Panther House

Revised Appraisal May 20921 to accompany Section 73 Application for Minor Amendment March 2021

Prepared by: Affordable Housing Solutions Ltd
Date: 21st May 2021

Affordable Housing Solutions Ltd, 7 Goldhawk Mews, London W12 8PA. Tel: 020 8749 8178. Mail: abooth@ah-solutions.com

Contents

Appendices

Affordable Housing Solutions Ltd, 7 Goldhawk Mews, London W12 8PA. Tel: 020 8749 8178. Mail: abooth@ah-solutions.com

1.0 Introduction

1.1 The scheme received a planning consent in 2017 (2015/6955/P) and the s106 Agreement was completed on 1st November 2017. Development of the site is now proceeding under this planning permission. The Applicant, Panther House Developments Ltd, has now made a s73 submission (Town and Country Planning Act 1980 as amended) to the London Borough of Camden to seek minor amendments to this permission.

1.2 LB Camden has asked the Applicant to provide an appraisal to accompany the s73 application.

1.3 Development of the site is now proceeding and implementation was formally confirmed, through the issuing of a Certificate of Lawful Exiting Development dated 21 October 2020. The implementaion took the form of the installation of a pile in June 2020 and only a soft strip has been undertaken since. This was only a very limited commencement but a tender process has completed for the demolition and enabling works and and the contract is due to start once this s73 application, and the resulting construction plans, including for the revised ground works, have been approved.

1.4 AHS agreed an appraisal with the Council's Assessors, BPS, in January 2017. A copy of the assessment, prepared by BPS, is attached as *Appendix 1*, and a copy of the AHS appraisal, as *Appendix 2*. Both appraisals produced a Residual Land Value (RLV) for the proposed scheme of just over £16m (BPS - £16.2m, AHS - £16.5m) which satisfied the Council that no further affordable housing could be supported by the scheme.

1.5 In order to provide transparency between the previous and current appraisals we have used the BPS 2017 appraisal as a basis. The Argus Appraisal is an industry standard appraisal, which provides greater detail and accuracy than the GLA Toolkit. It is also more appropriate for a scheme with a considerable amount of commercial development, as the GLA toolkit is only appropriate for schemes with small elements of ancillary commercial use.

1.6 The s106 sets out the Site Benchmark of £20.5m as the basis for reviewing the viability of the scheme. At the time of consent the RLV (at c£16m) for the proposed scheme was below the site benchmark and so no further affordable housing, other than the 3 units of intermediate housing on-site, could be supported.

1.7 AHS has prepared a revised appraisal for May 2021, in the Argus format for ease of reference, which shows the amendments proposed, as well as the current build cost and value estimates. This appraisal is attached as *Appendix 3.*

1.8 It should be noted that the s106 sets out a review process for the scheme viability. This appraisal will not affect that review process. Its purpose is to show the likely effect, based on estimates, of the design changes to the scheme at the current time to provide an insight for the Council of the effects on the viability of the proposed minor amendments. The review process will still occur at a later stage when the costs and values are more accurately known.

1.9 The market generally over the period between Jan 2017 and May 2021 has seen a significant increase in build costs but a lower increase in residential and commercial values in Central London.

Affordable Housing Solutions Ltd, 7 Goldhawk Mews, London W12 8PA. Tel: 020 8749 8178. Mail: abooth@ah-solutions.com

2.0 Changes to the scheme

Changes to the scheme have arisen due to design development and to respond to the impacts of the Covid pandemic, ensuring that the buildings offer support for greater flexibility and usability within a secure environment post-pandemic. In viability terms, such changes will assist with the marketability of the scheme, rather than improve the viability to such an extent that further affordable housing can be supported.

The main changes are:

Omission of 'Lower Ground Floor 2' (partial second basement below the Brain Yard building). The affordable workspace is to be re-provided in an enhanced location at Lower Ground Level, through reduction in previous retail areas. This will provide enhancement in quality to the affordable workspace in terms of ventilation and lighting. In the post-pandemic world there is less demand for lower ground spaces for retail uses and so it is better utilised as affordable workspace. With the omission of access to the basement, it also provides an uplift in floor area for the affordable workspace from 137 individuals to 143 individuals.

Relocation of the main office entrance and reception from Mount Pleasant to the centre of the site in order to create a central hub for entrance to both commercial and affordable workspace areas. It is proposed to further enhance the landscaping of the pedestrian walkway to make this a vibrant and more welcoming entrance for all uses, and encourage interaction of visitirs, employees and residents..

Building fronting Gray's Inn Road: The rear elevation is proposed to be constructed in brick rather than pre-cast concrete. The aim is to create greater coherence between individual buildings across the site. Efficiency changes to the lift and stair core result in adjustments to flat layouts but no change to mix of residential units. The revised approach to sustainability in the residential element in the scheme has been achieved by the utilisation of electrical heat pumps to replace the proposed gas-fired boilers.

Brain Yard building: Plant room at fourth floor level to be consolidated into one enclosure with Panther House at roof level – to allow an area for relocating office accommodation. Glazed curtain walling to second to fourth floors to be replaced with more solid weathered steel with punched window openings, to reflect the industrial character of site.

Alteration and extension of Panther House: External revisions to massing and materials at levels 4 and 5 to simplify overall roof design and coherence. Changes to layouts to support greater flxibility and uplifts in cycle storage and changing facilities.

The reports and plans associated with these changes are on the planning portal. However, details can be provied if required.

3.0 Revenues

2.1 <u>Private Residential Values</u>

CBRE has set out revised private residential values, with comparables, in *Appendix 4*.

CBRE confirm that Central London has seen little increase in residential values over the period, with most of the increase in values being in outer London areas, for dwellings with gardens. They can only value the units based upon the current market, although it is recognised that these units will not come onto the market until 2024.

They have valued the private residential units at the subject site on the basis of a high specification but they have a lower level of amenity than the comoarable projects. They have, therefore, valued the units in line with those comparables to balance the high specification and low amenities offered.

As the residential units are ancillary to the commercial and a small part of the site, CBRE can see no ability to sell any units off-plan, as there will be no show flat (unlike comparable schemes) and no ability to visit the site. As a result, they are advising that launch will take place at Practical Completion, with a 12 to 18 month sales campaign.

2.2 Ground Rents

Legislation has still not been introduced to limit ground rents and so, for the purposes of this appraisal at this time, the ground rent capitalisation has been included. We have used the same assumptions as previously agreed. This gives a capital value of £91,855.

2.3 Affordable Values

We have used the same affordable value as agreed with BPS previously for the intermediate units, as the open market values have not changed significantly in the intervening period, although the floor area for the 1 x 2 bed has reduced by 44sf as part of the s73 application. At £382psf we believe this is at the top end of the return that would be available from an RP and still allow these units to remain affordable to the target groups. Although the private values have risen slightly, the affordability to the resident would be crucial to Camden. Camden's income levels for intermediate products are £50k for 1 beds and £60k for 2 beds. At this stage no agreement has been reached with an RP. The capital value assumed is £700k.

2.4 Office Values

It can be seen that the estimated office rental values have increased from £55.23psf to £59.74psf and the yield from 5% to 4.5%. The advice from Cushman & Wakefield (CW), together with comparables, is set out in *Appendix 5.*

The values take account of affordable space, as previously. As the affordable workspace is now no longer in the basement the average rates are higher but are still in accordance with the s106.

Given the pandemic and possible change in employment practices, together with the effects of Brexit upon the City of London, some caution should be exercised with office values. As required by this type of appraisal, the rents are based upon the comparables in the current market.

CW have suggested rent free periods of 24 months to 27 months. We have used the lower 24 months for the purpose of this appraisal.

2.5 Retail Values

The rental values have been assumed to increase to £60psf by CW as the accommodation is now on the ground floor only and does not include the lower ground, less desirable, space. The yield has changed from 4.75% to 4.5%.

3.0 Costs

3.1 Build Costs

A build cost plan, prepared by Exigere, is attached at *Appendix 6.* We also asked them to prepare a Change Control schedule to assist in understanding the changes to the scheme and costs from the previously agreed Jan 2017 appraisal (*Appendix 7*).

It can be seen that the build costs have increased between the build cost plan submitted in January 2017 and the one prepared in May 2021. This takes account of both enhancements to the scheme, as detailed, and changes in prices over the period.

For completeness we have attached the final control schedule used as the basis for the previously agreed appraisal (*Appendix 8*). Although this showed inflation to start on site of £1,443,00 this was not included in the appraisal at the time and has been excluded now, as the control schedule shows actual inflation from Jan 2017 to the present day. For the purposes of the previous appraisal a build cost of £35,619,976, plus 5% contingency was used.

It should be noted that the build cost used for the 2017 appraisal and the current one does not include any design and build risks. These have been excluded from Exigere's build cost plan and a 5% contingency applied separately, as agreed previously. This gives a revised build cost for May 2021 of £42,140,000 (£45,140,000 less £3m design risk and contingency). The 5% contingency is shown separately in the appraisal.

The Applicant has already obtained a price for the demolition and enabling works, together with some additional works which were previously within the costs for the different buildings, including the basement box for Panther House and the frame for Gray's Inn. Therefore, on the face of it the Enabling Works and demolition works look higher than the original build cost plan. In order to show the comparison the QS has tried to show this in their current Control Register (*Appendix 7*).

The QS has estimated 12 months for the Demolition and Enabling contract and a further 20 months for the main contract. In addition, we have allowed a 2 month lead-in period, allowing for approval of the planning amendment and construction plans prior to commencement of works.

3.2 Fees

We have retained the fees at the previously agreed level of 12%. We have added the additional abnormal fees that apply to this project, as previosuly agreed. Details of these can be provided in confidence separately, if required.

3.3 CIL and s106

We have included the actual payments made to date, as well as the s106 obligations agreed.

3.4 Letting fees and legal

We have included letting fees for the office and retail at 10% and 5% for legal fees, which are the normal industry levels. These did not appear specifically in the BPS appraisal but they may have been the marketing and lettings figure itself.

3.5 Marketing and Disposal

We have included these at 2.5% for agents and marketing and 0.5% for legal.

We note that these were not included in the 2017 BPS appraisal which gave a RLV of £16.2m. We believe this may have been in error, as they are referred to in their initial report (Attached as *Appendix 9*). This would suggest that the RLV set out by BPS in their original appraisal was overstated by c£2.6m.

3.6 Finance

We have used the same finance rate of 6.75% as agreed previously.

3.7 Profit

We have used the same profit levels as previously accepted for a scheme of this type as the risk factors remain the same.

4.0 **Summary of appraisal inputs**

The following table sets out the position as regards the previous appraisals and the current appraisal.

	AHS Appraisal (GLA Toolkit)	***BPS Assessment of AHS Appraisal (Argus)***	***AHS May 2021 Appraisal (Argus)***	***Notes on May 2021 Appraisal***
Private Residential value	16,058,000	16,055,000	16,295,000	
Affordable Housing Value	700,000	700,000	700,000	
Ground Rents	92,000	91,855	91,855	
Commercial Value	67,676,000	70,856,232	85,334,304	
Total GDV	**84,526,000**	**87,703,087**	**102,421,159**	
Build Costs		35,619,976	42,140,000	
5% contingency		1,780,999	2,107,000	
Fees at 12%		4,274,397	5,363,549	
Letting and legal fees		481,735	627,824	Excludes marketing, just letting fees and legal fees on letting
Disposal and marketing costs		0	3,047,861	Includes marketing
Finance at 6.75%		5,465,193	6,801,785	
Profit at blended rate of 17.45%		15,304,189	17,872,492	
Total costs above	**59,735,000**	**62,926,489**	**77,960,511**	
CIL – Borough and Mayoral	**543,000**	**543,148**	**649,313**	Actual figure paid Sept 2020

S106	**370,000**	**370,000**	**852,011**	£34,725 paid Aug 2020
Site acquisition costs		939,780	846,886	
Purchasers costs at 5.8%		4,114,989	4,954,717	
Abnormal fees		2,605,570	2,556,240	
Total Site acquisition, purchasers costs and abnormal fees	**7,417,000**	**7,660,339**	**8,357,843**	
Residual Land Value	16,461,000	16,203,110	14,601,482	

5.0 Result

Jan 2017 BPS Appraisal Residual Land Value (RLV)	£16.2m	Deficit £4.3m
Jan 2017 BPS Appraisal RLV, with adjustment for marketing and disposal costs assuming omitted in error	c£13.6m	Deficit £6.9m
May 2021 AHS Appraisal RLV	**£14.6m**	Deficit £5.9m
Site Benchmark	**£20.5m**	

The May 2021 Appraisal for the proposed scheme shows a slightly worse viability compared with the BPS assessment, but better than if the marketing and disposal costs were included in the 2017 appraisal.

6.0 Conclusion

It can be seen that current predictions for the scheme, with the minor amendments proposed under the s73 application, show that the RLV of the scheme is within c£1m - £2m of the 2017 appraisals.

The scheme amendments are designed to make the scheme more marketable in the current economic climate and taking into account the post-pandemic requirements.

However, it should be noted that the development period to Practical Completion is estimated to be 34 months and so completion is not likely to be prior to March 2024. The review mechanism in the s106 will come into play before that date in order to take account of actual costs and revenues, reflective of the economic climate at that time.

Affordable Housing Solutions Ltd, 7 Goldhawk Mews, London W12 8PA. Tel: 020 8749 8178. Mail: abooth@ah-solutions.com