

Planning Inspectorate Ref: APP/E5900/W/20/3250665

LPA Reference: PA/19/00804

TOWN AND COUNTRY PLANNING ACT 1990 (AS AMENDED)

Appeal

**DE PAUL HOUSE (PANDA HOUSE), 628-634 COMMERCIAL
ROAD, LONDON, E14 7HS**

VIABILITY AND AFFORDABLE HOUSING

PROOF OF EVIDENCE

By:-

James R Brown BSc (Hons) MRICS
Registered Valuer.

(James R Brown & Company Ltd – “JRBC” - regulated by the RICS).

On behalf of the Appellant
(Rooms and Studios Management Ltd)

15th December 2020

CONTENTS

	<u>Page</u>
1.0 Professional Background	3
2.0 Viability	4
3.0 Background	5
4.0 Dr Lee's Report Dated 27/7/2020, Subsequent Comments & LBTH's Statement Of Case	7
5.0 Most Significant Remaining Viability Item of Dispute	11
6.0 Hostel GDV	14
7.0 HMO GDV	20
8.0 Whole Appeal Scheme GDV	28
9.0 Other Remaining Viability Items of Dispute and/or Requiring Clarity	29
10.0 Mr Brown's Updated Residual Appraisal(s)	32
11.0 Anticipated Appraisal by Dr Lee	32
12.0 Conclusion	33
13.0 Statement of Truth & Declaration	33

Appendices:-

A	James Brown – Review of Comments
B	Dr Lee Report dated 27/7/2020
C	Statement of Common Ground dated 14/12/2020
D	Existing Hostel and Appeal Scheme Hostel Element – Comparison/Analysis
E	James Brown – Residual Land Value Appraisal – Build Cost Scenario 1
F	James Brown – Residual Land Value Appraisal – Build Cost Scenario 2
G	James Brown – Residual Land Value Appraisal – Build Cost Scenario 3

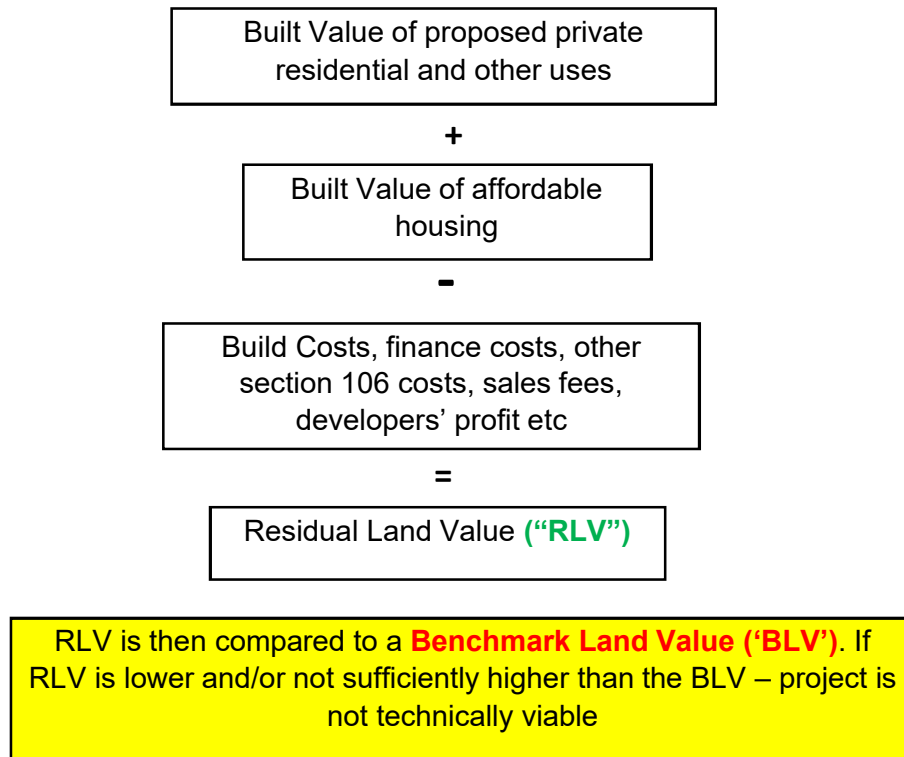
1.0 Professional Background:-

- 1.1 My name is James R Brown BSc (Hons) MRICS 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 18 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 10 years, I have; spoken at numerous seminars on development viability and affordable housing, acted as Expert Witness at several planning appeals (with APP/C5690/W/18/3205926 being the most recent) and I 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”)”. I have also contributed to the RICS’s latest draft guidance on this subject (i.e. ‘Assessing Financial Viability in Planning under the National Planning Policy Framework for England’) and I made formal representations on behalf of several clients in connection with the draft London Plan EIP in 2019.
- 1.7 I have submitted development viability and affordable housing representations on over 300 development proposals across England over the last 10 years for applicants or local authorities, the majority of which have been in Greater London.

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:-



3.0 Background:-

- 3.1 Rapleys produced a viability report dated 3/12/2019 in connection with the original planning application for what is now the Appeal Scheme. The Rapleys report concluded that the Appeal Scheme could not viably sustain any affordable housing provision.
- 3.2 In the report to committee dated 12/3/2020, the only significant viability comments/opinions made by the London Borough of Tower Hamlets ('LBTH'), and which were reported to have been provided by LBTH's Viability Team, were in their Sections 5.41, 5.42 and 7.27. These comments/opinions were unsubstantiated with any specific evidence.
- 3.3 The application was refused on 18/3/2020 whereupon the first reason for refusal was:-

Reasons for Refusal

1 - The proposed development fails to demonstrate the need for the proposed large-scale HMO use on the site. In addition, the proposal fails to provide affordable housing contribution. The proposed development would be contrary to policies S.H1, D.H2, D.H7 of the Tower Hamlets Local Plan 2031 (2020).

- 3.4 LBTH did not produce any form of viability report prior to refusal and so the applicant effectively had no opportunity to reasonably discuss LBTH's concerns professionally.
- 3.5 I was asked to comment on the LBTH Committee report in May 2020 which I did via a written 'Review of Comments' dated 16/6/2020 (see **Appendix A**).
- 3.6 In responding to the appeal, LBTH produced their Statement of Case (undated but which was copied to me on 31/7/2020) which 'introduced' a viability/affordable housing report produced by Dr Anthony Lee of BNP Paribas ('BNPP') dated 27/7/2020 (see **Appendix B**).

3.7 In their recent Statement of Case, LBTH have expanded upon their affordable housing related reason for refusal as follows:-

1st reason for refusal – Need and Affordability

6.3 This reason for refusal comprises the following three elements:

- (i) the appellant has failed to satisfy the policy requirement to demonstrate an identified need for this type of development (need argument) (see Policy D. H7 1a);
- (ii) further, and in any event, the housing provided is not low cost housing as defined by the Local Plan (affordability argument) (see Policy D.H7 1c);
- (iii) Nor does the proposal provide an appropriate amount of affordable housing (viability argument) (see Policy D. H7 1a).

3.8 In response to BNPP's report dated 27/7/2020, I produced a Summary, Update & Rebuttal ('SUR') dated 23/9/2020.

3.9 Dr Lee's report dated 27/7/2020 also appears to contradict (ii) and (iii) from LBTH's expanded reason for refusal as identified in S.3.7 above. I provide evidence in support of this in S.4 below.

3.10 Following my SUR, a Statement of Common Ground ('SOCG') on viability and affordable housing matters dated 14/12/2020 has been agreed (see **Appendix C**). This SOCG makes it clear that several issues previously raised by Dr Lee in his report dated 27/7/20 were either; non-issues, errors (by Dr Lee), incorrect claims (by Dr Lee) and/or incorrect facts assumed by Dr Lee.

4.0 Dr Lee's Report Dated 27/7/2020, Subsequent Comments & LBTH's Statement of Case:-

- 4.1 I make a number of key observations on Dr Lee's report dated 27/7/2020, his subsequent comments and/or LBTH's Statement of Case in this section.
- 4.2 At Sections 4.5 and 4.6 of the BNPP report dated 27/7/2020, Dr Lee says:-

- 4.5 As the Applicant's rents are lower than London Living Rents, 100% of the HMO units could qualify as intermediate affordable housing, subject to be secured as such by a Section 106 obligation. In the absence of such a commitment by the Appellant, the

9



Council cannot have any confidence that the rents the Appellant actually intends to charge will be "supplying a significant quantum of low cost housing" as the FVA suggests at paragraph 10.9.

- 4.6 Provision of 35% of the units at London Living Rents secured by a Section 106 agreement would comply with policy, which is applied on a 'subject to viability' basis provided that evidence is provided that a policy compliant tenure mix is unviable.

- 4.3 As 84 of the 109 proposed bedrooms within the Appeal Scheme are HMO bedrooms, it follows that Dr Lee thinks 77% of the bedrooms within the Appeal Scheme will be 'naturally' affordable which surely needs to be considered against LBTH's Statement of Case S 6.3 (ii) and (iii) – see S.3.7 above.

4.4 Dr Lee and/or LBTH's Statement of Case have said (and my comments thereon are):-

Table 1:-

Reference	Claim/Opinion by Dr Lee and/or LBTH	Comment from Mr Brown as at 4/12/2020
S.3.6 and S.3.7 of Dr Lee's Report dated 27/7/2020	<p>Dr Lee says there are errors surrounding total room areas, ancillary areas and the total GIA of the proposed scheme between the area schedule produced by the architects (Create) and cost consultants (3-Sphere), both of which were included within the appendices to the Rapleys viability report dated 3/12/2019.</p> <p>Dr Lee also raises issue with an alleged disparity between the gross and net areas within the scheme and that it is not clear how the floor-space between gross and net is used.</p>	<p>There was one insignificant error on a schedule provided by the Appellant's architect.</p> <p>There were/are no errors relating to gross to net.</p> <p>The use of the space differential between gross and net was/is evident from the available plans and schedules.</p> <p>Dr Lee based his report on the wrong scheme schedule at the time for reasons best known to himself.</p> <p>The SOCG indicates that all of Dr Lee's concerns in this regard were/are non-issues.</p> <p>The Appellant has not had to revise anything to address Dr Lee's claims and concerns in this regard.</p>
S.6.6 to S.6.9 of Dr Lee's Report dated 27/7/2020	<p>Dr Lee says Rapleys and I are in error with regard to the potential income we assessed for the Appeal Scheme based upon their comparison of the existing hostel and the proposed hostel element of the Appeal Scheme.</p>	<p>Dr Lee is incorrect. Neither Rapleys and or I were/are in error.</p> <p>The existing and proposed hostel are conceptually different.</p> <p>Rooms in the existing hostel contain numerous bunk beds and have an average occupancy of 5.06 people per room whereas the average occupancy levels per room in the hostel element of the Appeal Scheme will be no more than 1.64 people.</p> <p>The Appellant is willing to enter into a planning condition to this effect.</p>

<p>S.6.9 of Dr Lee's Report dated 27/7/2020</p>	<p>Dr Lee says that in assessing the prospective rent from the hostel element of the Appeal Scheme, there "is a clear error by both Rapleys and James Brown".</p> <p>Dr Lee says the Rapley's gross achievable annual income for the proposed single hostel rooms (i.e. £12,000 p.a) equates to £2.73 per room or per person per night.</p> <p>However, this is <u>incorrect</u> as it equates to $£12,000/365 = £32.88$ per night.</p> <p>Dr Lee also claims that the Rapleys room rate per night per double room (which is actually envisaged as being a twin room without exclusivity) equates to £2.96 per night.</p> <p>However, Dr Lee was again <u>incorrect</u> as it equates to £17.80 per person per night (i.e. $£12,996/365/2 = £17.80$ per night).</p> <p>It would appear that Dr Lee did not multiply the monthly rent by 12 before dividing it by 365.</p> <p>Dr Lee then compares his £2.73 and £2.96 to 'asking' rates within the existing hostel where room 'sharer' rates (i.e. sharing with what could be strangers) range from £14 - £24 per night with the highest rate being in a 4 person room.</p>	<p>No error was made by Rapleys or Mr Brown in this regard.</p> <p>It is Dr Lee who made basic mathematical errors and I suspect this confused his own gross rent/GDV assessment of the hostel element of the Appeal Scheme (and/or inappropriately tainted his view of the Rapleys opinion).</p>
<p>S.6.12</p>	<p>Dr Lee criticises the fact that neither Rapleys or I account for any income/value from Food & Beverage.</p> <p>Dr Lee went onto apply a value of £593,000 to F&B.</p>	<p>It was inappropriate for Dr Lee to account for any F&B income/value because there is no central/commercial canteen in the Appeal Scheme. All residents will have access to one of several shared kitchens where they can make their own F&B.</p>

<p>LBTH Statement of Case S.6.34</p>	<p>The main items of dispute regarding viability are:-</p> <ul style="list-style-type: none"> • Existing hostel rental value. • Build costs. • Floor space calculations. • Benchmark Land Value. 	<p>The last two of these disputed items were removed during discussions between Mr Brown & Dr Lee in the run up to the SOCG.</p> <p>However, as these items were removed, new items of disagreement seem to have been introduced by Dr Lee.</p> <p>Although Mr Brown has been and remains willing to agree with Dr Lee's HMO GDV opinion per bedroom (i.e. as indicated in Dr Lee's report dated 27/7/2020), Dr Lee has intimated that he may now be changing that opinion. As Dr Lee has not indicated what his opinion has or might change to, it has unfortunately fallen into the list of disputed items by default.</p> <p>Dr Lee has also intimated that he may no longer assume (as he did in his report dated 27/7/2020) that the Appeal Scheme is sold at practical completion in his residual appraisal thereof. Instead, he has intimated that he might seek to reflect the Appellant's specific intentions for the proposed scheme to the extent that he might not deduct purchaser's costs and sales agent fees from the GDV. However, Dr Lee has not been clear about his intentions in this regard and so this item has unfortunately entered the disputed items list by default.</p> <p>The main items of dispute are therefore and/or can be more accurately described as:-</p> <ol style="list-style-type: none"> GDV of hostel element of Appeal Scheme. GDV of HMO element of Appeal Scheme. Consequential 'whole' GDV of Appeal Scheme. Assumed Appeal Scheme disposal date (or indeed whether there should be one) in Residual Appraisal. Build Costs. <p>Mr Brown proposed items that were agreed as well as those that are not agreed to Dr Lee but Dr Lee only responded in connection with what can be/is agreed.</p> <p>This creates some potential confusion as to what is not agreed but I trust this is evident by default.</p>
<p>Appendix 5 and Table 7.4.1 on page 18 of Dr Lee's report dated 27/7/2020</p>	<p>Dr Lee's GDV opinion for the hostel element of the Appeal Scheme (without allowing for any affordable housing restriction) was £430,284 per bedroom.</p> <p>Dr Lee's GDV opinion for the HMO element of the Appeal Scheme (without allowing for any affordable housing restriction) was £212,744 per bedroom (adjusted for purchaser costs at 5% instead of 6.8%).</p>	<p>Mr Brown was/is willing to agree that Dr Lee's last known GDV opinion for the HMO element of the Appeal Scheme is not unreasonable at £212,744 per bedroom. However, on 20/11/2020, Mr Lee intimated that he might be changing his GDV of the HMO element.</p> <p>Mr Brown considered and still considers that Dr Lee's average value for the hostel element of the Appeal Scheme is excessive (see S.5 below).</p>

5.0 Most Significant Remaining Viability Item of Dispute:-

- 5.1 Between 28/7/2020 and 20/11/2020, I believe the GDV of the hostel element of the Appeal Scheme was by far the most significant viability item of dispute between Dr Lee and I. Our GDVs were over £4.5m apart as a consequence.
- 5.2 On 20/11/2020, I sent Dr Lee a rent and value analysis of the existing hostel (for which we had agreed a BLV) and the hostel element of the Appeal Scheme (see **Appendix D**) for discussion.
- 5.3 During this discussion, Mr Lee suggested that his previous GDV for the HMO element of the Appeal Scheme was based upon rents put forward by Rapleys (who had been advised by the Appellant) and that he would need to review these along with his valuation.
- 5.4 Whilst it is not unreasonable to review and update opinions of value, I am surprised that Dr Lee claimed that the HMO GDV that he assumed in his appraisals dated 27/7/2020 were not entirely his. He did not provide any caveats to this effect.
- 5.5 Whilst writing this Proof, I do not now know what Dr Lee's opinion as to the equivalent value per room of the hostel or HMO elements of the Appeal Scheme are whereas Dr Lee's knows that, as at 25/11/2020, my draft opinions were £238,729 per room (hostel element – adjusted for lower purchaser costs) and £212,744 per room (HMO element). In summary, my opinion as to the GDV of the Appeal Scheme (without accounting for any affordable housing restriction) was therefore:-

- 25 hostel rooms @ £238,729 = £5,968,225
- 84 HMO rooms @ £212,744 = £17,870,496

Total GDV = £23,838,721

- 5.6 However, I arrived at my total GDV via; a net rent capitalisation approach, a traditional comparables approach and by using a 'stand-back' reality check. In preparing this proof, I have also gathered additional evidence and have updated my GDV opinion (which has increased by 6.21%) to £25.32m.
- 5.7 To date, I would struggle to believe that Dr Lee has approached his GDV(s) for the Appeal Scheme using the 2 latter valuation methods I refer to in S.5.6 for the hostel element of the Appeal Scheme (with reference to the table/spreadsheet in **Appendix D**) because:-
- a) If the hostel element of the Appeal Scheme really was worth the equivalent of circa £430,000 (as Dr Lee has suggested to date) compared to £212,744 per bedroom for the HMO element of the Appeal Scheme (as Dr Lee has suggested to date), surely the Appellant would be proposing the whole scheme as a hostel?
 - b) Although the hostel element of the Appeal Scheme will offer guests approximately double the space per person compared to the existing hostel, it seems highly unlikely that this would facilitate a gross rent per person p.a. that is approximately 3x greater than within the existing hostel.
 - c) At £430,000 per bedroom within the hostel element of the Appeal Scheme, Dr Lee's valuation is substantially higher than the price a good quality budget hotel investment subject would sell for. Surely, this is not realistic?
 - d) The average gross rent payable per person in the hostel element of the Appeal Scheme assumed by Dr Lee to date is £43.50 per night whereas a single person or couple can get a good quality budget hotel room nearby for no more and indeed less than this per person. Surely, visitors would prefer to go to a budget hotel?
 - e) Although Dr Lee cites recent asking prices for twin rooms in the existing hostel as his main driver of assumed rents for the Appeal Scheme hostel element, Dr Lee has not considered or ascertained why asking rents (which are only asking rents and are not necessarily therefore 'achieved rents') for these twin rooms 'were' at the indicated levels and what void levels these were associated with. Void rates (as a constituent of operational costs - 'OPEX' costs) have been very high in the existing hostel which

has informed the BLV thereof (by way of its low net rent capitalisation). I understand that a substantial reason for these voids is because of the twin rooms on offer. The only way these typically get licenced out is when a couple of teachers need to stay in the hostel with their group of foreign student tourists (who stay in the bunk bedded rooms). This sometimes facilitates a premium for these rooms. However, given a choice, as would exist amongst the anticipated visitors to the hostel element of the Appeal scheme (who will not be large groups of foreign school children and their teachers on account of the occupancy level the Appellant is willing to be restricted to) would inevitably stay at good quality budget hotel instead (and for less).

- f) How can the hostel element in the Appeal Scheme be worth 380% more per room than the existing hostel. Although the bedrooms in the Appeal Scheme hostel element will be new and are all en-suite (whereas many of the rooms in the existing hostel are not) the proposed rooms are smaller and have lower occupancy levels (which the Appellant is willing to commit to by way of planning condition)?
- g) Dr Lee has applied the same capitalisation yield to the net rent for the exiting hostel and the hostel element of the Appeal Scheme. However, this does not hang true with increasing rents per person by 286% and substantially reducing voids within an overall OPEX cost reduction. Dr Lee rent increase and OPEX cost reduction for the Appeal Scheme hostel element compared to the existing hostel is excessively bullish. This introduces significantly increased net income stream uncertainty/risk and reduces likely rental growth potential, both of which have to be implicitly reflected in yield choice. Based upon Dr Lee's gross rent and OPEX cost assumption, his capitalisation yield for the Appeal Scheme hostel cannot reasonably be the same as assumed for the existing hostel. Reasonably and logically, it should be substantially higher which would then substantially reduce his equivalent GDV of £430,000 per bedroom. Alternatively, this observation points to Dr Lee's assumed gross rents being excessive.





- 5.7 I go into detail on how I have arrived at my GDV for the hostel and HMO elements (and whole scheme) in Sections 6-8 below.

6.0 Hostel GDV

- 6.1 The BLV on a per bedroom equivalent basis (whereupon these could be used to occupy up to 5.06 people per room, or less) of the existing hostel agreed between Dr Lee and I (i.e. £113,269 per bedroom) provides some guidance on what the GDV of the Appeal Scheme hostel element is worth. Using a 'stand-back' reality check, my recent equivalent GDV of £238,729 per bedroom is reasonable whereas Dr Lee's £430,000 per bedroom (which actually increases to £436,575 accounting for purchaser's costs of 5% instead of 6.8% as agreed) is off the scale.

6.2 With respect to the entirely single, twin and accessible rooms proposed, the realistically achievable gross rent cap would be influenced by competing budget hotel rates (e.g. Travelodge) and/or competing hostels per person per night.

6.3 The following are advertised for 2 guests in 1 room options in the area:-

	<p>Travelodge London Bethnal Green Hotel Budget friendly</p> <p>London, 2.2 miles to Canary Wharf</p> <p>8.0 Very good (1900 reviews)</p>	<p>Travelodge</p> <p>£45 View Deal ></p> <p>Trip.com £55 Our lowest price £45 Travelodge</p>
	<p>Travelodge London Excel Hotel Budget friendly</p> <p>London, 2.1 miles to Canary Wharf</p> <p>7.5 Good (1388 reviews)</p>	<p>Travelodge</p> <p>£30 View Deal ></p> <p>Our lowest price £30 Travelodge</p>
	<p>Travelodge London City Hotel</p> <p>London, 2.6 miles to Canary Wharf</p> <p>8.9 Excellent (1430 reviews)</p>	<p>Travelodge</p> <p>£51 View Deal ></p> <p>Trip.com £77 Our lowest price £51 Travelodge</p>
	<p>Premier Inn London Beckton hotel ★★★ Hotel Budget friendly</p> <p>London, 3.5 miles to Canary Wharf</p> <p>8.7 Excellent (131 reviews)</p>	<p>Premier Inn</p> <p>£33 View Deal ></p> <p>Our lowest price £33 Premier Inn</p>

6.4 The following are single person options:-

Canary Wharf

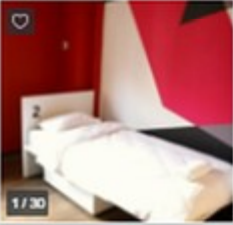




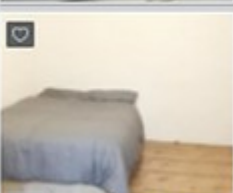
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How payments to us affect ranking

	Generator London ★★★ Hotel Budget friendly Popular Choice London, 4.8 miles to Canary Wharf 7.8 Good (10288 reviews)	Hotel Website Free cancellation £11 Agoda £12 Our lowest price £9 ZenHotels.com
	Budget Guest House Bed & Breakfast London, 4.5 miles to Canary Wharf 4.8 (133 reviews)	Agoda £20 Booking.com £20 Our lowest price £20 Agoda
	Best Western Mornington Hotel London... ★★★★★ Hotel London, 6.8 miles to Canary Wharf 7.8 Good (1731 reviews)	Agoda £21 Booking.com £21 Our lowest price £21 Agoda
	PubLove at The Crown Hostel London, 6.4 miles to Canary Wharf 7.5 (1090 reviews)	Stayforlong £21 ZenHotels.com £12 Our lowest price £12 ZenHotels.com
	YHA London St Pancras Hostel Budget friendly London, 4.9 miles to Canary Wharf 8.2 Very good (3203 reviews)	Agoda Free cancellation - Pay at the property £25 opodo.co.uk £29 Our lowest price £25 Agoda
	Bracken House - Deluxe Guest Room 2 House / Apartment London, 1.1 miles to Canary Wharf 4.5 (14 reviews) Powered by Booking.com	Booking.com £25 Our lowest price £25 Booking.com

6.5 Based upon the evidence above, the market rate is no more than £25 per person per night which accords with my assumption in **Appendix D**. The £43.50 per person per night assumed by Dr Lee is excessive and would lead to substantial void rates.

6.6 Based upon the above, my GDV assessment of the hostel element of the Appeal Scheme using a rent capitalisation approach is:-


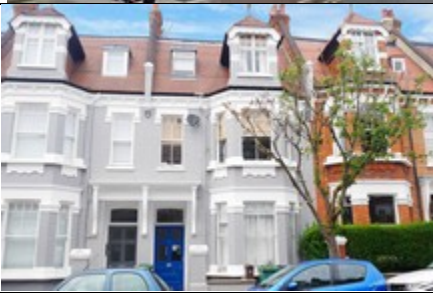


- £24 per night person.




Therefore:-

- | | |
|--------------------------------------------------------|------------|
| • £24 x 41 people x 365 days = Gross Rent p.a. = | £359,160 |
| • Less OPEX costs @ 25% = | £269,370 |
| • Capitalisation multiplier into perpetuity at 4.25% = | 23.5294 |
| • Total = | £6,338,114 |
| • Less purchaser costs @ 5% = | £6,021,208 |
| • Divided by 25 rooms = | £240,848 |

- 6.7 In terms of comparable hostel transactions and/or agreed values, the agreed BLV for the existing hostel is my main comparable. I have not been able to identify any hostel transactions subject to the same occupancy intentions as per the Appeal Scheme hostel element although I listed a number of hostel transactions in my 'Review of Comments' report dated 16/6/2020 (**Appendix A**) which I replicate below:-

Table 2:-

	<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>Harrier House Hotel, 105 to 111 Gloucester Drive, Finsbury Park, London N4 2LE</p> <p>Finsbury Lodge, Adolphus Road, Finsbury Park, London, N4 2AZ</p> <p>Princess Hotel, 1 Gloucester Drive, Finsbury Park, London N4 2LE</p> <p>Adolphus Hotel, 5 Gloucester Drive, Finsbury Park, London N4 2LE</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>

- 6.8 Allowing for the; better location, better quality and purpose built nature of the Appeal Scheme hostel element compared to the above comparables, I would expect the Appeal Scheme hostel element to be worth over £200,000 per bedroom which accords with my rent capitalisation approach.
- 6.9 Using a 'stand-back' reality check, I consider a GDV for the Appeal Scheme hostel element of £6m (rounded) to be reasonable which equates to £240,000 per room.

7.0 HMO GDV

7.1 The HMO element of the Appeal Scheme is similar in concept, layout and design as co-living schemes and, whilst there have been several co-living schemes

consented across London over the last 18 months.

7.2 In terms of reasonably achievable gross rents, the applicant originally told Rapleys (who did the initial viability assessment on behalf of the Appellant for the Appeal Scheme) that the proposed gross rents for the HMO element were:-

Table 3:-

Room Type	Average Room Size (sq.m.)	Nos	Maximum Occupancy (People)	Gross Monthly Rent	Gross Annual Rent per Room Type	Gross Total Rent p.a.
Single	15.35	24	1	£1,000	£12,000	£288,000
Double Bedded	19.42	52	2	£1,083	£12,996	£675,792
Accessible	25.56	8	2	£1,100	£13,200	£105,600
Total		84				£1,069,392

- 7.3 These gross rents generally reconcile (subject to reasonable allowances for location) with co-living scheme rents considered reasonable between viability consultants on a number of schemes permitted and/or formally discussed within the last 18 months across London (and where the majority of those schemes are well connected to public transport nodes). For example:-

College Road, Croydon (Application Ref: 19/04987/FUL – S.106 Completed on 28/10/2020):-

I recently provided viability representations on behalf of Tide Constriction in connection with this co-living led scheme (including 817 co-living bedrooms). The viability position was ultimately agreed with the London Borough of Croydon, their viability advisor and the GLA. The last viability report by Turner Morum (acting for L.B. Croydon and which is cited in the completed S.106) dated March 2020 says:-

REVENUES

- 2.3. The value of the proposed co-living units is obviously one of, if not the focal point of this assessment. The co-living sector is still in its relative infancy, and there is very little in the way of comparable evidence upon which to base the values of the subject scheme. Valuing these co-living units therefore requires the valuer to exercise reasoned judgement as to the appropriate level of attributable value, as well as analysing any evidence relating to property types of a similar nature.

March 2020

4

Turner Morum
Viability Study – College Tower, College Road, Croydon, CR9 1DX



- 2.4. In my original submission I adopted an average monthly rental figure of £1,050 per month, which equates to a c. 17% premium above the original JRB rental values. I considered this position as reasonable and this was confirmed by the GLA.

The average co-living room size in the College Road scheme is 24.26 sq.m. and most bedrooms in the scheme contain a double queen-sized bed.

11-25 and 41-47 Chatfield Road, SW11 3SE (Planning Ref: 2019/5484):-

This co-living led scheme includes 182 co-living bedrooms. L.B. Wandsworth's viability advisor (BNP Paribas) considered average gross rents of £1,300 p.c.m. to be reasonable on an average bedroom size of 16.45 sq.m. but where each room typically has a larger than single bed in it (as indicated by the sample/typical floorplate plan below):-



Whilst BNPP's gross rent of £1,300 p.c.m. is higher than has been accounted for within the Appeal Scheme to date, BNPP applied a higher OPEX cost (i.e. 32% - which they subsequently increased to 33% in March 2020) to this gross rent. Their average net rent assumption based upon their viability report dated February 2020 was £884 p.c.m. as indicated by:-

APPRAISAL SUMMARY

BNPPARIBAS REALESTATE

Chatfield Road
100% private housing

Summary Appraisal for Phase 1

Currency in £

REVENUE

Sales Valuation	Units	ft²	Rate ft²	Unit Price	Gross Sales			
Hotel	81	15,457	1,035.13	197,531	16,000,000			

Rental Area Summary

	Units	ft²	Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
Co-Living Space	182	32,432	87.54	15,600	1,930,656	2,839,200	1,930,656
B1 office space	1	3,369	31.50	106,124	106,124	106,124	106,124
A3 cafe space	1	1,808	30.00	54,240	54,240	54,240	54,240
Flexible B1 space	1	2,971	31.50	93,587	93,587	93,587	93,587
Totals	185	40,580			2,184,606	3,093,150	2,184,606

Investment Valuation

Co-Living Space							
Current Rent	1,930,656	YP @	4.7500%	21.0526	40,645,389		
B1 office space							
Market Rent	106,124	YP @	6.0000%	16.6667			
(0yrs 1mths Unexpired Rent Free)		PV 0yrs 1mths @	6.0000%	0.9952	1,760,157		
A3 cafe space							
Market Rent	54,240	YP @	6.0000%	16.6667			
(0yrs 1mths Unexpired Rent Free)		PV 0yrs 1mths @	6.0000%	0.9952	899,621		
Flexible B1 space							
Market Rent	93,587	YP @	6.0000%	16.6667			
(0yrs 1mths Unexpired Rent Free)		PV 0yrs 1mths @	6.0000%	0.9952	1,552,219		
					44,857,387		

GROSS DEVELOPMENT VALUE

60,857,387

Purchaser's Costs

6.80% (4,138,302)

(4,138,302)

NET DEVELOPMENT VALUE

56,719,085

Income from Tenants

804,440

I have also considered co-living bedroom asking rents at Livinc's Paul Street, Stratford scheme - <https://www.livinc.com/our-locations/london-stratford>

where room charges are £1,382 for a 22.sq.m. room with a king-sized bed as follows:-

Apartments @ London Stratford

Neo


Neo

The Neo studio (average 22m²) serviced apartment is the perfect pad for you. Combining a stylish hotel room with luxurious ensuite bathroom, a full kitchenette, sofa and workspace, ideal for your professional living.

KEY FEATURES:

- * Fully fitted kitchenette
- * Workdesk and chair
- * LED mood lighting around the bed
- * 2000 spring king size bed

APPLY NOW
£ 319 / pw



7.4 Having considered the evidence above, I considered the original gross rents provided to Rapleys by the Appellant to be too low for the double rooms and my opinion as to reasonable achievable gross rents are:-

Table 4:-

Room Type	Average Room Size (sq.m.)	Nos	Maximum Occupancy (People)	Gross Monthly Rent	Gross Annual Rent per Room Type	Gross Total Rent p.a.
Single	15.35	24	1	£1,000	£12,000	£288,000
Double Bedded	19.42	52	2	£1,325	£15,900	£826,800
Accessible	25.56	8	2	£1,350	£16,200	£129,600
Total		84				£1,244,400

7.6 To date, I have not explicitly expressed my own an opinion as to what I consider to be a reasonable OPEX cost allowance and net rent capitalisation yield for the HMO element of the Appeal Scheme albeit I have expressed the opinion (via an e-mail to Dr Lee dated 25/11/2023) that Dr Lee's equivalent GDV per bedroom as at 27/7/2020 was/is not unreasonable (i.e. at £212,744 per bedroom) and in my Review of Comments' dated 16/6/2020 (see **Appendix A**), I indicated that I agreed with the 100% private GDV for the whole hostel/HMO scheme reported by Rapleys in their report dated 3/12/2019 – i.e. £24.46m as stated at their S.9.5 (i.e. equivalent to £224,404 per room but which was based upon an earlier scheme version comprising 31 hostel rooms and 78 HMO rooms).

7.7 Based upon the evidence above (including BNPP's OPEX cost assumption of 33% on Chatfield Street), my valuation of the HMO element of the Appeal Scheme using a rent capitalisation approach is:-

- Gross Rent = £1,244,400 p.a.
- Less OPEX costs @ 27% = £908,412 p.a.
- Capitalised into perpetuity at 4.5% = £20,186,933
- Less purchase costs @ 5% = £19,177,586
- Divided by 84 bedrooms = £228,305 per bedroom.

7.8 I consider my yield choice of 4.5% to be relatively optimistic bearing in mind, for example, BNP Paribas used a yield of 4.75% to arrive at their co-living GDV at Chatfield Street earlier this year (see BNP Paribas appraisal extract on Page 23 above).

7.9 In terms of co-living GDVs agreed per bedroom between viability consultants on other recent London co-living schemes, I have considered the following:-

Table 5:-

College Road, Croydon, London Borough Of Croydon:-

I have provided all viability representations on behalf of Tide Construction on this recently consented scheme comprising 817 co-living bedrooms in one tower and 120 affordable housing flats in the other tower.

LBC's viability consultant and the GLA are both of the opinion that the Net Development Value for the co-living element of the proposed scheme is £183,666,502 (224,806 per bedroom) in a scheme where the OPEX cost economies of scale are substantially better than at the Appeal Scheme.

This comparable points to values for the co-living within the Appeal Scheme of around £230,000 per bedroom allowing for location.

Chatfield Street, Battersea, L.B. Wandsworth, SW11 3SE:-

This scheme has recently been granted consent and comprises:-

Use	Units	Area / GIA (sq m)	Area / NIA (sq m)
Shared living accommodation	182	4,906	3,013
Hotel accommodation	81	2,405	1,436
B1 Office unit	-	326	313
B1 / D1 Flexible space	-	305	276
B1 / D1 Flexible community space and lounge	-	426	406
A3 Café space	-	190	168
Total		8,132	5,206

BNP Paribas (acting on behalf of L.B. Wandsworth) produced a viability report dated February 2020 where they reviewed an earlier viability report prepared by DS2 (on behalf of the applicant).

In February 2020, BNPP were of the opinion that the 182 bed co-living element of the proposed scheme had a Net Development Value of £40,645,389 less costs @ 6.8% = £37,881,503 (£208,140 per bedroom).

This comparable points to values for the co-living within the Appeal Scheme of around £230,000 per bedroom allowing for location.



Rear of 21 High Street, Feltham, L.B. Hounslow, TW13 4AG:-

Planning consent for a scheme comprising 121 co-living bedrooms, 4,058 sq.ft. of co-working space, 1,711 sq.ft. of retail, bike workshop and associated and ancillary facilities in a 7 storey new build development was secured on Appeal (APP/F5540/W/19/3227226) in January 2020.

In the run up to the appeal, BPS (acting for L.B. Hounslow) reviewed a viability submission prepared by Savills via an initial report dated 7/11/2018. At that time, the scheme included 128 co-living bedrooms but was subsequently revised slightly. In their report dated 7/11/2018, BPS valued the co-living element of the proposed scheme at £24m (equivalent to £187,500 per bedroom).

I understand BPS subsequently reduced their valuation of the proposed co-living units to the equivalent of circa £182,000 per bedroom before costs but I cannot confirm this with any additional evidence.

The average co-living room size at Feltham was around £29.68 sq.m. per bedroom which is larger than what is proposed on average within the Appeal Scheme.

This comparable points to values for the co-living within the Appeal Scheme of around £230,000 per bedroom allowing for location and average bedroom size.



33-39 Lowlands Road, Harrow, HA1 3AN:-

This scheme is a recently consented scheme (P/1656/20) and comprises:-

Summary of Proposed Residential Accommodation

Type	No. of units	Unit Average Sq m (NSA)	Total Sq ft (NIA)
Studio	91	16.1	15,801
Accessible Studio	13	22.7	3,175
Co-living amenity	1	387	4,165
Co-living café	1	91	979
Total			24,120

Savills (acting on behalf of L.B. Harrow) produced a viability report dated August 2020 and were reviewing an early viability report prepared by the applicant's viability consultant.

In August 2020, Savills were of the opinion that the 104 bed co-living element of the proposed scheme had a Net Development Value of £21,916,635 less costs @ 6.8% = £20,426,304 (£196,407 per bedroom).

This scheme is in a less good location compared to the Appeal Scheme and would attract lower gross rents.

This comparable points to values for the co-living within the Appeal Scheme of around £230,000 per bedroom allowing for location.

7.10 Based upon my rent capitalisation valuation method and the co-living GDV comparable evidence in Table 5 above, my GDV opinion for the HMO element of the Appeal Scheme equates to £230,000 per bedroom (i.e. £84 x £230,000 = £19.32m).

7.11 Applying a 'stand-back' reality check, I am comfortable with this GDV based upon what has been agreed on other co-living scheme and as a consequence of my reasonable rent capitalisation approach. My GDV is also higher per bedroom than the opinion expressed by Dr Lee as at 27/7/2020 (i.e. £230,000 per bedroom compared to £212,744 per bedroom).

8.0 Whole Appeal Scheme GDV

8.1 My GDV for the whole Appeal Scheme is therefore:-

Hostel element = 25 rooms @ £240,000 =	£6,000,000
HMO element = 84 rooms @ £230,000 =	£19,320,000

	£25,320,000

9.0 Other Remaining Viability Items of Dispute and/or Requiring Clarity:-

9.1 Assumed Appeal Scheme disposal date (or indeed whether there should be one) in Residual Appraisal:-

9.1.1 In S.6.22 of Dr Lee's report dated 27/7/2020 and as intimated again by Mr Lee in a conversation we had on 20/11/2020, he suggests that it might not be appropriate to deduct purchaser's costs and sales agent fees from the GDV of the Appeal Scheme if the Appellant plans to keep the scheme as an investment. However, viability in planning is meant to reflect viability from a hypothetical developer's perspective because planning consents run with the land. It is not therefore appropriate to reflect what are or might be the Appellant particular intentions.

9.1.2 Also, if one does not account for a sale of the proposed scheme at or soon after practical completion, development finance costs would continue and would out-strip annual net income. It would take many years to achieve 'payback' and the additional finance costs would exceed the combination of purchaser's costs plus sales agent fees. If raised by Dr Lee, I would consider this point to inappropriate, misleading and irrelevant.

9.2 Build Costs:-

9.2.1 I understand that a SOCG has been signed with respect to build costs.

9.2.2 I have read this and it appears that the respective QS opinions (inclusive of a contingency but excluding professional fees) are:-

- £14,252,284 (3-Sphere for the Appellant), and;
- £13,400,401 (RLF for Dr Lee/LBTH).

9.2.3 Bearing this in mind, I present my residual appraisal of the Appeal Scheme herein based upon 3 build cost scenarios as follows:-

- Scenario 1 - £14,252,284
- Scenario 2 - £13,400,401
- Scenario 3 - the mid-point at £13,826,343

9.3 Development Finance Rate:-

9.3.1 I consider a reasonable finance rate assumption to be 7% whereas BNPP consider it should be 6%.

9.3.2 In a recent appeal (APP/A5840/W/19/3228534) which related to a speculative medium sized student accommodation scheme in London SE1, the Inspector agreed with me that a finance rate of 7% was reasonable (see para 26 and 27 of the Inspector's decision dated 2/3/2020 re-produced below:-

26. In their evidence, the Council suggested that finance rates are often over-stated and that values presented in appraisals do not always mirror the real world. Based on what was termed a 'real-world' test, the Council suggest that a finance rate of 6% would be appropriate for a development of this nature. Whilst there was some discussion around this point, little by way of substantive evidence was presented to support the Council's position.

27. From the appellant's perspective, evidence has been presented whereby the Council accepted a finance rate of 7% as recently as June 2019 and which was regarded as "*within a reasonable range within the market*". On this basis, I have no compelling reason to conclude that the lower finance rate should be used. Consequently, on this point, I am satisfied with the evidence provided by the appellant.

9.3.2 The Appeal Scheme is a similar income producing quasi residential project and I would expect the finance rate to be the same as agreed in the above appeal.

9.3.3 I am also acting as expert on another co-living scheme appeal at Bath Road (Hounslow - Planning Ref: P2019/3140) where BPS (acting for L.B. Hounslow) agreed that 7% is reasonable as indicated by the following extract from their appraisal dated November 2019:-

APPRAISAL SUMMARY**BPS SURVEYORS**

1-3 Bath Road as Residual Profit
 Land Cost Input = BLV of £1.4m
 Plus profit benchmark

8,979,121

FINANCE

Timescale	Duration	Commences
Purchase	1	Aug 2019
Pre-Construction	2	Sep 2019
Construction	24	Nov 2019
Sale	1	Nov 2021
Total Duration	28	

Debit Rate 7.000%, Credit Rate 0.500% (Nominal)

Land	242,308	
Construction	3,181,987	
Total Finance Cost		3,424,295

TOTAL COSTS**62,251,815****PROFIT****4,606,867**

9.3.4 I consider 7% to be reasonable based upon the evidence above.

9.4 CIL/MCIL, S.106 and S.278 Costs:-

9.4.1 I have been informed by Rapleys that the likely costs in this regard for a scheme without any affordable housing restrictions would be:-

Mayoral CIL	-	£148,331.79
Carbon Offset	-	£222,015
Construction/end user employment/skills and training	-	£23,000
Possible S.278	-	Unknown (optimistically assumed at £nil)

9.4.2 I have therefore assume a total combined cost in this regard of £395,000 albeit this could increase.

10.0 Mr Brown's Updated Residual Appraisal(s) – Appeal Scheme:-

10.1 My residual land value appraisals of the Appeal Scheme (Scenarios 1 – 3 Build Costs) can be seen in **Appendices E - G**.

10.2 The RLVs produced are:-

Scenario 1 = £3,484,766

Scenario 2 = £4,272,270

Scenario 3 = £3,878,518

10.3 As these are all below the agreed BLV of £5.89m, I conclude that the scheme falls short of full viability in each scenario albeit a development profit is nonetheless achieved in each.

11.0 Anticipated Appraisal by Dr Lee:-

11.1 Based upon my discussions to date with Dr Lee, I would expect his residual appraisals to be the same as mine except for the GDV(s).

12.0 Conclusion:-

- 12.1 The maximum reasonable affordable housing provision by way of formal planning restriction that is viably sustainable for the Appeal Scheme is nil.
- 12.2 However, the rents proposed by the Appellant for the HMO element of the scheme are such that 77% of the scheme will be affordable according to Dr Lee anyway.

13.0 Statement of Truth & Declaration:-

13.1 Statement of Truth:-

- 13.1.1 I confirm that I have made clear which facts and matters referred to in this Rebuttal 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.

13.2 Declaration:-

- 13.2.1 I confirm that I have drawn attention to all material facts which are relevant and have affected my professional opinion.
- 13.2.2 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.
- 13.2.3 I confirm that I am not instructed under any conditional or other success-based fee arrangement.
- 13.2.4 I confirm that I have no conflicts of interest.
- 13.2.5 I confirm that my 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’.