Review of "Viability Assessment"

Lock Up Garages,
Cline Road,
London, N11 2LX

Prepared for

London Borough of Haringey

May 2016

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1 Introduction and Terms of Reference

BNP Paribas Real Estate was commissioned by the London Borough of Haringey ("the Council") to advise on the proposed redevelopment ("the Development") at Cline Road, London, N11 2LX ("the Site") as submitted by Douglas Birt Consulting ("DBC") on behalf of JW Cline Road Ltd ("the Applicant").

This report provides an independent assessment of the Applicant's Affordable Housing Viability Submission to determine whether the affordable housing offer and Section 106 contributions as proposed have been optimised.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices within the United Kingdom and over sixty offices in key commercial centres in Europe, the United States of America and the Asian and Pacific regions.

BNP Paribas Real Estate has a wide ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Tom Sykes MRICS, RICS Registered Valuer under the supervision of Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

In 2007, we were appointed by the GLA to review its Development Control Toolkit Model (commonly referred to as the "Three Dragons" model). This review included testing the validity of the Three Dragons' approach to appraising the value of residential and mixed use developments; reviewing the variables used in the model; and advising on areas that required amendment in the re-worked toolkit. In 2011, we were appointed again by the GLA to undertake a further review of the toolkit and other available appraisal models. Our report was published by the GLA in October 2012.

In addition, we are retained by the Homes and Communities Agency ("HCA") to advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report structure

This report is structured as follows:

Section 2 provides a description of the Proposed Development;

Section 3 describes our methodology and approach to determining the value of the Proposed Scheme and our benchmark land value;

Section 4 sets out our assumptions and variables used to complete the appraisals; and

Section 5 assesses the outputs of the appraisals and makes recommendations on an economically viable affordable housing and Section 106 package; and

Section 6 sets out our conclusions.

1.3 Disclaimer

In accordance with PS 1.6 of the RICS Valuation – Professional Standards (January 2014 Edition) (the 'Red Book'), the provisions of VPS 1 to VPS 4 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

This report is addressed to the London Borough of Haringey only and should not be reproduced without our prior consent.

2 Development Description

2.1 The Site

The Site is located on Cline Road in the London Borough of Haringey. The Site is located approximately 0.6km away from Bounds Green London Underground station (Piccadilly Line) providing direct and regular services to Central London. Furthermore, New Southgate Station (National Rail) is located approximately 0.85km to the North West of the Site.

We understand the Site extends approximately 0.15 ha (0.37 acres) and accommodates 38 lock up units/garages.

It should be noted that we have not undertaken an inspection of the Site nor have we undertaken a measured survey.

2.2 The proposed development

The Applicant is seeking planning permission for the redevelopment of the Site to comprise 8 residential units.

The development will provide a 8 x 4 bedroom four storey houses bed flats. A brief breakdown of the units is provided below:

Proposed Residential Accommodation

Unit Type	Number of Units	Total Size (sq ft)	Average Unit Size (sq ft)
4 bedroom house	4	6,626	1,656
4 bedroom house	4	6,824	1,706
TOTAL	**12**	**8,337**	**695**

As the scheme only provides 8 units the Council's policy SP2 states that schemes below the 10 unit threshold will be required to provide 20% affordable housing on site, based on habitable rooms, or provide financial contributions towards affordable housing provision.

The Applicant's viability report states that the Council are agreeable to a financial contribution in this instance and therefore a target contribution of £418,439 is sought.

3 Methodology

We have used *Argus Developer* ("Argus") to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com.

This cash-flow approach allows the finance charges to be accurately calculated over the development period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Essentially, such models all work on a similar basis:

- Firstly, the value of the completed development is assessed.
- Secondly, the development costs are calculated, using either the profit margin required or land costs (if, indeed, the land has already been purchased).

The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value.

The output of the model is a Residual Land Value ("RLV"), which is compared to a benchmark value, typically the Current Use Value ("CUV") or Alternative Use Value ("AUV"). Development convention dictates that where a development proposal generates a RLV that is higher than CUV (or other relevant benchmark), it can be assessed as financially viable and likely to proceed[1]. If the RLV generated by a development is lower than the benchmark, clearly a landowner would sell the site for existing use; or delay development until the RLV improves.

[1] This concept is recognised by the RICS Guidance on *Viability in Planning 2012)* at paragraphs 3.4.3 and 3.4.4.

4 Review of Assumptions

In this section, we review the assumptions adopted by the Applicant for the purposes of running their appraisals of the Development.

4.1 Gross Development Value ("GDV")

4.1.1 Private Residential Values

DBC have assumed an average value of £675,000 per unit which equates to an average value of approximately £400 sq ft. In order to support the values the applicant has sought advice from Winkworths who in turn have provided some comparable sales achieved in the local area. The comparables provided are as follows:

- 1 Balmoral Avenue, N11 - £629,999 – March 2015
- 3 Balmoral Avenue, N11 - £645,000 – November 2015
- Leigh Hunt Drive, N14 - £700,000 – July 2015

We have reviewed the evidence provided by DBC and undertaken our own research to assess whether the values assumed by DBC are reasonable. In the main we have had regard to second hand properties within close proximity of the Site due to the lack of new build developments for this particular product on the local area.

The most recent sales of four bedroom houses are detailed below:

- 1 Brookdale, N11 - £742,000 – March 2016
- 26 Hollyfield Avenue, N11 – £699,995 – March 2016
- 15 Balmoral Avenue, N11 - £650,000 – March 2016

We also note the following 4 bedroom houses are currently being marketed in the local area:

- Torrington Gardens, N11 - £1,200,000
- Brownlow Road, N11 - £875,000
- Maidstone Road, N11 – £875,000
- Shrewsbury Road, N11 - £849,995

Having reviewed the evidence available we are of the opinion that the values adopted by DBC are below market expectations. We note that the units located at Balmoral Avenue are significantly smaller than the proposed units and have achieved values over £500 per sq ft. Furthermore, the units currently on the market in the local area are quoting significantly increased values than those for the proposed scheme while some of the units are comparable in size.

We have therefore increased the value of the units to an average of £725,000 per sq ft which equates to approximately £430 per sq ft which is still some way below the current market evidence of £500 per sq ft.

4.2 Development Costs

4.2.1 Construction Costs

We have reviewed the appraisal provided by DBC within their Viability Assessment. We note that the build costs have been provided by the Applicant's Quantity Surveyor S Robertshaw Consulting Ltd. The build cost provided by the Quantity Surveyor equates to a total construction cost of £2,476,856 (£184 per sq ft).

We note the cost plan includes an appropriate contingency and includes for the abnormal cost of removing four buried fuel tanks located along the Cline Road frontage. An allowance of £25,000 has been allowed to cover the cost of removing the fuel tanks. The construction cost without this abnormal cost equates to £2,451,856 (£182.30 per sq ft).

In order to ascertain whether the build costs assumed by the Applicant are reasonable we have considered the most recent and up to date information provided by the RICS Build Cost Information Services ("BCIS"). While we appreciate each individual scheme will differ from one to the next, the BCIS enables us to benchmark the costs assumed against build costs gathered from developments throughout the local borough.

The RICS Build Cost Information Service ("BCIS") for "New Build" "Estate housing semi-detached" of 3 storeys in the London Borough of Haringey equates to £149 per sq ft for the upper quartile benchmark and £136 per sq ft for the mean benchmark. These figures are also inclusive of a 15% allowance for external works that are not accounted for in the BCIS benchmarks.

These figures indicate that the costs adopted by S Robertshaw Consulting Ltd are above an acceptable range of costs when compared to the latest benchmarking information. For further clarification as to whether the costs are appropriate the Council may wish to consider instructing an independent quantity surveyor to assess and review the cost plan provided.

For the purposes of our report we have adopted the upper quartile BCIS benchmark. We have also maintained an allowance of £25,000 for the removal of the fuel tanks on site.

4.2.2 Contingency

As stated in section 4.2.1 of this report, the cost plan accounts for an appropriate contingency.

4.2.3 Professional Fees

DBC have assumed professional fees at 12% of construction costs. We consider this to be at the top end of the range for appropriate professional fees and given the nature of the proposed development are of the opinion that a 10% allowance for fees is appropriate.

4.2.4 Interest

DBC have assumed an interest rate of 7.5% would be applicable.

In the current market we would consider this interest rate to be appropriate and within the range of interest rates that could be expected to be applied within residential led development appraisals.

We have adopted this interest rate within our appraisal.

4.2.5 Developer's Profit

DBC have assumed a Developer's Profit of 20% of the Gross Development Value ("GDV") is required.

When considering the changing economic climate, financial institutions have tightened their requirement for profit returns on schemes. Banks have raised their expectations in terms of risk and required returns that new developments offer.

In the current market we are aware that developers are seeking to achieve profit levels of 17.5% - 20% of the developments Gross Development Value ("GDV").

We have assumed the Developer will seek a return in line with the assumptions adopted by DBC and have therefore maintained this assumption within our appraisal. This estimate is a general view based on the nature of the scheme and also pays regard to the risks associated with the project.

4.2.6 Planning Obligations

DBC have assumed a contribution of £107,000 within their appraisal to account for the Mayoral and Borough CIL required.

We have adopted this assumption within our appraisals; however would welcome confirmation from the Council as to the appropriate contributions that would be required should the proposed scheme secure planning permission.

4.2.7 Marketing and disposal costs

DBC have assumed a disposal fee of 3% for the proposed development:

We have maintained this assumption within our appraisal as we consider the adoption of these assumptions to be reasonable and in line with market expectations.

5 Appraisal outputs

In this section, we consider the outputs of the appraisals and the implications for the provision of affordable housing at the proposed development.

5.1 Viability Benchmark

To establish the viability of the proposed scheme DBC have considered the existing use value ("EUV") of the Site as the appropriate viability benchmark. It is their opinion that the EUV equates to £874,000. This values is derived from assuming each of the 38 garages could be sold once some refurbishment (£2,500 per garage) has been undertaken for a value of £20,000. DBC have then applied a landowner's premium of 20% to this value to arrive at £834,000. DBC also consider it appropriate to include the SDLT and other fees associated with purchasing the land as part of the benchmark land value. We do not consider this to be appropriate as SDLT and other associated costs are not factors that attribute value to the land but are a consequence of the valuation.

We have therefore assessed whether a land value of £834,000 is appropriate as a benchmark land value upon which the viability of the proposed scheme should be assessed.

We are of the opinion that the EUV approach is the most appropriate method when assessing the viability of a scheme however in this instance no evidence has been provided to support the valuation exercise that DBC have undertaken.

We are therefore unable at this time to provide detailed comment to support the value provided by DBC and would request DBC provide evidence and an explanation as to why the assumptions adopted have been considered reasonable.

In the meantime we have maintained an EUV of £834,000 to illustrate the viability of the propose scheme. However, this is on a without prejudice basis and we reserve the right to reconsider the EUV of the scheme once the necessary evidence is provided by the Applicant or DBC.

5.2 Appraisal Results

We have undertaken an appraisal of the proposed Development. Our appraisal produces a Residual Land Value ("RLV") of £1,690,000 (Appendix 2) as opposed to DBC's RLV of £1,013,000.

6 Conclusions

Having assessed the proposed scheme we are of the opinion that the proposed scheme has a much greater value than proposed DBC. Therefore while we have not been able to provide a detailed commentary on the EUV of the Site, even against the EUV proposed by DBC the scheme could support a higher payment in lieu of affordable housing than the £139,000 currently proposed.

Our appraisal of the proposed scheme supports a surplus in excess of total required contribution of £419,439 and therefore it is not unreasonable to assume that the Applicant could provide the full payment and generate a return greater than the required 20%.

As stated in the report we would recommend that the Council seek an independent review of the costs to ensure the costs assumed by the Applicant are reasonable.

Appendix 1 - Development Appraisal (Proposed Scheme)

BNP Paribas Real Estate

Development Appraisal

Cline Road

Report Date: 09 May 2016

Cline Road

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
4 bed houses	4	6,626	437.67	725,000	2,900,000
4 bed houses	4	6,824	424.97	725,000	2,900,000
Totals	**8**	**13,450**			**5,800,000**
NET REALISATION				**5,800,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			1,690,645		
Stamp Duty		4.00%	67,626		
Agent Fee		1.00%	16,906		
Legal Fee		0.80%	13,525		
				1,788,702	
CONSTRUCTION COSTS					
Construction	**ft²**	**Rate ft²**	**Cost**		
4 bed houses	6,626 ft²	150.00 pf²	993,900		
4 bed houses	6,824 ft²	150.00 pf²	1,023,600		
Totals	**13,450 ft²**		**2,017,500**	**2,017,500**	
Contingency		5.00%	100,875		
Mayoral CIL			18,725		
Council CIL			88,275		
				207,875	
Other Construction					
Removal of Fuel Tanks			25,000		
				25,000	
PROFESSIONAL FEES					
Architect		10.00%	204,250		
				204,250	
MARKETING & LETTING					
Marketing and Disposal Fees		3.00%	174,000		
				174,000	
FINANCE					

Cline Road

Debit Rate 7.000% Credit Rate 0.000% (Nominal)			
Land		117,543	
Construction		57,160	
Other		47,970	
Total Finance Cost			222,673
TOTAL COSTS			**4,640,000**
PROFIT			**1,160,000**
Performance Measures			
Profit on Cost%	25.00%		
Profit on GDV%	20.00%		
Profit on NDV%	20.00%		
IRR	37.66%		
Profit Erosion (finance rate 7.000%)	3 yrs 3 mths		