66-86 Farringdon Road, London, EC1R 3EA

Independent Viability Review

28th June 2016

1.0 INTRODUCTION

1.1 We have been instructed by Islington Borough Council ('the Council') to undertake an independent Viability Review of an April 2016 Viability Assessment that has been prepared by GVA Bilfinger ('GVA'), in respect of a proposed redevelopment of 66-86 Farringdon Road, London, EC1R 3EA ('the Site').

1.2 Together with office agency Crossland Otter Hunt, we previously provided an "Independent Assessment of Office Market Report", in September 2015, which concluded essentially that the office market is buoyant in the Site's location and that there is the potential for an office-led scheme in this location to be feasible, subject to this being viability-tested and taking into account site specific circumstances.

1.3 The Site is 0.52 acres and accommodates a multi-storey car park located in the Clerkenwell area, on the eastern side of Farringdon Road. It is *circa* 1 mile north-west of the City of London and is close to Farringdon Underground Station. It is an 'island site' and is bounded by Vineyard Walk to the north, Farringdon Road to the west, Bowling Green Lane to the south, and two-storey terrace houses (known as Catherine Griffiths Court) to the east.

1.4 The current planning application has been submitted by Whitbread Group (the applicant), in collaboration with their development partner, Endurance Land, and entails the following works:

"Demolition of existing multi-storey car park and redevelopment to provide a five (plus basement)/ six storey building comprising 3,647 (GEA) / 3,350 (GIA) sq m office floor space (Class B1 Use), 180 bedroom hotel (Class C1 Use) and 407 (GEA)/ 373 (GIA) sq m retail/restaurant floor space (Class A1/A3 Use) with associated facilities, plant, landscaping and servicing".

1.5 The Site is subject to a site-specific allocation in the Council's Site Allocations document, which requires, "*Redevelopment to provide business uses, retail at ground floor and an element of residential uses*". Planning Officers have requested that the applicant demonstrate that the Site cannot viably deliver a greater proportion of office floorspace than has been included in the current application scheme.

1.6 This Viability Review does not constitute a 'Red Book' valuation, therefore Valuation Practice Statements 1-4 of the Red Book (RICS Valuation – Professional Standards, January 2014) are not of mandatory application. The Valuation Date for this Viability Review is the date of this report, as stated on the title page. This Viability Review has been undertaken in accordance with our Terms & Conditions which have been provided to the Council, and with and any associated Letters of Engagement, and should only be viewed by those parties that have been authorised to do so by the Council. We can confirm that we have no conflict of interest in relation to the provision of viability advice in respect of this property.

2.0 APPRAISAL SCENARIOS & RESULTS

2.1 The applicant has, at the request of the Council, undertaken viability testing of six scenarios:

- 1A - Office led redevelopment with an element of residential and retail at ground floor. Offices multi-let on floor-by-floor basis.
- 1B - The same as Scenario 1A but for the office element – office single let.

- 2A - Office led redevelopment scheme with retail at ground floor – Offices multi-let on floor-by-floor basis.
- 2B – Office led redevelopment scheme with retail at ground floor – offices buildings single-let rather than multi-let.

- 3A - Mixed use redevelopment providing office, an element of hotel and retail at ground floor – office let floor-by-floor.
- 3B – Mixed use redevelopment providing office, an element of hotel and retail at ground floor – office single-let buildings.

2.2 These scenarios are aimed at determining whether the application scheme maximises the provision of office and residential floorspace. Scenario 3A is effectively the application scheme, and has the same floor areas for each use type. The results of all these scenarios are:

Table 1: scenario results

Scenario	Profit (total £)	Profit (% on Cost)
1A	-£1,900,689	-3.29% (Loss)
1B	(2,535,705)	-4.47% (Loss)
2A	(4,105,729	-7.20% (Loss)
2B	(6,180,658)	-11.14 (Loss)
3A	11,056,472	17.82%
3B	10,052,122	16.29%

2.3 These results indicate that all of the scenarios are unviable except Scenario 3a (the application scheme), when the target profit of 17.5% Profit on Cost is adopted.

2.4 Scenario 3B generates marginally less profit than 3A, which indicates that a scheme with *multi*-let offices is marginally more viable than a scheme with *single*-let offices (albeit the latter still has some affordable workspace let to a separate tenant at a nominal rent for 10 years).

2.5 It is apparent from these scenarios that the office/retail option (2A & 2B) is the least 'valuable' option, and has the greatest deficit in viability; while 1A and 1B are slightly more valuable (in terms of their residual land values) although still result in a substantial profit deficit.

Scheme Revisions – appraisal results

2.6 Following our initial, draft report, Scenarios 1&2 have been altered by the applicant at the request of the Council. The changes made to Scenarios 1a &1b are:

Scenarios 1a &1b changes

- Increased the floor area of the retail unit in Building
- Increased the floor areas of the residential accommodation in Building 1 and added an_additional floor (4th floor), increasing the total residential units from 12 to 18
- Increased the sales rate per sq ft for the residential units from £1,122 to £1,124 per sq ft to reflect the new areas and configuration of the residential units
- Increased the ground rent income to reflect the additional units
- Updated the planning obligations payment to take into consideration the larger floor areas

Scenarios 2a & 2b

- Removed the retail unit from Building, this becomes office accommodation
- Increased the floor areas of the office accommodation in Building 1 and added an additional floor (3rd floor)
- Amended the Affordable Office space areas based on the revised floor areas
- Updated the Planning obligations payment to take into consideration the larger floor areas

2.7 We have detailed the impact of the above changes upon the appraisal results, below:

Table 2: updated scenario results

	Original Version		Updated Version
Scenario	Profit (total £)	Profit (% on Cost)	Profit (% on Cost)
1A	-£1,900,689	-3.29% (Loss)	1.67%
1B	(2,535,705)	-4.47% (Loss)	0.59%
2A	(4,105,729	-7.20% (Loss)	-3.05% (Loss)
2B	(6,180,658)	-11.14% (Loss)	-7.78% (Loss)
3A	11,056,472	17.82%	17.82%
3B	10,052,122	16.29%	16.29%

2.8 The changes in viability are relatively minor, and do not change the overall outcome in respect of 1a/1b/2a/2b, which is that these scenarios are unviable and each generate a substantial profit deficit.

3.0 CONCLUSIONS & RECOMMENDATIONS

3.1 Based on our assessment of the costs and values that have been applied in the applicant's appraisal, we agree with the conclusion that Scenarios 1a, 1b, 2a and 2b, are all unviable and show a substantial financial deficit when the residual values of these schemes are compared against the Site Value (i.e. benchmark land value).

3.2 The Site is in a major growth area, and will likely benefit from substantial improvements in viability as a result of market improvements (including to offices rents, for example). However, it is apparent that the site has a substantial existing use value, and that this significantly restricts the types of scheme that can viably be delivered on the site. There is substantial demand for car parking in this location, and the landowner benefit from a lease to a high quality tenant, NCP.

3.3 No landowner premium has been applied to the existing use value in order to reach a Site Value. It is reasonable to assume that some level of landowner premium could be justified in this case, given that the existing car park is in an optimum location and let to a national company with a strong covenant strength, and generates a reliable income.

3.4 With respect to the inputs into the 6 scenarios, we are generally in agreement with these, although we have identified some areas where we would expect different inputs to those applied. These include the yields applied to the offices, and the build costs. Our Cost Consultant, Neil Powling, has suggested that the costs for all the scenarios should be lowered, as shown in the following table:

<u>Table 3: difference is build costs estimates</u>

Scenario	Build Cost in GVA appraisal	BPS cost estimate, based on BCIS adjusted benchmarking exercise
1A	23,228,548	21,449,958
1B	23,228,548	21,449,958
2A	21,739,389	20,614,704
2B	21,739,389	20,614,704
3A	27,186,726	25,044,936
3B	27,186,726	25,044,936

3.5 All the figures in the Table 3 are exclusive of contingency and demolition costs (which are added separately into the Argus appraisals), and are considered by Neil Powling to be reasonable.

3.6 Leaving aside the matter of build cost inflation, Neil Powling's benchmarking totals closely match those of the applicant's Cost Consultant, Quantem; the differences shown in Table 3 are the result of Neil excluding Quantem's projection of costs beyond the current date to Q1 2017.

3.7 The target adopted by GVA is 17.5% on Cost. We note that as there would typically be a strong possibility of securing a hotel, which would result in significantly lower risk for the developer, therefore we have assumed a lower profit target of 16% for the scenarios 3A and 3B. But we have increased the profit on the other scenarios to 19%.

3.8 With respect to our suggested reductions to office yields, this has been informed by recent comparable transaction in this location, which is a major growth area. It may, however, be the case that GVA can provide specific reasons – related to the constraints and disadvantages of this particular site – why higher yields are more likely, therefore we are open to further discussion.

3.9 We have incorporated our suggested changes (to build costs and office yields) into the appraisal, and the results are:

Table 4: appraisal results after BPS adjustments

Scenario	Build Cost in GVA appraisal	BPS cost estimate, based on BCIS adjusted benchmarking exercise	Difference in costs	Yield applied by BPS	Profit in GVA's appraisal (total £)	Profit in GVA's appraisal (% on Cost)	BPS revised profit output (total £)	BPS revised profit output (% on Cost)
1A	23,228,548	21,449,958	1,778,590	5.25%	-£1,900,689	-3.29%	2,382,452	4.30%
1B	23,228,548	21,449,958	1,778,590	5.75%	-2,535,705	-4.47%	-2,075,352	-3.81%
2A	21,739,389	20,614,704	1,124,685	5.25%	-4,105,729	-7.20%	-349,530	-0.63%
2B	21,739,389	20,614,704	1,124,685	4.75%	-6,180,658	-11.14%	2,597,619	4.79%
3A	27,186,726	25,044,936	2,141,790	5.25%	11,056,472	17.82%	15,203,656	25.61%
3B	27,186,726	25,044,936	2,141,790	4.75%	10,052,122	16.29%	17,344,722	29.31%

3.10 The above results clearly demonstrate that the scenarios 1A, 1B, 2A & 2B all remain unviable by a substantial margin, including when compared against our revised profit target of 19%. For 3A and 3B, a significant profit surplus is shown *vis-à-vis* our 16% target; this surplus totals £7.88m (using our 16% profit target). However, we note that if a landowner premium were to be added to the EUV, this would partly counteract the improvement in viability that have resulted from our adjustments – for example, a 20% landowner premium would increase the benchmark by £3.34m and leave limited surplus available to accommodate an increase in office floor area. Moreover, it appears that the applicant's hotel values are somewhat optimistic, and while we are not suggesting that lower hotel values should be adopted, it is important to consider the viability assessment as a whole and recognise where the applicant has been reasonable.

3.11 Whilst Scenarios 3a and 3b may arguably show a (relatively minor) profit surplus, it remains to be seen whether these surpluses could be converted into additional office floorspace. This would involve a re-design of the scheme; and it would reduce the amount of hotel floorspace, thereby potentially compromising the commercial feasibility of this hotel. Hotels depend on generating sufficient 'economies of scale' therefore their overall size (by room number) is an important commercial consideration. In conclusion, it will probably be constrained by the design of the buildings, as it may not be possible to provide only a small amount of extra office floorspace; while providing a *large* amount of additional floorspace has been demonstrate to be unviable.

3.12 The yield estimates we used in our appraisal revisions pre-date the recent EU Referendum Leave vote, which is expected to lead to a softening of office yields. For example, the Estates Gazette report on 27th June that M&G Real Estate has predicted that City of London offices will be the sector worst affected by the Brexit vote. This provides further support to the conclusion that it is highly unlikely that the level of office floorspace shown in Scenario 3b can viably be increased.

3.13 With respect to the adjusted results shown in Table 4 (above), these are based on the original versions of the scenarios. As detailed in para 2.6 to 2.8, the appraisals have been updated to reflect revisions that have been made to the scenarios, which would lead to changes to the 'BPS revised profit output' figures shown in Table 4, although these changes would be relatively minor and would not affect our overall conclusions regarding these scenarios.

3.14 It is standard practice – enshrined in policy guidance and planning appeal decisions – for viability to be tested on the basis of *present-day* costs and values, when undertaking assessments for planning purposes. This is the approach taken by GVA. It is, nevertheless, important to note the strong potential for growth in values, and consequent improvements in viability, in this location, especially in respect of office values as this is a major growth area for the office market. On the other hand, the significant market uncertainty result from the EU Referendum may result in the optimistic forecasts for Farringdon office market growth being revised downwards.

3.15 In the remainder of this Section, we summarise our conclusions in respect of the different scenarios.

Values for Scenario 3A & 3B

3.16 We summarise our conclusions regarding the values applied in Scenario 3A & 3B:

- We agree with the office rents applied in 3A and 3A.
- The office yields for 3A and 3B appear to be higher than recent comparable investments transactions we have viewed suggest are achievable. In addition, GVA's yield evidence is somewhat historic (mostly from 2014), therefore they have not in our view fully evidenced their estimated yield. We suggest that yields (gross) of 4.75% and 5.25% could be achieved for scenarios 3B and 3A, respectively.
- We agree with the rent free periods applied in the appraisal.
- We agree with the valuation approach taken to reach the value of the affordable workspace.
- Hotel values are supported by good evidence, and suitably reflect the excellent location of this site.
- We agree that the retail values are reasonable.

Values for Scenario 1A & 1B

- We agree with the office rents applied to these scenarios.
- We suggest that a higher office yield is suitable for 1A/1B than for 3A/3B, to reflect the disadvantages (from an investor's point of view) of office space sharing a building with residential, thus we estimate a yield of 5.25% and 5.75% for 1B and 1A respectively – by adding 0.5% to the yields suggested above for scenarios 3A and 3B. These yield estimates pre-date the recent EU Referendum Leave vote, which is expected to lead to a softening of office yields. For example, the Estates Gazette report on 27th June that M&G Real Estate has predicted that City of London offices will be the sector worst affected by the Brexit vote.
- We agree that the retail values are reasonable.

Values for Scenario 2a & 2b

- We agree with the office rents applied to these scenarios.
- We would apply similar office yields as those that we have suggested for 3A/3B.

- We agree that the retail values are reasonable.

Development costs for all scenarios

- Our cost consultant suggests that that lower build costs are suitable (see Appendix One and Table 2)
- The profit target of 17.5% on Cost is within the range of acceptable profit targets. We would, however, expect some difference between the scenarios. For 3a and 3b, which both include a hotel, this in our view de-risks the scheme substantially, as it is common to achieve pre-lets, which give more development certainty over the main construction period.

Site Value

3.17 We accept the basis upon which the Existing Use Value of £16.17m has been estimated – i.e. based on capitalising the passing rent, disregarding development potential and the fact that the landlord recently negotiated a break option in order to allow for redevelopment. After analysing the yield evidence provided, we agree with the yield that has been applied and therefore agree that the EUV is reasonable.

3.18 No landowner premium has been applied to the existing use value in order to reach a Site Value, therefore the proposed site value is £16.17m. We agree that the Site Value of £16.17m is reasonable, and note that the applicant could potentially have justified adding a substantial landowner premium to this. This should clearly be taken into account when assessing viability, and balanced against our suggested changes, including our suggested reduction to build costs and office yields.

3.19 For example, a premium of 15% would increase the benchmark to £18.60m and substantially increase the viability deficit and/or reduce any surpluses. Based on recent Appeal decisions, it would be likely that an Inspector in any future Appeal would accept the application of a premium if this were to be proposed by the appellant.

4.0 SCENARIOS 3A & 3B – BPS ANALYSIS

4.1 In this Section, we discuss all the cost and value inputs into the Scenario 3A & 3B appraisals, then in the following two sections we will focus on how the costs and values in 1A, 1B, 2A & 2B differ from these – and whether these differences are justified.

Office rents

4.2 The office rents are £65-£72.50 per sqft for the 1st-5th floors of the multi-let scenario (3a). Highly relevant comparable lettings evidence has been provided by GVA in support of these rents. We have analysed these rents and conclude that these are evidently in line with the local market – as discussed further below.

4.3 For the single-let scenario (3b), the £65-£72.50 per sqft rents are discounted to £60-£69.50. GVA have informed us that these differences are partly driven by the different unit sizes by floor, such that some of the smaller units have higher rents per sqft. This is said to be shown in Appendix Two of GVA's report; however, it appears that the floor area sizes would be the same in both scenarios. The other reason cited by GVA is that single-occupiers tend to secure lower rents by virtue of their stronger 'bargaining power' and the benefits to a landlord or having a single occupied building. We have discussed this matter with office agency Crossland Otter Hunt (who were previously instructed by BPS in relation this site's economic assessment), and they have agreed that a small reduction in rents is reasonable to allow for a single letting.

4.4 It is typical for the receptions of single let offices to be rentalised, whereas for multi-let offices this is not the case. In the GVA appraisal, the multi-let scenarios' reception/common parts on the ground floor have not been rentalised; and for the single-let scenarios, a half-rent has been adopted on the ground floor/reception area. We therefore agree with this approach.

4.5 We detail below some of the lettings evidence that we have considered:

- **151-153 Farringdon Road, EC1**: immediate proximity to Site, converted warehouse, recently refurbished. **£58.50 per sqft**, 6 week rent-free. This let unit is on the 5th floor (top floor). Would expect higher rents per sqft for the application site's offices, to reflect a 'new-build premium'. On the lower ground floors (which are worth less due to limited natural light) the passing rent £33.08/ft^2 per annum.

- **138 Fetter Lane, EC4:** renovated 2014, rivalling new build quality, this unit is on the lower ground floor, and hence lacks natural light. 7,552ft^2 achieved a rent of **£43.50/ft^2** in February 2016, but we would expect a premium on this for the subject on account of its being newly built.

- **Clover House, 147-149 Farringdon Rd EC1**: 2nd hand Grade B, achieved **£72.50 per sq ft** for 4th floor in January 2016, 5 year lease. This suggests that somewhat higher rents that this could be achieved for the application site's offices.

- **35 Alfred Place, WC1:** self-contained office, leased recently at **£51.37/ft^2** on a 10 year lease with 11 months' rent free and 10 months half rent, Grade A. The application site is arguably in a superior location, close to Farringdon Station.

4.6 We have taken into account the positioning of the building, which will not give the most prestigious aspects to tenants as it overlooks railway tracks. In view of the factors discussed above, we view GVA's estimated rents as being realistic.

Office yields

4.7 A gross yield of 5.5% has been applied in the appraisal, and GVA have provided investment transactions to support this yield, some of which are highly relevant in terms of location, although most of these date from 2014. In GVA's report little commentary directly relating to these transactions and how they support 5.5%.

4.8 This yield has been applied to both scenarios (3A and 3B), which we question as it is common for single-occupation buildings to be more attractive to investors than multi-occupied buildings – suggesting that 3B should have a lower yield (or 3A, higher).

4.9 This location has seen strong growth recently, and has seen a growth in investor confidence that is linked to the impending opening of Farringdon Crossrail. It is therefore important to base any yield estimate upon up-to-date evidence. We analyse some of the key transactions below:

- **1 Tudor Street, EC4Y 0AH -** Close to Farringdon Crossrail. Second-hand Grade A, a modern building, constructed 2009. Multi-let to high quality tenants, large modern reception. Sold at **4.16%** yield, in July 2015. This is a 70,591 sq ft office, which compares to the 3A&3B scenarios' building, which has just under 30,000 sqft of offices.

- **16-17 Bowling Green Lane** – located to the east of the John Street site, and in close proximity. Sold at a **3.76%** net initial yield, in August 2015. Multi-let property. Grade-II listed building, Grade A specification. This suggests that a higher yield should be applied to the John Street property.

- **2 Pear Tree Court, EC1R 0DS** – property refurbished in 2000. Close to Farringdon Road tube station. This is a growth area due to the construction of Farringdon Crossrail Station. **3.74%** net initial yield. Single let to Euromonitor International. Sold in August 2015.

4.10 This yield of 5.5% has been applied to both scenarios (3A and 3B), which we question as it is common for single-occupied buildings to be more attractive to investors than multi-occupied buildings. For example, in respect of an office building near Regent's Park, Crossland Otter Hunt recently advised us that a 4.25% would apply to the single-let option, and 4.75% to the multi-let option – reflecting the views of office agents regarding the greater attractiveness of single-let buildings to investors.

4.11 In view of the above evidence, it appears that a 4.75% yield (gross) is achievable for 3B (single-let), and we would increase this to 5.25% for 3A (multi-let). It may, however, be the case that GVA can provide specific reasons – related to the constraints and disadvantages of this particular site – why higher yields are more likely, therefore we are open to further discussion.

4.12 In conclusion, we suggest that yields (gross) of 4.75% and 5.25% could be achieved for scenarios 3B and 3A, respectively.

Office Rent free periods

4.13 The rent free is 6 months for the multi-let scenario and 13 months for the single-let scenario. We assume that this is due to the longer lease that would be typically secured by a single letting, and the longer incentives typically secured when offices are pre-let. We accept that these rent-free periods are reasonable, although we note that the longer lease length should be reflected in the yield applied to the single-let office.

Affordable office values

4.14 All the scenarios have an affordable unit, located on the 1st floor, which has been assigned a rent of £65 per sqft by GVA. We have enquired into the affordability criteria that have been used in this case to reach this rent, and subsequently we have been informed that this is a full market rent, and that the affordable workspace has been incorporated by way of a 120 month rent free period for this particular unit – reflecting a 10-year period during which this unit will be let to the Council at a 'peppercorn' (i.e. nominal) rent. This is as advised by the Council's Guidance on Affordable Workspace. We agree with the valuation approach taken.

Hotel values

4.15 The 180 rooms have been valued at £225,000 each, and a figure of £40,500,000 has been applied in the appraisal. This is based on advice from JLL. Whitbread consider c180 to be close to the minimum required for operational purposes; a smaller hotel would, it is argued, not achieve the necessary economies of scale. It is unclear how a smaller hotel would in architectural terms be delivered and how the office floorspace would be increased, given that there are major constraints on how the buildings are arranged on the site. This would require further discussion with Planning Officers. A small selection of comparable transactionS are provided by GVA, which include:

- **62-68 York Way, N1:** granted planning permission in 2014 for a 408 room hotel and 316m^2 retail in Kings Cross, part completed, to be tenanted by a new company with a guarantee from Whitbread Group, £3.5m per annum including three sublet units, lease spans 26 years with 1 year rent free, rent subject to 0-4% cpi uplifts payable every five years from the sixth year, equating to a capital value of **£200,000 per key**.

- **Spitalfields, Brick Lane, E1:** forward sale was agreed for a 189 bedroom 'hub' hotel let to Premier Inn Hotels Ltd with Whitbread as a guarantor, sold 14th October 2014 for £33.6m **(£185,000 per key**), due for completion March 2016.

4.16 The two comparables do suggest that £225,000 per key (i.e. per room) is reasonable, and perhaps somewhat optimistic – i.e. based on an optimistic assessment of this location. However, this optimism is justifiable, given the excellent location of the Site, which will benefit from the Crossrail-led regeneration of the area.

Retail values

4.17 Both 3a and 3b have been assigned a £55 per sqft rent, and both are capitalised at 5.5%. These assumptions reflect the fact that this is a 'secondary' retail location, which we agree is the case. The lettings and investment evidence that has been provided by GVA is detailed and relevant, and does suitably demonstrate that their estimated rents and yields are reasonable. Some of the provided examples were on Farringdon Road itself. With respect to the yield evidence, we discuss this below:

- **68 Fortune Green Road, West Hampstead, NW6 1DS,** within a retail parade with flats above. Price paid was £281,000; with an annual rent on the property is cited as £17,000 (although according to EGi records the most recent agreement set the rent at £17,500 per annum). This gives us a gross yield of 6%. This is a more suburban location and arguably does not have the gross potential of Farringdon Road.

- **66/68 High Road, Wood Green, N22** houses chained brand Holland and Barrett, a low-risk tenant located along a busy high street with more big name brands very close by. The brand will keep the unit in excellent condition and the unit will provide premium revenue to the other examples. This explains the yield of 5% - justifiably lower than what is proposed for the subject.

- **Barfly, 49 Chalk Farm Road, NW1** is the only comparable provided that is less than 4 miles away from the site. The Barfly is the highest valued of the examples. As we have not been given sales areas, we cannot see if this has been justified by the size of the property. A sales value of £5m and a rent of £231,000 per annum conclude at the lowest yield of the examples, 4.37%. This will reflect the superiority of revenue to the subject and the solidity of the business.

4.18 We are satisfied that these comparables give a good idea of yields in the retail market, despite their extended locality to the site. The examples provided are in a variety of different locations and circumstances, meaning that they provide a broad view of the market.

4.19 In conclusion, we agree that the retail values are reasonable. In any case, the retail space is a relatively minor proportion of the scheme as a whole, therefore adjustments to this valuation would have a minor impact on overall viability.

Build costs

4.20 Our cost consultant, Neil Powling, has reviewed the Cost Plans that have been provided by Quantem, and has compared them to BCIS average tender prices on an 'elemental' level. Neil's full report is in Appendix One. His main conclusion is that the costs for all the scenarios should be lowered (see Table 2, above). With respect to contingency and demolition costs, which are added separately into the Argus appraisals, these are considered by Neil Powling to be reasonable.

4.21 Leaving aside the matter of build cost inflation, Neil Powling's benchmarking totals match closely those of the applicant's Cost Consultant, KTS Group; the differences shown in above table are the result of Neil excluding the projection of costs beyond the current date to Q1 2017.

4.22 Professional fees of 12.5% are in line with typical benchmark rates, and take into account the complexities of redeveloping this constrained urban site. In addition, the Marketing and Letting fees are in line with typical rates.

Developer's Profit

4.23 A target of 17.5% profit on Cost has been set by the applicant. This is the same for all the scenarios. We would, however, expect different profit levels to reflect the different levels of risk of these schemes; those scenarios with high levels of pre-letting should in theory have lower profit targets. We have discussed this with the applicant's advisers.

4.24 In view of the high levels of profit that are commonly agreed by Inspectors in appeal decision (with 20% on GDV being the norm), we view 17.5% on cost as being reasonable for a scheme that does not have the benefit of a hotel (which would have a pre-let on this hotel). Therefore we have sought to create a differential between the scheme's profit target, we view 17.5% as being a realistic 'midpoint'.

Whilst mixed use residential is relatively unavoidable in this area, it doesn't change the fact that residential units will negatively impact the investment appeal of office space. There is a high demand for offices continuing into Q3 2016, but the investment market stands as fairly unpredictable according to Collier's research in particular. A possible option would be to ask an office agency, as their opinion is more specialised than ours would be. If we are asking the Applicant to consider additional office space (see your question below), residential elements will be even less advisable. In an ideal world, we would be able to fit all elements onto one site, but realistically this is a tall ask in terms of viability.

4.25 It is standard practice in viability assessments, that one should disregard any benefits or dis-benefits that are unique to the applicant, whether landowner, developer or both, and instead adopt a 'generic' approach which seeks to establish the approach of a *typical* landowner/developer. With respect to profit targets, Whitbread would, we understand, likely be willing to proceed with the scheme at a lower profit target than 17.5%, as it is primarily focussed upon securing a hotel asset for operational reasons, therefore maximising developer's profit is not its primary objective. For the purposes of assessing viability, we agree that the fact that Whitbread are the developer should effectively be disregarded.

4.26 It has been suggested by GVA that it should not be assumed that a pre-let is in place for the hotel, as this would effectively mean that the specifics of the applicant were being taken into account in the assessment. We would respond by pointing out that pre-lets are very common within the hotel development market (it is in our experience rare for hotel developments to be entirely speculative), and that it is possible to be 'generic' in approach (disregarding the specifics of the applicant) while still assuming a pre-let. The securing of a hotel pre-let would substantially de-risk the scheme – by giving more certainty over outturn values, voids etc – prior to the developer committing to and commencing the scheme. As securing a pre-let would result in significantly lower risk for the developer, we have assumed a lower profit of 16% for the scenarios 3A and 3B.

<u>Finance costs & development period</u>

4.27 An interest rate of 6.5% has been applied to Scenarios 3A and 3A (as well as to the remaining scenarios). This is a reasonable interest rate in the current lending market, and is lower than the default rate shown in the GLA Toolkit.

4.28 We have considered the development period of 35 months, which is realistic for a scheme of this complexity, which will include major works to address the fact that the site is above the Thames Link (which is serviced by a vertical air shaft through the main building), and that the London Underground runs under Farringdon Road (5.5m from the site boundary).

5.0 SCENARIOS 1A & 1B – BPS ANALYSIS

<u>Office values</u>

5.1 For Scenario 1A, the appraisal has broadly the same rents as have been applied to 2A and 3A, the logic being that these are all multi-let offices that will provide similar specification of offices, to similar sized occupiers. Likewise, 1B's rents are the same as

2B and 3B. We agree that parity between these similar office provisions is a suitable approach.

5.2 The same yield has been applied to all the scenarios' office space. We have considered whether offices that are in mixed use buildings would be more, or less, attractive to investors. In respect of a nearby scheme on New Oxford Street, the applicant's specialist adviser suggested an upward yield shift of 0.5 to account for the impact of including residential in a building that would otherwise have been entirely offices. We therefore suggest that yields of 5.25% and 5.75% are suitable for 1B and 1A respectively – by adding 0.5% to the yields suggested above for scenarios 3A and 3B.

Retail values

5.3 We agree with the approach of applying the same rents, yields and other assumptions to these scenarios as to 3A and 3B.

6.0 SCENARIOS 2A & 2B – BPS ANALYSIS

Offices

6.1 We agree with the rents that have been applied in these scenarios, which are rightly consistent with the other scenarios 3A and 3B.

6.2 We would expect a similar yield as for scenarios 3A and 3B.

Retail

6.3 We agree with the approach of applying the same rents, yields and other assumptions to these scenarios as to 3a and 3b.

7.0 SITE VALUE

7.1 A Site Value of £16.17m has been adopted, which is GVA's estimate of its Existing Use Value (EUV). An Existing Use Value approach to determining Site Value is commonly used and is supported by planning policy including the GLA's Housing SPD.

7.2 The subject property currently comprises a purpose built, multi-storey car park situated on a broadly rectangular site of approximately 0.21 hectares (0.53 acres). The building is of framed construction with brick façades. The existing accommodation comprises 7,508 sq m (80,815 sq ft) GIA arranged over five storeys and provides 294 car parking spaces and two office suites.

7.3 We have received a rent schedule which details how the passing rent of £723,002 has been arrived at, by increasing the 2003 passing rent in accordance with the method prescribed by the lease. This rent is 'reversionary' as it will be subject to increase from June 2016.

The tenant is NCP, which is party to a lease dated 24th January 2003, in which the rent was prescribed to be determined by fixed annual increases, partly linked to RPI. The lease term is 34 years and there is just over 20 years left to run, with no break option. Given the excellent location of this car park, it benefits from high parking demand and is likely to see increased demand as a result of the Farringdon Crossrail Station.

7.4 An Option to Surrender Agreement is in place, and creates a right for the Landlord to determine the lease upon service of written notice to the tenant at any time prior to 31 December 2020. However, this can only be exercised if the property is to be redeveloped. GVA states, "*a Deed of Variation dated 27 April 2012 was…entered into which significantly reduced the rent in exchange for the insertion of a landlord option to determine the lease in the event that they wished to redevelop the site*". We agree that this has placed the rent in an 'artificial' position which does not reflect the position of a typical site that has *not* yet been released for development.

7.5 As the 2012 rent reduction is a *result* of the site being 'released for development' we agree that this rent reduction should be disregarded when establishing the Site Value, as Site Value is defined as the price at which the owner will actually *release* the site for development, thus it is logical to assume for valuation purposes that this 'releasing' has not yet taken place.

7.6 No premium has been added to this Existing Use Value. Given that this is an income producing asset with a high level of income security and fixed-increase yearly rent reviews, this is an asset that would require a substantial landowner incentive to release the land for development.

7.7 GVA have taken three different approaches to estimating the Site's EUV:

1) Value using the rent in place *before* the rent reduction in 2012
2) Value based on market rent, capitalised at suitable yield
3) Value based on market value per parking space using comparable sales transactions

7.8 Applying approach 1), this gives a £723,002 rent which has been extrapolated from the 2012 rent as prescribed by the lease's rent review provisions. This increases to 739,269 from 29th June 2016, and once capitalised this gives a capital value (EUV) of £16.42m. We agree with this valuation. This is higher than the £16.17m that has been adopted by GVA, who describe how they reached the latter figure:

We conclude that having reviewed all three bases, that the car park value should reasonably reflect an underlying value of £50,000/£60,000 per space, equating to £14.7m to £17.64m which is at the lower end of the range for London car parks, but above car park values outside of London. We have adopted the mid-point figure of £16,170,000 (rounded)

7.9 The above is a reasonable approach, and we agree with the £16.17m existing use valuation.

Yields

7.10 GVA have provided a schedule of highly relevant car park sales, which details the yields achieved. A capitalisation rate of 4.50% has been adopted which is lower than many of the comparable transactions' yields (many of which are in the 5.0-5.5% range). We agree that the marginally longer term unexpired could improve (lower) the yield.

7.11 With respect to the comparable sales evidence provided, we have not taken into account the Saffron Hill Car Park as it did appear to have been purchased with residential development potential in mind. Given the excellent growth potential of this area, and that there is a 'turnover kicker' in the lease which gives the landlord a share of any increased parking revenues, we agree that this should have a reasonably low yield. The fact the term of years unexpired for the subject site's car park is longer than the comparables, does suggest that the yield reduction is appropriate.

7.12 The yields of those comparable transactions we focussed on achieved net yields of 5.26-5.52%, and are all arguably in inferior locations, with shorter terms unexpired. There is limited closely comparable evidence (which is to be expected for this type of asset) so there is uncertainty over yields. It is therefore reasonable to adopt a yield within the 4.5-5.0% realistic range. With the yield of 4.5% applied, the result is £16.42m. However, the benchmark applied by GVA is £16.17m, which implied a marginally higher yield.

7.13 From June 2016, the rent will be £739,269. A simple capitalisation of the rent of £739,269 using 4.5% gives a gross value of £16.428m which is close to the £16.424m gross value shown in GVA's Argus valuation.

7.14 Purchaser's Costs total 6.43%, and reflect the recent increase to Stamp Duty. We note that purchaser's costs have increased for commercial property to a top rate of 5%.

Comparable method

7.15 We have also considered the other two valuation methods that have been employed by GVA. With respect to approach c), i.e. "Value based on market value per parking space using comparable sales transactions", the following are provided:

- **Saffron Hill Car Park:** larger than the subject (353 spaces compared to 294), sold August 2015 for £13m, six stories, with additional two stories of ancillary office space being sublet by NCP, £180,000 per annum, gross yield of 1.4%. The site benefits from facing four different streets (Saffron Street, Saffron Hill, St Cross Street and Farringdon Road), which is an excellent opportunity for retail developments.

- **Carrington Street:** £224,574 per annum rent, £75m purchase price, gross yield 2.9%, development potential, having achieved planning permission in 2001 for a mixed use scheme, and following pre-application discussions considering its use as residential units, a boutique hotel, serviced apartments, casino's, galleries, a gym, restaurants and government embassies. Estimated to be worth c. £500m on completion. NCP are to let the car park until 2037, but vacant possession is achievable on 20 working days' notice.

7.16 It is apparent that the sales evidence provided does support GVA's overall conclusion of £50,000/£60,000 per space.

Landowner premium

7.17 No premium has been added to this Existing Use Value. Given that this is an income producing asset with a high level of income security and fixed-increase yearly rent reviews, this is an asset that would typically require a substantial incentive to release the land for development.

BPS Chartered Surveyors

Appendix One

66-86 Farringdon Road, London, EC1R 3EA

Independent Cost Review

1 SUMMARY

1.1 An allowance of 9% has been made for pre-construction inflation from 2Q2015 to 1Q2017. We are satisfied that any difference in inflation from 2Q2015 to a current cost of 2Q2016 is reasonable, but not to project the costs beyond the current date. The BCIS all-in TPI (updated 27th May 2016) for 2Q2015 is 277 (forecast); the current 2Q2016 figure is 276 (forecast). We do not therefore consider there should be any allowance for inflation. The inflation allowance for the Hotel element is £1,197,181 and the allowance for the Office element is £933,194. The construction costs should therefore be reduced by £2,130,375 plus contingency and professional fees: a total reduction of £2,516,505.

1.2 Our adjusted benchmarking yields a figure for the Hotel element of £3,490/m^2 that compares to the Applicants £3,379/m^2; we are therefore satisfied that the Hotel costs are reasonable.

1.3 Our adjusted benchmarking yields a figure for the Offices element of £3,181/m^2 that compares to the Applicants £3,112/m^2; we are therefore satisfied that the Offices costs are reasonable.

1.4 The scenario input costs for the Offices and Hotel excluding the inflation addition we calculate as £264/ft^2 and £284/ft^2 respectively. We have no information on how the scenario costs for retail and residential flats gave been calculated; we assume the costs have been projected to 1Q2017 on a similar basis to the Hotel and offices and have made a deduction in the rates we have used in our calculations. Our costs are therefore less than the Applicant's for all of the scenarios. We calculate the area for scenarios 3A and 3B as 91,020ft^2 compared to the Applicant's 92,439ft^2.

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's 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 occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. 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 available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services – but is not available on an elemental basis. 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 ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.

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 BCIS 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 from the planning website.

2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or 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.

2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m^2 and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

3 GENERAL REVIEW

3.1 We have been provided with and relied upon the Viability Assessment dated April 2016 prepared by GVA together with its appendices. We also received a corrected version of Appendix 4 Build Cost plan with office costs included.

3.2 The cost plan is based on a current day basis base date 2Q2015 with an allowance for increased inflation to the expected start on site 1Q2017. Our benchmarking uses current BCIS data which is on a current tender firm price basis.

3.3 Preliminaries have been costed at 14%, overheads and profit at 5% and a contingency allowed of 5%. We consider all these allowances reasonable.

3.4 An allowance of 9% has been made for pre-construction inflation from 2Q2015 to 1Q2017. We are satisfied that any difference in inflation from 2Q2015 to a current cost of 2Q2016 is reasonable, but not to project the costs beyond the current date. The BCIS all-in TPI (updated 27th May 2016) for 2Q2015 is 277 (forecast); the current 2Q2016 figure is 276 (forecast). We do not therefore consider there should be any allowance for inflation. The inflation allowance for the Hotel element is £1,197,181 and the allowance for the Office element is £933,194. The construction costs should therefore be reduced by £2,130,375 plus contingency and professional fees: a total reduction of £2,516,505.

3.5 Sales for the residential element applicable to Scenario 1A and 1B only have been referenced in the Viability at average figures of £1,122/ft² (Net Sales Area).

3.6 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for Islington of 125 that has been applied in our benchmarking calculations.

3.7 Refer below to “Elemental analysis and BCIS benchmarking”.

3.8 Our adjusted benchmarking yields a figure for the Hotel element of £3,490/m² that compares to the Applicants £3,379/m²; we are therefore satisfied that the Hotel costs are reasonable.

3.9 Our adjusted benchmarking yields a figure for the Offices element of £3,181/m² that compares to the Applicants £3,112/m²; we are therefore satisfied that the Offices costs are reasonable.

3.10 Refer below to our BPS Scenario Construction Costs. The scenario input costs for the Offices and Hotel excluding the inflation addition as 3.4 above we calculate as £264/ft² and £284/ft² respectively. We have no information on how the scenario costs for retail and residential flats gave been calculated; we assume the costs have been projected to 1Q2017 on a similar basis to the Hotel and offices and have made a deduction in the rates we have used in our calculations. Our costs are therefore less than the Applicant’s for all of the scenarios. We calculate the area for scenarios 3A and 3B as 91,020ft² compared to the Applicant’s 92,439ft².

3.11 Our calculation of the construction costs for each of the scenarios is:-

Scenario 1A	21,449,958
Scenario 1B	21,449,958
Scenario 2A	20,614,704
Scenario 2B	20,614,704

Scenario 3A	25,044,936
Scenario 3B	25,044,936

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Offices - Elemental analysis & BCIS benchmarking

		Total		Shell & core		Fit out		Abnormals		BCIS mean	
	GIA m²		3,749		3,749		3,749		3,749	LF100	LF125
		£	£/m²	£	£/m²	£	£/m²	£	£/m²	£/m²	£/m²
	Demolitions	**835,422**	**223**								
1	**Substructure**	**915,000**	**244**	**672,300**	**179**			**242,700**	**65**	**191**	**239**
	Specialist acoustic & vibration treatment tbc		**0**						**0**		
2A	Frame	945,750	252	945,750	252					95	119
2B	Upper Floors		0		0					38	48
2C	Roof	204,825	55	204,825	55					202	253
2D	Stairs	82,000	22	82,000	22					36	45
2E	External Walls	2,166,250	578	2,166,250	578					186	233
2F	Windows & External Doors		0							116	145
2G	Internal Walls & Partitions	99,050	26	99,050	26					74	93
2H	Internal Doors	59,900	16	59,900	16		0			49	61
2	**Superstructure**	**3,557,775**	**949**	**3,557,775**	**949**	**0**	**0**			**796**	**995**
3A	Wall Finishes	183,215	49	131,215		52,000				45	56
3B	Floor Finishes	266,165	71	149,960		116,205	31			65	81
3C	Ceiling Finishes	294,995	79	149,960		145,035	39			37	46
3	**Internal Finishes**	**744,375**	**199**	**431,135**	**0**	**313,240**	**70**			**147**	**184**
4	**Fittings & WC & reception fit out**	**736,250**	**196**	**711,250**	**190**	**25,000**	**7**			**28**	**35**
5A	Sanitary Appliances	37,490	10	37,490			0			22	28
5B	Services Equipment (kitchen, laundry)									17	21
5C	Disposal Installations	82,478	22	82,478	22					22	28
5D	Water Installations - Cat A fit out	771,847	206	86,227	23	685,620				46	58
5E	Heat Source	26,243	7	26,243	7					61	76
5F	Space Heating & Air Treatment	318,665	85	318,665	85					116	145
5G	Ventilating Systems	138,713	37	138,713	37					69	86
5H	Electrical Installations (power, lighting, emergency lighting)	337,410	90	337,410	90					213	266
5I	Gas Installations	7,498	2	7,498	2					2	3
5J	Lift Installations	225,000	60	225,000	60					24	30
5K	Protective Installations (fire fighting, sprinklers, lightning protection)	104,972	28	104,972	28					9	11
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems)	164,956	44	164,956	44		0			55	69
5M	Special Installations - (window cleaning, BMS, medical gas)	50,012	13	50,012	13					35	44
5N	BWIC with Services	33,866	9	33,866	9					16	20
5O	Builders Profit % Attendance on Services									6	8
5	**Services**	**2,299,150**	**613**	**1,613,530**	**420**	**685,620**				**713**	**891**
6A	Site Works	75,000	20								
6B	Drainage										
6C	External Services	165,000	44								
6D	Minor Building Works										
6	**External Works**	**240,000**	**64**	**0**	**0**						
	SUB TOTAL	**9,327,972**	**2,488**	**6,985,990**	**1,738**	**1,023,860**	**76**	**242,700**	**65**	**1,875**	**2,344**
7	**Preliminaries 14%**	**1,305,916**	**348**	**978,039**	**261**	**143,340**	**38**	**33,978**	**9**		
	Overheads & Profit 5%	**531,694**	**142**	**398,201**	**106**	**58,360**	**16**	**13,834**	**4**		
	SUB TOTAL	**11,165,582**	**2,978**	**8,362,230**	**2,106**	**1,225,560**	**130**	**290,512**	**77**		
	Design Development risks 5%	558,279	149	418,112	112	61,278	16	14,526	4		
	Construction risks										
	Employer change risks										
	Add/subtract rounding & to balance	-57,056	-15								
	SUB TOTAL	**11,666,806**	**3,112**	**8,780,342**	**2,217**	**1,286,838**	**146**	**305,037**	**81**		
	Pre-construction inflation 2Q2015 to 1Q2017 9%	933,194	249	790,231	211	115,815	31	27,453	7		
	TOTAL	**12,600,000**	**3,361**	**9,570,572**	**2,428**	**1,402,654**	**177**	**332,491**	**89**		
	Rounded										
	Benchmarking		2,486								
	Add demolitions	223									
	Add external works	64									
	Add additional cost of substructure	5									
	Add additional cost of fittings, WC & reception fit out	161									
		454									
	Add prelims 14%	63									
	Add OHP 5%	26	543								
			3,029								
	Add contingency 5%		151								
	Adjusted benchmark		3,181								

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Hotel - Elemental analysis & BCIS benchmarking

		Total		Shell & core		Fit out		Abnormals		BCIS mean	
	GIA m²		4,707		4,707		4,707		4,707	LF100	LF125
		£	£/m²	£	£/m²	£	£/m²	£	£/m²	£/m²	£/m²
	Demolitions	**1,253,133**	**266**								
1	**Substructure**	**1,757,800**	**373**	**1,466,500**	**312**			**291,300**	**62**	177	221
	Specialist acoustic & vibration treatment tbc	**500,000**	**106**					**500,000**	**106**		
2A	Frame	735,445	156	735,445	156					121	151
2B	Upper Floors	309,130	66	309,130	66					47	59
2C	Roof	326,330	69	326,330	69					117	146
2D	Stairs	124,000	26	124,000	26					29	36
2E	External Walls	2,298,000	488	2,298,000	488					189	236
2F	Windows & External Doors	0	0							83	104
2G	Internal Walls & Partitions	625,410	133	625,410	133					48	60
2H	Internal Doors	513,600	109	220,200	47	293,400	62			47	59
2	**Superstructure**	**4,931,915**	**1,048**	**4,638,515**	**985**	**293,400**	**62**			681	851
3A	Wall Finishes	0	0							49	61
3B	Floor Finishes	40,500	9			40,500	9			44	55
3C	Ceiling Finishes	160,210	34			160,210	34			30	38
3	**Internal Finishes**	**200,710**	**43**	**0**	**0**	**200,710**	**43**			123	154
4	**Fittings**	**942,000**	**200**		**0**	**942,000**	**200**			51	64
5A	Sanitary Appliances	215,000	46			215,000	46			94	118
5B	Services Equipment (kitchen, laundry)									43	54
5C	Disposal Installations	230,643	49	230,643	49					9	11
5D	Water Installations	235,350	50	235,350	50					66	83
5E	Heat Source	23,535	5	23,535	5					20	25
5F	Space Heating & Air Treatment	437,751	93	437,751	93					116	145
5G	Ventilating Systems	188,280	40	188,280	40					52	65
5H	Electrical Installations (power, lighting, emergency lighting)	635,445	135	635,445	135					134	168
5I	Gas Installations	14,121	3	14,121	3					4	5
5J	Lift Installations	210,000	45	210,000	45					28	35
5K	Protective Installations (fire fighting, sprinklers, lightning protection)	94,140	20	94,140	20					24	30
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems)	233,280	50	188,280	40	45,000	10			66	83
5M	Special Installations - (window cleaning, BMS, medical gas)	150,000	32	150,000	32					26	33
5N	BWIC with Services	54,939	12	54,939	12					15	19
5O	Builders Profit % Attendance on Services									9	11
5	**Services**	**2,722,484**	**578**	**2,462,484**	**523**	**260,000**				706	883
6A	Site Works	45,000	10								
6B	Drainage										
6C	External Services	275,000	58								
6D	Minor Building Works										
6	**External Works**	**320,000**	**68**	**0**	**0**						
	SUBTOTAL	**12,628,042**	**2,683**	**8,567,499**	**1,820**	**1,696,110**	**305**	**791,300**	**168**	**1,738**	**2,173**
7	**Preliminaries 14%**	**1,767,926**	**376**	**1,199,450**	**255**	**237,455**	**50**	**110,782**	**24**		
	Overheads & Profit 5%	**719,798**	**153**	**488,347**	**104**	**96,678**	**21**	**45,104**	**10**		
	SUBTOTAL	**15,115,766**	**3,211**	**10,255,296**	**2,179**	**2,030,244**	**376**	**947,186**	**201**		
	Design Development risks 5%	755,788	161	512,765	109	101,512	22	47,359	10		
	Construction risks										
	Employer change risks										
	Add rounding	31,264	7								
	SUBTOTAL	**15,902,819**	**3,379**	**10,768,061**	**2,288**	**2,131,756**	**398**	**994,545**	**211**		
	Pre-construction inflation 2Q2015 to 1Q2017 9%	1,197,181	254	969,126	206	191,858	41	89,509	19		
	TOTAL	**17,100,000**	**3,633**	**11,737,187**	**2,494**	**2,323,614**	**438**	**1,084,054**	**230**		
	Rounded							**1,080,000**			
	Benchmarking		2,126								
	Add demolitions	266									
	Add external works	68									
	Add additional cost of substructure	152									
	Add special cost of acoustic & vibration treartment	106									
	Add additional cost of façade	148									
	Add additional cost of int walls	73									
	Add additional cost of int doors	50									
	Add additional cost of fittings	136									
		1,000									
	Add prelims 14%	140									
	Add OHP 5%	57	1,198								
			3,324								
	Add contingency 5%		166								
	Adjusted benchmark		3,490								

66-86 Farringdon Road, Islington EC1R 3EA
BCIS downloaded 31st May 2016

Islington location	125		
Date on Feasibility Estimate 3 - 16March 2016			
Cost estimate adjusted for inflation to 1Q2017 - anticipated start			
Estimate updated from 2Q2015 (date of earlier estimate?)			Change from 2Q2015
TPI 2Q2015	277	forecast	
TPI 2Q2016	276	forecast	-0.36%
TPI 1Q2017	282	forecast	1.81%

Avg prices def	**LF100**	**LF125**	**sample**
Shops generally mean	1,053	1,316	62
Flats 6+ storey mean	1,589	1,986	75
Offices a/c 6+ storey mean	1,989	2,486	7
Hotels mean	1,661	2,076	23
Avg prices max 5 years			
Shops generally mean	2,106	2,633	5
Flats 6+ storey mean	1,577	1,971	31
Offices a/c 3-5 storey mean	1,915	2,394	1
Hotels mean	1,701	2,126	9

Flats - residential - no costing provided

We have assumed that the apartments would reflect a high quality finish in
new build apartment schemes in the area. Although the market for apa

Quantem costs are			Applicant	
Hotel	308 £/ft²			
Office	287 £/ft²			
Retail	No detailed costing			
Resi	No detailed costing		350	3767.37
			327	Say ddt £23/ft
				probable inflat
				Quantem

3 Tender price inflation - estimate is priced on the basis of commencemen
17 and completion in Q2 18 (18 month construction period)

1,986 185

66-86 Farringdon Road, Islington EC1R 3EA

BPS Scenario construction costs

		Scenario 1A			Scenario 1B			Scenario 2A				Scenario 2B			
		ft²	£/ft²	£	ft²	£/ft²	£		ft²	£/ft²	£		ft²	£/ft²	£
Gd flr bldg 1	Retail	3,197	327	1,045,419	3,197	327	1,045,419	Retail	2,766	264	730,224	Retail	2,766	264	730,224
Gd flr bldg 2	Retail	1,938	264	511,632	1,938	264	511,632	Retail	1,938	264	511,632	Retail	1,938	264	511,632
Gd flr bldg 2	Office	2,433	264	642,312	2,433	264	642,312								
1st flr bldg 2	Office	4,553	264	1,201,992	4,553	264	1,201,992								
2nd flr bldg 2	Office	4,553	264	1,201,992	4,553	264	1,201,992								
3rd flr bldg 2	Office	2,885	264	761,640	2,885	264	761,640								
Basement B2	Office	4,435	264	1,170,840	4,435	264	1,170,840								
Gd flr bldg 3	Retail	1,808	264	477,312	1,808	264	477,312	Retail	1,808	264	477,312	Retail	1,808	264	477,312
Gd flr bldg 3	Office	3,498	264	923,472	3,498	264	923,472								
1st flr bldg 3	Office	7,320	264	1,932,480	7,320	264	1,932,480								
2nd flr bldg 3	Office	7,685	264	2,028,840	7,685	264	2,028,840	Office	71,574	264	18,895,536	Office	71,574	264	18,895,536
3rd flr bldg 3	Office	7,718	264	2,037,552	7,718	264	2,037,552								
4th flr bldg 3	Office	6,997	264	1,847,208	6,997	264	1,847,208								
5th flr bldg 3	Office	2,476	264	653,664	2,476	264	653,664								
Service yard	Office	2,605	264	687,720	2,605	264	687,720								
Resi Gd-3rd B1	Resi	13,229	327	4,325,883	13,229	327	4,325,883								
		77,330		21,449,958	77,330		21,449,958		78,086		20,614,704		78,086		20,614,704
Appraisal figure				23,228,548			23,228,548				21,739,389				21,739,389

Scenario 3A					Scenario 3B				
		ft²	£/ft²	£			ft²	£/ft²	£
Gd flr bldg 1	Retail	2,336	285	665,760	Gd flr bldg 1	Retail	2,336	285	665,760
Gd flr bldg 2	Retail	1,679	264	443,256	Gd flr bldg 2	Retail	1,679	264	443,256
Gd flr bldg 2	Office	3,746	264	988,944	Gd flr bldg 2	Office	3,746	264	988,944
1st flr bldg 2	Office	7,556	264	1,994,784	1st flr bldg 2	Office	7,556	264	1,994,784
2nd flr bldg 2	Office	7,696	264	2,031,744	2nd flr bldg 2	Office	7,696	264	2,031,744
3rd flr bldg 2	Office	7,696	264	2,031,744	3rd flr bldg 2	Office	7,696	264	2,031,744
4th flr bldg 2	Office	6,975	264	1,841,400	4th flr bldg 2	Office	6,975	264	1,841,400
5th flr bldg 2	Office	2,390	264	630,960	5th flr bldg 2	Office	2,390	264	630,960
Service yard	Office	2,616	264	690,624	Service yard	Office	2,616	264	690,624
Hotel	Hotel	48,330	284	13,725,720	Hotel	Hotel	48,330	284	13,725,720
		91,020		25,044,936			91,020		25,044,936
		92,439		27,186,726			92,439		27,186,726

Office rate exc inflation	264
Hotel rate exc inflation	284
Retail rate	Use same rate as applicant less £23/ft²
Res rate	327

BPS Chartered Surveyors
Date: 31st May 2016