



GERALDEVE

Assessment on Financial Viability

On behalf of: Westminster City Council

FINAL

2-4 & 6, Queensway & 125, Queensway, 117-118, 119-122 & 123, Bayswater Road and 7, Fosbury Mews, London W2

Review of Financial Viability Assessment

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Contact: James Brierley
Alex Brown
Mark Spratley

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72 We beck Street London W1G 0AY
Tel. 020 7493 3338
www.geraldeve.com

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EXECUTIVE SUMMARY

1. Gerald Eve LLP (“GE”) was instructed by Westminster City Council (“WCC”) to undertake a due diligence assessment of a Financial Appraisal Supporting Statement (“FASS”) and associated information in connection with a planning application for the proposed development (“the Scheme”) of 2-4 & 6, Queensway & 125, Queensway, 117-118, 119-122 & 123, Bayswater Road and 7, Fosbury Mews, London W2 (“the Site”), submitted on behalf of Bayswater Road (Holdings) Limited (“the Applicant”). Bilfinger GVA (the “Advisor”) produced the FASS on behalf of the Applicant which forms part of the application documentation.
2. GE instruction was to review the FASS and verify whether the Scheme could viably be delivered and comply with policy requirements or, if not, what the maximum achievable quantum of on-site housing which could be provided. If onsite affordable housing cannot be delivered and a financial contribution is the only practical and viable option, we will assess the maximum reasonable level of financial contribution that can be provided.
3. The Scheme (Planning Ref: 15/10671/FULL) is for:

Demolition and redevelopment of 117 to 125 Bayswater Road, together with 2 to 6 Queensway and 7 Fosbury Mews for a new building comprising 3 basements, ground and 9 upper storeys to include 55 residential units and ancillary residential facilities (class C3), together with retail (class A1) and/or car showroom (sui generis) unit, a retail (class A1) and/or restaurant (class A3) unit, a dentist (class D1) and a spa/re use (class D2), highway works and the use of car parking within the basement of consort house.
4. The FASS for the Scheme has considered the policy compliant on site provision and the maximum reasonable amount of affordable housing that can be provided on site. In addition the Advisor has considered the cross subsidy to facilitate the delivery of affordable housing at 382-386 Edgware Road (the ‘Donor Site’). Their assessments demonstrate that it is not possible for the scheme to provide a policy-compliant level of on-site affordable housing.

5. The FASS states that the Applicant has not yet secured the donor site, 383-386 Edgware Road, London, W2 but is in the discussion to purchase the site. The site has been considered for its suitability as a cross subsidy to facilitate the delivery of affordable housing and therefore representing the 'pot' available for planning obligations. The assessment of the donor site is appended to the FASS.
6. This report has been written in accordance with the NPPF, The London Plan, WCC's Core Strategy and WCC's other publications and also made consideration to WCC's emerging policies, CIL Regulations, DCLG guidance and the RICS Guidance Note: "Financial Viability in Planning" (published August 2012).
7. The overall conclusions of our review are set out below:
8. We are of the opinion that the Site Value Benchmark of £72.78m is reasonable. The Advisor has supported this value with relevant market comparables; this approach is consistent with the RICS GN.
9. We have reviewed the residential sales values provided by the Advisor. We consider the gross value of the residential units to be reasonable and have adopted £276.9m in the appraisal.
10. The Advisors appraisal in the Viability Assessment dated November 2015 includes £98m for construction costs. This has since been superseded by the Cost Plan: Planning Stage dated 17 November 2015 which totals £95.65m. Veale & Saunders have reviewed the cost plan and consider the reduced figure to be a reasonable basis for financial viability purposes. Therefore we have adopted a cost of £96.5m in our appraisal.
11. In our extensive experience we are of the view that the profit return benchmark on profit set at 15% is reasonable. Due to the prime location, strength of the residential market and having regard to the risks of the Scheme a return benchmark at this level is considered reasonable.
12. The Scheme cannot viably provide a full policy compliant level of affordable housing and through robust assessment of the assumptions and sensitivity analysis, **the Applicant's offer of £8,500,000 PIL is at the maximum reasonable amount.**

Table 1: Showing Summary of Assumptions

Item	The Advisor	GE	Comments
Time Scale			
Pre-Construction	3 months	3 months	Acceptable
Construction	30 months	30 months	Acceptable
Sale	7 months	7 months	Acceptable
Total	40 months	40 months	
CIL	£600k	£600k	Acceptable. Awaiting confirmation from WCC.
S.106	£100k	£100k	Acceptable
Marketing/Letting/Sales			
Marketing	£500K	£500K	Acceptable
Letting Agent	10%	10%	10% is industry standard.
Letting Legal	5%	5%	Acceptable
Sales Agent Resi/Comm	2%/1%	2%/1%	Acceptable
Sales Legal	0.5%	0.5%	Acceptable
Finance	6% (2% credit)	6% (2% credit)	Acceptable
Profit on GDV	15%	15%	Acceptable
Benchmark Site Value	£72.78m	£72.78m	Acceptable
Potential Surplus	£6.1m	£8.5m	

Source: The Advisor/GE

1. Introduction

In this section we outline the requirement and structure of the report.

- 1.1 GE Gerald Eve LLP (“GE”) was instructed by Westminster City Council (“WCC”) to undertake a due diligence assessment of a Financial Appraisal Supporting Statement (“FASS”) and associated information in connection with a planning application for Scheme at the Site, submitted on behalf of the Applicant. The Advisor produced the FASS on behalf of the Applicant which forms part of the application documentation.
- 1.2 Our instruction is to review the FASS and verify whether the Scheme could viably be delivered and complies with policy requirements or, if not, to calculate what the maximum achievable quantum of on-site housing that could be provided. If onsite affordable housing cannot be delivered and a financial contribution is the only practical and viable option, then our instructions are to calculate what the maximum reasonable level of financial contribution is that can be provided.
- 1.3 We are only concerned with the proposed development of the Property, as set out in the planning application, and in accordance with general accepted practice (see 1.5 below). We do not seek to compare or contrast the financial offer proposed by the Applicant with any other proposed or implemented scheme (or Appeal decision). In accordance with planning legislation, each application should be considered on its own merit. It is also recognised that financial viability, in considering a planning application, is only one of the material considerations as to whether permission should be granted or refused.
- 1.4 In undertaking our review we have had particular regard to guidance and policy contained within the following:
 - National Planning Policy Framework (“NPPF”) (March 2012);
 - Planning Practice Guidance
 - The London Plan (July 2011);
 - WCC Core Strategy (2013) and Financial Viability in Planning.

- Royal Institution of Chartered Surveyors (RICS) Guidance Note: “Financial Viability in Planning” (published August 2012) (“the RICS GN”);
- GLA SPG Housing;
- Other relevant best practice guidance.

1.5 As stated above and requested by WCC, we have adopted the RICS GN as a basis for our assessment as set out in this report. It should be noted that whilst the RICS GN is not “mandatory” in respect of Members’ use, it is however, a “document that provides users with recommendations for accepted good practice as followed by competent and conscientious practitioners.”

1.6 As such, the RICS GN has the status of “recommended good practice” and where Members do not comply with the practice recommended in the RICS GN, they should do so only for a good reason and may be asked to explain their alternative approach in the event of litigation or dispute between parties.

1.7 As outlined in the RICS GN, in undertaking this exercise, we are formulating an appropriate judgement based upon information provided by the Applicant as to the viability of the Scheme and the maximum reasonable level of affordable housing the Scheme can afford in terms of planning obligations.

Conflict of Interest

1.8 As far as we are aware, we have no conflict of interest in relation to the provision of viability advice in respect of this project.

Date and Extent of Inspection of the Site (and areas)

1.9 GE undertook an inspection of the Site on Thursday 15th January 2016, and has based the assessment on the information provided, including building plans of the Scheme and accommodation schedules. GE has obtained the Design and Access Statement from WCC Planning Portal.

- 1.10 We have not undertaken a measurement of the Applicant's planning application drawings and have relied on the information contained in the FASS associated planning and revisions provided by the applicant documentation.

Confidentiality

- 1.11 We are aware that in order to seek to protect commercially sensitive information all information provided to us is provided as Commercial-In-Confidence within the meaning of provisions of the Freedom of Information Act, Sections 41 and 43.

Information Provided to Gerald Eve and Discussions with GVA Grimley

- 1.12 In undertaking this assessment, we have had particular regard to the following information:
- The Advisor's FASS dated November 2015 and accompanying appendices.

Information Sources

- 1.13 Whilst we have relied on the information provided to us we have also had regard to our own market knowledge, research and experience in reaching our opinion.
- 1.14 We have had support from Veale & Saunders in assessing the cost plan provided to us by the Advisor.

Our Report Structure

- 1.15 We set out our report under the following numbered headings:-

Section 2: Background and Description of Proposed Development

Section 3: Planning Policy Context Summary

Section 4: Viability Methodology and Approach

Section 5: Site Value

Section 6: Review of Revenue Assumptions

Section 7: Review of Cost Assumptions and Construction Programme

Section 8: Review of Financial Appraisal

Section 9: Sensitivity Analysis

Section 10: Conclusions and Recommendations

- 1.16 For ease of reference, a coloured box at the start of each section summarises the purpose of that chapter. Where text is in italics, this indicates GE's response or commentary on the information submitted by the Applicant.
- 1.17 Our report is accompanied by appendices which are introduced in the text and listed on page 6.
- 1.18 We have adopted an approach whereby if we believe the inputs used in the Advisor's FASS are within a reasonable margin of our views then we have not sought to challenge these differences. Where these lie outside of this margin, we expect the Advisor will wish to clarify and comment. This is a standard practice and encouraged by the RICS GN. We would add that where we have not commented on some aspects of the Advisor's FASS and accompanying documents this does not mean we agree or disagree with the FASS, the Applicant or its advisors.
- 1.19 Finally it is stressed that this review is undertaken at a particular point in time (February 2016) and having regard to evidence available at this time. The costs and values have been assessed through a Sensitivity Analysis (Section 9) of our report and our concluding recommendations; this report is nevertheless a product as at the time of writing. Given economic uncertainties and the funding market for property development, and in accordance with the RICS GN it may be necessary for our report to be updated at a future point in time for planning decision making purposes.

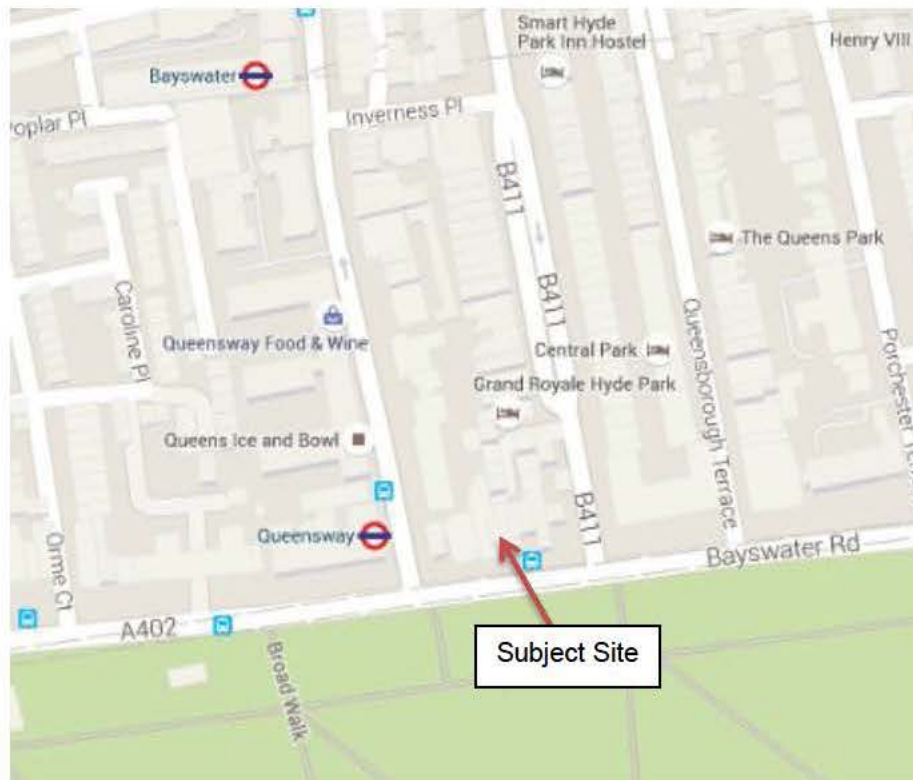
2. Background and Description of Proposed Development

In this section we outline the location and description of the Site, with an overview of the proposed development which is the subject of the planning application

Location

- 2.1 The Site is located in Bayswater within the London Borough of Westminster. It is situated on the northern side of Bayswater Road and it is bordered by Kensington Gardens to the south, Inverness Terrace to the east and Queensway to the west.
- 2.2 The Site is irregular in shape and it extends to approximately 1.0 acre (0.4 hectares).
- 2.3 The area surrounding the Property is characterised by a mix of commercial uses including retail, restaurant and offices.
- 2.4 The Property is located near a number of transport links. Queensway (Central line) and Bayswater (Circle and District line) London Underground stations are both located within walking distance of the subject Site. There are also regular bus services operating along the Bayswater Road.

Figure 1: Showing Location of the Subject Site



Source: Google Maps

Description

117-118, Bayswater Road

- 2.5 The plot is a cleared development site situated at the junction of Bayswater Road and Inverness Terrace.

119-122, Bayswater Road

- 2.6 The property comprises an existing hotel with ground floor retail units.

123, Bayswater Road

- 2.7 The property comprises a former public house, and now arranged as a coffee shop on basement and ground floors with residential uses on the first and second floors.

2-4 and 6, Queensway and 125, Bayswater Road

- 2.8 The property comprises three ground floor retail units, a dental practice and four residential units over the first to fifth floors.

7, Fosbury Mews

- 2.9 The property comprises a residential mews house, arranged over ground and first floor. The property is accessed via Fosbury Mews off Inverness Terrace, and is situated to the rear of the subject Site.

Consort House

- 2.10 Use of car parking within the basement of Consort House.
- 2.11 A full schedule of accommodation of the existing buildings within the site can be found within the MSA Measured Survey attached at Appendix 6 of the FASS.

Occupancy

- 2.12 Assumed the subject Site and the properties within the Site have full vacant possession.
- 2.13 The occupier of the dental practice is to temporarily vacate and then reoccupy at practical completion of the Scheme.

Planning History

- 2.14 117-118, Bayswater Road has an implemented planning permission (ref: 09/05824/FULL), which was approved in July 2009. The development comprises 10 residential units (Class C3) on five floors above ground floor retail units plus basement parking.
- 2.15 119-122, Bayswater Road has an implemented planning permission, amended in March 2014 (ref: 13/09034/FULL). The development comprises 22 residential units over 7 storeys, with retail and restaurant at ground floor and basement. The development includes the retention of the façade of 122 Bayswater Road.

Site Tenure and Ownership

- 2.16 The Advisor has assumed that the properties which comprise the Site are of freehold tenure and are owned by the freeholder, the Applicant.
- 2.17 The FVA assumes that there are no unduly onerous or restrictive covenants affecting Title which would have an adverse effect on value.
- 2.18 The car parking spaces in the basement of Consort House will be available to purchasers of the residential units to use on a license basis. No saleable legal interest will be created in the car park.

Proposed Scheme

- 2.19 The proposed Scheme (Planning Ref: 15/10671/FULL) is for:

“Demolition and redevelopment of 117 to 125 Bayswater Road, together with 2 to 6 Queensway and 7 Fosbury Mews for a new building comprising 3 basements, ground and 9 upper storeys to include 55 residential units and ancillary residential facilities (class C3), together with retail (class A1) and/or car showroom (sui generis) unit, a retail (class A1) and/or restaurant (class A3) unit, a dentist (class D1) and a spa/re use (class D2), highway works and the use of car parking within the basement of consort house.”

- 2.20 The Applicant is seeking planning permission to demolish the existing buildings on site and erect a new building which will contain three basement levels, ground floor and 9 upper storeys.
- 2.21 The Scheme will include 55 residential units and residential facilities and will provide commercial units at ground floor level and basement. These will comprise a retail and/or car showroom unit, a restaurant unit, a relocated dentist and a spa/recreation use including a swimming pool and gym.
- 2.22 The car parking will be provided through the use of surplus of spaces within the adjoining Q-Park (basement of Consort House).

- 2.23 Summary schedule of accommodation for the residential accommodation is set out in the table below:

Table 2: Schedule of Proposed Residential Accommodation

Floor	1 Bed	2 Bed	3 Bed	4 Bed	Total	Total Net Saleable Area (sq ft)
1	3	4	2		9	11,787
2	2	5	2		9	12,762
3	2	5	2		9	13,134
4	2	5	2		9	12,842
5		2	2	2	6	13,229
6		1	1	3	5	11,156
7		1	1	3	5	11,138
8/9				3	3	13,592
Total	9	23	12	11	55	99,640

Source: The FASS

- 2.24 Summary schedule for the commercial accommodation is set out in the table below:

Table 3: Schedule of Proposed Commercial Accommodation

Floor	Retail/car showroom NIA (sq ft)	Restaurant/retail NIA (sq ft)
Basement	2,499	2,562
Ground	3,187	2,061
Total	5,686	4,623

Source: The FASS

- 2.25 There is also ground to second floor unit which will accommodate the existing dentists practice in 2-4 Queensway.

3. Planning Policy Context Summary

Introduction

This section provides an overview of key planning policies associated at national, regional and local level including an overview of the planning background relating to the Scheme. Additional reference should be made to the National Planning Policy Framework (“NPPF”), the Planning Practice Guidance (“PPG”), the London Plan, WCC’s City Plan, Local policies, Community Infrastructure Levy (“CIL”) Regulations and GN94/2012.

- 3.1 Whilst this section provides an overview of the policy context for the Scheme, it also refers in particular to those policies which set the background and need for the viability assessments in order to justify the planning obligations package.

National Planning Policy

- 3.2 The NPPF was published in March 2012 and sets out the Government’s economic, environmental and social planning policies for England. It summarises in a single document all previous national planning policy advice. Taken together, these policies articulate the Government’s vision of sustainable development, which should be interpreted and applied locally to meet local aspirations.
- 3.3 In respect of affordable housing, paragraph 50 of the NPPF aims to boost significantly the supply of housing and states that where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified. Such policies should be sufficiently flexible to take account of changing market conditions over time.
- 3.4 The NPPF also recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

- 3.5 In the context of achieving sustainable development the NPPF refers to ensuring viability and deliverability and states:

“To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable”.¹

- 3.6 “Competitive Return” is defined as follows:

“A ‘Competitive Return’ in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan. A ‘Competitive Return’ in the context of a developer bringing forward development should be in accordance with a ‘market risk adjusted return’ to the developer, as defined in this guidance, in viably delivering a project.”²

Planning Practice Guidance

- 3.7 The PPG provides guidance to support the NPPF and to make it more accessible. The statements below are from Section 3 of the PPG Viability Guidance found on the Governments online planning portal.

- 3.8 The PPG addresses the question of when and how viability should be assessed by the Council in respect of planning applications. The PPG states:

“Decision-taking on individual applications does not normally require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular

¹ Paras. 173-177 NPPF

² GN94/2012

circumstances of the Site in question. Assessing the viability of a particular site requires more detailed analysis than at plan level.

A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken.”³

3.9 The PPG addresses the use of forecast modelling within viability testing as follows:

“Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today’s circumstances.

However, where a scheme requires phased delivery over the longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the Applicant and local planning authority wherever possible.”⁴

3.10 With regards to the Council’s consideration of planning obligations in relation to viability – including the assessment of affordable housing provision, PPG states:

“In making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations.

This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions should not be sought without regard to individual scheme viability. The financial viability of the individual scheme should be carefully considered in line with the principles in this guidance.”⁵

³ Para. 016. Ref ID: 10-016-20140306

⁴ Para. 017. Ref ID: 10-017-20140306

⁵ Para. 019. Ref ID: 10-019-20140306

Regional Planning Policy

- 3.11 The London Plan, July 2011 is the overall strategic plan for London, and sets out an economic, environmental, transport and social framework for the development of the capital to 2031. It forms part of the development plan for Greater London.
- 3.12 The London Plan also builds upon many of the policies set out at the national level with a significant emphasis upon achieving development in the most suitable and sustainable of locations, prioritising the use of previously developed land and making the most efficient use of available land.
- 3.13 Policy 3.8 seeks to promote housing choice and ensure the provision of affordable family housing as a strategic priority in the LDF policies.
- 3.14 Policy 3.10 goes on to state that affordable housing including affordable rented and intermediate housing, should be provided to meet the needs of specific households whose needs are not met by the market.
- 3.15 Policy 3.12 states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes. In particular the policy sets out that regard should be had to the current and future requirements for affordable housing at local and regional levels. Going on to state that there is a need to encourage rather than retain residential development and promote mixed and balanced communities. The size and type of affordable housing delivered should reflect the size and type of affordable housing currently in need. Part B of Policy 3.12 states that negotiations on sites should take account of their individual circumstances including the viability of schemes and the availability of public subsidy.
- 3.16 The affordable housing thresholds are set out in Policy 3.13 which states that Boroughs should normally require affordable housing provision on a site which has capacity to provide 10 or more homes.

- 3.17 Paragraph 3.74 of the London Plan states that affordable housing is normally required on-site but in exceptional circumstances it may be provided off-site or through a ring fenced cash-in-lieu contribution, and if appropriate 'pooled' to secure efficient delivery of new affordable housing on identified sites elsewhere.
- 3.18 Paragraph 3.37 of the London Plan reiterates that the Mayor wishes to encourage, not restrain, overall residential development and that Boroughs should take a reasonable and flexible approach to securing affordable housing on a site by site basis.

Local Policy

- 3.19 At the local level, the Westminster City Council City Plan: Strategic Policies document (November 2013) sets out strategic policies. Development control policies are set out within the City Council's saved UDP (January 2007).
- 3.20 Emerging policy contained within Westminster's draft City Management Plan (CMP) policies (November 2011) will set out the City Council's detailed policy for managing Westminster. Once adopted, the CMP will entirely replace the remaining 'saved policies' contained within the City Council's UDP. The draft CMP has not yet been the subject of independent scrutiny by an Inspector appointed by the Secretary of State. As such, it currently has no statutory status for the purposes of Section 38(6) of the 2004 Act and little or no weight can be attached to the draft CMP policies in assessing this application.
- 3.21 Westminster City Plan Policy S1 relates to mixed use in the Central Activities Zone and states:

"where proposals increase the amount of commercial floor space by 200 sq m or more, or in the case of A1 retail or private educational, health or leisure (D1 or D2), by 400 sq m or more, the provision of an equivalent amount of residential floor space will be required on site, where the Council considers this to be appropriate and practical."

- 3.22 Westminster City Plan Policy S16 seeks that proposals for housing developments of either 10 or more additional units or over 1,000 sq m additional residential floorspace will be expected to provide a proportion of the floorspace as affordable housing. Where provision on site is not practical or viable, the affordable housing should be provided off-site in the vicinity.
- 3.23 Where the affordable housing threshold is met or exceeded, the affordable housing provision will be sought as a proportion of floorspace (as set out in Policy S16). The specific proportion sought will still rely on UDP Policy H4, and in particular UDP Tables 3.1 – 3.3. The unit figures in these tables need to be translated to the floorspace figures, in order to implement Policy S16.
- 3.24 Supporting Paragraph 3.34 under UDP Policy H4 sets out the two circumstances in which the requirement for affordable housing may be waived in favour of a payment to the City Council's affordable housing fund:
- If it is not possible for the affordable housing to be transferred to and managed by an RP; and
 - If viability is reduced to the extent that the ability to deliver a residential scheme is compromised.
- 3.25 Both S16 and UDP Policy H4 recognise that it is sometimes not practical or viable for affordable housing to be provided on site. In such circumstances, S16 states that the affordable housing should then be provided off-site in the vicinity, and sets out the circumstances where off-site beyond the vicinity may be acceptable. Off-site provision is only acceptable where it achieves a higher quality, or provision on site would result in a located concentration of social housing.
- 3.26 Prior to the forthcoming adoption of the City Local Policies Plan, WCC has produced an Interim Policy Note on Implementation of Affordable Housing Policy (April 2011), which clarifies the details associated with the application of affordable housing policy during the interim period.
- 3.27 WCC have confirmed that the calculated affordable housing PIL for an offsite contribution would equate to £24,483,308.

WCC Emerging Policy

3.28 Westminster City Council is currently developing its Local Plan and undertaking a review of a number of City Plan policies. Informal consultations on a series of policy topic papers have been held and the City Council set out in March 2015 that it will be bringing forward a number of revisions to the City Plan. These are:

- Basement Revision to Westminster's City Plan;
- Mixed Use Revision to Westminster's City Plan;
- Special Policy Areas and Policies Map Revision to Westminster's City Plan;
- Energy Revision to Westminster's City Plan;
- Full City Plan Revision to Westminster's City Plan;
- Waste Revision to Westminster's City Plan.

3.29 Most recently, the City Council published two revisions to the City Plan for Regulation 19 consultation between 16 July 2015 and 9 September 2015. These revisions concern basement development and mixed use development in Westminster.

3.30 The Site is located within the Core Central Activity Zone ("CAZ") in which the draft regulation outlined the requirement for providing residential floor space based on various uplifts to commercial floor areas.

3.31 GE has made consideration to this and asked WCC to clarify their position on what the requirement for the residential provision will be based on the emerging policy but has not been provided with the opinion at the date of this report.

- 3.32 GE requested information from WCC on whether the emerging policy would impact upon the required residential floor area for the Scheme. WCC responded by advising that the application will be considered under the existing policy as it has been submitted before the 1st September. However, a payment would still be required under the emerging policy as the increase in commercial floor space is over 400sqm. A new formula is not proposed so it is likely to be the same calculation. Following this advice, GE has considered the scheme in line with existing policy requirements.

Community Infrastructure Levy

- 3.33 The Government has introduced a Community Infrastructure Levy “CIL” to be paid by developers to help fund infrastructure required to support the development of its area. CIL is a charge applied by planning authorities on new development to fund required infrastructure within their area. Statutory provision for CIL was introduced in the Planning Act 2008. The ability to charge CIL came into force 6 April 2010 through the Community Infrastructure Levy Regulations 2010. The regulations were amended in 2011, 2012 and 2013. The Mayor of London started charging his CIL (“MCIL”) on 1 April 2012 and the proposed Scheme is liable for this.
- 3.34 The CIL charge will be calculated according to the amount of net additional floor space a new development would create. The amount to be paid will be calculated when planning permission is granted and is paid when development starts, unless the charging authority adopts a payment policy. WCC CIL is currently at public consultation.
- 3.35 Further discussion on the appropriate CIL charge is included under section 7 of this report.

The RICS Guidance Note: Financial Viability in Planning (GN94/2012)

- 3.36 In line with WCC financial viability guidance, we have also had regard the RICS Guidance Note on Financial Viability in Planning.

- 3.37 GN94/2012 (first edition) was published in August 2012 and its purpose is to enable all participants in the planning process to have a more objective and transparent basis for understanding and evaluating financial viability in a planning context. It provides practitioners with advice in undertaking and assessing viability appraisals for planning purposes. It is also requested that this guidance is followed by WCC in planning applications.
- 3.38 The RICS GN defines financial viability for planning purposes; separates the key functions of development, being land delivery and viable development (in accordance, and consistent, with the NPPF); highlights the residual appraisal methodology; defines Site Value for both scheme specific and area-wide testing in a market rather than hypothetical context; what to include in viability assessments; terminology and suggested protocols; and the uses of FVAs in planning.
- 3.39 It provides all those involved in financial viability in planning and related matters with an objective method, framework and set of principles that can be applied for both plan making and development management.
- 3.40 GN94/2012 is grounded in the statutory and regulatory planning regime that currently operates in the UK. It is consistent with the Localism Act 2011, the NPPF and the CIL Regulations 2010.
- 3.41 Financial viability for planning purposes is defined as follows:-
- “An objective financial viability test of the ability of a development project to meet its costs including the cost of planning obligations, whilst ensuring an appropriate site value for the landowner and a market risk adjusted return to the developer in delivering that project.”*
- 3.42 This report has been written in accordance with the NPPF, the National Planning Practical Guidance Portal, The London Plan, WEE's City Plan, WCC's UDP, WCC's Interim Policy Note, the CIL Regulations and the RICS GN.

Summary

- 3.43 The NPPF has a clear presumption in favour of sustainable development and in determining planning applications local planning authorities should take account of this.
- 3.44 The NPPF recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened; and in addition, obligations should be flexible to market changes in order to ensure planned development are not stalled. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.
- 3.45 Where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified.
- 3.46 The PPG recognises the need for the individual circumstances of a scheme to be taken into consideration and the impact that planning obligations may have on viability. Councils are therefore encouraged to be flexible with regards to planning obligations if the Applicant is able to demonstrate that such obligations would make a scheme unviable.
- 3.47 In assessing the level of planning obligations, including affordable housing provision, in accordance with the London Plan, regard must be had to the economics of development and financial viability considerations associated with the Scheme proposals and other planning objectives and requirements.
- 3.48 In respect of affordable housing, the key document is the London Plan July 2011 (including Revised Early Minor Alterations November 2013), where Policy 3.12 states that the maximum reasonable amount of affordable housing should be sought when negotiating on mixed use schemes, having regard to the need to encourage rather than restrain residential development and the individual circumstances of the Property including economic viability.

- 3.49 It is important that the approach taken to affordable housing and scheme viability does not compromise the ability to deliver residential development on the Property.
- 3.50 This section therefore has set out the planning parameters and guidance under which the proposed development is assessed having regard to the objectives of national, regional and local planning policy.
- 3.51 The provision of affordable housing via a financial contribution should be considered in accordance with WCC Policy S1, H4 and S16 tests, and be in accordance with the RICS Guidance Note.

4. Viability Methodology and Approach

In this section we review the Advisors' methodology and approach in assessing viability as set out in the FASS. We have also had regard to the RICS GN as referred to in paragraph 1.4 and best practice.

- 4.1 Established practice states that in considering viability assessments in a planning viability context, it is whether an otherwise viable development is made unviable by the extent of planning obligations or other requirements (see also RICS GN).
- 4.2 In determining an appropriate approach to viability, it is important to have regard to national planning policy frameworks and RICS guidance. In applying an appropriate methodology to a FVA, an appropriate benchmark site value should be applied to reflect the amount a willing seller would accept for the property. In addition, it is also important to consider an appropriate return to a willing buyer to reflect the inherent risk taken on the investment and the subsequent development (see NPPF para: 173).
- 4.3 In analysing any scheme, the risk and therefore reward is critical in arriving at a view on viability. It is therefore important that this is addressed and tests undertaken in order for a judgement to be formulated, in this case regarding what a reasonable contribution towards affordable housing via a payment in lieu the Scheme can provide whilst maintaining viability. Measurements of return such as "profit on cost", "profit on value", "development yield", (for present day assessments) or "internal rates of return" (IRR) ratios (for growth modelling) are commonly used as comparable ratios, and the benchmark level against which the profitability of a scheme should be tested will depend on the degree of risk involved with the Scheme.

Summary of Information Provided

- 4.4 The Scheme has been assessed on its ability to viably provide Section 106 contributions with particular regard to an affordable housing provision. The Advisor has determined the Site Value Benchmark ("SVB") by assessing Market Value land comparables. The Advisor has assessed a number of recent transactions of development sites in the surrounding area.

- 4.5 The Advisor has undertaken a residual appraisal of the Scheme using financial modelling software 'Argus Developer'. The Advisor's appraisal allows for a fixed developer's return and generates a residual land value for analysis. If the residual value of the Scheme is greater than the Site Value Benchmark, the Scheme is said to be viable and the difference is capable of contributing towards the provision of affordable housing.

Site Value Benchmark

- 4.6 In determining the SVB the advisor has considered market comparables, and they are of the opinion that the most appropriate SVB is; £72,780,000.
- 4.7 *In arriving at this opinion the Advisor has undertaken valuations of the various constituents of the site based on the existing planning permissions and the Advisor has assessed market sales of similar development opportunities. The approach is consistent with the National Planning Policy Framework (NPPF), with Planning Policy Guidance (PPG) and is in accordance with the RICS GN. The approach adopted by the Advisor reflects policy requirements and planning obligations, assesses the SVB in relation to a competitive return to willing developers and land owners, and it has been informed by comparable, market based evidence.*
- 4.8 GE has also had regard to WCC Financial Viability Guidance, and followed RICS guidance which is set out in RICS GN paragraph 73 (para 3.3.3) and defines Site Value as follows:
- "Site Value should equate to the Market Value subject to the following assumption; that the value has regard to the development plan policies and all other material considerations and disregards that which is contrary to the development plan".*
- 4.9 The RICS highlights that Site Value must, by definition, be at a level where the landowner is willing to sell at a competitive return as recognised by the NPPF. It also states that Site Value should have regard to policy. Site Value therefore, is not unrestricted when compared to Market Value as defined in the RICS Red Book. The degree of variance will be subject to a judgement, having regard to the circumstances in each instance.

- 4.10 The RICS provides guidance on the approach to assess Site Value Benchmark (SVB), it states that SVB should be based on Market Value, which will be risk adjusted. In order to arrive at this value reference must be made to current use value (CUV), alternative use value (AUV) and market/transactional evidence.
- 4.11 *We have assumed the Property is free of any encumbrances, or restrictions on title which would adversely affect the value.*
- 4.12 *We have also had regard to the specific Property characteristics associated with the Site. The Site is situated in a mixed use commercial and residential area, which is expected to be suited to a residential led development.*
- 4.13 *We have not made any allowances at this stage for loss of income, empty rates or property maintenance (including service charges) as vacant possession is obtained prior to scheme implementation. This however is a real cost to the Applicant in seeking to bring this property forward for development.*
- 4.14 *GE considers the adopted residual approach is reasonable in assessing SVB but has also made consideration to comparable transactions in line with RICS Guidance.*
- 4.15 *GE's approach in arriving at a reasonable SVB has had regard to the following;*
- *The RICS GN;*
 - *The overall planning status, including current and emerging national, regional and local planning policies;*
 - *Comparable property transactions in the market; and*
 - *All other matters which the market would have regard to in arriving at a Market Value (including existing and alternative uses).*
- 4.16 *GE has assessed the Advisor's calculation and assessment of Site Value in Section 5.*

Profit

- 4.17 The Advisor has applied a profit on GDV as their return proxy.

- 4.18 A significant factor in undertaking viability assessments is the level of profit which a developer might reasonably require from undertaking the development. This will depend on a number of factors including the size of the development, the perceived risks involved, the degree of competition for the Property from competing developers, the state of the market in terms of demand for value of the completed development, etc.
- 4.19 Development profit is necessary if private sector investment is to deliver any given project. The level of profit is essentially the reward to the developer for the time, expertise and risk involved in carrying out the process of development. When the developer/land owner is one and the same this may be reflected in the development return.
- 4.20 The level of profit will vary between projects and will reflect a range of factors including market demand, competition, scheme complexity, financial risk and exposure particularly in relation to up-front or abnormal costs together with the anticipated timescales for development and for receiving a return.
- 4.21 Measurements of return such as “profit on cost”, “profit on value”, “development yield”, or “internal rates of return” (IRR) ratios are commonly used as comparable ratios, and the benchmark level against which the profitability of a scheme should be tested will depend on the degree of risk involved with the Scheme.
- 4.22 As a measure of development return, these ratios are commonly used as a benchmark for quantifying the risks of a development project when calculating a residual value, and as a simple measure of return in development appraisals.
- 4.23 Determination of an appropriate target can depend on a number of factors, but it is predicated on the risk associated with developing the proposed Property. The more risk involved, the higher return the developer will require.
- 4.24 Given the residential nature of the Scheme, the extant planning permissions benefiting the Site, and the timescale involved we consider that the profit on Gross Development Value proxy is an appropriate benchmark.

5. Applied Site Value

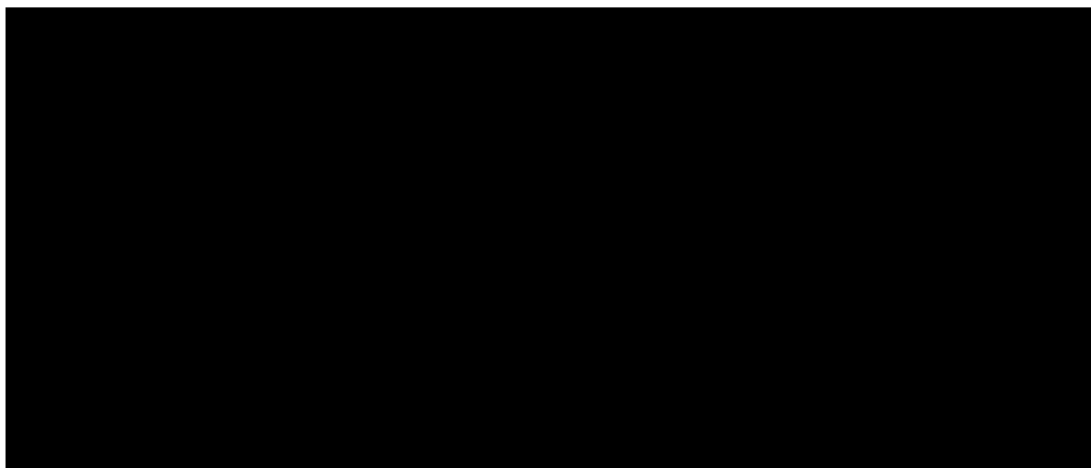
Introduction

In this section we review the justification of the Site Value that the Advisor has used as a benchmark. We have previously commented in Section 3 on policy and guidance in respect of arriving at Site Value.

- 5.1 We have had particular regard to the RICS GN which has sought to provide clarity in this area in defining Site Value on the basis of Market Value (subject to an assumption of having regard to the development plan and all material planning considerations and disregarding what is contrary to the development plan).

Assessment of Site Value Benchmark

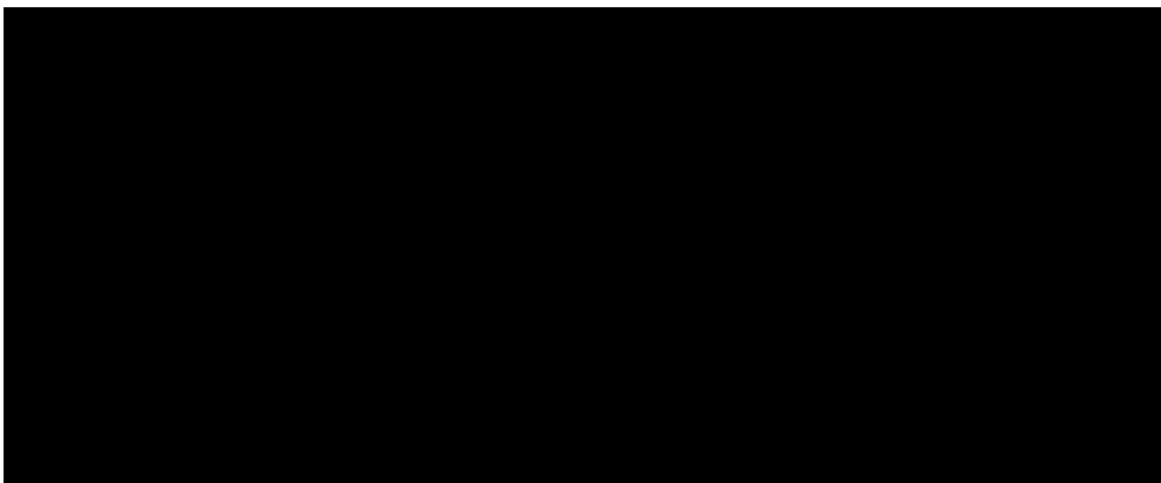
- 5.2 The Advisor has assessed the Site Value Benchmark (SVB) in line with RICS guidance. The Advisor has undertaken valuations of the various constituents of the site based on the existing planning permissions and the Advisor has assessed market sales of similar development opportunities. The comparable evidence has then been analysed and applied to the subject Site to establish a Market Value.
- 5.3 The Advisor has assessed SVB of the site as the aggregate of the values of the various individual properties within the site, as the site is made up of a number of constituent elements and consented planning permissions. The different components of the applied SVB are set out in the table below.



- 5.4 *GE agree with the approach undertaken by the Advisor to establish the SVB. The approach is consistent with the National Planning Policy Framework (NPPF), with Planning Policy Guidance (PPG) and is in accordance with the RICS GN. The approach adopted by the Advisor reflects policy requirements and planning obligations, assesses the SVB in relation to a competitive return to willing developers and land owners, and it has been informed by comparable, market based evidence.*
- 5.5 *In relation to the properties with planning permission the Advisor has made a balanced judgement to establish SVB when assessing the residual land valuations in relation to market based comparable evidence.*

Historic Purchase Prices

- 5.6 The Advisor has considered to the historic purchase price of various constituent parts of the Site, however these transactions have not been relied on to establish the SVB. The historic purchase prices are set out in the table below:

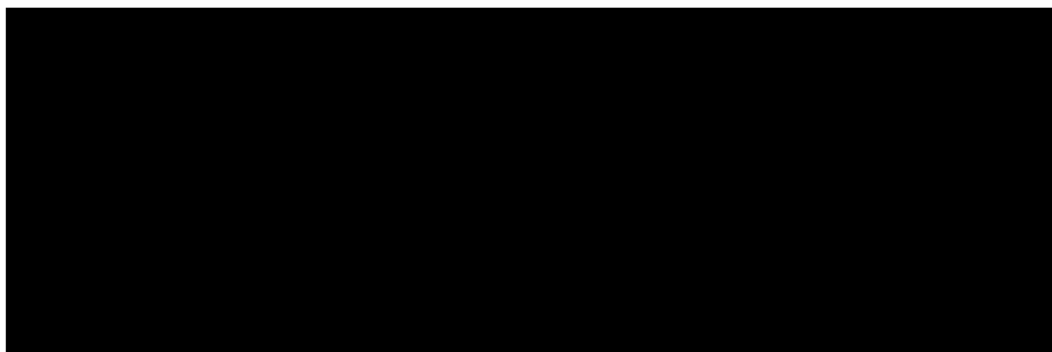


- 5.7 The RICS GN states that purchase price may or may not be material in arriving at a SVB, this is because the developer may make unreasonable/over-optimistic assumptions regarding the type and density or extent of planning obligations, which means that it may overpay for the site. Also, in some instances, site assembly may result in synergistic value arising. The guidance states that it is important to consider the relevance of the actual purchase price, and whether any weight should be attached to it, having regard to the definition of Site Value.

- 5.8 The purchase price of 119-122 Bayswater Road is in line with the Advisors benchmark land value. However, the price paid for 117-118 is approximately 40% above the Advisors benchmark land value, and therefore it may reflect the special purchaser position of having already acquired 119-122. Also the purchase of 123 Bayswater Road is 70% above the Advisors benchmark land value, it was the last property to be acquired and the high purchase price confirms the ransom value paid. Guidance in the PPG states that “*Where transacted bids are significantly above the market norm, they should not be used as part of this exercise*”.
- 5.9 The Advisor states that since the individual sites when held together permit a larger development than held separately, there could in practice be synergistic value for the site of the proposed development. They state this could add 10% to 20% to their opinion of SVB at [REDACTED] potentially allowing a benchmark land value of up to [REDACTED]
- 5.10 *GE comment that any synergistic value added to the SVB which may result in an increase of the site value would have to be assessed in relation to the proposed development and whether this value would generate an unviable scheme.*
- 5.11 *GE conclude that the Advisor is correct in not adopting a SVB on the basis of prices paid by the Applicant for the individual sites, as this aggregate price paid is not reflective of market comparables, and it may reflect a special purchaser or some form of ransom position. Therefore it is not in accordance with the definition of Site Value and recommended guidance.*

Market Value of Individual Properties

- 5.12 The Advisor has provided valuations undertaken by DTZ/Cushman & Wakefield on several properties within the application site, as set out in the Table 6.



- 5.13 The valuations were undertaken by the valuer in order to support current planning viability discussions and do not constitute RICS Red Book valuations. The properties have been valued on a Market Value basis assuming the continuation of their current planning use.
- 5.14 GE has reviewed the valuation reports attached at Appendix 4 of the FASS and has considered the methodology and comparable evidence. GE is of the opinion that the comparable evidence is appropriate for the location of property and the specific property characteristics. Therefore GE consider that the values generated to be a reasonable assessment of Site Value for these constituent parts.

Market Value of the Two Consented Developments

- 5.15 117-118 Bayswater Road and 119-122 Bayswater Road have implemented planning consents for redevelopment of the existing properties to provide residential-led mixed use schemes. The Advisor has undertaken residual valuations of the properties to establish the values of these properties. The scheme details are as follows:
- 117-118, Bayswater Road: Development of 10 residential units on five floors above ground, with ground floor retail accommodation and basement level car parking.
 - 119-122, Bayswater Road: Development of 22 residential units over seven storeys including retail, restaurant accommodation at ground floor.
- 5.16 The residual land values are as follows:

Table 7: Residual Land Values of the Consented Developments

Address	Land Value	Value psf on the consented NIA
117-118, Bayswater Road	£8,160,000	£646
119-122, Bayswater Road	£18,664,000	£571

Source: The FASS

- 5.17 GE has assessed the residual valuations of the consented development schemes and evaluated the valuation and cost inputs in the appraisals. GE consider the valuation assumptions to be reasonable.

- 5.18 In accordance with the RICS GN, the Advisor has cross referenced the residual land values against comparable market evidence. The key comparables used are set out in the table below:

Table 8: Comparable Development Sites with Planning Permission

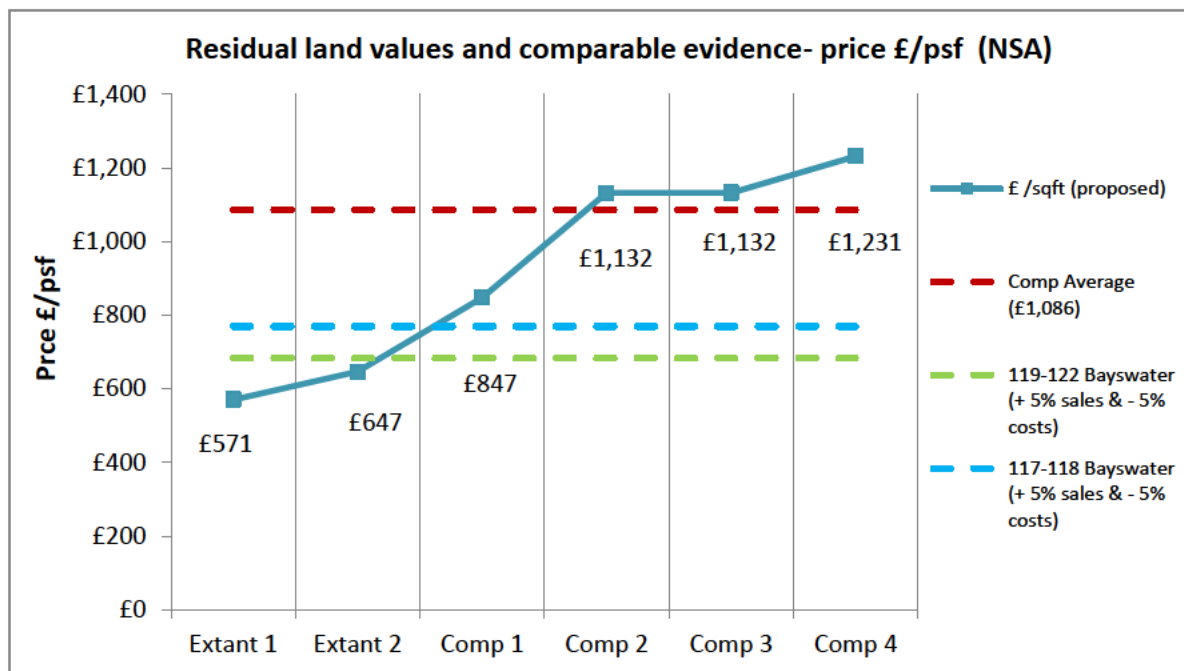
Address	Comparable	Sale Date	Price	Area (NSA) sqft	£ /sqft (proposed)
52- 57 Princes Square	Comp 1	Jan-14	£25,989,000	30,673	£847
108-110 Gloucester Road	Comp 2	May-15	£17,000,000	15,020	£1,132
Westland Hotel	Comp 3	Mar-15	£24,500,000	21,636	£1,132
49 Basset Road	Comp 4	Apr-15	£7,450,000	6,053	£1,231

Source: The FASS

- 5.19 *GE has placed more weight on the comparable sites that were purchased with planning permission, rather than the comparable sites which were purchased without planning permission. In addition, GE has not included Dukes Lodge, Holland Park within our analysis, this is because the transaction analysed by the Advisor was an internal transfer and therefore it does not constitute an arm's length transaction, and as result cannot be considered as Market Value evidence.*
- 5.20 The comparable evidence reflects a range of values from £847 to £1,231 per sq ft on the consented NIA, and an average value of £1,086 per sq ft on the consented NIA.
- 5.21 GE is in agreement with the Advisor that Westland Hotel (154 Bayswater Road) is the strongest comparable site. The site is located at 154 Bayswater Road and 6 Palace Court, which is approximately 280 meters to the west of the subject Site. The former hotel was sold with planning permission for the demolition of the existing buildings except for the preservation of the façade to 6 Palace Court. The development comprises the provision of 15 residential units within a 6 storey building. The development did not include any affordable units on site but a payment in lieu of £900,000 was agreed.
- 5.22 The property was purchased in March 2015 for £24.5m equating to £1,132 psf. GE consider the comparable to be in a slightly inferior location due to the difference in view onto Hyde Park compared to the subject Site.

- 5.23 108 Gloucester Road is a former hostel building located to the south of the subject Site. The site was purchased with planning permission for a change of use from a hostel to a 12 unit residential building. The development is a conversion only of the existing terrace. The property was purchased in May 2015 for £17m, which equates to £1,132 psf. GE consider the comparable to be located in a similar value residential area, but does not have views onto Hyde Park.
- 5.24 49 Bassett Road is located to the west of the subject in a similar value residential area. The property was purchased in April 2015 for £7.45m; the property had planning permission for the conversion of the existing building to provide 9 residential units. The price paid equates to £1,230 psf. The property does not have views onto Hyde Park.
- 5.25 52-57 Princes Square is located to the north west of the subject in comparable residential location. The property was purchased in January 2014 for £26m; with planning permission for a change of use to 8 residential units. The price paid equates to £847 psf.
- 5.26 GE has plotted the residual land values and comparables expressed as value per sq ft on a graph.

Graph 1: Showing residual land values and comparable sites – price £/psf (NSA)



Extant 1: 119-122 Bayswater Road
 Extant 2: 117-118 Bayswater Road

5.27 The graph shows the comparison between the residual land values of the properties within the site and comparable market evidence. It is clear that the residual land values are significantly below market evidence and the average value of the comparable evidence. GE has also undertaken a sensitivity exercise and summarise that, if the sales values are increased (+5%) and construction costs are decreased (-5%), the land values still fall below the comparable evidence.

5.28 GE acknowledges that Site Value should be based on Market Value, therefore when assessing Site Value consideration must be made to current use value, alternative use value and market evidence. The RICS GN clearly states that *“the importance of comparable evidence cannot be over-emphasised, even if supporting evidence is very limited, as seen in court and land tribunal decisions”* (RICS GN: 3.4.7 pg 18). Therefore on this basis, GE accept the Advisors approach of establishing site value by applying a rate of £1,200 psf based on comparable evidence to 117-118 Bayswater Road and 119-122 Bayswater Road. This approach generates the following site values.

Table 9: Site Value Benchmark

Address	Site Value Benchmark	Value psf on the consented NIA
117-118, Bayswater Road	£15,150,000	£1,200
119-122, Bayswater Road	£39,250,000	£1,200

Source: The FASS

Summary

- 5.29 GE has reviewed the Advisors approach to establishing the SVB and can confirm that the approach taken is consistent with the National Planning Policy Framework (NPPF), Planning Policy Guidance and is in accordance with the RICS GN.
- 5.30 In broad terms the approach reflects policy requirements and planning obligations, assesses the SVB in relation to a competitive return to willing developers and land owners, and it has been informed by comparable, market based evidence.

5.31 Therefore GE agree that the aggregate the SVB for the purposes of this viability assessment should be;

[REDACTED]

[REDACTED]

6. Review of Revenue Assumptions

Introduction

This section reviews the appraisal assumptions and the information submitted to support them to residential values and on and off plan sales rates.

Residential Sales Values

- 6.1 The Advisor has commissioned Knight Frank to value the apartments of the Scheme. The residential sales values are shown at Appendix 2 of the FASS. The Advisor has had regard to new build comparable schemes in the vicinity of the subject Property. The Advisor states that the gross value of the proposed apartments is [REDACTED] this reflects a blended rate of [REDACTED] per sq ft.
- 6.2 For the purposes of this report GE has considered and reviewed the comparable evidence provided by the Advisor and we make specific comment to the key comparables in the following section.

The Lancasters, 75-88 Lancaster Gate/Bayswater Road

- 6.3 GE agree with the Advisor that the most relevant comparable residential development is The Lancasters scheme on Bayswater Road. The scheme is located 650m to the east of the subject Site and directly overlooks Hyde Park. The stucco fronted Grade II listed parade was redeveloped to provide 77 private units; all the apartments were finished to a high specification and the development has good on-site facilities. The scheme was launched in 2010 and sales were achieving in excess of £3,000 per sq ft. The Advisor has provided evidence of a number of re-sale transactions within the scheme, and these range from £2,326 to £3,126 per sq ft.
- 6.4 The comparable is superior to the proposed Scheme because it is set back from the road, includes no retail ground floor accommodation and has a period façade.
- 6.5 The other comparable residential schemes considered by the Advisor are summarised in the table overleaf;

Table 10: Schedule of Comparable Residential Sales Evidence

Address	Blended value psf	Comments
The Lancasters	£2,749	Strongest comparable. Comparable has period façade and no commercial accommodation. But not new build and refurbishment was completed in 2011.
Two Hyde Park Square	£1,966	No park views but on quieter residential street. The flats are finished to a good specification. It is not new build and refurbishment was completed in 2011. The subject Site is superior.
Hyde Park Gardens	£2,733	Period building with views onto Hyde Park and communal gardens. The comparable is not new build but is of high quality specification and superior location.
Queensway	£1,768	Landmark building but located in an inferior location compared to the subject Site. The flats are of good specification.
Twenty One Hyde Park Square	£1,905	Period building located on Hyde Park Square. The development is not new build and transactional history is dated.
Westbourne Gardens	£1,808	New residential development located in an inferior located north of the subject.
Porchester Gate	£1,896	Large development on Bayswater Road. The location is similar but façade and internal specification is inferior.

Source: The FASS/GE

The blended average is based on sales data provided in the FASS and GE own market research.

6.6 *The Advisor has provided good comparable evidence in order to support the valuation of the proposed units by Knight Frank. There is no comparable new build scheme with a similar strength location, and views overlooking Hyde Park. The best comparable is The Lancasters and the valuation of the proposed units is broadly in line with values achieved at this scheme.*

6.7 GE accept the valuation of the proposed units at [REDACTED] and consider this to be a reasonable assessment of the sales prices achievable at the proposed scheme. Therefore GE has adopted this GDV value in the appraisal.

Ground Rents

6.8 The Advisor has applied an annual ground rent payment of £750 per private flat per year and then capitalised at 4%. The Advisor has assumed that the ground rent investment will be sold on completion, and results in a capital value of £1.0m.

- 6.9 *GE considers that the ground rents per annum are broadly in line with other comparable developments in the surrounding area; therefore GE has accepted this input in our appraisal.*

Car Parking

- 6.10 The car parking spaces will be unallocated and therefore the Advisor has not attributed any income from the car parking spaces in the appraisal. The Advisor comments that the 'right to park' within Consort House has been priced into the overall price per sq ft.

Retail Value

- 6.11 The Scheme includes the provision of retail and/or car showroom unit, a restaurant unit, a relocated dentist and a spa/recreation use including a swimming pool and gym. The relocated dentist has no value attributed to it in the appraisal this is because the dental practice will be sold off on long leasehold to the operator at no value. In addition the spa/recreation use is to form part of the private residential facilities.
- 6.12 The planning application for the Scheme is seeking consent for mixed commercial accommodation at ground floor; however the Advisor has appraised the retail and restaurant uses only. This is because this planning use will generate the most viable position.
- 6.13 The ground floor retail and restaurant units will have frontage onto Bayswater Road and storage/ancillary accommodation at basement floor levels. The Advisor has applied a market rent of £135 per sq ft ITZA for the restaurant unit at the corner of Queensway and Bayswater Road and £110 per sq ft ITZA for the retail unit fronting Bayswater Road.
- 6.14 *The Advisor has provided a schedule of comparable evidence of letting transactions in the surrounding area. The rents range between £90 per sq ft ITZA to £200 per sq ft ITZA. The strongest comparable lettings are those situated Queensway, and GE consider 24 Queensway to be the most relevant comparable. It is a new letting to London One Ltd in March 2014 for a term of 10 years. The agreed rent equated to £125 per sq ft ITZA.*

- 6.15 *GE agrees with the Advisor that Queensway is a stronger retail pitch compared to Bayswater; therefore the difference in rental levels between the units is reasonable. GE accept the rental values of the units because these are supported by relevant comparable evidence.*
- 6.16 *The retail and restaurant rental income has been capitalised by the Advisor at 4% and the allowed for a marketing and rent-free period totalling 6 months. The investment yield has been supported by the comparable evidence provided with the valuations of the 123, Bayswater Road and 125, Bayswater Road and 2-6, Queensway conducted by DTZ/Cushman & Wakefield. This results in a capital value of [REDACTED]*

[REDACTED]

[REDACTED]

[REDACTED]

7. Review of Cost Assumptions and Construction Programme

Introduction

In this section we review the construction cost inputs adopted by the Advisor within their appraisal. We also comment on the development timescales.

Construction Costs

- 7.1 The Applicant has commissioned Gardiner & Theobald (G&T) to provide the construction cost assessment for the Scheme which is provided in the FASS under Appendix 3, dated 09 September 2015. In the Advisor appraisal in the Viability Assessment dated November 2015 a cost of [REDACTED] is made for construction costs which was based upon G&T's Interim Cost Update issued under e-mail on the 9th September. However, the Advisor has since provided GE with an updated construction cost assessment for the Scheme, dated 17 November 2015. GE has relied upon the later construction cost assessment for the purposes of this review.
- 7.2 The difference in the two cost plans and construction costs is due to the fact that G&T revised the contingency allowance down from 7.5% to 5%.
- 7.3 This cost plan for the Scheme anticipates the total construction cost to be £95.65m, inclusive of contingency at 5%, preliminaries at [REDACTED] and overheads and profit at [REDACTED]. This total construction cost represents [REDACTED] per sq ft based upon the GIA.
- 7.4 The Cost Plan: Planning Stage dated 17 November 2015 has been reviewed by Veale & Saunders (report attached at **Appendix 1**) and they make the following comments:
- *Whilst the overall costs of the project are higher than might be expected, they are generally considered robust and reflect a very high quality product both externally and internally.*
 - *Whilst some of the demolition and basement allowances appear overly pessimistic and there may be a potential opportunity for some reduction, the building maintenance system appears overlooked and any saving could easily be offset by a small adjustment in preliminaries.*
 - *We consider the [REDACTED] to be a reasonable basis for financial viability purposes*

and would not recommend any further reduction at this stage. We would however note that it includes contingency.

- 7.5 We have therefore adopted [REDACTED] in our appraisal of the Scheme, based on the review exercise undertaken by Veale & Saunders.

Fees and Costs

- 7.6 The Advisor has made an allowance of 12% of construction costs for professional fees.
- 7.7 *GE is of the opinion that the professional fees allowance for this type of development should be between 10% and 12% of construction costs. Therefore due to the scheme scale and complexity, GE has adopted 12% of construction costs in the appraisal.*
- 7.8 The Advisor has made an allowance of 2.5% on construction costs for contingency. This would result in an aggregate contingency of 10%.
- 7.9 The revised cost assessment reduced the contingency allowance to 5%, and therefore the aggregate contingency is 7.5%.
- 7.10 GE consider that an aggregate contingency allowance of 7.5% is a reasonable allowance for a development of this type and nature and is comparable to other residential developments of this scale in central London.
- 7.11 The table overleaf sets out the Advisors and GE assumptions as to fees and costs:

Table 12: Showing Summary of Professional Fees and Costs

Item	Proposed	GE
Professional Fees	12% of Construction Costs	12% of Construction Costs
Developers Contingency	2.5%	2.5%
Marketing	£500k	£500k
Residential Agent/Legal Fee	2.5% of Residential Sales	2.5% of Residential Sales
Commercial Letting Agent Fee	10% of Annual Rent	10% of Annual Rent
Commercial Letting Legal Fee	5% of Annual Rent	5% of Annual Rent
Commercial Sales Agent/Legal Fee	1.5% of Retail Value	1.5% of Retail Value

Source: The FASS/GE

- 7.12 *GE is in agreement with the Advisor on the majority of the professional costs and fees for the proposed development of the Scheme at the Property.*

Finance

- 7.13 The Advisor has applied finance debit rate of 6.0% and a 2.0% credit rate which represents the total cost of capital in financing the Scheme.
- 7.14 *The interest rate applied by the Advisor reflects both debt and equity financing with the banks requiring a larger element of the latter relative to the former in comparison to pre-downturn times. The debt element reflects both a margin and risk premium above 5 year swap rates. The equity element should in theory reflect an equity return which may be calculated by reference to the weighted average cost of capital (WACC). However, this would also need to have regard to the level of development return, which is reflected in the amount of profit a scheme is producing. This is followed to avoid double counting, the equity element should broadly follow the level of debt interest plus a margin to reflect the more costly equity.*
- 7.15 *We note that the De Montfort Report of December 2014 concerning Commercial Property Lending Market Report up to Mid-Year 2014 states the following:*

“Commercial development finance by non-bank lenders”

For speculative development schemes, senior debt finance would be provided, at mid-year 2014 in a range of loan-to-value ratio of 50% to 75% (60% year-end 2013), a loan-to-cost ratio of 70% to 85% (80% at year-end 2013) and an interest rate margin or coupon of 600bps to 1250bps (600bps at year-end 2013). Terms provided for junior debt were, a maximum loan-to-value ratio in a range of 60% to 65%, loan-to-cost ratio of 60% to 80% and an interest rate margin or coupon of 1450bps. An IRR of 12% to 17% was also required. No terms were offered for junior debt at year-end 2013. Terms provided for mezzanine finance were, a maximum loan-to-value ratio in the range of 40% to 85%, the same as at year-end 2013, a loan-to-cost ratio of 50% to 100% also the same as at year-end 2013 and an interest rate margin of 1200bps to 1800bps (1000bps year-end 2013). Required IRRs were 9% to 20% at mid-year 2014 compared with 9% to 17% at year-end 2013; and

“Residential Development Finance

The average loan-to-value ratio for All Lenders increased by 3% between year-end 2013 (55%) and mid-year 2014 (58%). The average loan-to-cost ratio for All Lenders increased by 1% between year-end 2013 (67%) and mid-year 2014 (68%). Average interest rate margins decreased from 432bps at year-end 2013 to 409bps by mid-year 2014. Average arrangement fees for All Lenders decreased from 150bps to 121bps and average exit fees decreased from 158bps to 156bps during the same time period.”

7.16 *The RICS GN suggests that in assessing such matters as the rate of finance, that this should not be specific to the developer in question but be the benchmark rate that any developer capable of undertaking the Scheme would be able to access finance at.*

7.17 *GE therefore considers that a debit rate of between 6.0% and 7.0% is an appropriate level for residential led developments. The subject Property is located in a prime residential area and the Scheme does not have any specific risk factors. In our experience of reviewing other major central Mayfair developments in 2015, we are of the opinion that a debit rate of 6% (credit 2%) is reasonable and we have adopted this rate in our appraisal of the Scheme. The appraisal reflects a different rate, this has been done due to the differences in the financial model, and the rate shown in the appraisal has been adopted to reflect the Advisors relative finance cost.*

Section 106 Payments and Mayoral CIL

7.18 The Advisor considers that the following S.106 and MCIL contribution will be applicable.

Table 13: Applied S.106 and MCIL

Item	Proposed
MCIL	£600,000
Section 106	£100,000

Source: The FASS

7.19 *The Advisor has proposed that the obligations will total £700,000. GE has included the proposed contributions in our appraisal; however this has not been confirmed by WCC that this is the correct amount.*

Public Realm

- 7.20 The Advisor states that the proposed Scheme would trigger a public realm contribution. This is to be paid from the surplus generated from the scheme. The full public realm contribution is £700,000.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

- 7.22 The [REDACTED] own the adjacent property to the site and we understand the Applicant has agreed to pay [REDACTED] for the benefit of certain rights.

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

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7.29 GE accept that there will be costs associated with [REDACTED] and [REDACTED]. Therefore we have adopted the compensation figure in our appraisal.

Property Acquisition Costs

7.30 The Advisor has included property acquisition costs of 5.8% of the benchmark value.

7.31 GE considers this amount to be reasonable as this is regarded as an industry standard.

Summary

Table 15: Summary of Cost Assumptions

Item	Advisor	GE
[REDACTED]	[REDACTED]	[REDACTED]
Professional Fees	12%	12%
Marketing	£500k	£500k
Residential Agent/Legal Fee	2.5%	2.5%
Retail Letting Agent Fee	10%	10%
Retail Letting Legal Fee	5%	5%
Retail Sales Agent Fee	1%	1%
MCIL	£100K	100k
S.106	£600k	£600k
[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]
Acquisition Costs	5.8%	5.8%
Finance Rate	6% (2% credit)	6% (2% credit)

Source: The FASS/GE

Development Timescales

7.32 The Advisor has adopted the following timescales in their appraisal:

- Pre-construction 3 months
- Construction 30 months
- Sale 7 months

7.33 GE considers that given the nature of the Scheme, the time frame for the purchase, pre-construction and construction phases are reasonable.

- 7.34 The Advisor states that a total sales period of 7 months would be appropriate for a development of this nature to allow for sales completion of the 1 completed residential units. The Advisor has allowed for 70% of sales income receivable at practical completion and sales income for the remainder of the apartments receivable over the remaining sales period in equal instalments.
- 7.35 The Advisor has assumed a lettings and sales period of 7 months for the commercial element of the scheme with capital value receivable at project completion.
- 7.36 GE consider the sales period and rate to be comparative to other residential development schemes in the surrounding area and therefore GE has adopted the sale period and rate for both the residential and commercial element of the Scheme.

Return

- 7.37 The Advisor has applied a return of 15% profit on GDV for the Scheme. This equates to a 17.65% profit on GDV.
- 7.38 The RICS GN states that the benchmark return should be reflective of the market at the time of the assessment being undertaken. The return includes the risk attached to the specific scheme and the broader market risks. The level of profit will vary according to the specific scheme and the point in the economic cycle. Finally, the development project will only be considered economically viable if a market risk adjusted return is met or exceeds a benchmark risk-adjusted market return.
- 7.39 *GE has been involved in a number of schemes across Westminster and a number of schemes similar to what has been proposed and is of the opinion that the benchmark return proxies and rates are reflective of the market and are reasonable in this instance.*

Affordable Housing

- 7.40 The Advisor has assessed the viability of providing a policy compliant on-site affordable housing mix. The Advisor has prepared appraisals on the following bases to assess the maximum reasonable amount of affordable housing that can be provided on site; policy compliant on-site provision and a lesser amount provided on site if full on-site provision is not viable.

Table 16: Results from Advisors Assessment of On-Site Affordable Housing Scenarios

Affordable Housing	Profit	Profit on GDV
35% (Policy compliant)	-£67,941,299	-43.20%
15%	-£15,245,819	-7.01%
5%	£18,871,871	7.42%

Source: The FASS

- 7.41 GE has considered the appraisals submitted in order to assess whether the Scheme could support an on-site provision of affordable housing. GE conclude that on-site affordable housing cannot viably be provided as part of the Scheme.

8. Review of Financial Appraisal

8.1 Below we set out and review the proposed Scheme appraisal. In the next section we consider the sensitivity (in accordance with RICS GN) of this and the commensurate impact upon the potential of achieving the maximum reasonable affordable housing payment in lieu.

Summary of information provided by the Applicant

8.2 The Advisor has provided their Pro-Dev appraisal file. GE has considered the inputs and assumptions made within the appraisal and compared them to our own on a like for like basis. The outcomes are shown in Table 12 overleaf and GE's appraisal for the Scheme is attached at **Appendix 2**.

Table 17: Comparison of Appraisal Inputs

Item	The Advisor	GE
Time Scale		
Pre-Construction	3 Months	3 Months
Construction	30 Months	30 Months
Sale	7 Months	7 Months
Total	40 Months	40 Months
Revenue		
Professional Fees	12%	12%
Contingency	2.5%	2.5%
Other Construction Costs		
Section 106	£100k	£100k
CIL	£600k	£600k
Marketing/Letting/Sales		
Marketing	£500k	£500K
Letting Agent	10%	10%
Letting Legal	5%	5%
Sales Agent (Resi and Commercial)	2% and 1%	2% and 1%
Sales Legal (Resi and Commercial)	0.5%	0.5%
Finance	6% (2% credit)	6% (2% credit)
Profit on GDV	15%	15%
Surplus	£6.1m	£8.5m

Source: The Advisor/GE

- 8.3 The Advisor concluded that the Scheme could provide a potential surplus of £6,096,000 at the required developer's profit of 15% on GDV. In light of the sensitivity undertaken by the Advisor of the proposed Scheme, the Advisor recommends that a payment of up to £8,500,000 be considered. This represents a surplus for the payment of planning obligations, including affordable housing and public realm contribution.
- 8.4 However, having applied the inputs in Table 17, we conclude based on our assumptions, a surplus of £8,500,000 can be generated which is below the WCC policy compliant affordable housing PIL of £24,483,308.

9. Sensitivity Analysis

9.1 This section tests the conclusions reached in Section 8 when a number of variations are made to various appraisal inputs.

9.2 The Advisor has undertaken sensitivity analysis of the proposed Scheme and has tested increases in private residential sales value and changes in construction cost.

9.3 The Advisors analysis indicates that a surplus range of £3,488,000 to £11,080,000 can be generated from the proposed Scheme. The Advisor recommends that a payment of up to £8,500,000 be considered, this is based on 2.5% increase in sales values and 2.5% increase in construction costs.

9.4 In line with guidance, GE has also undertaken sensitivity analysis to assess the impact of step changes to GDV and construction cost.

9.5 Sensitivity analysis is a fairly simplistic but reasonable approach to testing viability. In essence, uncertainties can be identified in respect of the inputs and their effects can then be looked at in terms of the development return and then the level of planning payment. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Benchmarks can be used as performance measures.

9.6 GE has assessed the impact on surplus available to determine how much PIL can be provided based on variation in the residential sales values and construction costs ($\pm 2.5\%$ variations of GE's inputs) which are set out in the table below. This surplus can then be assessed when determining what level of PIL can be provided as an offsite contribution.

Table 18: Sensitivity Analysis Assessing Generated Surplus

		Sales Values				
		-5.00%	-2.50%	0.00%	2.50%	5.00%
Construction Costs	-5.00%	£3,768,498	£8,680,911	£13,593,323	£18,505,737	£23,418,149
	-2.50%	£1,223,449	£6,135,862	£11,048,275	£15,960,687	£20,873,100
	0.00%	£1,321,600	£3,590,813	£8,503,225	£13,415,639	£18,328,051
	2.50%	£3,866,649	£1,045,764	£5,958,177	£10,870,589	£15,783,002
	5.00%	£6,411,698	£1,499,285	£3,413,127	£8,325,540	£13,237,953

Source: GE

- 9.7 When considering the current market position for the two variables we have shaded in the table the most probable selection of variable movements. On this basis the surplus range is between circa £6.0m to circa £13.4m dependent on changes to the sales values and construction costs.

Summary

- 9.8 The sensitivity analysis indicates that when a degree of variance is applied to GE's inputs, a surplus range can be generated to be provided as an affordable housing PIL contribution. In this instance, GE considers that both sales values and construction costs are only likely to increase and therefore we are of the opinion that the Scheme will generate a surplus circa of between £6.0m and £13.4m (mid-point £9.7m), which can be provided as affordable housing PIL.

10. Initial Conclusions and Recommendations

10.1 In this section we set out the purpose of the review and detail the most significant differences between the Advisor and GE in appraising the Scheme and determining its viability. Finally, we make some initial conclusions and recommendations.

10.2 Gerald Eve LLP was instructed by Westminster City Council to assess whether the proposed Scheme could viably provide onsite affordable housing in line with policy requirements and if onsite affordable housing cannot be delivered then to understand what level of affordable housing financial contribution via a PIL could viably be provided.

10.3 The Advisor assessed the Scheme and concluded that the Scheme cannot viably provide policy compliant on-site affordable housing and any reduced amount of on-site affordable housing. These scenarios were demonstrated through counterfactual assessments.

10.4 In the FASS the Advisor states that an investigation into donor sites had been undertaken, and the Applicant has identified a potential site, 382-386 Edgware Road. The Advisor has provided a FVA of the donor site. At this point GE has not reviewed the donor site, and instead has prioritised a surplus pot which can then be used to provide affordable housing units. The Applicant does not yet own or control the donor site therefore cannot guarantee delivery of affordable housing via this site.

10.5 The Advisor has concluded that a Site Value Benchmark of [REDACTED] is reasonable based on a Market Value methodology informed by comparable transactions. We consider the methodology to be appropriate and the SVB to be reasonable.

10.6 The Advisor states that the gross value of the proposed apartments at the Scheme is [REDACTED]. We have had regard to the comparable evidence put forward by the Advisor and formed an opinion on value. We have accepted the Advisors gross value of the residential units.

10.7 The Advisor obtained advice on the estimated construction costs which were reviewed by Veale & Sanders. They concluded the cost figure to be a reasonable basis for financial viability purposes and would not recommend any further reduction at this stage; therefore we have adopted a total construction cost of [REDACTED] in our appraisal.

- 10.8 The Advisor considered that a reasonable profit benchmark should be based on profit, which was set at 15%. GE considers that this is an appropriate return proxy to apply and is comparable to other similar risk schemes in central London.
- 10.9 The results of our financial appraisal demonstrate that there is a potential surplus of £8.5m which is based on our appraisal inputs. This potential surplus amount is in line with the Advisors offer of £8.5m. Therefore we conclude that this represents the maximum reasonable affordable housing contribution via a payment in lieu.

Appendix 1 – V&S Cost Assessment



**Bayswater Road/Queensway
Westminster, London**

Report to Gerald Eve

DRAFT

2nd February 2016

INTRODUCTION

Veale & Sanders (V&S) is a firm of Chartered Quantity Surveyors based in Purley, South London and have provided construction cost advice in connection with financial viability in planning on a large number of projects throughout Greater London.

In December 2015, V&S were approached by Gerald Eve (GE) concerning a proposed residential development in Bayswater Road, Westminster. The brief was to undertake a review of the scope and pricing of the construction cost plan submitted in support of a development appraisal relating to a planning application.

The review would include:

- Reviewing overall scope / content / areas / mix etc
- Comparing overall pricing with benchmark data from BCIS and historic projects
- Identification of abnormal costs/potential cost savings

Following appointment, V&S were provided with a copy of the Viability Assessment dated November 2015 prepared by GVA. Appendix 3 – Cost Plans of this document contained an Initial Cost Model Planning DRAFT dated 08 May 2015 prepared by Gardiner & Theobald (G&T). This was a high level summary model based largely upon average elemental rates per m². Following request, G&T provided a more detailed document, Cost Plan: Planning Stage dated 17 November 2015. This report relates to the latter document. Drawings and other relevant documents were downloaded from the WCC planning portal.

A site inspection has not been made.

REVIEW OF OVERALL SCOPE/CONTENT/AREAS

The proposed scheme comprises the demolition of existing buildings and redevelopment for a new building comprising three basements, ground and 9 upper storeys to include 55 residential units, retail, restaurant, a dental surgery and spa/recreation facilities along with associated plant and support areas.

The proposed gross internal area in the architect's schedule in the design and Access Statement totals 16,127 m². G&T's overall measure is slightly greater totalling 16,251 m². G&T's residential NIA on the other hand is slightly lower at

9,255 m2 against 9,256.82 m2. The differences are minimal and G&T's areas are considered sufficiently accurate for cost planning and benchmarking.

The Basis and information used for the cost plan lists architectural and structural drawings. Revision numbers are different to the planning application pack but this is probably a presentation issues and not significant. There is no reference to building services information. G&T have assumed '... fit out to market residential units will consist of timber floors, ceramic tiles to bathrooms, comfort cooling and high quality kitchen and bathroom fixtures.

G&T have included a provisional allowance for fitting out the dentist accommodation but the retail and leisure facilities are cold shell with capped off services for fitting out by others.

There is also an allowance for breaking through into the basement car park of the adjoining Consort House building but no provision for other works/refurbishment therein.

The cost plan is based on current day costs (4Q2015), with no allowance for tender price inflation.

Contingency is included at 5%.

G&T have listed a number of other assumptions and exclusions many of which are standard and self-explanatory such as:

- Fees
- VAT
- Section 106/278 agreements

Further comments on assumptions/exclusions are included as appropriate in the detailed report.

ANALYSIS OF ANTICIPATED CONSTRUCTION COSTS

General

The total Anticipated Project Cost is now [REDACTED] which is considerably less than the 'Fixed Build Costs in GVA's appraisal at [REDACTED] (based upon a previous cost model) plus £2,450,000 contingency.

The total equates to [REDACTED] of GIA but includes demolitions and external works which are abnormal costs and should be excluded when benchmarking. These total [REDACTED] and after omission, along with associated preliminaries, overheads and profit and contingency, the base build cost reduces to [REDACTED]

The current BCIS published average prices for new residential developments adjusted for 4Q2015 (date of estimate) and the Westminster location is in the range of £2,283/m2 for upper quartile to £5,062/m2 highest for a 6+ storey block. The G&T costs are therefore rather higher than might be expected.

Commentary on the main cost drivers are identified in the following analysis of the principal components.

Facilitating works

The estimate for this section totals £2,611,000.

The main demolition works including basements and asbestos removal amount to £1,433,600 which is not considered unreasonable.

G&T have allowed £250,000 for 'party wall obligation works' which seems initially quite high considering that the basement includes piled retaining walls and top down construction methods. However, the Construction Management Plan does refer to temporary party wall support and underpinning and the underground tunnels in close proximity.

Of greater concern is an allowance of £927,500 for removing existing piles. There are no details of what is required but it would only appear to relate to the aborted structure at 117-118 Bayswater Road and therefore seems overly cautious.

Shell and Core - Basement

The total cost of basement construction is approximately [REDACTED] which equates to [REDACTED] of the 3,853 m2 below ground. This does not include services installations but around [REDACTED] is for internal fit out.

The remaining £9.6m is for structural works to form the basement box. At £2,491/m2 this is high even for central London standards but there are a number of particular factors to be taken into consideration including the following:

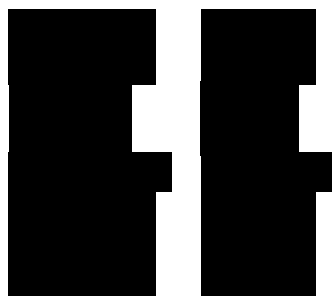
- Deep excavations, breaking out existing substructures etc
- Potential issues with contamination
- Secant piling to full perimeter
- Top down construction method

The cost also includes around [REDACTED] for anti-vibration spring floor system.

Shell and Core – Above Ground

Notwithstanding the heading, this section of the cost plan includes foundations and basement slab. The total cost is approximately [REDACTED] comprising the following main elements:

- Substructures
- Frame/upper floors
- Roof
- Stairs
- External facades
- Core fit-out
- MEP services
- Lifts



The total of [REDACTED] is considerably higher than the BCIS range would suggest and there are a number of reasons for this.

The substructures comprise 900 diameter piles, 45m long under a 1600 thick reinforced concrete raft.

G&T have made an allowance of [REDACTED] for insulation to the upper floor slabs. This is assumed to be for acoustic purposes which would normally be expected to be included in the fit out section.

The biggest cost driver is the external façade which has extremely complex geometry and incorporates a variety of high quality materials including stone, bronze and triple glazing. As a result, the all-in average façade rate on elevation is £1,950/m2 which is at the very top end. It does include balustrades, grilles and canopies but there doesn't appear to be any allowance for the building maintenance system at roof level.

Internal fit out to the cores is also very high specification with typical rates including:

- Apartment entrance doors [REDACTED] each
- Stone to reception/entrance walls and floor [REDACTED]
- Wall paper to corridors and lift lobbies [REDACTED]
- Carpet to corridors and lift lobbies [REDACTED]
- Ceiling to reception/entrance [REDACTED]

The shell and core MEP services appears high but the overall cost includes the basement levels. The all-in unit rate is actually [REDACTED] which is at the upper end of what might be expected providing for very high specification. It is not wholly unreasonable.

Lift costs again seem quite high but there two cores, each with two passenger and one goods lift as well as retail and leisure lifts. Unit rates are not unreasonable.

Fit Out

The total fit out allowance is approximately [REDACTED] including residential, dental surgery and resi amenities. As noted earlier, the retail and leisure areas are left as cold shell with capped off services.

The residential fit out amounts to [REDACTED] which is [REDACTED]. This has not been detailed by G&T but benchmarks from similar projects indicate that it is a reasonable average allowance for very high quality developments of this nature and location.

G&T made a provisional allowance of £200,000 for fitting out the dental surgery. This equates to around £1,105/m2 which is not unreasonable.

The total allowance for fit-out of the residential amenities amounts to [REDACTED] based on [REDACTED]. No detail is provided. This would provide for a very high quality fit out.

External works

The proposed redevelopment covers virtually the whole site and so the external works are limited to stone pavings to the promenade along with associated drainage totalling [REDACTED]

There are also allowances totalling [REDACTED] for external services. This is around [REDACTED] per residential unit which is on the high side, the main reason for this is [REDACTED] for an incoming HV supply and substation.

The allowances are not considered unreasonable.

Preliminaries

G&T have allowed [REDACTED] for preliminaries. This is low in comparison with similar schemes. Expectations have risen over the last 12 months and 17% -18% is now not uncommon. There is a separate and compounded allowance of [REDACTED] for overheads and profit which reflects the London market for high end residential schemes.

Risk Allowances

The combined allowance for design reserve and contingency is 5%. This could be viewed as conservative for a project of this complexity but is not considered unreasonable given the general level of pricing.

POTENTIAL COST SAVINGS

Whilst the overall costs of the project are higher than might be expected, they are generally considered robust and reflect a very high quality product both externally and internally.

Whilst some of the demolition and basement allowances appear overly pessimistic and there may be a potential opportunity for some reduction, the building maintenance system appears overlooked and any saving could easily be offset by a small adjustment in preliminaries.

CONCLUSION

GVA's appraisal in the Viability Assessment dated November 2015 includes [REDACTED] for Fixed Build Cost which was based upon G&T's Interim Cost Update issued under e-mail on the 9th September. This has since been superseded by the Cost Plan: Planning Stage dated 17 November 2015 which totals [REDACTED].

We consider the reduced figure to be a reasonable basis for financial viability purposes and would not recommend any further reduction at this stage. We would however note that it includes contingency.

It should be noted that no contact has been made with G&T, they have not had sight of this report and have therefore not had the opportunity to respond.

Veale & Sanders

Chartered Quantity Surveyors

02/02/15
G120/23 – RJF

Appendix 2 – GE Appraisal – Proposed Scheme

Proposed Scheme Bayswater Road
GE Appraisal
05.02.16

Development Appraisal
Gerald Eve LLP
05 February 2016

[REDACTED]

[REDACTED]

[REDACTED]

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Category	Percentage
Very good	10%
Good	40%
Fair	20%
Poor	10%
Very poor	20%

■■■■■■■■■■

11/11/2016

Category	Percentage
Very good	10.0
Good	20.0
Fair	20.0
Poor	30.0
Very poor	20.0

[REDACTED]

10/10

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