12a West End Lane, Maida Vale, NW6 4NX

Independent Viability Review

Prepared on behalf of Camden Council

15th February 2023

Planning Reference: 2022/3430/P

BPS
Chartered Surveyors

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1.0 Introduction

1.1 BPS Chartered Surveyors have been instructed by Camden Council ('the Council') to undertake a review of a Financial Viability Assessment (FVA) prepared by Douglas Birt Consulting ('DB') on behalf of KK4 Ltd ('the Applicant') in connection with a planning application for the redevelopment of the above site.

1.2 The site currently comprises a public house with ancillary flat above. We understand the building has been vacant since 2003. We have been advised the public house is arranged as a beer cellar/basement 64 sq.m. (NIA), ground floor public house 89.3 sq.m (NIA), first floor 94.2 sq.m. as a first floor flat of five bedrooms. We have not been advised as to the property's condition.

1.3 The location is mixed in character with predominately residential uses and retail uses on Kilburn High Street. Kilburn High Street to the west is characterised by traditional shops and several food stores. The surrounding area otherwise is predominately residential led. Immediately surrounding the site to the west, south and east is ex local authority flats (low/medium rise) and to the north is residential terraced housing.

1.4 The site is not located in a Conversation Area nor is not statutory listed.

1.5 The site is situated on West End Lane, Maida Vale towards the centre of the road, set back from Kilburn high street.

1.6 The proposals are for:

"Conversion of former Bird in Hand Public House (Class Use Sui-Generis) and associated flat to provide 1 no dwellinghouse, and erection of five storey block to the rear to provide 9 self-contained flats, with associated landscaping, plant, refuse, cycle storage, gate facing West End Lane (all Class Use C3)."

1.7 The basis of our review is the Financial Viability Assessment for the proposed development at 12 West End Lane, NW6 4NX prepared by Douglas Birt Consulting, dated July 2022, which concludes that the scheme currently produces an outturn profit of 13.3% on GDV / £898,345 which as below their target profit return the scheme is considered unviable in their view.

1.8 We have downloaded documents available on Camden's planning website.

1.9 We have been provided with an excel copy of their DAT appraisal.

1.10 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.

1.11 We have searched Camden's planning website and have not identified any other recent planning applications of note at the subject site.

1.12 A Land Registry search shows that the applicant does not currently own the property. It is held under title no. NGL712349, with an unknown purchase price with a date registered of 1993.

1.13 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.

1.14 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

2.1 Our analysis presents the following outturn financial position for the project:

Input	Douglas Birt	BPS	Comments
Income			
Private Sales Values	£6,782,500 (£826 psf)	£6,782,500 (£826 psf)	Some ambiguity – The applicant's advisor should submit evidence to support this, but the values appear broadly reasonable.
Ground Rents	£nil	£nil	Agreed
Expenditure			
Benchmark Land Value	£1,450,000	£750,000	Disagreed – The applicant's advisor should submit evidence on condition and provide a full detailed valuation.
Build Costs	£3,150,000	£2,902,266	Disagreed – We have adopted the lower figure as advised by Johnson Associates. N.B. this is inclusive of contingency.
Professional fees	10%	10%	Agreed – We have accepted this input.
Private Marketing & Agent Fees	3%	3%	Agreed – We have accepted this input.
CIL/S106	£446,000	£446,000	Some ambiguity - We require confirmation from the Council on this input.
Finance	6.5%	6.5%	Agreed – We have accepted this input.
Profit (Private)	17.5%	15%	Disagreed – We consider a target profit of 15% on GDV sufficient for this development.
Development Timeframes			
Construction Period	2 months pre-construction, 12 months construction.	Agreed	Adopted – We have accepted this input.
Sales Period	3 months (1.43 units a month)	Disagreed.	Disagreed – The applicant's advisor should submit evidence to support this.
Viability Position	13.3% / £898K residual profit No affordable housing can be provided	+29.9% on GDV/£1.973M Surplus identified	Disagreed – We have identified a surplus which could be used to provide affordable housing.

3.0 Conclusions And Recommendations

3.1 We have reviewed the Financial Viability Assessment prepared by Douglas Birt on behalf of the applicant KK4 Ltd which concludes that the proposed scheme produces a residual profit of 13.3% on GDV / £898K which is below their target profit of 17.5% on GDV and therefore the scheme cannot viably contribute to affordable housing obligations.

Benchmark Land Value

3.2 DB have approached the Benchmark Land Value on a Market Value basis with reference to a 3rd party report prepared by A3/A4 Licenced Property Limited which values the property at £1.45M. They have assumed the property has been refurbished at a cost of £235K, that it is then let and trading as an operating pub with a stabilised profit valuation approach, then calculated a total value of £1.45M with reference to some market comparables.

3.3 In principle we would expect an Existing Use Value+ approach, but the applicant and their advisors have not demonstrated any market demand from operators to take on the pub nor have they proven that the EBITDA would be sustainable, nor that the refurbishment cost of £235K is sufficient. Their assumptions are all optimistic and result in an inflated benchmark land value figure.

3.4 We have adopted £750k based on our initial assessment, but we await further evidence to be provided to support the applicant's valuation.

Development Value

3.5 The scheme includes 10 private residential units, a mixture of 1b2p flats, 2b4p flats, and a house (2,053 sq.ft.). DB have provided no evidence to support their valuation. We note they have had some valuation advice from Kingsbury Stone whom are a local agent. We have made reference to one local comparable and consider the flat values to be broadly reasonable. We look to the applicant's advisor to produce evidence to support their valuation, but it does appear to be broadly reasonable.

Development Costs

3.6 Our Cost Consultant, Johnson Associates have reviewed the Cost Plan for the proposed scheme prepared by the applicant, dated September 2022, and concludes that:

"Our overall view is that the build cost could be reduced by the amount suggested and the scheme delivered for this reduced figure."

3.7 We have therefore adopted a revised build cost of £2,902,266 inclusive of contingency.

3.8 We have reviewed the other cost outlined within the FVA and consider they are broadly reasonable.

Recommendations

3.9 The FVA submitted by the applicant is generally lacking in evidence to support the assumptions put forward; we look to the applicant and their advisors to produce substantial evidence to support their viability appraisal.

3.10 Notwithstanding that we have calculated a profit of 29.3% on GDV / £1.97M, noting a profit range of 15-20% on GDV, our initial conclusions are that the scheme can contribute to affordable housing.

4.0 Principles Of Viability Assessment

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 Benchmark Land Value

Viability Benchmarking

5.1 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).

5.2 The NPPF recognises the need to provide both land owners and developers with a competitive return. 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 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 fully 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+).*

5.3 The RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England', published March 2021, supports the NPPG's definition of Benchmark Land Value.

5.4 NPPG further defines EUV as follows:

Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types. EUV can be established in collaboration between plan makers, developers and landowners by assessing the value of the specific site or type of site using published sources of information such as agricultural or industrial land values, or if appropriate capitalised rental levels at an appropriate yield (excluding any hope value for development).

5.5 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.

5.6 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.*

5.7 While EUV is the primary approach to defining BLV, in some circumstances an Alternative Use Value approach can be adopted. This is the value of the land for a use other than its existing use. NPPG outlines:

If applying alternative uses when establishing benchmark land value these should be limited to those uses which would fully comply with up to date development plan policies, including any policy requirements for contributions towards affordable housing at the relevant levels set out in the plan.

[…] Plan makers can ser out in which circumstances alternative uses can be used. This might include if there is evidence that the alternative use would fully comply with up to date development plan policies, if it can be demonstrated that the alternative use could be implemented on the site in question, if it can be demonstrated there is market demand for that use, and if there is an explanation as to why the alternative use has not been pursued.

5.8 The RICS Guidance Note 'Assessing viability in planning under the National Planning Policy Framework 2019 for England', published March 2021, supports the definition of AUV from NPPG and reiterates that any AUV must reflect relevant policy requirements.

5.9 When adopting an AUV approach, the premium to the landowner is implicit and therefore an additional landowner premium should not be added as this would be double counting.

5.10 NPPG and RICS guidance are clear that if refurbishment or redevelopment is necessary to realise an existing use value then this falls under the AUV provision of NPPG and no landowner premium should be added.

<u>The Proposed Benchmark</u>

5.11 The subject property is a public house with residential flat above which has been vacant since 2003. We note that DB have relied upon a 3rd party valuation report by A3A4 Licenced Property Limited, dating 24 June 2022 which they have adopted as their EUV valuation. This is based on a value of £1.45M with no additional land owner premiums applied.

5.12 We note the valuer inspected the property but has not provided any comments on condition, a figure of £235K has been included as a cost to bring the property back into useable condition. It is not clear what allowances have been made in this figure for addressing wants of repair and what allowance for fit out. As a provisional sum this seem very light compared to other similar propositions we have considered.

5.13 A summary of A3A4 Licenced Property Limited valuation is as follows:

5.14 The property extends to 2,612 sq. ft., 689 sq.ft. as a beer cellar, 961 sq.ft. ground floor public house trade area, three wc's and kitchen, first floor five bedroom flat 962 sq. ft.

5.15 They have assumed the property will turnover a net value of £6,000 - £8,000 per a week. A fair maintainable trade of £9,000 per a week net split 70% wet, 20% food and 10% accommodation. They have calculated an EBITDA of £110,000 net of VAT.

5.16 They have then valued the property at a net value of £1.45M. A breakdown of their calculations has not been provided. We note reference to 4 no. public house comparables sold within north London.

<u>Our Assessment of Benchmark Land Value</u>

5.17 In the first instance we would point out that the valuer has not produced an Existing Use Value but rather a Market Valuation, this is indicated in their terms of appointment. Whilst we note there is reference to public house sales in North London as comparables, it is unclear whether these have sold as development opportunities and or as stabilised trading public houses.

5.18 We have not been provided with sufficient information on the property's condition. We note from a desktop search that the property has been vandalised and has been left vacant for c.20 years (at lease the public house premises). We request that further evidence on condition is provided.

5.19 The valuer has made a number of assumptions around trading potential but we are of the view the applicant and their advisors have not proven actual market demand for the property i.e. finding a credible operator to run the pub. Their valuation implies a yield of c.7.5% which again would require a credible operator to justify.

5.20 The Bird in Hand is not an established pub, it is dated, in poor condition (we suspect), is located off-pitch from the main high street and is not comparable to the two Highgate market comparables which are vastly superior in terms of location, condition, outlook and demand. We note that Lord Southampton was a 4,667 sq. ft. former public house marketed by Savills with the upper floor flat let and income producing, the public house vacant, this sold at £1,325,000 (£283psf) which we do consider to be a more relevant comparable. The Barring Arms is an attractive building, in good condition but doesn't have a first floor flat so perhaps less comparable, this extends to 3,772 sq. ft. so equates to £278 psf capital value.

5.21 In principle we welcome an Existing Use Value+ approach, but the applicant and their advisors have not demonstrated any market demand from operators to take on the pub nor have they proven that the EBITDA would be sustainable. We highlight some additional market comparables:

- Victoria, 34 Scotland Green, Tottenham, N17 9TT – Unsold, available at £1,150,000 (£260psf). Savills failed to sell this property at auction 14/12/2022, consider it to be relevant as its also an old style pub (in good condition internally), 4,420 sq. ft. also has a 5 bedroom flat. Let at £80K a year. Whilst it is unsold it does indicate that A3/A4's valuation is too high.

- Bird in Hand, 35 Dartmouth Road, Forest Hill, SE23 3HN, exchanged at auction 09/02/2023 at £714,000 (£145psf), off an asking price of £650,000. Old style pub good condition internally, extends to 4,913 sq. ft., vacant possession offered (owner occupier currently). Forest Hill is an inferior macro location, but site is keenly located on the high street.

5.22 In our view we have not been provided with sufficient information on the property's condition to form a firm view on an Existing Use Value at this stage, noting it is for the applicant and their advisors to prove the value. We have adopted £750,000 (£300psf) as a notional value for the building noting the £psf rate is in line with the comparables aforementioned. Should we be provided with full and substantial information we would be willing to revisit our position.

6.0 Development Values

6.1 The residential element of the proposed scheme, as sought by the planning application, is for 10 residential units, including 1 house (2,053 sq. ft.), 5 no. 1 bedroom apartments (c.540 sq.ft.) and 4 no. 2 bedroom apartments (c.800 sq.ft.).

Private Residential Values

6.2 All units are proposed to be for private sale and the values have been assumed as follows by DB:

Unit type	Avg NSA (sq ft)	Avg Value	Avg Value £psf	No of units
1B2P Flat	541	£479,375	£886	4
2B4P Flat	797	£673,000	£844	5
House	2,053	£1,500,000	£731	1
Total				**10**

6.3 The flats will be accessed directly from West End Lane (north).

6.4 DB have not provided any comparable evidence to support their valuation. We note they have taken advice from Kingsbury Stone whom have provided the valuation as a local agent, but again no evidence has been provided. We request that the applicant provide full and substantial evidence to support their valuation.

Abbey Road Cross, NW6 4DP

6.5 This is a new build development situated 350m east of the subject site by Camden Council. Phase 1, includes 75 private units, 47 which were for sale (remainder BTR). The scheme achieved practical completion in Q1 2019 and we have obtained sales data from 2019-2022, plus the latest asking prices. This is a highly relevant comparable, which whilst some of the data is dated it's a strong locational comparable. We do consider this to be marginally superior to the subject site owing to size, scale and massing. The pricing from Abbey Road would support the pricing for the flats at the subject.

6.6 The applicant team need to provide full and substantial evidence to support their valuation. The values appear broadly reasonable but without evidence we cannot reach a full conclusion.

Ground Rents

3.13 The Leasehold Reform (Ground Rent) Act 2022 was granted Royal Ascent on the 8th February 2022, with the relevant Act now in full force. The reforms put an end to ground rents for new, qualifying long residential leasehold properties in England and Wales. Now the act is in force, any ground rent demanded as part of a new residential long lease cannot be for any more than a peppercorn (no financial value). Now the act is in full force, we acknowledge that in light of an effective ban on future ground rents that they should no longer be included as a future revenue stream for planning & viability purposes. We understand the act covers single ‘dwellings’ and will therefore capture student and retirement accommodation providing they are occupied or intended to be occupied as single dwellings.

3.14 We therefore consider the omission of capitalised ground rents as being a reasonable assumption. We have therefore removed the ground rents from our appraisal.

7.0 Development Costs

Construction Costs

7.1 Our Cost Consultants Johnson Associates have analysed the build cost plan for the proposed scheme prepared by the applicant, dated October 2022, and conclude that:

"Our overall view is that the build cost could be reduced by the amount suggested and the scheme delivered for this reduced figure."

7.2 We have therefore adopted a revised build cost of £2,902,266 inclusive of contingency.

7.3 Johnson Associates full cost report can be found at Appendix 1.

7.4 DB have adopted 10% professional fees which we have included in our appraisal.

Additional Costs

7.5 DB have adopted an all-in disposal fee of 3% on the private units which we accept is in line with market norms.

7.6 DB have adopted £446,000 for CIL and S106 (not inclusive of an affordable housing payment). Breakdown is as follows: Council CIL £370,000, Mayoral CIL £46,000, Carbon off-set tax £20,000, Council monitoring/legals £10,000. We have adopted these amounts for appraisal purposes but look to the council to confirm the exact amounts due.

7.7 Finance has been included at 6.5% assuming that the scheme is 100% debt financed. We have accepted this as being reasonable.

Profit

7.8 The developer profit target adopted by DB is not clear but we note reference to a minimum of 17.5% profit on GDV for the private units. Noting a PPG range, of 15-20% profit on GDV, we are generally adopting 15% for small scale schemes.

Development Timeframes

7.9 DB have adopted 2 months pre-construction, 12 months construction and a sales profile of 3 months (1.43 units a month). The construction timescales are broadly reasonable but the sales rate is considered to be below our understanding of the market. Evidence of sales rates from schemes in the surrounding area should be provided by the applicant's advisor to justify their sales rate.

8.0 Author Sign Off

8.1 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.

8.2 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.

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

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For and on behalf of
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February 2023

Appendix 1: Build Cost Report

Appendix 2: Argus Appraisal