

**TOWN AND COUNTRY PLANNING ACT 1990
(AS AMENDED)**

Appeal

**DE PAUL HOUSE, 628-634 COMMERCIAL ROAD,
E14 7HS**

**Development Viability
&
Affordable Housing Provision**

**‘Review of Comments’ made by London Borough of
Tower Hamlets on Rapleys Viability Report**

by
James R Brown BSc (Hons) MRICS
Registered Valuer.
(James R Brown & Company Ltd – “JRBC” - regulated by the RICS).

16th June 2020

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1.0 Professional Background:-

- 1.1 My name is James R Brown and I am an expert in development viability and affordable housing.
- 1.2 I qualified as a Chartered Surveyor in 1992.
- 1.3 I have specialised in development viability and affordable housing since 2001 and focussed on affordable housing valuation before this.
- 1.4 Over the last 25 years, I have worked for; Savills plc, Hamptons International and Strutt & Parker LLP. I set up and headed viability & affordable housing departments at each of these firms.
- 1.5 I left Strutt & Parker in 2015 to establish James R Brown & Company Ltd which specialises in development viability and affordable housing.
- 1.6 Over the last 15 years, I have; spoken at numerous seminars on development viability and affordable housing, acted as Expert Witness at several planning appeals and am acknowledged as a participant in the production of "Financial Viability in Planning – Guidance Note 94/2012 – 1st Edition - Royal Institution of Chartered Surveyors ("RICS")".
- 1.7 I have submitted development viability and affordable housing representations on over 350 development proposals across England over the last 15 years for applicants or local authorities, the majority of which have been in Greater London.
- 1.8 I made representations at the London Plan Examination in Public in 2019 on behalf of various clients which can be found in the London Plan EIP library.

2.0 Viability:-

2.1 A development is viable if it drives a residual land value (allowing for a reasonable level of profit) which is at least equal to a reasonable Benchmark Land Value ("BLV").

2.2 The viability test can be summarised as:-

$$\begin{array}{c} \boxed{\text{Built Value of proposed private residential and other uses}} \\ + \\ \boxed{\text{Built Value of affordable housing}} \\ - \\ \boxed{\text{Build Costs, finance costs, other section 106 costs, sales fees, developers' profit etc}} \\ = \\ \boxed{\text{Residual Land Value ("RLV")}} \end{array}$$

Residual Value is then compared to a **Benchmark Land Value ('BLV')**. If RLV is lower and/or not sufficiently higher than the BLV – project is not technically viable

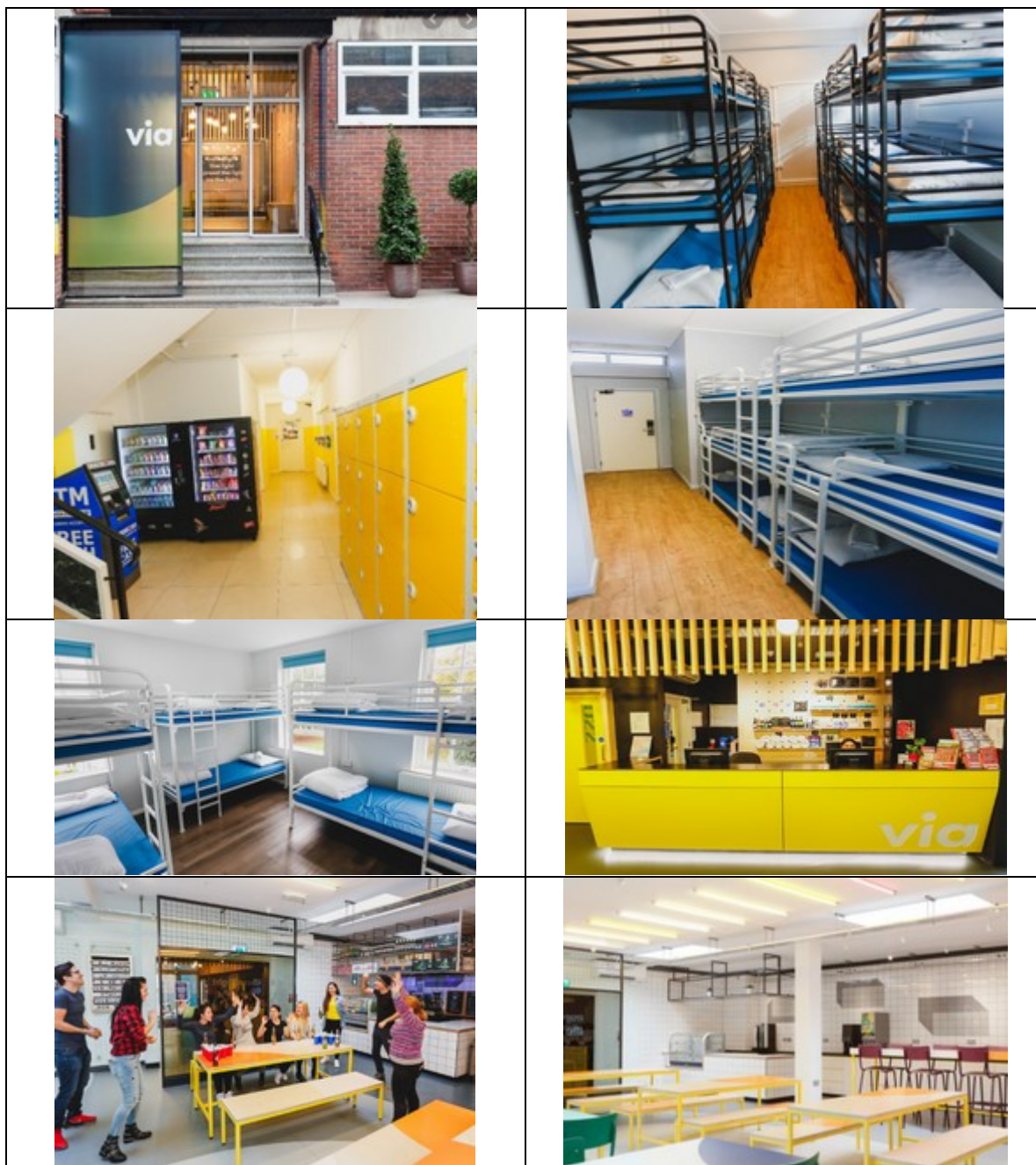
3.0 Instruction & COVID 19 Related Assumption:-

- 3.1 The Appellant's planning consultant has asked me to comment upon the viability comments made by the London Borough of Tower Hamlets ('LBTH') in their Development Committee report dated 12th March 2020 ('**LBTH DC Report**') – and I do so herein.
- 3.2 However, as there is very little viability comment and no evidence provided within the LBTH DC Report (despite the fact that viability and the related lack of affordable housing provision is put forward as a reason for refusal), I have also commented upon some elements of the Rapleys viability report (dated 3rd December 2019) – '**Rapleys Viability Report**'.
- 3.3 I have effectively based this opinion on an immediately pre-COVID 19 economy and property markets as the likely detrimental effects of COVID 19 in this regard are not yet quantifiable.

4.0 Existing Property & Proposed Scheme:-

- 4.1 In summary, the existing property is a 52 bedroom hostel with an average room size of just under 300 sq.ft. According to the LBTH DC Report, it can accommodate up to 263 people (i.e. an average of just over 5 people per room via a significant use of bunk-beds) whereas the Rapleys Viability Report says it provides 270 beds. At this stage, I have assumed it can accommodate up to 263 people.

- 4.2 I have not been able to inspect the interior of the subject property (due to COVID 19 restrictions) but the Savills report in Appendix 3 to the Rapleys Viability Report says circa £1m was spent refurbishing the property in late 2016/early 2017 which I have assumed to be correct. Recent internal photographs confirm that the accommodation is 'compact' but in good condition (in terms of fixtures, fittings and fabric):-



- 4.3 The LBTH DC Report describes the proposed scheme as comprising 109 bedrooms. Of these, 25 would be in a hostel format (accommodating 41 people) and 84 would be in a House in Multiple Occupation ('HMO') format (accommodating 144 people).

- 4.4 I have assumed that HMO as a description here is interchangeable with the alternative descriptions of 'Co-Living' and/or 'Large Scale Purpose Built Shared Living' ('LSPBSL') – the latter of which is the description used by The Mayor in Policy H16 of the current draft London Plan (Intend to Publish):-

Policy H16 Large-scale purpose-built shared living

A Large-scale purpose-built shared living development⁸¹ must meet the following criteria:

- 1) it is of good quality and design
- 2) it contributes towards mixed and inclusive neighbourhoods
- 3) it is located in an area well-connected to local services and employment by walking, cycling and public transport, and its design does not contribute to car dependency
- 4) it is under single management
- 5) its units are all for rent with minimum tenancy lengths of no less than three months
- 6) communal facilities and services are provided that are sufficient to meet the requirements of the intended number of residents and offer at least:
 - a) convenient access to a communal kitchen
 - b) outside communal amenity space (roof terrace and/or garden)
 - c) internal communal amenity space (dining rooms, lounges)
 - d) laundry and drying facilities
 - e) a concierge
 - f) bedding and linen changing and/or room cleaning services.
- 7) the private units provide adequate functional living space and layout, and are not self-contained homes or capable of being used as self-contained homes
- 8) a management plan is provided with the application
- 9) it delivers a cash in lieu contribution towards conventional C3 affordable housing. Boroughs should seek this contribution for the provision of new C3 off-site affordable housing as either an:

- a) upfront cash in lieu payment to the local authority, or
- b) in perpetuity annual payment to the local authority

In both cases developments are expected to provide a contribution that is equivalent to 35 per cent of the units, or 50 per cent where the development is on public sector land or industrial land appropriate for residential uses in accordance with [Policy E7 Industrial intensification, co-location and substitution](#), to be provided at a discount of 50 per cent of the market rent. All large-scale purpose-built shared living schemes will be subject to the Viability Tested Route set out in [Policy H5 Threshold approach to applications](#), however, developments which provide a contribution equal to 35 per cent of the units at a discount of 50 per cent of the market rent will not be subject to a Late Stage Viability Review.

5.0 Viability Comments in LBTH DC Report:-

- 5.1 The financial viability comments within the LBTH report are said to have been provided by the LBTH Viability Team. They are not independent.
- 5.2 It is not clear which individual(s) from LBTH's Viability Team provided viability input (and whether they are suitably qualified practitioners) and they have not presented their opinions clearly (e.g. by way of a fully justified, evidential and stand-alone viability assessment report). Instead, their opinion has been relayed (in extreme brief and without any supporting evidence or justification) by the Case Officer. In conclusion, the LBTH Viability Team's input does not satisfy NPPG in terms of 'accountability'.
- 5.3 The only significant viability comments/opinions made by LBTH in their report are at Sections 5.41, 5.42 and 7.27.
- 5.4 I address each of these points in turn.

6.0 LBTH DC Report S.5.41:-

6.1 At their S.5.41, LBTH say:-

“The submitted Financial Viability Assessment found that the scheme is unable to viably provide a policy-compliant 35% affordable housing offer, demonstrating a deficit of £6.88million. The applicant also modelled a 0% affordable (i.e. all private) scheme and found this to also be unviable at a similar deficit of £6.29m; however, the report states that the scheme is still commercially viable for the applicant for which no robust justification has been provided”.

6.2 I do not agree that £6.88m is similar to £6.29m as a difference of £590,000 is significant. Where viability shortfalls exist, each progressive £1 of shortfall disincentivises the developer in a compound fashion. Accepting a lower profit is easier to digest than increasing a shortfall.

6.3 Furthermore, I estimate that the appraisal of the 35% affordable housing scenario would drive a much greater negative result (relative to the 0% affordable housing appraisal) if the affordable provision was assessed in accordance with Policy H16 in the London Plan (i.e. as opposed to the on-site provision and affordability thereof accounted for in the Rapleys Viability Report). However, as I agree herein that the proposed scheme cannot viably sustain any affordable housing provision, I have not not considered this in more detail.

6.4 Therefore, with respect to the first part of LBTH DC Report S.5.41 (i.e. up to the word ‘however’), LBTH’s comments are merely factual observations of the findings in the Rapleys Viability Report and so I have no comment. However, I do comment upon the second part of their commentary (i.e. where it says *“the report states that the scheme is still commercially viable for the applicant for which no robust justification has been provided”*).

6.5 The Rapleys Report says:-

- 14.3 Notwithstanding that the residual land value falls below the existing use value this scheme is still commercially viable for the applicant. The proposed development will replace the existing dated hostel which provides 58 rooms with a new modern purpose built facility providing 31 hostel rooms and 78 HMO rooms. It will be more efficient in terms of management, on-going maintenance and achieve better gross to net rental returns.

6.6 I am not convinced that the Rapley's comment needs to be justified and/or whether any failure to do so provides justification for refusing the application. However, coupled with my adjustment herein to the Benchmark Land Value used by Rapleys (see S.7 below), and considering revised sensitivity testing, I can understand why/how scheme would be and is deliverable which I explain at S.8 below.

7.0 LBTH DC Report S.5.42:-

7.1 At their S.5.42, LBTH say:-

“Further queries and concerns raised relate to the applicant’s assumptions to their appraisal inputs. This includes the Existing Use Value of £8m and the methodology behind this, particularly the income, occupancy, and capitalisation rate adopted”.

7.2 I can only comment upon LBTH’s references to the Existing Use Value as they do not specify what other assumptions and appraisal inputs they have concerns about.

7.3 An Existing Use Value (‘EUV’) prepared by Savills has been used in the Rapleys Viability Report as a driver of their assumed Benchmark Land Value (‘BLV’). They have imported an EUV assessment by Savills as seen in Appendix 3 to the Rapleys Viability Report.

7.4 I have reviewed the Savills assessment and I am of the opinion that a net initial yield capitalisation valuation approach using; what would seem to be a reasonable net rent, the operational costs/net rent and yield that Savills refer to is as follows:-

Net income p.a. = presumably circa £340,000 based upon the last 2 years of basic accounts.

Capitalised at 5.5% = $18.1818 \times £340,000 = £6,181,812$.

Less purchaser costs at 5% = £5.89m.





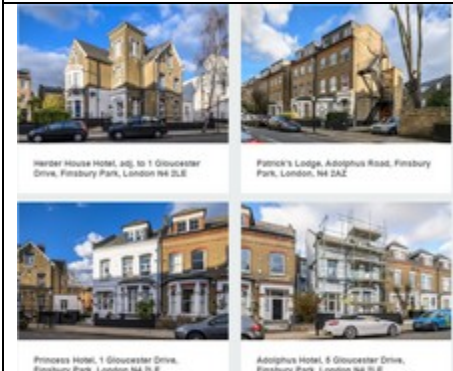
7.5 My opinion therefore differs from that provided by Savills. This is fundamentally on account of Savills taking a more optimistic view (via their cashflow valuation approach) on hypothetically improving operational efficiencies going forward.

- 7.6 My reasonable rent assumption above (i.e. £340,000) is based upon the accounts information presented by Savills which I replicate below and which I have assumed to be correct:-

	2016	2017	2018	part	adjusted
	2019	2019			
Occupancy	61%	57%	61%	63%	63%
Total income	£845,135	£936,177	£910,049	£768,370	£922,044
Total expenses	£582,449	£606,322	£571,636	£482,628	£579,154
Net operating income	£262,686	£329,854	£338,413	£285,742	£342,890
Average monthly room income	£62,244	£70,560	£67,496	£68,949	£82,739
Total monthly income (F&B and other)	£70,428	£78,015	£75,837	£76,837	£76,837
Average monthly cost	£48,537	£50,527	£47,636	£48,263	£28,574

- 7.7 Savills say they have had regard to comparables but have not provided any in the form of either capital value/investment sale comparables (to facilitate valuation considerations per hostel and/or HMO bed and/or bedroom) or yield evidence - albeit HMO and hostel comparables are extremely scarce across London.



7.8 I have considered the following capital value/investment sale comparables alongside the fact that the value of the 'proposed scheme' (albeit comprising a mixture of hostel and HMO) assumed within the Rapleys Viability Report equates to £122,878 per bed and/or £208,555 per bedroom.

	<p><u>Lea Bridge East, 380 Lea Bridge Road, E10 7HU:-</u></p> <p>92 room hostel. Sold for £9.35m on 1/5/19. Acted and acts as emergency housing for 10 local authorities. Refurbished. Bought by EEH Ventures., 20,000 sq.ft. Equates to £101,630 per bedroom.</p>
	<p><u>Nos 6, 8 & 10 Inglewood Road, NW6 1QZ:-</u></p> <p>3 terraced buildings. HMO licenced for 51 people according to LB Camden HMO licence register. 5,889 sq.ft. Sold as 3 lots via Allsop auction – July 2019. Sold for £4.27m. 15 flats/51 beds. Strong underlying residential value but subject to de-registering and a change of use. NIY assuming market rent on 2 vacant units = circa 6.75%. £83,725 per bed.</p>
 	<p><u>21 Camden Park Road, NW1:-</u></p> <p>8 'units'. 2,157 sq.ft. HMO. Rent = £87,892 p.a. Sold at Sept 2019 Allsop auction for £1,250,000. GIY = 7.17%. Average rooms sizes of circa 270 sq.ft. (some en-suite, some not). NIY = circa 6.6%. £156,250 per room.</p>
	<p><u>Finsbury Park, N4 – 4 hostel portfolio:-</u></p> <p>45 rooms in 4 buildings. Each room has en-suite. 115 bedspaces and so average of 2.45 people per room. 14,330 sq.ft. so average room size = circa 320 sq.ft. Let to Kimblecrete Ltd at passing net rent of £180,000 p.a. Gross income being obtained by Kimblecrete reported to be £659,000 p.a. Scope for profit improvement. Allsop auction (Feb 2019) guide price = £4.75m but 'withdrawn'. Guide price equated to £41,305 per bed and/or £105,555 per room.</p>

	<p><u>54 Kempshott Road, Streatham, SW16:-</u></p> <p>HMO. 7 letting rooms. Passing rent = £29,040 p.a. Sold at May 2018 Allsop auction for £700,000. GIY of 4.15%. NIY of 3.92%. £100,000 per bedroom.</p>
	<p><u>11 Argyle Road, Ealing, W13 0LN:-</u></p> <p>HMO. 11 bedsitting rooms. Passing rent = £70,560 p.a. Sold at March 2018 Allsop auction for £1,130,000. GIY = 6.24% NIY = 5.88% £102,727 per bedroom.</p>

7.9 The only common theme in the above comparables is that London HMOs and hostels have typically sold for between £85,000 and £155,000 per room (where the typical room size is circa 300 sq.ft.) and that Net Initial Yields ('NIYs') are typically between 4% and 6.75% (but with most being closer to circa 5.75%. I acknowledge that some properties accommodate more people within the same typical room size but this must logically suppress the gross and net rent achievable per bed (i.e. because the occupants have more compromised personal space). However, it also logical to assume that larger HMOs and hostels will facilitate management economies of scale which should under-pin higher average values per room or bed.

7.10 I also note the Rateable Value for the existing property which is:-

<div>  <div>Find your business rates valuation</div> </div>																			
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<div> Back Sign in Register </div>																			
<div> <div>Via Limehouse Hostel 628-634, Commercial Road, London, E14 7HS</div> <div>1 April 2017 - present</div> </div>																			
<div> <div>Your rateable value is £126,000.00</div> <div>  This is not the amount you will pay. </div> </div>																			
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<div> <div>Parts of the property</div> <table> <tr> <th>Floor</th><th>Description</th><th>Area m²/unit</th><th>Price per m²/unit</th><th>Value</th></tr> <tr> <td>Range of s</td><td>Single bed space</td><td>180</td><td>£700.00</td><td>£126,000.00</td></tr> <tr> <td colspan="2">Total</td><td>180</td><td></td><td>£126,000.00</td></tr> </table> </div>					Floor	Description	Area m ² /unit	Price per m ² /unit	Value	Range of s	Single bed space	180	£700.00	£126,000.00	Total		180		£126,000.00
Floor	Description	Area m ² /unit	Price per m ² /unit	Value															
Range of s	Single bed space	180	£700.00	£126,000.00															
Total		180		£126,000.00															
Total value				£126,000.00															

7.11 The Rateable Value should be a market rent valuation (in net terms) for the property as at 2015 (even though it is labelled the 2017 RV). The 180 bed assumption may reflect the pre-refurbishment bed numbers and, allowing for some average rental growth, rental growth as a consequence of the refurbishment in 2016/2017 and 263 beds, I assume that the RV points towards a current market rent of around £250,000. However, this remains significantly less than the net income indicated by the accounts history above.

7.12 Any valuation of the existing property requires more judgement than usual given that it is unique. Whilst I have considered the comparables above, none are purpose built hostels of the same size or in as good a condition as the existing property. However, most of the comparables above are under-pinned by strong residential alternative use values (albeit subject to planning).

7.13 Based upon all of the evidence and information above, I am not convinced that the EUV of the subject property is £8m. The rent capitalisation valuation above at S.6.4 (i.e. £5.89m) also equates to £113,269 per bedroom (which is supported by the comparables above). Therefore, I am confident in assuming an EUV of £5.89m as opposed to £8m.

7.14 In assuming a BLV of £5.89m as opposed to £8m, I do not think the proposed scheme is as un-viable as the Rapleys Viability Report concludes.

8.0 LBTH DC Report S.7.27:-

8.1 At their S.7.27, LBTH say:-

“The LBTH viability officer is of the opinion that the information presented is inaccurate or the scheme as proposed is not deliverable in reality”.

8.2 My opinion is that the Rapleys Viability Report is; substantially accurate, justified with evidence and its general conclusion is reasonable. However, the only part of the Rapleys Viability Report that I do not concur with is the BLV which is mainly based upon an imported EUV opinion from Savills. By adjusting the BLV to a robust £5.89m (as I have done in Section 6 above), it can be understood how the proposed scheme could be delivered (notwithstanding I am not sure whether technical deliverability queries are a valid reason for planning refusals bearing in mind currently unviable schemes are sometimes progressed in time for a variety of reasons).

8.3 If the BLV is reduced to circa £5.89m and if sensitivity tests are then considered, it can be appreciated how and why the scheme is deliverable. A profit can be made on the back of a 100% private scheme albeit not necessarily a ‘full’ profit. An applicant has a right to take a view (without prejudice) as to whether they are willing and able to progress a development based upon a certain lower than normal level of profit.

8.4 The appraisal in **Appendix 1** to this document is substantially a replication of the 2nd appraisal in Appendix 6 of the Rapleys Viability Report (i.e. a nil affordable housing scenario). However, I have:-

- assumed professional fees at 8% (see S.12 below), and;
- inverted it so that it is now a residual profit appraisal (as opposed to a residual land value appraisal) whereupon I have inserted my adjusted BLV of £5.89m as a notional land cost.

8.4 As can be seen from my appraisal (**Appendix 1**), the proposed scheme drives a negative residual profit.

8.5 However, if similar sensitivity tests to those in S.11.12 of the Rapleys Viability Report are considered such as 10% rent increase and 5% construction decrease, the residual profit would improve to a positive 7.58% on cost (see **Appendix 2**). Whilst this is still short of a full reasonable profit, one can appreciate that an applicant/owner could find this sufficient to proceed if, as is the case, the proposed scheme would lead to a better quality and higher yielding (in terms of annual net return as a 'sum/amount') investment compared to the existing building.

9.0 My Other Comment on Rapleys Viability Report:-

- 9.1 As I have stated above, the Rapleys report is significantly justified with evidence and its general conclusion is reasonable. However, I comment further on their Gross Development Value for the proposed scheme in Sections 10 & 11 below and on their 'Professional Fees' allowance in Section 12 below.
- 9.2 My comments on these items are relevant to the 2nd appraisal in Appendix 6 of the Rapleys Viability Report.

10.0 GDV of Proposed Scheme:-

- 10.1 There is very little transactional evidence (if any) available in the market to ultimately justify co-living values (and/or the components that drive that value).
- However, I have recently agreed an average value of £206,000 per bed for a co-living scheme in College Road (Croydon) with the Council's viability advisor and the scheme has now secured a positive resolution. This is evidence as Para 016 of the NPPG on viability says – "Market evidence can include BLVs from other viability assessments". The average en-suite room sizes at Croydon are similar to those proposed here.

10.2 I am also aware of the following investment/capital values that were agreed by other viability consultants on other recent co-living planning applications such as:-


Scheme/Application:-	Respective Viability Consultants	Net GDV per Bedroom
Garratt Mills, Trewint Street, London Borough of Wandsworth, SW18 4HA (2019/1083 and S.106 dated 3/3/2020). 292 co-living bedrooms.	DS2 for the applicant. BNP Paribas for the Council.	I have been told by DS2 (who prepared the viability submission on behalf of the applicant that they ultimately agreed a GDV per market rented co-living bedroom at Trewint Street equivalent to £185,000 . This broadly reconciles with the GDV which DS2 reported within their summary viability report lodged on LBW's planning web site (i.e. £52,904,104) less an allowance for the value of the 333 sq.m. café and allowing for the likelihood that BNP Paribas (who reviewed DS2's report) would have pushed this GDV up somewhat.
Land to Rear of 21 Feltham High Street, Feltham, London Borough of Hounslow. (APP/F5540/W/19/3227226). 121 co-living bedrooms.	Savills for applicant. BPS for the Council.	We have a copy of BPS's viability review report dated 7/11/2018 and have been told by Savills by e-mail that BPS subsequently agreed a GDV for the proposed co-living units equivalent to circa £182,000 per room (gross of purchaser costs).
Harrow, Ilford & Hoxton/Dalston.	DS2 for applicants.	DS2 (viability consultants) have told me that they have acted for applicants by providing viability reports alongside co-living planning applications over the last 2 years where GDVs per bedroom have been agreed as follows:- <ul style="list-style-type: none"> • £165k - 55-59 Palmerston Road, Harrow, HA3 7RR – The Collective. • £170k - 187-191, High Road, Ilford, IG1 1DG – Fifth Space. • £240k in Hoxton / Dalston <p>However, DS2 have not been able to divulge any further information on these schemes for confidentiality reasons and, I have not been able confirm the above via information available on respective Council/planning web sites. However, I have no reason to doubt DS2.</p>

10.3 In Appendix 3 of the Rapleys report, Savills conclude at their Page 7 (with respect to co-living yields):-

“In light of the above comparable transactions we have adopted a net initial yield against stabilised net operating income of 4.00%”.


10.4 However, the comparable evidence provided by Savills is not convincing because most of it relates to student accommodation (a physically similar but substantially different investment) and their co-living evidence is not quite correct and/or not comparable. With respect to ‘Old Oak’, there has been a management buy-out (‘MBO’) but this was not an arm’s length transaction.



- 10.5 Some media articles suggest that the co-living element of that MBO equated to over £200,000 per bedroom via a 4% yield. However, other media articles (e.g. the one below) also refer to a 5% yield. The Old Oak scheme is also a flexi co-living/student scheme and so it is not directly comparable:-






DATA
NEWS & ANALYSIS
DASHBOARD


SECTORS
REGIONS
TECH
FUTURE LEADERS
SUSTAINABILITY
MENTAL HEALTH
LEGAL
AUDIO

Newham's Red Door Ventures to buy Collective Old Oak


Alexander Peace
07/12/2017 | [Residential](#)



The Collective Old Oak is close to being bought by Newham Council's PRS developer Red Door Ventures.

The arms-length development company, which uses council funding to build rental schemes around London, is understood to be paying close to £120m for the co-living scheme.

The Collective Old Oak is the first large scale co-living scheme to be sold in the UK and has been seen as a litmus test for interest in the sector.

Its hybrid position between the student and PRS markets, which are raising billions in investment, means it attracted interest from a variety of institutional investors.

It was put up for sale in May through JLL and Savills with a price tag of more than £100m for the 546-bedroom, 323-flat scheme. That reflected a yield of 4% and 5% depending on the proportion of student occupiers, who pay lower rents.

It has been operational for over a year and is around 97% occupied. Rents range from £200 to £360 per week.

- 10.6 I have also spoken to JLL's UK Living Lead Director who headed the attempted sale of The Old Oak prior to the MBO (which he was also involved in on behalf of the 75% stakeholder) and he has confirmed that the overall achieved yield was not 4% and that even he, as somebody immediately close to that deal, would be unable to confirm what the yield on the co-living element was (assuming he was permitted to) because the mix of co-living and student accommodation was not a clear split. As such, media articles specifying the yield on the co-living element of The Old Oak deal are misleading.
- 10.7 Lastly (with respect to Old Oak), the 4.5% referred to by Savills does not seem to relate to their net initial yield conclusion (re: S.9.2 above) which is 4%.
- 10.8 With respect to the Greater London Portfolio cited by Savills (i.e. again in Appendix 3 of the Rapleys Report), the majority of the portfolio was let to the London Borough of Croydon and so the yield evidence is a reflection of LBC's covenant strength and the lease terms. Also, the three scheme within this portfolio were not co-living scheme as they comprise micro self-contained flats as a consequence of Permitted Development Right office conversions. I do not think this transaction provides any guidance on reasonable net initial yields applicable to purpose-built and direct let co-living.
- 10.9 With the Savills advice to hand, Rapleys have gone onto to use a 4.25% net initial yield (implicitly reflecting an allowance for the investment to reach stabilisation) alongside; their own gross rent assumption, a 25% deduction p.a. for operational costs and a purchaser's cost deduction of 6.8%.
- 10.10 I do not entirely agree with the Rapley's valuation components but I arrive at a similar GDV (pre-purchaser cost deductions – see S.10 below) at £223,771 per bedroom using slightly different valuation assumptions and after primarily considering the agreed GDVs per bedroom from other viability assessments and after making allowances between locations.

11.0 Purchaser's Costs Applied to GDV of Proposed Scheme:-

11.1 I would use a lower purchaser's cost rate than Rapleys have used on account of potential SDLT Multiple Dwellings Relief albeit this is lower on co-living than it can be for student accommodation investment purchases according to the following Grant Thornton guidance:-

(<https://www.grantthornton.co.uk/insights/co-living-and-tax-harmony/>)

SDLT

With rates of up to 15% applicable on residential dwellings, SDLT is a significant transaction cost. The SDLT rate applied is normally based on the total cost of the transaction: the higher the cost, the higher the rate. However, multiple dwellings relief (MDR) can bring down the SDLT due on a residential transaction.

Broadly, MDR results in SDLT being calculated on the average cost of each dwelling, multiplied by the total number of dwellings, subject to a minimum rate of 1%. One quirk of the tax system means that while student accommodation can benefit from this minimum rate of 1%, co-living developments for non-students are subject to a minimum rate under MDR of 3%.

I am not a SDLT and/or MDR expert but the extract above suggest that the absolute lowest/most optimistic purchaser cost rate that one could assume would be made up of:-

Agent = 1%
Legals = 0.8%
SDLT = 3%

4.8% and possibly higher as MDR is not a given.

A reasonable assumption is **5%** to reflect this risk.

By using purchaser's costs of 5% instead of 6.8%, the Rapleys GDV for the proposed scheme would increase as would their base case residual land value. In other words, their viability shortfall (for a 100% private scheme) would reduce by approximately £525,000 (allowing for development finance cost implications).

12.0 Rapleys Appraisal of Proposed Scheme – Professional Fees:-

12.0 In S.11.1 of the Rapleys Viability Report, they say they have assumed a professional fees allowance of 8% which I consider reasonable. However, they have actually then used 5% in their appraisals in their Appendix 6.

12.1 I have used 8% in the appraisals in **Appendices 1& 2** herein.

13.0 Conclusion:-

- a. LBTH have not provided any evidence in support of their claim that the Rapleys Viability Report is either inaccurate or that the proposed scheme is not deliverable.
- b. LBTH have not complied with NPPG requirements in connection with viability and 'accountability' as a consequence.
- c. There is a significant deficit between the viability of the proposed scheme with a 0% affordable housing provision and a 35% affordable housing provision.
- d. The Rapleys Viability Report is substantially reasonable and accurate although I am not convinced by the BLV evidence and EUV opinion provided by Savills (which Rapley's have used to inform their BLV).
- e. Based upon my downward adjustment to the BLV, it can be seen how the scheme would be and is deliverable albeit I am not sure whether the appellant is required to prove the scheme is deliverable.
- f. I conclude that LBTH had and has no reasonable grounds to oppose the Appeal Scheme on the grounds of viability and have not presented any evidence to justify their claim.

14.0 Statement of Truth & Declaration**14.1 Statement of Truth:-**

14.1.1 I confirm that I have made clear which facts and matters referred to in this opinion/review of comments are within my own knowledge and which are not. Those that are within my knowledge I confirm to be true. The opinions I have expressed represent my true and complete professional opinions on the matters to which they refer.

14.2 Declaration:-

14.2.1 I confirm that my opinion has drawn attention to all material facts which are relevant and have affected my professional opinion.

14.2.2 I confirm that I understand and have complied with my duty as an expert witness which overrides any duty to those instructing or paying me, that I have given evidence impartially and objectively, and that I will continue to comply with that duty as required.

14.2.3 I confirm that I am not instructed under any conditional or other success-based fee arrangement.

14.2.4 I confirm that I have no conflicts of interest.

14.2.5 I confirm that this opinion complies with the requirements of the RICS – Royal Institution of Chartered Surveyors, as set down in the RICS practice statement ‘Surveyors Acting as Expert Witnesses’.