

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