Viability Study

19 – 37 Highgate Road, Kentish Town, London

Turner Morum LLP

April 2022

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Appendices

1. BACKGROUND AND RELEVANT EXPERIENCE

1.1. My name is Nicholas Bignall of 32-33 Cowcross Street, London EC1M 6DF. I am a Member of the Royal Institution of Chartered Surveyors ("RICS") having qualified in 2013 following the award, in 2009, of an Honours Degree in Land Management from University of Reading and in 2010 a Master's Degree in Urban Planning & Development.

1.2. In 2010 I joined the practice of Turner Morum Chartered Surveyors and was made an Associate in 2015 and a Partner in 2018. I am a specialist in the field of development site appraisals and associated subjects.

1.3. I regularly advise across the whole of the UK on the value and potential of major tracts of development land and infill urban development focusing specifically on development sites within the London Boroughs & the South East. I am currently instructed by a number of Local Authorities, Landowners, Housing Associations and Developers and have extensive experience in this field. I have also provided Expert Witness evidence at planning appeals and Local Plan Examinations. Full details of some of my recent case experience can be viewed at **Appendix 5**.

1.4. Turner Morum were appointed by the applicant to undertake a viability assessment in regards to their proposed development on the site at 19 – 37 Highgate Road, Kentish Town. The proposed scheme is described as follows:

"Variation of Conditions 2 (development in accordance with approved plans) and 15 (social enterprise unit opening hours) granted under reference 2013/5947/P dated 18.06.2014 (as amended by reference 2015/3151/P, 2016/0936/P, 2017/0363/P, 2017/0518/P, 2021/5384/P and 2022/0929/P) (for: Demolition of existing buildings and redevelopment to provide: a new Centre for Independent Living at Greenwood Place; and mixed-use development at Highgate Road comprising residential units, including supported affordable housing units, and social enterprise space; highway improvements; plant, landscaping; servicing; disabled car parking etc.). Amendments to Highgate Road site to include excavation of basement,

installation of substation at ground floor, reconfiguration of internal layout, provision of 5no. supported living units at ground floor level, 5no. net additional residential units, elevational changes, material changes and associated plant, landscaping, servicing, cycle and refuse storage alterations."

1.5. The subject site is located in in the London Borough of Camden on Highgate Road. It is bounded by industrial and commercial uses westerly, Highgate Road to the north east and the commercial centre of Kentish Town to the south east. The site area equates to 0.12 ha or 0.30 acres. A location plan can be viewed as per **Appendix 1**.

1.6. The subject site benefits from an extant planning permission granted in 2014 (2013/5947/P) to provide 42 residential units of which 8 are affordable supported living units. The scheme also includes a c. 100 sqm social enterprise facility at ground floor level. The purpose of this assessment is to consider the viability of the latest application scheme.

1.7. I have carried out a development appraisal adopting a bespoke valuation model structure to analyse the viability of the proposed scheme. The residual appraisal and supporting information can be seen as **Appendix 2**.

1.8. In undertaking this viability I am aware and follow the mandatory RICS *Financial Viability in Planning; Conduct & Reporting (2019)* (see **Appendix 6**).

1.9. I am also aware of viability guidance documents such as the *RICS Financial Viability in Planning (2012)*, *Viability Testing Local Plans* (the Harman report) and the *RICS Assessing viability in planning under the NPPF 2019 for England (2021)*. I am also aware of the Planning Practice Guidance on Viability published following updates to the National Planning Policy Framework (NPPF) and the 2017 Mayoral Affordable Housing & Viability Supplementary Planning Guidance (SPG).

2. MECHANICS OF THE ASSESSMENT

2.1. My residual appraisal analysis can be summarised as follows: -

- **Appendix 2 Tab 1A –** Appraisal showing the viability of the proposed scheme with 11% affordable housing (5 units) assumed to be delivered as affordable supported living units.

- **Appendix 2 Tab 1B –** Appraisal calculating the Residual Land Value (RLV) of the extant scheme of 42 units with 8 supported living units.

2.2. As can be seen from the above the proposed scheme appraisal model is benchmarked with 5 affordable dwellings or 11%. The reason this proposal is being considered rather than a higher % is following discussions with Camden's Affordable Housing and Adult Social Care teams where it was made clear the Council did not want any affordable dwellings at 1st floor and above. With the site being close to the Greenwood Centre the Council have identified units within the proposed scheme for specialised supported living with number of specific requirements within the design of the ground floor space (i.e. internal corridor linking all units, carers overnight accommodation, community facilities for the affordable units). It is for this reason, that the maximum on-site provision that can be delivered from this application is 5 ground floor dwellings. This has been agreed with the Council who have confirmed they are content with the designs.

2.3. I will now run through the various appraisal inputs in sequential order as they appear in my residual appraisal analysis:

REVENUES

2.4. Market revenues for the residential units are based upon research of comparable schemes and discussions with local agents. I have been provided with 2 pricing schedules from local agents Hamptons and Martyn Gerrard. As can be viewed from **Appendix 3** these schedules equate to an average value of £912 psf - £885 psf respectively. Hamptons have also provided a pricing schedule for the extant 42-unit scheme showing an average value of £901 psf. This is also included as per **Appendix 3**.

2.5. In terms of comparable evidence there is a limited amount of new build stock currently on the market in Kentish Town. The only listed new build dwelling for sale is at Camden Mews where a 1,634 sq ft 3-bedroom townhouse is on market at £1.100m (£673 psf). This is significantly larger than any of the dwellings within this appraisal analysis although the largest unit in the proposed scheme is a 3-bed flat of 1,354 sq ft. This unit is priced by Hamptons and Martyn Gerrard at £1.200m (£886 psf) which would seem an optimistic position compared to the Camden Mews townhouse.

2.6. For the smaller dwellings within this analysis, I have considered the St Martins Walk development (Bacton Low Rise Estate). This development is located c. 750m west of the application site and comprises the phased development of c. 290 residential dwellings, 3 employment units (Class B1), new and altered public realm and other associated works. From reviewing the Molior database achieved sales in 2020 show an average of £664 psf (£558k – 840 sq ft) for a 2-bed flat. I understand from January 2022 the scheme is currently on hold; Phase 1 has been completed and sold out and although the land for Phase 2 has been cleared for construction this has yet to commence. This delay in Phase 2 may be down to a need to renegotiate the planning consent. Full details of these comparables are included as per **Appendix 3**.

2.7. For the purpose of this assessment, I have adopted the Hamptons pricing schedule in my appraisal analysis for both the proposed and consented schemes.

2.8. The affordable housing in the consented appraisal model is included based on affordable supported living. To calculate the value the applicant has liaised with Registered Providers and received an offer from Origin Housing at £920k for the proposed 5 dwellings (£270 psf - £184k unit values). Details of the offer are included as per **Appendix 3**. The extant scheme affordable housing provision is assumed to be social rented as specified in the S106. The value for the social rented units has been derived from information provided by the Council to the applicant as part of their bid to secure the site (**Appendix 3**). The value derived from this information and accepted by the Council was a total GDV of £1.560m or £195k per flat. I have maintained this position in my assessment for the extant scheme.

2.9. The ground floor social enterprise commercial unit has been valued at £30 psf with a 6% yield and a 6-month rent free period. It is not entirely clear from the details of the application what type of commercial unit this will be and so I have made some reasonable benchmark assumptions in terms of value/yield. The yield at 6% is below the 6.5% recommended in the Knight Frank yield guide for prime shops. In terms of rental evidence, a CoStar report included as per **Appendix 3** shows an average of £30 psf for retail lettings in the local area. Although these are not new build comparables they are retail units as opposed to a potential social enterprise space (as per the extant consent) which I have assumed could be slightly lower value. It is also considered that the development is in an off-pitch location for retail.

DEVELOPMENT COSTS

2.10. Fees and marketing costs in respect of the development are included at 3% of Market Housing Gross Development Value ("GDV"), and the cost of disposing of the affordable units to a Registered Provider is included at 0.5% of affordable GDV, as per standard industry benchmarks. I have also included disposal costs for the commercial element of the scheme at 2% of GDV.

2.11. The construction costs are derived from a full site cost plan provided by Mr Simon Skinner of CS2 Cost Consultants. Mr Skinner has costed the 2014 consented scheme which totals £9.779m (excluding contingency) and the application scheme at £12.669m (excluding contingency). These totals equate to c. £254 psf and £249 psf respectively. Contingency is then included at 10% on the recommendation of the cost consultants based on market uncertainty and significant cost increases over the past 18 months. Full details of the cost plan can be viewed as per **Appendix 4**.

2.12. The reason for the difference in the cost plan £ psf figures can be derived from the fact they relate to 2 separate planning consents with separate construction requirements. For example, the proposed scheme includes a basement which is not required from the extant scheme, and is a much larger scheme. Furthermore, the proposed scheme includes features such as an Air Source Heat Pump (ASHP) which again is not a requirement of the 2014 consent which instead allowed for communal boilers with the Greenwood Centre. There is a consistency in the cost plans, however, through the assumption that both developments would be delivered in accordance with the latest Building Regulation requirements.

2.13. An allowance for Technical Fees is included at 10% of the Standard Build Cost which reflects the costs associated with Architects, Quantity Surveyors, Engineers, Project Management and other technical / professional consultancy fees. By way of comparison, the suggested allowance for Local Plan viability study is 10% - 12% so I am at the bottom end of this range.

2.14. I have then made an allowance for Developer Profit at 20% (of GDV) for the Market Housing, 6% (of GDV) for the affordable housing and 15% (of GDV) for commercial. These assumed returns are within industry accepted industry parameters. The Local Plan viability study also assumed benchmarks of 20%/6% on market/affordable GDV with a 20% on cost allowance for commercial profit. I am aware of the debate on suitable target profit margins within the industry and although I am of the professional opinion a 20% margin is suitable for a scheme of this nature in the current economic climate, I have also tested the impact of the lower profit margin in the sensitivity section of this report.

2.15. I understand for the extant scheme the S106 and CIL costs have largely been adsorbed by the Council barring costs of £5,729 for travel plan monitoring and £6,000 towards the cost of recruitment and training for 2 apprentices through Kings Cross Construction. No CIL charge is applicable for the 2014 consent as the Local CIL was not adopted and Mayoral CIL had already been settled by the Council. For the proposed scheme I have assumed S106 on the same £ per dwelling basis as the extant scheme and included CIL on the advice of the applicants' planning consultants at £733k for Local CIL and £91k Mayoral CIL. I would reserve the right to review these assumptions once further detailed advice is received from the Council regarding the planning obligations.

2.16. With regards to the calculation of finance, I have included within my appraisal a quarterly cashflow to reflect the cost of finance for my appraisal analysis. This can be seen as per Tab 5A – 5B of **Appendix 2** and reflect the details of the particular scheme including the build rate of the residential units and the particular infrastructure timings.

2.17. For the extant scheme I have made the assumption that construction will commence on site within Q2 Year 1 (this is assumed to be following a period of site preparation) and will be completed by the end of Q2 Year 2. For the proposed scheme the construction period has been extended one quarter due to the additional construction requirements such as the basement.

2.18. I have assumed all of the residential sales will be achieved in the 2 quarters post completion; this includes a portion of off-plan sales although the monies from these sales would go into escrow and would not be accessible by the developer until after the development is completed.

2.19. The affordable is assumed to be disposed as per the offer in Appendix 3 with 10% on exchange and the remainder on completion. The cashflow works on a finance rate on debit of 6.5% which I believe is reasonable in the current climate.

3. VALUATION METHODOLOGY

3.1. The issue of what is deemed to be an appropriate Land Value for inclusion within viability studies is at present a highly topical subject. Planning appeal decisions and government guidance dictate that one has to ignore the amount that is actually paid for a development site and instead adopt an appropriate Existing or Alternative Use Value as the Benchmark Land Value.

3.2. In terms of existing use, the Highgate Centre was previously used to provide day care services for those with mental health conditions. However, these services have now been relocated to the Greenwood Centre, following the buildings completion in February 2019. The Highgate Centre is soon to become vacant and surplus to the Council's requirements.

3.3. The existing building is a two-storey brick structure with a total GIA of 734 sqm (7,900 sq ft). The building was constructed in the 1970's with a light industrial character which includes a loading bay to the car park and roof glazing.

3.4. Due to the fact the site has become vacant and is surplus to requirements I have considered that the most suitable approach to determining the Benchmark Land Value would be with reference to the 2014 extant consent. In order to consider a value for this consent I have constructed a residual appraisal model as per **Appendix 2** Tab 1b. The supporting assumptions have been outlined in the main body of this report and are consistent with the proposed scheme appraisal barring the cost plan and pricing schedule which have been individually reported for the different applications.

3.5. The result of this analysis is to show the extant scheme producing a Residual Land Value of **£5.468m**. Although this is technically an Alternative Use Value approach, I consider that a reasonable landowner would need to receive this value in order to be incentivised to release this site for development.

4. SUMMARY CONCLUSION

4.1. The outturn of my analysis can be summarised as follows:

Tab	Total Units	AH % (Units)	Residual Land Value	EUV	Surplus / Deficit	Viable/ Non-Viable?
1A	Proposed – 47 units	11%	£4,216,552	£5,468,272	-£1,251,720	NON-VIABLE
1B	Extant – 42 units	19%	£5,468,272	£0	£0	

5. SENSITIVITY ANALYSIS

5.1. In order to assess the viability, I have undertaken a sensitivity analysis by varying the assumptions on costs/revenues as shown below:

Tab 1A - GDV vs Total Cost						
	Surplus/Deficit	GDV				
	-£1,251,720	-10%	-5%	0%	+5%	+10%
TOTAL COSTS	+10%	-£6,623,535	-£5,175,167	-£3,726,800	-£2,278,432	-£830,065
	+5%	-£5,385,995	-£3,937,627	-£2,489,260	-£1,040,893	£407,475
	0%	-£4,148,455	-£2,700,088	-£1,251,720	£196,647	£1,645,015
	-5%	-£2,910,915	-£1,462,548	-£14,180	£1,434,187	£2,882,554
	-10%	-£1,673,375	-£225,008	£1,223,359	£2,671,727	£4,120,094

5.2. I have also tested the impact of reducing the target profit margin to 17.5% on market housing GDV. The impact on the viability is summarised below:

Tab	Total Units	Affordable % (Units)	Residual Land Value	BLV	Surplus / Deficit	Viable/ Non-Viable?
1A	47	11%	£4,808,478	£5,930,019	-£1,121,541	NON-VIABLE
1B	42	19%	£5,930,019	£0	£0	

5.3. Although the impact of this change is to improve the viability slightly, this is somewhat negated due to the reduction in profit also serving to improve the Benchmark Land Value.

6. NON-TECHNICAL SUMMARY

6.1. The Structure of my Residual Appraisals produces a Residual Land Value (RLV) which is then compared with an appropriate Benchmark Land Value (BLV). If the RLV exceeds the BLV, a surplus is generated and the scheme can be deemed “Viable”. However, if the RLV is less than the BLV, a deficit is produced and the scheme should be considered “Non-Viable”.

6.2. The inputs I have adopted within my analysis can be seen within the summary table below compared with the London Borough of Camden Local Plan Review Evidence Base: Financial Viability Study (October 2015):

Input:	Assessment Allowance:	Local Plan Viability Allowance:	Comments:
Market Revenues	£920 psf	Variable	
Affordable Revenues	£270 psf	-	
Non-Residential Revenue (if applicable)	£30 psf	-	
Fees and Marketing (Market):	3%	3%	
Transaction Costs (Affordable):	0.5%	-	
Fees and Marketing (Non-Resi):	2%	-	
Standard Construction Costs:	£249 psf	Variable	
Professional Fees:	10%	10% - 12%	
Developer Profit:	20%/6%/15%	20%/6%/20% *(on cost for commercial)	

Finance Rate:	6.5%	7%	
Benchmark Land Value:	£5.814m (AUV)	£9.9m per ha - £71.6m per ha	

6.3. In this instance, one can observe from the table above and the appraisal included as **Appendix 2** that the RLV of the proposed scheme does not exceed the adopted BLV even when the affordable housing % is reduced.

7. CONCLUSIONS

7.1. You will note from the table above and the appraisal included as **Appendix 2** shows the proposed scheme incurring a deficit even when the affordable contributions are reduced to 11%. In these circumstances the scenarios tested should therefore be considered technically 'non-viable'.

7.2. In my experience, where certain deficits are incurred in viability the developer can chose to take the 'commercial decision' to proceed with a scheme at a certain level of affordable provided that the deficit does not increase any further beyond that point. This 'commercial decision' would be reached on an individual site basis on the formed on the assumptions within this appraisal. On this basis the applicant has advised me that they are prepared to deliver the scheme as per the appraisal in my submission with a provision of 11% affordable housing (5 affordable supported living units).

7.3. As outlined earlier in this report the provision of 5 ground floor units is in accordance with the aspirations of the Council have specifically identified these dwellings as being specialised supported living units thus needing to be on the ground floor.

7.4. I hope this provides a sufficient level of information. I would welcome the opportunity to discuss the findings of my analysis with you at your earliest convenience.

Turner Morum LLP

April 2022