

MEETING

POLICY AND RESOURCES COMMITTEE

DATE AND TIME

THURSDAY 30TH SEPTEMBER, 2021

AT 7.00 PM

VENUE

HENDON TOWN HALL, THE BURROUGHS, LONDON NW4 4BQ

Dear Councillors,

Please find enclosed additional papers relating to the following items for the above mentioned meeting which were not available at the time of collation of the agenda.

Item No	Title of Report	Pages
1.	MEMBERS' ITEMS (IF ANY)	3 - 38

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**BNP PARIBAS
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AGENDA ITEM 6

Review of 'Affordable Housing Viability Assessments'

84 West Heath Road, Hampstead, NW3

Prepared for
Eden Close Residents Association

June 2021



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Appendix 1 - BNPPRE Proposed Scheme Appraisal

1 Introduction and Terms of Reference

Eden Close Residents Association has commissioned BNP Paribas Real Estate to provide viability advice with regards to planning application reference 20/4848/FUL at 84 West Heath Road, London, NW3 7UN (the 'Site').

The proposed development comprises:

“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”.

As background, the scheme was recommended for approval with an affordable housing payment in lieu of £0.90m, but did not proceed to the planning committee on account of your planning representations objecting to the application and legal advice. One of the legal points pursued was that the Applicant's viability assessment and the Council's review should be publicly disclosed.

The viability assessments have subsequently been disclosed and you require a review of a 'Financial Viability Assessment' submitted by the Applicant ('Harrison Varma Projects Ltd') prepared by DS2 dated December 2020 and subsequent Council review of this viability assessment prepared by Gerald Eve dated February 2021.

We have reviewed the reports and DS2 conclude that the scheme generates a deficit of c. £8.50m whilst Gerald Eve conclude that the scheme generates a deficit of c. £0.60m. However, it is unclear how the affordable housing contribution of c. £0.90m was determined and we assume that this was offered to the Council by the Applicant on the basis that Gerald Eve concluded the scheme could not support any affordable housing.

This report provides an objective review of the viability assessments in order to determine whether the DS2 and Gerald Eve conclusions are reasonable.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser and Strutt & Parker in 2017. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

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

The full range of property services includes:

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

This report has been prepared by Jamie Purvis MRICS, RICS Registered Valuer and reviewed by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The Development Viability Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the viability of developments and the provision of affordable housing.

Anthony Lee was a member of the working group which drafted guidance for planning authorities on viability, which was published by the Local Housing Delivery Group in June 2012 as '*Viability Testing Local Plans: Advice to Planning Practitioners*'. He was a member of MHCLG's 'Developer contributions expert panel' which assisted in the drafting of the viability section of the 2019 Planning Practice Guidance. He is also a member of the Mayor of London's Housing Delivery Taskforce expert panel.

In addition, we were retained by Homes England ('HE') advise on better management of procurement of affordable housing through planning obligations.

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

1.2 Report Structure

This report is structured as follows:

Section two provides a brief description of the Development;

Section three describes the methodology that has been adopted;

Section four reviews the assumptions adopted by the Applicant, and where necessary, explains why alternative assumptions have been adopted in our appraisals;

Section five sets out the results of the appraisals;

Finally, in **Section six**, we draw conclusions from the analysis.

1.3 The Status of our advice

This report is not a valuation and should not be relied upon as such. In accordance with PS1 (5.2) of the RICS Valuation – Global Standards 2020 (the 'Red Book'), the provision of VPS1 to VPS5 are not of mandatory application and accordingly this report should not be relied upon as a Red Book valuation.

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

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

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

This report is addressed to Eden Close Residents Association only and should not be reproduced without our prior consent.

2 Development Description

2.1 Site Location and Description

The site extends to approximately 0.4 hectares and comprises a largely rectangular shaped parcel of land occupied by a large detached building previously used as a Care Home (use class C2) and thereafter as a boarding school (use class C2). At present the building is vacant.

The site is bound by Eden Close to the north, West Heath Road to the west and southwest and existing residential dwellings to the to the southeast and east. The site is located c. 0.5 miles to the south of Golders Green Underground Station and c. 0.85 miles to the northwest of Hampstead Underground Station both of which provide Northern line services into central London.

2.2 Planning History

We have reviewed the Council's planning website and the site has not been subject to any redevelopment proposals that are relevant to this viability assessment.

2.3 The Proposed Development

The Applicant is seeking planning permission for:

“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”.

We summarise in Table 2.3.1 the proposed scheme accommodation.

Table 2.3.1: Proposed Scheme Accommodation

Unit Type	Number of Units	Average Unit Area (sq/ft)
1 Bed	3	864
2 Bed	39	1,478
3 Bed	3	1,689
Total/Average	45	1,451

3 Methodology

The Applicant and Council's advisor have prepared their viability appraisals using Argus Developer ('Argus').

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

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

Essentially, such models all work on a similar basis:

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

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

The output of the appraisal is a Residual Land Value ('RLV'), which is then compared to an appropriate benchmark, typically the Existing Use Value ('EUV') of the site plus a site-specific landowner's premium, in line with the Planning Practice Guidance.

An Alternative Use Value ('AUV') may also constitute a reasonable benchmark figure where it is considered to be feasible in planning and commercial terms, and is fully policy compliant. Development convention and GLA guidance suggests that where a development proposal generates a RLV that is higher than the benchmark, it can be assessed as financially viable and likely to proceed. If the RLV generated by a development is lower than the benchmark, clearly a landowner would sell the site for existing or alternative use or might delay development until the RLV improves.

4 Review of the Assessments

In this section, we review and test the assumptions adopted by DS2 and Gerald Eve in their viability conclusions.

4.1 Final Viability Assessment Summary

The Gerald Eve report provides a summary of their viability conclusions in addition to the conclusions set out in the DS2 report, which we summarise in Table 4.1.1. We also provide further comments in the table below.

Table 4.1.1: Summary of Viability Conclusions

Proposed Scheme Element	DS2	Gerald Eve	BNPPRE Comments/Assumption
Revenue			
Market Housing Revenue	£1,150 psf	£1,150 psf	Further comments provided under the headed sections below
Car Parking			Further comments provided under the headed sections below
Costs			
Total Construction Cost	£38.6m	£38.48m	Further comments provided under the headed sections below
Contingency	5%	5%	5%
Professional Fees	12%	10%	10%
Purchasers Costs	6.8%	6.4%	6.8%
Market Housing Sales Agent Fee	1.5%	1.5%	1.5%
Market Housing Sales Legal Fee	0.25%	0.25%	0.25%
Finance Rate	7%	6.5%	6%
Project Programme	59 months	59 months	Further comments provided under the headed sections below
Profit on GDV	17.5%	17.5%	17.5%
Mayoral CIL2	£371,080	£371,080	£371,080
Borough CIL	£1,252,395	£1,252,395	£1,252,395
S106	£46,752	£46,752	£46,752
Outputs			
Benchmark Land Value	£14.40m	£9.60m	Further comments provided under the headed sections below
Proposed Scheme Residual Land Value	£5.90m	£9.00m	Further comments provided under the headed sections below
Surplus/Deficit	- £8.50m	- £0.60m	Further comments provided under the headed sections below

In summary, the DS2 assessment generates a deficit of c. £8.50m whilst Gerald Eve's generates a deficit of c. £0.60m when the proposed scheme residual land values are benchmarked against their respective site value benchmarks.

The key points of variance between the DS2 and Gerald Eve appraisals, which impacts upon the viability conclusions are found in the following assumptions:

- Car Parking;
- Construction Costs;
- Professional Fees;
- Finance Rate;
- Benchmark Land Value.

We provide further comment on the following appraisal assumptions in the headed sections below:

- Market Housing Revenue;
- Car Parking Revenue;
- Construction Costs;
- Project Programme;
- Benchmark Land Value.

4.2 Market Housing Revenue

The DS2 and Gerald Eve assessments generate market housing revenue of c. £75.10m equating to a blended capital value per sq/ft of £1,150. We provide further comment on the market housing revenue and valuation rationale below.

DS2 Revenue

In their report, DS2 have had regard sales and asking prices at the following new build developments located within close proximity to the subject site.

Table 4.2.1: DS2 Achieved New Build Sales

Development	Marketing End Date	Average Unit Size (in data sample)	Achieved £PSF	DS2 Comments
Hampstead Reach, Chandos Way, NW11	Jun-18	1,316 sq/ft	£821	45 units. 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. 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

Development	Marketing End Date	Average Unit Size (in data sample)	Achieved £PSF	DS2 Comments
Hampstead Manor, Kidderpore Avenue, NW3	Ongoing	931	£1,299	125 units. 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. 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 Road/Kidderpore Ave, Platt's Lane, NW3	Mar-20	1,065	£970	93 units (Barratt scheme). 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. 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.

Table 4.2.2: DS2 New Build Asking Prices

Development	Marketing End Date	Average Unit Size (in data sample)	Achieved £PSF	DS2 Comments
Oakley Gardens, Church Walk, NW2	Ongoing	948	£1,085	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. 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 [SIC] is asking prices only.

Development	Marketing End Date	Average Unit Size (in data sample)	Achieved £PSF	DS2 Comments
The Beaumont, 847-851 Finchley Road, NW11	May-19	1,500	£1,021	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. 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.
Four5Two Finchley Road, NW11	Ongoing	1,473	£896	Four5Two 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. 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.

We summarise in Table 4.1.3 a summary of the evidence submitted in the DS2 report.

Table 4.2.3: DS2 Comparable Evidence Summary

Scheme	Asking/Achieved	£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	Asking/Achieved	£926 / £816

In support of their pricing, DS2 provide the following statement:

“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”.

Whilst DS2 have provided an analysis of achieved and asking prices at the above schemes we note they have not provided the evidence base that supports this analysis in terms of the actual unit sales (and dates).

Furthermore, DS2 have not provided a unit pricing schedule for the scheme, which values each unit based upon its own attributes. As a result, in the absence of specific sales/unit prices it is not possible to compare price points at the comparable developments to the proposed scheme values.

In analysing and comparing the developments to the proposed scheme, DS2 have placed significant weight on location, proximity to public transport and local amenities. By contrast, the proposed

scheme is unique insofar that it is located in a superior location close to Hampstead Heath whilst the comparables are largely, centred around NW2 and NW11 in inferior and lower value locations.

Gerald Eve Revenue

We have highlighted that DS2 did not provide a unit pricing schedule for the scheme and that Gerald Eve requested this schedule prior to determining their own assessment of the sales values. In the absence of a pricing schedule from DS2, Gerald Eve have initially applied DS2's value of £1,150 per sq/ft to the average unit sizes across the scheme, which we summarise in Table 4.1.4.

Table 4.2.4: DS2 Estimated Average Capital Values

Unit Type	Average Area (sq/ft)	Average £PSF	Average Capital Value
1 Bed	864	£1,150	£993,983
2 Bed	1,478	£1,150	£1,699,700
3 Bed	1,689	£1,150	£1,942,350

Gerald Eve have provided further comment regarding the asking prices submitted by DS2, however, the Gerald Eve report states:

“We have placed more weighting on recent sales values as opposed to historic or asking prices and consider the Hampstead Manor scheme to be the most useful comparable given its recent transactional evidence, albeit we note its superior location and onsite amenity.

We have therefore directly sensed check the proposed values at the Subject Site with those achieved on this scheme”.

We have reviewed the Gerald Eve evidence base and we agree that Hampstead Manor is the most relevant comparable given its location in Hampstead in the desirable NW3 postcode. However, Gerald Eve consider that Hampstead Manor benefits from a superior location and onsite amenity. We summarise below Gerald Eve's summary of this scheme:

“The scheme provides 156 residential units in total, of which 25 are for affordable provision and 125 for private sale. The development includes alterations to Grade II listed heritage buildings as well as the demolition and replacement of other buildings onsite together with the provision of 97 car parking spaces, onsite amenity, 24-hour concierge and landscaped gardens. The site's construction commenced in Q4 2016 and competed during Q1 2020.

The scheme is of a larger scale, better location and higher quality specification to the subject Site, with a residents' town car service, gym, spa, sauna and swimming pool set within a heritage site with landscaped gardens”.

Gerald Eve have analysed 33 sales of apartments comprising 14 x studio/1 beds, 13 x 2 beds & 6 x 3 beds and we summarise average sale prices below:

- Studio/1 Beds:
Average Area: 561 sq/ft,
Average Sale Price: £723,873
Average £PSF: £1,291 psf
- 2 Beds:
Average Area: 871 sq/ft
Average Sale Price: £1,137,250
Average £PSF: £1,304
- 3 Beds:
Average Area: 1,396
Average Sale Price: £1,788,542

Average £PSF: £1,304

Gerald Eve have also provided details of the most recent asking prices (9 units) at the scheme.

- 1 Bed:
Floor Area: 785
Asking Price: £1,050,000
£PSF: £1,388
- 2 Bed:
Floor Area: 860
Asking Price: £1,425,000
£PSF: £1,657
- 2 Bed:
Floor Area: 1,022
Asking Price: £1,425,000
£PSF: £1,394
- 3 Bed:
Floor Area :1,614
Asking Price: £2,350,000
£PSF: £1,456

We have had regard to Mount Anvil's (the developer) marketing website and we note the following facilities at this scheme:

- Landscaped gardens and open green spaces;
- 24 hour concierge;
- Residents' town car service and underground parking;
- Residents' gym, spa, swimming pool and sauna.

We have considered the proposed scheme floor plans and note that the scheme has the following facilities:

- Gated, secure development;
- Communal Gardens;
- 56 basement parking spaces;
- Concierge;
- Residents' gym, jacuzzi, swimming pool and steam room;
- Communal Roof Terrace.

In terms of onsite amenities, we consider that the proposed scheme has distinct advantages in comparison to Hampstead Manor. For example, the proposed scheme is located within a secure gated development with communal gardens, all units have the benefit of a parking space and all residents have direct access (internally) to the basement car park, concierge, gym and swimming pool etc.

By contrast, Hampstead Manor directly fronts onto Kidderpore Avenue and is not within a gated development. Whilst the scheme has the benefit of landscaped gardens, we understand that the gardens are open to the public under a dusk till dawn policy. Furthermore, the leisure facilities are located in the Willoughby Building, the concierge is located in the Dudin Brown building and residents do not have direct access to the basement car park and leisure facilities from their apartments.

Consequently, residents will be required to walk through the scheme and landscaped gardens externally in order to access on site amenities. Furthermore, the Hampstead Manor facilities are to be shared between 156 apartments. By contrast, the proposed scheme facilities are shared between only 45 apartments, which makes the proposed scheme facilities not only more exclusive but of much greater value to this scheme.

In terms of location, Gerald Eve state that Hampstead Manor is located within a superior location although no information has been provided that substantiates this contention. By contrast, the proposed scheme is located within a more desirable location within a stone's throw from Hampstead Heath. The subject site is also located between two private housing estates that back onto Hampstead Heath, which provides a firm indication of the exclusivity and kudos attached with residing in the immediate locality. We consider that the proposed gated development, the immediate surroundings in terms of communal gardens and the privacy that the existing trees and foliage afford the site provides an immediate extension to private housing estate living. These factors in our opinion differentiate the proposed scheme as a superior product to that at Hampstead Manor that will correlate to higher revenues.

Hampstead Manor comprises 13 buildings overall and 9 of these buildings provide conversion apartments whilst the remaining 4 buildings provide new build apartments within the following buildings:

- Rosalind Franklin – 38 New Build Apartments;
- Chapman House – 16 New Build Units behind a Retained Façade located to the rear of the site overlooking West Heath Lawn Tennis Club to the north and landscaped gardens to the south;
- Willoughby – 18 New Build Apartments adjacent to Kidderpore Avenue;
- Lord Cameron – 25 New Build Units (comprising Affordable Housing).

We note that the vast majority of the converted units at Hampstead Manor do not benefit from external space such as balconies and terraces. This will inevitably have an impact upon the sale prices that units will achieve. By contrast, all of the apartments at the proposed scheme benefit from either balconies or terraces, which will have a positive impact on sales prices for the units.

We therefore consider that the proposed scheme will achieve higher values than Hampstead Manor.

We have reviewed the planning application accommodation schedule in addition to the sales brochures from Hampstead Manor and through our research of sale prices we have attempted to determine how many bedrooms each of the apartment sales have. We note there can be slight differences between the floor areas we have adopted from the sales, which are derived from the EPC data, when compared to the planning application accommodation schedules and sales brochures.

Where there is ambiguity regarding the number bedrooms in some units we provide further comment in the tables below.

We summarise in Table 4.2.5 recent achieved sale prices from Rosalind Francis.

Table 4.2.5: Rosalind Franklin New Build Sale Prices

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
15	£1,025,000	2	Nov-19	818	£1,253	-
22	£1,000,000	2	Nov-19	861	£1,161	-
24	£727,500	1	Sep-19	549	£1,325	-
40	£937,650	2	Sep-19	1,066	£880	-

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
37	£2,250,000	-	Sep-19	1,711	£1,315	Possibly the 3 bed on the 5th floor, 2 x balconies. However the brochure and acc schedule only show 1 unit in excess of 1,700 sq/ft
43	£1,570,000	2	Sep-19	1,152	£1,363	-
29	£1,170,000	2	Aug-19	861	£1,359	-
27	£735,000	1	Aug-19	549	£1,339	-
35	£737,900	1	Aug-19	549	£1,344	-
17	£725,000	1	Jul-19	549	£1,321	-
19	£1,520,000	3	Jul-19	1,238	£1,228	-
26	£1,650,000	3	Jul-19	1,238	£1,333	-
18	£1,150,000	1	Jul-19	753	£1,527	-
34	£755,000	1	Jul-19	549	£1,375	-
16	£1,170,000	2	Jul-19	829	£1,411	-
36	£1,340,000	2	Jul-19	861	£1,556	-
39	£1,238,000	2	Jul-19	775	£1,597	-
38	£738,000	1	Jul-19	560	£1,318	-
20	£740,000	1	Jul-19	549	£1,348	-
25	£1,126,000	1	Jul-19	775	£1,453	-
28	£745,000	1	Jul-19	549	£1,357	-
31	£742,250	1	Jun-19	560	£1,325	-
33	£1,370,000	2	Jun-19	1,238	£1,107	-
32	£1,197,000	1	Jun-19	775	£1,545	-
1	£1,175,000	2	Jun-19	1,098	£1,070	-
21	£709,700	1	Jun-19	549	£1,293	-
23	£2,300,000	-	Jun-19	1,722	£1,336	Possibly the 3 -bed on the 5th floor, 2 x balconies. However the brochure and acc schedule only show 1 unit in excess of 1,700 sq/ft
11	£1,641,000	3	Jun-19	1,227	£1,337	-
3	£1,100,000	2	Jun-19	990	£1,111	-
14	£1,156,250	2	Jun-19	861	£1,343	-
8	£615,000	1	Jun-19	570	£1,079	-
Total/Avg	£35,056,250	-	-	26,931	£1,302	-

We summarise in Table 4.2.6 recent sales from Chapman House. We note that only the lower ground/ground duplex units in this building have outside space.

Table 4.2.6: Chapman House New Build Sale Prices

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
6	£1,334,000	2	12/11/2020	861	£1,549	-

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
7	£788,000	1	31/10/2019	538	£1,465	The floor area for this unit may be incorrect as the sale price is the same as unit 11
11	£788,000	-	04/10/2019	786	£1,003	The floor area for this unit is likely be incorrect as the sale price is the same as unit 7
14	£1,580,250	2	20/09/2019	1,001	£1,579	-
9	£3,050,000	3	29/03/2019	1,905	£1,601	LG & G, Duplex, Terrace
2	£1,400,000	2	21/12/2018	1,313	£1,066	LG & G, Duplex, Terrace
8	£1,470,000	2	18/12/2018	807	£1,822	-
10	£2,075,000	3	14/12/2018	1,615	£1,285	LG & G, Duplex, Terrace
Total/Avg	£12,485,250	-	-	8,826	£1,415	-

We summarise in Table 4.2.7 recent sales from Willoughby House. We highlight that these units in this building do not have balconies or terraces.

Table 4.2.7: Willoughby House Sales

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF
1	£975,000	2	28/8/20	786	£1,240
14	£1,155,000	2	30/8/19	947	£1,220
3	£1,150,000	2	25/3/19	797	£1,443
5	£719,100	1	25/3/19	538	£1,337
13	£880,000	2	12/3/19	958	£919
8	£1,140,800	2	4/3/19	797	£1,431
9	£730,000	1	4/3/19	667	£1,094
4	£720,000	1	4/3/19	667	£1,079
6	£719,100	1	4/3/19	560	£1,284
2	£715,000	1	4/3/19	570	£1,253
10	£745,000	1	25/1/19	538	£1,385
Total/Avg	£9,649,000	-	-	7,825	£1,233

Our research identified that 2 units in Willoughby House measuring 1,841 sq/ft and 2,626 sold for £2,455,000 and £3,570,000. However, we have reviewed the brochure and the largest unit in this building is a 2 bed measuring 1,034 sq/ft located on the 3rd floor. We therefore assume that these units relate to houses and we have removed them from our analysis.

We summarise in the tables below sales of conversion units from the scheme.

Table 4.2.8: Maynard Sales

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
9	£1,268,000	2	30/9/20	915	£1,386	No terrace or balcony
11	£2,120,750	3	30/12/19	1,593	£1,331	No terrace or balcony
1	£2,430,000	3	4/11/19	1,593	£1,525	No terrace or balcony

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
10	£1,225,000	2	2/8/19	915	£1,339	No terrace or balcony
14	£1,088,000	1	27/6/19	861	£1,264	This appears to be a 1 bed unit ground floor unit with a terrace
5	£1,584,000	2	29/3/19	1,119	£1,416	No terrace or balcony
6	£1,350,000	2	22/3/19	1,119	£1,206	No terrace or balcony
Total/Avg	£11,065,750	-	-	8,115	£1,364	-

Table 4.2.9: Dudin Brown Sales

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
1	£1,555,000	2	31/1/20	1,033	£1,505	We have reviewed the EPC register and the scheme asking prices and sales brochure. The EPC lists this unit as 1,701 sq/ft and we consider that this floor area should be attached to unit 4.
4	£2,300,000	3	31/1/19	1,701	£1,352	We have reviewed the EPC register and the scheme asking prices and sales brochure. The EPC lists this unit as 1,033 sq/ft and we consider that this floor area should be attached to unit 1.
5	£1,650,000	2	22/11/18	1,023	£1,613	Ground floor, Terrace
3	£1,330,000	2	3/7/18	1,109	£1,199	-
2	£1,574,000	2	12/6/18	1,033	£1,524	-
Total/Avg	£8,409,000	-	-	5,899	£1,425	-

Table 4.2.10: Bay Sales

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
11	£980,000	1	25/11/19	614	£1,596	This unit appears to be a 1 bed ground floor unit with 350 sq/ft terrace
8	£1,350,000	2	11/6/19	786	£1,718	-
12	£745,000	1	21/12/18	614	£1,213	-
13	£765,000	1	21/12/18	592	£1,292	-
3	£785,000	1	21/12/18	538	£1,459	-
5	£745,000	1	21/12/18	570	£1,307	-
10	£1,585,000	2	18/12/18	1,163	£1,363	-
4	£1,700,000	2	13/12/18	1,378	£1,234	-
9	£1,540,000	2	10/12/18	915	£1,683	-

Unit	Sale Price	Beds	Date	Area (sq/ft)	£PSF	Further Comments
15	£1,018,350	1	28/9/18	624	£1,632	This appears to be a 1 bed unit, 2 nd floor, 2 terraces
Total/Avg	£11,213,350	-	-	8,268	£1,445	

We have compared the achieved unit prices at Hampstead Manor against the unit pricing schedule provided by Gerald Eve as Appendix 5 of their report and we set out in the tables below a comparison between the achieved values and the Gerald Eve pricing. Whilst the unit sizes at Rosalind Franklin are generally smaller than the proposed scheme, we have selected units that are similar in size to the proposed scheme units.

Table 4.2.11: Comparison between Rosalind Franklin Sales & Gerald Eve Values

Rosalind Franklin Achieved Prices						Gerald Eve Proposed Scheme Values					
Unit	Beds	Floor	Floor Area	Sale Price	£PSF	Unit	Beds	Floor	Floor Area	Sale Value	£PSF
23	3	5	1,722	£2,300,000	£1,336	F5-03	3	5	1,883	£2,350,000	£1,248
26	3	N/K	1,238	£1,650,000	£1,333	F1-06	3	5	1,592	£1,730,000	£1,087
33	2	N/K	1,238	£1,370,000	£1,107	GF-04	2	G	1,270	£1,360,000	£1,071
43	2	G	1,152	£1,570,000	£1,363	GF-01	2	G	1,184	£1,270,000	£1,073
37	3	N/K	1,711	£2,250,000	£1,315	GF-08	2	G	1,700	£1,820,000	£1,071

In general, the ground floor units at the proposed scheme are lower than the achieved prices at Rosalind Franklin. Whilst GF-04 has a marginally lower value than unit 3 at Rosalind Franklin we are of the view that the proposed scheme is superior. GF-08 is a 2 bed unit although it almost the same size as unit 37 at Rosalind Franklin which sold for £2,250,000 (£430,000 more than GF-08). Whilst unit 37 is a 3 bed unit we consider that the price differential is excessive and that unit GF-08 should attract a higher value. By contrast, unit F1-06 at the proposed scheme is valued at £1,730,000 (1,592 sq/ft) however, its value is only £80,000 higher than unit 26 at Rosalind Franklin which is 354 smaller than unit F1-06. We have compared the sale of unit 23 at Rosalind Franklin to unit F5-03 as both units are 5th floor apartments.. However, F5-03 has been valued at £2,350,000 compared to unit 23 which sold for £2,300,000 despite unit F5-03 being larger and having far reaching views over Hampstead Heath compared to views of the Tennis Club at unit 23.

Table 4.2.12: Comparison between Chapman Sales & Gerald Eve Values

Chapman Achieved Prices						Gerald Eve Proposed Scheme Values					
Unit	Beds	Floor	Floor Area	Sale Price	£PSF	Unit	Beds	Floor	Floor Area	Sale Value	£PSF
9	3	LG/G	1,905	£3,050,000	£1,601	LGF-04	2	LG	2,023	£2,080,000	£1,028
2	2	LG/G	1,313	£1,400,000	£1,066	LGF-03	2	LG	1,302	£1,340,000	£1,029
8	2	N/K	807	£1,470,000	£1,822	F4-02	2	3	1,184	£1,410,000	£1,191

In general, the selected units at the proposed scheme are lower than the selected achieved prices at Chapman. LGF-04 is a 2 bed unit measuring 2,203 sq/ft with a value of £2,080,000 and although it is the same size as unit 9 from Chapman (which is 3 bed) it has been valued at £970,000 less than unit 9. Despite unit 9 being a duplex apartment, we consider that such a price differential compared to LGF-04 is excessive. The most notable discrepancy in the pricing is the comparison between F4-02 in the proposed scheme compared to unit 8 from Chapman. Despite, being 377 larger than unit 8, F4-02 has been valued at £60,000 less.

We have not compared any sales from Willoughby to the proposed scheme values as the units are smaller than the proposed units (and the units at Willoughby do not have balconies/terraces). However, there are sales from Maynard which are comparable to the proposed scheme units and we summarise these sales and comparison with proposed unit values in Table 4.2.14.

Table 4.2.13: Comparison between Maynard Sales & Gerald Eve Values

Chapman Achieved Prices						Gerald Eve Proposed Scheme Values					
Unit	Beds	Floor	Floor Area	Sale Price	£PSF	Unit	Beds	Floor	Floor Area	Sale Value	£PSF
5	2	N/K	1,119	£1,584,000	£1,416	F2-02	2	2	1,377	£1,580,000	£1,111
11	3	N/K	1,593	£2,120,750	£1,331	F2-06	3	2	1,592	£1,800,000	£1,131
1	3	N/K	1,593	£2,430,000	£1,525	-	-	-	-	-	-

The comparison above shows that unit F2-02 at the proposed scheme has been valued at the a similar price to unit 5 from Chapman despite being 258 sq/ft larger. The 3 bed sales at Chapman are significantly higher than unit F2-06 at the proposed scheme despite being a similar size. We consider that the proposed scheme is superior to Chapman (the units at Chapman also have no external space) and therefore proposed units should achieve higher values.

We have not undertaken a comparison of the units in Dudin-Brown or Bay as the comparisons are similar to those in the analysis summarised above.

We have also had regard to current asking prices from Hampstead Manor summarised in Table 4.2.15.

Table 4.2.14: Hampstead Manor Asking Prices

Building	Beds	Area (sq/ft)	Asking Price	£PSF	Comments
Maynard (unit 8)	1	785	£1,050,000	£1,338	Terrace, ground floor
Maynard (unit 7)	1	767	£1,050,000	£1,369	Terrace, winter garden, ground floor
Bay (unit 16)	2	860	£1,425,000	£1,657	2 x Terraces
Bay House (unit 8)	2	860	£1,425,000	£1,657	2 x Terraces
Chapman	3	1,614	£2,350,000	£1,456	Duplex, Terrace, 3 bathrooms

As a comparison, Gerald Eve have valued the two proposed 1 bed units (807 sq/ft) at £950,000 and £980,000 whilst a 979 sq/ft 1 bed unit has been valued at £1,040,000. By contrast, Hampstead Manor has smaller 1 bed units with asking prices higher than the proposed 1 bed units. As a further comparison, the 3 bed unit at Chapman has an asking price of £2,350,000 whilst two 3 bed units at the proposed scheme have been valued at £1,730,000 (1,592 sq/ft) and £1,800,000 (1,592 sq/ft).

We have also had regard to current asking prices summarised in Table 4.2.15 from Novel House, which is located in Hampstead Village (c. 0.75 miles to the southeast of the site).

Table 4.2.15: Novel House Asking Prices

Beds	Area (sq/ft)	Asking Price	£PSF	Comments
4	3,548	£9,000,000	£2,537	Ground floor, 5 bathrooms, Patio, ground floor
4	2,782	£6,750,000	£2,427	2 nd floor, Balcony & terrace, 4 bathrooms
3	1,566	£4,500,000	£2,873	4 th floor, terrace, 3 bathrooms

Beds	Area (sq/ft)	Asking Price	£PSF	Comments
2	1,758	£3,850,000	£2,190	2 nd floor, balcony, 2 bathrooms
3	1,930	£3,500,000	£1,813	Ground floor, courtyard

Novel House is situated in a desirable location in Hampstead Village and the current asking prices provide an indication of prices for prime apartments in the village. Whilst the proposed scheme is not located in the village, it is still located in a highly desirable location between two private housing estates, in a gated secure environment within close proximity to Hampstead Heath.

We are aware that apartment 13 in Novel House, a 3 bed unit measuring 2,087 sq/ft sold in November 2020 for £3,500,000 (£1,677 per sq/ft). As a comparison, Gerald Eve have valued unit F5-03 (1,883 sq/ft) at £2,350,000 (£1,248 per sq/ft).

In summary, we have considered the available evidence and note that Hampstead Manor and Novel House are the most pertinent new build comparables in the locality. Whilst DS2 and Gerald Eve consider that Hampstead Manor is superior to the proposed scheme, we disagree with this contention as previously outlined. We have therefore compared units that are similar in terms of floor area and price points from Hampstead Manor to the unit pricing that Gerald Eve have produced and our analysis demonstrates that the unit pricing exercise that Gerald Eve have undertaken is understated.

We note that the units at the proposed scheme are generally larger than the units at Hampstead Manor and we summarise the average unit areas provided by Gerald Eve and average unit prices in Table 4.2.16.

Table 4.2.16: Gerald Eve Average Unit Areas and Values (The Proposed Scheme & Hampstead Manor)

Unit Type	Proposed Scheme Average Area (sq/ft)	Proposed Scheme Average Price	Proposed Scheme Average (£PSF)	Hampstead Manor Average Area (sq/ft)	Hampstead Manor Average Price	Hampstead Manor (£PSF)
1 Bed	864	£982,851	£1,137	561	£723,873	£1,290
2 Bed	1,478	£1,699,700	£1,150	871	£1,137,250	£1,306
3 Bed	1,689	£1,905,192	£1,128	1,396	£1,788,542	£1,281

In summary, on an overall blended capital value per sq/ft Gerald Eve consider that the proposed scheme values should be c. 12% lower than those at Hampstead Manor. The difference in values per sq/ft can be attributed largely to the fact that the average unit sizes at the proposed scheme are significantly larger than the average unit sizes at Hampstead Manor.

However, it would appear illogical that the Applicant would come forward with a scheme comprising oversized units that does not allow the opportunity to maximise the overall blended revenue per sq/ft for the scheme. In the event that average unit areas were reduced and the total overall scheme floor area remained the same with an increase in apartments, the overall value per sq/ft would increase as a consequence and subsequently generate a higher overall revenue than that adopted by DS2 and Gerald Eve.

We highlight that it has been assumed by DS2 and Gerald Eve that each of the proposed scheme units will have the benefit of 1 parking space. It is unclear which of the apartment sales at Hampstead Manor have the benefit of a basement parking space as this will have a material effect on the sales analysis.

The asking prices at Novel House, whilst located in the village (but not as close to the Heath as the subject site), demonstrates a scheme where oversized units (in comparison to market norms) have asking prices per sq/ft (and 1 achieved sale price) in excess of achieved values per sq/ft at Hampstead Manor. It is clear that location is one of the key drivers of value at Novel House, however,

we consider that the location of the proposed scheme together with the overall anticipated product is superior to Hampstead Manor.

We are aware that the Applicant was the developer of the Oracle Apartments (7 apartment scheme) which completed in 2012. The most recent sale was of a 3 bed apartment (3,433 sq/ft) in December 2014 for £5,400,000 (£1,573). Although an historical sale, this provides an indication of the Applicant's ability to construct and deliver a large high end product in the Hampstead market which correlating to high sales values.

Furthermore, the Applicant's website states:

"For over fifteen years, we've been the leading developer of crafted, contemporary, individual homes in Hampstead, Highgate and Kenwood. Our homes sell for between £5m and £25m and we are recognised for our personal service and impeccable product. We are an award-winning family business who strive for perfection, taking pride in producing elegant homes for discerning clients, celebrating our key principals of light, space and a true sense of place".

Whilst the statement refers to homes selling for between £5m and £25m, we assume these sale prices reflect houses and larger apartments like those at Oracle Apartments opposite the subject site. On the basis of the Applicant's track record, we anticipate that the proposed scheme will provide a high end product attracting premium values. Consequently, we do not consider that the values adopted by DS2 and Gerald Eve are appropriate for the proposed scheme.

We note that on an overall basis, our analysis of all available sales at Hampstead Manor generate a blended capital value per sq/ft of c. £1,339 (2018 to 2020) whilst sales from 2019 and 2020 generate a blended capital value per sq/ft of c. £1,333. We have referenced that the average unit areas at Hampstead Manor are smaller than the proposed scheme but indeed have questioned why the Applicant would seek to deliver a scheme with oversized units that is to the detriment of overall scheme revenue.

In simple terms, why has the scheme not been designed on the basis of smaller units which will correlate to a higher capital value per sq/ft. We therefore conclude the key driver in bringing forward the proposed scheme at the subject location (with larger apartments than the market norm) is to maximise revenue above competing new build developments such as Hampstead Manor.

The asking prices at Novel House summarised in Table 4.2.16 demonstrate this point, for example, the 2 bed unit (1,758 sq/ft) has an asking price of £3.85m equating to a capital value per sq/ft of £2,190. We appreciate that this is an asking price and may be subject to a discount in order to achieve a sale. We note that Coutts published their "London Prime Property Index Q1 2021" on 30 April 2021, which provides a "spotlight on Hampstead Village".

The Coutts index provides the following statements:

"This time last year, inner-city flats were still topping the bill. But as buyers consider life after lockdown, properties in NW3 are being snapped up more quickly and sellers are getting nearer the asking price than in other areas of London".

"Sellers have been able to sell at closer to the asking price as Hampstead's appeal has increased. This difference between discounts between 2021 and 2020 amounts to an extra £55,000 on a £5 million property. In addition, discounts are now narrower in Hampstead than prime London as a whole, a reversal of the position last year".

The index summarises an average discount on initial asking prices in Hampstead in Q1 2021 of 7.9%. On that basis, a 7.9% discount to the asking price for the 2 bed unit at Novel House would reflect a sale price of c. £3.55m (£2,017 per sq/ft). As a comparison, Gerald Eve have adopted a sale price of £2.15m for a 2 bed unit measuring 1,872 sq/ft which is £1.40m lower than the unit at Novel House assuming a discount of 7.9%. We therefore consider that this differential in value is too high between the proposed scheme and Novel House.

We have also had regard to current asking prices from purpose built apartments located on West Heath Road summarised in Table 4.2.17.

Table 4.2.17: West Heath Road Asking Prices

Address	Beds	Floor Area (sq/ft)	Asking Price	£PSF	Additional Information
Horizons Court, West Heath Road	4	3,288	£5,950,000	£1,810	2 underground parking spaces, large garden and terrace, day porter
Oak Lodge, West Heath Road	5	4,300	£5,750,000	£1,337	Communal gardens, 4 private terraces, underground parking for 3 cars, concierge, communal swimming pool and spa
Horizons Court, West Heath Road	3	3,583	£4,250,000	£1,186	Underground parking for 2/3 cars, half day porter
Horizons Court, West Heath Road	4	3,178	£4,150,000	£1,306	2 underground parking spaces, large garden and terrace, day porter

The asking prices above demonstrate that the immediate locality of the subject site has the ability to absorb a high end product at premium sales values.

In conclusion, we consider that the proposed scheme has the ability to generate its own market correlating to higher values than Hampstead Manor. As a result, we have applied a 'conservative' 12.5% increase to the blended sales value from Hampstead Manor of £1,339 per sq/ft generating a value per sq/ft of £1,506 equating to overall revenue for the scheme of £98,344,812. As context, this revenue equates to an average unit value across the scheme of c. £2.19m based upon an average unit area of c. 1,451 sq/ft.

4.3 Car Parking Revenue

The DS2 report assumes that each unit will sell with the benefit of a car parking space (45 spaces) as a sales incentive with the additional 23 spaces to sell at a value of £50,000 per space. Gerald Eve have also adopted a value of £50,000 per additional space and for the purpose of this assessment, we do not consider that a value of £50,000 per space is unreasonable.

4.4 Construction Costs

DS2 have adopted construction costs of £40.54m (base cost of c. £361 per sq/ft and a 5% contingency) and in support of the costs DS2 have relied upon a cost plan prepared by IvyHouse Consulting dated 18 November 2020. Gerald Eve have adopted costs totalling c. £38.48m (including a 5% contingency) based upon a construction cost review undertaken by Veale and Sanders dated 13 January 2021.

For the purpose of this review, you have not instructed a cost consultant to review the construction costs but have reserved the right to do so. For the purpose of this assessment, we have adopted the costs adopted by Gerald Eve of c. £38.48m

4.5 Project Programme

DS2 have adopted a 6 month pre-construction period and 30 month construction programme together with 50% off-plan sales and a post practical completion sales programme of 1 unit per month. Gerald Eve have agreed with the DS2 project programme and Gerald Eve provide the following information with regard to sales rates at the comparable development they and DS2 have cited.

Table 4.5.1: Sales Rates

Scheme	Marketing Period	Total Market Housing Sales	Average Sales per Month	% Sales pre-completion
Hampstead Reach	27	45	2	36%

Scheme	Marketing Period	Total Market Housing Sales	Average Sales per Month	% Sales pre-completion
Hampstead Manor	48	116	2	53%
Kidderpore Green	40	93	2	59%
Oakley Gardens	28	17	0.6	65%
The Beaumont	45	25	0.6	20%
Average	38	-	1	47%

We have reviewed the available evidence and undertaken our own research and we have adopted 50% off-plan sales with the remaining units to sell at a rate of 2 per month.

5 Appraisal Outputs

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

5.1 Viability Benchmark Site Value

DS2 have adopted a site value of c. £14.32m based upon a C2 use class and DS2 have provided the following statement:

“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.

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”.

We note that the site was used unlawfully as a day school and that the Council had previously obtained an injunction for the school to cease operation due to a breach of planning conditions (i.e. that 50% of day pupils should be boarders).

DS2 provide the following statement with regards to comparable evidence and approach to the valuation:

*“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.....
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.*

Heathside Prep School, NW3

Price: £1,675,000

Sale Date: July 2019

GIA: 3,906 sq/ft

£ psf: £429

Use: D1

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

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. 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: £14,600,000

Sale Date: May 2014

GIA: 24,000 sq ft

£ psf: £588

Use: Sui Generis. Sold for D1 educational use.

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.

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)

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.

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 education/clinical (but reverted to C3 upon sale)

21 Maresfield 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

“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.

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”.

DS2s average blended value of £588 derives a capital value of £12,027,250 and a 20% landowner's premium has been applied to this value generating a site value of £14,432,700.

We highlight that in this instance DS2 should not be applying a premium because they are relying on market transactions. If those owners were motivated to sell at those values, then there was already sufficient 'premium' built in to the sale prices.

DS2 consider that it is logical to value a C2 use class property on the basis of non-C2 use class sales evidence, in valuing the existing site, they have had regard to alternative uses and on that basis their site value benchmark does not reflect an existing use value.

Whilst we appreciate that there is limited evidence of sales of C2 residential schools it is unclear whether the value applied to the site reflects the value of a residential school when regard has been had to:

- 1) The sale of a D1 Day School (Heathside Prep School & Ivy House). Whilst this sale provides an indication of a sale price of a day school, it is unclear how relevant this comparable is when assessing the value of the subject site as a residential school.
- 2) A former hostel sold for a new retirement scheme (79 Fitzjohn's Avenue) in which the sale price reflects hope value for redevelopment. It is therefore unclear how this comparable informs DS2s valuation rationale and we consider that this comparable has no relevance to the assessment of the existing use value of the subject site.
- 3) A former Police Station sold for D1 use (Hampstead Police Station). We note that this site was purchased in 2014 by the 'Department of Education' who could be regarded as a 'special purchaser' as the site was purchased as part of the departments 'Free School' programme. The site has not been used as a School as planning permission has not been forthcoming for a D1 use. We understand that the site is back on the market for sale due to the failure to obtain planning permission. Therefore, we consider that this comparable has no relevance to the assessment of the existing use value of the subject site.
- 4) A former D1 use, which has subsequently reverted to a C3 use (21 Maresfield Gardens). This building had been used for several decades for educational and clinical purposes, however, the consent was personal to the occupier. It is highly probable that the sale price of this building reflected a C3 residential use and therefore we consider this sale has limited weight as a comparable.

Gerald Eve have adopted a site value of c. £9.6m and we set out below the Gerald Eve's comments on the DS2 site value and their subsequent valuation rationale as set out in Appendix 9 of their report.

“Review of Advisor’s Comparable Evidence

Heathside Prep School, 16 New End, London NW3 1JA. This was an administration sale and formed part of a wider transaction of a mixture of freehold and leasehold properties. It does not represent an open market sale and we have therefore disregarded this transaction.

79 Fitzjohn’s Avenue, NW3. DS2 incorrectly state that this was sold for development of a C2 use scheme. The site was granted planning permission for development of self-contained accommodation for older people, falling under Use Class Sui Generis. The accommodation does not provide care on site and would not be considered to fall under Use Class C2. This comparable is therefore not relevant when assessing the EUV. Furthermore, the site was purchased for redevelopment and therefore cannot in consequence be said to reflect an EUV approach, which specifically excludes hope value.

Hampstead Police Station, NW3. There have been numerous planning applications submitted and rejected for a change of use from police station (Sui Generis) to a school (Use Class D1). The first rejected application in 2016 was for 420 pupils. The most recent application for a school of 210 pupils was refused on 23 December 2019 on the grounds that the proposed development by virtue of its use would result in an increase in trips by private motor vehicles causing increased traffic congestion and exacerbating air pollution, and increased noise disturbance at detriment to the amenity of neighbouring residents.

Ivy House, North End Road, NW11. Very locationally relevant. The property was purchased for ongoing D1 use (now F1) and is operated as St Antony’s School for Girls with a capacity of 280 children.

Further Comparable Evidence

Address	Description	Size (sf)	Price	Date	£/sf
<i>Former City of Westminster College</i>	<i>Gerald Eve advised on the sale of the former FE college, which is in average condition, extending to 50,633 sq ft on a site of 0.77 acre. Sold to an independent school with vacant possession in May 2019. D1 use.</i>	<i>50,663</i>	<i>£23.5m</i>	<i>May-19</i>	<i>£464</i>
<i>17 Lyndhurst Gardens</i>	<i>Former NHS facility with D1 use located in a superior location within Hampstead. Sold at auction in February 2019 for £5.5 million. The property was originally marketed in late-2018 with a guide of £7.15 million and did not sell. The property is a Grade II listed detached building extending to 11,377 sq ft with D1 use. The property was in a relatively poor condition internally. The purchaser has since submitted planning application for change of use to residential, comprising three large 4/5 bedroom houses.</i>	<i>11,377</i>	<i>£5.5m</i>	<i>Feb-19</i>	<i>£483</i>

Address	Description	Size (sf)	Price	Date	£/sf
3 Arkwright Road	Three storey Victorian property comprising three residential flats. Purchased by Alpha Plus Group for conversion to St Anthony's Boys School. The intention was to obtain planning permission for a change of use and expand the school. However, it has not proved possible to negotiate planning permission. This is very historic and they were a special purchaser, but this further demonstrates the difficulty educational parties have in securing planning permission for D1 uses.	4,650	£4m	Nov-13	£860

We are also aware of the sale of 114 West Heath Road in November 2015 for £22.35 million. The 1.56-acre site comprising offices sold to a developer to build out a C2 residential development. Planning permission was granted in March 2017 for demolition of existing buildings and development of 46 assisted living units under Use Class C2. The scheme will have 24-hour care provision available to residents. The proposed gross internal area extends to c 125,000 sq ft. The price paid reflects £14.3m per acre or £178 psf on proposed development. As above, the price paid reflects hope value for redevelopment which is not relevant for EUV approach.

Demand for the property

We think there would be very limited demand for the property under its current C2 use as a boarding school. We think demand for other C2 uses (such as care) would be limited, unless planning permission could be obtained for an assisted living C2 use scheme of apartments.

However, this would require complete refurbishment or redevelopment which then falls outside of the realms of Existing Use.

We are of the opinion that if the property had D1/F1 use then there would be strong demand from educational parties to use the property as an independent day school, but only if the planning condition that states that at least 50% of all pupils on the site shall be residential boarders is removed.

Furthermore, the cap on pupil numbers (at 130) would massively restrict demand for school use due to the impact on trading potential, which would be severely limited.

It is our opinion therefore that due to the limited demand for education use due to the onerous boarding obligation and also cap on numbers (which limits the trading potential of a potential independent school), it is appropriate to apply a discount to arrive at the EUV.

Furthermore, the difficulty in achieving D1/F1 planning permission is demonstrated in two of the comparables; Hampstead Police Station and 3 Arkwright Road. Whilst these fall within a different local planning authority, the same principles apply in respect of increased traffic, noise and pollution.

We consider the prospect of securing a change of use to D1/F1 is low, except possibly at a low capped number of pupils initially. The maximum number of day pupils under the current planning permission is 64 pupils.

The most locationally relevant comparable is the sale of Ivy House for £7.6 million, however the school has a higher maximum capacity of 280 pupils which we consider reflects the price paid.

Therefore, we consider an appropriate discount of say 20% should be applied to the EUV to reflect the above".

We note that Gerald Eve have provided 'further' comparable evidence, however, the comparables are not C2 use class properties and as a result it is unclear how they inform the valuation of the subject site on the basis of an existing use value. For example, 17 Lyndhurst Gardens has been subject to a

planning application for residential redevelopment and therefore the purchase price will reflect hope value for a change of use whilst 3 Arkwright Road (comprising flats) was purchased by a School (Special Purchaser) with the expectation for a change of use to a D1 school, which has not been forthcoming.

Gerald Eve provide comments regarding their view on demand for the property in its existing C2 use in which they conclude:

“We think there would be very limited demand for the property under its current C2 use as a boarding school. We think demand for other C2 uses (such as care) would be limited, unless planning permission could be obtained for an assisted living C2 use scheme of apartments. However, this would require complete refurbishment or redevelopment which then falls outside of the realms of Existing Use”.

On that basis, it is unclear how Gerald Eve have arrived at a site ‘Existing Use Value’ of c. £9.6m when they consider that there would be ‘limited’ demand for the under the site’s current C2 use.

Gerald Eve consider that there would be a strong demand for the site in a D1/F1 use but only if the planning condition that 50% of pupils are onsite residential boarders is removed. However, they consider that the cap on pupils (maximum of 130) would restrict the demand for school use. Whilst they are of the view that there would be a strong demand for the school, Gerald Eve have then provided negative aspects, which would subsequently correlate to limited demand for the site in an alternative use as a D1 school. For example, Gerald Eve then state that there is difficulty in achieving D1/F1 planning permission as demonstrated by Hampstead Police Station and 3 Arkwright Road due to the principles of increased traffic, noise and pollution.

We highlight that the former school was served an enforcement notice (without planning permission changing the use of the property to a day school) on 17 January 2017 for the following reasons:

- “1. The introduction into a previously quiet residential area of the incongruous patterns of activity associated with the school and, in particular, the increased comings and goings at either end of the school day has resulted in detriment to that character, contrary to policy CS5 of the adopted Barnet Core Strategy DPD (2012) and to policies DM01 and DM13 of the Development Management Polices DPD (2012).*
- 2. Traffic generated by the day school, over and above that which might reasonably be associated with any fall-back position, likely reduces the free flow of traffic on local roads. Any increase in journey generation, whether resulting from a change in travel behaviour or an increase in the size of the school, will exacerbate the situation. Furthermore, any increase will also likely lead to an unacceptable risk to local highway safety, contrary to policy CS9 of the adopted Barnet Core Strategy DPD (2012) and policies DM17 and DM13 of the Development Management Polices DPD (2012)*
- 3. By virtue of the noise and disturbance associated with access and egress the use of the site as a day school has a detrimental effect upon neighbours' standard of life and there exists the potential for an increase the level of general disturbance, contrary to policies DM04 and DM13 of the adopted Development Management Polices development plan document (DPD) (2012)”.*

Gerald Eve have suggested there is likely to be limited demand for the site in its existing use as a Class C2 residential school, although in the absence of any marketing evidence from the Applicant (as would be required under planning policy), we are unable to comment on this. Equally so, the site would have a limited appeal (in any) to prospective purchaser’s in attempting to achieve a D1/F1 permission, as is suggested in the Gerald Eve report.

We also note that the Gerald Eve report states:

“The GE Education Team have also suggested that in order to fully assess the EUV of the building, with the current planning restrictions in place, a Profits Method valuation would need to be undertaken”.

It is unclear why a profits method of valuation has not been undertaken on the site as this would provide a more robust method of assessing the EUV of the site than deducting 20% from the DS2 EUV of c. £12.03m, which has been determined utilising comparable evidence that is not comparable to the subject site in terms of use. However, we highlight that a profits valuation of the site would only be credible in the event that there was an underlying market demand for a C2 residential school.

In summary, as a residential school (in the assumed absence of demand) we consider that the existing use value of the site is nominal. The site could potentially be utilised as a Care Home, however, 'St Margaret's' the former Care Home that was operated on site prior to occupation by the school was closed by the owner, the London Borough of Camden in 2016. However, it is unclear whether there would be demand for a Care Home use and whether the site would comply with institutional standards (e.g. Care Quality Commission Standards) without significant alterations and improvements, which may result in a level costs that would make such a use unviable.

In terms of adopting an appropriate site value benchmark, an alternative use may be appropriate for the site but any alternative use for the site would need to be acceptable in planning policy terms. We would expect that an alternative use value would be derived via a residual valuation that accounts for the scheme revenues and costs associated with constructing the scheme. The residual land value of the proposed would then need to be compared against the alternative use value in order to determine whether the scheme can support more than a payment in lieu of £900,000 towards affordable housing. We highlight that at this stage, it is unclear what alternative uses the Council would be prepared to allow for the site.

In conclusion, given our observations and comments provided in the Gerald Eve report the benchmark site values adopted by DS2 and Gerald Eve appear to be excessive and therefore the scheme could support a higher payment towards affordable housing. However, this conclusion is dependent upon whether the Council would permit an alternative use for the site (in theory) which could form the basis of an alternative benchmark site value.

For the purpose of this review and in the absence of a robust basis for an existing use value or alternative use value (pending further comments from the Council if forthcoming) we have adopted a nominal site value of £1. However, the site will have an inherent value, which will be higher than the nominal site value we have currently adopted which will need to be informed by an alternative use value that is acceptable in planning policy terms.

5.2 Appraisal Results

We tabulate below the results of the DS2 viability assessment.

Table 5.2.1: DS2 Appraisal Results

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £5.90m	c. £14.40m	c. - £8.50m

In summary, the DS2 appraisal generates a deficit of c. £8.50m.

We tabulate below the results of the Gerald Eve viability assessment.

Table 5.2.2: Gerald Eve Appraisal Results

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £9.00m	c. £9.60m	c. - £0.60m

In summary, the Gerald Eve appraisal generates a deficit of c. £0.60m. Therefore, on a current day basis the proposed scheme cannot support any contributions towards affordable housing.

However, we understand that the Applicant has offered a payment in lieu of onsite affordable housing of c. £0.90m.

We summarise below the results of our appraisal of the proposed scheme with a blended sales value per sq/ft of £1,506. We have highlighted that we disagree with the assessments of the existing use value produced by DS2 and Gerald Eve primarily due to the limited evidence that supports a robust value of the existing C2 residential school.

Furthermore, it is unclear what alternative uses on site would be permissible by the Council in addition to the density and massing of an alternative use. In the absence of an acceptable alternative use, we summarise our appraisal results based upon a nominal site value of £1. However, the site will have an inherent value, which will be higher than the nominal site value we have currently adopted, which will need to be informed by an alternative use value that is acceptable in planning policy terms to the Council.

Table 5.2.3: BNPPRE Appraisal Results

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus
c. £23.96m	£1	c. £23.96m

In summary, our appraisal of the scheme generates a surplus of between c. £23.96m for a commuted sum payment.

Whilst our initial surplus is artificially inflated due to the adoption of a nominal site value, we have also benchmarked our appraisal results against the Gerald Eve benchmark of c. £9.60m in Table 5.2.4.

Table 5.2.4: BNPPRE Appraisal Results benchmarked against the Gerald Eve Site Value

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £23.96m	c. £9.60m	c. £14.36m

In summary, our appraisal generates a surplus of c. £14.36m when benchmarked against the Gerald Eve site value of c. £9.60m. Consequently, the scheme could support additional contributions towards affordable housing. However, our initial appraisal results may be subject to revision in the event that it can be determined that an appropriate alternative use value exists for the site that is acceptable to the Council. This use would therefore need to be valued using a residual appraisal in which scheme revenues and costs are reflected which would ultimately need to be informed by an appropriate height, density and massing.

5.3 Commuted Sum Payment

We have calculated the maximum payment that would be required as a commuted sum and we have had regard to the Council's 'Local Plan Supplementary Planning Document: Planning Obligations' dated April 2013. This document at paragraph 2.2.15 and 2.2.15 states in reference to commuted sums:

"The Local Plan sets a 40% borough-wide target of 40% of all new homes to be affordable. The threshold for requiring affordable housing is set at 10 or more housing units or a site larger than 0.4 hectares. Development viability will continue to be considered on a site by site basis and the maximum reasonable amount of affordable housing will be required. Affordable housing is normally required on-site. In exceptional circumstances it may be provided off-site or through a commuted payment.

The existing SPD sets out further detail on viability considerations in particular what will constitute exceptional circumstances. It also sets out further detail on where payments in lieu will be accepted and the methodology for these".

The existing SPD referred to is 'Affordable Housing' dated February 2007 which sets out the following formula for calculation of a commuted sum.

"Example – For a site of 0.4 hectares or more or a proposal of 10 units or more gross,

If:

A = Number of units that could be achieved

B = Affordable housing provision x units (A)

C = The cost of transfer to an AHP per unit

D = Verifiable Market Value of the units

Then:

*[D – C] x B = **The commuted sum payable**"*

We have therefore undertaken the calculation using this formula below on the basis of the market housing revenue adopted in our appraisal.

Commuted Sum Payable (Market Housing Value of £1,506 per sq/ft)

A = 45 units

B = 40% x 45 units (A) = 18 Affordable Units

C = £259,729 (based upon a blended value reflecting affordable rent and shared ownership)

D = £2,185,440 (average capital value across the scheme)

Then: [D – C] x B = £2,153,956 - £259,729 x 18 units = **£34,662,798**

Based upon the above calculation, the maximum commuted sum payment is £34,662,798.

However, we would welcome confirmation from the Council that they have calculated their payment cap on the basis of the formula set out in the 2007 SPD.

As a comparison, the Applicant has offered a payment towards affordable housing of £900,000.

6 Conclusion

We have reviewed the viability assessments prepared by DS2 and Gerald Eve, which seeks to demonstrate that the scheme generates a deficit and subsequently cannot support any affordable housing. However, the Applicant has offered the Council a payment of £900,000 towards off site affordable housing, which falls significantly below the maximum commuted sum payment we have calculated, set out in section 5.3 of c. £34.66m.

We have reviewed the viability assessments and the key issues we have identified are the market housing sales values and the benchmark site value. We have concluded that the market housing revenue is understated and (as set out in section 4.2 of this report) and we have therefore modelled the scheme with a blended market housing sales value of £1,506 per sq/ft.

With regards to the site value benchmark, we consider that the site in its existing use as a residential school (C2 use) has limited value and that the evidence base relied upon by DS2 and Gerald Eve does not adequately inform a robust site value based on its existing use and planning conditions. Both consultants have had regard to alternative uses (D1 use and sites to be redeveloped) however, we have reservations that the site could gain planning permission as a D1 school which has also been raised by Gerald Eve in their review of the DS2 report. We therefore consider that the benchmark site value should be assessed on the basis of an alternative use value, however, it is unclear what alternative uses would be permissible by the Council or indeed an acceptable height, density and massing.

For the purpose of this report, we have adopted a nominal site value of £1 and our assessment generates a surplus of c. £23.96m. Whilst our initial surplus is artificially inflated due to the adoption of a nominal site value, we have also benchmarked our appraisal results against the Gerald Eve benchmark of c. £9.60m and our appraisal generates a surplus of c. £14.36m. Consequently, the scheme could support an additional contribution towards affordable housing. However, we have concerns regarding the robustness of a site value of c. £9.60m based upon the site's existing use value (as set out in section 5 of this report) and we consider that an alternative use value that is acceptable in planning policy terms should form the basis of the site value benchmark. However, this alternative use shall require further input from the Council to determine what is acceptable together with clarification on assumptions (such as floor areas, number of units etc) so that a residual appraisal of this use can be undertaken.

Consequently, our initial conclusions may be subject to revision.

Appendix 1 - BNPPRE Proposed Scheme Appraisal

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Development Appraisal

84 West Heath Road

Proposed Scheme Appraisal (£1,506 per sq/ft)

Report Date: 09 June 2021

**84 West Heath Road
Proposed Scheme Appraisal (£1,506 per sq/ft)**

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Rate ft ²	Unit Price	Gross Sales
Market Housing Units	45	65,302	1,506.00	2,185,440	98,344,812
Car Parking Spaces	<u>23</u>	<u>0</u>	0.00	50,000	<u>1,150,000</u>
Totals	68	65,302			99,494,812

NET REALISATION

99,494,812

OUTLAY

ACQUISITION COSTS

Residualised Price			23,959,044		
Stamp Duty		5.00%	1,197,952		
Agent Fee		1.00%	239,590		
Legal Fee		0.50%	119,795		
					25,516,382

CONSTRUCTION COSTS

Construction	ft ²	Rate ft ²	Cost		
Market Housing Units	107,090 ft ²	359.35 pft ²	38,482,791	38,482,791	
Barnet CIL			1,252,395		
Mayoral CIL			371,080		
S106			46,752		
					1,670,227

PROFESSIONAL FEES

Architect		10.00%	3,848,279		
					3,848,279

MARKETING & LETTING

Marketing		2.00%	1,989,896		
					1,989,896

DISPOSAL FEES

Sales Agent Fee		1.50%	1,492,422		
Sales Legal Fee		0.25%	248,737		
					1,741,159

FINANCE

Debit Rate 6.000% Credit Rate 0.000% (Nominal)					
Land			4,992,971		
Construction			3,278,522		
Other			562,992		
Total Finance Cost					8,834,485

TOTAL COSTS

82,083,220

PROFIT

17,411,592

Performance Measures

Profit on Cost%	21.21%
Profit on GDV%	17.50%
Profit on NDV%	17.50%
IRR	15.29%
Profit Erosion (finance rate 6.000%)	3 yrs 3 mths

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