

639, 643 - 649 High Road,
Leyton, E10 6RE

2nd August 2021



- 1.1 Following our independent viability review prepared on behalf of the London Borough of Waltham Forest dated 18th February 2021, we received a rebuttal report from Turner Morum dated 15th March 2021. We responded to this rebuttal in an addendum dated 27th March 2021.
- 1.2 We concluded that the scheme generated a deficit of -£134,000 on a 100% private tenure basis. This deficit is considered nominal, representing 1% of the scheme GDV. However, given that the scheme generates a deficit we concluded that an affordable housing contribution could not be provided in viability terms.
- 1.3 We recommended that on consequence the Council include a review mechanism in the S106 agreement to ensure that any improvements to the scheme's viability is captured at a later stage.
- 1.4 We understand that the planning application was deferred at Planning Committee in July 2021 due to the viability and lack of affordable housing contribution.
- 1.5 We have been instructed by the Council to undertake a further review of the construction costs following comments from Committee Members. We understand that Member's considered the Applicant's construction costs to be higher than their expectations. We were also instructed to provide a comparison of the build costs with other similar developments to test whether they are reasonable.
- 1.6 Our Cost Consultant Neil Powling has provided further analysis of the costs which can be found in Appendix 1.
- 1.7 In regard to the comparable scheme costs, Mr Powling has advised that firstly, projects with full analyses, which would be needed in order to do a comparison, are few in number due to the limited quality of information supplied by applicant at application stage. Secondly, each project is bespoke and there will not be other schemes that can be considered directly comparable, this is why a full and detailed cost plan is considered to be a minimum requirement of all Applicant's, a fact now recognised in the latest RICS Guidance *Assessing viability in planning under the National Planning Policy Framework 2019 for England 1st edition, March 2021*. This is also a requirement of the Mayors Affordable Housing and Viability SPG
- 1.8 Mr Powling has further reviewed the cost information and concludes the following:

"Almost all projects are distinct. I use BCIS data as a starting point to inform my benchmarking and make adjustments to reflect the particular circumstances of each development. This approach requires a properly detailed cost plan/estimate; the one initially provided was not adequate, but the cost estimate provided in April was

in sufficient detail, therefore enabling me to reach the conclusions I did. I stand by my conclusions”.

1.9 We are advised by the Council that the Applicant has proposed a payment-in-lieu of £20,000 towards affordable housing.

1.10 We have modelled the viability of the scheme with the £20,000 contribution and conclude the following viability position:

Scheme (BPS)	Surplus/Deficit
100% Private with £20k PIL	-£275,000

1.11 It will be noted that the apparent deficit has increased from -£134,000 to -£275,000, a large part of this increase reflects an update to our appraisal to include the impact of purchaser's costs on the commercial valuation which were omitted from the applicant's appraisal but which we have now included. This ensures the valuation of this element conforms with valuation norms.

1.12 We calculate the scheme would generate a current deficit of c. -£275,000 (2% on GDV) on an 100% private basis, with a £20,000 PIL. Our appraisal can be found in Appendix 2.

1.13 This contrast with the applicant's current position, which is as follows, we have attached the appraisal in Appendix 3:

Scheme (Turner Morum)	Surplus/Deficit
100% Private with £20k PIL	-£1,164,226

1.14 The key points of difference between our positions is the following:

- **Benchmark Land Value** - Turner Morum maintain their view of Benchmark Land Value at £1,845,000. By contrast, we have maintained our addendum report position of £1,275,000.
- **Developer Profit** - Turner Morum have assumed a profit target of 20% on GDV for the private residential revenue. By contrast, our review allows for a 17.5% on GDV target.

1.15 In light of the absence of a contribution we recommend that the Council include a review mechanism in the S106 agreement to ensure that any improvements to the scheme's viability is captured at a later stage.

1.16 In addition, we refer to Paragraph 65 of the NPPF which states:

“Where major development involving the provision of housing is proposed, planning policies and decisions should expect at least 10% of the total number of homes to be available for affordable home ownership”.

- 1.17 We note that viability is not a valid exception from paragraph 65 above.

Appendix 1 - Construction Cost Review

Midland Road - 639, 643-649 High Rd, Leyton E10 6RE
Explanation for Planning Committee of Construction Costs in the Order of
Cost Estimate issued by Daniel Connal Partnership April 2021

Introduction

I am Neil P. Powling DipBE FRICS DipProjMan(RICS). I became an Associate of the Royal Institution of Chartered Surveyors (RICS) in 1971 and a Fellow in 1984 and have 50 years post qualification experience. Following a 4 year (6 month) sandwich course I was awarded a Diploma in Building Economics by Willesden College of Technology in 1970. I was awarded the RICS Diploma in Project Management by the College of Estate Management in 1984. My initial training was with Northcroft Neighbour & Nicholson Chartered Quantity Surveyors during the period 1966 to 1974. I established my own practice of Chartered Quantity Surveyors Neil Powling & Partners in 1974 and merged with another practice in 1980 to form The Badenoch Powling Partnership. In 1986 I was a Director of an Interior Design Group specialising in hotels (both new build and refurbishment) and left in 1992 to establish PDM - Project Development & Management – a company specialising in Project Management, contract administration and quantity surveying.

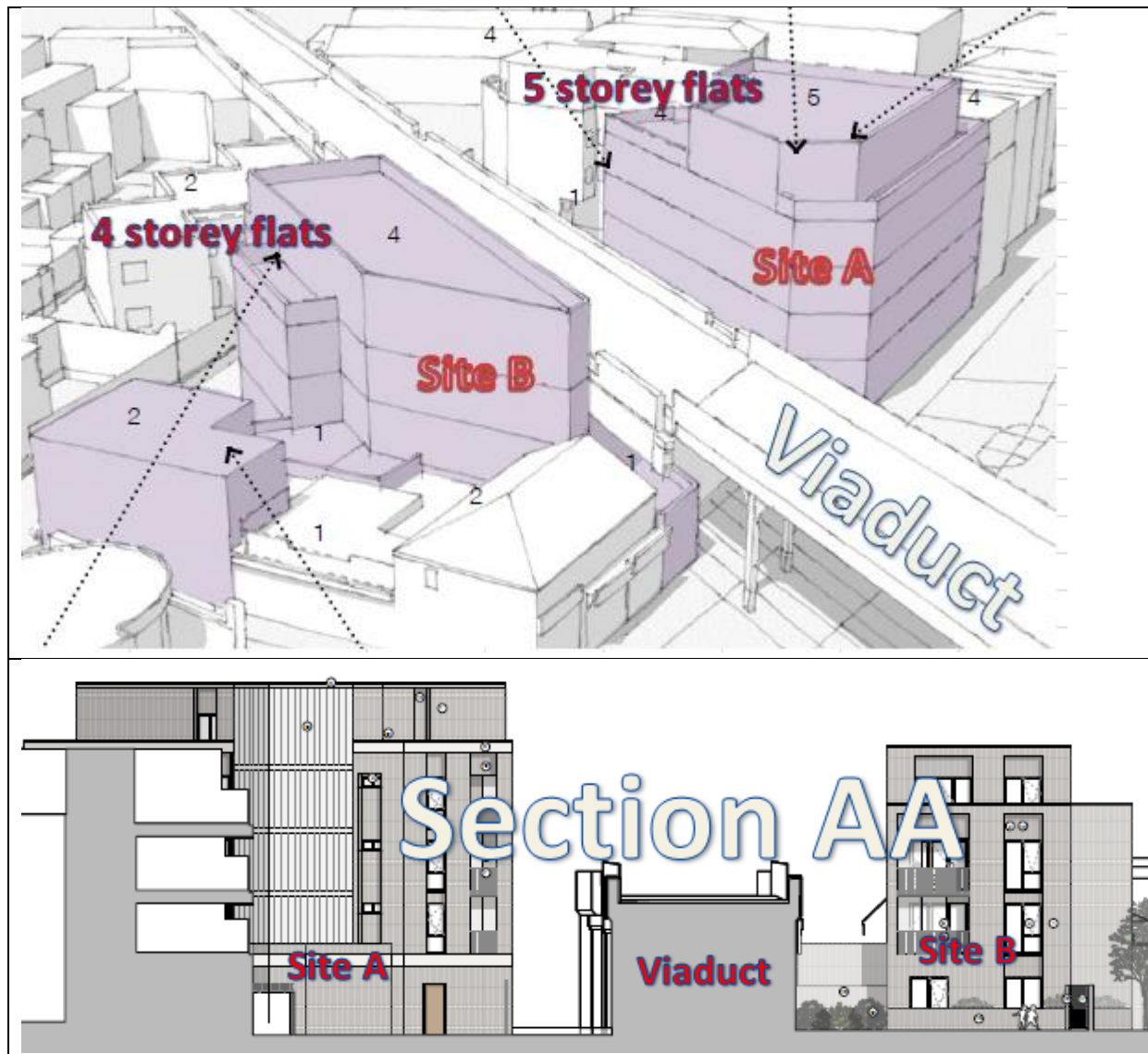
I was a founder member of the Project Management Association of the RICS and Chairman in 1989/1991. I was the principal author of the first RICS Standard Conditions of Engagement for Project Management. I served on a number of RICS committees and have represented the RICS on other committees or working groups. I was the elected member for the South East of the RICS Project Management Faculty until 2002.

I act as a cost consultant to BPS Chartered Surveyors providing construction cost advice in advising local authorities. I have advised on the cost aspects of viability of over 700 projects over the last 13 years.

I have experience of housing costs in the organisations I have worked with over the last 55 years both with direct authority for quantity surveying and as a project manager with overall project responsibility. I was the project manager during the period 1993 to 2002 for all project stages for the refurbishment, conversion and sale and post-sale activities of Nrs 1-9 Cambridge Gate in Regents Park. This was a major and complicated project for conversion of a listed building developed under a license arrangement granted by The Crown Estate.

The two images pasted below give a visual indication of some of the construction challenges in developing this site.

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The history of the initial limited estimate and the subsequent more detailed cost estimate issued April 2021

I was instructed on 1st February 2021 by BPS to review and comment on the Construction costs included in the Viability study issued by Turner Morum dated January 2021. Included at Appendix 5 was an Approximate estimate issued by Daniel Connal Partnership 22nd Dec 2020 in the total sum of £7,790,000 the Gross Internal Area (GIA) was determined by me as 2,140m² resulting in a rate of £3,640/m². GIA is the usual method used for reporting/ analysing / and benchmarking of construction costs.

The estimate was in limited detail and I was not satisfied that I could prepare a satisfactory analysis. I issued my report on 10th February 2021 – a copy is attached. Essentially my test in reviewing a

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construction cost is “do I consider the costs reasonable?” The summary to my 10th February report is repeated below:-

1.1	The cost estimate includes lump sums for residential units and commercial space. The sums allowed in the estimate will be inclusive of preliminaries costs and overheads and profits (OHP). The estimate includes a separate addition of 3.75% for “Covid Provision: increase on Preliminaries Costs” - we are unable to determine the total provision for preliminaries but have allowed for this additional cost in our benchmarking.
1.2	As the estimate provides no detail we are unable to undertake our usual benchmarking exercise that requires a full elemental estimate in sufficient detail to provide specification information in the detail that is appropriate to the RIBA Work Stage.
1.3	The cost estimate is silent on areas. We have determined the GIA from the Architects accommodation schedule and the commercial areas on the drawings and shown in the appraisal. We have included these areas in the tables at 3.13 and 3.15 used to calculate blended rates.
1.4	Our benchmarking results in an adjusted benchmark, on the assumption that the office space is fitted out, of £2,362/m ² that compares to the Applicant’s £3,640/m ² . A difference of £1,278/m ² (£2,735,639). We are therefore unable to confirm that we consider the Applicant’s costs to be reasonable.
1.5	On the assumption that the office space is shell only, our benchmarking yields a rate of £2,131/m ² that compares to the Applicant’s £3,640/m ² . A difference of £1,509/m ² (£3,228,665). We are therefore unable to confirm that we consider the Applicant’s costs for this alternative to be reasonable.

My email to BPS 10th Feb 2021 attaching both my full report and a limited analysis said as follows:-

I have not waited for the answer on office fit out. The only difference it would make is to increase the gulf between us.

The cost doesn’t have any area information in it, so they possibly never understood how expensive it is. Frankly no applicant should produce a cost so much higher than BCIS without an accompanying cost plan properly prepared in sufficient detail to demonstrate and justify the cost.

It doesn’t look an easy site, so I am sure the costs will be high when they get around to undertaking the exercise, but they have to do the work to confirm and prove it.

I was provided with the contact details of Mr Dave Manning a Consultant to Daniel Connal Partnership and on 17 March 2021 asked to make contact.

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I reported to BPS on 18th March 2021 that I had spoken to Mr Manning – I said “I have now spoken to their QS Dave Manning. We are both on the same page. He knows what I require and expects to produce new detail over the weekend so we can expect it on Monday.”

Although Mr Manning expected to produce a properly detailed cost plan in short order in fact it was not received until 20th April. This was a properly detailed Order of Cost Estimate of 28 pages – a copy is attached.

I was able to undertake the elemental analysis and benchmarking that I would always aim to undertake provided the provided detail is sufficient.

I issued a revised report ver 1.1 on 21st April 2021 – a copy of the full report is attached. The additional items on the summary are reproduced below.

	<u>Addendum to summary following receipt of Order of Cost Estimate issued April 2021</u>
1.6	The Executive Summary shows the GIA as 2,742m ² . Items 1.2 and 1.3 of the introduction provides details of the GIAs for Blocks A and B for both residential and commercial areas. These total 2,642m ² and this is the area we have used in our elemental analysis. The residential area is 2,219m ² ; we have used this figure rather than 2,319m ² in relation to foul and surface water drainage costs.
1.7	The area of 2,742m ² has been used to calculate the estimated costs of the mechanical and electrical installations, and the residential area for the drainage costs. We calculate the additional cost of this discrepancy including additions for preliminaries, OHP and contingency as £52,156.
1.8	Our benchmarking of the Applicant's cost of £8,130,444 (£3,077/m ²) results in an adjusted benchmark of £3,054/m ² that compares to the Applicant's £3,077/m ² . We are therefore able to confirm that with a reduction of £52,156 to the building cost to £8,078,288 (1.7 above refers) we consider the Applicant's costs to be reasonable.

My benchmarking showed that the Applicant's costs were slightly high in cost £3,077/m² less £3,054/m² - £23/m² amounting to a total £61,931. The deduction of £52,156 identified in 1.7 above would reduce the difference to £9,775. A small difference such as this on an estimate on a project at this early design stage does not prevent my reaching the conclusion that the costs are reasonable.

Paper dated 22/7/2021 prepared by Maddox Planning and Turner Morum following the Planning Committee meeting 19th July 2021

I am in receipt of the above paper. I do not propose to deal with it in detail but make the following comments.

My benchmarking for both the original report and the revised April report was based on BCIS information current when downloaded 10 Feb 2021. The BCIS all-in Tender Price Index (TPI) was 328 then and it is now 334. There is considerable volatility in tender prices and low volumes in data

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submitted to the BCIS, so there is likely to be several quarters or more before the actual tender prices become clear. The basis on which we do viability for both revenues and costs is a current basis partly because of the uncertainty in future prices.

The paper includes a section on abnormal costs. I had not seen these identified previously but these were cost issues that in general I had already identified during the investigations for my report.

Conclusion

Almost all projects are distinct. I use BCIS data as a starting point to inform my benchmarking and make adjustments to reflect the particular circumstances of each development. This approach requires a properly detailed cost plan/estimate; the one initially provided was not adequate but the cost estimate provided in April was in sufficient detail, therefore enabling me to reach the conclusions I did. I stand by my conclusions.

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Elemental analysis & BCIS benchmarking

	GIA m ²	2,642		LF100	LF118
		£	£/m ²	£/m ²	£/m ²
Demolitions 2.6%		195,000	74		
1 Substructure		715,929	271	146	172
2A Frame		321,401	122	129	152
2B Upper Floors		495,696	188	80	94
2C Roof		518,996	196	90	106
2D Stairs		90,660	34	29	34
2E External Walls		860,268	326	186	219
2F Windows & External Doors		333,489	126	88	104
2G Internal Walls & Partitions		225,453	85	67	79
2H Internal Doors		135,000	51	50	59
2 Superstructure		2,980,962	1,128	719	848
3A Wall Finishes		172,585	65	73	86
3B Floor Finishes		312,441	118	60	71
3C Ceiling Finishes		142,769	54	39	46
3 Internal Finishes		627,796	238	172	203
4 Fittings		380,950	144	61	72
5A Sanitary Appliances		123,650	47	29	34
5B Services Equipment (kitchen, laundry)				23	27
5C Disposal Installations				13	15
5D Water Installations - Mechanical		589,431	223	32	38
5E Heat Source				47	55
5F Space Heating & Air Treatment				102	120
5G Ventilating Systems, smoke extract & control				18	21
5H Electrical Installations (power, lighting, emergency lighting, standby generator, UPS)		466,062	176	87	103
5I Fuel Installations				7	8
5J Lift Installations		118,000	45	37	44
5K Protective Installations (fire fighting, dry & wet risers, sprinklers, lightning protection)				11	13
5L Communication Installations (burglar, panic alarm, fire alarm, cctv, door entry, public address, data cabling, tv/satellite, telecommunication systems, leak detection, induction				22	26
5M Special Installations - (window cleaning, BMS, medical gas)				44	52
5N BWIC with Services		52,775	20	14	17
5O Management of commissioning of services					
5 Services		1,349,918	511	486	573
6A Site Works		128,048	48		
6B Drainage		96,719	37		
6C External Services		109,100	41		
6D Minor Building Works					
6 External Works 5.3%		333,867	126	0	0
SUB TOTAL		6,584,422	2,492	1,584	1,869
7 Preliminaries 12%		790,131	299		224
Overheads & Profit 5%		368,728	140		
SUB TOTAL		7,743,280	2,931	1,584	2,093
Design Development risks		387,164	147		
Construction risks					
Employer change risks					
Employer other risks					
TOTAL		8,130,444	3,077		

Benchmarking		1,633
Add storey height anomaly for 3-5 storey flats		368
Add demolitions	74	
Add external works	126	
Add additional cost of substructure	99	
Add additional cost of frame & upper floors	63	
Add additional cost of roof	90	
Add additional cost of external walls	106	
Add additional cost of windows & external doors	22	
Add additional cost of intrnal walls	6	
Add additional cost of floor finishes	47	
Add additional cost of ceiling finishes	8	
Add additional cost of fittings	72	
Add additional cost of sanitary appliances	13	
Add additional cost of services - provisional say	45	
	772	
Add prelims @ 12%	93	
Add OHP @ 5%	43	907
		2,908
Add contingency 5%		145
Total adjusted benchmark		3,054
	8,078,288	
Difference in cost from GIA discrepancy	52,156	20

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Summary analysis & BCIS benchmarking

Commercial 422
Residential 1,718
GIA m² 2,140

		£	£/m²
	Demolitions, site remediation & party wall treatments	280,000	131
1	Residential site A	3,140,000	1,467
2	Residential site B	2,160,000	1,009
3	Total Residential costs	5,300,000	2,477
4	Commercial site A	620,000	290
5	Commercial site B	510,000	238
	Total Commercial costs	1,130,000	528
6A	Site Works	290,000	136
6B	Drainage		
6C	External Services - divert existing services	150,000	70
6D	Relocate telegraph pole	20,000	9
6	External Works 6.86%	460,000	215
	SUB TOTAL	7,170,000	3,350
7	Preliminaries - covid increase in prelims 3.75%	270,000	126
	Overheads & Profit		
	SUB TOTAL	7,440,000	3,477
	Design Development risks		
	Construction risks 4.7%	350,000	164
	Employer change risks		
	Employer other risks		
	TOTAL	7,790,000	3,640
			3,640

Alt for shell only
commercial

Benchmarking - blended rate offices generally fitted; flats 3-5 storey	1,822	1,611
Add demolitions	131	131
Add external works	215	215
	2,168	1,957
Add increased level of preliminaries	81	73
	2,249	2,030
Add contingency 5%	112	101
Total adjusted benchmark	2,362	2,131
Difference	1,278	1,509
Difference if offices fitted out	2,735,639	
Difference if offices shell only	3,228,665	

Appendix 2 - BPS Appraisal

639, 643-649 High Road, Leyton, E10
BPS Appraisal
100% Private Scheme + £20k PIL

APPRAISAL SUMMARY**BPS SURVEYORS**

639, 643-649 High Road, Leyton, E10
BPS Appraisal
100% Private Scheme + £20k PIL

Appraisal Summary for Phase 1**Currency in £****REVENUE**

Sales Valuation	Units	ft²	Sales Rate ft²	Unit Price	Gross Sales
Private Residential	25	17,949	633.91	455,120	11,378,000

Rental Area Summary

	Units	ft²	Rent Rate ft²	Initial MRV/Unit	Net Rent at Sale	Initial MRV
Commercial	1	4,546	25.00	113,650	113,650	113,650

Investment Valuation

Commercial					
Market Rent	113,650	YP @	6.0000%	16.6667	
(6mths Rent Free)		PV 6mths @	6.0000%	0.9713	1,839,777

GROSS DEVELOPMENT VALUE**13,217,777**

Purchaser's Costs			(125,105)	
Effective Purchaser's Costs Rate		6.80%		(125,105)

NET DEVELOPMENT VALUE**13,092,672****NET REALISATION****13,092,672****OUTLAY****ACQUISITION COSTS**

Fixed Land Value	1,275,000			
Fixed Land Value			1,275,000	
				1,275,000
Purchasers Costs	6.80%	86,700		86,700

CONSTRUCTION COSTS

Construction	Units	Unit Amount	Cost	
Construction Costs	1 un	8,078,288	8,078,288	
S106			127,500	
CIL			276,000	
PIL			20,000	
				8,501,788

PROFESSIONAL FEES

Professional Fees	6.00%	484,697	
			484,697

MARKETING & LETTING

Private Residential Marketing & Fee	3.00%	341,340	
			341,340

DISPOSAL FEES

Commercial Fees	2.00%	36,796	
			36,796

MISCELLANEOUS FEES

Developer Profit - Private Resi	17.50%	1,991,150	
Developer Profit - Commercial	15.00%	275,967	
			2,267,117

FINANCE

Debit Rate 6.500%, Credit Rate 0.000% (Nominal)

APPRAISAL SUMMARY

BPS SURVEYORS

639, 643-649 High Road, Leyton, E10
BPS Appraisal
100% Private Scheme + £20k PIL

Land	82,950	
Construction	269,730	
Other	21,436	
Total Finance Cost		374,115
TOTAL COSTS		13,367,553
PROFIT		(274,880)

Performance Measures

Profit on Cost%	-2.06%
Profit on GDV%	-2.08%
Profit on NDV%	-2.10%
Development Yield% (on Rent)	0.85%
Equivalent Yield% (Nominal)	6.00%
Equivalent Yield% (True)	6.23%
IRR% (without Interest)	1.52%
Rent Cover	-2 yrs -5 mths
Profit Erosion (finance rate 6.500)	N/A

Appendix 3 - Turner Morum Appraisal issued 2nd August 2021

