

27 April 2014

1.0 INTRODUCTION

- 1.1 We have been instructed by Islington Borough Council to review BNP Paribas Real Estates' March 2015 Viability Assessment of a proposal to redevelop 2 Parkhurst Road ('the Site') under planning application P2015/0330/FUL.
- 1.2 The Site is approximately 0.2 Ha and is located at the junction of Camden Road and Parkhurst Road. It is bounded by Camden Road to the south, Parkhurst Road to the north and Holloway Community Centre to the east. The applicant, the City of London, is proposing the following:

"Partial refurbishment, demolition and redevelopment of site to provide 5 storey (plus basement) building comprising 695 sq m of replacement community floorspace (use class D1) 52 sq m office (use class B1) and 20 affordable residential units (10 x 1 bed, 8 x 2 bed and 2 x 3 bed). Refurbishment of former Sunday school to provide 2 private residential units (2 x 2 bed). Refurbishment of former church to provide 7 residential units (3 x 1 bed, 2 x 2 bed and 2 x 3 bed)....."
- 1.3 The proposed D1 space is intended for use by the existing tenant, the Islington Arts Factory, which is a community organisation.
- 1.4 The applicant is proposing to provide 69% of the residential units as affordable housing (55% by area). This exceeds the Council's affordable housing target of 50%, which is set by Core Strategy policy CS12. All of the affordable units will be Social Rent tenure, which is higher than the Council's 70% target. The applicant is currently proposing that 35% of the affordable units will be nominated to the Council. We have been informed that the applicant intends to retain some of the affordable housing in its own ownership.
- 1.5 We have reviewed the cost and value inputs that have been applied in BNP's development appraisal of the proposed scheme, in order to give a view as to whether the currently proposed level of affordable housing is the maximum that can reasonably be provided.

2.0 CONCLUSIONS & RECOMMENDATIONS

- 2.1 The proposed scheme generates a residual value of -£2,73m. When compared against BNP's estimate benchmark land value of £1.46m, the scheme deficit is -£4,91m.
- 2.2 It is unlikely that a typical private developer would be willing to proceed with the scheme, as there would be no commercial logic in undertaking a scheme that generates such a large deficit.
- 2.3 We have been informed that the City of London (the applicant) intends to retain some or all of the social housing that will be constructed. One of the applicant's main objectives is to deliver affordable housing and to continue its charitable work of providing community facilities. Therefore this is not a typical commercial, profit-led scheme. This approach explains why the applicant is still apparently willing to proceed with the scheme in spite of the large apparent deficit it generates.
- 2.4 We have analysed the proposed benchmark land value of £1.464 m. This figure is based on an existing use value (EUV) of £1.22 m which we agree is a realistic estimate. We do, however, fail to see the logic of applying a landowner premium in this case. The logic of a premium is for a landowner to benefit from an increase in land value arising from the grant of planning consent for a higher value use. In this instance the proposed consent would result in a net loss. Therefore market value for the site would not exceed EUV as such there is no scope available to fund a premium.
- 2.5 We have revised the benchmark land value by removing the landowner premium and also by removing the void costs and rent free periods that have been included as we do not consider these to be necessary given that a tenant is in occupation. This results in a £1.44m benchmark, which is very similar to BNP's figure of £1.46m.
- 2.6 Our Cost Consultant, Neil Powling, has reviewed a Cost Plan (January 2015) that has been prepared by Fulkers, and has concluded that the costs proposed are broadly reasonable. He considers the overall costs to be marginally overstated by £177,000, which is a minimal difference relative to the entire build cost sum of £9,580,320.
- 2.7 Our analysis of local sales evidence suggests that the values applied in the appraisal are realistic, taking into account the disadvantages of the site, which is located opposite Holloway Prison. The proposed private housing is somewhat unusual including the layout of the private market units most of which will be spread over 3 or 4 floors. This creates uncertainty over achievable values; although given the disadvantages of the proposed conversion apartments we would not expect achievable values to substantially exceed those in BNP's appraisal. Private sales values total £9.59m in the appraisal, and we calculate that these values would need to increase by almost 70% in order fully eliminate the current deficit.
- 2.8 We have created our own appraisal to model the affordable housing values which results in a value of £2.1 m (£159 per sqft, £1,711 per sqm), which suggests that the £131 per sqft (£1,410 per sqm) is perhaps somewhat pessimistic. Our figure is some £0.38 m higher than BNP's affordable housing valuation, which if adopted would reduce the scheme deficit by only a relatively marginal amount and substantially below the level required to clear the deficit.
- 2.9 We are satisfied that the value of the proposed D1 space is realistic. We have queried whether the Islington Arts Factory will retain its nil rent status, or whether instead it will be required to pay a market rent on the proposed D1 space. We are currently awaiting a response on this issue from BNP. We note however that the appraisal

prepared by BNP currently indicates the Arts Centre is assumed to contribute a rent of £8,500 per annum. Any reduction in this rent would increase the apparent deficit. It should be noted that the Arts Centre currently pays a nil rent. We understand that Heads of Terms are currently being prepared in respect of a lease of the proposed D1 space between the applicant and the Islington Arts Factory.

- 2.10 Following our review of the cost and value inputs into BNP's viability assessment, we have reached the conclusion that the current level of affordable housing represents the maximum that the scheme can reasonably provide. A further consideration is that the conversion buildings are considered by BNP to be unsuitable for affordable housing given that they provide accommodation over multiple levels. Therefore it is argued that no further affordable housing could be provided by the scheme even if it were viable to do so.

3.0 BENCHMARK LAND VALUE

- 3.1 The former church and associated buildings are currently occupied by the Islington Arts Factory. These buildings accommodate dance studios, artist studios, music rooms, a café, and gallery space.
- 3.2 BNP has undertaken an existing use valuation of the site. This valuation generates an existing use value of £1.22m, to which a landowner premium of 20% has been applied to reach £1.464m, which has been used as a benchmark land value for the purposes of testing the viability of the application scheme.
- 3.3 We have been informed that the City of London have assigned a Market Rent of £100,000 to the existing space. This is a 'book value' representing the notional market rent of the premises. This is not actually paid by the existing tenant, Islington Arts Factory who are leased the space at a nil rent.
- 3.4 BNP has valued the existing D1 space assuming vacant possession is secured followed by a letting of the premises in the open market. There is a total of 10,376 sqft (964 sqm) of D1 space. This has been assigned a rent of £10 per sqft (£108 per sqm) by BNP, who cite evidence of D1 rents in this locality. This is lower than the £15 per sqft (£161 per sqm) that has been applied to the application scheme's new-build D1 space and reflects the former's condition including its need for refurbishment. We accept that the proposed rental margin between current and proposed accommodation is realistic.
- 3.5 The D1 Use comparable evidence mostly relates to lettings to colleges and nurseries which are commercially driven organisations capable of generating rental payments, thus is different from the uses that are currently on the site, namely two dance studios, artist studios, music rooms, a café and gallery space which are essentially less commercial. The lettings evidence cited by BNP includes the following:
- 7 Arkansas House, New Orleans Walk, London, N19 3SZ. This was let in June 2014 at £18.65 per sqft (£200 per sqm). This is a day nursery, in 'good condition'.
 - 93-101 Greenfield Road, London, E1 1EJ - let for £12 per sqft (£129 per sqm) to an educational college.
 - 333 High Street, Wood Green, London, N22 8JA - £12.90 per sqft (£139 per sqm). In use as a nursery. Modern building in good condition. In less central location London than the application site.

- 3.6 Following our analysis of the comparable evidence provided, we conclude that £10 per sqft is not an unrealistically high figure. We have viewed photographs of the interior of the building. These indicate that the facilities are in a reasonably good condition. We cannot however reach any firm conclusions regarding the building without further evidence. Nevertheless, the general tone of rents for D1 space does show that £10 per sqft (£108 per sqm) is toward the lower end of the spectrum of achievable rents, and is unlikely to be overstated.
- 3.7 The 1,344 sqft (£125 sqm) of storage space has been assigned a rent of £10 per sqft (£108 per sqm). No comparable evidence has been provided specifically for the storage space rents. We understand that this storage space is ancillary to the D1 space. Whilst it could be argued that a lower rent may be appropriate for the storage space, the overall rent for the premises (excluding the forecourt) is realistic as a somewhat higher rent could potentially be justified for the main D1 floorspace. A reduction in the £13,440 annual rent assigned to the storage space would in any case have a minimal impact on viability.
- 3.8 A capitalisation rate (yield) of 9% has been applied. We consider this to be realistic, reflecting the limited income security that is typically achieved by landlords of D1 space.
- 3.9 A void period of 18 months and a rent free period of 6 months have been applied to the D1 Uses. This assumes vacant possession is secured and a letting is achieved in the open market providing for the above marketing period and letting incentives. Given that space is currently tenanted, and has a notional rent ascribed to it, it is arguably reasonable to assume that the existing tenant pays or is assumed to pay a market rent for the premises and that there is no need to secure an alternative lettings, as the decision to forego rent is a 'personal' decision of the City of London rather than driven by any other consideration. The City of London could for example grant endow the tenant in order to provide funding to enable a rent to be paid. Indeed this is recommended best practice when subsidising occupiers in local government. We suggest that simply capitalising the Market Rent of £117,240 as estimated by BNP using a 9% yield, without deductions for voids or rent free periods, is arguably appropriate, and would generate a £1.23m figure after purchaser's costs.
- 3.10 The freeholder is currently receiving £20,000 per annum from Exan for use of the forecourt for the parking and maintenance of cars. BNP has also capitalised this income using a 9% yield, which we agree is suitable. They have factored in an 18 month void period, which, as with the D1 space, we do not consider to be necessary given that a tenant is already in occupation. We suggest, therefore, a simple capitalisation of the passing rent, which gives a net capital value £210,000 after deduction of purchaser's costs. Adding this to the £1.23m calculated in the preceding paragraph, gives an £1.44m. This compares to BNP's EUV of £1.22m,
- 3.11 BNP have then added a 20% premium to arrive at their proposed benchmark. We are of the view the inclusion of a premium generally reflects an allowance to the land owner as an incentive to release the land for development. In this instance the land owner is simply redeveloping the site and potentially retaining it within their ownership. Secondly the scheme generates a deficit, therefore in our view EUV is likely to represent market value and as such there is scope for generation of a premium.
- 3.12 Our figure of £1.44m compares to BNP's of £1.464m. Albeit we arrive at our values through differing assumptions we conclude that the benchmark applied in the appraisal is broadly reasonable.

4.0 PRIVATE RESIDENTIAL VALUES

- 4.1 Private market values have been calculated using an average value of £725 per sqft (£7,804 per sqm) uniformly applied by BNP to all the units. This value per sqft has been supported by comparable sales evidence from the local area. The Site is directly opposite Holloway Prison, which is viewed by BNP as being a constraint upon residential values achievable.
- 4.2 We sought a unit pricing schedule so that we could analyse individual unit prices but this has not been provided. We have applied the suggested sales rate £725 per sqft (£7,804 per sqm) to each of the units in order to create the schedule of values below:

<u>Building C</u>				
Unit No.	Type	GIA (sqm)	GIA (sqft)	Values
C001	1B2P	94	1,010	732,006
C002	1B2P	93	1,003	726,933
C003	2B3P	72	774	561,178
C004	2B4P	70	757	548,770
C005	3B5P	141	1,515	1,098,477
C006	3B5P	147	1,584	1,148,656
C007	1B2P	149	1,609	1,166,371

<u>Building B</u>				
		GIA (sqm)	GIA (sqft)	Values
B001	2B3P	85	913	661,843
B002	2B3P	158	1,696	1,229,728

- 4.3 Building B is the former Sunday school, while Building C is the former Camden New Church. Most of the values of these units exceed average values locally for each unit type, which can be explained in part by their exceptionally large sizes and period features.
- 4.4 The apartments are conversions which creates some disadvantages relative to purpose built residential buildings, but on the other hand does provide some attractive and unique features especially those associated with the buildings' former uses as a church and Sunday school. We summarise some key features of the units below:
- C004 inhabits the tower of the former church. C004 is across 4 storeys
 - C005, C006 and C007 have the have the highest values
 - C001, C002, C005, C006 and C007 are all triplex
 - C003 is on one floor
- 4.5 The ground floor apartments in both buildings will have direct access to garden space outside of the apartments. The upper floor apartments will not have private external amenity space, but this is compensated for by large internal areas. The ground floor is shared by C001, C002 and C003.

- 4.6 Given how unique the private housing in this scheme will be, we have requested further commentary from BNP, who have informed us that they have relied on second-hand evidence and the opinions of local agents upon the sales potential of these units. We discuss these values below by reference to asking prices of nearby units, some of which are smaller than the proposed units but are nevertheless of use for establishing a general tone of value:

One-beds

- A 535 sqft flat (£50 per sqm) one-bed flat is available at £365,000 in Carleton Road, which is £682 per sqft (£7,341 per sqm). This is a reasonably good quality block of flats which has ample communal gardens.
- A 465 sqft (£43 sqm) one-bed in Fairweather House, Parkhurst Road, is available at £350,000 (£752 per sqft - £8,094 per sqm). It is set within well maintained communal gardens. This is an exceptionally small unit which may account for the relatively high value per sqft.
- A 535 sqft one-bed available for £399,950 (£748 per sqft - £8,051 per sqm) on Parkhurst Road. This is a period terraced building, and this ground floor conversion flat has good period features.

Two-beds

- Two-bed available at £425,000 on Holloway Road, in a reasonably good quality block of flats.
- 2-bed flat available at £550,000 at Caledonian Road. It has an area of 675 sqft (£63 per sqm) and is £814 per sqft (£8,762 per sqm). This is a modern, recently-constructed block. In close proximity the site but a superior location as not overlooking Holloway Prison. On the other hand, the proposed will be new-build which may add a premium.
- 2-bed maisonette for sale at £500,000. This 975 sqft (£91 sqm) unit is available at £512 per sqft (£5,511 per sqm). This low value per sqft may reflect the relatively large size of this unit.
- A 702 sqft (£65 per sqm) 2-bed flat at £500,000 asking price (£712 per sqft - £7,663 per sqm) on Caledonian Road. This is in a modern, recently-constructed block of flats which is in a superior location as not overlooking Holloway Prison.

- 4.7 It is typical for achieved prices to be at a discount from the asking prices (5-10% is not uncommon), thus we have taken this into account in our analysis. Based on the availabilities of second-hand units, we consider the values applied to the proposed units be realistic.

Recent new-build application schemes

- 4.8 For a nearby new-build scheme on Parkhurst Road which we were recently involved in reviewing, we estimated residential values of c£660 per sqft (£7,104 per sqm). Inflation of 6.2% is shown by the House Price Index from June 2014 to February 2015. This is £701 per sqft (£7,458 per sqm) when the £660 per sqft (£7,104 per sqm) June figure is uplifted to present-day values.

- 4.9 For another nearby scheme, at 351 & 351A Caledonian Road, the applicant estimated values of £704 per sqft (£7,578 per sqm) in November 2014. We agreed that these were reasonable. These were upon a disadvantaged site, reflecting its close proximity to railway lines. A somewhat higher figure is to be expected for the proposed.
- 4.10 A scheme on Benwell Road was ascribed estimated values of £724 per sqft (£7,793 per sqm) by BNP in September 2014. There has been negligible growth in Islington HPI between September and the latest HPI figures (February 2015). This Benwell Road scheme is broadly comparable with the proposed scheme, which suggests that £724 per sqft is a reasonable estimate.
- 4.11 Values recently estimated for a nearby scheme at Ladbroke House averaged £860 per sqft (£9,257 per sqm) which, based on extensive analysis of comparable evidence, we concluded was reasonable. It is to be expected that lower values are achievable at the proposed scheme than Ladbroke House, given the latter's superior location, facing Highbury Fields, and that it is an attractive period building that is to be converted, which benefits from exceptionally high floor-to-ceiling heights.

Queensland Terrace

- 4.12 Recent asking prices for Queensland Terrace of almost £8,611 per sqm (£800 per sqm) have recently been cited by the selling agents. Queensland Terrace is in a mixed use area and directly opposite The Emirates football stadium, which is arguably not an ideal position for housing, although is undoubtedly preferable to being opposite Holloway Prison. This Barratt scheme is superior to the proposed scheme in some respects including its aspects, its scale, its further distance from main roads, and that it is not constrained by the close proximity of nearby buildings. We would not expect values per sqft at the proposed scheme to reach this level.
- 4.13 A large number of the available 2-beds at Queensland Terrace are available at £600,000-£615,000. For example, an apartment at £615,000 (£851 per sqft - £9,160 per sqm) is higher than the proposed 2-beds, including in terms of values per sqft. One-bed flats at Queensland Terrace are on the market for £435,000 to £450,000. Making allowance for typical discounts from asking prices, and for the relative advantages Queensland Terrace, these availabilities indicate that markedly higher 2-bed values than those estimated by BNP are not to be expected.

321 Holloway Road

- 4.14 The recently constructed 321 Holloway Road is cited by BNP as its key comparable scheme. It has asking prices of £644-£790 per sqft - an average of £706 per sqft (£7,599 per sqm). It sold out at the end of Q3 2014, and is due for completion in April/May 2015. These units sold in June 2014 but would have factored in some degree of forecast sales growth up to the date of practical completion. It is located on the busy A1, and is in close proximity to the Site. We would not expect private market values for the proposed scheme to exceed those at 321 Holloway Road.
- 4.15 321 Holloway Road is the only new-build scheme cited by BNP, who have provided a schedule of sales of second-hand apartments in the local area.

5.0 AFFORDABLE HOUSING VALUES

- 5.1 Affordable housing values have been calculated at £1.72m, which is £131 per sqft (£1,410 per sqm). All the units are Social Rent tenure, and BNP have valued these by using gross weekly rents that are compliant with the Council's affordability criteria.

The capital value has been derived using BNP's own bespoke model. We have received a summary of BNP's model which does not show the rent and yield assumptions that were used to reach the capital valuation.

- 5.2 We have been informed that the rents for affordable housing will be based on April 2015 target rents for Islington:
- 1-beds: £158-£160 per week
 - 2-beds: £173-£188 per week
 - 3-beds: £222-£248 per week
- 5.3 We have undertaken a summary appraisal of the affordable housing, using the above weekly rents and typical assumptions applied in affordable housing valuations:
- 6% yield
 - maintenance & management costs: 15% of weekly rent
 - voids: 4% of weekly rent
 - Major repairs: 1% of weekly rent
- 5.4 The result is £2.1m (£159 per sqft), which suggests that £131 per sqft (£1,410 per sqm) is perhaps somewhat pessimistic. We have tested our model with higher yields, which shows that a yield of just over 7% would be required in order to reduce the capital value to BNP's figure of £131 per sqft.

6.0 DEVELOPMENT COSTS

- 6.1 Our Cost Consultant, Neil Powling, has reviewed the Cost Plan (January 2015) that has been prepared and Fulkers, and has concluded that the costs are broadly reasonable. He considers the overall costs to be marginally overstated by £177,000, which is a minimal difference relative to the entire build costs. Neil explains this difference as follows:

“Our adjusted benchmarking of Block A shows the Applicant’s costs to be high compared to benchmark by £177,000; this is mainly the result of the 4% addition (£199,560) for price & design risk; we consider a 5% addition for risk on new build work to be sufficient and reasonable. Our benchmarking of Blocks B&C shows the Applicant’s estimated costs to be reasonable.”

- 6.2 A Developer's Profit of 20% on GDV has been applied to the private market element of the scheme, which reflects the level of risk associated with this type of development. This is a profit level that has commonly been applied in recent viability assessments.
- 6.3 A Developer's Profit of 6% on GDV has been adopted for the affordable housing element of the scheme, which is an industry standard profit level for this form of housing.
- 6.4 Finance costs have been calculated using an interest rate of 7%, which is a reasonable rate to apply in the current lending market. A pre-construction period of 6 months, a 24 month construction period and a 6 month sales period have been assumed when calculating the finance costs, which are realistic development programme assumptions for a scheme of this size and complexity.
- 6.5 Marketing of 2%, letting agent fees of 10%, and letting legal fee of 5%, are all in line with typical benchmark rates for viability assessments in the current market.

6.6 S106 Contributions of £135,000, Islington Borough CIL of £141,750 and Mayoral CIL of £28,350 are included in BNP's appraisal. These have not yet been confirmed to us by planning officers as being correct figures for this scheme.

7.0 D1 COMMUNITY USE - VALUES

7.1 A rent of £15 per sqft has been applied, and then capitalised using an 8% yield for the proposed D1 space.

7.2 BNP has provided a schedule of D1 lettings, some of which we have analysed above in relation to the valuation of the existing D1 space. It is logical that the rent of the proposed (£15 per sqft - £161 per sqm) is higher than the £10 per sqft (£108 per sqm) applied to the existing space reflecting improvements in configuration specification and condition.

7.3 The yield of 8% is realistic for D1 space, which when let in the open market typically has limited investor interest relative to, for example, office buildings. This reflects the typically lower income security attainable from D1 tenants.

- 7 Arkansas House, New Orleans Walk, London, N19 3SZ. This was let in June 2014 at £18.65 per sqft (£200 per sqm). This is a day nursery, in good condition.
- 93-101 Greenfield Road, London, E1 1EJ - let for £12 per sqft (£129 per sqm) to an educational college.
- 333 High Street, Wood Green, London, N22 8JA - £12.90 per sqft (£139 per sqm). Nursery. Modern building in good condition. In less central location in London than the Site.

7.4 It is apparent that £15 per sqft (£161 per sqm) is in the upper range of achievable rents for D1 Uses. In terms of the capitalisation rate of 8%, this is higher than the typical rate of 5-6% that is applied to new-build B1 (office) space. BNP has not, however, provided any evidence in support of an 8% yield, which may be due to the limited transactional evidence. Taking into account this building's location, which is not in a Central London location and its D1 Use class. We consider c8% to broadly realistic. The City of London (the applicant) does not in any case intend to sell the building, and will retain its role as landlord by securing a letting with Islington Arts Factory.

7.5 In the appraisal, rents total 11,235 per annum which is inclusive of the rents applied to the office space (discussed below).

8.0 OFFICE (B1) - VALUES

8.1 A rent of £15 per sqft (£161 per sqm) has been applied, and then capitalised using an 8% yield. BNP have included a void period of 6 months and a rent free period of 6 months. There is a total of 52.66 sqft of office space. The small area indicates that it is effectively ancillary to the D1 Uses on site. We accept that the valuation assumptions applied to the office space are reasonable in this context.

BPS Chartered Surveyors

Appendix One: Local sales transactions

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms
37 Moriatry Close N70EF	£499,999	13 Jun 2014	Flat	1980	1
83B Crayford Road N70NE	£381,000	15 May 2014	Flat	1880	1
Flat 1 Vaynor House Williamson Street N70ST	£369,950	01-Sep-14	Flat		1
30A Hungerford Road N7 9LX	£360,000	21 Jul 2014	Flat		1
37B Parkhurst Road N70LR	£365,000	23 May 2014	Flat	1880	1
19 Keighley Close N7 9RT	£280,000	29 Apr 2014	Flat	1970	1
Flat 3 364 Camden Road N70LG	£270,000	19 Sep 2014	Flat	1884	1
First Floor Flat 34 Hungerford Road N7 9LX	£372,000	25 Jul 2014	Flat		1
Flat 2 348 Camden Road N70LG	£230,000	21 Jul 2014	Flat	1880	1
Flat 16 Barnersbury House Parkhurst Road N70NR	£211,000	23 Jun 2014	Flat	1960	1
Flat 13 Hilton House Parkhurst Road N70NN	£340,000	12 Jun 2014	Flat	1930	1
Flat 4 14 Beacon Hill N7 9LY	£410,000	02-Sep-14	Flat	1890	1
Flat 14 Bunning House Chambers Road N70NX	£270,000	30 May 2014	Flat		1
Flat 1 34 Freegrove Road N7 9RQ	£675,000	31 Oct 2014	Flat		2
8 Keighley Close N7 9RT	£560,000	14 Aug 2014	Terrace	1970	2
3A Penn Road N7 9RD	£512,000	30 Jun 2014	Flat		2
Second Floor Flat 51 Penn Road N7 9RE	£485,000	25 Sep 2014	Flat	1887	2
4B Beacon Hill N7 9LY	£463,500	05-Dec-14	Flat	2014	2
Flat 208 Bakersfield Crayford Road N70LY	£320,000	10 Oct 2014	Flat	1970	2
Flat 3 555 Caledonian Road N7 9RX	£495,000	31 Jul 2014	Flat	1890	2
Flat 44 Parkhurst Court Warlters Road N70SD	£311,500	31 Oct 2014	Flat		2
Flat 2 Parkhurst Court Warlters Road N70SD	£320,000	30 Apr 2014	Flat	1913	2
12 Moriatry Close N70EF	£402,000	03-Oct-14	Flat		2
Flat 28 Parkhurst Court Warlters Road N70SD	£232,000	26 Aug 2014	Flat	1936	2
8 Staveley Close N7 9RS	£528,888	18 Jul 2014	Terrace	1975	2
Flat 104 Bakersfield Crayford Road N70LU	£319,000	21 Nov 2014	Flat	2005	2
11B Penn Road N7 9RD	£865,000	28 Oct 2014	Flat	1898	3
Flat D 4 Hungerford Road N7 9LX	£655,000	01-Jul-14	Flat	1860	3
Flat 7 402 Camden Road N70SJ	£548,000	08-Aug-14	Flat	1880	3
Flat 1 553 Caledonian Road N7 9RR	£735,000	31 Jul 2014	Flat	1880	3
33 Penderyn Way N70EY	£525,500	30 Jul 2014	Terrace	1974	3
Flat 20 Bakersfield Crayford Road N70LT	£500,000	10 Oct 2014	Flat		3
Flat 19 Bakersfield Crayford Road N70LT	£450,000	24 Jun 2014	Flat	1972	3
Flat C 65 Tabley Road N70NB	£535,000	23 Dec 2014	Flat	1906	3
Flat 1 555 Caledonian Road N7 9RX	£710,000	02-Feb-15	Flat	2003	3
2 Hungerford Road N7 9LX	£2,220,000	23 May 2014	Detached	1886	4
15 Penderyn Way N70EY	£560,000	21 Nov 2014	Terrace	1970	4
5 Belfont Walk N70SN	£525,000	01-Sep-14	Flat	1980	4
27 Beacon Hill N7 9LY	£1,701,316	05-Sep-14	Semi-detached		5
31 Freegrove Road N7 9RG	£1,475,000	02-Oct-14	Terrace	1900	5
15 Tabley Road N70NA	£350,000	21 Jan 2015	Flat	1890	5
Flat D 44 Carleton Road N70EP	£515,000	29 Sep 2014	Flat		

Appendix Two:

Cost Review, by Neil Powling FRICS

1 SUMMARY

- 1.1 See paragraph 3.4 below - the GIA for the new build works of Block A are given in the cost plan as 1,953m². This figure does not appear consistent with the net areas given for the functional elements of this building.
- 1.2 Our adjusted benchmarking of Block A shows the Applicant's costs to be high compared to benchmark by £177,000; this is mainly the result of the 4% addition (£199,560) for price & design risk; we consider a 5% addition for risk on new build work to be sufficient and reasonable. Our benchmarking of Blocks B&C shows the Applicant's estimated costs to be reasonable.

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:-
- Assessment of viability and affordable housing provision prepared by BNP Paribas Real Estate v.2 dated March 2015 including the appendices and in particular Appendix 3 the Cost plan and Appendix 4 the Argus Appraisal
 - The Design & Access Statement planning issue prepared by Richards Partington Architects
 - The Planning Statement prepared by Maddox Associates dated 23rd January 2015
 - Appendix 3 is the Cost plan prepared by Fulkners LLP dated January 2015
- 3.2 The cost plan is split into two main sections: Block A is new build including residential flats with the Community areas comprising: Arts areas, café, gallery and office combined together. As the two functions have not been separately estimated we have used blended data for benchmarking.
- 3.3 The second section comprises the estimate for Blocks B & C, the conversion to flats of the former Sunday school and of the existing church.
- 3.4 We have assumed the costs and GIA stated in the cost plan for Block A of 1,953m²

and Blocks B & C of 1,301m² to be correct. The latter GIA is consistent with the stated NIAs of the units, however the former (Block A) slightly exceeds the NIA of the combined residential and community areas; we have queried this anomaly.

- 3.5 The preliminaries have been calculated at 12.5% and the OHP at 5% for both sections. We consider these additions reasonable.
- 3.6 Block A has additions of 4% for Price & Design risk and 5% for contingencies. We are content with a total allowance of 5% for risk for new build and therefore consider the combined allowance to be excessive by 4%. Blocks B & C has an addition of 8% Development Allowance - because of the increased uncertainty in conversion work we are satisfied that this addition is reasonable.
- 3.7 Block A also shows a 20% addition for VAT. We would not expect this to be payable for new build works and note that there is no inclusion in the Appraisal for VAT.
- 3.8 The additions for professional fees are 14% to Block A and 16% to Block B. On the assumption that the project will be procured traditionally with a full professional team we consider these additions realistic.
- 3.9 We have downloaded current BCIS data for benchmarking purposes. We have considered the various areas grouped collectively as a Community Centre for benchmarking and blended the rates with a mean “generally” rate for new build flats. The Location Factor for Islington is 114 and we have applied this adjustment in our calculations.
- 3.10 Refer to our two files “Elemental analysis Block A and BCIS benchmarking” and “Elemental analysis Blocks B&C and BCIS benchmarking”. Our adjusted benchmarking of Block A shows the Applicants costs to be high compared to benchmark by £177,000; this is the result of the 4% addition (£199,560) for price & design risk. Our benchmarking of Blocks B&C shows the Applicant’s estimated costs to be reasonable.

BPS Chartered Surveyors
Date: 9th April 2015

Islington Arts Factory
BCIS Downloaded 9th April 2015

From next tab:-

LB Islington	Community	749	Blended rate		
Building A - new	Res	1,220	38%	2,542	967
build - 20 flats - 5 storey			62%	1,417	878
Community Bldg A - new build - Gallery, office, arts, entrance/café	Tot new bld blk A		1,968		1,845
Building B - refurb - 2 flats - 3 storey					
Building C - refurb - 7 flats - 4 storey + stair up 2 storeys	Sunday School B			242	
Church C			767		
Location			114		
Estimate Jan 2015 1Q2015					
TPI 1Q2015		257		forecast	
TPI 2Q2015		261		forecast	
Avg prices def	LF100		LF114		sample
Community Centres generally - mean	1,614		1,840		113
Community Centres up to 500m ² generally - mean	1,711		1,951		47
Community Centres up to 500m ² -2000m ² generally - mean	1,543		1,759		62
New bld flats generally mean	1,168		1,332		793
New bld flats 3-5 storey mean	1,151		1,312		527
Refurb flats generally mean	1,286		1,466		69
Refurb flats 3-5 storey mean	1,225		1,397		27
Avg prices 5 years					
Community Centres generally - mean	2,230		2,542		17
Community Centres up to 500m ² generally - mean	2,945		3,357		7
Community Centres up to 500m ² -2000m ² generally - mean	1,732		1,974		9
New bld flats generally mean	1,243		1,417		231
New bld flats 3-5 storey mean	1,218		1,389		149
Refurb flats generally mean	1,661		1,894		20
Refurb flats 3-5 storey mean	1,465		1,670		8
Rehab/ conversion Group elements inc prelims		Flats generally		Flats 3-5 storey	
LF100	LF114		LF100	LF114	
Substructure	44	50	49	56	
Superstructure	543	619	402	458	
Finishes	275	314	298	340	
Fittings	205	234	280	319	
Services	595	678	815	929	
1,662	1,895		1,844	2,102	

Islington Arts Factory
Elemental analysis Blocks B & C (Refurb) & BCIS benchmarking

GIA m ²			BCIS max 5 year element avg		Group elements Refurb
			Flats - BCIS mean		
	£	1,301 £/m ²	LF100 £/m ²	LF114 £/m ²	LF114 £/m ²
Demolitions	85,535	66			
1 Substructure	74,340	57	108	123	56
2A Frame	110,585	85	133	152	
2B Upper Floors	132,385	102	60	68	
2C Roof	10,000	8	77	88	
2D Stairs	88,231	68	22	25	
2E External Walls	282,900	217	141	161	
2F Windows & External Doors	93,800	72	72	82	
2G Internal Walls & Partitions	96,909	74	47	54	
2H Internal Doors	58,593	45	40	46	
Balconies, balustrading & wintergardens	0	0			
2 Superstructure	873,403	671	700	798	458
3A Wall Finishes	50,441	39	54	62	
3B Floor Finishes	144,030	111	44	50	
3C Ceiling Finishes	63,945	49	29	33	
3 Internal Finishes	258,416	199	127	145	340
4 Fittings	74,400	57	47	54	319
5A Sanitary Appliances	63,500	49	20	23	
5B Services Equipment (kitchen, laundry)		0	16	18	
5C Disposal Installations	18,214	14	9	10	
5D Water Installations	22,117	17	30	34	
5E Heat Source			26	30	
5F Space Heating & Air Treatment	234,180	180	94	107	
5G Ventilating Systems	2,000	2	18	21	
5H Electrical Installations (power, lighting, emergency lighting)	225,150	173	75	86	
5I Gas Installations			4	5	
5J Lift Installations	40,000	31	33	38	
5K Protective Installations (fire fighting, sprinklers, lightning protection)	143,110	110	11	13	
Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite)	42,725	33	16	18	
5M Special Installations - (window cleaning, BMS, medical gas)			18	21	
5N BWIC with Services	36,450	28	8	9	
5O Builders Profit % Attendance on Services			14	16	
5 Services	827,446	636	392	447	929
6A Site Works	56,370	43			
6B Drainage	4,810	4			
6C External Services	30,000	23			
6D Minor Building Works		0			
6 External Works	91,180	70			
SUB TOTAL	2,284,720	1,756	1,374	1,566	2,102
7 Preliminaries 12.5%	285,590	220			
Overheads & Profit 5%	128,516	99			
SUB TOTAL	2,698,826	2,074			
Development allowance 8%	215,906	166			
Contingencies		0			
Grand Total (Exc VAT)	2,914,732	2,240			
Rounded	2,915,000	2,241			
Exc fees added at 16%					
No VAT added					
Benchmarking - blended rate					1,670
Add demolitions		66			
Add external works		70			
Add allowance for external walls		150			
Add allowance for security, fire alarms, sprinklers		95			
		381			
Add prelims	12.5%	48			
Add OHP	5.0%	21			450
					2,120
Add contingency	8.0%				170
Total adjusted benchmark					2,290

-49

Islington Arts Factory
Elemental analysis Block A (new build) & BCIS benchmarking

GIA m ²	BCIS max 5 year element avg						
			Flats - BCIS mean		Community - BCIS mean		Blended 62:38%
	£	1,953 £/m ²	LF100 £/m ²	LF114 £/m ²	LF100 £/m ²	LF114 £/m ²	LF114 £/m ²
Demolitions	40,000	20					
1 Substructure	590,273	302	108	123	211	241	168
2A Frame	111,664	57	133	152	143	163	157
2B Upper Floors	272,798	140	60	68	55	63	66
2C Roof	210,381	108	77	88	292	333	181
2D Stairs	85,231	44	22	25	25	29	26
2E External Walls	712,447	365	141	161	197	225	185
2F Windows & External Doors	122,076	63	72	82	163	186	122
2G Internal Walls & Partitions	231,413	118	47	54	69	79	63
2H Internal Doors	177,450	91	40	46	61	70	55
Balconies, balustrading & wintergardens	174,187	89					
2 Superstructure	2,097,647	1,074	700	798	1,218	1,389	1,022
3A Wall Finishes	74,632	38	54	62	69	79	68
3B Floor Finishes	171,026	88	44	50	89	101	70
3C Ceiling Finishes	58,246	30	29	33	52	59	43
3 Internal Finishes	303,904	156	127	145	210	239	181
4 Fittings	96,900	50	47	54	70	80	64
5A Sanitary Appliances	68,000	35	20	23	33	38	28
5B Services Equipment (kitchen, laundry)	4,200	2	16	18	52	59	34
5C Disposal Installations	19,530	10	9	10	24	27	17
5D Water Installations	29,295	15	30	34	44	50	40
5E Heat Source			26	30	0	0	18
5F Space Heating & Air Treatment	44,184	23	94	107	274	312	185
5G Ventilating Systems	70,000	36	18	21	77	88	46
5H Electrical Installations (power, lighting, emergency lighting)	283,155	145	75	86	161	184	123
5I Gas Installations			4	5	2	2	4
5J Lift Installations	115,000	59	33	38	53	60	46
5K Protective Installations (fire fighting, sprinklers, lightning protection)	195,300	100	11	13	11	13	13
Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite)	49,560	25	16	18	53	60	34
5M Special Installations - (window cleaning, BMS, medical gas)			18	21	55	63	37
5N BWIC with Services	24,076	12	8	9	18	21	13
5O Builders Profit % Attendance on Services			14	16	0	0	10
5 Services	902,300	462	392	447	857	977	648
6A Site Works	114,616	59					
6B Drainage	6,841	4					
6C External Services	50,000	26					
6D Minor Building Works	20,500	10					
6 External Works	191,957	98					
SUB TOTAL	4,222,981	2,162	1,374	1,566	2,566	2,925	2,083
7 Preliminaries 12.5%	527,873	270					
Overheads & Profit 5%	237,543	122					
SUB TOTAL	4,988,396	2,554					
Price & Design Risk 4%	199,560	102					
Contingencies 5%	249,450	128					
Grand Total (Exc VAT)	5,437,406	2,784					
Rounded	5,439,000	2,785					

Exc fees added at 14%.

Exc VAT incorrectly added to cost plan but NOT appraisal

Benchmarking - blended rate

1,845

Add demolitions

20

Add external works

98

Add additional cost of substructure

134

Add additional cost of external walls

180

Add balconies

89

Add additional cost of security, fire alarms, sprinklers

87

610

Add prelims

12.5%

76

Add OHP

5.0%

34

720

2,565

Add contingency

5.0%

128

Total adjusted benchmark

2,693

91

Difference (which is accounted for mainly by the additional 4% price & design risk)

177,124