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Our ref: 231017 AVL Hayes Park Response to BNP and GLA_Marson_v0.1

Your ref:

20th October 2023

By Email

Dear Nick,

Hayes Park, Hayes – Response to BNPPRE Viability Review and GLA Response

AspinallVerdi have been instructed by Shall Do Hayes Developments Ltd (hereafter referred to as 'the Applicant') to prepare a response to London Borough of Hillingdon's viability review dated July 2023 by BNP Paribas Real Estate (BNPPRE) and the subsequent review undertaken by the Greater London Authority (GLA) dated October 2023.

AspinallVerdi provided a Financial Viability Assessment (FVA) in June 2023, which assessed the viability of the proposed scheme. Our assessment found the scheme to be unable to provide any affordable housing, producing a deficit of c. -£9,970,000 against a nil Benchmark Land Value (BLV). Despite this deficit, the Applicant was prepared to proceed with the scheme.

BNPPRE's viability review of the scheme includes changes to the residential GDV, construction costs, CIL and phasing assumptions. The GLA review largely concurs with the revised assumptions put forward in the BNPPRE review. This is discussed in more detail in the following sections. Figure 1 shows the impact of BNPPRE's changes in appraisal inputs on the residual land value of the scheme (i.e. surplus or deficit). Scenario 1 refers to the base scenario (i.e., the proposed scheme) and Scenario 2 comprises the testing of a scheme which provided a higher proportion of larger units (i.e., 3-bed or larger).

Figure 1 - BNPPRE Appraisal Summary

Scenario	RLV (£)	Viability benchmark (£)	Surplus / deficit (£)
Scenario 1: Proposed Development including 100% private housing	-£6,811,926	£0.00	-£6,811,926
Scenario 2: Proposed Development including 100% private housing	-£7,602,985	£0.00	-£7,602,985

Source: BNPPRE, July 2023.

BNPPRE concluded that the scheme was unable to viably support any affordable housing contributions, producing a reduced deficit of c. -£6,812,000. This reflected a improvement of c. £3,158,000 on the deficit identified in our June 2023 assessment. The GLA review did not provide a viability appraisal but was largely in agreement with the revised viability assumptions put forward by BNPPRE, apart from sales values.

We again note that Scenario 2 referred to above comprised the testing of a scheme which provided a higher proportion of larger units (i.e., 3-bed or larger). As the viability of this scheme was shown to be worse than that of the proposed scheme based on BNPPRE's own analysis, we have concluded that a scheme with a higher proportion of larger units should not be pursued.

Both the BNPPRE and GLA reviews posed questions regarding the deliverability of the scheme. The GLA review went further and queried whether the scheme comprises the optimum viable use for the site. This issue is considered in more detail within the conclusion section of this letter.

The purpose of this response is to consider the key areas of difference between AspinallVerdi's June 2023 Financial Viability Assessment, the July 2023 BNPPRE viability review and the October 2023 GLA viability review.

We have undertaken a review of the information provided by BNPPRE and the GLA in order to determine whether any affordable housing contributions can be viably supported by the proposed scheme and importantly safeguard the future of these heritage buildings. As part of our analysis, we have considered the following elements:

- Residential GDV
- Construction Costs
- Developers Profit
- Benchmark Land Value
- CIL
- Programme

Residential GDV

In their review, BNPPRE have adopted a revised GDV amounting to c. £53,379,000 (£584 psf), this reflects an increase of c. £1,607,000 / £22 psf on the GDV adopted in our assessment (£51,772,000 / £566 psf). The GLA were in agreement with BNPPRE that the GDV set out in our initial assessment was understated, suggesting testing scenarios whereby the scheme achieves a GDV of £600 psf, £625 psf and £650 psf.

The GLA review acknowledges the potential for the scheme to create its own market and achieve values above those currently achieved by the transactional data identified in our initial assessment. This may be achieved by the scheme offering high-quality residents flatted units in parkland surroundings which are not available elsewhere in the borough.

The sales values adopted by us reflected the upper end of the range of what transactional data showed to be achievable in Hillingdon's flatted market at the time of our assessment. We recognise that this scheme is unique given its park setting and existing built form, and for these reasons it is difficult to price. We do consider that the sales values suggested by BNPPRE and GLA will be challenging to achieve given current market conditions. However, in the interests of progressing the viability discussion, we are prepared to adopt these revised sales values given the justification provided. To this effect, we have adopted a residential GDV of £650 psf (i.e. the top end of the range put forward by the GLA) for the purposes of our revised appraisal which is appended to this letter.

Construction Costs

Our viability assessment relied on a Cost Plan prepared by Hennessy Godden which indicated a total build cost of c. £44,022,000m / £348 psf, inclusive of contingencies.

The BNPPRE viability review referred to a Cost Review undertaken by Johnson Associates on behalf of the Council, who considered an appropriate level of build costs to be £40,814,000 / £323 psf, also inclusive of contingencies.

We have not had sight of the Johnson Associates Cost Review. However, subject to having sight of the Cost Review and again in the interests of reaching an agreement on viability issues, we have adopted BNPRE's cost figures for the purposes of our revised appraisal.

Developers Profit

We adopted an allowance of 17.5% on GDV for developers profit in our viability assessment. This was again based on our experience of similar schemes and was below the level adopted in the Council's Whole Plan Viability Assessment (WPVA), which included an allowance of 20% on GDV.

This allowance was considered reasonable by BNPPRE in their review. However, the GLA state that 'this is considered at the top end of what might be considered a reasonable minimum return.' They do not recommend altering the profit allowance, however.

We again refer to the WPVA which adopts an allowance of 20% on GDV for developers profit. The level of profit developers will expect varies depending on the strength of the market, nature of the scheme and the risk involved. In the current market, we are typically seeing profit requirements between 17% - 20% of the GDV for market residential units, with smaller developers targeting higher profit requirements of up to 25% in the current market. Further, Paragraph 015 of the PPG considers a return of between 15-20% to be reasonable for private sale units.

As such, we reiterate that we consider our profit allowance to be reasonable, in line with national policy / guidance, albeit at the mid to lower end of the range which is considered reasonable given current market conditions.

Benchmark Land Value

Our viability assessment adopted a nil Benchmark Land Value (BLV). This was primarily due to the challenging nature of the viability associated with this proposed scheme.

Neither BNPPRE nor the GLA disputed this position. However, the GLA note the following:

> *'Aspinall Verdi's suggestion that the existing buildings have either an Existing Use Value as offices or an Alternative Use Value on the basis of an office refurbishment are not considered credible.'*

Nevertheless, for the purposes of our revised appraisal, we have retained a nil BLV. However, we again reserve the right to review this position should this become necessary.

CIL

AspinallVerdi's initial assessment did not include allowances for Hillingdon BC CIL or Mayoral CIL. However, we understand that due to the vacant nature of the building and the fact it has been vacant for over 3 years, CIL is chargeable on the development.

The BNPPRE viability review adopted the following CIL allowances:

- Borough CIL: £1,662,628.27
- Mayoral CIL: £754,149.09

We have undertaken a review of the above CIL contributions using our bespoke CIL calculator and consider the allowances to be reasonable. We have therefore included these in our revised appraisals of the proposed scheme.

Programme

We adopted the following development programme in our June 2023 report:

- Pre-construction: 6-months
- Construction: 24-months
- Sales: 12-months (40% off plan, 6no. units per month thereafter)

BNPPRE applied a reduced construction period of 18-months, referring to the BCIS Build Cost Duration Calculator. We consider our adopted construction period to be reflective of the bespoke nature of the scheme, the building being listed and the number of units proposed. However, we have adopted the adjusted construction period adopted by BNPPRE in the interests of progressing viability.

BNPPRE also adjusted the sales period to reflect 50% off-plan sales, with the remaining units sold over a 10-month sales period (c. 6no. units per month). Based on our experience of similar schemes, we consider our adopted off-plan sales allowance to be ambitious, however, we are willing to adopt the revised sales period put forward by BNPPRE in the interests of progressing viability.

We reserve our position in respect of the phasing adjustments made for the purposes of our revised appraisal.

Appraisal Outcome

We initially tested the scheme based on 100% market housing. This appraisal indicates whether the scheme can support any affordable housing contribution. The output of this appraisal is shown below:

Description	Value
BLV	£0
Surplus / Deficit	-£1,683,689

Source: AVL, October 2023.

The above shows that the scheme generates a deficit of c. -£1,684,000 based on 100% market housing. This reflects an imporovement of £8,286,000 on the deficit identified in our June 2023 viability assessment (-£9,970,000) but still indicates that the scheme cannot viably support any affordable housing contributions.

Whilst the scheme is still shown to produce a smaller deficit than before, it now generates a net profit level of c. 15.12% on GDV and is therefore considered deliverable. Whilst the Applicant is still targeting a profit of 17.5 in GDV%, we understand it is willing to proceed with the delivery of the scheme on this basis.

A full copy of our appraisal is provided at Appendix 1.

Sensitivity Analysis

The RICS Practice Statement requires that all FVAs and subsequent reviews must provide a sensitivity analysis of the results, and an accompanying explanation and interpretation in respect of calculations on viability. This is to:

- Allow both the Applicant and decision-maker to consider how changes in inputs to a financial appraisal affect viability, and
- Understand the extent of these results, to arrive at an appropriate conclusion on the viability of the application scheme.

This also forms part of an exercise to 'stand back' and apply a viability judgment to the outcome of a report.

In this respect, we have carried out a sensitivity analysis to show the impact of fluctuations in build costs and sales values on the scheme's viability. The outputs of this analysis are shown below:

		Construction: Gross Cost				
		-2.00%	-1.00%	0.00%	1.00%	2.00%
Sales Values	-2.00%	-£1,703,003	-£2,186,224	-£2,669,445	-£3,152,666	-£3,635,887
	-1.00%	-£1,210,125	-£1,693,346	-£2,176,567	-£2,659,788	-£3,143,009
	0.00%	-£717,246	-£1,200,467	-£1,683,689	-£2,166,910	-£2,650,131
	1.00%	-£224,368	-£707,589	-£1,190,810	-£1,674,031	-£2,157,252
	2.00%	£268,510	-£214,711	-£697,932	-£1,181,153	-£1,664,374

Source: AVL, October 2023.

The profit levels have remained consistent with 17.5% on GDV for the market units. The figure in each cell details the corresponding impact on the surplus/deficit.

This analysis shows that costs would have to decrease by 2% and sales values would have to increase by the same amount for a 100% private scheme to become viable, producing a surplus of c. £269,000.

S106 Costs

Given the challenging viability associated with the scheme, we have not currently included an allowance for S106 contributions such as Transport and Highways, Carbon Offsetting etc. However, we understand that the Council will be pursuing various contributions in order to offset the impact of the proposed scheme on its immediate surroundings. The total contribution which the Council intend to pursue is yet to be finalised. As such, we can reconsider the S106 contribution in further detail in due course. Nonetheless, we understand that the Applicant is willing to provide some level of S106 contribution.

Conclusion

We have reviewed the key elements which BNPPRE have revised in their July 2023 viability review, as well as those discussed in the GLA's review, provided in October 2023. Whilst we could interrogate these assumptions in much further detail, in the interests of expediting viability discussions, we have adopted the revised values and costs put forward by BNPPRE and the GLA in their respective viability reviews but reserve our position on these matters.

Based on the revised appraisal inputs adopted for the purposes of this letter, our appraisal produced a reduced deficit of c. **-£1,684,000** against a nil Benchmark Land Value. This highlights that the proposed scheme is unable to provide any affordable housing contributions.

Both the BNPPRE and GLA reviews posed questions regarding the deliverability of the scheme. Based on our revised appraisal, the scheme is now producing a deficit of c. -£1,684,000. This reflects a net profit level of c. 15.12% on GDV. Whilst this is below the target profit of 17.5%, we understand the Applicant is willing to deliver the scheme on this basis.

It is ultimately the developers prerogative / commercial decision to determine at what level of profit they are willing to deliver a scheme. This principle was reinforced in an appeal decision for 2-4 Lodge Place, Sutton, SM1 4AU (August 2021, REF: APP/P5870/W/20/3261627) where the following was noted by the inspector:

> *'The appellant's viability evidence mentions that arguably a development could be considered unlikely to be delivered unless it can achieve a profit margin of around 20%. However, the appellant's evidence also acknowledges that developers sometimes can take a 'commercial decision' to proceed at lower levels, based on an individual site basis. At the Hearing, the appellant stated that it was content to proceed on a reduced level of profit. The appellant's submissions were that, with developer's profit adjusted downwards to 11.2%, the scheme would still be viable, albeit with a lower profit, and therefore deliverable. In other words, whilst the appellant's viability evidence shows a deficit, the proposal could be delivered without making a loss but with a lower level of profit than the objectively 'reasonable' level specified in the viability study……*
>
> *……In pursuing this appeal, there is no reason to assume that the appellant is not prepared to accept a lower profit in this case. I see no advantage in doubting that the appellant is content to bring forward the scheme on that basis. Moreover, given the clear aim of the Government Policy is to significantly boost the supply of homes, make effective use of land to meet the need for homes and to promote and support the development of under-utilised land and buildings, I find no sound policy reason to withhold permission on the basis of deliverability.'*

Based on the revised assumptions, the scheme is considered to be deliverable albeit at a slightly lower profit level of 15.12% on GDV. Furthermore, the Applicant has an extensive track record of bringing forward development schemes across the south east and in London, delivering circa 1,000no. residential units across 14no. schemes over the last 5 years, thus demonstrating that the Applicant itself has a track record of delivery.

Further, a Section 106 agreement for this scheme, in accordance with the London Plan 2021, will need to include early and late stage review mechanisms. Therefore, If there are significant improvements in the viability of the scheme during its delivery, the Council will be able to capture some of that uplift and utilise this to provide a contribution to affordable housing either on or off-site. As such, a review mechanism should help to negate a number of the Council's potential concerns.

Finally, in addition to the above, the GLA review queried whether the scheme comprises the optimum viable use for the site, noting the following at paragraph 9.5:

> *'On the basis of the assessment provided, this scheme is not the optimum viable use and it fails to protect conservation of the historic buildings.'*

Optimum Viable use is defined by the Enabling Development and Heritage Assets Historic Environment Good Practice Advice in Planning Note 4 as:

> *'if there is only one viable use, that use is the optimum viable use. If there is a range of alternative economically viable uses, the optimum viable use is the one likely to cause the least harm to the significance of the asset, not just through necessary initial changes, but also as a result of subsequent wear and tear and likely future changes.'*

In line with the comments in our June 2023 viability assessment, and the supporting evidence provided alongside the planning application, we reiterate that it is clear there is no demand for the existing office use in its current form.

These buildings have stood vacant for a number of years and are likely to continue to do so without the investment being proposed by the Applicant. As such without the proposed scheme coming forward, retaining the existing use would fail to protect the conservation of these heritage buildings. There is clearly a market for these residential uses, the sales values put forward by ourselves, BNPPRE and the GLA clearly recognise the potential of this site for the proposed residential scheme. In fact, as mentioned earlier, the GLA state that:

> *'The proposed scheme has direct access to the park and the listed buildings would potentially be very attractive to likely buyers which, as the applicant has explained, includes down-sizers.'*

The above statement suggests that there is a residential market for this scheme and likely to be attractive to buyers. Furthermore, anyone purchasing these units is unlikely to let their investment deteriorate and will no doubt be invested in the future maintenance and upkeep of their property. As shown in our revised appraisal, the scheme is viable and able to provide a level of profit which, whilst below the target profit, is acceptable to the Applicant and they are willing to proceed on this bases.

We can therefore conclude that the proposed use is the Optimum Viable use, which will ensure the initial conversion is undertaken, bringing heritage buildings back into use that would otherwise remain vacant. It also secures the future maintenance/ upkeep of the buildings given the nature of the proposed end users i.e. homeowners with vested interest in their asset.

If you have any queries on the above, please do give me or Adam Baker a call.

Yours sincerely,

Parm Dosanjh MRICS MRTPI
Executive Director

Hayes Park, Scenario 1 - Private Sale
Revised Assumptions
Hayes Park
Shall Do Hayes Limited

Development Appraisal
AspinallVerdi
19 October 2023

Hayes Park, Scenario 1 - Private Sale
Revised Assumptions
Hayes Park

Appraisal Summary for Phase 1

Currency in £

REVENUE						
Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Hayes Park Central & South Residential	124	91,402	650.00	479,123	59,411,300
NET REALISATION				**59,411,300**	
OUTLAY					
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Hayes Park Central & South Residential	125,765	324.53	40,814,000	**40,814,000**	
Hillingdon BC CIL			1,662,628		
Mayoral CIL			754,149		
				2,416,777	
PROFESSIONAL FEES					
Professional Fees		8.00%	3,265,120		
				3,265,120	
MARKETING & LETTING					
Disposal Costs		2.50%	1,485,282		
				1,485,282	
Additional Costs					
Private Residential Profit		17.50%	10,396,977		
				10,396,977	
TOTAL COSTS BEFORE FINANCE				**58,378,157**	
FINANCE					
Debit Rate 6.500%, Credit Rate 0.000% (Nominal)					
Construction			2,069,384		
Other			647,448		
Total Finance Cost				2,716,832	
TOTAL COSTS				**61,094,989**	
PROFIT					
				(1,683,689)	
Performance Measures					
Profit on Cost%		-2.76%			
Profit on GDV%		-2.83%			
Profit on NDV%		-2.83%			
IRR% (without Interest)		2.31%			
Profit Erosion (finance rate 6.500)		N/A			