

Panther House, 38 Mount Pleasant & Brain Yard, 156-164 Gray's Inn Road

Independent Viability Review

Prepared on behalf of the London Borough of Camden

July 2021



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Planning Reference: 2021/1056/P**1.0 INTRODUCTION**

1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Affordable Housing Solutions on behalf of Panther House Development Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The scheme received planning consent in 2017 (2015/6955/P) and the S106 agreement was completed on 1st November 2017. This application was for:

“Redevelopment of the site following partial demolition of Panther House and Brain Yard buildings, partial demolition of 160-164 Gray’s Inn Road and demolition of 156 Gray’s Inn Road. Proposals would result in part 4 storey, part 7 storey (plus plant and basement) buildings at Panther House and Brain Yard for predominantly employment (B1) uses (including 1450sp.m of subsidised workspaces) and a new 7 storey (plus plant and basement) building at 156-164 Gray’s Inn Road behind the retained façade of 160-164 Gray’s Inn Road to provide flexible retail/restaurant (A1/3) uses at ground and basement levels with 15 self-contained residential units (C3) (including 3 Intermediate Rent flats) at the upper levels. Associated landscaping, plant and public realm works.”

1.3 The applicant has now made a S73 submission (ref: 2021/1056/P) to LB Camden to seek minor amendments to this permission. The application is described as follows:

“Variation of Condition 2 (Approved Plans) of planning permission ref: 2015/6955/P dated 01/11/2017 (as amended by 2020/1368/P dated 14/04/2020) for: (‘Redevelopment of the site to provide a 7 storey (plus plant and basement) buildings at Panther house and Brain Yard for predominantly employment uses (including subsidised workspaces) and a new 7 storey (plus plant and basement) building at 156-164 Gray’s Inn Road to provide flexible retail/restaurant uses with 15 self-contained residential units (including 3 Intermediate Rent flats) at the upper levels (summary)). THE CHANGES include: namely relocation of the main office entrance and reception, internal and external alterations and extensions to Panther House and the building fronting Gray’s Inn Road, consolidation of the plant room at 4th floor of Brain Yard building to roof level of Panther House, removal of ‘Lower Ground Floor 2’ basement floorspace and replacement of glazed curtain walling at 2nd to 4th floor at Brain Yard building.”

1.4 We understand that development on the site has begun and implementation was formally confirmed, through issuing of a Certificate of Lawful Existing Development dated 21st October 2020. We are advised by AHS that the implementation took the form of the installation of a pile in June 2020 and only a soft strip has been undertaken since. AHS state that this was only a very limited commencement but a tender process has completed for the demolition and enabling works and the contract is due to start once the S73 application is resolved and updated construction plans have been approved.

1.5 BPS previously reached an agreement with AHS in 2017 relating to viability and agreed that the proposed scheme at the time could not provide any additional affordable housing beyond the 3 intermediate units proposed. The scheme also included a floor of affordable workspace within the commercial office space.

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- 1.6 The basis of our current review is the Revised Appraisal May 2021 prepared by AHS, dated 21st May 2021, which supports the S73 application. This concludes that the scheme is currently showing a deficit of approximately £5.9m against the Benchmark Land Value agreed in the S106 agreement for late-stage reviews of the current scheme. On this basis AHS argue no additional affordable housing can viably be offered. We have also downloaded documents available on LB Camden's planning website.
 - 1.7 We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions.
 - 1.8 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 2020, 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.
 - 1.9 This Viability Review adheres to the RICS Professional Statement on Financial Viability in Planning (published May 2019). In accordance with this Statement, we refer you to our standard terms and conditions which incorporate details of our Quality Standards Control & Statement on Limitation of Liability/ Publication.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have reviewed the Revised Appraisal May 2021 prepared by AHS on behalf of the applicant for the proposed scheme which concludes that the proposed scheme generates a residual land value of £14.6m which is approximately £5.9m below their benchmark land value of £20.5m. On this basis the scheme cannot provide any additional affordable housing contribution.

Benchmark Land Value

- 2.2 AHS have adopted the Benchmark Land Value of £20.5m defined within the S106 of the original consent on the site. We consider this approach reasonable provided the current application does represent a reasonable S73 non-material amendment rather than requiring a fresh application. If this position changes we note that the EUV basis of the original £20.5m BLV has been extinguished and we would expect the BLV to be reassessed.

Development Value

- 2.3 AHS have relied on advice from CBRE to underpin their private residential values. We have reviewed the information provided by CBRE and we have also undertaken our own research into recent transactions in the local area. We are of the view that the one-bedroom values proposed are slightly below current market expectations. We have suggested some changes to the values proposed by JLL which are outlined in Section 4 of this report. Overall, our suggested revisions result in an increase of approximately £120,000 on the values proposed by CBRE.
- 2.4 We note that there are some discrepancies between the unit types within the schedule of accommodation used by CBRE and the plans available on the Camden planning website. We have updated the CBRE schedule to include the unit types outlined on the plans however we request that the schedule of accommodation is confirmed.
- 2.5 AHS have included ground rents in line with the original application. We broadly support this approach although we note that there is doubt over the future ability of the development to impose ground rents in new-build development.
- 2.6 We have reviewed the affordable residential values which comprise three intermediate units (2x one-bed, 1x two-bed). We consider that AHS' affordable values are overstated taking into account the affordability criteria outlined in the S106. We have updated this value to £546,000 (£289 psf).
- 2.7 The market office space has been valued by Cushman & Wakefield on AHS' behalf. We have reviewed the market office space values using the information provided by C&W and identifying additional evidence. We broadly consider that the values proposed are reasonable and we have adopted these within our assessment.
- 2.8 The scheme includes one floor (Lower Ground) of affordable workspace. We note that as a percentage of the overall office floorspace this represents a reduction from c.25% in the original application to c.18%. AHS have applied the value identified by C&W for the Lower Ground floor space however we note that C&W do not refer to this space being affordable or the affordability criteria outlined in the S106 in their assessment. Furthermore, they compare the lower ground floor space rent to market comparables. On this basis we do not consider that this represents an affordable workspace valuation. We consider that C&W's rental valuation represents a reasonable market value for the lower ground. With reference to the scheme S106

we note that 45% of the space should be available as B1c studio space. We have identified limited evidence of rental values for this space but the evidence identified supports a market value of £30 psf. On that basis we have applied a discount of 20% to this market value for the space resulting in an affordable workspace value of £24 psf. We have used the same yield as for the market space but reduced the void / rent-free allowance to 9 months.

- 2.9 We have reviewed the retail valuation of the space on site undertaken by C&W and consider that this appears reasonable. We request a breakdown of the unit sizes on site noting that we have only been provided with an overall retail area at this stage.

Development Costs

- 2.10 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan for the proposed scheme prepared by Exigere, dated May 2021, and concludes that the costs are reasonable. Mr Powling's full cost report can be found at Appendix 1.
- 2.11 We have reviewed the additional fees included. We consider that the professional fees are at the maximum we would consider reasonable however they are in line with the level previously adopted, therefore we accept them in this case. We consider the other fee percentages reasonable.
- 2.12 We note that an allowance of £2.56m for "abnormal fees" has been included. We request clarification of what this cost is and reserve the right to remove these fees based on the level of information provided.
- 2.13 We have adopted AHS' CIL and S106 allowances but request confirmation from the Council that these are accurate.
- 2.14 We consider that AHS' interest assumption of 6.75% is high noting that the base rate has reduced significantly since this was agreed during the original application. We have reduced this allowance to 6.5%.
- 2.15 Our Cost Consultant has confirmed that the development programme appears broadly reasonable. We have assessed the sales programme and consider this pessimistic. We have assumed off-plan sales of 15% and an allowance of 1-2 sales per month representing a period of 7 months. We consider this represents the minimum we would anticipate for a competent developer and marketing approach.
- 2.16 AHS have adopted a profit of 17.45% in line with BPS' previous appraisal. We note that this represents a capital increase in profit from £15.3m to £17.9m due to the increased GDV assumptions. We consider that the S106 states that the profit targets for each elemental element from the original application should be adopted rather than the overall blended rate, these are as follows:
- Private residential: 20%
 - Commercial: 17%
 - Affordable: 6%
- 2.17 We consider that these profit targets now sit above the level we would expect from the market and reserve the right to review these allowances if the scheme is considered a fresh application rather than a non-material amendment. However, in that these allowances are supported by the S106 we have adopted them in this case. We have included the profit targets as a development cost within our appraisal, although timed to the project end in order to eliminate interest costs being charged against them.

Results and Conclusions

2.18 We have updated our Argus appraisal to take into account the changes to the scheme and our updates above to AHS' review as follows:

- We have recreated the appraisal to include the BLV as a fixed land cost and included the profit targets as a fixed cost. On this basis the output of the appraisal is a deficit/surplus figure described as net profit
- Increase in the private residential GDV to £16,415,000
- Reduction in intermediate housing value to £545,000
- Reduction in affordable workspace rent to £24 psf and void / rent-free to 9 months
- Reduction in interest rate to 6.5%
- Reduction in sales programme to 7 months with 15% off-plan sales
- Adoption of elemental profit targets as outlined at paragraph 2.16

2.19 After our changes outlined above, we calculate the following viability position:

Residual Value	Benchmark Land Value	Deficit
£14.97m	£20.50m	£ 6,983,321m*1

*1 note the apparent deficit increases when the BLV is inputted as a fixed cost noting the additional interest costs generated above the residual value

2.20 As can be seen despite our reduction to the value of the intermediate housing value and affordable workspace rent, we conclude a reduced deficit from that outlined by AHS of £5.9m. however when the appraisal is adjusted to include the BLV as affixed land cost this apparent deficit increases to £6.98m. We are however in agreement with AHS that the scheme remains in deficit against the S106 Benchmark Land Value.

2.21 Our conclusions are subject to the current application representing a non-material amendment rather than requiring a fresh application and we reserve the right to alter our position if a fresh application is required.

3.0 BENCHMARK LAND VALUE

Viability Benchmarking

3.1 Development appraisals work to derive a residual value. This approach can be represented by the formula below:

$$\text{Gross Development Value} - \text{Development Costs (including Developer's Profit)} = \text{Residual Value}$$

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 Development appraisals can also be constructed to include a fixed land value and fixed profit targets. If an appropriate benchmark is included as a fixed land value within a development appraisal this allows for interest to be more accurately calculated on the Benchmark Land Value, rather than on the output residual value. By including fixed profit targets as a cost within the appraisal, programmed to the end of development so as not to attract interest payments, the output represents a 'super' profit. This is the profit above target levels generated by the scheme which represents the surplus available towards planning obligations.

3.5 We note the Mayor of London's Affordable Housing and Viability SPG published August 2017 states a clear preference for using EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. This is evidenced through the following extract:

The Mayor considers that the 'Existing Use Value plus' (EUV) approach is usually the most appropriate approach for planning purposes. It can be used to address the need to ensure that development is sustainable in terms of the NPPF and Development Plan requirements, and in most circumstances the Mayor will expect this approach to be used.

3.6 We note the Planning Policy Guidance, published May 2019, states:

Benchmark land value should:

- *be based on 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 and*

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. These 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.

The 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.

[...] 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 agreement).

- 3.7 The NPPF recognises the need to provide both land owners and developers with an incentive to release land. In relation to land owners this is to encourage land owners to release land for development. This is set out in PPG as follows:

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 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+)

- 3.8 Guidance indicates that the sale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending this liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable. This view is corroborated in the Mayor of London’s Affordable Housing and Viability SPG which states:

Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower premium of no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary.

The Proposed Benchmark

- 3.9 The S106 sets out the Site Benchmark of £20.5m as the basis for reviewing the viability of the scheme. This is set specifically for review mechanisms however this value has been used by AHS to assess the updates to the scheme.
- 3.10 This Benchmark was agreed by BPS and AHS in 2016 and was based on an EUV of the previous office on-site, with allowances made for refurbishment. We accept that this is the Site Benchmark within the S106 specifically for testing the viability of the proposed scheme at review. We note that this use has been extinguished due to the implementation of the current proposals.

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- 3.11 We do accept that the originally agreed EUV represents a broadly reasonable Benchmark with which to test the changes of the scheme against, noting that the adoption originally within the FVA and its designation within the S106 sets a reasonable precedent for its use. We note that if the S73 designs had come forward at the original application stage, judgement would have been made against this BLV.
- 3.12 However, this position is subject to the current updates being considered by the Council a reasonable S73 non-material amendment rather than requiring a fresh application. If the latter, it may be necessary to reassess the BLV taking into account that the previous basis for value has been extinguished.
- 3.13 For the purposes of our assessment, we have tested the viability against the S106 designated BLV however we reserve the right to update this position if the scheme is considered to represent a material amendment and require a fresh planning application.

4.0 DEVELOPMENT VALUEPrivate Residential Values

- 4.1 The residential element of the proposed scheme, as sought by the planning application, is for 15 residential units.
- 4.2 The scheme includes 3 shared ownership units with the remaining 12 units being for private sale. These have been valued by CBRE on AHS's behalf. We have set out in the table below the unit breakdown of this valuation. We note that there appear to have been some mistakes relating to the unit types in CBRE's schedule which we have corrected with reference to the scheme plans, we have included an asterisk where we have altered the unit type listed by CBRE and we request confirmation that our schedule accords with the Council's understanding:

Flat no.	Level	Type	NIA (sq ft)	CBRE Pricing	£psf
1	1	1B2P	538	£775,000	£1,441
2	1	1B2P	538	Intermediate	n/a
3	1	2B4P*	753	Intermediate	n/a
4	1	1B2P	538	Intermediate	n/a
5	2	2B4P	1,001	£1,325,000	£1,324
6	2	1B2P	646	£875,000	£1,354
7	2	2B4P*	990	£1,350,000	£1,364
8	3	2B4P	1,001	£1,325,000	£1,324
9	3	1B2P M4(3)	646	£875,000	£1,354
10	3	2B4P*	1,012	£1,375,000	£1,359
11	4	2B4P	1,001	£1,350,000	£1,349
12	4	1B2P	635	£895,000	£1,409
13	4	2B4P*	1,012	£1,400,000	£1,383
14	5&6	2B4P (Duplex)	1,302	£2,150,000	£1,651
15	5&6	3B5P (Duplex)	1,668	£2,600,000	£1,559
Private Total			11,452	£16,295,000	£1,423

- 4.3 This equates to average values as follows:

Unit Type	Sq Ft	Avg. Value	NIA (sq ft)
1b2p	616	£855,000	£1,387
2b4p	1,003	£1,354,000	£1,351
2b4p (Duplex)	1,302	£2,150,000	£1,651
3b5p (Duplex)	1,668	£2,600,000	£1,559

- 4.4 As stated above we note that the CBRE schedule within appendix 4 of the AHS' report is not consistent with the proposed plans with regard to unit types. We have sought to correct this above, but we request confirmation that the schedule we have used is current and correct. We note that our changes result in the removal of all but one three-bed units however a number of the two-bed units are particularly large and we consider they would be readily capable of providing three-bed space.

- 4.5 CBRE have referred to sales evidence from three schemes in the area surrounding the subject development as follows:

Postmark (Phase 1 & 2), EC1A/WC1

- 4.6 This is a Taylor Wimpey development being brought forward with c.600 private residential units. CBRE outline that Phases 1 & 2 have launched but that future phases will represent competition for Panther House due to their proximity. This scheme is much larger than Panther House and includes public realm, a spa, gym and communal roof terraces.
- 4.7 CBRE state that of the 263 units used by them 197 have sold with an average marketing level of £1,461 psf and an average achieved value of £1,400 psf. They outline the following latest asking prices:

Unit type	Asking Prices
1-beds	From £950,000
2-beds	From £1.33m
3-beds	From £1.81m

Pink Mews EC1N

- 4.8 This is a private residential development of 35 units in a gated mews.
- 4.9 The scheme includes a 5 day concierge and includes a period façade. We understand that the current marketing pricing is £1,812 psf and the achieved level is £1,677 psf. CBRE have provided us with the following sales evidence:

Level	Beds	NIA (sq ft)	Achieved Price	£psf
G/LG	2	1,281	£1,750,000	£1,366
2	1	477	£810,000	£1,698
3	3	1,170	£1,795,000	£1,534
1	2	919	£1,500,000	£1,632
3 / 4	3	1,170	£1,795,000	£1,534

- 4.10 CBRE outline that the scheme was originally launched for off-plan sales in 2015 internationally but only 6 units sold. The development was then launched in the UK in 2016 without a show apartment, we are advised that sales were slow which is stated to be due to a lack of available collateral and the site's difficult access. The scheme completed in 2018 and we understand to date that 22 apartments have been sold with 23 remaining. CBRE advise that the scheme has been taken off the market in Q3 2020 due to market conditions and it is planned to be relaunched in 2021.

The Denizen

- 4.11 Located in the City of London the scheme is within close proximity to the Barbican Centre and provides a collection of 1, 2 and 3 bedroom units. CBRE advise that 78 of the 99 units have currently been sold and that the scheme completed in Q4 2020.
- 4.12 We are advised that there was some reduction in pricing after completion which CBRE consider is likely due to a slow sales rate due to the pandemic. They outline that a 3-bed unit sold at the end of March 2021 for £1,400,000 (£954 psf).

4.13 They outline the following asking prices:

Unit type	Asking Prices
1-beds	From £725,000
2-beds	From £1.197m
3-beds	From £1.75m
Avg. £psf	£1,425 psf

4.14 The scheme includes a 24-hour concierge, residents' lounge and terrace, a games room, a cinema room and cycle storage.

4.15 This scheme is the furthest from the subject, approximately 1 mile away by foot.

4.16 We have sought to assess available comparable evidence to assess the private residential values proposed. We are advised by our Cost Consultant that the costs proposed reflect a high specification of design which should be reflected in the achievable values.

Postmark

4.17 We agree with CBRE that Postmark represents a useful comparator noting its proximity to the subject development. We do also note that this is a much larger, residential led scheme and will benefit from additional public realm and amenity.

4.18 We understand the following average values have been achieved in Phase 1 and 2 of this development:

Phase 1:

Unit Type	Beds	NIA (sq ft)	Achieved Price	£psf
Studio	6	460	£698,000	£1,591
1 Bed	29	633	£890,000	£1,400
2 Bed	69	976	£1,279,000	£1,271
3 Bed	24	1,296	£1,535,000	£1,183
Total	146	979	£1,233,000	£1,304

Phase 2:

Unit Type	Beds	NIA (sq ft)	Achieved Price	£psf
1 Bed	15	587	£890,000	£1,400
2 Bed	37	918	£1,279,000	£1,271
Total	52	823	£1,233,000	£1,304

4.19 While we note that this development benefits from significant public realm and amenity provision, we also note that the current sales achieved are the first two phases of development and therefore purchasers are buying into a site with significant remaining redevelopment and disruption. We consider that this should be accounted for when comparing the values.

Kings Cross Quarter (Grimaldi Square), 130-154 Pentonville, N1 9JE

- 4.20 Kings Cross Quarter is a new build residential development by Regal London, comprising 118 units (98 private sales), a mixture of studio, 1, 2 and 3 bedroom. The scheme completed in September 2018 and all the units sold out by February 2020, noting the penthouses were last to sell. This is a high-quality development rising to 10 stories in height, with the development straddling Pentonville Road and Rodney Street.
- 4.21 The scheme benefits from good on-site amenity including an indoor swimming pool, a gym, spa and courtyard area. In terms of location this scheme is approximately 0.8 miles by foot from the subject but located on the Pentonville Road, which is busier than the subject's location.
- 4.22 We have identified the following sales evidence from the online database Molior and Land Registry data:

Unit Type	Beds	Av. Price	Av. Sq Ft	Av. £psf	Min. Price	Max. Price
Studio	15	£775,538	446	£1,739	£670,500	£891,874
One-bed	9	£776,336	535	£1,453	£758,030	£820,440
Two-bed	71	£1,162,826	838	£1,401	£801,360	£1,567,000
Three-bed	3	£2,010,000	1,299	£1,568	£1,935,000	£2,070,000

- 4.23 We note the units are on average broadly smaller than the subject development. The sales were all achieved prior to the Covid-19 pandemic. The Land Registry's HPI shows a minimal drop from 105.61 to 104.71 between February 2020 to April 2021 (the most recent data available).

Bourne Estate, Portpool Lane, EC1N 7UT

- 4.24 Bourne Estate, is a new build residential development by Camden Council, comprising of 75 residential units of which 31 are private and the remainder are social rent. The scheme completed in Q3 2017 and sold out by Q4 2019.
- 4.25 This development is located within close proximity of the subject. We note that this development has a relatively basic external specification in comparison to what we would envisage is applicable to the subject site, noting that our Cost Consultant has described the flat costs as representing a high specification.
- 4.26 We have identified the following sales evidence from the online database Molior and Land Registry data:

Unit Type	Beds	Av. Price	Av. Sq Ft	Av. £psf	Min. Price	Max. Price
One-bed	9	£612,250	527	£1,175	£595,000	£660,250
Two-bed	15	£963,375	862	£1,111	£783,750	£1,297,000
Three-bed	3	£1,136,667	1,231	£925	£1,160,000	£1,200,000

- 4.27 We note that sales from this development are relatively dated. We would expect the subject to achieve superior values to those above.

Barts House, 56 West Smithfield, EC1A

- 4.28 Large new-build development brought forward by Helical consisting of 226 units all of which are private. We understand that construction completed in Q1 2020 and that the scheme has been brought forward in two phases. We understand that as of late June 2020 1 unit remained unsold from Phase 1 and 22 units remained unsold from Phase 2.
- 4.29 The scheme benefits from comprising of a mix of new-build and converted historical buildings and residents benefit from amenities such as 24hr concierge, a residents' lounge, residents' bar, private dining rooms, meeting rooms and a private cinema. The development is located close to Barbican underground station approximately 0.8 miles from the subject by foot.
- 4.30 We have identified the following asking prices currently listed on the website Rightmove:

Beds	Floor	NIA (sq ft)	Asking Price	£psf
One	First	534	£899,000	£1,684
One	Second	550	£925,000	£1,682
One	Second	576	£930,000	£1,615
One	-	589	£950,000	£1,613
Two	-	879	£1,535,000	£1,746
Two	-	910	£1,610,000	£1,769
Two	-	931	£1,635,000	£1,756
Two	-	897	£1,648,250	£1,838
Two	-	940	£1,685,000	£1,793
Two	-	1,090	£1,685,000	£1,546
Two	-	1,081	£1,785,000	£1,651
Two	Ground	1,223	£1,800,000	£1,472

- 4.31 We note that this development benefits from better public realm and amenity provision than the subject. We also note that this development is residential led which is likely to have a positive impact to value. We would expect the subject development to generate lower values than those outlined above.
- 4.32 We have assessed the values proposed by CBRE, particularly with reference to Postmark which is located within very close proximity to the subject development. We consider that on average the two and three-bedroom values appear broadly reasonable in comparison to the average values achieved from Phase 1 and 2 of this development. We do note however that due to our updates to the unit types in line with the plans, there do appear to be some inconsistencies in the valuation of the two-bed units. Given the average value proposed is reasonable we have not sought to correct this at this stage however we do consider it is important that certainty relating to the accommodation schedule is provided.
- 4.33 The one-bed values proposed by CBRE sit on average below the values achieved at Postmark. We consider that particularly unit 1 sits below the level we would anticipate. We have updated the one-bed values to be in line with Postmark noting that while Postmark is a larger development this development is still under construction which will put off some purchasers:

Flat no.	Level	Type	NIA (sq ft)	BPS Pricing	£psf
1	1	1B2P	538	£850,000	£1,580
2	1	1B2P	538	Intermediate	n/a
3	1	2B4P*	753	Intermediate	n/a
4	1	1B2P	538	Intermediate	n/a
5	2	2B4P	1,001	£1,325,000	£1,324
6	2	1B2P	646	£890,000	£1,378
7	2	2B4P*	990	£1,350,000	£1,364
8	3	2B4P	1,001	£1,325,000	£1,324
9	3	1B2P M4(3)	646	£890,000	£1,378
10	3	2B4P*	1,012	£1,375,000	£1,359
11	4	2B4P	1,001	£1,350,000	£1,349
12	4	1B2P	635	£910,000	£1,433
13	4	2B4P	1,012	£1,400,000	£1,383
14	5&6	2B4P (Duplex)	1,302	£2,150,000	£1,651
15	5&6	3B5P (Duplex)	1,668	£2,600,000	£1,559
Private Total			11,452	£16,415,000	£1,433

4.34 Our updated values result in average values as follows:

Unit Type	Sq Ft	Avg. Value	£psf
1b2p	616	£885,000	£1,436
2b4p	1,003	£1,354,000	£1,351
2b4p (Duplex)	1,302	£2,150,000	£1,651
3b5p (Duplex)	1,668	£2,600,000	£1,559

Ground Rents

4.35 Ground rents have been included in line with the original application. We note the Government has restated their intentions to introduce legislation reforming current leasehold practices within a period of approximately 1 year which would reduce ground rents to a nominal sum. We also note many mortgage lenders are limiting their lending on new build properties with such provisions.

4.36 In that ground rents were previously agreed we have included value in line with AHS's assumption which is consistent with our originally assumptions. We have reflected this in the extant scheme assessment.

Affordable Residential Values

4.37 The proposed development includes three intermediate units. AHS have not specified which form of intermediate unit would be provided.

4.38 AHS have not updated the affordable values from our most recent review, with the exception of accounting for a small change of area to the units. This equates to £382 psf.

4.39 AHS outline the importance of the units remaining affordable in line with Camden's stated requirements as follows:

- 1-bed: £50,000 p.a.
 - 2-bed: £60,000 p.a.
- 4.40 The S106 supports the above thresholds.
- 4.41 The currently proposed affordable units comprise two one-bed units and one three-bed unit. With regard to the one-beds, assuming a net income of 70% and a limit of 40% of net income being spent on housing costs (including rent and service charge) equating to c.£266 p.w. We have assumed that £250 p.w. would be available for rental payment.
- 4.42 Whilst for the three-bed units we have undertaken the same calculation as above and assume that £300 p.w. would be available for rental payments.
- 4.43 Using these rents, we have created a 60-year cashflow in which we have allowed for the following:
- Annual management costs: £500 per unit
 - Annual cyclical maintenance costs: £500 per unit
 - 8-yearly major repairs costs: £500 per unit
 - Voids and bad debts: 4%
 - Rent increase per year: 1%
 - Cost increase per year: 1%
 - Rent discount rate: 4%
- 4.44 This equates to a total value of £546,000 (£289 psf) which sits below AHS' value. We have updated the appraisal to include the above value.

Office Valuation

- 4.45 AHS have relied on a valuation undertaken by Cushman and Wakefield for the office element of the scheme. This has been valued as follows:

Floor	SQ FT	Rent (£ per sq ft)	Comments
5	5,541	£ 77.50	1,184 sq ft terraces
4	7,846	£ 75.00	1,420 sq ft terraces
3	10,949	£ 70.00	No terrace
2	11,076	£ 67.50	No terrace
1	10,882	£ 62.50	No terrace
GF	8,620	£ 50.00	
LG	12,197	£ 30.00	Limited Natural Light
Total Office Rent	67,111	£ 59.74	
Total Retail Rent	2,938	£ 60.00	
Total Rent	70,049	£ 59.75	

- 4.46 The Lower Ground floor is designated for affordable office space. We have commented in more detail on the affordable workspace below.
- 4.47 Removing the affordable workspace, the above office space equates to an average market office rent of £66.34 psf.

- 4.48 Cushman and Wakefield have referred to rental evidence to support their valuation. We have summarised this evidence and C&W's advice relating to it below:

Panagram, 27 Goswell Road, EC1

Let in January 2021 to Leigh Day. The space is spread over 3rd - 7th floor and the total let area is 28,483 sq ft. A blended rate of £65 psf was achieved on a 12 year lease with break at year 5 and 30 months rent-free. The space is new build, has floor to ceiling heights of between 3.3m and 3.8m and benefits from terraces with good views throughout. The building is comparable in terms of the quality of product and terraces on the upper floors but it is located in an inferior location. On this basis C&W have priced Panther House at a premium, at £73 psf from 3-5th floor.

Aspect House, 28 Kirkby Street, EC1

- 4.49 Let in January 2021 to Legal Home Office. The space is spread over LG to 3rd floor and the total let area is 19,143 sq ft. A blended rate of £57 psf was achieved on a 10 year lease with break at 5th year and 22 months rent free. Prominent location between Farringdon and Hatton Gardens. The space is newly refurbished and comparable in terms of quality and location. The floorplates are smaller than at the subject therefore C&W state they have applied a discount in value as Panther House blends to £55.50 psf over LG to 3rd floor. We note that this blended rate is inclusive of the affordable workspace, removing this floor would generate a blended rate from G to 3rd floor of £63.22 psf.

Harella House, 90-98 Goswell Road, EC1

- 4.50 Let in February 2021 to IA Interior Architects. The space is spread over 4th and a mezzanine floor and the total let area is 5,322 sq ft. A blended rate of £75 psf was achieved on a 10 year lease with a 5 year break and 13 months' rent free at commencement and after 5th year. This space is located in a prime position towards the junction of Goswell Road and Old Street. The site is well connected with by Underground, Crossrail and National Rail. The space is newly refurbished and includes a double height reception. The space is comparable in quality. The 4th floor features triple aspect office space, high floor to ceiling heights, a terrace and new mezzanine. On this basis C&W have applied a discount to the 4th floor space at Panther House at £72.50 psf.

1 Grays Inn Road, WC1

- 4.51 Let September 2020 to Hardwicke Chambers. The space is spread over 1st to 6th floor and the total let area is 19,978 sq ft. A blended rate of £65.05 psf was achieved on a 15 year lease with a 34 month rent-free period. The space is completely redeveloped and benefits from terrace on 5th and 6th floor. The accommodation is comparable in location but has smaller floor plates than the subject and has fewer terraces. C&W have applied a premium to the Panther House rents which blend to £69.00 psf over 1st to 5th floor.

Johnson Buidling, 77 Hatton Garden, EC1

- 4.52 Let in January 2020 to Oktra. The space is spread over LL, Ground and 1st floor and the total let area is 18,300 sq ft. A blended rate of £47.50 psf was achieved on a 10 year lease with a break after 5th year and 3 months rent free plus 14 months at half rent. The space is refurbished Grade A space and includes a double height atrium and a landscaped courtyard. The space benefits from more natural light than the

subject so C&W have applied a slight discount to rents which blend to £46.50 psf on the LG to 1st floor.

- 4.53 We note that C&W make no reference to affordable workspace within their valuation and appear to be valuing the LG space in line with market comparables based on their comments on rents. We comment on this in more detail below.
- 4.54 We have sought to identify further market evidence as follows to assess the proposed rental values:

Address	Description	Date	Transaction details	Rent £psf
1st Floor, Farringdon Point, EC1M 3JF	Fully-fitted Grade A new-build space Let to VDC UK Management Prominent location opposite Farringdon Station Service charge of £8.59 psf 5,952 sq ft	July-21	5-year lease	£65.00
1st Floor, The Bureau, 90 Fetter Lane, London	We understand that this is a recently refurbished office development finished to a Grade A specification Located slightly more centrally between Chancery Lane and Farringdon 8,439 sq ft	June-21	9 year lease	£70.00
4th Floor, 75 Farringdon Road, EC1M 3JY	Grade A new-build office accommodation Prominent location opposite Farringdon Station Service charge of £9.97 psf 3,208 sq ft	May-21	Not reported	£72.50
Part Ground and Lower Ground, Holborn Gate, WC2A 7PP	Refurbished office space Located adjacent to Chancery Lane Underground Station Ground: 3,335 sq ft LG: 115 sq ft Total: 3,450 sq ft	April-21	Not reported	£55.00
Ground and Lower Ground, 75 Farringdon Road, EC1M 3JY	Grade A new-build office accommodation Prominent location opposite Farringdon Station Service charge of £9.97 psf 4,484 sq ft	April-21	Not reported	£44.60
5th, 6th and part LG, Pennybank, 33-35 St. John's Square	Refurbished office space with retained façade Roof terrace on the 6 th floor Located on a prominent corner unit 3,792 sq ft	March-21	Not reported	£68.05

1st, 2nd and 3rd Floor, 28-30 Kirkby Street, EC1N 8TE	Newly refurbished office space Let to the Home Office In a similar location to the subject although slightly closer to Farringdon Station 1 st Floor: 4,050 sq ft 2 nd Floor: 4,151 sq ft 3 rd Floor: 4,151 sq ft Total: 12,353 sq ft	March-21	10 year lease	£57.00
LG and Ground, 28-30 Kirkby Street, EC1N 8TE	Newly refurbished office space Let to the Home Office In a similar location to the subject although slightly closer to Farringdon Station Lower Ground: 6,522 sq ft Ground: 1,706 sq ft Total: 8,228 sq ft	March-21	10 year lease	£36.24
5th Floor, 75 Farringdon Road, EC1M 3JY	Grade A new-build office accommodation Prominent location opposite Farringdon Station 3,195 sq ft	March-21	Not reported	£70.00
200 Gray's Inn Road, WC1X 8XZ	Grade A modern office space Located within close proximity to the subject development 2,161 sq ft	Oct-20	7 year lease	£57.50
3rd Floor, The Bureau, 90 Fetter Lane, London	We understand that this is a recently refurbished office development finished to a Grade A specification Located slightly more centrally between Chancery Lane and Farringdon 9,301 sq ft	Feb-2020	10-year lease 7-year break 21 months rent-free	£72.50

4.55 With reference to the above we note that the evidence appears to remain in line with that provided by C&W. We consider that the tone of the evidence is supportive of the rents proposed by C&W for the open market units.

4.56 AHS have assumed a yield of 4.5% which is based on evidence provided by C&W as follows:

Address	Description	Date	Transaction details	Yield
Saffron House, 6-12 Kirkby Street, EC1	Farringdon located office c.200 metres from the station Mulit-let at £4,180,327 p.a. (£57.27 psf) WAULT of 6.63 years to expiry and 3.87 years to breaks 72,976 sq ft	Mar-21	£78.3m (£1,073 psf) Freehold	5.00%

The Lever Building, 85 Clerkenwell Road, EC1	Grade A style warehouse office Over LG, UG and five upper floors plus mezzanine Single let to Tesco Stores Ltd until April 2025 Rental income of £1,754,000 p.a. (£57.00 psf) 30,637 sq ft	Feb-21	£38.14m (£1,249 psf) Freehold	4.29%
Old Sorting House, 46 Essex Road, N1	Office arranged over LG, Ground and two upper floors Single let to Zava Limited on a 10-year lease to January 2029 with break in January 2024 Let at £1,221,900 pa. (£60 psf) 20,505 sq ft	Mar-21	£16.4m (£800 psf) Freehold	7.00%
2-14 Bunhill Road, EC1	Let to the university of Law with 14-year unexpired lease term Passing rent of £3.1m p.a. (£39.85 psf) 77,829 sq ft	Dec-20	£46.2m (£594 psf) Long Leasehold	5.02%
BeWilson, 70 Wilson Street, EC2	Located between the City and Shoreditch Recently developer and high specification Multi-let with a WAULT of 14.5 years to break and 16.0 years to expiries	Feb-20	£93.0m (£1,250 psf) Freehold	4.89%

4.57 We have in addition identified the following evidence:

Address	Description	Date	Transaction details	Yield
48-50, St John Street, EC1M 4DG	Located within a short distance of Farringdon Station 1970s office Advertised with potential for redevelopment 19,500 sq ft	May-21	£17m (£872 psf) Freehold	4.90%
Atlantic House, 45/51 Holborn Viaduct, EC1A 2DY	Located within short walking distance of Chancery Lane and Farringdon Station Total rental income of £10,251,260pa (£39.49 psf) Prime space built in 2001 with space over 12 floors including ancillary retail on ground floor Let in its entirety to Hogan Lovells International LLP for a term of 6 years 256,900 sq ft	Dec-20	£265m (£1,032 psf) Freehold	3.80%

Knight Quarter, 14 St John's Lane, EC1M 4BH	Located within a short distance of Farringdon Station Advertised with potential for refurbishment Current passing rent £790,000 p.a. (£40.17 psf) Single let to Kingsley Napley LLP but holding over at sale after a 15 year lease from January 2005, understood that the tenant had arranged new accommodation Asking price of offers over £17m 19,655 sq ft	Nov-20	£17.6m (£895 psf) Freehold	4.20%
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4.58 We also note that the Knight Frank Prime Yield Guide shows the following prime yields for June 2021:

- City Prime (single let, 10 years): 4.00%
- West End: Prime (Mayfair & St James's): 3.50% - 3.75%
- West End: Non-core (Soho & Fitzrovia): 4.00% - 4.25%

4.59 Based on the evidence identified by both C&W and ourselves we consider that a yield of 4.5% appears reasonable taking into account the location and new-build status of the proposals. Whilst Atlantic House and Knight Quarter identified by ourselves achieved lower yields than 4.5% we note that Knight Quarter appears to have included some hope value for refurbishment in the purchase price and overall Atlantic house appears below the evidence tone. We additionally note that a yield of 4.5% appears reasonable in conjuncture with the Knight Frank Prime Yield Guide noting the comparative location of the subject development.

4.60 AHS have adopted a 24 month rent-free period. We consider this assumption reasonable and in line with our expectations in the subject's market assuming a 10 year lease.

Affordable Workspace Valuation

4.61 We understand that the affordable workspace rent has been increased from what had been previously agreed. AHS state that this is due to it no longer being located within the basement in the S73 scheme. AHS outline that it remains in line with the S106.

4.62 We note that within their valuation report C&W make no reference to affordable workspace and their commentary compares the lower ground space directly to open market transactions.

4.63 The S106 defines affordable workspace as follows:

Title	Definition
<i>The Affordable Workspace</i>	<i>The subsidised workspace within the ground floor and basement of the Development comprising 1,450sqm2 and including its own dedicated ground floor entrance with a reception area, staircase and platform lift the same as shown hatched blue in Plans 1 and 1A</i>

<i>The Affordable Workspace Floorspace Plan</i>	<p><i>A plan setting out the measures that the Owner will adopt to ensure that the Affordable Workspace remains flexible and affordable so as to be suitable for small and medium enterprises including (but not limited to):</i></p> <p><i>(a) the rental level of the Affordable Workspace to be 20% lower than comparable space found within a half mile-radius of the site for an initial 10-year period following occupation;</i></p> <p><i>(b) a minimum of 45% of the Affordable Workspace to consist of individual studios designated as C1c studio and or maker space, with the target of each studio and or maker space to be no more than 30sq m and the maximum size of each studio or maker space to be no more than 100 sq m;</i></p> <p><i>(c) the rental level of the B1c studio and/or maker space to be 20% lower than comparable B1c studio/maker space found within a half-mile radius of the site for an initial 10-year period following Occupation following which the rental level will thereafter be set at a rate 20% lower than the average rental level across the rest of the employment space within the Development;</i></p> <p><i>(d) and service or other charges applied to the affordable workspace should be at a ratio to the rental level that reflects average charges for comparable B1c studio/maker space in the area for an initial 10-year period following Occupation, following which any service or other charges will be set at a rate of 20% lower than the average rental level across the rest of the employment (B1) space within the Development;</i></p> <p><i>(e) subject to marketing criteria, the basement space would be made available to ‘start-ups’ and small medium enterprises in an agreed ratio of cellular and open-plan provision; and</i></p> <p><i>(f) a cascade mechanism under which the Owner will market the Affordable Workspace Floorspace Plan for a period of no less than 1 year, following which the Owner shall be entitled to market any remaining Affordable Workspace which has not been let for open B1 use and without any restriction on the ratio of cellular to open-plan provisions</i></p>
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<p><i>The Affordable Workspace Marketing Plan</i></p>	<p><i>A plan setting out the measures that the Owner will adopt to ensure that the Affordable Workspace is marketed to small and medium enterprises in the local area including (but not limited to):</i></p> <p><i>(a) a requirement that prior to Occupation of the Affordable Workspace the Owner will use best endeavours to market the Affordable Workspace exclusively to businesses and individuals who held a rental tenancy in relation to the Property between February 2015 and the Implementation Date</i></p> <p><i>(b) in the first letting to tenant, the tenancy offered shall be for a minimum of five year unless the tenant requests otherwise; and</i></p> <p><i>(c) a strategy for marketing the affordable workspace through local business networks such as Business Improvement Districts</i></p>
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- 4.64 It does not appear from AHS' report that the requirements of the Affordable Workspace Floorspace Plan have been taken into account such as:
- A 20% deduction from comparable evidence within a 0.5mile radius
 - That 45% of the space be designed for B1c space at a 20% discount from B1c space rents
 - That the space is only designated as affordable workspace for a period of 10-years from occupation
- 4.65 We note that the current S73 includes 12,197 sq ft of affordable workspace whereas, as outlined in the S106, the extant scheme included c.15,600 sq ft. This results in a reduction in the percentage of space from 24.8% to 18.2%.
- 4.66 Based on the evidence presented by C&W and the fact that the Lower Ground floor has limited natural light, we consider that the £30 psf proposed by them represents the market rent for this floor rather than the affordable rent. We have discounted this rent by 20% resulting in a discounted rent of £24 psf.
- 4.67 We have sought to identify evidence of B1c rents from within a half-mile radius of the subject site to account for the 45% provision required of this space, but the evidence available is limited. We have identified the following letting:
- **1 Pagel Street, Islington, EC1V 7PA:** B1c office let in September 2019. Considerably smaller than the subject at 250 sq ft. Achieved a rent of £7,500 p.a. (£30 psf).
- 4.68 As can be seen there is not conclusive evidence to support a B1c rent. For the purposes of this assessment, we have assumed a market rent for the LG floor space of £30 psf which is in line with C&W's valuation as office space. We have not allowed for a different rent for the B1c space noting the limited evidence available and that the evidence identified supports this rent. We have accounted for a 20% discount resulting in an affordable workspace rent of £24 psf.
- 4.69 For the purposes of this assessment, we have not altered the yield on the affordable workspace however we have reduced the void / rent-free period to 9 months noting that the units will be marketed at a discount.

- 4.70 In view of the 10-year limit on affordability outlined in the S106 we have valued this element assuming it reverts to market value after 10-years, in this case we have updated the rent to £30 psf and accounted for a 24 month void / rent-free at reversion.

Retail Valuation

- 4.71 The updated scheme includes 2,938 sq ft of retail space. We understand that this is now all included on the ground floor subject to the S73, having previously included some lower ground floor space. The development plans show that the retail space is sub-divided into a number of units, however we have not been provided with the measurement for each unit.
- 4.72 AHS have been advised by C&W relating to the retail value. They have assumed a value of £60 psf and applied a yield of 4.5%. AHS have allowed for a 1-year void / rent-free within their appraisal.
- 4.73 No comparable evidence has been provided to support the retail values assumed. We have sought to identify evidence of retail lettings as follows:

Address	Description	Date	Transaction details	Rent £psf
62 Hatton Garden, EC1N 8LE	A1 retail units split over ground, basement and 1 st floor Located within Hatton Gardens, a renowned jewellery sector, and let to a jewellers 2,450 sq ft	Jan-21	£100,000 p.a.	£40.82
142 Southampton Row, WC1B 5AG	A2 unit over ground floor only Located close to Russel Square Underground Station 875 sq ft	Jan-21	£42,500 p.a. Lease assignment 1-year term unexpired	£48.57
One Benjamin, 98 Turnmill Street & 1-5 Benjamin Street, EX1m 5QP	A1 retail unit at ground floor level located within mixed-use building in Clerkenwell Redevelopment was completed in 2018 and includes retail, office and residential space 1,087 sq ft	Sept-20	£58,000 p.a.	£53.36

- 4.74 We have identified relatively limited evidence. We consider that One Benjamin is the most comparable to the subject noting that this is space within a mixed-used development similar to the subject.
- 4.75 We have not been provided with areas for each unit within the proposed development but noting the overall area of 2,938 sq ft and that the plans show there are over three units, we consider it reasonable to assume that on average the proposed units will be smaller than One Benjamin. Noting that we would expect larger units to have a reduced rent £psf, we consider that an assumption of £60 psf appears broadly reasonable in comparison to this unit.

4.76 A yield of 4.5% has been assumed for the retail units by AHS. This sits between the prime yields outlined by the Knight Frank Prime Yield Guide June 2021 for Oxford Street and Prime Shops (Oxford, Cambridge) as follows:

- Oxford Street: 3.50%+
- Prime Shops (Oxford, Cambridge): 6.50%

4.77 We have identified the following investment evidence:

Address	Description	Date	Transaction details	Yield
106 Camden High Street, Camden, NW1 0LU	High street retail unit let to Boots Opticians Professional Services Ltd Let at £80,400 p.a. (£59 psf) with reversion in June 2024 Split over ground floor and basement 1,365 sq ft	Feb-20	£1,500,000 (1,099 psf)	5.05%
259A Caledonian Road & 2A/2B Bingfield Street, N1 1EE	Arranged over basement, ground and two upper floors providing a supermarket at ground, storage at basement and first floor and two self-contained flats at second floor Let entirely to Iceland Foods Limited for 10 years from October 2012 at a rent of £100,000 p.a. Flats are understood to be sublet Advertised with potential for further residential development subject to planning and the current lease	Feb-19	£2,600,000	3.61%
182-184 St John Street, Islington, EC1V 4JZ	Retail space which we understand is currently in use as a Pret A Manger takeaway Passing rent of £100,000 (£23.16 psf) 4,317 sq ft	Aug-19	£2,300,000 (£533 psf)	4.09%

4.78 The proposed yield of 4.5% sits between those achieved at 106 Camden High Street and 182-184 St John Street. We note that 259A Caledonian Road sold with potential for extension and included some residential space which we consider would act to reduce the yield compared to the subject.

4.79 Given the evidence available we consider that a yield of 4.5% is reasonable. We also accept the adoption of a 12 month void/rent free.

4.80 We have valued this element using excel and inserted the value as a gross figure in order to account for reversion to market rent.

5.0 DEVELOPMENT COSTS

Build Costs

- 5.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Exigere, dated 21st May 2021, and concludes as follows:

The Construction Cost in the appraisal is £42,140,000 that omits the cost plan provisions for contingencies and risk and adds 5% contingency in the appraisal. This we consider reasonable.

Our benchmarking results in an adjusted benchmark for Grays Inn of £4,507/m² that compares to the Applicant's £4,237/m²; an adjusted benchmark for Brain Yard of £3,191/m² that compare to the Applicant's £3,167/m²; an adjusted benchmark for Panther House of £2,949/m² that compares to the Applicant's £2,962/m². We therefore consider the Applicant's costs to be reasonable.

- 5.2 Mr Powling's full cost report can be found at Appendix 1.

Additional Fees

- 5.3 The applicant's consultants have applied the following additional cost assumptions:

- Professional fees of 12%
- Letting agent fees of 10%
- Letting legal Fees of 5%
- Sales agent and marketing fees of 2.5%
- Sales legal fees of 0.5%

- 5.4 The professional fees allowance is in line with that previously accepted by BPS. We consider this at the upper limit of reasonable but noting the precedent set we accept this input in this case. We consider the other percentages realistic and in line with market norms.

- 5.5 An additional £2.56m of "abnormal fees" have been included. We request that more information relating to these fees are provided. We reserve the right to remove these fees subject to the level of information provided.

CIL and S106

- 5.6 CIL and S106 charges have been assumed at:

- CIL: £649,313
- S106: £852,011

- 5.7 AHS advise that these amounts are in line with those currently paid to date as well as the S106 obligations agreed. We request that the Council confirm these amounts.

Finance and Timescales

- 5.8 Finance has been included at 6.75% assuming that the scheme is 100% debt financed. This is in line with the finance rate previously agreed. We note that the base rate has been reduced significantly since our previous report and we therefore consider it reasonable to reduce this finance level. We have reduced this input to 6.5%.

- 5.9 AHS have allowed for the following build programme:

- Lead-in period: 2 months

- Demolition and enabling contract: 12 months
 - Main contract: 20 months
- 5.10 Our Cost Consultant considers these timescales not unreasonable, therefore we have adopted these assumptions within our appraisal.
- 5.11 With regard to sale AHS outlines CBRE's advice that because the residential units are a small part of the scheme and there is no show flat, they do not consider any off-plan sales are achievable. They consider that beyond practical completion a sales period of 12 to 18 months is reasonable.
- 5.12 We note that CBRE's evidence Pink Mews EC1N which included 35 units is stated to have sold at least 6x units off-plan despite not having a show home/flat. This equates to 17% off-plan. We also note that CBRE state that sales from this development were subsequently slow due to site-specific factors such as restricted site access.
- 5.13 We have recently been provided with the following absorption evidence for another application close to the subject:

Scheme	Launch Date	Units Sold to date	Sales Rate Per Month
King's Cross Quarter, N1	Q2 2016	98 (Sold Out)	2.2
Postmark (Phase 1), EC1A	Q3 2018	136	6.8
Luma, N1C	Q3 2017	59	1.9
Fenman House, N1C	Q2 2016	76	1.6
Islington Square, N1	Q4 2014	108	1.7

- 5.14 This evidence is for larger developments however we nonetheless consider that a sales rate of c.1-2 units per month is achievable. For the purposes of this assessment, we have assumed a 15% off-plan allowance and subsequent sales of on average 1-2 units per month. This equates to a sales period of 7 months. We consider this the minimum we would anticipate for a competent developer assuming a normal marketing approach.

Profit

- 5.15 The developer profit target adopted by AHS is 17.45% on GDV. This is in line with the percentage agreed previously by BPS, although the profit amount has increased within AHS's appraisal from the £15.3m reflected by our 2017 appraisal at Appendix 1 of AHS's report to £17.9m, reflecting the increase to GDV over this period.
- 5.16 The extant scheme's S106 outlines that the developer return at "Viability Update Assessment" will be:
- "Based on the same percentage developer's return on market housing value and the same percentage contractor's return on affordable housing as the Agreed Viability appraisal or such alternative percentages as agreed by the Council in writing"*
- 5.17 The following profit targets for these elements were previously agreed:
- Private residential: 20%
 - Commercial: 17%
 - Affordable: 6%

- 5.18 We consider that in the current market the previously agreed private residential and commercial profit targets appear overstated and would expect these to be limited to 17.5% and 15% on GDV respectively. However, assuming that the current assessment remains a S73 and does not require a fresh application we consider it

consistent to maintain the profit allowances from the S106. We reserve the right to update this position if a fresh application is required.

6.0 AUTHOR SIGN OFF

This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

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July 2021

Appendix 1: Build Cost Report

Project: Panther House, 38 Mount Pleasant WC1X 0AN & 156-164 Grays Inn Road, & Brain Yard WC1X 8ED

2021/1056/P

Cost Report

1 SUMMARY

- 1.1 The Construction Cost in the appraisal is £42,140,000 that omits the cost plan provisions for contingencies and risk and adds 5% contingency in the appraisal. This we consider reasonable.
- 1.2 Our benchmarking results in an adjusted benchmark for Grays Inn of £4,507/m² that compares to the Applicant's £4,237/m²; an adjusted benchmark for Brain Yard of £3,191/m² that compares to the Applicant's £3,167/m²; an adjusted benchmark for Panther House of £2,949/m² that compares to the Applicant's £2,962/m². We therefore consider the Applicant's costs to be 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 on 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 Report on revised Appraisal issued 21st May 2021 by Affordable Housing Solutions to accompany the Section 73 Application for Minor Amendment March 2021. Included at Appendix 6 is the Stage 3 Cost Plan Rev 2 issued 21 May 2021 by Exigere.
- 3.2 We have also downloaded a number of files from the planning web site.
- 3.3 The cost plan is based on prices current in March 2021. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2021 is 328 (Provisional) and for 3Q2021 334 (forecast).
- 3.4 The design information used to produce the cost plan has been scheduled. There is reasonably detailed structural and services information listed.
- 3.5 The cost plan includes an allowance of 16.8% for preliminaries. The allowance for overheads and profit (OHP) is 5.2%. We consider both of these allowances reasonable.
- 3.6 The Construction Cost in the appraisal is £42,140,000 that omits the cost plan provisions for contingencies and risk and adds 5% contingency in the appraisal. This we consider reasonable. 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 £1,423/ft² (Net Sales Area).
- 3.9 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Camden of 132 that has been applied in our benchmarking calculations.
- 3.10 We have adopted the same GIA used in the Applicant's cost plan; we assume these to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007.
- 3.11 The development comprises three buildings: Grays inn is a new building behind a retained façade predominantly of flats, building is a 4 storey building of flats; Brain Yard is a new building of offices and Panther House an existing building of offices

with an additional 3 floors of vertical extension. We have benchmarked Grays Inn and Brain Yard as 6 storeys and above - and Panther House as rehabilitation generally and as vertical extension. The blended rate calculations are below.

		BCIS	Blended
		£/m ²	£/m ²
3.12	Blended rate Grays Inn Rd		
	Flats	71%	2,404
	Office	23%	661
	Retail A1/A3	7%	138
			2,494
3.13			
	Rate Brain Yard	BCIS	£/m ²
3.14	Office	100%	2,929
	Blended rate Panther House	BCIS	Blended
		£/m ²	£/m ²
	Rehab office	67%	1,067
	Vert extension	33%	1,102
			2,169

3.15 Our benchmarking results in an adjusted benchmark for Grays Inn of £4,507/m² that compares to the Applicant's £4,237/m²; an adjusted benchmark for Brain Yard of £3,191/m² that compares to the Applicant's £3,167/m²; an adjusted benchmark for Panther House of £2,949/m² that compares to the Applicant's £2,962/m². We therefore consider the Applicant's costs to be reasonable.

3.16 The costs included in the appraisal are consistent with the costs in the cost plan.

BPS Chartered Surveyors

Date: 5th July 2021

Panther House, 38 Mount Pleasant WC1X 0AN
Elemental analysis & BCIS benchmarking

	GIA m ²	10,022	New Build Offices		New Build Flats	
			LF100	LF132	LF100	LF132
	£/m ²		£/m ²	£/m ²	£/m ²	£/m ²
Demolitions & soft strip 7.31%	0					
1 Substructure	0		153	202	149	197
2A Frame	0		135	178	130	172
2B Upper Floors	0		75	99	81	107
2C Roof	0		130	172	92	121
2D Stairs	0		39	51	30	40
2E External Walls	0		193	255	190	251
2F Windows & External Doors	0		125	165	89	117
2G Internal Walls & Partitions	0		64	84	69	91
2H Internal Doors	0		39	51	50	66
2 Superstructure	0		800	1,056	731	965
3A Wall Finishes	0		44	58	73	96
3B Floor Finishes	0		76	100	61	81
3C Ceiling Finishes	0		36	48	39	51
3 Internal Finishes	0		156	206	173	228
4 Fittings	0		26	34	62	82
5A Sanitary Appliances	0		17	22	29	38
5B Services Equipment (kitchen, laundry)	0		16	21	25	33
5C Disposal Installations	0		12	16	13	17
5D Water Installations	0		32	42	32	42
5E Heat Source	0		47	62	49	65
5F Space Heating & Air Treatment	0		171	226	104	137
5G Ventilating Systems, smoke extract & control	0		61	81	18	24
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)	0		174	230	88	116
5I Fuel Installations	0		6	8	7	9
5J Lift Installations	0		31	41	37	49
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)	0		19	25	11	15
5L Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)	0		41	54	22	29
5M Special Installations - (window cleaning, BMS, medical gas)	0		33	44	42	55
5N BWIC with Services	0		19	25	14	18
5O Management of commissioning of services	0					
5 Services	0		679	896	491	648
6A Site Works	44					
6B Drainage	1					
6C External Services	1					
6D Minor Building Works - archaeological att + post tender adjust + prov sums	0					
6 External Works 2.64%	46		0	0	0	0
Covid enhancements to offices	0					
SUB TOTAL	46		1,814	2,394	1,606	2,120
PCSA fee (16 weeks) 0.71%	0					
7 Preliminaries inc Erith prelims 16.8% exc enabling	8					
Overheads & Profit 5.2%	3					
SUB TOTAL	57		1,814	2,394	1,606	2,120
Design Development risks - reserve on enabling @ 1% + on main works 2.5% - 2.2%	0					
Construction risks 4.9%	0					
Employer change risks	0					
Employer other risks	0					
TOTAL	57					

Prelims

57

Benchmarking

Omit BCIS substructure (inc in baseme nt box)

Add additional cost of frame & upper floors

Add additional cost of ext walls

Add additional cost of windows

Add additional cost of internal walls

Add additional cost of internal doors

Add additional cost of finishings

Add additional cost of fittings

Add additional cost of sanitary appliances

Add additional cost of disposal installations

Add additional cost of water installations

Add additional cost of heat source & space heatir

Add additional cost of ventilating installations

Add additional cost of electrical installations

Add additional cost of lift installations

Add additional cost of protective installations

Add additional cost of communication installation

Add prelims 16.8%

Add OHP 5.2%

Total adjusted benchmark

Appendix 2: BPS Argus Appraisal

Panther House
BPS
July 2021

Development Appraisal
BPS Surveyors
19 July 2021

**Panther House
BPS
July 2021**

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private Resi	12	11,452	1,433.37	1,367,917	16,415,000
Affordable Resi	3	0	0.00	182,000	546,000
Affordable Workspace	1	12,197	564.07	6,880,000	6,880,000
Totals	16	23,649			23,841,000

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Private Office	1	54,914	66.34	3,643,063	3,643,063	3,643,063
Retail	1	2,938	60.00	176,280	176,280	176,280
Ground rent	12			421	5,052	5,052
Totals	14	57,852			3,824,395	3,824,395

Investment Valuation

Private Office						
Market Rent	3,643,063	YP @	4.5000%	22.2222		
(2yrs Rent Free)		PV 2yrs @	4.5000%	0.9157	74,134,709	
Retail						
Market Rent	176,280	YP @	4.5000%	22.2222		
(1yr Rent Free)		PV 1yr @	4.5000%	0.9569	3,748,644	
Ground rent						
Current Rent	5,052	YP @	5.5000%	18.1818	91,855	
Total Investment Valuation					77,975,208	

GROSS DEVELOPMENT VALUE

101,816,208

Purchaser's Costs			(4,921,602)		
Effective Purchaser's Costs Rate		6.31%		(4,921,602)	

NET DEVELOPMENT VALUE

96,894,606

NET REALISATION

96,894,606

OUTLAY

ACQUISITION COSTS

Fixed Price	20,500,000				
Fixed Price			20,500,000		
				20,500,000	
Stamp Duty		3.00%	615,000		
Agent Fee		1.00%	205,000		
Legal Fee		1.80%	369,000		
				1,189,000	

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost
Main Contract	1 un	34,410,000	34,410,000
Soft Strip Out	1 un	612,522	612,522
Demolition and Enabling Works	1 un	7,160,000	7,160,000
Totals			42,182,522
Contingency		5.00%	2,109,126
CIL			852,011
S106			649,313
			45,792,972

Other Construction

Abnormal Fees			2,556,240		
				2,556,240	

PROFESSIONAL FEES

Professional Fees		12.00%	5,368,651		
				5,368,651	

MARKETING & LETTING

Letting Agent Fee		10.00%	382,440		
Affordable Work Letting Agent Fee			36,591		
Letting Legal Fee		5.00%	191,220		
Affordable Work Letting Legals			18,296		
				628,546	

Panther House

BPS

July 2021

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	2,422,365	
Sales Legal Fee	0.50%	484,473	
			2,906,838

Additional Costs

Private Profit	20.00%	3,283,000	
Commercial Profit	17.00%	14,425,385	
Affordable Profit	6.00%	32,760	
			17,741,145

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		4,203,936	
Construction		2,990,597	
Total Finance Cost			7,194,533

TOTAL COSTS

103,877,927

PROFIT

(6,983,321)

Performance Measures

Profit on Cost%	-6.72%
Profit on GDV%	-6.86%
Profit on NDV%	-7.21%
Development Yield% (on Rent)	3.68%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%
IRR% (without Interest)	0.20%
Rent Cover	-1 yrs -10 mths
Profit Erosion (finance rate 6.500)	N/A