

Mr C Hemmings
Carter Jonas
One Chapel Place
London
W1G 0BG

Thomas House
84 Eccleston Square
London, SW1V 1PX

t: 07795 174652
e: rashdown@ullproperty.com
www.ullproperty.com

By Email Only

11 November 2020

Dear Chris,

STANFORD HOUSE, 9 NESTLES AVENUE, HAYES, UB3 4SA

We have been passed your 'Review of Applicant's Viability Assessment – Draft Report' dated October 2020 ('CJ Review'). We note that you have disagreed with the following assumptions in our Economic Viability assessment Report dated July 2020:

Private residential sales pricing
Construction costs
Disposal fees for affordable housing
CIL payments
Finance costs
Quantum of pre-sales private sales receipts.

We address these points in turn.

Private residential sales pricing

We note the evidence you have presented, being:

The Boiler House, Material Walk, UB3 1DZ
Former Nestles Factory, North Hyde Gardens, UB3 4QF
Bluenote Apartments, 30-32 Blyth Road, UB3 1BY

Of the 3 developments, clearly the Barratt development at North Hyde Gardens represents the most comparable evidence, being adjacent to the subject site. The CJ Review presents a list of asking prices from Phase 1 North Hyde Gardens and we make the following observations:

The list includes 2 units (ref 9 and 32) as duplicates; here is the same list with these units removed:



Unit Ref	Bedrooms	sq Ft	Asking Price	£/sq ft	Date
34	3	1,020	£511,000	£501	Mar-20
68	2	538	£311,000	£578	Mar-20
301	2	1,040	£465,000	£447	Mar-20
12	1	540	£320,000	£593	May-20
42	1	678	£351,000	£518	Jun-20
62	3	1,020	£540,000	£529	Jun-20
108	1	654	£350,000	£535	Jun-20
119	1	424	£288,000	£679	Jun-20
306	2	742	£411,000	£554	Jun-20
318	2	757	£417,000	£551	Jun-20
19	1	678	£355,000	£524	Sep-20
51	2	864	£454,000	£525	Sep-20
66	1	541	£346,000	£640	Sep-20
85	1	602	£351,000	£583	Sep-20
113	2	738	£476,000	£645	Sep-20
87	1	587	£348,000	£593	Sep-20
78	1	678	£348,000	£513	Sep-20
19	1	678	£355,000	£524	Sep-20
32	2	776	£434,000	£559	Sep-20
9	2	803	£443,000	£552	Sep-20
5	2	864	£454,000	£525	Sep-20
		15,222	£8,328,000	£547	

It can be seen that the average asking price is £547/sq ft.

We note that the CJ Review identifies price increases have occurred in the general housing market in the previous quarter, and we might therefore expect asking prices to be higher in September than in March or June. If we take the units launched in September only, these amount to an average asking price of £559/sq ft.

We have then looked at average unit prices at North Hyde Gardens, which equate to the following:

1 bedroom – £341,000
 2 bedroom – £429,000
 3 bedroom - £525,000

In applying these unit prices to the subject site, this gives a total residential revenue of £40,082,000 (assuming the development is 100% private sale), which equates to £573.24/sq ft.

However we note there are differences between the unit floor areas on the North Hyde Gardens asking price list and those of the subject proposal:

Unit Type	CJ Review list (Av Sq Ft)	Subject scheme (Av Sq Ft)
1 bed	606	560
2 bed	791	790
3 bed	1,020	965



We therefore consider that to apply the same unit prices, particularly for the 1-bed and 3-bed units, is overly optimistic in respect of the subject site.

In addition to the foregoing, it should not be forgotten that the CJ list represents asking prices, not sold prices. We consider a 5% trading margin would be a reasonable assumption.

In conclusion, the pricing assumptions of £580/sq ft applied at the subject proposal represent a considerable uplift on values at North Hyde Gardens, even though the sites are adjacent. This is when taking into account the key factors that the North Hyde Gardens are asking prices, and the disparity in unit floor areas.

Construction Costs

Cast Real Estate and Construction Consultancy has been requested to provide a response with regard to your queries in this area; this is provided with this letter. Please may I suggest as a next step, the 2 cost consultants liaise and seek to reach agreement on the outstanding points.

Disposal fees for affordable housing

Legal services for an affordable housing disposal most often include preparing and negotiating a development agreement; it is rarely a standard form of purchase contract. Our report included £7,460; Carter Jonas consider the fee should be half this amount. In reality we would expect a minimum charge of £15,000.

Likewise the agency fee for affordable housing disposal is a specialist field. We would expect a minimum fee of £15,000 for this service.

CIL payments

The applicant's planning consultant, Daniel Watney, has run the calculations in light of your comments and concludes an estimated contribution of £1,287,083. This is based on the following inputs:

- Local LB Hillingdon rate of £95 per sqm indexed from its adoption in Q3 2014 against an assumed local decision in Q1 2021;
- MCIL 2 rate of £60 per sqm indexed from its adoption in Q2 2019 against assumed local decision in Q1 2021;
- New floorspace comprising 8,327 sqm GIA of residential based on Tate Hindle accommodation schedule submitted in the DAS;
- Demolition of 1,718 sqm GIA floorspace which is in use;
- 280 sqm of affordable housing, based on the GIA of the 5 identified units 1.04-1.08;
- The equates to a local LBH charge of £857,498 and a Mayoral charge of £429,585.
- CIL charge of £1,287,083
- Less social housing relief £43,279
- Total CIL charge = £1,243,804

Section 106 contributions

We have included Section 106 financial contributions as requested by the Council, and in large part these were agreed at the planning appeal earlier this year. However, we understand there is some doubt as to the



Air Quality contribution, agreed at £5,371. The Council requires car parking at this project, which itself triggers a higher Air Quality contribution under new Government guidance in this area, which has given rise to a request from the Council of £107,829. Please note this is not agreed at this time, and is not included in our appraisal.

Finance costs

There appears to be a perception that the costs of development finance reflects changes in the base rate. In fact the base rate is low because the Bank of England considers the economy is struggling. The funders of

development price finance on the basis of risk, and at the present time funders, particularly debt providers, see the future as uncertain.

A number of our experienced clients, with long track records, are facing rising costs of finance. For example, Close Brothers (for whom the subject site would generally be an attractive proposition) are pricing debt at 6.5%, plus 1% of the loan amount as arrangement fee and 1% of the GDV as an exit fee. Generally Close Brothers will lend 50% - 60% of GDV, (c.74% of the costs of this scheme), and the balance will come from equity and mezzanine finance, which is typically significantly more expensive. A combination of these costs leads to a higher cost of funds than 7%.

Quantum of pre-sales private sales receipts

We have reviewed the latest data for homes under construction and those for sale in Hillingdon and consider the proposal that 50% of sales be during the construction period to be optimistic; however the data, taken from Molior London's quarterly sales report, suggest 40% so we have amended our appraisal to reflect this.

Conclusions

We have amended the CIL inputs and the sales rate to account for the adjustments identified above. We conclude the residual land value now amounts to £1,704,537; the reduced residual land value being accounted for by the increased CIL calculation, partially offset by improved sales rate.

I will be happy to discuss the foregoing.

Yours sincerely

Richard Ashdown
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Development Appraisal
ULL Property
November 11, 2020

APPRAISAL SUMMARY**ULL PROPERTY**

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Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft ²	Sales Rate ft ²	Unit Price	Gross Sales
Private Residential	98	66,904	580.00	395,962	38,804,320
London Affordable Rent	5	3,017	247.27	149,200	746,000
Car Parking	<u>14</u>	<u>0</u>	0.00	10,000	<u>140,000</u>
Totals	117	69,921			39,690,320

NET REALISATION**39,690,320****OUTLAY****ACQUISITION COSTS**

Residualised Price		1,704,537	
			1,704,537
Stamp Duty		74,727	
Effective Stamp Duty Rate	4.38%		
Agent Fee	1.00%	17,045	
Legal Fee	0.50%	8,523	
			100,295

CONSTRUCTION COSTS

Construction	ft ²	Build Rate ft ²	Cost
Construction	89,126	256.87	22,893,859
Contingency		2.00%	457,877
CIL			1,243,804
Monitoring Fee			10,826
Carbon Offset			73,800
Public Transport			28,290
Cranford Park			16,597
S106 Multi-modal transport			10,102
Section 106 Air Quality			5,371
Section 106 construction coordinator			36,266
Section 106 construction training			46,100
			24,822,892

PROFESSIONAL FEES

Professional Fees	10.00%	2,289,386	
			2,289,386

MARKETING & LETTING

Marketing	1.00%	388,043	
			388,043

DISPOSAL FEES

Effective Purchaser's Costs Rate	0.00%		
Sales Agent Fee - Residential	1.25%	486,804	
Sales Agent Fee - Affordable	1.25%	9,325	
Sales Legal Fee - Affordable	1.00%	7,460	
Sales Legal Fee - Residential	98 un	750.00 /un	73,500
			577,089

FINANCE

Debit Rate 7.000%, Credit Rate 0.000% (Nominal)			
Land		305,135	
Construction		1,970,650	
Other		673,806	
Total Finance Cost			2,949,591

TOTAL COSTS**32,831,833****PROFIT****6,858,487**

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Profit on Cost%	20.89%
Profit on GDV%	17.28%

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Heading	%	Total	At Date	To Date
Phase1				
Sale - Private Residential		38,804,320	Nov 2022	Jan 2024
Sale - Car Parking		140,000	Nov 2022	Jan 2024
Sale - London Affordable Rent		746,000	Nov 2020	Oct 2022
Sales Agent Fee - Residential	1.25%	(486,804)	Nov 2022	Jan 2024
Sales Agent Fee - Affordable	1.25%	(9,325)	Nov 2020	Nov 2020
Sales Legal Fee - Affordable	1.00%	(7,460)	Nov 2020	Nov 2020
Sales Legal Fee - Residential	0.00%	(73,500)	Nov 2022	Jan 2024
Residualised Price		(1,704,537)	Jul 2020	Jul 2020
Stamp Duty	0.00%	(74,727)	Jul 2020	Jul 2020
Agent Fee	1.00%	(17,045)	Jul 2020	Jul 2020
Legal Fee	0.50%	(8,523)	Jul 2020	Jul 2020
Con. - Construction		(22,893,859)	Nov 2020	Oct 2022
Contingency	2.00%	(457,877)	Nov 2020	Oct 2022
CIL		(1,243,804)	Nov 2020	Nov 2020
Monitoring Fee		(10,826)	Nov 2020	Nov 2020
Carbon Offset		(73,800)	Nov 2020	Nov 2020
Public Transport		(28,290)	Nov 2020	Nov 2020
Cranford Park		(16,597)	Nov 2020	Nov 2020
S106 Multi-modal transport		(10,102)	Nov 2020	Nov 2020
Section 106 Air Quality		(5,371)	Nov 2020	Nov 2020
Section 106 construction coordinator		(36,266)	Nov 2020	Nov 2020
Section 106 construction training		(46,100)	Nov 2020	Nov 2020
Professional Fees	10.00%	(2,289,386)	Nov 2020	Apr 2022
Marketing	1.00%	(388,043)	Nov 2021	Jan 2023

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