



Review of “Financial Viability Assessment”

Braemar Avenue Baptist Church, London N22 7BY

Prepared for
London Borough of Haringey

March 2023

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1 Introduction

London Borough of Haringey (“the Council”) has commissioned BNP Paribas Real Estate (“BNPPRE”) to advise on a viability assessment of the redevelopment (“the Development”) of Braemar Avenue Baptist Church, London N22 7BY (“the Site”) submitted by Redloft LLP (“RL”) on behalf of Spacelab (“the Applicant”).

This report provides an objective assessment of RL’s Viability Assessment Report 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 in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

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 Nicholas Pell MRICS, RICS Registered Valuer and reviewed by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and registered providers on the provision of affordable housing.

In 2007, we were appointed by the Greater London Authority (“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 and other available appraisal models and submitted our report in February 2012.

Anthony Lee is a member of the RICS ‘*Experts in Planning Service*’ panel, which was established in March 2009 to support the Planning Inspectorate on major casework and local development plan work submitted for independent examination. He was also a member of the working group under the chairmanship of Sir John Harman that produced guidance on ‘Viability Testing Local Plans: Advice for planning practitioners’ (2012). He was also a member of MHCLG’s ‘*Developer Contributions Expert Panel*’ which advised on the viability section of the 2019 Planning Practice Guidance.

In addition, we were retained by Homes England (“HE”) 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 two** provides a brief description of the Development and planning history;
- **Section three** describes the methodology that has been adopted;
- **Section four** reviews the inputs the Applicant has adopted and where we disagree, the inputs we have adopted in our appraisals;
- **Section five** sets out the results of the appraisals;
- Finally, in **Section six**, we draw conclusions from the analysis.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Guidance Note ('GN') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the GN acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the GN and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to London Borough of Haringey only. No liability to any other party is accepted.

2 Background and description of the Development

2.1 Site Background

The Application Site is located within the London Borough of Haringey. The Site is located on Braemar Avenue to the east of Cornwall Avenue and south of Bounds Green Road. Wood Green Station is within 0.4 miles providing access to the Piccadilly Line in addition to onward journeys via the wider London Underground Network. The Site currently accommodates a religious facility within two detached buildings. The surrounding properties are a mix of commercial and residential uses.

According to the planning application, the proposed Development is for:

“The demolition of existing church hall structure and the construction of a residential development (Use Class C3) comprising 15 new homes and 2,217 ft² of church / community floor space, and all associated infrastructure, access, plant, car/cycle parking, and hard and soft landscaping.”

3 Methodology

RL have undertaken their assessment using a bespoke excel model. We have not been provided with a live version of the model; therefore, we are unable to comment upon the accuracy of the formulae.

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 valuation. Further details can be access at www.argussoftware.com.

Argus is essentially a cash-flow model. Such models all work on a similar basis:

- Firstly, the value of the completed development is assessed.
- Secondly, the development costs are calculated, including either the profit margin required or land costs. In our appraisals we include profit as a development cost.

We are of the opinion that Argus provides an accurate reflection of the economics of the Development. Therefore, we have adopted this tool for the purposes of our assessment.

The difference between the total development value and total costs equates to the residual land value (“RLV”). The model is normally set up to run over a development period from the date of the commencement of the project until the project completion, when the development has been constructed and is occupied.

The cash-flow approach allows the finance charges to be accurately calculated over the development period. This approach can accommodate more complex arrangements where a number of different uses are provided or development is phased.

In order to assess whether a development scheme can be regarded as being economically viable it is necessary to compare the RLV that is produced with a benchmark land value. Benchmark land value should be based on EUV plus a site-specific premium or an Alternative Use Value, in line with the requirements of the Planning Practice Guidance. If the Development generates a RLV that is higher than the benchmark it can be regarded as being economically viable and therefore capable of providing additional affordable housing. However, if the Development generates a RLV that is lower than the benchmark it should be deemed economically unviable and the quantum of affordable housing should be reduced until viability is achieved.

4 Review of Assumptions

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

4.1 Gross Development Value (“GDV”)

4.1.1 Private residential sales values

The proposed Development comprises 15 residential units including one, two and three bedroom units. In summary, RL have assumed an average capital value of £687.40 per square foot for the private residential units within a 100% private housing scheme.

Market Commentary

The housing and commercial property markets are inherently cyclical. The downwards adjustment in house prices in 2008/9 was followed by a prolonged period of real house price growth. Between January 2010 and January 2015 the UK national average house price grew 17.50% (Land Registry House Price Index).

The June 2016 referendum on the UK’s membership of the EU resulted in a narrow decision in favour of exit. Initially, the economic impact of the vote, was a fall in the Pound Sterling to a 31-year low and stocks overselling due to the earnings of the FTSE being largely in US Dollars. As the Pound Sterling continued to remain below its pre-June 2016 levels the FTSE recovered and reported all-time highs. Despite this, since June 2016 the UK has been in a period of uncertainty in relation to many factors that impact the property investment and letting markets. However, the UK economy sustained momentum following the result of the UK’s June 2016 referendum, and the performance of the UK housing market surprised many following 2016.

The majority won by the Conservatives in the December 2019 General Election provided more certainty, resulting in the passing of the EU Withdrawal Bill in the House of Commons and subsequent exit from the EU in January 2020. Markets responded positively to increased certainty, with the FTSE 100 closing the year up 12% at 7,542 points. On the ground, agents reported the week of the General Election to be the best week of 2019 for exchanges and 2020 started positively. However, market conditions were still tempered by heightened uncertainty relating to post EU exit trade and related arrangements prior to an agreed deal. A deal was agreed between the UK and EU negotiators on 24 December 2020 and has since been ratified by both sides. The trade agreement eased the uncertainty surrounding the economic and political future relationship between the United Kingdom and the EU. However, the first half of 2021 saw a significant fall in UK exports, largely as a result of an increased administrative burden for exporters and reduced demand from EU countries. Imports from EU countries have not fallen to the same extent, resulting in a worsening of the UK’s balance of trade.

A number of the leading residential property consultancy companies including; BNP Paribas Real Estate (“BNPPRE”), JLL, Knight Frank and Savills agreed that uncertainty regarding the outcome of the UK’s exit from the EU weighed on buyer sentiment through 2019. This was eased somewhat by the result of the 2019 General Election. Knight Frank’s UK Residential Market Forecast 2020-2024 identified that in the short-term, the removal of some of the uncertainty as result of the general election would *“pave the way for the release of some of the pent-up demand that has built in recent years, though the extent to which this translates into transactions will depend on the size of the pricing expectation gap between buyers and sellers”*.

The positive start to 2020 was curtailed by the outbreak of COVID-19, a global pandemic as declared by the World Health Organisation in March 2020. The virus impacted global financial markets, with the outlook continuing to be unclear. The Bank of England (“BoE”) responded to the economic impact of COVID-19 by lowering the base rate to 0.25% and introducing financial arrangements to help the bridge the economic hardship caused by COVID-19.

The UK Government introduced a series of restrictive and economically disruptive measures to slow the spread of COVID-19 and pledged a support package of £350bn to stabilise the economy during the shock caused by COVID-19. On 19 March 2020, the BoE again lowered the base rate to a historic low of 0.1%. Furthermore, the Pound Sterling fell to a 30-year low against the US Dollar at a level of \$1.00 being valued at £1.15. Since the commencement of the UK Government restrictions and financial support in March 2020, a number of packages and policy initiatives were introduced by the Government to both attempt to curb the virus spread and sustain economic activity where possible. The Chancellor's Winter Economy Plan included a six-month Job Support Scheme, as well as other tax cuts and grants / loans to support businesses. As part of the March 2021 budget, the furlough scheme was extended to September 2021. Importantly for the housing market, the Stamp Duty holiday was extended in England until the end of June 2021 tapering until September 2021. The successful vaccine production and subsequent rollout programme allowed for the full easing of restrictions within the U.K, which in turn led to a positive rebound in economic activity. However, the rebound in economic activity has seen inflation increase significantly above the BoE's inflation target of 2%.

The BoE's Monetary Policy Committee's ('MPC') Global Inflationary Summary May 2022 identified that, "Global inflationary pressures have intensified sharply following Russia's invasion of Ukraine. This has led to a material deterioration in the outlook for world and UK growth. These developments have exacerbated greatly the combination of adverse supply shocks that the United Kingdom and other countries continue to face. Concerns about further supply chain disruption have also risen, both due to Russia's invasion of Ukraine and to Covid-19 developments in China". The August 2022 Monetary Policy Report set out that, "Inflationary pressures in the United Kingdom and the rest of Europe have intensified significantly since the May Monetary Policy Report and the MPC's previous meeting. That largely reflects a near doubling in wholesale gas prices since May, owing to Russia's restriction of gas supplies to Europe and the risk of further curbs. As this feeds through to retail energy prices, it will exacerbate the fall in real incomes for UK households and further increase UK CPI inflation in the near term. CPI inflation is expected to rise more than forecast in the May Report".

Over 2021, the economy grew by 7.5%, which was in line with market expectations. The latest HM Treasury forecasts (July 2022) report expected GDP growth of 3.6% over 2022, which is slightly lower than the latest Office for Budgetary Responsibility ('OBR') forecast (March 2022) of 3.8%. The HM Treasury and OBR both forecast lower GDP growth over 2023, (0.6% and 1.8% respectively). The return to slower growth predicted for 2023 has been tied to the *"cost-of-living squeeze, withdrawal of fiscal support, and tighter monetary policy."* The MPC's August report identifies that, the lower level of UK GDP largely reflects *"the adverse impact on UK and world activity of the further sharp increases in wholesale gas prices, and to a much lesser extent, the impact of the higher market paths for interest rates. The measures contained in the Government's May Cost of Living Support package [of £15 billion] partly offset these."* Bank staff estimate that these measures will *"raise the level of GDP by a peak of around 0.5% in 2022 Q4 and 2023 Q1 before fading."*

The MPC's August 2022 Report summary identifies that "GDP growth in the United Kingdom is slowing. The latest rise in gas prices has led to another significant deterioration in the outlook for activity in the United Kingdom and the rest of Europe. The United Kingdom is now projected to enter recession from the fourth quarter of this year. Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative."

The August 2022 MPC Report goes on to state that, "Domestic inflationary pressures are projected to remain strong over the first half of the forecast period. Firms generally report that they expect to increase their selling prices markedly, reflecting the sharp rises in their costs. The labour market has remained tight, with the unemployment rate at 3.8% in the three months to May and vacancies at historically high levels. As a result, and consistent with the latest Agents' survey, underlying nominal wage growth is expected to be higher than in the May Report over the first half of the forecast period". The MPC's August 2022 Report goes on to forecast that, "Inflationary pressures are nevertheless expected to dissipate over time. Global commodity prices are assumed to rise no further, and tradable goods price inflation is expected to fall back, the first signs of which may already be evident. Although the labour market may loosen only slowly in response to falling demand, unemployment is expected to rise from 2023. Domestic inflationary pressures are therefore expected to subside in the second half of the forecast period, as the increasing degree of economic slack and lower headline inflation reduce the pressure on wage growth".

On 15 December 2021 the MPC voted by a majority of 8-1 to increase Bank Base Rate by 0.15 percentage points, to 0.25%. This was the first increase in base rate since August 2018. At this time the MPC concluded that it, *“will review developments, including emerging evidence on the implications for the economy of the Omicron variant, as part of its forthcoming forecast round ahead of the February 2022 Monetary Policy Report”*. Subsequent to this the BoE MPC voted to increase the bank base rate by 0.25% at its meeting in February 2022 and again in March 2022 taking the rate to 0.75%, in line with the pre-Covid base rate in place between August 2018 and February 2020. At its next two meetings on 4 May 2022 and 15 June, the MPC voted by a majority of 6-3 to increase Bank Rate by 0.25%. Those members in the minority preferred to increase Bank Rate by 0.5 percentage points taking the rate to 1.25%. At its meeting on 3 August 2022 however, the MPC voted by a majority of 8-1 to increase Bank Rate by 0.5 percentage points, to 1.75% citing that, *“inflationary pressures in the United Kingdom and the rest of Europe have intensified significantly since the May Monetary Policy Report and the MPC’s previous meeting”*. Only one member preferred to increase Bank Rate by 0.25 percentage points, to 1.5% at this meeting. This is the first time in almost two decades that the bank has increased the rate at six successive meetings. Forecasts expect further rises in rates over the next four or five years, but increases are expected to only be modest and steady and only up to 2% in 2022. Notwithstanding this, the rate remains low by historic standards.

The International Monetary Fund’s (“IMF”) most recent World Economic Outlook was published in July 2022. The key headline in this report was that, *“a tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize (sic). Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine”*.

It projected that global growth would slow from an estimated 6.1% in 2021 to 3.2% in 2022 (0.4% lower than that in the April 2022 World Economic Outlook forecast) and 2.9% in 2023, as *“inflationary monetary policy is expected to bite”*.

The July 2022 IMF World Economic Outlook also reported that the UK economy returned to positive economic growth in 2021 at rate of 7.4% following the UK economy shrinking by 9.3% in 2020. GDP growth for 2022 has however been revised down by 0.5% from the April 2022 reported figures to 3.2% as consumption is projected to be weaker than expected with inflation eroding real disposable income and tighter financial conditions are expected to cool investment. The forecast for 2023 has also been revised down by 0.7% to 0.5%.

Despite the economic headwinds facing the UK, the housing market has outperformed expectations in the last two years. Whilst the house price market has still been growing, as forecast by numerous sources in the Industry, this growth has started to slow in the last couple of months. The Nationwide Chief Economist, Robert Gardiner, reported in the July 2022 Nationwide House Price Index Report that, *“July saw a modest increase in the rate of annual house price growth to 11.0%, from 10.7% in June. Prices rose by 0.1% month-on-month, after taking account of seasonal effects – the twelfth successive monthly increase, which kept annual price growth in double digits for the ninth month in a row.”* The Nationwide report identifies the price of a typical UK home now stands at £271,209, with average prices having increased by over £26,000 in the past year. Interestingly, Russell Galley, the Managing Director of Halifax reports in the Halifax July 2022 House Price Index Report that, *“Following a year of exceptionally strong growth, UK house prices fell last month for the first time since June 2021, albeit marginally (-0.1%). This left the average house price at £293,221, down £365 from the previous month’s record high”* and that currently, *“house prices remain £30,000 higher than this time last year”*. He went on to highlight that, *“While we shouldn’t read too much into any single month, especially as the fall is only fractional, a slowdown in annual house price growth has been expected for some time. Leading indicators of the housing market have recently shown a softening of activity, while rising borrowing costs are adding to the squeeze on household budgets against a backdrop of exceptionally high house price-to-income ratios”*.

Both Nationwide and The Halifax’s July House Price Index reports highlight the buoyancy and momentum of the market. Russell Galley of the Halifax identifies that, *“some of the drivers of the*

buoyant market we've seen over recent years – such as extra funds saved during the pandemic, fundamental changes in how people use their homes, and investment demand, still remain evident. The extremely short supply of homes for sale is also a significant long-term challenge but serves to underpin high property prices". Whilst Robert Gardiner of Nationwide reports that, *"Demand continues to be supported by strong labour market conditions, where the unemployment rate remains near 50-year lows and with the number of job vacancies close to record highs. At the same time, the limited stock of homes on the market has helped keep upward pressure on house prices".* He goes on to set out that, *"while there are tentative signs of a slowdown in activity, with a dip in the number of mortgage approvals for house purchases in June, this has yet to feed through to price growth"* (Nationwide).

Both Halifax and Nationwide agree that, they expect house prices to come under more pressure as *"the market tailwinds fade further and the headwinds of rising interest rates and increased living costs take a firmer hold"* (Halifax). Therefore a slowing of annual house price inflation still seems the most likely scenario".

In the March 2021 budget, the Chancellor announced a three year extension to March 2023 for the Government-backed Help to Buy mortgage scheme, however this introduced some tightening of the previous rules, extending this help to first time buyers only and introducing regional price caps. The scheme seeks to assist first time buyers secure a mortgage with just a 5% deposit to buy a house of between £186,100 to £600,000 (dependant on region with London being the highest at £600,000). The scheme is available from lenders on high streets across the country, with Lloyds, Santander, Barclays, HSBC, NatWest and Virgin Money. This scheme has been further supporting the housing market.

Savills reported within their Winter 2021 Residential Property Forecasts research report that, *"back in March 2020, all of the speculation was about how far house prices and transaction levels would fall as a result of the economic impact of Covid-19. Then, few could have predicted the scale of government intervention to support jobs and the housing market more directly. But still the market contrived to confound most housing experts, selling us the most outrageous dummy. The average UK house price rose by 12.3% over 18 months. And annual transaction levels hit 1.55 million in the year to September 2021, 30% more than the 2017-19 average. That begs the question as to what happens next, especially given the stamp duty holiday is over and many of the factors that encouraged homeowners to reconsider what they wanted from a home are fading".* Savills identified that they "expect price growth next year to be much more muted than we have seen of late, with the prospect of the current burst of inflation persisting into next year and bringing forward the first anticipated interest rate rise [which has now happened]". They identified a number of economic factors that support decelerating price growth as opposed to something more dramatic. These being; low interest rates, low fixed mortgage rates insulating the vast majority of mortgage homeowners and unemployment appearing to have been contained, limiting the risk of forced sales. Savills went on to identify that despite a softening to demand, their anticipated moderation is further supported by a constrained housing supply, which means that undersupply will continue to characterise the market going into 2022.

As of mid-2022 the strong demand balanced against a shortage of stock has driven the continuation of the robust price growth seen in 2020 and 2021. However the pressures of rising interest rates and high inflation are being seen to add pressure to affordability and growth has been seen to slow in the last few months. It is anticipated that this pressure will continue to moderate price growth over the remainder of 2022, as buyers become more budget-conscious and demand progressively eases.

Forecasts for house price growth identify that values are expected to increase over the next five years, however this price growth is identified as being more moderate than over the past 20 years. As forecast, the stronger sales value growth has continued into the start of 2022 but is starting to unwind, which has so far been born out in the data reported for early 2022. As previously identified, this growth is due to the continued imbalance between demand and supply. However, the strong house price growth experienced over the last two years and rising interest rates coupled with high inflation driving a marked cost of living squeeze will continue to impact on mortgage affordability, which will leave less capacity for further price growth. As a result, the market consensus is a fall in house prices in 2023/2024 before picking up again in subsequent years.

Residential market forecasts issued by the main real estate consultancies indicate that there will be growth in sales values in the UK over a 5-year term; however, a fall in house prices in 2023/2024.

Comparable evidence

The proposed Development includes 15 private residential units comprising one, two and three bedroom apartments. RL have provided a breakdown of their comparable evidence within Appendix 3 of their wider report within a 'Residential Pricing Report'. We have reviewed the evidence provided by RL in addition to undertaking further research into the local market through discussions with active local agents as well as using online research facilities.

RL have referred to three schemes within the area surrounding the Application Site, namely Clarendon; The Icon; and The Lane. We have provided a summary of the reviewed schemes below:

- **Clarendon:** The St William scheme is located circa 0.6 miles from the Application Site. The large scale regeneration scheme comprises circa 1,700 units and includes amenities such as a residents' concierge; gym with swimming pool and saunas; spa facilities; landscaped courtyards; playground; residents' only courtyards; bike storage and underground parking (available at an additional cost).

The residential units are considered to be of good specification, albeit not significantly different from the proposed Development. We consider the scheme to be a good comparable for the proposed Development; however, professional judgement should be applied when taking into account the value impact of the availability of scheme amenities to residents.

Phase 1 of the Clarendon scheme completed in January 2021, having been launched to the market in September 2018. As reported by RL, the average achieved values for Phase 1 equate to £769 per square foot; £747 per square foot; and £643 per square foot for one, two and three bedroom apartments respectively. We note that Phase 3A has average asking prices equating to £887 per square foot.

- **The Icon:** The Dominus New Homes scheme is located circa 0.9 miles from the Application Site comprising 99 private tenure units. The units are of good specification; however, we do not consider them to be significantly above the specification targeted at the proposed Development. We consider the Application Scheme to be able to achieve values, at least, in line with the values achieved at The Icon. The average asking price currently equates to £800 per square foot.
- **The Lane:** The Fairview scheme is located circa 1.3 miles from the Application Site. In the first instance, we consider the proposed Development to be of higher specification than the units at The Lane. In addition, we consider the Application Scheme to be in a superior location. We also note that the Fairview scheme sold out in Q4, 2021 having been launched to the market in November 2019. Therefore, due consideration should be given to the fact that the scheme was available to the market circa 3.5 years ago. The average values achieved at the scheme equate to £581 per square foot; £551 per square foot; and £543 per square foot for one, two and three bedroom apartments respectively. We consider the proposed Development to be able to achieve values significantly in excess of the Fairview scheme.

In our assessment of value, we have taken into account the location of the scheme in comparison to the schemes referred to above, particularly 'Clarendon' and 'The Icon'. In addition, we have had regard to the level of amenities that are available to residents at each of the schemes. The amenities available at Clarendon are far superior to the amenities available at either The Icon or the Application Scheme. After due consideration, we have assumed an average value of £715 per square foot in our appraisal reflecting what is achievable in the current market. The blended average value is based on a unit-by-unit pricing schedule.

4.1.2 Ground rents

RL have not included ground rents within their appraisal.

The Leasehold Reform (Ground Rent) Act 2022 received Royal Assent on 8 February 2022 and came into effect on 30 June 2022. From that date, freeholders were no longer permitted to charge ground rents that exceed "permitted rent" which is usually a peppercorn. We have therefore not included ground rents within our appraisal.

4.1.3 Affordable housing revenue

RL have not undertaken an assessment of the proposed Development including the provision of affordable housing. Therefore, we are unable to comment upon their assumed affordable housing values.

To value the affordable housing units, we have used a bespoke model specifically created for this purpose. This model takes into account factors such as standard levels for individual RPs management and maintenance costs; finance rates currently obtainable in the sector, and a view on the amount of grant that may be obtainable.

The *'Affordable Homes Programme 2021-2026 – Prospectus'* document provides a clear indication that Section 106 schemes are unlikely to be allocated Grant funding, except in exceptional circumstances. It is therefore considered imprudent to assume that Grant will be secured. Therefore, our assessment relies upon the assumption that none is provided.

For rented tenures the model operates a 35 year discounted cashflow in order to arrive at a net present value of the units today. For the shared ownership tenure, the model values a percentage of the Initial Tranche sold to the purchaser and capitalises the net rent on the unsold equity. The rent on the retained equity is set at a level at which total housing costs (ie. the rent plus mortgage on the initial tranche) do not exceed 40% of net household incomes.

4.2 Development costs

4.2.1 Construction costs

To establish construction costs for the proposed Development, RL have relied upon a cost plan prepared by Red Shell Consulting ("RSC"). RSC have concluded that the total cost equates to £3,628,503 (inclusive of contingency). A copy of the RSC cost plan can be found in Appendix 4 of the wider RL report.

The Council have instructed CDM Project Services ("CDM") to undertake a review of the RSC cost plan. CDM have concluded that the construction costs are above what is reasonable in the current market. CDM report that the total construction cost should be £3,570,044 (inclusive of contingency). We have therefore adopted the total construction cost of £3,570,044 within our assessment in line with advice received from CDM.

RL have also included costs associated with the Church Community space and refurbishment works to the existing church equating to £790,331 and £206,325 respectively. CDM have concluded that these costs should equate to £777,598 and £206,325 respectively. For the avoidance of doubt, the inclusion of these costs has been undertaken on a strictly 'subject to confirmation' basis pending discussions with the Council in line with our comments in Section 5.1 of our report.

A copy of the CDM cost review can be found in Appendix 2.

4.2.2 Contingency

RL have included a contingency allowance of 5% within their appraisal. We do not consider this assumption to be above what is reasonable and have therefore adopted the RL position within our assessment.

It should be noted that the contingency allowance is included within the total construction cost; therefore it is not included separately within the appraisal.

4.2.3 Professional fees

RL have assumed a professional fees allowance of 12% of construction costs within their appraisal.

We have taken factors into account such as site constraints and scheme complexity and do not consider an overall allowance of 12% of construction costs to be required for this scheme. We have

also taken into account the monetary value of the percentage included within the appraisal. We have therefore assumed an allowance of 10% of construction costs within our assessment.

4.2.4 Planning obligations

RL have included the following planning obligations within their appraisal for a 100% private housing scheme:

- Borough CIL: £261,697; and
- Mayoral CIL: £68,466.

We note that RL have not included any Section 106 or Carbon Offset payments within their appraisal. We have adopted the above payments on a 'subject to confirmation' and 'without prejudice' basis pending discussions with the Council.

4.2.5 Interest

RL have assumed an all-inclusive finance rate of 7% within their appraisal. We do not consider this assumption to be above what is reasonable in the current market and have adopted an all-inclusive rate of 7% within our appraisal.

Although a bank would not provide 100% of the funding required for the proposed Development, it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual costs) of committing equity to the project.

4.2.6 Disposal costs

RL have assumed the following disposal costs within their assessment:

- Residential marketing allowance: 1.5% of GDV;
- Residential sales agency fee: 1.5% of GDV; and
- Residential sales legal fee: 0.35% of GDV.

Whilst we consider the marketing and sales agency fees to be reasonable, we have reduced the sales legal fee. The 0.35% of GDV allowance proposed by RL equates to £1,586 per unit when assuming the RL private residential values. We consider this to be above what is achievable in the current market and have adopted a reduced allowance of £800 per unit.

4.2.7 Developer's profit

RL have assumed a profit level of 20% of GDV for the private residential units within their appraisal. RL have sought to justify this level of profit through reference to cost inflation. For the avoidance of doubt, the developer profit is to reflect the risk of sale rather than the risk of cost inflation. The contingency allowance already included within the assessment is to assist in mitigation against cost increases.

We have taken into account the uncertainty that is now apparent after the United Kingdom's departure from the European Union and the potential risks associated with our future trading relationships with other countries now that the transition period has expired, in addition to the risks associated with this specific development.

We have also taken into account the outbreak of the Novel Coronavirus (Covid-19) declared by the World Health Organisation as a "*Global Pandemic*" on 1 March 2020 and the subsequent supply chain and cost inflation issues that have emerged. We have taken into account the development timetable for the Application Scheme in addition to the comments included above.

Our assessment of profit is based upon the perceived risks associated with the proposed Development. In reaching a conclusion on the profit level, we have taken into account the price point of the units included in the scheme. We consider that there will be sufficient demand for the units at

the value assumed. We consider a profit level of 17.5% of GDV to be reasonable in the current market for the private residential units.

Where applicable, we have assumed a profit of 6% of revenue for the affordable housing element of the scheme. The reduced profit on affordable housing reflects the risk of delivery. The developer will contract with an RP prior to commencement of construction and they are – in effect – acting as a contractor, with their risk limited to cost only. After contracting with the RP, there is no sales risk. In contrast, the private housing construction will typically commence before any units are sold and sales risk is present well into the development period.

4.3 Project timetable

RL have assumed the following programme timetable in their appraisal of the proposed Development (100% private housing):

- Pre-construction period: not stated;
- Construction period: 22 months; and
- Sales period: 5 months with 40% off plan sales and a sales rate of 2 units per month thereafter.

Whilst we consider the sales period to be reasonable, we have concerns regarding the construction period. We have reduced the construction period from 22 months to 15 months within our assessment in line with the BCIS Duration Calculator. We have assumed a pre-construction period of 6 months within our appraisal.

5 Appraisal Results

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

RL have stated within their report that whilst they “recognise that there is a value associated with the existing church and facilities.....for the purpose of this assessment [they] did not include a value for the acquisition of the site. This reflects the terms agreed between Spacelab, the Applicant, and Braemar Avenue Baptist Church, the landowner.”

We acknowledge that the Site is being released by the landowner to facilitate refurbishment and reprovision works in relation to the Church facilities. However, we would welcome confirmation from the Council as to whether this approach is considered to be reasonable. This is not strictly an ‘enabling development’ assessment as redevelopment of the Site is not prohibited; therefore, an alternative approach would be to undertake an assessment of the proposed Development with a policy compliant provision of affordable housing. The residual profit (after the deduction of the expected developer profit) would then be used to undertake the refurbishment / reprovision works. There are no provisions in the PPG nor in the Local Plan that requires the Council to set aside the normal approach to viability in order to fund the works to a third party’s assets. This approach can clearly be applied at the Council’s discretion, but is not mandatory. This issue has been tested at appeal¹ and the Inspector concluded that a standard approach to testing viability should be adopted.

As stated above, we have adopted the ‘nil’ benchmark and subsequent approach proposed by RL on a ‘without prejudice’ and ‘subject to confirmation’ basis pending discussions with the Council.

5.2 Appraisal results

RL have concluded that the proposed Development including 100% private housing generates a deficit of -£686,040 against the viability benchmark. Given that the purpose of the Development is to fund reprovision of the church facilities, the outcome of the RL FVA indicates that this reprovision will not be possible, as there is unlikely to be any land payment.

In our review of RL’s appraisal assumptions, we have recommended the following amendments:

- Increase private residential values to reflect what is achievable in the current market;
- Reduce construction costs in line with advice received from CDM;
- Reduce professional fees allowance to reflect what is achievable in the current market;
- Adjust disposal costs to reflect current market expectations;
- Reduce the profit level to reflect the risk profile of the scheme; and
- Adjust the programme timetable to reflect what is achievable in the current market.

We have undertaken an appraisal of the proposed Development assuming 100% private housing in line with the Applicant’s proposals, taking into account the recommended amendments. We have summarised the appraisal results in Table 5.2.1.

Table 5.2.1: Appraisal results

Scenario	RLV (£)	Viability benchmark (£)	Surplus / deficit (£)
Proposed Development including 100% private housing	£33,196	£0.00	£33,196

¹ Sandown Racecourse – decision reference APP/K3605/W/20/3249790

The proposed Development with 100% private housing generates a RLV of £33,196 providing a marginal surplus of £33,196 against the viability benchmark. This is in contrast to the deficit of -£686,040 concluded by RL in their assessment.

The surplus identified is not considered to be sufficient to provide an on-site affordable housing unit.

5.3 Sensitivity analysis – value growth and cost inflation

To provide a more comprehensive understanding of the financial performance of the project, we have undertaken a series of sensitivity analyses of the proposed Development. For the avoidance of doubt, value growth has been applied to private residential values only. In all cases, the appraisals incorporate 100% private housing. We have summarised the results in Table 5.3.1.

Table 5.3.1: Sensitivity analysis growth / inflation (100% private housing)

Change in values	Change in costs	RLV (£)	Viability benchmark (£)	Surplus / deficit (£)
0%	+5%	-£193,190	£0.00	-£193,190
0%	+10%	-£423,684	£0.00	-£423,684
+5%	0%	£266,916	£0.00	£266,916
+10%	+5%	£292,778	£0.00	£292,778

5.4 Review mechanism

For the avoidance of doubt, we recommend the Council include both early and late stage review mechanisms within the Section 106 Agreement. We note on page 4 of the CDM report, as follows:

“It should be noted that there is potential for variance due to the early information the cost estimate is based compared to the cost when the works are undertaken.

It should be understood that the developer may choose to undertake value engineering exercises after the gaining of planning permission in order to reduce their costs.

The developer may also use different construction methodologies to reduce programme and therefore costs.”

In addition, there is potential for ‘real growth’ in values achieved at the proposed Development providing sufficient justification for a review mechanism to be included within the Section 106 Agreement.

6 Conclusion

RL have concluded that the proposed Development with 100% private housing generates a deficit of - £686,040 against the viability benchmark.

We have undertaken an assessment of the proposed Development with 100% private housing. Taking into account the recommended amendments outlined in paragraph 5 of this report, we have concluded that the proposed Development with 100% private housing generates a marginal surplus of £33,196 against the viability benchmark. This surplus could be used as a commuted sum payment, or further Section 106 payments (should this be justifiable in planning terms).

As stated in Section 5.1 of our report, we acknowledge that the Site is being released by the landowner to facilitate refurbishment and reprovision works in relation to the Church facilities. We would welcome confirmation from the Council as to whether this approach is considered to be reasonable in planning terms.

For the reasons outlined in Section 5.5, we recommend the Council include both early and late stage review mechanisms within the Section 106 Agreement.

Appendix 1 - Argus Appraisal proposed Development 100% private housing

APPRAISAL SUMMARY**LICENSED COPY**

Braemar Avenue
Proposed Development - 100% private housing

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
Private residential units	15	9,888	714.89	471,259	7,068,880

NET REALISATION**7,068,880****OUTLAY****ACQUISITION COSTS**

Residualised Price			33,196	
Stamp Duty		5.00%	1,660	
Agent Fee		1.00%	332	
Legal Fee		0.50%	166	
				35,354

CONSTRUCTION COSTS

Construction	ft²	Rate ft²	Cost	
Residential construction costs	12,292 ft²	290.44 pf²	3,570,044	
Church community space	<u>2,271 ft²</u>	342.40 pf²	<u>777,598</u>	
Totals	24,451 ft²		4,347,642	4,347,642

Haringey CIL			261,697	
Mayoral CIL			68,466	
				330,163

PROFESSIONAL FEES

Professional fees		10.00%	434,764	
				434,764

MARKETING & LETTING

Marketing		1.50%	106,033	
				106,033

APPRAISAL SUMMARY**LICENSED COPY****Braemar Avenue****Proposed Development - 100% private housing****DISPOSAL FEES**

Sales Agent Fee		1.50%	106,033	
Sales Legal Fee	15 un	800.00 /un	12,000	
				118,033

Additional Costs

Profit on private		17.50%	1,237,054	
Works to Church			206,325	
				1,443,379

FINANCE

Debit Rate 7.000% Credit Rate 0.000% (Nominal)				
Land			4,336	
Construction			218,303	
Other			30,873	
Total Finance Cost				253,512

TOTAL COSTS**7,068,880****PROFIT****0****Performance Measures**

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%

IRR	6.37%
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Profit Erosion (finance rate 7.000%)	N/A
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Appendix 2 - CDM Cost Plan Review



Development

**Braemar Avenue Baptist Church,
Braemar Avenue,
Wood Green,
London N22 7BY.**

Draft

Report on Feasibility Cost Plan

March 2023

1.0 INTRODUCTION, METHODOLOGY AND COMMENTS ON ESTIMATE AND CONCLUSION

Introduction and methodology

CDM Project Services was formed 25 years ago and carries out cost management, project management and other related services both in the UK and overseas. The principal Stephen Brown is a Chartered Quantity Surveyor (M.R.I.C.S.) and a member of the Association of Project Managers (M.A.P.M.) with over 40 years' experience, a majority as a Director and Partner of cost consultancy practices and for the previous 12 years has been a Director of WT Partnership and for the last 2/3 years Stephen has acted as a Non – Executive Director of Savile Brown Associates. Stephen has carried out projects and has carried a large number cost estimate reviews including reviewing actual costs within the Greater London Area including in Haringey

We have been requested to carry out an independent review of the Outline Feasibility Cost Plan Rev A dated September 2022 prepared by Redshell Consulting in the sum of £4,625,159

The cost is split into three residential New Build £3,628,503, Church New Build £790,331 and Existing Church Building £206,325

The development comprises demolition of existing Church Hall and 1950's brick addition to rear of main Church building and redevelopment of site to provide new part 1, part 4 storey building (plus basement), comprising a new church hall and associated facilities at ground and basement level and self-contained residential units at ground to fourth floor level with associated refuse and recycling storage and cycle parking facilities. The proposal also includes landscaping improvements

There is an introduction

There is a list of information used

There is a notes and exclusions section

Professional fees are excluded

The costs are based on 4th Quarter 2022

There is no note on the procurement basis and we have assumed a competitive tendered design and build form of procurement

The cost includes 5% contingency for the new build element and no further contingency is added within the appraisal

We have carried out a review of the cost estimate prepared based on benchmarking against known costs on similar projects. When bench marking the cost against other projects etc. we have taken care to ensure that any rates used are adjusted to take into account the base date of estimate, location, and this particular development.

We are also obligated to review the cost estimate using BCIS as it is referenced in the planning guide lines. For a residential new building of 3-5 storey the average cost in this location is circa £2,155 /m2 GIA and for a Church £3,998/m2, to this needs to be added demolitions, external works and site abnormal items.

Cost Plan

Preliminaries are included at 15%. And from our benchmarks this appears reasonable

Overheads and profit is included at 15%. Our benchmarks are 4-6% for larger schemes and up to 10% for small schemes and high end private residential and for a project of this size and nature we would expect a rate closer to 8% but have adjusted to 10% being a difference of 5% but would expect this to be on the net cost plus preliminaries so a cost of £376,419 being a difference of £114,563

Contingency- see previous comments but should be applied to the whole cost including preliminaries and overheads and profit

Demolitions- what is basis of the asbestos allowance of £10,000, this needs to be clarified

Groundworks and basement costs in our opinion appear reasonable

Frame, upper floors, external walls, windows costs in our opinion appear reasonable

Steelwork allowance of £20,000, what is the basis of this cost as frame allowed separately

Roof, stairs, partitions, joinery, finishes, kitchen etc – in our opinion appear reasonable

Services and lifts– in our opinion appear reasonable

External works items – in our opinion appear reasonable

Church refurbishment costs in our opinion appear reasonable

Overall

In our opinion the construction costs for use in the appraisal should be £4,553,967 being a difference of £71,192 with the amount in the appraisal.

Conclusion

In our opinion the construction costs for use in the appraisal should be £4,553,967 being a difference of £71,192 with the amount in the appraisal

This is split

New Build Residential £3,570,044

New Build Church £777,598

Church Refurbishment £206,325

The above cost includes a 5% contingency on the new build element

The above costs excludes professional fees

The difference is on overheads and profit and the application of percentages

Our assessment is subject to clarification, substantiation and further information on the asbestos and steelwork allowances

General

It should be noted that there is potential for variance due to the early information the cost estimate is based compared to the cost when the works are undertaken.

It should be understood that the developer may choose to undertake value engineering exercises after the gaining of planning permission in order to reduce their cost.

The developer may also use different construction methodologies to reduce programme and therefore costs.

The information contained in this report is confidential to the parties involved in the application and may not be relied upon by any third party or used for any other purpose than to assess the quantum of affordable housing or other payments due to the Local Authority for this development

RICS Required Statements

We confirm we have acted with objectivity, impartially, without interference and believe we have sourced appropriate available information

**Braemar Avenue
Report**

Cost

We have acted in accordance with our instruction from BNP Paribas and that no performance or contingent fees have been agreed

We confirm we have no conflict or that risk of conflict exists

**Steve Brown
CDM Project Services
March 2023**