Assessment for Financial Viability

On behalf of: Westminster City Council

87-115 Cleveland Street, Fitzrovia W1T

Description:

Financial Viability Assessment in support of proposed development

CONTAINS CONFIDENTIAL INFORMATION

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Contact: James Brierley
Siôn Davies
Kate Douglas

April 2015

72 Welbeck Street London W1G 0AY
Tel. 020 7493 3338
www.geraldeve.com

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EXECUTIVE SUMMARY

1. GE has been commissioned by Westminster City Council ("WCC") to undertake a due diligence assessment of a Financial Appraisal Supporting Statement ("FASS") and associated information in connection with a planning application for the proposed redevelopment ("the Scheme") of 87-115 Cleveland Street, Fitzrovia W1T ("the Site"), submitted on behalf of Soho Data Holdings Ltd ("the Applicant"). Affordable Housing Solutions (The "Advisor") produced the FASS on behalf of the Applicant which forms part of the application documentation.

2. Our instructions are to review the FASS submitted by the Applicants advisors, Affordable Housing Solutions Ltd (the "Advisors"), and verify whether the proposed Scheme offers the maximum reasonable level of on-site affordable housing and contribution in lieu. The level of Section 106 ("S106") obligations will also be taken into account, whilst also having regard to other planning policies such as Mayoral Community Infrastructure Levy ("MCIL") / Mayoral Crossrail Section 106.

3. The Site is located in Fitzrovia in the City of Westminster and is bounded by Clipstone Street to the south, Cleveland Street to the east and Clipstone Mews to the west. The Site is triangular in shape and is currently occupied by a 1960's building which is arranged over two floors and provides commercial accommodation including retail units, offices, media studios and a bar. A petrol filling station is also located to the Site's southern boundary and can be accessed from Clipstone Street.

4. The application assessed in this report proposes:

   "Demolition of existing building and erection of new mixed-use building comprising commercial floorspace (Classes A1, A3, A4, B1, D1 and D2), re-provision of petrol filling station, a maximum of 105 residential (Class C3) units and associated landscaping, parking and servicing."

5. The FASS provided contains a financial appraisal for a scheme with c. 15% affordable housing (11.4% by floor area (GIA)) and a contribution in lieu payment of £3.347m.

6. This report has been written in accordance with the NPPF, The London Plan, WCC's Core Strategy and WCC's other publications, CIL Regulations, DCLG guidance and the RICS GN.

7. The overall conclusions of our report are set out below:

   a. The sales values and construction costs have been assessed by Gerald Eve LLP and Veale and Sanders respectively. We were advised that the construction costs were high on various points and GE concluded that the sales values on the upper floors appear low when compared to market evidence. GE therefore consider it reasonable for there to be a reduction in the proposed construction costs and an increase in the average sales values. In addition, the mix of the affordable housing element have been revised during the review period and affordable values have now been adjusted to reflect this.

   b. On the whole, the percentage allowances made for professional fees, contingency and marketing costs appear generally acceptable given the nature of the Scheme proposed.

   c. The Council have not accepted the Alternative Scheme proposed by the Applicant as a reflective C2 use. As a consequence of this, GE have assessed Site Value based on both a comparable method and assessment of the purchase price.

   d. The benchmark return used by the Advisor for the viability appraisal is 19.89% on GDV (blended), however GE consider that in this instance a range between 17% and 20% on GDV would be more appropriate to reflect the relative risk nature of the Scheme given current market conditions. Following discussion with the Advisor, GE conclude that due to site specific risks that an appropriate return in this range would be c.18.5%. In this case this does not set a precedent.

8. Our initial conclusions were that following a robust assessment of the assumptions, impacting forces and sensitivity analysis, the scheme could support a maximum reasonable affordable housing payment in lieu contribution of circa £4.26m. However, following revisions to the floor areas and the unit mix of the scheme, we have now concluded that the resulting surplus in the appraisal enables a **<u>maximum reasonable affordable housing payment in lieu contribution of circa £4.05m and £578,551 of Section 106 contributions.</u>**

Table 1: Showing Summary of concluded reasonable Assumptions

Element	The Advisors FASS	GE Conclusions	Addendum
Private residential (C3)	82,198 sq ft (NIA)	82,198 sq ft (NIA)	82,048 sq ft (NIA)
Affordable residential (C3)	9,707 sq ft (NIA)	9,707 sq ft (NIA)	4,489 sq ft (NIA)
Revenue			
Average private residential sales values:	£1,840 psf	£1,864 psf	£1,864 psf
Affordable £psf	£298.75 psf (Blended)	£225 psf (All Intermediate Rent)	£225 psf (all intermediate)
Residential Ground Rent Income:	£719,091, Yield: 5.5%	£719,091, Yield: 5.5%	£717,273, Yield 5.5%
Commercial Income:	-	-	-
Car parking income	£50,000 per space	£70,000 per space allocated £7,000 per space unallocated	£7,000 per space unallocated
Costs			
Construction cost:	£49,737,440	£48,560,660	£48,560,660
Contingency	5%	-	-
Professional fees	12%	12%	12%
Programme	X months pre construction, 27 months construction and 9 months sales rate XX% sold off plan	6 months pre construction, 27 months construction and 9 months sales rate 45% sold off plan.	6 months pre construction, 27 months construction and 9 months sales rate 45% sold off plan.
Marketing costs	3%	3%	3%
Mayoral CIL	£574,550	£590,400	£590,400
S106	£578,551	£578,551	£578,551
Right of Light	£4.2m	£5.365m	£5.365m
Ground lease restriction	-	£7m (£1.4m pa for 5 years)	£7m (£1.4m pa for 5 years)
Finance	6.75%	7.00%	7.00%
Profit target	20% PD 6% Affordable	18.5%	18.5%
Site value	£43.29m	c.£43m	c.£43m
Additional affordable contribution PIL	c.£3.347m	c.£4.26m	c.£4.05m

1 Introduction and Instructions

1.1 **In this section we outline the requirement and structure of the report.**

1.2 Gerald Eve LLP (GE) has been commissioned by Westminster City Council ("WCC") to undertake a due diligence assessment of a Financial Appraisal Supporting Statement ("FASS") and associated information in connection with a planning application for the proposed redevelopment ("the Scheme") 87-115 Cleveland Street, Fitzrovia W1T ("the Site"), submitted on behalf of Dukelease Properties Ltd ("the Applicant"). Affordable Housing Solutions (The "Advisor") has produced the FASS on behalf of the Applicant which forms part of the application documentation.

1.3 Our instructions are to review the FASS and verify whether the Scheme offers the maximum reasonable level of affordable housing and Westminster City Council's (WCC) Section 106 ("S106") obligations.

1.4 We are only concerned with the proposed redevelopment of the Site, as set out in the planning application, and in accordance with general accepted practice (see 1.4 below). We do not seek to compare or contrast the financial offer proposed by the Applicant with any other proposed or implemented scheme (or Appeal decision). In accordance with planning legislation, each application should be considered on its own merits. It is also recognised that financial viability, in considering a planning application, is only one of the material considerations as to whether permission should be granted or refused.

1.5 In undertaking our review we have had particular regard to guidance and policy contained within the following:

- National Planning Policy Framework ("NPPF") (March 2012);
- Planning Policy Guidance
- The London Plan (July 2011);
- WCC Core Strategy (2013)
- Royal Institution of Chartered Surveyors (RICS) Guidance Note: "Financial Viability in Planning" (published August 2012) ("the RICS GN");
- GLA SPG Housing;
- DCLG guidance; and
- Other relevant best practice guidance.

1.6 As stated above and requested by WCC, we have adopted the RICS GN as a basis for our assessment as set out in this report. It should be noted that whilst the RICS GN is not "mandatory" in respect of Members' use, it is however, a "document that provides users with recommendations for accepted good practice as followed by competent and conscientious practitioners."

1.7 As such, the RICS GN has the status of "recommended good practice" and where Members do not comply with the practice recommended in the RICS GN, they should do so only for a good reason and may be asked to do in the event of litigation or dispute between parties.

1.8 We note that the Advisor did not confirm in their FASS that there work had been prepared in accordance with Westminster's Financial Viability guidance, having regard to the RICS GN (including, paragraph 4.5.5) along with other relevant guidance, however its contents would appear reflective of the RICS guidance. We note that the Advisor have relied upon other consultants and agents in preparing their FASS.

1.9 As outlined in the RICS GN, in undertaking this exercise, we are formulating an appropriate judgement based upon information provided by the Applicant, as to the viability of the Scheme and the maximum reasonable level of affordable housing the Scheme can afford in terms of planning obligations.

Conflict

1.10 As far as we are aware, we have no conflict of interest in relation to the provision of viability advice in respect of this project.

Date and Extent of Inspection of the Site (and areas)

1.11 GE has not undertaken a site inspection and have based the assessment on the information provided, including building plans of the Scheme, accommodation schedules and the Design and Access Statement.

1.12 We have not undertaken a measurement of the Applicant's planning application drawings and have relied on the information contained in the FASS and associated planning documentation.

Confidentiality

1.13 We are aware that in order to seek to protect commercially sensitive information all information provided to us is provided as Commercial-In-Confidence within the meaning of provisions of the Freedom of Information Act, Sections 41 and 43. Please also note our comments in paragraphs 4.17 and 4.18.

Information Provided to Us and Discussions with Affordable Housing Solutions

1.14 In undertaking this assessment, we have had particular regard to the following information:

- The Advisor's FASS dated November 2014 and accompanying appendices; and
- Additional information within the planning application documentation, including Savills' Affordable Housing Statement, CBRE's residential pricing schedule and the Design and Access Statement by Assael Architecture.

1.15 Our initial review highlighted a number of areas where we felt the information provided in the Advisors report was not sufficient and clarification or further information was required.

Table 2: Showing Additional information requested from the Advisor

Clarification/Request	Response/Outcome	Received
Appropriate evidence confirming proposed cost of Rights of Light.	The Advisor provided a schedule of other Right of Light schemes.	17th February 2015
Further information on the mix of the affordable housing provisions.	Revision of the mix to 15 intermediate rent units at a rent of £225 psf.	17th February 2015
Request for evidence of the pricing allocated to the car parking spaces.	A proportion of the spaces would be unallocated.	4th March 2015
Queries to the total construction costs from Veale and Sanders.	Issues have been outlined and discussed between both QS's.	26th February 2015
Further detail of the purchase cost from the Advisor.	A breakdown of the overage agreements on the purchase was provided.	19th February 2015
Confirmation of the Applicants MCIL calculation.	A report created by DP9 was provided by the Advisor.	27th February 2015
Further detail of the commercial cost with following Veale and Sanders question.	A schedule of the commercial cost element to enable the QS's to review if there can be any savings.	6th March 2015

Source: GE

1.16 Whilst we have relied on the information provided to us we have also had regard to our own market knowledge and research and experience in reaching our opinion. As with all these types of assessment there could be areas where the Applicant may be prepared to provide further information or clarify matters which could result in us altering our analysis and conclusions. We have drawn attention where appropriate to these in our report.

Our Report Structure

1.17 We set out our report under the following numbered headings:-

Section 2: Background and Description of Proposed Development

Section 3: Planning Policy Overview

Section 4: Viability Methodology and Approach

Section 5: Site Value

Section 6: Review of Revenue Assumptions

Section 7: Review of Cost Assumptions and Construction Programme

Section 8: Review of Financial Appraisal

Section 9: Sensitivity Analysis

Section 10: Conclusions and Recommendations

1.18 Our report is accompanied by appendices which are introduced in the text.

1.19 We have adopted an approach whereby if we believe the inputs used in the Advisors' FASS are within a reasonable margin of our views then we have not sought to challenge these differences. Where these lie outside this margin, we expect the Advisor will wish to clarify and comment. This is a standard practice and encouraged by the RICS GN. We would add that where we have not commented on some aspects of the Advisor' FASS and accompanying documents this does not mean we agree or disagree with the FASS, the Applicant or its advisors.

1.20 Finally it is stressed that this review is undertaken at a particular point in time (March 2015). Values and costs will change over time (which is of particular relevance in this instance) and whilst we have had regard to this inevitable uncertainty in the sensitivity analysis section (9) of our report and our concluding recommendations, this report is nevertheless a product as at the time of writing. Given economic uncertainties and the funding market for property development, and in accordance with the RICS GN it may be necessary for our report to be updated dependent upon when a decision in respect of the planning application is to be made.

2 Background and Description of Proposed Development

2.1 In this section we outline the location and description of the Site, with an overview of the proposed development which is the subject of the planning application

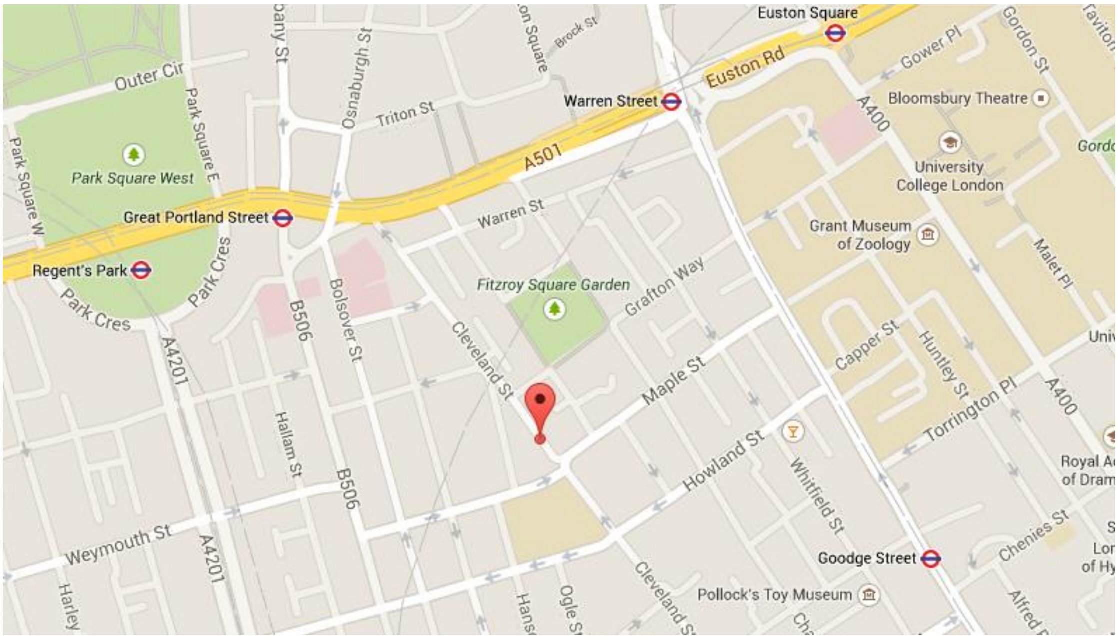
Location

2.2 The Site is located in Fitzrovia in the City of Westminster and is bounded by Clipstone Street to the south, Cleveland Street to the east and Clipstone Mews to the west. The Site is triangular in shape and is currently occupied by a 1960's building which is arranged over two floors and provides commercial accommodation including retail units, offices, media studios and a bar. A petrol filling station is also located to the Site's southern boundary and can be accessed from Clipstone Street. The Site covers an area of approximately 0.44 ha (1.09 acres).

2.3 The area surrounding the application site is characterised by a mix of uses including commercial (including retail, restaurant and offices) and residential. The University of Westminster also lies just south of the Site.

2.4 The Site is located nearby a number of transport links. Great Portland Street and Regent's Park tube stations are located approximately 480m to the north. Goodge Street, Warren Street and Euston Square tube stations are also within walking distance of the Site. The bus thoroughfares of Euston Road and Tottenham Court Road are both located nearby.

Figure 1: Showing Location of Proposed Scheme



Source: Google Maps

Description

2.5 87-125 Cleveland Street comprises a 1960's, two storey commercial building. The building has lawful use for Class A1 (retail) and Class A4 (drinking establishment) at ground floor and Class B1 (offices) at first floor. The basement was previously used for car parking but has been closed since 2003.

Planning & Viability assessment History

2.6 Please refer to the DP9 Planning Statement for a full planning history. However, we have highlighted the key points which are material to this FASS.

- On 25th May 2011, an application for *"use of part basement as data centre (Nos 87-125) (sui generis)"* was approved.
- Certificates of lawfulness have also been submitted for use of the ground floor as B1 (office) at 87-89, 91-93 and 97-101 Cleveland Street but were all subsequently withdrawn.
- An application for *"Use of ground floor for office (Class B1) purposes"* was refused in December 2012.

Proposed scheme

2.7 The applicant intends to seek a detailed planning consent for a residentially led, mixed use scheme. The Scheme involves the demolition of the existing buildings and redevelopment of the Site to include two blocks of up to 9 storeys in height, providing 105 residential units (Use Class C3) at first floor and above. Commercial uses will be provided at ground and basement levels.

2.8 Summary schedule of accommodation for entire scheme

Table 3: Schedule of proposed accommodation

Area	NIA (sq ft)	NIA (sq m)	GIA (sq ft)	GIA (sq m)	GEA (sq ft)	GEA (sq m)
Private Residential	82,198	7,636.40	102,065	9,482.10	107,835	10,018.10
Affordable Residential	9,707	901.80	13,176	1,224.10	14,464	1,343.70
Commercial			35,027	3,254.10	37,312	3,466.40
Shared Basement Areas			29,084	2,702.00	31,673	2,942.50
Petrol Station			3,563	331.00	3,829	355.70
Total	91,905	8,538.20	182,916	16,993.30	195,113	18,126.40

Source: The Adviser

2.9 The breakdown of the private residential units is summarised in the below table.

Table 4: Showing Breakdown of Proposed Private Units By Area and Type

Unit Type	Total	% of Total units	Total Sq ft (NIA)	% of Sqm (GIA)
1 bed	19	21%	10,356	13%
2 bed	41	46%	35,724	43%
3 bed	30	33%	36,112	44%
Total	**90**	**100%**	**82,192**	**100%**

Source: CBRE

2.10 The Applicant is proposing to provide 15 affordable housing units on site, which equates to c. 15% of the total provision of 105 units (11.4% by GIA). These affordable units will intermediate tenure.

2.11 Commercial areas are to be provided at lower ground and basement levels. The commercial accommodation will comprise a mixture of Class A1 (retail), Class A4 (drinking establishment) and Class B1 (office). The petrol station will also be re-provided on site.

2.12 The full breakdown of the commercial accommodation is summarised in the below table.

Table 5: Breakdown of the commercial space

Use	Existing Floorspace (Sqm) GIA	Proposed Floorspace (sqm) GIA	Change
A1 (Retail)	1,447	824	-623
A3/A4 (Bar, pub)	330	459	129
B1 (Office)	1,678	892	-986
Flexi use (A1, A3, B1, D1, D2)	0	1,360	1,360
Petrol filling station	596	250	-346
TOTAL	**4,051**	**3,585**	**-466**

Source: The Advisor

3 Planning Policy Context Summary

Introduction

3.1 This section of the report is to be read in addition to GE's more detailed planning statement. Additional reference should be made to the National Planning Policy Framework ("NPPF"), the Planning Practice Guidance ("PPG"), the London Plan, WCC's City Plan, Local policies, Community Infrastructure Levy ("CIL") Regulations and GN94/2012. This section provides an overview of key planning policies associated at national, regional and local level including an overview of the planning background relating to the Scheme.

3.2 Whilst this section provides an overview of the policy context for the proposed Scheme, it also refers in particular to those policies which set the background and need for the viability assessments in order to justify the planning obligations package.

National Planning Policy

3.3 The NPPF was published in March 2012 sets out the Government's economic, environmental and social planning policies for England. It summarises in a single document all previous national planning policy advice. Taken together, these policies articulate the Government's vision of sustainable development, which should be interpreted and applied locally to meet local aspirations.

3.4 In respect of affordable housing, paragraph 50 of the NPPF aims to boost significantly the supply of housing and states that where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified. Such policies should be sufficiently flexible to take account of changing market conditions over time.

3.5 The NPPF also recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

3.6 In the context of achieving sustainable development the NPPF refers to ensuring viability and deliverability and states:

"To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".[1]

3.7 "Competitive Return" is defined as follows:

"A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A 'Competitive Return' in the context of a developer bringing forward development should be in accordance with a 'market risk adjusted return' to the developer, as defined in this guidance, in viably delivering a project."[2]

Planning Practice Guidance

3.8 The PPG provides guidance to support the NPPF and to make it more accessible. The statements below are from Section 3 of the PPG Viability Guidance found on the Governments online planning portal.

3.9 The PPG addresses the question of when and how viability should be assessed

[1] Paras. 173-177 NPPF

[2] GN94/2012

by the Council in respect of planning applications. The PPG states:

"Decision-taking on individual applications does not normally require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular circumstances of the Site in question. Assessing the viability of a particular site requires more detailed analysis than at plan level.

A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken."[3]

3.10 The PPG addresses the use of forecast modelling within viability testing as follows:

"Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances.

However, where a scheme requires phased delivery over the longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the Applicant and local planning authority wherever possible."[4]

3.11 With regards to the Council's consideration of planning obligations in relation to viability – including the assessment of affordable housing provision, PPG states:

"In making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations.

This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions

[3] Para. 016. Ref ID: 10-016-20140306

[4] Para. 017. Ref ID: 10-017-20140306

should not be sought without regard to individual scheme viability. The financial viability of the individual scheme should be carefully considered in line with the principles in this guidance."[5]

Regional Planning Policy

3.12 The London Plan, July 2011 is the overall strategic plan for London, and sets out an economic, environmental, transport and social framework for the development of the capital to 2031. It forms part of the development plan for Greater London.

3.13 The London Plan also builds upon many of the policies set out at the national level with a significant emphasis upon achieving development in the most suitable and sustainable of locations, prioritising the use of previously developed land and making the most efficient use of available land.

3.14 Policy 3.8 seeks to promote housing choice and ensure the provision of affordable family housing as a strategic priority in the LDF policies.

3.15 Policy 3.10 goes on to state that affordable housing including affordable rented and intermediate housing, should be provided to meet the needs of specific households whose needs are not met by the market.

[5] Para. 019. Ref ID: 10-019-20140306

3.16 Policy 3.12 states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes. In particular the policy sets out that regard should be had to the current and future requirements for affordable housing at local and regional levels. Going on to state that there is a need to encourage rather than retain residential development and promote mixed and balanced communities. The size and type of affordable housing delivered should reflect the size and type of affordable housing currently in need. Part B of Policy 3.12 states that negotiations on sites should take account of their individual circumstances including the viability of schemes and the availability of public subsidy.

3.17 The affordable housing thresholds are set out in Policy 3.13 which states that Boroughs should normally require affordable housing provision on a site which has capacity to provide 10 or more homes.

3.18 Paragraph 3.74 of the London Plan states that affordable housing is normally required on-site but in exceptional circumstances it may be provided off-site or through a ring fenced cash-in-lieu contribution, and if appropriate 'pooled' to secure efficient delivery of new affordable housing on identified sites elsewhere.

3.19 Paragraph 3.37 of the London Plan reiterates that the Mayor wishes to encourage, not restrain, overall residential development and that Boroughs should take a reasonable and flexible approach to securing affordable housing on a site by site basis.

Local Policy

3.20 At the local level, the Westminster City Council City Plan: Strategic Policies document (November 2013) sets out strategic policies. Development control policies are set out within the City Council's saved UDP (January 2007).

3.21 Emerging policy contained within Westminster's draft City Management Plan (CMP) policies (November 2011) will set out the City Council's detailed policy for managing Westminster. Once adopted, the CMP will entirely replace the remaining 'saved policies' contained within the City Council's UDP. The draft

CMP has not yet been the subject of independent scrutiny by an Inspector appointed by the Secretary of State. As such, it currently has no statutory status for the purposes of Section 38(6) of the 2004 Act and little or no weight can be attached to the draft CMP policies in assessing this application.

3.22 Westminster City Plan Policy S16 seeks that proposals for housing developments of either 10 or more additional units or over 1,000 sq m additional residential floorspace will be expected to provide a proportion of the floorspace as affordable housing. Where provision on site is not practical or viable, the affordable housing should be provided off-site in the vicinity.

3.23 Where the affordable housing threshold is met or exceeded, the affordable housing provision will be sought as a proportion of floorspace (as set out in Policy S16). The specific proportion sought will still rely on UDP Policy H4, and in particular UDP Tables 3.1 – 3.3. The unit figures in these tables need to be translated to the floorspace figures, in order to implement Policy S16.

3.24 Supporting Paragraph 3.34 under UDP Policy H4 sets out the two circumstances in which the requirement for affordable housing may be waivered in favour of a payment to the City Council's affordable housing fund:

- If it is not possible for the affordable housing to be transferred to and managed by an RP; and
- If viability is reduced to the extent that the ability to deliver a residential scheme is compromised.

3.25 Both S16 and UDP Policy H4 recognise that it is sometimes not practical or viable for affordable housing to be provided on site. In such circumstances, S16 states that the affordable housing should then be provided off-site in the vicinity, and sets out the circumstances where off-site beyond the vicinity may be acceptable. Off-site provision is only acceptable where it achieves a higher quality, or provision on site would result in a located concentration of social housing.

3.26 Prior to the forthcoming adoption of the City Local Policies Plan, WCC has produced an Interim Policy Note on Implementation of Affordable Housing Policy

(April 2011), which clarifies the details associated with the application of affordable housing policy during the interim period.

3.27 WCC have confirmed that the calculated PIL for an offsite contribution would equate to £15,785,000[6].

Community Infrastructure Levy

3.28 The Government has introduced a Community Infrastructure Levy "CIL" to be paid by developers to help fund infrastructure required to support the development of its area. CIL is a charge applied by planning authorities on new development to fund required infrastructure within their area. Statutory provision for CIL was introduced in the Planning Act 2008. The ability to charge CIL came into force 6 April 2010 through the Community Infrastructure Levy Regulations 2010. The regulations were amended in 2011, 2012 and 2013. The Mayor of London started charging his CIL ("MCIL") on 1 April 2012 and the proposed Scheme is liable for this.

3.29 The CIL charge will be calculated according to the amount of net additional floor space a new development would create. The amount to be paid will be calculated when planning permission is granted and is paid when development starts, unless the charging authority adopts a payment policy. WCC CIL is currently at public consultation.

3.30 Further discussion on the appropriate CIL charge is included under section 7 of this report.

The RICS Guidance Note: Financial Viability in Planning (GN94/2012)

3.31 In line with WCC financial viability guidance, we have also had regard the RICS Guidance Note on Financial Viability in Planning.

[6] This is based on the amended floor areas as set out in section 11.

3.32 GN94/2012 (first edition) was published in August 2012 and its purpose is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. It provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes. It is also requested that this guidance is followed by WCC in planning applications.

3.33 The RICS GN defines financial viability for planning purposes; separates the key functions of development, being land delivery and viable development (in accordance, and consistent, with the NPPF); highlights the residual appraisal methodology; defines Site Value for both scheme specific and area-wide testing in a market rather than hypothetical context; what to include in viability assessments; terminology and suggested protocols; and the uses of FVAs in planning.

3.34 It provides all those involved in financial viability in planning and related matters with an objective method, framework and set of principles that can be applied for both plan making and development management.

3.35 GN94/2012 is grounded in the statutory and regulatory planning regime that currently operates in the UK. It is consistent with the Localism Act 2011, the NPPF and the CIL Regulations 2010.

3.36 Financial viability for planning purposes is defined as follows:-

“An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.”

3.37 This report has been written in accordance with the NPPF, the National Planning Practical Guidance Portal, The London Plan, WEE’s City Plan, WCC’s UDP, WCC’s Interim Policy Note, the CIL Regulations and the RICS GN.

Summary

3.38 The NPPF has a clear presumption in favour of sustainable development and in determining planning applications local planning authorities should take account of this

3.39 The NPPF recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened; and in addition, obligations should be flexible to market changes in order to ensure planned development are not stalled. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

3.40 Where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified.

3.41 The NPPG recognises the need for the individual circumstances of a scheme to be taken into consideration and the impact that planning obligations may have on viability. Councils are therefore encouraged to be flexible with regards to planning obligations if the Applicant is able to demonstrate that such obligations would make a scheme unviable.

3.42 In assessing the level of planning obligations, including affordable housing provision, in accordance with the London Plan, regard must be had to the economics of development and financial viability considerations associated with the Scheme proposals and other planning objectives and requirements.

3.43 In respect of affordable housing, the key document is the London Plan July 2011 (including Revised Early Minor Alterations November 2013), where Policy 3.12 states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes, having regard to the need to encourage rather than restrain residential development and the individual circumstances of the Site including economic viability.

3.44 It is important that the approach taken to affordable housing and scheme viability does not compromise the ability to deliver residential development on the Site.

3.45 This section therefore sets out the planning parameters and guidance under which the proposed development is assessed having regard to the objectives of national, regional and local planning policy.

3.46 The provision of affordable housing via a financial contribution should be considered in accordance with the Policy H4 and S16 tests, and be in accordance with the RICS Guidance Note.

4 Viability Methodology and Approach

4.1 In this section we review the Advisors' methodology and approach in assessing viability as set out in its FASS. We have also had regard to the RICS GN as referred to in paragraph 1.4 and best practice.

4.2 Established practice states that in considering viability assessments in a planning viability context, it is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements (see also RICS GN 2.1.2). This is of particular relevance in this instance given the basis upon which the FASS from the Advisor is being put forward for our assessment.

4.3 In determining an appropriate approach to viability, it is important to have regard to national planning policy frameworks and RICS guidance. In applying an appropriate methodology to a FVA, an appropriate benchmark site value should be applied to reflect the amount as to what a willing seller would be willing to part with the property for. In addition, it is also important to consider an appropriate return to a willing buyer to reflect the risk taken on the investment and the subsequent development.

4.4 In analysing any scheme, the risk and therefore reward is critical in arriving at a view on viability. It is therefore important that this is addressed and tests undertaken in order for a judgement to be formulated, in this case regarding what the Scheme can afford in terms of an affordable housing offer which in this case is in the form of a PIL. Measurements of return such as "profit on cost", "profit on value", "development yield", (for present day assessments) or "internal rates of return" (IRR) ratios (for growth modelling) are commonly used as comparable ratios, and the benchmark level against which the profitability of a scheme should be tested will depend on the degree of risk involved with the Scheme. We therefore consider that a return on GDV (for a present day analysis) to be appropriate.

Summary of Information Provided

4.5 The Advisor has undertaken a residual appraisal of the application scheme using the GLA's Development Control Toolkit Model 2014 (Appendix 1).

4.6 GE considers the approach in analysing the viability of the Scheme against an appropriate benchmark Site Value and Profit on GDV.

Land Value

4.7 The Advisor has applied a benchmark land value based upon the alternative use value (AUV) of a residential care home (C2) and has been calculated using a residual method.

4.8 *In arriving at a Site Value in accordance with the RICS GN we therefore believe it appropriate in this instance to have regard to the following:-*

- *The RICS Guidance Note "Financial Viability in Planning" published August 2012;*
- *Future development in terms of uses, density, bulk, scale and massing having regard to the development plan;*
- *The overall planning status, including current and emerging national, regional and local planning policies*
- *The agreement to purchase the Site by the Applicant;*
- *Comparable land transactions in the market;*
- *The value of the property in its existing use (EUV); and*
- *All other matters which the market would have regard to in arriving at a Market Value (including existing and alternative uses).*

4.9 GE therefore considered that site value assessed by an AUV may be an acceptable methodology, so long as the alternative scheme is deemed acceptable in planning terms.

4.10 We have assumed the Site is free of any encumbrances, or restrictions on title which would adversely affect the value.

4.11 We have also had regard to the specific site characteristics associated with Cleveland Street. The site is situated in a mixed use area comprising residential and commercial, which is expected to be suited to mixed-use development.

4.12 We have not made any allowances at this stage for loss of income, empty rates, or property maintenance (including service charges) as vacant possession is obtained prior to scheme *implementation. This however is a real cost to the Applicant in seeking to bring this property forward for development*

4.13 In order to understand this in line with WCC Financial Viability Guidance, we have also followed RICS guidance which is set out in RICS GN94/2012 paragraph 73 (para 3.3.3) which defines Site Value as follows:

"Site Value should equate to the Market Value subject to the following assumption; that the value has regard to the development plan policies and all other material considerations and disregards that which is contrary to the development plan".

4.14 The document goes on to say in paragraph E.1.12:

"Where it is clear that a purchaser in the market would acquire the property for an alternative use of the land because that alternative use can be readily identified as generating a higher value than the current use, and is both commercially and legally feasible, the value for this alternative use would be the market value and should be reported as such."

4.15 The RICS highlights that Site Value must, by definition, be at a level where the landowner is willing to sell at a competitive return as recognised by the NPPF. It also states that Site Value should have regard to policy. Site Value therefore, is not unrestricted when compared to Market Value as defined in the RICS Red Book. The degree of variance will be subject to a judgement, having regard to the circumstances in each instance.

Profit

4.16 The applicant's Advisor has split the profit level for private sales and for affordable sales. No revenue has been considered for the commercial element as this will in turn be returned to the freeholder on completion of the Scheme (to satisfy the ground lease agreement).

4.17 The advisor has applied a profit return on GDV for the private unit sales and a profit on cost for the affordable units.

4.18 A significant factor in undertaking viability assessments is the level of profit which a developer might reasonably require from undertaking the development. This will depend on a number of factors including the size of the development, the perceived risks involved, the *degree of competition for the Site from competing developers, the state of the market in terms of demand for value of the completed development, etc.*

4.19 Development profit is necessary if private sector investment is to deliver any given project. The level of profit is essentially the reward to the developer for the time, expertise and risk involved in carrying out the process of development. When the developer/land owner are one and the same this may be reflected in the development return.

4.20 The level of profit will vary between projects and will reflect a range of factors including market demand, competition, scheme complexity, financial risk and exposure particularly in relation to up-front or abnormal costs together with the anticipated timescales for development and for receiving a return.

4.21 Measurements of return such as "profit on cost", "profit on value", "development yield", or "internal rates of return" (IRR) ratios are commonly used as comparable ratios, and the benchmark level against which the profitability of a scheme should be tested will depend on the degree of risk involved with the Scheme.

4.22 As a measure of development return, it is commonly used as a benchmark for qualifying the risks of a development project when calculating a residual value, and as a simple measure of return in development appraisals. Given the nature of the Scheme, and the timescale involved we consider that the Gross Development Value (GDV) an appropriate benchmark.

4.23 Determination of an appropriate target can depend on a number of factors, but it is predicated on the risk associated with developing out the proposed Site. The more risk involved, the higher return the developer will require.

4.24 GE consider that an appropriate return to a willing buyer to be based on profit on GDV. Further commentary of GE's applied profit on GDV is in Section 7 of this report.

5 Site Value

Introduction

5.1 In this section we review the justification of the Site Value that the Advisor has used as a benchmark. We have previously commented in Section 3 on policy and guidance in respect of arriving at Site Value.

5.2 We have had particular regard to the RICS GN which has sought to provide clarity in this area in defining Site Value on the basis of Market Value (subject to an assumption of having regard to the development plan and all material planning considerations and disregarding what is contrary to the development plan). We have also had regard to guidance relating to the Mayor's Housing SPG.

Summary of Information Provided

5.3 The Advisor has proposed an Alternative Use for the Scheme as being the most appropriate approach to assessing Site Value. The Alternative Use Value (AUV) has been selected has been calculated on a residual approach using the GLA Toolkit. The AUV is based on an assumed C2 (residential institution) use for a care facility.

5.4 This approach has been applied on the assumption that a C2 use would be considered the most appropriate alternative use to that of C3 if the Scheme were to be developed. This use also does not require the provision of Affordable housing and therefore the residual value is unaffected by this policy relating to C3 development.

5.5 The alternative use scheme proposes a care facility (C2 use) which may provide 92 mixed 1 bed and 2 bed dwellings.

5.6 The sales values have derived from a Montagu Evans valuation of the alternative use dated November 2014 which has also taken into account CBRE's valuation of the proposed Scheme. The S.106 and CIL inputs have been revised which are reflective of the alternative use scheme.

5.7 The Table overleaf sets out the assumptions applied by the Advisor

Table 6: Advisors Assumptions

Item	Input
Sales Value	£1,889 psf
Ground Rent	1 bed: £350pa 2 bed: £400pa 3 bed: £550pa 5.5% yield
Car parking	£2.3m (£50,000 per space)
Build Costs	£50.564m
Professional fees	12%
Finance	6.75%
S.106	£315,988
CIL	£560,495
Site acquisition	5.8% of benchmark value
Right of Light	£4.2m
Commercial	£3.538m
Developers Profit	20% of GDV
Marketing	3%

Source: The Advisor

5.8 Based upon this approach the Advisor proposes a residual land value of £43.291m, and consequently proposed a land value benchmark for this scheme of:

£43,291,000 (Forty Three Million and Two hundred and ninety one thousand pounds).

Alternative Use Value (AUV)

5.9 Before reviewing the inputs and concluding value of this approach Gerald Eve have sought clarification from the Council to ascertain as to whether this use would be acceptable.

5.10 In response the Council stated:

"From the limited information provided about the alternative scheme it appears unlikely that the City Council would consider that the proposal falls within the C2 use class for a 'nursing home'. In the absence of a separate class for specialist older people's housing there is a degree of ambiguity, although it is noted that some developers try to get specialist schemes classed as C2 in order to minimise S106 and affordable housing contributions.

Care is defined as "personal care for people in need of such care by reason of old age, disablement, past or present dependence on alcohol or drugs or past or present mental disorder, and in class C2 also includes the personal care of children and medical care and treatment".

In applications for nursing homes within the C2 use class it is important to question - is the level of care provided both so extensive and so fundamental a requirement of living in the development that it can more properly be regarded as residential care? (C2) Whilst there is mention of communal facilities, treatment/consulting rooms and a nurses' station, it is not apparent that the level of care would be such that the units could be considered to fall within C2.

Indeed 6.4 of the Applicant's Viability Report states "the design of the Scheme allows for residents to be able to access care on the premises when and if they should be required". This suggests that the level of care would not be extensive nor fundamental to the proposed use.

In examples of previous planning appeals for C2 uses Section 106 undertakings have been required to ensure those living in the premises would be over 65 and in need of care. Future occupiers would be effectively restricted to those in need of care through the obligation for leaseholders to pay a substantial weekly management charge for the care.

Although the submitted drawings do not show the internal layouts, given the size of the proposed units, they appear to be self-contained. This further suggests that the units would fall within the C3 use class.

It is considered that the proposed alternative scheme would provide to a luxury private residential accommodation (Class C3) with extensive communal leisure facilities, and an element of nursing/medical facilities. However, it would not fall within the C2 use class."

Westminster City Council – Planning Department – 23rd February 2015.

5.11 It would appear taking the above that the proposed alternative scheme would not deemed C2 and would instead be treated as C3 use. On this basis, a requirement for affordable housing would remain and therefore the residual land value would be less than that proposed.

5.12 Gerald Eve, therefore, does not consider it appropriate to assess the proposed AUV scheme to ascertain a reasonable land value benchmark.

Site Value Market Comparables

5.13 GE have undertaken an assessment of market comparable to ascertain a reasonable Market Land Value for the Scheme. The comparable properties are based on Schemes in the surrounding area and are summarised in the table below.

Table 7: Comparable Sales Values

Property	Sale Date	Purchase Price	Indexed Purchase Price	Acres	NIA sq.ft Proposed	Indexed Comparables £psf proposed NIA
31-36 Foley Street	Sep-12	£22,000,000	£29,859,253	0.12	39,138	£763
50-57 Newman Street	Jun-12	£21,000,000	£29,135,914	0.2	38,288	£761
Rathbone Square, 35-50 Rathbone Place	Sep-11	£120,000,000	£176,884,481	0.94	413,509	£428
The Chilterns, 74-76 Chiltern Street, 22-28 Paddington Street	Mar-12	£36,250,000	£51,438,142	0.48	108,338	£475
True Average			**£287,317,790**		**599,273**	**£479**

Source: GE

5.14 Indexation has been applied to the sales prices to bring the sales values to a present day value. The indexation has been taken from Savills land inflation report.

5.15 GE have assessed these comparables and note that the values range between £428 psf and £763 psf. GE has taken a true average of this range and therefore consider an average value of £479 per sq ft could be applied to the proposed residential area at 91,905 sq ft (excluding commercial as value provided to freeholder). This equates to a site value of circa £44.06m.

Site Value Purchase Price

5.16 Given that the property is encumbered and therefore restricted without the consent of the freeholder we consider the purchase price is a material consideration. Gerald Eve understand an agreement has been reached where by the developer pays:

- An initial premium for the deed of variation to the freehold lease.
- An annual payment equivalent to an estimated commercial income for 5 years post development.
- An overage on any sales values achieved over an agreed rate per sq ft.

5.17 GE also understand that additional payments are required including:

- Buy out of the existing leaseholder.
- Purchase of the Wellington Pub.
- Vacant procession costs

5.18 Given that this site cannot be developed without these payments and based up information provided we estimated the total costs to enable the development of this site equate to circa £42.5m.

5.19 Therefore GE estimates that a reasonable land value benchmark ranges between £42m and £44m. The midpoint of this range would be circa £43m given this generally reflects the proposed land value benchmark. We have considered £43m to reflect a reasonable land value benchmark for the purposes of this review.

Summary of conclusion

Assumption	Proposed	GE
Site Vale	£43.256m	£43m

6 Review of Revenue Assumptions

Introduction

6.1 This section reviews the inputs relating to residential values and sales rates and commercial value inputs. The following section reviews the inputs related to the construction costs and timings of development and Section 7 deals with the Site Value.

Residential Market Sales

6.2 The Advisor has commissioned advised on residential sales values from CBRE which is shown at Appendix 2 of the FASS. As part of the FASS CBRE have provided a draft pricing exercises. This is supported by report detailing comparable evidence.

6.3 Appendix 2 of FASS demonstrate that the total proposed residential sales development value for 87-115 Cleveland Street equates to circa £151.2m, with a blended rate £ per sq ft of £1,840.

6.4 GE have undertaken comparable research and consider that the sales values adopted by the Applicant are acceptable for the lower floors (First to Seventh) appears reasonable, however consider the pricing of the units on the higher floors (Eighth to Ninth) were low and have therefore applied a higher rate psf for these which in turn has increased the average sales value from£1,840 psf as adopted by the Advisor to £1,864 psf. This has been accepted by the Advisor and the revised sales values are within table overleaf.

Table 8: Gerald Eve Applied Sales Values

Floor	NIA	£/sqft	GDV
1st	12,210	£1,676	£20,463,960
2nd	12,919	£1,725	£22,285,275
3rd	12,919	£1,776	£22,944,144
4th	8,044	£1,823	£14,664,212
5th	8,044	£1,873	£15,066,412
6th	8,044	£1,923	£15,468,612
7th	7,228	£1,987	£14,362,036
8th	7,228	£2,100	£15,178,800
9th	5,556	£2,300	£12,778,800
Total	**82,192**	**£1,864**	**£153,212,251**

Source: GE

6.5 Whilst our adopted sales values for the 8th and 9th floors are lower than what our comparable evidence suggests,

6.6 The Advisor has assumed a private sales programme of 12 months but have not commented on how many units they anticipate to be sold off plan.

6.7 GE consider that 45% of the private residential units sold off plan to be appropriate for this particular Scheme with the remaining units sold over 12 months thereafter. This has been accepted by the Advisor.

On-site Affordable Housing

6.8 The Advisor has included 15 affordable units onsite within their appraisal in additional to an affordable payment in lieu which take into account WCC's affordability guidelines. The affordable mix is summarised in the table overleaf.

Table 9: Proposed Affordable Housing

Unit type	Tenure	Total Units	GIA sq ft	NIA sq ft
1 Bedroom	Shared Ownership	10		5,556
2 Bedroom	Intermediate Rent	5		4,151
Total		**15**	**13,176**	**9,705**

Source: The Advisor

6.9 The provided GLA Toolkit proposes to split the affordable housing units into 10 shared ownership units and 5 intermediate rent units. However, an overall sales value of £2.899m has been included which equates to £299psf which is estimated to be a blended average of the shared ownership and intermediate rental values.

Affordable Housing Payment in Lieu

6.10 An additional affordable housing payment in lieu is offered on any excess reflective of the residual benchmark. The Advisor estimates this to be c.£3.2m.

6.11 GE have discuss the matter of the affordable units with the Advisor and this has since changed to all 15 affordable units being intermediate rent. Furthermore, the Advisor has reduced the average capital value of these to £225 per sq ft which GE regard as *reasonable.*

6.12 GE considers any additional PIL will be reflective of the excess of the residual over and above the benchmarks.

Car Parking

6.13 CBRE have not provided commentary on parking spaces, however the Advisor have applied a rate of £50,000 per parking space in their FASS. The Advisor have suggested that each of the 46 spaces would be private allocated spaces and equates to a total revenue of £2.3m.

6.14 In GE's opinion, the value for allocated parking could be £70,000 per space which equates to a total income of £3.22m. However, GE has been advised by WCC that all of the parking spaces are to be unallocated and as a consequence will significantly reduce the revenue generated.

6.15 The Advisor has researched the purchase price for a car permit in Westminster. As there is no guarantee of a parking space, the cost is £115 pa and the capital value could be in the region of £1.5k. Should parking be unallocated in the Scheme then the residents would face the same scenario whereby there was no guaranteed car parking space and they may have to park elsewhere and either have to pay a significant amount in a NCP car park or buy a car permit in addition. As the car parking on site is near the dwelling and in a secure underground car park then say the value is double on street permits. The Advisor has concluded that the value of these particular allocated spaces to be 10% of the capital value if allocated. The approach appears reasonable and therefore GE have considered a value of £7,000 per space in light of the above.

Ground Rents

6.16 Having been advised by CBRE, the Advisor has included ground rents at £350 per unit for 1 bed units, £400 per unit for 2 bed units and £550 per unit for 3 bed units. The have adopted a 5.5% yield; generating a net value of £659,167.

6.17 GE accepts the ground rental values and the yield applied and consider them reasonable in the market.

Commercial

6.18 The Advisor has not included any commercial income in the Scheme as the commercial element is to be provided to the freeholder as part of the deed of variation.

6.19 GE accepts the Advisors input for the commercial element of the Scheme and has verified such information.

Summary of revenue findings:

Table 10: Summary of revenue

Assumption	Proposed	GE
Private Residential	£1,840 psf	£1,864 psf
Affordable Housing	£299 psf (blended)	£225 psf
Car Parking	£50,000 (per space) 46 total.	£7,000 (per space) 46 total
Ground Rent	£350 per unit (1 bed)	£350 per unit (1 bed)
	£400 per unit (2 bed)	£400 per unit (2 bed)
	£550 per unit (3 bed)	£550 per unit (3 bed)
Commercial	£0.00	£0.00
Total	**£157,140,700**	**£156,419,420**

7 Review of Cost Assumptions and Construction Programme

Introduction

7.1 In this section we review the construction cost inputs adopted by the Advisor within their appraisal. We also comment on the development timescales.

Construction Costs

7.2 The applicant has used Potter Raper Partnership (PRP) to provide the construction costs for the proposed Scheme which is provided within appendix 3 of the Applicants FASS and is based on November 2014 costs.

7.3 This cost plan indicates the total construction cost for the entire scheme to be c.£49.737m, inclusive of 5% contingency and preliminaries at 17%. This total construction cost represents c.£272 per sq ft based upon the GIA (or £2,995,750 per unit). The private residential unit costs are estimated to be c.£34.396m which represents £418 per sq ft NIA or £312,178 per private unit.

7.4 GE are not cost consultants and have therefore have requested the support of a qualified quantity surveyor – namely Veale and Sanders (V&S) to assess the costs proposed, which is set out in Appendix 2 of our report and is summarised as follows:

- *PRP's average build cost for private residential is at the top end of what might be expected and there appear to be significant opportunities to reduce costs.*
- *By taking a mid-point range view, the base cost reduction could be c.£1.2m.*
- *Omitting inflation would reduce the cost by c.£1.354m*
- *There could be a further reduction should the petrol station fit-out be omitted.*

7.5 Veale and Sanders concluded their draft report by recommending that deductions on the build costs should include:

- *Communal fit-out: c.£1.177m*
- *Inflation: c.£1.354m*
- *Petrol Station fit-out: £600,000*

7.6 *The recommended total savings by Veale and Sanders equates to £3.131m. However, following discussions with the Advisor, it has now been accepted that the petrol station fit-out cost will remain as it is likely that the occupier will not be a major petrol occupier. Furthermore, GE understands that the inclusion of a petrol station on site will be a requirement from a planning perspective.*

7.7 *This therefore generates a difference between the parties of £2.531m. As this has been a matter that is yet to be agreed by both of the QS's, through further discussion with the Advisor, it has been proposed that a total construction cost of c.£48.560m which has been regarded as a reasonable compromise by V&S.*

Fees and Costs

7.8 The table below sets out the Advisors assumptions as to fees and costs:

Table 11: Showing Summary of Professional Fees and Costs

Item	Assumption
Professional Fees	12% of Construction Costs
Marketing	3% of private residential GDV

Source: The Advisor

7.9 *GE consider the professional fees, marketing costs on the provision that this is inclusive of agents and legal letting fees, stamp duty and land agent and legal fees to be reasonable and appropriate for this project.*

Finance

7.10 The Advisor has applied a finance rate of 6.75% which represents a total cost of capital in financing the Scheme.

7.11 *The interest rate applied by the Advisor reflects both debt and equity financing with the banks requiring a larger element of the latter relative to the former in comparison to pre-downturn times. The debt element reflects both a margin and risk premium above 5 year swap rates. The equity element should in theory reflect an equity return which may be calculated by reference to the weighted average cost of capital (WACC). However, this would also need to* *have regard to the level of development return, which is reflected in the amount of profit a scheme is producing. This is followed to avoid double counting, the equity element should broadly follow the level of debt interest plus a margin to reflect the more costly equity.*

7.12 We note that the De Montfort Report of December 2013 (currently being updated for end of 2013) concerning Commercial Property Lending Market Report up to Mid Year 2013 states the following:

"<u>Development Finance: Loan Terms Offered by Other Non-bank Lenders</u>

Those organisations prepared to provide senior debt to loans secured by fully pre-let commercial development projects did so up to 50% loan-to-value ratio, interest rate margin/coupon of 10% and a 3% arrangement fee.

Those organisations prepared to offer junior debt for a fully pre-let commercial development would offer a loan-to-value ratio within a range of 50% to 60% (same at year-end 2012), no data was supplied relating to margins, an arrangement fee of 6% (same at year-end 2012) and seek an internal rate of return of 15% to 17% (same at year-end 2012).

Those organisations prepared of offer mezzanine finance for fully pre-let commercial development would do so up to a maximum of 85% loan-to-value ratio, up to a maximum of 100% loan-to-cost ratio, seek an interest rate margin of 12%, arrangement fee of 2%, an exit fee of 2% and seek an internal rate of return of 12% to 17%"; and

"<u>Residential: Loan Terms Offered by Other Non-bank Lenders</u>

With regard to finance for residential development for sale, senior debt would have been provided in a range of 60% to 80% loan-to-value ratio, interest rate margin/coupon of 13% to 16%, and a 3% arrangement fee.

Junior debt would have been provided up to a maximum loan-to-value ratio of 75%, up to a maximum of 90% loan-to-cost ratio and seek an internal rate of return of 15%. (see page 60)

Mezzanine finance would have been provided within a range of 60% to 85% loan-to value ratio, 80% to 100% loan-to-cost ratio, 15% to 25% interest rate margin/coupon, 2% arrangement fee, 2% exit fee/profit share and seek an internal rate of return of 12% to 25%."

7.13 The RICS GN suggests that in assessing such matters as the rate of finance, that this should not be specific to the developer in question but be the benchmark rate that any developer *capable of undertaking the Scheme would be able to access finance at.*

7.14 GE therefore considers a total cost of capital for financing the Scheme of 7% as a more appropriate level given the proposed Scheme. This rate takes into account arrangement, monitoring and related fees and reflects the fact that in practice, the financing of the Scheme would be split into debt and equity.

Section 106 Payments and Mayoral CIL

7.15 The Advisor considers the following S.106 and MCIL contributions to be appropriate for the proposed Scheme.

Table 12: Applied S.106 & MCIL

Item	Cost
Monitoring	£3,500
CCTV	£29,867
Public Realm	£282,621
Social/Community	TBC
Education	TBC
Parking	£59,000
Total	**£578,551**
MCIL	£574,550
Total	**£1,153,101**

Source: The Advisor

7.16 The Advisor now anticipates that the MCIL will now total £590,400. GE have included the proposed S.106 and the revised MCIL contributions within FVA subject to confirmation from the Council that these are the correct amounts.

Site Acquisition Costs

7.17 The Advisor has included site acquisition costs of 5.8% of the benchmark value, equating to £2.436m.

7.18 GE considers this amount to be reasonable as this is regarded as an industry standard.

Rights of Light

7.19 The Advisors FASS has assumed a cost allowance of £4.2m for Rights of Light.

7.20 GE requested evidence of this number and were provided with a Rights of Light specialist (GIA) report anticipating an assumed Right of Light payment could be c.£5.365m, which was actually higher than the £4.2m as originally estimated. GE have included £5.365m in the FVA which reflects the upper end of the range. However, if a lower Right of Light cost is achieved, the Scheme will be more viable.

Summary

Item	Advisors	GE
Construction Cost	£49.737m	£48.560m
Professional Fees	12.00%	12.00%
Marketing	3.00%	3.00%
Finance	6.75%	7.00%
Acquisition Cost	5.80%	5.80%
S.106	£578,551	£578,551
MCIL	£574,550	£574,550
Right of Light	£4.2m* (£5.365m)	£5.365m

*Applied in the Advisors appraisal

Affordable Housing Payment in Lieu

7.21 Based on the revenue and costs applied and the applied benchmark site value, the Advisor has concluded that in order to maintain a viable scheme, an additional affordable PIL of £3.347m could be paid.

7.22 Section 5 of Savills Affordable Housing Statement discusses affordable housing delivery in which Savills believe that an onsite provision of 15 units (Block C) is the maximum reasonable amount of onsite affordable housing that can be provided. Any further onsite affordable housing will create conflicts with the private residential units as there is a shared core serving blocks A and B. This would create issues with regard to inflated service charges for the affordable units. Savills therefore conclude that an additional PIL should also be provided.

7.23 Whilst GE accepts Savills' approach, no additional schemes have been provided to demonstrate that a full policy compliant payment in lieu makes the Scheme unviable or *attempt to include additional affordable housing onsite.*

7.24 GE will consider the Advisors proposed PIL at the conclusion of this report.

Construction Programme

7.25 The Advisor has adopted the following timescales in their appraisal:

- Pre-construction Not provided
- Construction 27 months

7.26 GE requested clarity on the pre-construction programme from the Applicant. For the purposes of the FVA, GE have applied a pre-construction period of 6 months and consider the 27 month construction programme reasonable.

Return

7.27 The Advisor has applied a return 20% profit on GDV for the private residential sales and 6% profit on costs of the affordable units which equates to a blended rate of 19.86% profit on GDV.

7.28 GE considered that an appropriate return of Scheme of this nature should be between 17% and 20% profit on GDV and should be reflective of the commentary in section 4. Whilst the Advisor have applied a profit on GDV of 19.89% (blended) GE requested evidence as to why the lower end of the range at a 17% profit on GDV was not appropriate.

7.29 Following discussion, GE accept that the Site specific issues such as the inclusion of the petrol station and the complicated site assembly process and we therefore conclude it is reasonable to apply a profit on GDV of 18.5%. This does not set precedent as this has been assessed with regard to the Site specific issues.

8 Review of Financial Appraisal

7.30 Below we set out and review the proposed Scheme appraisal. In the next section we consider the sensitivity in accordance with RICS GN 94/12 of this and the impact upon the potential of achieving the maximum reasonable affordable housing payment in lieu.

Summary of information provided by the Applicant

7.31 The Advisor has provided their electronic GLA Toolkit as requested and GE have applied the proposed input of the GLA Toolkit into Argus developer to enable comparison of the appraisal on a like for like basis. The outcomes are shown in Table 9 overleaf.

Table 13: Comparison of Appraisal Inputs

Element	The Advisors FASS	GE Conclusions
Private residential (C3)	82,198 sq ft (NIA)	82,198 sq ft (NIA)
Affordable residential (C3)	9,707 sq ft (NIA)	9,707 sq ft (NIA)
Revenue		
Average private residential sales values:	£1,840 psf	£1,864 psf
Affordable £psf	£298.75 psf (Blended)	£225 psf (All Intermediate Rent)
Residential Ground Rent Income:	£719,091, Yield: 5.5%	£719,091, Yield: 5.5%
Commercial Income:	-	-
Car parking income	£50,000 per space	£70,000 per space allocated £7,000 per space unallocated
Costs		
Construction cost:	£49,737,440	£48,560,660
Contingency	5%	-
Professional fees	12%	12%
Programme	X months pre construction, 27 months construction and 9 months sales rate XX% sold off plan	6 months pre construction, 27 months construction and 9 months sales rate 45% sold off plan.
Marketing costs	3%	3%
Mayoral CIL	£574,550	£590,400
S106	£578,551	£578,551
Right of Light	£4.2m	£5.365m
Ground lease restriction	-	£7m (£1.4m pa for 5 years)
Finance	6.75%	7.00%
Profit target	20% PD 6% Affordable	18.5%
Site value	£43.29m	c.£43m
Additional affordable contribution PIL	c.£3.347m	c.£4.26m

Source: The Advisor/GE

7.32 *Having applied the inputs in Table 10, we conclude that an affordable housing payment in lieu contribution can be provided for the value circa **£4.26m** which is an increase of £913,000 on what the Applicant's Advisors have initially offered.*

9 Sensitivity Analysis

9.1 The Advisor has not undertaken any sensitivity analysis to support their approach as is anticipated with the RICS GN. In order to understand the sensitivity of the outcomes, GE have undertaken a sensitivity analysis to assess the impact of the profit on GDV which was a debated issue.

9.2 Sensitivity analysis is a fairly simplistic but reasonable approach to testing viability. In essence, uncertainties can be identified in respect of the inputs and their effects can then be looked at in terms of the development return and then the level of planning payment. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Benchmarks can be used as performance measures.

9.3 GE have assessed the impact on the applied profit on GDV based on variation in the sales values and construction costs (±2.5% of GE's proposed inputs). The test is on the midpoint of 18.5% profit on GDV and is summarised in the table below..

Table 14: Showing Affordable Contributions - Sale Values and Cost Sensitivity Analysis

		Sales Values				
		-5.00%	**-2.50%**	**0.00%**	**2.50%**	**5.00%**
Construction Cost	**-5.00%**	16.34%	18.42%	20.39%	22.27%	24.05%
	-2.50%	15.34%	17.45%	19.45%	21.35%	23.16%
	0.00%	14.34%	16.47%	18.50%	20.43%	22.26%
	2.50%	13.34%	15.50%	17.55%	19.50%	21.36%
	5.00%	12.33%	14.52%	16.61%	18.58%	20.46%

Source: GE

9.4 The table shows that when the sales values are decreased by 2.5% and there is no change to the construction costs, the profit on GDV is below the range which GE consider appropriate for this scheme. On the other side of the Scheme, when sales values increase by 2.5% and construction costs remain constant, the profit on GDV exceeds the range.

9.5 When both sales values and construction costs are increased by 2.5%, the resulting profit on GDV is at its closest level to the Advisors considered level of 19.89% and is closest to the lower point of the considered appropriate range when both construction costs and sales values are reduced by 2.5% which generates a profit on GDV of 17.45%.

9.6 Furthermore, this also shows that where construction costs and sales values vary at the same rate, the range in profit on GDV created ranges between 16.34% and 20.46% which further supports our opinion that a reasonable profit on GDV should lie between 17% and 20%.

Summary

9.7 The above analysis demonstrates the preliminary estimate of a reasonable contribution in lieu of affordable housing of circa £4.26m is a fair reflection of the maximum contribution which should be anticipated taking into account of the reasonable risks associated with the Scheme.

10 Conclusions and recommendations

10.1 The Advisors report is broadly consistent with the RICS GN and we are generally in agreement with the methodology they have adopted, and we have highlighted areas where we believe they have not complied with best practice.

10.2 We requested further information from the Advisor and on 13th February 2015 and we received the most recent additional information on 4th March 2015 which we have reviewed and incorporated into our assessment of the FASS. The Advisor has not confirmed that they are not acting on a non-incentivised basis.

10.3 The benchmark return used by the Applicant for the viability appraisal is 19.89% on GDV (blended from 20% on GDV for the private units and 6% on the affordable units) on a present day basis. We consider this should range between 17% and 20% on GDV to appropriately reflect the unique characteristics of the Scheme and wider market. In this instance we consider a profit of 18.5% on GDV reasonably reflects the associated risks with the Scheme. This does not set a precedent. This has also been demonstrated through sensitivity testing.

10.4 GE with the support of V&S considered that the proposed build costs were higher than should reasonably be anticipated for the Scheme and it was agreed with the Advisor that this should reduce to c.£48.560m..

10.5 With respect to the proposed sales values. They concluded the sales values should increase from an average £1,840 psf to £1,864 psf due to market evidence suggesting upper floors could achieve higher values in the current market.

10.6 We conclude that the maximum reasonable affordable housing contribution in addition to onsite affordable housing (c. 15%) that should be anticipated from this scheme is in the order of c.£4.26m.

10.7 Furthermore, accept that the Scheme cannot support policy compliant affordable housing on site provision or adding units on the Scheme due to design limitations.

11 Addendum

11.1 Following GE's submission of the FVA review to the Council (13/03/2015), we have been requested to review a number of changes to the Scheme and comment on their impact on the affordable housing payment in lieu.

Adjustments

11.2 The Applicant's architects have revised the proposed floor areas which in turn has reduced the total Net Internal Floor Area (NIA). The Advisor therefore considers that this reduction will impact upon sales revenues, construction costs and the affordable housing payment in lieu (PIL). GE will consider the impact on each of these separately.

Impact on Sales Revenue

11.3 On 20th March 2015, the Advisor informed the Council that the proposed floor areas and scheme layout in the FVA have been updated. A revised schedule of floor areas was provided and resulted in the following changes.

Table 15: Revised Floor Areas

Unit Type	Original Units	Revised Units	Original floor area sq m (total NIA)	Original floor area sq ft (total NIA)	Revised floor area sq m (total NIA)	Revised floor area sq ft (total NIA)
1 Bed Private	19	27	962	10,355	1,406	15,135
2 Bed Private	41	31	3,318	35,711	2,642	28,435
3 Bed Private	30	32	3,356	36,120	3,575	38,478
Affordable	15	15	902	9,705	882	9,489
Total:	105	105	8,537	91,891	8,504	91,537

Source: the Advisor

11.4 Table 15 shows that whilst the total number of residential units remains the same, the number of one bedroom and three bedroom private units have increased where the number of two bedroom private units have reduced. As a consequence of this, the total NIA floor area has reduced from 8,537 sq m to 8,504 sq m which represents a change of 33 sq m. The reduction in floor space inevitably reduces the achievable revenue.

11.5 When applying the accepted sales values on a price per sq ft basis for both the private units (£1,864 per sq ft) and the affordable units (£255 per sq ft), the gross sales revenue reduces from c.£155.7m to c.£155.4m.

11.6 GE has also considered the impact the revised unit mix of the Scheme will have on the achievable ground rents. As there has been a reduction in two-bedroom units and an increase in one and three bedroom units, the ground rental annual income reduces from £39,550 to £39,450, reflecting a reduction of £100 per annum.

11.7 The 42 unallocated car parking spaces have not changed and therefore the anticipated value of £7,000 per space has remained.

11.8 The Advisor considers that when applying these changes the total GDV reduces from c.£156.42m to c.£156.11m, reflecting a reduction of c.£310k. GE considers this to be a reasonable position.

Impact on Construction Costs

11.9 The Applicant has proposed that due to the area changes, the build costs have increased from c.£48.56m to c.£50.54m. The Applicant's QS has provided a revised construction cost breakdown (25/03/2015) which is attached to this report in **Appendix 4**.

11.10 GE are not cost consultants and have therefore requested that Veale & Sanders review the additional information provided on the construction costs (30/03/15). Veale & Sanders concluded that the Applicant has not provided sufficient evidence to suggest that the cost should be adjusted.

11.11 Veale & Sanders have therefore concluded that there is no justification to adjust the agreed construction costs, and that the costs applied in the reviewed appraisals should remain at c.£48.56m.

Other Appraisal Inputs

11.12 The remainder of the appraisal inputs are unchanged, however, those which are based on a percentage of GDV have reduced accordingly. GE also does not consider that there will be a revision in the timescales of the revised scheme.

11.13 A summary of the revised appraisal outputs is set out in the table below. The revised appraisal is attached in **Appendix 5**.

Table 16: Revised Appraisal Outcomes

Element	Outcome
Floor Area	91,537 sq ft NIA
One-bed Ground Rent total MRV	£9,450
Two-bed Ground Rent total MRV	£12,400
Three-bed Ground Rent total MRV	£17,600
GDV	c.£156.11m
NDV	c.£156.07m
Construction Cost	c.£48.56m
S.106	£578,551
Marketing (3%)	c.£4.59m
Profit on Cost	22.71%
Profit on GDV	18.50%
Surplus	£4.05m

Impact on S.106 Including Affordable Payment in Lieu (PIL)

11.14 GE accepts the Applicant's estimation for the initial S.106 contribution of £578,551.

11.15 Following the revision to the floor areas and the potential impact on the sales revenues and construction costs, the Applicant considers that the surplus which can be attributed to an affordable housing PIL should reduce from c.£4.27m to c.£3.65m.

11.16 Whilst GE considers the impact on sales revenue to be reasonable due to the revision of the floor areas, it is not accepted that the construction costs require change. Having assessed these changes, GE consider that a reasonable surplus for the proposed affordable housing PIL could reduce from £4.27m to £4.05m.

11.17 In summary, GE conclude that the table below sets out what GE consider to be the appropriate Section 106 "pot" which can viably be supported by the Scheme.

Table 17: Appropriate S.106 "Pot"

S.106	Original	Revised
S.106 Contribution	£578,551	£578,551
S.106 Affordable Housing PIL	£4,268,036	£4,050,000
Total S.106 Pot	**£4,846,587**	**£4,628,551**

Source: GE

Appendix 1 – The Advisor's Proposed Scheme Appraisal

Results

Site Address	Cleveland Street
Scheme Description	Proposed Scheme November 2014

Site Reference Number	
Application Number	
NLUD Ref. Number	
UPRN or Grid Ref.	

View Results

Discounting Function

Floor Space Analysis

Costs Analysis

Child Occupancy & Bedrooms

RESIDUAL before land finance	**£55,522,000**
RESIDUAL after land finance	**£46,638,000**
Per hectare	£46,638,000
Per dwelling	£444,000
Per market dwelling	£518,000
Per habitable room	£148,000
Per bedspace	£221,000

SCHEME UNITS		per ha.
No. of Dwellings	105	105
No. of Habitable rooms	316	316
No. of Bedrooms	211	211
Total floorspace (m2)	8,538	8538
% Wheelchair Units		

SCHEME REVENUE	£157,071,000
Contribution to revenue from:	
Market housing	£151,200,000
Affordable Housing	£2,912,000
- Low Cost Sale	
- Equity Share	
- Shared Ownership	
- Intermediate Rent	
- Affordable Rent	
- Social Rent	
Grant	
Capital Contribution	£2,959,000
Commercial Elements	

LAND FINANCE	
Total land finance	£8,884,000

AFFORDABLE UNITS	Low Cost	Equity Share	Shared	Intermediate	Affordable	Social Rent	Total
Units			10	5			15
Units %			10%	5%			14%
Hab rooms			6%	5%			11%
Bedrooms							
Persons			5%	5%			10%
Floorspace			6%	5%			11%

SCHEME COSTS	£101,549,000
Contribution to costs from:	
Market housing	£84,431,000
Affordable Housing	£6,196,000
- Low Cost Sale	
- Equity Share	
- Shared Ownership	£3,547,000
- Intermediate Rent	£2,649,000
- Affordable Rent	
- Social Rent	
Planning Obligations	£579,000
Community Infrastructure Levy	£575,000
Exceptional Development Costs	£6,230,000
Commercial Elements	£3,538,000

PUBLIC SUBSIDY (GRANT)	
Whole scheme	**£ -**
Per Social Rent dwelling	£ -
Per Shared Ownership dwelling	£ -
Per Intermediate Rent dwellings	£ -
Per Affordable Rent dwelling	£ -

Alternative Site Values		Against residual
Existing Use Value	£ -	
Acquisition Cost	£ -	
Value for offices	£ -	
Value for industrial	£ -	
Value as hotel site	£ -	
Value as other alternative	£ -	

Appendix 2 – V&S Build Cost Report

87 – 115 Cleveland Street
Westminster, London

Report to Gerald Eve

DRAFT

26th February 2015

INTRODUCTION

Veale & Sanders (V&S) is a firm of Chartered Quantity Surveyors based in Purley, South London and have provided construction cost advice in connection with financial viability in planning on a large number of projects throughout Greater London.

In January 2015, V&S were approached by Gerald Eve (GE) concerning a proposed residential development in Cleveland Street, Westminster. The brief was to undertake a review of the scope and pricing of the construction cost plan submitted in support of a development appraisal relating to a planning application.

The review would include:

- Reviewing overall scope / content / areas / mix etc
- Comparing overall pricing with benchmark data from BCIS and historic projects
- Identification of potential cost savings

Following appointment V&S were provided with a copy of the GLA Development Toolkit Report dated November 2014 prepared for Soho Data Holdings Ltd by Affordable Housing Solutions (AHS). Appendix 3 Proposed Scheme Build Cost Estimate included Cost Plan 12A dated 7th November 2014 prepared by Potter Raper Partnership (PRP). Drawings and other relevant documents were downloaded from the WCC planning portal.

As the proposed work comprise virtual complete demolition and reconstruction, a site visit was not considered necessary.

REVIEW OF OVERALL SCOPE/CONTENT/AREAS

The scheme comprises the substantial demolition of existing structures to the underside of basement and subsequent construction of a new building with a gross internal floor area totalling approximately 16,993 m2 over up to 12 floors from lower basement level to ninth floor. The proposed scheme is mainly residential providing 105 private units split between two block (A and B) and 15 affordable units (block C) over a common podium providing a mix of retail and commercial at ground and basement level together with car parking, plant and ancillary accommodation.

The cost plan does not include a schedule of areas, nor even a total GIA for the scheme but reference is made to Assael Design (the architect) area schedule Rev P17 dated October 2014. This schedule includes GIA's of 10,738.8 m2 as Residential Total and 2,554.4 m2 as Shared Total giving a combined total of 13,293.2 m2. These are slightly different to AHS totals of 10,706.2 m2 and 2,702.0 m2 giving 13,408.2 m2 which we understand is based on Assael's schedule revision P20 issued November 20th. The main reason for the increase in Assael's area is the inclusion of shared bin stores.

The Assael schedules do not include the commercial areas at ground floor and basement. The AHS report includes these as 1,677.4 m2 and 1,576.7 m2 respectively totalling 3,254.1 m2. The basement is slightly less than indicated on Assael's drawings which add up to 1,680.6 m2, a shortfall of 3.2 m2. The ground floor excludes Unit 4 retail.

AHS report also adds 331 m2 GIA for the petrol station. Unit 4 on the architect's drawing is 80.5 m2. AHS appear to have included not only the tanks in the basement but also the forecourt which is external.

Whilst AHS total GIA of 16,993.3 m2 is overstated due to the forecourt, the commercial and retail areas are net which means that there is a shortfall due to party walls etc.

Queries have been raised with AHA and PRP but no definitive answer has been provided. The drawings in our possession are not sufficient for fully accurate measurement but we concur with Assael from first to ninth level and adding lower basement to ground floor calculate the overall GIA total to be around 17,080 m2. Whilst we do not agree with AHS methodology, the end result is within 0.5% which is not unreasonable. We have therefore used their totals for the purposes of benchmarking etc.

The Basis of Estimate is stated as Assael Design issued 29 October 2014 and area schedule Rev P17 as noted earlier. In addition, reference is made to Walsh Associates initial structural sketches. Drawing numbers and revisions are not stated but these would appear to concur with the application information (subject only to minor discrepancies in the area schedule). There is no reference to MEP services engineering information nor to specification/standards for finishes and internal fit out.

There is a exclusions/notes most of which are standard and self explanatory such as:

- Professional fees
- VAT

Further specific exclusions are listed which are commented on as appropriate in the detailed report.

A contingency of 5% is included.

An allowance is included for 'Inflation to current costs at Nov 14'.

ANALYSIS OF ANTICIPATED CONSTRUCTION COSTS

General

The total building cost in the PRP cost plan is £49,738,000 which equates to £2,926/m2 or £272/ft2 of the GIA (16,993.3 m2). There are clearly several abnormals including demolitions and external works which need to be taken into account when comparing with benchmarks.

PRP have abstracted the costs for the private flats at £34,396,000 which they calculate to be £3,455/m2.

The current BCIS published average prices for new residential developments adjusted for 4Q2014 (date of cost plan) and the Westminster location is in the range of £1,895/m2 for upper quartile to £3,645/m2 highest for a 6+ storey block.. The PRP costs therefore appear to be towards the upper end of the range.

However, the PRP calculation appears to be flawed in a number of areas:

1. There is no allocation for foundations (typically £100/m2 of GIA)
2. The shell and core allowance is based upon private accounting for 73% of the above ground costs based upon an area of 8,920 m2.
3. The average rate is then calculated by dividing the total by an area of 9,956 m2.

There is clearly some anomaly here as the overall private GIA in AHS schedule is 9,482.1 m2 (including basement core) and when queried with PRP they now advise the private GIA is 9,597 m2.

Accepting PRP's total cost of £34,396,000 but taking the GIA as per ASH, 9,482.1 m2 the average cost rises to £3,627/m2 still excluding any allowance for foundations.

The cost plan doesn't include comparable figures for the affordable residential but from further advice from PRP the equivalent figures would be around £2.65m equating to around £2,163/m2 of the GIA.

Excluding abnormals (around £1.4m) this means that the basements and ground floor commercial/retail area costs amount to around £11.3m which is £1,795/m2 of the respective GIA. This includes a disproportionate allowance for foundations but nevertheless is generally within expectations for works of this nature.

The private residential costs therefore stand out as at the top end of the expected range. Commentary on the main cost drivers and apparent reasons for the high costs are identified in the following analysis of the principal components.

Basement

The new basement is on two levels totalling around 4,800 m2. Of this, 500 m2 is at lower level and 1,750 m2 is existing area retained for parking.

The PRP cost plan for the basement totals £5,033,405 which includes the following:

- Demolitions £859,700
- Structures £3,514,480 (circa £1,150/m2 of new area)
- Fit-out £659,225

The main allowance for demolishing existing is £550,000 which appears robust but not wholly unreasonable. There is an unusual allowance for '.. removal of Banksy artwork' of £25,000 which might have been expected to be a credit? The allowance for breaking out the basement slab appears on the high side at £100/m2. However, the depth is unknown, there will undoubtedly be other foundations beneath to be removed. The structural engineer's report also refers to potential ground water and contamination for which there are no separate allowances.

There is an existing basement on the site which is retained but the required works include a lower basement and the proposed new level is deeper requiring additional excavations, underpinning/deepening perimeter walls and installing new drainage, foundations and superstructures including ground floor suspended slab. An allowance of £100,000 is included for sundry making good/junctions etc which is considered reasonable to allow for interfaces with retained works.

The fit out works include main division walls between various demised areas together with finishes and services to the retained car park area. The general rates appear reasonable but there is an allowance of £185,055 for screed which is questionable as to whether it is required to the commercial/retail shells or else included in fit out allowances elsewhere.

Shell and Core

This relates to the structure and envelope above ground floor level and PRP's total allowance of £15,245,526 equates to circa £1,250 of the 12,193 m2 above ground GIA and breaks down into the following:

• Frame	£3,417,390	£280/m2 GIA
• Roof	£1,820,410	£149/m2 GIA
• Stairs	£430,000	£35/m2 GIA
• External walls	£4,258,400	£349/m2 GIA
• Internal walls	£845,050	£69/m2 GIA
• External works	£30,000	
• Services	£4,444,276	£365/m2 GIA

The frame costs include shear walls, upper floors and concrete roof structures. The average all-in rate of £270/m2 appears initially on the high side but it includes a 400 thick slab to the podium along with transfer slabs between 500 and 750 thick below the upper residential floors.

The roof cost does appear high. Part of the reason for this is that it includes the balconies and balustrades to Juliette balconies although the rates for these are not unreasonable. Several rates do stand out as abnormally high:

- Roof coverings generally £275/m2
- Seventh and ninth floor roof terraces £150,000 circa £562/m2
- Tenth floor roof terraces £250,000 circa £820/m2

The landscaping to the podium roof is included separately in the summary at £100/m2 which could be considered conservative.

The stairs allowance including balustrading/finishes etc is between £10,000 for the affordable and £15,000 per storey which are high and must allow for a very high quality finish.

The external walls total includes windows and doors. The rates and allowances appear generally reasonable and the total equates to an average £566/m2 of surface area. No separate allowance appears included for roof enclosures. Shop fronts do not appear to be included.

The internal walls allowance includes core walls and party walls generally excluding concrete shear walls. The rates appear on the high side at £500/m for the ground and £325/m for upper floors.

The external works total of £30,000 is a general allowance presumably for making good pavings to perimeter and crossovers to the petrol station forecourt.

The services allowance can be broken down as follows:

- Shell & core services £3,869,276 £317/m2 GIA
- Lift installations £325,000
- Substation £250,000

The PRP rates for shell & core services are applied to the NIA and therefore appear high but the overall allowance is not unreasonable for centralised plant and distribution.

The lifts are included at £65,000 each which is low for block A but high for blocks B and C. The average of around £8,800 per floor served is maybe on the high side.

Communal Area Works

The cost plan includes the following allowances:

- Private flats £2,162,000 £1,000/m2
- Affordable £129,850 £350/m2

PRP have allowed for fitting out a total of 2,533 m2 of communal area whereas the Assael schedule indicates only 2,198 m2.

No details have been included but the allowance for private flats seems extraordinarily high. Whilst £1,000/m2 may be reasonable for good quality finishes, fittings and services to main entrance areas it is considered excessive for general corridors and circulation spaces especially given the high allowances previously included for staircases.

The fit out allowance to the affordable appears reasonable.

Residential Fit Out

The cost plan includes the following allowances:

- Private flats £12,823,044 £1,680/m2 NIA
- Affordable £593,591 £657/m2 NIA
- Residential amenity £265,824 £1,680/m2
- Sprinkler mist system £700,000 £9/m2

Again no detail has been provided by PRP.

The fit out for affordable appears reasonable for intermediate tenure flats.

The private flats allowance would cater for a very good quality product including finishes, kitchen, joinery and sanitary fittings and services such as underfloor heating, comfort cooling, whole house ventilation IT/AV installations and controls systems.

Sub-let Areas

These include the following

- Petrol station £657,700
- Commercial Cat A £1,096,400
- Retail shell & core £156,800
- Restaurant shell & core £125,900

The petrol station sum is mainly a lump sum allowance of £600,000 for fitting out the forecourt and retail unit. We do not understand why these are included as they would normally be paid for by the tenant. The balance is for blast walls and lighting.

The other allowances are not detailed but appear generally reasonable.

Other items

PRP summary includes the following additional items:

- Works to ornamental garden £71,300
- Works to Holcroft Court £150,000
- Maintenance £50,000

The ornamental garden appears to be the podium roof. As noted earlier the allowance of £100/m2 is conservative.

No explanation is included for works to Holcroft Court.

Maintenance is not generally a construction cost.

Preliminaries

PRP have included 17% for preliminaries together with a specific allowance of £150,000 to comply with noisy working restrictions. No separate allowance is made for overheads and profit.

The allowance is not unreasonable for a central London site of this nature.

Risk Allowances

An allowance of 5% is included for contingency which is not unreasonable.

As noted earlier, An allowance is included for 'Inflation to current costs at Nov 14'. This was queried with PRP who responded 'WE NORMALLY MAKE AN INFLATION ALLOWANCE TO INCLUDE THE TIME UP TO CONSTRCITON AND CONSTRCTION ….. UP TO THE THEN PRESENT DAY - NOV 2014'. We would interpret this to mean fixed price for an assumed duration but excluding potential tender price inflation up to start on site. PRP, however, seem to think otherwise.

POTENTIAL COST SAVINGS

The demolitions and temporary works allowances appear generally reasonable but we would suggest that the allowance for removing Banksy artwork could be omitted as superfluous saving - £25,000.

The basement works again appear reasonable on the whole but we would suggest the screed could be omitted saving - £185,055.

Roofing allowances appear generally excessive and we consider reductions could be made in the following areas:

- Extra over for brown roof – omit as £200/m2 sufficient - £187,350
- Pavings to roof terraces – omit lump sums - £400,000
- Pavings to roof terraces add £100/m2 + £57,200
- Glass balustrading to 10th floor terraces add 109m @ £650 + £70,850

The area of fit out to the communal areas of residential appear over-measured and the rate for private flats is considered excessive:

- Omit PRP allowance 2,162 m2 @ £1,000 - £2,162,000
- Add 1,827 m2 @ £600 + £1,096,200

We do not understand the logic of including the fit-out to the petrol station. If this is not required a saving of £600,000 would be made.

In the absence of any details, the allowances for works to Holcroft Court and maintenance could potentially be omitted saving - £200,000.

Finally, rates and allowances are considered sufficiently robust for the current market and it is our understanding that whilst construction cost inflation may be included in a growth model, it should be excluded from a present day appraisal.

CONCLUSION

PRP Cost Plan 12A dated November totals £49,738,000 including contingencies and inflation.

The average build cost per m2 for private residential is at the top end of what might be expected and there appear to be significant opportunities to reduce costs through value management/value engineering.

Taking a mid-range view of the items noted above we would suggest that a reduction in base cost of £1.2m (out of £1.76m) would not be unrealistic. Allowing for corresponding adjustments in preliminaries and contingency would mean an overall reduction of around £1.47m.

Omitting the inflation allowance of £1,354,800 would mean an overall current day adjusted total of £46.9m.

This could further drop to £46.2m if the petrol station fit out were omitted.

It should be noted that PRP have not had sight of this report and have therefore not had the opportunity to respond to suggested areas for reduction.

26/02/15
G120/4 – RJF

Appendix 3 – GE Appraisal for Proposed Scheme

87-89 Cleveland Street, Fitzrovia
Financial Viability Review
On behalf of the City of Westminster

Development Appraisal
Prepared by Gerald Eve LLP
Gerald Eve LLP
13 March 2015

87-89 Cleveland Street, Fitzrovia
Financial Viability Review
On behalf of the City of Westminster

Summary Appraisal for Phase 1 GE midpoint

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
(1 Bed) Private	19	10,355	1,864.00	1,015,880	19,301,720
(2 Bed) Private	41	35,711	1,864.00	1,623,544	66,565,304
(3 Bed) Private	30	36,120	1,864.00	2,244,256	67,327,680
Affordable	15	9,705	225.00	145,575	2,183,625
Car Parking UnAllocated	46	0	0.00	7,000	322,000
Totals	**151**	**91,891**			**155,700,329**

Rental Area Summary	**Units**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Ground Rent (1 Bed Private)	19	350	6,650	6,650
Ground Rent (2 Bed Private)	41	400	16,400	16,400
Ground Rent (3 Bed Private)	30	550	16,500	16,500
Totals	**90**		**39,550**	**39,550**

Investment Valuation

Ground Rent (1 Bed Private)					
Current Rent	6,650	YP @	5.5000%	18.1818	120,909
Ground Rent (2 Bed Private)					
Current Rent	16,400	YP @	5.5000%	18.1818	298,182
Ground Rent (3 Bed Private)					
Current Rent	16,500	YP @	5.5000%	18.1818	300,000
					719,091

GROSS DEVELOPMENT VALUE			**156,419,420**
Purchaser's Costs	5.80%	(41,707)	
			(41,707)
NET DEVELOPMENT VALUE			**156,377,713**
NET REALISATION			**156,377,713**

OUTLAY

ACQUISITION COSTS			
Fixed Price		43,000,000	
			43,000,000
Stamp Duty	4.00%	1,720,000	
Agent Fee	1.00%	430,000	
Legal Fee	0.50%	215,000	
			2,365,000
Other Acquisition			
VAT	20.00%	129,000	
			129,000

CONSTRUCTION COSTS

Construction	**ft²**	**Rate ft²**	**Cost**	
(1 Bed) Private				
- Construction Costs			48,560,660	
				48,560,660
S106			578,551	
CIL			590,440	
Affordable contribution		1.00%	4,268,036	
				5,437,027
Other Construction				
Right of Light Compensation			5,365,000	
				5,365,000

PROFESSIONAL FEES			
Professional Fees	12.00%	5,827,279	
			5,827,279
MARKETING & LETTING			
Marketing	3.00%	4,595,841	
			4,595,841

FINANCE

87-89 Cleveland Street, Fitzrovia
Financial Viability Review
On behalf of the City of Westminster

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)		
Land	7,743,974	
Construction	4,129,166	
Letting Void	287,172	
Total Finance Cost		12,160,312
TOTAL COSTS		**127,440,120**
PROFIT		
		28,937,593

Performance Measures

Profit on Cost%	22.71%
Profit on GDV%	18.50%
Profit on NDV%	18.50%
Development Yield% (on Rent)	0.03%
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
IRR	20.12%
Rent Cover	731 yrs 8 mths
Profit Erosion (finance rate 7.000%)	2 yrs 11 mths

Appendix 4 – The Applicants Revised Cost Schedule

CLEVELAND STREET
COST PLAN NR 12A
7TH NOVEMBER 2014 (AMENDED 25TH MARCH 2015)
MAIN SUMMARY - PRIVATE & AFFORDABLE FLATS

POTTER RAPER PARTNERSHIP

WORKS			PRIVATE FLATS	TOTAL
BASEMENT			0	5,192,505
SHELL AND CORE	Ground slab up		11,244,052	15,377,376
COMMUNAL AREA WORKS			2,143,000	2,277,750
FLAT FIT OUTS			14,143,768	14,722,475
PETROL STATION FIT OUT			0	660,600
COMMERCIAL OFFICE CAT A FIT OUT			0	1,100,000
RETAIL SHELL AND CORE			0	169,000
RESTAURANT SHELL AND CORE			0	125,500
WORKS TO ORNAMENTAL GARDEN	713 m2	100 £/m2	71,300	71,300
COMMUNITY WORKS TO HOLCROFT COURT			0	150,000
AFTER SALES MAINTENANCE PROVISION			0	50,000
PRELIMINARIES	17%		4,692,400	6,782,500
CONTINGENCY	5%		1,614,800	2,334,000
Allowance to comply with noisy working restrictions			80,000	150,000
INFLATION TO CURRENT COSTS AT NOV 14	2.8%		951,800	1,376,600
TOTAL BUILDING COST			**£34,942,000**	**£50,540,000**

Number of Flats	90
Overall construction cost	£34,942,000
GIA in m2	10,214
Cost per m2	£3,421
GIA in Sqft	109,943
Cost per Sqft	£318
NIA in m2	7,620
Cost per m2	£4,586
NIA in Sqft	82,022
Cost per Sqft	£426

EXCLUSIONS /NOTES

Acquisition and land costs
Finance charges
Professional fees and surveys, including party wall awards
Planning and building regulation fees and any imposed planning conditions
VAT
Additional asbestos removal and disposal if discovered
Curtains, curtain battens, tracks, blinds etc.
Objects d'art
Allowance for complicated ground conditions
No specific fire protection works etc have been allowed for due to the petrol station
Provision of any cores to retail/commercial areas

BASIS OF ESTIMATE

Scheme based on Assael area schedule Rev P22 dated 26 February 2015.
Walsh Associates initial structural sketches issued 24 October 2014

Appendix 5 – Addendum Financial Viability Appraisal

87-89 Cleveland Street
Fitzrovia
Addendum Appraisal

Development Appraisal
Gerald Eve LLP
02 April 2015

APPRAISAL SUMMARY	GERALD EVE LLP

87-89 Cleveland Street
Fitzrovia
Addendum Appraisal

Summary Appraisal for Phase 1 GE midpoint

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
(1 Bed) Private	27	15,135	1,864.00	1,044,876	28,211,640
(2 Bed) Private	31	28,435	1,864.00	1,709,769	53,002,840
(3 Bed) Private	32	38,478	1,864.00	2,241,344	71,722,992
Affordable	15	9,489	225.00	142,335	2,135,025
Car Parking UnAllocated	46	0	0.00	7,000	322,000
Totals	**151**	**91,537**			**155,394,497**
Rental Area Summary		**Initial**	**Net Rent**	**Initial**	
	Units	**MRV/Unit**	**at Sale**	**MRV**	
Ground Rent (1 Bed Private)	27	350	9,450	9,450	
Ground Rent (2 Bed Private)	31	400	12,400	12,400	
Ground Rent (3 Bed Private)	32	550	17,600	17,600	
Totals	**90**		**39,450**	**39,450**	
Investment Valuation					
Ground Rent (1 Bed Private)					
Current Rent	9,450	YP @	5.5000%	18.1818	171,818
Ground Rent (2 Bed Private)					
Current Rent	12,400	YP @	5.5000%	18.1818	225,455
Ground Rent (3 Bed Private)					
Current Rent	17,600	YP @	5.5000%	18.1818	320,000
					717,273
GROSS DEVELOPMENT VALUE				**156,111,770**	
Purchaser's Costs		5.80%	(41,602)		
				(41,602)	
NET DEVELOPMENT VALUE				**156,070,168**	
NET REALISATION				**156,070,168**	
OUTLAY					
ACQUISITION COSTS					
Fixed Price			43,000,000		
				43,000,000	
Stamp Duty		4.00%	1,720,000		
Agent Fee		1.00%	430,000		
Legal Fee		0.50%	215,000		
				2,365,000	
Other Acquisition					
VAT		20.00%	129,000		
				129,000	
CONSTRUCTION COSTS					
Construction	**ft²**	**Rate ft²**	**Cost**		
(1 Bed) Private					
- Construction Costs			48,560,660		
				48,560,660	
S106			578,551		
CIL			590,400		
Affordable contribution		1.00%	4,050,000		
				5,218,951	
Other Construction					
Right of Light Compensation			5,365,000		
				5,365,000	
PROFESSIONAL FEES					
Professional Fees		12.00%	5,827,279		
				5,827,279	
MARKETING & LETTING					
Marketing		3.00%	4,588,124		
				4,588,124	
FINANCE					

87-89 Cleveland Street
Fitzrovia
Addendum Appraisal

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)			
Land		7,743,073	
Construction		4,105,226	
Letting Void		286,735	
Total Finance Cost			12,135,035
TOTAL COSTS			**127,189,049**
PROFIT			
			28,881,119
Performance Measures			
Profit on Cost%	22.71%		
Profit on GDV%	18.50%		
Profit on NDV%	18.51%		
Development Yield% (on Rent)	0.03%		
Equivalent Yield% (Nominal)	5.50%		
Equivalent Yield% (True)	5.69%		
IRR	20.13%		
Rent Cover	732 yrs 1 mth		
Profit Erosion (finance rate 7.000%)	2 yrs 11 mths		