Koko, 1a Camden High Street, The Hope & Anchor, 74 Crowndale Road, 1a Bayham Street & 65 Bayham Place, NW1 7JE

Post Construction Viability Assessment

Prepared on behalf of the London Borough of Camden

4th July 2022

Planning Reference: 2017/6058/P

BPS Chartered Surveyors

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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 Post Construction Viability Assessment (PCVA) prepared by Grimshaw Consulting Ltd (hereafter 'GCL') on behalf of The Hope Lease Limited ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 Planning application 2017/6058/P was granted permission on 2nd May 2018 for:

Redevelopment involving change of use from offices (Class B1) and erection of 5 storey building at the corner of Bayham Street and Bayham Place to provide pub at ground floor and private members club (Class Sui Generis) on upper floors following demolition of 65 Bayham Place, 1 Bayham Street (façade retained) and 74 Crowndale Road (façades retained), including enlargement of basement and sub-basement, retention of ground floor and basement of Hope & Anchor PH (Class A4), change of use at 1st and 2nd floor from pub (Class A4) to private members club (Class Sui Generis), mansard roof extension to 74 Crowndale Road, creation of terraces at 3rd and 4th floor level, relocation of chillers and air handling unit to 3rd floor plant enclosure with additional plant (5x a/c condensers and 1 cooling unit) at roof level, erection of glazed canopy to Camden High Street and Crowndale Road elevation and erection of 4th floor glazed extension above roof of Koko to provide restaurant and bar to private members club (Sui Generis).

1.3 The applicant has submitted the PCVA in accordance with the S106 Agreement dated 2nd May 2018. The definition for the review is in paragraph 2.37. Section 4.4 further describes the deferred housing contribution, which requires that the PCVA is submitted on practical completion or on the disposal of 75% of the floorspace.

1.4 The S106 Agreement requires that the PCVA be "*presented substantially in the same form as the Owner's viability assessment submitted to the council on 30 October 2017 entitled "Economic Viability Appraisal and Report" or other such form as agreed by the Council in writing*". This refers to the original viability submission associated with the Council which was produced by ULL, which BPS reviewed on behalf of the Council at the time the planning application was submitted.

1.5 It is worth noting the roof of the building caught fire in January 2020 which has caused time delay and cost increases from the 2017 assessment. The consequences of the fire on the viability of the scheme are addressed in the GCL assessment.

1.6 The basis of our review is the Post Construction Viability Assessment prepared by GCL, dated September 2021, which concludes that the scheme currently shows a deficit of approximately £11.4 million therefore no deferred housing contribution is owed.

1.7 We have downloaded documents available on Council's planning website. We have received a live version of the Argus appraisal included in the report.

1.8 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.

1.9 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.

1.10 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 SUMMARY TABLE

Input	GCL	BPS	Position
KOKO valuation	£66,737,059	£66,737,059	Agreed
Purchasers costs	0%	6.78%	Some Ambiguity
Fire reimbursement	£18,070,000	£21,030,000	Disagreed
Legal fees	£339,883	£172,237	Disagreed
Build Costs	£50,034,138	£50,034,138	Agreed
Professional Fees	£7,128,666	£7,128,666	Agreed
Fit out	£4,106,683	£4,106,683	Agreed
S106 & CIL	£330,804	£330,804	Agreed
Sales agent fee	1%	1%	Agreed
Sales legal fee	0.25%	0.25%	Agreed
Finance	6.5% (£7,713,425)	£996,548	Disagreed
Profit (on cost)	15%	15%	Agreed
Benchmark Land Value	£15,057,000	£15,057,000	Agreed
Residual Land Value	£3,634,000	£7,808,000	Disagreed
Deficit	-£11,423,000	-£7,249,000	Disagreed

3.0 CONCLUSIONS AND RECOMMENDATIONS

3.1 We have reviewed the S106 Post Construction Viability Review prepared by GCL on behalf of the developer which concludes that the proposed scheme generates a residual land value of £3,634,000 which is approximately £11,423,000 below the benchmark land value of £15,057,000. On this basis the scheme cannot provide any additional affordable housing contribution.

3.2 The S106 agreement requires that the viability reappraisal be undertaken in a similar manner to the original application stage viability assessment. We have been provided with a live version of the Argus appraisal included in GCL report to which we have applied our amendments. These amendments are outlined in the table at Section 2.

3.3 The appraisal summary can be found in Appendix One and shows the scheme produces a deficit of £7,249,000. We therefore conclude that the scheme would not be able to contribute any deferred payment towards housing.

4.0 PRINCIPLES OF VIABILITY ASSESMENT

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

Gross Development Value – Development Costs (including Developer's Profit) = Residual Value

4.2 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.

4.3 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.

4.4 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

4.5 This Viability Review report adheres to the RICS Professional Statement on Financial Viability in Planning: Conduct and Reporting (published May 2019). In accordance with this Statement, Section 8 below incorporates details of our Quality Standards Control & Statement on Limitation of Liability/ Publication. This report has been prepared according to the Professional Statement's requirement for objectivity and impartiality, without interference and with reference to all appropriate available sources of information. Where information has not been obtainable, we have stated this expressly in the body of the report.

5.0 DEVELOPMENT VALUES

5.1 The development includes the refurbishment of the existing KOKO auditorium, as well as a significant extension and redevelopment of the adjacent "Hope & Anchor" site to create a new private members club ('KOKO Social'). These two elements are separated out in the original 2017 EVA and in the subsequent PCVA. The total GIA in the appraisal is stated to be 53,521 sq ft.

5.2 GCL note that the 2017 EVA adopted an estimated rental value (ERV) of £1,826,000 (£34 per sq ft) pa based on a 35 year lease. At the time they capitalised this income at a net initial yield (NIY) of 5.25%. ULL additionally included income from tenants of £1,111,667 to generate a total GDV of £35.9 million.

5.3 Our February 2018 review considered the rental value adopted to be broadly reasonable. We capitalised the income at a yield of 5% which we considered pessimistic at the time although found insufficient evidence to justify a much lower yield. This generated a GDV of £37.6 million with the additional income included.

5.4 GCL have confirmed the following leases in a signed letter from Hamlins LLP on behalf of The Hope Lease. These show a passing rent of £646,000 pa for the KOKO Auditorium and £2,191,000 pa for KOKO Social, generating a total rental value of £2,837,000 pa (£53 per sq ft). We have not been provided with official copies of these leases despite them being requested. This represents a significant uplift on application stage assessment of rental value.

5.5 On the basis of the evidence we have been provided we accordingly have accepted the rental value GCL have adopted for the purposes of this assessment. We consider the signed letter from Hamlins LLP represents sufficient evidence which represents the duty of care required to the Council in discharging the conditions of the legal agreement.

5.6 GCL have capitalised the income into perpetuity which we consider appropriate given the length of the lease.

5.7 GCL have identified 11 investment transactions of comparable entertainment venues from across London. The NIY's identified range between 2.5% and 9.83% and the transactions range from public houses to larger event spaces. The yield of 9.83% is a significant outlier with the second highest yield being 5.17% and an average of 4%. They have also identified five public house and restaurants that are currently on the market from across London with yields ranging between 3.75% and 5.39% (average 4.75%). In line with this evidence and considering the unique nature of the development at KOKO they consider a net initial yield of 4.25% is appropriate for this assessment. This generates a capital value of £66,737,000 (£1,249 per sq ft).

5.8 We have reviewed the evidence provided by GCL and note that the venues identified are predominantly not similar to the subject property, being an entertainment venue with an attached private members club. We do consider much of the comparable evidence to be in more desirable locations.

5.9 We have identified the following additional transactions of similar units, noting they are mostly occupation sales rather than investment transactions:

Address	Description & GIA	Date	Sale Price	Price psf

Riverside Health and Racquets Club Dukes Meadows, Riverside Drive, Chiswick, London, W4 2SX	Health club, D2 (Now Sui Generis) planning use. Modern building with significant facilities, both indoor and outdoor. In Chiswick, West London. 150,113 sq ft	11/8/21	£54.3 million	£362
38, Hill Street, London, W1J 5JZ	End of terrace period villa, Social Club with D2 use (now Sui Generis). In Mayfair, very affluent Central London. 17,131 sq ft	1/10/21	£35 million	£2,043
Odeon, 135 Shaftesbury Avenue, London WC2H 8AH	Large cinema in a period building, operated by Odeon with D2 (now Sui Generis) planning use. In Soho, affluent location. 31,560 sq ft	3/11/21	£30 million	£951
24, Endell Street, London, WC2H 9BU	Hotels and Leisure - D2 (now Sui Generis) use. Period building in Soho, Central London. 70,127 sq ft	1/6/21	£42.5 million	£606
St Martins House, 63-66, St Martin's Lane, London, WC2N 4JS	Hotels and Leisure - D2 (now Sui Generis) use. Dated post war building with ground floor retail. In Soho, Central London. 6,278 sq ft	1/6/21	£10.3 million	£1,531

5.10 The evidence ranges significantly in price between £362 - £2,043 per sq ft. We consider the capital value per sq ft of £1,249 is at the upper end of the range we would reasonably expect the subject to achieve given its size, but note the newly built / refurbished condition, landmark nature and desirable location make it an attractive investment. On balance we consider the NIY of 4.25% to be broadly appropriate, in light of the evidence identified by us and GCL. It should be noted this yield is 0.75% lower than the rate adopted in the 2017 assessment which improves the viability of the scheme. It is worth considering that the GCL assessment includes the fit out of the commercial space which will increase the rental value and harden the yield.

5.11 We note that GCL have not included purchasers costs on the GDV, which implies that the yield of 4.25% adopted is in fact a gross yield. We have assumed this is a mistake from GCL and have included purchasers costs at the calculated stamp duty rate and 1.8% agent and legal fees. It is worth noting the inclusion of these purchasers' costs does not impact the overall conclusion of our assessment.

5.12 GCL have not been advised of any additional income that has been received by the freeholder throughout the lifespan of the development, as was included in the 2017 assessment. We consider this to be an appropriate omission.

5.13 GCL have included an insurance pay out relating to the roof fire of £18.7 million, based on advice from G&T, which they have included as additional revenue in their appraisal.

5.14 We have been provided with a cost estimate for the Koko Fire Reinstatement dated 3rd March 2022 which shows a total cost of £21.03 million. We have been informed by GCL that the insurance payout has not yet been agreed and that the figure provided is the best estimate for the figure.

5.15 For the purposes of this assessment we have accepted the payout sum of £21.03 million as included by GCL. Another approach would be to exclude the costs of the fire from our viability reappraisal, however we note that these costs are imbedded in the cost evidence for the proposed scheme as the redevelopment and fire reinstatement are intrinsically linked. We therefore consider that these must be included in the viability reassessment.

6.0 DEVELOPMENT COSTS

6.1 This section will review the costs that have been included in the GCL assessment.

Benchmark land value

6.2 GCL have included a cost of £15,057,000 as the benchmark land value. This is the figure we adopted as the benchmark land value in our February 2018 assessment, noting the figure was only 2.5% lower than that adopted by the applicant.

6.3 We consider this to be an appropriate figure to adopt as the benchmark land value.

Construction Costs

6.4 GCL have relied on information from Gardiner & Theobald (G&T) who are the project managers for the site. GCL have included Cost Report Nr.10 produced by G&T dated August 2021 which includes all known costs up to 9th August 2021. GCL have compared the figures included in the G&T report to those adopted in the 2017 ULL assessment.

6.5 For the construction costs the forecast outturn is £50,034,138 which is inclusive of demolition costs. The G&T report shows that the costs without the fire reinstatement and KOKO Auditorium are at £31,597,687, with the approved budget sum being £23.8 million. The construction costs in the original assessment were £14,853,000 which our cost consultant found to be reasonable at the time. It is clear that the cost of the fire was significant however the construction cost is more than double on the original estimate figure regardless of the fire.

Additional Costs

6.6 The total out turn for professional fees is £7,128,666 which is inclusive of the fees on the fire reinstatement costs, with S106 contributions and legal fees having been removed. This equates to 14.25% of total construction costs and have been evidenced by the G&T cost report.

6.7 GCL have included Client Direct Costs, comprising FFE, AV equipment, recording studio etc (therefore predominantly client fit out costs) at a total figure of £4,106,683. This is inclusive of fees in the KOKO Auditorium and for fire reinstatement costs which comprise £1,379,865 of the total cost. These are evidence by the G&T Cost report.

6.8 GCL have included legal fees at a total of £339,883. We have received the Hamlins Statement of Account from the developer which shows total legal costs of £172,237. In accordance with this evidence provided we have adopted a total cost of £172,237 in our assessment.

6.9 GCL have included S106 contributions at a total of £108,518, Mayoral CIL at £155,389.91 and Camden CIL at £66,895.66. The council have confirmed the CIL payments have been received and the S106 cost is in accordance with the S106 agreement.

6.10 GCL note the 2017 assessment included marketing and letting costs at £269,120. They have not included any such costs in this assessment on the basis the property is already let and have assumed that any marketing or letting costs would be included in the G&T cost assessment. We consider this to be a reasonable position.

6.11 GCL have included disposal fees of 1% agents fees and 0.25% legal fees. They do not consider there to be any requirement for purchasers costs in the appraisal due to the adoption of a net initial yield approach, noting they have included a stamp duty allowance on the residual land value. In accordance with standard valuation practice we consider purchasers costs should be included on the GDV where the investment method is used, in addition to the costs on the residual land value.

6.12 GCL have included finance at an interest rate of 6.5% (noting the 2017 assessment included a rate of 7%) assuming 100% debt finance. Their appraisal uses the actual timescales for the development which we note were significantly delayed which calculates to a cost of £7,713,425. We have been provided with evidence from G&T that the actual finance cost was a total of £996,548 which we have included in our assessment.

6.13 GCL have included a developer profit allowance of 15% on cost. This is in accordance with the 2017 EVA and our February 2018 assessment. We therefore agree with this position in accordance with the S106 agreement.

7.0 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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4th July 2022

Appendix One – BPS Appraisal

APPRAISAL SUMMARY — BPS SURVEYORS

KOKO Venue & Social, London NW1
Post Construction Viability Assessment
The Hope Lease Limited

Appraisal Summary for Phase 1

Currency in £

REVENUE

Rental Area Summary	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
KOKO Social	1	22,152	98.89	2,190,536	2,190,536	2,190,536
KOKO Venue	1	31,269	20.65	645,789	645,789	645,789
Totals	**2**	**53,421**			**2,836,325**	**2,836,325**

Investment Valuation

KOKO Social					
Current Rent	2,190,536	YP @	4.2500%	23.5294	51,542,024
KOKO Venue					
Current Rent	645,789	YP @	4.2500%	23.5294	15,195,035
Total Investment Valuation					**66,737,059**
Additional Revenue				21,030,000	
NET REALISATION				**87,767,059**	

OUTLAY

ACQUISITION COSTS				
Residualised Price			7,808,354	
				7,808,354
Stamp Duty			379,918	
Effective Stamp Duty Rate		4.87%		
Legal Fees			172,237	
				552,155
CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Construction Costs	78,353	638.57	50,034,138	**50,034,138**
Other Construction				
KOKO Social - Client Direct Fit-out			2,726,818	
KOKO Venue - Client Direct Fit-out			1,379,865	
				4,106,683
Section 106 Costs			330,804	
PROFESSIONAL FEES				
Professional Fees			7,128,666	
				7,128,666
DISPOSAL FEES				
Purchaser's Costs			4,527,620	
Effective Purchaser's Costs Rate		6.78%		
Sales Agent Fee		1.00%	667,371	
Sales Legal Fee		0.25%	166,843	
				5,361,833
MISCELLANEOUS FEES				
FInance			996,548	
				996,548
TOTAL COSTS				**76,319,181**
PROFIT				
				11,447,878

Performance Measures

Profit on Cost%	15.00%
Profit on GDV%	17.15%

KOKO Venue & Social, London NW1
Post Construction Viability Assessment
The Hope Lease Limited

Profit on NDV%	18.40%
Development Yield% (on Rent)	3.72%
Equivalent Yield% (Nominal)	4.25%
Equivalent Yield% (True)	4.37%
IRR% (without Interest)	8.08%
Rent Cover	4 yrs
Profit Erosion (finance rate 0.000)	N/A