

# King Square Estate Redevelopment, EC1V

## Independent Review of Financial Viability

15th March 2015

Planning application: P2014/5216/FUL



### 1.0 INTRODUCTION

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

The proposed scheme is described below:

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

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

## 2.0 CONCLUSIONS & RECOMMENDATIONS

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

### Summary of BPS residual valuation

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

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

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

#### Applicant's appraisal methodology and results

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

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

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

#### Private market values

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

#### Build costs

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

#### Affordable housing

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

#### Acquisition costs

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

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

### **3.0 APPRAISAL METHODOLOGY**

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

### **4.0 DISCOUNT RATE**

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

### **5.0 DEVELOPMENT COSTS**

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

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

## 6.0 PRIVATE MARKET RESIDENTIAL VALUES

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

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

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

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

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

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

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

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

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

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

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

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

#### One-bedroom apartments

6.7 The one bedroom units in the proposed scheme have an average value of £11,946 per m<sup>2</sup> (1,110 per ft<sup>2</sup>). The comparable evidence below depicts units currently for sale in the area, which have an average asking price of £12,638 per m<sup>2</sup> (£1,174 per ft<sup>2</sup>).

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

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

#### Two-bedroom apartments

6.9 The two bedroom units in the proposed block have an average value of £10,420 per m<sup>2</sup> (£1,006 per ft<sup>2</sup>). The comparable evidence below shows values for units that are currently for sale in the area, which have an average asking price of £14,548 per m<sup>2</sup> (£1,352 per ft<sup>2</sup>).



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

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

#### Three-bedroom apartments

- 6.11 The three bedroom units in the proposed block have an average value of £10,452 per m<sup>2</sup> (£971 per ft<sup>2</sup>). The comparable evidence below depicts units that are currently for sale in the area, which have an average asking price of £14,288 per m<sup>2</sup> (£1,327 per ft<sup>2</sup>).

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

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

## 7.0 COMMERCIAL VALUES

- 7.1 The development also contains a small portion, 30.5m<sup>2</sup> (328ft<sup>2</sup>) of commercial space located on the ground floor of Block D. It has been noted by Deloitte that the commercial unit is likely, due its relatively small area, to be restricted in the uses it can accommodate and the quality of tenant it can attract. Deloitte consider it would be best suited to operate as either a small coffee shop or newsagents. In view of these limitations Deloitte view the units achievable rent could be in the range of £161 per m<sup>2</sup> to £215 per m<sup>2</sup> (£15 per ft<sup>2</sup> - £20 per ft<sup>2</sup>) and would achieve an investment yield in the region of 8.5%.

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

- 7.2 The above table shows lettings evidence from the surrounding area, for units no greater than 60m<sup>2</sup>. The lettings are all for General Retail (A1 Use Class) units and cafes (A3). Based on this evidence we agree that Deloitte's estimate of £215 per m<sup>2</sup> is realistic. It is possible that the location of this unit in an area of high residential occupation may help attract retailers and could possibly generate increased rents, although the net impact of such an increase upon overall scheme viability is likely to be negligible given the scale of the development relative to the commercial element.

**BPS Chartered Surveyors**

## Project: King Square

### Independent Review of Assessment of Economic Viability

#### Interim Draft Report Appendix A Cost Report

#### 1 SUMMARY

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

#### 2 METHODOLOGY

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

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

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

### 3 GENERAL REVIEW

- 3.1 We have been provided with and relied upon the following:-
- King Square budget estimate order of costs 2014-12-18
  - Financial evaluation 19.12.14
  - KSE Dev & Regen Order of Cost Est 2014-12-18 OPT L & SO
  - King Square Regen Anticipated Works Phases 2014.12.5
- 3.2 The Application Summary is in the total sum of [REDACTED]. Refer to the attached file "Application summary - annotated". Whilst it is not unusual to find differences resulting from rounding etc, the information extracted into our own file "Elemental analysis & BCIS Benchmarking" totals [REDACTED] (3,020/m<sup>2</sup>). We have checked the arithmetic addition of the figures in the Application Summary - refer to the annotations on the right of the file - these total [REDACTED] a difference of [REDACTED]. The difference presumably arises from the internal working of the spreadsheet that is not revealed in this published version.

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

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

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

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

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

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

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

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

BPS Chartered Surveyors  
Date: 3<sup>rd</sup> March 2015