



# Summary Report - Royal Brompton Chelsea Campus Viability Review for SPD

Prepared on behalf of  
**Royal Borough of Kensington & Chelsea**  
29 November 2013

All data, calculations and information supplied by or on behalf of the applicant is subject to strict confidentiality, and is Commercial in Confidence.

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## 1 DTZ Brief

The Royal Borough of Kensington & Chelsea (RBKC) has commissioned DTZ to review the credibility of the financial appraisals undertaken on behalf of the Royal Brompton & Harefield NHS Foundation Trust (RBHT) in relation to its Chelsea estate on Sydney Street, South Parade, Fulham Road and Foulis Terrace. The brief refers to RBHT as the 'applicant' and where we have used the term in this report, this is also our interpretation. However, it is important to note that this is not an application by RBHT but a contribution to help inform and evaluate the financial viability of developments on the site and aid the development of the Supplementary Planning Document (SPD) for this specific site, which is due to open for consultation on 25 November 2013.

RBKC require a review of the robustness and accuracy of the viability assessment for the sites with regard given to Policy CH2 in RBKC Core Strategy and London Plan Policy 3.12 and the following specific assumptions:

- All residential development meeting Code for Sustainable Homes Level 4
- 50% affordable housing based on floorspace in line with the requirements of Core Strategy policy CH2
- No HCA social housing grant
- Affordable housing split of 85% social rented and 15% intermediate
- Parking provision at 0.6 of a space per dwelling
- A Mayoral CIL contribution at £50 per square metre
- Section 106 contributions per residential unit in line with the Council's Planning Obligations SPD

In addition to the review, you require us to report the results of five separate sensitivities relating to:

- The scheme with the farmers market retained in situ
- Different residential build types on the Fulham Wing
- Different residential build types on South Parade
- Conversion of Foulis Terrace (Grade II listed) as residential townhouses
- Affordable housing at 20% provision based on floorspace

DTZs assessment is on the basis of proposed scheme options and designs put forward by the applicant and we have not explored different design or phasing options.

## 2 Royal Brompton Approach

The primary objective of the applicant is to generate sufficient revenue through hospital asset land sales to meet the total construction cost of the planned new hospital on the Sydney Street site. By far the most valuable land use in the subject location is residential and thus the applicant proposes 349,773 square feet (sq ft) of private residential floor space. The applicant has put forward 2 scenarios. Scenario 1 excludes value growth, Scenario 2 includes value growth. These two scenarios have been applied to two separate appraisals:

- Firstly an Residual Land Value (RLV) appraisal of the 5 sites deemed surplus to requirements and secondly;
- A cash flow appraisal of the proposed hospital development incorporating the scenario RLV's (i.e. utilising the RLVs to cross fund the construction of the hospital).

The land to be sold has been split in to 5 sites for the purpose of generating the maximum RLV and to meet the operational phasing requirements of RBHT. It should be noted that DTZ has not critically assessed, nor seen the operational phasing plan. Figure 1 illustrates the respective sites:

**Figure 1 – Sites for Disposal**



**Site 1 - 250 Kings Road & 151 Sydney Street (Dovehouse Green);** 19,790 sq ft private residential (+ a potential 4,948 sq ft affordable) with 21,249 sq ft of retail space at ground floor

**Site 2 - 117–123 Sydney Street (Chelsea Farmers Market);** 71,858 sq ft private residential (+ a potential 17,965 sq ft affordable)

**Site 3 - Fulham Wing, Fulham Road;** 91,271 sq ft private residential (+ a potential 22,818 sq ft affordable)

**Site 4 - South Parade;** 64,693 sq ft private residential (+ a potential 16,173 sq ft affordable)

**Site 5 - Foulis Terrace;** 32,206 sq ft private residential (+ a potential 8,051 sq ft affordable)

For clarity, the base viability analysis put forward at this stage does not include any affordable housing provision as it concludes that the scheme is not viable enough to incorporate any provision. In terms of car parking provision, the overall ratio of spaces to residential units for the full scheme is 1.2 (Site 5 is not included in this analysis as it will not have dedicated parking but rely on 'on street' provision); this above the RBKC maximum ratio of 0.6 spaces per unit. On sites with joint ownership between RBHT and the Royal Brompton Hospital Charity (RBHC), the applicant has stated that they have assumed the apportionment of RLV revenue according to their percentage ownership.

**Table 1 – Outputs for Scenarios 1 and 2 (all figures in m)**

	<b>Net Development Value</b>	<b>Total Costs</b>	<b>Surplus/ Deficit</b>
Hospital cashflow for Scenario 1	£378	£586	-£207
Hospital cashflow for Scenario 2	£473	£563	-£89

## 3 Methodology & Key Assumptions

### 3.1 RESIDUAL LAND VALUATIONS

#### 3.1.1 Values

The applicant has modelled their predicted private residential values based on comparable developments in the surrounding area. Overall, the values assigned to the private residential space at this initial stage are in line with DTZ's

current outlook of the market. In addition, the applicant's assumptions on sales rates appear reasonable and broadly in line with market expectations given a developer with debt repayment to make.

We have reviewed the Pamwin model provided by Knight Frank and the assumptions made therein in relation to predicated affordable residential values. Clearly, the value of the rented accommodation will be very low in relation to capital values if the units are to be 'affordable' based on maximum rents, but we considered Knight Frank's calculations to be correct. The blended rate applied for affordable values is based on the mix of 70% affordable rented and 30% intermediate (discount market sale) which doesn't match the mix sought by RBKC.

Retail rents on the Kings Road generally increase with proximity to Sloane Square where prime rental values are currently £100+ psf with rent frees as low as 3 months. The exact location of the subject property is however located in a relatively quiet section with limited retail frontage as a result of Dovehouse Green, Chelsea Town Hall and the Fire Station. In terms of comparable space, the most relevant evidence will be created directly opposite the subject building, in the Chelsea Galleries scheme totalling 9,022 sq ft which are currently on the market for £65 psf.

### 3.1.2 Development Costs

DTZ has reviewed the construction costs of the buildings to establish the reasonableness of E C Harris's cost assumptions. It should be noted that E C Harris has indicated that it has used per square foot costs rather than a detailed breakdown of costs; therefore, they are relatively generic and ball-park in nature and will be subject to change when the costs are firmed up and subsequently tendered. We have made comments and observations based on reviewing the relevant cost documents that were provided to us and also based on the meeting held with EC Harris and Knight Frank on 15 November 2013. A range of other standard development costs have been included in the calculations made by RBHT.

## 3.2 CASHFLOW APPRAISAL OF THE PROPOSED HOSPITAL COST ASSESSMENT

As already stated, the hospital cashflow utilises the RLVs generated from the sale of the five land parcels and utilises this to cross fund the construction of the hospital. The RLVs are calculated from the assessment outlined in Section 3.1 and then set against the hospital build cost assumptions.

## 4 Scenarios

Scenario analysis is required in order to test the impact on the viability of the hospital scheme of various design and content options. For clarity, we have undertaken these assessments assuming all other elements stay the same apart from the specific impacts that we have recorded for the respective scenarios. In reality, the changes may well have other knock on impacts which it is not possible to fully quantify, particularly where crude reductions in build area have been assumed; to fully test a number of the scenarios, RBKC would need to recast and redesign the schemes on individual sites and test the impact on unit mix.

A number of the scenarios involve alterations to build cost and DTZ has had to work from EC Harris's cost plan in order to do this. The last detailed elemental cost plan was undertaken in October 2012 and the costs that DTZ has been asked to assess and alter within the appraisals are based on this October 2012 figure which has subsequently been adjusted by EC Harris to capture relevant changes in areas and inflation. All scenario testing has been applied to the scheme appraisal provided by RBHT which incorporates value growth (i.e. Scenario 2).

**Table 2 – Hospital Cashflow Scenario Outcomes**

	<b>Surplus/ Deficit (m)</b>
RBHT Scenario 1	-£207
RBHT Scenario 2	-£89
<b>RBKC Scenario 1;</b> Farmers Market remaining in situ	-£169
<b>RBKC Scenario 2;</b> Different Residential Build Types on the Fulham Wing <i>Full Facade Retention</i>	-£105
<b>RBKC Scenario 2;</b> Different Residential Build Types on the Fulham Wing <i>Total Rebuild</i>	-£38
<b>RBKC Scenario 3;</b> Different Residential Build Types on South Parade <i>Facade &amp; Full Building Structure Retention</i>	-£152
<b>RBKC Scenario 4;</b> Foulis Terrace HMO retention	-£109
<b>RBKC Scenario 5;</b> Affordable housing at 20% provision based on floorspace	-£259

## 5 Conclusions

- The assumptions made within the RBHT assessment of the scheme are generally robust considering the level of detail of DTZs assessment and the design stage that they have reached. Their base assessment includes no affordable housing provision. Whilst there are some elements within the appraisal that need to be amended and refined, in a scheme of this size, the key drivers of future changes to viability are likely to be the projection of future achievable residential values and the ability to control and manage construction costs. For our scenario analysis (Section 5) we have used Scenario 2 as the base (includes significant residential value growth). However, even at this level of growth, the sale of land parcels does not fully cover the costs of building the new hospital.
- The inclusion of 20% affordable housing (with a 70% affordable rent, 30% intermediate) impacts (negatively) to a significant degree on the scheme deficit. Moving this to the RBKC target of 50% affordable housing and a tenure mix of 85% social rent, 30% intermediate would have a further negative impact.
- Car parking provision is at 1.2 per dwelling, well above the 0.6 sought by RBKC.
- Section 106 contributions per residential unit are significantly higher than RBKCs Planning Obligations SPD.
- We consider that the Mayoral CIL contribution at £50 per sq m has potentially not been applied to the correct area. However, in the scheme of this viability assessment (and at this relatively early stage), the amount to be added is de-minimus.
- The hospital build cost methodology appears to follow the principles we would expect but RBKC should consider commissioning a specialist check on the costs at some stage in any planning application process.
- Residential values are potentially on the low side when viewed against some local comparables but this in part reflects the cashflow requirements of the hospital redevelopment which mean that sales are assumed to be relatively quickly achieved.
- DTZ has sought and received clarification from Knight Frank on the split of land value proceeds between RBHT and RBHC. The approach appears reasonable at this point in discussions although we consider that there is a risk that RBHC seek an additional return (which would reduce the viability of this scheme).
- Longer term, RBKC will need to seek a review mechanism to provide affordable housing should values increase substantially above expectations in the overall development period; this project is highly sensitive to relatively small movements in psf capital values and build cost inflation.

- All scenarios considered have a substantial, negative impact on scheme viability apart from the replacement of the Fulham Road retained facade with a totally new build construction. Table 2 illustrates the various scheme deficits.
- No growth has been applied to build costs and there is evidence to suggest that these costs are likely to be above RPI – this is a risk to scheme viability.