

Committee:	Dated:
Planning and Transportation	11 th January 2022
Subject: 15 and 16 Minories and land fronting Aldgate High Street, 62 Aldgate High Street: Deed of Variation in respect of Affordable Housing matters; planning permission 15/01067/FULL	Public
Ward: Tower and Portsoken	For Decision
Conservation Area: No	Listed Building: No

Summary

Planning permission was granted in June 2014 for a mixed use development at 15-16 Minories and 62 Aldgate High Street, comprising a new hotel, office and residential development (reference 13/01055/FULMAJ). A subsequent amendment to the layout and design of the residential block was permitted in August 2016 (reference 15/01067/FULL).

The residential element of the scheme comprised 87 units, of which 27 were to be on-site affordable housing (31% of the total) and would occupy the first 3 floors of the building. Construction of the housing element of the scheme commenced alongside the hotel development. The substructure and concrete frame of the residential block have been completed, but the developer has not progressed to full completion.

In December 2018, the applicant submitted a viability assessment and marketing report to support a proposal for a Deed of Variation to the agreed s106 planning obligation, to allow the affordable housing requirement to be discharged by means of an off-site commuted sum payment. The marketing report detailed a soft marketing exercise with housing associations and the City Corporation but indicated no interest in purchasing and managing the units for affordable housing. An off-site commuted sum would also support delivery of new affordable housing by the City Corporation on other sites.

Two further iterations of the viability assessment were submitted in 2019 and 2020, suggesting a financial contribution significantly below a Local Plan policy-compliant commuted sum figure. The City Corporation appointed an independent consultant to review the applicant's viability assessment. The City's consultant reported at the end of 2020, indicating that the maximum viable off-site contribution would be £7,485,000, above the figure of £6,207,120 offered by the applicant, but below the Local Plan policy compliant figure of £9,483,635.

Since the completion of the viability assessment process, in 2021 the applicant has provided evidence of the lack of demand from housing associations and the City Corporation to purchase and manage on-site affordable housing but has increased the offered commuted sum to provide a Local Plan policy compliant off-site commuted sum payment of £9,483,635, subject to it being paid in instalments.

Recommendation

That a Deed of Variation be approved to the s106 planning obligation under application number 15/01067/FULL, allowing the meeting of the required affordable housing contribution via a commuted sum payment of £9,483,635, to be paid in 3 instalments as set out in paragraph 3 of this report.

Main report

Site

1. Planning application 13/01055/FULMAJ was approved in June 2014, and permits the construction of a hotel, office and residential development on a site at 15 and 16 Minories and 62 Aldgate High Street. The residential element of this scheme comprises 87 apartments, 27 of which are to be on-site affordable housing, occupying the first 3 floors of the building. A s106 planning obligations agreement requires 60% of the affordable housing to be provided for social rent and 40% to be provided for intermediate rent (at up to 80% of the market rate). This represents a 2015 Local Plan policy compliant figure of 31% affordable housing. A subsequent s73 permission in August 2016, under application 15/01067/FULL, made changes to the design and layout of the residential block but did not result in any changes to the number of apartments or the requirements for affordable housing.

Proposals

2. Construction of the residential commenced alongside construction of the hotel and shared basement box. The substructure and concrete frame of the residential block have been completed but the applicant has not progressed to full completion.
3. The applicant is now seeking a Deed of Variation to the s106 planning obligation agreement for this development, to replace the provision of on-site affordable housing, with an off-site commuted sum payment of £9,483,635. Payment of this sum would be phased as follows:
 - 30% on implementation
 - 35% on 50% sales
 - 35% on 75% sales

Policy Context

4. At the time of the grant of planning permission under application number 15/01067/FULL and the submission of the viability information in support of the Deed of Variation, the relevant planning policy context was provided by the City of London Local Plan 2015 and the Planning Obligations Supplementary Planning Document 2014.
5. Local Plan Core Strategic Policy CS21: Housing requires the provision of 30% affordable housing on site or, exceptionally, the equivalent of 60% off-site as a financial contribution if a viability study demonstrates to the City Corporation's satisfaction that on-site provision is not viable. The Planning Obligations SPD sets out that a financial contribution should be made at a figure of £165,000 for each off-site unit, subject to indexation. Applying this calculation to the application site would require a commuted sum payment of £9,483,635.

Considerations

6. The principal issues in considering this proposal are:
 - The extent to which it would be feasible and viable to provide on-site affordable housing.
 - If an off-site contribution is agreed in principle, whether the level of commuted sum offered meets or exceeds the Local Plan policy requirement.

Whether on-site provision would be feasible or viable

7. Soft marketing of the affordable housing apartments began in the autumn of 2018 to a number of housing associations known to be active in the City or in nearby areas. This included the owners of the adjacent Mansell Street Estate. A total of 6 housing associations were approached, only 2 of whom expressed initial interest. Key concerns expressed by the housing associations were the high level of the service charge, the shared core access with the market housing and that the number of affordable units being offered did not meet associations' development requirements. The applicant subsequently reduced the proposed service charge by 38% to a figure of approximately £5,50 per square foot, but this was still regarded by the 2 associations who had previously expressed an interest as being too high, and neither proceeded to a sale. The applicant also approached the City Corporation at this time, but the Department of Community and Children's Services indicated that it was not interested in taking on the affordable units and that a commuted sum would offer better value and a better fit with other strategic estate regeneration plans.
8. In early 2021, the applicant entered into a development partnership agreement with an established London-based residential developer. A further marketing exercise was undertaken in 2021 by this development partner and considered the potential to provide the affordable units as on-site shared ownership housing in place of social rented and intermediate rented units. Again, 6 housing associations were approached and invited to bid. None of the associations expressed any interest, with reasons quoted being the size of the development, i.e. too few a number of units to be economically viable for the associations, and the projected price point of the shared ownership units which was considered to be too high for the projected market. At the request of the City Corporation, further discussions were held with the Mansell Street Estate owner and with the Community and Children's Services Department, but there was no interest in taking the proposed units.
9. The Department for Community and Children's Services has commented as follows:

"DCCS Housing currently has five 'live' housing projects that will deliver 272 new homes by 2024 at a nett cost of £87million.

The costs for these projects have risen for several reasons, most notably, as a result of the Covid 19 pandemic. The commuted sum from the Minories will therefore ensure that all of these projects proceed and

the City takes advantage of the available GLA grant funding and host authority contributions for these projects, which combined, currently stands at over £26million.

The provision of new housing that the commuted sum will help fund has several advantages over an on-site provision by another Registered Social Landlord including the following:

- the 272 new homes we are building, are for social rent and, will go some way to addressing the needs of residents on our housing waiting list which, currently stands at over 800 households who have registered for accommodation.
- the new homes will be managed as part of our existing estate management service.
- the rental income stream received from these new homes is vital to the Corporation's Housing Revenue Account (HRA) going forward, in helping ensure that we can continue to meet our repairs and maintenance obligations, as well as, carrying out essential fire safety improvements to our existing housing stock.

If the on-site provision was to be managed by an RSL, the HRA would not receive the rental income. The Corporation may receive nomination rights for some of the units however, these may not be at a rent that is affordable to our housing applicants and, as such, our housing need provisions would not be addressed."

10. In conclusion, it is accepted that the applicant has taken reasonable steps to secure the sale of the affordable housing units to accord with the s106 planning obligation requirement for on-site affordable housing. This has considered both the demand for affordable rented units and shared ownership units. It has been demonstrated that on-site provision is both not feasible or viable due to the design of the scheme, the high level of the proposed service charge, the number of units on offer and the proposed price point for shared ownership. An off-site commuted sum payment would also better meet the housing requirements of the Department for Community and Children's Services, supporting other City Corporation planned housing delivery. The need to consider an off-site solution in line with Local Plan Policy CS21 has therefore been demonstrated.

Whether the Off-site commuted sum payment is policy compliant

11. In December 2018, the applicant submitted a financial viability analysis in support of an off-site commuted sum payment. This assessment considered that the maximum viable financial contribution that could be made was £3,360,768. This figure represents 35% of the 2015 Local Plan policy compliant financial contribution set out in paragraph 5 above.
12. In 2019, the City Corporation requested an updated viability analysis from the applicant to ensure that it reflected the most recent construction costs and residential sales values. This updated viability assessment was received in October 2019 and concluded that the maximum off-site contribution that could be made had reduced significantly to £1,700,000, approximately 18% of the 2015 Local Plan policy compliant financial contribution.
13. Officers indicated to the applicant that the August 2019 financial offer would not be acceptable and that a policy compliant contribution should be provided. The applicant subsequently submitted a 3rd iteration of the viability analysis in March 2020, with an increased commuted sum offer of £2,606,000, representing 27% of the 2015 Local Plan policy compliant financial contribution.
14. The City Corporation appointed an independent consultant to review the applicant's financial viability analysis and to provide advice on the maximum viable contribution that could be expected from this development. Through the review process, the applicant's viability consultant accepted that an increased level of off-site contribution could be made, but this remained below the policy compliant figure. The City Corporation's independent consultant report was received in December 2020 and indicated that the maximum viable off-site commuted sum that could be delivered by this scheme would be £7,485,000. This would be below the 2015 Local Plan policy compliant requirement but was in excess of the increased offer from the applicant of £6,700,000.
15. The viability assessments assumed that the applicant would construct and deliver the residential block. In 2021, the applicant entered into a joint venture with an established London-based residential developer and subsequently agreed to meet in full the City Corporation's 2015 Local Plan policy compliant commuted sum figure of £9,483,635. The Deed of Variation that is sought aligns with the policy compliant figure.
16. The commuted sum offer complies with the policy requirements in the 2015 Local Plan policy CS21 and the 2014 Planning Obligations SPD. These policy documents were the relevant policy requirements applicable to the 2016 planning permission for residential development under 15/01067/FULL. The 2015 Local Plan and 2014 SPD were also the relevant policy documents during consideration of the feasibility of delivering on-site affordable housing and assessing the viability of an off-site commuted sum between 2018 and 2020. There has been a delay in bringing the proposed Deed of Variation to this Committee as

officers were seeking further clarification of the lack of interest in delivering on-site affordable housing from housing associations and also to allow the applicant time to consider the potential for delivering on-site affordable housing as shared ownership accommodation rather than as rented accommodation. These additional clarifications and options were considered by officers to be essential to confirm that on-site provision in line with the planning permission could not be achieved.

17. It is also relevant to consider that the off-site commuted sum currently being offered is above the level that the City's independent viability expert recommended as being the maximum viable contribution.

Conclusions

18. Planning permission for the construction of 87 apartments at 15-16 Minories was granted in 2014 (13/01055/FULMAJ) and amended in 2015 (15/01067/FULL). This permission required the on-site delivery of 27 units of affordable housing, representing a Local Plan policy compliant figure of 31% of total housing provision on this site. Marketing of the affordable units to housing associations and the City Corporation has demonstrated that the need for shared access, the level of the service charge and the number of units is not attractive to the affordable sector, that it would not be feasible or viable to deliver the affordable units on-site and that a commuted sum payment would enable the delivery of much needed homes by the City Corporation on other sites.
19. The applicant has requested a Deed of Variation to the agreed s106 planning obligations legal agreement which would enable the affordable housing requirement to be discharged by means of a commuted sum payment of £9,483,635, a figure which meets in full the policy requirement set out in the 2015 Local Plan and 2014 Planning Obligations SPD. It is recommended that this Deed of Variation be agreed.

Background Papers

Report to Planning & Transportation Committee, 10 June 2014: 5 - 16 Minories & 62 Aldgate High Street London EC3N 1AX. Demolition of 15 Minories and 62 Aldgate High Street and redevelopment to provide a Class B1 office building with Class A1 retail (18,537sq.m). Extension and recladding of 16 Minories and change of use from offices (Class B1) to a hotel (Class C1), Class A3 restaurant and Class D1 (health)/ Class D2 (community) use (17,367sq.m.). Erection of new residential building (Class C3) providing 87 units (7829sq.m.). Relandscaping of open space and public realm improvements.

Delegated decision, 19 August 2016: 5 - 16 Minories & 62 Aldgate High Street London EC3N 1AX. Application under S73 of the Town and Country Planning Act 1990 to vary Condition 70 of planning permission dated 30.06.2014 (13/01055/FULMAJ) to incorporate minor material amendments to the layout and design of the building to be used for residential

Appendix A

15 Minories & 62 Aldgate Street, London, EC3N 1AX: Independent Viability Review. BPS for City of London Corporation 28 August 2020

15 Minories & 62 Aldgate Street, London, EC3N 1AX: Addendum Viability Review. BPS for City of London Corporation 23 December 2020

**15 Minories & 62 Aldgate Street,
London, EC3N 1AX**

Independent Viability Review

Prepared on behalf of the City of London

28th August 2020

Planning reference: 13/01055/FULMAJ



215a High Street, Dorking, RH4 1RU
www.bps-surveyors.co.uk
Tel: 01483 565 433

Contents

1.0	INTRODUCTION	3
	Coronavirus - Material uncertainty.....	4
2.0	CONCLUSIONS AND RECOMMENDATIONS.....	6
3.0	PRINCIPLES OF VIABILITY ASSESSMENT	13
4.0	PRIVATE RESIDENTIAL VALUES	14
	Savills approach.....	14
	BPS Approach.....	23
	Sales Rates.....	24
	Ground Rents	25
	Parking	25
5.0	AFFORDABLE HOUSING VALUES.....	26
6.0	DEVELOPMENT COSTS	29
7.0	BENCHMARK LAND VALUE	31
	AUV office appraisal.....	33
	Validity of the AUV approach	35
	Market Value (Residential Land Sales).....	39
	EUV	40
	Conclusion	40
8.0	QUALITY STANDARDS CONTROL	41
9.0	LIMITATION OF LIABILITY/ PUBLICATION.....	41

Appendix One - Build Cost Report

Appendix Two - AUV Appraisal

Appendix Three - 100% Private Appraisal

Appendix Four - Consented Scheme Appraisal

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors have been instructed by the City of London ('the Corporation') to undertake a review of a Financial Viability Assessment (FVA) prepared by Affordable Housing Solutions (AHS) on behalf of 4C Hotels Ltd ('the Applicant') in connection with an appeal to reduce the affordable housing contribution in a consented development at the above site.
- 1.2 The site has an extant planning permission (reference: 13/01055/FULMAJ) for:
- Demolition of 15 Minories and 62 Aldgate High Street and redevelopment to provide a Class B1 office building with Class A1 retail (18,537sq.m). Extension and recladding of 16 Minories and change of use from offices (Class B1) to a hotel (Class C1), Class A3 restaurant and Class D1 (health)/ Class D2 (community) use (17,367sq.m.). Erection of new residential building (Class C3) providing 87 units (7829sq.m.). Relandscaping of open space and public realm improvements.*
- 1.3 Subsequently the Council granted a S73 application 15/01067/FULL in relation to the residential element of the scheme:
- Application under S73 of the Town and Country Planning Act 1990 to vary Condition 70 of planning permission dated 30.06.2014 (13/01055/FULMAJ) to incorporate minor material amendments to the layout and design of the building to be used for residential purposes.(Class C3).*
- 1.4 The S73 consent only relates to minor design modifications to the residential scheme. It is clear that there remains a single shared S106 Agreement and that clearly viability of the consent should in our view be taken in conjunction with the all the elements of the original consent. At this stage no viability information has been submitted in respect of the other elements to inform this wider viability assessment.
- 1.5 We understand the hotel conversion and extension is close to completion however the standalone office has not yet begun beyond works to the joint basement box which serves all three buildings. The applicant would need to submit a fresh application for the residential element of the site which would potentially need to be viewed as a stand alone application. We assume the requirements of the original S106 Agreement would remain a material consideration. The obligations in this document were dependent on the scheme's viability as a whole, however whether a stand alone application could reference the viability of the earlier consent is unclear to us as a matter of law and recommend the Council take appropriate legal advice in this regard.
- 1.6 The financial viability assessment prepared by AHS is focused purely on the residential element of this permission which has been substantially implemented and the frame of the building constructed but we understand construction work has been stalled for some time.
- 1.7 The residential element of the permission provides for 27 affordable units (30% overall contribution) which occupy the first 3 floors and constitutes a policy compliant affordable housing contribution. These units have been secured through a S106 agreement dated 30 June 2014 and reflect a tenure split of 70/30 between social/affordable and intermediate rent.
- 1.8 There have been several subsequent applications relating to the same proposed development including a S73 application (ref 15/01067/FULL) referred to above. This

application did not seek to reduce the affordable provision although it does alter the unit mix for both the private units and affordable housing element. There has also been a subsequent planning permission (ref 18/01261/NMA) which proposes alterations to the windows of the residential building although this is yet to be determined.

- 1.9 The subject site is set back from both The Minories and Aldgate Street and is adjacent to open green space which is accessible to the public during the day and gated at night. The site is approximately 100m from Aldgate station on the City Fringe in a mixed use area.
- 1.10 The basis of our report is the Financial Viability Review prepared by Affordable Housing Solutions (AHS), dated February 2020, which concludes that if the residential element of the scheme were delivered as 100% private housing it would show a current deficit of approximately £2.61 million and therefore on this basis no affordable housing could viably be delivered. To make this assessment AHS have compared the residual value derived from the current residential consent with a notional alternative development comprising office use. This is referred to as an alternative use assessment. AHS have provided Counsel's opinion in support of this approach.
- 1.11 AHS suggest that an application to modify the consent to remove the affordable obligation would be appropriate in light of their viability assessment with the affordable housing obligations commuted to a payment in lieu to the sum of £2.61 million.
- 1.12 We have also downloaded documents available on the Corporation's planning website. We have received a live version of the Argus appraisals included in the report. We have assessed the cost and value inputs within the financial appraisal in order to determine whether the scheme can viably make any affordable housing contributions. AHS have also provided subsequent updates to the AUV and affordable housing values which we reference in our report.
- 1.13 We have searched the Corporation's planning website and have not identified any other recent or outstanding planning applications relating to the site beyond the extant scheme and its variations including the S73 amendment and a separate standalone application for the office building in the northern section of the site. A Land Registry search shows that the developer does currently own the property and paid £32.5 million for the site on 23rd April 2012.
- 1.14 We note as yet that there is no formal application to amend this scheme but we assume that such an application would follow resolution of the viability position.

Coronavirus - Material uncertainty

- 1.15 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.
- 1.16 Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

-
- 1.17 Our valuations are therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of this property under frequent review.

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 We have reviewed the Financial Viability Review prepared by AHS on behalf of the applicant for the consented scheme which concludes that the proposed scheme generates a residual value of £1,068,439 million reflecting the current requirement to deliver affordable housing on site which compares to the suggested benchmark land value of the site reflecting notional office development of £3,682,795. In view of the residual value being below the suggested benchmark AHS conclude the scheme is in deficit.
- 2.2 AHS's report suggests that a 100% private tenure scheme could deliver a PIL of £2.61m. However, AHS has subsequently updated the benchmark land value from their original report to the sum of £4.98 million and therefore both the consented and proposed schemes are in deficit. They have also provided a further update on their affordable housing values in the consented scheme which is now approximately £1.5 million lower than previously reported, therefore the consented scheme as judged by AHS is likely to produce a negative residual value although we have not been provided with an updated appraisal verifying these figures.
- 2.3 Although AHS's assessment of benchmark land value and affordable housing value has changed no comment has been in respect of the potential impact this would have on the suggested payment in lieu.
- 2.4 We have been provided with a live version of the Argus appraisal included in AHS report to which we have applied our amendments which include:

Increased affordable housing values

Reduced sales period

Reduced construction period

Reduced developer profit target

Altered ground rental value

Removed commuted sum from 100% private scenario

Fixed land cost at EUV

- 2.5 We have fixed the land cost to the EUV of £4.487 million which is based on the residential core and substructure that currently occupies the site. We consider that as it remains the intention of the applicant to deliver a residential scheme on this site in accordance with the built form permitted by the current consent, it is appropriate to place a value on the works undertaken to date as representing a cost saving to the development and therefore represents the minimum value of the site to a residential developer and have adopted this approach to establishing a site EUV.
- 2.6 Our appraisals show the surplus or super profit as "PROFIT". The results of our appraisals in comparison can be seen in the table below with the 100% private and consented development columns showing the surplus/deficit available:

Viability Assessor	Benchmark Land Value	100% Private	Consented Development
BPS	£4.487 million	£9.669 million	£3.715 million
AHS	£4.977 million	-£1.293 million	-£3.903 million

- 2.7 Overall we consider the consented development can be delivered with the full affordable housing provision and delivering a significantly positive land value and our appraisal summaries can be seen in Appendices Three and Four. The most significant points of difference are in the development timings which impact on finance charges and developer profit allowance. We also consider the financial impact of the wider development, including the hotel and office developments, should be factored in to this assessment as they would have been at the original planning application stage and their absence presents a potentially distorted view of whole scheme viability.
- 2.8 In the instance of an offsite payment (PIL) being made in lieu of affordable housing the Corporations adopted Planning Obligations SPD (July 2014) requires a level equivalent to 60% of the units provided to be affordable at £165,000 per unit which is to be indexed using TPI. This contribution amounts to £8.58 million and when adjusted for TPI a contribution of £9,483,635 is required. The difference in value between the 100% private and consented schemes is £5.954 million which represents the maximum possible contribution in lieu of affordable housing, therefore the calculated PIL of £9,483,635 cannot viably be made.

Benchmark Land Value

- 2.9 We consider that in accordance with NPPG an EUV plus based approach should be adopted as the basis for assessing current site value. This is discussed in more detail below. Equally we consider office use for the site as a basis of establishing site value to be inappropriate and even if viewed as reasonable we consider AHS's residual value to be flawed. We have assessed the AUV office scenario which generates a residual land value of £8.813 million with the Appraisal summary shown in Appendix Two. We do however question whether office development complies with the spirit of London Plan policies and NPPG to resist changes of use from C3, especially in circumstances where a viable residential development can come forward.
- 2.10 The land currently has no consent beyond the current residential consent and therefore the site's value is determined in this context by the residual land value of the consented policy compliant scheme, allowing that we have valued the part completed works on site to derive an EUV.
- 2.11 To test the viability of the current residential consent against a notional option to develop the site as offices simply serves to undermine the ability of the residential use to deliver affordable housing by approximately £4.3m, without any apparent intention to bring forward a planning application for this use.
- 2.12 The potential application to change the scheme's viability through reducing the affordable obligation seeks to insulate the developer from what appears to be misjudgements in the scheme's original viability which apparently underpins the decision to pause the development. Developer profit is intended reward developers for taking on risk and it is not the role of the planning system to insulate developers from this risk when developments prove less viable.
- 2.13 NPPG states:

How should viability be reviewed during the lifetime of a project?

As the potential risk to developers is already accounted for in the assumptions for developer return in viability assessment, realisation of risk does not in itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen

local authorities' ability to seek compliance with relevant policies over the lifetime of the project.

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 009 Reference ID: 10-009-20190509

Revision date: 09 05 2019

How should a return to developers be defined for the purpose of viability assessment?

Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of fully complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan.

See related policy: National Planning Policy Framework paragraph 57

Paragraph: 018 Reference ID: 10-018-20190509

Revision date: 09 05 2019 S

- 2.14 The comparison to an office residual value suggests that at any point through a development planning obligations can be adjusted to suit the potential of other markets and uses even though they are not sought as a planning use for the site. If this approach is considered acceptable it serves to totally undermine the purpose of S106 Agreements but would also suggest that developer profit margins should be radically reduced because of the apparent ability to mitigate risk in this fashion. Adding back £4.3m to the residential appraisal serves to increase the return to the developer on the current consented scheme by circa 8% and as such there should be a reciprocal adjustment of profit target to at least this extent.
- 2.15 AHS has not provided any assessment of the site in current use as an EUV plus assessment but has leapt to an assumption of alternative use. We consider this approached to be flawed in a number of respects. Our reasoning and further conclusions are set out in the relevant section of the report and are further considered in part below.
- 2.16 The relevant guidance in support of an EUV plus approach is set out below:

How should land value be defined for the purpose of viability assessment?

To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to fully comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+)....

Paragraph: 013 Reference ID: 10-013-20190509

Revision date: 09 05 2019 See previous version

What factors should be considered to establish benchmark land value?

Benchmark land value should:

be based upon existing use value

allow for a premium to landowners (including equity resulting from those building their own homes)

reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners....

Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option or promotion agreement).

Paragraph: 014 Reference ID: 10-014-20190509

Revision date: 09 05 2019 See previous version

How should the premium to the landowner be defined for viability assessment?

The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to fully comply with policy requirements.

- 2.17 It is quite clear that EUV is not a minor consideration or can simply be overlooked as an approach if it is considered by the land owner that an AUV approach may provide a more beneficial land value from which to argue a viability position.
- 2.18 It is not clear if AHS have formed a view as to the site's EUV. We have approached this assessment from two perspectives. We also note that substantial works have been undertaken on the site resulting in completion of the substructure and building's frame. We have identified from our Cost Consultant's elemental cost analysis that this element would cost £4.487 million deliver after allowing for inflation, overheads, preliminaries and contingencies.
- 2.19 The proposed variation to the current residential consent relates to the affordable element and not the design and we understand it remains the applicant's intention to build out the consented residential scheme subject amending the affordable housing element. In consequence we consider it reasonable to assume that a

residential led development on this site in the form consented would build upon the existing frame and not seek its demolition and reconstruction. Therefore, any such residential scheme would benefit from the presence of the frame which would otherwise cost £4.487m to deliver. We have taken the cost of the frame as a minimum a developer of this site would be willing to pay up to the value of the completed works as site value. Therefore, on this basis we consider the EUV to be £4.487m.

- 2.20 In accordance with NPPG we have considered the issue of a land owner premium. Paragraph 17 of NPPG contains the following statement:

Where it is assumed that an existing use will be refurbished or redeveloped this will be considered as an AUV when establishing BLV.

- 2.21 We consider this statement to be relevant as the EUV derived from the value of the works undertaken to date is dependent on completion of the development to generate worth from the existing frame as such no premium would be applicable to this figure.
- 2.22 Consideration of EUV is also highly relevant in that the approach taken by AHS places no value on the frame or the site as a residential development opportunity and assumes that an office development could come forward with only its residual value being the determinant of site value. It is quite clear that given the frame exists and the site has a valid and implemented residential consent that a reasonable land owner in contemplating a sale for office development would also require as a minimum the value of the works on site.
- 2.23 AHS have approached the Benchmark Land Value on an Alternative Use Value (AUV)/ basis. They suggest that the site could be used for office use and have provided a planning statement, drawings and a valuation for the office use.
- 2.24 We have assessed the AHS appraisal of the site for office use and consider most of the inputs to be reasonable. We find the rental values and yield adopted by AHS to be in line with market evidence and have applied a rental value based on the plans provided by ACME which increases the total estimated rent. AHS have allowed for a 20 month rent free / void period and we have allowed for an increased rent free period of 29 months on the basis of Savills valuation report. We find most of the development costs adopted by AHS and the CIL and S106 costs to be reasonable. We have reduced the developer profit target to 15% on the commercial GDV and have reduced the development timings to be more closely aligned with BCIS construction duration estimates.
- 2.25 AHS have considered legal advice from Charles Banner QC in order to justify the AUV approach to benchmark land value as opposed to the NPPG directed route of EUV plus.
- 2.26 In summary Mr Banner considers the AUV scheme can be used to assess benchmark land value. This is not a surprising opinion and accords with NPPG which sees that in some circumstances an AUV approach be accepted as a means of driving a suitable benchmark figure. We note however in this context the Mayor's Affordable Housing and Viability SPG sets tests for the application of an AUV approach as follows:

3.51

If an applicant seeks to use an 'alternative use value' (AUV) approach it must fully reflect policy requirements. Generally the Mayor will only accept the use of AUV

where there is an existing implementable permission for that use. Where there is no existing implementable permission, the approach should only be used if the alternative use would fully comply with development plan policies, and if it can be demonstrated that the alternative use could be implemented on the site in question and there is market demand for that use.

3.52

In order to demonstrate the value of a policy compliant alternative that does not benefit from an implementable permission but does have a realistic prospect of achieving planning permission, the applicant should provide a detailed alternative proposal, incorporating current day costs and values. The applicant should also explain why the alternative use has not been pursued. Where all these conditions are met and the AUV is being used, there is no requirement for an additional 'plus' element. It is for the applicant to weigh up the different options and risk profiles of the potential schemes for a site and decide which one to pursue.

- 2.27 It is for the Council to determine whether the information provided represents an adequate basis from which to assess whether the proposed notional office scheme would be recommended for approval. We have no doubt there would be demand for office use in this location, however there is no explanation why if the applicant considers office use to be much more viable than residential use, there is no intention to pursue this use which is a clear requirement of the SPG.
- 2.28 Mr Banner's opinion also touches on the potential for loss of residential use. His assessment is that that as the development is not capable of residential occupation it cannot be considered a loss of that use if it came forward for office use.
- 2.29 We consider that the implemented permission clearly designates the land for housing use which if lost would entail the potential loss of housing. It is not clear from Mr Banner's advice whether the Policies of the London Plan should be applied in principle to loss of housing land as opposed to simply constructed units. This is a matter where the Council may wish to take further legal advice.
- 2.30 Although we consider an AUV approach to be flawed we have undertaken our own assessment of the residual value generated by this approach and identify a residual value of £8.813m.
- 2.31 More information on our analysis of the benchmark land value can be found in section 7 of this report.

Proposed Scheme

- 2.32 The consented scheme includes 87 residential units of which 60 are private and 27 are designated as affordable. The development is a 15 storey development which is set back from major roads and is located on the city fringe in the immediate proximity of Aldgate station.
- 2.33 AHS have relied on a valuation report by Savills dated 19th July 2019 to value the proposed units. We have analysed the evidence provided by Savills and have updated the achieved sales values where necessary. We consider the values adopted by AHS to be broadly reasonable in light of the available evidence and have accepted them for the purposes of this assessment. We have updated the ground rental valuation in accordance with the AHS report which is inconsistent with their appraisals.

- 2.34 We view the sales rates adopted by AHS to be slower than we would expect in light of the evidence provided by Savills and current evidence of strong market emerging from the Covid Pandemic. We have accordingly adopted an assumption of off plan sales of 80% and a sales rate of 5 units per month for the unsold units.
- 2.35 AHS have used their bespoke affordable housing valuation model to value the proposed units. Their original report reflects a value of £350 per sq ft (£6.193 million total) however they have provided an update to this valuation in email format dated 6th August 2020 which gives a revised value of £266 per sq ft (£4.715 million total). We have used our bespoke affordable housing valuation model and adopted a total value of £7 million for the affordable units which is explained in greater detail in section 5 of this report.

Development Costs

- 2.36 Our Cost Consultant, Neil Powling, has analysed the cost plan for the proposed scheme prepared by Alinea, dated 29th May 2019, and concludes that:
- Our benchmarking results in an adjusted benchmark of £4,965/m² that compares to the Applicant's £4,927/m². We therefore consider the Applicant's costs to be reasonable.*
- 2.37 Mr Powling's full cost report can be found at Appendix 1. We accordingly adopt the costs as proposed by Alinea. Alinea have also allowed for a reduction of £2.572 million in the consented scheme appraisal to reflect the lower specification of the affordable housing units which Mr Powling has considered to be a reasonable allowance.
- 2.38 We have accepted the additional cost assumptions proposed by AHS to be broadly reasonable and have adopted them in our own assessment. AHS have not included CIL charges while the Corporation have informed us the site is liable for mayoral CIL which we have included. We have adopted the same S106 charges across all three appraisals for consistency.
- 2.39 The proposed developer profit target of 20% of private residential GDV to be higher than we would expect and have reduced this to 17.5% in accordance with evidence base supporting the London Plan and in line with the approach identified in the NPPG in this regard.
- 2.40 AHS have adopted a 3 month pre construction period and 24 month construction period. We have reduced the construction duration period to 20 months in accordance with BCIS construction duration estimates and to account for the substructure and concrete frame being already completed.

3.0 PRINCIPLES OF VIABILITY ASSESSMENT

- 3.1 Development appraisals work to derive a residual value. This approach can be represented by the 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 Development appraisals can also be constructed to include a fixed land value and fixed profit targets. If an appropriate Benchmark Land Value is included as a fixed land value within a development appraisal, this allows for interest to be more accurately calculated on the Benchmark Land Value, rather than on the output residual value. By including fixed profit targets as a cost within the appraisal, programmed to the end of development so as not to attract interest payments, the output represents a 'super' profit. This is the profit above target levels generated by the scheme which represents the surplus available towards planning obligations.

4.0 PRIVATE RESIDENTIAL VALUES

- 4.1 The residential element of the consented scheme as per the consented planning permission is for 87 residential units comprising the following accommodation:

Beds	Persons	Count	Sq Ft	Savills Price	£ Sq Ft
1	1	19	429	£551,579	£1,280
1	2	30	590	£718,167	£1,225
2	4	31	868	£944,839	£1,091
2	D	2	1,453	£1,925,000	£1,325
3	5	2	971	£1,125,000	£1,159
3	6	3	1,290	£1,541,667	£1,198
Total		87	61,468	£72,040,000	£1,172

- 4.2 In the consented development 27 units are allocated as affordable housing while AHS have also modelled a scenario where all 87 units are for private market sale as per the prices shown in the table above where the D indicates the duplex penthouse units on the top level. AHS have relied on a valuation report by Savills, dated 19th July 2019, for their valuation of the consented units.
- 4.3 The site is on the edge of the City of London in Aldgate and is approximately 150m from Aldgate underground station, 500m from Liverpool Street station and 650m from Bank station. The residential block is at the southern edge of the site and is set back from roads, positioned between two hotels to the north and west, office space to the south and landscaped gardens and Guinness Court (20th century affordable housing blocks operated by the Guinness Trust).
- 4.4 It is accessed through a private gated garden which is shared with the office space and includes basement car parking for 11 blue badge spaces. The design is of high quality and the units will be finished to a very high specification with 2.6m floor to ceiling heights, optimal natural light, underfloor heating, video entry door and air conditioning. Residents also have access to a private gym, games room and guest room in the basement. There are two lifts providing access to all floors. Savills suggest units on floors 8-14 will benefit from impressive views across the city and there are duplex penthouse units on the upper two floors.
- 4.5 Savills suggest that the design is comparable to local competition and is of reasonable scale in a popular sub market, therefore there would be a good level of demand for the units. They suggest that the specification is suitable for the target market and would appeal to a wide range of purchasers including professionals, overseas and domestic investors.
- 4.6 We understand that concrete frame is completed and that completion is scheduled for the beginning of 2021 although this is likely to have been delayed due to the Covid-19 pandemic and the apparent unviability of the scheme.

Savills approach

- 4.7 Savills have provided comparable evidence from several local developments including:

Aldgate Place, 7 Leman Street, (LB Tower Hamlets), E1

- 4.8 British Land and Barratt Homes acquired the site which is being delivered in two phases with phase one having completed. The scheme provides a total of 463 units, 312 of which are private, in three towers between 22-26 storeys and several smaller buildings between 6-9 storeys as well as office, hotel, retail and leisure uses. Sales launched June 2014 and was sales completed 30 months later, reflecting a sales rate of 5.13 units per month and with 74% units being pre sold. The site is adjacent to Aldgate East station, partly fronting the busy A11, approximately 200m east of the subject.
- 4.9 Savills have provided asking prices from 2014-2018 and transactional evidence from 2016 which we consider too historic for relevance which they acknowledge.
- 4.10 Savills suggest that Aldgate Place provides good comparable evidence due to its proximity to the subject however suggest Aldgate Place is superior to the subject due to its scale and height and therefore will benefit from superior views. Although it will benefit from height premiums we consider the subject's location to be superior, being set back from busy roads and fronting green space, therefore values are likely in our views to be similar, however given the historic dates of the evidence provided we do not consider the evidence provided by Savills to be particularly relevant.

Goodman's Fields, Lehman Street, Whitechapel, E1 8PU

- 4.11 This is a large mixed use development across several phases including up to 783 private units total, ground floor commercial, hotel. It is a Berkeley Homes development located at the junction of Mansell Street and Prescott Street, 200m east of the subject within 200m of Aldgate East station, in a mixed use area. It is built across 6 phases, construction beginning on the first phase in September 2011 and the final phase being completed in January 2020 with 100% of units sold off plan. It comprises several blocks of up to 23 storeys located around plaza courtyards and including rooftop gardens on some blocks, 253 basement car parking spaces, spa, gym, swimming pool, communal gardens, water features.
- 4.12 Savills have provided the following summary of average sales prices from 2018 onwards:

Unit Type	Average Achieved Price	Average Achieved Price £ psf
Studio	£761,000	£1,509
1 bedroom	£862,000	£1,488
2 bedroom	£1,432,000	£1,516
3 bedroom	£1,560,000	£1,530
Overall 2018 Average		£1,507

- 4.13 They also provide specific unit sales from 2017-2018 by unit type which we consider to be too historic for relevance.
- 4.14 Savills suggest that given the proximity, similarly good transport links to the subject, Goodman's Fields provides strong comparable evidence. They also note it has a more desirable quiet campus style layout, significantly more amenities and larger scale than the subject which will warrant higher achieved values than at the subject. They

suggest that the phased nature of the development makes direct comparison challenging due to changes in the City fringe residential market and provide the following price list which provides averages from 41 sales between September 2017 and May 2018:

Beds	Goodmans's Fields Most Recent Sales			Subject Property GDV		
	Av sq ft	Av £ psf	Av Sales Price	Av sq ft	Av £ psf	Ave Market Value
Studio	508	£1,491	£757,000	429	£1,284	£551,579
1 bed	596	£1,506	£867,000	590	£1,218	£718,167
2 bed	956	£1,413	£1,335,000	903	£1,112	£1,004,242
3 bed	1,082	£1,430	£1,495,000	1,162	£1,183	£1,375,000
Average	786	£1,418	£1,115,044	707	£1,172	£828,046

- 4.15 We have also identified evidence from Molior for transactions from the start of 2019 onwards. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior, which for studios and one bedroom units is more accurate than for the two and three bedroom units which interchange more. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
S	48	£685,227	45	484	£1,415	£796,050	£577,150
1	88	£856,846	56	601	£1,427	£1,043,000	£650,000
2	55	£1,214,668	83	899	£1,349	£1,501,950	£997,500
3	41	£1,400,280	102	1,102	£1,267	£3,248,250	£1,069,200

- 4.16 It can be seen that the achieved prices are broadly consistent with those identified by Savills while the prices for studios are broadly lower than we would expect. There is large variation in prices as shown by the maximum and minimum columns which in most instances reflect higher values for units on the upper floors.
- 4.17 Overall, we consider that the units in Goodman's Fields would achieve a marginal premium on those in the subject given the scale and greater amenity provision, although we consider the set back location from busy roads to be similarly desirable.

London Square, Spitalfields, Gunthorpe Street, E1 7RW

- 4.18 The scheme provides 63 residential units, 49 of which are private, over 5 storeys. It is a scheme by London Square with an adjacent office building. Construction commenced Q3 2017 and completed Q3 2019 with all bar two units sold off plan. Seven car parking spaces at £70,000 per space with only one sold since April 2019 at the time of reporting. Approximately 500m north east of the subject on the corner of two relatively quiet roads, close to Aldgate station.
- 4.19 Savills have provided the following transactional evidence:

Plot	Floor	Unit Type	Area Sq Ft	Price	£/sqft	Date
47	3	1 Bed	564	£700,000	£1,241	June 2019
7	1	1 Bed	586	£660,000	£1,126	May 2019
5	1	1 Bed	601	£693,000	£1,153	May 2019
11	2	1 Bed	601	£700,000	£1,165	May 2019
23	4	1 Bed	583	£695,000	£1,192	May 2019
37	3	1 Bed	586	£660,000	£1,126	April 2019
18	3	1 Bed	586	£695,000	£1,186	Feb 2019
06	1	1 Bed	586	£650,000	£1,109	Nov 2018
08	1	1 Bed	567	£725,000	£1,279	Aug 2018
12	1	1 Bed	586	£650,000	£1,109	Aug 2018
1 bed Average			585	£682,800	£1,168	
54	4	2 Bed	817	£865,000	£1,059	May 2019
10	2	2 Bed	927	£1,080,000	£1,165	Aug 2018
47	2	2 Bed	773	£834,000	£1,079	Aug 2018
2 bed Average			839	£926,333	£1,104	
55	4	3 Bed	1,093	£1,114,000	£1,019	Dec 2018
01	G	3 Bed	1,006	£1,050,000	£1,044	Feb 2018
3 Bed Average			1,050	£1,082,000	£1,030	

- 4.20 We have also identified transactional evidence from Molior for transactions from the start of 2019 onwards. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior, which for one bedroom units is more accurate than for the two and three bedroom units which interchange more. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
1	14	£686,638	54	579	£1,187	£806,975	£648,000
2	17	£901,459	76	823	£1,101	£1,080,000	£792,000
3	3	£1,203,938	104	1,119	£1,079	£1,325,000	£1,113,814

- 4.21 It can be seen that the achieved values are broadly similar to the evidence provided by Savills.
- 4.22 Savills suggest the subject is in a less desirable location given it is further from Liverpool Street station and the City core although suggest it still provides good comparable evidence. While it is slightly further from Liverpool Street station the subject is closer to the City core and benefits from being set back from the road. Savills also suggest that London Square Spitalfields is surrounded by cafes, restaurants and shops, and is closer to the vibrant Brick Lane and Shoreditch, while it is popular with the owner occupier market given the boutique level of development.
- 4.23 Overall, despite the smaller scale, timing and lesser specification of London Square Spitalfields it makes good comparable evidence to the subject and Savills suggest the subject development would achieve slightly higher values. We find this to be a reasonable assumption.

London Dock, Pennington Street, E1W 2SG

- 4.24 This is a mixed use development with 1,800 residential units of which 1,314 are private units spread across 4 blocks/phases of up to 25 storeys. Berkeley Homes are

the developer and the scheme includes a gym, swimming pool, sauna, virtual golf, cinema, concierge, and squash courts. Some car parking available but unclear as to the price attached to spaces. First phase launched 2014 as construction began with over 98% of units having been sold off plan so far on the first 3 phases. 700m south east of the subject in Wapping, not immediately close to any underground stations and further from the city.

- 4.25 Savills have provided marketing and transactional evidence. We consider the transactional evidence to be most relevant and it can be seen below:

1 beds

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
Confidential	7	1 Bed	590	£840,000	£1,424	Feb 2019
Confidential	9	1 Bed	587	£813,100	£1,385	Jan 2019
456 Cashmere	1	1 Bed	613	£835,000	£1,362	Oct 2018
337 Emery	5	1 Bed	578	£699,950	£1,211	June 2018
Average 1 Bed			592	£797,000	£1,346	

2 beds

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
Confidential	9	2 Bed	900	£1,283,586	£1,426	Jan 2019
Confidential	9	2 Bed	900	£1,173,788	£1,304	Jan 2019
Confidential	13	2 Bed	1,241	£1,599,000	£1,288	Nov 2018
Confidential	3	2 Bed	900	£1,192,400	£1,325	Nov 2018
149 Alexander	6	2 Bed	775	£920,000	£1,187	Jan 2018
Average 2 Bed			945	£1,233,000	£1,304	

3 beds

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
Confidential	24	3 Bed	1,443	£2,268,000	£1,572	Feb 2019
Confidential	20	3 Bed	1,315	£2,100,000	£1,597	Dec 2018
231 Clipper	7	3 Bed	1,282	£2,199,950	£1,716	Oct 2018
575 Cashmere	20	3 Bed	1,493	£2,430,000	£1,628	Oct 2018
72 Admiral	13	3 Bed	1,237	£1,724,950	£1,394	Oct 2018
Average 3 Bed			1,354	£2,145,000	£1,536	

- 4.26 We have also identified transactional evidence from Molior for transactions from the start of 2019 onwards. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior, which for studios and one bedroom units is more accurate than for the two and three bedroom units which interchange more. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
S	24	£544,486	42	452	£1,207	£595,000	£520,752
1	5	£697,846	53	568	£1,230	£750,000	£676,526
2	17	£1,033,062	81	871	£1,190	£1,090,000	£960,251
3	4	£3,246,250	169	1,814	£1,665	£4,875,000	£1,260,000

- 4.27 The average prices we have identified are slightly below the evidence provided by Savills and prices range substantially for three bedroom units.
- 4.28 Savills suggest London Dock is superior due to its size and greater amenities although suggest that the location is slightly inferior being further from the City and closer to Shadwell. Overall, they suggest that the values at London Dock would be higher than the subject property.
- 4.29 We agree that the amenity and size of the subject are inferior compared to London Dock however suggest that given the location values in the subject could be broadly similar and given the difference in location other comparable evidence is more suitable.

The Lofts (Ordnance Survey Building), Dock Street, E1 8JP

- 4.30 This is an 89 unit scheme (80 private units) arranged over three blocks between 7-13 storeys. The development includes residents gym and concierge, units are finished to a high specification. Approximately 700m south east of the subject, on a relatively quiet road close to the Fenchurch Street railway tracks, further from train stations by comparison to the subject. Construction began May 2017 and 59% of units were sold off plan, construction completed March 2019 and currently 3 units remain on the market.
- 4.31 Savills have provided marketing prices per block and recent transactions from September 2018 onwards, the latter of which can be seen below:

Unit	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
A0101	1	1 Bed	503	£580,000	£1,153	Mar-19
A0105	1	1 Bed	498	£580,000	£1,165	Mar-19
A0106	1	1 Bed	598	£585,000	£978	Mar-19
A0205	2	1 Bed	498	£585,000	£1,175	Mar-19
A0301	3	1 Bed	555	£590,000	£1,063	Mar-19
A0405	4	1 Bed	498	£595,000	£1,195	Mar-19
B0803	8	1 Bed	490	£599,995	£1,224	Mar-19
C0402	4	1 Bed	482	£475,000	£985	Mar-19
1 Bed Average			515	£573,750	£1,113	
C0101	1	2 Bed	855	£750,000	£877	Jun-19
A0502	5	2 Bed	606	£719,995	£1,188	Jun-19
B0104	1	2 Bed	695	£665,000	£957	Jun-19
A0104	1	2 Bed	684	£675,000	£987	Mar-19
A0501	5	2 Bed	631	£710,000	£1,125	Mar-19
B1103	11	2 Bed	1028	£1,325,000	£1,289	Mar-19
A0601	6	2 Bed	627	£725,000	£1,156	Mar-19
B0101	1	2 Bed	779	£725,000	£931	Mar-19
B0304	3	2 Bed	672	£695,000	£1,034	Mar-19
B0404	4	2 Bed	672	£699,995	£1,042	Mar-19
B0204	2	2 Bed	672	£709,000	£1,055	Sep-18
A0204	2	2 Bed	684	£725,000	£1,060	Sep-18
BG01	G	2 Bed	888	£850,000	£957	Sep-18
Average 2 Bed			730	£767,230	£1,051	

- 4.32 We have also identified transactional evidence from Molior for transactions from February 2019 onwards. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
S	16	£511,428	36	390	£1,328	£589,500	£399,000
1	40	£612,932	54	586	£1,063	£808,000	£540,000
2	17	£811,337	75	803	£1,019	£1,010,000	£730,000

- 4.33 It can be seen that the achieved values on Molior are slightly higher than the asking prices although these do vary greatly.
- 4.34 Savills suggest that the Lofts is inferior in comparison to the subject given the location, roadside setting, proximity to railway lines and lower quality specification, therefore prices in the subject will be higher. We agree with this position.

Royal Mint Gardens, Royal Mint Street, E1 8LG

- 4.35 A large mixed use scheme of 333 private units in 3 phases and up to 14 storeys, developed by Malaysian Developer IJM Land. Residents facilities include 24 hour concierge, leisure facilities, cinema, gym, swimming pool and courtyard garden. 400m south of the subject, partially developed over DLR lines and adjacent to Fenchurch Street tracks, close to Tower Hill and Tower Gateway stations.

- 4.36 First sales launched in 2013 and were predominantly marketed in Malaysia, largely sold off plan. Savills provide average achieved prices between 2013 and 2015 which they acknowledge is too historic for relevance. They also provide current marketing evidence for which the averages are as follows:
- Studios: 404 sq ft, £523,000 asking price, £1,294 per sq ft
 - 1 bed: 560 sq ft, £715,000 asking price, £1,281 per sq ft
 - 2 bed: 739 sq ft, £806,000 asking price, £1,098 per sq ft
- 4.37 There is a range in price which presumably reflects the aspect of the unit, where units facing the railway lines are considerably lower in price.
- 4.38 We have also identified sales evidence from Molior for transactions from October 2019 onwards. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
S	12	£516,583	39	416	£1,241	£595,000	£465,000
1	69	£689,073	56	603	£1,143	£945,000	£590,000
2	27	£926,341	78	835	£1,108	£1,285,000	£755,000
3	8	£1,327,500	103	1,110	£1,187	£1,910,000	£1,075,000

- 4.39 The achieved values from Molior are slightly higher than those suggested in the asking prices identified by Savills.
- 4.40 Savills suggest that the units currently on the market are unpopular with investors and acknowledge that the sales evidence provided was too historic for relevance. They suggest that although the additional amenities make Royal Mint Gardens more attractive the location of the subject is more desirable and that the subject will achieve slightly higher values.
- 4.41 We consider the subjects location to be more desirable given that it is not next to the railway line, however the amenity provision in Royal Mint Gardens is more desirable, therefore overall, the values will be only slightly higher. This is highly dependent on the location within the Royal Mint Gardens development as the units adjacent to the railway tracks will be significantly lower value than units facing the road.

Atlas Building, 10 East Road, Hoxton, EC1V 1LP

- 4.42 This scheme comprises a 38 storey tower in Hoxton, adjacent to Old Street station, 1 mile north of the subject. The development includes concierge, gym, swimming pool and cinema. Savills have provided marketing evidence and applied a 3.5% discount to reflect assumed achieved values.
- 4.43 Savills suggest that given the similar distance to the city it provides a strong basis for comparison although suggest it has stronger marketability given the Hoxton/Shoreditch location and greater offering of amenities, therefore they would expect it to achieve higher values than the subject. We consider this to be in a different location and given the extensive height premium it will not be comparable to the subject and we have relied evidence from more relevant schemes for our valuation.

Landmark Place, 1 Water Lane, London, EC3R 6DU

- 4.44 A 165 unit (100% private) scheme developed by Barratt Homes in an 11 storey riverside development with 24 hour concierge, lounge, swimming pool, spa, gym and underground parking. Approximately 500m south east of the subject on the river front, prime location.
- 4.45 Launched 2016 and 87% sold by practical completion in February 2019. Savills have provided marketing evidence for the units that are still available and the following achieved values from August 2018 onwards:

1 Bed

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
2	1	1 Bed	622	£872,999	£1,404	Sep 2018
107	6	1 Bed	573	£877,780	£1,532	Aug 2018
Average 1 Bed			598	£875,390	£1,468	

2 Bed

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
Confidential	Confidential	2 Bed	1,142	£1,499,995	£1,313	Reserved
29	2	2 Bed	1,338	£1,832,800	£1,370	Jan 2019
52	3	2 Bed	1,142	£1,331,106	£1,166	Dec 2018
74	4	2 Bed	873	£1,150,000	£1,317	Dec 2018
Average 2 Bed			1,124	£1,453,475	£1,292	

3 Bed

Plot	Floor	Unit Type	Area Sq Ft	Price	£psf	Date
Confidential	Confidential	3 Beds	1,847	£4,416,000	£2,391	Reserved
141	8	3 Bed	1,847	£2,990,000	£1,619	Oct 2018
Average 3 Bed			1,847	£3,703,000	£2,005	

- 4.46 We have also identified transactional evidence from Molior for transactions from 2019. We have assumed the number of bedrooms based on the size of the unit from the asking prices listed on Molior, which for studios and one bedroom units is more accurate than for the two and three bedroom units which interchange more. This can be summarised as follows:

Beds	Count	Av Price	Sq M	Sq Ft	£ sq ft	Max	Min
S	1	£900,000	39	420	£2,143	£900,000	£900,000
1	1	£1,000,000	57	614	£1,629	£1,000,000	£1,000,000
2	24	£1,791,046	112	1,206	£1,497	£3,000,000	£1,230,000
3	7	£4,583,536	205	2,202	£2,038	£8,062,500	£2,545,750

- 4.47 It can be seen that the majority of the units sold in 2019 were two and three bedroom units which again varied greatly in value, reflecting pricing differential for units with views over the river.
- 4.48 Savills suggest that Landmark Place is superior to the subject given the river frontage, views and amenities while it is also closer to the City core and still well

connected for transport, therefore the prices will be higher than for units in the subject. We agree with this assumption.

Conclusion

4.49 Savills have created a full pricing schedule which is summarised as follows:

No. of beds	Aggregate Market Value	Number of Units	% of Value	Total Area sq ft	Average Size Sq ft	Average Market Value	Average Per Sq Ft	Minimum Market Value	Maximum Market Value
Studio	£10,480,000	19	14.5%	8,160	429	£551,579	£1,284	£450,000	£675,000
1 bed	£21,545,000	30	29.9%	17,693	590	£718,167	£1,218	£625,000	£950,000
2 bed	£33,140,000	33	46.0%	29,804	903	£1,004,242	£1,112	£865,000	£1,950,000
3 bed	£6,875,000	5	9.5%	5,811	1,162	£1,375,000	£1,183	£1,100,000	£1,650,000
Total/Avg	£72,040,000	87	100.0%	61,468	707	£828,046	£1,172		

4.50 We have summarised this by unit at a further breakdown in a full pricing schedule where D indicates a duplex penthouse unit.

Beds	Persons	Count	Sq Ft	Savills Price	£ Sq Ft
1	1	19	429	£551,579	£1,280
1	2	30	590	£718,167	£1,225
2	4	31	868	£944,839	£1,091
2	D	2	1,453	£1,925,000	£1,325
3	5	2	971	£1,125,000	£1,159
3	6	3	1,290	£1,541,667	£1,198
Total		87	61,468	£72,040,000	£1,172

4.51 This gives a total value of £72.04 million (average £1,172 per sq ft).

BPS Approach

4.52 Overall, we consider the evidence presented by Savills to be comprehensive. We have identified one further comparable scheme:

Osborn Apartments, Osborn Street, London, E1 6TD

4.53 Permitted Development Rights conversion from office use with ground floor retail, 16 flats over 6 storeys (large penthouse on the top floor). Mid terrace block, fronting the road, units at the rear include balconies and are finished to a high specification. Approximately 500m north east of the subject at the southern end of Brick Lane, close to Aldgate East station.

4.54 We have identified the following asking prices from Rightmove:

- 1 bed: 635 sq ft, 2nd floor, £635,000 (£635 per sq ft)
- 1 bed: 624 sq ft, 3rd floor, balcony, £665,000 (£1,065 per sq ft)
- 2 bed: 747 sq ft, 1st floor, balcony, £765,000 (£1,024 per sq ft)
- 3 bed: 1,206 sq ft, 3rd floor, balcony, £1.3 million (£1,078 per sq ft)

- 4.55 Overall, we consider prices in the subject will be at a premium to those in Osborn Apartments given the amenities, purpose built design, setting and location.

Summary

- 4.56 Generally, we have found that the values proposed by Savills are broadly reasonable. With regard to the comparable evidence we consider the permitted units would achieve values higher than London Square Spitalfields, The Lofts, Royal Mint Gardens and Osborn Apartments, similar to London Dock and lower than Goodmans Fields and Landmark Place. The Savills pricing schedule loosely reflects these assumptions and we agree with their analysis of the comparable evidence in comparison to the subject in most cases. It could be argued that the desirable location of the subject scheme could bring values closer to those achieved at Goodmans Fields, which is of a slightly less desirable location but has superior scale and amenities. For the purposes of this assessment we consider it reasonable to adopt the values proposed by Savills for the consented scheme.

Sales Rates

- 4.57 Savills provide the following summary of sales rates for the comparable evidence:

Scheme	Pre Sale Rate Units per month	% Pre Sold	Sales Rate Units per month
Aldgate Place	4.56	74%	5.13
Goodmans's Fields	8.10	100%	8.10
London Fields	1.10	90% (completion due in August 2019)	1.10
London Dock	7.98	74% (completion due in March 2022)	7.98
The Lofts	1.95	59%	2.06
Royal Mint Gardens	N/a	N/a	N/a
The Atlas Building	5.95	93% (completion due in September 2019)	5.95
Landmark Place	4.00	87%	4.30

- 4.58 Savills also suggest that the market has weakened over the last 12 or so months which has adversely impacted off plan sales market. This comment should be seen as being more relevant at the time of Savills report with most commentators agreeing 2020 was showing signs of a return to significant house price demand and growth until Covid 19 outbreak. Nonetheless they would expect the scheme to be launched 12 months prior to practical completion and suggest that 50% of units would be sold off plan with the balance of units to be sold within 12 months of completion, reflecting a sales rate of 3.6 units per month.
- 4.59 We note that the sales rates included in the above table represent off plan and post completion sales. We would anticipate off plan sales rates to be slower than sales rates post completion due to the stronger marketing potential of a unit that is already completed.
- 4.60 We are in agreement that the market demand for high end flats has suffered in recent years which can be accredited to stamp duty reforms and Brexit. Given the above evidence we consider the off plan sales assumption of 50% to be pessimistic for such a desirable scheme and have adopted an off plan sales rate of 80% which we consider to be more realistic. For the remaining units we have adopted a sales rate

of 5 units per month which gives a sales period of 3 months for the consented scheme and 5 months for the 100% private scheme. We consider our assumptions to be more closely aligned with the evidence provided than those provided by Savills given the desirability of the subject development against much of the comparable evidence.

Ground Rents

- 4.61 Ground rents have been included at the following rates by AHS:

Beds	No Units	Ground Rent PA	Total PA
1	31	£150	£4,650
2	25	£200	£5,000
3	4	£250	£1,000
Total	60		£10,650

- 4.62 AHS have capitalised this income at a yield of 4.5% but have used inconsistent figures in their report and their appraisals. For the purposes of consistency we have accepted their figures adopted in the report as per the table above. We calculate the total capital value of the ground rental income to be £240,000 in the consented scheme and £340,000 in the proposed scheme.
- 4.63 AHS note that Savills have not included any ground rental income in their assessment given the governments proposals to remove the receipt of ground rental income and accordingly AHS reserve their position as to whether it is appropriate to omit ground rental income. The proposal to restrict ground rental income have now been around for more than a year with no sign of Parliamentary time to consider a Bill in this regard.

Parking

- 4.64 The proposed plans include 11 disabled spaces which are located in the basement and are to be shared between hotel guests and residents. The Design & Access statement states these are not to be sold off with flats which we find to be in accordance with valuation standards. We have accordingly not included any additional value for a car parking element.

5.0 AFFORDABLE HOUSING VALUES

- 5.1 The consented development includes a policy compliant 30% affordable housing contribution by unit. This is agreed in the S106 agreement which specifies that the units are to be provided on the first three floors of the development. The tenure split is for 60% of the units to be social rented housing of which 50% are at capped rates and 50% are at discounted rent, with the remaining 40% of the affordable units to be for intermediate rent with agreed nomination rights for the City Corporation. The requirement of the S106 Agreement does not individually specify which units need to be in each use class. AHS have informed us of the units they have allocated for affordable housing in their appraisal which we have applied to a full accommodation schedule which can be summarised below:

Beds	Persons	Private	Intermediate	Social Rent	Affordable Rent
1	1	12	7	0	0
1	2	19	4	0	7
2	4	23	0	7	1
2	D	2	0	0	0
3	5	2	0	0	0
3	6	2	0	1	0
Total		60	11	8	8

- 5.2 The value of the 60 private units is £52.24 million which is consistent with their pricing schedule of the proposed scheme. In their report AHS state they have used their own bespoke in house affordable housing valuation model to assess the prices a registered provider (RP) would pay for the consented content. This produces a blended value of £350 per sq ft (£6.193 million total) for the affordable element.
- 5.3 AHS have subsequently described their valuation assumptions in an email dated 6th August 2020 which are updated from their original report and reflect a blended rate of £266 per sq ft (£4.715 million total) which is a significant decrease from their previous approach. We have utilised the updated valuations as the basis of our analysis as they are the most recent and detailed calculations.
- 5.4 AHS have used a spreadsheet to value the proposed units and have allowed for running costs of 22% and a service charge of £5.54 per sq ft. They have capitalised the net income at a yield of 4.5% and have deducted RP costs of 9% which constitute legal, consultants and other costs. They have also tested the affordability of each unit at maximum incomes at various levels depending on tenure.
- 5.5 AHS have raised significant concern over the service charges that would be applicable to the affordable housing units. They consider that due to the single core access to all of the units an affordable housing occupier would have to bear the same full cost of the service charge as the occupiers of the private units. They have calculated this to be £5.14 per sq ft (£490,000 pa for the entire building). We find this to be an unrealistic assumption as tenants of the affordable units do not require access to the gym and games room and there are numerous examples where affordable units are

serviced from a single access core with private apartments using smart card lift access, however we do expect that RPs would wish to ensure the affordable element comprises whole floors as this allows for control of the service charge element. We consider AHS's figure to include a measure of overlap in terms of duplication of charges and therefore presents an overly pessimistic view of operating costs.

- 5.6 We analyse each tenure of affordable as follows using our bespoke affordable housing valuation model. We have also included a golden brick payment for the affordable housing in the appraisal in which 25% of the value is paid at the start of construction and the remaining revenue is received on completion. Our appraisal adopts a 60 year cash flow and a discount factor of 5% while making the following allowances on cost per unit pa:

Assumption	Figure
Annual cost of management (rented homes, market rent)	£655
Annual cost of day to day and cyclical maintenance (rented homes, market rent)	£1,386
cost of major repairs (rented homes, market rent) 8 yearly cycle	£1,131
Voids and bad debts as %age of receivables (Affordable Rent homes)	4%

Intermediate

- 5.7 AHS have valued the intermediate units at intermediate rents due to the unaffordability of the area for shared ownership which is in accordance with the requirements of the S106 agreement. AHS have assumed rental values of £280 per week for studio units and £345 per week for one bedroom units. They have tested the units for affordability at incomes of £50,000 pa for studio units and £66,000 pa for one bedroom units. They arrive at a total value of £2.164m (£421 per sq ft) for the intermediate element.
- 5.8 We have used our bespoke affordable housing valuation model. This generates a value of £3.39 million (£660 per sq ft) for the consented units which is a considerable increase on the values adopted by AHS and is still within the affordability caps of £60,000 per unit. While this appears to be a high value per sq ft they are still at a considerable discount to market value and are small units. We do note however pricing units at this level would place the units at the upper end of the household income bracket of £90,000 per annum as such we usually find that RP's will take a view of the market and capacity to absorb units at the upper income bracket and adjust pricing accordingly, as such actual pricing is likely to be between our respective figures.

Social Rent

- 5.9 AHS have used current GLA affordable rent levels which are exclusive of service charges at £168.67 for two bedroom units and £178.05 for the three bedroom unit per week. They have assumed required incomes at £47,000 pa for two bedroom units and £60,000 pa for three bedroom units.
- 5.10 When using our bespoke affordable housing valuation model we arrive at a broadly similar overall values to AHS of £1.193m (£162 per sq ft). Therefore, we accept the AHS valuation of the social rented units. It should be noted that our assumed yield of 5% is relatively soft and we have seen RP pricing which reflects yields as keen as 3.5%. For this reason it is recommended that the applicant engage with an RP to firm up these values.

Affordable Rent

- 5.11 AHS have adopted rental values equivalent to LHA rates at £295.50 for one bedroom units and £346 for two bedroom units per week. The rental value for the two bedroom units has been lowered to ensure that they are affordable with an income of £70,000 and the one bedroom units have been tested at an income of £54,000. There appears to be in error in the AHS valuation as they have adopted 2x two bedroom units where as we consider the plans in our accommodation schedule would warrant 1x 2 bedroom unit as affordable rent.
- 5.12 Our bespoke affordable housing valuation model has identified a higher value than those proposed by AHS. We arrive at a total value of £2.448 million (£470 per sq ft) for the affordable rent units which is an increase of approximately £1 million on the values proposed by AHS and we consider to still be within the same affordability criteria.

6.0 DEVELOPMENT COSTS

- 6.1 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Alinea, dated 29th May 2019, and concludes that:

Our benchmarking results in an adjusted benchmark of £4,965/m² that compares to the Applicant's £4,927/m². We therefore consider the Applicant's costs to be reasonable.

- 6.2 Mr Powling's full cost report can be found at Appendix 1. We accordingly adopt the costs as proposed by Alinea. Alinea have also allowed for a reduction of £2.572 million in the consented scheme appraisal to reflect the lower specification of the affordable housing units which Mr Powling has considered to be a reasonable allowance for a deduction.
- 6.3 The applicant's consultants have applied the following additional cost assumptions:
- Professional fees of 10%
 - Sales agent and marketing fees of 2.5%
 - Legal Fees of 0.5%
 - Disposal fees of 4.8% on ground rents
- 6.4 Generally, we accept that these percentages are realistic and in line with market norms.
- 6.5 S106 charges have been assumed at £640,870 which is aligned with the S106 agreement. AHS state there was no CIL liability when the planning permission for the consented scheme was introduced and therefore has not been included for the proposed scheme.
- 6.6 We have been informed by the council that a CIL payment (inclusive of indexation) of £225,000 is liable for the proposed scheme and £305,941 would be liable for a 100% private housing scenario. The S106 payment for the entire development (all phases) is £1.174 million and it appears that AHS have used a pro rata rate to calculate the £640,870 sum in their appraisals. We have adopted in all of our appraisals for consistency although should be noted is not reflective of the exact contribution from this element.
- 6.7 Finance has been included at 6.5% assuming that the scheme is 100% debt financed. We consider this to be a reasonable assumption.
- 6.8 The developer profit target adopted by AHS is 20% on private residential GDV and 6% on affordable housing GDV. AHS consider this to be a reasonable return given the number of homes and that banks and providers of development finance often require a higher return of 25% on GDV. They also suggest this is a speculative development and note the current uncertainty in the market surrounding Brexit.
- 6.9 We do not consider this to be a purely speculative development as the concrete frame has been constructed and it is realistic to assume that in line with all other large residential developments it would be realistic to assume that the developer had secured a significant level of off plan sales which serve to reduce overall risk. Annex G of the London Plan Viability Study Technical Report (December 2017) produced by Three Dragons advises a return on GDV of 17.5% for developments between 6 and 20 storeys in height. We do not consider this scheme by comparison to be an overly high risk development due to the consented permission and desirable location. Furthermore most construction risk is encountered through the early phases and

substructure which are most vulnerable to unknown factors which have already been addressed in this instance, therefore we consider 17.5% to be a reasonable target.

- 6.10 AHS have allowed for a 3 month pre construction period and a 24 month construction period. Our Cost Consultant has used the BCIS construction duration estimate and suggested an 80 week (20 month) construction period which also accounted for the substructure and concrete frame being completed.

7.0 BENCHMARK LAND VALUE

7.1 We note the Planning Policy Guidance, published May 2019, states:

Benchmark land value should:

- *be based on existing use value*
- *allow for a premium to landowners (including equity resulting from those building their own homes)*
- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees and*

Viability assessments should be undertaken using benchmark land values derived in accordance with this guidance. Existing use value should be informed by market evidence of current uses, costs and values. Market evidence can also be used as a cross-check of benchmark land value but should not be used in place of benchmark land value. There may be a divergence between benchmark land values and market evidence; and plan makers should be aware that this could be due to different assumptions and methodologies used by individual developers, site promoters and landowners.

The evidence should be based on developments which are fully compliant with emerging or up to date plan policies, including affordable housing requirements at the relevant levels set out in the plan. Where this evidence is not available plan makers and applicants should identify and evidence any adjustments to reflect the cost of policy compliance. This is so that historic benchmark land values of non-policy compliant developments are not used to inflate values over time.

[...] Where viability assessment is used to inform decision making under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement).

7.2 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.

7.3 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.

- 7.4 The NPPF recognises 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 is set out in PPG as follows:

To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing use value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. Landowners and site purchasers should consider policy requirements when agreeing land transactions. This approach is often called 'existing use value plus' (EUV+)

- 7.5 Guidance indicates that the sale 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 this liability or maximising site value is through securing a planning consent this should be a relevant factor when considering whether a premium is applicable. This view is corroborated in the Mayor of London's Affordable Housing and Viability SPG which states:

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 premium of 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.

The site

- 7.6 We understand the concrete frame of the extant residential tower has been built out but construction has since stalled. We consider the construction of the frame to be evidence of the consented planning permission being implemented.
- 7.7 We are unsure of the previous use of the residential site at the time the planning application was made however it appears to have been cleared land.

AHS approach

- 7.8 AHS have approached the benchmark land valuation using the Alternative Use Approach (AUV) approach on the basis of an office building being constructed on the site of the residential building.
- 7.9 In order to assess this AUV the applicants planning architect, ACME, have produced a scheme design planning document which is complete with sketches. They have relied on Savills for the valuation of the AUV office space.
- 7.10 The plans provided indicate 15 floors of open plan office space which are served by three lifts and have toilet facilities on each floor. There are plans for two roof

terraces and the design document indicates that the space will be finished to a high quality. The Savills valuation report assumes the space will be finished to Grade A standard with high quality finished as would be expected for a new office building in this location.

AUV office appraisal

Valuation

- 7.11 Savills have provided a detailed market commentary to base their valuation of the AUV office development. They note that rents in the city fringe submarket are between £70-£75 per sq ft and identify comparable evidence which range between £55 and £65 per sq ft. They have created a pricing schedule for the proposed scheme which is as follows:

Floor	Sq Ft	Sq M	£ sq ft	Rent PA
0	4,725	439	£52.50	£248,063
1	4,844	450	£54.00	£261,576
2	6,684	621	£55.00	£367,620
3	6,684	621	£56.00	£374,304
4	6,684	621	£57.00	£380,988
5	6,684	621	£58.00	£387,672
6	6,684	621	£59.00	£394,356
7	4,553	423	£60.00	£273,180
8	4,553	423	£62.00	£282,286
9	4,553	423	£62.00	£282,286
10	3,531	328	£63.00	£222,453
11	3,531	328	£63.00	£222,453
12	3,531	328	£64.00	£225,984
13	3,531	328	£64.00	£225,984
14	2,034	189	£65.00	£132,210
Total	72,806	6,764	£58.81	£4,281,415

- 7.12 Most of the comparable evidence provided by Savills is for units with a superior presence (not 'tucked away') and are mostly recently refurbished with similar lease lengths and tenant incentives. Some of the comparable evidence is from more prominent locations in the City core while the units at 18 Mansell Street and Walsingham House are the most comparable in terms of location. We consider the rental value to be broadly reasonable given the comparable evidence provided by Savills and accept the rental valuation for the hypothetical office space. The AHS appraisal has adopted an incorrect rental area of 69,195 sq ft for the office space which has decreased the rental value in their appraisal, we have included the revised rental area of 72,806 sq ft s per the Alinea plans and Savills report.
- 7.13 Savills anticipate the units will be let on a floor by floor basis or perhaps grouped into several floors. They assume there will be a mix of 5 and 10 year leases with break options every five years. They suggest rent free periods will be between 9-12

months for 5 year leases and 10 year leases with tenant break options (with an added rent free if the break option is not exercised) and 21-24 months for ten year leases, however these will range depending on the tenant covenant strength, and that units on upper floors will have shorter rent free periods due to superior views. They do not expect any further tenant incentives beyond these rent free periods.

- 7.14 Savills anticipate the scheme would be launched 6-9 months in advance of completion to secure pre lets which is reflective of the size of the units. They anticipate 20% of the space will be pre let with the balance spread equally over the next 12 months.
- 7.15 In the Argus development appraisal AHS have allowed for a 20 month rent free period. They have submitted a revised appraisal which has altered the development timings to exclude a void period, whereas in the previous appraisal they had allowed for a 9 month tenant void. We have allowed for a 9 month tenant void and 20 month rent free period void in accordance with the advice from Savills.
- 7.16 Savills have used an all risks yield which is based on the comparable evidence they have provided in their report. Savills note they have softened their prime benchmark yields from 4% to 4.25% in January 2019 where they had been consistent for 24 months before. They expect a WALT of 6 to 7 years and note that city equivalent yields range between 5.41% and 5.59%. They have provided investment transactional evidence which ranges between 4.25% and 5%.
- 7.17 Based on the evidence provided they assume the AUV office development would command a net initial yield of 5% which is a 75 bps discount on the benchmark prime yield of 4.25%. They have applied a 25 bps deduction for the city fringe location, 15 bps deduction for the “tucked away” micro location which lacks presence and 35 bps deduction for the expected lease lengths to fair/reasonable covenants due to the small floor plates. We accept the yield of 5% that has been adopted by Savills.
- 7.18 This gives a total value of £80.2 million for the AUV office development before tenant incentives and voids are accounted for.

Costs

- 7.19 Our Cost Consultant, Neil Powling, has analysed the build cost plan for the proposed scheme prepared by Alinea, dated 29th May 2019, and concludes that:

Our benchmarking of the office AUV scheme results in an adjusted benchmark of £4,028/m² that compares to the Applicant's £3,907/m². We therefore consider the Applicant's costs to be reasonable.

- 7.20 Mr Powling's full cost report can be found at Appendix 1. We accordingly adopt the costs as proposed by Alinea. AHS have also included a £4 million (£55 per sq ft) fit out for the category A office space and a £1.75 million demolition cost for the existing concrete frame. Mr Powling considers the fee for the Category A fit out to be reasonable and we have not reviewed the cost of the demolition although reserve the right to revisit this.
- 7.21 The applicant's consultants have applied the following additional cost assumptions:

- Professional fees of 10%
- Letting agent fee of 10% on ERV
- Letting legal fee of 5% on ERV
- Purchasers costs of 6.8% on the GDV
- Disposal fees of 3% on the GDV

- 7.22 We accept that these percentages are realistic and in line with market norms.
- 7.23 S106 charges have been assumed at £640,870 which is aligned with the S106 agreement. We have not verified this although consider for an office development it would be lower than for a residential development. We consider this point should be revisited with further clarification from the council.
- 7.24 AHS have made the following allowance for MCIL and Borough CIL:
- Mayoral CIL: £425,000. With indexation £1,544,716
 - Borough CIL: £637,650. With indexation £880,43
- 7.25 The corporation have confirmed the CIL contribution is broadly accurate and we have adopted it in our appraisal. AHS have included the same S106 contributions as per the 100% private scenario. We have not verified this position although consider it reasonable to suggest the S106 contributions would be lower in an office development than a residential development. For the purposes of consistency we have adopted this S106 contribution in the AUV scenario.
- 7.26 Finance has been included at 6.5% assuming that the scheme is 100% debt financed. We find this to be a reasonable assumption.
- 7.27 The developer profit target adopted by AHS is 17% on GDV. We would expect a developer profit target of 15% on a commercial element and we have accordingly reduced this.
- 7.28 AHS have allowed for a 22 month (64 week) construction period. Our Cost Consultant considers the development length would be decreased due to the substructure being completed, as with the consented development, which would reduce the time by approximately two months, therefore we adopt a 15 month construction period and left the 3 month pre construction period to allow for alterations to the core.

Summary

- 7.29 Overall, our appraisal shows a residual land value of £8.83 million for the AUV approach. This is an increase of c £4.3 million on the value adopted by AHS which can be accredited to the changes to rental value and decreased construction period and resulting lower finance charges and the lowered developer profit. The appraisal summary can be seen in Appendix Two.

Validity of the AUV approach

Applicants Approach

- 7.30 There is concern that the AUV approach to benchmark land value adopted by AHS is not in accordance with policy and would not be applicable. The applicant has sought advice from Charles Banner QC who has provided opinion in a letter dated 20th January 2020 which AHS have included as an appendix to their report. The subject of the letter is whether the AUV approach for office use is justified rather than the considering the relevance of an EUV based approach and whether the use of the land is now lawfully C3 residential given the implementation of the consented development. We consider these two points to be the main contention for the adoption of AUV in assessing and discuss the issues separately below:

Use of AUV

- 7.31 Mr Banner provides excerpts from NPPF (2019), NPPG (2019), RICS guidance note on financial viability in planning (2019), Draft London Plan 2019 and the Mayor of London's SPG on affordable housing and viability. He also mentions several appeal decisions including Parkhurst Road in LB Islington.

- 7.32 Mr Banner concludes:

The PPG and the SPG do provide support for the use of AUV methodology for assessing benchmark land value in certain limited cases. Whilst EUV+ is the starting-point, AUV can be used in certain circumstances. There are a number of recent instances of use of AUV for calculating BLV set out above.

Subject to the requirements set out in policy being satisfied for the use of AUV, we can see force in the use of that method of assessing Benchmark Land Value being acceptable. The comments in the recent RICS Draft Guidance Note about partially implemented development is important in this context.

- 7.33 We consider this to be confirmation that AUV is an acceptable approach to benchmark land valuation which is not surprising as it highlighted as a potential approach in NPPG however it crucially overlooks NPPG's requirement that an EUV plus approach is regarded as the appropriate basis for establishing a land value benchmark. Mr Banner also fails to highlight the steps for application of an AUV approach identified within the Mayor's affordable Housing and Viability SPG which in accordance with NPPG sets tests for the application of this approach. One of these being to address the reason why a higher AUV is not being pursued as a land use in comparison to the proposed scheme.

- 7.34 AHS comment on the circumstances which must be fulfilled for the legitimate use of AUV. These are as follows:

- **AUV scheme fully complies with the up to date local plan policies**

The planning statement provided by Gerald Eve has considered all relevant planning policies. Gerald Eve note that the site is within the Central Activities Zone (CAZ) of the London Plan, and the current City Plans acknowledgement of Aldgate as having "particular potential for office led regeneration". They quote policy CS8 relating to Aldgate:

"1. Promoting the Aldgate area as an attractive office and residential

location to assist in its regeneration”.

While there is no evidence to suggest that office development would be in contravention of any planning policy, its location in the wider CAZ is not specific to the site. Policy CS8 of the City Plan confirms that the area is suitable for office development as well as being suitable to residential development.

There are several policies including the London Plan and Draft London plan which are clear that the loss of housing should be resisted, therefore the AUV approach can be contested at this level. This is revisited in the next section.

- **AUV scheme could be implemented on the site in question**

The applicant has provided a sketch scheme, plans and schedule of accommodation to show that the proposals can be implemented given the existing site constraints.

We consider this to be reasonable and accept that the scheme could feasibly be provided on the site although this is clearly a matter for Planning Officer's to consider.

- **There is market demand for the AUV office scheme**

The Savills valuation report includes market commentary which demonstrates that there is demand for new office space in the City Fringe location.

We agree that there is demand for office space in the location.

- **Explanation as to why the AUV has not been pursued**

AHS suggest that at the time of planning application for the consented permission the applicant considered that a residential scheme was the most appropriate commercial solution for the site however they had not fully considered the financial implication of including a policy compliant affordable housing contribution. The scheme has since stalled due to it being unviable with the current affordable housing requirement. In hindsight they suggest that an office development would have been a better option however the landowner is committed to developing the consented scheme at the point it becomes viable.

We do not consider it credible that a reasonable developer would not take into consideration the impact of planning obligations in promoting a housing led scheme. It is apparent that for whatever reason the developer appears to have miscalculated the viability of the scheme or ran out of funding resulting in the scheme stalling. However, it is clear that the Planning System is not intended to provide a buffer to insulate developers from commercial risk. Developer profit is in part set at a level which rewards developers for taking on developer risk.

The approach taken by AHS serves to protect the developer from this risk by seeking to rebase the affordable housing obligations to ensure the profit target is achievable which appears to run contrary to the requirements of NPPG which state:

Where contributions are reduced below the requirements set out in policies to provide flexibility in the early stages of a development, there should be a clear agreement of how policy compliance can be achieved over time. As the potential risk to developers is already accounted for in the assumptions for developer return in viability assessment, realisation of risk does not in itself necessitate further viability assessment or trigger a review mechanism. Review mechanisms are not a tool to protect a return to the developer, but to strengthen local authorities' ability to seek compliance with relevant policies over the lifetime of the project.

We also do not consider that the applicant is proposing an office development on site, as no planning application has been submitted. The applicant has produced a planning statement, commissioned a high level sketch and produced a cost plan for such a scenario but this does not mean the applicant intends to use the land for this purpose.

7.35 AHS accordingly see this as reasonable grounds to adopt the AUV.

7.36 NPPG (2019) states:

Supporting more effective use of land

What evidence can be used to help determine whether land should be reallocated for a more deliverable use?

When considering whether there is a realistic prospect of an allocated site being developed for its intended use, it may be relevant to take into account factors such as:

- the length of time since the site was allocated in the development plan;*
- the planning history of the site including any planning applications or pre-application enquiries;*
- whether there is evidence that the site has been actively marketed for its intended use for a reasonable period, and at a realistic price; and*
- whether there are any changes of circumstance that mean that take-up of the site for its intended use is now unlikely.*

Where an alternative use for the allocated site is proposed, it will also be relevant to consider the extent to which evidence suggests the alternative use would address an unmet need, as well as the implications for the wider planning strategy for the area and other development plan policies.

Paragraph: 001 Reference ID: 66-001-20190722

Revision date: 22 07 2019

7.37 The site has consented use for residential purposes, not office use. The adoption of the AUV would not be addressing an unmet need and in fact would be hindering the need for housing on site.

7.38 We consider that AUV is not the most appropriate method of approaching benchmark land value. Policy in the London Plan prevents the loss of housing and land allocated

for housing cannot be ignored, while we are not satisfied that the applicant intends to pursue the AUV office development given the lack of planning permission or application.

Loss of existing housing

- 7.39 Mr Banner provides reviews of relevant case law and concludes that the building cannot be classified as existing housing given that the building is unusable for residential purposes in its existing form. He also references RICS guidance and National Planning Policy guidance and frameworks. Therefore, the AUV office development is legally plausible and is not in contradiction to Local Plan policies CS21 and DM21.2 which prevent the loss of existing housing. This is also included in Policy HS2 in the emerging City Plan.
- 7.40 Mr Banner argues that the existing building cannot be described as existing housing or existing housing units as it does not have a shell so cannot fall within the protection of the afore mentioned policies.
- 7.41 We are of the opinion that while the units are not currently habitable they can be considered intended for residential use due to the implemented planning consent of the land for residential development. Policy at both London and City levels is clear that the loss of housing should not be permitted due to the demand for housing in the area.
- 7.42 The reasons for the policies in the City are due to the limited opportunities to replace housing in the city with exceptions being made for poor quality units or units in areas that suffer noise disturbance or nuisance. The reason for the policies included in the London Plan are in place to address London's housing need. The loss of the residential units, which are partially implemented here, would in our view be in contradiction with the spirit of the London and City Plan which seek to protect residential units and would be in contrast to the wider needs.
- 7.43 Paragraph 007 of the 2019 NPPG states that a site that has granted planning permission can be considered as a deliverable housing site. We consider that the site is still reasonably deliverable as a housing site and that this is not impeded by the affordable housing provision which can be seen by the positive land value achieved by the site.

Market Value (Residential Land Sales)

- 7.44 AHS reference NPPG which suggests that market value can be used as a crosscheck of benchmark land value. They also reference the Parkhurst Road case (2018) (crucially this case predates the July 2018 and subsequent 2019 revisions of the NPPF and NPPG) which allows for a comparison of sites without being affected by differing levels of affordable housing provision. The result of the Parkhurst case is to reduce the strength given the market value by land transactions.
- 7.45 Savills have provided the following residential land transactions as evidence:

LOCAL LAND TRANSACTION	Total Units	Borough	Local Plan AH %	Policy AH Unit Component	Policy Market Component	Sale Price £k	£k Adjusted Value per Market Plot
Lavington Street SE1	173	Southwark	35%	60.55	112.45	87100	775
Mount Pleasant EC1	681	Islington	50%	340.5	340.5	190000	558
Dock Street E1	89	Tower Hamlets	35%	31.15	57.85	21500	372
Vallance Road E1	144	CoL	30%	43.2	100.8	22700	225
Landmark Place EC3	165	CoL	30%	49.5	115.5	54975	476
Hopton Street SE1	489	Southwark	35%	171.15	317.85	317000	997
Bishopsgate EC2	160	CoL	30%	48	112	95000	848
Wood Street EC2	90	CoL	30%	27	63	4500	71
						Mean	540
						CoL Mean	405

- 7.46 AHS suggest that even if the lowest value per unit from the evidence, £71,000 at Wood Street, were taken then a benchmark land value of £4.33 million which is some way above their previously adopted benchmark land value.
- 7.47 We consider this to be a high level assessment of benchmark land value which serves as more of a sense check than a basis for valuation. As with all analysis of sites it is essential to ensure the transaction references consented land and that the level of realised developer profit is known to ensure sense is made of the land price when being analysed.

EUV

- 7.48 We also considered an EUV approach to benchmark land valuation using the Direct Replacement Cost (DRC) method of valuation. This is based on the existing concrete frame and substructure that have been implemented on the site. We have used our Cost Consultants inflated cost of £3,429,507 and made allowances for Preliminaries, OHP and contingency in accordance with the elemental cost plan. We do not consider a premium to be necessary. This generates a value of £4,487,163 which we have fixed as the land cost in the appraisals for the proposed scheme and included as a fixed construction cost in the AUV scenario so as to generate a residual land value.

Conclusion

- 7.49 We do not consider the AUV approach to benchmark land value to be in accordance with relevant guidance in this instance. The AUV scenario is not being proposed by the applicant as an intended land use and has used solely as a basis from which to inflate land value to reduce the affordable housing provision. Given that the consented permission for residential use has been implemented we consider the land to be a deliverable housing site as per NPPG and the use of the land for the AUV purpose would be reducing the supply of housing which is much needed in this location.

8.0 QUALITY STANDARDS CONTROL

This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

The following persons have been involved in the production of this report:



Arthur Boulding
RICS Membership no. 6878828
For and on behalf of BPS
Chartered Surveyors

Andrew Jones MRICS
RICS Membership no. 0085834
For and on behalf of BPS
Chartered Surveyors

9.0 LIMITATION OF LIABILITY/ PUBLICATION

This report is provided for the stated purpose and for the sole use of the named clients. It is confidential to the clients and their professional advisors and BPS Chartered Surveyors accepts no responsibility whatsoever to any other person.

Neither the whole nor any part of this valuation report nor any reference hereto may be included in any published document, circular, or statement, or published in any way, without prior written approval from BPS of the form and context in which it may appear.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we** consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review.

Appendix One - Build Cost Report

Project: 15-16 The Minories & 62 Aldgate High Street, City of London EC3N 1AX

Independent Review of Assessment of Economic Viability

Interim Draft Report Appendix A Cost Report

1 SUMMARY

Residential Scheme

- 1.1 The cost update for the proposed residential scheme has been produced at an earlier base date that has not been stated and updated by 15.044% to 1Q2019. We have included the updated figure in our elemental analysis but are unable to verify the amount of the % adjustment.
- 1.2 The allowance for Design & Build Risk for the proposed residential scheme is 3% and construction risk 5.2%. We consider a total contingency (risk allowance) for new build works of 5% reasonable. We therefore consider the total allowance by the Applicant high by 3%.
- 1.3 The GIA of the residential scheme is 88,085ft² and the NIA used in the appraisal is 61,468ft² giving an efficiency of 69.8%. This is the low end of the range we would expect.
- 1.4 There is no substructure included in the Cost Update (as this part of the structure has already been constructed). We have made a deduction in our benchmarking to allow for this.
- 1.5 Our benchmarking results in an adjusted benchmark of £4,965/m² that compares to the Applicant's £4,927/m². We therefore consider the Applicant's costs to be reasonable.

AUV Office scheme

- 1.6 The Feasibility Cost Estimate has been adjusted by 4% to 1Q2019; the earlier base date on which the costs are based has not been stated. We have included the updated figure in our elemental analysis but are unable to verify the amount of the % adjustment.
- 1.7 The allowance for Design & Build Risk is 2.5% and construction risk 7.34%. We consider a total contingency (risk allowance) for new build works of 5% reasonable. We therefore consider the total allowance by the Applicant high by 4.8%.
- 1.8 The GIA is 91,515ft² and the NIA used in the appraisal is 69,195ft² giving an efficiency of 75.6%. This is in the middle of the range we would expect.
- 1.9

- There is no substructure included in the estimate (as this part of the structure has already been constructed), there is a small allowance for modifying the existing structure. We have made a deduction in our benchmarking to allow for this.
- 1.10 Our benchmarking of the office AUV scheme results in an adjusted benchmark of £4,028/m² that compares to the Applicant's £3,907/m². We therefore consider the Applicant's costs to be reasonable.
- 2 METHODOLOGY
- 2.1 The objective of the review of the construction cost element of the assessment of economic viability is to benchmark the Applicant's costs against RICS Building Cost Information Service (BCIS) average costs. We use BCIS costs for benchmarking because it is a national and independent database. Many companies prefer to benchmark against their own data which they often treat as confidential. Whilst this is understandable as an internal exercise, in our view it is insufficiently robust as a tool for assessing viability compared to benchmarking against BCIS. A key characteristic of benchmarking is to measure performance against external data. Whilst a company may prefer to use their own internal database, the danger is that it measures the company's own projects against others of its projects with no external test. Any inherent discrepancies will not be identified without some independent scrutiny.
- 2.2 BCIS average costs are provided at mean, median and upper quartile rates (as well as lowest, lower quartile and highest rates). We generally use mean or occasionally upper quartile for benchmarking. The outcome of the benchmarking is little affected, as BCIS levels are used as a starting point to assess the level of cost and specification enhancement in the scheme on an element by element basis. BCIS also provide a location factor compared to a UK mean of 100; our benchmarking exercise adjusts for the location of the scheme. BCIS Average cost information is available on a default basis which includes all historic data with a weighting for the most recent, or for a selected maximum period ranging from 5 to 40 years. We generally consider both default and maximum 5 year average prices; the latter are more likely to reflect current regulations, specification, technology and market requirements.
- 2.3 BCIS average prices are available on an overall £ per sqm and for new build work on an elemental £ per sqm basis. Rehabilitation/conversion data is available on an overall £ per sqm and on a group element basis ie. substructure, superstructure, finishings, fittings and services - but is not available on an elemental basis. A comparison of the applicants elemental costing compared to BCIS elemental benchmark costs provides a useful insight into any differences in cost. For example: planning and site location requirements may result in a higher than normal cost of external wall and window elements.
- 2.4 If the application scheme is for the conversion, rehabilitation or refurbishment of an existing building, greater difficulty results in checking that the costs are reasonable, and the benchmarking exercise must be undertaken with caution. The elemental split is not available from the BCIS database for rehabilitation work; the new build split may be used instead as a check for some, but certainly not all, elements. Works to existing buildings vary greatly from one building project to the next. Verification of costs is helped greatly if the cost plan is itemised in reasonable detail thus describing the content and extent of works proposed.

- 2.5 BCIS costs are available on a quarterly basis - the most recent quarters use forecast figures, the older quarters are firm. If any estimates require adjustment on a time basis we use the BCIS all-in Tender Price Index (TPI).
- 2.6 BCIS average costs are available for different categories of buildings such as flats, houses, offices, shops, hotels, schools etc. The Applicant's cost plan should ideally keep the estimates for different categories separate to assist more accurate benchmarking. However if the Applicant's cost plan does not distinguish different categories we may calculate a blended BCIS average rate for benchmarking based on the different constituent areas of the overall GIA.
- 2.7 To undertake the benchmarking we require a cost plan prepared by the applicant; for preference in reasonable detail. Ideally the cost plan should be prepared in BCIS elements. We usually have to undertake some degree of analysis and rearrangement before the applicant's elemental costs can be compared to BCIS elemental benchmark figures. If a further level of detail is available showing the build-up to the elemental totals it facilitates the review of specification and cost allowances in determining adjustments to benchmark levels. An example might be fittings that show an allowance for kitchen fittings, bedroom wardrobes etc that is in excess of a normal BCIS benchmark allowance.
- 2.8 To assist in reviewing the estimate we require drawings and (if available) specifications. Also any other reports that may have a bearing on the costs. These are often listed as having being used in the preparation of the estimate. If not provided we frequently download additional material from the documents made available from the planning website.
- 2.9 BCIS average prices per sqm include overheads and profit (OHP) and preliminaries costs. BCIS elemental costs include OHP but not preliminaries. Nor do average prices per sqm or elemental costs include for external services and external works costs. Demolitions and site preparation are excluded from all BCIS costs. We consider the Applicants detailed cost plan to determine what, if any, abnormal and other costs can properly be considered as reasonable. We prepare an adjusted benchmark figure allowing for any costs which we consider can reasonably be taken into account before reaching a conclusion on the applicant's cost estimate.
- 2.10 We undertake this adjusted benchmarking by determining the appropriate location adjusted BCIS average rate as a starting point for the adjustment of abnormal and enhanced costs. We review the elemental analysis of the cost plan on an element by element basis and compare the Applicants total to the BCIS element total. If there is a difference, and the information is available, we review the more detailed build-up of information considering the specification and rates to determine if the additional cost appears justified. If it is, then the calculation may be the difference between the cost plan elemental £/m² and the equivalent BCIS rate. We may also make a partial adjustment if in our opinion this is appropriate. The BCIS elemental rates are inclusive of OHP but exclude preliminaries. If the Applicant's costings add preliminaries and OHP at the end of the estimate (as most typically do) we add these to the adjustment amounts to provide a comparable figure to the Applicant's cost estimate. The results of the elemental analysis and BCIS benchmarking are generally issued as a PDF but upon request can be provided as an Excel spreadsheet.

3 GENERAL REVIEW OF PROPOSED RESIDENTIAL SCHEME

- 3.1 We have been provided with and relied upon the Financial Viability Report together with appendices issued February 2020 by Affordable Housing Solutions. We have particularly relied on Appendix 10 the Stage 4 Cost Update for the Proposed Residential Scheme - TPI Update issued 29th May 2019 by Alinea and Appendix 12 the Feasibility Cost Estimate for the Alternative Use Office Scheme - TPI Update issued 29th May 2019 by Alinea.
- 3.2 The cost update for the proposed residential scheme has been produced at an earlier base date that has not been stated and updated by 15.044% to 1Q2019. We have included the updated figure in our elemental analysis but are unable to verify the amount of the % adjustment. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2019 is 332 (Equivalent sample 68) and for 3Q2020 332 (forecast).
- 3.3 The design information used to produce the cost plan has been scheduled. The MEP Services and Lift relies on RED Engineering Stage 4 Design information and Civils/ Structural Engineering relies on AKT II Stage 4 Design information.
- 3.4 The cost plan includes an allowance of 15% for preliminaries. The allowance for overheads and profit (OHP) is 5%. We consider both of these allowances reasonable.
- 3.5 The allowance for Design & Build Risk for the proposed residential scheme is 3% and construction risk 5.2%. We consider a total contingency (risk allowance) for new build works of 5% reasonable. We therefore consider the total allowance by the Applicant high by 3%. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.
- 3.6 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking.
- 3.7 Sales have been included in the Appraisal at average figures of £1,172/ft² (Net Sales Area).
- 3.8 We have downloaded current BCIS data for benchmarking purposes including a Location Factor for The City of London of 122 that has been applied in our benchmarking calculations.
- 3.9 We have adopted the same GIA used in the Applicant's Stage 4 Cost Update; we assume this to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007. The GIA of the residential scheme is 88,085ft² and the NIA used in the appraisal is 61,468ft² giving an efficiency of 69.8%. This is the low end of the range we would expect.
- 3.10 The building is an 18 storey building of flats (including two basement levels); BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above. We have benchmarked as 6 storeys or above.
- 3.11 There is no substructure included in the Cost Update (as this part of the structure has already been constructed). We have made a deduction in our benchmarking to allow for this.

3.12 Our benchmarking results in an adjusted benchmark of £4,965/m² that compares to the Applicant's £4,927/m². We therefore consider the Applicant's costs to be reasonable.

3.13 The costs included in the appraisal are consistent with the costs in the Stage 4 Cost Update.

4 GENERAL REVIEW OF ALTERNATIVE USE OFFICE SCHEME

4.1 The review in section 3 above is relevant to the AUV scheme with differences identified in the paragraphs below.

4.2 The Feasibility Cost Estimate has been adjusted by 4% to 1Q2019; the earlier base date on which the costs are based has not been stated. We have included the updated figure in our elemental analysis but are unable to verify the amount of the % adjustment. Our benchmarking uses current BCIS data which is on a current tender firm price basis. The BCIS all-in Tender Price Index (TPI) for 1Q2019 is 332 (Equivalent sample 68) and for 3Q2020 332 (forecast).

4.3 The design information used to produce the cost estimate has been provided and is based on information provided by ACME, RED and structural assumptions.

4.4 The cost plan includes an allowance of 16% for preliminaries. The allowance for overheads and profit (OHP) is 5%. We consider both of these allowances reasonable.

4.5 The allowance for Design & Build Risk is 2.5% and construction risk 7.34%. We consider a total contingency (risk allowance) for new build works of 5% reasonable. We therefore consider the total allowance by the Applicant high by 4.8%. All the % figures are based on a calculation of a conventional arrangement of the sums in the analysis.

4.6 We have extracted the cost information provided by the Applicant into a standard BCIS/NRM format to facilitate our benchmarking.

4.7 We have adopted the same GIA used in the Applicant's estimate; we assume this to be the GIAs calculated in accordance with the RICS Code of Measurement 6th Edition 2007. The GIA is 91,515ft² and the NIA used in the appraisal is 69,195ft² giving an efficiency of 75.6%. This is in the middle of the range we would expect.

4.8 The building is a 15 storey building of offices; BCIS average cost data is given in steps: 1-2 storey, 3-5 storey, 6 storey or above either air conditioned or not. We have benchmarked as air conditioned 6 storey or above.

4.9 There is no substructure included in the estimate (as this part of the structure has already been constructed), there is a small allowance for modifying the existing structure. We have made a deduction in our benchmarking to allow for this.

4.10 Our benchmarking of the office AUV scheme results in an adjusted benchmark of £4,028/m² that compares to the Applicant's £3,907/m². We therefore consider the Applicant's costs to be reasonable.

- 4.11 The costs included in the appraisal are consistent with the costs in the Stage 4 Cost Update.

BPS Chartered Surveyors
Date: 20th July 2020

15-16 The Minories & 62 Aldgate High Street, City of London EC3N 1AX

Elemental analysis proposed residential & BCIS benchmark

115.05%

All these detailed costings are at 1Q2017 price levels

GIA ft² 88,085

65,729

	1Q2017	inc inflatn	8,183	GIA m²	8,183	6,106		6,106		6,106		Flats Def	
	TOTAL			Shell & core		Apt fit-out		Amenity fit-out		Communal fit-out		LF100	LF122
	£	£	£/m²	£	£/m²	£	£/m²	£	£/m²	£	£/m²	£/m²	£/m²
Demolitions													
1 Substructure - excluded												147	179
2A Frame	2,981,000	3,429,507	419	2,981,000	364							129	157
2B Upper Floors												80	98
2C Roof	321,000	369,296	45	321,000	39							91	111
2D Stairs	207,000	238,144	29	162,000	20	45,000	7					30	37
2E External Walls	7,130,000	8,202,745	1,002	7,130,000	871							188	229
2F Windows & External Doors												90	110
2G Internal Walls & Partitions	1,998,000	2,298,609	281	241,000	29	1,687,000	276			70,000	11	67	82
2H Internal Doors	416,000	478,589	58					20,000	3	396,000	65	50	61
2 Superstructure	13,053,000	15,016,890	1,835	10,835,000	1,324	1,732,000	284	20,000	3	466,000	76	725	885
3A Wall Finishes	790,000	908,860	111			479,000	78	8,000	1	303,000	50	73	89
3B Floor Finishes	1,367,000	1,572,672	192			994,000	163	41,000	7	332,000	54	60	73
3C Ceiling Finishes	700,000	805,319	98			467,000	76	37,000	6	196,000	32	39	48
3 Internal Finishes	2,857,000	3,286,850	402	0	0	1,940,000	318	86,000	14	831,000	136	172	210
4 Fittings	3,329,000	3,829,865	468			2,999,000	491	125,000	20	205,000	34	61	74
5A Sanitary Appliances												29	35
5B Services Equipment (kitchen, laundry)												24	29
5C Disposal Installations	230,000	264,605	32	230,000	28							13	16
5D Water Installations	159,000	182,922	22	159,000	19							32	39
5E Heat Source - CEC?												50	61
5F Space Heating & Air Treatment	892,000	1,026,206	125	892,000	109							104	127
5G Ventilating Systems, smoke extract & control	221,000	254,251	31	221,000	27							19	23
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)	4,024,000	4,629,431	566	540,000	66	3,484,000	571					87	106
5I Fuel Installations												7	9
5J Lift Installations	775,000	891,603	109	775,000	95							37	45
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)	278,000	319,827	39	278,000	34							11	13
5L Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)	572,000	658,060	80	572,000	70							23	28
5M Special Installations - (window cleaning, BMS, medical gas) - refuse chute	85,000	97,789	12	85,000	10							44	54
5N BWIC with Services	362,000	416,465	51	188,000	23	174,000	28					14	17
5O Management of commissioning of services													
5 Services	7,598,000	8,741,158	1,068	3,940,000	481	3,658,000	599	0	0	0	0	494	603
6A Site Works													
6B Drainage													
6C External Services													
6D Minor Building Works													
6 External Works	0	0	0	0	0	0	0	0	0	0	0		
SUB TOTAL	26,837,000	30,874,764	3,773	14,775,000	1,805	10,329,000	1,691	231,000	38	1,502,000	246	1,599	1,951
7 Preliminaries 15%	4,026,000	4,631,732	566										
Overheads & Profit 5%	1,543,000	1,775,152	217										
SUB TOTAL	32,406,000	37,281,648	4,556	14,775,000	1,805	10,329,000	1,691	231,000	38	1,502,000	246		
Design Development risks - Design & build r isk 3%	972,000	1,118,242	137										
Construction risks 5.2%	1,669,000	1,920,110	235										
Employer change risks													
Employer other risks													
TOTAL	35,047,000	40,320,000	4,927	14,775,000	1,805	10,329,000	1,691	231,000	38	1,502,000	246		
Inflation to 1Q2019 15.044% - inc rounding	5,273,000												
TOTAL	40,320,000	included	4,927	14,775,000	1,805	10,329,000	1,691	231,000	38	1,502,000	246		

4,927

1,805

1,691

38

246

Benchmarking

Adjust for substructure

-179

Add additional cost of frame & upper floors

164

Add additional cost of external walls & windows

663

Add additional cost of internal walls & int dorrs

197

Add additional cost of wall finishes

22

Add additional cost of floor finishes

119

Add additional cost of ceiling finishes

51

Add additional cost of fittings

394

Add additional cost of ventilating installations

8

Add additional cost of electrical installations

460

Add additional cost of lift installations

64

Add additional cost of protective installations

26

Add additional cost of communication installations

52

Add additional cost of BWIC

34

2,073

Add prelims 15%

311

Add OHP 5%

119

2,503

4,729

Add contingency 5%

236

Total adjusted benchmark

4,965

Alternative Office Scheme

Elemental analysis & BCIS benchmarking

		GIA ft ²		91,515	
		104.01%		Offices def	
		GIA m ²	Inc inflation	8,502	LF100 LF122
		£	£	£/m ²	£/m ² £/m ²
Demolitions					
1	Substructure - modify existing structure	366,000	380,668	45	156 190
2A	Frame	4,726,000	4,915,395	578	132 161
2B	Upper Floors				72 88
2C	Roof	598,000	621,965	73	128 156
2D	Stairs	330,000	343,225	40	39 48
2E	External Walls	7,057,000	7,339,810	863	193 235
2F	Windows & External Doors				122 149
2G	Internal Walls & Partitions	732,000	761,335	90	61 74
2H	Internal Doors				38 46
2	Superstructure	13,443,000	13,981,730	1,645	785 958
3A	Wall Finishes	291,224	302,895	36	43 52
3B	Floor Finishes	509,642	530,066	62	75 92
3C	Ceiling Finishes	72,806	75,724	9	36 44
	Fit out basement	268,000	278,740	33	
3	Internal Finishes	1,141,672	1,187,425	140	154 188
4	Fittings & finishings	2,258,000	2,348,490	276	26 32
5A	Sanitary Appliances				16 20
5B	Services Equipment (kitchen, laundry)				16 20
5C	Disposal Installations				11 13
5D	Water Installations	3,893,000	4,049,013	476	30 37
5E	Heat Source	2,181,280	2,268,695	267	47 57
5F	Space Heating & Air Treatment				162 198
5G	Ventilating Systems, smoke extract & control				56 68
5H	Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)				168 205
5I	Fuel Installations				5 6
5J	Lift Installations	588,000	611,564	72	35 43
5K	Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)				18 22
5L	Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction loop)				42 51
5M	Special Installations - (window cleaning, BMS, medical gas)				30 37
5N	BWIC with Services				18 22
5O	Management of commissioning of services				
5	Services	6,662,280	6,929,272	815	654 798
6A	Site Works				
6B	Drainage				
6C	External Services				
6D	Minor Building Works				
6	External Works	0	0	0	
	SUB TOTAL	23,870,952	24,827,584	2,920	1,775 2,166
7	Preliminaries 16%	3,819,792	3,972,871	467	
	Overheads & Profit 5%	1,384,187	1,439,659	169	
	SUB TOTAL	29,074,932	30,240,113	3,557	
	Design Development risks - Design & build risk 2.5%	727,023	756,159	89	
	Construction risks 7.34%	2,135,047	2,220,609	261	
	Employer change risks				
	Employer other risks - rounding	2,999	3,119	0	
	TOTAL	31,940,000	33,220,000	3,907	
	Inflation to 1Q2019 4%	1,280,000			
	TOTAL	33,220,000		3,907	

Benchmarking

Adjust for substructure (existing to be modified)

-146

Add additional cost of frame & upper floors

329

Add additional cost of external walls & windows

479

Add additional cost of fittings

245

907

Add prelims 16%

145

Add OHP 5%

53

1,105

3,837

Add contingency 5%

192

Total adjusted benchmark

4,028

Difference

-121

Appendix Two - AUV Appraisal

Minories AUV
Appraisal Summary for Phase 1
Currency in £
REVENUE
Rental Area Summary

	Units	ft ²	Rent Rate ft ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Office	1	72,806	58.81	4,281,721	4,281,721	4,281,721

Investment Valuation
Office

Market Rent	4,281,721	YP @	5.0000%	20.0000	
(2yrs 5mths Rent Free)		PV 2yrs 5mths @	5.0000%	0.8888	76,109,851

GROSS DEVELOPMENT VALUE
76,109,851

Purchaser's Costs	(5,175,470)
Effective Purchaser's Costs Rate	6.80%
	(5,175,470)

NET DEVELOPMENT VALUE
70,934,381
NET REALISATION
70,934,381
OUTLAY
ACQUISITION COSTS

Residualised Price	8,813,008
	8,813,008
Stamp Duty	430,150
Effective Stamp Duty Rate	4.88%
Agent Fee	88,130
Legal Fee	70,504
	588,785

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost
Office			
- Construction Breakdown			33,220,000
			33,220,000

Demolition	1,750,000
s106	640,870
Mayoral CIL	1,544,716
Borough CIL	880,438
	4,816,024

Other Construction

Cat A fit out	4,000,000
	4,000,000

PROFESSIONAL FEES

Professional Fees	10.00%	3,322,000
		3,322,000

MARKETING & LETTING

Letting Agent Fee	10.00%	428,172
Letting Legal Fee	5.00%	214,086
		642,258

DISPOSAL FEES

Sales Agent Fee	2.50%	1,773,360
Sales Legal Fee	0.50%	354,672
		2,128,031

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)	
Land	899,531
Construction	1,864,587
Total Finance Cost	2,764,118

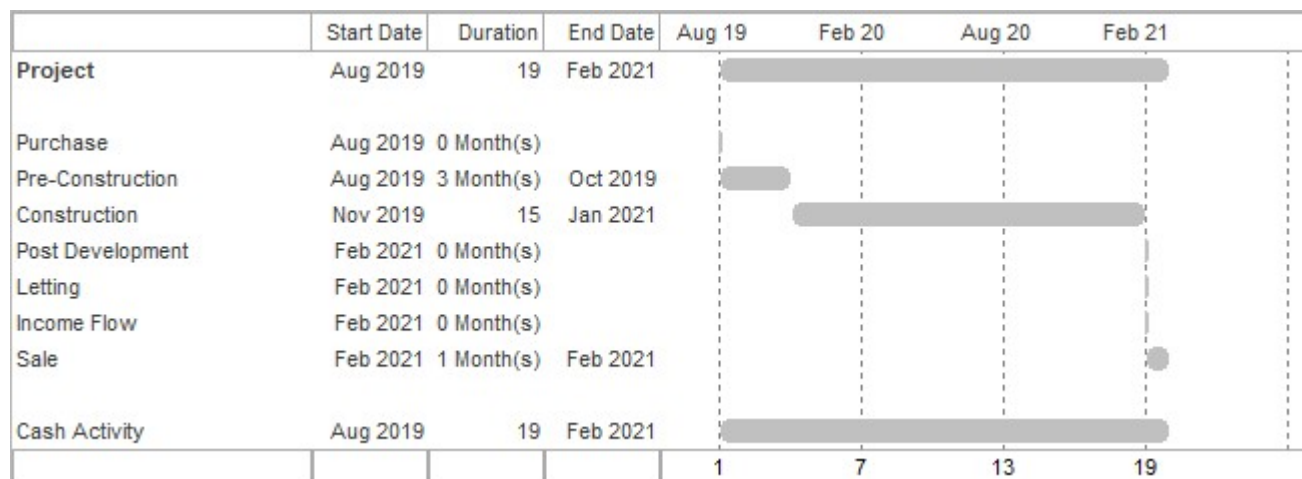
TOTAL COSTS
60,294,224

Minories AUV**PROFIT****10,640,157****Performance Measures**

Profit on Cost%	17.65%
Profit on GDV%	13.98%
Profit on NDV%	15.00%
Development Yield% (on Rent)	7.10%
Equivalent Yield% (Nominal)	5.00%
Equivalent Yield% (True)	5.16%
IRR% (without Interest)	28.82%
Rent Cover	2 yrs 6 mths
Profit Erosion (finance rate 6.500)	2 yrs 6 mths

Minories AUV
Project Timescale

Project Start Date	Aug 2019
Project End Date	Feb 2021
Project Duration (Inc Exit Period)	19 months

Phase 1


Appendix Three - 100% Private Appraisal

Minories - all private

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private residential	1	61,468	1,171.99	72,040,000	72,040,000

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground rents	87	175	15,200	15,200

Investment Valuation

Ground rents					
Current Rent	15,200	YP @	4.5000%	22.2222	337,778

GROSS DEVELOPMENT VALUE **72,377,778**

Purchaser's Costs			(18,240)	
Effective Purchaser's Costs Rate		5.40%		(18,240)

NET DEVELOPMENT VALUE **72,359,538**NET REALISATION **72,359,538**

OUTLAY

ACQUISITION COSTS

Fixed Price			4,487,163	
Stamp Duty			213,858	4,487,163
Effective Stamp Duty Rate		4.77%		
Agent Fee		1.00%	44,872	
Legal Fee		0.80%	35,897	
				294,627

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Private residential			
- Construction Breakdown			35,832,837
			35,832,837
s106			640,870
CIL			305,941
			946,811

PROFESSIONAL FEES

Professional	10.00%	3,583,284	
			3,583,284

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	1,809,444	
Sales Legal Fee	0.50%	361,798	
			2,171,242

Developer's Profit

Developer's Profit	17.50%	12,662,919	
			12,662,919

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		514,264	
Construction		2,070,448	
Other		127,423	
Total Finance Cost			2,712,135

TOTAL COSTS **62,691,018**

PROFIT

9,668,520

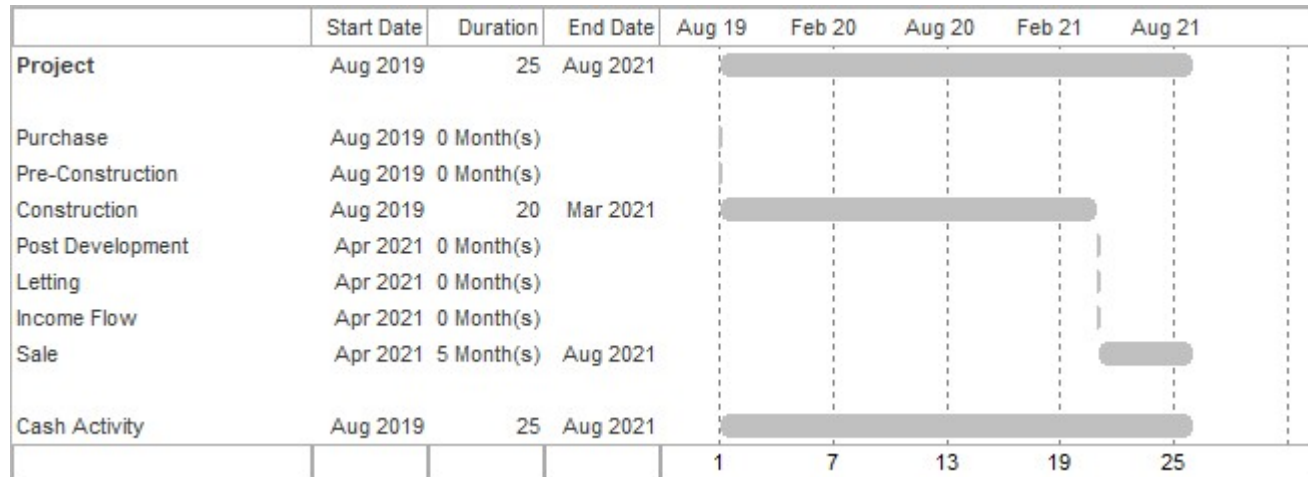
Performance Measures

Minories - all private

Profit on Cost%	15.42%
Profit on GDV%	13.36%
Profit on NDV%	13.36%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%
IRR% (without Interest)	25.54%
Rent Cover	636 yrs 1 mth
Profit Erosion (finance rate 6.500)	2 yrs 3 mths

Minories - all private

Project Timescale	
Project Start Date	Aug 2019
Project End Date	Aug 2021
Project Duration (Inc Exit Period)	25 months

Phase 1


Appendix Four - Consented Scheme Appraisal

Minories - 27 affordable Consented Scheme
Appraisal Summary for Phase 1
Currency in £
REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private residential	1	43,773	1,193.43	52,240,000	52,240,000
Affordable	<u>27</u>	<u>17,965</u>	391.42	260,436	<u>7,031,780</u>
Totals	28	61,738			59,271,780

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground rents	60	178	10,650	10,650

Investment Valuation

Ground rents					
Current Rent	10,650	YP @	4.5000%	22.2222	236,667

GROSS DEVELOPMENT VALUE 59,508,447

Purchaser's Costs			(11,360)		
Effective Purchaser's Costs Rate		4.80%		(11,360)	

NET DEVELOPMENT VALUE 59,497,087
NET REALISATION 59,497,087
OUTLAY
ACQUISITION COSTS

Fixed Price			4,487,163		
				4,487,163	
Stamp Duty			213,858		
Effective Stamp Duty Rate		4.77%			
Agent Fee		1.00%	44,872		
Legal Fee		0.80%	35,897		
				294,627	

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Private residential			
- Construction Breakdown			33,258,137
			33,258,137
s106			640,870
Statutory/LA			225,000
			865,870

PROFESSIONAL FEES

Professional	10.00%	3,325,814		
			3,325,814	

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	1,311,917		
Sales Legal Fee	0.50%	297,542		
			1,609,459	

Developer's Profit

Developer's Profit	16.14%	9,602,830		
			9,602,830	

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land		512,687		
Construction		1,764,267		
Other		61,607		
Total Finance Cost			2,338,562	

TOTAL COSTS 55,782,461
PROFIT
3,714,625

Minories - 27 affordable Consented Scheme**Performance Measures**

Profit on Cost%	6.66%
Profit on GDV%	6.24%
Profit on NDV%	6.24%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%

IRR% (without Interest)	15.12%
-------------------------	--------

Rent Cover	348 yrs 9 mths
Profit Erosion (finance rate 6.500)	12 mths

Minories - 27 affordable Consented Scheme
Table of Profit Amount and Profit on GDV%

Construction: Gross Cost					
Sales: Gross Sales	-5.000%	-2.500%	0.000%	+2.500%	+5.000%
	31,595,230	32,426,684	33,258,137	34,089,590	34,921,044
-5.000%	£1,585,123	£1,585,123	£1,585,123	£1,585,123	£1,585,123
49,628,000	2.786%	2.786%	2.786%	2.786%	2.786%
-2.500%	£2,649,874	£2,649,874	£2,649,874	£2,649,874	£2,649,874
50,934,000	4.553%	4.553%	4.553%	4.553%	4.553%
0.000%	£3,714,625	£3,714,625	£3,714,625	£3,714,625	£3,714,625
52,240,000	6.242%	6.242%	6.242%	6.242%	6.242%
+2.500%	£4,779,376	£4,779,376	£4,779,376	£4,779,376	£4,779,376
53,546,000	7.859%	7.859%	7.859%	7.859%	7.859%
+5.000%	£5,844,128	£5,844,128	£5,844,128	£5,844,128	£5,844,128
54,852,000	9.408%	9.408%	9.408%	9.408%	9.408%

Sensitivity Analysis : Assumptions for Calculation
Construction: Gross Cost

Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Private residential	1	£33,258,137	2.00 Up & Down

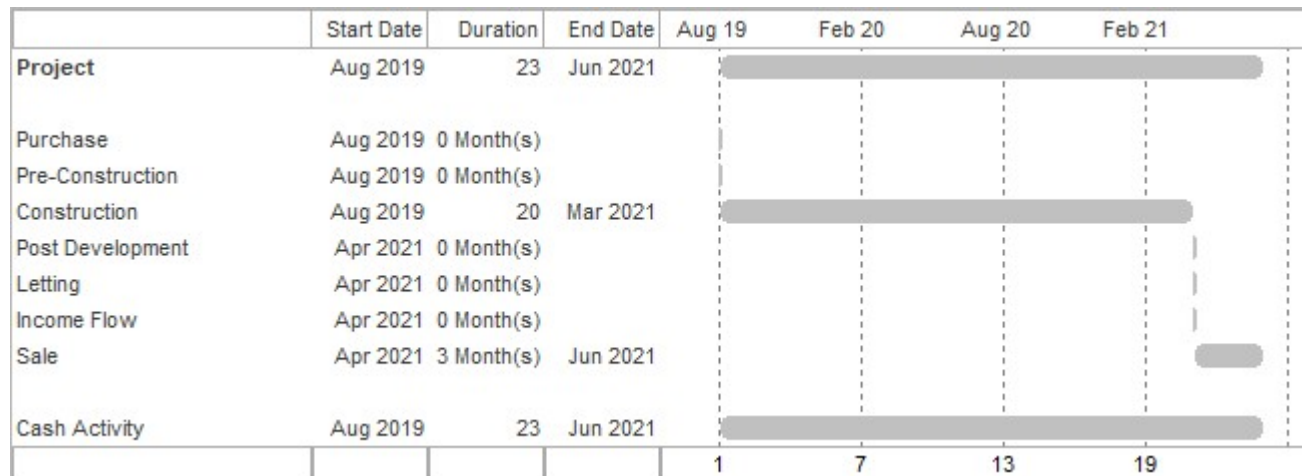
Sales: Gross Sales

Original Values are varied by Steps of 2.500%.

Heading	Phase	Amount	No. of Steps
Private residential	1	£52,240,000	2.00 Up & Down

Minories - 27 affordable Consented Scheme
Project Timescale

Project Start Date	Aug 2019
Project End Date	Jun 2021
Project Duration (Inc Exit Period)	23 months

Phase 1


**15 Minories & 62 Aldgate Street,
London, EC3N 1AX**

Addendum Viability Review

Prepared on behalf of the City of London Corporation

23rd December 2020

Planning reference: 13/01055/FULMAJ



215a High Street, Dorking, RH4 1RU
www.bps-surveyors.co.uk
Tel: 01483 565 433

Contents

1.0	INTRODUCTION	3
2.0	CONCLUSIONS AND RECOMMENDATIONS.....	6
3.0	DEVELOPMENT REVENUES	8
	Sales Rates.....	8
	Ground Rents	8
	Affordable Housing Values.....	8
4.0	Development Costs.....	11
	Construction Period	11
	Finance	11
	Developer Profit	11
5.0	QUALITY STANDARDS CONTROL	13
6.0	LIMITATION OF LIABILITY/ PUBLICATION.....	13

Appendix One - BPS Email 26th October 2020

Appendix Two - Consented Scheme Appraisal

Appendix Three - 100% Private Appraisal

Appendix Four - 100% Private Appraisal with PIL

1.0 INTRODUCTION

- 1.1 BPS Chartered Surveyors have been instructed by the City of London ('the Corporation') to undertake a review of a Financial Viability Assessment (FVA) prepared by Affordable Housing Solutions (AHS) on behalf of 4C Hotels Ltd ('the Developer') in connection with an appeal to reduce the affordable housing contribution in a consented development at the above site.
- 1.2 The site has an extant planning permission (reference: 13/01055/FULMAJ) for:
- Demolition of 15 Minories and 62 Aldgate High Street and redevelopment to provide a Class B1 office building with Class A1 retail (18,537sq.m). Extension and recladding of 16 Minories and change of use from offices (Class B1) to a hotel (Class C1), Class A3 restaurant and Class D1 (health)/ Class D2 (community) use (17,367sq.m.). Erection of new residential building (Class C3) providing 87 units (7829sq.m.). Relandscaping of open space and public realm improvements.*
- 1.3 We understand the hotel conversion and extension is close to completion however the standalone office has not yet begun beyond works to the joint basement which serves all three buildings. The developer would need to submit a fresh application for the residential element of the site which would potentially need to be viewed as a stand alone application. We assume the requirements of the original S106 Agreement would remain a material consideration. The obligations in this document were dependent on the scheme's viability as a whole, however whether a stand alone application could reference the viability of the earlier consent is unclear to us as a matter of law and recommend the Council take appropriate legal advice in this regard.
- 1.4 The financial viability assessment prepared by AHS is focused purely on the residential element of this permission which has been substantially implemented and the frame of the building constructed but we understand construction work has been stalled for some time.
- 1.5 The residential element of the permission provides for 27 affordable units (30% overall contribution) which occupy the first 3 floors and constitutes a policy compliant affordable housing contribution. These units have been secured through a S106 agreement dated 30 June 2014 and reflect a tenure split of 70/30 between social/affordable and intermediate rent. We understand that the maximum Payment in Lieu (PIL) for affordable housing in accordance with the Corporations policy is £8.58 million and when adjusted for TPI a contribution of £9,483,635 is required.
- 1.6 The basis of our original report was the Financial Viability Review prepared by Affordable Housing Solutions (AHS), dated February 2020, which concluded that if the residential element of the scheme were delivered as 100% private housing it would show a current deficit of approximately £2.61 million and therefore on this basis no affordable housing could viably be delivered. To make this assessment AHS have compared the residual value derived from the current residential consent with a notional alternative development comprising office use. This is referred to as an alternative use assessment. AHS have provided Counsel's opinion in support of this approach.
- 1.7 We responded with our independent viability review, dated 28th August 2020, which concluded made the following amendments to the AHS appraisals:

- a) Increased affordable housing values
- b) Reduced sales period
- c) Reduced construction period
- d) Reduced developer profit target
- e) Altered ground rental value
- f) Removed commuted sum from 100% private scenario
- g) Fixed land cost at EUV

1.8 We concluded that both the consented development and proposed scheme produced a viability surplus.

1.9 AHS responded on 1st October 2020 and accepted several of the changes proposed in our addendum. At this stage the EUV of £4.487 million was accepted by both parties and the report focused on calculating a payment in lieu (PIL) for affordable housing which is to be calculated on the difference in residual profit between the consented scheme and a 100% private scenario. AHS drew the following conclusions:

5.0 Results

Using the BPS approach and assuming the BPS' fixed land cost, as it is the same for both appraisals, our revised appraisals show:

All-private scheme profit (<i>Appendix 1</i>):	£6,727,321
Consented scheme profit (<i>Appendix 2</i>):	£1,545,332
Affordable Housing Contribution:	£5,181,989

6.0 Conclusion

In order to reach a swift conclusion our client is willing to make an increased offer of £5,180,765 as a commuted payment in lieu of affordable housing on-site.

1.10 We responded to this in an email dated 26th October which is attached in Appendix One for reference. This email highlighted our own estimated PIL as set out below:

Viability Assessor	Benchmark Land Value	100% Private	Consented Development	Maximum PIL
BPS	£4.487 million	£9.669 million	-£138,109	£8.58 million
AHS	£4.487 million	£6.727 million	£1.545 million	£5.180 million

1.11 Our updated PIL reflected a reduction in the affordable housing valuation in accordance with additional evidence provided by the developer which suggested that the service charge for the scheme would be £8.54 per sq ft and that no Registered Providers (RPs) were interested in taking the affordable element in light of this. The valuation of the affordable element remains the most significant area of disagreement.

1.12 AHS have submitted another rebuttal dated December 2020. This provides the following updated conclusions:

4.0 Results

Using the BPS approach and assuming the BPS' fixed land cost figure, our revised appraisals show the additional profit as:

All-private scheme profit (<i>Appendix 1</i>):	£6,491,177
Consented scheme profit (<i>Appendix 2</i>):	£284,057

Affordable Housing Contribution: **£6,207,120.**

5.0 Conclusion

This scheme has been stalled since April 2019. There is a window to now conclude this matter and our client is willing to make an increased offer of £6,207,120 as a commuted payment in lieu of affordable housing on-site, subject to formal agreement and Board approval.

1.13 The following appraisal inputs were not agreed between ourselves at the time of last reporting and form the basis of this report:

- a) *Sales Rates*
- b) *Ground Rents*
- c) *Affordable Housing Value*
- d) *Construction Period*
- e) *Finance*
- f) *Developer Profit*

2.0 CONCLUSIONS AND RECOMMENDATIONS

- 2.1 The City Corporation has published a Draft Planning Obligations SPD dated October 2020. Paragraph 34 of this SPD outlines the provision of commuted sums in lieu of on site affordable housing delivery:

provision of a commuted sum, also known as a cash in-lieu payment, to enable the City Corporation to provide suitable affordable housing elsewhere in the City, or within reasonable travel distance of the City, normally on City Corporation-owned or managed housing estates. The level of this contribution will be calculated on a site by site basis, to ensure that the full uplift in value when delivering a 100% market scheme is reflected in the contribution and that there is no financial incentive to the developer deliver the affordable housing by means of a commuted sum. The Local Plan Viability Assessment indicates that a viable contribution to off-site provision should lie in the range of £440,000 to £460,000 per unit. Developers proposing a commuted sum must submit 2 appraisals of the development scheme - one incorporating a policy compliant level of affordable housing on-site and a separate appraisal of the same scheme but with all units provided as private/market housing. The required commuted sum payment will be the greater of £440,000 per unit or the difference between these two submitted appraisals.

- 2.2 This approach identifies a payment in lieu of £12.15 million for the 27 affordable units in the proposed scheme as this is lower than the difference between the two appraisals. We appreciate that this SPD is at the draft stage and is not yet adopted therefore we continue to consider the £9.48 million PIL as calculated from the 2014 SPD to be the relevant approach at this point in time.
- 2.3 In light of this report, we have now reached agreement on ground rental value and construction timings. We have been provided with a live version of the Argus appraisals included in the AHS report to which we have applied our amendments. The differences between the two approaches are summarised in the table below:

Input	AHS	BPS
Off plan sales	50%	80%
Affordable Housing Value	£6.075 million	£4.313m
Finance	7%	6.5%
Private residential profit	20%	17.5%

- 2.4 Our appraisal summaries for the consented scheme and 100% private scheme with policy compliant PIL can be found in Appendices Two and Three. The table below outlines the residual surpluses produced by each appraisal and the resulting PILs:

Viability Assessor	Benchmark Land Value	100% Private	Consented Development	Maximum PIL
BPS	£4.487 million	£9,140,884	£602,206	£7,485,000
AHS	£4.487 million	£6,491,177	£248,057	£6,207,120

- 2.5 The developer has made it clear that no RPs are interested in taking on the consented affordable housing in view of the high service charge and on this basis we consider a nil value could potentially be argued for this element. However our computation of

the affordable housing value is based on the service charge costs as advised and as can be seen from the table above represents a positive value.

- 2.6 The residual surplus of the 100% private scheme less the surplus of £602,000 produced by consented scheme is £8.539 million which is the first step in calculating the PIL. However we have assumed that any PIL would be payable at start of construction as such the appraisal would need to reflect the interest costs accruing on the PIL. On this basis we have identified the maximum viable PIL of £7,485,000 within our appraisal, timed as a payment to coincide with the start of construction. It can be seen that our appraisal generates a residual surplus equal to the extant scheme. This conclusion allows for a developer profit allowance.
- 2.7 The appraisal summaries can be found in Appendices Two, Three and Four.

3.0 DEVELOPMENT REVENUES

Sales Rates

AHS: 50% off plan, 3.6 per month PC

BPS: 80% off plan, 5 per month PC

- 3.1 AHS have provided updated evidence from Savills which shows completions of schemes near the subject have off plan sales rates ranging between 29-100%. The schemes range in quality and all are above 50% apart from Pink Mews, completed July 2018 and described by Savills as being inferior to the subject. The schemes that are described as being comparable with the subject have off plan sales rates of 58% and 89%. We consider The Lofts to be marginally inferior to the subject, and note it achieved 74-96% off plan sales.
- 3.2 The Savills report also provides sales velocities per month both prior to and post completion. For the comparable Barts Square development the post completion sales rate was 1 unit per month, for the The Lofts development it was 2.5 per month for the first 12 months and for the inferior London Square Spitalfields it was 0.67 units per month post completion. Savills also suggest that the market has weakened over the last 24 months and during 2020 which has adversely impacted the off plan sale market, which is mainly targeted towards the foreign market.
- 3.3 AHS have provided further evidence from Molior which details other schemes in the LPA. They note that sales rates and off plan sales have decreased dramatically in the last 24 months and particularly from Q1 2020 onwards.
- 3.4 While we appreciate the market has weakened over the last 24 months the evidence provided by Savills does not support their recommendation for off plan sales of 50%. We consider our target of 80% of sales off plan to still be reasonable, especially given the length of time this scheme has been consented and in accordance with the evidence provided we maintain this assumption. Also in accordance with the evidence provided by AHS and Savills we have adopted a sales rate of 3.6 units per month post completion as proposed by AHS. This gives a total sales period of 5 months in the proposed scheme and 4 months in the consented scheme.

Ground Rents

AHS: Willing to include if profit is accounted for

BPS: Previously no profit

- 3.5 For the purposes of reaching an agreement AHS have stated they are willing to include ground rents if a profit allowance is included due to the uncertainty surrounding their receipt. We consider this to be reasonable and note that the argus appraisal currently includes the ground rental income in its calculation of developer profit, therefore we are in agreement with AHS on this matter.

Affordable Housing Values

AHS: £6.075 million

BPS: £4.313 million

- 3.6 In our previous response we updated our affordable housing values to take into consideration the increased services charges, reducing our affordable housing

valuation by c £4 million. AHS initially adopted an affordable housing value of c £4 million which they have now increased to £6.075 million based on a report provided by Red Loft. The main dispute over the affordable housing valuation surrounds the computation of the impact of service charges on the value of the affordable element.

- 3.7 AHS have previously argued that no RP would purchase take the 27 consented affordable housing units for a variety of reasons, one of which being the lack of an additional core/entrance meaning that the affordable units will have to share the high service charge costs. The service charge estimate provided by JLL shows a total service charge of £752,400 pa.
- 3.8 AHS has identified on the JLL schedule that not all service charge items would be chargeable to the affordable element given that access to some facilities would be restricted to the private element only. The items potentially rechargeable to the affordable element on this basis total £540,700 before apportionment. We accept that the percentage share of these costs to the affordable element is 31.35% based on a pro-rata split by floor area. Applying this percentage shows a net service charge cost to the affordable element of £169,304.
- 3.9 Dividing this sum by the total affordable floor area on an NIA basis of 17,695 sq ft equates to a cost per £/sqft of £9.37 per annum. It is not clear how AHS using the same schedule have arrived at a service charge cost of £4.10 per sq ft which we assume incorporates an error.
- 3.10 We have reviewed the valuation provided by Red Loft. We note they have adopted the AHS service charge figure of £4 per sq ft and the following valuation assumptions:

Social Rent and Affordable Rent key inputs and assumptions:

- 4.5% discount rate
- 40-year discount period
- £600 management cost per unit per annum
- £600 maintenance cost per unit per annum
- 4% voids and bad debts
- 0 – 1% of rebuild costs for major repairs
- CPI plus 1% rental inflation.

Shared Ownership key inputs and assumptions:

- 4.5% discount rate
- 40-year discount period
- £100 management cost per unit per annum
- 25% initial equity sale
- 1.15% rent on unsold equity
- Maximum £66,000 income threshold across all units.

The discount rate sits within a range of benchmarked figures between 4% and 5%.

- 3.11 For the shared ownership valuation we consider the assumed rent on unsold equity of 1.15% to be significantly lower than we would expect which is typically upward of 2.5%-2.75%. We assume this reduced rent is to maintain the assumed affordability of this tenure. We have tested the inputs as adopted by Red Loft and consider the 1 bedroom units values do not sit within affordability criteria for an income of £65,000 pa. We calculate affordability at this income threshold requires an adjusted rent of 0.5% on the unsold equity. We do not consider rents at this level to be a

realistic proposition for an RP and this is echoed across many authorities in London where shared ownership is widely regarded as not practical where the market value of the unit is at levels similar or above the subject and has resulted in the introduction of intermediate rented tenures. In view of this we have continued to include a rented product for the intermediate tenure.

- 3.12 It has become clear that the social rented units would not be able to charge any significant rental value and the capital value for the units has reduced to £575,000 when affordability is considered. This reaffirms the position taken by AHS that there is no demand from RPs for the units due to the high service charges.
- 3.13 Computing an affordable value incorporating the service charge cost of £9.57 per sq ft is in our view a generous approach to valuing the affordable element in an on site scenario, noting there is no apparent RP demand, a position on which the developer and AHS have been very clear. The revisions to the service charge produce a total value of £4.313 million for the affordable housing element.
- 3.14 If as suggested by AHS the affordable housing units have a value of £6.075 million it is not clear why the developer cannot realise this figure or something close to it. We consider a position which argues for a high value to be contrary to the argument there is no demand for the product.

4.0 Development Costs

Construction Period

AHS: 3 + 24 month

BPS: 20 months

- 4.1 AHS have adopted a 3 month pre construction and 24 month construction period which we have reduced to 20 months to account for the substructure and frame being already complete. They have provided a detailed contract programme which confirms these time estimates. On the basis of the contract programme we accept the construction timings as proposed by AHS.

Finance

AHS: 7%

BPS: 6.5%

- 4.2 AHS and Red Loft consider 7% to be the current cost of finance in Central London. This was not discussed by AHS in their previous review.
- 4.3 The Bank of England reduced base interest rates from 0.75% to 0.1% in March 2020 as a result of the Covid-19 Pandemic. While there is potentially increased risk to lenders in the current market the decrease of 0.65% imposed by the Bank of England will reflect a significant decrease in the cost of development finance. The Knight Frank Investment Yield guide notes that between November 2019 and November 2020 LIBOR has decreased from 0.8% to 0.04%, 10 year Gilts from 0.71% to 0.27% and 5 year swaps from 0.86% to 0.22%. The resilience of the property market over the course of the pandemic provides lenders with little incentive to dramatically increase interest rates.
- 4.4 Appraisal inputs should reflect the current market. In light of the lowering interest rates adopted by banks we consider a 0.5% decrease interest costs to be reasonable. We accordingly continue to adopt a 6.5% all in cost of finance as being reasonable.

Developer Profit

AHS: 20%

BPS: 17.5%

- 4.5 AHS and Red Loft consider there to be abnormal risk in the current market due to the pandemic and Brexit. We appreciate both of these events potentially influence the market however the effect of this is yet to be shown as house prices and sales volumes both of which have remained relatively stable post lockdown. We do not therefore consider such a significant change in risk profile to be warranted, especially given that the scheme has already been substantially commenced.
- 4.6 To be clear we have at no point stated that any of the units have been sold off plan. We consider there is lower risk than in other schemes as the substructure has been completed which is where the potential for significant cost risks often arise and accordingly consider 17.5% to be a reasonable developer profit target. This is in

accordance with evidence support of the London Plan as mentioned in our previous response.

5.0 QUALITY STANDARDS CONTROL

This report is provided for the stated purpose and for the sole use of the named clients. This report may not, without written consent, be used or relied upon by any third party.

The author(s) of this report confirm that there are no conflicts of interest and measures have been put in place to prevent the risk of the potential for a conflict of interest. In accordance with the RICS Professional Statement *Financial Viability in Planning: Conduct and Reporting* September 2019, this report has been prepared objectively, impartially, and with reference to all appropriate sources of information.

The following persons have been involved in the production of this report:



Arthur Boulding
RICS Membership no. 6878828
For and on behalf of BPS
Chartered Surveyors

Andrew Jones MRICS
RICS Membership no. 0085834
For and on behalf of BPS
Chartered Surveyors

6.0 LIMITATION OF LIABILITY/ PUBLICATION

This report is provided for the stated purpose and for the sole use of the named clients. It is confidential to the clients and their professional advisors and BPS Chartered Surveyors accepts no responsibility whatsoever to any other person.

Neither the whole nor any part of this valuation report nor any reference hereto may be included in any published document, circular, or statement, or published in any way, without prior written approval from BPS of the form and context in which it may appear.

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the valuation date, we** consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuation(s) is / are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty - and a higher degree of caution - should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of [this property] under frequent review.

Appendix One - BPS Email 26th October 2020

Hi Anna,

Thanks for the response dated 1st October. It appears there are not many points of disagreement so hopefully we can conclude this relatively swiftly, I thought email would be easier than sharing a report. Addressing each outstanding point:

Sales Rates

AHS have assumed 50% of sales will occur off plan with the remaining units being sold at a rate of 3.6 units per month (12 month sales period) which is maintained in the most recent response. We have assumed 80% of sales will occur off plan and a sales rate of 5 units per month for the remaining units.

AHS provided the following summary of sales rates from the Savills residential valuation report:

Scheme	Pre Sale Rate Units per month	% Pre Sold	Sales Rate Units per month
Aldgate Place	4.56	74%	5.13
Goodmans's Fields	8.10	100%	8.10
London Fields	1.10	90% (completion due in August 2019)	1.10
London Dock	7.98	74% (completion due in March 2022)	7.98
The Lofts	1.95	59%	2.06
Royal Mint Gardens	N/a	N/a	N/a
The Atlas Building	5.95	93% (completion due in September 2019)	5.95
Landmark Place	4.00	87%	4.30

Only Aldgate Place, London Dock and The Lofts achieved off plan sales below 80%, the lowest of which was The Lofts at 59% and therefore none of the comparable evidence was close to the 50% adopted by AHS. We consider the subject site is considerably more desirable than The Lofts and note it is significantly smaller than London Dock and Aldgate Place therefore it is likely that a higher percentage of units will be sold off plan. We consider our assumption of 80% off plan sales to be reasonable. The sales rates per month on completion range between 1.1-8.1 per month. Given the desirability of the subject scheme we consider a sales rate of 5 units per month to be reasonable. We have accordingly not changed our assumptions on sales rates.

Ground Rents

AHS have provided a response from Savills regarding the inclusion of ground rents. AHS suggest that given the estimated completion of the project is 3-5 years there is a risk the income stream won't be available when the scheme is completed which we consider to be a reasonable position.

Although there is an intention to bring a private members bill before Parliament concerning this issue, there is as yet no Parliamentary timescale for its reading. It is also not clear if Parliamentary time will be given to the bill. Consequently, it remains current practice for developers to generate revenue through this source and since our assessment is on a current day costs and values basis, we consider income should therefore be included in the appraisals.

We accordingly continue to adopt ground rental income in our appraisals. If the developer is willing to provide a legal undertaking in the S106 agreement that prevents ground rents being charged we would be happy to exclude this element from our appraisals.

Construction Timings

AHS have allowed for a 3 month lead in period and 24 month construction period. We had adopted a 20 month construction period based on the advice of our QS. The substructure and frame are completed which is why we do not consider a lead in period to be necessary, although we do understand there may be some mobilisation period. The construction duration estimate produced by our QS is inclusive of the cost to construct the concrete frame and substructure which are already in place therefore the actual construction period will be significantly shorter than his estimate. We accordingly do not find reason to alter our position on construction timings.

Developer Profit

AHS have adopted a developer profit target of 20% on private residential GDV while we consider a target of 17.5% to be more reasonable.

AHS suggest that our lower profit level is a reflection of off plan sales having been achieved, which is incorrect, we noted that the site has obtained permission and development has begun and any issues relating to substructure have been overcome, reducing the risk to the developer. AHS suggest that developer profit should not be a reflection of the risk covered by cost contingencies (such as substructure) and should be a reflection of market risk, which we do not consider to be the case and suggest that developer return reflects the risk across the whole scheme delivery. AHS consider the evidence base for the Draft London Plan to be outdated and suggest there is increased market risk resulting from the pandemic and a possible no deal Brexit. We consider our current assumption on developer target to be reasonable further note that contrary to many claims the residential market has in fact demonstrated high levels of sales volumes with rising values in many areas, part encouraged by initiatives such as the stamp duty holiday which we understand the Government is giving consideration to extending. In consequence the Pandemic is not in our view simply a negative factor increasing risk.

On Site Affordable Delivery

AHS state they have adopted our affordable housing values in their appraisal for the consented scheme, although the AHS appraisal reflects a slight increase of £100,000.

AHS have raised considerable concern over the ability of the scheme to deliver on site affordable housing. In the original report they highlighted the implications on service charge that sharing a core with the private units has. They have subsequently contacted Six RPs about taking on the units, none of whom were interested and have raised the following reasons for not being able to take on the scheme:

Unit numbers too few (50%)

Not operating in the LPA (50%)

Mix of Units (33%)

Shared Core (33%)

As a result of this AHS recommend that a Payment in Lieu (PIL) for affordable housing is to be made to the Corporation in order to provide off site affordable in a more suitable location. AHS have

provided a breakdown of service charges from JLL which gives a total service charge of £252,400 pa (£8,650 per unit pa). For the GIA of the whole building this represents a charge of £8.54 per sq ft pa which is higher than the estimate of £5.54 per sq ft assumed by AHS in the original report.

The Corporation have informed us that the Guinness Trust (who operate affordable housing in an adjacent building to the subject) were contacted and are not interested in taking the units on. We consider the reasons that RPs are not interested in the scheme to be reasonable, however we consider that design flaws in the scheme should not warrant secured planning obligations being bypassed.

If the on site units cannot be used for affordable housing as consented then their value as affordable housing would be significantly reduced, potentially to de minimis levels.

We have updated our affordable housing valuation to allow for the increased service charges. We have ensured that the units remain within the affordability caps as suggested by AHS. This gives a revised value of £3,053,000 for the affordable units which is a significant reduction (c £4 million) on the value we had previously adopted. We note that the affordability calculation adopted in our previous report had an error in the affordability calculation which meant to the units being previously overvalued. We are happy to share the revised affordable housing calculations on request.

Conclusion & Results

It should be noted that the remaining inputs we are not in agreement on will influence both the extant and consented schemes, and aside from developer profit are likely to have only small influence on the maximum PIL that is contributable.

We maintain our appraisal for the 100% private scheme and have changed only the affordable housing valuation from the consented scheme which is attached. The results of the appraisals from both viability consultants are summarised in the table below:

Viability Assessor	Benchmark Land Value	100% Private	Consented Development	Maximum PIL
BPS	£4.487 million	£9.669 million	-£138,109	£8.58 million
AHS	£4.487 million	£6.727 million	£1.545 million	£5.180 million

We accordingly suggest that the maximum PIL as calculated by the Corporations policy of £8.58 million can viably be made. We consider the revised affordable housing valuation taken by us to reflect the evidenced service charges however given the lack of interest in the units it is feasible that a lower value could be adopted given the lack of demand from RPs.

Kind Regards,

Arthur Boulding

Appendix Two - Consented Scheme Appraisal

Minories - 27 affordable Consented Scheme
Appraisal Summary for Phase 1
Currency in £
REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private residential	1	43,773	1,193.43	52,240,000	52,240,000
Affordable	27	17,965	240.05	159,723	4,312,516
Totals	28	61,738			56,552,516

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground rents	60	178	10,650	10,650

Investment Valuation

Ground rents					
Current Rent	10,650	YP @	4.5000%	22.2222	236,667

GROSS DEVELOPMENT VALUE 56,789,183

Purchaser's Costs			(11,360)	
Effective Purchaser's Costs Rate		4.80%		(11,360)

NET DEVELOPMENT VALUE 56,777,823
NET REALISATION 56,777,823
OUTLAY
ACQUISITION COSTS

Fixed Price			4,487,163	
				4,487,163
Stamp Duty			213,858	
Effective Stamp Duty Rate		4.77%		
Agent Fee		1.00%	44,872	
Legal Fee		0.80%	35,897	
				294,627

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Private residential			
- Construction Breakdown			33,258,137
			33,258,137
s106			640,870
Statutory/LA			225,000
			865,870

PROFESSIONAL FEES

Professional	10.00%	3,325,814	
			3,325,814

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	1,311,917	
Sales Legal Fee	0.50%	283,946	
			1,595,863

Developer's Profit

Developer's Profit	16.62%	9,436,474	
			9,436,474

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		707,110	
Construction		2,175,950	
Other		28,609	
Total Finance Cost			2,911,669

TOTAL COSTS 56,175,616
PROFIT
602,206

Minories - 27 affordable Consented Scheme**Performance Measures**

Profit on Cost%	1.07%
Profit on GDV%	1.06%
Profit on NDV%	1.06%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%

IRR% (without Interest)	7.27%
-------------------------	-------

Rent Cover	56 yrs 7 mths
Profit Erosion (finance rate 6.500)	2 mths

Appendix Three - 100% Private Appraisal

Minories - all private
Appraisal Summary for Phase 1
Currency in £
REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private residential	1	61,468	1,171.99	72,040,000	72,040,000

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground rents	87	175	15,200	15,200

Investment Valuation

Ground rents					
Current Rent	15,200	YP @	4.5000%	22.2222	337,778

GROSS DEVELOPMENT VALUE **72,377,778**

Purchaser's Costs		(18,240)
Effective Purchaser's Costs Rate	5.40%	(18,240)

NET DEVELOPMENT VALUE **72,359,538**
NET REALISATION **72,359,538**
OUTLAY
ACQUISITION COSTS

Fixed Price		4,487,163	
Stamp Duty		213,858	4,487,163
Effective Stamp Duty Rate	4.77%		
Agent Fee	1.00%	44,872	
Legal Fee	0.80%	35,897	
			294,627

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Private residential			
- Construction Breakdown			35,832,837
			35,832,837
s106			640,870
CIL			305,941
			946,811

PROFESSIONAL FEES

Professional	10.00%	3,583,284	3,583,284
--------------	--------	-----------	-----------

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	1,809,444	
Sales Legal Fee	0.50%	361,798	
			2,171,242

Developer's Profit

Developer's Profit	17.50%	12,662,919	12,662,919
--------------------	--------	------------	------------

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		717,094	
Construction		2,522,677	
Total Finance Cost			3,239,770

TOTAL COSTS **63,218,653**
PROFIT **9,140,884**
Performance Measures

Profit on Cost%	14.46%
-----------------	--------

Minories - all private

Profit on GDV%	12.63%
Profit on NDV%	12.63%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%
IRR% (without Interest)	21.91%
Rent Cover	601 yrs 4 mths
Profit Erosion (finance rate 6.500)	2 yrs 1 mth

Appendix Four - 100% Private Appraisal with PIL

APPRAISAL SUMMARY**BPS SURVEYORS****Minories - Private with PIL****Appraisal Summary for Phase 1**

Currency in £

REVENUE

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private residential	1	61,468	1,171.99	72,040,000	72,040,000

Rental Area Summary

	Units	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Ground rents	87	175	15,200	15,200

Investment Valuation

Ground rents					
Current Rent	15,200	YP @	4.5000%	22.2222	337,778

GROSS DEVELOPMENT VALUE **72,377,778**

Purchaser's Costs			(18,240)
Effective Purchaser's Costs Rate	5.40%		(18,240)

NET DEVELOPMENT VALUE **72,359,538****NET REALISATION** **72,359,538****OUTLAY****ACQUISITION COSTS**

Fixed Price		4,487,163	
Stamp Duty		213,858	4,487,163
Effective Stamp Duty Rate	4.77%		
Agent Fee	1.00%	44,872	
Legal Fee	0.80%	35,897	
			294,627

CONSTRUCTION COSTS

Construction	ft²	Build Rate ft²	Cost
Private residential			
- Construction Breakdown			35,832,837
			35,832,837
s106			640,870
CIL			305,941
AH PIL			7,485,000
			8,431,811

PROFESSIONAL FEES

Professional	10.00%	3,583,284	
			3,583,284

DISPOSAL FEES

Sales Agent and Marketing Fee	2.50%	1,809,444	
Sales Legal Fee	0.50%	361,798	
			2,171,242

Developer's Profit

Developer's Profit	17.50%	12,662,919	
			12,662,919

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)			
Land		717,094	
Construction		3,507,518	
Other		70,500	
Total Finance Cost			4,295,112

TOTAL COSTS **71,758,995****PROFIT****600,543**

Minories - Private with PIL**Performance Measures**

Profit on Cost%	0.84%
Profit on GDV%	0.83%
Profit on NDV%	0.83%
Development Yield% (on Rent)	0.02%
Equivalent Yield% (Nominal)	4.50%
Equivalent Yield% (True)	4.63%

IRR% (without Interest)	6.96%
-------------------------	-------

Rent Cover	39 yrs 6 mths
Profit Erosion (finance rate 6.500)	2 mths