



**GERALDEVE**

**COMMERCIALLY CONFIDENTIAL**

**Land at Mount Pleasant delivery and sorting office, in London Borough of Camden, and in London Borough of Islington.**

On behalf of Royal Mail Group

Position Note Two: Phase Two Enabling costs

[Redacted Version]

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## Appendices

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- 1 Marked up Interim cost plan for Enabling Phase 2, prepared by Rider Levett Bucknall **[Withheld in full]**
- 2 Reconciliation Table **[Withheld in full]**
- 3 Residential overlooking graphic **[Withheld in full]**

## 1 Introduction

- 1.1 Gerald Eve LLP is instructed by Royal Mail Group ("RMG") to undertake a financial assessment of a mixed-use development proposal at Mount Pleasant delivery and sorting office, more specifically land known as Calthorpe Street and Phoenix Place ("the Site" or "the Mount Pleasant Site"), which is the subject of a Supplementary Planning Document ("the SPD") adopted in February 2012 by both London Borough of Camden ("LBC") and London Borough of Islington ("LBI"). A Masterplan prepared by Terry Farrell architects and masterplanners was developed that informed the SPD. The Masterplan and therefore the SPD propose a holistic approach to development across the Mount Pleasant Site<sup>1</sup>.
- 1.2 Subsequent to the publication of the SPD, RMG has instructed a team of consultants to prepare and submit three detailed planning applications for the Mount Pleasant Site. One application to LBC in respect of the Phoenix Place Site, and two applications to LBI in respect of the Calthorpe Street Site. It is anticipated that these applications will be submitted in Q1/2013.
- 1.3 This document is the second of a number of detailed "Position Notes" ("PNs") which form part of pre-application discussions with the District Valuation Service ("the DVS") who are jointly appointed by LBC and LBI to independently review viability in respect of the Mount Pleasant Site.
- 1.4 The previous PN1 dealt with an introduction to RMG's overarching strategy for its central London operations and a background into the Site including development obstacles which need to be accounted for to enable development.
- 1.5 We understand that the Greater London Authority ("GLA") will also rely upon the findings of the DVS.
- 1.6 The information used in this PN and from all supporting documentation will ultimately inform a holistic financial viability assessment ("FVA") which will look at the entirety of the development proposals. When finalised, the financial assessment will seek to establish an appropriate level of affordable housing and planning obligations as an

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<sup>1</sup> See paragraph 4.3.40 of the joint SPD

aggregated "pot". In other words, to assess what the proposals, which are the subject of the planning application, can afford as planning contributions to both Boroughs having regard to what is the maximum reasonable level.

- 1.7 The FVA will be prepared having regard to the National Planning Policy Framework ("NPPF"), London Plan, LBC's and LBI's (collectively known as "the Councils") Core Strategies, saved UDP Policies and generally accepted principles and guidelines in undertaking FVAs.
- 1.8 All the PNs will be prepared having regard to the RICS Guidance Note "Financial Viability in Planning" ("the RICS GN"), which was published in August 2012. The PNs should be considered as a whole and, as stated above, when combined, will form a major part of the FVA.
- 1.9 Specifically, this PN provides further detail in relation to the Enabling Costs in Phase 2 and helps reconcile and justify the inputs. The information is in a form where the DVS will have the opportunity to review and comment accordingly.
- 1.10 The remainder of this PN is therefore set out under the following headings:
  - Reconciliation; and
  - Justification.
- 1.11 This report and its appendices are commercially sensitive and therefore will only be provided to the Councils' advisers on a confidential basis.
- 1.12 In order to inform our PNs we have and will be relying upon information provided by a number of other consultants which includes five architectural practices. The principal members of the planning application team are as follows:

- Terry Farrells (Architects/Masterplanner) – original masterplan informing the SPD (Islington)
- Wilkinson Eyre (Architects) – Phase 3 enabling Works, residential and commercial buildings (Islington)
- Allies & Morrison (Architects) – perimeter buildings (Islington)
- Feilden, Clegg & Bradley (Architects) – museum and residential (Camden)
- Allford, Hall, Monaghan & Morris (Architects) – residential and commercial (Camden)
- **Davis Langdon (Cost consultants – enabling works and development)**
- **Rider Levett Bucknall (Cost consultants – RMG operational work)**
- DP9 (Planning consultants)
- Knight Frank (Residential advisors)
- Knight Frank (Office and retail advisors)
- Camlins (Landscape Architects)
- Gordon Ingram Associates (Rights of Light Surveyors)
- **M3 (Development Managers)**
- **Royal Mail Group**

1.13 The team members highlighted in bold are principal contributors to this PN. A number of appendices are introduced and referred to in the text of the report.

1.14 This PN has been prepared as at December 2012 in the context of the prevailing uncertain economic climate (both UK and in the Eurozone). As a result, it may be necessary to revise and update the inputs prior to the preparation of the FVA, and therefore resulting outturns.

## 2 Reconciliation

### Introduction

- 2.1 As discussed in PN1, prior to any development occurring, in particular on the Calthorpe Street Site, there is a significant amount of enabling work that is required.
- 2.2 In PN1 we set out the timing of Enabling Phase 2<sup>2</sup>.
- 2.3 A proportion of costs in Enabling Phase 2, in our view, relate directly to the ability to bring forward the redevelopment of the Mount Pleasant Site. The Enabling Phase 2 works can be summarised as follows:
- the relocation of the EC Delivery Offices from basement to 1st floor;
  - reworking the windows and facades of the LOB and the POB to provide an general improvement in the tone of the area; and
  - reorganisation and upgrade of the Mechanical and Electrical systems to suit the revised arrangement and intensity of uses through the building.
- 2.4 The above and the reworking of some basement functions has freed up the basement providing the opportunity to implement Phase 3.
- 2.5 Attached at **Appendix 1** is an interim cost plan for Enabling Phase 2, prepared by Rider Levett Bucknall ("RLB") cost consultants. This has been marked up to show the extent of costs that are considered appropriate for enabling costs, and to aid in reconciliation.
- 2.6 The table below is a summary of this cost plan showing all Phase 2 identified costs.

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<sup>2</sup> Paragraph 4.1 of Position Note 1

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**Table 1: Summary of RLB interim Enabling Phase 2 costs**

**[Redacted]**

- 2.7 The following table has been prepared by M3 Consulting, and identifies the costs which are considered to be directly associated with the enabling of the Site for redevelopment. The costs within the RLB cost plan have therefore been adjusted to include only elements that contribute to the delivery of the residential developments.

**Table 2: Adjusted Summary of RLB interim Enabling Phase 2 costs associated with enabling work**

**[Redacted]**

- 2.8 The reconciliation of how the outputs in Table 2 are arrived at from Table 1 is illustrated in **Appendix 1** and **Appendix 2**.

2.9 As mentioned above, we have marked up on **Appendix 1** all of the cost we consider should relate to the enabling of the Calthorpe Street Site. All of these costs have then been tabled and categorised which in effect is **Appendix 2**.

2.10 The costs have been categorised as follows:

- Delivery Office costs;
- Building Services costs;
- Letter Office Building External Cladding costs; and
- Public Office Building External Cladding costs.

2.11 As discussed during the meeting on 23 November 2012, it is accepted that not all of the costs associated with Phase 2 are attributable to enabling the Site and therefore we consider that they can be reasonably proportioned. We have proportioned the cost in accordance with the following table:

**Table 3: Key of apportionment of costs for Phase 2 works**

Key	Percentage	Type of work
		Basement or Ground Floor Works
		First Floor or Roof Works
		LOB External Fabric
		POB External Fabric

Source: M3 Consulting

2.12

### 3 Justification

#### Introduction

- 3.1 In the previous section we highlighted that we only consider it correct to apportion a degree of costs from the Phase 2 works, and below we set out some reasoned justification.

#### Appropriate percentage

- 3.2 We have assumed that [REDACTED] of the costs associated with **basement** be included as part of the enabling costs because the entirety of the works are associated with converting the basement to accommodate vehicles. Once the basement is complete, RMG's vehicles will no longer circulate around or within the "basin" or "bathtub" area, and operations will move into the basement of the Sorting Office, in order for the Phase 3 work to commence.
- 3.3 We have assumed [REDACTED] of the costs associated with **ground floor works** be included as part of the enabling costs because the works are entirely associated with allowing the ground floor to be reconfigured and the mail processing relocated from first floor to the ground floor. This therefore provides space for the (postcode) EC Delivery Office to be relocated from the basement (see paragraph 3.2 above) to the first floor and thus allowing the basement to be converted for vehicle use.
- 3.4 We have assumed [REDACTED] of the costs associated with **first floor works** because the works relate to allowing the relocation of the (postcode) EC and (postcode) WC Delivery Office's. Given that the WC Delivery Office is not located on-site and these are operations being moved into the Mount Pleasant Sorting Office from a different property, and only really related to RMG's wider operational efficiency strategy then we have discounted for this. Therefore only half of the first floor works, which are related to the movement of the EC Delivery Office, have been included.
- 3.5 We have assumed [REDACTED] of the costs associated with **LOB roof works** because these allow for the conversion of the LOB to its end state uses. Of the four floors (basement, ground, first and second) within the LOB, the following floors are directly related to enabling the residential development:

- Basement;

- At least half of ground floor; and
- half of the first floor.

3.6 We have assumed [REDACTED] of the costs associated with the **LOB external fabric** should be allocated as enabling costs because the improved condition and aesthetic of the façade will support the assumed private residential values. Given the Scheme design, it is anticipated that a proportion of the residential accommodation will overlook on to circa 60% of the reworked façade, which we have tried to illustrate in the plan attached at **Appendix 3**. We would also expect a general uplift in the perception of the area through the reworking of the elements of the upgraded facades that are not overlooked and so we believe that an overall [REDACTED] proportion of cost is appropriate in this instance.

3.7 We have assumed [REDACTED] of the costs associated with the **POB external fabric** should be allocated as enabling costs because, although not overlooked by the new development the improved condition and aesthetic of the façade will support the assumed private residential values by enhancing the general neighbourhood.