U.L.L. Property

DEVELOPMENT | PROJECT MANAGEMENT

PRIVATE & CONFIDENTIAL

Economic Viability Assessment Report

Land off Hayes End Road, Hayes UB4 8EH

London Borough of Hillingdon

Prepared for Bugler Homes Limited

September 2020

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1. Executive Summary

1.1 As part of the detailed planning application, Bugler Homes Limited has instructed U.L.L Property to assess and report on, the economic viability of providing affordable housing and Section 106 financial contributions as part of the development proposal.

1.2 The London Borough of Hillingdon has policy targets for affordable housing provision as part of new residential developments, and these targets are not intended to restrain development, based on the outcome of economic viability testing.

1.3 The site is currently owned by Bugler Homes Limited and is comprised of two commercial units. Both units are fully let, with one operating as a car servicing business and the other a trade counter. The total area of the existing commercial space is 1,245 sq m (13,401 sq ft), which includes mezzanine areas.

1.4 The proposed planning application seeks planning permission for the *"Demolition of existing buildings and redevelopment of the site to provide a building of 5 storeys with flexible commercial floorspace (Class E) at ground floor and residential accommodation (Use Class C3) at upper floors, with associated residential amenity space, landscaping, car and cycle parking, refuse storage and access"*

1.5 The new development will provide 29 residential apartments and 145 sqm (1,561 sq ft) of ground floor commercial accommodation.

1.6 The Gross Development Value for the scheme is £9.95m (rounded) based on the residential sales value and commercial investment value.

1.7 The Argus appraisal for the proposed development calculates a residual land value of £429,000 (rounded).

1.8 The Benchmark Land Value is assessed as £1.66m (rounded), based on the existing use value plus a 20% landowner premium.

1.9 The residual land value is, therefore, showing a shortfall of £1.23m (rounded)

1.10 We would, therefore, conclude that the proposed scheme cannot sustain any contributions towards affordable housing in addition to other planning contributions.

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2. Instructions & Report Context

2.1 Bugler Homes Limited (the 'Applicant') has submitted a planning application to the London Borough of Hillingdon (the 'Council') in respect of the site known as "Land off Hayes End Road, Hayes " ("the Site").

2.2 The application seeks planning permission for the *"Demolition of existing buildings and redevelopment of the site to provide a building of 5 storeys with flexible commercial floorspace (Class E) at ground floor and residential accommodation (Use Class C3) at upper floors, with associated residential amenity space, landscaping, car and cycle parking, refuse storage and access"*.

2.3 As part of the planning application the Applicant has instructed ULL Property to assess, and report on, the economic viability of providing affordable housing and Section 106 financial contributions as part of the development proposal.

U.L.L Property

2.4 This viability assessment has been prepared with regard to the policies and guidance available at national, regional and local levels, and carried out in accordance with the Royal Institution of Chartered Surveyors (RICS) professional statement 'Financial viability in planning: conduct and reporting" (1st edition, May 2019, effective from September 2019).

2.5 ULL is a property services company specialising in development consultancy, affordable housing, economic viability and project management. The company aims to find viable solutions, which facilitate development, while at the same time supporting the reasonable mitigation of development impact. In so doing, we operate at the centre of development economics; assisting developers and Local Planning Authorities reach effective solutions against a challenging financial background.

2.6 This report has been prepared by This report has been prepared by Isabella Rossi, who has over 20 years experience in the affordable housing sector gained with both local government and the private sector, prior to joining ULL Property as a Director. ULL Property currently advises house builders and developers on property assets valued more than £4 billion.

Covid-19 outbreak

2.7 The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organization as a "Global Pandemic" on 11 March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

2.8 Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement. The findings of this report must therefore be regarded with a greater degree of caution in the light of potential market volatility.

2.9 For this reason ULL Property considers the findings of this report should be kept under frequent review.

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Limitations

2.10 This report does not constitute a valuation and should not be relied upon for valuation purposes.

2.11 It is provided for the sole use of the party to whom it is addressed. It is confidential to the addressee and their professional advisors. ULL Property accepts no responsibility whatsoever to any person other than the client themselves.

2.12 Neither the whole nor any part of the report nor any reference thereto may be included in any published document, circular, or statement, or published in any way, without the prior written approval of ULL Property.

Information relied upon

2.13 We have been provided with, and relied upon:

- Proposed plans and accommodation schedule prepared by On Architecture, June 2020
- A construction cost plan prepared by Bugler Homes Limited, June 2020

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3. Project Details

Location

3.1 The site is situated along the southern edge of Hayes End Road close to the junction with the A4020 Uxbridge Road. The map below identifies the site location.



3.2 The area immediately surrounding the Site is a mixture of light industrial and residential uses. There is a neighbouring residential block at the northern edge of the site and a car wash/automotive business immediately adjacent to the southern boundary. Opposite the Site, the eastern side of Hayes End Road comprises a mix of residential flatted blocks and houses.

Transport

3.3 The site is approximately a 1-minute walk to the busy Uxbridge Road (A4020) with access into London and the M4 and M25 motorways.

3.4 Bus services located along Uxbridge Road (routes 278, 427, H98) provide connections to central Hayes, Harlington, Hillingdon, Ruislip and Uxbridge. The closest railway station to the south of the site is Hayes & Harlington, which is approximately 2 miles away and provides a direct service to London Paddington. Crossrail services, the Elizabeth Line, will also stop at this station. Hillingdon Underground Station is located approximately 2.5 miles to the north west of the Site, and is served by the Metropolitan and Piccadilly lines.

3.5 The current Public Access Transport Level of the Site is PTAL 3.

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Existing Site

3.6 The Site currently comprises a trade counter and car servicing business, with fore court areas and surrounding yard space. The total area of the commercial space is 1,245 sq m (13,401 sq ft), which includes the mezzanine areas.

Scheme Proposals

3.7 The proposed development comprises 29 residential units in a 5 storey building, and 145 sqm (1,561 sq ft) of flexible commercial floorspace falling within Class E and intended to be used for office, research and development, and light industrial uses.

3.8 The total Gross Internal Area (GIA) of the proposed scheme is 2,488 sq m (26,781 sq ft) and the schedule of net areas is summarised in the table below:

Unit type	No. Units	NSA (sqm)	NIA (sqft)
1 bedroom (2 person)	15	758	8,159
2 bedroom (3 person)	6	366	3,940
2 bedroom (4 person)	4	306	3,294
3 bedroom (5 person)	4	344	3,703
Total residential	**29**	**1,774**	**19,095**
Commercial space	1	145	1,561
Total scheme		**1,919**	**20,656**

Source: On Architecture, June 2020

3.9 The above areas have been adopted in the viability appraisal.

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4. Planning Policy – Affordable Housing & Viability Methodology

4.1 In this section we have reviewed the policies and guidance relevant to planning obligations under the Section 106 regime.

National Planning Practice Guidance (NPPG)

4.2 The NPPG seeks to ensure development is both sustainable and deliverable. In its revision dated 24 July 2018 (paragraph 10), NPPG states: "In plan making and decision making viability helps to strike a balance between the aspirations of developers and landowners, and the aims of the planning system to secure maximum benefits in the public interest through the granting of planning permission."

4.3 The NPPG defines the key inputs for viability assessments:

"*Gross Development Value - Gross development value is an assessment of the value of development. For residential development, this may be total sales and/or capitalised net rental income from developments. Grant and other external sources of funding should be considered. For commercial development broad assessment of value in line with industry practice may be necessary…For viability assessment of a specific site or development, market evidence (rather than average figures) from the actual site or from existing developments can be used. Any market evidence used should be adjusted to take into account variations in use, form, scale, location, rents and yields, disregarding outliers. Under no circumstances will the price paid for land be a relevant justification for failing to accord with relevant policies in the plan.*

Costs - Assessment of costs should be based on evidence which is reflective of local market conditions. As far as possible, costs should be identified at the plan making stage. Plan makers should identify where costs are unknown and identify where further viability assessment may support a planning application. Costs include:

a) *build costs based on appropriate data, for example that of the Building Cost Information Service";* (in our opinion a site-specific elemental cost breakdown should be provided for site-specific viability assessment)

b) *"abnormal costs, including those associated with treatment for contaminated sites or listed buildings, or costs associated with brownfield, phased or complex sites. These costs should be taken into account when defining benchmark land value;*

c) *site-specific infrastructure costs, which might include access roads, sustainable drainage systems, green infrastructure, connection to utilities and decentralised energy. These costs should be taken into account when defining benchmark land value;*

d) *the total cost of all relevant policy requirements including contributions towards affordable housing and infrastructure, Community Infrastructure Levy charges, and any other relevant policies or standards. These costs should be taken into account when defining benchmark land value;*

e) *general finance costs including those incurred through loans;*

f) *professional, project management, sales, marketing and legal costs incorporating organisational overheads associated with the site. Any professional site fees should also be taken into account when defining benchmark land value;*

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g) explicit reference to project contingency costs should be included in circumstances where scheme specific assessment is deemed necessary, with a justification for contingency relative to project risk and developers return;

Land Value - To define land value for any viability assessment, a benchmark land value should be established on the basis of the existing used value (EUV) of the land, plus a premium for the landowner. The premium for the landowner should reflect the minimum return at which it is considered a reasonable landowner would be willing to sell their land. The premium should provide a reasonable incentive, in comparison with other options available, for the landowner to sell land for development while allowing a sufficient contribution to comply with policy requirements. This approach is often called 'existing use value plus' (EUV+). In order to establish benchmark land value, plan makers, landowners, developers, infrastructure and affordable housing providers should engage and provide evidence to inform this iterative and collaborative process.

Competitive Return to Developers - Potential risk is accounted for in the assumed return for developers at the plan making stage. It is the role of developers, not plan makers or decision makers, to mitigate these risks. The cost of complying with policy requirements should be accounted for in benchmark land value. Under no circumstances will the price paid for land be relevant justification for failing to accord with relevant policies in the plan. For the purpose of plan making an assumption of 15-20% of gross development value (GDV) may be considered a suitable return to developers in order to establish the viability of plan policies. Plan makers may choose to apply alternative figures where there is evidence to support this according to the type, scale and risk profile of planned development.

A lower figure may be more appropriate in consideration of delivery of affordable housing in circumstances where this guarantees an end sale at a known value and reduces risk. Alternative figures may also be appropriate for different development types.

Competitive Return to Landowners - The premium (or the 'plus' in EUV+) is the second component of benchmark land value. It is the amount above existing use value (EUV) that goes to the landowner. The premium should provide a reasonable incentive for a land owner to bring forward land for development while allowing a sufficient contribution to comply with policy requirements. Plan makers should establish a reasonable premium to the landowner for the purpose of assessing the viability of their plan. This will be an iterative process informed by professional judgement and must be based upon the best available evidence informed by cross sector collaboration. For any viability assessment, data sources to inform the establishment of the landowner premium should include market evidence and can include benchmark land values from other viability assessments. Any data used should reasonably identify any adjustments necessary to reflect the cost of policy compliance (including for affordable housing), or differences in the quality of land, site scale, market performance of different building use types and reasonable expectations of local landowners. Local authorities can request data on the price paid for land (or the price expected to be paid through an option agreement)"

The London Plan

Current London Plan

4.4 The current 2016 London Plan is the adopted Development Plan for London but the Draft London Plan is a material consideration in planning decisions.

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4.5 Policy 3.12 of the current London (Regional) Plan states:

A) The maximum amount for affordable housing should be sought when negotiating on individual private residential and mixed-use schemes, having regard to:

- Current and future requirements for affordable housing at local and regional levels
- Affordable housing targets adopted in line with Policy 3.11
- The need to encourage rather than restrain residential development
- The need to promote mixed and balanced communities
- The size and type of affordable housing needed in particular locations
- The specific circumstances of individual sites

B) Negotiations on sites should take account of their individual circumstances including development viability, the availability of public subsidy, the implications of phased development including provisions for re-appraising the viability of schemes prior to implementation ('contingent obligations'), and other scheme requirements.

Intend to Publish London Plan (ItP)

4.6 The new London Plan is at an advanced stage and the Itp London Plan (December 2019) policies that are not subject to Secretary of State direction carry significant weight. Policy H4 Delivering affordable housing, Policy H5 Threshold approach to applications and Policy H6 Affordable housing tenure set out the approach to affordable housing delivery in London.

4.7 Policy H4 'Delivering affordable housing' sets a strategic target for 50% of all new homes delivered across London to be 'genuinely affordable'.

4.8 The provision of affordable housing on major developments is subject to the requirements of Policy H5 'Threshold approach to applications'. The threshold approach was first introduced in the Mayor's Affordable Housing and Viability SPG, published in August 2017.

4.9 A minimum of 35% of gross residential development (50% for public sector land and industrial sites – Policy E7) is the threshold for the provision of affordable housing. Developers may follow a Fast Track Route under the threshold approach, subject to meeting specific criteria including meeting (or exceeding) the relevant affordable housing threshold requirement and tenure split detailed in Policy H6 'Affordable housing tenure'.

4.10 For applications that cannot meet the requirements of the Fast Track Route it is necessary to follow the Viability Tested Route.

London Borough of Hillingdon Planning Policy

Hillingdon Local Plan

4.11 Policy H2 of Hillingdon's Local Plan Part 1 states:
"Housing provision is expected to include a range of housing to meet the needs of all types of households and the Council will seek to maximise the delivery of affordable housing from all sites over the period of the Hillingdon Local Plan: Part 1- Strategic Policies. 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."

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4.12 The commentary to the policy explains that the Council will seek to deliver 35% of all housing to meet the definition of affordable housing, with a tenure split of 70% social rented and 30% intermediate housing, assessed on the number of habitable rooms rather than the number of units.

Planning Obligations Supplementary Planning Document 2014

4.13 The Planning Obligations SPD states at paragraph 4.16:

"The Council will seek the maximum reasonable amount of affordable housing when negotiating on individual private residential and mixed-use schemes. However, Hillingdon's Local Plan Part 1 acknowledges that the need for affordable housing should be balanced with the economic viability of private housing. Where less than 35% affordable housing is proposed or an alteration to the 70%/30% tenure split, a justification for the departure from Policy H2 will be required, together with a financial viability appraisal to demonstrate that the maximum affordable housing provision is being delivered on-site."

4.14 The forgoing policies demonstrate that the Council has policy targets for affordable housing provision, and that these targets are not intended to restrain development, based on the outcome of economic viability testing.

Viability Methodology

4.15 The purpose of this report is to provide an independent assessment of the viability of proposed development, and in so doing to assess the level of obligations which can be provided to the local planning authority, while sustaining an appropriate land value to the landowner and profit to the developer. Assessing the viability of a proposed development involves comparing the residual land value of the site, based on the proposed scheme, with an appropriate benchmark.

4.16 A viable development will support a residual land value at a level sufficiently above the site's Existing Use Value (EUV) or Alternative Use Value (AUV), to support a land acquisition price acceptable to the landowner. As such, where a development proposal generates a residual value, which is higher than the appropriate benchmark value it is deemed financially viable and therefore likely to proceed. Conversely, if the residual value is lower than the benchmark, it is considered to be economically unviable and consequently unlikely to progress.

4.17 A - B = Residual Land Value, based on inputs from the attached table:

A: Revenue	B: Costs
Private residential sales value	Build Costs
Commercial investment value	Planning and Development Fees
	Planning Contributions
	Marketing Costs
	Land Purchase Costs
	Finance Costs
	Developer's Profit

4.18 It need not be the land value that is the target residual. A fixed land price can be input as a cost, and a residual developer profit assessed. Alternatively, the residual target can be the planning contributions.

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4.19 An explanation for all the appraisal inputs is provided at Section 5 (Income Analysis) and 6 (Cost Assumptions).

4.20 The next task is to arrive at an appropriate benchmark against which to compare the Residual Land Value of the proposed scheme, to determine whether the proposal is viable. This is assessed further in Section 7.

4.21 The purpose of our analysis has been to understand the development economics of the site and to show the results of our analysis. This incorporates appraisal of all costs and values, finance inputs and Section 106 contributions.

4.22 The assumptions made in the development appraisal are a reflection of the development's overall economics. Our assumptions are in some cases inter-related such that a change in one assumption can have an impact on other assumptions.

4.23 Appendix 1 shows the financial appraisal incorporating the costs and values of the project. We have used Argus Developer appraisal software, a standard appraisal tool used across the property industry, and recognised by local authorities in viability analysis. The model is set up as a Residual Land Value appraisal, making fixed assumptions about costs, revenues and profit.

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5. Income Analysis

5.1 The revenue for the scheme is derived from the sale of the completed residential units and investment sale of the commercial space.

Private residential sale values

5.2 We have researched the local residential sales market to identify comparable evidence to support the sales rate adopted in the appraisal.

5.3 There is a general lack of new build development in the vicinity of the Site with the main development activity centred around the main town centres of Hayes, Uxbridge and West Drayton. There is also limited evidence of new 3 bedroom apartments transacting within this location.

5.4 The following sales evidence has been identified in respect of 1 and 2 bedroom apartments within reasonable proximity of the Site:

5.5 Samara House, Catkin Place, Hayes – this small development of 6 apartments by Hill, is located 2.4 miles from the Site:

- In March 2019 a 1-bedroom apartment with an area of 538 sq ft sold for £325,000, equating to £604 per sq ft;
- In February 2019, an 829 sq ft 2-bedroom apartment sold for £360,000, equating to £434 per sq ft.

5.6 The Courtyard, Connaught Close, Hayes – The Courtyard is a development of 8 properties by Aquinna Homes. The scheme comprises four, 3-bedroom townhouses and four 1 and 2-bedroom apartments. Each property benefits from allocated car parking. The Courtyard is located just over half a mile from the Site:

- In August 2019 a 1-bedroom apartment with an area of 603 sq ft sold for £282,000, equating to £468 per sq ft;
- A 2-bedroom apartment comprising 829 sq ft sold for £400,000 in March 2019, equating to £483 per sq ft;
- In September 2019 as 2-bedroom apartment comprising 667 sq ft achieved £372,500 equating to £558 per sq ft.

5.7 West Drayton Road, Uxbridge, UB8 3LE – a development of five 2-bedroom apartments located approximately 0.7 miles from the Site:

- In April 2020 a 2-bedroom apartment comprising 727 sq ft, was sold 'subject to contract' for £404,950 equating to £489 per sq ft.

5.8 We have been unable to identify recent transactions of new 3 bedroom apartments locally. There are a number of larger mixed-use developments within 3 miles of the Site, which are currently marketing 3 bedroom apartments. Whilst these developments are larger in scale and better placed for access to mainline and underground stations, they do provide a useful guide when identifying appropriate values for the 3 bedroom units on the proposed development.

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5.9 Union Park, Packet Boat Lane, Uxbridge - is located 3 miles from the Site. This is a new canal side development, located approximately 1 mile from West Drayton mainline station:

- A 3-bedroom apartment with an area of 85.7 sqm (922 sq ft), is currently being marketed at £445,000;
- A 3-bedroom apartment with an area of 81.4 sqm (876 sq ft), is currently being marketed at £445,000.

5.10 Drayton Garden Village is a large mixed use development comprising over 770 residential homes and located 3 miles from the Site, in West Drayton:

- A 3 bedroom, duplex, **re-sale** property with an area of 106 sqm (1,141 sq ft), is currently sold, subject to contract at £450,000 equating to £394 per sq ft.

5.11 Having regard to the above evidence, we believe that the following values are appropriate for the proposed development:

Unit	Av.size sqm	Av.size sqft	Capital value £	Rate £/sq ft
1b	50	538	310,000	565
2b3p	61	657	370,000	554
2b4p	79	850	390,000	459
3b5p	86	926	420,000	454
				498

5.12 We have therefore adopted a GDV for the proposed residential units of £9.51m, which equates to a blended rate of £498 per sq ft.

Ground Rent Investment

5.13 We have not attributed any revenue to the potential sale of the ground rent portfolio for the flats to an investor.

5.14 HM Government has published a response to the Housing, Communities and Local Government Select Committee Report on Leasehold Reform on 3rd July 2019. Paragraph 12 of the Government response confirms agreement with the Select Committee that measures should be brought into legislation to *"…remove any financial value from future ground rent…"*. Paragraph 60 further confirms HM Government policy on this point – *"Having considered the responses to our consultation and also the Committee's recommendation, the Government has decided to legislate to remove any financial value from ground rent in future leases. This should ensure that no monetary rent is payable under the lease, i.e. no financial payment of any sum."*

5.15 The Queen's Speech in December 2019 further confirmed that new homes will be sold as freehold wherever possible. Within the context of the forgoing, we do not consider it appropriate to include any provision for ground rent income within financial appraisals prepared for viability assessment purposes.

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Commercial value

5.16 The proposed scheme will provide 145 sqm (1,561 sq ft) of flexible commercial space for Class E and intended to be used for office, research and development, and light industrial uses. We have assumed that the most likely use of this commercial space will be office or light industrial and have focused our analysis of recent market evidence for these uses.

5.17 We have researched the local commercial market to identify comparable evidence to support the rental and yield assumptions adopted in the appraisal.

Office market

5.18 The following comparable lettings have been identified in the local area:

Property address	Description	Distance from Site	Area (sqft)	Achieved rent £/sq ft	Date
18 High Street, Uxbridge. UB8 1JN	First floor office, above retail. Built 1990.	3 miles	1,135	£17.62	Jul-19
14B The Green, West Drayton. UB7 7PJ	Built 1800, masonry construction.	3 miles	1,323	£15.12	Dec-19
Belmont Road, Uxbridge. UB8 1QT	Built 1985, masonry construction. Close to Uxbridge Underground Station. More superior location to subject site.	3 miles	2,606	£22.50	Jul-19
Unit 1, The Gatefold Building, 36 Blyth Road, Hayes. UB3 1BY	New build mixed-use development forming part of the Old Vinyl Factory regeneration scheme. 200m from Hayes & Harlington Station.	2 miles	495	£20.00	Jun-19
Aston House, Redford Way, Uxbridge. UB8 1SZ	Close to Uxbridge Underground Station. More superior location to subject site.	3 miles	1,984	£24.69	Jun-19

5.19 Taking into consideration the above evidence, the location and new build nature of the proposed commercial unit, we consider a rental value of £18.00 per sq ft would be appropriate for an office use in the Hayes End Road area.

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Industrial market

5.20 The following comparable lettings have been identified in the local area:

Property address	Description	Distance from Site	Area (sqft)	Achieved rent £/sq ft	Date
Horton Road, West Drayton. UB7 8HZ	Built 2000 and of steel construction type.	2 miles	3,344	£14.50	Nov-19
Clayton Business Centre, Clayton Road. UB3 1RT	Industrial, built 1981, steel construction.	2 miles	2,357	£15.00	Jan-19
Crown Trading Centre, Clayton Road, Hayes, UB3 1AW	Industrial, built 1970, of steel construction type.	2 miles	1,140	£9.21	Mar-18
Warnford Industrial Estate, Clayton Road, Hayes, UB3 1BQ	Industrial, built 1984, of masonry construction type.	3 miles	1,510	£15.25	May-18

5.21 Taking into consideration the above evidence of local industrial lettings, a rental value of £14.50 /sq ft is deemed to be appropriate for the proposed development.

Blended rental value

5.22 We have reviewed market rental evidence for Class E uses within 3 miles of the Site. In particular we have considered achieved office and light industrial rental values. The proposed development will provide 145 sqm (1,561 sq ft) of floorspace and we have tried to focus our search on commercial lets of up to 3,500 sq ft. A number of properties are located within very close proximity of train stations, whereas the Site is just over 2 miles away from the nearest stations at Hayes & Harlington and Hillingdon. This has also been taken into account in our analysis.

5.23 Having regard to the above evidence, the location and new build nature of the proposed commercial unit, we have adopted a blended rate of **£16.00/sq ft** for the Class E element of the proposed development.

Investment yield

5.24 The proposed scheme will provide 145 sqm (1,561 sq ft) of commercial space. There is limited transactional evidence from which to establish an appropriate investment yield for small Class E use. Much of the available data reflects deals for properties in excess of 40,000 sq ft. For example in March 2018, 42,935 sq ft of industrial space was sold at Orbital Industrial Estate in West Drayton, for £7.35m reflecting a yield of 5.67%.

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5.25 We have however, identified the following transaction for an office unit located within a small complex, which achieved an investment yield of 5.62% in January 2018. The unit has been given a 3 star rating by CoStar.

Property address	Description	Distance from Site	Area (sqft)	Achieved	NI Yield	Date
4 The Green, Britannia Court, West Drayton UB7 7PN	Unit located within a small complex of offices. Traditional terraced, brick building, which was constructed in 1990 and renovated in 2007.	3 miles	1,487	£375,000	5.62%	Jan 2018

5.26 We have also had regard to Knight Frank's latest Investment Yield Guide (April 2020). For Warehouse and Industrial Space on a modern estate the current yield guide is 4.50% to 4.75%. Offices in towns located in the South East currently reflect an investment yield of 5.00% to 5.25%.

5.27 Taking into consideration the evidence detailed above and the nature of the proposed commercial space, we are of the view that a yield of 5.5% is appropriate for this scheme. The blended rental value of £16.00/ sq ft has therefore been capitalised at a yield of 5.5% to arrive at an investment value for the commercial element of the scheme.

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6. Cost Assumptions

Construction Costs

6.1 In determining the construction costs for the proposed scheme, we have had regard to the cost estimate prepared by Bugler Homes Limited, which is submitted with this report as Appendix 2. The cost estimate includes a design and risk contingency of 5%.

6.2 The development will require piled foundations, a first floor transfer slab with traditional masonry construction above. A new sub-station will also be required on the site.

Other Costs

6.3 Within the Argus Developer appraisal summary at Appendix 1 we have made the following cost assumptions:

Item	Value	Elements
Land		
Stamp Duty	UK SDLT Rates	Residual Land Value
Agents Fee	1.00%	Residual Land Value
Legal Fee	0.5%	Residual Land Value
Construction Costs		
Professional Fees	10.0%	Build Cost Sum
Lettings and Disposal Costs		
Marketing - Residential & Commercial	1%	Residential GDV & Commercial Rent
Letting Agents Fees - Commercial	10%	Commercial Rent
Lettings Legal Fees - Commercial	5%	Commercial Rent
Sales Agent Fees - Residential	1.5%	Residential GDV
Investment Sales Agent Fees - Commercial	1%	Commercial Investment GDV
Legal Fees - Residential Units	0.5%	Residential GDV
Legal Fees - Commercial Units	0.25%	Commercial GDV
S.106 Costs		
£4,250 per has been applied to each residential unit producing a total section 106 contribution of £123,250. This amount is based upon the s106 agreement that is currently being negotiated by the Applicant for a neighbouring development off Newport Road, which is to the rear of the Hayes End Road site.		
CIL		
We have assumed that both Mayoral CIL2 and Borough CIL will be chargeable to the proposed development and is calculated on the net gain in floor space (sq m) on a Gross Internal Area (GIA) basis. We have included a total CIL contribution of £233,084 within the appraisal. Please note that this is an estimate only and you should consult your CIL adviser and / or the local authority for confirmation of the payable amount. Should this assumption change significantly, the viability appraisal will require updating.		
Finance Costs		
The finance rate is assumed to be 7%. This reflects the average cost of capital to include debt interest (senior and mezzanine), and arrangement, exit and valuation fees.		
Developer Return		
The appraisal has been set up to show profit as a cost to the project, at 17.5% of GDV for the private residential units, and 15% on the commercial element – equating to a blended profit of 17.4%.		

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7. Benchmark Land Value

7.1 As explained at Section 2, viability is typically tested by comparing the residual land value of the proposed scheme with a Benchmark Land Value (BLV). The benchmark can be derived following an assessment of the value of the site in its Existing Use (EUV) or a reasonable Alternative Use Value (AUV).

7.2 The Mayor of London's Affordable Housing and Viability Supplementary Planning Guidance (SPG) (August 2017) states that, "a landowner should receive at least the value of the land in its 'pre-permission' use, which would normally be lost when bringing forward land for development."

Existing Site

7.3 The site currently consists of a trade counter and car servicing business, with fore court areas and surrounding yard space. The properties were built in 1970.

7.4 Both units are currently let and the areas are summarised in the table below:

Gross Internal Area - Existing Building	Area sq m	Area sq ft
Ground Floor	948	10,203
First Floor	153	1,651
Mezzanine A	45.2	487
Mezzanine B	98.5	1,060
Total	**1,245**	**13,401**

Source: Bugler Homes Limited, March 2020

Consented Use

7.5 We understand the current permitted use is Sui Generis and currently operates as a trade counter and car servicing business.

Rental Value

7.6 To establish a value for the existing use we have regard to the current rental income for the units on the Site, which has been provided by the Applicant.

7.7 The lease term for Unit 1 (car servicing) runs from 23 February 2018 to 25th December 2021 and includes a 6-month break clause. The annual rent for this unit is £40,000. This unit is rated 1 star by Costar.

7.8 The lease for Unit 2 (trade counter) commenced on 12 December 2013, expiring on 19th February 2022. A rent review was due on 20th February 2017 but was not revised. The rental income for this unit is £49,000 per annum. This unit is rated 3 star by Costar.

7.9 The aggregate of the annual rental income is £89,000, which equates to £6.64/sq ft.

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Investment Yield

7.10 We have identified a number of comparable transactions from which to determine an appropriate investment yield. By broadening the search radius to within 5 miles of the Site the following transactions have been identified:

Property address	Description	Distance from Site	Area (sqft)	Achieved	NI Yield	Date
Addison Industrial Estate - 702 Field End Road, Ruislip, HA4 0QP	Light industrial unit of concrete frame construction built in 1989. Close proximity to A40 Western Avenue and South Ruislip Underground Station is 1 mile away. The property is rated 2 star by CoStar.	5 miles	10,297	£2,540,000	4.8%	June 2019
Orbital Industrial Estate - 1-13 Horton Road, West Drayton, UB7 8JD	An industrial building of steel frame construction built in 1972 and renovated in 2017. Less than 1 mile from West Drayton Railway Station. This property is rated 2 star by CoStar.	2.5 miles	42,935	£7,350,000	5.7%	March 2018
Pasadena Trading Estate, Pasadena Close, Hayes, UB3 3NQ	An industrial unit built in 1983, located just off the A312 Hayes Bypass and 1 mile from Hayes Harlington Railway Station. This property is rated 2 star by CoStar.	2.5 miles	17,576	£1,825,000	6.1%	March 2018

7.11 The most recent transaction, in June 2019, was an industrial unit at Addison Industrial Estate in Ruislip, which achieved a net initial yield of 4.8%. With an area of 10,297 sqft this unit is of comparable size to the Site but was built more recently. The unit is also in a slightly better position for public transport, being just 1 mile away from Ruislip Underground Station. We would not expect the Site to achieve a yield as strong as 4.8% given these differences.

7.12 Both the Orbital Industrial and Pasadena Trading Estate transactions are 2.5 miles from the Site and a mile away from local mainline railway stations. The unit at Orbital Industrial Estate was built in 1972 but refurbished in 2017 and is also a much larger space than the Site. It achieved a net initial yield of 5.7% in 2018 and we would expect that this reflected the recent refurbishment. An industrial unit sold at the Pasadena Industrial Estate in March 2018, having a comparable area of 17,576 sqft and achieved a net initial yield of 6.1%.

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7.13 Given the above evidence and taking into consideration the Site is fully let but that leases on both units are due to expire in under two years, a yield of 6% has been applied to the current rental income to arrive at an investment value for the commercial element of the scheme.

Premium

7.14 In line with the EUV + Method, we have adopted a premium of 20% which reflects the premium which would reasonably be required to release this investment for redevelopment. This is a well let, performing asset within its use class and market place, and represents considerable value foregone for the landowner. Recognising that the current leases have just under 2 years to run, a premium of 20% been applied to the investment value of the existing industrial uses.

Calculation of EUV

7.15 Based upon the assumptions and inputs detailed above the EUV calculation for the existing site use is set out below:

EUV Calculation		
Gross Internal Area:	1,245	sq m
	13,401	sq ft
Market Rent (Actual)	£89,000	
Yield	6.00%	
Gross Value	£1,483,333	
Less:		
Purchasers Costs (inc. SDLT)	£100,867	
	6.8%	
Existing Use Value	£1,382,467	
Land Owners Premium	20.0%	
	£276,493	
Benchmark Land Value:	**£1,658,960**	

Benchmark Land Value

7.16 We have assumed the Benchmark Land Value is £1.66m (rounded) for the purposes of our report.

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8. Summary of the Appraisal

8.1 For ease of reference we provide here a summary of the Argus appraisals relating to this project, demonstrating the viability position:

Hayes End Road - Appraisal Summary	
Costs	
Construction Costs	£6,077,808
Borough/Mayoral CIL	£233,084
Section 106	£123,250
Professional Fees	£607,781
Marketing & Letting	£103,261
Disposal Fees (inc. Purchaser's Costs)	£224,800
Acquisition Costs	£17,377
Total finance costs	£403,639
Profit	£1,731,548
Total Costs	**£9,522,548**
Revenue	
Residential	£9,509,310
Commercial	£442,114
Total Revenue	**£9,951,424**
Residual Land Value	£428,876
Proposed Benchmark Land Value	£1,659,000
RLV - EUV	**(£1,230,124)**

8.2 The fact that the Residual Land Value is negative indicates the project is unable to sustain any contributions to affordable housing or other financial contributions.

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9. Summary and Conclusions

9.1 In compiling the appraisals, we have applied the site-specific construction costs and property values relating to the proposed development, alongside market assumptions concerning other development costs such as finance and profit. This is in line with the principles of an economic viability assessment of this nature.

9.2 Accounting for the inputs explained above, the Argus appraisal for the proposed development calculates a residual land value for the proposed development of £429,000 (rounded). A summary of the Argus Developer appraisal is included in Appendix 1.

9.3 The benchmark land value of the existing property has been demonstrated to be £1.66m (rounded) - as per Section 7 of this report. Having completed the viability appraisal, we conclude that the net residual is -£1.23m (rounded/negative).

9.4 We would, therefore, conclude that the proposed scheme cannot support a contribution towards affordable housing, in addition to other anticipated planning costs associated with the development.

9.5 The Council's policy makes clear that the affordable housing contribution is subject to viability testing, and this report has been compiled in compliance with this policy, National Planning Policy Framework and RICS Guidance.

9.6 Should the Council require further information from ULL Property to consider the above, we would be happy to provide it, and our contact details can be found at the end of this report.

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Appendix 1 – Argus Developer Appraisal

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Land off Hayes End Road
Hayes UB4 8EH

Development Appraisal
U.L.L. Property
June 19, 2020

Land off Hayes End Road
Hayes UB4 8EH

Appraisal Summary for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Sales Rate ft²**	**Unit Price**	**Gross Sales**
Market sale	29	19,095	498.00	327,907	9,509,310

Rental Area Summary	**Units**	**ft²**	**Rent Rate ft²**	**Initial MRV/Unit**	**Net Rent at Sale**	**Initial MRV**
Commercial	1	1,561	16.00	24,976	24,976	24,976

Investment Valuation

Commercial					
Market Rent	24,976	YP @	5.5000%	18.1818	
(6mths Rent Free)		PV 6mths @	5.5000%	0.9736	442,114
GROSS DEVELOPMENT VALUE				**9,951,424**	
Purchaser's Costs			(30,064)		
Effective Purchaser's Costs Rate		6.80%			
				(30,064)	
NET DEVELOPMENT VALUE				**9,921,360**	
NET REALISATION				**9,921,360**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			428,877		
				428,877	
Stamp Duty			10,944		
Effective Stamp Duty Rate		2.55%			
Agent Fee		1.00%	4,289		
Legal Fee		0.50%	2,144		
				17,377	

Land off Hayes End Road
Hayes UB4 8EH

CONSTRUCTION COSTS				
Construction	**ft²**	**Build Rate ft²**	**Cost**	
Construction	26,781	226.94	6,077,808	
CIL (Borough & Mayoral)			233,084	
S106	29 un	4,250.00 /un	123,250	
				6,434,142
PROFESSIONAL FEES				
Professional fees		10.00%	607,781	
				607,781
MARKETING & LETTING				
Marketing		1.00%	99,514	
Letting Agent Fee		10.00%	2,498	
Letting Legal Fee		5.00%	1,249	
				103,261
DISPOSAL FEES				
Sales Agent Fee - Residential		1.50%	142,189	
Sales Agent Fee - Commercial		1.00%	4,120	
Sales Legal Fee - Residential		0.50%	47,396	
Sales Legal Fee - Commercial		0.25%	1,030	
				194,736
FINANCE				
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)				
Land			46,116	
Construction			292,868	
Other			64,655	
Total Finance Cost				403,639
TOTAL COSTS				**8,189,812**
PROFIT				
				1,731,548
Performance Measures				
Profit on Cost%		21.14%		
Profit on GDV%		17.40%		
Profit on NDV%		17.45%		
Development Yield% (on Rent)		0.30%		

Land off Hayes End Road
Hayes UB4 8EH

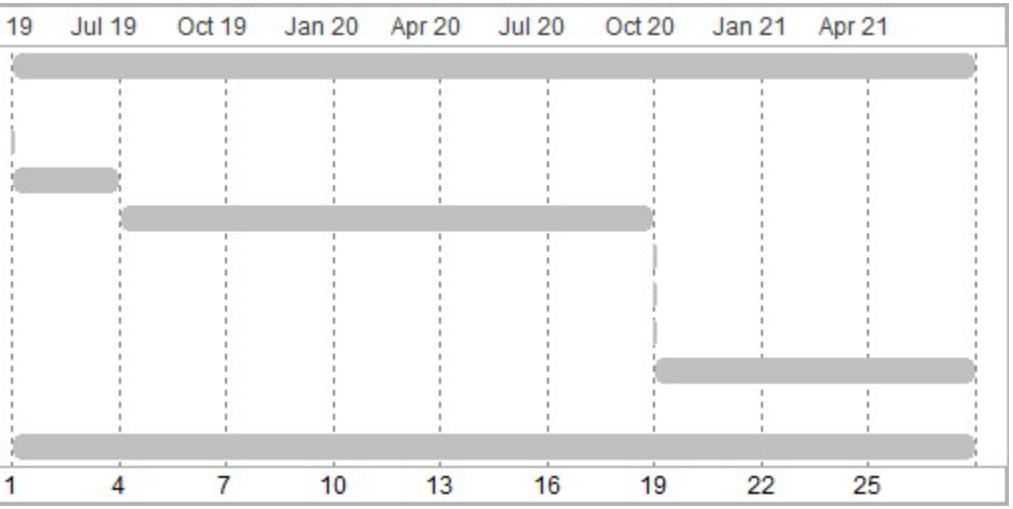
Equivalent Yield% (Nominal)	5.50%
Equivalent Yield% (True)	5.69%
IRR% (without Interest)	30.80%
Rent Cover	69 yrs 4 mths
Profit Erosion (finance rate 7.000)	2 yrs 9 mths

Land off Hayes End Road
Hayes UB4 8EH

Project Timescale	
Project Start Date	Apr 2019
Project End Date	Jun 2021
Project Duration (Inc Exit Period)	27 months

Phase 1

	Start Date	Duration	End Date
Project	Apr 2019	27	Jun 2021
Purchase	Apr 2019	0 Month(s)	
Pre-Construction	Apr 2019	3 Month(s)	Jun 2019
Construction	Jul 2019	15	Sep 2020
Post Development	Oct 2020	0 Month(s)	
Letting	Oct 2020	0 Month(s)	
Income Flow	Oct 2020	0 Month(s)	
Sale	Oct 2020	9 Month(s)	Jun 2021
Cash Activity	Apr 2019	27	Jun 2021



Appendix 2 – Build Cost Estimate

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Scheme: **Hayes End Road, Hayes**

Accomodation Schedule							Floor Areas		Total Area
	floors	5					av sm		
Flats	1 bed flats	1B2P			15	no	51	758.00	
	2 bed flats	2B3P			6	no	61	366.00	
	2 bed flats	2B4P			2	no	79	158.00	
	3 bed flats plus cloaks	3B5P			6	no	86	516.00	
					29	**Total**		1,798.00	
	Circulation Areas						**24.14%**	434.00	2,232.00
Shell Only	Commercial				1	no	145	145.00	
	Bins/Cycles/Plant				1	no	111	111.00	256.00
					2	**Total**			
								Total Sq M	**2,488.00**

Design & Build Standard Costs:							Rate/Cost		Total
	Shell only	Commercial			256	sm	800.00		204,800.00
	Flats, Code 3	std 4 storey block - assuming even mix of 1,2,3 bed units (to new B Regs Apr 15)			2,232	sm	**970.00**		2,165,040.00
		add for scheme configeration/complexity/storey hts **(allow 0% to 7%)**	allow	**5.0%**	2,232	sm	48.50		108,252.00
		extra over for water break tank, booster pumps (4 storey plus)			**1**	item	75,000.00		75,000.00
		extra for electrical services distribution		**1**	29	flats	500.00		14,500.00
		Extra for 2nd bath (ensuite) to 2B/3B/4B flats		**1**	8	units	3,500.00		28,000.00
		Extra for sprinkler system		**1**	29	flats	2,500.00		72,500.00
		Extra for duel aspect units		**1**	2,232	sm	75.00		167,400.00
	Disabled Spec	Extra full disabled spec			3	units	10,000.00		30,000.00
	Private Sale	Extra for private sale spec(see below) - flats			29	no	10,000.00		290,000.00
	Special Foundations	Add extra over 1m std fdn for Piling/grdbeams to flats (4 storey)		**1**	2,488	sm (total area)	65.00		161,720.00
	Elevational treatments	**Extra over** std fcgs cost (£450/1000),av 5,000 bricks per flat, 10,000 per house	fcgs per th	**475**	145	thousand	-		-
		allow for any brick features i.e. string bands/soldiers etc		**1**		item	20,000.00		20,000.00
		Extra for oriel windows		**1**	3	no	2,500.00		7,500.00
	Lift	8 person Lift & Shaft (4 storey 35k) plus bwic			1	no	60,000.00		60,000.00
	Special Roofs/Details	EO cost for flat PCC roof & kemporal (EO pitched roof), note any parapets m.s.		**1**	2,488	sm (total area)	30.00		74,640.00
		600mm Parapet wall			170	m	400.00		68,000.00
		Extra for private and communal terraces			138	sm	100.00		13,800.00
		Extra for galvanised metal railings to private and communal terraces			70	m	300.00		21,000.00
	Balconies	As part of RC frame £1500/sm or metal 'bolt on' £1975/sm, galv railings (3 x 1.5m)			12	no	9,000.00		108,000.00
		As part of RC frame £1500/sm or metal 'bolt on' £1975/sm, glass balustrade (3 x 1.5m)			12	no	10,000.00		120,000.00
	Extra: transfer slab	Extra over cost of FF transfer slab/cols with grd bearing slab			588	sm	400.00		235,200.00
							per sm	**1,625.95**	**4,045,352.00**
	Site Clearance/Demos				29	units	-	say	100,000.00
		Extra for contamination			1	item	-	provisional	50,000.00
	Externals								
	Drainage	flats/commercial			31	no	1,500.00		46,500.00
		adoptable sewers incl m'holes & fees			240	m	150.00		36,000.00
		allowance for SUDS or surface water attenuation		**1**	174	cm	380.00		66,120.00
		sewer connections incl road crossings			2	no	10,000.00		20,000.00
	Stats/Services	disconnections			**2**	no	10,000.00		20,000.00
		incl trenching/ducts,			30	no	5,000.00		150,000.00
		plus landlords			**1**	no	5,000.00		5,000.00
		extra for sub station			**1**	no	90,000.00		90,000.00
		extra for stat diversions etc			**1**	no	20,000.00		20,000.00
		External Lighting -Street lights (at 30m centres)			1	item	15,000.00		15,000.00
		CCTV system			1	item	15,000.00		15,000.00
	Roads & Paths	adoptable road 'all in' rate (fees incld in design)			389	sm	200.00		77,880.00
		adoptable path/edging (fees incld in design)			103	sm	100.00		10,300.00
		Xovers/mg paths			30	sm	500.00		15,000.00
		Parking/drives			346	sm	100.00		34,560.00
		Pvt paths/patios/dryer to ground floor units			6	plots	1,000.00		5,800.00
	Bin/Bike store	Bins			29	no	175.00		5,075.00
		Cycle stands			58	no	200.00		11,600.00
	Landscape/gardens	(note, amenity space 20sm for 1 Bed flat & 30sm for 2 bed)			725	sm	80.00		58,000.00
	Boundary Walls/Fencing	Fencing			130	m	100.00		13,000.00
		Fencing			6	plots	1,200.00		6,960.00
		reinstate boundaries			1	item	5,000.00		5,000.00
							per sm	**1978.35**	**4,922,147.00**
									4,922,147.00
		Design Risk/Contingency				**5.00%**			**246,107.35**
									5,168,254.35
	Prelims & Design Fees					**17.60%**			**909,553.55**
				DESIGN & BUILD PRICE				**per sm**	**2442.85**	**6,077,807.90**
							per dwelling	**209,579.58**	

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