ROYAL BOROUGH OF KENSINGTON & CHELSEA
REVIEW OF QUOD 'BRIEFING NOTE' ON EARLS COURT DEVELOPMENT COMPANY REGULATION 18 RESPONSE

In September 2021, Quod submitted a document titled "Earls Court, RBKC Local Plan Issues and Options – Capacity and Deliverability Review". This note did not arrive at any firm conclusions, although it alluded to an apparent need for a greater quantum of floorspace than envisaged in the Regulation 18 Local Plan. Quod tested the following indicative quantum of floorspace:

- 1,300 residential units;
- 70,000 square metres of office floorspace; and
- 20,000 square metres of retail, leisure, hotel and community floorspace.

We reviewed the Quod submission, reporting in December 2021, and concluded that a scheme with a lower amount of office floorspace would be financially viable, as follows:

- 1,300 residential units;
- 20,000 square metres of office floorspace; and
- 20,000 square metres of retail, leisure, hotel and community floorspace.

Quod have subsequently submitted a further note, dated March 2022 in response to our December 2021 report. We respond to their further comments in the following sections.

In paragraph 1.4, Quod assert (without evidence) that our appraisal is based on "high value oversized units for sales" but we do not agree – the unit sizes are based on the area used in the building heights capacity study which adopted areas approximately 10% over the Nationally Described Space Standard. In any event, for the purposes of a high level appraisal undertaken in advance of further consideration to detailed design, we are appraising a quantum of floorspace. When the scheme moves into detailed design, it will be possible to give further consideration to unit sizes, which may result in an alternative configuration.

In the same paragraph, Quod allude to "aggressive, potentially unachievable cost savings". At this stage, no detailed work has been undertaken on infrastructure requirements that the proposed scheme will require. Instead, Quod have relied upon historic costs for another scheme, which ECDC have now abandoned. It is reasonable at this stage to assume that the infrastructure budget will be rationalised to achieve a viable development as the quantum of development is smaller than previously envisaged and supporting infrastructure will be reduced to reflect this. Continuing to assume that the same costs for the larger and now abandoned scheme undermines the rationale for the new proposals. In any event, the actual costs will need to be established when the infrastructure requirements have actually been designed and fully costed. It is unreasonable for Quod to assert that a certain quantum of units is required on a very high level position on costs.

They also assert that our appraisals are based on "developer return thresholds which are not commensurate with risk". We do not accept this assertion as our returns are based on the returns applied by developers on similar developments.

Quod seek to suggest that our appraisal should be amended as follows:

- Units are oversized and should be reduced – unit sizes could be reduced but this would simply free up more space for additional units to be provided. Smaller unit sizes would even further enhance scheme viability as they would achieve higher values on a 'per square foot' basis than larger units.

- Quod suggest that we have assumed all units will be the same size and sold at £1.5 million each and that there is "no diversity in the residential offer to meet the needs of groups with specific housing requirements". It is unclear why Quod assert this, given that the work is necessarily high level. They also appear to have overlooked our assumptions on unit mix and sizing (Table 4.1.2) which shows that our average area is based on a mix of one, two three and four bed units which will clearly be sold at a range of values.

- Quod allude to the need for a range of tenures, but nothing will prevent this being considered at the application stage. This appears to be an after-thought, as their September 2021 submission values all the private housing at a single value.

- Quod's note suggests that finance costs equate to 2% of total costs. Our finance rate is 6% which is a standard rate applied in viability assessments. The amount of finance costs incurred is simply a function of negative balances over the cashflow at the rate of finance applied.

- Developer's profit – we have assumed a profit on market housing of 17.5% of GDV, which is aligned with the rate of profit applied on similar large developments at the same price point.

Quod further suggest that the appraisal should be adjusted to reflect "realistic absorption rates for the types of units being proposed" but this assertion is based on the misconception that all the units will be sized at 918 square feet. As noted above, the unit mix incorporates one, two, three and four bed units, with a weighting towards one and two beds (totalling 60% of the total), with 28% three beds and 12% four beds.

Quod suggest that there is a need for emerging policy to "recognise the flexibility needed to deliver the challenging infrastructure costs at Earl's Court", but at this stage, no infrastructure costs for the new scheme have been provided. As noted above, Quod simply rely upon costs for another scheme which has now been abandoned. Costs will, however, need to be established when the application is submitted and the relationship to mix and quantum then re-examined, if necessary. In any case, the site allocation is expressed as a minimum number of units and there is clear flexibility on unit mix.

BNP Paribas Real Estate
16 August 2022