DS1553

84 West Heath Road, London NW3 7UJ

FINANCIAL VIABILITY ASSESSMENT

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On behalf of Harrison Varma Projects Ltd

December 2020

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APPENDICES

EXECUTIVE SUMMARY

This FVA has been prepared by DS2 to robustly examine the financial viability of a detailed planning application for 84 West Heath Road, between Childs Hill and Golders Green in north London ("the Site"). The Site is located within the administrative boundary of the London Borough of Barnet ("LBB").

This FVA has been prepared in support of a detailed planning application submitted by SM Planning on behalf of Harrison Varma Projects Ltd ("the Applicant").

The Site is located on West Heath Road, between Childs Hill to the southwest, Golders Green to the northwest and the West Heath area of Hampstead Heath. West Heath Road runs in an east -west direction connecting Finchley Road to the west and Heath Street east. The Site is positioned on the north side of West Heath Road, between its junctions with Eden Close and Westover Hill. The property is bound to the north by Eden Close, to the east and south by neighbouring residential properties, and to the west by West Heath Road itself.

The site is currently occupied by a large, detached former school, Heathside, which stands in substantial grounds extending to approximately one acre. The property is not located within a conservation area, nor is it listed.

The detailed planning application seeks consent for the following ("the Proposed Development"):

> *"Full demolition of the existing building (Use Class C2) and the construction of a new building of 7 storeys (5 above ground) to accommodate residential accommodation (Use Class C3) comprising of 45 apartments with basement car parking, associated communal areas, amenity space, refuse/recycling storage and cycle storage. Provision of 53 off-street parking spaces within the basement and 10 further spaces at lower ground level and 5 above ground."*

The Proposed Development comprises a single building of 7 floors (lower ground + 6) plus basement level. The building is rectangular shaped with accommodation accessed from 2 separate cores. A basement containing car and cycle parking spaces will be spread beneath the entire building with a car access ramp.

The Proposed Development will comprise:

- Regeneration of an underutilized site to create 45 dwellings;
- 68 car parking spaces and cycle parking spaces;
- Communal outdoor space for residents including roof level terrace.

The Gross Development Value of the Proposed Development has been assessed using the comparable method of valuation to value the proposed residential space and the additional car parking spaces, assuming each unit would be sold with one parking space as standard. A value of £1,150 per square foot for the residential area and £50,000 per additional car parking space.

The construction costs have been assessed by the Applicant's cost consultant, IvyHouse Consulting. IvyHouse have provided a construction cost plan which concludes a total cost of £38,615,859 on a present-day basis. This includes main contractor preliminary costs, overheads and profit and reflects an overall cost rate of £361 per sq. ft.

The Benchmark Land Value ("BLV") has been assessed based on Existing Use Value plus premium basis as favoured under national planning policy. The value of the existing C2 use school has been assessed using comparable evidence collected from other similar institutional properties within the NW3 area. We have adopted a blended value £588 psf which is in line with comparable transactions in the wider area. This generates a total EUV of £12,027,250 when £588 is applied to the GIA of 20,444 sq ft. We have applied a 20% premium to this in line with planning policy.

Noting the above, the results of the assessment can be summarised below:

FVA RESULTS, WEST HEATH ROAD, NOVEMBER 2020			
Scheme	Benchmark Land Value	Residual Land Value	Surplus / (Deficit)
Application Scheme	**£14,432,700**	**£5,923,062**	**(£8,509,638)**

The results demonstrate that the Proposed Scheme cannot viably support the provision of any affordable housing on a present-day basis.

DS2 has been appointed by the Applicant to produce an FVA demonstrating the financial viability of the Proposed Development. The results summarised above demonstrate that the Proposed Development cannot viably support the provision of any commuted payment for affordable housing. Sensitivity testing shows that under a number of scenarios the scheme is deliverable.

The redevelopment of the site will provide 45 residential units which will making a valuable contribution toward housing provision in the London Borough of Barnet.

1 INTRODUCTION

1.1 This FVA has been prepared by DS2 to robustly examine the financial viability of a detailed planning application for 84 West Heath Road, between Childs Hill and Golders Green in north London ("the Site"). The Site is located within the administrative boundary of the London Borough of Barnet ("LBB").

1.2 This FVA has been prepared in support of a detailed planning application submitted by SM Planning on behalf of Harrison Varma Projects Ltd ("the Applicant").

1.3 The detailed planning application seeks consent for the following ("the Proposed Development"):

> *"Full demolition of the existing building (Use Class C2) and the construction of a new building of 7 storeys (5 above ground) to accommodate residential accommodation (Use Class C3) comprising of 45 apartments with basement car parking, associated communal areas, amenity space, refuse/recycling storage and cycle storage. Provision of 53 off-street parking spaces within the basement and 10 further spaces at lower ground level and 5 above ground."*

1.4 DS2 is instructed to test the maximum level of affordable housing and additional financial obligations which can be supported by the development, without impeding the viability of the Proposed Development and the prospects of delivery.

1.5 This report has been collated in accordance with national, regional and local planning policy, planning guidance and professional best practice guidance, including the RICS Professional Statement 'Financial Viability in Planning: Conduct and Reporting' (1st Edition, adopted September 2019).

1.6 DS2 can confirm that our instruction is not on a contingent fee or success related basis. The report provides an objective and impartial view on the development viability of the Proposed Development.

1.7 ARGUS Developer has been used to demonstrate the project's financial viability. This is commercially available and widely used development appraisal software. It is considered appropriate to assess a development of this type because of its ability to accurately model development timings and cash flows. The use of ARGUS Developer has previously been accepted by LBB for viability testing.

1.8 To inform the report, information prepared by the following independent consultants has been relied upon:

- Wolff Architects – Architect;
- SM Planning – Planning consultant; and

- IvyHouse Consulting – Cost consultant.

1.9 This FVA has been structured as follows:

- **Site description** – summary of the location and nature of the existing asset;
- **Development proposals** – review and description of the proposed development;
- **Planning policy** – review of the key national and local planning policies concerning the delivery of affordable housing and financial viability;
- **Viability methodology** – description of the methodology employed within the wider context of best practice for FVAs;
- **Development timings** – description of the proposed programme subject to a satisfactory planning consent being obtained;
- **Development value** – review of the residential values alongside any additional revenue streams that comprise the scheme Gross Development Value (GDV);
- **Development costs** – review of the development costs for the proposed project;
- **Profit return** – summary of the proposed profit threshold adopted;
- **Site Value** – analysis in relation to the proposed Site Value/Benchmark Land Value for the financial appraisals;
- **Appraisal results** – summary of the financial appraisal outputs
- **Conclusions** – statement with the formal affordable housing offer and concluding rationale.

1.10 This report and accompanying appendices should only be used for the stated purposes.

1.11 This report is reliant upon market evidence. Readers should be mindful that market evidence is subject to variation over time and this could have a significant effect on the residual outputs. The report and appraisal have been collated in an unprecedented environment in respect of the current Covid-19 crisis. Whilst the appraisal inputs are accurate as at today's date, the assessment is reliant on a return within a relatively short period of time of a more stable economic and property environment given the current paralysis of normal market functions.

1.12 This report has been prepared by Steve Billington and Joe Crossley MRICS, both of whom have significant experience of collating valuations and financial viability assessments on residential and mixed-use projects across London, including schemes in the London Borough of Barnet.

Material Valuation Uncertainty

1.13 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a 'Global Pandemic' on the 11th March 2020, has impacted many aspects of daily life and the global economy – with some real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation / FVA date, in the case of the Proposed Development there is a shortage of market evidence for comparison purposes, to inform opinions of value. Our valuation of this property is therefore reported as being subject to 'material valuation uncertainty' as set out in VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.

1.14 Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. For the avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. Rather, the declaration has been included to ensure transparency of the fact that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case. The material uncertainty clause is to serve as a precaution and does not invalidate the valuation. Given the unknown future impact that COVID-19 might have on the real estate market and the difficulty in differentiating between short term impacts and long-term structural changes, we recommend that you keep the valuation contained within this report under frequent review.

2 SITE DESCRIPTION

2.1 A detailed description of the Site is contained within the SM Planning Planning Statement submitted with the Application. A summary is provided below.

Site Location and Description

2.2 The Site is located on West Heath Road, between Childs Hill to the southwest, Golders Green to the northwest and the West Heath area of Hampstead Heath. West Heath Road runs in an east -west direction connecting Finchley Road to the west and Heath Street east. The Site is positioned on the north side of West Heath Road, between its junctions with Eden Close and Westover Hill. The property is bound to the north by Eden Close, to the east and south by neighbouring residential properties, and to the west by West Heath Road itself.

2.3 The surrounding area is residential in nature, characterised by large, often detached dwellings set in their own grounds. West Heath Road benefits from a verdant character with many mature trees situated along the road and in roadside gardens.

2.4 The site boundary is illustrated in the red line plan below:

2.5 The Site is adequately connected in terms of public transport connections, with a PTAL rating of 3, as recorded by TfL. The closest Underground station is Golders Green station which is located approximately 0.5 mi north. The 245, 260 and 460 bus routes run along Finchley Road which is a five minute walk from the Site.

Site Description

2.6 The site is currently occupied by a large, detached former school, Heathside, which stands in substantial grounds extending to approximately one acre. The property is not located within a conservation area, nor is it listed.

2.7 The property, dating from the 19th century is of a Victorian villa style with gables, brick build chimneys, mullion windows and a decorative spire. It has been unsympathetically extended toward the rear in the mid 20th century and altered over the years. It is set back from the road secluded by a number of mature trees.

2.8 It is in good condition and though currently unoccupied, could be tenanted without need for refurbishment works. Many of the building's rooms are currently set up for classrooms with facilities including science labs and staff areas. The grounds are grassed with a number of mature trees and there is car parking space at the front of the building. A photograph of the front elevation is shown below.

2.9 The Site is accessed exclusively from West Heath Road via a traditional entrance gate for vehicles and pedestrians.

Ownership

2.10 The freehold of the Site is held by the Applicant.

Planning & viability history

2.11 The LBB planning applications database includes a number of historic planning decisions in relation to the Site dating from between 1974 and 1996, with a more recent application in 2017. The 2017 application was a lawful development certificate application for the proposed internal conversion of the property and its use as a boarding school which was granted.

3 DEVELOPMENT PROPOSALS

Proposed Development

3.1 A detailed planning application has been submitted by planning consultant SM Planning on behalf of the Applicant for the Proposed Development.

3.2 A full assessment of the Proposed Development is contained within the Design and Access Statement prepared by the architects, Wolff Architects. This section of the FVA should be read in conjunction with the plans and drawings submitted as part of the Application.

3.3 The description of the Proposed Development is as follows:

> *"Full demolition of the existing building (Use Class C2) and the construction of a new building of 7 storeys (5 above ground) to accommodate residential accommodation (Use Class C3) comprising of 45 apartments with basement car parking, associated communal areas, amenity space, refuse/recycling storage and cycle storage. Provision of 53 off-street parking spaces within the basement and 10 further spaces at lower ground level and 5 above ground."*

3.4 The Proposed Development comprises a single building of 7 floors (lower ground + 6) plus basement level. Detailed floorplans are attached at **Appendix A.** The building is rectangular shaped with accommodation accessed from 2 separate cores. A basement containing car and cycle parking spaces will be spread beneath the entire building with a car access ramp.

3.5 The Proposed Development will comprise:

- Regeneration of an underutilized site to create 45 dwellings;
- 68 car parking spaces and cycle parking spaces;
- Communal outdoor space for residents including roof level terrace.

3.6 The headline development areas are provided below and a scheme-wide area schedule (GIA and NIA) is attached at **Appendix B.**

TABLE 1: PROPOSED DEVELOPMENT AREAS, WEST HEATH ROAD, NOVEMBER 2020		
Use	GIA (sq ft)	NIA (sq ft)
Residential units	107,090	65,302

3.7 The residential units will comprise a mixture of one, two and three bedroom units arranged as both lateral units. The table below outlines the proposed unit mix.

TABLE 2: PROPOSED DEVELOPMENT UNIT MIX, WEST HEATH ROAD, NOVEMBER 2020		
Unit size	No of units	Unit mix (%)
1 bed	3	7%
2 bed	39	86%
3 bed	3	7%
Total	**45**	**100%**

Access, Parking and Amenity

Access

3.8 Pedestrian access into the development would be achieved from West Heath Road with a driveway entrance to the road which connects to the basement car parking entrance.

Cycle and Car Parking

3.9 The Proposed Development will provide 68 car parking spaces, 56 of which will be located at basement level and 12 of which will be at ground floor level.

3.10 The development will provide 89 long stay cycle parking spaces and 4 short stay cycle spaces.

Amenity

3.11 The Proposed Development will provide amenity including pool and gym at ground floor level, private terrace spaces, communal gardens and a communal roof level terrace.

Summary

3.12 The Proposed Development includes 45 residential units in a single block with access to good levels of external space for residents.

4 PLANNING POLICY

4.1 The SM Planning Planning Statement submitted as part of the planning application provides an overall review of the planning policy context in relation to the Proposed Development.

4.2 The following section of this FVA therefore provides a summary review of the key national and local planning policy that guides the delivery of affordable housing within a viability context.

4.3 The Applicant has been engaged in discussions with LBB, in preparation of the submitted planning application.

__National__

__National Planning Policy Framework__

4.4 The updated Government's National Planning Policy Framework (NPPF) was published in February 2019.

4.5 At the heart of the NPPF is a presumption in favour of sustainable development which includes "three overarching objectives, which are interdependent and need to be pursued in mutually supportive ways (so that opportunities can be taken to secure net gains across each of the different objectives)". These are an economic objective, a social objective and an environmental objective.

4.6 The definition of affordable housing, included within the Glossary (Annex 2) of the NPPF, states that social rented, affordable rented and intermediate tenure types all make a valid contribution towards affordable housing delivery, providing housing to eligible households whose needs are not otherwise met by the market.

4.7 The NPPF sets out government's expectation that all viability assessments should be made publicly available. However, the government response document goes on to state that it acknowledges there will be circumstances where some information contained within the viability assessment may be commercially sensitive and should not be made publicly available.

__Planning Practice Guidance__

4.8 The National Planning Practice Guidance (PPG) provides guidance on viability for the purposes of plan making and individual application sites' development management. The guidance covers several areas including standardised inputs to viability assessments and approaches to BLV. The viability section of the PPG was most recently updated on 1st September 2019.

4.9 At paragraph 013 the NPPG defines land value for the purposes of a viability assessment:

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

4.10 Paragraph 14 of the NPPG sets out that the factors that should be considered to reach a BLV; this is further discussed in Section 9 of this report. DS2 would note that although the guidance is understood in terms of viability being at plan-making stage it is to be read across to application stage whilst Local Plans catch-up with NPPG standardisation.

Regional

London Plan - incorporating the minor alterations (March 2016)

4.11 The London Plan identifies the Mayor's requirement to maximise affordable housing. Policy 3.11 requires LPAs to set an overall target for affordable housing provision within development proposals, taking into account a number of key criteria, including viability.

4.12 Policy 3.11 sets a pan-regional target tenure split of 60% social and affordable rent housing and 40% intermediate housing and states that it is for each local authority to identify their own local requirements in relation to tenure split.

4.13 Policy 3.12 requires LPAs to seek the maximum reasonable amount of affordable housing when negotiating on individual residential or mixed-use sites, having regard to the following:

- *The need to encourage rather than restrain residential development;*
- *The need to promote mixed and balanced communities;*
- *The size and type of affordable housing needed in particular locations; and*
- *The specific circumstances of individual sites.*

4.14 In response to national guidance, the London Plan emphasises the need to consider development viability both in respect of proposed development on individual sites and borough target setting to ensure that overall development is encouraged rather than restrained.

4.15 Paragraph 3.74 of the Plan identifies a range of situations where the 'on-site preference' for affordable housing may be set aside and replaced with a pooled contribution to deliver other affordable housing outcomes. Specifically, the London Plan states:

'Affordable housing provision is normally required on-site. In exceptional circumstances it may be provided off-site or through a cash in lieu contribution ring fenced, and if appropriate 'pooled', to secure efficient delivery of new affordable housing on identified sites elsewhere. These exceptional circumstances include those where, having secured an alternative site, it would be possible to:

- *secure a higher level of provision;*
- *better address priority needs, especially for affordable family housing;*
- *secure a more balanced community;*
- *better sustain strategically important clusters of economic activities.*

4.16 Policy 3.11 requires viability to be taken into consideration in assessing the level of affordable housing that can be provided on specific sites.

4.17 Policy 3.12 requires that regard must be given to the specific circumstances of individual sites.

The Intend to Publish London Plan (2019)

4.18 The Examination in Public (EiP) on the London Plan was held between 15th January and 22nd May 2019. The Panel of Inspectors appointed by the Secretary of State issued their report and recommendations to the Mayor on 8th October 2019.

4.19 The Mayor has considered the Inspectors' recommendations and, on the 9th December 2019, issued to the Secretary of State his intention to publish the London Plan along with a clean and tracked version of the Intend to Publish London Plan, a statement of reasons for any of the Inspectors' recommendations that the Mayor does not wish to accept and a note that sets out a range of interventions that will help achieve the housing delivery set out in the Plan

4.20 Policy H5 of the draft London Plan identifies the Mayor's strategic target for affordable homes. This is for 50% of all new homes delivered across London to be affordable.

4.21 Policy H6 of the draft London Plan encourages residential and mixed-use developments to provide affordable housing through the threshold approach as explained further below and is consistent with the GLA Affordable Housing and Viability SPG, dated August 2017. If a development does not provide affordable housing through the threshold approach, the development will have to provide a viability assessment to ascertain the maximum level of affordable housing deliverable on the development.

GLA Affordable Housing and Viability SPG (August 2017)

4.22 The GLA published their adopted SPG in August 2017. The SPG carries weight in the determination of planning applications.

4.23 The SPG represents the new Mayoral administration's policy objectives in relation to the delivery of new homes, including affordable housing. The overarching objectives of the SPG are clear in seeking to enhance housing and economic opportunities for all persons across the capital.

4.24 The Mayor has set a 35% affordable housing threshold whereby schemes that meet or exceed the 35% threshold without public subsidy, provide affordable housing on site, meet the specified tenure mix and all other requirements and obligations will not be required to submit viability information. This is defined as the 'Fast Track Route.'

4.25 The SPG states that schemes that do not provide 35% affordable housing or meet all other obligations will be required to submit detailed viability information.

4.26 The Mayor's preferred approach to Site Value is 'Existing Use Value plus' (EUV+) approach when determining the Site Value. This is based on the current use value of a site plus an appropriate site premium.

Local

4.27 The Barnet Core Strategy DPD (adopted September 2012) and Development Management Policies DPD (adopted September 2012) set out the Council's overarching affordable housing objective, which is that 40% of housing provision borough-wide should be affordable. Subject to a financial viability assessment, the Council seeks the maximum reasonable amount of affordable housing on development sites capable of providing 10 or more units or on sites measuring 0.4 hectares or more.

4.28 Policy CS4 of the Barnet Core Strategy and Policy DM10 of the Development Management Policies establish that, subject to viability and site-specific considerations, 60% of new affordable housing should be rented (social / affordable) and 40% should be intermediate accommodation.

4.29 The Council's preferred strategy for affordable housing delivery is stated as on-site delivery. Off-site delivery and payments in lieu of affordable housing are typically only be accepted where there are exceptional reasons that prevent on-site delivery. The principle of a commuted financial contribution has however been agreed with LBB in respect of recent applications in the Borough.

Summary

4.30 In summary, national, regional and local affordable housing policy support the delivery of the maximum reasonable amount of affordable housing, subject to viability. The policy intent, however, also seeks to encourage rather than restrain delivery, so development proposals must remain commercially viable if they are to proceed and therefore contribute towards the sustainable delivery of development in accordance with the NPPF.

5 VIABILITY METHODOLOGY

5.1 The methodology adopted in producing this preliminary FVA has been framed by national, regional and local adopted planning policy as well as non-adopted best practice guidance.

Methodology

5.2 The most common method for valuing development land is the Residual Valuation Method, set out in the RICS's 'Valuation Information Paper 12' (VIP12), and the RICS 'Financial Viability in Planning' (FVIP) Guidance Note (94/2012).

5.3 The methodology underpinning a residual valuation is a relatively simple concept. In short, the gross value of the completed development is assessed, including, amongst others, the aggregated value of any residential properties, commercial income, car parking income and ground rents. Secondly, the cost of building the development is deducted along with professional fees, finance costs and developer's profit. This is illustrated below:

TABLE 3: RESIDUAL LAND VALUE METHODOLOGY
Gross Development Value
Residential sales income
Commercial sales income
Any additional income (ground rents, car parking)
Less
Costs
Build costs
Exceptional development costs (e.g. listed building works)
Professional fees
Internal overheads
Planning obligations (e.g. CIL, site specific s.106 obligations)
Marketing costs and disposal fees
Finance costs
Less
Developer's Profit
Equals
Residual Land Value

5.4 The output is the 'Residual' Land Value (RLV). Simply, if the RLV produced by a scheme is lower than an appropriate benchmark value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development, unless the level of affordable housing and /or planning obligations can be reduced. If the RLV is higher than the benchmark then the scheme can, in theory, provide additional affordable housing and /or other planning obligations.

5.5 Alternatively, the benchmark value can be inserted into the appraisal as a fixed cost and the level of return generated by the scheme becomes the benchmark by which viability is measured. If a sufficient level of return is generated the scheme is deemed to be viable.

5.6 Through scenario testing, it is possible to determine the maximum reasonable level of affordable housing and other obligations that ensure a scheme remains financially viable and retains the highest possible chance of coming forward whilst balancing commercial requirements with policy requirements of the development plan.

6 DEVELOPMENT TIMINGS

6.1 The following section sets out the adopted pre-construction, construction and sale timings applied within the ARGUS appraisal of the Proposed Development.

Pre-Construction

6.2 The adopted development programme is estimated from November 2020. The six-month pre-construction period is considered appropriate given the nature of the scheme and the time required to prepare and mobilise the site for development. Assuming a resolution to grant planning as of November 2020, the 'lead-in' period also includes allowances for the following:

- Signing of the Section 106 legal agreement;
- Expiration of the judicial review period;
- Discharging of pre-commencement conditions;
- Site preparation;
- Main contractor procurement;
- Tender period for the build contract package(s); and
- Secure development funding.

Construction

6.3 A construction programme of 30 months has been adopted as advised by the Applicant.

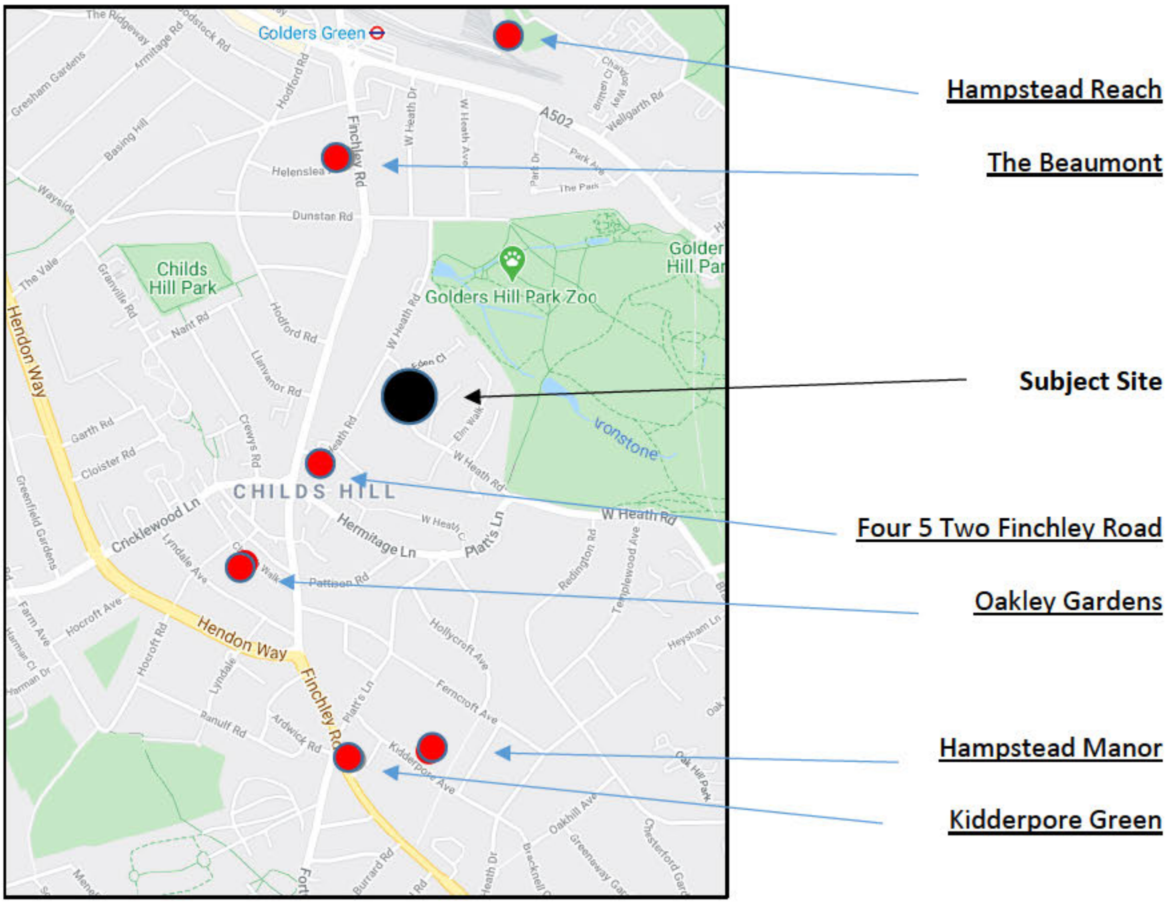
6.4 A total development programme of 36 months has been adopted assuming a 6-month pre-construction programme.

Residential Sales Timings

6.5 After due consideration and consultation with local agents, we have adopted an off-plan sales rate of 50% with one unit per month sold upon practical completion. This necessitates a total sale period of 23 months.

7 DEVELOPMENT VALUE

7.1 The Proposed Development will provide 45 residential units extending to 65,302 sq ft NSA. In order to value this space we have had regard to market evidence with newly completed developments, each of which is within 0.75 mi of the subject Site. The following evidence has been considered in valuing the proposed residential area and we consider achieved and asking price data in turn. The diagram below illustrates the location of the comparable evidence in relation to the subject Site.



Achieved Prices

Hampstead Reach (Chandos Lawn Tennis Club), NW11 7HP

Developer	Barratt
Number of private units	45
Construction completion date	December 2017
Marketing end date	June 2018
Average unit size (in data sample)	1,316 sq ft
Sale Price £psf (achieved)	**£821 psf**

7.2 Hampstead Reach is a Barratt development adjacent to Golders Green underground station situated approximately 0.5 mi north of the subject Site. It benefits from better access to transport off-site amenity though the immediate area is less prestigious and verdant in character. The development is the same size in terms of unit numbers with 45 units completed.

7.3 The scheme benefits from communal gardens, underground parking and concierge. The Proposed Development is considered superior in comparison due to its location and as such will generate higher values.

Hampstead Manor, Kidderpore Avenue, NW3 7ST

Developer	Mount Anvil
Number of private units	125
Completion date	March 2020
Marketing end date	Ongoing
Average unit size (in data sample)	931 sq ft
Sale Price £psf (achieved)	**£1,299 psf**

7.4 Hampstead Manor is located in Hampstead, between Hampstead Village and Finchley Road on Kidderpore Avenue. Kidderpore Avenue is one of the prime residential streets in Hampstead and the development comprises part new build apartments and part refurbished period buildings including some which are Grade II listed.

7.5 The scheme benefits from high quality on site amenity including gym, spa, swimming pool, sauna, concierge, underground parking and landscaped communal gardens. The Proposed Development is considered inferior in terms of amenity provision and location, given Hampstead Manor is situated on one of the most prestigious streets in Hampstead. Considering the above, we are of the opinion the Proposed Development will generate lower values than those achieved at Hampstead Manor.

Kidderpore Green, Finchley Rd/Kidderpore Avenue/Platt's Lane, NW3 7ST

Developer	Barratt
Number of private units	93
Completion date	December 2018
Marketing end date	March 2020
Average unit size (in data sample)	1,065 sq ft
Sale Price £psf (achieved)	**£970 psf**

7.6 Kidderpore Green is located close to Hampstead Manor, with buildings fronting onto Finchley Road, Kidderpore Avenue and Platt's Lane. It benefits from better access to transport and off-site amenity though the immediate area is dominated by the Finchley Road/Platt's

Lane/Fortune Green Road junction. The units fronting onto Finchley Road and Platt's Lane are less desirable than those fronting onto Kidderpore Avenue.

7.7 The scheme benefits from underground parking provision, concierge, individual outdoor space for each unit and communal gardens. The quality of the Proposed Development is considered similar in comparison but the immediate surroundings and the dominating impact of the Finchley Road junction negatively impact some of the units in Kidderpore Green. As such we would expect the Proposed Development to generate marginally higher values.

Asking Prices

The Beaumont, 847-851 Finchley Road, NW11 7HP

Developer	Shree Hari
Number of private units	25
Completion date	June 2016
Marketing end date	May 2019
Average unit size (in data sample)	1,500 sq ft
Sale Price £psf (asking)	**£1,021 psf**

7.8 The Beaumont is a 25 unit on Finchley Road close to the centre of Golders Green, situated approximately 0.3 mi north of the subject Site. It benefits from better access to transport and off-site amenity though the immediate area is less verdant in character and the Finchley Road itself is a major arterial route. The sample of data available consists of three bedroom units only.

7.9 The scheme benefits from communal gardens and most units have individual balcony space. The Proposed Development is considered superior in comparison owing to its immediate surroundings and as such will generate marginally higher values though we note the data available for The Beaumont is asking prices only.

Oakley Gardens, Church Walk, NW2 2TJ

Developer	Goldenstone
Number of private units	35
Completion date	June 2020
Marketing end date	Ongoing
Average unit size (in data sample)	948 sq ft
Sale Price £psf (asking)	**£1,085 psf**

7.10 Oakley Gardens is located in Childs Hill on Church Walk, a back street off Finchley Road. It is situated within walking distance of the subject Site, approximately 0.3 mi southwest of the subject Site. It benefits from off-site amenity in Childs Hill on Finchley Road, though access to the public transport network is only marginally better than the subject Site. Although in a backwater location without regular traffic, the immediate area surrounding Oakley Gardens is not spacious and Church Walk itself is a narrow backstreet. The sample of data available consists of one, two and three bedroom units.

7.11 The scheme benefits from communal gardens, reception with concierge, underground car parking and secure cycle storage. The Proposed Development is considered similar in terms of amenity provision but marginally superior due to immediate location and additional space and as such will generate slightly higher values though we note the data available for The Beaumont is asking prices only.

Four5Two Finchley Road, NW11 8DG

Developer	Bellis Homes
Number of private units	13
Completion date	2020
Marketing end date	Ongoing
Average unit size (in data sample)	1,473 sq ft
Sale Price £psf (asking/achieved)	**£896 psf**

7.12 Oakley Gardens is located in Childs Hill on Finchley Road. It is situated within walking distance of the subject Site, approximately 0.2 mi southwest of the subject Site. It is of a lower specification than the Proposed Development with fewer onsite amenity including concierge, underground car and cycle parking, and individual terrace space for each unit.

7.13 We are aware four of the 13 apartments have sold to date, with each sold unit being two bedroom. The blended average achieved price among the four sold units is £816 psf and the blended average asking price among the remaining units is £925 psf.

Summary

7.14 The table below summarises the values on a £ psf basis of each of the above comparable developments.

TABLE 4: COMPARABLE EVIDENCE SUMMARY, WEST HEATH ROAD, NOVEMBER 2020

Scheme	Asking/achieved	Value psf
Hampstead Reach	Achieved	£821
Hampstead Manor	Achieved	£1,299
Kidderpore Green	Achieved	£970
The Beaumont	Asking	£1,021
Oakley Gardens	Asking	£1,085
Four5Two Finchley Road	Asking/achieved	£925/£816

7.15 Considering the above pricing information and the location of the Proposed Development in relation to the above comparable schemes, we have adopted a value of **£1,150 psf** for the proposed residential space. We consider this robust noting most of the above comparables have improved access to public transport connections compared with the Proposed Development, and the level of on-site amenity proposed.

Car Parking

7.16 We have also applied a value of £50,000 per space for each additional car parking space. Local agents Savills and Knight Frank have advised that each unit would sell with its own parking space allocation as an incentive and only the additional spaces would be sellable. On this basis we have applied value to 23 of the 68 spaces, assuming 45 of the spaces would be sold with the residential units.

Ground Rents

7.17 In line with the approach adopted on similar sites in the area, and reflecting the Government announcement confirming new build flats will not be sold with ground rent obligations, we have not applied any ground rents in our assessment.

8 DEVELOPMENT COSTS

8.1 This section provides a summary of the Proposed Development costs on a present-day basis. The overall costs comprise:

- Build costs as advised by the Applicant's cost consultants, IvyHouse Consulting;
- Professional fees;
- Sales, letting, disposal & marketing costs;
- Planning obligations including CIL; and
- Financing costs.

Construction Costs

8.2 The Applicant's cost consultant IvyHouse Consulting has provided a cost estimate for the Proposed Development which is attached at **Appendix C**.

8.3 The total build costs for the delivery of the Proposed Development is £38,615,859 on a present-day basis. This includes main contractor preliminary costs, overheads and profit. This reflects an overall cost rate of £361 per sq. ft. on the gross (GIA) area excluding contingency. We have applied a 5% contingency allowance in the appraisal which results in a total construction cost including contingency of £40,546,652 or £379 psf.

Professional Fees

8.4 Professional fees have been assumed at 12% of the construction costs, in line with our experience of developments of this nature and scale.

8.5 The professional fees have been cash flowed on an s-curve basis with fees being incurred at the start of construction up until practical completion.

Disposal & Marketing Costs

8.6 The following fees have been adopted in line with the industry norms for a development of this type:

- Residential agent's fees – 1.5% of GDV
- Residential legal fee – 0.25% of GDV
- Residential marketing fee – 2% of GDV

CIL & Site Specific S106 Contributions

8.7 The Applicant's planning consultant SM Planning has provided an estimate of the total payment payable under Mayoral and Borough CIL:

- Mayoral CIL2 - £371,080

- LBB CIL - £1,252,395

8.8 The figures contained are for indicative purposes only and do not purport to provide a definitive CIL levy charge arising from the Proposed Development. These figures have not been formally discussed or agreed with LBB and will require final verification.

8.9 The FVA currently allows £46,752 to cover S106 obligations as advised by SM Planning. It should be noted this is an initial estimated cost and is subject to formal discussions with LBB. DS2 reserve the right to amend this FVA to reflect any change in the S106 obligations estimate as part of the S106.

Finance

8.10 We have assumed a 7% finance rate in our appraisal. This is an 'all in' rate, which includes the basic margin (4.5-5%), commitment fees, arrangement fees (2-3%) and exit fees (0.5-1%), as well as a bank management/monitoring cost.

8.11 For the purposes of our appraisal we have assumed that development is 100% debt financed however we would note that in the current lending environment, and for the foreseeable future, many of the more traditional lenders are not actively seeking to provide development finance (i.e. senior debt) and in reality in order to secure finance developers are having to source debt from niche operators, who are by their nature, more expensive than the traditional lenders. In addition, costs for secondary unsecured debt and private equity are significantly higher.

8.12 Please note, that in the prevailing economic and market conditions, access to various forms of debt and equity finance is becoming more constrained and expensive and there is a certain amount of risk that the weighted cost of finance will be in excess of the 7% figure illustrated.

9 DEVELOPER'S PROFIT RETURN

9.1 The criteria to consider in arriving at an appropriate figure for developer's profit include, amongst other things, location, property use type, the scale of development, the weighted cost of capital and the economic context. Developers, banks and other funding institutions will have minimum expectations in terms of financial returns that are aligned with the risk profile. Simply, there must be a reasonable prospect that the return will be commensurate with the risks being undertaken.

TABLE 5: RISK PROFILE SUMMARY, WEST HEATH ROAD, NOVEMBER 2020

Risk Profile consideration	Comments	Risk Profile
Methodology	Standard delivery model, albeit one that exposes the developer to construction risk, sales risk and market risk.	Medium to low
Expenditure profile	Single scheme 'phase' and payment profile, which results in no income until Q3 2023, and scheme payback not until Q4 2024, c. 4 years from now. Peak debt at over £50m.	Medium to high
Programme	The proposed programme is c. 4.5 years long, which is inherently risky due to a combination of external, influencing factors – this includes general fluctuations in the property market, changes at local, regional or national government, changes in monetary policy (e.g. interest rates), changes in fiscal policy (e.g. changes in SDLT) and one-off events such as Covid 19. Albeit, a large proportion of the overall programme is actually only sales period, so the risk in relation to construction-related risks are mitigated.	Medium
Inflation and growth	The FVA adopts current day costs and values. Both house price growth and construction cost inflation are linked to a variety of influencing factors, however inherent volatility in either could result in cost inflation outstripping growth.	Medium
Scheme use mix	Use mix is 100% weighted to private residential as such there is no diversification of risk if the London market were to contract further.	High

Market context	Whilst in the long term the London market is considered to benefit from the supply/ demand imbalance, in the short to medium term the market has contracted as a result of the current period of economic uncertainty caused by the Covid crisis, as well as changes to SDLT.	Medium to high

Summary

9.2 Taking all of the above into account, it is considered the 'market context' and 'scheme use mix' would carry the greatest weighting in light of the current political uncertainty and its impact on residential pricing in London. Secondary to this, the 'expenditure profile' and to a lesser degree the 'programme' (which are intrinsically linked) would carry the next greatest weight when determining overall risk given the extended sales periods experienced by developments in the current market and the subsequent length of the payback period. As such, it is considered that a blended return at the middle to upper end of the current industry range (15-20% as per the PPG) would be considered reasonable. We have consequently adopted a figure of 17.5% on GDV.

10 BENCHMARK LAND VALUE

10.1 As discussed in Section 6, to arrive at an appropriate Benchmark Land Value regard has been given to the NPPF, PPG, the RICS GN and best practice principles of undertaking FVAs.

Planning Practice Guidance

10.2 The National Planning Policy Guidance ("PPG") provides guidance on viability for the purposes of plan making and individual application sites' development management. The guidance covers several areas including standardised inputs to viability assessments and approaches to BLV. The viability section of the PPG was most recently updated in May 2019.

10.3 Paragraph 013 the PPG defines how land value should be assessed for the purposes of a viability assessment:

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

10.4 Within the GLA Affordable Housing and Viability SPG (August 2017), the Mayor has also stated the 'EUV Plus' approach is usually the most appropriate for planning purposes.

Existing Use Value

10.5 As set out at Paragraph 013, the Site's Existing Use Value ("EUV") should form the basis for determining Site Value. Paragraph 015 of the PPG further defines what is meant by EUV in a viability assessment:

> *"Existing use value (EUV) is the first component of calculating benchmark land value. EUV is the value of the land in its existing use. Existing use value is not the price paid and should disregard hope value. Existing use values will vary depending on the type of site and development types."*

10.6 We have therefore considered the value of the Site in its existing lawful planning use. The Site was used as a care home for the elderly under a C2 use class for 30 years until 2015. In 2016 it was used as a boarding school and fitted out as such. The existing lawful use is therefore C2 and this has been confirmed by planning consultant SM Planning.

10.7 The building is currently fitted out for a C2 use residential school which was vacated earlier this year. The property is currently vacant although is in good condition and could be brought back into use without refurbishment or conversion. DS2 inspected the site on 21st September 2020 to confirm the condition of the Site. Some photographs are included below and more can be provided upon request.

Front elevation

A first floor classroom

A ground floor classroom

A ground floor dining room

10.8 While collating C2 transactional evidence we note there is scarcity of reliable data in the C2 market, notably properties sold with ongoing C2 use. We have therefore analysed the value of the existing use of the Site through collation of alternative institutional property transactions.

10.9 The areas of the existing building are set out in the table below, as provided by Plowman Craven. We understand the wider site extends to approximately 1.06 acres.

TABLE 6: EXISTING SITE AREAS, WEST HEATH ROAD, NOVEMBER 2020	
Floor	**GIA (sq ft)**
Basement	2,120
Ground	8,384
First	8,033
Second	1,907
Total	**20,444**

10.10 To value the site in its existing use we have had regard to similar institutional sales in the NW3 area. We have analysed alternative institutional uses (including F1 (formerly D1) and Sui Generis) because of the lack of C2 evidence in the area. This is a logical way to derive a value for the C2 space in its current use without availability of relevant C2 evidence. We have therefore had regard to the following evidence.

<u>Heathside Prep School, NW3</u>

Price:	£1,675,000
Sale date:	July 2019
GIA:	3,906 sq ft
£ psf	£429
Use:	D1

10.11 Heathside Prep School was purchased by Hampstead Schools in July 2019 for ongoing use as a prep school. It is located in the centre of Hampstead Village and does not benefit from outdoor space. It was sold with ongoing institutional use and its sale demonstrates there is demand for non-residential institutional sites in the NW3 area.

79 Fitzjohn's Avenue, NW3

Price:	£30,000,000
Sale date:	October 2014
GIA:	42,000 sq ft
£ psf	£714
Use:	Former hostel, sold for C2 use

10.12 79 Fitzjohn's Ave was in use as a hostel and was purchased by Pegasus, a retirement living provider, to redevelop into a new C2 use scheme.

10.13 Although the property was sold with intention to redevelop, its sale demonstrates there is demand for C2 sites in the NW3 area.

Hampstead Police Station, NW3

Price:	£14,100,000
Sale date:	May 2014
GIA:	24,000 sq ft
£ psf	£588
Use:	Sui Generis. Sold for D1 educational use

10.14 Hampstead Police Station was sold to the Department of Education for use as a school. It is situated on Rosslyn Hill between the underground stations of Belsize Park and Hampstead. It was sold for institutional use as a free school.

10.15 The building is similar in terms of style and location but does not have any outdoor space as the subject Site does. The price also reflects a degree of planning risk for conversion from Sui Generis to D1 which will have a downward effect on the value stated. Nonetheless it does provide helpful context for values of non-residential institutional use in the NW3 area.

Ivy House, North End Road, NW11

Price:	£7,600,000
Sale date:	February 2015
GIA:	12,141 sq ft
£ psf	£625
Use:	D1 (non-residential institutional)

10.16 Ivy House is a D1 use building overlooking Golders Hill Park. It was acquired by Alpha Plus Group for ongoing D1 use and is now in use as an independent prep school. It is situated in the NW11 postcode but is only 700m away from the subject Site, on the other side of the West Heath area of Hampstead Heath.

10.17 This transaction demonstrates evidence of institutional use in the area of a building of a similar style and design with similar outdoor space provision.

21 Maresfield Gardens, NW3

Price:	£4,000,000
Sale date:	2019
GIA:	6,079 sq ft
£ psf	£658
Use:	D1 educational/clinical (but reverted to C3 upon sale)

10.18 21 Marefield Gardens is a large detached former dwelling which was subsequently used for D1 educational/clinical purposes and occupied by the Anna Freud Centre. It was permitted under a consent particular to that occupier and reverted to C3 once vacated. It is however fitted out for an institutional use.

EUV Summary

10.19 The values of the above alternative institutional use properties range from £429 psf to £714 psf. These transactions demonstrate there is a demand for institutional use properties in the NW3 area and we consider the EUV of the subject Site would fall within this value range. We note some of the evidence is a number of years old which reflects the scarcity of evidence and such uses rarely come to the market in the area, although the comparable properties collated above do share similar characteristics with the existing Site.

10.20 Deriving a value for the Site with continued use as a C2 residential school, we have considered the above evidence and the characteristics of the Site. Noting the significant plot size (more than an acre) , the attractive location close to Hampstead Village centre and prominent position within NW3, and the good condition of the building which is fitted out for school use, we have adopted a blended average value of circa £588 psf. This assumes a value of £650 psf for ground and first floors, £600 for second floor, and £100 psf for basement as is shown in the valuation summary table below.

TABLE 7: EXISTING SITE VALUATION SUMMARY, WEST HEATH ROAD, NOVEMBER 2020			
Floor	**GIA (sq ft)**	**Value psf**	**Total value**
Basement	2,120	£100	£212,000
Ground	8,384	£650	£5,449,600
First	8,033	£650	£5,221,450
Second	1,907	£600	£1,144,200
Total	**20,444**	**£588.30**	**£12,027,250**

10.21 At £588 psf blended, this generates a total EUV of £12,027,250 as shown in the valuation summary table above.

<u>Premium</u>

10.22 The EUV is the first component of calculating Site Value, the second being the premium. This is the amount "above the EUV that goes to the landowner" (PPG Para. 016). It is required to provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements.

10.23 The premium should be informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. The PPG states that for any viability assessment data sources to inform the establishment of the landowner premium, they should include market evidence and can include benchmark land values from other viability assessments.

10.24 Determining the premium has been considered in a number of different ways. The GLA SPG states that "premiums above EUV should be justified, reflecting the circumstances of the site" and that premiums "could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary".

10.25 PPG does not set out a prescriptive or arbitrary approach to determining the premium other than the premium must provide an incentive to the landowner (PPG Para. 013), and that it is in addition to the EUV (PPG Para. 014, 016).

10.26 The subject Site has a significant plot and the building on the site is significant in size. There is therefore inherent development potential in respect of the Site which should be taken into account when determining the premium. Regard or weight given to development potential is however difficult to quantify; in this respect PPG cautions the use of market land evidence (suggesting it might form only a cross check of benchmark land value/ Site Value) as any data must reflect, or be adjusted to reflect, the "cost of policy compliance".

10.27 We have therefore taken a cautious approach which is to apply a modest premium of 20% and added this to the EUV figure. This is considered to reflect an appropriate incentive for a landowner to release the Site for redevelopment.

10.28 With the application of a 20% premium we arrive at an overall Benchmark Land Value of **£14,432,700** which has been adopted for the purposes of this FVA.