

39 Fitzjohns Avenue NW3 5JT

Second Addendum note

Prepared on behalf of the London Borough of Camden

6th December 2021

Planning Reference: 2020/2169/P



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1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors were instructed by the London Borough of Camden to undertake a review of a Financial Viability Assessment (FVA) prepared by Housing and Economic Development Consultancy Limited ('HEDC') on behalf of 39 Fitzjohn's Avenue Limited ('the Applicant') in connection with a planning application for the redevelopment of the above site into 35 flats. We prepared a report that concluded the proposed scheme was viably able to contribute towards affordable housing, after adjusting scheme profit, private residential values, sales timings and the removal of 39A Fitzjohn's Avenue's proposals from the appraisals (as they were outside the development red line).
- 1.2 In May 2021 we responded to a HEDC document published in May 2021 and continued to recommend an upwards adjustment to private residential values albeit a smaller increase than was previously argued. In their May response, HEDC address a Residential Sales Report dated March 2021 from Goldschmidt but did not comment on our other changes. We took this to mean that all other inputs were agreed. Our May 2021 appraisal found the scheme to generate a c.£279,000 deficit.
- 1.3 In November 2021 we received an updated note from Savills regarding the proposals (the Savills note is dated 22nd June 2021), in which they offer a £280,000 payment in lieu of affordable housing, as well as demonstrating the negative impacts that reducing the total number of units (in favour of greater numbers of 3-bed units) would have on Gross Development Value (GDV). The Council have requested our further comments.
- 1.4 The advice set out in this addendum 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.
- 1.5 This addendum 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

Appraisal inputs

- 2.1 We have not received a full accommodation schedule for the appraised 33-unit scheme with increased numbers of larger units. This makes it difficult to adjust the values in our pricing schedule. We have undertaken a high-level estimate and agree with the conclusions drawn by Savills that the GDV decreases with the increase of larger units, from £31.35m to £30.25m. The House Price Index implies that values for Flats and Maisonettes in Camden have been improving however in the interest of finding agreement we have maintained our May 2021 values.
- 2.2 We have not received instructions to run an appraisal on the basis of a 33-unit scheme as this would involve revising costs. We understand that the GDV exercise is for demonstrative purposes only.
- 2.3 Over the latter half of 2021, supply constraints caused a sudden increase to build costs. We have requested our Cost Consultant Neil Powling review the changes to the BCIS. Mr Powling reports *“The latter part of This year has seen a substantial increase in BCIS tender costs as reflected in the BCIS all-in Tender Price Index. These increases do not appear to be based on tender return information (there is little new tender data) but on the reports of increases in construction materials that the BCIS have used to inform their forecasts. The Base date for the cost model as reported by me in my report 25th February 2021 was Base 2Q2020 - the TPI was 326. In my February report I calculated an increase from 2Q2018 to 1Q2021 of 0.61%. The current increase from 2Q2018 to 4Q2021 is 7.67%.”*
- 2.4 The construction cost in our 20th May 2021 appraisal is £16,620,357. Since reporting, and in view of the cost increases to date, if the applicant has not sought to adjust these costs, their position may be considered very reasonable. We have maintained the costs per our May 2021 appraisal as we do not believe the applicant has made further adjustments themselves, but note in our discussion of review mechanisms below that a later review of actualised costs resolves the uncertainty related to the appropriate treatment of this appraisal input. We have also sensitivity tested the appraisal on the basis of increased costs for completeness of reporting.

Appraisal outputs

- 2.5 We understand that the applicant has offered a Payment in Lieu of affordable housing of £280,000. We have included this in our appraisal, in addition to the £150,000 already modelled for Section 106 charges.
- 2.6 Before changes to construction costs, this leads to a deficit of -£589,018. The net effective profit of the scheme is our 17.5% profit target less 1.88%, total 15.62% profit on GDV or £4,897,232, which we consider a commercially acceptable level.
- 2.7 However, once we have applied changes to construction costs, this deficit increases to -£1.53m. The net effective profit falls to 12.63%, which may still be deliverable, but is below the profit return acknowledged in PPG. This implies the £280,000 Payment in Lieu of affordable housing is the maximum viable.
- 2.8 In light of the positive changes to the House Price Index, we have sensitivity tested the appraisal to see at what point the scheme generates a surplus, after the increases to construction costs. We calculate this would be achievable at an 8% increase to our

May 2021 pricing, which we view as achievable. A review mechanism will capture these positive changes to viability.

Further comments

- 2.9 Paragraph 065 of the National Planning Policy Framework states that where major development involving the provision of housing is proposed, the expectation will be that at least 10% of the total number of homes will be available for affordable home ownership unless this would exceed the level required in the area. Within the context of the proposed 35-unit scheme, this would be the equivalent of 4 units (rounded upwards). The NPPF does not require the 10% provision to be subject to viability.

- 2.10 To give a high-level estimate: were we to assume Shared Ownership units were 65% of Open Market Value and that 4 x 2-bed units were offered, this would be the equivalent of a downfall of £1.37m in value to the scheme:

2-bed average OMV	£978,750
65% OMV	£636,188
Cost of provision on GDV	£342,563
Total cost to scheme GDV if 4 units are converted	£1,370,250

- 2.11 The Savills note suggests that the capped deferred contribution for the 20-unit scheme (the extant consent on the site) was £2.315m. We note that the previous application included 39A Fitzjohn's Avenue, so this may not be comparing like-for like.

- 2.12 Savills state that the difference between the GDV of the two schemes being 8% means that *"8% of the GDV uplift of the 35-unit scheme represents a starting point"*. They state that the GDV uplift is £1.403m, but have not factored in the fact that the previous application's GDV included 39A Fitzjohn's Avenue. 8% of their uplift is £112,000. For reasons that are not apparent, they *"consider that this figure can increase to 20% of the GDV uplift to give a potential financial contribution in lieu of affordable housing of £280,000."*

- 2.13 Taking our last appraisal for the 20-unit consented scheme dated August 2019, the GDV on the 20 units only (excluding ground rents and the existing house, which are not included in the current application) was £27.3m. This is an uplift of £4.05m against our revised GDV on a like-for-like basis of £31.35m. A 20% contribution would therefore be £810,000. This £810,000 would be the equivalent to the cost on GDV if 10% of units were provided as shared ownership at 80% of open market value.

- 2.14 We understand however that PPG states *"The weight to be given to a viability assessment is a matter for the decision maker, having regard to all the circumstances in the case"*. Our latest appraisal concludes that the scheme is in deficit, one that is worsened if we were to update construction costs in line with increases since our May 2021 appraisal.

- 2.15 We have been informed that the applicant has offered £280,000 upfront, and recommend that in addition to this the Council secure a deferred affordable housing contribution that reviewed viability at a later date, potentially improving the offer. This review would secure the potential for further affordable housing contributions whilst also allowing viability to reflect actualised costs (which may be value engineered or continue to rise per the current trend) and achieved values (plus a market value for unsold units).

3.0 FURTHER ANALYSIS

Private residential values

3.1 HEDC previously valued the units as follows:

Apartment type	Units	Av m2 / f2 NIA	Av value	Av value f2
Studio apartment	2	38.5 / 414	£407,500	£983
One bedroom apartment	9	50.9 / 548	£605,500	£1,106
Two bedroom apartment	20	71.8 / 773	£902,750	£1,168
Three bedroom apartment	4	91.8 / 988	£1,051,250	£1,133
Totals / averages	35	2,338 / 25,166	£28,525,000	£1,133

3.2 Goldschmidt's March 2021 document provided general Hampstead market statistics for properties sold between October-December 2020 and noted a 3.2% average discount on asking price, a 0.5% growth in annual achieved prices, and a decrease of 2.7% average £psf year-on-year.

3.3 We note that since March 2021 the House Price Index for flats and maisonettes in the Borough has increased from 103.79 to 114.75 in September 2021, with the peak being 118.07 in August 2021. This is an increase of over 10% (10.56%). It is unclear to what extent this increase is as a result of incentives such as the Stamp Duty Holiday.

3.4 Goldschmidt previously highlighted sales at 11 Fitzjohn's Avenue between January 2020-March 2021 with 2-beds at £850,000 and 3-beds at an average £1,553,750 (albeit the 3-beds were larger than those in the proposed scheme). We acknowledge the comparability of this scheme.

3.5 Our most recent pricing schedule (May 2021) adjusted the values of our 2-and 3-beds as follows, which gave a total GDV of £31.35m. We understand that this was agreed with Savills.

	Applicant		BPS	
	Average value	£psf	Average value	£psf
Studio	£407,500	£984	£500,000	£1,208
1B	£605,556	£1,108	£750,000	£1,373
2B	£902,250	£1,166	£950,000	£1,228
3B	£1,051,250	£1,067	£1,150,000	£1,168

3.6 In the interest of reaching the conclusion to negotiations we are satisfied to continue on the basis of the above values.

Changed unit mix scenario

3.7 We understand that Savills were asked to run a scenario in which 33 units were delivered by reconfiguring plans to provide more 3-bed units. The Savills note increases the number of larger units to be delivered in the proposed scheme following from conversations with the Council, creating a hypothetical 33-unit scheme consisting of 9 x 1-beds and studios, 18 x 2-bed and 6 x 3-beds. We have not seen a unit schedule to break down how this would impact GDV in more detail.

- 3.8 We have searched the planning portal for amended drawings. Only the revised basement and garden level plans are available. The basement level appears unchanged, still providing 2 x 3-beds and 1 x 2-bed. The rear garden level still provides 9 units overall but the mix has changed as follows:

	Previous scheme	Revised plans
Studios	1	1
1-beds	4	2
2-beds	4	5 (1 duplex)
3-beds	0	1
Total	9	9

- 3.9 No evidence has been provided regarding the valuation of the duplex, and we note the presence of duplexes was not highlighted in HEDC's assessment. For now, we have assumed that the larger unit size is taken into account in the overall average unit value but the aspirational value of a duplex unit should be considered and explored by the applicant in better detail.
- 3.10 A pricing schedule would ascertain the unit changes for our amended pricing schedule however on the basis of the above we have valued the scheme as follows:

Unit type	No. units	Ave. value	Tot. value
Studios	2	£500,000	£1,000,000
1-beds	7	£750,000	£5,250,000
2-beds	18	£950,000	£17,100,000
3-beds	6	£1,150,000	£6,900,000
Total	33		£30,250,000

- 3.11 We cannot analyse on a £psf basis without a revised accommodation schedule.

Changes to construction costs

- 3.12 Over the latter half of 2021, supply constraints caused a sudden increase to build costs. We have requested our Cost Consultant Neil Powling review the changes to the BCIS to understand the impact this may have on the appraisal were the applicant to update their cost plan.
- 3.13 Mr Powling's full report is attached in Appendix 1, but in summary, Mr Powling remains of the view that the costs in our May 2021 appraisal are appropriate and that if the applicant is maintaining those costs in consideration of their offer, these may now be optimistic assumptions in the Council's favour. Mr Powling adds, "*the Base date for the cost model as reported by me in my report 25th February 2021 was Base 2Q2020 - the TPI was 326. In my February report I calculated an increase from 2Q2018 to 1Q2021 of 0.61%. The current increase from 2Q2018 to 4Q2021 is 7.67%.*"
- 3.14 We have maintained the costs per our May 2021 appraisal but note these can now be considered the best-case scenario in light of cost increases that have not been countered as of the date of this report.

4.0 SIGNATORIES

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



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&



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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, and our instruction is not on a success-related or contingent fee basis.

Appendix 1: Build Cost Report

Elemental analysis & BCIS benchmarking

3.40%

Inflation 2Q18 to 2Q20

409,279

BCIS flats Def 3.12.21

	GIA m ²	2,982	2,982	LF100	LF130
		£/m ²	£	£/m ²	£/m ²
Demolitions 2.93%	452,085	152	437,220	147	
1 Substructure	1,104,229	370	1,067,920	358	204
2A Frame	440,954	148	426,455	143	181
2B Upper Floors					85
2C Roof	277,707	93	268,575	90	126
2D Stairs	108,570	36	105,000	35	40
2E External Walls	960,152	322	928,580	311	259
2F Windows & External Doors	324,262	109	313,600	105	122
2G Internal Walls & Partitions	237,825	80	230,005	77	95
2H Internal Doors	437,899	147	423,500	142	69
2 Superstructure	2,787,369	935	2,695,715	904	1,002
3A Wall Finishes	961,814	323	930,188	312	100
3B Floor Finishes	574,485	193	555,595	186	83
3C Ceiling Finishes	344,270	115	332,950	112	53
3 Internal Finishes	1,880,570	631	1,818,733	610	237
4 Fittings	1,838,917	617	1,778,450	596	85
5A Sanitary Appliances	672,100	225	650,000	218	40
5B Services Equipment (kitchen, laundry)					27
5C Disposal Installations	107,919	36	104,370	35	18
5D Water Installations	135,669	45	131,208	44	46
5E Heat Source	180,950	61	175,000	59	68
5F Space Heating & Air Treatment	506,712	170	490,050	164	138
5G Ventilating Systems, smoke extract & control	106,869	36	103,355	35	25
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)	644,027	216	622,850	209	121
5I Fuel Installations					7
5J Lift Installations	118,910	40	115,000	39	51
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)	200,420	67	193,830	65	16
5L Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)	564,647	189	546,080	183	31
5M Special Installations - (window cleaning, BMS, medical gas)					44
5N BWIC with Services	122,360	41	118,337	40	20
5O Management of commissioning of services	12,591	4	12,177	4	
5 Services	3,373,174	1,131	3,262,257	1,094	673
6A Site Works	825,845	277	798,690	268	
6B Drainage	76,154	26	73,650	25	
6C External Services	108,570	36	105,000	35	
6D Minor Building Works					
6 External Works 8.84%	1,010,570	339	977,340	328	0
SUB TOTAL	12,446,914	4,174	12,037,635	4,037	2,201
7 Preliminaries 16.5%	2,053,741	689	1,986,210	666	
Overheads & Profit 6.5%	942,543	316	911,550	306	
SUB TOTAL	15,443,198	5,179	14,935,395	5,009	2,201
Design Development risks					
Construction risks	772,160	259	746,770	250	
Employer change risks					
Employer other risks	-1	0		0	
TOTAL	16,215,357	5,438	15,682,164	5,259	
	16,215,357	5,438		5,259	
Benchmarking of Applicant costs EXCLUDING inflation uplifts		2,513		2,513	
Add for demolitions	152		147		
Add for external works	339		328		
Add additional cost of substructure	166		154		
Add additional cost of internal doors	78		73		
Add additional cost of finishings (wall, floor & ceiling)	394		373		
Add additional cost of fittings	532		512		
Add additional cost of sanitary appliances	185		178		
Add additional cost of space heating	32		27		
Add additional cost of electrical installation	95		88		
Add additional cost of protective installation	52		49		
Add additional cost of communications installations	158		152		
Add additional cost of BWIC	22		20		
	2,204		2,100		
Add prelims 16.5%	364		347		
Add OHP 6.5%	167	2,735	159	2,606	
		5,248		5,119	
Add contingency 5%		262		256	
Total adjusted benchmark		5,510		5,375	

Appendix 2: BPS Appraisal

39 Fitzjohn's Avenue NW3

Conversion and extension to provide 35 apartments

Development Appraisal
Prepared by BPS
BPS Surveyors
03 December 2021

APPRAISAL SUMMARY**BPS SURVEYORS****39 Fitzjohn's Avenue NW3****Appraisal Summary for Phase 1**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
New apartments off plan sales	16	9,322	1,301.09	758,047	12,128,753
Post PC sales 2B	15	11,894	1,229.30	974,750	14,621,247
3B sales	4	3,950	1,164.56	1,150,000	4,600,000
Totals	35	25,166			31,350,000

NET REALISATION**31,350,000****OUTLAY****ACQUISITION COSTS**

Fixed Price	3,954,075		
Fixed Price		3,954,075	
			3,954,075
Stamp Duty	5.00%	197,704	
Agent Fee	1.00%	39,541	
Legal Fee	0.50%	19,770	
			257,015

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Building works	32,098	481.13	15,443,197
Contingency		5.00%	772,160
VAT on conversion works estimate			405,000
			16,620,357

Section 106 Costs

Section 106 Costs		280,000	
			280,000

PROFESSIONAL FEES

Professional fees and other costs	10.00%	1,544,320	
			1,544,320

MARKETING & LETTING

Marketing new apartments	1.50%	470,250	
			470,250

DISPOSAL FEES

Sales Agent Fee	1.50%	470,250	
Sales Legal Fee	0.25%	78,375	
			548,625

Additional Costs

Developer's profit	17.50%	5,486,250	
Mayoral CIL @ 2019/2020 rates		113,440	
Borough CIL @ 2019/2020 rates		914,309	
Section 106 provisional		150,000	
			6,663,999

FINANCE

Timescale	Duration	Commences
Purchase	1	Mar 2021
Pre-Construction	6	Apr 2021
Construction	18	Oct 2021
Sale	4	Apr 2023
Total Duration	29	

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)

Land	579,887	
Construction	942,088	
Other	78,402	
Total Finance Cost		1,600,377

TOTAL COSTS**31,939,018****PROFIT****(589,018)****Performance Measures**

39 Fitzjohn's Avenue NW3

Profit on Cost%	-1.84%
Profit on GDV%	-1.88%
Profit on NDV%	-1.88%
IRR% (without Interest)	3.94%
Profit Erosion (finance rate 6.500)	N/A

39 Fitzjohn's Avenue NW3

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Development Appraisal
Prepared by BPS
BPS Surveyors
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CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Building works	32,098	505.18	16,215,357
Contingency		5.00%	810,768
VAT on conversion works estimate			405,000
			17,431,125

Section 106 Costs

Section 106 Costs		280,000	
			280,000

PROFESSIONAL FEES

Professional fees and other costs	10.00%	1,621,536	
			1,621,536

MARKETING & LETTING

Marketing new apartments	1.50%	470,250	
			470,250

DISPOSAL FEES

Sales Agent Fee	1.50%	470,250	
Sales Legal Fee	0.25%	78,375	
			548,625

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Sale	4	Apr 2023
Total Duration	29	

Debit Rate 6.500%, Credit Rate 1.000% (Nominal)

Land	579,887	
Construction	981,635	
Other	89,179	
Total Finance Cost		1,650,701

TOTAL COSTS**32,877,325****PROFIT****(1,527,325)****Performance Measures**

39 Fitzjohn's Avenue NW3

Profit on Cost%	-4.65%
Profit on GDV%	-4.87%
Profit on NDV%	-4.87%
IRR% (without Interest)	0.47%
Profit Erosion (finance rate 6.500)	N/A