

## VIABILITY APPRAISAL ADDENDUM

Former Victoria Public House  
Hayes

17<sup>th</sup> January 2023

### 1. Introduction

Further to our Viability Appraisal and Report of 7<sup>th</sup> October 2022, we have now had sight of the response from Avison Young dated 2<sup>nd</sup> December 2022.

We are pleased that we are agreed on a number of issues (subject to us having adopted some items within our report that we reserved the right to revisit if required). There are however, a number of issues that remain outstanding between us. The main matters that remain outstanding are:-

- Build Costs (which include contingency)
- Professional fees
- S106 contribution (added following recent advice from Hillingdon Council)
- Finance rate (revisited due to rate increases since October 2022)
- Benchmark Land Value
- Level of surplus/deficit
- Suitability of Stand Back Analysis

In respect of these items, we would make further comments as follows:

### 2. Build Costs

We note that the Avison Young quantity surveyor has assessed the construction costs, excluding contingency, at £235,379 below that of Harrabin. No cost plan has been provided to support this figure and Harrabin are therefore unable to comment on the cost provided, which is fully supported.

Until such time that information in support of the Avison Young QS figure is provided, we have continued to adopt Harrabin's construction cost input. If Avison Young have information in support of their stated figure, this should be provided without further delay so that Harrabin can comment.

With regards to the contingency adopted, we agree to lower the contingency to 5% given that there is less probability of future build cost increases.

### 3. Professional Fees

Avison have asserted that 10% professional fees are inappropriate and continue to adopt 8%.

The review states that viability assessment is carried out assuming planning has been obtained. We agree that it assumes planning is granted (i.e. that there should be no deduction for uncertainty that planning

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may not be granted), but it is completely normal to include planning/architect/other consultants' fees expended in reasonably obtaining that planning permission. These fees are an intrinsic part of enabling the development in the same way as other professional fees are. Without these inputs, there is no development.

Avison Young are of the position that the adoption of a 10% professional fee would relate to a development with complex aspects, whereas we consider that more complex aspects would lead to an adoption of professional fees above 10%.

We are therefore of the opinion that 10% is a reasonable allowance for the professional fees.

### 4. s106 Contribution

Hillingdon Council have advised that the Heads of Terms to date are likely to include:

Air Quality Mitigation Offset contribution at £33,509.

Carbon offset contribution at £95/tCO<sub>2</sub> annualised over 30 years i.e.  $11.4\text{tCO}_2 \times 30 \times 95 = £32,544$ .

Construction Training contribution – to be confirmed, but assumed to be £2,500 for every £1m build cost, in line with the SPD. i.e.  $£2,500 \times 8.62 = £21,550$ .

Travel plan; highway/278 works/localised footpath re-surfacing, to be confirmed.

Open space contribution, to be confirmed.

Health/medical facilities – to be confirmed, with amount payable depending on the provision of affordable housing.

Project Management & Monitoring Fee – to be confirmed, but equal to 5% of the total contributions.

We have currently adopted £100,000 as a total of the above. We consider that this estimate is conservative and is likely to require revisiting.

Correspondence from Hillingdon Council regarding these figures is attached as Appendix A to this addendum.

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### 5. Finance Rate

We are pleased that Avison Young agree that the interest rate applicable to the appraisal should be increased due to movements in the Bank of England base rate. However, since our report was issued in October 2022, the base rate has increased a further 1.25%. Therefore, the finance rate that should now be adopted is 8.75%.

It is likely that the base rate will continue on an upward trajectory and further adjustments may be required if there is further delay to the agreement of the viability.

### 6. Benchmark Land Value

We remain £210,000 apart in respect of the Existing Use Value, with much of this difference due to the £10 per sq ft rent applied by Avison Young to the commercial units, which we consider to be overly pessimistic.

The Bowen Partnership adopted £15 per sq ft to the units as at March 2021. The review itself acknowledges that the Market Value provided by them is that for the units in their present condition at the date of their inspection with the benefit of the existing planning permission (i.e. with the existing planning use). Given the assessment was for the then present condition, the market rent applied should not be reduced further due to poor condition.

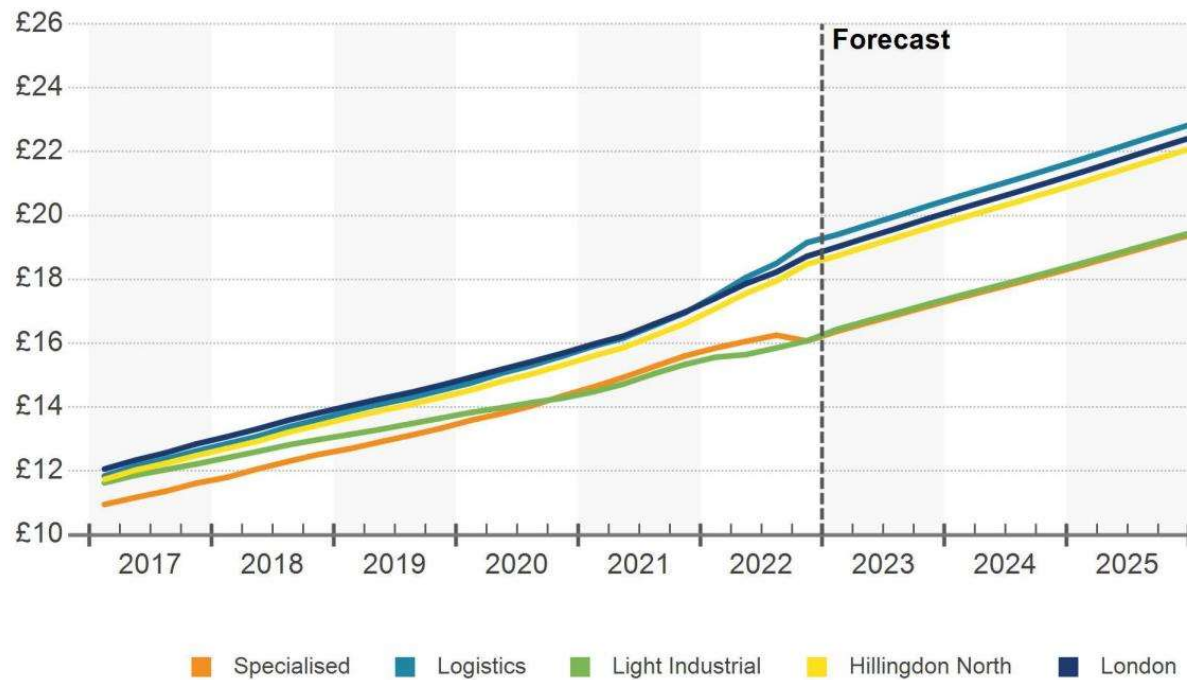
Moreover, their report provided the Market Rents as at March 2021. The graph below shows average Market Rent per sq ft, as provided by CoStar's Industrial submarket Report for Hillingdon North. Average light industrial rents have increased from £14.48 per sq ft in Q1 2021 to £16.08 per sq ft at the end of 2022. This is a 11% uplift, which would raise The Bowen Partnership's Market Rent to £16.65 per sq ft as at the end of 2022.

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MARKET RENT PER SQUARE FEET



We have not increased the rental figure applied in line with the market and therefore maintain that £15 per sq ft is at the lower end of the rental range applicable.

Finally, the definition of the Market Value states it was with the existing planning permission. We appreciate that Avison Young are concerned that hope value is excluded but they have already explicitly allowed for costs at 8.3% of gross rent and then adopted an 8.5% yield. We consider that this yield is already soft enough to reflect the exclusion of hope value.

We do not consider that it is reasonable to agree a further reduction of the EUV but, for illustration purposes, we have considered the Net land Value derived from the appraisal against both opinions of benchmark land value when calculating the viability below.

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### 7. Updated Viability Appraisal

We have re-run the residual valuation adopting the 5% contingency, s106 contributions and 8.75% finance rate. The appraisal is attached as appendix B and provides a land value of £1,297,779.

Against our Benchmark Land Value of £2,420,000, the deficit is £1,122,221. The deficit if Avison Young's £2,210,000 Benchmark Land Value is adopted is £912,221.

### 7. Stand Back Analysis

We appreciate that the guidance states that the outputs of the appraisal should be considered objectively and that the stand back analysis allows us to consider the outcome by way of a sense check.

We have undertaken an updated residual analysis and, save for the build costs (which can be considered further if supporting information is supplied by Avison Young's QS), we are close to a compromise in respect of the agreed inputs. These inputs have considered the specific qualities of the subject site. It is therefore not relevant to compare the subject site to other sites where the inputs are not known.

The stand back approach advocated by Avison Young involves considering the prices paid/price per private room for other sites and comparing them to the value of the subject site. We consider that this analysis is flawed for the following reasons:

- The analysis is of prices paid rather than value. Price does not equal value.
- Each site will have its own advantages and limitations, which will impact upon the value.
- Each site has different schemes, with differing configurations, unit mixes, GDVs and costs.
- Each site will have different existing use values.
- Each purchaser will have different motivations and be able to undertake developments by utilising distinctive resources.

Additionally, we note the following:

- Crane Public House was purchased in December 2019, prior to the recent rampant build inflation.
- Planning was granted for the scheme mentioned at Dokal Industrial Estate via appeal in April 2021. However, following the 2022 purchase, the owner has now decided that it is not viable to implement that permission and has instead decided to submit an application (225326FUL) that will intensify the industrial use.

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We therefore consider that the residual appraisal approach should continue to be applied. An acceptable stand back analysis is to consider the subject property appraisal's output versus its inputs and this provides no reason for adjustment.

## 8. Conclusion

By adopting the compromise inputs discussed, against our opinion of the Benchmark Land Value, the scheme shows a deficit of £1,122,221, as follows:

|                            | Proposed Scheme           |
|----------------------------|---------------------------|
| Gross Development Value    | £15,802,580               |
| Total Costs                | £14,504,801               |
| Net Land Value             | <b>£1,297,779</b>         |
| LESS: Benchmark Land Value | <b><u>£2,420,000</u></b>  |
| <b>Deficit</b>             | <b><u>-£1,122,221</u></b> |

Even if Avison Young's opinion of Benchmark Land Value is used, the deficit is still £912,221.

The deficit may be reduced by changes to the agreed build costs but, without evidence to the contrary, we are not able to consider the build cost change proposed by Avison Young. Should Avison Young stand by their comments, we would ask that further information is provided as a matter of urgency so that Harrabin can comment further.

We trust the foregoing report is sufficient for your purposes, and if you require any further information or clarification, please do not hesitate to contact the undersigned.



**MICHAEL DARROCH BSc (Hons) MRICS**  
**RICS Registered Valuer**  
**FOR KEMPTON CARR CROFT**



**PETRINA J FROUD**  
**Senior Development & Viability Surveyor**  
**FOR KEMPTON CARR CROFT**

## APPENDIX A

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**From:** Richard Phillips <RPhillips@Hillingdon.Gov.UK>  
**Sent:** 11 January 2023 16:45  
**To:** Nick Sutton  
**Subject:** RE: The former Victoria PH and rear garage court areas accessed from Sandow Crescent, North Hyde Road, Hayes - 21432/APP/2021/4649

Nick,

I should have also included a possible contribution towards health / medical facilities based upon the amount of affordable housing. This would only be calculated once the affordable housing has been agreed.

Regards,

Richard

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**From:** Richard Phillips  
**Sent:** 11 January 2023 16:17  
**To:** nick.sutton@mavenplan.com  
**Subject:** The former Victoria PH and rear garage court areas accessed from Sandow Crescent, North Hyde Road, Hayes - 21432/APP/2021/4649

Nick,

My apologies for the delay in getting back to you as regards the Heads of Terms. Obviously these will only be finalised once the final report has been signed off by managers.

To this end, unfortunately, I have not had a formal response back as yet from Highways on the revised scheme and am chasing but they are likely to include travel plan (plus £20,000 bond): highway / 278 works; parking permit restriction; localised footway re-surfacing between site and town centre. There will also be a need for a public open space contribution in accordance with policy and need to run the formula calculation past a colleague.

Other Heads of Terms to date are likely to include:-

- (i) 18% affordable housing with a 70:30 social rent: shared ownership split and early and late stage review mechanisms
- (ii) Air Quality Mitigation Offset contribution - £33,509;
- (iii) Carbon offset contribution at £95/tCO<sub>2</sub> annualised over 30 years i.e.  $11.4\text{tCO}_2 \times 30 \times 95 = £32,544$
- xi) Construction Training - either a contribution equal to the formula within the Council Planning Obligations Supplementary Planning Document (SPD) 2014, or an in-kind training scheme equal to the financial contribution delivered during the construction period of the development. Details shall be in accordance with the Council Planning Obligations SPD with the preference being for an in-kind scheme to be delivered. Securing a Training Strategy Agreement is Council's priority. Financial Contribution will only be accepted in exceptional circumstances;
- (iv) Project Management & Monitoring Fee: A financial contribution equal to 5% of the total cash contributions.

Regards,

**Richard Phillips**  
Principal Planning Officer  
Strategic and Major Applications Team  
Place Directorate  
Civic Centre (3N)  
Hillingdon Council  
tel: internal: 0500  
tel: external: 01895 250500



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## APPENDIX B

## Appraisal of 38-unit development

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Former Victoria Public House  
32 North Hyde Road  
Hayes  
UB3 4NE

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Development Appraisal  
Kempton Carr  
16 January 2023

**APPRAISAL SUMMARY****KEMPTON CARR****Appraisal of 38-unit development****Appraisal Summary for Phase 1**

Currency in £

**REVENUE**

| <b>Sales Valuation</b> | <b>Units</b> | <b>m<sup>2</sup></b> | <b>Sales Rate m<sup>2</sup></b> | <b>Unit Price</b> | <b>Gross Sales</b> |
|------------------------|--------------|----------------------|---------------------------------|-------------------|--------------------|
| Studio flats           | 7            | 282.00               | 7,340.82                        | 295,730           | 2,070,110          |
| 1B 2P flats            | 6            | 304.00               | 6,730.86                        | 341,030           | 2,046,180          |
| 2B 3P flats            | 5            | 313.00               | 6,537.86                        | 409,270           | 2,046,350          |
| 2B 4P flats            | 9            | 689.00               | 5,755.04                        | 440,580           | 3,965,220          |
| 3B 4P flats            | 3            | 243.00               | 6,091.85                        | 493,440           | 1,480,320          |
| 3B 5P flats            | <u>8</u>     | <u>624.00</u>        | 6,721.79                        | 524,300           | <u>4,194,400</u>   |
| <b>Totals</b>          | <b>38</b>    | <b>2,455.00</b>      |                                 |                   | <b>15,802,580</b>  |

**NET REALISATION****15,802,580****OUTLAY****ACQUISITION COSTS**

|                    |       |           |           |
|--------------------|-------|-----------|-----------|
| Residualised Price |       | 1,297,779 |           |
|                    |       |           | 1,297,779 |
| Agent Fee          | 1.00% | 12,978    |           |
| Legal Fee          | 0.50% | 6,489     |           |
|                    |       |           | 19,467    |

**CONSTRUCTION COSTS**

| <b>Construction</b>       | <b>m<sup>2</sup></b>          | <b>Build Rate m<sup>2</sup></b> | <b>Cost</b>      |           |
|---------------------------|-------------------------------|---------------------------------|------------------|-----------|
| Studio flats              | 282.00                        | 3,511.78                        | 990,321          |           |
| 1B 2P flats               | 304.00                        | 3,511.78                        | 1,067,580        |           |
| 2B 3P flats               | 313.00                        | 3,511.78                        | 1,099,186        |           |
| 2B 4P flats               | 689.00                        | 3,511.78                        | 2,419,613        |           |
| 3B 4P flats               | 243.00                        | 3,511.77                        | 853,361          |           |
| 3B 5P flats               | <u>624.00</u>                 | 3,511.78                        | <u>2,191,348</u> |           |
| <b>Totals</b>             | <b>2,455.00 m<sup>2</sup></b> |                                 | <b>8,621,409</b> |           |
| Contingency               |                               | 5.00%                           | 431,070          |           |
| CIL                       |                               |                                 | 254,489          |           |
| MCIL                      |                               |                                 | 115,426          |           |
| s106 contributions        |                               |                                 | 100,000          | 9,522,394 |
| <b>Other Construction</b> |                               |                                 |                  |           |
| Non recoverable VAT       |                               |                                 | 14,500           | 14,500    |

**PROFESSIONAL FEES**

|                   |        |         |         |
|-------------------|--------|---------|---------|
| Professional Fees | 10.00% | 906,698 | 906,698 |
|-------------------|--------|---------|---------|

**DISPOSAL FEES**

|                                     |       |         |         |
|-------------------------------------|-------|---------|---------|
| Effective Purchaser's Costs Rate    | 0.00% |         |         |
| Private Sales Agent & Marketing Fee | 2.00% | 316,052 |         |
| Legal Fee                           |       | 57,000  |         |
|                                     |       |         | 373,052 |

**FINANCE**

|                                                   |  |         |         |
|---------------------------------------------------|--|---------|---------|
| Debit Rate 8.750%, Credit Rate 0.000% (Effective) |  |         |         |
| Land                                              |  | 166,211 |         |
| Construction                                      |  | 524,424 |         |
| Other                                             |  | 212,603 |         |
| Total Finance Cost                                |  |         | 903,239 |

**TOTAL COSTS****13,037,128****PROFIT****2,765,452**

**Appraisal of 38-unit development****Performance Measures**

|                                     |              |
|-------------------------------------|--------------|
| Profit on Cost%                     | 21.21%       |
| Profit on GDV%                      | 17.50%       |
| Profit on NDV%                      | 17.50%       |
| IRR% (without Interest)             | 29.15%       |
| Profit Erosion (finance rate 8.750) | 2 yrs 2 mths |