

Carl Griffiths  
London Borough of Barnet  
2 Bristol Avenue  
Colindale  
London  
NW9 4EW

15<sup>th</sup> April 2021

Dear Carl

## **BROADWAY RETAIL PARK, CRICKLEWOOD LANE – FURTHER RESPONSE TO BNP PARIBAS REAL ESTATE FINANCIAL VIABILITY ASSESSMENT REVIEW**

Thank you for providing us with an updated version (draft report v1) of the independent viability review report (dated 29 March 2021) prepared by BNP Paribas Real Estate (BNPPRE) on behalf of the London Borough of Barnet (LBB). We would like to take this opportunity to thank BNPPRE for their further consideration of the proposals.

Following a review of the updated report, we have prepared this letter to provide some additional information regarding the remaining differences of opinion and inform you that the Applicant has agreed to make a change to the affordable housing offer on a without prejudice basis.

Although both parties agree with the majority of the assumptions adopted within the Financial Viability Assessment (FVA), there are a number of differences of opinion which we examine further below.

### **ILLUSTRATIVE SCHEME FLOOR AREA ASSUMPTIONS**

As set out within the FVA, we have appraised the illustrative masterplan which demonstrates one way in which the parameter plans and design guidelines could be interpreted to deliver a high quality development. The illustrative masterplan has been worked up in detail and represents the most accurate projection of how the development will come forward at the current time.

Throughout their report, BNPPRE have referred to additional value being created by the significantly increased net floor area shown in the maximum parameters area schedule. This is not realistic for a number of reasons explained in detail within separate correspondence.

LBB requested that Montagu Evans undertake some sensitivity testing on a hypothetical max parameter scheme which was provided within an email dated 12<sup>th</sup> March 2021. The sensitivity testing showed that a viability appraisal using the maximum parameter floor areas would reduce the residual land value of the site by approximately £45,505,468 to negative **-£32,059,734** showing a viability deficit of **-£52,500,984** when compared to a £20,441,250 Benchmark Land Value.

As discussed during our meeting on 15<sup>th</sup> March 2021, we expect this sensitivity testing to have resolved the queries on this topic and would request that BNPPRE remove any reference to potential additional value from the maximum parameters within their final report.

### RESPONSE TO BNPPRE'S REVIEW OF THE FVA ASSUMPTIONS & INPUTS

Following a review of the updated BNPPRE report, we have summarised below the remaining differences of opinion and addressed each difference where necessary.

| VIABILITY INPUT                       | MONTAGU EVANS (APPLICANT) | BNPPRE (LBB) | COMMENTS                                    |
|---------------------------------------|---------------------------|--------------|---|
| <b>Benchmark Land Value</b>           |                           |              |   |
| Total Benchmark Land Value            | £20,441,250               | £20,417,675  | Applicant willing to proceed on this basis* |
| <b>Gross Development Value Inputs</b> |                           |              |   |
| BTR property operating costs          | 25%                       | 22.5%        | Not agreed – please see below.              |
| Car parking values (per space)        | Nil                       | £20,000      | Not agreed – please see below.              |
| <b>Development Cost Inputs</b>        |                           |              |   |
| Construction cost (incl. contingency) | £288,272,609              | £288,272,609 | Agreed – please see below.                  |
| Marketing & sales – affordable        | 0.5% of GDV               | £100,000     | Not agreed – please see below.              |
| Debt finance rate                     | 7%                        | 6.5%         | Applicant willing to proceed on this basis* |
| Developer's return – private          | 20% GDV                   | 17.5% GDV    | Not agreed – please see below.              |
| Developer's return – commercial       | 17.5% GDV                 | 15% GDV      | Not agreed – please see below.              |

\*Although we do not agree with the BNPPRE assumption, the Applicant is willing to proceed on a without prejudice basis in order to reach agreement expeditiously.

We would respond further regarding a number of the assumptions adopted below.

### **BUILD TO RENT PROPERTY OPERATING COSTS (GROSS TO NET %)**

The Applicant's FVA adopted a 25% allowance for management, repair and void costs. This was based on advice received from the Montagu Evans Capital Markets team that specialise in the acquisition, disposal and funding of residential investment projects including BTR.

BNP initially undertook their assessment based on a 20% assumption and have since increased this to 22.5% as a compromised position. BNPPRE have stated that we have only provided anecdotal evidence which is not true.

Montagu Evans provided the following two pieces of evidence:

#### Grainger plc 2020 Annual Report & Accounts

Grainger plc are the UK's largest listed residential landlord and a market leader in the UK build to rent and private rented sector currently managing over 8,500 homes. Their latest Annual Report discloses that they achieved 25.9% property operating costs. This is a factual position taken as an average across 8,500 properties so you would expect economies of scale to have been achieved.

This is very strong reliable evidence based on facts so is certainly not anecdotal.

Jones Lang LaSalle (JLL) research document entitled, 'Evaluating Build to Rent Performance, Analysis of Stabilised BTR Data' (September 2018)

Although this is a little historic now, JLL undertook research, analysing 7 BTR schemes. Again, this is a research document and so not anecdotal.

The evidence demonstrates that 25% is optimistic and the Applicant is therefore unwilling to adjust the assumption.

It should be noted that BNPPRE have not provided any evidence to support their position.

### CAR PARKING VALUES

BNPPRE have included a receipt of £20,000 for the potential 110 car parking spaces. These car parking spaces will be wheelchair spaces and it is therefore unreasonable to assume that a receipt will be received for them.

BNP have sought confirmation from the Council that this position is acceptable and have tested the viability with and without receipts.

### CONSTRUCTION COST ESTIMATE

The Applicant provided a construction cost estimate prepared by Ward Williams Associates (WWA) which was reviewed by CDM Project Services (CDM) on behalf of LBB.

All parties have continued discussions regarding the appropriate level of construction costs and have now reached agreement at £288,272,609 (including a 5% contingency). We attach a letter from WWA at **Appendix 1**, documenting the agreement reached.

### MARKETING & SALES AGENCY FEES – AFFORDABLE

The Applicant's viability appraisal adopted an assumed 1% of GDV as a sales agent fee for the affordable housing. Most developers do not have the in-house expertise to tender, negotiate and agree terms with Registered Providers and will require a specialist agent to carry out this function for them.

The industry standard agency fee for undertaking this work is 1% of the package price. Based upon the viability appraisal submitted, this estimated fee totalled £1,054,219 based on the sale of 327 affordable housing units valued at £105,421,885. BNPPRE have reduced this agency fee to a fixed £100,000 or 0.095%. We do not think that this level of fee is realistic for a qualified and specialist affordable housing agent to undertake the work. A fee of 1% has been the industry standard for some time and Montagu Evans have agreed the majority of all viability submissions across London at this level. It should also be noted that the affordable housing is contained within a number of blocks over different phases so it is very unlikely that it will be sold in a single transaction.

the Applicant is willing to reduce the agency fee assumption to 0.5% based on current market conditions but is unable to agree a reduction to the fixed £100,000 fee being proposed by BNPPRE.

## DEBT FINANCE RATE

The Applicant's appraisal adopts a debt finance rate of 7% and BNPPRE have reduced this rate to 6.5%. We have agreed that 7% is appropriate on developments across London with Councils' advisors and the GLA prior to the Covid-19 pandemic. Clearly, securing development funding has become more difficult and more expensive since the pandemic with some lenders temporarily withdrawing from the market.

Based on the Applicant's package of concessions and compromises set out above, there are various assumptions that we feel are extremely optimistic and there is a danger that if we flex every single input without giving consideration to the overall balance then the appraisal will start to look unrealistic.

However, the Applicant is willing to proceed on the basis of 6.5% on a without prejudice basis in order to reach agreement expeditiously.

## DEVELOPER'S RETURN

The Applicant is unwilling to reduce the profit levels for the reasons set out in previous correspondence. The Applicant is taking a significant risk by over delivering affordable housing (in viability terms) up front. This level of risk and the reliance on significant value growth to improve viability should not be underestimated. It is crucial that profit levels are adopted at fundable levels to ensure that this much needed affordable housing can be delivered in the borough.

## UPDATED AFFORDABLE HOUSING PROVISION

We are of the opinion that the Applicant's initial proposed affordable housing offer is the maximum viable level and has been robustly supported within the Financial Viability Assessment and subsequent correspondence.

However, there remains a number of differences of opinion and the Applicant wishes to progress matters expeditiously and move forwards towards the successful delivery of this important development.

The Applicant is willing to amend the affordable housing provision by changing the proposed Affordable Rent units to London Affordable Rent units. This is estimated to reduce the total Gross Development value by £11,541,280, having a significant impact on the viability of the scheme.

We summarise the updated affordable housing provision below:

| TENURE                 | NO. OF HABITABLE ROOMS | % OVERALL   | % AFFORDABLE |
|------------------------|------------------------|-------------|--------------|
| Private                | 1,752                  | 65.0%       | NA           |
| Intermediate           | 662                    | 24.5%       | 70%          |
| London Affordable Rent | 282                    | 10.5%       | 30%          |
| <b>TOTAL</b>           | <b>2,696</b>           | <b>100%</b> | <b>100%</b>  |

The proposed amendment is being made on a without prejudice basis, subject to the following:

- BNPPRE amending their final viability review report to reflect that the maximum parameter queries have been resolved.

- A late stage review mechanism not being required in the S106 agreement in accordance with the Fast Track route in accordance with the London Plan (2021).
- The viability deficit summarised below being incorporated into the early stage review formula through the use of a "Breakeven GDV" figure.

Based on the package of concessions and compromises, we have prepared an updated viability appraisal reflecting the change to London Affordable Rent and attach a summary as **Appendix 2**.

We summarise the Applicant's updated viability position below.

| BENCHMARK LAND VALUE | RESIDUAL LAND VALUE | VIABILITY DEFICIT |
|----------------------|---------------------|-------------------|
| £20,417,675          | £11,462,081         | -£8,955,594       |

We hope that the above is clear and concludes the viability discussions. If you have any further queries then please do not hesitate to contact us.

Yours sincerely,



**Jonathan Glaister MRICS / Partner**

**Email: [jonathan.glaister@montagu-evans.co.uk](mailto:jonathan.glaister@montagu-evans.co.uk)**

## **APPENDIX 1**

# **SUMMARY OF AGREED CONSTRUCTION COST ESTIMATE**



B&Q Broadway Retail Park,  
Cricklewood Lane, London NW2  
Montreaux Cricklewood  
Developments Limited  
Financial Viability Costing Agreement

# 1.0 Executive Summary

- 1.1 CDM Project Services provided their Cost Plan Review report dated November 2020 as part of the BNP Paribas Review of 'Financial Viability Assessment' dated November 2020. CDM Project Services assessed the Ward Williams Associates (WWA) Feasibility Cost Plan Nr 1, dated 13<sup>th</sup> March 2020 which assessed the scheme costs to be lower than the WWA Feasibility Cost Plan by (£10,943,894) or (3.7%).
- 1.2 WWA produced a rebuttal report defending most of the cost reductions in February 2021.
- 1.3 CDM Project Services responded to the rebuttal and still challenged the following items: -
  - a. Overheads and Profit Allowance
  - b. Scaffolding & External Walls Rates
  - c. External Works Area
  - d. Archaeology
  - e. UXO Allowance
- 1.4 The above cost items and clarifications are detailed in the next section.
- 1.5 The negotiations reduced the saving to (£7,067,391) or (2.39%) on our original submission and concluded with an agreed construction cost of £288,272,609.



## 2.0 Variance Qualifications

### 2.1 Overheads and Profit Allowance

CDM Project Services defended their position on the reduced OHP percentage of 5% from our 6% by producing an RICS paper stating the range of OHP being reported. The RICS paper was based upon the national average and not specific to London which we have found to be at the higher end of the scale. To reach an agreement, the 5% rate was adopted.

### 2.2 Scaffolding & External Wall Rates

CDM Project Services provided examples of other schemes WWA have been involved with as evidence of the façade rates being used on other schemes. The schemes presented were not comparable schemes as one didn't use scaffolding as it was a panelised facade system and the other was a development by a national House Builder with very low Preliminaries due to the way they manage and build developments. It was agreed that scaffolding was an acceptable item but the rate was too high. An agreed deduction of (£2,961,256) was made to the WWA cost plan.

### 2.3 Acoustic Treatment Rate

The rate used for Phase 3 should be the same as Phase 1 and 2. We agree with the cost saving of (£122,500).

### 2.4 External Works Area

Within our overall site measurement, we had allowed works outside the redline drawing. It was agreed to remove this which reduced our costs by (£265,670).

### 2.5 Archaeology

The preconstruction reports conclude that there wasn't any need for further archaeological works. Although a risk, it would be a low risk so agreed to remove the (£50,000).

### 2.6 UXO Allowance

The site is unlikely to have any UXB issues given the information provided in the preconstruction reports. It was agreed to reduce the allowance by (£10,000) to cover any obstruction risk.

## 3.0 Conclusion

- 3.1 WWA and CDM Project Services concluded that the savings for the scaffolding, acoustics, external works, Archaeology & UXB obstructions reduced the net construction cost down by (£3,409,426). This is a movement of £2,736,793 from CDM Project Services original position.
- 3.2 The further reduction of the OHP concluded the gross development construction cost of £288,272,609.
- 3.5 The above construction cost equates to a (2.39%) reduction in the original WWA Feasibility Cost Plan which is within an acceptable range and has been agreed with CDM Project Services.



**EXETER:**

2 Providence Court  
Pynes Hill  
Exeter, Devon  
EX2 5JL

T: 01392 409690

**GLOUCESTER:**

A10 Elmbridge Court  
Cheltenham Road East  
Gloucester  
GL3 1JZ

T: 01452 301012

**LONDON:**

87a Worship Street  
London  
EC2A 2BE

T: 020 7486 0501

**PLYMOUTH:**

Mills Bakery  
Royal William Yard  
Plymouth, Devon  
PL1 3GE

T: 01752 250480

**TRURO:**

Compass House  
Truro Business Park,  
Threemilestone,  
Truro, Cornwall  
TR4 9LD

T: 01872 272906

[wwa.uk.com](http://wwa.uk.com)



## **APPENDIX 2**

# **UPDATED FINANCIAL VIABILITY APPRAISAL – LONDON AFFORDABLE RENT**

Cricklewood Lane  
Financial Viability Appraisal  
Apr 2021 Update - London Affordable Rent

**Cricklewood Lane  
Financial Viability Appraisal  
Apr 2021 Update - London Affordable Rent**

Appraisal Summary for Merged Phases 1 2 3 4 5 6 7 8 9

Currency in £

**REVENUE**

| Sales Valuation                  | Units      | ft <sup>2</sup> | Sales Rate ft <sup>2</sup> | Unit Price | Gross Sales        |
|----------------------------------|------------|-----------------|----------------------------|------------|--------------------|
| Block B - London Affordable Rent | 86         | 72,133          | 185.00                     | 155,170    | 13,344,605         |
| Block B - Shared Ownership       | 84         | 57,903          | 500.00                     | 344,661    | 28,951,500         |
| Block C - Shared Ownership       | 157        | 103,169         | 500.00                     | 328,564    | 51,584,500         |
| Block C - Private Residential    | 172        | 122,048         | 704.00                     | 499,545    | 85,921,792         |
| Block D - Private Residential    | <u>224</u> | <u>143,532</u>  | 704.00                     | 451,101    | <u>101,046,528</u> |
| <b>Totals</b>                    | <b>723</b> | <b>498,785</b>  |                            |            | <b>280,848,925</b> |

**Rental Area Summary**

|                         | Units      | ft <sup>2</sup> | Rent Rate ft <sup>2</sup> | Initial MRV/Unit | Net Rent at Sale | Initial MRV      | Net MRV at Sale  |
|-------------------------|------------|-----------------|---------------------------|------------------|------------------|------------------|------------------|
| Block A - Build to Rent | 377        | 248,281         | 33.52                     | 22,076           | 6,241,860        | 8,322,480        | 6,241,860        |
| Block A - Commercial    | 1          | 3,923           | 25.00                     | 98,078           | 98,078           | 98,078           | 98,078           |
| Block B - Commercial    | 1          | 5,406           | 25.00                     | 135,158          | 135,158          | 135,158          | 135,158          |
| Block D - Commercial    | <u>1</u>   | <u>707</u>      | 25.00                     | 17,685           | <u>17,685</u>    | <u>17,685</u>    | <u>17,685</u>    |
| <b>Totals</b>           | <b>380</b> | <b>258,318</b>  |                           |                  | <b>6,492,780</b> | <b>8,573,400</b> | <b>6,492,780</b> |

**Investment Valuation**

|                                   |           |            |         |         |                    |  |
|-----------------------------------|-----------|------------|---------|---------|--------------------|--|
| <b>Block A - Build to Rent</b>    |           |            |         |         |                    |  |
| Current Rent                      | 6,241,860 | YP @       | 3.7500% | 26.6667 | 166,449,600        |  |
| <b>Block A - Commercial</b>       |           |            |         |         |                    |  |
| Market Rent                       | 98,078    | YP @       | 6.0000% | 16.6667 |                    |  |
| (6mths Rent Free)                 |           | PV 6mths @ | 6.0000% | 0.9713  | 1,587,688          |  |
| <b>Block B - Commercial</b>       |           |            |         |         |                    |  |
| Market Rent                       | 135,158   | YP @       | 6.0000% | 16.6667 |                    |  |
| (6mths Rent Free)                 |           | PV 6mths @ | 6.0000% | 0.9713  | 2,187,943          |  |
| <b>Block D - Commercial</b>       |           |            |         |         |                    |  |
| Market Rent                       | 17,685    | YP @       | 6.0000% | 16.6667 |                    |  |
| (6mths Rent Free)                 |           | PV 6mths @ | 6.0000% | 0.9713  | 286,287            |  |
| <b>Total Investment Valuation</b> |           |            |         |         | <b>170,511,517</b> |  |

**GROSS DEVELOPMENT VALUE**

**451,360,442**

|                                  |              |
|----------------------------------|--------------|
| Purchaser's Costs                | (10,856,539) |
| Effective Purchaser's Costs Rate | 6.80%        |
|                                  | (10,856,539) |

**NET DEVELOPMENT VALUE**

**440,503,904**

**NET REALISATION**

**440,503,904**

**OUTLAY**

**ACQUISITION COSTS**

|                           |            |            |
|---------------------------|------------|------------|
| Residualised Price        | 11,462,081 |            |
| Stamp Duty                | 563,104    | 11,462,081 |
| Effective Stamp Duty Rate | 4.91%      |            |
| Agent Fee                 | 114,621    |            |
| Legal Fee                 | 57,310     |            |
|                           |            | 735,035    |

**CONSTRUCTION COSTS**

| Construction                     | ft <sup>2</sup> | Build Rate ft <sup>2</sup> | Cost       |
|----------------------------------|-----------------|----------------------------|------------|
| Block A - Build to Rent          | 359,076         | 255.19                     | 91,634,152 |
| Block A - Commercial             | 4,359           | 255.20                     | 1,112,417  |
| Block B - Commercial             | 6,007           | 255.20                     | 1,532,986  |
| Block D - Commercial             | 786             | 255.20                     | 200,587    |
| Block B - London Affordable Rent | 103,239         | 255.20                     | 26,346,560 |
| Block B - Shared Ownership       | 82,872          | 255.20                     | 21,149,056 |

**Cricklewood Lane**

**Financial Viability Appraisal**

**Apr 2021 Update - London Affordable Rent**

|                               |                                 |        |                    |             |
|-------------------------------|---------------------------------|--------|--------------------|-------------|
| Block C - Shared Ownership    | 143,790                         | 255.20 | 36,695,092         |             |
| Block C - Private Residential | 170,102                         | 255.20 | 43,409,965         |             |
| Block D - Private Residential | 205,582                         | 255.20 | 52,464,526         |             |
| <b>Totals</b>                 | <b>1,075,813 ft<sup>2</sup></b> |        | <b>274,545,342</b> |             |
| Contingency                   |                                 | 5.00%  | 13,727,267         |             |
| CIL                           |                                 |        | 17,667,315         |             |
|                               |                                 |        |                    | 305,939,924 |

**PROFESSIONAL FEES**

|                   |  |        |            |            |
|-------------------|--|--------|------------|------------|
| Professional Fees |  | 10.00% | 28,827,261 |            |
|                   |  |        |            | 28,827,261 |

**MARKETING & LETTING**

|                   |  |        |        |        |
|-------------------|--|--------|--------|--------|
| Letting Agent Fee |  | 10.00% | 25,092 |        |
| Letting Legal Fee |  | 5.00%  | 12,546 |        |
|                   |  |        |        | 37,638 |

**DISPOSAL FEES**

|                 |  |       |           |           |
|-----------------|--|-------|-----------|-----------|
| Sales Agent Fee |  | 0.25% | 389,629   |           |
| Sales Agent Fee |  | 1.00% | 38,033    |           |
| Sales Agent Fee |  | 0.50% | 469,403   |           |
| Sales Agent Fee |  | 3.00% | 5,609,050 |           |
| Sales Legal Fee |  | 0.10% | 155,852   |           |
| Sales Legal Fee |  | 0.50% | 19,016    |           |
| Sales Legal Fee |  | 0.25% | 702,122   |           |
|                 |  |       |           | 7,383,105 |

**MISCELLANEOUS FEES**

|                                   |  |        |            |            |
|-----------------------------------|--|--------|------------|------------|
| Developer's Return - BTR          |  | 15.00% | 24,967,440 |            |
| Developer's Return - Commercial   |  | 17.50% | 277,845    |            |
| Developer's Return - Affordable   |  | 6.00%  | 2,537,766  |            |
| Developer's Return - Commercial   |  | 17.50% | 382,890    |            |
| Developer's Return - Affordable   |  | 6.00%  | 3,095,070  |            |
| Developer's Return - Private      |  | 20.00% | 17,184,358 |            |
| Developer's Return - Private Sale |  | 20.00% | 20,209,306 |            |
| Developer's Return - Commercial   |  | 17.50% | 50,100     |            |
|                                   |  |        |            | 68,704,776 |

**FINANCE**

|   |  |  |  |            |
|---|--|--|--|------------|
| Debit Rate 6.5000%, Credit Rate 0.0000% (Nominal) |  |  |  |            |
| Total Finance Cost                                |  |  |  | 17,414,083 |

**TOTAL COSTS**

**440,503,904**

**PROFIT**

**0**

**Performance Measures**

|                                     |       |
|-------------------------------------|-------|
| Profit on Cost%                     | 0.00% |
| Profit on GDV%                      | 0.00% |
| Profit on NDV%                      | 0.00% |
| Development Yield% (on Rent)        | 1.47% |
| Equivalent Yield% (Nominal)         | 3.81% |
| Equivalent Yield% (True)            | 3.90% |
| IRR% (without Interest)             | 7.28% |
| Profit Erosion (finance rate 6.500) | N/A   |