



PLANNING COMMITTEE

23 April 2015

SECOND DESPATCH

Please find enclosed the following items which replace the viability documents contained within the main agenda:

- | | | |
|---------------|--|---------|
| Item 3 | Estate Land and 1-8 Rowstock Gardens and garages opposite 77-84 Rowstock Gardens, London, N7 | 1 - 10 |
| Item 4 | King Square Estate and part of Moreland Primary School, London, EC1V | 11 - 24 |

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Redevelopment of Camden Estate, Rowstock Gardens, N7 0BG



Planning application reference: P2015/0294/FUL

14 April 2015

1.0 INTRODUCTION

- 1.1 We have been instructed by the Planning & Regeneration Division of the Islington Borough Council to review a viability assessment in respect of an application (planning reference: P2015/0294/FUL) to redevelop parts of the Camden Estate, which is located on Camden Road. The applicant is Islington Borough Council and this is to be a Council-led development.
- 1.2 Camden Estate is a rectangular, 0.4 Ha site which runs lengthwise along Camden Road. It is bounded by Camden Road to the north-west, Middleton Road to the north-east, and Rowstock Gardens and existing housing to the south-east and south-west.
- 1.3 The application scheme will provide 20 new-build units following demolition of 8 existing bedsit units and 22 garages. The new-build units will comprise 12 Social Rent units (60%) and 8 private market sale units (40%). This housing will be provided within two new blocks. Block A will be a 3- to 4-storey block of flats of mixed tenure, while Block B will be a 1 and 2 storey terrace which will provide four 3-bedroom houses all as Social Rent tenure.
- 1.4 Block A will be located in the southwest corner of the Camden Estate, and Block B will be located along the Estate's north-western boundary, on Rowstock Gardens. The large majority of the Estate's existing housing will not be subject to redevelopment under this application.
- 1.5 Islington Borough Council's affordable housing policy CS12 of its Core Strategy sets a strategic target that, "50% of additional housing to be built in the borough over the plan period should be affordable", which is applicable to this scheme.
- 1.6 CS12 sets out the Council's tenure split requirement of 70% social housing and 30% intermediate housing. The applicant is providing 100% of the affordable units as Social Rent tenure, thus is exceeding the 70% target for this tenure.
- 1.7 The applicant's appraisal includes £11,000 of S106 Contributions, £18,449 of Mayoral CIL and £92,244 of Islington CIL. We have been advised that these levels of planning obligations have been calculated by Planning Officers.

2.0 CONCLUSIONS & RECOMMENDATIONS

- 2.1 The applicant has prepared a Financial Evaluation report which sets out the results of its financial appraisal of the application scheme. The appraisal generates a £1.6m Net Present Value (NPV), which results from discounting the annual net rental and capital incomes generated by the scheme over a 30-year period at a discount rate of 6.5%. This appraisal assumes that the Council will benefit from Right to Buy receipts from the Social Rent units.
- 2.2 The applicant has, in addition to this cashflow model, undertaken a residual valuation using a methodology that is more commonly applied in assessments of viability for planning purposes. We have therefore focussed primarily upon this residual valuation when reviewing scheme viability.
- 2.3 The valuation generates a residual value of [REDACTED]. This valuation includes an allowance for a developer's profit of 17.5% of costs for the private housing and 5% of costs for the affordable housing, and it also reflects the assumption that the Council will benefit from Right-to-Buy receipts. The assumption in respect of the private element is much lower than would typically be expected from private developers who would generally seek a return of 25% on costs. When a benchmark land value of [REDACTED] is adopted, the scheme shows a marginal deficit of -£121,161. This deficit would increase by a further £150,000 with changed profit assumptions.
- 2.4 Finance costs have not been incorporated into the residual valuation, in effect finance has been assumed a being free. We estimate these costs at around £230,000, which if inputted into the appraisal would act to increase the deficit in viability (to -£351,000 or -£500,0000 with changed profit assumptions), although the deficit would still be relatively minor and would be reduced by any future growth in private sales values up to the date these units are sold. However any improvement in viability would also be dependent on costs increasing at a slower rate.
- 2.5 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan that has been prepared by Walker Management, and has undertaken an elemental benchmarking exercise of the cost estimate against BCIS average tender prices. He has concluded that the main build cost estimate is [REDACTED] relative to BCIS rates. If the costs were to be reduced by the amount Neil suggests, this would eliminate the scheme deficit and leave the scheme in a marginally viable position, although with more normal profit assumptions the scheme would still be in deficit of just under -£100,000.
- 2.6 In addition, a basic calculation has been created by the applicant, which shows the total cost of the works, including some acquisition costs and the total value of the proposed housing. This shows that these values exceed costs by [REDACTED] illustrating that the scheme is self-funding in terms of not being dependent on long-term borrowing. This calculation does not incorporate the following:
- Finance costs
 - Developer's return
 - Benchmark land value (although it does include leaseholder buyout cost)
- 2.7 We understand that the scheme will benefit from [REDACTED] of funding from the Council's own resources. This has not been included within the residual valuation, which is appropriate as it is standard practice in viability assessments for planning purposes to omit any gap funding or subsidies when testing the level of affordable housing that can be viably delivered.

2.8 It is apparent, following our review of the cost and value inputs in the appraisal, that the scheme cannot viably increase the proportion of affordable housing above that already being proposed, which therefore represents the maximum that can reasonably be delivered.

3.0 BENCHMARK LAND VALUE

- 3.1 The applicant has included a benchmark land value of [REDACTED] within the development appraisal. This benchmark represents the Existing Use Value (EUV) of the premises that are due to be demolished to make way for the application scheme's proposed buildings.
- 3.2 The EUV has been calculated based on the value of the six existing Social Rent bedsits, the two private leasehold bedsits which were previously Social Rent units prior to being purchased through Right to Buy and 22 garages.
- 3.3 The six Social Rent units have been valued at a total of £0.60m, which has been estimated by calculating 40% of their total open market value of £1.5m i.e. if sold as private market housing. We have undertaken a summary valuation of these units to test whether this valuation is realistic, although it should be noted that we have limited information about these units. We have applied a gross rent of £92.50 per week, which is the Council's Target Rent for bedsits, as cited by the applicant. We have then used a standard valuation model for affordable housing which includes typical assumptions in respect of inputs such as yields, management costs and void costs, in line with the valuation models of other London Boroughs' housing departments. This valuation generates a total of £511,680 (£83,960 per unit) for the 6 units, which suggests that the value of £0.60m ascribed to these units is realistic.
- 3.4 The values of [REDACTED] and [REDACTED] applied to the two leasehold properties that are due to be acquired, have been arrived at following discussions over the sums suitable to be paid to facilitate a leasehold buyout of these units. We understand that the District Valuer Service has participated in reaching these valuations. We do not dispute these figures, which we note are broadly in line with typical values of bedsit flats in this locality.
- 3.5 The EUV of the garages have been calculated using estimated rents of £20.47 per week. This rent has been derived from passing rents with some adjustments made to reflect rent inflation and to account for voids. This appears in our view to be a suitable approach to take. The annual rents have then been capitalised using a 5% yield to reach a capital value of £468,266 for all 22 units (£21,284 per unit).
- 3.6 The applicant has sensitivity tested the garages' capital value, by adopting a higher yield of 6%. This gives a total value of £390,222, which we consider to be more realistic than the higher figure generated using a 5% yield, in view of the high risk of vacancies and management issues which typically beset Council-owned garages.
- 3.7 In summary, our assessment of the value of the existing premises is as follows:
- Garages: £390,222 (Council's estimate, with 6% yield)
 - Leasehold properties: £500,000 (Council's estimate)
 - Social rent bedsits: £511,680 (BPS valuation)
 - TOTAL: £1.40m
- 3.8 This is not dissimilar from the [REDACTED] adopted in the appraisal, thus we conclude that the benchmark land value is realistic.

4.0 PRIVATE MARKET RESIDENTIAL VALUES

4.1 Total values of £4.64m, or £809 per sqft, have been estimated by Deloitte in its September 2014 valuation report. Deloitte has provided limited analysis of the sales evidence that they have presented. This lack of analysis makes it difficult to determine precisely how they have derived their valuation from this market evidence. Deloitte are of the view that apartments in this area which have 'optimum' benefits such as a good location, internal specification, and generous floor heights and may achieve upwards of £1,000 per sq ft (£10,764 per sq m), whereas more disadvantaged properties can typically achieve £700 - £900 per sq ft (£7,535 - £9,688 per sq m).

4.2 The new-build schemes cited by Deloitte for comparison purposes include schemes that are located in relatively close proximity to the subject site and can be considered to provide a good indication of achievable values for the proposed units. Deloitte's report dates from September 2014, and some of their sales evidence is even older. We have therefore taken into account sales value growth. For example, from June 2014 to the January 2015, the HPI increased by 6.1%. We have analysed Deloitte's indicated schemes below:

- 317-321 Holloway Road, Islington, N7 9SU
Average price of £706 per sqft achieved in June 2014 for 14 units. This scheme is broadly comparable to the proposed scheme, being a mixed tenure development with a social rented housing component. It is in close proximity and is in a broadly similar quality location in terms of likely achievable sales values. Taking into account sales value inflation, this scheme suggests that £809 per sqft is not an understated value to apply to the proposed units.
- Crayford Road, Tufnell Park, Islington N7
Small scheme of 2 and 3 bedroom mews houses. These sold for £806 per sqft and £898 per sqft. We would not expect the proposed scheme's units to achieve values as high as this more exclusive mews scheme.
- Gillespie Court, Queensland Terrace, 54-58 Benwell Road, Islington N7 7BA
Current asking prices of £816-£1,018 per sqft. Due for completion in summer 2015. No explanation is given by Deloitte as to why values at the proposed scheme are lower per sqft. We note that Queensland Terrace is a high quality, large scheme which has considerable facilities available for residents, so for these reasons we would expect lower values for the proposed units.

4.3 We have collated sales of apartments located within a half mile of the site which have sold in the last six month, some of which are shown in the following table while further evidence is provided in Appendix One.

Address	Last sale price	Last sale date	Year built	Bedrooms	Floor area	Value per sqm	Value per sqft
19A North Villas NW1 9BJ	£500,000	10 Oct 2014	1900	1	58	£8,621	£801
6A Dunollie Road NWS 2XP	£760,000	23 Dec 2014	1890	1	79	£9,620	£894
Flat 11 Cliff Court Cliff Road NW1 9AP	£330,000	28 Oct 2014	2004	1	39	£8,462	£786
Flat 11 Kennistoun House Leighton Road	£412,000	05-Dec-14	1936	2	54	£7,630	£709
28A Leighton Grove NWS 2QP	£650,000	21 Nov 2014		2	81	£8,025	£746

4.4 The above sales of second-hand units indicate that £809 per sqft is broadly reasonable for the proposed units.

5.0 SOCIAL RENT VALUES

- 5.1 A total value of £3.23m (£302 per sqft) has been applied to the proposed Social Rent units. This value has been derived from a simple calculation whereby the open market values of these units i.e. if they were to be sold as private housing, are discounted by 60%.
- 5.2 We have undertaken an investment valuation of the affordable housing using industry standard appraisal assumptions including in respect of management costs and investment yields. This shows a total value of £1.33m. The applicant's Financial Evaluation report states that the positive impact of assuming that the Council benefits from Right to Buy receipts is £2.27m. We have incorporated this into our affordable housing valuation, which has led to a total value of £3.60m. This suggests that the adopted £3.23m figure is perhaps marginally understated, although in view of the wide differences in the assumptions used in affordable housing valuations, we conclude that the applicant's estimate is within the range of realistic values.

6.0 DEVELOPMENT COSTS

- 6.1 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan that has been prepared by Walker Management, and has undertaken an elemental benchmarking exercise of the cost estimate against BCIS tender prices. He has concluded that the main build cost estimate is [REDACTED] relative to BCIS rates. Please see Appendix Two for a full cost review report.)
- 6.2 Neil has not been able to identify the purpose of the £100,000 for "Environmentals", thus is unable to confirm that this allowance is suitable.
- 6.3 Professional Fees totalling 12.7% are broadly in line with typical benchmark rates for these fees, which are commonly in the region of 12%. An itemised list of the fees that make up this total has been provided.
- 6.4 Nil finance costs are included in the residual valuation. We have therefore estimated these based on the Council's usual rate of borrowing at [REDACTED] as set by the Public Works Loan Board. We have used the Council's estimated development period to estimate total finance costs of [REDACTED].
- 6.5 Marketing Fees of 2.5% and all the other cost rates that are adopted in the residual valuation, are all realistic levels and are in line with typical benchmark rates.

BPS Chartered Surveyors

Appendix One: BPS sales evidence - transactions in last six months with 1/2 mile of Camden Estate

Address	Last sale price	Last sale date	Year built	Bedrooms
Flat 7 Cliff Court Cliff Road NW1 9AP	£172,500	30 Oct 2014		0
Flat 2 61 Carleton Road N70ET	£270,000	22 Oct 2014	1896	0
Flat 1 51 St Augustines Road NW1 9RL	£560,000	30 Sep 2014		1
19A North Villas NW1 9BJ	£500,000	10 Oct 2014	1900	1
30A Hartham Road N7 9JG	£460,000	21 Nov 2014	1990	1
58C Gaisford Street NW5 2EH	£325,000	16 Jan 2015		1
77A Patshull Road NW5 2LE	£595,000	26 Jan 2015	1860	1
6A Dunollie Road NW5 2XP	£760,000	23 Dec 2014	1890	1
Flat 11 Cliff Court Cliff Road NW1 9AP	£330,000	28 Oct 2014	2004	1
5 Drovers Way N7 9FN	£127,750	19 Dec 2014	2012	1
Garden Flat 180 Camden Road NW1 9HG	£52,500	04-Nov-14	1880	1
14A Freegrove Road N7 9JN	£425,000	06-Nov-14		1
Flat 5 51 St Augustines Road NW1 9RL	£375,000	10 Oct 2014		1
Flat 5 48 Hilldrop Crescent N70JD	£355,000	24 Oct 2014	1960	1
Flat 2 51 St Augustines Road NW1 9RL	£395,000	06-Nov-14	1850	1
21B Montpelier Grove NW5 2XD	£825,000	03-Nov-14	1870	2
32C Caversham Road NW5 2DS	£741,000	28 Nov 2014	1880	2
Flat 1 34 Freegrove Road N7 9RQ	£675,000	31 Oct 2014		2
17 Northpoint Square NW1 9AW	£650,000	15 Dec 2014	2004	2
46 Clock View Crescent N7 9GP	£575,000	27 Oct 2014	2013	2
Flat 6 10A South Villas NW1 9BS	£487,000	31 Oct 2014		2
Flat 2 3 Cottage Road N7 8TP	£465,000	07-Nov-14	2006	2
4B Beacon Hill N7 9LY	£463,500	05-Dec-14	2014	2
193 Corporation Street N7 9EQ	£365,000	05-Dec-14	1970	2
Flat 11 Kennistoun House Leighton Road	£412,000	05-Dec-14	1936	2
95A Bartholomew Road NW5 2AR	£780,000	09-Dec-14	1880	2
71A St Augustines Road NW1 9RR	£600,000	14 Nov 2014	1880	2
28A Leighton Grove NW5 2QP	£650,000	21 Nov 2014		2
Flat 18 Betchworth House Hilldrop Estate N70QL	£370,000	19 Dec 2014	1931	2
Flat 3 31 Lawford Road NW5 2LG	£560,000	17 Oct 2014	1890	2
Flat 11 Travers House 127 Dalmeny Avenue N70JJ	£460,000	18 Nov 2014	2002	2
35A Leighton Grove NW5 2QP	£810,000	12 Dec 2014	1900	3
Flat 3 29 South Villas NW1 9BT	£735,000	01-Dec-14		3
Flat 19 Appleford Islip Street NW5 2UB	£430,000	31 Oct 2014		3

Appendix Two:

Cost Review by Neil Powling FRICS

1 SUMMARY

- 1.1 The preliminaries have been notionally calculated at 15% although a separate abnormal allowance has been made for site constraints/ access restrictions. We have treated this as a preliminaries item which has the effect of increasing the preliminaries to 19% flats and 18.5% houses. The OHP notionally calculated at 5% is slightly increased to 5.3%. The 15% we consider reasonable - we have not seen any supporting evidence for site constraints/ access restrictions.
- 1.2 The results of our adjusted benchmarking show the Applicant's estimated costs for the flats to be high by about [REDACTED] and the houses by [REDACTED].
- 1.3 The Walker Management estimate at 3Q2014 using TPI 251 rates is [REDACTED]. The Applicant has increased this to [REDACTED] to 1Q2015 rates. The actual adjusted figure allowing for an increase in TPI from 251 to 257 is [REDACTED].
- 1.4 We note that the Appraisal includes a Works cost of [REDACTED] plus a further £100,000 for "Environmentals". It is not clear what this provision is for, nor if part or the entire sum is already provided for in the Walker Management cost estimate.

2 METHODOLOGY

- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the applicant costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS.
- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or upper quartile for benchmarking depending on the quality of the scheme. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.
- 2.3 BCIS average prices are also available on an overall £ per sqm and for new build work (but not for rehabilitation/ conversion) on an elemental £ per sqm basis. We generally consider both. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of

an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should keep the estimates for different categories separate to assist more accurate benchmarking.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available on the planning website.
- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs do not include these. Nor do elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

3 GENERAL REVIEW

- 3.1 We have been provided with and relied upon the following:-
- An Order of Cost Estimate Rev D prepared by Walker Management dated 22nd July 2014 (3Q2014) based on a TPI then current of 251 (current forecast TPI for 3Q2014 is 247).
 - 210115 Camden Estate Approval - planning application v.2
 - Camden Rd Financial evaluation 22.1.15
 - DRE - LBI - Final Report 4.9.14 - Deloitte valuation advice dated 4.9.14
- 3.2 The Walker Management (WM) estimate has been prepared in broadly elemental format although with both finishings and services in group elements. Extra over

costs for abnormals have been separately listed; we have added these allowances into the appropriate elements in the elemental analysis - although this has necessitated some assumptions and consolidation on our part. The accuracy of the elemental analysis would be improved if greater detail were provided.

- 3.3 A detailed build-up has been provided for the site works. If a similar level of detail were provided for the main elements it would provide the level of detail for quantum, rates and specification that we expect to be provided and in turn support the adjusted benchmarking.
- 3.4 We have downloaded BCIS data for benchmarking purposes including a location factor for LB Islington of 114; this factor has been accounted for in our calculations.
- 3.5 The preliminaries have been notionally calculated at 15% although a separate abnormal allowance has been made for site constraints/ access restrictions. We have treated this as a preliminaries item which has the effect of increasing the preliminaries to 19% flats and 18.5% houses. The OHP notionally calculated at 5% is slightly increased to 5.3%. The 15% we consider reasonable - we have not seen any supporting evidence for site constraints/ access restrictions.
- 3.6 The contingency has been costed at 5% (2% + 2% +1%) - we consider this provision reasonable.
- 3.7 Refer to our file Elemental analysis and BCIS benchmarking. Our adjusted benchmarking does show several anomalies :-
- The allowance for demolitions, contamination, asbestos removal and site clearance on a £/m² basis are significantly more for the houses compared to the flats
 - The foundations of the 2 storey house are almost identical £/m² rates to the 4 storey flats
 - The external works on a £/m² basis are significantly more for the houses compared to the flats
 - The party wall award provision is an identical sum for flats and houses resulting in a much higher £/m² for the houses. Is this expenditure on party walls expected?
- 3.8 The results of our adjusted benchmarking show the Applicant's estimated costs for the flats to be high by about [REDACTED] and the houses by [REDACTED]
- 3.9 The WM estimate at 3Q2014 TPI 251 rates is [REDACTED]. The Applicant has increased this to [REDACTED] to 1Q2015 rates. The actual adjusted figure allowing for an increase in TPI from 251 to 257 is [REDACTED]
- 3.10 We note that the Appraisal includes a Works cost of [REDACTED] plus a further £100,000 for "Environmentals". It is not clear what this provision is for, nor if part or the entire sum is already provided for in the WM cost estimate.

BPS Chartered Surveyors
Date: 27th March 2015

King Square Estate Redevelopment, EC1V

Independent Review of Financial Viability

15th March 2015

Planning application: P2014/5216/FUL



1.0 INTRODUCTION

- 1.1 We have been instructed by the Planning & Regeneration Division of the London Borough of Islington to review a viability assessment of a proposed redevelopment of King Square Estate and the adjacent Moreland Primary School. This is a Council-led regeneration scheme, and the applicant is the London Borough of Islington itself.
- 1.2 The King Square estate comprises some 350 units in a variety of blocks. The Council has secured consent for remodelling parts of this estate and this application represents a further step in the process. Although it is a standalone application it is dependent on the reconstruction of the Morelands School.
- 1.3 The application involves the demolition of 9 existing housing units of which 2 are in private occupation and 7 occupied as social housing. The proposed scheme will provide 140 new-build dwellings, comprised of 93 social rented (66%), 5 New Build Homebuy (4%), and 42 for private market sale (30%). In addition to affordable housing, the scheme will provide community facilities including a nursery. There will also be a net loss of 40 parking spaces from existing provision of 121 spaces.

The proposed scheme is described below:

Demolition of existing row of garages located to the north of Rahere House and demolition of 9 existing single storey studio units located to the south of Turnpike House. Change of use of the west section of the Moreland School site to residential use. Erection of 6 new buildings, providing 140 new residential units and a community centre, comprising: Block B - a 3 storey terrace of 10 x 3-bedroom and 1 x 2-bed houses for social rent located to the north of Rahere House; Block C - a 4 storey building located to the west of Rahere House providing a 167sqm community centre together with 13 flats for social rent, comprising 1 x 3-bedroom and 12 x 2-bedroom flats; Blocks D1 & D2 - a 7 storey over basement building and 5 storey building located on the west section of the school site, providing a 21sqm retail unit and 69 flats for social rent, shared ownership and private market sale, comprising 1 x 3-bedroom, 52 x 2-bedroom, and 16 x 1-bedroom flats; Block E, a part 3-, part-5 storey building located to the north of Turnpike House providing 25 flats for social rent over 55's independent living, comprising 9 x 2-bedroom and 16 x 1-bedroom flats; Block F - a part 3, part 4 storey building located to the south of Turnpike House providing 22 flats for social rent comprising 13 x 2-bedroom and 9 x 1-bedroom flats. Alterations to ground floor of Rahere House to provide improved nursery facilities. Comprehensive hard and soft landscaping across the site including: relocation of vehicular access from Central Street, re-provision of 81 parking spaces including 20 wheelchair accessible spaces, creation of new bin store enclosures and cycle parking for existing residents, and creation of a community garden and growing space. The scheme would provide 98 affordable homes which equates to 70% by unit.

- 1.4 We understand that the development triggers Mayoral CIL and Islington CIL requirements, and a small S106 Contribution requirement.
- 1.5 The Council's affordable housing policy CS12 of the Core Strategy Adopted February 2011 sets a strategic target for affordable housing delivery expressed as,
50% of additional housing to be built in the borough over the plan period should be affordable.
- 1.6 This target is further qualified by CS12 as follows:
seeking the maximum reasonable amount of affordable housing, especially social rented housing, from private residential and mixed-use schemes over the threshold set above, taking account of the overall borough wide strategic target. It is expected that many sites will deliver at least 50% of units as affordable, subject to a financial viability assessment, the availability of public subsidy and individual circumstances on the site.
- 1.7 This target applies to the housing to be provided under this application. The applicant is providing 70% of the new-build units as affordable housing of which 66% is provided as social rent and 4% as shared ownership. CS12 sets out the following tenure requirements
delivering an affordable housing tenure split of 70% social housing and 30% intermediate housing
- 1.8 We assume that although the proposed scheme does not meet the proposed tenure split required by policy, given the general shortage of social rent provision in the borough the delivery of a higher proportion of social rent tenure will be regarded favourably.
- 1.9 The Council's as Planning Authority is required to confirm that the provision of affordable housing represents the maximum level consistent with scheme viability. more specifically in this instance that the proposed level of private market housing delivery is necessary in order to gap fund the scheme.
- 1.10 The applicant has provided a Financial Evaluation which sets out its calculation of the scheme's viability and which discusses some of the appraisal's key cost and value inputs. This is supported by a Cost Plan prepared by Walker Management and a Valuation Report prepared by Deloitte. We have also received a copy of the applicant's development appraisal which has been created using Proval valuation software.
- 1.11 Our review has sought to scrutinise the appraisal methodology and the cost and value assumptions that have been applied in the applicant's development appraisal, in order to evaluate whether the currently proposed level of affordable housing represents the maximum that can be delivered consistent with scheme viability.

2.0 CONCLUSIONS & RECOMMENDATIONS

- 2.1 Following our review of the proposed scheme's estimated costs and values, and our analysis of the applicant's development appraisal, we are now satisfied that the proposed level of affordable housing represents the maximum that can be provided consistent with the current viability of the scheme.
- 2.2 Our modelling of the scheme highlights an apparent deficit of [REDACTED]. We note that it is intended to bridge this deficit with up to [REDACTED] of capital funding provided directly by the Council.
- 2.3 It is not uncommon for some level of developer's return to be included in appraisals of Council-led regeneration schemes if only to offset potential development risks. However, the appraisal does not make any allowance for a developer's return which if included would further increase the deficit and would strengthen the conclusion that the scheme cannot viably increase the proposed level of affordable housing provision. The apparent margin between available capital funding and the apparent deficit provides some potential measure of contingency but would effectively involve the Council investing further to offset any unforeseen costs or shortfalls in anticipated values.
- 2.4 We have created a summary appraisal using the main inputs into the Council's Proval appraisal. We have adopted an industry-standard residual valuation methodology which includes a capital value for the affordable housing. This differs from the approach taken by the Council, which we analyse in Section 3 but in essence works to a net present value rather than a residual value. The latter being the more conventional basis from which to assess viability in planning terms.
- 2.5 The affordable housing capital values have been derived by using the net rental income projections for the affordable housing over a 45-year period. The value generated is £6.64m to which we have added £2.60m to reflect the impact of factoring in Right to Buy receipts, to reach £9.24m. These Right to Buy receipts are based on the calculation made by the Council in its Financial Evaluation (maximum of 40% of homes purchased) which showed that assuming Right to Buy receipts improved viability by £2.60m.

Summary of BPS residual valuation

private housing values	36,694,375
affordable housing values	9,240,389
total values	45,934,764
development costs	54,009,762
SURPLUS	-8,074,998

- 2.6 As shown in the above appraisal summary, the scheme will generate a deficit of £8.07m. This despite the scheme's costs not including an allowance for developer's return. A Development Subsidy of [REDACTED] is cited by the applicant as being available to gap-fund the development. This subsidy has not been included in the above residual valuation. We have assumed that the subsidy represents a maximum investment rather than minimum sum available to the scheme.
- 2.7 In analysing the scheme on conventional viability grounds, we would not anticipate a developer providing and form of subsidy, therefore we regard the scheme as being effectively in deficit. With the subsidy included, the scheme may be in marginal surplus but the model makes other assumptions which we would not expect to be

replicated included by a private developer such as an assumption of a nil land value, which have the effect of improving apparent viability.

Applicant's appraisal methodology and results

- 2.8 The scheme is considered by the Council to be financially viable, generating a positive Net Present Value (NPV) of ██████, calculated using a 30-year discounted cash-flow model based on a 6.5% discount rate. The Council's methodology assumes a scheme to be viable if it generates a positive NPV.
- 2.9 It is arguable that a higher discount rate could legitimately be applied, reflecting the high risk levels associated with regeneration projects, especially when viability is in part dependent on an element of private market housing as the value of this housing is subject to market fluctuations. An increase to the discount rate would act to reduce the NPV and thereby worsen the viability position.
- 2.10 The funding of the scheme is heavily dependent on capital receipts from the sale of the private units. This entails market risk exposure, although the relatively buoyant Islington market lessens this risk compared to other less resilient markets. It could, however, be argued that a higher profit/discount rate is legitimate to reflect this risk, although we do accept in this case that 6.5% is arguably a suitable discount rate for affordable housing revenue given that this rate is supported by guidance from HM Treasury's "Green Book".
- 2.11 We have had detailed discussions with the Principal Housing Development Project Manager regarding the appraisal and its inputs, and can now confirm that an appropriate methodology has been applied, as outlined in Section 3. We have, however, recreated the appraisal using a standard residual method which is generally regarded as the basis for testing viability for planning purposes, in order to further test scheme viability.
- 2.12 It is typical in viability assessments for the viability result to be determined by using a short-term, residual valuation which focusses exclusively on the development period which in this case is around 40 months. If this approach were to be applied we calculate the scheme would show a deficit of -£8.07m even before any form of profit or land value requirement has been allowed for. From this point of view looking at the short term, the scheme could be considered to be unviable and incapable of providing more affordable housing than is currently being proposed.
- 2.13 We have been informed by the applicant that as the private housing is all located in one block, which is an exclusively private housing block, it is problematic to increase the provision of social rent units further than is currently being proposed. Any increase would necessitate the mixing of tenures within this currently all-private block. This would potentially impact on achievable private housing values and would affect the affordability of the social rent units through the inability to control the service charge given that the tenures would share common parts. Additional shared ownership tenures could however be mixed with private tenures without such issues arising had scheme viability generated the financial capacity to do so.
- 2.14 We have been informed that any surpluses generated by the scheme will be used to fund other Council-led schemes in the Borough, including those that will provide 100% affordable housing and are in need of gap funding in order to become viable. Given the extent of the deficit in viability (-£8.07m) there would need to be a considerable increase in private residential values for a surplus to be generated by this scheme,

therefore it is unlikely that a surplus will be created, especially in view of Building Cost Information Service (BCIS) forecasts of future build cost inflation.

- 2.15 Following our review, we are in agreement with the applicant that the current level of private housing is necessary to fund the scheme. The remainder of this Section summarises our conclusions regarding the main cost and value inputs into the appraisal.

Private market values

- 2.16 Private market values have been estimated by Deloitte in its Valuation Report. Limited supporting sales evidence is provided in Deloitte's report, although based on our own research into the local market we are of the view the values applied to the private residential units are a fair reflection of what could be expected to be achieved in the current market.
- 2.17 It is likely that values could increase from the present day to the point of sale, which will aid the viability of the scheme, although the rate of any increase in value is likely to be significantly less than has been experienced over the past months. Further analysis is included in Section 5, below.

Build costs

- 2.18 We have had discussions with the Council in order to obtain the appropriate level of detailed cost information to facilitate our cost review. Upon request, we have been provided with a detailed cost plan which has been analysed by our retained Quantity Surveyor, Neil Powling.
- 2.19 Neil has reviewed Walker Management's Cost Plan and concludes that the costs are slightly higher than his benchmark estimate, which is based on BCIS average tender prices, but that this is a relatively minor difference and is of the view that the cost figure is within an acceptable range.

Affordable housing

- 2.20 The income from the affordable housing is factored in to the applicant's cash-flow model. The appraisal shows the rental income and all the management costs and other costs, which provides a highly detailed valuation of these rented units.
- 2.21 We have had further discussions regarding the sale of rented units via the Right to Buy scheme, this can result in an injection of income into the Council's long-term cashflow model. This potential income has been factored into our residual valuation.
- 2.22 We have scrutinised the detailed assumptions that have been used to generate a net rental income estimate, including gross rents, management costs and void costs, and are satisfied that these assumptions are realistic and in line with assumptions we would expect from Registered Providers.

Acquisition costs

- 2.23 A figure of £8.3m has been included in the appraisal and refers to a payment to be made to the Moreland School, which will be used to fund a new school building. We understand that the level of payment to the school has already been agreed following detailed discussions with Moreland School. In addition, [REDACTED] of leaseholder buybacks and compensation is included. These are in our view legitimate acquisition costs as we

understand the scheme cannot be delivered without the construction of the new school which these contributions will help fund. It should be noted that the intended subsidy from the Council exceeds the level of this contribution.

3.0 APPRAISAL METHODOLOGY

- 3.1 A cashflow model has been created by the applicant which covers a 48 month period. This Proval model includes all of the development costs and the initial income received. It also includes [REDACTED] of development subsidy. The overall result is -[REDACTED] deficit which is the scheme's total net cashflow.
- 3.2 The next stage of the development appraisal is a 30 year cashflow model. In year one the deficit figure of -[REDACTED] is inputted, and is termed an "Opening Loan", which incurs finance charges. The loan is repaid over time at an assumed rate of [REDACTED] per annum. This represents interests and capital payments at a rate of 5.79%. The NPV generated by this 30 year model is [REDACTED] in effect the income exceeds the loan repayments over the period so becomes a positive cashflow.
- 3.3 Although the cashflow is run over 45 years, the NPV is calculated on a shortened, 30 year version of the cashflow. This is consistent with the period we would expect a Registered Provider to utilise. The applicant's appraisal, based on this 30 year period, generates a [REDACTED] NPV which is put forward as the key result to consider when testing viability. This is an in-house model by the finance department, and differs from the Proval valuation we have been provided with. However, these different models are based on the same methodology and generate very similar results (NPVs).
- 3.4 The appraisal which generates [REDACTED] assumes staircasing of Shared Ownership values and incorporates Right to Buy receipts. This assumes that 40% of tenants will exercise Right to Buy.

4.0 DISCOUNT RATE

- 4.1 The applicant has measured financial viability by using a Net Present Value (NPV) model where annual net cashflow is discounted by a 6.5% of discount factor. HM Treasury publishes the "Green Book" which provides guidance on appraisal of public sector schemes and states that a discount rate of 6.5% is reasonable.

5.0 DEVELOPMENT COSTS

- 5.1 Our Cost Consultant, Neil Powling, has prepared an elemental analysis of the Applicant's estimated costs for the purposes of benchmarking, and has reached the conclusion that the costs are reasonable. Neil's full report is set out in Appendix A.
- 5.2 A CIL allowance of £1.181m is included in the appraisal, which is close to the combined figure estimated by Planning Officers, which includes Islington CIL of £1,076,081 and Mayoral CIL of £196,686.
- 5.3 Professional fees total [REDACTED] which amounts to 5.4% of the build costs. This is significantly below the percentage rates of 10-12% that are typically included in development appraisals in the current market, but it is not unrealistic given a degree of design repetition and scale and the purchasing power of the Council.

5.4 A contingency of 5% has been adopted and is in line with typical benchmark rates, as are all of the other cost assumptions that are adopted in the applicant's appraisal.

6.0 PRIVATE MARKET RESIDENTIAL VALUES

6.1 The scheme consists of 140 units of which 42 will be for private sale generating a total estimated revenue of £35,750,000 as estimated by Deloitte. Their estimated sales receipts are shown in the table below:

Unit Type	Min	Max	Area m ²	Max £ per m ²
1 Bed 2 Person	£670,000	£670,000	52	£12,885
1 Bed 2 Person (W/C)	£737,500	£737,500	67	£11,007
2 Bed 3 Person	£750,000	£755,000	66	£11,439
2 Bed 3 Person (W/C)	£827,500	£827,500	79	£10,475
2 Bed 4 Person	£802,500	£835,000	75	£11,133
2 Bed 4 Person Penthouse	£1,007,500	£1,082,500	100.33	£10,789
2 Bed 4 Person Duplex	£887,500	£907,500	88	£10,313
3 Bed 5 Person Penthouse	£1,097,500	£1,097,500	105	£10,452
AVERAGE				£11,062

6.2 The scheme is well situated in the Borough and benefits from good public transportation links as highlighted by its PTAL rating of 5. Moreover, it will have the benefit of being in close proximity to King Square Gardens which provides some open amenity space in an otherwise highly urbanised area.

6.3 Within Block D, the ground and lower ground units comprise a series of duplex units. Floors 1-3 comprise dual aspect flats, and floor 4 again comprises dual aspect flats in addition to the lower level of a penthouse unit. Floor 5 and 6 will contain duplex penthouses.

6.4 Deloitte's Valuation Report has referenced some local comparable evidence and also Land Registry Data which shows an upward pressure on house prices.

6.4.1 Deloitte have commented on the Canaletto scheme at 257-259 City Road and The Eagle scheme at 159-189 City Road. Deloitte cite recent overall values per sqft for these schemes but does not give specific values per sqft for the units that are available.

6.4.2 The Eagle development on City Road is a 26 storey development which is in close proximity to Old Street roundabout. It is somewhat disadvantaged by its proximity to the busy City Road, but does benefit from an in-house private cinema for residents along with a gym and spa with pool, sauna and steam room. These additional features will add a premium to the unit prices and we would expect the units on offer at this scheme to command higher values than the units in the King Square scheme.

6.4.3 The Canaletto scheme is highly comparable to King Square in terms of location as it is only a few hundred metres to the north east of the proposed development. This high rise development has similar communal facilities to The Eagle such as a cinema, gym

and a swimming pool. It also has an exclusive club on the 24th floor which provides food and drink to residents and their guests. Given these features it is apparent that this development will achieve higher sales values than the proposed scheme, in particular the upper levels which will command premium values in respect of their views.

6.5 We have also examined the asking prices of a number of other schemes currently offered for sale in EC1V and our comments on these are below.

- 250 City Road - Located approximately 100 meters to the east of the proposed site and like the other developments along city road offers an array of extras such as a private gymnasium and swimming pool. We note however that, like the other developments examined that this development is located on the busy City Road which may have a detrimental effect on sales values.
- The Lexicon, 261 City Road - Located next to the Canaletto development, The Lexicon has all the features that are customary with modern high rise high specification developments such as resident's spa and gym. Although it has these additional selling points, it also is located on the busy City Road.

6.6 We have analysed the sales values of each unit type below:

One-bedroom apartments

6.7 The one bedroom units in the proposed scheme have an average value of £11,946 per m² (1,110 per ft²). The comparable evidence below depicts units currently for sale in the area, which have an average asking price of £12,638 per m² (£1,174 per ft²).

Address	Asking Price	Size m ² (ft ²)	£ per m ² (ft ²)	Other
The Eagle, EC1V	£800,000	70 (751)	£11,466 (£1,065)	5 th floor
250 City Road, EC1V	£935,000	66 (712)	£14,135 (£1,313)	
250 City Road, EC1V	£840,000	63 (675)	£13,395 (£1,244)	9 th floor
The Lexicon, EC1V	£650,000	53 (568)	£12,311 (£1,144)	
Chronicle Tower, EC1V	£595,000	52 (563)	£11,376 (£1,057)	
The Lexicon, EC1V	£625,000	52 (559)	£12,042 (£1,118)	7 th floor
The Lexicon, EC1V	£735,000	53 (570)	£13,868 (£1,289)	
The Lexicon, EC1V	£665,000	49 (532)	£13,455 (£1,250)	7 th floor
The Eagle, EC1V	£678,000	58 (624)	£11,695 (£1,087)	6 th floor
Average			£12,638 (£1,174)	

6.8 As we would expect, the asking prices for the developments along City Road are higher than the values given to the proposed scheme's units, as discussed further above. It should be noted that although the above properties include additional facilities for residents, including gyms, the developments themselves are situated on the busy City Road which would detract from the headline value when compared to the subject site which is situated further away from the main road and close to a park whilst still benefitting from close links to public transport.

Two-bedroom apartments

6.9 The two bedroom units in the proposed block have an average value of £10,420 per m² (£1,006 per ft²). The comparable evidence below shows values for units that are currently for sale in the area, which have an average asking price of £14,548 per m² (£1,352 per ft²).

Address	Asking Price	Size m ² (ft ²)	£ per m ² (ft ²)	Other
Chronicle Tower, EC1V	£950,000	82 (882)	£11,594 (£1,077)	9 th Floor
250 City Road, EC1V	£957,500	73 (787)	£13,096 (£1,217)	
250 City Road, EC1V	£1,427,500	97 (1,043)	£14,732 (£1,369)	25 th Floor
The Eagle, EC1V	£1,150,000	83 (893)	£13,855 (£1,288)	17 th Floor
Lexicon, EC1V	£1,145,000	78 (843)	£14,623 (£1,358)	26 th Floor
Lexicon, EC1V	£1,070,000	78 (843)	£13,665 (£1,269)	23 rd Floor
Lexicon, EC1V	£1,175,000	82 (844)	£14,312 (£1,329)	29 th Floor
The Eagle, EC1V	£1,650,000	96 (1,033)	£17,188 (£1,597)	25 th Floor
The Eagle, EC1V	£1,500,000	95 (1,023)	£15,789 (£1,466)	24 th Floor
The Eagle, EC1V	£1,600,000	104 (1,119)	£15,385 (£1,430)	23 rd Floor
The Eagle, EC1V	£1,500,000	95 (1,023)	£15,789 (£1,466)	25 th Floor
Average			£14,548 (£1,352)	

- 6.10 Many of these two-bed units are on the higher floors of the local developments and as such we would expect these tower units to command a premium over comparable units at a lower level. For example looking at the units on offer in the Lexicon it is clear to see the increase in value of units from the 23rd to the 26th floor. We therefore believe that the values applied in the appraisal for the two bedroom units are reasonable. Equally these schemes also deliver higher levels of onsite facilities which are increasingly affecting achievable sales values.

Three-bedroom apartments

- 6.11 The three bedroom units in the proposed block have an average value of £10,452 per m² (£971 per ft²). The comparable evidence below depicts units that are currently for sale in the area, which have an average asking price of £14,288 per m² (£1,327 per ft²).

Address	Asking Price	Size m ² (ft ²)	£ per m ² (ft ²)	Other
250 City Road, EC1V	£1,650,000	136 (1,461)	£12,156 (£1,129)	4th Floor
The Eagle, EC1V	£1,595,000	119 (1,281)	£13,403 (£1,245)	22nd Floor
The Eagle, EC1V	£1,795,000	115 (1,238)	£15,609 (£1,450)	24th Floor
25-39 Seward Street, EC1V	£1,195,000	78 (841)	£15,321 (£1,421)	
Canaletto, City Road, EC1	£1,825,000	110 (1,184)	£16,591 (£1,541)	
Eagle Point City Road, EC1V	£1,075,000	85 (915)	£12,646 (£1,175)	
Average			£14,288 (£1,327)	

- 6.12 Again, the asking price of units in the local area is considerably higher than the unit values applied in the appraisal but this can be explained, as above, due to the fact that many of these units are on the upper floors of the developments and benefit from higher levels of onsite facilities.
- 6.13 On the whole, we consider that the values applied to the private residential units in the appraisal are a fair reflection of what could be expected to be achieved in this location. Although the scheme may not possess some of the more extravagant selling points of the nearby developments, it is further from the busy main road and has the benefit of access to open space which will assist eventual values achieved.

7.0 COMMERCIAL VALUES

- 7.1 The development also contains a small portion, 30.5m² (328ft²) of commercial space located on the ground floor of Block D. It has been noted by Deloitte that the commercial unit is likely, due its relatively small area, to be restricted in the uses it can accommodate and the quality of tenant it can attract. Deloitte consider it would be best suited to operate as either a small coffee shop or newsagents. In view of these limitations Deloitte view the units achievable rent could be in the range of £161 per m² to £215 per m² (£15 per ft² - £20 per ft²) and would achieve an investment yield in the region of 8.5%.

Address	Date	Size m ² (ft ²)	Annual Rent	£ per m ² (ft ²)
Ground, 114 Essex Road, London, N1 8LX	19/12/2014	56 (602)	£22,000	£393 (£37)
Ground, 92 Murray Grove, London, N1 7QJ	23/10/2014	34 (364)	£7,500	£222 (£21)
Basement and Ground, 103 Essex Road, London, N1 2SJ	21/08/2014	49 (527)	£18,000	£368 (£34)
Ground Floor and Basement, 106 Balls Pond Road, London, N1 4AG	21/07/2014	59 (636)	£11,000	£186 (£17)
Lower Ground & Ground, 59 Banner Street, London, EC1Y 8PX	26/04/2014	60 (645)	£18,500	£309 (£29)
Ground & Lower Ground, 61 Banner Street, London, EC1Y 8PZ	26/03/2014	60 (645)	£18,500	£309 (£29)
Basement and Ground, 108 Balls Pond Road, London, N1 4AG	12/03/2014	60 (645)	£10,000	£167 (£15.5)

- 7.2 The above table shows lettings evidence from the surrounding area, for units no greater than 60m². The lettings are all for General Retail (A1 Use Class) units and cafes (A3). Based on this evidence we agree that Deloitte's estimate of £215 per m² is realistic. It is possible that the location of this unit in an area of high residential occupation may help attract retailers and could possibly generate increased rents, although the net impact of such an increase upon overall scheme viability is likely to be negligible given the scale of the development relative to the commercial element.

BPS Chartered Surveyors

Project: King Square

Independent Review of Assessment of Economic Viability

Interim Draft Report Appendix A Cost Report

1 SUMMARY

- 1.1 We have prepared an elemental analysis of the Applicant's estimated costs for the purposes of benchmarking. This reveals an arithmetical discrepancy of £330,000. Our benchmarking is compared to the estimated total of [REDACTED] or [REDACTED] before the adjustments for inflation and contractors design fees.
- 1.2 On the basis of our benchmarking we consider the estimated costs before any addition for inflation to be slightly more than benchmark but within a reasonable range.

2 METHODOLOGY

- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the applicant costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS.
- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or upper quartile for benchmarking depending on the quality of the scheme. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.
- 2.3 BCIS average prices are also available on an overall £ per sqm and for new build work (but not for rehabilitation/ conversion) on an elemental £ per sqm basis. We generally consider both. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the

next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should keep the estimates for different categories separate to assist more accurate benchmarking.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available on the planning website.
- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs do not include these. Nor do elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.

3 GENERAL REVIEW

- 3.1 We have been provided with and relied upon the following:-
- King Square budget estimate order of costs 2014-12-18
 - Financial evaluation 19.12.14
 - KSE Dev & Regen Order of Cost Est 2014-12-18 OPT L & SO
 - King Square Regen Anticipated Works Phases 2014.12.5
- 3.2 The Application Summary is in the total sum of [REDACTED]. Refer to the attached file "Application summary - annotated". Whilst it is not unusual to find differences resulting from rounding etc, the information extracted into our own file "Elemental analysis & BCIS Benchmarking" totals [REDACTED] (3,020/m²). We have checked the arithmetic addition of the figures in the Application Summary - refer to the annotations on the right of the file - these total [REDACTED] a difference of [REDACTED]. The difference presumably arises from the internal working of the spreadsheet that is not revealed in this published version.

3.3 The allowances in the form of additions to the estimate are as follows:-

- Preliminaries 16% - this is on the high side of reasonable.
- Overheads 5% and profit 2.5% - a combined total of 7.5% is high - we would consider a range of 4 to 6% reasonable
- Main Contractors Design Fees 4.3% - this is a reasonable allowance for these fees
- Risk 6.8% - we consider high for a new build project. Generally 5% is accepted.
- Location 5.26%. It is not clear what the base line location is to which 5.26% is added. The BCIS provides a Location Factor for Islington of 115 compared to a UK mean of 100. This would indicate an addition of 15%.
- Inflation 9.05% - based on a TPI of 277 at 4Q2016. At the time of our download of BCIS data for benchmarking the TPI for 4Q2016 was a forecast 278. However - viability is generally undertaken on a current cost basis ie inflation should be excluded. If costs are projected forward, then in order to compare like-with-like, sales should be similarly projected.
- A reduction of 7.78% has been made for the size of project. We are unable to verify this as we don't know the basis of the starting point for the estimated costs. Our benchmarking compares the Applicant's costs including allowances for size and location with a BCIS location adjusted average.

3.4 The estate is divided into 6 blocks which are summarised as follows:-

		NIA m ²	Units
3.5	A Nursery	Ground only	
	B Maisonettes	Gd + 2 floors	1,040 10
	C Community building	Community & WC on ground; flats 1st to 3rd = 4 storey	816 13
	D Private	8 storey LG Gd + 6 storeys (top 2 floors are penthouse)	3,302 42
	E Independent living	Gd to 4th = 5 storey flats	1,611 25
	F Social rent	Gd to 3rd = 4 storey flats	3,391 50
		NIA	10,160 140
		GIA	12,661

3.6 The estimate has not been prepared in blocks, and therefore benchmarking has not been facilitated. BCIS benchmarking for flats is divided 1-2 storey, 3-5 storey and 6+ storeys. Houses are benchmarked separately. The estimate does provide a detailed estimate for houses and for flats and this is shown in the summary.

3.7 For the purposes of benchmarking we have calculated a blended rate as follows:-

3.8	Blended rate calculation	m ² GIA	m ² NIA	£/m ²	%	£/m ²
	Community - ground floor of Block C			BCIS LF115		Blended
	Housing					
	Flats 3-5 storey (blocks C, E & F)					
	Flats 6+ storey (block D)					

- 3.9 Refer to our attached file "Elemental analysis & BCIS Benchmarking" - we have extracted the Applicant's information into elements and included the "below-the-line" adjustments in the individual element totals in order to make a fair comparison to BCIS. Our adjusted benchmark calculates a total of [REDACTED] excluding inflation and design fees that compares to the Applicants [REDACTED] which also excludes these items.
- 3.10 For the purposes of elemental comparison we have worked with the elemental column that relates to flats (92% of the total GIA) adjusted to an Islington location - the accuracy of this exercise would be slightly increased if houses and flats were separated. The basic blended rate does adjust for housing and the two different ranges of storey heights of flats.
- 3.11 On the basis of our benchmarking we consider the estimated costs before any addition for inflation to be slightly more than benchmark but within a reasonable range.

BPS Chartered Surveyors
Date: 3rd March 2015