

Statement of Common Ground - <b>White Post Street</b>				
Query Source	Iceni 1st Submission	GL Hearn 1st Response	Difference/ Comment	
Sales & Revenue				
Resi Pricing	1 Beds - £588psf 2 Beds - £477psf	1 Beds - £640 psf 2 Beds - £617psf	GLH view as too Low	<ul style="list-style-type: none"> <li>- Iceni have continued to adopt "Post Code Sector level analysis" in justification of their assumed new build sales value assumptions.</li> <li>- GL Hearn advises LBL regularly on viability assessments as we do with a wide range of London Boroughs and this is not a method we have seen presented to us before. Stock in a postcode is made up of a wide sector of property types including new and second hand stock including property. In this location the wider area includes a reasonable amount of ex local authority stock. As you would expect with such a range the condition of housing stock also ranges significantly. This is why in our opinion, taking a "post code sector" analysis will often result in the wrong answer and is likely the reason it isn't a method presented to us in any of the viability reviews we have been involved in.</li> <li>- As stated in our original report we do not disagree that a downward adjustment should be made for the subject site for its specific characteristics compared to the closest new build development namely the Iron Works. We maintain that a 5% reduction on average prices at the Iron Works would be appropriate.</li> <li>- Although a little further away, the Atar House development does share a number of characteristics with the subject site. We note that the marketing of units at Atar House, Iderton Way reflect c. £500k for 2 bedroom flats reflecting c. £677 psf. The 2 bed units are also of similar size to the proposed scheme.</li> </ul>
Ground Rent	1 Bed - £250pa 2 Bed - £350pa @5%	-	Agreed	
Arches A-F	£14.96psf @7.75%	-	Agreed - £971,870	<ul style="list-style-type: none"> <li>- There are number of inconsistencies between Iceni's original appraisal and their revision. The value attributed to the refurbished arches</li> </ul>

				<ul style="list-style-type: none"> <li>is one of them.</li> <li>The original report and appraisal reflected a rental value of £103,420, which GL Hearn agreed. Icen's latest modelling appears to have made a downward adjustment to the rental value attached to the arches and now reflects a total rental of £62,302 for Arches A-F which equates £8.97 psf.</li> <li>We assume this to be an error and have adopted Icen's original position.</li> </ul>
Commercial New Build Scheme Areas	£16.50psf @7.50%	-	Agreed - £580,522	
				<ul style="list-style-type: none"> <li>The revised appraisal refers to a scheme totalling 3,200.75 sqm (GIA). The original appraisal referred to 2,929.78 sqm (GIA). No mention of revisions to the scheme has been mentioned in the response report and we seek clarification on this point.</li> <li>We note that the original appraisal had a gross to net of circa 81% for the residential units. The recent appraisal has divided the units into Block A and Block B. Block A uses lower gross to net ratios of 72.08% for 1 and 2 bed units.</li> </ul>
Development Costs				
Construction Costs	£6,886,120	£6,748,153	GLH view as too High	<ul style="list-style-type: none"> <li>No new compelling evidence has been presented to alter our QS's opinion of costs but ultimately the differences amount to professional experience. Reflecting the characteristics of the site and in order to be proactive we would suggest a reasonable approach would be to adopt the mid-point for modelling purposes i.e. £6,817,137</li> <li>The assumptions around construction costs are subject to confirmation of the scheme areas.</li> </ul>
Construction Only Contingency	5%	-	Agreed	
Developer Professional Fee Contingency	10%	0%	GLH regard as not warranted	<ul style="list-style-type: none"> <li>Iceni have adopted a professional fee allowance of 11.25%, which is at the very upper end of the typical range. We have given this some further consideration and we do acknowledge this to be a constrained site and therefore we accept Icen's position of 11.25% for the purposes of modelling.</li> </ul>

				However we do not accept an additional 10% contingency should be applied to this allowance. This is not standard practice and not seen in any other FVA we have been presented with.
Construction Utilities and Ground Works Contingency	10%	5%	GLH view as too High	<ul style="list-style-type: none"> <li>- We accepted an additional 5% owing to the sites restrictions as well as accepting an upper end range of the typical professional fee range.</li> <li>- We maintain that a 5% allowance in the context of the above concessions are more than reasonable.</li> <li>- We would highlight that this contingency has been applied to the construction costs of Arches A to F. A contingency allowance for this has already been accounted for within construction only contingency and the revised appraisal therefore double counts contingency in this area. We have corrected this double counting for the purposes of our updated modelling.</li> </ul>
Professional Fees	11.25%	10%	GLH view as too High	<ul style="list-style-type: none"> <li>- See comments above re build costs and contingency allowances.</li> </ul>
Marketing, Sales and letting Fees	Various		-	<ul style="list-style-type: none"> <li>- Agreed</li> </ul>
Purchaser's Costs	6.78%		-	<ul style="list-style-type: none"> <li>- Agreed.</li> </ul>
CIL	£243,192	-	Iceni to Provide Calculation of CIL	<ul style="list-style-type: none"> <li>- We have adopted Iceni's CIL liability for the purposes of our modelling but we would recommend that this is verified by LBL's CIL officer and if different updated in due course.</li> </ul>
Interest/Finance	7.825%	7%	GLH view as too High	<ul style="list-style-type: none"> <li>- Agreed at 7% as per report but not included in revised appraisal. We have maintained an all-in finance cost of 7% in our updated modelling. This is at the upper end of finance rates presented to us in FVA's in the borough.</li> </ul>
Developers Profit	25%	20%/15%/6%	GLH regard Profit as too High - 20% private residential, 15% on commercial and 6% on affordable if introduced.	<ul style="list-style-type: none"> <li>- We maintain our position in respect of developer's profit. We have made concessions in respect of build costs, professional fees and contingency levels with will have a direct impact on risk and therefore profit. We would also highlight that it is not unusual that profit margins on private accommodation are reflected below 20% on</li> </ul>

				GDV with a typical range of between 17.5% - 20%. In this instance we are already reflecting the upper range typically presented to us in FVA's.
Benchmark Land Value	£749,450	£658,057	See comments	<ul style="list-style-type: none"> <li>- Icení – have sought to justify their higher BLV in part citing larger portfolio deals and standard yield indices. We do not find this evidence compelling.</li> <li>- Ultimately there was a difference of opinion in our initial respective positions of the BLV equating to £91,393. Icení have provided a new existing use valuation assuming ERV of £8 psf which in their view is achievable without any capital expenditure or incentives which in our view is overly optimistic given the characteristics of the existing arches.</li> <li>- We note that this calculation is based on summary information however, we have not had sight of the existing leases to verify terms.</li> <li>- Although we maintain our original approach to valuing the existing arches to be fair, we have given some further thought to the value which could be attributed to the yard space. Icení's original approach was not to attribute a value to the yard space and it is likely that the yard would require some capital expenditure to bring it to a lettable standard. With that said, we do believe it to have a notional value which could be reflected in the site's BLV.</li> <li>- In this context and given the extent of the difference of opinion and in order to move the viability discussion along, we are willing to accept Icení's original BLV.</li> </ul>
Project Surplus	£0		GLH Calculated residual	<p>Taking the above into consideration and mirroring Icení's cash flow– we arrive at a project surplus of £240,239.</p> <p>As you will note from the above, we have made a number of concessions in order to come to an agreed position on viability. If agreement cannot be reached at the level indicated above, we would reserve the right to reconsider the concessions that we have made.</p>