

STANFORD HOUSE, HAYES UB3 4SA
REVIEW OF APPLICANT'S FINANCIAL VIABILITY ASSESSMENT

(Planning Ref: 51175/APP/2020/2543)

Draft Report

SUBMITTED ON BEHALF OF CLIENT:

LB HILLINGDON

October 2020

QUALITY STANDARDS

Carter Jonas has prepared this Financial Viability Assessment review report in accordance with the Royal Institution of Chartered Surveyors (RICS) Professional Statement 'Financial Viability in Planning: Conduct and Reporting' 1st Edition, May 2019.

The authors of the FVA review report are:



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The version of the report is **Draft Report** dated **12/10/2020**

The authors, whilst undertaking the review of the FVA have acted:

- With objectivity;
- Impartially;
- Without interference; and
- With reference to all appropriate available sources of information.

Terms of Engagement

Carter Jonas has been instructed by London Borough of Hillingdon as local planning authority to undertake a detailed review of the Financial Viability Assessment (FVA) of the subject planning application scheme to determine the most viable position in relation to the level of affordable housing, in accordance with the National Planning Policy Framework (NPPF) and associated Planning Practice Guidance (PPG).

Carter Jonas confirms that it has no Conflicts of Interest in acting for London Borough of Hillingdon in reviewing the FVA submitted by the Applicant.

In preparing the FVA review report Carter Jonas confirms that no performance related or contingent fees have been agreed.

Limitations

This report has been prepared for the stated objective and should not be used for any other purpose without the prior written authority of Carter Jonas. We accept no responsibility or liability for the consequences of this document being used for a purpose other than for which it was commissioned.

Covid-19

The outbreak of COVID-19, declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020, has and continues to impact many aspects of daily life and the global economy – with some real estate markets having experienced lower levels of transactional activity and liquidity. Travel restrictions have been implemented by many countries and “lockdowns” applied to varying degrees. Whilst restrictions have now been lifted in some cases, local lockdowns may continue to be deployed as necessary and the emergence of significant further outbreaks or a “second wave” is possible.

The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value. Accordingly, and for the avoidance of doubt, our review is not reported as being subject to ‘material valuation uncertainty’.

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EXECUTIVE SUMMARY

Carter Jonas has been appointed by London Borough of Hillingdon (the Council), to review the Financial Viability Assessment (FVA) prepared by ULL on behalf of the Applicant, Healey Development Solutions (Hayes) Ltd, in respect of a planning application at Stanford House, 9 Nestles Avenue, Hayes (the Site). The following report provides a review of the financial viability assessment in respect of the proposed development at Stanford House.

The subject site is 0.23 hectares (0.57 acres) and is located in Hayes within the London Borough of Hillingdon. It is bound by Nestles Avenue to the south, with semi-detached houses opposite the site, the former Nestles Factory to the east, a two storey industrial building to the west (No. 7 Nestles Avenue) and Squirrels Trading Estate to the north with access from Viveash Close.

The planning application seeks the demolition of the existing industrial property and re-development of the Site to provide a residential development of up to 11 storeys in height providing 103 units.

ULL has adopted the previously agreed Benchmark Land Value for the site of £2,033,000 as part of the review of a Build to Rent planning application for the site, which comprised the Existing Use Value of £1,847,980 plus a landowner's premium of 10%. Carter Jonas has reviewed the current market evidence and accepts the Benchmark Land Value at £2,033,000.

ULL has prepared a financial appraisal of the scheme and concluded that based on a scheme with 5 London Affordable Rent units, the residual land value of £1,723,000 does not meet the Benchmark Land Value at £2,033,000. This creates a deficit position of £310,000.

Carter Jonas has reviewed the assumptions within the FVA, including Johnson Associates reviewing the build costs. In respect of the proposed scheme we are not in disagreement with the vast majority of assumptions but there are areas of difference, these include:

- Increase in sales values from £580psf to £590psf;
- Reduction in construction costs by £351,232;
- Reduction in the sales agency and legal fees for the affordable units from 2.25% to 1%;
- Increase in CIL payments from £1,092,460 to £1,215,000;
- Reduction in finance costs from 7.0% to 6.5%; and
- Increase in pre-sales of private receipts from 30% to 50%.

The results of our review are set out in the table below.

	GDV	Total Costs	Residual Land Value	BLV	Net Position
ULL (5% LAR)	£39.7m	£38.0m	£1,723,000	£2.03m	-£0.31m
Carter Jonas (5% LAR)	£40.4m	£37.5m	£2,862,741	£2.03m	£0.83m

In summary, making the adjustments indicates that there is a project surplus of circa £830,000 when the residual land value is compared to the Benchmark Land Value.

We have therefore modelled this surplus on three bases:

- 1) 100% of the surplus for London Affordable Rent units;
- 2) 100% of the surplus for Shared Ownership units;

3) 100% of the affordable units as Shared Ownership tenure.

To model the surplus, we have also made adjustments to the CIL payments, using our CIL calculator, which would need to be verified by the Council in due course. We have also assumed the same proportion of 1 and 2 bed units for the London Affordable Rent units as presented by ULL in the FVA (i.e. 80% 1 beds and 20% 2 beds).

	GDV	Total Costs	Residual Land Value	BLV	Net Position
Carter Jonas (13% LAR)	£38.7m	£36.6m	£2.09m	£2.03m	£0.06m
Carter Jonas (5% LAR 24% SO)	£37.0m	£34.9m	£2.06m	£2.03m	£0.03m
Carter Jonas (37% SO)	£36.4m	£34.3m	£2.1m	£2.03m	£0.08m

The results of the additional modelling shows the range of potential affordable housing that could be delivered on the site, from 13 London Affordable Rent units to 38 Shared Ownership units on the basis of a single affordable tenure, or 30 units as a combination of the two tenures (5% LAR and 24% Shared Ownership).

1. INTRODUCTION

1.1. Background

Carter Jonas has been appointed by London Borough of Hillingdon (the Council), to review the Financial Viability Assessment (FVA) prepared by ULL on behalf of the Applicant, Healey Development Solutions (Hayes) Ltd, in respect of a planning application at Stanford House, 9 Nestles Avenue, Hayes UB3 4SA (the Site).

The scheme proposes the demolition of the two storey industrial building to provide 103 residential units.

ULL Property has submitted a Financial Viability Assessment (FVA) on behalf of the Applicant, dated July 2020, which includes a cost plan produced by Cast.

This report presents a summary of the planning application, the financial viability assessment and Carter Jonas' response to the FVA.

1.2. The Site

The subject site is 0.23 hectares (0.57 acres) and is located in Hayes within the London Borough of Hillingdon. It is bound by Nestles Avenue to the south, with semi-detached houses opposite the site, the former Nestles Factory to the east, a two storey industrial building to the west (No. 7 Nestles Avenue) and Squirrels Trading Estate to the north with access from Viveash Close.



Source: - Design and Access Statement

The Stanford House site forms part of Site Allocation Policy SA5 of the adopted Local Plan Part 2: Site Allocations and Designations which promotes up to 300 residential units for the subject site and the wider Viveash Close Estate, known as Site B. The whole Policy SA5 site is allocated for 1,800 units including the former Nestles Factory site to the east (Site A), which secured outline planning permission for 1,386 homes and the Buccleuch site to the west (which forms part of Site C), which has secured planning permission for 457 units.

The nearest station is Hayes & Harlington, which is located 350 metres to the north and this Station will benefit from the opening of the Elizabeth Line (Crossrail) in 2022, with journey times to Bond Street of around 20 minutes. The Station provides access to London Paddington in circa 20 minutes. The area between Nestles Avenue and the Station is characterised by industrial buildings, with the land to the north of the Station witnessing

a number of new housing developments, including High Point Village. The area to the south of Nestles Avenue is a residential neighbourhood of two storey suburban houses.

The subject site is an accessible location with a Public Transport Accessibility Level (PTAL) of 4, on a scale of 1- 6b with 6b is the highest.

1.3. The Planning Application

The Applicant is seeking full planning permission for *“Demolition of existing buildings and redevelopment to provide a building up to 11 storeys comprising residential accommodation, associated landscaping, access, car parking and cycle parking. Detailed description: To provide 103 residential units (59 x 1-bed, 32 x 2-bed and 12 x 3-bed)”*

The development proposals comprise 103 private residential units arranged in a building of up to 11 storeys in height, with the following housing mix:

- 1 bed flats = 59 (57%)
- 2 bed flats = 32 (31%)
- 3 bed flats = 12 (12%)



Source: - Design and Access Statement

The FVA submitted by ULL indicates that the scheme can only viably deliver 5 London Affordable Rent units, which equates to 5% affordable homes in total.

2. METHODOLOGY

2.1. Approach

Carter Jonas' review of the Applicant's FVA has had regard to the NPPF, PPG Viability Guidance, and the RICS Guidance Notes "Financial Viability in Planning" and "Financial Viability in Planning: Conduct and Reporting". We do not take issue with the overarching methodology used by the Applicant within their assessment. ULL has:

- Assessed the realisable value of the proposed scheme;
- Assessed the costs associated with delivering the scheme;
- Assessed a Benchmark Land Value (based on the EUV plus landowner's premium); and
- Undertaken a residual appraisal to calculate the residual land value which is compared against the Benchmark Land Value to establish whether the scheme is viable or not assuming the current level of planning obligations.

ULL has undertaken their viability modelling using the Argus Developer software package, which is a viability model that is widely used by the property industry. The methodology underpinning their model is the Residual Method of Valuation, commonly used for valuing development opportunities. Firstly, the gross value of the proposed development is assessed and the total cost of the development is deducted from this.

The approach by ULL has been to adopt a number of assumptions in relation to the proposed scheme which produces the residual land value. The results of this approach are normally that, if the residual land value is lower than the Benchmark Land Value, then the scheme is deemed to be unviable and is therefore unlikely to come forward for development unless the level of affordable housing and/or planning obligations can be reduced.

In this case, even though the residual land value of £1.73m is below the Benchmark Land Value of £2.03m, creating a net position of **-£0.31m**, the Applicant has indicated that they are still willing to offer 5 London Affordable Rent units, which equates to 5% affordable housing.

Given that the calculations are being made well in advance of commencement of the development, the figures used in the applicant's appraisal can only be recognised as a projection. As such, it is essential that all assumptions are carefully scrutinised by the local planning authority to ensure that they reflect current market conditions and have not been unreasonably depressed in respect of the value or overestimated in respect of the development costs.

Carter Jonas' approach has been to critically examine all of the assumptions on which the ULL appraisal is based, including a critical assessment of the Cast Cost Plan by our QS Johnson Associates. Our approach has then been to undertake adjustments where in our opinion inputs are not in line with current market conditions.

It is also important to carefully scrutinise the applicant's methodology. One of the key areas of scrutiny is the application of the Existing Use Value of the industrial building and the level of premium required to incentivise the landowner to sell.

3. CRITIQUE OF BENCHMARK LAND VALUE

Determining an appropriate Benchmark Land Value is often the most important factor in determining viability. Put simply, if the value generated by the development does not produce a positive figure, there is no financial incentive to bring forward the development with all its associated risk.

Arriving at an appropriate BLV is not a straightforward exercise and this is acknowledged at 3.4.6 of the RICS Guidance Note which states that:

The assessment of Site Value in these circumstances is not straightforward, but it will be, by definition, at a level at which a landowner would be willing to sell which is recognised by the NPPF.

In arriving at an appropriate BLV, regard should be had to existing use value, alternative use value, market/transactional evidence (including the property itself if that has recently been subject to a disposal/acquisition), and all material considerations including planning policy. Existing Use Value is widely used in establishing Benchmark Land Value and is supported in the Mayoral SPD and the NPPF/PPG update.

As part of the previous planning applications and FVAs submitted for the subject site Carter Jonas had proposed a Benchmark Land Value of £2,033,000, which was based on the Existing Use Value of the industrial premises of £1,847,980 plus a landowner's premium of 10%.

ULL has adopted our Benchmark Land Value of £2,033,000 for the purposes of the new planning application and the latest FVA. Carter Jonas has reviewed the latest market evidence to consider any recent transactions that are relevant to the subject site. After this review, we have concluded that there is no additional evidence to adjust the Existing Use Value or the Benchmark Land Value.

Therefore, the Benchmark Land Value is agreed at £2,033,000.

4. ASSESSMENT OF APPLICATION SCHEME INPUTS

This section of the report presents the Applicant's appraisal inputs together with Carter Jonas's interrogation of these inputs and appropriate adjustments where applicable.

4.1. Scheme Values

ULL has adopted a blended average of £580psf for the private residential units within the scheme, which is based on its review of new build schemes in Hayes, including The Old Vinyl Factory, Samara House, Bluenote Apartments, and at the former Nestles Factory.

4.1.1. Private Sales Values

Data from Nationwide found house prices grew by 3.7% in August, over the same time last year, while on a monthly basis prices jumped 2.0%, the highest monthly rise in over 16 years. In line with our view, the bank is cautious that over the coming months housing market activity may slow if forecasts of a weakening labour market come to fruition.

Similarly, August house prices grew by a robust 5.2% annually according to Halifax's latest house price index while on a monthly basis the bank reported growth of 1.6% over July's figures. Nevertheless their latest report also points to the government's winding down of various labour market support measures over the next few months as leading to an end to much further inflation in the housing market as the bank anticipates downward pressure on pricing in the medium-term.

Official House Price Index data up to June 2020 revealed that house prices rose by an average of 3.4% annually, up from May's recorded increase of 1.1%. On a monthly basis the index showed a robust rise of 2.7%, indicating that once lockdown restrictions had been removed in mid-May demand must have risen substantially (which we already know that it did) and prices appear to have followed suit. Such a strong monthly rise is unusual though so must be treated with caution given the volatility in the market and registrations.

On a regional basis all UK regions recorded annual price rises during June, with the East Midlands (4.5%), North West (4.4%) and the South West (4.3%) showing the highest rises. Average London prices rose by an average of 4.2%, the steepest annual rise in almost five years. All regions also showed some very robust monthly price rises ranging from 4.3% in the North West to 1.6% in the South East. Monthly figures like this however are not normally so strong, indicating that a lack of sales may be adding pricing volatility and the data should therefore be treated with caution. Indeed, we expect some revisions over the coming months, as has been the case over the last few months.

August's RICS UK residential market survey found a sharp rise in house price growth over the month with a net balance of +44% of respondents reporting an increase in prices, the strongest reading in the survey since 2016. This increase was seen across nearly all parts of the country with the exception of London where respondents in the Capital suggest that prices there have remained flat for the last two months.

Rightmove's September house price index found that the price of property coming onto the market was up 5.0% over the same period last year, the highest annual growth rate in four years, and 0.2% over August's prices. The report found that regions in the north experienced the strongest price rises with Yorkshire & the Humber, East Midlands, West Midlands, the North East, North West and Scotland all setting new records.

Bank of England mortgage data for July shows what can only be described as a V-shaped recovery in activity, following lockdown and the rapid decline in approvals during April and May. With 66,281 approvals reported during the month this is 66% higher than June and even more interestingly, is only 1% below the same month one year ago.

HMRC recorded property transactions rose sharply during August, up 16% compared with July to 81,280, nearly double what was transacted during April and May. We expected this rise as sales are recorded and stamp duty

paid only several weeks or months after completion and we expect further increases through September and the coming months particularly as the latest legislation with regards to the stamp duty holiday. There is still some way to go before activity is back to 'normal' levels though and year to date total sales are 25% below where they were this time last year.

Sentiment in the residential sales market continues to indicate very strong levels of interest and activity, as the August RICS UK residential market survey notes that +63% of contributors reported an increase in new buyer enquiries. There was also a +46% increase in new listing instructions and +61% rise in new sales. Looking ahead and respondents expect that these levels of activity and interest will remain over the near-term while a negative net balance of -17% suggest that over the longer-term 12-month period sales are forecast to decline. Concerns about the longer-term impact of the pandemic on the economy still weigh heavy and are driving this negativity and expectation of an eventual fall in sales levels.

Rightmove reports in their latest house price index that there is a very strong demand for larger homes with this end of the market seeing agreed sales jump 104% compared with the same period last year. Rightmove calls these larger properties 'top of the ladder' and goes on to say that in London this end of the market is seeing very strong activity, particularly in the Outer London boroughs. Rightmove also notes that on a national basis year to date agreed sales are down just 5% compared with the same period last year while two regions (East of England +4%, the South East +1%) have seen more agreed sales so far this year than the same period last year which is remarkable considering the market was frozen for six weeks during the Spring.

4.1.2. Local Market Commentary

Generally, residential development activity in Hillingdon is strong with there being increasing competition for sites. Developers continue to see good prospects for both commercial and residential development given the good transport links and connectivity to central London via rail links. According to Zoolpa the average price for property in Hayes stood at £366,000 in September 2020. This is a rise of 0.82% in the last three months (since June 2020) and fall of 0.8% since 12 months ago. In terms of property types, flats in Hayes sold for an average of £239,456 over the past 12 months.

4.1.3. Residential Comparable Evidence

To verify the pricing assumptions adopted we have also undertaken our own research in addition to the ULL's evidence and this is presented below:

The Boiler House, Material Walk, UB3 1DZ – The Old Vinyl Factory is located approximately 0.6 miles from the subject site. This scheme comprises 54 one and two bed private sales units and commercial space. We understand construction completed in Q2 2018, with the scheme selling out in Q1 2019. We detail below several transactions from Q4 2018 and Q1 2019:

Unit No	Sq Ft	Achieved Price	£ psf	Date
44	624	£425,000	£680	10/05/2019
51	614	£360,000	£586	20/03/2019
4	646	£415,000	£642	20/11/2018
5	646	£455,000	£704	20/11/2018
9	581	£475,000	£817	20/11/2018
10	495	£465,000	£939	20/11/2018
14	646	£450,000	£696	20/11/2018
40	452	£480,000	£1,061	20/11/2018
50	452	£455,000	£1,006	20/11/2018
20	581	£430,000	£739	02/11/2018
54	614	£355,000	£578	19/10/2018

19	581	£479,999	£825	11/09/2018
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We also provide a number of asking values for 1 and 2 bed properties within the development, which have subsequently sold, although these are quite historic:

Unit No	Beds	Sq Ft	Asking Price	£ psf	Date
01F	2	811	£387,000	£477	Dec-18
06M	1	543	£382,500	£704	Dec-18
01A	2	842	£465,000	£552	Jun-18
01E	2	733	£415,000	£566	Jun-18
01J	2	850	£475,000	£559	Jun-18
02A	2	821	£460,000	£560	Jun-18
02E	2	791	£450,000	£569	Jun-18
02J	2	848	£480,000	£566	Jun-18
04A	2	827	£480,000	£580	Jun-18
05A	2	780	£455,000	£583	Jun-18

Former Nestles Factory – Hayes Village, North Hyde Gardens, UB3 4QF – On the site of the former Nestle Factory, a mixed use scheme is being brought forward by Barratt Homes. The development comprises 1,386 residential units and 22,638 sqm of commercial space. The scheme is situated adjacent to the subject site.

We understand construction commenced in Q1 2019, with Phase 1 progressing. Phase 1 comprises 355 private units and was launched in July 2019. By the end of Q4 2019 27 of 56 released units had sold, with the first completions of Phase 1 due in Q2 2020. We detail several asking prices from Phase 1 below, which averages £548psf:

Unit No	Beds	Sq Ft	Asking Price	£ psf	Date
34	3	1020	£511,000	£501	Mar-20
68	2	538	£311,000	£578	Mar-20
301	2	1040	£465,000	£447	Mar-20
12	1	540	£320,000	£593	Jun-20
42	1	678	£351,000	£518	Jun-20
62	3	1020	£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
9	2	803	£443,000	£552	Sep-20
19	1	678	£355,000	£524	Sep-20
32	2	776	£434,000	£559	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

Bluenote Apartments, 30-32 Blyth Road UB3 1BY – This is a scheme of 118 residential units and commercial units being developed by Bellway Homes close to the Hayes & Harlington Station and approximately 0.3 miles from the subject site. The site has recently starting marketing, with the following asking prices, which average £609psf:

Unit No	Floor	Beds	Sq Ft	Asking	£ psf	Date
17	1	1	550	£340,000	£618	Sep-20
18	1	1	538	£340,000	£632	Sep-20
22	1	1	566	£350,000	£618	Sep-20
23	1	1	566	£350,000	£618	Sep-20
26	2	2	839	£490,000	£584	Sep-20
38	7	2	751	£505,000	£672	Sep-20
86	6	2	681	£490,000	£720	Sep-20
87	6	2	758	£435,000	£574	Sep-20
88	6	2	858	£490,000	£571	Sep-20
89	6	2	794	£480,000	£605	Sep-20
90	6	2	809	£485,000	£600	Sep-20
99	7	2	758	£455,000	£600	Sep-20
100	7	2	858	£495,000	£577	Sep-20
101	7	2	794	£485,000	£611	Sep-20
102	7	2	809	£490,000	£606	Sep-20
111	8	2	858	£500,000	£583	Sep-20

We have reviewed the comparable evidence and adopt the following values:

- 1 bed flats at average size of 560 sq.ft. = £345,000 (£616psf);
- 2 bed flats at average size of 790 sq.ft. = £440,000 (£557psf); and
- 3 bed flats at average size of 965 sq.ft. = £520,000 (£539psf).

This equates to an average value of £590psf as follows:

- 1 bed flats £616psf at 57% of the total = £351psf
- 2 bed flats £557psf at 31% of the total = £173psf
- 3 bed flats £539psf at 12% of the total = £65psf
- Total = £590psf

4.1.4. Ground Rents

On 21st December 2017 the Communities Secretary announced a Government proposal to introduce legislation to ensure that ground rents on new long leases of flats and houses are set at zero. Whilst the legislation has yet to be passed, we gather that the proposal has all-Party support although there is no timetable for the proposed

legislation as yet. ULL has not included any revenue with regard to ground rents. Therefore, for the purpose of our modelling we have mirrored the assumptions adopted and have not included any ground rent income.

4.1.5. Car Parking

We understand that there are 14 car parking spaces that can be sold within the scheme, and ULL has valued these spaces at £10,000 per space, totalling £140,000 in additional receipts. £10,000 per space is considered to be an acceptable value per space.

4.1.6. Affordable Housing

Policy H2 of Hillingdon Council's Local Plan states "For sites with a capacity of 10 or more units the Council will seek to ensure that the affordable housing mix reflects housing needs in the borough, particularly the need for larger family units."

The local plan goes on to state in paragraph 6.29 that *"35% of all new units in the borough should be delivered as affordable housing, with an indicative tenure mix of 70% housing for social rent and 30% intermediate housing."*

Additionally, the size and type of the units are also important, as stated in paragraph 6.32: *"the HMA indicates that 70% of net need for affordable housing is for two and three bed accommodation, more than a fifth is for four bed accommodation and almost 7% is for one bedroom accommodation. The need relative to supply is greatest for larger family accommodation."*

In addition to the above the London Plan Policies 3.11 and 3.12 and draft London Plan (Intend to Publish Version) Policy H4. The Mayor's Affordable Housing and Viability Supplementary Planning Guidance seeks to increase the provision of affordable housing in London and embed affordable housing into land prices. Draft London Plan Policy H5 (Intend to Publish Version) indicates that housing schemes on industrial land should provide 50% affordable housing, where there is a net loss of industrial floorspace.

The proposed scheme comprises 5 London Affordable Rent units on-site, which equates to 5% by unit.

The value of the London Affordable Rent units as presented in the FVA is £746,000, which equates to £247psf for the mix of 1 and 2 bedroom affordable units.

Carter Jonas' Affordable Housing Team has assessed the value for London Affordable Rent and considers this to be reasonable.

Where shared ownership is included as part of the mix, the values for these units are considered to be £385 per sq.ft. as a blended rate.

4.2. Scheme Costs

4.2.1. Build Costs

A cost plan has been prepared by Cast to inform the viability assessment. Our quantity surveyors Johnson Associates has reviewed this cost plan on behalf of the Council. The cost estimate for the proposed scheme assumes a total build cost of £22,893,859 including preliminaries, overheads and profit and design development contingency.

A line by line review of the Applicant's cost plan has been undertaken by Johnson Associates and conclude that the cost plan presented by the Applicant has been overstated by £351,232, bringing the total cost estimate to £22,542,627.

For the purposes of our modelling we have adopted the updated costs provided by Johnson Associates within our modelling.

The key differences in the build costs are shown in the table below:

Cost Item	Cast	Johnson Associates
Demolition and Enabling	£284,995	£284,995
Basement	£511,135	£478,802
Substructure	£945,795	£909,709
Shell & Core	£6,978,589	£6,792,128
Finishes	£2,744,042	£2,744,042
Fixtures, Finishing and Equipment	£1,513,360	£1,513,360
MEPH & Lifts	£4,737,797	£4,707,797
External Works	£853,250	£853,250
Preliminaries and Logistics (14%)	£2,599,655	£2,559,771
Overheads and Profit (5%)	£1,058,431	£1,042,193
Design Development Contingency (3%)	£666,811	£656,581
Total	£22,893,859	£22,542,627

4.2.2. Contingency

The Applicant's FVA has adopted a developer contingency on the build costs of 2%, which together with the Design Development Contingency of 3%, creates a total contingency of £1,107,434 based on Johnson Associates adjusted costs. An 'all in contingency' of 5% is considered acceptable.

4.2.3. Professional Fees

A professional fee allowance of 10% has been adopted by ULL in its financial appraisal of the scheme, which is considered appropriate for the proposed scheme.

4.2.4. Fees and Marketing Costs

ULL has adopted the following allowances:

Fees and Marketing Costs		
Marketing	Private Residential Housing	1% of Market GDV
Sales Agent Fees	Private Residential Housing	1.25% of Market GDV
Sales Legal Fees	Private Residential Housing	£750 per unit
Sales Agent Fees	Affordable Housing	1.25% of Affordable GDV
Sales Legal Fees	Affordable Housing	1% of Affordable GDV
Acquisition Costs	On Site Value	SDLT plus 1% for agent fees and 0.5% for legal fees

Carter Jonas agrees with the fees adopted by ULL with the exception of the affordable fees, which we think should be 1% in total for agent and legal fees.

4.2.5. Finance Cost

A finance rate of 7% has been adopted by ULL, which equates to a total finance cost of circa £3.08m. We would usually expect to see a finance rate of between 6-7% and we are aware of several FVA's in the surrounding area having been agreed at 6.5%. For the purposes of our initial modelling we adopted an all-in finance rate of 6.5%.

4.2.6. S106 & CIL Costs

In respect of CIL, The MCIL2 is a tariff chargeable by the GLA on new development following 1st April 2019. The Mayoral CIL is chargeable in Hillingdon at £60 per sqm (GIA), excluding affordable housing and existing floorspace that satisfies the in-use test.

The LBH CIL was adopted and implemented in April 2014. In relation to the Site, Local CIL is chargeable at £95 per sqm for residential floorspace.

ULL has calculated the CIL payments as follows:

- Local CIL – £732,591
- Mayoral CIL – £359,869

The local planning authority has checked these figures and have provided the following CIL figures, without discounting for social housing relief as follows:

- Local CIL – £884,825
- Mayoral CIL – £416,491

For the purposes of modelling, we have used our own CIL calculator, which provides a similar result to the Council's figures.

In addition to the CIL payments a S106 allowance of £227,352 has been adopted by ULL, and is broken down as follows:

s.106 Contributions	
Monitoring Fee	£10,826
Caron Off-set	£73,800
Public Transport	£28,290
Cranford Park	£16,597
Multi-modal Transport	£10,102
Air Quality	£5,371
Construction Co-ordinator	£36,266
Construction Training	£46,100
Total	£227,352

For the purposes of our own modelling we have assumed that these costs are correct and have adopted them within our appraisal.

4.2.7. Developer's Profit Margin

The appropriate level of developer profit will vary from scheme to scheme. Developer's profit margin is determined by a range of factors including property market conditions, individual characteristics of the scheme, comparable schemes and the development's risk profile.

ULL has adopted a developer's profit margin of 17.50% on private residential GDV and 6% on the affordable residential GDV. This is considered to be an acceptable profit level for the scheme.

4.2.8. Programme / Cashflow Assumptions

ULL has assumed a development programme of 3 months pre-construction for demolition, 24 months for construction and a 15 month sales period, consisting of 30% of the private sales receipts off-plan and a sales rate of 5 private units per month. The affordable units are sold on a 's-curve' distribution the construction period.

Given the scale of the scheme at 103 units, we would expect the off-plan sales to be higher at 50%, and therefore we have adjusted the model to reflect this, we the remaining units cashflowed at 5 private unit sales per month.

4.3. Summary Table

The table below provides a summary of the above analysis highlighting any areas of difference, which will form the basis of our sensitivity testing and conclusions in the following section.

Assumption	ULL Assumptions	Carter Jonas Assumptions	Comments Where appropriate
Sales and Revenue			
Private Residential Sales Value	£580psf	£590psf	Higher based on our assessment of comparable evidence
London Affordable Rent Values	£247psf	Agreed	
Residential Ground Rent	Excluded	Excluded	
Car parking	£10,000 per space	Agreed	
Development Costs			
Construction Costs	£22,893,859	£22,542,627	As reviewed by Johnson Associates
'All in Developer's Contingency'	5%	Agreed	
Professional Fees	10%	Agreed	
Private Sales Agent and Legal Fees	1.25% - Agent Fees £750 per unit – Legal Fees	Agreed	

Affordable Sales Agents and Legal Fees	1.25% - Agent Fees 1% - Legal Fees	1% Agent and Legal Fees	Considered to be too high
Private Marketing Costs	1%	Agreed	
CIL and S106 (For 5 LAR units)	Local CIL – £732,591 Mayoral CIL – £359,869 S106 – £227,352	Local CIL – £835,000 Mayoral CIL – £380,000 S106 – £227,352	Please see comments
Interest / Finance Costs	7.0% debit / 0.0% credit	6.5% debit / 0.0% credit	In line with finance costs agreed in the immediate area in recent FVA's
Developers Profit	Private Residential – 17.50% on GDV Affordable – 6% on GDV	Agreed	
Development Programme	Pre-construction - 3 months Construction - 24 months Private Sales - (30% pre-sales with remainder sold at 5 units per month)	Private Sales - (50% pre-sales with remainder sold at 5 units per month)	Pre-sales considered to be too low
Benchmark Land Value	£2,033,000	Agreed	

5. ANALYSIS AND CONCLUSIONS

ULL has provided Carter Jonas with a copy of its viability model in Argus Developer, which is a leading industry-standard development appraisal package commonly used by developers and agents to assess development viability.

Based on the review of the FVA inputs, we have highlighted a number of inputs that have a potential impact on the residual land value. Carter Jonas has therefore undertaken a series of adjustments and scenario testing of the model provided by ULL to assess this impact.

Although this analysis does not constitute formal valuations under the provisions of the RICS Valuation – Global Standards ('Red Book') it does provide robust evidence to inform the Council's decision making process in respect of the applicant's planning application.

As has been highlighted in the summary table in the previous section we are not in disagreement with most assumptions adopted by the Applicant / ULL in their assessment. However, there are areas of difference.

In terms of our initial analysis we have made changes to the base appraisal as follows:

- Increase in sales values from £580psf to £590psf;
- Reduction in construction costs by £351,232;
- Reduction in the sales agency and legal fees for the affordable units from 2.25% to 1%;
- Increase in CIL payments from £1,092,460 to £1,215,000;
- Reduction in finance costs from 7.0% to 6.5%; and
- Increase in pre-sales of private receipts from 30% to 50%.

The results of our review are set out in the table below.

	GDV	Total Costs	Residual Land Value	BLV	Net Position
ULL (5% LAR)	£39.7m	£38.0m	£1,723,000	£2.03m	-£0.31m
Carter Jonas (5% LAR)	£40.4m	£37.5m	£2,862,741	£2.03m	£0.83m

In summary, making the adjustments indicates that there is a project surplus of circa £830,000 when the residual land value is compared to the Benchmark Land Value.

We have therefore modelled this surplus on three bases:

- 4) 100% of the surplus for London Affordable Rent units;
- 5) 100% of the surplus for Shared Ownership units;
- 6) 100% of the affordable units as Shared Ownership tenure.

To model the surplus, we have also made adjustments to the CIL payments, using our CIL calculator, which would need to be verified by the Council in due course. We have also assumed the same proportion of 1 and 2 bed units for the London Affordable Rent units as presented by ULL in the FVA (i.e. 80% 1 beds and 20% 2 beds).

	GDV	Total Costs	Residual Land Value	BLV	Net Position
Carter Jonas (13% LAR)	£38.7m	£36.6m	£2.09m	£2.03m	£0.06m
Carter Jonas (5% LAR 24% SO)	£37.0m	£34.9m	£2.06m	£2.03m	£0.03m
Carter Jonas (37% SO)	£36.4m	£34.3m	£2.1m	£2.03m	£0.08m

The results of the additional modelling shows the range of potential affordable housing that could be delivered on the site, from 13 London Affordable Rent units to 38 Shared Ownership units on the basis of a single affordable tenure, or 30 units as a combination of the two tenures (5% LAR and 24% Shared Ownership).

APPENDIX 1 – APPRAISAL PRINT-OUTS

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APPENDIX 2 – COST PLAN REVIEW

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