

DEVELOPMENT VIABILITY REVIEW – HAYES PARK, HAYES END ROAD, HAYES, UB4 8EE

In June 2023, London Borough of Hillingdon (“the Council”) commissioned BNP Paribas Real Estate to advise on a viability assessment of the redevelopment (“the Development”) of Hayes Park, Hayes End Road, Hayes, UB4 8EE (“the Site”) submitted by Aspinall Verdi (“AV”) on behalf of Shall Do Hayes Developments Limited (“the Applicant”).

Our report provided an independent assessment of AV’s Viability Assessment Report to determine whether the affordable housing offer and Section 106 contributions as proposed have been optimised.

AV concluded that the proposed Development generated a deficit of -£9,969,872 against the viability benchmark. In contrast, we concluded that the proposed Development generated a smaller deficit of - £6,811,926.

We recommended the Council include both early and late stage review mechanisms within the Section 106 Agreement.

GLA review and AV further correspondence

We have been provided with a review of the Applicant’s viability position prepared by the Greater London Authority’s Viability Team (“GLA”) dated 10 October 2023. We have also had sight of further information provided by AV to both the GLA and BNP Paribas Real Estate on 20 October 2023. We have reviewed the viability review prepared by the GLA in addition to the further information provided by AV. Where we have not commented upon an appraisal assumption, our position remains in line with our June 2023 report.

Private residential sales values: The proposed Development includes 124 residential units including studio, one, two, three and four bedroom apartments. In our June 2023 report, we increased the average achievable value from £566 per square foot to £584 per square foot for Scenario 1. We noted the dearth of new build evidence within close proximity to the Application Site and provided a breakdown of the comparable evidence upon which we relied in Section 4.1.1 of our report.

In their October 2023 review, the GLA further increased the private residential value suggesting that they “*considered [it] appropriate to test £600, £625 and £650 psf as base assumptions and then sensitivity test these*”¹. We note that in their 20 October 2023 response, AV state that “*in the interests of progressing the viability discussion, [they] 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 [their] revised appraisal*”.

We have therefore applied a revised average achievable private residential value of £650 per square foot in line with both the GLA and AV in our assessment.

Construction costs: To establish construction costs for the proposed Development, AV relied upon a cost plan prepared by Hennessy Godden (“HG”). HG concluded that the total cost equated to £44,022,000. A copy of the HG cost plan was provided in Appendix 3 of the wider AV report.

The Council instructed Johnson Associates (“JA”) to undertake a review of the Applicant’s cost plan. JA concluded that the construction cost was above what is reasonable in the current market. We therefore adopted a total construction cost of £40,814,473 (inclusive of contingency) within our appraisal in line with advice received from JA. We note that both the GLA and AV have requested a copy of the JA cost plan review – we have provided this in Appendix 2 of this response.

In their most recent correspondence, AV state that “*subject to having sight of the Cost Review and again in the interests of reaching an agreement on viability issues, [they] have adopted BNPPRE’s cost figures for the purposes of [their] revised appraisal*”. We therefore consider the construction costs to be agreed between the parties.

¹ Normal valuation practice requires the practitioner to arrive at an estimated sales value achievable today and then sensitivity test higher values. The GLA’s approach of adopting an inflated starting and then applying further growth through a sensitivity analysis departs from normal valuation practice.

We note that the GLA have raised a number of concerns in relation to the construction costs, summarised below for ease of reference:

- “the borough’s assessor should check that the landscaping costs do not relate to Hayes Park North”;
- Advise whether the fit out cost of the apartments is in line with the assumed sales price point; and
- Identify value engineering opportunities”.

We have raised these concerns with JA who have provided the following response:

1. **“Please can you check that the landscaping costs do not relate to Hayes Park North;**
2. *Would really need a drawing marked up to show the split,*
3. *2,300m² hard landscaping allowed,*
4. *4,169m² soft landscaping,*
5. *Can check if drawing available.*
6. ***Please can you advise whether the fit-out cost of the apartments is in line with the assumed sales price point (current sales values are circa £580 - £600 per square foot and in line with the standard market new build product);***
7. *We cannot comment on values but whilst we have reduced the costs for elements such as kitchens, they are still to a high standard which should certainly support the unit values,*
8. *Items such as the timber flooring and the floor tiling have also been reduced but comments as per the above,*
9. *Finishes generally to a good standard but do not appear excessive (other than those rates adjusted).*

10. Please can you identify any value engineering opportunities and their cost impact?

11. *Under floor heating allowed could possibly switch UFH to rads ?*
12. *Could reduce the kitchens further but may impact on values,*
13. *Ditto wall tiling spec (£130/m²),*
14. *Possibly some VE to the façade treatments,*
15. *Some external works could be rationalised,*
16. *Possibly say 3% VE potentially”.*

Taking into account the increase in private residential values to £650 per square foot, and in light of the JA comments above, we consider the fit-out cost of the apartments assumed by JA to be reasonable. Before any VE cost savings could be applied in the assessment, the Local Planning Authority would need to be satisfied that none of the changes would require an alteration to the application. Clearly reducing the quality of the façade treatment may result in a departure from the submitted scheme and this VE option would need to be disregarded.

We note the comments in relation to value engineering and have undertaken a sensitivity analysis to establish the impact of reducing the construction costs by 3% reflecting the potential value engineering capabilities. However, as noted above, the Council would need to consider the impact any of these changes have on the submitted application, particularly the façade treatment.

Planning obligations: In their original submission, AV did not include any planning obligation payments “as the proposed development is a conversion and does not result in additional floorspace”. In addition, AV did not include any Section 106 payments within their appraisal.

In our June 2023 report, as a result of discussions with the Council, we included the following planning obligation payments within our appraisal:

- Borough CIL: £1,662,628.27;

- Mayoral CIL; £754,149.09;
- Carbon offset payment: £137,527;
- Public Open Space payment: £165,500;
- Air Quality payment: £100,000; and
- Active Travel One Improvements: £100,000.

In their 20 October 2023 response, AV state that they have adopted the above CIL payments within their appraisal; however, we note that AV have not commented upon the remaining items (Carbon offset payment; Public Open Space payment; Air Quality payment; and Active Travel One Improvements). For the avoidance of doubt, we have maintained the full planning obligations total, as identified above, in our appraisal.

Developer profit: AV assumed a profit level of 17.5% of GDV for the private residential units within the proposed Development. In our June 2023 review, we referred to the risk profile of the scheme and adopted a profit level of 17.5% of GDV for the private residential units within our assessment. We note that the GLA have also reported that this profit level is within the reasonable range.

For the avoidance of doubt, we have maintained our assumption of 17.5% of GDV for the private residential profit level in our assessment.

Benchmark land value: The Application Site comprises three buildings / floorspace extending to 3,985 square metres (42,894 square feet) in Gross Internal Area (GIA). We understand that all of the units are currently vacant.

AV stated in their original report that "*in the interests of assisting viability, [they] have currently adopted a Benchmark Land Value of £0. [They] reserve the right to review this position in due course*".

In our June 2023 review, we adopted a £nil benchmark land value in our assessment. We note that both the GLA and AV have adopted £nil value viability benchmarks in their assessments. We therefore consider this assumption to be agreed between the parties.

Programme timetable: In our June 2023 review, whilst we considered the pre-construction period of 6 months to be reasonable, we reduced the construction period from 24 months to 18 months in our appraisal in line with the RICS Build Cost Duration Calculator. We also reduced the sales period from 12 months to 10 months assuming 50% off plan sales and a sales rate of 6.2 units per month thereafter.

In their most recent correspondence, AV have adopted our programme timetable in the "*interests of progressing viability*". We therefore consider this assumption to be agreed between the parties.

Updated Appraisal Results

In their most recent correspondence, AV have concluded that the proposed Development with 100% private housing generates a deficit of -£1,683,689.

We have undertaken an updated appraisal of the proposed Development assuming 100% private housing, taking into account the amendments identified above. We have summarised the appraisal results in Table 1.1.

Table 1.1: Updated appraisal results

Scenario	RLV (£)	Viability benchmark (£)	Surplus / deficit (£)
Proposed Development including 100% private housing	-£2,502,675	£0.00	-£2,502,675

For the avoidance of doubt, the increased deficit identified in our appraisal (in comparison to the AV conclusion) is due to the inclusion of the additional planning obligation payments (Carbon offset payment; Public Open Space payment; Air Quality payment; and Active Travel One Improvements). The AV appraisal does not include these payments.

Sensitivity analysis – cost and value growth

To provide a more comprehensive understanding of the financial performance of the project, we have undertaken a series of sensitivity analyses of the proposed Development. For the avoidance of doubt, value growth has been applied to private residential values only. In all cases, the appraisals incorporate 100% private housing. We have summarised the results in Table 1.2.

Table 1.2: Sensitivity analysis growth / inflation 100% private housing) / Scenario 1

Change in values	Change in costs	RLV (£)	Viability benchmark (£)	Surplus / deficit (£)
0%	+5%	-£4,594,609	£0.00	-£4,594,609
0%	+10%	-£6,701,379	£0.00	-£6,701,379
+5%	0%	-£405,843	£0.00	-£405,843
+10%	+5%	-£386,273	£0.00	-£386,273
+10%	-5%	£3,406,272	£0.00	£3,406,272

Sensitivity analysis – value engineering assessment

As outlined in our comments in relation to the construction costs, we have undertaken a sensitivity analysis of the proposed Development assuming a potential 3% reduction for value engineering (notwithstanding the fact that some of these savings may not be acceptable from a planning perspective, most notably changes to the façade treatment). We have reduced the total construction cost from £40,814,473 to £39,590,038 (reflecting a 3% reduction).

The proposed Development with 100% private housing generates a RLV of -£1,256,317 providing a deficit of -£1,256,317 against the viability benchmark.

Review mechanism

In our June 2023 report, we recommended the Council include both early and late stage review mechanisms within the Section 106 Agreement. We noted that there is a potential variance in the construction costs due to the early information upon which the cost estimate is based in comparison to the costs when the works are undertaken.

Value engineering exercises may be undertaken by the Developer after securing planning permission in an attempt to reduce their costs. Alternative construction methodologies may also be used.

In addition, there is potential for 'real growth' in values achieved at the proposed Development providing sufficient justification for a review mechanism to be included within the Section 106 Agreement.

BNP Paribas Real Estate
2 November 2023

Appendix 1 – Argus Appraisal Summary 100% private housing

APPRAISAL SUMMARY**LICENSED COPY**

Hayes Park - Scenario 1
100% private housing

Summary Appraisal for Phase 1**Currency in £****REVENUE**

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales
Private residential units	124	91,402	650.00	479,123	59,411,300

NET REALISATION**59,411,300****OUTLAY****ACQUISITION COSTS**

Residualised Price (Negative land)	(2,502,675)	(2,502,675)
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CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost
Build costs	1 un	40,814,473	40,814,473
Borough CIL			1,662,628
Mayoral CIL			754,149
Carbon offset payment			137,527
Public Open Space payment			165,500
Air Quality payment			100,000
Active Travel Zone Improvements			100,000
			2,919,804

PROFESSIONAL FEES

Professional fees	8.00%	3,265,158	3,265,158
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MARKETING & LETTING

Marketing	2.50%	1,485,282	1,485,282
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APPRAISAL SUMMARY**LICENSED COPY****Hayes Park - Scenario 1****100% private housing****Additional Costs**

Profit on private 17.50% 10,396,977

10,396,977

FINANCE

Debit Rate 6.500% Credit Rate 0.000% (Nominal)

Land (315,927)

Construction 3,019,342

Other 328,865

Total Finance Cost 3,032,280

TOTAL COSTS

59,411,300

PROFIT

0

Performance Measures

Profit on Cost% 0.00%

Profit on GDV% 0.00%

Profit on NDV% 0.00%

IRR 6.46%

Profit Erosion (finance rate 6.500%) N/A

Appendix 2 – JA Cost Review



REVIEW OF THE FINANCIAL VIABILITY CONSTRUCTION FEASIBILITY ESTIMATE

FOR

**HAYES PARK
HAYES END ROAD
HAYES
UB4 8EE**

FOR

BNP

26 JUNE 2023

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APPENDIX C – REVIEW OF COST PLAN DETAILED COMMENTS

1.00 INTRODUCTION

- 1.01 Johnson Associates are a practice of chartered quantity surveyors who have over 10 years' experience in reviewing financial appraisals and Feasibility Estimates across the London boroughs and the home counties.
- 1.02 The practice also undertakes its own quantity surveying services to the industry plus also project management and employer's agent duties, and, therefore, has a thorough knowledge of the costing, implementation and out turn costs of projects.
- 1.03 This review relates to the FVA prepared by Aspinall Verdi dated May 2023 and reflecting a construction cost of £44,022,000 or £348 psf GIA.
- 1.04 The scheme is noted as a change of use project to provide 124 no flatted units with a mix of 1, 2, 3 and 4 bed units.
- 1.05 The project involves significant works to the two blocks Haynes Park Central and Hayes Park South including the replacement of the façade with a curtain walling system and replacement of the roof.
- 1.06 It is noted that the buildings have a Grade II* Listing status and are arranged over a ground, first and second floor together with basement accommodation.

2.00 BASIS OF THE REVIEW

- 2.01 The Cost Plan provided by The Applicant is reviewed and a commentary provided against each of the elements where adjustments have been made – This review is contained in Appendix C.
- 2.02 The costings are then also reviewed by comparison to the Building Cost Information Service (BCIS) construction cost data which is published by the RICS. The BCIS provides a nationwide database of construction costs for various projects which can then be reviewed on a project and location specific basis and adjusted accordingly.
- 2.03 The BCIS rates include preliminaries and overhead and profit but exclude external works which need to be separately accounted for.
- 2.04 The BCIS costs database is updated on a quarterly basis and the quarter relevant to the Cost Plan is used for the comparison purpose. In this case we have taken 2Q2023 costing levels this being the date stated in the Cost Plan.
- 2.05 The BCIS data is used as a comparison / benchmark for the project, but it is acknowledged that there are various site specifics and items that separately require review, and these are considered as part of the more detailed individual Feasibility Estimate reviews.
- 2.06 The BCIS Mean cost for Flats / conversions (apartments) 3-5 storey is £1,764 m²/GFA with 15% applied for external works generates a comparable build cost of £2,029 m²/GFA excluding demolitions and abnormals.
- 2.07 It is however noted that the Mean cost including externals for 1-2 storey is £3,077 m²/GIA and for 6 story plus is 2,775 m²/GIA so quite significantly higher.
- 2.08 The scheme does not fall within a specific BCIS category given the change of use and Listed nature of the buildings. As such the BCIS benchmarking can only be a high-level comparison and it is the cost plan analysis in Appendix C which provides the project specific construction cost review.
- 2.09 The gross floor area of 125,765 sf is taken as per the FVA, and this is not separately checked as part of this exercise. It is noted that the Cost Plan has a slightly differing GIA.

3.00 COST PLAN SUMMARY OF REVIEW

3.01 The proposed development comprises of the following components:

- 1 Internal strip out of the existing buildings (two blocks Haynes Park Central and Hayes Park South) including the office facade removal,
- 2 Significant internal and external modifications and new works,
- 3 The creation of 124 no 1, 2, 3 and 4 bed apartments,
- 4 Related common parts,
- 5 Associated external works including car and cycle parking – note extent of the site.
- 6 It is understood that the building has been vacant since 2017 so some deterioration of the building fabric is likely to have occurred.

3.02 The Applicant have prepared a cost plan for the scheme as contained within Appendix C, our comments are provided against the various element totals and backup.

3.03 Our review of the cost plan has identified certain items that we feel are capable of some reduction these include;

- 1 We have made a number of adjustments to the measured works section based on similar projects and current market experience examples being;
- 2 Excavation and removal rate reduced,
- 3 Internal walling rate reduced from £140/m2 to £120/m2
- 4 Kitchen fit out reduced by £1,000 per unit,
- 5 The allowance for external doors can we feel be reduced based on other similar projects,
- 6 Again, based on other projects we feel element of the floor and wall finishes and the lift installations can also be rationalised,
- 7 The contingency has been reduced to 5% - whilst this is in effect a refurbishment it is considered that the scope of work priced and the age of the building do not merit a higher contingency,
- 8 Preliminaries % and OH&P % are agreed,

3.04 The balance of the cost plan is in our opinion reasonably priced although we have noted a couple of further items that are at the top end of pricing expectations.

3.05 The complexities of the scheme are recognised and the extent of works – particularly regarding the buildings envelope to make the building attractive and be current Building Regulation compliant.

3.06 It is also considered that the Listed Building status will add an additional level of complexity and cost to the project.

3.07 With the above adjustments the build costs remain above the adjusted BCIS £/m² figures but as previously stated the review of the coat Plan contained in Appendix C provides a more reliable project build cost.

3.08 The comparable costings are as follows;

Scheme	Applicant's Cost Plan	JA Review	Variance
124-unit residential scheme	£44,022,000	£40,814,473	£3,207,527

The above equates to a reduction in the £/sf/GIA from £348 to £324.

4.00 CONCLUSION

4.01 Our overall view is that the build cost could be reduced by the amount suggested and the scheme delivered for this reduced figure.

5.00 REVIEW OF PROFESSIONAL FEES AND CONSTRUCTION DURATION

5.01 Professional fees are included at 8% which we consider reasonable.

5.02 The programme period for the new build construction is a 6-month preconstruction period and 24 months on site period. Based on the BCIS Programme indicator the on-site programme is stated as 96 weeks / 22 months. Given the Listed nature of the blocks the applicants programme periods are not considered unreasonable.

APPENDIX A – BCIS RATE COMPARISON



£/M2 STUDY

Description: Rate per m² gross internal floor area for the building Cost including prelims.

Last updated: 17-Jun-2023 07:37

Rebased to London Borough of Hillingdon (115; sample 54)

MAXIMUM AGE OF RESULTS: DEFAULT PERIOD

Building function (Maximum age of projects)	£/m ² gross internal floor area						Sample	
	Mean	Lowest	Lower quartiles	Median	Upper quartiles	Highest		
Rehabilitation/Conversion								
810. Housing, mixed developments (15)	1,690	456	1,102	2,091	2,395	2,407	5	
810.1 Estate housing (25)	1,206	403	763	943	1,330	5,066	40	
810.11 Estate housing detached (30)	409	358	-	-	-	460	2	
810.12 Estate housing semi detached (25)	1,353	569	820	943	1,535	3,210	8	
810.13 Estate housing terraced (20)	1,169	1,011	1,011	1,153	1,276	1,397	5	
816. Flats (apartments)								
Generally (15)	2,063	451	1,231	1,623	2,124	7,159	80	
1-2 storey (15)	2,676	891	1,348	1,680	3,113	7,159	17	
3-5 storey (15)	1,764	451	1,230	1,553	1,968	6,699	48	
6 storey or above (15)	2,413	698	1,124	1,646	3,659	6,001	14	

APPENDIX B – BCIS PROGRAMME



This contract value is close to the limit of the data used to construct the model and estimate should be used with caution.

Refurbishment, Construction

HAYES PARK

The estimated construction duration from Start on Site to Construction Completion is 96 weeks
(this is an average for the project as described below).

The 90% confidence interval for this estimate is 75 to 121 weeks.

Individual projects will take more or less time than the average: the 90% prediction interval for individual projects is 56 to 159 weeks.

The estimate is based on the following project details:

Contract value: £41,000,000 at 2Q 2023 (383) prices and London Borough of Hillingdon (115; sample 54) level

Building function: Flats

Procurement: Design and build

Selection of contractor: Single stage tendering

Client organisation: Private



APPENDIX C – REVIEW OF FEASIBILITY ESTIMATE DETAILED COMMENTS