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By email only

Dear David

BEROL YARD, LONDON BOROUGH OF HARINGEY – FINANCIAL VIABILITY, RESPONSE TO CARTER JONAS INDEPENDENT VIABILITY REVIEW REPORT, JUNE 2025 AND GLA VIABILITY TEAM REVIEW, AUGUST 2025

Introduction

We write in relation to the Carter Jonas review dated June 2025 of the Financial Viability Assessment ("FVA") dated April 2025, prepared on behalf of the Applicant (Berol Quarter Limited) (hereafter "the Applicant") in relation to a Section 73 planning application for Berol Quarter, N17 within the London Borough of Haringey. The project seeks to deliver 210 new homes and ancillary commercial and community uses ("the Proposed Scheme").

The Site benefits from Planning Permission (HGY/2023/0261) that was granted on 3rd March 2025. The subsequent Section 73 application removes the affordable housing given the significant current viability changes in light of the volatile economic and geopolitical environment.

The Carter Jonas report concludes that the provision of affordable housing at the current time is not viable albeit there is a difference of opinion in respect of the level of financial deficit.

This letter also responds to the GLA Viability Team review dated 14 August 2025. The GLA report concludes that there may be some financial surplus for affordable housing of between £1,080,811 an £3,286,766 dependent on the delivery mechanism.

Summary of the Carter Jonas Review

The Carter Jonas report concludes that the Proposed Scheme cannot viably deliver affordable housing and that there is a current day deficit of £8,106,056. The main areas of divergence are as follows:

- Inclusion of interim rent
- A reduction in construction costs
- Reduction in operating expenditure
- Adjustment in the purchaser's costs to 3 percent

- Reduction in the professional fees budget to 8 percent
- Removal of BTR marketing budget
- Reduction in the Benchmark Land Value ('BLV') of c. £3 million

Summary of GLA Viability Team Review

The GLA Viability Team report reviews both DS2's report and the Carter Jonas response. The key matters of divergence over and above those identified by Carter Jonas can be summarised as follows:

- The GLAVT have added a 5 percent regeneration premium which increased the net operating income
- A reduction in the operation budget
- Introduction of scenarios reflecting different delivery scenarios
- Inclusion of interim income

We have sought to respond to both the BPS and GLA Viability Team comments within this response in order to consolidate the correspondence into a single document. Responses are included below.

Table One: Areas of Divergence – Berol Yard & House FVA, September 2025	
Input	Comments
Benchmark Land Value ('BLV')	
Carter Jonas comments	Carter Jonas have discounted the yield from 6.5 percent for Berol House to 7 percent for the term and 7.5 percent for the reversion given the building's age, limited specification and fragmented occupancy. Carter Jonas have discounted the yield from 6.5 percent to 7 percent. In terms of the premium, Carter Jonas have applied a 10 percent premium given the constrained development economics and the viability constrains of a lack of affordable housing. Overall, the amendments result in a reduction in the BLV of £3,034,543.
GLA comments	The GLAVT comments refer to the BLV being the consented position rather than the existing use. This is incorrect, as per the PPG, the consent (an AUV) is an informative to the EUV plus approach. In terms of the yield and the premium, the GLAVT have adopted the Carter Jonas position.
DS2 comments and updated position	In terms of the yield, we are willing to accept the 50bps reduction as proposed by Carter Jonas. In respect of the reduction in premium from 20 percent to 10 percent, we note that BNPPRE in their report November 2017 report, adopted a 20 percent premium (subsequently increased to 30 percent) on the basis that the Site is income producing and has an allocation for development, and as such, in accordance with the PPG requirements a reasonable incentive is justifiable. We would also note that the Site includes a car parking area (as noted in the FVA) to service the tenants in Berol House during its pre-development phase. No value has been attributed for this element of the BLV. As such, the amended BLV is £8,658,000.
Operating Expenditure ('OPEX')	
Carter Jonas comments	Carter Jonas notes that on a per unit basis, the 25 percent input equates to in excess of £8,000 per unit which is higher than the comps provided (a number of which relate to DS2 projects).
GLA comments	The GLA have adopted the Carter Jonas OPEX.
DS2 comments and updated position	25 percent is commonly accepted, and we note that Grainger, the UK's largest residential landlord quotes on pg. six of their 2024 Annual Report that OPEX across their portfolio are 25 percent. However, on a without prejudice basis, the 22.5 percent OPEX budget has been accepted albeit on the basis that the BTR marketing budget is accepted (as explained below, this is an upfront cost that site outside the traditional OPEX).
Purchaser's Costs	
Carter Jonas comments	Reduction in the costs to 3 percent rather than 6.8 percent. This assumes explicitly that an SPV will be used to facilitate the transaction of the completed asset.
GLA comments	The GLA have adopted the Carter Jonas Purchaser's Costs.
DS2 comments and updated position	As DS2 have noted consistently elsewhere, and as explained in the RICS Valuation guidance (Valuing residential property purpose built for renting, effective from October 2018), full purchaser's costs should be reflected as a standard (para 5.4.3 -representative of the market

	rather than the position of an individual investor) assumption and the full costs would be reflected for an asset on a landowner's balance sheet. The key component regardless of the delivery structure is the assessment of the Gross Development Value and the deduction to a Net Operating Income ('NOI'). Notwithstanding that the majority of Forward Funding and Forward Commit (FF / FC) agreements are currently unviable given the softening of yields and increase in costs in recent years, a FF or FC structure is simply a procurement route to delivering an empty building. As such, we have retained the full Purchaser's Costs.
Interim Rent	
Carter Jonas comments	Carter Jonas notes that further to a four-month stabilisation period, the NOI is capitalised (i.e. a sale of the asset takes place) but correctly also notes that there is no income for the first three months.
GLA comments	GLA makes the same observation.
DS2 comments and updated position	The three-month period allows for Gateway Three sign off, at which time no occupation can take place, this is likely to be longer based on current experience with the Building Safety Regulator. In reality, the stabilisation of a new asset will take place over 1 to 2 years, however the upfront capitalisation benefits the appraisals. The market yield is a net yield for a stabilised (i.e. fully let) asset. We would also note that recent lettings in similar buildings, The Sessile next door for example, required significant incentives (including rent-free periods) to secure lettings and these are not included in our pricing. As such, we have not included any additional income.
Commercial Property Income	
Carter Jonas comments	Carter Jonas have increased the rent for the commercial space from £25 psf to £27.50 psf to reflect the 'specification and positioning of the proposed space' which has increased the overall value by c. £1.6m.
GLA comments	Largely in line with Carter Jonas' comments.
DS2 comments and updated position	The construction costs for the commercial space assume CAT A and the latest rental of the 14,500sqft Class E commercial unit at The Gessner has been let at £14.50 psf for shell and core, plus 18 months' rent free. Increasing the rent beyond £25 is not reflective of the current market conditions and as such these are already optimistic based on The Gessner letting (further details of which, can be provided if required).
Construction Costs	
Carter Jonas comments	The construction budgets have been scrutinised by Johnson Associates who have reduced Berol Yard by £1,224,263 and Berol House by £703,183.
GLA comments	Adopted Carter Jonas lower costs.
DS2 comments and updated position	A reduction in the construction costs is not compatible with the rental allowances. The Gessner and The Sessile are both relied on as the rental indicators, however both of these buildings were delivered by the Applicant and the construction allowances were significantly more than those proposed by Johnson Associates. For example, the rents in The Gessner and The Sessile are based on part-furnished apartments, but there are no such allowances in the construction cost plan. Similarly, The Gessner and The Sessile have enhanced public amenity areas, with no such allowances made within the construction cost plan. Finally, given the height and complexity of constructing a tower above a London Underground Tube Line and compliance with the Building Safety Act, construction costs will only rise.

	However, given this is a relatively small reduction and within a reasonable margin of tolerance, these figures have been included on a without prejudice basis

Professional Fees	
Carter Jonas comments	Carter Jonas have reduced the professional fees budget to 8 percent citing a lack of a detailed breakdown.
GLA comments	The GLA have accepted 10 percent as an industry norm.
DS2 comments and updated position	DS2 would note that 10 percent is the normal objective allowance and includes a range of costs that are commonly excluded from the viability process (project insurances, warranties etc). We can't recall ever accepting less than 10 percent and we have not had to provide a detailed breakdown in adopting 10 percent elsewhere (indeed, working collaboratively with Carter Jonas elsewhere). We would also now note that the fees budget allows for additional costs related to the Building Safety Act requirements. We have retained the 10 percent budget as an objective industry norm.
BTR Marketing Fee	
Carter Jonas comments	This has been excluded as an operating expense i.e. within the OPEX budget.
GLA comments	Adopted Carter Jonas position.
DS2 comments and updated position	DS2 have commonly had BTR marketing costs included as a standalone cost outside the OPEX as this is an upfront cost that sits outside the normal OPEX. In reality, there are broader 'launch' costs that are significantly higher than 1 percent of the GDV, which are not included here and would be included within the budget from the BTR operator as a one-off cost. This is particularly relevant given there is no stabilisation period allowed within the FVA. We have retained the 1 percent budget.
Development Programme	
Carter Jonas comments	Carter Jonas have requested a more detailed breakdown for the Berol Yard construction timeline.
GLA comments	Have also requested additional information on the construction programme.
DS2 comments and updated position	The construction programme is based on the information provided during the original planning application process and the Construction Logistics Plan. The 40-month programme excludes the 12-week Gateway 3 approval process and is based on a start on site date (i.e. excluding lead-in time).
Community Infrastructure Levy	
Carter Jonas comments	Carter Jonas accepts the figures subject to further verification.
GLA comments	As above.
DS2 comments and updated position	We have been provided with an updated CIL notice by planning consultants' Lichfields published by the London Borough of Haringey dated 4 March related to the consented scheme. Given the time passed and the reduction in affordable housing, the overall liability will likely be higher, and the figures can be updated in due course if required. The FVA is based on the updated CIL notice from the London Borough of Haringey.

In addition to the Carter Jonas comments, the following inputs are also amended in the GLA response.

Table Two: Additional GLA Input Comments, Berol Yard, September 2025	
GLA Comment	DS2 Response
Gross Development Values – the GLA include at 6.12 of their report a 5 percent 'regeneration premium'.	This regeneration is already built into the existing rents and rents that have been agreed with Carter Jonas are reflective of the likes of The Gessner and The Sessile buildings (where we would note that the level of amenity provided is higher). The GLA report also notes at 6.18 that the lower OPEX costs (adjusted to 22.5 percent) are also partially as a result of there not being 'considered to be an extensive level of amenities'. There is no justification, particularly in this market, for an arbitrary regeneration premium and the rents are already full (and we have not allowed for a 12-to-24-month stabilisation period).
Adopt a 6.5 percent finance rate and make reference to further rate reductions being likely and reference to a Forward Fund scenario.	The current outlook for the UK economy is extremely challenging and the autumn budget may well be pivotal for economic growth. The Bank of England, and indeed markets, have signalled that further rate reductions this year are now unlikely and current risk -free rates are historically high (for 5-, 10- and 30-year gilts). The existing base rate is 4 percent and therefore the GLA are only applying a 250-bps margin for development debt which not sufficient.

The GLA report also requests further clarity I respect of the following overarching / methodological matters:

Table Three: Additional GLA Comments, Berol Yard, September 2025	
GLA Comment	DS2 Response
Explanation as to how the scheme with a significant deficit (as modelled in the FVA) can be delivered by the Applicant or another developer.	The project is constrained at the current time and the economics are a reflection of unprecedented cost inflation over the last 5 years, a softening of yields (as noted 10 yr risk free rates are currently at 4.66 percent) and new regulatory requirements. The majority of schemes, with planning, are not being delivered hence the current Section 73 application. There is a deficit but one that is not insurmountable with some level of rental growth and, at some risk, a compression in the NIY over the next few years.
Clarification on Delivery Model—The FVA does not confirm whether the BTR scheme will be sold or retained after completion. We request clarification on whether a forward funding model is being pursued and recommend an additional appraisal reflecting this scenario.	Planning viability is undertaken on an objective basis, that is the identity of the applicant is not pertinent to the outcome. The type of delivery vehicle is somewhat of a 'red herring' as previously explained to the GLA. A FF or FC is simply a procurement vehicle and the key components, the development costs and the GDV which derives an Net Operating Income which is capitalised by a stabilised (operational) yield, are the same. In reality at the current time, the FF /FC model is largely impaired and there needs to be an improvement in yields for many schemes to come forward.
As above, a sense-checking exercise should cross-check the viability assessment's outcome and ensure its robustness.	DS2 have previously set out significant concerns regarding sense checking in respect of using land evidence as comparator for the viability process – one if the best evidence in the market (often opaque in nature as the RICS Valuation of Development Land Professional Standard warns) and the other is an objective viability exercise using a series of market norms. We would also note that at the current time there really is no market evidence in terms of land transactions in any event.
Cultural space – the FVA assume the cultural space to be let at 80% of retail market space with a 3-year rent free period. The Council should confirm whether this is supported in planning terms and whether the rental discount and the rent-free period would be secured by the S106 agreement.	This has been documented in the signed Section 106 Agreement for the extant permission.
CIL and S106 Contributions – we request verification of the CIL liability and S106 contributions.	The S106 liabilities are documented in the signed Section 106 Agreement for the extant permission. As noted above, Lichfields have provided an updated CIL estimate.
Development Programme – We seek further clarification on the 40-month construction period for the BTR block.	As above

Summary

The purpose of this letter is to respond to the areas of differences between DS2, Carter Jones and the GLA Viability Team in order to collaboratively reach a reasonable agreement on the viability of the Proposed Scheme.

To summarise, the table above provides additional clarity in respect of the areas of divergence. The council's advisor Carter Jonas and the Applicant are in agreement that the scheme cannot deliver affordable housing in the current market. This is not inconsistent with our experience of other projects elsewhere at the current time and this is borne out by a historic number of planning consents that are not being converted into starts.

Whilst all stakeholders recognise the strategic importance of affordable housing, where there is an acute shortage, the reality of the situation right now is that Section 106 which has historically been the key driver of affordable housing delivery in London, cannot largely support mixed tenure delivery in the capital. This is particularly pertinent for what might be referred to income pricing assets (such as BTR and PBSA) where investors are seeking a long income return commonly on an Internal Rate of Return and the current yield profile and risk-free options are barriers to delivery.

We would note, that given the application has been viability tested, any subsequent planning consent will be subject to review provisions which would capture any uplift in the economics for the council and potentially deliver an affordable housing outcome.

The table below summaries the revised viability position reflecting the changes identified in the table above.

Table Four: Updated Berol Yard Appraisal Results, September 2025			
	Target BLV	Residual Land Value	Deficit
Proposed Development	£8,658,000	Minus £6,342,947	Minus £15,000,947

As the table above illustrates, the deficit has been reduced from £23,718,207 to £15,000,947 having reviewed the Carter Jonas and GLAVT comments. Having reviewed the comments, on a without prejudice basis, we have amended the appraisal to reflect the following changes:

- Reduction in the BLV through an amendment to the yields (albeit the 20 percent premium has been retained).
- Reduction in OPEX from 25 to 22.5 percent.
- Reduction in the construction cost budget.

We look forward to receiving any final comments in respect of the matter itemised above.

DS2 LLP