 0.4 miles east of the subject and adjacent to Dalmeny Avenue. Construction began in February 2018 and completed in Jun 2020. We are unaware of the sales information but have identified transaction evidence for 13 flats which sold from March 2020 which are summarised in the table below:

Beds	Count	Price	Sq M	Sq Ft	£ Sq Ft
1	5	£443,000	50	538	£823
2	8	£586,250	70	754	£780
Total	**13**	**£531,154**	**62**	**671**	**£796**

3.11 We consider the proposed units in the subject would achieve a premium on those in IconN7 due to the setback location from the main roads and larger unit sizes.

London Square Caledonian Road, N7 9NH

3.12 11 storey scheme fronting Caledonian Road with 252 units in total, 150 of which are for private sale. Ground floor commercial uses, significantly larger scale than the subject and although close to Caledonian Road station the scheme fronts a busy road and is in a less affluent area. Residents' amenities include on site gym, concierge, and communal gardens. Construction started March 2017 and completed in March 2020 with sales launching February 2016. Approximately 1 mile south east of the subject in a less affluent area.

3.13 We have identified transactional evidence from 2020 which is summarised in the table below:

Beds	Count	Price	Sq M	Sq Ft	£ Sq Ft
1	19	£565,193	52	563	£1,008
2	27	£790,585	75	803	£984
3	10	£864,290	87	936	£923
Total	**56**	**£727,274**	**69**	**745**	**£981**

3.14 Overall, we consider the units in the proposed scheme would achieve similar values given the premium location of the subject and greater amenities included at London Square.

VISIV, Agar Grove Estate, NW1 9SS

3.15 Estate regeneration scheme approximately 1 mile south of the subject and close to Camden town centre. Adjacent to railway lines, the scheme includes 507 units of which 251 are for private sale. Construction on the site started in January 2016 and marketing for the private units began in November 2020. The units are of broadly comparable sizes to those proposed in the subject.

3.16 We have identified the following summary of marketing evidence from Molior:

Unit	Max	Avg	Min
1 Bedroom	£795,000	£627,000	£570,000
2 Bedroom	£765,000	£765,000	£765,000

3.17 The average asking sales rate is £970 per Sqft.

3.18 Overall, we consider that the units in the proposed scheme would achieve similar values given the more desirable set back location.

XY, 1-55 Maiden Lane, NW1 9XZ

3.19 XY is a 273-unit estate regeneration scheme of which 190 are private. Comprising 10 blocks between 3-7 storeys and a 20-storey tower. Approximately 1 mile south east of the subject, adjacent to railway lines and closer to Camden Town and Kings Cross. Construction began in November 2013, multi-phase development with sales still ongoing.

3.20 Molior lists no transactions from the past 12 months. We have identified the following asking price evidence on Molior from June 2020 which are for units on floors 10-18:

Beds	Count	Price	Sq M	Sq Ft	£ Sq Ft
1	8	£645,000	54	577	£1,118
2	8	£772,375	68	734	£1,052
Total	**16**	**£708,688**	**61**	**655**	**£1,085**

3.21 Overall, we consider the proposed units in the subject would achieve slightly lower values than the units at XY due to the height premium. XY is in a more desirable area however the units in the subject have the premium of being set back from main roads.

Marketing evidence

3.22 We have also identified the following second hand units which are currently on the market within 0.25 miles of the subject property:

Address	Description & GIA	Sale Price	Price psf
Torriano Avenue	Duplex one bedroom flat on the ground and lower ground floors in converted Georgian terrace house. Second hand, modern interior, small kitchen. South of the subject. 54 sq m / 582 sq ft	£500,000	£859
Willingham Terrace, Leighton Road	Duplex flat on the first and second floors of modern purpose build development. Second hand but near new build block, two bathrooms. Main road close to subject. 78 sq m / 835 sq ft	£700,000	£784

3.23 The unit on Torriano Avenue is of similar size to the proposed units in the subject but is in a less desirable location and is of second-hand condition, therefore the proposed one-bedroom units would likely achieve a premium. The two-bedroom unit in Willingham Terrace is in a modern block but in a less desirable location than the subject and therefore the proposed units in the subject would likely achieve a small premium dependent on size.

Conclusions

3.24 We consider the values adopted by S106 Affordable Housing solutions to be lower than we would expect. In comparison to all of the above evidence the proposed units have a location premium due to their set back position. The proposed units will also achieve a premium due to the new build condition and specification when compared to the second-hand evidence. On this basis we have adopted the following revised values which are closer to the new build evidence at London Square, VISIV and XY and reflect a premium on the other comparable evidence:

Unit	Floor	Beds	Sq M	Sq Ft	Baths	S106 Val	£ PSF	BPS Val	£ Sq Ft
1	G	2	61	657	2	£648,500	£988	£625,000	£952
2	G	2	70	753	2	£648,500	£861	£710,000	£942
3	1	2	66	710	2	£648,500	£913	£675,000	£950
4	1	2	76	818	2	£648,500	£793	£775,000	£947
5	M	1	54	581	1	£495,000	£852	£555,000	£955
6	M	1	55	592	1	£495,000	£836	£560,000	£946
Total			**382**	**4,112**	**10**	**£3,584,000**	**£872**	**£3,900,000**	**£948**

3.25 This shows an overall increase of £316,000 (£77 per sq ft) on the value adopted by S106 Affordable Housing. We have adopted our revised values in our appraisal.

Parking

3.26 The Design and Access Statement states that the scheme includes two car parking spaces. No valuation has been applied to these by S106 Affordable Housing in their FVA.

3.27 We find it reasonable to apply a value to these spaces on the presumption they will be sold off to individual units. We have adopted a value of £20,000 per space which gives a total additional value of £40,000 which we have included in our appraisal.

4.0 GROUND RENTS

4.1 S106 Affordable Housing have excluded a Ground Rent provision on the basis of a statement made by the UK Government that they wish to reform, restrict, or possibly exclude the right to collect Ground Rent on newly built residential development. The statement triggered an attempt to enshrine the aspiration into law through a statutory instrument by way of a Private Members' Bill; (Leasehold Properties) Bill 2017-19

4.2 Whilst we acknowledge the attempt at restricting future Ground Rent provisions, the Bill failed to complete its passage through Parliament before the end of the session. This means the Bill will make no further progress and as such, the developer has the continued legal right to collect Ground Rent and derive a capital value accordingly.
https://services.parliament.uk/Bills/2017-19/groundrentsleaseholdproperties.html

4.3 We therefore conclude that it is appropriate to include a capitalised Ground Rent provision and refer to the guidance for Ground Rent charges outlined by Shelter to assess an appropriate yearly charge. Shelter state the following '*A typical ground rent is often up to £400 a year but could be more depending on the terms of your lease*'.
https://england.shelter.org.uk/housing_advice/shared_ownership_leasehold/ground_rent_for_leaseholders#:~:text=Most%20leaseholders%20must%20pay%20an%20annual%20ground%20rent,more%20depending%20on%20the%20terms%20of%20your%20lease.

4.4 In this particular instance however, we have applied an adjusted rate of £250 per unit per annum and capitalise at a yield at 5% (20 Years' Purchase). This delivers a capital value of £30,000 which we add to the residential sales values in arriving at the Gross Development Value.

5.0 CONSTRUCTION COSTS

5.1 S106 Affordable Housing outline their assumed construction cost input in the FVA by multiplying a Building Cost Indicator Service (BCIS) rate by the size of the proposed building. This is a widely accepted method of estimating the cost of construction in such circumstances, although it is generally expected to see the application's assumption supported by an elemental build cost analysis in accordance with the provisions outlined in the Build Cost Chapter on page 36 of the AH&V SPG 2017. In summary, the applicant's construction cost is cited at £827,316.

5.2 To verify the assumption, we instructed Mr Neil Powling a Chartered Project Management Surveyor retained by BPS Surveyors to advise on construction cost matters. For the basis of the exercise, Mr Powling checked the rate applied by the applicant's agent against an elemental cost analysis calculated.

5.3 In summary, Mr Powling concludes the following.

- ***There is no cost plan - the Applicant has relied on BCIS data downloaded 12th September 2020 - 3Q2020.***

- ***The Applicant has used the BCIS upper quartile rate. If a detailed cost plan has been provided, we generally use a mean rate and adjust for enhanced specifications as part of our benchmarking process. The mean rate is £1,745/m² a difference to the upper quartile rate of £143/m² (8.2%). We are satisfied that the upper quartile rate is a reasonable rate to use for the construction cost rate to provide for the specifications expected for this market indicated by the sales rate of £872/ft².***

- ***The table at 3.9 below shows the Applicant's construction cost as £827,316. Our calculation summarised at 3.10 is £832,432.***

- ***Changes in BCIS data since September are an increase in location factor and a reduction in the all-in Tender Price Index - the net result is a small increase in construction cost. We are therefore satisfied that the Applicants construction costs are reasonable.***

5.4 We have therefore adopted the same rate as outlined in the FVA for the base construction cost and subjected the sum to a 5% Developer's Contingency input in concert with Neil Powling's advice.

- Construction Cost: £787,920
- Developer's Contingency: £ 39,396
- Total: £827,316

5.5 A copy of Mr Powling's report and our subsequent email correspondence can be found in Appendix 1.0

6.0 DEVELOPMENT COSTS

6.1 We have extrapolated the development cost inputs relied upon by S106 Affordable Housing by scrutinising the FVA and the accompanying HCEAT appraisal.

6.2 The applicant's HCEAT appraisal has been conducted by relying on a residualised land value calculation, which is a valuation method to determine how much money is left to acquire a development site once all the costs have been deducted. This method expresses the value in gross terms and does not explicitly rely on a Stamp Duty Land Tax input or calculate the finance input correctly when applying a Benchmark Land Value. We have therefore reappraised the site by using Argus Developer, a proprietary valuation software tool to provide a more dependable assessment of the surplus that may be generated from the proposed scheme in the circumstances.

6.3 In brief, the development costs have been derived by applying a broad range of industry standards and in the main, we deem them to be acceptable. However, our reappraisal will pick up a variety of inputs not expressly conveyed in the FVA and HCEAT and there are also a few anomalies and areas where we disagree. We therefore make the following observations.

Acquisition Costs

6.4 An allowance of £90,288 has been made in respect of gross acquisition costs in the FVA. This includes £67,029 as an SDLT allowance, based on the claimed Residual Land Value (RLV) of £1,550,582.

6.5 We refer you to Section 7 which examines the BLV in detail, but in the interests of applying Acquisition costs and SDLT allowances, we reorder the residual valuation to a profit output (beyond a separate developer's profit allowance as stated later in this chapter) and apply a calculation against the BLV as a result of our investigations.

6.6 We have included an agent's fee of 1% and a legal fee of 0.5% of the BLV and arrive at an input assumption of £26,250. This is £2,991 more than the figure of £23,259 set aside for an acquisition cost in the FVA.

6.7 The SDLT is calculated at £77,000 by applying a commercial rate in our appraisal which is £9,971 more than the cost allowance of £67,029 cited in the applicant's FVA.

Statutory Contributions

6.8 S106 Affordable Housing have included a Community Infrastructure Levy (CIL) allowance of £42,108 in their appraisal, and whilst they have referred to a Payment-in-Lieu (PIL) calculation at £98,050, based on the LB Camden local plan policy 2019, draft policy guidance dated July 2020 derives a PIL of £168,050.

6.9 For the purpose of our residual valuation, consistency with the FVA approach and our report however, we adopt the CIL figure of £42,108 and make allowance on the PIL (2019) figure of £98,050 and assess the scale and effect on the appraisal accordingly.

6.10 We have not checked the statutory contribution assumptions outlined in the applicant's FVA and recommend the LB Camden officer make the necessary calculations and inform us of any differences to the valuation inputs as any changes may have an impact on the outcome of our findings.

Legal Fees on Disposal

6.11 The cost input in the FVA has been inserted at £6,000 and although the FVA is silent on the methodology used to arrive at the assumption, we deem the sum is an arbitrary legal fee of £1,000 per residential unit applied. We find this assumption to be understated when we include a capitalised ground rent and car parking space provision in our assessment of the GDV.

6.12 We have therefore adopted a round sum figure at £10,000 which includes a fee allowance for disposing the additional sales revenue and drafting the management and maintenance contract and registering with Land Registry.

Developer's Profit

6.13 S106 Affordable Housing have applied a developer's profit rate at 20% of the GDV. It is claimed that this is consistent with the rate adopted in the *'BNP Local Plan Viability Assessment' (*FVA paragraph 5.16) for LB Camden. Although it is not explicitly stated, we believe the applicant's agent is referring to paragraphs 5.64 to 5.69 in the 'Developers Profit' section on pages 45 & 46 in the *'BNP Paribas Real Estate (BNPPRE) LB Camden Local Plan Review Evidence Base: Financial Viability Study – October 2015'*.

6.14 Paragraphs 5.64 to 5.66 of the BNPPRE report reasons that the 20% rate has been adopted in light of the near collapse of the global banking crisis in the last quarter of 2008.

6.15 Since the publication of the BNPPRE report, the National Planning Policy Framework, and the National Planning Policy Guidance: Viability have been updated (2019) as well as the publication of the Greater London Authority London Plan Viability Study with supporting evidence in 2017 (GLA:VS Dec 2017). Clearly, we are no longer in the immediate aftermath of the 2008 crisis and despite the uncertainty surrounding the COVID-19 pandemic, recent evidence of capital gains made in the residential market over the last 9 months demonstrate superior market conditions.

6.16 We cite the evidence in table 5.14 on page 34 in the GLA:VS 2017 which adopts a developer's profit level at 15% for developments of 2 to 5-storeys.

6.17 In summary, S106 Affordable Housing claim the developer profit to be £716,800 which is £121,300 more than our input assumption of £595,500.

7.0 BENCHMARK LAND VALUE

7.1 The FVA cites the National Planning Policy Framework 2019 (NPPF) and National Planning Policy Guidance: Viability 2019 (NPPG) where the use of an Existing Use Value Plus (EUV+) approach has been adopted in establishing a Benchmark Land Value (BLV). The FVA also refers to the BLV guidance in the Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance 2017(AH&V SPG 2017). This is consistent with the standard industry approach and we agree with method adopted.

7.2 Currently, the Existing Use is cited as B1 office space and whilst the external photographic evidence presented in the planning application submission shows what purports to be a 1980s style 3-storey building, we understand the property was last occupied in 2017 and is deemed to be in a lettable condition.

7.3 To cross-check the condition assumptions, we carried out a search of the Valuation Office Agency (VOA) rateable value register and although both properties are currently unlisted, the last entry, dated 31st March 2017 outlines Office use in both instances. We understand the current owner acquired the properties in 2017 (having paid £1,950,000) and that they have remained vacant since.

7.4 Furthermore, we also carried a search of the Gov.UK Energy Performance Certificate (EPC) register and confirm that 4&5 Torriano Mews are listed at 58 (Level C) & 61 (Level C) respectively. As such, we deem the property to be in a satisfactory condition and sufficiently ready for occupation for a suitable tenant on standard commercial lease terms.

7.5 In summary, the agent has applied a simplistic investment valuation approach and cross-refenced their findings against the accompanying marketing report which arrive at the same assumption at £1,647,030.

7.6 The calculation relied upon can be summarised as follows.

- 3,864 Sqft (lettable area) x £30 per Sqft (assumed net rental income per annum per Sqft on standard FRI lease terms) and capitalised at a 6% yield (16.666 Years' Purchase) less Purchaser's costs and a rent free/void period of 18 months.

7.7 S106 Affordable Housing provide a short table comprising 3 number B1 offices as comparable rental evidence which are within a short distance of the subject. Rental values range from £27.63 to £32.50 per Sqft per annum and although the BNP Viability report is quoted at a 5% yield for capitalising commercial rents, S106 Affordable Housing apply a 1% increase in the stated rate due to the self-admission of the subject's secondary investment status.

7.8 In checking the assumption, the agent refers to an accompanying marketing report dated 2nd October 2020 to the main FVA submission where it is claimed that the property was actively marketed from May 2019 on a Freehold basis. The report states the asking price was listed at 'Offers in excess of £1,750,000 or a rental of £35 per annum exclusive with incentives and a minimal service charge.

7.9 The report goes on to state that the marketing was on-going at the time of publication (2nd October 2020) and since the campaign had started, no prospective buyers had been secured, although there had been a number of offers made which ranged from 30% to 40% less than the owner had paid for the property. This translates into offers made that range between £1,400,000 and £1,500,000.

BPS Surveyors Approach

7.10 We have adopted the same valuation methodology as outlined in the FVA in arriving at our calculation of the BLV. The EUV+ approach as outlined in the adopted national and regional policy documents, and cited in the FVA, is deemed appropriate and although the Use Class is stated at B1, the newly updated Changes to Use Classes from 1st September 2020 redefines the use as new Class E (g).

7.11 The first part of the EUV+ valuation is to assess the Existing Use Value and to this end, we agree with the investment valuation method applied in the FVA. This is a method of establishing the capital value of the asset by determining the net annual rent and multiplying the amount by an appropriate yield/capitalisation rate before deducting purchaser's costs and incentives. This valuation technique has already been discussed in paragraphs 7.6 & 7.7 in this report, and in checking the component valuation elements that make up the capital value, we examine each in turn by investigating appropriate comparables.

7.12 We therefore carried out a search for comparable property via the Estates Gazette's Property-link and the EGi deals database online website that specialises in advertising commercial property for sale and rent and listing recorded lease deals respectively. Our search was conducted by filtering for similar office investment opportunities within a mile of the subject site to capture a sufficient number of suitable comparables to the subject.

7.13 We found 4 comparable properties in the local area which we deem sufficiently similar of the characteristics of the subject that we are able to draw a conclusion. A summary the results are listed in the following table.

Address	Description	Condition	Site Area	Rent
Homes Road, Kentish Town, NW5	B1 Office -	2nd Hand - Grade B Currently available to let	3,800 Sqft	(Asking) £105,000 p.a. £27.63 per Sqft

Fusion House, 5 Rochester Mews, Kentish Town, NW1 9JB	B1 Office	Newly Built - Let on a 5yr FRI Expiring 2/12/2024	3,825 Sqft	£153,150 p.a. £40.04 per Sqft
1st Unit, 2000 Regis Road, Kentish Town NW5 3EW	B1 Office	2nd Hand- Grade B Let on a 5yr FRI Expiring 14/04/2021	3,487 Sqft	£111,584 p.a. £32 Per Sqft
Dunn's Hat Factory, 106-110 Kentish Town Road, NW1 9PX	B1 Office	2nd Hand - Grade B Let on a 9yr FRI Expiring 1/04/2021	3,019 Sqft	£54,855 p.a. £18.17 per Sqft

7.14 The comparables shown above represent their own individual market conditions, location and physical characteristics but sit within a narrow rate range between £18.17 per Sqft and £40.04 per Sqft rent. The closest comparable is the currently available property at Homes Road at £27.63 per Sqft (Asking), although we consider the subject to occupy a marginally superior location, albeit further from local transport links.

7.15 Taking the evidence presented before us into consideration, we deem the agent's assumption at £30 per Sqft to be overstated. We agree with the agent's findings insofar as the lack of available evidence and the property at Homes Road being the closest in terms of its comparability, but we acknowledge the price per Sqft quoted (£27.63) is an asking price and will be higher than the eventual price when let. We therefore apply an adjusted rate at £27.50 per Sqft to the subject, which we find appropriate in the circumstances. This delivers an expected annual rent of £106,250 per annum and for the benefit of the valuation, we adopt a rounded net annual rent of £106,000 p.a. on standard FRI lease terms.

7.16 We subsequently referenced the Knight Frank Investment Yield Guide for November 2020 to identify an appropriate capitalisation rate currently being adopted by the investment market. The Knight Frank guide advises a generalised yield rate for Major Regional Cities (Single let – 15 Years) at 5%. We apply a 1% increase in the rate to take the location, condition and a reduced lease term to match the comparable evidence upon which we have applied to the lettable rate per Sqft and deem the rate adopted by the agent at 6% is acceptable.

7.17 We find the agent's approach to a void and rent-free period (at 18-months) is within acceptable valuation parameters and adopt the same for the benefit of our appraisal.

7.18 Our calculation to derive a capital value for the Existing use can be summarised as follows. Net Annual Rent (£106,000) x 6% (Yield – 16.666 YP) = £1,766,666. We subsequently deduct purchaser's fees and the void/rent free period (at 18 months) to arrive at an EUV of £1,506,083 (£1,510,000 rounded).

Landowner's Premium

7.19 In accordance with the preferred approach, as outlined in the Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance 2017(AH&A SPG 2017), para 3.16 on page 40, we apply a 10% Landowner's Premium. This is at the bottom of the stated range and reflects the scale of the level of incentive required for a landowner to make the site available for development. The property has limited appeal, as confirmed by the extensive marketing campaign in the applicant's accompanying marketing report.

7.20 Applying a 10% premium to the EUV, the '+' element is calculated at £151,000.

Benchmark Land Value

7.21 We therefore calculate the BLV on an EUV+ basis to be £1,661,000.

7.22 This is £89,000 less than the figure arrived at by S106 Affordable Housing which represents a 5.3% difference in our respective positions.

7.23 In considering the overarching policy considerations on the approach to the landowner's premium, the uplift from our EUV and the BLV adopted by the applicant's agent represents a 15.8% increase, and as such we find the BLV at £1,750,000 to be within acceptable valuation parameters.

8.0 ARGUS APPRAISAL

8.1 We acknowledge the limitations of a residualised valuation approach where a negative land value can produce some odd calculations such as a credit on the finance costs. To carry out a more realistic assessment, we re-order the valuation output by incorporating the BLV and developer's profit as a fixed cost.

8.2 We attach a copy of our Argus Appraisal which can be found in Appendix 2.0 and in summary, calculates a surplus of £184,437 after all development costs, including developer's profit and the payment-in-lieu allowance have been deducted from the GDV.

9.0 SENSITIVITY ANALYSIS

9.1 In accordance with practice standards, we ran a sensitivity analysis in the Argus Appraisal and applied an incremental change to 2 key factors; sales values and build cost.

9.2 We have applied a 2.5% change to the sales values due to the uncertain nature of the effects that Covid-19 may have had on the market. Early indications suggest that there has been a surge in enquiries and in concert with the UK Government announcement of a 'Stamp-Duty holiday' may have a positive effect on values. Nevertheless, the picture remains unclear so we have applied an 'upwards and downwards' mechanism to see how the profit on GDV might change consequently.

9.3 As for the build cost, we have sought the opinion of our retained cost consultant, Mr Neil Powling who has noted the possibility of a downward trajectory on construction cost values. We have therefore applied a 2.5% incremental increase and decrease in construction costs in tandem with the sales revenue adjustments.

9.4 In summary, we found the scheme showed an increase in the surplus to £358,541 when the construction costs fell by 5% and the sales revenue increased by 4%. The scale of the surplus fell to £10,333 when both the construction costs increased by 5% and sales revenue decreased by 4%.

9.5 A copy of our Sensitivity Analysis can be found in the rear section of the Argus Appraisal in Appendix 2.0

10.0 QUALITY STANDARDS

10.1 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.

10.2 Signed for and on behalf of BPS Chartered Surveyors dated 14th December 2020.

Paul Westcott BSc (Hons)

RICS No. 5045131

Clare Jones MRICS
Registered Valuer

RICS No. 0095561

11.0 LIMITATION OF LIABILITY/PUBLICATION

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

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

12.0 APPENDICIES

Appendix 1.0

Project: 4-5 Torriano Mews, Kentish Town, NW5 2RZ

LB Camden

Independent Review of Assessment of Economic Viability

Interim Draft Report

Appendix A Cost Report

1 SUMMARY

1.1 There is no cost plan – the Applicant has relied on BCIS data downloaded 12th September 2020 – 3Q2020.

1.2 The Applicant has used the BCIS upper quartile rate. If a detailed cost plan has been provided we generally use a mean rate and adjust for enhanced specifications as part of our benchmarking process. The mean rate is £1,745/m² a difference to the upper quartile rate of £143/m² (8.2%). We are satisfied that the upper quartile rate is a reasonable rate to use for the construction cost rate to provide for the specifications expected for this market indicated by the sales rate of £872/ft².

1.3 The table at 3.9 below shows the Applicant's construction cost as £827,316. Our calculation summarised at 3.10 is £832,432.

1.4 Changes in BCIS data since September are an increase in location factor and a reduction in the all-in Tender Price Index – the net result is a small increase in construction cost. We are therefore satisfied that the Applicants construction costs are reasonable.

2 METHODOLOGY

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

2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.

2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.

2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

2.5 BCIS costs are available on a quarterly basis – the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).

2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.

2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

3 GENERAL REVIEW

3.1 We have been provided with and relied upon the Affordable Housing Viability Report issued by S106 dated 22 Sep 2020 on behalf of Torriano Ltd.

3.2 There is no cost plan – the Applicant has relied on BCIS data downloaded 12th September 2020 – 3Q2020. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 3Q2020 is 329 (provisional) and for 4Q2020 327 (forecast).

3.3 The allowance for contingencies is 5% which we consider reasonable.

3.4 Sales have been included in the Appraisal at average figures of £872/ft² (Net Sales Area).

3.5 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 132 that has been applied to the calculation of construction cost. The location factor on 12th September 2020 when the Applicant downloaded BCIS data was 130.

3.6 We have adopted the same GIA apparently used in the Applicant's HCA DAT calculation of 420m²; we assume this to be the GIA calculated in accordance with the RICS Code of Measurement 6th Edition 2007.

3.7 The building is the conversion of a 3 storey office building to a 3 storey building of flats; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We have used the 3-5 storey rate to determine the construction cost to assess the Applicants construction cost.

3.8 The Applicant has used the BCIS upper quartile rate. If a detailed cost plan has been provided we generally use a mean rate and adjust for enhanced specifications as part of our benchmarking process. The mean rate is £1,745/m² a difference to the upper quartile rate of £143/m² (8.2%). We are satisfied that the upper quartile rate is a reasonable rate to use for the construction cost rate to provide for the specifications expected for this market indicated by the sales rate of £872/ft².

3.9 The Applicant's construction costs are summarised in the table below.

		£Tot
GIA 420m²	£1,876/m²	787,920
	Add 5% contingency	39,396
	Total construction cost	827,316

3.10 Our current BCIS costs are:-

		£Tot
GIA 420m²	£1,888/m²	792,792
	Add 5% contingency	39,640
	Total construction cost	832,432

3.11 Changes in BCIS data since September are an increase in location factor and a reduction in the all-in Tender Price Index – the net result is a small increase in construction cost. We are therefore satisfied that the Applicants construction costs are reasonable.

BPS Chartered Surveyors

Date: 8th December 2020

Appendix 2.0

4-5 Torriano Mews, Kentish Town, London, NW5 2RZ
Planning Application 2020/4633/ P
Client: LB Camden

Development Appraisal
BPS Surveyors
10 December 2020

4-5 Torriano Mews, Kentish Town, London, NW5 2RZ
Planning Application 2020/4633/ P
Client: LB Camden

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
6 Apartments (4x2 Bed & 2x1 Bed)	1	4,112	948.44	3,900,000	3,900,000
2 Car Parking Spaces	1	0	0.00	40,000	40,000
Ground Rent: 6 units x £250 p.a. at 20YP	1	0	0.00	30,000	30,000
Totals	**3**	**4,112**			**3,970,000**

NET REALISATION				**3,970,000**

OUTLAY

ACQUISITION COSTS

Fixed Price		1,750,000		
Fixed Price			1,750,000	
				1,750,000
Stamp Duty			77,000	
Effective Stamp Duty Rate		4.40%		
Agent Fee		1.00%	17,500	
Legal Fee		0.50%	8,750	
				103,250

CONSTRUCTION COSTS

Construction	**ft²**	**Build Rate ft²**	**Cost**	
6 Apartments (4x2 Bed & 2x1 Bed)	4,521	174.28	787,920	
Developers Contingency		5.00%	39,396	
				827,316

PROFESSIONAL FEES

Architect		10.00%	78,792	
				78,792

MARKETING & LETTING

Marketing		1.50%	59,550	
				59,550

DISPOSAL FEES

Sales Agent Fee		1.50%	59,550	
Sales Legal Fee			10,000	
				69,550

MISCELLANEOUS FEES

Developer's Profit		15.00%	595,500	
Payment In Lieu Contribution			98,500	
CIL			42,108	
				736,108

FINANCE

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			133,306	
Construction			27,692	
Total Finance Cost				160,997

TOTAL COSTS				**3,785,563**
PROFIT				
				184,437

Performance Measures

Profit on Cost%		4.87%
Profit on GDV%		4.65%
Profit on NDV%		4.65%
IRR% (without Interest)		13.90%
Profit Erosion (finance rate 7.000)		8 mths

4-5 Torriano Mews, Kentish Town, London, NW5 2RZ
Planning Application 2020/4633/ P
Client: LB Camden

Table of Profit Amount and Profit on GDV%

	Construction: Rate /ft²				
Sales: Rate /ft²	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	165.57 /ft²	169.92 /ft²	174.28 /ft²	178.64 /ft²	182.99 /ft²
-4.000%	£102,701	£79,609	£56,517	£33,425	£10,333
910.51 /ft²	2.693%	2.087%	1.482%	0.876%	0.271%
-2.000%	£166,661	£143,569	£120,477	£97,385	£74,293
929.47 /ft²	4.282%	3.689%	3.096%	2.502%	1.909%
0.000%	£230,621	£207,529	£184,437	£161,345	£138,253
948.44 /ft²	5.809%	5.227%	4.646%	4.064%	3.482%
+2.000%	£294,581	£271,489	£248,397	£225,305	£202,213
967.41 /ft²	7.277%	6.707%	6.136%	5.566%	4.995%
+4.000%	£358,541	£335,449	£312,357	£289,265	£266,173
986.38 /ft²	8.690%	8.130%	7.570%	7.011%	6.451%

Sensitivity Analysis : Assumptions for Calculation

Construction: Rate /ft²
Original Values are varied by Steps of 2.500%.

Heading	Phase	Rate	No. of Steps
6 Apartments (4x2 Bed & 2x1 Bed)	1	£174.28	2.00 Up & Down

Sales: Rate /ft²
Original Values are varied by Steps of 2.000%.

Heading	Phase	Rate	No. of Steps
6 Apartments (4x2 Bed & 2x1 Bed)	1	£948.44	2.00 Up & Down

4-5 Torriano Mews, Kentish Town, London, NW5 2RZ
Planning Application 2020/4633/ P
Client: LB Camden

Project Timescale	
Project Start Date	Dec 2020
Project End Date	Jan 2022
Project Duration (Inc Exit Period)	14 months

Phase 1

	Start Date	Duration	End Date
Project	Dec 2020	14	Jan 2022
Purchase	Dec 2020	1 Month(s)	Dec 2020
Pre-Construction	Jan 2021	4 Month(s)	Apr 2021
Construction	May 2021	8 Month(s)	Dec 2021
Post Development	Jan 2022	0 Month(s)	
Letting	Jan 2022	0 Month(s)	
Income Flow	Jan 2022	0 Month(s)	
Sale	Jan 2022	1 Month(s)	Jan 2022
Cash Activity	Dec 2020	14	Jan 2022