BNP PARIBAS REAL ESTATE

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Review of 'Viability Report'

Kingston Bridge House, Church Grove, Kingston-Upon-Thames, KT1 4AG

FINAL REPORT

Prepared for

London Borough of Richmond-Upon-Thames

November 2023

Contents

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Jamie Purvis MRICS
Senior Associate Director – UK Development Viability and Affordable Housing
BNP Paribas Real Estate
5 Aldermanbury Square
London EC2V 7BP

020 7338 4142
jamie.purvis@bnpparibas.com
realestate.bnpparibas.co.uk

1 Introduction and Terms of Reference

The London Borough of Richmond-Upon-Thames ("the Council") has commissioned BNP Paribas Real Estate to advise on an 'Viability Report' dated July 2021 submitted by DJC Housing Consultants on behalf of Westcombe Developments Ltd ("the Applicant") in relation to development proposals at Kingston Bridge House, Church Grove, Kingston-Upon-Thames, KT1 4AG ('the Site").

The development comprises the redevelopment of the site to provide 70 apartments.

This report provides an objective review of the Applicant's viability assessment in order to advise the Council whether the Applicant's contention that the scheme cannot support any affordable housing is correct.

1.1 BNP Paribas Real Estate

BNP Paribas Real Estate is a leading firm of chartered surveyors, town planning and international property consultants. The practice offers an integrated service from nine offices in eight cities within the United Kingdom and over 180 offices, across 37 countries in Europe, Middle East, India and the United States of America, including 16 wholly owned and 21 alliances. In 2005, the firm expanded through the acquisition of eight offices of Chesterton and in 2007, the firm acquired the business of Fuller Peiser and Strutt & Parker in 2017. We are a wholly owned subsidiary of BNP Paribas, which is the number one bank in France, the second largest bank in the Euro Zone and one of only six top rated banks worldwide.

BNP Paribas Real Estate has a wide-ranging client base, acting for international companies and individuals, banks and financial institutions, private companies, public sector corporations, government departments, local authorities and registered providers ("RPs").

The full range of property services includes:

- Planning and development consultancy;
- Affordable housing consultancy;
- Valuation and real estate appraisal;
- Property investment;
- Agency and Brokerage;
- Property management;
- Building and project consultancy; and
- Corporate real estate consultancy.

This report has been prepared by Jamie Purvis MRICS, RICS Registered Valuer and reviewed by Anthony Lee MRTPI, MRICS, RICS Registered Valuer.

The UK Development Viability and Affordable Housing Consultancy of BNP Paribas Real Estate advises landowners, developers, local authorities and RPs on the provision of affordable housing.

Anthony Lee was a member of the working group which drafted guidance for planning authorities on viability, which was published by the Local Housing Delivery Group in June 2012 as '*Viability Testing Local Plans: Advice to Planning Practitioners*'. He was a member of MHCLG's 'Developer contributions expert panel' which assisted in the drafting of the viability section of the 2019 Planning Practice Guidance. He is also a member of the Mayor of London's Housing Delivery Taskforce expert panel.

In addition, we were retained by Homes England ('HE') advise on better management of procurement of affordable housing through planning obligations.

The firm has extensive experience of advising landowners, developers, local authorities and RPs on the value of affordable housing and economically and socially sustainable residential developments.

1.2 Report Structure

This report is structured as follows:

Section two provides a brief description of the Development;

Section three describes the methodology that has been adopted;

Section four reviews the July 2021 assumptions adopted by the Applicant, and where necessary, explains why alternative assumptions have been adopted in our appraisals;

Section five sets out the results of the appraisals;

Section six, we draw conclusions from the analysis;

In **section seven**, we set out our review of the Applicant's revised viability report dated February 2023;

Finally, in **section eight**, we set out our review of the Applicant's October 2023 report which has been updated to reflect 4 affordable housing units and the Community Infrastructure Levy.

1.3 The Status of our advice

In preparing this report and the supporting appraisals, we have given full regard to the RICS Guidance Note ('GN') 'Assessing viability in planning under the National Planning Policy Framework for England 2019' (first edition, March 2021). However, paragraph 2.2.3 of the GN acknowledges that statutory planning guidance takes precedence over RICS guidance. Conflicts may emerge between the GN and the PPG and/or other adopted development plan documents. In such circumstances, we have given more weight to the PPG and development plan documents.

In carrying out this assessment, we have acted with objectivity, impartiality, without interference and with reference to all appropriate available sources of information.

We are not aware of any conflicts of interest in relation to this assessment.

In preparing this report, no 'performance-related' or 'contingent' fees have been agreed.

This report is addressed to the London Borough of Richmond Upon Thames only. No liability to any other party is accepted.

2 Development Description

2.1 Site Location and Description

The application site extends to approximately 0.28 and is occupied by a part 4 and part 7 storey singular building known as Kingston Bridge House. The site was previously owned and used by Kingston University for student accommodation and at present the site is vacant. The site has 2 separate vehicular access points from Church Grove and benefits from parking to the rear of the building. The site is located on the northern side of Church Grove, at the corner of its junction with Hampton Court Road.

The building is located in proximity of Hampton Wick Centre and Kingston Town Centre. It has a Public Transport Accessibility Level ('PTAL') rating of 4 which is a good level of public transport accessibility (0 being the lowest and 6b the highest) and is situated approximately 350m from Hampton Wick Station and 600m from Kingston Station. The building is situated within a Controlled Parking Zone and the site is partially located within Flood Zone 2 with the rest in Flood Zone 1.

2.2 Planning History

We have reviewed the Council's planning website and note that the site has not been subject to any planning applications that are relevant to this viability assessment.

2.3 The Proposed Development

The Applicant is seeking planning permission for the:

"Facade 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".

We summarise in Table 2.3.1 the proposed scheme accommodation.

Table 2.3.1: Proposed Scheme Accommodation

Unit Type	Number of Units	Average Area (sq/ft)
Studio	6	412
1 Bed	38	578
2 Bed	19	704
3 Bed	7	929
Total/Average	**70**	**623**

3 Methodology

The Applicant has submitted their appraisal using the HCA Economic Assessment Toolkit (‘EAT’).

We have used Argus to appraise the development proposals. Argus is a commercially available development appraisal package in widespread use throughout the industry. It has been accepted by a number of local planning authorities for the purpose of viability assessments and has also been accepted at planning appeals. Banks also consider Argus to be a reliable tool for secured lending valuations. Further details can be accessed at www.argussoftware.com.

Argus is a cashflow-backed appraisal model which allows the finance charges to be accurately calculated over the development/sales period. The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value. The model is normally set up to run over a development period from the date of the commencement of the project and is allowed to run until the project completion, when the development has been constructed and is occupied.

Essentially, such models all work on a similar basis:

- Firstly, the value of the completed development is assessed;
- Secondly, the development costs are calculated, using either the profit margin required or land costs (if, indeed, the land has already been purchased).

The difference between the total development value and total costs equates to either the profit (if the land cost has already been established) or the residual value.

The output of the appraisal is a Residual Land Value (‘RLV’), which is then compared to an appropriate benchmark, typically the Existing Use Value (‘EUV’) of the site plus a site-specific landowner’s premium, in line with the Planning Practice Guidance.

An Alternative Use Value (‘AUV’) may also constitute a reasonable benchmark figure where it is considered to be feasible in planning and commercial terms. Development convention and GLA guidance suggests that where a development proposal generates a RLV that is higher than the benchmark, it can be assessed as financially viable and likely to proceed. If the RLV generated by a development is lower than the benchmark, clearly a landowner would sell the site for existing or alternative use or might delay development until the RLV improves.

4 Review of Assumptions – July 2022

In this section, we review the assumptions adopted by the Applicant in their viability assessment.

4.1 Market Housing Revenue

The market housing units generate revenue of c. £30.71m equating to a capital value per sq/ft of c. £704. In support of this revenue, the Applicant has submitted a pricing schedule and we summarise the sale prices in Table 4.1.1.

Table 4.1.1: Proposed Scheme Sales Values

Unit Type	Units	Area (sq/ft)	Sale Price	£PSF
Studio	6	412	£290,314	£705
1 Bed	20	538	£379,000	£704
1 Bed	6	550	£387,338	£704
1 Bed	1	551	£388,096	£704
1 Bed	1	554	£390,370	£705
1 Bed	1	598	£421,448	£705
1 Bed	6	602	£423,772	£704
1 Bed	3	651	£458,591	£704
2 Bed	6	657	£462,381	£704
2 Bed	1	661	£465,413	£704
2 Bed	1	682	£480,573	£705
2 Bed	3	688	£484,363	£704
2 Bed	3	702	£494,217	£704
2 Bed	1	705	£496,491	£704
2 Bed	1	731	£514,683	£704
2 Bed	3	806	£567,743	£704
3 Bed	3	926	£651,881	£704
3 Bed	3	928	£653,397	£704
3 Bed	1	933	£657,187	£704
Total	**70**	-	-	

The Applicant has not submitted any evidence or a valuation rationale that supports the proposed market housing revenue and we request that this information be submitted so we can consider the sales values in further detail. Pending receipt of this information, we have adopted the Applicant's revenue in our appraisal. However, our adopted revenue may be subject to revision.

4.2 Construction Costs

The Applicant's appraisal adopts construction costs totalling c. £8.91m on the basis of a BCIS cost rate for refurbished flats (6-storey or above) of c. £148. We have benchmarked this cost rate against current BCIS cost rates and the Applicant's cost rate falls within these rates. We have therefore adopted a cost rate of c. £148 per sq/ft in our appraisal.

The Applicant has also adopted a 5% construction cost contingency and for the purpose of this assessment, we do not consider that this is an unreasonable assumption.

4.3 Abnormal Construction Costs

The Applicant has adopted the following abnormal costs summarised in Table 4.3.1.

Table 4.3.1: Abnormal Construction Costs

Cost Heading	Cost
Site Security	£100,000
Asbestos Removal	£350,000
External Façade	£2,500,000 (£500,000 for removal and £2,000,000 for new façade)
Site Preparation/Demolition	£350,000
Total	**£3,300,000**

The Applicant has not provided any evidence to support the abnormal costs and we request that supporting information be submitted. We have removed the site security cost from our appraisal and this cost will be reflected within the preliminaries allowance in the BCIS cost rate. We also note that the Applicant has not included the cost for Asbestos removal in their appraisal and pending receipt of further information from the Applicant we have not adopted this cost in our appraisal.

4.4 Professional Fees

The Applicant has adopted a 10% professional fee allowance and for the purpose of this assessment, we have also adopted this professional fee allowance.

4.5 Community Infrastructure Levy

The Applicant has not adopted a CIL payment as there is no increase in floor area from the existing building and we would welcome confirmation from the Council that is correct.

4.6 S106 Obligations

The Applicant has adopted a S106 payment totalling £200,000 and we would welcome confirmation from the Council that this cost is correct.

4.7 Sales, Marketing & Legal Fees

The Applicant has adopted a sales and marketing budget of 2% in addition to a sales legal fee of £1,000 per unit. For the purpose of this assessment, we do not consider that these fees are unreasonable.

4.8 Project Programme

The Applicant has assumed that construction will start on site in November 2022 followed by 18 months of construction and a 10 month sale duration. We do not consider that the project programme is unreasonable; however, we have assumed that the scheme will achieve 30% off-plan sales, with sales receipts for these units received at practical completion.

4.9 Finance

The Applicant has adopted a finance rate of 7% and we consider that this finance rate falls outside of current lending requirements and we have subsequently adopted a finance rate of 6.5%. Although a bank would not provide 100% of the funding required for the proposed Development, it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual cost) of committing equity to the project.

4.10 Developer's Profit

The Applicant has adopted a profit of 17.5% on value for the market housing units.

We have recently experienced a range from 17% to 20% of GDV when considering developments in the southeast of England. We have taken into account the uncertainty that is now apparent after the United Kingdom's departure from the European Union and the potential risks associated with our future trading relationships with other countries, in addition to the risks associated with the Proposed Development. We have also taken into account the outbreak of the Novel Coronavirus (Covid-19) declared by the World Health Organisation as a "Global Pandemic" on 1 March 2020 and the emergence of new strains of the virus. We have also taken into account the war in Ukraine, global commodities inflation and current supply chain issues and considering all these issues, we do not consider that a profit of 17.5% is unreasonable for the proposed scheme.

5 Appraisal Outputs – July 2022

In this section, we consider the outputs of the appraisals and the implications for the provision of affordable housing at the proposed development and review the benchmark land value.

5.1 Viability Benchmark Site Value

The Applicant has adopted a site value of £11.25m on the basis of the existing use value of the site. In support of this value the Applicant has submitted a valuation report prepared by Copping Joyce dated 25 September 2020.

We set out below the valuation report's commentary regarding the existing use value of the site:

"In our opinion were the accommodation to be modernised the accommodation remains suitable in our opinion to be used as student accommodation. The building benefits from being walking distance of the main Kingston University Campus and Kingston town centre.

However given the age and inferior facilities of the student accommodation, compared to evidence of modern student accommodation to the area, a significant discount from rents seen to more attractive modern student accommodation to the area must be considered.

Evidence suggests rooms to purpose built modern accommodation range between £170 - £325 per week, however this is to superior accommodation with facilities. Typically these are offered on 6 or 12 month contracts. Private bedsits to housing in the locality suggest rents between £500 - £800 per calendar month.

In our assessment of the Market Rent as it exists we have considered a discounted rent of £100 per week (£5,200 per annum), reflective of the properties [sic] inferior nature. Were the property to undergo a significant modernisation programme, improved rents appear achievable based on evidence. Based on 218 rooms this equates to a gross rental income of £1,133,600 per annum, which we have rounded to £1,330,000 per annum. From this we have then made a deduction to a Net Market Rent, which will need to be considered with this type of property to reflect the incurred management costs, repairs, a profit / risk, marketing / letting costs and potentially reduced occupancy rates. We have thus considered a Net Rent of £931,000 per annum, reflective of a deduction to the rent in the order of 30%.

In our opinion with vacant possession this building will have a greater appeal to a developer such as the borrower, rather than a student accommodation operator, who would need to spend on refurbishment costs to update the building to other modern halls close by. While there is no planning at present for a scheme at present, we consider the location of the property in Hampton Wick, right by Bushy Park / River Thames, a popular residential location, with easy access to Kingston town centre, suitable for a residential conversion.

Evidence of larger vacant building with development potential set out to the comparable evidence suggests that sale rates range between £250 - £600 per sq ft on an overall Gross Internal Area basis. The borrower is seeking to purchase the building at an agreed price of £11,250,000, which equates to £177.45 per sq ft based on our Gross Internal Area. The subject building is larger than the comparable evidence above and thus a quantum discount must be considered to reflect the greater size of the building. We thus consider the proposed price at a Market Level after factoring into account the prominent location, size quantum and dated facilities of the building. As a check we have also assessed it on a yield basis and based on our assessment of net rent of £931,000 per annum, suggests an all risks yield of 8.28%, which we consider reflective of its dated accommodation, large size and current lack of planning".

In essence, the valuation report is seeking to support the purchase price of the site at £11.25m 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".* However, the valuation report also considers the value of the site on the basis of a rent of yield which can provide the basis of an existing use value although we have concerns with the valuation approach.

The valuation report was prepared after Kingston University's announcement of plans to close the site in January 2020 due to its unpopularity with students, which resulted in significant void costs associated with empty rooms. We also understand that the site also requires considerable investment in order to bring it up to current standards. On the basis that the University disposed of the site in order to invest in their existing halls of residence, it is unclear where any future demand would come from in the event that the site was reopened as student accommodation.

We have had regard to an article on the Richmond and Twickenham Times website dated 10 May 2022 in which it states that the Applicant stated that no other local education providers would want to occupy the building because of its scale and that the building is in poor condition and not fit for purpose. Furthermore, the cladding needs to replaced which is a cost that has not been factored into the Applicant's site value benchmark. The valuation also assumes that the rooms will be let to students for the full 52 weeks of the year when student accommodation is typically let for 40 weeks. Furthermore, the valuation report has miscalculated and overstated the net rent by £137,480 which overstates the capital value by c. £1.66m.

As a result, the Applicant's site value benchmark is overstated and unsubstantiated by any evidence base, notwithstanding that, the report does not consider whether there would be demand for student accommodation in a location where the only University has already disposed of the subject building.

On the basis of the above information, we are not satisfied that the Applicant's site value benchmark is robust and that the existing use value of the site as student accommodation is nominal. Consequently, we have adopted a nominal site value of £1. However, the Applicant has the opportunity to provide more information in support of their site value benchmark.

5.2 Appraisal Results

We tabulate below the results of the Applicant's viability assessment.

Table 5.2.1: Applicant's Appraisal Results

Fixed Site Value	Profit (% GDV)	Surplus/Deficit
c. £11.25m	17.5%	c. - £2.97m

In summary, the Applicant's proposed scheme appraisal generates a deficit of c. £2.97m

We summarise in the tables below our appraisal results.

Table 5.2.2: BNPPRE Appraisal Results with S106 Payment

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £8.73m	£1	c. £8.73m

In summary, our proposed scheme appraisal generates a residual land value of c. £8.73m and when benchmarked against a nominal site value of £1 the proposed scheme generates a surplus of c. £8.73m.

Whilst our assessment currently generates a surplus, we have highlighted that there are flaws and calculation errors with the value attributed to the Applicant's existing use value and pending receipt of further information on the EUV or the adoption of an alternative use value our initial conclusions may be subject to revision.

In the absence of a benchmark site value, at this stage we have not undertaken a sensitivity analysis on our appraisal results.

6 Conclusion – July 2022

We have reviewed the Applicant's viability assessment, which seeks to demonstrate that the scheme cannot support any affordable housing as it generates a deficit of c. £2.97m.

We have undertaken our own assessment of the scheme and our assessment generates a surplus of c. £8.73m when benchmarked against a nominal site value of £1. For the purpose of this initial draft report, we have adopted a nominal site value due to our concerns raised in section 5 in relation to the Applicant's existing use value. We have invited the Applicant to provide further information to amend their EUV. We have also requested that the Applicant submits further information in relation to the market housing revenue and abnormal costs and as a result, our initial conclusions may be subject to revision.

7 Review of Applicant's Updated Report (June 2023)

Since issuing our draft report in July 2022 we have had further discussions with the Applicant surrounding the benchmark site value and subsequently the Applicant has submitted an updated viability report dated February 2023. We set out our comments under the headed sections below.

7.1 Market Housing Revenue

The Applicant's updated report provides a unit by unit pricing exercise prepared by Chestertons which provides a total revenue of c. £30.94m equating to a blended capital value per sq/ft of £710. We summarise in Table 7.1.1 a summary of the values prepared by Chestertons.

Table 7.1.1: Chestertons Sales Values

Unit Type	Units	Floor Area Range (sq/ft)	Sale Price Range	£PSF Range
Studio	6	412	£290,000 - £310,000	£704 - £752
1 Bed	41	538 – 705	£355,000 - £495,000	£652 - £745
2 Bed	16	656 – 806	£450,000 - £580,000	£660 - £747
3 Bed	7	923 – 928	£630,000 - £680,000	£675 - £735
Total/Average	**70**	**623**	**£441,992**	**£710**

We highlighted to the Applicant that the sales values prepared by Chestertons did not provide any comparable evidence to support the suggested values.

The Applicant has also provided a schedule of suggested values which generates revenue totalling c. £29.65m prepared by Savills dated 23 February 2023 and we summarise these values in Table 7.1.2.

Table 7.1.2: Savills Sales Values

Unit Type	Units	Floor Area Range (sq/ft)	Sale Price Range	£PSF Range
Studio	6	412	£267,500 - £280,000	£649 - £679
1 Bed	41	538 – 705	£345,000 - £440,000	£617 - £734
2 Bed	16	656 – 806	£437,000 - £592,500	£646 - £773
3 Bed	7	923 – 928	£575,000 - £615,000	£615 - £653
Total/Average	**70**	**623**	**£423,636**	**£680**

We highlight that the Savills pricing schedule did not provide any evidence to support the sales values.

Finally, the Applicant has provided a schedule of values whichg generates revenue totalling c. £30.50m prepared by Hamptons dated 24 February 2023 and we summarise the average sales values from their pricing in Table 7.1.3.

Table 7.1.3: Hamptons Sales Values

Unit Type	Units	Average Floor Area (sq/ft)	Average Sale Price	£PSF
Studio	6	412	£306,250	£743
1 Bed	41	572	£390,427	£683

Unit Type	Units	Average Floor Area (sq/ft)	Average Sale Price	£PSF
2 Bed	16	700	£511,563	£731
3 Bed	7	928	£632,143	£681
Total/Average	**70**	**623**	**£423,636**	**£680**

We have considered the comparable evidence submitted by Hamptons which provides details of secondhand sales of apartments with 1 bed sales averaging £338,700, 2 beds averaging £494,360 and 3 beds averaging £874,517.

We have considered the pricing schedules submitted by the Applicant and highlight that no valuation rationale has been submitted by any of the agents. Whilst the subject site is located on the edge of Kingston town centre we highlight that a number of the units will have views across Bushy Park and Hampton Court Park (Home Park). As a result there remains the opportunity that the scheme could achieve higher values than those suggested by the local agents. For the purpose of this assessment, we have adopted the Applicant's sales values (which are based upon Chesterton's pricing schedule). However, we recommend that the Council implements a review mechanism in the S106 agreement so that the viability of the scheme can be reconsidered at an agreed point in the future based upon achieved sales values.

7.2 Construction Costs

The proposed scheme costs are c. £15.18m equating to a cost rate of c. £260. In support of the costs the Applicant has submitted a 'Construction Cost Report and Review' prepared by Fulkers Bailey Russell. The Council has instructed Concert to review the scheme costs and we attach as Appendix 2 their cost review. In summary, Concert have assessed the scheme costs at c. £15.25m and therefore the Applicant's costs fall within Concerts cost assessment. We have subsequently adopted the Applicant's costs of c. £15.18m in our appraisal.

7.3 Professional Fees & Contingency

The Applicant has advised that the allowances previously adopted for professional fees and the construction cost contingency are now reflected in the construction costs. However, Concert have identified that the Fulkers Bailey Russell cost review excludes professional fees. We have therefore adopted a professional fee allowance of £700,000 which is referenced in the Fulkers Bailey Russell cost review.

7.4 Sales, Marketing & Legal Fees

The Applicant has maintained a 2% sales and marketing fee in addition to a legal fee of £1,000 per unit and we had previously agreed with these fees.

7.5 Project Programme

The Applicant has assumed that construction will start on site in November 2022 followed by 18 months of construction and a 10 month sale duration. We do not consider that the project programme is unreasonable; however, we have assumed that the scheme will achieve 30% off-plan sales, with sales receipts for these units received at practical completion.

7.6 Finance Rate

The Applicant has adopted a finance rate of 7% and we have revised our finance rate to 7%. Although a bank would not provide 100% of the funding required for the proposed Development, it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual cost) of committing equity to the project.

7.7 S106 Obligations

The Applicant has adopted maintained a S106 payment totalling £200,000 and we would welcome confirmation from the Council that this cost is correct.

7.8 Developer's Profit

The Applicant has maintained profit at 17.5% on value and we previously agreed with this profit threshold.

7.9 Benchmark Site Value

The Applicant's viability assessment states that we have previously agreed an existing use value for the site of c. £7.90m and with the addition of a 10% landowner's premium the Applicant's site value is c. £8.69m.

During further discussions with the Applicant following our draft report in July 2022, the Applicant submitted a report prepared by Medhursts Commercial Surveyors dated August 2022 that supported an existing use value of c. £9.59m together with a 20% premium and a site value of c. £11.25m.

Following further discussions with Medhursts the following EUV of c. £7.90m was agreed:

46 letting weeks x £100 rent per week	= Gross Rent £4,600 per room
£4,600 per room x 218 rooms	= Total Gross Rent of £1,002,800
Less 30% Operational Costs	= Net Rent of £701,960
Capitalised at 8.28%	= £8,477,778
Less Purchaser's Costs of 6.8%	= £7,901,289.

We previously applied a 10% landowner's premium and agreed with Medhursts that a site value of c. £8.69m was not unreasonable.

However, given the timeframe that has subsequently passed since we previously discussed the site value benchmark with Medhursts we have reflected on the previously agreed site value and we consider, with hindsight, that the costs for the replacement cladding should be reflected within the site value benchmark.

For clarity, we reiterate the comments that we made in section 5 of this report:

"The valuation report was prepared after Kingston University's announcement of plans to close the site in January 2020 due to its unpopularity with students, which resulted in significant void costs associated with empty rooms. We also understand that the site also requires considerable investment in order to bring it up to current standards. On the basis that the University disposed of the site in order to invest in their existing halls of residence, it is unclear where any future demand would come from in the event that the site was reopened as student accommodation.

We have had regard to an article on the Richmond and Twickenham Times website dated 10 May 2022 in which it states that the Applicant stated that no other local education providers would want to occupy the building because of its scale and that the building is in poor condition and not fit for purpose. Furthermore, the cladding needs to replaced which is a cost that has not been factored into the Applicant's site value benchmark".

We highlight that the Affordable Housing Statement submitted with the previous withdrawn application (ref: 21/1399/FUL) states:

"The existing building was in use by Kingston University and was let to students. Kingston University has replaced this accommodation with new premises in Kingston Town Centre, so the application building is no longer needed for student accommodation. Given the scale of the existing building, there

are no other education providers locally that would be willing to occupy the premises. The situation is made worse by the discovery recently that the external cladding to the building is in poor condition and requires replacement in the near future. The building is in poor condition and not fit for purpose".

The Fire Statement submitted with this application also states *"the building is currently insulated externally with rendered insulation that is combustible*".

In the event that the site was to be utilised as student accommodation on the basis of rent and yield assumptions summarised above, the Applicant would be required to ensure that fit for purpose cladding was installed prior to the occupation of any students. If the work for the cladding was not undertaken the site would breach the *"The National Code of Standards for Larger Developments for student accommodation NOT managed and controlled by educational establishments (2022)".* The standards apply to larger developments supplying student accommodation and is to ensure that student accommodation is suitable and safe.

Section 6 of the document During the Occupancy (Part 3) Health and Safety states:

"Members will: maintain and manage developments in accordance with the requirements of, and standards established in, the Homes (Fitness for Human Habitation) Act 2018; and reduce the risks of potential health and safety hazards, based on the Housing Health and Safety Rating System (HHSRS) to as low a level as is reasonably practical and cost-effective, and ensure no HHSRS Category 1 hazards are present".

The Applicant has previously cited a cost of £2.5m for the replacement of the cladding and we have reflected this within our updated site value as in the absence of accounting for this cost, the existing use value of the site would be reflected as our previously adopted nominal site value of £1 as the site would not be operational.

We summarise our revised site value benchmark valuation below:

46 letting weeks x £100 rent per week	= Gross Rent £4,600 per room
£4,600 per room x 218 rooms	= Total Gross Rent of £1,002,800
Less 30% Operational Costs	= Net Rent of £701,960
Capitalised at 8.28%	= £8,477,778
Less costs for cladding	= £2,500,000
Sub-Total	= £5,977,779
Less Purchaser's Costs of 6.8%	= £5,571,289
Say	**= £5,570,000**

We have subsequently adopted a site value benchmark of £5.57m.

7.10 Appraisal Results

We tabulate below the results of the Applicant's revised viability assessment.

Table 5.2.1: Applicant's Appraisal Results

Fixed Site Value	Profit (% GDV)	Surplus/Deficit
c. £8.69m	17.5%	c. - £2.30m

In summary, the Applicant's proposed scheme appraisal generates a deficit of c. £2.30m

We summarise in the tables below our appraisal results.

Table 5.2.2: BNPPRE Appraisal Results

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £6.27m	c. £5.57m	c. £0.70m

In summary, our proposed scheme appraisal generates a residual land value of c. £6.27m and when benchmarked against a site value of c. £5.57m the proposed scheme generates a surplus of c. £0.70m. Consequently, the proposed scheme can support a payment towards affordable housing.

7.11 Sensitivity Analysis

We have also undertaken a sensitivity analysis which demonstrates scheme performance in the event that sales values and construction costs increase/decrease.

Table 7.11.1: Sensitivity Analysis

	Sales values				
Construction Costs	-10%	-5%	0.00%	+5%	+10%
-10%	£5,558,280	£6,561,649	£7,565,023	£8,568,396	£9,571,769
-5%	£4,909,989	£5,913,369	£6,916,736	£7,920,109	£8,923,483
0%	£4,261,702	£5,265,076	**£6,268,459**	£7,271,823	£8,275,196
+5%	£3,613,415	£4,616,789	£5,620,162	£6,623,536	£7,626,909
+10%	£2,965,128	£3,968,502	£4,971,875	£5,975,249	£6,978,622

8 Review of the Applicant's October 2023 Report (November 2023)

The Applicant has submitted an updated report which accounts for 4 affordable housing units and a CIL payment of c. £2.02m. We set out our review of the Applicant's report under the headed sections below.

8.1 Market Housing Revenue

The market housing units generate revenue of £28.92m equating to a blended capital value per sq/ft of c. £712. The revenue is consistent with the value per sq/ft we adopted in our June 2023 assessment and for the purpose of this review we have adopted the Applicant's market housing revenue.

8.2 Affordable Housing Revenue

The four social rented units generate revenue of c. £0.52m equating to a capital value per sq/ft of c. £177.

To establish the capital values of the affordable housing units, we have used a bespoke model specifically created for this purpose. This model takes into account factors such as standard levels for individual RPs management and maintenance costs; finance rates currently obtainable in the sector, and a view on the amount of grant that may be obtainable.

The 'Affordable Homes Programme 2021-2026 - Prospectus' document provides a clear indication that Section 106 schemes are unlikely to be allocated Grant funding, except in exceptional circumstances. It is therefore considered imprudent to assume that Grant will be secured. Therefore, our base appraisal assumes that none is provided. We have assumed a golden brick payment structure, with 25% of the contract sum received at start of construction with the balance payable monthly up to PC. In summary, we do not consider that a capital value of £177 per sq/ft for the social rented units is unreasonable.

8.3 Construction Costs

Our June 2023 assessment adopted the Applicant's costs totalling £15.18m. The Applicant has since removed costs associated with the Gym of £35,000 and subsequently we adopted a total costs of c. £15.15m.

8.4 Professional Fees

The Applicant previously advised that the allowances previously adopted for professional fees and the construction cost contingency are now reflected in the construction costs. However, Concert have identified that the Fulkers Bailey Russell cost review excludes professional fees. We have therefore adopted a professional fee allowance of £700,000 which is referenced in the Fulkers Bailey Russell cost review.

8.5 Sales, Marketing & Legal Fees

The Applicant has maintained a 2% sales and marketing fee in addition to a legal fee of £1,000 per unit and we had previously agreed with these fees.

8.6 Project Programme

The Applicant has assumed an 18 month construction programme and a 10 month sale duration with 30% off-plan sales. We do not consider that the project programme is unreasonable.

8.7 Finance Rate

The Applicant has adopted a finance rate of 7% and we consider that this finance rate falls outside of the typical range adopted in viability assessments and secured lending valuations (the latter of which banks rely upon for secured lending purposes). We have adopted a finance rate of 7%. Although a bank would not provide 100% of the funding required for the proposed Development, it is conventional to assume finance on all costs in order to reflect the opportunity cost (or in some cases the actual cost) of committing equity to the project.

8.8 Developer's Profit

The Applicant has adopted a profit return of 17.5% and6% on value profit for the affordable housing units.

Our assessment of profit is based upon the perceived risks associated with the proposed Development. We consider a profit level of 17.5% of GDV for the private residential element of the proposed development to be reasonable.

We have also adopted profit margins of 6% of the affordable housing GDV and 15% of GDV on the commercial floorspace. The reduced profit on affordable housing reflects the risk of delivery. The developer will contract with an RP prior to commencement of construction and they are – in effect – acting as a contractor, with their risk limited to cost only. After contracting with the RP, there is no sales risk. In contrast, the private housing construction will typically commence before any units are sold and sales risk is present well into the development period.

8.9 Community Infrastructure Levy ('CIL')

The Applicant has adopted a CIL payment totalling £2,016,323 comprising of a Mayoral CIL payment of £471,182 and a Borough CIL payment of £1,545,141.

8.10 S106 Obligations

The Applicant has adopted a S106 payment of £30,175. We have been advised by the Council that the S106 obligations total £110,205 as we have adopted this cost in our appraisal.

8.11 Site Value Benchmark

The Applicant has adopted our previously adopted site value of c. £5.57m.

8.12 Appraisal Results

We tabulate below the results of the Applicant's revised viability assessment.

Table 8.12.1: Applicant's Appraisal Results (4 Social Rented Units)

Fixed Site Value	Blended Profit (% GDV)	Surplus/Deficit
c. £5.57m	17.40%	c. - £1.46m

In summary, the Applicant's proposed scheme appraisal generates a deficit of c. £1.46m

We summarise in the tables below our appraisal results.

Table 8.12.2: BNPPRE Appraisal Results (4 Social Rented Units)

Proposed Scheme Residual Land Value	Benchmark Site Value	Surplus/Deficit
c. £3.68m	c. £5.57m	c. - £1.89m

In summary, our proposed scheme appraisal generates a residual land value of c. £3.68m and when benchmarked against a site value of c. £5.57m the proposed scheme generates a deficit of c. £1.89m. Consequently, the proposed scheme cannot support more than 4 affordable housing units.

Appendix 1 - Proposed Scheme Appraisal (July 2022)

Licensed Copy

Development Appraisal

Kingston Bridge House

Proposed Scheme Appraisal

Report Date: July 25, 2022

APPRAISAL SUMMARY — LICENSED COPY

Kingston Bridge House
Proposed Scheme Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Market Housing Units	70	43,605	704.22	438,677	30,707,367

NET REALISATION				**30,707,367**
OUTLAY				
ACQUISITION COSTS				
Residualised Price			8,730,718	
Stamp Duty		5.00%	436,536	
Agent Fee		1.00%	87,307	
Legal Fee		0.80%	69,846	
				9,324,406
CONSTRUCTION COSTS				
Construction	**Units**	**Unit Amount**	**Cost**	
Market Housing Units	70 un	127,241	8,906,892	**8,906,892**
Contingency		5.00%	445,345	
Site Pre/Demolition			350,000	
Facade			2,500,000	
S106			200,000	
				3,495,345
PROFESSIONAL FEES				
Architect		10.00%	890,689	
				890,689
DISPOSAL FEES				
Sales & Marketing Fee		2.00%	614,147	
Sales Legal Fee	70 un	1,000.00 /un	70,000	
				684,147
Additional Costs				
Market Housing Profit		17.50%	5,373,789	
				5,373,789
FINANCE				
Debit Rate 6.500% Credit Rate 0.000% (Nominal)				
Land			1,284,014	
Construction			748,084	
Total Finance Cost				2,032,098
TOTAL COSTS				**30,707,367**
PROFIT				
				0

Performance Measures

Profit on Cost%	0.00%
Profit on GDV%	0.00%
Profit on NDV%	0.00%
IRR	6.26%
Profit Erosion (finance rate 6.500%)	0 yrs 0 mths

Appendix 2 - Concert Cost Review

Kingston Bridge House
Church Grove
Kingston KT1 4AG

BNP Paribas Real Estate UK

Construction Cost Viability Review

Project No. 1284

21 March 2023

Concert

CONTENTS

1.0 NOTES

- This commentary has been prepared to assist BNP Paribas Real Estate UK undertake a review of the Financial Viability Appraisal in respect of the proposed development at Kingston Bridge House, Kingston.

- Costs have been assessed at first quarter 2023 and in line with the Cost Plan Analysis prepared by Westcombe Group dated 23rd January 2023.

- We have restricted our comments to the Construction Costs only and BNP Paribas Real Estate UK will comment on the other costs and values.

- The information we have used to review the costs put forward by the applicant are: -

    - Financial Viability Appraisal prepared by DJC Housing Consultants Ltd dated February 2023.

    - Cost Plan Analysis prepared by Westcombe Group dated 23rd January 2023 and in parallel with a Construction Cost Report and Review prepared by Fulkers Bailey Russell dated 1st February 2023.

    - London Borough of Richmond Upon Thames – Planning Application Documents.

- We have not inspected the site.

2.0 SUMMARY OF OBSERVATIONS

- Property Developer Westcombe Group requested that Fulkers Bailey Russell undertake a review of their Cost Plan Analysis amounting to £15,157,910 that includes Preliminaries, Overheads & Profit, Project and Design Team Fees and Risk (Contingencies).

- The Financial Viability Appraisal prepared by DJC Housing Consultants Ltd refers to a Construction Cost of £15,180,805 that is derived from a Construction Cost Report and Review prepared by Fulkers Bailey Russell that includes Preliminaries, Overheads & Profit and Risk (Contingencies) but excludes Project and Design Team Fees and this equates to £2,799/m2 or £260/ft2 on GIA.

- We have carried out an Indicative Budget Estimate on an “Elemental” basis by obtaining “key” measurements and quantities from drawings available from the London Borough of Richmond Upon Thames Planning Portal. This has resulted in a Construction Cost of £15,250,000 that includes Preliminaries, Overheads & Profit and Risk (Contingencies) but excludes Project and Design Team Fees and this equates to £2,812/m2 or £261/ft2 on GIA.

- We consider the Preliminaries allowance of 15% to be fair and reasonable for what we believe will be a single stage Design and Build procurement route; This has also been included in our Indicative Budget Estimate.

- Property Developer Westcombe Group had initially excluded Overheads & Profit on the basis that they would procure the works through their own construction arm, with funding from profits through sales. However Fulkers Bailey Russell have recommended that Overheads & Profit is included if the works are now likely to be procured through an alternative contractor; We are in agreement with this and have also included an Overheads & Profit allowance of at least 5% in our Indicative Budget Estimate.

- We consider the Risk (Contingency) allowance of 7.5% to be fair and reasonable for what will involve a combination of new build work as well as working in an existing building; This has also been included in our Indicative Budget Estimate.

- Our Indicative Budget Estimate of £15,250,000 compares favourably with £15,180,805 and which we consider to be a fair and reasonable Estimate of Construction Cost for this development.

3.0 INDICATIVE BUDGET ESTIMATE

	Building Element	Quantity	UoM	Rate	Amount (£)
0.0	**Enabling Works**				
0.1	Take up and remove existing landscaping [site area]	1,760	m2	25	44,000
1.0	**Demolition**				
1.1	Internal strip out [GIA]	5,423	m2	50	271,150
1.2	Remove external façade [total façade area]	4,199	m2	100	419,900
1.3	Remove roof finishes [roof area]	1,051	m2	50	52,550
1.4	Scaffolding [façade area]	4,199	m2	50	209,950
1.5	Hoarding [site perimeter]	209	m	100	20,900
1.6	Omission to Actual Cost				(441,850)
1.7	**Enabling Works & Demolition - Actual cost - £576,600**				**576,600**
2.0	**Roof**				
2.1	Roof finish [roof area]	1,051	m2	200	210,200
2.2	Roof parapet [roof perimeter]	205	m	250	51,250
2.3	Lift Overruns [no. of lifts]	3	Nr	15,000	45,000
2.4	Roof drainage [roof area]	1,051	m2	50	52,550
2.5	Roof Mansafe and Fall Arrest System [perimeter of roof]	205	m	250	51,250
2.6	PV Panels [panel area]	264	m2	450	118,800
3.0	**Stairs**				
3.1	1 stair serving 4 floors	4	floors	7,500	30,000
3.2	2 stairs serving 7 floors	14	floors	7,500	105,000
4.0	**External Walls**				
4.1	External Metframe Structure & Y Wall [solid façade area]	3,319	m2	200	663,800
4.2	Stone Cladding Type [solid façade area]	966	m2	750	724,500
4.3	Brick Slip Type / Other Type [solid façade area]	2,353	m2	500	1,176,500
				C/fwd	**3,805,450**

3.0 INDICATIVE BUDGET ESTIMATE (CONT'D)

	Building Element	Quantity	UoM	Rate	Amount (£)
				B/fwd	**3,805,450**
5.0	**External Windows & Doors**				
5.1	Windows	391	m2	650	254,150
5.2	Curtain walling	189	m2	1,250	236,250
5.3	External doors; single	5	Nr	2,000	10,000
5.4	External doors; double	3	Nr	3,000	9,000
5.5	Apartment terrace doors	9	Nr	3,500	31,500
5.6	Apartment balcony doors	60	Nr	3,500	210,000
6.0	**Internal Partitions and Linings**				
6.1	Internal Partitions and Linings [no. of apartments]	70	Units	12,500	875,000
7.0	**Internal Doors**				
7.1	Internal doors [£/ft2 on GIA]	58,373	ft2	5	291,865
8.0	**Wall Finishes**				
8.1	Bathroom / Ensuite wall tiles [assume to dado height]	690	m2	100	69,000
8.2	Kitchen splashbacks [no. of apartments]	70	Nr	500	35,000
9.0	**Floor Finishes**				
9.1	Bathroom / Ensuite floor tiles	325	m2	100	32,500
9.2	Floor finishes [GIA ddt floor tiles]	5,098	m2	50	254,900
10.0	**Ceiling Finishes**				
10.1	Ceiling finishes [GIA]	5,423	m2	50	271,150
11.0	**Fittings, Furnishings and Equipment**				
11.1	Wardrobes	96	Nr	1,250	120,000
11.2	Sanitary Installations [no. of bathrooms / ensuites]	77	Nr	3,500	269,500
11.3	Kitchen Installations [no. of apartments]	70	Nr	7,500	525,000
11.4	Bike stands	160	Nr	350	56,000
11.5	Waste bins	16	Nr	250	4,000
11.6	Gym in basement [£/ft2 allowance]	463	ft2	150	69,450
				C/fwd	**7,429,715**

3.0 INDICATIVE BUDGET ESTIMATE (CONT'D)

	Building Element	Quantity	UoM	Rate	Amount (£)
				B/fwd	**7,429,715**
12.0	**Mechanical & Electrical Services**				
12.1	MEP Shell & Core [GIA]	5,423	m2	250	1,355,750
12.2	MEP Fit Out; Studio apartment	6	Units	15,000	90,000
12.3	MEP Fit Out; 1 Bed apartment	38	Units	20,000	760,000
12.4	MEP Fit Out; 2 Bed apartment	19	Units	25,000	475,000
12.5	MEP Fit Out; 3 Bed apartment	7	Units	30,000	210,000
13.0	**Lift Installations**				
13.1	1 Nr lift serving 4 floors	1	Nr	85,000	85,000
13.2	2 Nr lifts serving 7 floors	2	Nr	145,000	290,000
14.0	**BWIC**				
14.1	BWIC with services		5%		160,000
15.0	**External Works**				
15.1	Hard landscaping [approx. 70% of site area]	1,232	m2	250	308,000
15.2	Soft landscaping [approx. 30% of site area]	528	m2	150	79,200
15.3	Fencing, railings, walls, site furniture etc…	1	Item	100,000	100,000
15.4	SW and FW Drainage [GIA]	5,423	m2	20	108,460
15.5	Site drainage [site area]	1,760	m2	30	52,800
15.6	Utility connections [no. of apartments]	70	Nr	3,500	245,000
	TOTAL NETT CONSTRUCTION COST	**5,423**	**m2**	**£2,167**	**11,750,000**
	Preliminaries @ 15%		15%		1,760,000
	Overheads & Profit @ 5%		5%		680,000
	Contingency / Risk @ 7.5%		7.5%		1,060,000
	TOTAL CONSTRUCTION COST (excludes project and design team fees)	**5,423**	**m2**	**£2,812**	**15,250,000**

Appendix 3 - Proposed Scheme Appraisal (June 2023)

Licensed Copy

Development Appraisal

Kingston Bridge House

Proposed Scheme Appraisal

Report Date: June 9, 2023

APPRAISAL SUMMARY — LICENSED COPY

Kingston Bridge House
Proposed Scheme Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Market Housing Units	70	43,605	709.44	441,929	30,935,000
NET REALISATION				**30,935,000**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			6,268,459		
Stamp Duty		5.00%	313,423		
Agent Fee		1.00%	62,685		
Legal Fee		0.80%	50,148		
				6,694,714	
CONSTRUCTION COSTS					
Construction	**Units**	**Unit Amount**	**Cost**		
Market Housing Units	70 un	216,869	15,180,805	**15,180,805**	
S106			200,000		
				200,000	
PROFESSIONAL FEES					
Professional Fees			700,000		
				700,000	
DISPOSAL FEES					
Sales & Marketing Fee		2.00%	618,700		
Sales Legal Fee	70 un	1,000.00 /un	70,000		
				688,700	
Additional Costs					
Market Housing Profit		17.50%	5,413,625		
				5,413,625	
FINANCE					
Debit Rate 7.000% Credit Rate 0.000% (Nominal)					
Land			997,235		
Construction			783,571		
Other			276,362		
Total Finance Cost				2,057,168	
TOTAL COSTS				**30,935,013**	
PROFIT					
				(13)	
Performance Measures					
Profit on Cost%		0.00%			
Profit on GDV%		0.00%			
Profit on NDV%		0.00%			
IRR		6.84%			
Profit Erosion (finance rate 7.000%)		N/A			

Appendix 4 - Proposed Scheme Appraisal (November 2023)

Development Appraisal

Kingston Bridge House

Proposed Scheme Appraisal

Report Date: November 14, 2023

APPRAISAL SUMMARY LICENSED COPY

Kingston Bridge House
Proposed Scheme Appraisal

Summary Appraisal for Phase 1

Currency in £

REVENUE					
Sales Valuation	**Units**	**ft²**	**Rate ft²**	**Unit Price**	**Gross Sales**
Market Housing Units	66	40,623	711.91	438,182	28,920,000
Affordable Housing Units	4	2,982	175.66	130,958	523,830
Totals	**70**	**43,605**			**29,443,830**
NET REALISATION				**29,443,830**	
OUTLAY					
ACQUISITION COSTS					
Residualised Price			3,678,112		
Stamp Duty		5.00%	183,906		
Agent Fee		1.00%	36,781		
Legal Fee		0.80%	29,425		
				3,928,224	
CONSTRUCTION COSTS					
Construction	**Units**	**Unit Amount**	**Cost**		
Market Housing Units	66 un	229,545	15,149,998	**15,149,998**	
S106			110,205		
CIL			2,016,323		
				2,126,528	
PROFESSIONAL FEES					
Professional Fees			700,000		
				700,000	
DISPOSAL FEES					
Sales & Marketing Fee		2.00%	588,877		
Sales Legal Fee	66 un	1,000.00 /un	66,000		
				654,877	
Additional Costs					
Market Housing Profit		17.50%	5,061,000		
Affordable Housing Profit		6.00%	31,430		
				5,092,430	
FINANCE					
Debit Rate 7.000% Credit Rate 0.000% (Nominal)					
Land			584,305		
Construction			949,121		
Other			258,348		
Total Finance Cost				1,791,774	
TOTAL COSTS				**29,443,830**	
PROFIT					
				0	
Performance Measures					
Profit on Cost%		0.00%			
Profit on GDV%		0.00%			
Profit on NDV%		0.00%			
IRR		6.80%			
Profit Erosion (finance rate 7.000%)		N/A			