



Assessment of BNP Paribas Review of 'Viability Report'- Benchmark Land Value

Planning application number: 22/1029/FUL

Prepared for Westcombe Developments Limited

On the property at:

**Kingston Bridge House,
Church Grove,
Hampton Wick,
KT1 4AG**

Prepared by
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1. Instructions

Medhursts Commercial Surveyors have been instructed by Progress Planning Ltd on behalf of the applicant, Westcombe Developments Ltd to advise on the viability case of the proposed development at Kingston Bridge House.

We are specifically tasked to review and comment on the Benchmark Land Value aspect of the BNP Paribas Review of 'Viability Report' [July 2022] commissioned by London Borough of Richmond-Upon-Thames.

2. Scope of this report

In April 2022 DJC Housing Consultants [DJC] provided a report on the assessment of the financial viability [FVA] of the proposed scheme covered by planning application 22/1029/FUL at Kingston Bridge House as follows:

Façade and elevational improvements, infill extension at ground floor level, and change of use of the building to provide 70 new homes with associated landscaping, access, parking/refuse provision, and external alterations

The FVA was reviewed by BNP Paribas [BNP] who have challenged the Benchmark Land Value [BLV] that was deduced by DJC which was **£11,250,000**.

BNP have concluded that in their opinion a BLV of **£1** is more appropriate.

This report aims to examine and comment on whether BNP's value of £1 is properly evidenced whether it is robust.

3. Impartiality

In accordance with the RICS Professional Statement: Financial Viability In planning: Conduct and Reporting¹ as a RICS member we confirm that we have acted with objectivity, impartially, without interference and with reference to all appropriate available sources of information in conducting this review.

4. Source of information

We have been provided with the following:

- DJC Housing Consultants Viability Report- April 2022
- BNP Paribas Review of 'Viability Report'- Draft Report- July 2022
- Planning application documents, plans and comments on the London Borough of Richmond Upon Thames planning portal under planning application number 22/1029/FUL².

Where appropriate we have also referred to the following publications and guidance:

- National Planning Policy Framework-July 2021 Revision
- Government guidance: <https://www.gov.uk/guidance/financial-viability-for-housing-led-projects>
- Mayor of London-Homes for Londoners SPG- August 2017³

¹ 1st edition May 2019

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http://www2.richmond.gov.uk/Plandata2/Planning_CASENO.aspx?strCASENO=22/1029/FUL&DocTypeID=7#docs

³ https://www.london.gov.uk/sites/default/files/ah_viability_spg_20170816.pdf

- RICS Research-Financial Viability Appraisal in Planning Decisions: Theory and Practice-April 2015
- RICS Professional Guidance Note-Financial Viability in planning -1st Edition, GN 94/2012
- RICS professional statement- Financial viability in planning conduct and reporting- 1st edition, May 2019
- RICS Guidance Note- Assessing viability in planning under the National Planning Policy Framework 2019 for England- 1st Edition, March 2021.

5. The Author

Medhursts Commercial Surveyors Limited is a small practice operated by Alex Medhurst who qualified as a Chartered Surveyor in 1993 and has been practicing as an agent and valuer in the commercial property industry since 1987.

Alex is a RICS Registered Valuer and has been a member of the scheme since 2012.

Alex is also an Associate Director of Adams Integra Ltd., affordable housing consultants, specialising in the non-residential aspects of viability appraisals. In this role he has carried out Community Infrastructure Levy viability studies and whole plan viability appraisals for local authorities including London Borough of Richmond Upon Thames, Hounslow, Gosport, Canterbury, Hart, North Warwickshire, South Gloucestershire, Torridge and Winchester amongst others. Many of these planning authorities have Universities and student accommodation has been assessed on a regular basis.

In his early career Alex worked for Cattaneo Commercial agents based in Kingston for several years.

He has also acted in similar financial viability cases including:

- 11-13 Thames Street, Kingston upon Thames, KT1 1PH -contributing to the applicant's FVA.
- 19/02504/FUL- Kingston Hospital- acting for RBKT assessing the applicants FVA.
- Surrey House, 34 Eden Street, Kingston upon Thames, KT1 1ER, Planning Appeal Reference: APP/Z5630/W/19/3223667- expert witness for RBKT.

So, he is suitably experienced and qualified to carry out this assessment and is familiar with the area and issues involved.

6. Benchmark Land Value

DJC's report adequately sets out the appropriate planning guidance at pages 10-13 which explains how the BLV should be established. Therefore, there is no need to repeat this here.

However, the government guidance⁴ succinctly sets out the following:

BLV is a critical part of the viability assessment.

BLV's should:

- *be based upon Existing Use Value (EUV)*
- *allow for a premium to landowner*

⁴ <https://www.gov.uk/guidance/financial-viability-for-housing-led-projects>

- *reflect the implications of abnormal costs; site-specific infrastructure costs; and professional site fees*
- *be informed by market evidence including current uses, costs, and values*
- *be based on developments compliant with policies, including affordable housing, when recent market value evidence is used*
- *identify and evidence any adjustments to reflect the cost of policy compliance when this evidence is not available*

DJC have relied on the market value of the existing use from the Copping Joyce valuation report which wholly satisfies these criteria and has not added a premium which they are entitled to. This is commented on later.

7. Alternative Use Value [AUV]

Paragraph 017 of the PPG states that the AUV ‘of the land may be informative in establishing benchmark land value’. The AUV refers to the value of land for uses other than its existing use.

The existing use as student accommodation is policy compliant with an extant consent and there is no need to consider an AUV in this case.

8. BNP Methodology

The BNP report uses an Argus residual appraisal of the proposed scheme to produce a residual land value that it then compares to an ‘appropriate benchmark, typically the Existing Use Value (‘EUV’) of the site plus a site-specific landowner’s premium, in line with Planning Practice Guidance’.⁵

The difference between the residual value the developer would have available to pay for the site is compared to the BLV. If there is a positive difference, then the scheme is considered viable and if negative, the scheme is considered unviable.

We agree with this approach and it demonstrates how critical the BLV is in this assessment.

DJC’s BLV is deduced from a Mortgage Valuation Report by Copping Joyce Chartered Surveyors dated 25th September 2020 and the report is included in its entirety as an appendix to the FVA.

This form of report is the most robust form of valuation report a valuer can provide. It is a requirement by the lender and states that it complies with the RICS Valuation – Global Standards effective 31 January 2020, incorporating the IVSC (International Valuation Standards updated and effective 31 January 2020).

This is more robust than any other form of establishing the EUV.

The valuers have been instructed to produce 6 different values, subject to various assumptions. The first value is the Market Value subject to the existing use as student housing. This can also be referred to as the EUV. This is stated to be £11.25m and is suitably justified.

The other 5 values in the report are not relevant to the FVA.

⁵ 3.Methodology-page 6

In their final paragraph of section 5.1 (page 10) BNP states that the valuation report seeks to support the purchase price for the site and 'the NPPG explicitly states that the *'price paid for land is not a relevant justification for failing to accord with relevant policies in the plan'*.

This statement has no relevance as the other values in the Copping Joyce report have assumed certain planning permissions have been granted. These have been disregarded by DJC for the purpose of assessing the BLV.

However, BNP go on to say in this same paragraph that they have concerns with the valuation approach used to establish the EUV, namely the investment method which capitalises the estimated rental value using an All Risks Yield. Whereas this is an accepted approach to arrive at the EUV.

The following paragraph goes onto question the reason for the disposal of the building by Kingston University. The website for the University states it has 13,105 home/European students and 3,680 overseas students from more than 140 countries⁶. The university has only a total of 2,252 rooms in their Halls of Residence combined⁷ which is clearly insufficient to house all overseas students and first year undergraduates, as is the norm. Yet BNP say that it is unclear where future demand will come from if the site was reopened.

Nevertheless, it is not the role of valuers to question the accommodation strategy of Kingston University, which BNP seem to be doing here.

BNP then refer to a news article on a website⁸ which repeats comments made in the Planning Statement made by the Applicants. The Copping Joyce valuation has considered the condition of the building and made adjustments in their ERV and investment yield to reflect the need for modernisation.

BNP also states that the valuation assumes the rooms would be let for 52 weeks. The valuation report does not say this. It assumes that there will be voids and the valuer has made a 30% reduction in the full occupancy rental income to reflect this.

It is also common practice for universities to seek alternative rental income from student accommodation during the 12 or so weeks between licences, by letting to summer schools and/or other lettings to the public. This supplemental income can also assist in achieving a higher gross income.

BNP states that the *valuation report has miscalculated and overstated the net rent by £137,480*. This is not the case. The valuer has given his opinion of what he considered to be an approximate net rental income.

The Kingston University website states the current room rental rates in their 5 Halls of Residence range from £158 per week up to £206 for the 2022-2023 academic year. Copping Joyce used a rate of £100 per week in their valuation which is clearly very conservative.

BNP go on to say that the applicant's *BLV is overstated and unsubstantiated by any evidence base* when the Copping Joyce report fully evidences their reasoning and gives 15 pages of Valuation Commentary, key considerations, sector overviews and comparable evidence showing that the valuer has provided suitable evidence.

⁶ <https://www.kingston.ac.uk/aboutkingstonuniversity/>

⁷ <https://www.kingston.ac.uk/accommodation/halls-of-residence/>

⁸ <https://www.richmondandtwickenhamtimes.co.uk/news/20128071.richmond-locals-soon-living-old-student-halls/>

BNP says the report does not consider whether there would be any *demand for student accommodation because the only University has already disposed of the subject property.*

Again, the applicant cannot be required to understand the reason why the University no longer wished to operate the building as this may be commercially sensitive. Copping Joyce state that they understood the reason was to reinvest in the main university campus⁹.

Having made all of these observations BNP then make the unexpected statement that the figure of £11.25m is not robust and their unexpected and unsubstantiated conclusion is that the BLV should be £1 which we find extraordinary.

In effect BNP are saying that the market value for Kingston Bridge House which comprises approximately 5,890 square metres of prime real estate adjacent to the River Thames in Hampton Wick is worth £1 or that no one would pay more than £1 for the property.

This does not stand up to any form of reality check.

9. Updated EUV calculation

If one accepts some of the amendments to the Copping Joyce valuation that BNP are recommending, namely a 40-week letting period and the subsequent reduction in the capital value of c. £1.66m¹⁰ this reduces the £11.25m EUV to £9.59m.

The Copping Joyce valuation was carried out during the peak of the Covid pandemic and as required by the RICS at the time, confirms there was 'material market uncertainty'. So, the valuation was cautious. This period of uncertainty has passed. Room rental rates have increased, and investment yields improved.

Nevertheless, if we do not challenge the 8.28% all risks yield used by Copping Joyce which they state reflects the dated accommodation, large size and current lack of planning¹¹ we still have a very substantial BLV. However, an even slightly lower yield to reflect the improved market conditions and outlook from 2020, inversely would generate a much higher EUV figure.

The scheme is already showing a deficit, but we reserve the right to come back to the room rental rate of £100 per week and yield figure of 8.28% if still challenged.

10. Applying a premium

We refer to the RICS Guidance Note: *Assessing viability in planning under the National Planning Policy Framework 2019 for England*¹² which helps to clarify and guide valuers in the area of whether to apply a premium to the EUV. It states:

5.1.3 The BLV should not be expected to equate to the market value. As set out in Chapter 2, the PPG states that they could differ on account of both the assumptions made and the methods employed. The BLV is not a price to be paid in the marketplace; it is a mechanism by which the viability of the site to provide developers' contributions can be assessed.

⁹ DJC Viability Report-Appendix Copping Joyce valuation report para 3, page 32

¹⁰ Paragraph 2 of page 11- BNP Review of 'Viability Report'

¹¹ DJC Viability Report Appendix -Copping Joyce valuation report para 13.1 page 49

¹² 1st Edition March 2021

It should be set at a level that provides the minimum return at which a reasonable landowner would be willing to sell.

It goes on to say at 5.1.4:

The PPG states that the BLV is primarily based on the EUV plus a premium. The evidence base for the market value is grounded in comparative values and in direct analysis of land transactions in the market comparison approach. The PPG reduces the status of comparable land transactions to that of a cross-check of the BLV. Land values determined by a policy-compliant residual approach or by policy compliant direct comparison can be used to cross-check the BLV, but the primary approach is the EUV plus a premium.

BNP make no reference to whether a premium should be applied or not.

In accordance with the RICS and Government guidance (see section 6. Of this report above), the Applicant is guided to apply a premium in the range of 10%-30% as recommended by The Mayor of London's SPG to reflect the incentive needed by the landowner where there are ongoing liabilities and costs when compared to a site occupied by a profit-making business that require relocation¹³.

The amount of premium to be added is not prescribed but 20% is the adopted industry norm in these situations.

Adding 20% to BNP's preferred figure of £9.59m adds a £1.92m premium and takes the BLV to £11.5m.

11. Conclusion

BNP's review has invited the Applicant to provide more information to support the EUV used which we believe we have done robustly here.

The recommended approach has been used to arrive at the EUV of £11.25m. A premium should also be added to this figure which has not be done so far and a higher BLV could be used.

BNP provides no robust justification to their adopted site value of £1 other than they are not satisfied that the Applicant's figure is robust which contradicts the comments they make about adjustments to the methodology.

£1 as a BLV for this scheme is clearly wrong.

Nevertheless, we reserve the right to update the investment yield and estimated rental value if there is a need to revisit this assessment again.

Report ends

¹³ Homes for Londoners SPG August 2017-para 3.46 page 40-41