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## By email

2 March 2018

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Dear Sadiq

## **DRAFT NEW LONDON PLAN – REPRESENTATIONS ON BEHALF OF TIDE CONSTRUCTION LTD**

We are pleased to submit representations on behalf of our client, Tide Construction Ltd, to the consultation on the Draft New London Plan. Tide Construction is a development and construction company which designs, builds and delivers purpose-built student accommodation across London.

### **Purpose of representations**

These representations focus on the draft policy (Policy H17) relating to purpose-built student accommodation contained within the Draft New London Plan.

### Purpose-Built Student Accommodation Policy H17

Draft London Plan Policy H17 (Purpose-Built Student Accommodation) states:

- A. Boroughs should seek to ensure that local and strategic need for purpose-built student accommodation is addressed, provided that:
1. at the neighbourhood level, the development contributes to a mixed and inclusive neighbourhood;
  2. the use of the accommodation is secured for students;
  3. the accommodation is secured for occupation by members of one or more specified higher education institutions;
  4. at least 35 per cent of the accommodation is secured as affordable student accommodation as defined through the London Plan and associated guidance; and
  5. the accommodation provides adequate functional living space and layout.
- B. Boroughs, student accommodation providers and higher education institutions are encouraged to develop student accommodation in locations well-connected to local services by walking, cycling and public transport, but away from existing concentrations in central London as part of mixed-

use regeneration and redevelopment schemes.

Our client has requested that representations are submitted in order to challenge restrictive components of the above draft policy.

It appears to us that Part 1 of the draft policy is in conflict with part B. Requiring student accommodation to contribute to a 'mixed and inclusive neighbourhood' is acceptable in theory but how is this measured in practical circumstances? What is meant by 'mixed' and 'inclusive'? We suggest that a high proportion of mixed and inclusive neighbourhoods are located within central London, which part B of the draft policy states is an unacceptable location for purpose-built student accommodation. Further clarity and justification regarding this approach is required.

Part 3 sets out that all future purpose-built student accommodation is secured for occupation by members of one or more specified higher education institutions. This is an unreasonable and restrictive requirement that should not be required as part of the determination of a planning application. Residential schemes do not identify the end user/future occupants as part of the determination of a planning application and this should not apply to student accommodation either.

If the Mayor is minded through this draft requirement to provide certainty as to the appropriate management of the building, then the draft policy should be amended so that a management plan is required. This would represent an approach that is considerably more reasonable.

Turning to Part 4 of the draft policy, Tide Construction Ltd appointed James R. Brown and Co Ltd to provide a critique (enclosed within this letter) of the proposed policy approach. The critique sets out the following:

- The London Plan Viability Study (LPVS) appears to have been written to support pre-determined policies within the plan, rather than to inform the policy making process;
- The LPVS and information from the Mayor's Academic Forum does not provide clear, justifiable evidence that affordable student accommodation is required across London;
- The data relating to student accommodation values within the LPVS is not only limited but it is also misrepresented;
- The London wide requirement for 35% affordable student accommodation appears to be based on only 2 site case studies;
- The LPVS is unclear as to whether sensitivity testing for student accommodation has been carried out;
- The build cost assumptions for student accommodation do not vary by storey in the LPVS. This does not match with the approach taken for conventional residential;
- The financial viability assessments do not appear to be available in the LPVS and there is no reference to the relevant RICs guidance note;
- There are questions that need to be answered as regards the approach to Benchmark Land Values, finance costs and profit levels;
- The financial viability assessments (two examples) should be included in

- the LPVS for transparency; and
- If Policy H6 does apply to student accommodation, it is not reasonable to require a review clause on viability tested schemes due to the unjustified nature of the LPVS.

This letter should be read in conjunction with the critique completed by James Brown.

### **Summary**

On behalf of our client, we support the Mayor's ambition for a specifically tailored policy relating to purpose-built student accommodation in London, however it is critical that planning policy does not unnecessarily hinder the delivery of purpose-built student accommodation across the Capital. It is also critical that the location of purpose-built student accommodation is not limited due to the requirement for the developments to contribute to a mixed and inclusive neighbourhood or that direct-let schemes are restricted by the proposed policy.

As drafted, Policy H 17 fails to meet the tests of paragraph 182 of the NPPF as it is not justified. We have commented on the contradictions in requirements relating to 'mixed and inclusive neighbourhoods' as well as the unreasonable restriction as regards the proposal to require a nominations agreement with a university. James R. Brown's accompanying report has set out that the draft policy is based on evidence contained within in the London Plan Viability Study that is fundamentally flawed.

Ultimately, we are concerned that the above requirements are restrictive and will hinder the delivery of high quality purpose-built student accommodation across London.

If you wish to discuss any of the comments made in further detail please do not hesitate to contact me or my colleague Mathew Mainwaring.

Yours sincerely

Jessica Carmichael

Enc: As noted

**Proposed draft London Plan Policy H17 (and  
potentially H6) –  
Viability Orientated Representations prepared by  
JRBC for Tide Construction.**

**1/3/2018**

Proposed London Plan Policy H17 is not justified by robust viability evidence because the evidence in the London Plan Viability Study ('LPVS') is fundamentally flawed and/or wrong.

More specifically:-

- a) the requirement that 35% of the accommodation is secured as affordable student accommodation is not justified by robust viability evidence, and;
- b) the requirement that the accommodation is secured for occupation by one or more specified higher education institutions is not justified by robust viability evidence or indeed any apparent rationale.

We assume that Policy H6 ('Threshold approach') does not apply to purpose built student accommodation although this is not clear. However, just in case there is an intention to apply Policy H6 to purpose built student accommodation, we comment below as to why this is not justified by the LPVS evidence and why this would be inappropriate.

We assume that there is an onus on the GLA to provide appropriate evidence to justify the proposed London Plan policies and that, where this evidence is missing or lacking, the consequence will be (or should be) that the proposed policy cannot be adopted.

The London Plan Viability Study ('LPVS') is fundamentally flawed and/or wrong with reference H17 and H6 (if H6 is relevant to student accommodation development) because:-

*(N.B. We refer to the main body of the LPVS as the LPVS and its accompanying Technical Report as the LPVSTR below).*

**a) Support or Inform:-**

Para 1 of the LPVS Executive Summary says its purpose is to 'support' the new London Plan. However, this implies a fait accompli as surely the main purpose of the LPVS should have been to 'inform' the potential policies in the new London Plan.

As the LPVS is dated December 2017, it would not seem credible that the proposed new London Plan policies were generated almost immediately thereafter. Para 1.2.4 of the LPVS suggests that consultation on the proposed London Plan started at the end of November which pre-dates or almost coincides with the LPVS.

What detailed instructions were the authors of the LPVS given and when, as this should be a matter for public record?

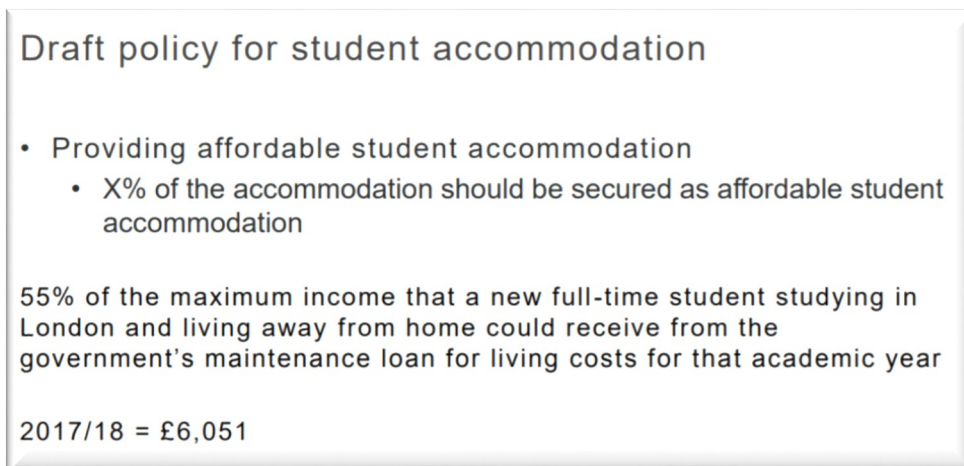
The LPVS appears to have been written to support pre-determined policies in the new London Plan rather than inform policy making which is in-appropriate and undermines its credibility as 'evidence'.

**b) Intervention & Justification for 35%:-**

Whilst planning policy has been intervening in the affordability and consequential value of housing for some years now, is this fundamentally legal and/or a planning policy matter? What part of what law permits and/or promotes this?

Neither the LPVS and/or information from the Mayor's Academic Forum 'MAF' (as referred to in footnote 1 on page 9 of the LPVSTR) clearly justifies any requirement for affordable student accommodation across London with rationale or meaningful evidence.

On 14/7/17, the MAF met although it is not clear from the meeting notes published on the GLA's web site who was in attendance (if indeed anybody other than GLA officers). The GLA presented to the MAF and this was one of their final slides:-



**Draft policy for student accommodation**

- Providing affordable student accommodation
  - X% of the accommodation should be secured as affordable student accommodation

55% of the maximum income that a new full-time student studying in London and living away from home could receive from the government's maintenance loan for living costs for that academic year

2017/18 = £6,051

As can be seen from the above, the only evidence as to why X has become 35% since 14/7/17 must be as a consequence of the LPVS. We see no apparent evidence why 55% (as opposed to 75% or any other %) has been applied to the maximum income that a new full-time student studying in London and living away from home could receive from the government's maintenance loan for living costs for the academic year. What if the average student also earns money from part-time employment and why shouldn't they be expected to obtain part-time work rather than be subsidised by developers?

**c) Data Sources, Analysis and Non-Ascertainable Logic through to Conclusion:-**

As can be ascertained from Pages 9-13 of the LPVSTR, the data used to inform assumed student accommodation values and development costs is sparse and weak. Indeed, the whole LPVS/LPVSTR is an unfeasibly thin document bearing in mind PPG indicates that 'evidence should be proportionate' and that it underpins a wide variety of housing and quasi housing development across the whole of London. We have regularly seen more substantial viability reports relating to a single site.

The sparse and weak data is also poorly and in-sufficiently analysed. For example, with respect to student accommodation, an annual income table is presented on Page 10 of the LPVSTR but the relevance and/or distribution of the student 'Value Bands' is highly questionable and there is a completely in-sufficient breakdown of income which should at least be broken down into:-

- University stock or private?
- Private – direct let or Nomination Rights Agreement?
- New or old stock?
- En-suite rooms or not?
- Proximity to University campus/main buildings?

The LPVS's failure to sufficiently breakdown and analyse necessary data fundamentally undermines its credibility.

Having considered the data and having been forced to deduce what the financial viability assessments of the 2 student development archetypes might look like in detail, we cannot ascertain how the LPVS concludes that 35% affordable student accommodation is viable across London. There is no auditable trail and so the LPVS/LPVSTR does not represent evidence.

**d) Case Studies, Archetypes and Sample Size:-**

The London wide viability/sustainability of a 35% affordable student accommodation requirement is based upon only 2 site case studies in the LPVS. Indeed, these are not even real sites/schemes and are therefore just 2 hypothetical/random archetypes.

The sample size of 2 hypothetical archetypes is clearly deficient and is reason alone to confirm that Policy H17 should not be adopted.

Furthermore, the implied footprints of the 2 assumed student development archetypes equate to footprint/site area ratios of 18.42% and 14% (i.e. abnormally low unless they are substantially bigger at lower level than they are at upper level) which also begs the question as to whether these archetypes are realistic. On the face of it, they do not appear to be.

**e) Incorrect and/or Misrepresented Data:-**

We are familiar with the Savills forecasts on page 16 of the LPVS but the LPVS fails to clarify that these forecasts do not apply to 'new build' which London Plan policies are aimed at.

Furthermore:-

- the forecasts listed on page 16 of LPVS are already out of date as most of the cited forecasters have since pegged back their growth forecasts, and;
- the LPVS fails to use 'independent' data sources rather than estate agent forecasts (who might wish to avoid gloomy predictions). Forecasts from independent bodies (e.g. MOLIOR) should feature.

Assuming the LPVS has used incorrect and/or has misrepresented base data such as this throughout, the LPVS is not professionally reliable.

**f) Growth % Sensitivity Testing:-**

The LPVS indicates in Section 3.4 (page 15) that it has carried out sensitivity testing on 'residential' to account for the intended lifespan of the London Plan policies. We assume it has not applied the growth forecasts in Table 3.1 on Page 16 of the LPVS to student accommodation (although this is not clear) as these clearly relate to conventional new build housing.

Therefore, we assume that no sensitivity testing with regard to student accommodation has been carried out although this is significant as the student market is such that values could level off (or indeed diminish) whilst build cost might well continue to increase.

This raises questions about the 'shelf life' of the LPVS's viability conclusions regarding student accommodation development.

**g) Build Costs:-**

The build cost indications produced by Turner & Townsend in Table 6.2 (page 40) in the LPVS do not vary by nos storeys even though they have been varied by storey height for residential development. This is not logical.

Although the build cost rates are reported to have been produced by Turner & Townsend, this is not evidence in itself. Detailed comparable contract evidence is surely needed to justify these rates to represent 'evidence'.

In our experience (and that of Tide Construction) the build cost rates suggested by Turner & Townsend are un-realistically low even if they relate to total scheme GIAs (which the LPVS fails to clarify). If they relate to NIAs then they are utterly un-realistic.

We are currently working on a student accommodation proposal in L.B. Southwark where a professional QS is of the opinion that the likely build costs for a medium sized scheme (plus ground floor commercial space) equates to £3,250 p.s.m. on the total scheme GIA.

We are also aware of a 558 student bed scheme in Wembley (i.e. not likely to be one of the most expensive parts of London to build in logistically) where the build contract signed in June 2016 equated to £2,564 p.s.m. on the total GIA but, allowing for indexation since, would now be around £2,820 p.s.m.

The LPVS needs to provide extensive and explicit evidence regarding student accommodation build costs as, at the moment, the build cost rates used are unclear and un-substantiated.

**h) Model:-**

Although one cannot see any of the financial viability assessments that we assume the authors of the LPVS have prepared using the Three Dragons/GLA Toolkit, we question why the authors (i.e. The Three Dragons et al) have used the Three Dragons/GLA Toolkit software bearing in mind the vast majority of viability consultants (acting for either Councils and/or applicants) dispensed with this as an inferior model several years ago.

Independent reviews of the Three Dragons/GLA software (e.g. by BNP Paribas) have previously confirmed that it is inferior to software such as ARGUS, so why use it?

We fully expect the appraisals prepared by The Three Dragons et al in the LPVS to contain 'error equivalents' as a consequence of the software used which undermines its conclusions.

**i) General Approach to Viability Testing:-**

The LPVS makes no reference to (and does not appear to have given any consideration to) the RICS's Guidance Note 94/2012 (Financial Viability in Planning).

The RICS has been the pre-eminent professional institution representing the UK property and development industry for many decades.

To evade guidance provided by the RICS ignores input from most of the UK development industry which is not reasonable and questionable.

Charles Solomon (now head of viability at the GLA) was part of the Core Working Group that produced the RICS GN 94/2012 and so one would reasonably expect viability studies instructed by the GLA to consider it.



**j) Approach to BLVs (echoing the Mayor's Affordable Housing SPG and referred to in notes to proposed London Plan Policy H6):-**

The approach used within the LPVS to derive BLVs is misguided and the evidence used is not evidence.

In our opinion, the RICS's guidance on arriving at BLVs as set out in their GN94/2012 is well thought through and reasonable, albeit unavoidably open to some criticism.

However, certain stakeholders in the planning system are seeking to dismiss the RICS's guidance in favour of guidance within the Mayor's Affordable Housing SPG which is open to a lot more criticism.

There is no perfect approach and cannot be for a variety of reasons.

The LPVS has heeded the Mayor's guidance on viability and therefore inevitably concludes that student accommodation development across London can viably sustain a 35% affordable student bed-space provision. However, this is because the Mayor's guidance creates an artificial viability world. This is a major problem as the required approach to viability within the Mayor's Affordable Housing SPG is echoed within the proposed London Plan (particularly via H6 and Sections 4.6.1 to 4.6.15).

We have already made representations on the Mayor's Affordable Housing SPG and its viability guidance and we would re-iterate everything we said therein (see **Appendix 1**).

Via the new London Plan, we feel the Mayor is inappropriately seeking to politically intervene in the free market via the planning system by unduly influencing/directing how Benchmark Land Value ('BLVs') should be arrived at (whereupon the required approach is also poorly defined). We think the Mayor's guidance needs to be less prescriptive.

Via Section 4.6.10, 4.6.11 in the proposed London Plan plus the Mayor's SPG and the LPVS/LPVSTR, the narrative and in danger of practically enforcing the use of 'EUV plus a land-owner's premium' ("EUV Plus") as the only acceptable approach to BLVs. The Mayor and the proposed London Plan (including numerous references to the Mayor's Affordable Housing SPG) effectively suppress Alternative Use Value ("AUV") and/or Market Value (as defined by the RICS in their GN 94/2012) as an approach to BLVs.

In reality, land values are ultimately determined by the market and prospective vendors of land will always consider AUVs and Market Value before selling. Meanwhile, purchasers of development land will usually seek to minimise what they need to pay for development land and so it would be wrong to assume that they readily over-pay.

'EUV Plus' is poorly defined compared to the extensive/clear definition and explanation provided by the RICS for Market Value in their GN 94/2012. AUV is also poorly defined but is effectively a component of Market Value.

With respect to EUV Plus, the key question is what the 'Plus' bit should be? For no apparent or logical reason, the GLA and their supportive consultants keep pointing to '20%' on numerous projects we have worked on but this is arbitrary. It also makes no sense whatsoever on sites that are cleared but have obvious 'alternative use' potential.

The Mayor's Affordable Housing SPG says that land-owner's premiums "could be 10 per cent to 30 per cent, but this must reflect site specific circumstances and will vary". This Mayoral SPG wording is in danger of being interpreted to mean land-owner's premiums should or must be 10% to 30% which is highly problematic and inappropriate. We think the London Plan needs to absolutely clarify this if the EUV Plus approach is to be endorsed as the preferred approach (and/or used as alternative terminology for Market Value as defined in the RICS's GN 94/2012).

In reality, the 'Plus' percentage or sum (as there is no logic to suggest it should ever be any particular percentage) will or should take the BLV up to the sum that is equivalent to Market Value (as defined by the RICS in their Guidance Note GN 94/2012, as opposed to the 'Red Book', and whereupon full regard to planning policy must underpin development land purchaser prices). This may well be via the identification of alternative use development potential.

Some people point to 'Parkhurst' as important appeal case precedent on the topic of BLVs.

At the Parkhurst appeal (APP/V5570/W/16/315698) the Inspector considered an SVB of £6.75m to be reasonable even though the EUV was negligible or, at best, up to £700,000. Whatever terminologies one wants to use, the Inspector effectively considered a BLV equivalent to EUV plus 868% as reasonable. This confirms that it is not appropriate or reasonable for the Mayor or any Council to try and claim that a land-owner's premium should be 20% or within the range of 10% to 30%.

The Mayor's Affordable Housing SPG requires that landowner premiums are justified and yet, ultimately, there is no way of justifying any particular landowner premium (be it zero, 20%, 300% or £3m) without some kind of reference to land transaction evidence as it is otherwise arbitrary. Whilst the Mayor's SPG indicates that the level of premium can be informed by benchmark land values that have been accepted for planning purposes on other comparable sites, we do not think this is reasonable. It would not necessarily mean a 20% premium (for example) is reasonable just because 20% was agreed (by way of an incidental 'equivalent' percentage) on a neighbouring site. Firstly, it may not have been 'agreed' but rather accepted under protest and, secondly, it would be equally reasonable to suggest that if a BLV equivalent to £10m per acre was agreed on a neighbouring site, that £10m per acre should be applied to the subject site – whether this equates to a premium over and above EUV of 20% or indeed 300%. In other words, references to and/or the application of land-owner's premiums via 'percentages' is in-appropriate and the London Plan should clarify this.

Furthermore, AUVs (which are effectively a component of Market Value) should not be suppressed by the wording of the proposed London Plan policies and/or by its references back to the Mayor's Affordable Housing SPG. The London Plan should support the use of an AUV and/or Market Value approach where the subject site is cleared (i.e. with no physical existing use thereon). N.B. We are currently working on a cleared un-contaminated 3.8 acre site in an urban centre in a south-eastern London Borough where a prolific viability consultant to London Boroughs and the GLA is seeking to apply a BLV of £1 based upon EUV Plus. In practice, this is where EUV Plus can lead (i.e. a nonsense).

A BLV is the most crucial assumption within financial viability assessments and yet contention still exists with regard to how these should be reasonably derived.

There is no meaningful, logical or reasonable evidence supporting the Mayors guidance to viability. The RICS is apolitical and is surely the appropriate body to provide guidance in this regard.

Returning specifically to the LPVS/LPVSTR, this seeks to use BLVs agreed on certain planning consents by alleging that BLVs in associated S.106 Agreements (e.g. within review clauses) were 'agreed'.

Most of the LPVS BLV examples cited in Annexe J to the LPVSTR are connected to one particular viability consultant who only act for certain Boroughs and who will not negotiate on their approach to BLVs at local level (i.e. effectively EUV Plus only). However, we were involved in some of those projects where we know the BLVs were/are not agreed and that the applicant was practically force fed the EUV Plus approach by the Councils advisor (with the Mayor's SPG in the background) and where the 'Plus' bit has typically been 20% without evidential justification. In some cases, this has led blighted and un-implementable consents. Furthermore, there are only 35 BLV examples relied upon by the LPVS in Annexe J across only 13 London Boroughs. This is a completely deficient sample size and a fundamental flaw which undermines the LPVS.

Para 2.1.12 in the LPVS confirms that land values (and therefore BLVs) "should be informed by comparable, market-based evidence but excluding transactions above the norm". The LPVS does not present and has not considered any true comparable market-based evidence. This should reasonable include actual development land transaction evidence and analyses thereof.

**k) Profit:-**

Para 2.5.6 of the LPVS says its viability testing assumes a 'private developer'.

Clearly, the identification of reasonably necessary profit targets to private developers is therefore crucial to determining viability.

The LPVS states at Para 2.5.4 that "residential values and profit targets have been compiled by Housing Futures Ltd".

Having sought to establish what experience Housing Futures Ltd have with regard to residential values and profit targets, there is very little information available on the internet and we cannot find their web site. It appears that Housing Futures Ltd may be a person called Peter Redman who, some internet references say, has 'worked in social housing for 40 years' including a number of housing association and local authorities.

With respect, we are concerned that 2 crucial assumptions (i.e. profit targets and values) that are fundamental to the LPVS's conclusions and London wide planning policy have been 'compiled' by a consultancy that might not have sufficient experience in this regard. Furthermore, it is not clear what 'compiled' means in context. Have they determined what reasonable profit targets are?

The LPVS makes no mention of having gathered any evidence from Banks, financial intermediaries, equity and mezzanine financiers/funders with regard to what they need to see as prospective development profits in order to satisfy their conditions precedent to lending across a variety of property types and development risk profiles. If this evidence has not been obtained and considered as part of the LPVS, the LPVS cannot be credible as, without funding, development cannot happen.

At the moment, we are not convinced that sufficient evidence has been obtained and analysed to determine what a reasonable/necessary development profit is across the various housing, quasi-housing and mixed-use development projects considered within the LPVS because it is not apparent.

With respect to student accommodation (classed as 'other residential' in the LPVS), it does not clarify what development profit levels have been used for the 2 student development archetypes in Section 6. This section indicates that, unless stated otherwise in Section 6, the viability testing assumptions used are as set out for 'residential' in Section 5 (which also makes reference to Annex G) or are in Section 7 (non-residential). However, between all of these Section and Annexe G, the LPVS does not state what profit requirements have been assumed for student accommodation development which clearly undermines the LPVS's viability conclusions for student accommodation development.

If the LPVS did clarify its assumed development profit for student accommodation, this would need to be varied between; direct let schemes, schemes subject to nomination rights and different Nomination Rights Agreement formats as all of these would involve different risk profiles. It is not apparent that the LPVS has done this with regard to the 2 student development archetypes tested. We therefore assume it has not be done and the LPVS is therefore deficient and, again, flawed with respect to its student accommodation development conclusions.

Meanwhile we assume that the LPVS has used a profit requirement of 20% on the scheme GDV albeit, as indicated above, this actually needs to be broken down into the various types of risk profiles that are often relevant to student accommodation development.

#### **I) Finance Costs:-**

Table 5.15 (page 34) in the LPVS indicates that the GLA have instructed the authors of the LPVS what finance rates to use. Surely the authors of the LPVS should produce evidence and express a justified opinion in this regard? This is not evidence.

Although Table 5.14 suggest that the GLA have evidence to support the instructed finance rates, we have looked at 'The Value, Impact and Delivery of Community Infrastructure Levy' (University of Reading, Three Dragons, Smiths Gore and David Lock Associates – Feb 20127) for example but see nothing in there that represents evidence to support any particular finance rate assumption.

Our experience of finance rates to the average hypothetical developer is that they are significantly higher than the GLA are suggesting including finance facility fees (which should not be ignored). Up to date explicit evidence is required regarding finance cost assumptions before the LPVS can be considered credible in this regard.

With respect to footnote 50 on page 34 of the LPVS, it is not appropriate to spread land finance costs over half the development period as professional development valuers would confirm. It is usually reasonable to spread finance costs on construction in this way because construction costs are indeed spread over the development period. However, finance costs on land compound from the day of purchase and usually continue compounding until the end of the development (or close to) unless the development is substantially phased (which is rarely the case with student accommodation development). This indicates that, in all likelihood, the results from the LPVS's viability testing of their 2 student development archetypes are wrong for this reason alone.

In conclusion, finance rate/cost assumptions significantly affect viability tests and yet the LPVS provides no evidence in support of its assumed rates/costs and has also applied them incorrectly with respect to land finance. This undermines the LPVS's conclusions regarding student accommodation development.

Proposed London Plan Policy H17 should not be adopted for this reason.

## m) Transparency & Financial Viability Assessments:-

We assume that detailed financial viability assessments have been prepared for the SR1 & SR2 student development archetypes using the Three Dragons/GLA Toolkit.

However, these are not explicitly provided within the LPVS and/or LPVSTR which is not reasonable as, without these, we cannot check their accuracy and/or how certain assumptions have been translated across. This fundamentally undermines the LPVS/LPVSTR as evidence as key parts of it are not transparent.

We have struggled to ascertain and/or assume that the following assumptions have fed into the financial viability assessment of SR1 (for example) as follows:-

### Archetype 1 ('SR1'):-

- 0.38 hectares.
- 300 beds.
- 6,500 sq.m. (N.B. Not stated whether this is overall scheme GIA or NIA but we assume it is total scheme GIA).
- *9 storey development.*
- Not clear which Value Band the archetype sits in with respect to the Student Housing Annual Income table on Page 12 of the Technical Report and/or what relevance this might have except with respect to build costs (see below). We assume it is in Value Band C.
- Not clear which BLV Value Band the archetype is in with respect to Table J3 on Page 58 of the LPVSTR although we assume it is in 'Inner' and is 'Mid' such that the BLV assumed by the LPVS must be 6,500 sq.m. x £598 = **£3,887,000**. In other words, we believe the LPVS must assume that 0.38 hectares suitable for student accommodation development can be purchased for 10.23m per ha (or £4.14m per acre).
- Value of built 300 bed scheme = £164,000 x 300 = £49,238,700 (see Table 6.1 on Page 40 of the LPVS).
- Build cost rates in Table 6.2 on Page 40 of the LPVS do not state whether they apply to the total scheme GIA or NIA. This, again, is why we need to see the actual financial viability assessments prepared by the Three Dragons et al. We assume, as is normal, that they relate to the total scheme GIA although we suspect that they might not as the Three Dragons Toolkit used to apply build cost rates to total unit NIAs. This would imply a significantly lower rate p.s.f than the rates on page 31 might suggest and would then appear too low. This is important. The build cost rates in Table 6.2 on Page 40 of the LPVS are not varied by nos storeys either even though the 'residential' build costs are (which is illogical).

We have assumed that the LPVS has assumed a total build cost of 6,500 x the mid-point of **£2,459** = £15,983,500 for SR1 excluding; a contingency, professional fees, external works and all of the other items (many of which would feature in a typical London/urban development) as listed in Appendix E in the Technical Report. BCIS generally recommends the addition of 15% to a core build cost for externals although we note that the LPVS has used 8.55% (questionable) and so we assume that the LPVS has assumed a total build cost of £15,983,500 plus a 5% contingency (£799,175) plus 8.55% externals (£1,366,589) plus professional fees at 10% (£1,598,350) plus demolition (site area x £29 = £110,200) plus abnormal costs (at £166 p.s.m., oddly different to the rate used for residential projects x 6500 = £1,079,000) = £20,936,814.

- CIL/MCIL/S.106 costs of (assumed on average by us albeit these do of course vary substantially across London) and may or may not be subject to relief in connection with existing occupied/recently occupied buildings etc = £2m.
- Finance costs = **6.5%** debits and 0% credits (which we consider too low).
- Reasonable developer profit = Not clear from the LPVS for student accommodation but we assume **20% of 'GDV'** as a means to benchmark the residual profit driven by the appraisal in **Appendix 2** (attached) which we have prepared using what we think are the

assumptions used in the LPVS (i.e. not our assumptions). **Indeed, all of the above red shaded numbers and/or rates are far too low, especially the BLV, build cost and profit requirement.**

- Marketing costs = 3% of GDV.
- Agent acquisition fees = 1.75%.
- SDLT = as per HMRC rates.
- Development programme = unclear. See **Appendix 2** for our assumptions.

A residual profit appraisal using ARGUS and the above assumptions can be seen in **Appendix 2**. We have not accounted for any 'affordable' (as defined by the GLA) student bed-spaces.

The appraisal in **Appendix 2** suggests that the SR1 archetype would drive a residual profit of 56.24% on GDV without any affordable student accommodation within the scheme. However, it assumes completely unrealistic assumptions with respect to:-

- The BLV/land cost (see Section on BLVs above).
- Build costs (see Section on build costs above).
- Interest costs (see Section on interest costs above).

Furthermore, the scheme needs to make a profit of at least 20% on GDV as opposed to 12% if it is speculative (which the assumed student GDV within the LPVS implies).

If the scheme had been pre-sold and/or were subject to a Nominations Rights Agreement with a University, it might not achieve £160,000 per bed for a variety of reasons that the LPVS does not appear to touch upon or be aware of. For example, Universities tend to actively depress the rents that operators can charge students if they are to enter into Nomination Rights Agreements - which actually presents an interesting phenomenon whereupon the whole scheme effectively becomes an affordable student rent concept by implication (i.e. 100% as opposed to 35%). Placing a 35% affordable student requirement on such a scheme would cause a double negative viability impact that would be unsustainable. Issues like this are simply not considered or dealt with by the LPVS/LPVSTR which, again, means it is fundamentally flawed with regard to student accommodation development.

The student accommodation viability testing results on Page 80 of the LPVSTR are inconclusive as it is not possible to analyse how these have been arrived at or what the results actually are or why. For example, the result for SR1 at 50% affordable indicates a residual land value of about £27m per hectare. The SR1 archetype site area is 0.38 ha and so we assume the LPVS appraisal drives a residual land value of £27m x 0.38 = £10.64. In turn, we assume (because the LPVS does not clarify) that this is benchmarked against the Inner/Low BLV in Table J3 (page 58 of the LPVSTR) and the 6,500 sq.m. archetype such that 6,500 x £326 = 2,119,000. Therefore, the implication might be that the LPVS is claiming that, with a 50% affordable student accommodation provision, the scheme drives an extraordinary profit surplus of £10.64m minus £2.12m = £8.52m. Frankly, this would be miraculous. By revealing the detailed development appraisals behind these results will, in our opinion, expose this claim to be completely unrealistic and/or wrong. We need to see the detailed viability appraisals behind the LPVS's results and until we can and have been given an opportunity to scrutinise these, the LPVS is not credible evidence.

As well as our concerns about how the BLV 'rates' in Table J3 (page 598 of the LPVSTR) have been arrived at (see BLV Section above), it is not apparent why the LPVS results on page 80 of the LPVS are 'headlined' against the 'lower' benchmark values. Surely, it would be more appropriate to 'headline' against the 'mid' values as a London-wide policy informative?

Furthermore, Table J3 on page 58 of the LPVSTR suggest that the value bands used for student accommodation are 'central', 'inner' and 'outer' and yet the student viability test results in Figure 10.4 on page 80- of the LPVS refer to value bands A-E. Also, assuming that values in Value Band A are higher than in Value Band E, how can the residual land value driven by SR1 A @ 50% affordable be lower than SR1 C at 50% affordable. Something has gone seriously wrong with the LPVS student accommodation viability testing results graph at Figure 10.4 (page 80 in LPVS). This fundamentally undermines the LPVS's conclusions regarding student accommodation and its support for proposed London Plan Policy H17 is unsound.

**n) Review Clauses:-**

If Policy H6 applies to student accommodation development and review clauses will end up being required on viability tested schemes that do not offer 35% affordable student accommodation as a consequence of the London Plan, this would be unreasonable, unjustified and in-appropriate because:-

The LPVS is fundamentally flawed for a number of reasons identified above and so 35% is not justified by evidence to start with, and;

The Mayor's Affordable Housing SPG does not contain any review clause formulas for student accommodation projects and neither would any such clauses be practical given if the accommodation is retained for rent, and;

Evidence demonstrating that review clauses are not prejudicial to the fundability of development has not been provided and has not been properly considered (if at all). In earlier London Plans, review clauses were only considered appropriate on long term phased development projects and nothing has occurred since to warrant any deviation from that approach, and;

Sound advice from the RICS (in their GN 94/2012) indicates that, for short term projects, review clauses are not appropriate and, for longer term phased projects, only pre-implementation reviews are appropriate. There is no evidence or ultimately constructive sense to have 'near end of development' reviews on short term projects and no need for pre-implementation reviews if a viability exercise has just been gone through. Review clauses are a serious threat to development especially as the GLA will combine them with un-realistically low BLV references. Although some review clauses have been agreed in what has been a rising market over recent years, we think these are in danger of seriously blighting development over the next few years where growth is not forecast, and;

Banks, equity and mezzanine development financiers/funders need to be consulted directly, independently and comprehensively to establish what they will do if review clauses coupled with low BLVs become the norm. This is an imperative but has not apparently been done, and;

Review clauses will seriously damage the ability to fund schemes as, in particular, loan security valuers will not be able to demonstrate adequate loan to value cover and risk cover.

# APPENDIX 1



Affordable Housing SPG,  
FREEPOST LON15799,  
GLA City Hall,  
Post point 18,  
The Queen's Walk,  
London,  
SE1 2AA.

## **WITHOUT PREJUDICE**

23<sup>rd</sup> February 2017

Dear Sirs,

### **COMMENT ON THE DRAFT AFFORDABLE HOUSING & VIABILITY SUPPLEMENTARY PLANNING GUIDANCE (SPG).**

#### **Introduction:-**

My views herein are on behalf of; James R Brown & Company Ltd and all past/present/future clients whether they are planning applicants or Boroughs.

We mainly act for planning applicants but occasionally act for Boroughs.

I have been appraising the viability of development projects for approaching 30 years and I am a qualified RICS Registered Valuer. I have also been directly employed by property development companies in the past.

Over the last 5 years (i.e. since the demise of Housing Association Grant), I estimate that I have produced viability reports for planning purposes on over 350 projects in London ranging from a two house scheme up to individual projects with Gross Development Values approaching £1bn (e.g. Whiteleys, W2).

Affordable housing provisions have been agreed at local level on about 98% of those projects following scrutiny of my reports by independent viability consultants. On average, the vast majority of those projects ended up with significantly less than 35% affordable housing but more than the 13% referred to in Section 1.2 of the SPG.

## General Response to the SPG:-

- a) The current system of negotiating affordable housing provisions on a site specific basis often involves numerous debates/issues but it is the optimum reasonable system in so far as Section 106 ("S.106") is capable of delivering affordable housing.
- b) Whilst greater certainty in development would theoretically be welcome, any quasi fixed affordable housing percentage (especially a high one like 35%) will eliminate numerous potential sites which can only come forward viably with less than 35% affordable. Recent history tells us that this is indeed most sites (hence the recent 13% delivery quantum referred to within the SPG).
- c) Although, the SPG does not prevent viability representations being submitted for schemes with less than 35% affordable, the implication of extended review clauses (bearing in mind how these are panning out in terms of how Boroughs are requiring them to operate seemingly without full appreciation of the related funding implications or the delays review clauses tend to bring about with respect to structuring and policing them) is such that either path to agreeing affordable housing provisions presented by the SPG (i.e. Routes A or B via the Threshold Approach) are un-sustainable. I do not think either option will incentivise the market, quite the opposite.
- d) Whilst everybody would like to see more affordable homes and a greater percentage proportion of affordable homes, the S.106 model is not the answer. The S.106 model is not meant to be a tax but a means to address harm caused by development. The Mayor and Government need to look at other affordable housing delivery models (and/or be more flexible with respect to the time duration of affordable housing 'restrictions' on S.106 affordable housing and affordability issues) as the S.106 model is already delivering as much quantum/quality as it can.
- e) As we all know, property markets move in cycles and most market commentators were calling the top of the market in London (notwithstanding that there are variances between Central & Outer London etc) towards the end of 2015.
- f) Recent 'start on site' statistics (e.g. as reported by MOLIOR – Page 14 Quarterly Analysis: Sales – January 2017) indicate a sharp reduction in the number of starts between 2015 and 2016. Now is not an appropriate point in the market to introduce an SPG like this.
- g) I believe that, in summary, this is because short to medium term markets are particularly uncertain, particularly since the Brexit referendum.
- h) Whilst the SPG seeks to help create certainty, it is seeking an average quantum of affordable housing that, on average, is too high and the main certainty will unfortunately be that this will substantially diminish development implementation and progression.
- i) Whilst the GLA may witness some planning applicants offering 35%, the overall picture in terms of starts on site will be the key measure as to the success or calamity of this SPG.
- j) It is clear that 35% is too high because, even in a rising market over recent years, 35% has not been delivered despite vigorous independent viability scrutiny.
- k) Where has 35% come from? Is there any up to date evidence to support this percentage as being, on average, viable? The fact that only 13% (if correct – as this does sound low) affordable housing has been delivered recently (following scrutiny by independent consultants) and that starts on site are currently falling sharply clearly indicates that 35% affordable is not typically viable.

- l) Whilst it is obvious that the GLA want to diminish land costs/values down to try and forcibly assist viability, I fear this will simply stop many sites coming forward for development. Does the Mayor have any considered evidence with respect to quantifying this substantial risk?
- m) The SPG is not clear upon whether a review clause route will be required if the tenure split and/or affordability split of a 35% provision is not policy compliant. What is most important between; affordable housing quantum, the tenure type of affordable housing and/or the affordability of affordable housing? I would suggest that the latter is the most important but this does not facilitate the highest quantum of affordable housing.
- n) The SPG and rapidly emerging advice to Boroughs from their viability consultants (following this draft SPG) does not appear to appreciate how most private residential led development is funded. Most involves a significant amount of Bank finance. To secure this, certain loan to value ratios have to be identified as well as prospective profit/risk levels. Currently emerging review clause concepts are in serious danger of rendering many prospective development projects un-fundable.
- o) Overall, I think this SPG will unfortunately damage housing delivery at this time.

Using the numbering in the SPG from hereon to make specific points, we comment against these as follows:-

Page 5

(S.9) – a move to 35% when schemes that have actually been delivered are averaging 13% affordable is substantially more than a ‘nudge’. It is not reasonable to expect, on average, developer’s to move from delivering 13% to more than double. Has the Mayor prepared any hypothetically ‘typical’ residual appraisals across the Boroughs to see what Residual Land Values (“RLVs”) are produced with 35% affordable housing along-side CIL payments etc and has the Mayor considered how these compare to ‘reasonable’ land values in the context of existing and competing land uses other than residential? If not, I would ask again - how is 35% justified and is there any up to date evidence to support this?

Page 6

(S.6) – the ‘debate’ about appropriate approaches to Benchmark Land Values (“BLV” – a.k.a. SVB) has been around for several years but remains critical. I believe that, if approached appropriately and reasonably, all of the current guidance (i.e. whether from the RICS, the GLA and/or other bodies) should lead to the same BLV number. In my experience, Boroughs and the GLA tend to shun the words ‘Market Value’ with respect to BLVs as they suspect this inevitably means high BLVs which lead to lower affordable housing provisions. However, this view of Market Value is unnecessary as the specific definition of Market Value in the RICS’s Guidance Note 94/2012 (Financial Viability in Planning) is well thought out by highly experienced professionals (who advise both private and public sector clients) and it is not the same as the definition of Market Value in the RICS ‘Red Book’. This means that, if approached correctly, the use of Market Value as defined within GN 94/2012 will not lead to SVBs which are purely based upon what similar sites may have recently sold for. Regard will had to whether or not such transactions appropriately accounted for planning policy.

Existing Use Value, Current Use Value and Alternative Use Values are a component of Market Value (as per RICS GN 94/2012). Whilst I understand the GLA’s concerns in how BLVs are arrived at, it is not realistic, reasonable or constructive to seek to cast aside Alternative Use Value as a key driver of BLVs and, furthermore, land transaction evidence needs to be considered (albeit with caution and with appropriate analysis) in deciding what ‘land-owner’s premium’ should be added to a CUV or EUV assessment.

A problem has developed amongst some viability consultants advising Boroughs whereupon they typically apply a ‘semi-fixed’ 20% land-owner’s premium (or less) for no discernible or evidential reason. The somewhat excessive but nonetheless valid example I tend to cite when querying this is what would happen if one had a garden shed on an acre of land in the middle of Mayfair. If the shed had an EUV /CUV of £1,000, it is clearly un-reasonable to suggest that the site would come forward for development for £1,200. General land transactions in the area would influence the minimum price at which a vendor would sell. The EUV or CUV plus land-owner’s premium approach has merit but not if a land-owner’s premium of 20% is considered to be ‘standard’ (which it should not be). Unless we are all going to be completely unrealistic, consideration must surely be given (albeit with caution and based upon appropriate/reasonable analysis) to:-

- Land transaction comparables.
- Whether the site is in a particularly low value use surrounded by high value uses and/or in a high value area.
- Whether the site is income producing or not.
- Whether there are any ‘push’ influences on a hypothetical vendor to sell.
- Any other valid/reasonable evidence or logic.

If one adds an appropriate land-owner's premium to a reasonable EUV or CUV, one effectively ends up with Market Value as defined by the RICS in their GN 94/2012. In this sense, the EUV/CUV plus land-owner's premium becomes a valuation 'method' with Market Value being the valuation 'basis'.

Whilst references are made amongst some viability consultants to typical land-owner's premiums ranging between 10-40% over EUV/CUV, it needs to be appreciated that, if expressed as a percentage, it might well be substantially above 40% (e.g. in the case of the garden shed in Mayfair example mentioned above).

On the ground, I have found some viability consultants, Boroughs and the GLA unfortunately seeking to unreasonably translate the EUV/CUV plus land-owner's premium approach and seemingly apply a cap of 20% on land-owner's premium. For example, I had one case where the site was about 8 acres and accommodated a football stadium and hotel. The Borough and their viability consultant were insistent that an appropriate BLV in that instance was £zero. Clearly, that was beyond unreasonable. To a lesser extreme, another project I have recently worked on involved a cleared site in E16. The Borough, their viability consultant and the GLA all recently claimed that a reasonable BLV is one which happens to equate to about £1.56m per acre. Unfortunately, even accounting for the fact that the Mayor wants to diminish land values to assist viability, vendors will simply not bring prospective development land forward at these levels. This is a major concern.

- 1.3 I do not believe the SPG's main aim to accelerate overall housing delivery will be achieved. An aim to secure more affordable housing in a more uncertain market cannot surely happen.
- 1.14 A number of Boroughs have used one or two viability consultants to produce viability reports to underpin and justify their Borough Wide affordable housing target. These were often produced some time ago and are out of date. In my experience, those same consultants have subsequently agreed that most of the individual projects that they have gone on to consider cannot deliver anywhere near 50% or even 35%. In conclusion, the evidence used to support the S.106 affordable housing policies adopted by most Boroughs are out of kilter with what has subsequently been agreed on average by the same consultants who have indicated that 35% or more is, on average, viable. There is a serious 'dis-connect' in this regard and this ideally needs to be considered by all stakeholders.
- 2.4 The Threshold Approach does not provide a realistic 'incentive' to developers. It effectively implies that developers can either go down Route B (and try and absorb a percentage of affordable housing which is too high) or face complication and delay via Route B (i.e. the viability 'and reviews' path).
- 2.6 Does this imply that The Mayor discourages the Threshold Approach for schemes under 10 units? Please can the Mayor clarify !

#### Page15

RouteA Current GLA policy and sound advice from the RICS indicates that, for short term projects, review clauses are not appropriate and, for longer term phased projects, pre-implementation reviews are appropriate. There is no evidence or ultimately constructive sense to have 'near end of development' reviews on short term projects and no need for pre-implementation reviews if a viability exercise has just been gone through. This will seriously damage the ability to fund schemes as, in particular, loan security valuers will not be able to demonstrate adequate loan to value cover and risk cover.

#### Page16

RouteB History tells us that 'delivered' schemes have only contained 13% affordable on average in what has been a rising market. This surely indicates that 35% in what is now a significantly uncertain market is un-sustainable.

- 2.14 As per my comments earlier, does the Mayor have any up to date evidence testing what 35% affordable typically does to land values across London and how these compare to existing use values and/or whatever might be deemed to be reasonable land values. I believe that this blanket approach will unfortunately damage land supply substantially.
- 2.15 Whilst the SPG indicates that Route B (i.e. 35% affordable) is not fixed, Route A is equally detrimental to development given the new/extended 'review' proposals.
- 2.29 Leaving LPA's to choose what affordable tenure (and presumably how affordable that tenure is) will be required on 40% of the affordable housing provision creates uncertainty and is likely to lead to additional viability issues due to that uncertainty and as most LPA's will probably choose the most affordable (and therefore least valuable) affordable housing tenures.
- 2.44 More affordable housing would be deliverable if it did not have to be perpetually affordable. Why shouldn't this be an option?
- 3.1-
- 3.6 Why does the Mayor effectively reject RICS guidance in favour of guidance on viability produced by the Boroughs? The RICS has members that act for private and public sector bodies and has been setting standards and providing advice on property development matters for decades?
- 3.14 Over the last 2 years, many RPs do not seem to have been interested in getting involved with S.106 affordable housing unless the site has consent. Understandably, they do not wish to waste their limited time resources on something that their organisation may never get an opportunity to own. Furthermore, as an increasing number of RPs are increasingly more focussed on doing private led residential development themselves, the requirement to involve them in financial matters pertaining to a planning application can present serious conflicts of interest. What does the Mayor advise in this regard?
- 3.33 The Mayor seems to be advising the market how they should assess necessary profit. However, in reality, applicants have to see profit targets based upon how Banks/shareholders etc measure profit and it is not reasonable for the GLA to tell the market how profit should be targeted. In reality, most developers and their funders target profit via profit on cost as a single percentage. They do not split profit between various elements within a scheme. Why is the Mayor trying to tell the market how they should target profit as this will surely lead to artificial viability assessments?
- 3.42 If thought through logically, EUV or CUV plus land-owner's premium should lead to the same BLV number as the definition of Market Value in the RICS's GN 94/2012.
- 3.46 In reality, AUV is a substantial influence on the price at which vendors are willing to sell land. Pushing this aside will damage land supply. Why does the Mayor think the EUV+ approach is usually the most appropriate approach for planning purposes? What evidence does the Mayor consider appropriate with respect to justifying the level of land-owner's premium?
- 3.48 An inappropriate interpretation of the RICS's definition of Market Value can lead to excessively high BLVs. Equally, and indeed more so in practice based upon my experience, viability consultants acting for LPAs can arrive at excessively low BLVs by mis-interpreting and/or not properly justifying (with evidence) EUVs/CUVs plus land-owner premiums. As such, it is unreasonable for the Mayor to not accept the RICS's recommended approach especially as the RICS is, collectively, the most knowledgeable non-political institution with respect to property development, valuation and viability matters in the UK.

3.49 It does not seem reasonable for the Mayor to direct that an AUV approach to BLVs should only be accepted if a planning consent for that alternative use exists. This surely has no regard to reality. Again, with respect to my 'garden shed on 1 acre of land in Mayfair' example referred to earlier, a vendor would not realistically sell that site for £1,200 if there is no planning permission for, say, an office block on the site. However, the scope to obtain a planning consent for office use might be realistic and would/should therefore be reflected in its value. Again, I believe the Mayor's proposed approach in this regard will seriously damage land supply.

3.50-

3.54 We have indicated our views on review clauses earlier herein. Compared to the GLA's previous policies on review clauses, no new evidence suggests that it is now appropriate to impose review clauses on single phase relatively short to medium term schemes. Indeed, current and foreseeable market uncertainty connected to Brexit (for example) mean that there is certainly no justification for this more than ever in the current market as it would be highly prejudicial to scheme fundability and deliverability.

4.1-

4.15 In simple terms, 'Build to Rent' and/or PRS schemes will typically be significantly less able to viably sustain an affordable housing provision as BtR and PRS are generally worth less than unrestricted C3 residential, especially if 'conditioned'. Is this fully accepted by the Mayor in principle?

Yours faithfully,

**James Brown BSc (Hons) MRICS**

RICS Registered Valuer

Director

# **APPENDIX 2**



# Student Scheme Archetype 1

Development Appraisal  
Prepared by JRB  
James R Brown & Company Ltd  
21 February 2018

**APPRAISAL SUMMARY****JAMES R BROWN & COMPANY LTD****Student Scheme Archetype 1**

## Summary Appraisal for Phase 1

## Currency in £

**REVENUE**

Sales Valuation	Units	ft <sup>2</sup>	Rate ft <sup>2</sup>	Unit Price	Gross Sales
300 Bed Student Scheme	1	69,965	686.06	48,000,000	48,000,000

**NET REALISATION****48,000,000****OUTLAY****ACQUISITION COSTS**

Fixed Price			3,887,000		
				3,887,000	
Stamp Duty		5.00%	194,350		
Agent Fee		1.00%	38,870		
Legal Fee		0.75%	29,153		
				262,373	

**CONSTRUCTION COSTS**

Construction	ft <sup>2</sup>	Rate ft <sup>2</sup>	Cost	
300 Bed Student Scheme	69,965 ft <sup>2</sup>	299.25 pf <sup>2</sup>	20,936,814	<b>20,936,814</b>

CIL/MCIL/S.106			2,000,000	
				2,000,000

**MARKETING & LETTING**

Marketing		1.50%	720,000	
				720,000

**DISPOSAL FEES**

Sales Agent Fee		1.50%	720,000	
Sales Legal Fee			200,000	
				920,000

**FINANCE**

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)				
Land			596,821	
Construction			1,398,703	
Total Finance Cost				1,995,524

**TOTAL COSTS****30,721,711****PROFIT****17,278,289****Performance Measures**

Profit on Cost%	56.24%
Profit on GDV%	36.00%
Profit on NDV%	36.00%

IRR	53.43%
-----	--------

Profit Erosion (finance rate 6.500%)	6 yrs 11 mths
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This appraisal report does not constitute a formal valuation.

# TIMESCALE AND PHASING GRAPH REPORT JAMES R BROWN & COMPANY LTD

## Student Scheme Archetype 1

Project Timescale	
Project Start Date	Feb 2018
Project End Date	Apr 2020
Project Duration (Inc Exit Period)	27 months

### Phase 1



This appraisal report does not constitute a formal valuation.

**Student Scheme Archetype 1**

Detailed Cash flow Phase 1

Page A 1

MonthlyB/F	001:Feb 2018	002:Mar 2018	003:Apr 2018	004:May 2018	005:Jun 2018	006:Jul 2018
	0	(4,149,373)	(4,149,373)	(4,194,324)	(4,194,324)	(6,357,762)
<b>Revenue</b>						
Sale - 300 Bed Student Scheme	0	0	0	0	0	0
<b>Disposal Costs</b>						
Sales Agent Fee	0	0	0	0	0	0
Sales Legal Fee	0	0	0	0	0	0
<b>Unit Information</b>						
<b>300 Bed Student Scheme</b>						
<b>Acquisition Costs</b>						
Fixed Price	(3,887,000)	0	0	0	0	0
Stamp Duty	(194,350)	0	0	0	0	0
Agent Fee	(38,870)	0	0	0	0	0
Legal Fee	(29,153)	0	0	0	0	0
<b>Construction Costs</b>						
CIL/MCIL/S.106	0	0	0	0	(2,000,000)	0
Con. - 300 Bed Student Scheme	0	0	0	0	(163,438)	(362,694)
<b>Marketing/Letting</b>						
Marketing	0	0	0	0	0	0
<b>Net Cash Flow Before Finance</b>	<b>(4,149,373)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(2,163,438)</b>	<b>(362,694)</b>
Debit Rate 6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%
Credit Rate 0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
Finance Costs (All Sets)	0	(22,476)	(22,476)	(22,719)	(22,719)	(34,438)
<b>Net Cash Flow After Finance</b>	<b>(4,149,373)</b>	<b>(22,476)</b>	<b>(22,476)</b>	<b>(22,719)</b>	<b>(2,186,157)</b>	<b>(397,131)</b>
Cumulative Net Cash Flow Monthly	(4,149,373)	(4,171,848)	(4,194,324)	(4,217,043)	(6,403,201)	(6,800,332)

This appraisal report does not constitute a formal valuation.

**Student Scheme Archetype 1**

**Detailed Cash flow Phase 1**

007:Aug 2018 (6,800,332)	008:Sep 2018 (7,343,653)	009:Oct 2018 (8,048,974)	010:Nov 2018 (9,017,879)	011:Dec 2018 (9,991,315)	012:Jan 2019 (11,070,869)	013:Feb 2019 (12,400,844)	014:Mar 2019 (13,636,746)
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
(543,321)	(705,321)	(848,693)	(973,437)	(1,079,553)	(1,167,042)	(1,235,902)	(1,286,135)
0	0	0	0	0	0	0	0
<b>(543,321)</b>	<b>(705,321)</b>	<b>(848,693)</b>	<b>(973,437)</b>	<b>(1,079,553)</b>	<b>(1,167,042)</b>	<b>(1,235,902)</b>	<b>(1,286,135)</b>
6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%
0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
(36,835)	(39,778)	(43,599)	(48,847)	(54,120)	(59,967)	(67,171)	(73,866)
<b>(580,156)</b>	<b>(745,099)</b>	<b>(892,291)</b>	<b>(1,022,284)</b>	<b>(1,133,673)</b>	<b>(1,227,009)</b>	<b>(1,303,074)</b>	<b>(1,360,001)</b>
(7,380,488)	(8,125,587)	(9,017,879)	(10,040,162)	(11,173,835)	(12,400,844)	(13,703,918)	(15,063,919)

**This appraisal report does not constitute a formal valuation.**

**Student Scheme Archetype 1**

**Detailed Cash flow Phase 1**

015:Apr 2019 (14,922,882)	016:May 2019 (16,462,492)	017:Jun 2019 (17,793,210)	018:Jul 2019 (19,118,277)	019:Aug 2019 (20,708,175)	020:Sep 2019 (21,966,059)	021:Oct 2019 (23,162,408)	022:Nov 2019 (24,635,211)
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0
(1,317,741)	(1,330,718)	(1,325,068)	(1,300,789)	(1,257,883)	(1,196,349)	(1,116,188)	(1,017,398)
0	0	0	0	0	0	0	0
<b>(1,317,741)</b>	<b>(1,330,718)</b>	<b>(1,325,068)</b>	<b>(1,300,789)</b>	<b>(1,257,883)</b>	<b>(1,196,349)</b>	<b>(1,116,188)</b>	<b>(1,017,398)</b>
6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%	6.500%
0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%	0.000%
(80,832)	(89,172)	(96,380)	(103,557)	(112,169)	(118,983)	(125,463)	(133,441)
<b>(1,398,573)</b>	<b>(1,419,890)</b>	<b>(1,421,447)</b>	<b>(1,404,347)</b>	<b>(1,370,053)</b>	<b>(1,315,332)</b>	<b>(1,241,651)</b>	<b>(1,150,839)</b>
(16,462,492)	(17,882,381)	(19,303,829)	(20,708,175)	(22,078,228)	(23,393,560)	(24,635,211)	(25,786,050)

**This appraisal report does not constitute a formal valuation.**

**Student Scheme Archetype 1**

**Detailed Cash flow Phase 1**

023:Dec 2019 (25,652,610)	024:Jan 2020 (26,552,591)	025:Feb 2020 (27,732,746)	026:Mar 2020 (28,342,009)	027:Apr 2020 (28,777,972)	
0	0	0	0	48,000,000	
0	0	0	0	(720,000)	
0	0	0	0	(200,000)	
0	0	0	0	0	
0	0	0	0	0	
0	0	0	0	0	
0	0	0	0	0	
(899,981)	(763,936)	(609,263)	(435,963)	0	
0	0	0	0	(720,000)	
<b>(899,981)</b>	<b>(763,936)</b>	<b>(609,263)</b>	<b>(435,963)</b>	<b>46,360,000</b>	
6.500%	6.500%	6.500%	6.500%	6.500%	
0.000%	0.000%	0.000%	0.000%	0.000%	
(138,952)	(143,827)	(150,219)	(153,519)	0	
<b>(1,038,933)</b>	<b>(907,763)</b>	<b>(759,482)</b>	<b>(589,482)</b>	<b>46,360,000</b>	
(26,824,983)	(27,732,746)	(28,492,228)	(29,081,711)	17,278,289	

**This appraisal report does not constitute a formal valuation.**