BNP PARIBAS REAL ESTATE

DEVELOPMENT VIABILITY REVIEW – MORRISONS, 41-67 HIGH STREET, YIEWSLEY

In July 2023, London Borough of Hillingdon ("the Council") commissioned BNP Paribas Real Estate to advise on a viability assessment of the redevelopment ("the Development") of Morrisons, 41-67 High Street, Yiewsley ("the Site") submitted by Jones Lang LaSalle ("JLL") on behalf of Harbourside Investments ("the Applicant").

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

JLL concluded that the proposed Development generated a deficit of -£7,510,373 against the viability benchmark. In contrast, we concluded that the proposed Development generated a surplus of £350,778 against the benchmark land value.

In our review of the JLL appraisal assumptions, we recommended the following amendments:

- Increase private residential values to reflect what is achievable in the current market;
- Reduce construction costs in line with advice received from CDM;
- Reduce contingency allowance to reflect current market expectations;
- Request clarification in relation to the design fees included in the preliminaries;
- Reduce profit level to reflect the risk profile of the scheme;
- Adjust programme timetable to reflect current market expectations; and
- Reduce the viability benchmark.

In addition to the above amendments, we also sought further clarification in relation to the following:

- Clarification in relation to the Gross Internal Area (GIA) upon which the cost plan is based;
- Clarification in relation to the level of design fees included within the preliminaries;
- Evidence in relation to the £1,000,000 allowance for refurbishment of the existing space;
- Condition report for the existing building to inform the refurbishment cost; and
- Evidence of demand for the continued occupation of the existing space.

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

<u>JLL further correspondence</u>

JLL have provided a response addressed to the GLA dated 7 November 2023 within which they have sought to provide further justification / evidence in support of their viability conclusion. However, we note that no response has been received in relation to our report.

Upon request by the Council, we have therefore reviewed the additional evidence / justification provided by JLL addressed to the GLA and provide our updated position below.

Private residential values: In our July 2023 report, we increased the average private residential value from £625 per square foot to £636 per square foot. The JLL response to the GLA does not address our private residential value increase; therefore, we have maintained our position.

Construction costs: In our July 2023 report, we reduced the construction costs in line with advice received from CDM. CDM concluded that the total construction cost should reduce from £40,068,000 to £39,186,000. We note that JLL / Deacon and Jones ("DJ") have not provided a response to the CDM report; rather, they have provided a new cost plan that now adopts an even higher cost of £40,972,000.

We have provided the updated cost plan to CDM and will provide their response when received.

Contingency allowance: In their original submission, JLL assumed a 7.5% contingency allowance which we reduced to 5% in our appraisal. In their most recent correspondence, JLL have maintained their position in relation to the contingency allowance stating that the 7.5% allowance includes developer / client contingency in addition to contractor's contingency. For the avoidance of doubt, we consider a total contingency of 5% to be sufficient within the assessment and note that this is an allowance that JLL themselves have adopted on multiple projects. We therefore see no reason as to why an increased allowance should be adopted in this case.

Professional fees: In our July 2023 review, we adopted a total professional fees allowance of 10% within our assessment. However, we noted that CDM identified a quantum of design fees are included within the preliminaries allowance in the cost plan. We requested that the level of design fees within the preliminaries should be identified as this may have an impact on our separate professional fees allowance.

In their most recent correspondence, JLL have provided text from DJ who have indicated that the project has been procured under a Design and Build route and the fees included in the preliminaries are in relation to the fees that will be incurred by the contractor. Viability assessments should be undertaken on an Applicant neutral basis and therefore the method of procurement chosen by the Applicant should not have a material impact on assessment. If post-planning design fees are to be incurred by a contractor, then this would reduce the fees incurred directly by the Applicant, as the Applicant would not be taking responsibility for post-planning design.

Our position remains that a total allowance of 10% professional fees should be included in the assessment. Therefore, our request remains outstanding in that JLL should provide an indication of the level of design fees included within the cost plan. We reiterate our request that this information is provided and have maintained our professional fees allowance on a 'without prejudice' basis.

Developer profit: In their original assessment, JLL assumed profit levels of 20% of GDV and 15% of GDV for the private and commercial elements of the scheme, respectively. After taking into account the risk profile of the scheme, we reduced the profit level for the private residential to 17.5% of GDV. Where applicable, we consider a profit level of 6% of GDV for the affordable housing to be reasonable reflecting the reduced risk of delivery.

In their most recent correspondence, JLL have maintained their profit level of 20% of GDV for the private residential units. No further justification has been provided in support of this assumption; therefore, we have maintained our position of 17.5% of GDV for the private residential units.

JLL state that they have "*reduced the profit on commercial down to 10% in recognition of the pre-let*". We do not consider this profit level to be above what is reasonable in the current market for the commercial space and have therefore adopted it within our appraisal.

Additional costs: JLL have included a cost of £300,000 in relation to party wall costs and rights of light; however, no further information has been provided in support of this allowance. We have removed this cost from our appraisal due to the lack of supporting evidence. In addition, we note that this type of payment is usually a negotiation. It would not be reasonable to expect the Council to include a cost within the appraisal that 'may or may not' be incurred by the Applicant. However, we would consider it to be reasonable to include this cost within a review mechanism if necessary and if it can be evidenced that payment has been made.

Refurbishment cost of the existing space: In our original report, we adopted the £1,000,000 allowance for refurbishment of the existing space on a 'without prejudice' basis pending receipt supporting evidence in addition to a condition report. In their 7 November 2023 response, JLL have provided narrative from DJ that states that the existing unit was stripped out to a shell condition which left behind damaged and affected floors and ceilings as a consequence of the removal of refrigerators, plant and machinery as well as certain fixtures and fittings. In order to bring the unit back to a lettable standard, DJ have assumed a cost of circa £30 - £35 per square foot which, based on the existing GIA, would equate to between £960,000 to £1,120,000.

In our experience, the refurbishment cost of £30 - £35 per square foot is significantly below what is reasonable in the current market for the costs outlined in the wider JLL response. We therefore request that a full scope of works and cost breakdown is provided.

Uncertainty of demand for existing foodstore: In our July 2023 report, we noted that due to the reduction in size of the units that is being brought forward as the 'reprovision' of the foodstore, it is reasonable to assume that there is no demand for the larger store size. We therefore requested that JLL provide evidence of demand for the space in its current form and size as opposed to the newly proposed foodstore. This information has not been forthcoming; therefore, we reiterate our request that JLL provide sufficient evidence of demand.

Our viability benchmark therefore remains on a 'without prejudice' basis.

Updated Appraisal Results and Conclusion

As noted above, the only amendment we have made from our July 2023 review is the reduction in profit allowance for the commercial space as a result of JLL's adjustment for the pre-let secured.

Our updated appraisal therefore generates a RLV of £5,674,820 providing a surplus of £640,653 against the viability benchmark.

However, as noted in our July 2023 report, we have requested a significant amount of information that has not yet been forthcoming from JLL. We note that the correspondence we have reviewed in this response was addressed to the GLA and not BNPPRE; therefore, we assume that JLL are currently preparing a response with all the requested information.

Sensitivity testing

Upon request from the Council, we have undertaken an appraisal of the proposed Development assuming a Block A as affordable housing tenure (25.3% affordable housing by units assuming a 50:50 tenure split) to establish the impact of including affordable housing within the appraisal. The proposed Development with 25.3% affordable housing (Block A as affordable housing tenure) generates a RLV of £3,383,417 providing a deficit of -£1,650,750 against the viability benchmark. This is in comparison to the surplus of £640,653 for a 100% private housing scheme.

Review mechanism

In our July 2023 report, we recommended the Council include both early and late stage review mechanisms within the Section 106 Agreement. We have maintained this recommendation in our assessment.

29 January 2023