# 202-210 Fairbridge Road, N19 3HT

# Independent Viability Review

Prepared on behalf of The London Borough of Islington

6 September 2017

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## 1.0 Introduction

1.1. BPS Chartered Surveyors has been instructed by The London Borough of Islington ('the Council') to review a viability assessment prepared by Savills on behalf of Dominvs Property Developments Ltd. ('the applicant') dated 7 July 2017 described as a draft report. This has been prepared in respect of the proposed development at 202-210 Fairbridge Road, N19 3HT

1.2. The subject site is located towards the north-eastern end of Fairbridge Road, close to the junction with the A103 Hornsey Road. The site measures 0.0437 hectares (0.108 acres) and is situated in an Employment Growth Area. It is approximately half a mile from Upper Holloway National Rail station and Archway Underground station.

1.3. The site currently comprises a vehicle repair/MOT centre (B2 use) and a garage building measuring 127.65m$^2$ (1,374ft$^2$) and associated vehicle parking measuring 276.8m$^2$ (2,979ft$^2$).

1.4. The proposed application is for the redevelopment of the site to include 15 residential units and 2 commercial units. The 15 residential units will comprise 11 x 2 bed units and 4 x 1 bed units. The two commercial units will be for B1 use and total 73.9m$^2$ (795ft$^2$) and 110.8m$^2$ (1,193ft$^2$) NIA respectively. The applicant proposes that 2 of the 15 residential units will be provided as shared ownership tenure affordable housing.

1.5. Savills viability assessment seeks to demonstrate that the scheme currently generates a small surplus of £79,000 which is insufficient to provide any additional affordable housing beyond the level proposed.

1.6. The current application follows extensive pre-application discussions and negotiations. Our advice to the Council was set out in our reports of 22 March 2017, 10 May 2017 and 5 July 2017. The pre-application exercise was productive in that a number of valuation inputs were agreed between ourselves and Savills and much of this agreement is now reflected in the current submission.

1.7. Our review has sought to scrutinise the costs and value assumptions that have been applied in the Savills viability appraisal in order to determine whether the current affordable housing offer represents the maximum that can reasonably be delivered given the viability of the proposed development.

## 2.0 Conclusions & Recommendations

2.1 We have reviewed the information provided by Savills and we are of the opinion that taking the points considered below the net residual value of the scheme demonstrates a considerable surplus when assuming the provision of two shared ownership units. We +summarise our views in comparison to Savills in the table below;

| Approach | Scheme Residual | EUV plus Premium | Surplus |
|---|---|---|---|
| **Savills** | £631,000 | £552,000 | £79,000 |
| **BPS** | £825,000 | £506,000 | £319,000 |

2.2 The Mayor's SPG and Council's SPD sets ot a clear approach to establishing a suitable benchmark land value. We see no reason to deviate from the EUV plus premium approach in this instance and are not persuaded that the Market approach advocated by Savills is any event compliant with PPG in that it takes no account of planning policy.

2.3 In our opinion the estimated existing use value of £460,000 appears broadly reasonable. A premium of 20% has been added to the EUV which we would consider to be high for a site of this nature given its declining appeal and uncertain income generating capabilities looking forward. As stated in our earlier reports we have reviewed the DWD report which does raise some concerns regarding the current use of the subject site in relation to a number of competitor sites in the vicinity, in particular newer facilities which may be more competitive. As such we consider the level of incentive to less than might be required from a more modern facility given its restrictions and apparently bleak future trading outlook. We are of the opinion that the EUV plus figure should therefore equate to £506,000.

2.4 Savills have proposed a blanket profit target equating to 20% of GDV based on the conclusions set out in their research paper. Reflecting relevant guidance we have given careful consideration to the specific circumstances of this development and take the view that a normal approach to profit would seek to adopt differential profit targets in respect of the commercial and affordable elements to reflect the different risk levels attaching to these elements.

2.5 For the purposes of our appraisal (see Appendix 2) we have adopted marginally higher shared ownership values than Savills reflecting a rate of £365 per sq ft compared to Savills suggested sale rate of £340 per sq ft. We view this figure being more representative of values more typically achieved for this tenure recognising that at this level we have made no allowance for equity staircasing which would serve to increase the value still further.

2.6 Our Cost Consultants, Geoffrey Barnett Associates, have reviewed the cost information provided by Consarc Design Group with their full report available at appendix 1. In summary they state that the costing for the residential element would appear high when compared to BCIS data but;

*'…the Applicants costings overall are considered to be within acceptable estimating margins and reasonable for this development.'*

2.7 When determining residential values for this scheme we have given considerable weight to sales evidence from the scheme known as The Joinery given its proximity to the subject site although we appreciate it does have superior amenities. When examining the second hand comparable evidence in conjunction the uplifted value of the units at The Joinery we accept the proposed values reflect the available evidence although we consider inclusion of a late stage review in any S106 as necessary as there could be scope to improve on these values over time.

2.8 In all other respects we are in agreement with the assumptions adopted by Savills which accord with the pre-application discusssions.

## 3.0 Principles of Viability Assessment

3.1 Development appraisals work to derive a residual value. This approach can be represented by the simple formula below:

*Gross Development Value - Development Costs (including Developer's Profit) = Residual Value*

3.2 The residual value is then compared to a benchmark land value. Existing Use Value (EUV) and Alternative Use Value (AUV) are standard recognised approaches for establishing a land value as they help highlight the apparent differences between the values of the site without the benefit of the consent sought.

3.3 The rationale for comparing the scheme residual value with an appropriate benchmark is to identify whether it can generate sufficient money to pay a realistic price for the land whilst providing a normal level of profit for the developer. In the event that the scheme shows a deficit when compared to the benchmark figure the scheme is said to be in deficit and as such would be unlikely to proceed.

3.4 We note the GLA prefer EUV as a basis for benchmarking development as this clearly defines the uplift in value generated by the consent sought. We find the Market Value approach as defined by RICS Guidance Viability in Planning 2012 if misapplied is potentially open to an essentially circular reasoning. The RICS Guidance promotes use of a modified standard definition of "market Value" by reference to an assumption that the market values should reflect planning policy and should disregard that which is not within planning policy. In practice we find that consideration of compliance with policy is generally relegated to compliance somewhere on a scale of 0% to the policy target placing land owner requirements ahead of the need to meet planning policy.

3.5 There is also a high risk that the RICS Guidance in placing a very high level of reliance on market transactions is potentially exposed to reliance on bids which might a) represent expectations which do not mirror current costs and values as required by PPG. b) May themselves be overbids and most importantly c) need to be analysed to reflect a policy compliant position. To explain this point further, it is inevitable that if site sales are analysed on a headline rate per acre or per unit without adjustment for the level of affordable housing delivered then if these rates are applied to the subject site they will effectively cap delivery at the rates of delivery achieved of the comparable sites. This is an essentially circular approach which would effectively mitigate against delivery of affordable housing if applied.

3.6 The NPPF recognises at 173, the need to provide both land owners and developers with a competitive return. In relation to land owners this is to encourage land owners to release land for development. This has translated to the widely accepted practice when using EUV as a benchmark of including a premium. Typically, in a range from 5-30%. Guidance indicates that the scale of any premium should reflect the circumstances of the land owner. We are of the view that where sites represent an ongoing liability to a land owner and the only means of either ending the liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable.

## 4.0 Benchmark Land Value

4.1 Savills had initially valued the site on the basis of a market value approach which sought to analyse site value by reference to other site transactions. The current FVA now seeks to benchmark the site by reference to the existing use value of the site and propose a value of £460,000 together with a land owner premium equating to 20% bringing the total proposed benchmark value to a figure of £552,000.

4.2 Savills continue to offer their analysis of market transactions in support of their market assessment and reference purchase price as being a relevant consideration. The three figures are summarised below;

| Approach | Value |
|---|---|
| Existing Use Value plus Premium | £552,000 |
| Purchase Price | £1,730,000 |
| Market Value | £1,500,000-£2,000,000 |

*Market Value*

4.3 Savills proposed market value is based on three market transactions. We note that only one of the transactions was sold with the benefit of planning consent, 640 Holloway Road. The purchaser of this property sought to renegotiate the level of affordable housing under the now defunct Section 106 B provision but lost at appeal. It is evident from the appeal decision that the Inspector acknowledged a site value significantly below the purchase price as being relevant and support of the affordable housing provision identified by the consent. This decision serves to illustrate our primary objections to simplistic market analysis frequently proposed using the market value approach which are summarised below:

a) Analysis should be confided to sites which are truly comparable. We do not consider the sites in this instance to be comparable, not least by dint of the age of the transactions and substantial dissimilarities between the subject site and those concerning the transactions

b) Analysis should reflect all three limbs of PPG including the need to reflect planning policy. The evidence provided by Savills makes no attempt to reconcile this aspect of PPG in its analysis.

c) In comparing sites relevant adjustments should be made between sites to account for differences. The analysis is provided on a simplistic rate per hectare basis which takes not account of density, site characteristics, current use or planning status.

4.4 The Mayor's recently adopted Housing and Viability SPG provides the following guidance:

4.1 The SPG also comments on alternative methods for establishing a suitable benchmark land value:

*3.48 An alternative approach will only be considered in exceptional circumstances which must be robustly justified by the applicant. One alternative approach determines the benchmark land value using the market value of land having regard to Development Plan policies and material considerations23. However, research published by RICS24 found that the 'market value' approach is not being applied correctly and "if market value is based on comparable evidence without proper adjustment to reflect policy compliant planning obligations, this introduces a circularity, which encourages developers to overpay for site and try to recover some or all of this overpayment via reductions in planning obligations" (RICS 201525 p26). Thus a market value approach will generally not be accepted by the Mayor.*

4.5 For the reasons outlined above and the marked preference for use of an EUV Plus approach in both the Mayor's and the Council's SPG we do not consider the figures referenced above to constitute a meaningful reference point from which to benchmark the site. Should the council wish for a more detailed analysis of the specific transactions we are willing to provide this.

*Existing Use Value*

4.6 The Existing Use of the site has been based on recent industrial transactions in the local area. The comparable evidence provided is as follows;

| Address | Date | Term (yrs) | Rent | Area $m^2$ ($ft^2$) | £ per $m^2$ ($ft^2$) | Distance to Subject |
|---|---|---|---|---|---|---|
| 21-22 Turle Rd | Dec-15 | 5 | £36,768 | 339 (3,644) | £109 (£10.09) | 1.1 km |
| 260-266 York Way | Jul-15 | - | £73,425 | 511 (5,500) | £144 (£13.35) | 3.7 km |
| 276 York Way | Sep-15 | 25 | £217,936 | 1,576 (16,960) | £138 (£12.85) | 3.5 km |

4.7 The above evidence differs from the subject site in that they are predominantly purpose built industrial units with rates appearing to be calculated based on the building area. The York Way units are situated in a more established industrial area and both properties benefit from superior access to the main road. The unit at Turle Road has a very high site cover which would in our view detract from the overall rental rate which should be applied to this property. Neither of the roads affecting these sites would appear to be subject to any restrictions.

4.8 We have identified the following further evidence;

| **Address** | **Date** | **Size** | **Rent p.a.** | **£ per $m^2$ ($ft^2$)** |
|---|---|---|---|---|
| **Unit 4, Bush Industrial Estate, Station Rd, N19 5UW** | 30/12/16 | 743 (8,001) | £83,000 | £111.66 (£10.37) |
| **Suite 2, 9-15 Elthorne Road, N19 4AJ** | 01/03/15 | 433 (4,659) | £30,000` | £69.31 (£6.44) |

4.9 The unit at Station Road is situated in an industrial estate approximately 1 mile to the south west of the subject site. This space includes 632.6m$^2$ (6,809ft$^2$) of warehouse floor area with ancillary office space over ground and first floors totalling 110.8m$^2$ (1,192ft$^2$). There is also a dedicated forecourt loading area to the front and 12 allocated car parking spaces.

4.10 The suite at Elthorne Road has designated B2 use and is situated under half a mile from the subject site on a parallel road. The letting was for a term of 1 year only.

4.11 In determining a yield Savills have taken advice from local agents and have adopted a rate of 8.5%. We note that CBRE[1] research suggests Greater London prime industrial estate yields of 4.85% and secondary industrial estate yields of 8.25%. Given the location and specification of this site it would appear that 8.5% is a reasonable yield to apply, especially given that the units are currently vacant.

4.12 Savills have also provided the following sales evidence in support of their EUV;

| Address | Distance to subject | Sq ft | Ha | Price | Price/ft$^2$ | Price/Ha |
|---|---|---|---|---|---|---|
| 86 Victoria Road | 1.13 km | 1,800 | 0.08 | £1,780,000 | £989 | £21,960,000 |
| 2A Bartholomew Road | 3.38 | - | 0.57 | £5,950,000 | - | £10,420,000 |

4.13 These capital transactions have been analysed by reference to capital value per sq ft. When applied to the subject site these sales suggest a value range of £437,500 to £923,000 which lends support for value derived by reference to the rent yield analysis. On this basis have agreed the current use value at a figure £460,000.

4.14 Savills has applied a premium of 20% to the EUV to "*reflect its redevelopment potential*". If re-development potential were a relevant criteria from which to determine a premium then it would be reasonable to assume all sites would not generate premiums less than this figure, however this is not the case. We have considered guidance provided by PPG, The Mayor's Housing and Viability SPG and the Council's Development Viability SPD on the setting of a suitable premium. Some relevant extracts are set out below.

4.15 PPG provides the following guidance in this regard:

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

Paragraph 24 PPG

4.16 It can be seen that the return to the land owner must be considered reasonable and must be balanced by consideration of the alternatives open to the land owner. In this instance the buildings are old tired and can be regarded as increasingly obsolete when weighed against modern occupier requirements. It is therefore

[1] CBRE Marketview, United Kingdom Monthly Index, February 2017

arguable that redevelopment provides the only sustainable alternative to the current use. It is therefore questionable that a land owner with few other options requires a high level of incentive to replace a declining asset.

4.17 The Mayor's SPG provides guidance in respect of the level of land owner premium representing the "plus" component of the EUV Plus approach

*7.43 The 'Existing Use Value plus' (EUV+) approach to determining the benchmark land value is based on the current use value of a site plus an appropriate site premium. The principle of this approach is that a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development. A premium is usually added to provide the landowner with an additional incentive to release the site, having regard to site circumstances.*

*3.46 When determining the EUV+ benchmark:*

- *The existing use value (EUV) is independent of the proposed scheme. The EUV should be fully justified based on the income generating capacity of the existing use with reference to comparable evidence on rents, which excludes any hope value associated with development on the site or alternative uses. This evidence should relate to sites and buildings of a similar condition and quality or otherwise be appropriately adjusted. Where an existing use and its value to a landowner is due to be retained in a development (and not lost as is usually the case), a lower benchmark would be expected. Where a proposed EUV is based on a refurbishment scenario, or a redevelopment of the current use, this is an alternative development scenario and the guidance relating to Alternative Use Value (AUV) will apply (see below).*

- *Premiums above EUV should be justified, reflecting the circumstances of the site. For a site which does not meet the requirements of the landowner or creates ongoing liabilities/ costs, a lower or no premium would be expected compared with a site occupied by profit-making businesses that require relocation. The premium could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary.*

4.18 It is evident from this and the Council's SPD guidance that we would not expect the land owner in this instance to require a high end premium given the declining nature of the asset and the absence of any obvious alternative options to generate a sustainable value from the site. Savills have not identified an alternative use other than the proposed scheme in this regard.

4.19 In light of the guidance and the circumstances of the site we consider a land owner premium not in excess of 10% to be realistic.

4.20 We are of the opinion that the EUV plus should equate to £506,000 on this basis generating a difference from Savills proposed benchmark of £46,000.

## 5.0 Construction Costs

5.1 Our Cost Consultants, Geoffrey Barnett Associates, reviewed the cost information provided by Consarc Design Group as part of the pre-application process and these figures have remained unchanged as part of the application. Geoffrey Barnet's report is set out in appendix 1. In summary they state;

*'The Applicant's costs for the Residential element appear to be higher by about 11% than the BCIS benchmark costs. The Applicant costs for the commercial element are considered to be acceptable.*

*Regarding the Residential element, no specification information has been provided by the Applicant. The comparative elemental cost in Table 1 show that much of the difference between the Applicants total cost and the BCIS benchmark costs results from Fixtures & Fittings and Mechanical & Electrical and Lift services. The applicants higher cost for these elements seems to indicate that a high level of specification and equipment has been assumed and allowed for in the pricing.*

*Taking this into account the Applicants costings overall are considered to be within acceptable estimating margins and reasonable for this development.'*

5.2 We note that the GIA has increased slightly by 27M2 which is reflected in the current scheme costs.

### Developer's Profit

5.3 Savills have included profit at an overall rate of 20% on GDV and have also provided a 'Profit Paper' which attempts to justify the position.

5.4 The scheme comprises three elements. This being private residential sales, affordable housing and commercial development. Savills blanket approach does not seek to differentiate risk associated with the development by reference to the inclusion of these elements or by the scale of these elements but simply seeks to apply the conclusions of its profit research paper to this site.

5.5 The Mayor's Housing and Viability SPG provides the following guidance in relation to developer profit:

*Developer profit*

*3.32 Developers will be seeking a competitive return in order to proceed with a scheme and to secure finance where required. The appropriate level of profit is scheme specific; evidence should be provided by applicants to justify proposed rates of profit taking account of the individual characteristics of the scheme, the risks related to the scheme, and comparable schemes. In line with PPG a rigid approach to assumed profit levels should be avoided and applicants cannot rely on typically quoted levels.*

*3.33 Factors that may be relevant when assessing scheme-specific target profit levels include the scheme's development programme, and whether it is speculative or provides pre-sold/ pre-let accommodation. Market forecasts and stock market trends may also provide an indication of perceived marketwide risk.*

*3.34 Profit requirements for affordable housing should reflect significantly lower levels of risk when compared to private residential units. Lower levels of return would normally be expected for commercial and private rented accommodation*

5.6 The Council's SPD provides the following guidance which echoes that provides by the Mayor:

6.32. These improved conditions, together with the greater availability of development finance, have reduced risk and with it decreased typical profit levels required to ensure delivery compared with those seen following the financial crisis. In view of this it is considered that current profit levels for private residential / commercial components of a scheme are likely to fall within a range of 15-20% on Gross Development Costs (GDC), appropriate to current market conditions, depending on the circumstances of the proposal.

6.33. Profit requirements for affordable housing are much lower than those for market sale units given the lower levels of risk associated with securing occupation of affordable units compared with the sale of market units.

5.7 Our own considerable experience of developments across London where we review some 100-150 scheme per annum always acknowledge the different risks associated with different elements even when IRR analysis,. Consequently we see the adoption of blanket profit rate as aspirational rather than factual or even a representation of adopted market practice.

5.8 We accept that that 20% of private residential sales GDV is broadly reasonable though at the upper end of the expected scale. To put this comment in context we are considering a number of large single tower developments which have adopted a similar profit target in respect of the private residential element. These schemes differ from this scheme in having a long construction period and no ability to realise early sales receipts whilst committing to very significant construction costs. Therefore we consider acceptance of 20% to be very favourable to the developer in this instance.

5.9 We are however of the view that due to the much more stable and rational environment for commercial sales and lettings a lower order of risk is involved and that typically for schemes of this type a profit rate of 15% is not untypical

5.10 In respect of the affordable element the risks are very modest given the certainty of a purchaser at discounted prices given the current housing crisis. The profit should in our view reflect little more than project management and planning risk which is usually expressed as 6% of affordable housing costs but often also adopted as 6% of affordable housing revenue.

5.11 We see no reason why this scheme present unusual risks or should merit a departure from the reasoning offered by the SPG's and evident in the majority of planning schemes we have seen not only in the borough but also across London as whole.

5.12 We therefore in our analysis have adopted a profit rate of 20% on the private residential elements GDV. 15% on the commercial GDV and 6% of affordable hosing GDV.

5.13 Professional Fees have been included at a rate of 12% on build costs. This is towards the upper end of acceptable range for a scheme of this scale and design, however we have agreed this input as part of the pre-application process.

5.14 Contingency has been included in the build costs at a rate of 2.11% as well as in the appraisal at a rate of 5%. We would generally argue that a contingency of no more than 5% is realistic for a new build development. In this instance we have accepted arguments that construction adjoining the railway does bring with it a heightened degree of design risk as such we accept the rates proposed.

5.15 The following assumptions have been adopted by Savills which were agreed as part of the pre-application process:

- Sales agent: 2%
- Sales legal: 0.5%
- Letting agent: 10%
- Letting legal: 5%
- Marketing: 1.5%

5.16 An 'all inclusive' finance rate of 7% has been included with in the appraisal. Whilst in reality development finance is a more complex amalgam of costs this figure is in line with the commonly accepted figures in financial viability appraisals. A credit rate of 1% has been applied to positive income streams.

5.17 The following planning obligations have been adopted by Savills

- Borough CIL: £290,293 (including indexation)
- Mayoral CIL: £73,167 (including indexation)
- S106 financial contributions: £44,187 (including carbon off-setting)

## 6.0 Residential Values

6.1 The residential sales values have been slightly adjusted by Savills in comparison to the estimates provided during the pre-application discussions the revised unit pricing is set out below:

| Unit Ref | Floor | Beds | Sq m | Sq ft | Price | £/Sq ft |
|---|---|---|---|---|---|---|
| 1.1 | 1 | 2 | 64.2 | 691 | £485,000 | £702 |
| 1.2 | 1 | 2 | 66.2 | 713 | £490,000 | £688 |
| 1.3 | 1 | 1 | 50.6 | 545 | £355,000 | £652 |
| 1.4 | 1 | 2 | 64.9 | 699 | £485,000 | £694 |
| 2.1 | 2 | 2 | 66.7 | 718 | £495,000 | £689 |
| 2.2 | 2 | 2 | 66.2 | 713 | £495,000 | £695 |
| 2.3 | 2 | 1 | 50.6 | 545 | £357,500 | £656 |
| 2.4 | 2 | 2 | 64.9 | 699 | £490,000 | £701 |
| 3.1 | 3 | 2 | 66.7 | 718 | £500,000 | £696 |
| 3.2 | 3 | 2 | 66.2 | 713 | £500,000 | £702 |
| 3.3 | 3 | 1 | 50.6 | 545 | £360,000 | £661 |
| 3.4 | 3 | 2 | 64.9 | 699 | £495,000 | £709 |
| 4.1 | 4 | 2 | 71.7 | 772 | £525,000 | £680 |
| 4.2 | 4 | 1 | 50.1 | 538 | £362,500 | £674 |
| 4.3 | 4 | 2 | 61.2 | 659 | £475,000 | £721 |
| **Total** | | | **925.6** | **9,963** | **£6,870,000** | **£690** |

6.2 Although unit values are slightly different the GDV total is only some £5,000 apart from the figures previously considered.

6.3 Savills are reliant upon comparison to the Joinery which opposite the subject property. The Joinery is part of a larger redevelopment by Family Mosaic which includes a large proportion of affordable housing. The private units are located in Ruskin Court and Hardy Court with the latter a conversion of a former industrial building. The units at this scheme have been, according to the particulars, completed to a good standard with units at Hardy Court benefiting from the warehouse features such as exposed brickwork.

6.4 We appreciate that The Joinery does contain a large proportion of affordable housing but it would appear that the tenures are split into separate blocks with the overall effect on value therefore debatable.

6.5 It is also debateable as to the impact on values in the application scheme of the presence of shared ownership tenure. The proposition that rented tenures reduce values stems from the notion that occupiers with a lesser financial stake in a property are less likely to respect, invest and maintain the property. To a large extent this is perception not necessarily reality though a depressive impact on values can sometimes be observed where schemes include high levels of rented tenure properties.

6.6 The unit pricing approach adopts higher rates per sq ft from the Joinery as can be observed by comparison with the sales identified by Savills in the table below:

| Unit Ref | Floor | Beds | Sq m | Sq ft | Achieved Price | Price/ Sq ft | Date |
|---|---|---|---|---|---|---|---|
| RC-11 | 1 | 1 | 54 | 581 | £365,000 | £628 | Mar-16 |
| RC-17 | 2 | 1 | 54 | 581 | £370,000 | £637 | Mar-16 |
| RC-20 | 3 | 1 | 59 | 635 | £394,000 | £620 | Mar-16 |
| **Average 1 Bed** | | | **56** | **599** | **£376,333** | **£628** | |
| HC-06 | 1 | 2 | 64 | 689 | £485,000 | £704 | Mar-16 |
| HC-08 | 1 | 2 | 67 | 721 | £490,000 | £679 | Mar-16 |
| HC-09 | 1 | 2 | 66 | 710 | £491,000 | £691 | Mar-16 |
| HC-10 | 2 | 2 | 65 | 700 | £500,000 | £715 | Mar-16 |
| RC-12 | 2 | 2 | 80 | 861 | £555,000 | £645 | Mar-16 |
| RC-13 | 2 | 2 | 73 | 786 | £495,000 | £630 | Mar-16 |
| RC-14 | 2 | 2 | 78 | 840 | £540,000 | £643 | Mar-16 |
| RC-18 | 3 | 2 | 76 | 818 | £545,000 | £666 | Mar-16 |
| RC-19 | 3 | 2 | 73 | 786 | £530,000 | £675 | Mar-16 |
| **Average 2 Bed** | | | **71** | **768** | **£514,556** | **£670** | |

6.7 We consider the Joinery to provide highly relevant evidence which is difficult not to accept as the most relevant evidence available, although slightly dated. Values at this scheme do however reflect levels below schemes considered lower down Holloway Road which show rates per sq ft at almost £100 above the proposed scheme pricing.

6.8 During pre-application we provided the Council with a summary of sales evidence adjusted by Land Registry HPI which is replicated below:

| Type | Count | Average Area $m^2$ ($ft^2$) | Average Value (+HPI) | £ per $m^2$ ($ft^2$) |
|---|---|---|---|---|
| **1 Bed** | 3 | 55.67 (599) | £386,682 | £6,946 (£646) |
| **2 Bed** | 9 | 71.33 (767.89) | £528,705 | £7,412 (£689) |

6.9 Savills in their report draw attention to Land Registry HPI figures which show marginally declining residential values in Islington. This reflects a wider trend across London of static if not falling sales values and a considerable reduction in the overall volume of sales.

6.10 Against this backdrop we accept the proposed unit pricing though consider a late stage review of viability should be included in any S106 Agreement in accordance with the Council's SPD to reflect the potential for improved sales values, allowing that planning consents have a three year life which can be easily extended through technical implementation of the consent.

*Ground Rents*

6.11 Ground rental income has been included at a rate of £350 per unit per annum with the total income capitalised at a rate of 5%. We are satisfied that this is a reasonable assumption.

*Affordable Housing Values*

6.12 Savills have identified units 1.1 and 1.2 as shared ownership tenure. These are two bed units. A valuation of these units has been provided in the sum of £238,500 equating to £340 per sq ft. This figure has been generated through adopting the following assumptions:

- Initial equity sale of 25%
- 2% rent charged on the unsold equity
- A deduction from gross income of 10% to reflect RP administrative costs

6.13 We have throughout the pre-application process that shared ownership values of £380 per sq ft are achievable. When examining shared ownership values we have not seen the suggested deduction from the gross rent suggested by Savills in other submission including those from RP's. There is also no allowance for the fact that rents under shared ownership tenures increase at the rate of 1% above inflation or to reflect the possibility that the purchaser may seek to escalate their equity ownership.

6.14 Adopting the same equity sale assumptions and rent assumptions as Savills but allowing for rental growth and no administrative deductions we calculate a value of £512,500 equating to £365 sq ft. This is before any allowance for equity staircasing. Consequently we do not accept the values as proposed.

6.15 The London Plan and relevant guidance identifies best practice being early engagement with Registered Providers. We recommend that RP's are contacted and offers secured to assess the likely market value of these units.

## 7.0 Commercial Space

7.1 The proposed scheme will also include two units designated for B1 use and totalling 88.5 sq m (953 sq ft) and 90 sq m (969 sq ft) GIA respectively. The unit sizes are slightly different from those identified in pre-application discussions.

7.2 Savills has valued the units based on the following assumptions

- Rent: £25/sq ft
- Yield: 6.5%
- Rent free: 6 months
- Void period: 6 months

7.3 These assumptions were agreed during the course of pre-application discussions.

7.4 The rent assumptions was underpinned by reference to the following rental evidence;

| Address | Date | Term | Area $m^2$ ($ft^2$) | Rent p.a. | £ per $m^2$ ($ft^2$) |
|---|---|---|---|---|---|
| **1a Leeds Place** | Aug-16 | 3 | 97.2 (1,046) | £25,000 | £257 (£23.90) |
| **Suite 4 Lysander Mews** | Jul-16 | 5 | 133.4 (1,436) | £44,000 | £330 (£30.64) |
| **Suite 5 Lysander Mews** | Jul-16 | 5 | 172.2 (1,854) | £54,000 | £314 (£29.13) |
| **469 Hornsey Road** | Jul-15 | 1 | 179.3 (1,930) | £21,000 | £117 (£10.88) |
| **608 Holloway Road** | Jul-15 | 10 | 126.3 (1,359) | £28,000 | £222 (£20.60) |

7.5 Although rents are sensitive to proximity to London Underground stations we consider the comparable evidence to broadly support the proposed rents given their location and size and we note an allowance has been made given that the proposed units will be new build. Our own research acknowledges that the above transactions should be considered the most relevant

7.6 The annual rental income has been capitalised at a rate of 6.5%. Examining equivalent yield data for office space CBRE research[2] would suggest that the rate applied is in line with market expectations given the location and specification of the proposed B1 space.

7.7 Further to the two comparable sales provided by Savills we have considered the property at 57 Stroud Green Road which sold for £550,000 in February 2016. The space totals 176$m^2$ (1,894$ft^2$) which equates to a rate of £3,125 per $m^2$ (£290 per $ft^2$). The space at the subject site equates to £4,140 per $m^2$ (£385/$ft^2$).

**BPS Chartered Surveyors**

[2] CBRE Marketview, United Kingdom Monthly Index, February 2017

# Appendix 1 – Geoffrey Barnett Associates Cost Report

**REVIEW OF CONSARC DESIGN GROUP**
**COST PLAN**

**FOR**

**202-210 FAIRBRIDGE ROAD**
**LONDON N19 3HT**

**14th MARCH 2017**

**Geoffrey Barnett Associates**
*Chartered Quantity Surveyors*
*Project Coordinators*
The Old Mill
Mill Lane
GODALMING
Surrey
GU7 1EY
Tel: 01483 429229

Geoffrey Barnett Associates

## CONTENTS

## 1.0 INTRODUCTION

1.1 Geoffrey Barnett Associates are Chartered Quantity Surveyors, established in 1974, and have over 40 years' experience of providing quantity surveying, project co-ordination and construction cost management services to clients throughout the UK. The firm's experience covers a wide range of project types and sizes including new build residential and commercial developments, infrastructure projects and refurbishment projects.

**1.2** This review relates to Savills (UK) Ltd cost plan dated 27th February 2017. The cost plan was prepared by Consarc Design Group on behalf of Savills.

## 2.0 BASIS OF REVIEW

2.1 The contract build cost estimate provided by the applicant is reviewed by comparison against the Building Cost Information Service (BCIS) construction cost data published by the RICS. The reason for using the BCIS service is that it provides a UK wide and fully independent database compiled and continually updated by input from varied project types and locations.

2.2 BCIS publish costs as average overall prices on a cost per sq metre basis and an elemental cost per sq metre basis for new build work. For new build construction, the BCIS cost levels are used as a baseline to assess the level of cost and specification enhancement in the scheme on an element by element basis.

2.3 Regarding refurbishment or conversion work on an existing building, BCIS provides overall cost per sq metre, but not on an element by element basis. However, it does provide cost information on a group element basis i.e. substructure, superstructure, finishing's, etc. For this reason, the review of contract build costs for a refurbishment project using BCIS presents more difficulty in assessing that an applicant's costs are reasonable.

2.4 BCIS costs are updated on a quarterly basis. The most recent quarters use forecast figures, the older quarters are firm costs based on historic project data. The BCIS also provides a location adjustment facility against a UK mean index of 100, which allows adjustment of costs for any location in the UK. The BCIS also publish a Tender Price Index based on historic tender prices. This allows adjustment of costs on a time basis where necessary.

2.5 BCIS average costs are available for various categories of buildings such as apartments, offices, shops, hotels, schools, etc.

2.6 BCIS average prices per sq meter include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Average prices per sq meter or elemental costs do not include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs.

2.7 Ideally, a contract build cost estimate should be prepared by the applicant in the BCIS elements. If this is not available exactly in the BCIS format then, where relevant, we undertake analysis and adjustment to allow direct comparison to BCIS elemental benchmark costs. This requires access to the drawings, specifications, and any reports which have a bearing on cost.

2.8 The review of an applicant's contract build cost estimate against BCIS would typically require:

- Adjustment by location factor
- Adjustment for abnormal and enhanced costs
- Review of the applicants cost plan on element by element basis
- More detailed analysis where there are significant deviance from BCIS costs
- Adjustment of overheads & profit inclusions to provide direct comparison to BCIS
- Addition of contractors' preliminaries costs
- Addition of ancillary costs, such as fees, statutory charges, etc., as appropriate

2.9 These adjustments enable us to make a direct comparison with BCIS benchmark costs.

2.10 The floor areas stated in the applicants cost estimate are accepted and we do not attempt to check the floor areas.

## 3.0 REVIEW & COMMENTARY

3.1 The proposed development comprises a single 5 storey block of apartments comprising: -

- 4 x one bed flats
- 11 x two bed flats
- 2 x commercial units, plus residential and commercial waste facilities on ground floor

Gross internal floor area

- Residential 1182 m2
- Commercial 201 m2

3.2 The Applicants cost estimate is broken down by building element, using the BCIS elements for both the residential and commercial elements.

Using the areas and configuration of the buildings stated above we have calculated construction costs based on the BCIS Elemental Cost per m2 data for Flats (apartments) using the "upperquartile" costs.

3.3 For the residential units we have compared the applicants costs to our own calculation of the elemental costs based on the BCIS benchmark costs.

The comparison is shown in Table 1.

BCIS costs include overheads and profit but do not include preliminaries. The preliminaries costs have been added to the GBA costs in Table 1 to provide a direct comparison. We have used a preliminaries figure of 7% which is considered reasonable for this type and size of project.

The BCIS elemental costs used by GBA have been rebased to 1Q2017 to provide a direct comparison with the Applicant's costs.

3.4 The Applicant has included a 'design and build' contingency of 2%. This is intended to allow for additional unforeseen costs resulting from design development and is a reasonable allowance.

3.5 The elemental comparison in Table 1 shows an apparent difference in overall cost, the Applicants cost being higher by about 11%.

There is no specification provided in the Applicants cost plan document, so it is not possible to identify with any precision the reason for these differences.

3.6 The Applicants cost plan is for the whole project and includes both the residential units and the two commercial units on the ground floor. The residential and commercial build costs are not shown separately in the elemental summary.

The BCIS gives a mean cost per m2 figure of 962£/m2 for shops (shell only). The GIA of the GF commercial units is 201m2.

If the elemental summary in Table 1 is adjusted to take out the commercial units the adjusted total for residential only is as follows: -

| | **Applicant** | | | **BCIS** | | |
|---|---|---|---|---|---|---|
| | m2 | £/m2 | Cost £ | m2 | £/m2 | Cost £ |
| From Table 1 | 1,383 | | 3,331,781 | 1,383 | | 2,995,152 |
| **Less** Commercial elements | -201 | | -224,715 | -201 | 962 | -193,362 |
| Residential only | 1,182 | 2,628 | 3,107,066 | 1,182 | 2,370 | 2,801,790 |

The above adjusted summary shows that for the residential units only the Applicant's cost plan shows a £/m2 cost of 2628 compared to a BCIS £/m2 figure of 2370, the Applicant being higher by £258/m2, or about 11%.

3.7 For the commercial element, the applicant has used an overall rate of £1118/m2. BCIS give a mean rate of £962/m2 for shell construction. However, since this is part of a residential development with presumably better elevational treatment, we consider the Applicants costs for the commercial element to be reasonable.

## 4.0 CONCLUSION

4.1 The Applicant's costs for the Residential element appear to be higher by about 11% than the BCIS benchmark costs. The Applicant costs for the commercial element are considered to be acceptable.

4.2 Regarding the Residential element, no specification information has been provided by the Applicant. The comparative elemental cost in Table 1 show that much of the difference between the Applicants total cost and the BCIS benchmark costs results from Fixtures & Fittings and Mechanical & Electrical and Lift services. The applicants higher cost for these elements seems to indicate that a high level of specification and equipment has been assumed and allowed for in the pricing.

4.3 Taking this into account the Applicants costings overall are considered to be within acceptable estimating margins and reasonable for this development.

Fairbridge Road
Islington
2 Shared Ownership Units



Development Appraisal
Prepared by BPS
BPS Surveyors
06 September 2017

## Fairbridge Road
## Islington
## 2 Shared Ownership Units

**Summary Appraisal for Phase 1**

**Currency in £**

**REVENUE**

| **Sales Valuation** | **Units** | **ft²** | **Rate ft²** | **Unit Price** | **Gross Sales** |
|---|---|---|---|---|---|
| Residential | 13 | 8,559 | 689.00 | 453,627 | 5,897,151 |
| Affordable | 2 | 1,404 | 365.00 | 256,230 | 512,460 |
| **Totals** | **15** | **9,963** | | | **6,409,611** |

| **Rental Area Summary** | **Units** | **ft²** | **Rate ft²** | **Initial MRV/Unit** | **Net Rent at Sale** | **Initial MRV** |
|---|---|---|---|---|---|---|
| Commercial Unit A | 1 | 953 | 25.00 | 23,825 | 23,825 | 23,825 |
| Commercial Unit B | 1 | 969 | 25.00 | 24,225 | 24,225 | 24,225 |
| Ground Rents | 15 | | | 350 | 5,250 | 5,250 |
| **Totals** | **17** | **1,922** | | | **53,300** | **53,300** |

| **Investment Valuation** | | | | | |
|---|---|---|---|---|---|
| **Commercial Unit A** | | | | | |
| Market Rent | 23,825 | YP @ | 6.5000% | 15.3846 | |
| (6mths Rent Free) | | PV 6mths @ | 6.5000% | 0.9690 | 355,177 |
| **Commercial Unit B** | | | | | |
| Market Rent | 24,225 | YP @ | 6.5000% | 15.3846 | |
| (6mths Rent Free) | | PV 6mths @ | 6.5000% | 0.9690 | 361,140 |
| **Ground Rents** | | | | | |
| Current Rent | 5,250 | YP @ | 5.0000% | 20.0000 | 105,000 |
| | | | | | **821,317** |

| | | |
|---|---|---|
| **GROSS DEVELOPMENT VALUE** | | **7,230,928** |
| Purchaser's Costs | (55,850) | |
| | | (55,850) |
| **NET DEVELOPMENT VALUE** | | **7,175,078** |
| **NET REALISATION** | | **7,175,078** |



**OUTLAY**

| **ACQUISITION COSTS** | | | |
|---|---|---|---|
| Residualised Price | | 825,239 | |
| | | | 825,239 |
| Stamp Duty | | 30,762 | |
| Agent Fee | 1.00% | 8,252 | |
| Legal Fee | 0.50% | 4,126 | |
| | | | 43,140 |

**CONSTRUCTION COSTS**

| **Construction** | **ft²** | **Rate ft²** | **Cost** | |
|---|---|---|---|---|
| Commercial Unit A | 953 ft² | 110.65 pf² | 105,453 | |
| Commercial Unit B | 969 ft² | 110.65 pf² | 107,223 | |
| Build Costs | 12,186 ft² | 275.69 pf² | 3,359,512 | |
| **Totals** | **14,108 ft²** | | **3,572,188** | **3,572,188** |
| Contingency | | 5.00% | 178,609 | |
| BAPA | | | 75,000 | |
| S106 | | | 44,187 | |
| CIL | | | 290,293 | |
| Legal and Highways | | | 15,000 | |
| Knotweed Management | | | 30,555 | |
| | | | | 633,644 |

| **PROFESSIONAL FEES** | | | |
|---|---|---|---|
| Other Professionals | 12.00% | 428,663 | |
| | | | 428,663 |

| **MARKETING & LETTING** | | | |
|---|---|---|---|
| Marketing | 1.50% | 12,320 | |
| Letting Agent Fee | 10.00% | 4,805 | |
| Letting Legal Fee | 5.00% | 2,403 | |
| | | | 19,527 |

**Fairbridge Road**
**Islington**
**2 Shared Ownership Units**

| | | | |
|---|---|---|---|
| **DISPOSAL FEES** | | | |
| Sales Agent Fee | 2.00% | 16,426 | |
| Affordable Disposal Fees | 2.00% | 10,249 | |
| Sales Legal Fee | 0.50% | 4,107 | |
| | | | 30,782 |
| **MISCELLANEOUS FEES** | | | |
| Residential Profit | 20.00% | 1,200,430 | |
| Commercial Profit | 15.00% | 107,448 | |
| Affordable Profit | 6.00% | 30,748 | |
| | | | 1,338,625 |
| **FINANCE** | | | |
| Debit Rate 7.000%, Credit Rate 1.000% (Nominal) | | | |
| Land | | 102,440 | |
| Construction | | 185,924 | |
| Letting Void | | (2,547) | |
| Other | | (2,547) | |
| Total Finance Cost | | | 283,269 |
| **TOTAL COSTS** | | | **7,175,078** |
| **PROFIT** | | | |
| | | | **0** |
| **Performance Measures** | | | |
| Profit on Cost% | 0.00% | | |
| Profit on GDV% | 0.00% | | |
| Profit on NDV% | 0.00% | | |
| Development Yield% (on Rent) | 0.74% | | |
| Equivalent Yield% (Nominal) | 6.31% | | |
| Equivalent Yield% (True) | 6.57% | | |
| IRR | 6.74% | | |
| Rent Cover | 0 mths | | |
| Profit Erosion (finance rate 7.000%) | N/A | | |

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2 Shared Ownership Units

Development Appraisal
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## Islington
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