

**Grand Union House,
20 Kentish Town Road,
Camden NW1 9NX
Consolidated 2nd Addendum**

Prepared on behalf of London Borough of Camden

6th December 2021

2020/5557/PRE
2021/0911/P



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1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors have been instructed by the London Borough of Camden ('the Council') to comment on Savills' response, dated 24th September to the BPS Addendum of 25th July 2021 on the above scheme and present the position subsequently agreed between the respective parties.
- 1.2 Our initial April 2021 report was issued in response to Savills' Financial Viability Assessment (FVA) dated February 2021, prepared on behalf of Sellar Developments ('the Applicant') in connection with a planning application for the redevelopment of the above site. Our original report was followed by a rebuttal from Savills in May 2021.
- 1.3 This addendum should therefore be read in conjunction with the above reports. We confirm that we have not been instructed to review Savills' report dated November 2021.
- 1.4 In our last report we considered the BLV appraisal by reference to two scenarios, Scenario A (assuming that the property is presented in its current condition) and Scenario B (assuming that the property is presented in its pre strip-out condition). We note below the matters that remained outstanding between the parties at the date of our July 2021 report were as follows:

	Savills		BPS			
	100% Private Housing	100% Affordable Housing	Scenario A 100% Private Housing	Scenario A 100% Affordable Housing	Scenario B 100% Private Housing	Scenario B 100% Affordable Scenario
BLV	£9,520,000	£9,520,000	£3,069,000	£3,069,000	£6,980,000	£6,980,000
Private resi GDV	£3,690,000	-	£3,840,000	-	£3,840,000	-
AH GDV	-	£1,343,570	-	£1,343,570	-	£1,343,570
Retail GDV	£1,200,000	£1,200,000	£1,200,000	£1,200,000	£1,200,000	£1,200,000
Office GDV	£58,281,310	£58,281,310	£58,281,310	£58,281,310	£58,281,310	£58,281,310
Total GDV	£63,171,310	£60,824,880	£63,321,310	£60,824,880	£63,321,310	£60,824,880
Finance Rate	6.75%	6.75%	6.50%	6.50%	6.50%	6.50%
Developer Profit	15.30%	14.82%	15.15%	14.80%	15.15%	14.80%
Surplus/Deficit	£770,000	£420,000	£6,397,384	£4,838,956	£1,514,772	£42,436

- 1.5 The BPS July 2021 report conclusions included:

We conclude that the proposed scheme with 100% Affordable Housing shows a significant surplus of £4,838,956 (under Scenario A) and a small deficit of £42,436 (under Scenario B).

We are of the view, therefore, that the scheme is likely to remain viable delivering 100% Affordable Housing in addition to the commercial space proposed. We revert to the Planning Officer's judgement and knowledge of the history of the site to recommend which Scenario is the most appropriate.

- 1.6 This addendum summarises the position now agreed with Savills and provides comment upon the inputs agreed to assess the viability position. We have addressed each of the previously outstanding points in turn.
- 1.7 In addition, the Affordable Housing has now been agreed as Camden Intermediate Rent and an additional Affordable Workspace provision has also been agreed and this now forms part of our analysis below.

2.0 SUMMARY OF PREVIOUSLY OUTSTANDING POINTS

- 2.1 Savills have provided revised costs of £30.54m reportedly to reflect construction cost inflation. Our Cost Consultants have reviewed their figures.
- 2.2 Savills contest BPS' use of Scenario A which illustrates the BLV assuming that the property is presented in its current condition.
- 2.3 Savills contend that Scenario B (condition before strip out) is more appropriate because the landowner is not seeking to benefit financially from the strip out but was simply preparing the property for redevelopment. Savills have now provided new expenditure figures and documentary evidence supporting this claim which confirm that the landowner has expended considerable sums in management, maintenance and repair etc, rather than simply having allowed the property to be run down.
- 2.4 We have reviewed this additional information and consider that it provides adequate proof of intention, we have therefore agreed to base our benchmark figure on Scenario B in consequence.
- 2.5 Based on this change of approach the Affordable Housing offer has now been amended and agreed with the Council.
- 2.6 Provision of Affordable Workspace has also been agreed with the Council.
- 2.7 The Council have confirmed updated s106 costs of £441,558 which have now been incorporated into our appraisal.

3.0 DEVELOPMENT COSTS

- 3.1 Savills have provided updated costs prepared by Core 5 as at 3Q 2021. These costs have been reviewed by our Cost Consultants, Geoffrey Barnett Associates ('GBA').
- 3.2 Previously accepted costs for 1Q 2021 were £27,583,500 including 5% contingency. Updated costs in Core 5's Cost Plan for 3Q 2021 are £30,540,000 which includes 7.50% contingency.
- 3.3 GBA advise that 5.00% contingency is appropriate for the proposed scheme. They further advise that the All-in-One TPI to 4Q 2021 (the date of GBA's report) represents a 5.18% increase from 1Q 2021.
- 3.4 GBA therefore make the following conclusion:

We conclude the updated construction costs at £29,830,500 are £817,367 higher than expectation. [Note this figure is inclusive of contingency]

There has been an increase in construction costs influenced by shortage of materials and labour, however the current increase in BCIS All-in -One Tender Price Indices (TPI) is 5.18% since 1Q 2021 which is lower than the proposed 8.15%.

- 3.5 We have therefore re-run our appraisal with a base construction cost of £27,631,555 to which we have added a 5% contingency, in line with GBA's advice. Their full report is included in Appendix 2.

4.0 BENCHMARK LAND VALUE

- 4.1 Savills have rejected our proposed use Scenario A (current condition) BLV of £3.069m and appear to support a BLV of £6,980,000 which is in line with our previous assessment of Scenario B (pre strip-out condition).
- 4.2 We note the significant additional expenditure of £573,000 claimed by the applicant over a four year period since July 2017, which has now been fully evidenced. We therefore accept the use of Scenario B in this instance to calculate BLV.
- 4.3 The parties have agreed an EUV+ approach is appropriate to assess the BLV. We note the £1,816,000 third party enabling costs which we have deducted from the 20% Landowner Premium, resulting in an agreed BLV of £7.33m.

5.0 PROPOSED AFFORDABLE HOUSING

- 5.1 We have received instructions from the Council to review a scenario with 100% Affordable Housing offered as Camden Intermediate Rent.
- 5.2 For the CIR assessment, we have assumed no average rental growth and have discounted the cashflow over a 60 year period (after deductions for management, maintenance, repairs and voids/bad debts). We have based our calculations on our own cashflow and on the weekly rent benchmarks below, agreed between the parties:

	2021/22
1 bedroom	£229
2 bedrooms	£269

- 5.3 We calculate the residential element of the proposed scheme, offered as CIR, has a total GDV of £1,497,146 (£365.07 psf).
- 5.4 We do recommend, however, that this value is reviewed in the light of an RP offer, in line with best practice.

7.0 PROPOSED AFFORDABLE WORKSPACE

- 7.1 We have instructions from the Council to review a scenario which includes 5% of the total office space (333 sq m GIA) to be let at 70% of the Market Rent for 10 years, at which point it will return to Market Rent levels.
- 7.2 This results in a revised GDV for the total office element of the proposed scheme of £57,655,169.

8.0 APPRAISAL RESULTS AND CONCLUSION

- 8.1 We therefore present below the viability position now agreed between ourselves and Savills which reflects 100% Affordable Housing offered as CIR, plus 5% Affordable Workspace. We have included our revised appraisal in Appendix 1 which demonstrates a small deficit. Scenario Analysis (also provided in Appendix 1) shows that only minor shifts in income and revenue are required to erode this surplus.
- 8.2 We have summarised below the current position of the respective parties, in relation to Scenario B with 100% Affordable Housing:

100% AH 5% AW	Agreed Position
BLV	£7,330,000
Total GDV	£60,524,169
Finance Rate	6.50%
Developer Profit	14.14%
Surplus/ Deficit	-£3,494

- 8.3 We conclude that the proposed scheme with 100% Affordable Housing (CIR) and 5% Affordable Workspace, shows a nominal deficit of £3,494. We are of the view, therefore, that the scheme is marginally unviable at the proposed level of Affordable space and is incapable of viably offering additional Affordable Housing or Workspace.
- 8.4 We note from the scenario analysis that the deficit is marginal and recommend that the viability position is subject to review as part of the s106 Agreement.

10.0 QUALITY STANDARDS CONTROL

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.

The following persons have been involved in the production of this report:



Clare Jones
RICS Membership no. 0095561
For and on behalf of BPS
Chartered Surveyors



Andrew Jones MRICS
RICS Membership no. 0085834
For and on behalf of BPS
Chartered Surveyors

11.0 LIMITATION OF LIABILITY/ PUBLICATION

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

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

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we** consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review.

Appendix 1: BPS Appraisal

Grand Union House v3

Camden

Commercial + Aff workspace + Affordable Homes CIR

Scenario B - Pre Strip-out Condition Assumed

**Grand Union House v3
Camden
Commercial + Aff workspace + Affordable Homes CIR**

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Affordable Residential	6	4,101	289.17	197,648	1,185,886

Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Market Office	1	54,156	55.00	2,978,580	2,978,580	2,978,580
Retail	3	2,540	30.00	25,400	76,200	76,200
Aff Workspace Reversion	1	2,850	55.00	156,750	156,750	156,750
Totals	5	59,546			3,211,530	3,211,530

Investment Valuation

Market Office						
Market Rent	2,978,580	YP @	5.0000%	20.0000		
(1yr 6mths Rent Free)		PV 1yr 6mths @	5.0000%	0.9294	55,367,551	
Retail						
Market Rent	76,200	YP @	6.0000%	16.6667		
(1yr Rent Free)		PV 1yr @	6.0000%	0.9434	1,198,113	
Aff Workspace Reversion						
Market Rent	156,750	YP @	5.0000%	20.0000		
(10yrs Rent Free)		PV 10yrs @	5.0000%	0.6139	1,924,618	
Aff Workspace Term						
Manual Value					848,000	
Total Investment Valuation					59,338,282	

GROSS DEVELOPMENT VALUE

60,524,169

Purchaser's Costs	(4,035,003)
Effective Purchaser's Costs Rate	6.80%
	(4,035,003)

NET DEVELOPMENT VALUE

56,489,165

NET REALISATION

56,489,165

OUTLAY

ACQUISITION COSTS

Fixed Price	7,330,000			
Fixed Price			7,330,000	
				7,330,000
Stamp Duty			356,000	
Effective Stamp Duty Rate	4.86%			
Agent Fee	1.00%	73,300		
Legal Fee	0.80%	58,640		
				487,940

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Construction Costs	79,966	345.54	27,631,555
Contingency		5.00%	1,381,578
Third Party Payment			1,816,000
			30,829,133

Section 106 Costs

Borough CIL			126,144
Mayoral CIL			315,360
S106			441,558
			883,062

PROFESSIONAL FEES

Grand Union House v3

Camden

Commercial + Aff workspace + Affordable Homes CIR

Professional Fees	12.00%	3,481,576	
			3,481,576
MARKETING & LETTING			
Letting Agent Fee	10.00%	305,478	
Letting Legal Fee	5.00%	152,739	
			458,217
DISPOSAL FEES			
Sales Agent Fee	1.00%	564,892	
Sales Legal Fee	0.50%	282,446	
			847,337
MISCELLANEOUS FEES			
Developer Profit Commercial	15.00%	8,484,850	
Developer Profit Affordable Housing	6.00%	71,153	
			8,556,003
FINANCE			
Debit Rate 6.500%, Credit Rate 0.100% (Nominal)			
Land		1,318,498	
Construction		2,300,894	
Total Finance Cost			3,619,392
TOTAL COSTS			56,492,660
PROFIT			(3,494)

Performance Measures

Profit on Cost%	-0.01%
Profit on GDV%	-0.01%
Profit on NDV%	-0.01%
Development Yield% (on Rent)	5.68%
Equivalent Yield% (Nominal)	5.02%
Equivalent Yield% (True)	5.18%
IRR% (without Interest)	6.23%
Profit Erosion (finance rate 6.500)	N/A

Grand Union House v3
 Camden
 Commercial + Aff workspace + Affordable Homes CIR

Table of Profit Amount and Gross Development Value

Rent: Rate /ft ²					
Construction: Rate /ft ²	-10.000%	-5.000%	0.000%	+5.000%	+10.000%
-10.000%	-£1,031,542	£1,206,067	£3,443,676	£5,681,285	£7,918,895
310.99 /ft ²	£54,675,140	£57,599,655	£60,524,169	£63,448,683	£66,373,197
-5.000%	-£2,755,127	-£517,518	£1,720,091	£3,957,700	£6,195,309
328.26 /ft ²	£54,675,140	£57,599,655	£60,524,169	£63,448,683	£66,373,197
0.000%	-£4,478,712	-£2,241,103	-£3,494	£2,234,115	£4,471,724
345.54 /ft ²	£54,675,140	£57,599,655	£60,524,169	£63,448,683	£66,373,197
+5.000%	-£6,202,298	-£3,964,689	-£1,727,079	£510,530	£2,748,139
362.82 /ft ²	£54,675,140	£57,599,655	£60,524,169	£63,448,683	£66,373,197
+10.000%	-£7,925,883	-£5,688,274	-£3,450,665	-£1,213,056	£1,024,553
380.10 /ft ²	£54,675,140	£57,599,655	£60,524,169	£63,448,683	£66,373,197

Sensitivity Analysis : Assumptions for Calculation

Rent: Rate /ft²

Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Market Office	1	£55.00	2.00 Up & Down
Retail	1	£30.00	2.00 Up & Down
Aff Workspace Reversion	1	£55.00	2.00 Up & Down

Construction: Rate /ft²

Original Values are varied by Steps of 5.000%.

Heading	Phase	Rate	No. of Steps
Construction Costs	1	£345.54	2.00 Up & Down

Appendix 2: GBA Report

REPORT 19 OCTOBER 2021

1.0 REVIEW & COMMENTARY:

- 1.1 We have previously reported on this scheme in April 2021. We accepted construction costs on condition that contingency is reduced to 5%.
- 1.2 This Report is related to construction costs in Core Five Planning Cost Plan updated for 3Q2021 prices.
- 1.3 Accepted construction costs (1Q2021) were as follows:

Total works (1Q2021)	£26,270,000
Contingency reduced to 5%	<u>£1,313,500</u>
Total	<u>£27,583,500</u>

- 1.4 Updated construction costs for 3Q2021 as shown in Core Five's cost plan are £30,540,000. However, appraisal summary uses 5% contingency and the sum we are appraising against is as follows:

Total works (3Q2021)	£28,410,000
Contingency 5%	<u>£1,420,500</u>
Total	<u>£29,830,500</u>

- 1.5 Uplift in costs therefore calculated to 8.15%
- 1.6 BCIS Tender Price Indices (TPI) are typically used for adjusting estimates and budgets to different dates. All-in-one TPI for 1Q2021 was 328, all-in-one TPI for 3Q2021 was 339, which equates to 3.35% increase. However, the All-in-one TPI for 4Q2021 (the date of our review) is 345, which equates to 5.18% increase since 1Q2021.
- 1.7 With use of BCIS All-in-one TPI the updated construction costs are as follows:

Total works (updated to 4Q2021)	£27,631,555
Contingency 5%	<u>£1,381,578</u>
Total	<u>£29,013,133</u>

2.0 CONCLUSION:

- 2.1 We conclude the updated construction costs at £29,830,500 are £817,367 higher than expectation.
- 2.2 There has been increase in construction costs influenced by shortage of materials and labour, however the current increase in BCIS All-in one Tender Price Indices (TPI) is 5.18% since 1Q2021, which is lower than proposed 8.15%

**GRAND UNION HOUSE
REVIEW OF CONSTRUCTION COSTS IN UPDATED
VIABILITY REPORT 24/09/21**



Geoffrey Barnett
Associates



BCIS All-in TPI #101

Base date: 1985 mean = 100 | Updated: 24-Sep-2021 | #101

Date	Index	Equivalent sample	Percentage change		
			On year	On quarter	On month
4Q 2019	333	56	0.9%	-0.6%	
1Q 2020	335	Provisional	1.2%	0.6%	
2Q 2020	335	Provisional	0.0%	0.0%	
3Q 2020	330	Provisional	-1.5%	-1.5%	
4Q 2020	328	Provisional	-1.5%	-0.6%	
1Q 2021	328	Provisional	-2.1%	0.0%	
2Q 2021	331	Provisional	-1.2%	0.9%	
3Q 2021	339	Provisional	2.7%	2.4%	
4Q 2021	345	Forecast	5.2%	1.8%	
1Q 2022	351	Forecast	7.0%	1.7%	
2Q 2022	354	Forecast	6.9%	0.9%	
3Q 2022	354	Forecast	4.4%	0.0%	
4Q 2022	353	Forecast	2.3%	-0.3%	
1Q 2023	353	Forecast	0.6%	0.0%	
2Q 2023	357	Forecast	0.8%	1.1%	
3Q 2023	360	Forecast	1.7%	0.8%	
4Q 2023	365	Forecast	3.4%	1.4%	
1Q 2024	368	Forecast	4.2%	0.8%	
2Q 2024	371	Forecast	3.9%	0.8%	
3Q 2024	374	Forecast	3.9%	0.8%	
4Q 2024	379	Forecast	3.8%	1.3%	
1Q 2025	384	Forecast	4.3%	1.3%	
2Q 2025	386	Forecast	4.0%	0.5%	
3Q 2025	389	Forecast	4.0%	0.8%	
4Q 2025	395	Forecast	4.2%	1.5%	
1Q 2026	399	Forecast	3.9%	1.0%	
2Q 2026	401	Forecast	3.9%	0.5%	