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

24th February 2021

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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 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 permission for the "*Demolition of existing buildings and redevelopment of the site to provide a building of 4 storeys with residential accommodation (Use Class C3) at ground and upper floors, with associated residential amenity space, landscaping, car and cycle parking, refuse storage and access".*

1.5 The Gross Development Value for the scheme is £9.52m (rounded) based on the residential sales value.

1.6 The total Cost of development is £8.71m.

1.7 The Argus Developer appraisal for the proposed development calculates a residual land value of £814,000 (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 £845,000 (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 proposed planning application seeks permission for the "*Demolition of existing buildings and redevelopment of the site to provide a building of 4 storeys with residential accommodation (Use Class C3) at ground and 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.

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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.

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, received by ULL in February 2021;
- A construction cost plan prepared by Bugler Developments Limited (a Greater London Main Contractor), February 2021;
- Existing lease information for the current uses provided by Bugler Homes.

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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.

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

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 planning application seeks permission for the "*Demolition of existing buildings and redevelopment of the site to provide a building of 4 storeys with residential accommodation (Use Class C3) at ground and upper floors, with associated residential amenity space, landscaping, car and cycle parking, refuse storage and access*".

3.8 The total Gross Internal Area (GIA) of the proposed scheme is 2,212 sq m (23,813 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)	5	264	2,844
2 bedroom (3 person)	16	980	10,549
3 bedroom (5 person) (WC)	2	196	2,114
3 bedroom (4 person)	1	74	800
3 bedroom (5 person)	3	294	3,160
Total residential	**27**	**1,809**	**19,467**

Source: On Architecture, February 2021

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.

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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."

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.

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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
	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.

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.

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 immediate vicinity of the Site with most development activity focused around the main town centres of Hayes, Uxbridge and West Drayton. There is also rather limited evidence of new 3 bedroom apartments transacting within this location. The following achieved sales data has been identified in respect of 1, 2 and 3 bedroom apartments, within reasonable proximity of the Site.

5.4 Samara House, Catkin Place, Hayes UB4 9FA – 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 603 sq ft (56 sqm) sold for £282,000, equating to £468 per sq ft;
- In February 2019, an 829 sq ft (77 sqm) 2-bedroom apartment sold for £360,000, equating to £434 per sq ft.

5.5 The Courtyard, Connaught Close, Hayes UB8 3DZ – 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 538 sq ft (50 sqm) sold for £325,000, equating to £604 per sq ft;
- A 2-bedroom apartment comprising 829 sq ft (77 sqm) sold for £400,000 in March 2019, equating to £483 per sq ft;
- In September 2019 as 2-bedroom apartment comprising 667 sq ft (62sqm) achieved £372,500 equating to £558 per sq ft.

5.6 Westgate Court, 297 Long Lane Hillingdon, Uxbridge UB10 9EW – Marketed as The Dairy, this development by Howarth Homes provides 36 units comprising studios, 1 and 2 bedroom apartments. The scheme was completed in early 2020 and all units were sold by the end of Quarter 4 2020. Westgate Court is located 2.4 miles from the Site. The following achieved prices are for units of a similar size to those proposed on the subject Site:

- 1-bedroom apartment with an area of 624 sq ft (58 sqm) sold for £345,000 in August 2020, equating to £553 per sq ft;
- 1-bedroom apartment with an area of 635 sq ft (59 sqm) sold for £340,000 in June 2020, equating to £535 per sq ft;

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- 1-bedroom apartment with an area of 538 sq ft (50 sqm) sold for £359,995 in January 2020, equating to £669 per sq ft;
- 1-bedroom apartment with an area of 549 sq ft (51 sqm) sold for £269,995 in January 2020, equating to £492 per sq ft;
- 1-bedroom apartment with an area of 549 sq ft (51 sqm) sold for £320,000 in January 2020, equating to £583per sq ft;

- 2-bedroom apartment comprising 667 sq ft (62 sqm) sold for £369,995 in January 2020, equating to £554 per sq ft;
- 2-bedroom apartment comprising 667 sq ft (62 sqm) sold for £374,995 in January 2020, equating to £562 per sq ft;
- 2-bedroom apartment comprising 667 sq ft (62 sqm) sold for £415,000 in January 2020, equating to £622 per sq ft.

5.7 Westgate Court is located approximately 0.3 miles from Hillingdon Underground Station and 1.6 miles from Uxbridge Underground Station. The scheme is also immediately adjacent to the A40 which enables access into central London and the M25 to the west. We consider this location to be better connected than the subject Site which is reflected in the higher achieved values.

5.8 Union Park, Packet Boat Lane, Uxbridge - a gated development of over 250 units situated approximately 3.0 miles from the Site. This is a canal side development, located approximately 1 mile from West Drayton mainline station. The scheme offers studio, 1, 2 and 3 bedroom apartments. The following units have most been recently sold, including two 3 bedroom apartments:

- Jessop Court a 1-bedroom apartment with an area of 581 sq ft (54 sqm) sold for £280,000 in March 2020, equating to £482 per sq ft;
- Jessop Court a 1-bedroom apartment with an area of 549 sq ft (51 sqm) sold for £275,000 in February 2020, equating to £501 per sq ft.

- Weston Court 2-bedroom apartment with an area of 646 sq ft (60 sqm) sold for £300,000 in November 2019, equating to £465 per sq ft;
- Weston Court 2-bedroom apartment with an area of 721 sq ft (67 sqm) sold for £325,000 in November 2019, equating to £451per sq ft;
- Weston Court 2-bedroom apartment with an area of 710 sq ft (66 sqm) sold for £360,000 in October 2019, equating to £507 per sq ft.

- Weston Court 3-bedroom apartment with an area of 1,119sq ft (104 sqm) sold in February 2020 for £457,500, equating to £409 per sq ft;
- Jessop Court 3-bedroom apartment with an area of 1,076 sq ft (100 sqm) sold in July 2019 for £445,000, equating to £413 per sq ft.

5.9 Packet Boat Lane is a much larger scale development than the subject site and includes a concierge service.

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5.10 St Andrew's Park 3C, Percival House, 3 Kellett Street, Uxbridge UB10 0BY – part of the large scale redevelopment of the former RAF Uxbridge to provide over 1,300 new homes and a range of amenities and public open space. St Andrew's Park is located approximately 2.8 miles from the subject Site. This particular phase, delivered by Persimmon Homes, offers 1 and 2 bedroom apartments. The following sales of units of a similar size to the proposed scheme have most recently completed:

- 2-bedroom apartment comprising 721 sq ft (67 sqm) sold for £345,000 in July 2020, equating to £478 per sq ft;
- 2-bedroom apartment comprising 678 sq ft (63 sqm) sold for £338,000 in July 2020, equating to £498 per sq ft;
- 2-bedroom apartment comprising 689 sq ft sold (64 sqm) for £285,000 in June 2020, equating to £414 per sq ft;
- 2-bedroom apartment comprising 721 sq ft (67sqm) sold for £335,000 in June 2020, equating to £465 per sq ft;
- 2-bedroom apartment comprising 700 sq ft (65 sqm) sold for £338,000 in June 2020, equating to £483 per sq ft;
- 2-bedroom apartment comprising 657 sq ft (61 sqm) sold for £347,000 in May 2020, equating to £528 per sq ft;
- 2-bedroom apartment comprising 710 sq ft (66 sqm) sold for £350,000 in April 2020, equating to £493 per sq ft;
- 2-bedroom apartment comprising 678 sq ft (63 sqm) sold for £355,000 in April 2020, equating to £524 per sq ft.

5.11 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.

5.12 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.

5.13 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
1b2p	53	570	£310,000	543
2b3p	61	657	£360,000	548
3b4p	74	797	£395,000	496
3b5p	98	1,055	£440,000	417

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5.14 We have therefore adopted a GDV for the proposed residential units of £9.52m, which equates to a blended rate of £489 per sq ft.

Ground Rent Investment

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

5.16 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."*

5.17 The Queen's Speech in December 2019 further confirmed that new homes will be sold as freehold wherever possible.

5.18 From April 2021 the Government's Help to Buy scheme will restrict ground rents for leasehold properties to a 'peppercorn', meaning a sum of zero monetary value. Mortgage lenders are also advising that ground rents are no longer being factored into their lending decisions.

5.19 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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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 Developments Limited, which is submitted with this report as Appendix 2. The total construction cost estimate is £5.47m (rounded) and includes a normal Main Contractor's design and risk.

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	7.95%	Build Cost Sum
Residential Lettings and Disposal Costs		
Marketing	1.0%	Residential GDV
Sales Agent Fees	1.5%	Residential GDV
Legal Fees	0.5%	Residential GDV
S.106 Costs		
£4,250 per has been applied to each residential unit producing a total section 106 contribution of £114,750. This amount is based upon the executed s106 agreement for the Applicant's 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 £243,444 within the appraisal which has been advised by the Applicant's planning adviser, ROK Planning. Mayoral CIL is £75,966 and Local CIL is £167,477. Please note that this is an estimate only and the amount payable will be subject to confirmation by the local authority. 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 element.		

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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.

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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.

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.

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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%.

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 13,401	sq m 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	£5,470,888
Borough/Mayoral CIL	£243,444
Section 106	£114,750
Professional Fees	£435,198
Marketing & Letting	£95,194
Disposal Fees	£190,387
Acquisition Costs	£42,427
Total finance costs	£446,920
Profit	£1,665,889
Total Costs	**£8,705,097**
Revenue	
Residential	£9,519,363
Total Revenue	**£9,519,363**
Residual Land Value	£814,266
Proposed Benchmark Land Value	£1,659,000
RLV - EUV	**(£844,734)**

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 £814,000 (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 -£845,000 (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
February 24, 2021

APPRAISAL SUMMARY — U.L.L. PROPERTY

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	27	19,467	489.00	352,569	9,519,363
NET REALISATION				**9,519,363**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			814,266		
				814,266	
Stamp Duty			30,213		
Effective Stamp Duty Rate		3.71%			
Agent Fee		1.00%	8,143		
Legal Fee		0.50%	4,071		
				42,427	
CONSTRUCTION COSTS					
Construction	**ft²**	**Build Rate ft²**	**Cost**		
Construction	23,813	229.74	5,470,888		
CIL (Borough & Mayoral)			243,444		
S106	27 un	4,250.00 /un	114,750		
				5,829,082	
PROFESSIONAL FEES					
Professional fees		7.95%	435,198		
				435,198	
MARKETING & LETTING					
Marketing		1.00%	95,194		
				95,194	

Land off Hayes End Road
Hayes UB4 8EH

DISPOSAL FEES			
Sales Agent Fee - Residential	1.50%	142,790	
Sales Legal Fee - Residential	0.50%	47,597	
			190,387
FINANCE			
Debit Rate 7.000%, Credit Rate 0.000% (Nominal)			
Total Finance Cost			446,920
TOTAL COSTS			**7,853,474**
PROFIT			
			1,665,889
Performance Measures			
Profit on Cost%	21.21%		
Profit on GDV%	17.50%		

Land off Hayes End Road
Hayes UB4 8EH

Timescale (Duration in months)

Project commences Jan 2021
Phase 1

Stage Name	Duration	Start Date	End Date	Anchored To	Aligned	Offset
Phase Start		Jan 2021				
Pre-Construction	3	Jan 2021	Mar 2021	Purchase	End	0
Construction	15	Apr 2021	Jun 2022	Pre-Construction	End	0
Sale	12	Jul 2022	Jun 2023	Income Flow	End	0
Phase End		Jun 2023				
Phase Length	**30**					

Project Length **30** **(Includes Exit Period)**

Appendix 2 – Build Cost Estimate

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NW, as at	**19/02/2021**								
	Feasibility for:								
	Bugler Homes			**HA SPEC**	**1**				
Scheme:	Hayes End Road, Hayes			**PRIVATE SPEC**	**0**				
Accomodation Schedule							**Floor Areas**		**Total Area**
	floors	**4**					**av sm**		
Flats	1 bed flats	1B2P			5	no	52.84	264.20	
	2 bed flats	2B3P			16	no	61.25	980.00	
	3 bed flats plus cloaks	3B5P			6	no	94.05	564.30	
					27	**Total**		1,808.50	
	Circulation Areas						**22.31%**	403.50	2,212.00
Shell Only	Bins/Cycles/Plant				0	no	0	-	-
					0	**Total**			
								Total Sq M	**2,212.00**
Design & Build Standard Costs:							**Rate/Cost**		**Total**
	Shell only	Bins/Cycles/Plant			-	sm	600.00		-
	Flats, Code 3	Standard 4 Storey Block			2,212	sm	**970.00**		2,145,640.00
		add for Scheme Configuration/Complexity/Storey Heights **(allow 0% to 7.5%)**	allow	**5.0%**	2,212	sm	48.50		107,282.00
		extra over MEV for MVHR		**1**	27	no	1,500.00		40,500.00
		extra over for Water Break Tank, Booster Pumps			**1**	item	75,000.00		75,000.00
		extra over for 2nd Bath (Ensuite) to 3B5P Flats		**1**	6	units	3,500.00		21,000.00
		extra over for Sprinkler System		**1**	27	flats	2,500.00		67,500.00
		extra over for Dual Aspect Flats		**1**	2,212	sm	75.00		165,900.00
	Disabled Spec	Extra Over for Full Disabled Spec			3	units	10,000.00		30,000.00
	Private Sale	Extra Over for Private Sale Spec			27	no	10,000.00		270,000.00
	Special Foundations	Extra Over for Piling & Groundbeams		**1**	2,212	sm (total area)	65.00		143,780.00
	Elevational treatments	**extra over** standard facings cost (£475/1000), av 5,000 bricks per flat	fcgs per th	**475**	135	thousand	-		-
		allow for Zinc Rainscreen		say	294	sm (wall area)	300.00		88,200.00
		allow for any Brick Features i.e. String Bands/Soldiers etc		**1**		item	30,000.00		30,000.00
		extra over for Oriel Windows		**1**	4	no	1,500.00		6,000.00
	Lift	8 Person Lift & Shaft			1	no	50,000.00		50,000.00
	Special Roofs/Details	Extra Over for Flat PCC Roof and Kemporol Finish (Parapets m.s.)		**1**	2,212	sm (total area)	30.00		66,360.00
		600mm Parapet Wall			205	m	400.00		82,000.00
		Extra Over for Private and Communal Terraces			108	sm	100.00		10,800.00
		Extra Over for Galvanised Metal Railings to Private and Communal Terraces			111	m	300.00		33,300.00
	Balconies	Metal 'Bolt On' with Galvanised Railings			16	no	9,000.00		144,000.00
							per sm	**1,617.21**	**3,577,262.00**
	Site Clearance/Demos				27	units	-	say	100,000.00
		Extra Over for Contamination			1	item	-	provisional	50,000.00
	Externals								
	Drainage	Flats/Ancillary			27	no	1,500.00		40,500.00
		Adoptable Sewers incl Manholes & Fees			240	m	150.00		36,000.00
		Allowance for SUDS or Surface Water Attenuation		**1**	162	cm	380.00		61,560.00
		Sewer Connections incl Road Crossings			2	no	10,000.00		20,000.00
	Stats/Services	Disconnections			**1**	no	10,000.00		10,000.00
		Mains Services (Electric, Water, Gas) incl Trenching/Ducts			27	no	5,000.00		135,000.00
		plus Landlords			**1**	no	5,000.00		5,000.00
		Extra Over for Substation			**1**	no	90,000.00		90,000.00
		Extra Over for Stat Diversions etc			**1**	no	20,000.00		20,000.00
		External Lighting			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 incl in Design)			392	sm	200.00		78,312.00
		Adoptable Path/Edging (Fees incl in Design)			170	sm	100.00		17,000.00
		Xovers/mg Paths			30	sm	500.00		15,000.00
		Parking/Drives			253	sm	100.00		25,344.00
		Electric Gates			1	no	10,000.00		10,000.00
		Private Paths/Patios/Dryer to Ground Floor Units			7	plots	1,000.00		6,750.00
	Bin/Bike store	Bin Covered Stores			1	no	15,000.00		15,000.00
		Bins			27	no	175.00		4,725.00
		Bike Covered Stores			1	no	12,500.00		12,500.00
		Cycle stands			54	no	200.00		10,800.00
	Landscape/gardens	(Note, Amenity Space 20sm for 1 Bed Flat & 30sm for 2 Bed Flat)			675	sm	80.00		54,000.00
	Boundary Walls/Fencing	Perimeter Fencing			130	m	100.00		13,000.00
		Plot Fencing			7	plots	1,500.00		10,125.00
		Reinstate Boundaries			1	item	5,000.00		5,000.00
							per sm	**2013.06**	**4,452,878.00**
		Design Risk/Contingency				**5.00%**			**222,643.90**
									4,675,521.90
		Prelims & Design Fees				**17.01%**			795,366.36
				DESIGN & BUILD PRICE			**per sm**	**2473.28**	**5,470,888.26**
							per dwelling	**202,625.49**	

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U.L.L. Property

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