

Land at 351 & 351A Caledonian Road, London, N1 1DW

Independent Review of Assessment of Viability

Planning Reference: P2014/0609/FUL

15 April 2014

1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been instructed by the London Borough of Islington (the Council) to review a viability submission prepared by DTZ on behalf of Telford Homes (the applicant) in respect of a proposed residential development on land at 351 Caledonian Road, London.

1.2 The applicant is currently offering to provide 29.5% of the units as affordable housing (35% by habitable room, 32% by area), of which 56% (by unit) will be Social Rent and 44% Shared Ownership. The applicant's purchased the site for [REDACTED], conditional on planning consent being secured. S106 Contributions of £1.61m, and Mayoral CIL contributions of £0.602m, are included in the appraisal. The proposed scheme comprises the following:

"Demolition of existing vacant two storey warehouse building. Redevelopment of site to provide 156 residential units, through erection of a four storey linear building (with five storey element to west end) adjacent to railway line; erection of five detached pavilion buildings (one six-storey, three x five-storey and one x four-storey); erection of part one, part three storey building to Caledonian Road frontage - including a 41sqm A1/A2/A3 commercial unit at ground floor level;....."

1.3 The 1.9 Ha site is currently vacant and consists of hard-standing and scrub land, and a two-storey building which is boarded and derelict, having been unoccupied since 2001. The site had a long history of warehouse use before it was acquired by London & Continental Railways to facilitate the construction of the Channel Tunnel Rail Link. GL Hearn, the applicant's planning adviser, is of the view that B8 Use has effectively been extinguished in favour of Sui Generis activities related to the site's railway uses. This is consistent with the Council's Planning Brief for the site which states that the lawful use is for railway related purposes (Sui Generis).

1.4 We have sought to establish whether the current affordable housing offer is indeed the maximum reasonable that the scheme can support while remaining economically viable.

2.0 CONCLUSIONS & RECOMMENDATION

- 2.1 The scheme's ability to provide additional levels of affordable housing is limited by the adoption of the proposed purchase price of [REDACTED] as the basis for testing viability of the scheme. It can be seen from the body of our report, that we are otherwise broadly satisfied with the cost and value inputs adopted in appraising the scheme.
- 2.2 The applicant maintains that the purchase price reflects the ability to deliver a policy compliant scheme in terms of affordable housing delivery, and is therefore justified for use as a site viability benchmark. This approach is based on three points which are open to question:
- a) The appraisals model 42% affordable by unit and 45% by area so do not appear to reflect a policy compliant 50% affordable housing delivery (by unit)
 - b) The policy compliant appraisal assumes grant of £1,876,000 will be secured
 - c) The rented tenure is based on Affordable Rent which does not reflect Islington policy requirements. DTZ do not state the rental estimates used, but we have assumed their assumptions are based on 80% of Market Rent
- 2.3 The Council has recently confirmed that if DTZ is to rely on a viability benchmark based on an alternative scheme that delivers Affordable Rent, it will need to evidence the following in order to meet the criteria that are required by the Council's Draft Framework Agreement with the GLA, namely that it must have:
- a) chosen a Registered Provider (RP) for Affordable Rent and Intermediate units
 - b) provided evidence that the RP has a Framework Agreement with the GLA
 - c) provided evidence of an agreement with the chosen RP to provide Affordable Rent rather than Social Rent
 - d) provided evidence from the chosen RP that the grant funding assumed (£1.88m) has been secured
- 2.4 The viability submission we have been provided with does not fulfil any of these requirements, thus we cannot support any benchmark (Alternative Use Value) scheme that claims to be based on Affordable Rent provision until these evidence requirements have been met.
- 2.5 In the event that the above criteria in 2.3 are met, the following rental values should be assumed to inform the RP offer:
- Half of Affordable Rent as 80% of median Market Rent, or the maximum Local Housing Allowance for the area, whichever is lower
 - Half of Affordable Rent as 50% of lower quartile Market Rent
- 2.6 It is not clear whether the Affordable Rent capital values estimated by DTZ are consistent with these rental value requirements, which casts further doubt on their valuation. These rental figures are the requirements of the Mayor's Housing Strategy/Funding Prospectus 2015-18. The scheme would also need to comply with the requirement for 50% affordable housing (by unit) which would reduce the suggested benchmark considerably, by, we estimate, circa £2m.

- 2.7 The alternative to providing a benchmark based on Affordable Rent (with grant) is to base it on a policy compliant Social Rent scheme, which would in practice mean setting the benchmark at a level that allows 50% affordable housing (by unit) to be deliverable, and would by definition mean that the proposed scheme is capable of viably delivering this level of affordable housing.
- 2.8 The Council's relevant planning policy is for 50% affordable housing *by unit* of which 70% should be Social Rent and 30% Shared Ownership tenure, so any benchmark residential scheme not forming part of an approved grant funded programme should be assessed on this basis.
- 2.9 There are two issues of principle which we have sought to address in respect of the applicant's benchmark scheme:
- firstly, its use of an Affordable Rent tenure rather than the Council's policy requirement of Social Rent;
 - and secondly, whether, in the event of Affordable Rent being appropriate for benchmarking purposes, whether an assumption of grant funding is appropriate in the appraisal

We address each of these in turn below:

Affordable Rent

- 2.10 It is apparent that it is not appropriate for the viability benchmark to be supported by a residential scheme that specifically includes Affordable Rent tenures. The Council's Social Rent policy requirement remains the relevant policy consideration in the absence of an approved RP programme.
- 2.11 In some circumstances London Boroughs are required to accept Affordable Rent - the circumstances being where a Registered Provider has been secured to deliver the housing; and under the Framework Agreement between Islington and the GLA, Islington can only be *required* to allow Affordable Rent delivery when the applicant has met all the relevant criteria (see 2.3), which is not the case with DTZ's benchmark scheme.
- 2.12 Conversely, in circumstances where the requirements of the Framework Agreement are *not* met, then the Council's policy of *Social* Rent prevails, and an Affordable Rent scheme would not be considered policy compliant by the planning authority.
- 2.13 For schemes where Grant Funding has been secured and the other evidence requirements have been met, the provision of Affordable Rent is supported by the Council. However, grant has not been secured in in this instance, and as we discuss below, there is in our view, reflecting on HCA guidance, little prospect of securing grant for this site.
- 2.14 The Mayor's general aim in promoting Affordable Rent over Social Rent is simply to *increase* the total number of affordable units that schemes can deliver. This means in practice that for schemes where additional affordable housing cannot be delivered by the Social Rent model, the use of the more valuable Affordable Rent model should be used instead as a way of improving viability and thereby allowing a greater number of units to be delivered. This aim cannot be achieved in the case of the subject site, which *can viably deliver a policy compliant level (50% by unit) of affordable based on Social Rent*. Such a scheme would result in a lower land value (residual) than the

██████ purchase price. A reduction would therefore be wholly appropriate given that there is no alternative or existing use value underpinning this figure.

- 2.15 The Council will support Affordable Rent only in exceptional circumstances, and clearly, in line with RICS Guidance, any benchmark value used should be in accordance with the Local Plan including its required tenures of rented units.

Grant Funding

- 2.16 DTZ's assumption that £1.88m of GLA Grant Funding is or would be available for their hypothetical Affordable Rent scheme has the effect of inflating the benchmark land value (up to ████████). We consider that it is not appropriate to assume Grant funding in this instance.

- 2.17 Grant Funding is designed to reduce deficits in viability in order to allow more affordable housing to be delivered than would otherwise be the case. This is the concept of 'additionality', by which the HCA determines where it should allocate funding. Additionality means, according to the HCA, "*the extent to which something happens as a result of an intervention that would not have occurred in the absence of the intervention.*"

- 2.18 In respect of DTZ's benchmark scheme, the suggested Grant of £1.88m would not of itself deliver any additional affordable housing. There is effectively no existing use value underpinning the site which the scheme's residual value needs to exceed before it can be viably delivered, thus no need to inject grant funding into the scheme as full policy compliance could be achieved through a reduction in land price. Any grant provided would simply have the effect of inflating the land value. As the HCA's Affordable Homes Programme Framework explains,

"If HCA funding is requested on s106 sites we would expect, as part of the appraisal, to see evidence that this will result in provision of additional affordable housing which would not otherwise be delivered including by reference to the local planning authority's viability assessment."

- 2.19 The HCA - and the GLA when acting under the powers to allocate funding that have been devolved to it from the HCA - will not be willing to fund a scheme such as DTZ's 'Affordable Rent' AUV scheme, as the assumption of grant does not allow any additional affordable housing to be delivered.

- 2.20 Where a developer has purchased a site for an inflated price due to its bid being predicated upon expectations of grant funding being secured, then clearly the HCA (and GLA) would not support such a purchase price and would require a *nil grant assumption* to be used when testing viability, as set out in its Affordable Homes Programme Framework.

- 2.21 It is apparent that a policy compliant (50%) Affordable Rent scheme could be delivered viably on the subject site *without* the need for grant, and for that very reason the funding criteria of the HCA would not be met and no grant would be forthcoming. Although funding powers have now been devolved from the HCA to the GLA, the GLA has carried forward this nil grant assumption in the 2015-18 programme.

Density

- 2.22 The Council is concerned over the density of the scheme especially as 63% of the site is within a Site of Nature Conservation Importance (SINC), and hence the proposed scheme, and the benchmark "Affordable Rent" (AUV) scheme, are both considered to require a reduction in size.
- 2.23 The applicant's evidently over-optimistic views concerning the amount of units that can be delivered on the site while complying with planning policy, may be reflected in the purchase price, such that the price represents an overbid that did not have adequate regard for the constraints of the site.
- 2.24 It is not appropriate for planning obligations to be reduced to allow for the fact that the applicant has overbid due to over-estimating the number of units that could be delivered on this site.

3.0 APPRAISAL RESULTS

3.1 With the inclusion of the affordable housing offer of 29.5%, the applicant's appraisal generates a residual value of ██████, which when compared against the benchmark value of ██████, indicates a marginal scheme deficit of £0.61m. DTZ has adopted the purchase price of ██████ despite this being higher than the figure of ██████ shown by its own benchmark scheme. Leaving aside our main concerns with the benchmark scheme, we do nevertheless consider that DTZ should have adopted the lower figure over the purchase price, and this would result in the proposed scheme showing a marginal surplus.

3.2 DTZ has also tested two other scenarios, and the results are detailed in the summary below:

No.	Scenario	Residual Value
1 (proposed scheme)	29.5% affordable housing by unit (affordable rent/shared ownership) (35% by habitable rooms, 32% by area)	£ ██████
2 (DTZ's benchmark scheme)	42% affordable housing by unit (affordable rent/shared ownership) - WITH £1.88m of grant funding - (45% by area)	£ ██████
3	42% affordable housing by unit (social rent/shared ownership) - 45% by area	£ ██████

3.3 Scenarios 2) and 3) are stated by DTZ as delivering 50% affordable housing. DTZ's appraisals show the level of affordable by unit number to be 42% and 45% by floor area, therefore it is difficult to see how this could translate into a 50% provision. These appraisals are used by DTZ to demonstrate that the site payment of ██████ can support a policy compliant level of affordable housing provision, and that in consequence to demonstrate that the purchase price has full regard to the cost of meeting planning obligations.

3.4 We are advised that Telford Homes in acquiring the site assumed provision of Affordable Rent as opposed to Social Rent and assumed that Affordable Rent would attract £1,876,000 in GLA Grant. We are of the understanding that a standard assumption is that there will not be grant available for social housing, and that Grant is only available to fund 'additionality'. The issue is that the applicant has a different view as to what constitutes policy compliance, as it considers Affordable Rent to be the requirement (based on the London Plan) rather than Social Rent (based on Islington Council's policies).

3.5 We have revised appraisal 3) above so that it provides 50% affordable housing by area (which we assume to be equivalent to 50% by *unit*), provides social rent rather affordable rent, and assumes nil grant. The result generates a net residual value of

██████. This suggests that had Telford homes adopted social rent and nil grant as a basis for determining their land acquisition, it would have been considerably below the actual purchase price of ██████. Our appraisal applies a 20% profit on GDV to the private, and 6% on GDV to the affordable.

- 3.6 We have also remodelled the appraisal showing affordable rent and even allowing for the assumed grant at the same levels applied by DTZ we calculate a scheme delivering 50% affordable by floor area (rather than DTZ's 42%) would only generate a residual value of around ██████, again falling some way short of the purchase price.
- 3.7 We are of the view that ██████ should represent a sufficient level of return to the landowner based on the fact there is no other valuable use under pinning site value, thus we consider that based on this benchmark the scheme could provide 50% affordable housing with the inclusion of *Social Rent* in compliance with the Council's development plan policies.

4.0 BENCHMARK LAND VALUE - PLANNING POLICY DISCUSSION

- 4.1 We accept that the applicant in bidding for the site had regard to some level of affordable housing provision although it informs us it did not have full regard to Islington Council's policy requirement of 50% (by unit) *with Social Rent*. We are aware of the recent High Court ruling, dismissing the challenge brought by Islington and other Council's for the right to set a rent cap on "affordable rent" products. However, in the absence of an approved affordable rent scheme the relevant policy for the Borough still remains the provision of social rented tenure, there being no planning policy or ruling that suggests this should be otherwise.
- 4.2 DTZ have advised us that the applicant based its bid on a level of affordable housing provision that fell short of the Council's policy as set out in its Local Plan. The applicant effectively predicated their offer on what amounts to 35% affordable housing provision, as DTZ states:

"Telford Homes has informed us that, at the time of making their offer, they took into account national and local planning policies, the likely site capacity and gave due consideration to the likely Section 106 obligations, having considered the Planning Obligations SPD (2009). Telford Homes has also informed that, to establish a competitive offer in an increasingly challenging land market, they considered the appropriate level of their bid against an NPPF policy compliant quantum of affordable housing at 50%, with 70/30 split of affordable rent and shared ownership and public subsidy at the average rate secured in their 2011 -15 grant programme partnership with the GLA. However, we understand that they also recognised London Borough Islington's very strong preference for the rent product to be delivered at social rent levels, an approach that excludes public subsidy. We understand they therefore considered the quantum of affordable housing that can be delivered in London Borough Islington's preferred tenure format, and which is directly comparable in value terms to the policy compliant provision of 50% affordable in an Affordable Rent and Shared Ownership mix; this equated to 35% of the development." [emphasis added]

- 4.3 The above comments in our view demonstrate clearly that the applicant chose not to base its land purchase on the Council's planning policies but instead relied on a scheme based on affordable rent and assumptions of grant. The purportedly policy compliant scheme which DTZ tested is described as follows:

A development based on the application scheme but providing 50% affordable housing in a mix of Social Rent and Intermediate Shared Ownership, in accordance with London Borough Islington's desire to seek the delivery of rented affordable as Social Rent, contrary to the London Plan and the NPPF, which both recognise Affordable Rent as a legitimate affordable housing tenure capable of reflecting local housing need.

The residual of the notional scheme providing 50% affordable housing in a mix of affordable rent and shared ownership is only £678,924 less than the Land Purchase Price. This analysis therefore broadly supports the adoption of the Land Purchase Price as the appropriate Benchmark Land Value, given it broadly equates to the residual value of the scheme providing what would be a policy compliant quantum of affordable in accordance with London Borough of Islington's strategic target for 50% affordable, in a mix of tenures that is consistent with the current guidance provided by the London Plan and NPPF.

- 4.4 The above extract indicates that the applicant has chosen not to reflect Islington's requirement for Social Rent tenures.

5.0 BENCHMARK LAND VALUE - GENERAL DISCUSSION

- 5.1 When considering the most appropriate level of Benchmark Land Value, we have been guided by the Council's *Planning Obligations (S106) Supplementary Planning Document* (November 2013) which states that an "existing use value" approach is the most appropriate in most circumstances.
- 5.2 We have also been guided by the *Mayor of London's Housing Supplementary Planning Guidance* (November 2012) which supports an existing use value approach.
- 5.3 We have also had reference to the *National Planning Policy Framework* (NPPF), which, in para. 173, advocates that a 'competitive return' be allowed for the landowner. The NPPF definition lacks a degree of clarity when seeking to determine what represents a competitive return. National Planning Practice online Guidance provided by the DCLG makes the following additional statements:

Competitive return to developers and land owners

The National Planning Policy Framework states that viability should consider "competitive returns to a willing landowner and willing developer to enable the development to be deliverable." This return will vary significantly between projects to reflect the size and risk profile of the development and the risks to the project. A rigid approach to assumed profit levels should be avoided and comparable schemes or data sources reflected wherever possible.

A competitive return for the land owner is the price at which a reasonable land owner would be willing to sell their land for the development. The price will need to provide an incentive for the land owner to sell in comparison with the other options available. Those options may include the current use value of the land or its value for a realistic alternative use that complies with planning policy.

- 5.4 With respect to the Council's *SPD*, this requires that any benchmark value estimates "properly take into account development plan policies", most importantly the affordable housing target of 50%. The *SPD* comments that RICS Guidance Note *Financial Viability in Planning* is in accordance with this policy as it requires estimates of site value to have "*regard to development plan policies.....and disregards that which is contrary to the development plan*".

- 5.5 The *SPD* requires that little weight be attached to comparable land transactions as a determinant of site value if it is unclear whether suitable adjustments have been made for relevant factors including differences in costs and values between these and the subject scheme, and the level of affordable housing that the purchase price of these comparable schemes supported.
- 5.6 It might therefore be assumed that the market in formulating an offer for this land is assuming that planning policies are entirely negotiable with the price paid for land likely to be a factor in determining the level of affordable housing provision considered acceptable. This is an essentially circular argument whereby the higher the price paid for land the lower the level of affordable housing is deliverable. It is quite apparent that the site was purchased through a competitive process which naturally pushes bidders to maximise offers, it is therefore necessary to see where the current offer is supported in a policy context rather than purely in terms of market sentiment.
- 5.7 While we accept that the bid process was indeed competitive, this does not in itself preclude the possibility of the figure representing an over-bid or a bid which has inadequate regard for the cost of meeting planning policy obligations.
- 5.8 Based on a letter received from the selling agent GL Hearn, we can accept that the site was purchased following a competitive bid process in which a number of other parties' bids were close to the price finally agreed, so this clearly reflects a level of value that the market is willing to pay. However, we have no independent means of verifying the information provided by the selling agent concerning the bidding process.
- 5.9 It could also be argued that the price paid was also based on an assumption that either the planning obligations could be reduced because of the high land price or that planning policy was not given adequate weight in the bidding process. This would be in direct conflict with the council's Planning Obligations SPD (2013) and RICS Guidance Note Financial Viability in Planning which specify that the Development Plan must be taken into account when determining Site Value.

DTZ comparable land transactions

- 5.10 We have insufficient information concerning the suggested comparable land transactions to form a complete view on their suitability. We have no evidence that these purchase prices had proper regard for the cost of meeting planning obligations.
- 5.11 Another important consideration is that the subject site has areas of protected open space (Site of Importance for Nature Conservation) and numerous protected trees, which impact on the achievable densities of residential development and in turn on achieved site values per Ha.

6.0 SITE HISTORY AND PLANNING STATUS

- 6.1 The warehouse previously on-site has been demolished. Given that this use is now surplus to requirements (as it no longer serves a purpose related to railways) it is reasonable to assume that the site has minimal value in its existing use. The planning history included recent temporary permissions for storage use.
- 6.2 The site is designated as a residential development site under the Council's Site Allocations DPD (June 2013). There is an October 2012 Planning Brief by the Council.

We understand that initial assessments by the Council of suitable site densities for the scheme were around c1/3 of the density now proposed by the applicant - at 50 units for the entire site. Clearly if the scheme were to be reduced in size to correspond with this requirement, the benchmark would then need to be revised as well, given that the benchmark is intended to be based on a fully policy compliant scheme.

- 6.3 The site includes an area of concreted, and area of vegetation that is categorised as a Site of Importance for Nature Conservation (Grade 1).
- 6.4 The site is owned by London & Continental Railways which has sold the land to Telford Homes for redevelopment with the purchase conditional on receipt of planning consent. There is no reason why London & Continental should not seek to maximise the value of the land sale figure.
- 6.5 It may be possible to resume B8 use on site although its close proximity to residential uses, and constrained access arrangements, and location within a predominantly residential area, is likely to restrict the scale of B8 development that could achieve planning consent. Moreover, we understand that the Council has significant concerns regarding the quantum of development within this scheme in relation to specific site designations.

7.0 RESIDENTIAL SALES VALUES

- 7.1 The private units will consist of 41 one-beds, 48 two-beds and 21 three-bed apartments, completed to “a high specification commensurate to other developments in the area. This number of 1-beds exceeds the 10% requirement stipulated by Table 3.1 of the Council’s Development Management Policy DM3. We have not yet confirmed whether the Council will accept this non-compliant unit mix. The average values are detailed in the following table:

Units	No of Units	Unit Size		Total Area		Unit Price	£ per sq ft	GDV
		Sq M	Sq Ft	Sq M	Sq Ft			
1b 2p	41	54	578	2,200	23,681			
2b 4p	48	83	889	3,964	42,667			
3b 5p	21	97	1,049	2,046	22,026			
Total	110			8,210	88,374			

- 7.2 The private values average █████ per sqft (£█████ per sqm) in the appraisal. DTZ has, however, also provide a detailed unit-by-unit pricing schedule.
- 7.3 The scheme is disadvantaged by its close proximity to railway lines but has the benefit of being in proximity to a Site of Importance for Nature Conservation in the south section of the site. It has excellent transport connections. No car parking will be provided. The proposed blocks in the southern section of the site will be largely screened from the railway by the larger block that runs parallel to the railway, which should limit the negative impact of the railway on the values of units in these blocks.

DTZ comparable evidence

- 7.4 DTZ has provided a schedule of comparable sales evidence, and comment that the scheme is unlikely to achieve as high values as is typical in the nearby King’s Cross Regeneration area, particularly given the constraints of this particular site.

- 7.5 DTZ cite recent transactions at Parkview Apartments, Copenhagen Street: £736-£915 per sqft. This is the only new-build scheme cited by the DTZ and is in a very different, albeit nearby location, which is not directly comparable. We accept that it is likely that the proposed units are less desirable than Park View which is in a marginally more central location and is not on such a restricted site.
- 7.6 DTZ has also provided details of nearby sales of second-hand dwellings. For example, a one-bed at St. William's Court sold for £340,000 in February 2013 (£646 per sqft). A 2-bed flat at 36 Market Street sold for £556,000 (£670 per sqft) in November 2013. A 3-bed flat sold for £646,906 (£655 per sqft) in October 2013.
- 7.7 We have also undertaken our own research, focussing on new build schemes in the local area:
- 7.8 Queensland Terrace, Barratt - This scheme currently shows recent asking prices of almost £800 per ft². Queensland Road is in a mixed use area and directly opposite The Emirates football stadium which is arguably not an ideal position for housing. We are of the scheme is marginally better located than the subject site.
- 7.9 The Junction - Values range from £549-£754. These are all asking prices. We understand the last unit sold in March 2013 so these are relatively historic asking prices.

BPS research of second-hand market

- 7.10 We have collated comparable transactions in the local area - within ¼ mile of the site over last 6 months - which are included in Appendix One.
- 7.11 The average unit value for the one-beds is £■■■■■, this is at the higher end of the range of values achieved locally within the last year for one-beds which tends to support the view that it is reasonable, and we doubt whether it is reasonable to assume higher values can be achieved than those evidenced locally.
- 7.12 The average of £■■■■■ for the two-beds is near the upper end of values achieved locally for two-beds. There are some higher values achieved but these are in clearly superior locations including 1 Barnbury Square which sold for £885,000 and is a good quality period property overlooking the square.
- 7.13 The average of £■■■■■ for the 3-beds is at the higher end of the range of values achieved locally within the last 6 months for three beds.

8.0 GROUND RENTS

- 8.1 Ground rents of £300 per annum have been applied to each of the private units and capitalised using 5.5%, which we consider to be realistic assumptions in the current market.

9.0 PARKING

- 9.1 15 disabled parking spaces will be provided but no specific revenue allocated to these spaces.

10.0 AFFORDABLE HOUSING VALUES

- 10.1 The values have been based on an offer received from Notting Hill Housing, at £■■■■ per sqft for the social rented and £■■■■ per sqft for the shared ownership, totalling £■■■■m and £■■■■m respectively, and £■■■■m in total. This constitutes suitable market evidence in support of the value adopted, thus we are satisfied that this represents a suitable estimate of Market Value.
- 10.2 DTZ has also undertaken a valuation based on what it considers typical assumptions for affordable housing and resulted in £■■■■■, which helps strengthen the view that the £■■■■m figure used is not understated.

11.0 COMMERCIAL VALUES

- 11.1 A 41 sqm commercial unit is being provided in order to comply with planning requirements which is not identified within the appraisal. This is said to be offices and concierge facility for the development.

12.0 DEVELOPMENT COSTS

- 12.1 The DTZ submission included a cost plan prepared by Telford Home. This has been analysed by our retained Cost Consultant Neil Powling and his report is appended in full in Appendix 2. In summary Neil concludes that the proposed costs appear reasonable but that further detail concerning exceptional and abnormal costs should be provided together with more detailed consideration of the proposed development programme. It could be possible to capture any variations arising from these elements through an outturn review of costs and values.
- 12.2 Professional Fees of 10.94% and Contingency of 5% are both reasonable for a scheme of this nature. Town Planning costs of £555,469 are included which are usually included as part of professional fees, and when added to the latter, the overall rate is not unreasonable.
- 12.3 Finance costs are based on a typical rate of 7%, with appropriate additional fees including bank monitoring costs.
- 12.4 A profit of 20% on GDV is considered by DTZ to be the required developer's return for the private market element of the scheme. We note that it is typical for the profit target to be inclusive of any "internal overheads" - as recognised by the GLA Toolkit Guidance Notes which advise that this cost item should be set to zero as the profit requirement should all be accounted for with the main Developer's Return figure, which the GLA recognise as being in some circumstances suitable at 20% on GDV. We do not dispute this profit target in this case.
- 12.5 It is standard practice to apply different rates of profit to affordable and private elements of a scheme. DTZ has applied a 5% Contractor's Return to the affordable units which is reasonable in the current market.
- 12.6 It has been assumed that 50% of the units will be sold off-plan, followed by further off-plan sales, with only 8 units remaining to be sold post-construction. This is an optimistic assumption, although not unrealistic given the prevalence of off-plan sales in recent years, thus we have no objection to these assumptions.
- 12.7 The scheme includes 6 month pre-construction, 27 months' construction period which appears to be reasonable for a scheme of this size.

APPENDIX ONE:

COMPARABLE TRANSACTION WITH ¼ MILE OF SITE OVER LAST 6 MONTHS

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms
129 Conistone Way N79DE	£237,000	29-Oct-13	Flat	1970	1
Flat1384 Caledonian Road N11DY	£250,000	01-Nov-13	Flat		1
Flat40 Irvine House Caledonian Road N7 8TH	£270,000	19-Dec-13	Flat		1
Flat27 Barnes Court Lofting Road N11JD	£300,000	04-Dec-13	Flat	1933	1
Flat 62 St Williams Court1 Gifford Street N10GJ	£383,000	31-Oct-13	Flat		1
Flat B20 Barnsbury Park N11HQ	£385,000	18-Oct-13	Flat		1
3 Albany Mews N11LD	£425,000	18-Oct-13	Flat	2001	1
Apartment111 Blackthorn Avenue N7 8BD	£430,000	22-Oct-13	Flat	2010	1
Apartment49 Blackthorn Avenue N7 8AH	£440,000	05-Dec-13	Flat	2010	1
Apartment131 Blackthorn Avenue N7 8BD	£445,000	22-Oct-13	Flat	2010	1
Flat26 Orkney House Bemerton Estate N10AF	£239,500	14-Oct-13	Flat		2
16 Bunning Way N79UN	£280,000	20-Dec-13	Flat	1988	2
Flat18 The Lyons East Street TN91DQ	£283,000	24-Sep-13	Flat		2
20 Bradley Street TN91HW	£285,000	03-Oct-13	Flat	2007	2
108A Pembury Road TN92JJ	£295,000	28-Oct-13	Flat	1895	2
66 Centurion Close N7 8UG	£310,000	21-Oct-13	Flat	1970	2
Flat28 Blackmore House Barnsbury Estate N10SE	£350,000	21-Jan-14	Flat	1955	2
Flat C 70 Gifford Street N10DF	£435,000	30-Oct-13	Flat	2006	2
Flat12 St Clements Court 60 Arundel Square N7 8BT	£530,000	20-Dec-13	Flat	1870	2
47A Offord Road N11EA	£585,000	01-Nov-13	Flat	1875	2
51A Offord Road N11EA	£645,000	01-Nov-13	Flat	1885	2
Apartment11 7 Blackthorn Avenue N7 8AJ	£700,000	13-Dec-13	Flat	2006	2
39A Offord Road N11EA	£825,000	04-Nov-13	Flat	1860	3
Flat24 St Williams Court1 Gifford Street N10GJ	£880,000	14-Oct-13	Flat	2009	2
1 Barnsbury Square N11JL	£885,000	19-Nov-13	Flat	1896	2

COMPARABLE TRANSACTION WITH ½ MILE OF SITE OVER LAST 6 MONTHS

Address	Last Sale Price	Last Sale Date	Property Type	Year Built	Bedrooms
Flat 27 Camelot House Camden Park House NW1 9AR	£314,500	25-Nov-13	Flat	1933	3
Flat 12 Radford House Georges Road N7 8HA	£354,000	17-Jan-14	Flat	1960	3
5 Earlsferry Way N1 0DY	£380,000	14-Feb-14	Flat	1969	3
73A Lough Road N7 8RH	£500,000	20-Nov-13	Flat	2013	3
Flat 57 Tyndale Mansions Upper Street N1 2XG	£500,000	22-Nov-13	Flat	1933	3
8 Clock View Crescent N7 9GP	£559,950	01-Nov-13	Flat	2013	3
24 Clock View Crescent N7 9GP	£579,950	17-Oct-13	Flat	2013	3
Flat 1 1A Florence Street N1 2DX	£639,000	25-Oct-13	Flat		3
55A Hillmarton Road N7 9JD	£709,000	06-Dec-13	Flat		3
7A Florence Street N1 2DX	£775,000	20-Nov-13	Flat		3
39A Offord Road N1 1EA	£825,000	04-Nov-13	Flat	1860	3
9C Milner Square N1 1TL	£980,000	28-Oct-13	Flat	1850	3
199B Liverpool Road N1 0RF	£1,295,000	18-Dec-13	Flat	1830	3

Project: Caledonian Road, N1 1DW

Independent Review of Assessment of Economic Viability

Interim Draft Report Appendix A Cost Report

1 SUMMARY

- 1.1 We consider the Applicants costs to be reasonable based on our benchmarking exercise.
- 1.2 We suggest more detail is provided for all the costs identified by the Applicant as Exceptional/ Abnormal, but in particular:-
Subterranean ground works £ [REDACTED]
Cross laminated timber addition £ [REDACTED]
Specification level of Band E Enhancements £ [REDACTED] (We note Appendix 3 is headed Specification E - is there a detailed costing?)
- 1.3 The BCIS Duration Calculator yields a duration of 96 weeks compared to the Applicant's 27 months (117 weeks). We suggest there may be scope to reduce the construction period when a more detailed planning exercise is undertaken.

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 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 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).
- 2.5 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.
- 2.6 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.
- 2.7 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.
- 2.8 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 issued with the Viability Assessment Final Report dated February 2014 prepared by DTZ which includes the following appendices that we have taken particular account of in our assessment:-
- 3.2 Appendix 1 - Site plans for the development
 Appendix 2 - Schedule of accommodation
 Appendix 3 - Detailed specification
 Appendix 7 - Construction budget
 Appendix 8 - Summary of Argus Developer Appraisal
- 3.3 The construction budget has been prepared by Telford Homes plc in a format presumably mirroring their usual cost accounting procedures; there is sufficient detail that we have been able to abstract the items and costs into a BCIS elemental format to assist the benchmarking exercise. A copy of this Elemental analysis summary and comparison to BCIS is attached.
- 3.4 The Viability Report includes under 5.1 Construction costs a table of Exceptional/Abnormal costs totalling £[REDACTED]. There are three items listed for which we seek further explanation and detail:

Subterranean ground works £ [REDACTED]
Cross laminated timber addition £ [REDACTED]
Specification level of Band E Enhancements £ [REDACTED] (We note Appendix 3 is headed Specification E - is there a detailed costing?)

- 3.5 In addition it would be helpful to have some detail used in calculating quantum on the other items in this schedule of Exceptional/Abnormal costs.
- 3.6 We have downloaded BCIS data for benchmarking including a location factor for Islington of 118 compared to a UK mean of 100. Our calculations adjust for this factor.
- 3.7 Our benchmarking exercise has been undertaken and adjusted for abnormal costs. We have assumed that the three items listed under 3.4 above are correctly quantified and legitimate abnormal costs. Most of the other items are categorised under section 1. Substructure or section 6. External Works and as such are routinely treated by ourselves as abnormal costs for the purposes of benchmarking. On this basis the costs included in the application at Appendix 7 appear reasonable and benchmark satisfactorily.
- 3.8 The costs are based on a Gross Internal Area (GIA) of 16,585m² - we have not verified this figure. The NIA is given as 12,075m². The difference is 27.2% - efficiency is on the low side although increased storage, public spaces and cycle storage tends to make current developments less efficient than previously.
- 3.9 The preliminaries include a number of costs listed by the Applicant as abnormal and in total the preliminaries amount to 13.2% of the balance of the work. This is a reasonable level for a tender procured in the open market albeit high for a housebuilder undertaking its own development. The preliminaries are in any case included in the benchmarking and are therefore demonstrated as reasonable.
- 3.10 Contingencies have been included at 5%; we consider this provision reasonable.
- 3.11 A detailed schedule of the estimated cost of fees and surveys in the total amount of £ [REDACTED] has been provided. This equates to 8.6% of the total value of the work and is within the range we consider reasonable.
- 3.12 We note that the appraisal includes for a pre-construction period of 6 months and a construction period of 27 months or 117 weeks. We consider the pre-construction period reasonable; we have utilised the BCIS Duration Calculator which yields a construction period of 96 weeks with a 90% confidence interval of 85 to 108 weeks - a difference of 21 weeks. We note that a phasing programme has been included at Appendix 6 - the phasing and the various site issues identified would appear to be responsible for extending the construction period. However, we suggest that there may be scope for reducing the overall construction period when a more detailed planning exercise is completed.

Table Redacted