DVS Property Specialists for the Public Sector

DRAFT REPORT

VIABILITY ASSESSMENT REPORT

Land at Mount Pleasant Delivery & Sorting Office

On Behalf of:

London Borough of Camden &

London Borough of Islington.

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Executive Summary

We have been instructed by the London Boroughs of Islington and Camden to carry out a viability assessment review of the applicant's Financial Viability Assessment (FVA).

In order for lack of viability to be demonstrated, the applicant needs to provide a study which shows why a policy compliant scheme would render the development unviable. This study needs to be sufficiently detailed with evidence supporting the key inputs into the study.

My role in assessing the applicant's FVA together with supporting information is to undertake an independent due diligence review. The purpose of my review is to determine whether the inputs and assumptions that inform the applicants FVA are reasonable and demonstrate the planning obligations offered are the maximum reasonable.

In undertaking my assessment I confirm that I have had regard to the national and local policy background, RICS VIP 12 "valuation of development land" and the RICS Guidance Note FVIP, together with the GLA Three Dragons Guidance Notes (2012).

Methodology

Viability is determined by comparing the Residual Value (RV) against a benchmark land value. In broad terms, if the RV equals or exceeds the benchmark land value, a scheme can be considered as viable, as the requirements of Para 173 of the National Planning Policy Framework (NPPF) for competitive returns to the developer and the landowner have been satisfied. However, if the RV is lower than the benchmark land value, the scheme would normally be unviable, as it would not generate a competitive return for the developer or the landowner (or both parties).

In assessing viability, current day values and costs should be used. Sensitivity testing should be included to show the results based on a range of value and cost assumptions. The results of these assessments then should be considered and conclusions reached as to whether a policy compliant scheme can be delivered, or whether there would need to be a reduction in policy delivery to make the scheme viable.

If the conclusion reached is that the scheme cannot deliver a policy compliant development, LBI and LBC may wish to have a number of viability reviews through the development cycle to enable additional affordable housing to be delivered at later stages of the development.

If not viable on a current day basis, the applicant may wish to consider viability based on future growth expectations (sometimes called an "Outturn" approach). The reasoning for this is to see if more affordable housing and other S106 obligations can be offered throughout the development.

This creates a more balanced range of tenures and greater certainty of delivery of affordable housing for LBI and LBC. If assessed on this basis, the applicant would seek to remove or at least minimise future viability reviews. Their reasoning is that they are carrying the risk that the Outturn performance may be less than assumed, with a consequential impact on profits. Although an applicant has the opportunity to seek a review of permission granted this is only likely to be exercised before commencement unless the scheme is in reality unviable.

The FVA prepared by GE follows these recommended approaches. It assesses viability on a current day basis and concludes that no affordable housing can be viably delivered on this basis. GE then adopts an Outturn approach and concludes that 19.5% affordable housing can be delivered based on their assumptions of growth in sales values and development costs.

Site

The Mount Pleasant Site crosses the boundary between the London Borough of Islington (LBI) and the London Borough of Camden (LBC). The boroughs are committed to a joint approach and the development proposal as a whole will therefore need to take account of the local planning policy adopted by both boroughs (including the SPD) in addition to national policy, the London Plan and emerging policy.

Proposal

The FVA has been prepared by Gerald Eve and they have been supported with a wider professional team providing advice and opinion. The planning applications submitted to LBI & LBC propose 629,055 sq ft of residential accommodation and 55,456 sq ft commercial together with 343 car spaces and amenity space. The accommodation will be provided by way of four development plots ranging from ground plus 1 storey to ground plus 13 storeys.

Residential Revenue

Market Housing

An assessment of the applicants marketing approach and methodology to inform the unit by unit pricing that has been adopted for the present day values of the individual apartments has been undertaken. The values adopted are in excess of values that can be currently evidenced within the city fringe location. The scheme will generate its own market, but in the absence of comparable evidence the pricing adopted by the applicant is reasonable.

Residential Growth

We have looked at the sales growth forecast adopted by the applicant's and this appears pessimistic as it does not reflect the potential uplift in values that market commentators have indicated will occur for residential values within the 10 minute walk time of the Farringdon Crossrail link.

The applicant's growth model indicates growth of [redacted] up to 2019. In order to fully reflect the potential growth as a consequence of Crossrail, I have adopted a [redacted] uplift over the project programme which reflects [redacted] uplift up to 2019.

Affordable Housing

The proposal includes 132 (55 intermediate, 77 rent) affordable housing units. This reflects c. 19.5% by area, c. 19.4% by unit and c. 21.4% by habitable room.

The key policy considerations of both LBI & LBC are a policy requirement to provide at least 50% affordable housing.

Enabling Costs

The applicant is seeking to offset enabling costs which they set out are the works necessary in order for RMG to release the land for re-development. Having met with the applicant's advisors we have adjusted the enabling costs downwards by [redacted] (from [redacted] to [redacted]) although this is not accepted by the applicant.

In looking at the RICS Guidance note it could fall that these costs could be interpreted as reasonable costs for "relocation" in order to release the land for development. The GLA Three Dragons Toolkit guide is more explicit, stating

"Where the land owner is a business, then there is an additional consideration in whether the business can, or needs to re-locate. Under these circumstances the residential planning permission (with or without affordable housing) will have to provide sufficient money to allow the firm to purchase another site to carry on the business." (Source GLA Three Dragons Toolkit Guidance Notes 2012)

Construction Costs

The applicant's new build construction cost plan been assessed by my colleagues and they concluded the new build construction costs are reasonable for the stage of design.

The applicant's FVA includes an additional contingency provision of [redacted] and I have not accepted this, as the cost plan currently provides for a [redacted] contingency, and the additional allowance would increase the overall contingency to [redacted]

Site Value

Gerald Eve have adopted a market value approach, which they purport has regard to planning policies and all other material planning considerations and disregards that which is contrary to the development plan, This approach determines the site value for the land which, including usual purchaser costs, equates to c. [redacted] of the overall scheme cost.

Separately the applicant has prepared a model to consider the site value having regard to 50% affordable housing. This assessment assumed a nil site value and showed a profit level below the developer target threshold return. As such this falls below the current use value that was independently assessed by the RMG external valuer, and would not provide the land owner or a developer with a competitive return in taking the scheme forward.

Market Value

In assessing the "Competitive Return" for the site the adoption of existing use value (EUV) or Alternative Use Value (AUV) may not take in to account all factors that are relevant. In my opinion, valuers and those acquiring land would need to place greater weight on comparable evidence and a range of other valuation considerations, as the principle of residential development is contained within the Mount Pleasant Supplementary Planning Document (SPD) which was adopted in February 2012 by LBI & LBC.

As part of my general consideration, I have considered the comparable evidence that has been provided by GE in assessing the site value at [redacted] I have looked at the evidence on market value per market housing unit and have then compared this against land values against larger site sale transaction on a per acre basis. In addition I have also had regard to the site value as a percentage of the overall development costs which indicates the land costs equate to c. [redacted] of total costs.

One of the factors that The GLA Three Dragons Guidance Notes considers material is:
"...of identifying the returns for developers and landowners generated by a development proposal and can help the user to consider whether such returns are competitive in comparison to alternative options, which might include retention of the site; sale of the site for on-going existing use;..." (Source GLA Three Dragons Toolkit 2012)

In considering alternative options the applicant has prepared a draft paper on the value of RMG complete land interests at Mount Pleasant assuming the disposal of the complete campus on a sale and leaseback. Assessed on this basis, the application site would show a net site value ranging between [redacted]

Taking into account the various ways of analysing the comparable evidence and the site value as a percentage of total development costs and together with my professional judgement I am of the opinion a site value at [redacted] is the lower end of range the applicant could adopt as the market value (Or "Competitive Return) of the site.

Current Use Plus Premium

Alternatively it is possible for the site value to be determined by reference to a current use value plus a premium or mark up. However this would need to have reference and be supported by market evidence rather than an uplift factor that has been arrived at arbitrarily.

The applicant has had regard to the current use value which has been determined at c. [redacted] by the RMG external valuer. This asset valuation for accountancy purposes only and assumes RMG's continued occupation of the buildings and land required for the development proposal. It should be highlighted this is an evaluation of worth to Royal Mail with the special assumption that it is retained in its existing use and therefore does not reflect market value.

However, whichever method of approach, market value or current use value plus margin uplift, is adopted to determine the site value it should produce the same market value provided it is based upon market evidence rather than an uplift factor that has been arrived at arbitrarily.

Rights of Light

The applicant has determined rights of light compensation and the sums of money involved are significant when viewed in isolation but the overall impact of cutting these by 50% which is highly improbable, is only a [redacted] change in the IRR.

Conclusion

The methodology adopted by GE in assessing viability complies with NPPF. It assesses viability based on present day (current day values and costs) and concludes that it is not viable. As such no affordable housing can be delivered assessed on a present day basis whilst ensuring Competitive Returns to the landowner and developer.

Having concluded this, GE have gone on to consider an Outturn approach. The growth model FVA indicates an IRR of [redacted] and taking into consideration the comments contained in this report I am of the opinion the IRR of the project is [redacted]

In taking into account our comments in respect of Rights of Light compensation this would result in a revised IRR of c[redacted]

In both scenarios 100% & 50% Right of Light compensation payment scenarios the IRR falls below a IRR threshold return we would anticipate for a project of this scale and complexity and as such is not deemed to be viable.

On this basis the affordable housing proposal equivalent to [redacted] by units is the maximum reasonable the scheme can support.

1. Introduction & Background

1.1. DVS is jointly instructed by London Borough of Camden (LBC) and London borough of Islington (LBI) to consider the applicant's Financial Viability Assessment (FVA), prepared by Gerald Eve (GE).

1.2. The joint instruction was to assess the submitted viability assessment and all of its inputs and assumptions to test the maximum reasonable levels of affordable housing that the scheme could afford to deliver. The Councils requested that analysis be carried out both on present day costs and values, and also assessment of the applicant's proposed adoption of the growth model methodology.

1.3. In addition DVS were instructed to review the costs of the development and of the stated 'enabling' works and to advise on their reasonableness, with the intention of ensuring that business related improvements would not be counted as enabling costs.

1.4. The applicant's FVA was provided to DVS by way of a number of Position Notes 1 – 4 to inform pre-application discussions. The applicant submitted their application(s) to the LPAs in April/May 2013. The FVA was augmented with additional information following further discussion with the applicant and the Local Planning Authority (LPA).

Viability

1.5. The RICS published a first edition guidance note "Financial Viability in Planning" (FVIP) in August 2012 which is a best practice guidance note for practitioners in the assessment of site wide and site specific viability assessments as part of the planning process. DCLG have prepared draft guidance for the National Planning Policy viability, which follows this approach.

1.6. *'Financial viability has become an increasingly important material consideration in the planning system. While the fundamental purpose of good planning extends well beyond financial viability, the capacity to deliver essential development and associated infrastructure is inextricably linked to the delivery of land and viable development.'* – extract from RICS Guidance.

National Planning Policy

1.7. The National Planning Policy Framework (NPPF) emphasises both the delivery of planning obligations and scheme deliverability via the provision of competitive returns to willing land owners and developers to enable sustainable development to come forward.

1.8. In respect of affordable housing, Para 50 of the NPPF aims to significantly boost the supply of housing and states that where local planning authorities have identified that affordable housing is needed, they should set policies for meeting this need on-site, unless off-site provision or a financial contribution of broadly equivalent value can be robustly justified. Such policies should be sufficiently flexible to take account of changing market conditions over time.

1.9. The NPPF also recognises that development should not be subject to such a scale of obligation and policy that threatens scheme viability. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

1.10. In the context of achieving sustainable development the NPPF refers to ensuring viability and deliverability at Para 173-177. Para 173 in particular states:

"... To ensure viability, the costs of any requirement likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking into account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

1.11. The RICS GN addresses "competitive return" as follows:

"A 'Competitive Return' in the context of land and/or premises equates to the Site Value as defined by this guidance, i.e. the Market Value subject to the following assumption: that the value has regard to development plan policies and all other material planning considerations and disregards that which is contrary to the development plan."

1.12. In assessing the applicant's Viability Assessment we have had regard to the national policy background, the RICS GN and the GLA Three Dragons Toolkit Guidance Notes 2012, which covers particular issues relevant to this application.

1.13. In order for viability and deliverability to be demonstrated, the applicant needs to provide a viability study that shows why a policy compliant scheme would render the development unviable. This study needs to be sufficiently detailed with evidence supporting the key inputs into the study.

1.14. My role therefore is to undertake a due dilligence review to determine whether the inputs and assumptions that inform the applicants Financial Viability Assessment (FVA) are reasonable and demonstrate the planning obligations are the maximum reasonable.

1.15. In the production of this report I have received input regarding the residential element of the scheme from Jamie Purvis MRICS, in respect of the development costs from Michael Edwards MRICS who is a quantity surveyor. The report has been reviewed by Stephen Milner BSc MRICS who is the Head of Development Viability Team at DVS, and Charles Solomon MRICS who is on a number of RICS and DCLG steering/ advisory groups on development valuation and viability.

1.16. The key affordable policy consideration of both LBI & LBC is to provide at least 50% affordable housing.

1.17. I set out our comments under the numbered sections of this report.

2. Property Description and Location

Location

2.1 The RMG property and land at Mount Pleasant is approximately 4.8ha (11.9 acres) in total, and this is situated on the western periphery of Clerkenwell. It lies south of King's Cross and to the north of Holborn and Hatton Garden. The City of London is c.1.2 km to the south east. King's Cross station is within 10 minutes' walk north. Phoenix Place is the borough boundary separating LBI from LBC, and obviously separates the two parcels of land.

2.2 The Phoenix Place Site, is approximately 1.04 ha (2.57 acres), and the larger Calthorpe Street Site located on Farringdon Road, is approximately 2.21 ha (5.46 acres). The planning application assumes these parcels of land are required in order to deliver the planning application proposal.

2.3 The Site is located in Zone 1 and is well served by public transport. It lies between King's Cross / St Pancras and Farringdon stations, both of which are within a ten minute walk. King's Cross / St Pancras is served by six London Underground lines (Victoria, Northern, Metropolitan, Circle, Hammersmith & City and Piccadilly) as well as regional, national and international train services. Farringdon station is also served by three London Underground lines (Circle, Metropolitan and Hammersmith & City). When Crossrail opens in 2018, Farringdon will also be served by Crossrail trains.

2.4 Other London Underground Stations at Angel, Chancery Lane, Holborn and Russell Square are also within a ten minute walk.

Description

2.5 The Mount Pleasant Site currently comprises the Central London Mail Centre (Mail Processing), some international distribution, the City Delivery Office and associated operations of RMG. These main operations are located within the under-utilised existing building which is known as the Royal Mail sorting office.

2.6 The scheme proposal will incorporate the British Postal Museum and Archive. There is an underground Mail Rail depot located on the Site that ceased operation in May 2003.

2.7 The service yard (North Road) located north and west of the sorting office is currently used for operational vehicle parking and loading. The area located south-west of the main building adjacent to Phoenix Place is used for staff car parking. The Phoenix Place Site also accommodates a separate three storey office building.

2.8 The main access to the Site is currently positioned on the eastern boundary from Farringdon Road. Vehicles can currently exit the Site onto Phoenix Place or Farringdon Road, or alternatively onto Mount Pleasant in emergencies.

2.9 The Site has been used for sorting mail for over 120 years. The existing sorting office is a 4-6 storey complex (commercial storey heights) fronting Mount Pleasant with a prominent location on the Farringdon Road/ Rosebery Avenue corner. The buildings date from the late 1920s and mid 1930s although they have been altered over time.

2.10 The Phoenix Place Site is currently underutilised. Most of the previous buildings have been demolished to basement level, leaving open areas of unmade ground for parking which gives the site a derelict appearance, although two administrative buildings (three and one storey) still remain. Various planning permissions have been obtained for operational facilities for RMG but none have been implemented.

Topography

2.11 The Site slopes considerably, with a level change of some eight metres along Mount Pleasant, rising eastwards and a five metres drop heading south along Phoenix Place.

Underground Constraints

2.12 The River Fleet flows in a culvert beneath Phoenix Place, providing a combined storm and foul sewer. A branch to this culvert runs under the Calthorpe Street Site. In addition, high voltage cables also pass underneath the street. The Calthorpe Street Site is also affected by the Mail Rail tunnels and supporting structures, which were constructed in the early 20th Century.

2.13 Mail Rail lines are beneath the Site and a Depot is located on the Site. Mail Rail comprises a series of tunnels and stations running beneath central London from Paddington to Whitechapel and was used for the transport of mail via underground trains.

2.14 It ceased operation in May 2003 and is maintained in a mothballed state. The depot provides the only place where plant or equipment of any size can be brought into the Mail Rail system and this access as well as ventilation shafts and emergency egress must be retained.

2.15 It is anticipated that Mail Rail will restrict foundation design due to the complexity of the tunnels, size of the station and the various access points down to track level in relation to any buildings / basements proposed above. It is considered unlikely that Mail Rail would ever be used for this purpose again. However RMG consider it is important to safeguard these tunnels.

2.16 The Metropolitan Underground Line runs underneath Farringdon Road, on the eastern edge of the Site. Whilst the tunnels lie outside the Site boundary, any foundations built close to the boundary would invariably need to comply with exclusion zones and zones of influence. Vibration would also need to be considered for residential / commercial development along Farringdon Road.

Historical Context

2.17 Since the area was first developed in the mid-18th century, the Mount Pleasant Site has been home to a series of large single functions and lacked streets running through it. The Site was first used as a large rubbish tip in the 18th century, then a prison in the 19th century, and finally a postal sorting office in the 20th century.

Area Characteristics

2.18 The surrounding area is varied in nature, comprising mixed use neighbourhoods of different character. To the south lie relatively low scale but high density mixed use buildings within Hatton Garden Conservation Area.

2.19 The conservation area extends as far as Mount Pleasant. The buildings along Mount Pleasant generally range from three to six stories and provide active ground floor uses with commercial or residential accommodation above. These uses extend over Farringdon Road into Exmouth Market, a hub of restaurants, cafes and shops. Clerkenwell Fire Station (listed Grade II) is located at the junction of Rosebery Avenue and Farringdon Road.

2.20 To the west of the Site lie two substantial modern office buildings – New Printing House Square (222-236 Gray's Inn Road, which is seven-eight storeys) and the ITN Building (200-214 Gray's Inn Road, which is 10-11 storeys). To the north (within Camden) lies the Bloomsbury Conservation Area with early 19th Century Grade II listed residential terraces made up of traditional three-four storey townhouses.

2.21 Nos 26-50 Calthorpe Street immediately abutting the northern boundary of the Phoenix Place Site are listed Grade II. At the junction of Calthorpe Street and Gray's Inn Road is the Holiday Inn hotel, a nine storey building.

3. Planning

3.1 The Mount Pleasant Site crosses the boundary between the London Borough of Islington and the London Borough of Camden. The boroughs are committed to a joint approach and the development proposal as a whole will therefore need to take account of the local planning policy adopted by both boroughs (including the SPD) in addition to national policy, the London Plan and emerging policy.

3.2 The key planning policies in respect of financial viability have been set out by the applicant below. In terms of the specific Site planning context this is outlined in the SPD, which was adopted in February 2012.

3.3 The applicant has set out and relies upon the summarised policy interpretation in Para 3.5 – 3.18. In addition they have obtained a legal opinion from William Hicks QC of Landmark Chambers. This considers the interpretation of the affordable housing policies that will be applicable to the determination of RMG's proposals for the redevelopment of the Mount Pleasant. I attach a copy of the Opinion as Appendix 1.

3.4 Jointly the Councils have raised concerns with the applicant's interpretation of their policies, and I set out their comments at Para 3.19 – 3.44 together with a legal opinion from Neil Cameron QC of Landmark Chambers which considers the approach to be taken when determining planning applications for residential development, and in particular when applying the policies relating to affordable housing. I attach a copy of the Advice as Appendix 2.

Applicant's Interpretation of Policy

National Planning Policy

3.5 The National Planning Policy Framework (NPPF) highlights the importance of ensuring deliverability and viability. Paragraph 173 states:

"Pursuing sustainable development requires careful attention to viability and costs in plan-making and decision-taking. Plans should be deliverable. Therefore, the sites and the scale of development identified in the plan should not be subject to such a scale of obligations and policy burdens that their ability to be developed viably is threatened. To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing, standards, infrastructure contributions or other requirements should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

3.6 Site Value is recognised by the NPPF as being at a level (the "competitive return") at which a landowner would be willing to sell.

Regional Planning Policy

3.7 The London Plan (2012) is the relevant plan for Greater London. Policy 3.12 "Negotiating Affordable Housing on Individual Private Residential and Mixed Use Schemes" states, that whilst boroughs should seek the maximum reasonable amount of affordable housing, regard should be had to the need to encourage rather than restrain residential development. Negotiations on sites should take account of their individual circumstances, including development viability.

3.8 Policies 3.10 and 3.11 on "Definition of Affordable HousingD and "Affordable Housing TargetsD, respectively, explain that affordable housing includes social rented and intermediate housing. A target is set for an average of at least 13,200 more affordable homes per year in London over the term of the London Plan. 60% of affordable housing provision should be for social rented and 40% for intermediate rent or sale and priority should be given to provision of affordable family housing.

3.9 The Mayor's Housing Supplementary Planning Guidance (SPG) (November 2012) states that "from a London-wide perspective" Affordable Rent is categorised as helping to meet the 60% social housing component and "Boroughs are strongly advised to categorise it in the same way" (para 4.3.26). Paragraph 4.3.27 goes on to state:-

"*it is important local expressions of the 60/40 split do not arbitrarily compromise the purpose of having targets – to support maximisation of affordable housing output.*"

London Borough of Camden

3.10 At a local level, Core Strategy policy CS6 considers that there is a need to provide high quality housing through maximising the supply of additional housing to meet or exceed Camden's ten year target of 5,950 new homes from 2007-2017.

3.11 At a local level, the Council will seek to negotiate the development of individual sites on the basis of an affordable housing target of 50% of the total addition to housing floorspace. Affordable housing tenure should be split into 60% intermediate housing and 40% social rented accommodation. Policy DP3 of the Camden Development Policies (2010) states in reference to considering the appropriateness of the scale and nature of an affordable housing contribution the Council will take into account six factors. The fourth factor, part (d) of policy DP3 advises that the Council will take into account the economics and financial viability of the development associated with a proposal.

London Borough of Islington

3.12 Policy CS 12 of the Core Strategy states that "seeking the maximum reasonable amount of affordable housing, especially social rented housing, from private residential and mixed-use schemes over the threshold set above, taking account of the overall borough wide strategic target. It is expected that many sites will deliver at least 50% of units as affordable, subject to a financial viability assessment, the availability of public subsidy and individual circumstances on the site." (Applicant's underling).

3.13 The key element of the policy which the applicant highlights is that LBI, through this policy, is expecting "that many sites will deliver at least 50% of units as affordable, subject to a viability assessment".

3.14 The policy implies therefore that the viability of any scheme should be tested, and if the resulting viability assessment identifies that say 10%, or 20% affordable housing is viable (i.e. maximum reasonable) then the scheme is therefore policy compliant. Policy compliance would also be met if the viability assessment for example concluded that 80% or 90% affordable housing is the maximum reasonable amount for that scheme.

3.15 It follows that policy compliance can in theory exist anywhere between 0% and 100% having regard to how the policy is drafted. It also must follow that Policy CS12 can therefore only be applied in the context of an accompanying viability report. As no maximum or minimum threshold is stated other than an expectation of at least 50% affordable housing, the policy cannot therefore be applied in isolation to a site in the absence of a viability report, as this is the only basis on which to state what is or what is not policy compliant.

3.16 As the NPPF states that policy should have regard to willing sellers having regard to competitive returns, in this instance, the policy does not assist potential purchasers. In arriving at a Site Value therefore, the starting point, whilst having regard to the site's potential for residential development it must rely on such matters as appropriate comparable evidence and, existing use, and site constraints. That would be the only way to test Policy CS12 in a site specific context having regard to the NPPF.

Mount Pleasant Supplementary Planning Document (SPD)

3.17 The SPD provides guidance on the land use, design and impact of any future development. In respect of land use the SPD states future development should "deliver a significant number of new homes, particularly affordable housing". It therefore establishes the principle of residential development.

3.18 In terms of the height, scale and massing of future development, indicative reference to storey heights have been included in the SPD, which indicates predominantly medium-rise buildings of four to eight storeys with an area of low rise (up to ten storeys) at the corner of Gough Street and Calthorpe Street and an area of high rise (over ten storeys) at the corner of Gough Street and Mount Pleasant.

Islington Council – Planning Service Comment[1]

3.19 'LBI identifies that the applicant's summary of policies is selective and omits useful and relevant detail. The policies are summarised below where additional detail or comment is considered necessary:

London Plan 2011:

3.20 Policy 3.12 –states that:

A) The maximum reasonable amount of affordable housing should be sought when negotiating on individual private residential and mixed use schemes, having regard to:

a) current and future requirements for affordable housing at local and regional levels identified in line with Policies 3.8 and 3.10 and 3.11;
b) affordable housing targets adopted in line with Policy 3.11,
c) the need to encourage rather than restrain residential development;
d) the need to promote mixed and balanced communities (Policy 3,9)
e) the size and type of affordable housing needed in particular locations
f) the specific circumstances of individual sites.

[1] Sarah Ricketts Deputy Team Leader (Major Applications) Development Management - Planning and Development Division Environment and Regeneration

B) Negotiations on sites should take account of their individual circumstances including development viability, the availability of public subsidy, the implications of phased development including provision for re-appraising the viability of schemes prior to implementation and other scheme requirements.

3.21 This policy is similar in its intent to the local borough's policies. Additionally, the supporting text refers to the requirement for Boroughs to evaluate applicant's appraisals rigorously and suggests the use of 'cascade agreements' to address uncertainties over the level of grant and amount of affordable housing to be delivered.

3.22 Policies 3.10 and 3.11 on "Definition of Affordable Housing and "Affordable Housing Targets, respectively, explain that affordable housing includes social rented and intermediate housing provided to specific eligible households whose needs are not met by the market. These policies seek to maximise affordable housing provision and ensure an average of at least 13,200 more affordable homes per year in London over the term of the London Plan. This plan seeks 60% of affordable housing provision should be for social rented and 40% for intermediate rent or sale and priority should be given to provision of affordable family housing.

Islington Core Strategy 2011

3.23 The LBI Planning Officers advised early on that the applicant's interpretation of the LBI affordable housing policy (CS12) was incorrect, and LBI sought a Counsel opinion on the matter which is attached at Appendix 2.

3.24 The full text of policy CS12G relating to affordable housing delivery is:

G. Provide **affordable housing** by:

- requiring that 50% of additional housing to be built in the borough over the plan period should be affordable.
- requiring all sites capable of delivering 10 or more units gross to provide affordable homes on-site. Schemes below this threshold will be required to provide financial contribution towards affordable housing provision elsewhere in the borough.

- seeking the maximum reasonable amount of affordable housing, especially social rented housing, from private residential and mixed-use schemes over the threshold set above, taking account of the overall borough wide strategic target. It is expected that many sites will deliver at least 50% of units as affordable, subject to a financial viability assessment, the availability of public subsidy and individual circumstances on the site.
- seeking to increase delivery of affordable housing, especially social rented housing, from other sources such as 100% affordable housing schemes by Registered Social Landlords, building affordable homes on council's own land, and from a range of intermediate housing products available on the market.
- delivering an affordable housing tenure split of 70% social housing and 30% intermediate housing.
- ensuring affordable housing units are designed to a high quality and be fully integrated within the overall scheme.

3.25 Whilst LBI agrees that its Core Strategy policy (CS12G) is inseparable from a viability assessment to test the maximum reasonable amount of affordable housing that a site and its circumstances can afford to deliver, it must take into account the overall borough wide strategic target and the site specific target of pending a maximum reasonable level of affordable housing having regard to the strategic target. LBI advises that it strongly disagrees with the applicant's view that the need for a viability assessment means that it is not possible to rely on affordable housing policy to establish land values. Such a view fundamentally undermines the principle of a plan led system as established by the Town and Country Planning Act (1990) and extended by the NPPF.

3.26 As stated by Counsel Advice "The first bullet point of the policy states that schemes that will significantly undermine the ability of the authority to achieve 50% of its additional housing as affordable will be seen to undermine the requirement and therefore be contrary to policy. Having regard to the strategic wide target being 50%, the larger the site and therefore the more significant its contribution towards the annual provision of new homes, the more important it will be to achieve at least 50% of the units as affordable in order to achieve the strategic target".

3.27 With the above in mind, LBI considers that application of incremental percentage values with 50% as the starting point is necessary in order to ensure that planning policy is properly applied and weighted when determining Site Value through any methodology used.

Mount Pleasant SPD

3.28 Whilst the applicant has quoted accurately the direction towards maximising family housing at this site and in particular affordable housing, it also provides detail with respect of assessing the costs of the proposals:

"The appropriate level of affordable housing will be delivered in each phase of the development, and will be required to be in proportion to the level of housing delivered in each borough."

"There may be certain abnormal or exceptional costs associated with comprehensive redevelopment, which need to be determined and agreed as part of viability assessments. Costs relating to the wider business operations at the existing Royal Mail sorting office at Mount Pleasant will not be considered as development costs in relation to new development on the remainder of the site.""

Camden Council – Planning Service Comment [2]

Local Development Framework – Core Strategy DPD

3.29 The London Borough of Camden Core Strategy and Development Policies DPDs were adopted on 8th November 2010. Para 1.8 of the Core Strategy notes that 'Housing will be considered the priority land use of this Core Strategy and the Council's other Local Development Framework documents'.

3.30 Policy CS6 notes that the Council will make full use of Camden's capacity for housing, and sets out targets for housing delivery between 2007-17 and 2010-25. Housing being the priority use is reiterated at point (e). The Council will also aim to secure high quality affordable housing by:

f) seeking to ensure that 50% of the borough wide target for additional self-contained homes is provided as affordable housing

[2] Richard Mc Ellistrum Principal Planning Officer, London Borough of Camden

g) seeking to negotiate a contribution from specific proposals on the basis of:
- the maximum reasonable amount of affordable housing under the specific circumstances of the site, including the financial viability of the development,
- an affordable housing target of 50% of the total addition to housing floorspace, and
- guidelines of 60% social rented housing and 40% intermediate affordable housing;

3.31 Policy CS6 also notes that '*the Council will adjust the type and mix of housing sought, having regard to the financial viability of development, the sales or capital value of different house types and tenures, and the needs of different groups*'

3.32 The supporting text at (Para 6.23) to Policy CS6 indentifies that a *'high proportion of homes are developed in small schemes which cannot practically contribute to the supply of affordable housing'*. It also notes the particular demand for larger homes within the affordable sector (3 bedrooms or more) whereas 2 bedroom homes are more in demand in the market sector. Taking these issues into account along with the Camden Affordable Housing Viability Study 2009, the Council will seek to *'negotiate an affordable housing contribution from specific development proposals of 50% of the total addition to housing floorspace'* (Richard McEllistrum emphasis)

Development Policies DPD

3.33 Policy DP3 records that the Council will *'negotiate the development of individual sites to seek the maximum reasonable amount of affordable housing on the basis of an affordable housing target of 50% of the total addition to housing floorspace'*. It notes that in assessing the '*scale and nature of the (affordable housing) contribution*' it will look at a range of factors, including '*d) the economics and financial viability of the development and any particular costs associated with it*' and '*f) any other planning objectives considered to be a priority for the site*'.

3.34 The supporting text to this policy, at Para 3.27 notes that *'Where a proposed development would not meet the Council's affordable housing target, we will expect submission of a financial viability appraisal to justify the proportion of affordable housing proposed'*. The Core Strategy, at Para 19.17, identifies that *'The Council will expect developers to provide information on viability through an "open-book" approach.'*

Site Specific Policies

3.35 Camden Council note that the applicant's reference to the Mount Pleasant SPD omits the relevant text referred to at Para 3.35 above.

3.36 Camden Council adopted the Site Specific Allocations DPD on 9th September 2013. Land within the Camden planning application (2013/3807/P) and the Museum building (outside of the application site) form '*Site 24: Phoenix Place'*.

Camden Planning Guidance (SPD)

3.37 CPG 2 (Housing) was updated and adopted on 4th September 2013. Para 2.39 refers to the Camden Affordable Housing Viability Study 2009, which indicates that the 'scale and (50%) target is financially viable for a range of scheme types across a range of locations in the borough'. Though refers to later sections (2.60 to 2.75) which explain what the Council will expect from the developer when this percentage of affordable housing is not viable.

3.38 The CPG text refers to use of Growth Models, that they 'may be an appropriate alternative to a deferred contribution in some circumstances where changes in the values and costs are predictable and the growth model will maximise the affordable housing offer at the time an application is determined' (my emphasis).

3.39 The CPG also makes reference to the need to provide 'full details of the agreed financial viability appraisal which guided determination' when any deferred affordable housing contributions are provided for within a s106 agreement.

London Plan – Housing SPG (2012)

3.40 In addition to those cited parts of the London Plan referred to by Islington Council officers above, The more recent (and post NPPF and RICS Guidance) SPG usefully quotes paragraph 173 of the NPPF within Para 4.3.20 (my emphasis):

"To ensure viability, the costs of any requirements likely to be applied to development, such as requirements for affordable housing….. should, when taking account of the normal cost of development and mitigation, provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable".

3.41 It goes on to note (at Para 4.3.23, and again, Richard Mc Ellistrum emphasis) that:

'The Mayor does not agree with the view put by the RICS (in it's 2012 Guidance on Financial Viability in Planning) and others that a Market Value based approach is the only acceptable basis for viability appraisal. There is a range of valuation methodologies that can be used to assess viability in particular cases, and the usefulness and robustness of a particular approach in providing a basis for informed decision making is the key criterion for deciding which to use in each case.'

3.42 The SPG, referring to the London Plan's use of a total, rather than percentage target for the delivery of affordable housing, notes that *'a percentage target can provide a convenient, and a locally related starting point for negotiations on individual development proposals'.*

3.43 Boroughs, Para 4.4.35, are urged to give careful consideration to *'what constitutes a reasonable rate of return on particular developments and not to automatically use the default value provided in the (GLA / Three Dragons) toolkit'.* The SPG also notes that:

'...either 'Market Value' or 'Existing Use Value plus' based approaches can address this requirement; their appropriate application depends on specific circumstances. On balance, the GLA has found that the 'Existing Use Value plus' based approach is generally more helpful for planning purposes, not least because of the way it can be used to address the need to ensure that development is sustainable in terms of NPPF and LP requirements.'

3.44 In regard to phased schemes, the SPG notes (at 4.4.39) that *'it may be necessary to reach separate agreements on grant and affordable housing outturn on different phases'.* The purpose and effect of Cascade agreements and Contingent obligations are also set out in the following paragraphs, with the former noted to be of particular importance where the availability of grant for affordable housing delivery is subject to uncertainty.

Summary

3.45 LBI & LBC are of the opinion the applicant's interpretation is incorrect and the parties have sought legal opinion and these are attached to this report as Appendix 1 & 2.

3.46 Notwithstanding the respective interpretations I have made comments in Section 7 concerning Site Value and various scenarios have been prepared in order to inform discussions between the parties.

4. Development Proposal

4.1. The Mount Pleasant site falls within two London Boroughs of Islington and Camden and is subject to two detailed planning applications.

London Borough of Islington

4.2. Comprehensive redevelopment of the site following the demolition of existing buildings and structures to construct six new buildings ranging from 3 to 12 storeys in height to provide 38,015sqm (GIA) of residential floorspace (336 dwellings) (Class C3), 4,260sqm (GIA) of office floorspace (Class B1), 1.428sqm (GIA) of flexible retail and community floorspace, (Classes A1, A2, A3, D1 and D2) with associated energy centre, waste and storage areas, vehicle (65 spaces) and cycle parking (523 spaces), hard and soft landscaping to provide public (approx 5,124sqm) and private areas open space, alterations to the public highway and construction of a new dedicated vehicle ramp to basement level to service Royal Mail operations, construction of an acoustic roof deck over the existing service yard (encloses 14,150sqm at basement and ground floor levels) and all other necessary excavation and enabling works.

4.3. The proposed redevelopment is part of a wider holistic development for the Mount Pleasant site and should be considered in the context of the redevelopment of the adjacent site at Phoenix Place falls within in the London Borough of Camden and a separate application has been submitted simultaneously and seeks detailed planning consent.

London Borough of Camden

4.4. Comprehensive redevelopment, following the demolition of existing buildings, to construct four new buildings ranging from 5 to 15 storeys (above basement level) in height, to provide 38,724sqm (GIA) of residential floorspace (345 dwellings) (Class C3), 823sqm (GIA) of flexible retail and community floorspace (Use Classes A1, A2, A3, D1 or D2), with associated energy centre, waste and storage areas, basement level residential car parking (54 spaces), the re-provision of Royal Mail staff car parking (approx 196 spaces) cycle parking, residential cycle parking (431 residential spaces) hard and soft landscaping to provide public and private areas of open space, alterations to the public highway and all other necessary excavation and enabling works.

4.5. The table below provides a brief description of the various plots that together form the basis of the development proposal:

Plot	Location	Architect & responsibility	Use Height (including plant)	Description
P1 - Camden	Located on the southern section of Phoenix Place.	**Allford, Hall, Monaghan & Morris**	Residential Range from G+8 to G+13 storeys	New build residential block consisting of a variation of heights from 7 to 13 storeys. Plot 1 has a central courtyard consisting of soft and hard landscaping. The southern section of the block contains an element of retail.
P2 - Camden	Located on the northern part of the Phoenix Place site.	**Feilden, Clegg & Bradley**	Residential Range from G+5 to G+8 storeys	Three new build residential blocks arranged around a single level of undercroft car park, separated by two external spaces. The blocks range in height from 5 to 8 storeys above the height of the car park.
P3 - Islington	Backs onto the Royal Mail sorting office.	**Wilkinson Eyre –**	Residential Range from G+4 to G+11 storeys	New build residential building consisting of three core sections of G+5, G+6 and G+6 storey residential and 4 intersections of G+4 storey residential. G + 5 storeys of commercial office space adjoining the residential section onto Farringdon Road. Separate block of G + 11 storeys of residential facing onto Phoenix Place.
P4 - Islington	The plot is located on the northern part of the Calthorpe Street site.	**Allies & Morrison –**	Residential Range from G+1 to G+7 storeys	The proposal consists of 5 blocks with a central courtyard of hard and soft landscaping. The proposal contains an element of retail at ground floor.

4.6. The tables overleaf sets out a summary of the residential accommodation which is proposed:

Private			**NSA sqft**	**units**	**hab rooms**
Camden	Phoenix Phase 1		167,002	177	556
Camden	Phoenix Phase 2		88,096	109	287
Islington	Calthorpe Phase 3		115,285	120	432
Islington	Calthorpe Phase 4		136,927	150	387
Sub Total			**507,309**	**556**	**1,662**
Intermediate			**sqft**	**units**	**hab rooms**
Camden	Phoenix Phase 1		15,130	21	51
Camden	Phoenix Phase 2		5,916	6	22
Islington	Calthorpe Phase 3		12,056	16	40
Islington	Calthorpe Phase 4		8,295	12	27
Sub Total			**41,397**	**55**	**140**
Social Rent			**sqft**	**units**	**hab rooms**
Camden	Phoenix Phase 1		25,126	23	89
Camden	Phoenix Phase 2		16,302	16	72
Islington	Calthorpe Phase 3		22,088	19	83
Islington	Calthorpe Phase 4		16,833	19	67
Sub Total			**80,349**	**77**	**311**
Private			507,309	556	1,662
Affordable			121,745	132	451
Total			**629,055**	**688**	**2,113**

4.7. The tables below sets out a summary of the commercial & retail accommodation which is proposed:

Use	Sq Ft
Retail	
Phoenix Phase 1	6,125
Phoenix Phase 2	2,734
Calthorpe Phase 3	6,975
Calthorpe Phase 4	8,019
Commercial	
Phoenix Phase 1	-
Phoenix Phase 2	-
Calthorpe Phase 3	31,603
Calthorpe Phase 4	-
Total	**55,456**

5. Information Relied Upon

5.1. In preparing this report we have had regard to a comprehensive amount of information and correspondence. The key documents relied upon are:

- Position Note One: Introduction, Background, Phasing and Enabling Costs - November 2012.
- Position Note Two: Enabling Costs - December 2012.
- Position Note Three: Site Value – February 2013.
- Position Note Four: Inputs, Results and Conclusions – March 2013.
- Supplemental Information Further Costs and Updated Information – June 2013.
- Supplemental Information 1: Rights of Light – May 2013.
- Sale & Leaseback Draft Paper dated June 2013 prepared by Gerald Eve which considers the investment value of the various Royal Mail interests which together comprise the entire Mount Pleasant campus of properties.

5.2. The applicant considers that the position notes have been prepared having regard to the RICS Guidance Note – Financial Viability In Planning published August 2012.

5.3. The draft information was discussed and reviewed at a number of meetings with the applicant and Gerald Eve (GE).

6. Methodology

6.1. The recommended approach to undertaking development assessments is provided in a number of guides. These include the National Planning Policy Framework, RICS VIP 12- "Valuation of development land", RICS GN "Financial Viability in Planning", and the GLA Three Dragons Guide (2012).

6.2. The approach recommended is to assess viability based on a cashflow residual basis, using current day sales values and development costs. If this is in excess of the benchmark site value, the scheme is viable and if it falls below it is not viable.

6.3. Alternatively a scheme can be assessed using a fixed land value to derive the market risk adjusted target rate of return. If the return falls below the minimum threshold return the scheme is not viable.

6.4. Both approaches are reliable indicators and will return the same result subject to the model inputs and assumptions being the same.

6.5. The viability methodology adopted by Gerald Eve reflects the nature of the proposed development, and they have considered viability both on a present day basis, and on an out-turn basis. As the project period envisages a phased programme over c. 9 years, therefore a growth model approach (revenue growth and cost inflation) having regard to an Internal Rate of Return (IRR) as a measurement of risk reward has been adopted.

6.6. The out-turn approach is not a common method of considering viability assessments but it is an appropriate measurement of return for a multi-phased scheme of this scale over the anticipated project programme.

6.7. The applicant contends the scheme is not viable on a present day cost and revenue basis and it is therefore necessary to consider on an outturn approach which adopts revenue growth and cost inflation over the duration of the assumed project programme.

6.8. The merit of using an outturn approach is that it can secure a known amount of affordable housing and S106 planning obligations when the scheme on a current cost and revenue approach is not viable.

6.9. The downside, however, is that growth and cost inflation is difficult to predict and the amount of affordable housing and S106 contributions secured could in hindsight look insufficient if the market grows at a faster rate and the scheme outperforms current forecast revenue and cost inflation projections.

6.10. Conversely, if the market declines relative to the forecast growth and cost inflation assumptions contained in the financial model(s) the amount of the affordable housing and S106 planning obligations will be overstated.

6.11. If the scheme is assessed only on a present day basis it would be reasonable for the LPA to require viability testing on subsequent stages of development that would hopefully reflect improved market conditions, resulting in more affordable housing being provided.

6.12. There are obvious risks to the LPA in adopting this approach (mainly uncertainty about future market conditions) and developers are equally unhappy as it creates a level of uncertainty on scheme composition, which has an impact on financing the development.

6.13. I have assessed the scheme on a present day basis and consider that it would not be viable nor could it support any affordable housing as part of the scheme at the outset.

Review Mechanism

6.14. In considering an outturn approach which takes account of a reasonable forecast of revenue and cost inflation it is not recommended practice to seek a review mechanism. This is reflected in the RICS Guidance Note as the developer is in effect, putting their best foot forward based upon forecasts in order to demonstrate to an LPA the ability of a scheme to provide the maximum reasonable affordable housing and planning contributions.

6.15. However, it would be reasonable to seek a review mechanism if a developer did not build out the scheme as reasonably reflected in the FVA development construction phasing plan. This therefore should deter developers from obtaining a planning and sitting upon the planning permission without substantially implementing the scheme.

Financial Model

6.16. Gerald Eve have prepared an Excel based FVA model to appraise the applicant's project viability. The bespoke model calculates the development revenue and costs subject to variables that are input to the model and the project programme assumptions that inform the project cashflow.

6.17. In assessing the model we have not interrogated the individual cell formulae but we have undertaken a random audit of some the inputs; and we are satisfied the model is fit for purpose, to assess the viability of scheme subject the various inputs, which I comment upon more fully in this report.

Appraisal Land Use Area Assumptions

6.18. Details of the proposed floor space for each land use that informs the financial model(s) are set out above (Para 4.6 – 4.7) and this input field is informed by the architect's area schedules for the various phases for the land uses which are envisaged as part of the planning application.

6.19. The application is informed by a detailed planning application to include individual floor layouts of the individual residential apartments and amenity that is proposed.

Efficiency

6.20. We have considered the gross to net floor areas assumptions that inform the financial model and these appear to fall within an acceptable range, given the design and vertical mix of uses.

6.21. However, if there are changes to the scheme design and layout or substitution of uses this may serve to increase/decrease gross to net sale areas. Clearly any change in floor layouts will serve to impact upon construction costs and revenue that may currently be anticipated and, it follows, the viability of the applicant's proposals.

Internal Rate of Return

6.22. There are a number of ways of measuring profitability of developments. General practice on a present day basis is to assess residential developments based on a percentage of gross development value. Where an Outturn approach is adopted, an Internal Rate of Return (IRR) is a more typical method of measuring performance.

6.23. The IRR is calculated using a discounted cashflow appraisal at a discount rate which equates the total costs and total revenue over the cashflow programme period. An IRR measurement takes full account of the time value of money and is used as the measure of profitability having regard to the time the project takes to complete. It is an indicator of the annualised percentage return which the scheme generates.

6.24. Gerald Eve assume the scheme has a programme of [redacted] which carries a greater risk than shorter smaller schemes: ...."*the developer's return must reflect this and compensate for the time, management and risks associated with a scheme of this nature and it would be expected that an IRR of over* [redacted] *would be appropriate.....We therefore consider that a minimum target rate should be* [redacted]*."*

6.25. In considering the IRR threshold return which the applicant is seeking to reserve it would be helpful to understand the projects which they are seeking to rely upon to inform their IRR target return.

6.26. I have been involved in a number of strategic development proposals in London that have been informed by revenue and cost inflation forecasts. Key to determining an appropriate IRR hurdle rate has been an understanding of the pattern of construction cost expenditure relative to revenue receipts and positive cashflows and the specific project risks.

6.27. In considering this proposal alongside other schemes where I have provided advice, I would anticipate the IRR target return between [redacted] I am of the opinion this project would fall at the upper end order of range at [redacted] on an outturn basis.

6.28. Whereas on a present day basis I would anticipate an IRR of c. [redacted] to reflect the fact the model is not predicated on revenue growth or cost inflation forecasts.

6.29. My professional judgement is informed through my involvement, as due diligence assessor, of complex large scale development proposals. Most notably Brent Cross Cricklewood on behalf of GLA 2009/2010, Earl Court Proposals 2011/12 on behalf LB Hammersmith & Fulham, RB Kensington & Chelsea & GLA, Extension of Westfield Shepherds Bush on behalf LB Hammersmith & Fulham & GLA 2011/12 and Canada Water LB Southwark 2013.

7.0 Assessment of Site Value

Approach

7.1 A key factor in assessing viability is the assessment of a Benchmark site value against which to compare residual land values, whether derived on a present day or outturn basis. The following section considers the appropriate methodology for assessing viability, the approach adopted by Gerald Eve, and my assessment of value.

7.2 There are a number of sources of guidance currently explaining how the assessment of the Benchmark site value should be determined. GLA Three Dragons Toolkit GN advocates the use of existing use value (possibly plus a premium) or an alternative use value, but recognises that there are a number of alternative ways of assessing benchmark, and that these may also be suitable.

7.3 In many brownfield sites this approach may be appropriate, but it does not result in a reasonable "competitive return" in all cases. For example, cleared brownfield sites (such as has recently been assessed at Elephant and Castle) would find an EUV/ AUV approach resulting in very low Benchmark site values, clearly understating a "competitive return". Similarly, underutilised sites or sites with special uses, such as schools, hospital and MoD sites would potentially result in unrealistic Benchmark values. There are a number of previously assessed cases in London dealing with these types of property where the EUV (+)/ AUV approach has been seen as being unsuitable.

7.4 The RICS GN approach identifies these shortcomings and provides a definition which adopts a wider, market based, interpretation. The RICS definition is:

"Site Value should equate to the market value subject to the following assumption; that the value has regard to development plan polices and all other material planning considerations and disregards that which is contrary to the development plan."

(Source RICS GN FVIP)

7.5 This definition considers that site delivery is only likely if the landowner receives a site value that reflects market conditions and planning policies. Market consideration takes in to account a number of issues relevant to a specific site- including value in current use, alternative uses, minimum acceptable land values, alternative options open, and site specific factors.

7.6 In my opinion, I consider that the RICS GN approach is more suitable across a full range of sites and circumstances, and avoids the pitfalls that a singular EUV(+)/ AUV approach may have. It is particularly suitable in circumstances such as are present on this site, where there are untypical site specific factors.

7.7 However, in adopting the RICS GN approach, it is important to be able to "underpin" the Benchmark site value in order to demonstrate that it is based on sound market based judgement rather than being an arbitrarily derived opinion. For this reason, valuation should be assessed and looked at from a number of different ways to check that the end result is robust and justifiable.

7.8 In arriving at a Site Value Gerald Eve have had regard to the following:-

- The RICS GN;
- The Market Value of the Site for existing use in accordance with the RICS Valuation – Professional Standards 2012 (the 'Red Book' 8th Edition, 21st March 2012);
- Future development in terms of uses, density, bulk, scale and massing having regard to the development plan;
- The overall planning status, existing physical condition and potential to refurbish the Property;
- RMG's continuing and ongoing operation, and in considering this, looking at alternative tenure options such as sale and leaseback;
- Comparable transactions; and
- All other matters which the market would have regard to in arriving at a Market Value (including existing, alternative uses and site constraints).

7.9 Gerald Eve have not placed any weight on an alternative use value approach, as there is not an extant planning permission or alternative proposals for the Site. Furthermore, the emerging scheme has been worked up having regard to the SPD.

Ownership

7.10 The Site has been an intrinsic part of RMG's operations for over one hundred years. As a result of the land having been in RMG's ownership for such a significant period of time, any part disposal, i.e. the non-operational landholdings of Phoenix Place and

Calthorpe Street, should have regard to both the future operations and the intrinsic state of each property.

7.11 The Sorting Office is to be retained and is excluded from the assessment of Site Value, though the bulk, scale and massing of the buildings are of relevance. The main building is situated over basement to fourth floors, although due to the generous floor to ceiling height of the floors, it belies the number of storey heights the envelope could accommodate.

7.12 In determining Site Value, Gerald Eve has given significant weight to land transactions as they have argued that LBI planning policy in their opinion results in a circular argument. They contend that affordable housing Development Plan Policies do not require a specific amount and rely on viability.

Existing Use Value

7.13 The applicant has had regard to the existing use value which has been determined at c. [redacted] a restricted value assuming RMG continued occupation of the buildings and land required for the development proposal. This evaluation of worth to RMG and the special assumption that it is retained in its existing use does not reflect market value. It is used primarily for accountancy purposes and ignores in perpetuity alternative uses or purposes that the buildings can be put to, and therefore it has limited application in assessing a competitive return.

7.14 I have considered the rents and yields that have been adopted and I am of the opinion they are reasonable in so far as they underpin the existing use value to Royal Mail. The existing use value of the land at c. [redacted] is a restricted value which assumes RMG continued use of the buildings and it equates to c. [redacted] per acre.

7.15 In looking at the comparable evidence coupled with my professional judgement I am of the opinion the market value of the land and buildings are in excess of the existing use value to RMG. The existing use value at [redacted] understates a competitive return which a landowner would be willing to accept in order to release the land for development.

Planning Policy Site Value Assessment

7.16 The applicant's interpretation of the policy is essentially saying that the viability test alone is the deciding factor which influences the level of affordable provision on a

particular site rather than the policy, as the policy suggests that the scheme will be policy compliant at whatever level the viability assessment indicates.

7.17 We are advised by the LBI/LBC Planning Officers the applicant's interpretation of affordable housing policy is incorrect.

50% Affordable Housing

7.18 Notwithstanding the parties interpretation of the affordable housing policy I requested the applicant undertake a residual land value appraisal of the scheme adopting a 50% affordable housing content and the resultant land value falls below the existing use value determined by RMG external valuer. As such this does not represent a competitive return which a landowner would be willing to accept to release the land for development[3] and would be contrary to Para 173 of the NPPF.

7.19 The assessment was undertaken in the absence of a drawn scheme, and the financial model assumes 50% affordable housing is included in each phase of the scheme, with tenure mix and affordable housing pricing as per proposed scheme assumptions. All other inputs and assumptions remain unchanged including market residential pricing and costings.

7.20 Due to the margin between the negative return generated and the appropriate target for the scheme no further refinement to the model was undertaken other than adopting a nil site value, assuming 50% affordable housing. This indicated an IRR of [redacted] assuming growth [redacted] IRR present day.

7.21 This indicates the scheme could not offer a competitive return to a land owner to release land for development; or provide a prospective developer with a competitive return for taking forward a scheme of this nature as the IRR falls short of the DVS IRR hurdle rate at [redacted] and the applicant's rate at [redacted] On this basis development of the site would not proceed.

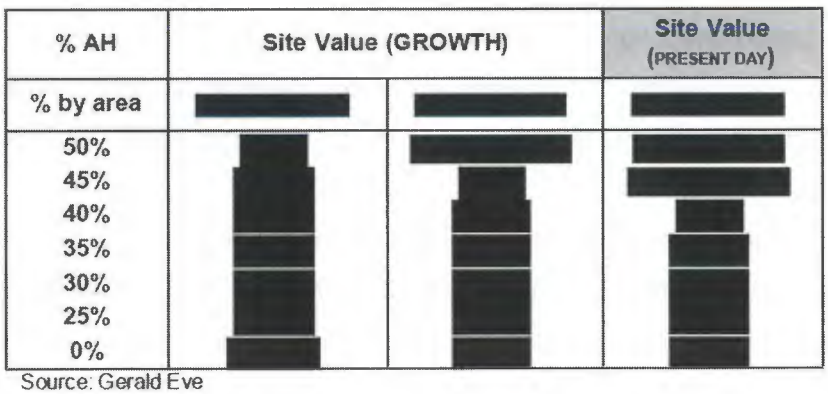
7.22 Following the circulation of my initial draft report LBI/LBC requested the applicant to provide a number of scenarios in order to understand the maximum reasonable amount of AH the scheme can support.

[3] Extract Para 173 NPPF provides "……when taking account of the normal cost of development and mitigation. provide competitive returns to a willing land owner and willing developer to enable the development to be deliverable."

7.23 The scenarios have been prepared and assessed against the DVS target IRR of [redacted] and the applicant's rate at [redacted] For the present day scenarios, a target rate of [redacted] has been adopted. The outturn IRR is higher than the present day IRR % to reflect the risk associated with basing the models upon forecast revenue growth and construction inflation over the development programme.

Scenario 1: The effect on site value assuming differing AH levels[R/7]

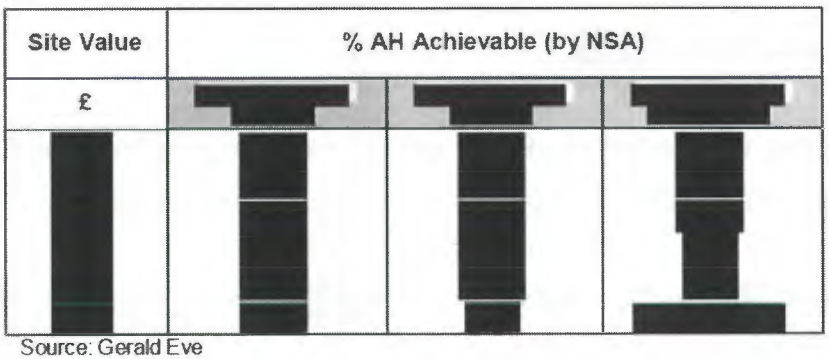
7.24 The appraisal has been set up as a residual appraisal after adopting the DVS base assumptions to determine the land value under a range of AH assumptions and target rates of return.



Source: Gerald Eve

Scenario 2: Achievable AH levels adopting a range of site values.[R/7]

7.25 For each site value, the level of affordable housing that can be provided whilst maintaining the IRR at the target level in each case.

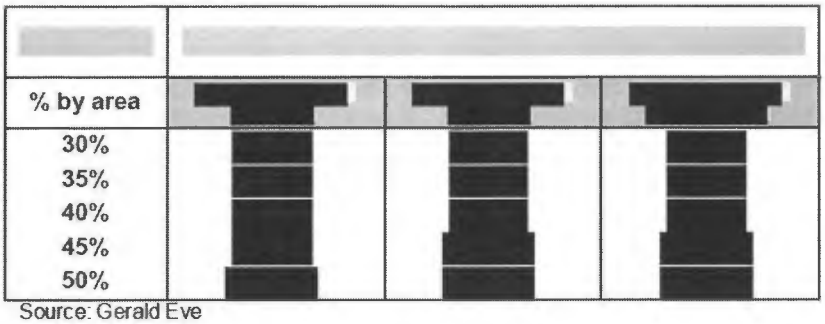


Source: Gerald Eve

Scenario 3: The grant required to provide increased AH.[R/7]

7.26 The Base Position appraisal assumes an AH provision of 19.5% by Net Sales Area. This scenario investigates the potential grant level necessary to achieve the target rate of return.

7.27 The level of grant has been approximated by simply calculating the additional revenue that would be required as a single receipt upon implementation of the scheme (April 2015) in order to reach the target IRR in each case.



Source: Gerald Eve

Comparable Evidence

7.28 Therefore, in my opinion valuers and those acquiring land would need to place greater weight on comparable evidence and other valuation considerations. The principle of residential development has been established on the site with the adoption of the Mount Pleasant Supplementary Planning Document (SPD).

7.29 Gerald Eve has had regard to 7 separate land transactions that have taken place in the period between November 2010 – July 2012 and I set out a summary of these transactions below:[R/5]

Site	Price	Date	Existing floor space	Proposed floor space	Proposed residential units
Guardian House	[redacted]	Jul-12	71,130	111,902	118
207-211 Old Street	[redacted]	Nov-11	286,607	304,000	
City Forum	[redacted]	Jun-11	131,650	666,294	720
Worcester Point	[redacted]	Nov-10	28,718		161
Silicon Tower	[redacted]	Dec-11	76,963	147,000	307
St Barts Square	[redacted]	Apr-11	305,460		
Goodmans Fields	[redacted]	Dec-10		1,055,878	864

Source: Gerald Eve

7.30 In considering the comparable evidence I have not analysed 207 – 211 Old Street or St Barts Square transactions further as they are 100% commercial schemes; and in respect of Guardian House the property was sold without the benefit of a current

planning consent and therefore the analysis of these comparables will be less reliable than the conclusions I have drawn from the remaining transactions.

7.31 There are a number of issues relating to the land evidence provided and to analyse purely on the basis of a price relating to site area is not reliable, as this may not reflect the density of any proposed development. For example a small site with a higher density may well have a higher value overall than a large site with a lower density.

7.32 The use of comparison is further complicated by the individual circumstances of each site and the implications of abnormals and differing planning obligations mean the value has to be adjusted making it less reliable. The sales values and opportunity for revenue growth over the development period envisaged by the purchasers would influence the price paid, and these would need to be adjusted to reflect a like for like basis.

7.33 Generally the land comparables need adjustment to reflect the differences between the consented schemes and the specific policies pertinent to a development at Mount Pleasant. Moreover a property with planning consent may not necessarily come forward for development without revision in the short term.

7.34 The narrative of the Gerald Eve report provides more detail as to the background to the individual transactions identified between November 2010 and July 2012. Furthermore, LBI have also provided a comprehensive schedule setting out the background details.

7.35 The land values of the transactions range from [redacted] on a per acre basis. The lower end range is characterised by large sites (similar to Mount Pleasant) in excess of 4 acres. This is logical as these sites will have a lower net developable area due to the requirements for access, circulation and open space than a single building.

7.36 Gerald Eve have focussed upon two transactions in particular and have indicated the development of Mount Pleasant is comparable in residential terms to Silicon Tower and Worcester Point:

Silicon Tower, 261 City Road Basin, EC1V 1LE

7.37 261 City Road, formerly known as The Lexicon, was purchased by Affinity Sutton and Mount Anvil in a Joint Venture in December 2011 for [redacted]

7.38 The site forms part of the City Basin Masterplan and is situated on the northern side of City Road at the junction with Graham Street. The site is bounded to the east by the City Basin and is located 1.2 miles from the Mount Pleasant Site.

7.39 The site totals 0.92 acres. The purchase price which equates to [redacted] per acre reflects the nature of the consented scheme which comprises of a 36 storey tower, which when built will be the tallest residential tower in Islington, forming a highly visible and positive local landmark. In addition, the scheme includes two lower rise buildings ranging between 4 and 7 storeys in height.

7.40 In total, the development provides 307 units, 204 (65%) of which are market homes with the remaining 107 (35%) providing affordable housing tenures. The purchase price equates to [redacted] per market residential unit. This comparable is of particular relevance to Mount Pleasant as we are advised sales values for this scheme are at a comparable level.

7.41 We have not been able to verify whether the sales values proposed for the Silicon Tower Scheme are comparable as the sales have not yet been launched. Although Knight Frank who provide residential development pricing advice to the applicant are also providing advice to the Silicon Tower developers and we have therefore taken them at their word.

7.42 Total net internal areas for the residential and commercial elements of the scheme equate to 227,130 sq ft and 8,396 sq ft respectively, reflecting a purchase price of [redacted]. The commercial floor space provision as a proportion of overall floor space is at a similar level to that envisaged by the indicative Mount Pleasant scheme.

Worcester Point, 89-93 Central Street, EC1V 8AL

7.43 The freehold of 89-93 Central Street, located in the Finsbury area of London was purchased for [redacted] by Mount Anvil in November 2010. The site area is 0.94 acres.

7.44 The site is located 0.9 miles to the east of the Mount Pleasant Site and is positioned equidistant between Old Street and Barbican tube stations, both of which are just over half a mile away.

7.45 The surrounding area is largely residential with a relatively high proportion of estate housing in the vicinity compared to the Mount Pleasant Site: Gerald Eve are of the opinion that Mount Pleasant to be situated in a superior location and I concur.

7.46 At the time of the acquisition, the site comprised of a two storey office building with a total NIA of 28,718 sq ft. The site was purchased with an extant permission for the demolition of the existing buildings and the construction of a mixed use scheme comprising 161 residential units and office and retail floor space.

7.47 Revisions to the scheme were approved under a subsequent permission granted in September 2012 to provide a 26,824 sq ft conference facility and 6,404 sq ft of retail space in addition to the 161 residential units. Assuming a gross to net ratio of 80%, the purchase price in terms of the revised scheme equates to [redacted] per sq ft on a NIA basis. The purchase price equates to [redacted] per acre.

7.48 It is worth highlighting that both sites have a planning consent which requires 35% affordable housing. I accept that it is less useful to compare the sites on a per acre basis given the variation in size, but it is useful to compare on a per market unit basis. Whilst Silicon Tower had consent for 307 residential units (204 market & 103 affordable), at the time it was sold in December 2011 the affordable units had already been delivered. On a per market unit basis the analysis indicates [redacted].

7.49 In applying the market value per unit range to the Mount Pleasant proposal indicate a site value between c. [redacted]

Market Value

7.50 Gerald Eve set out the following additional factors relating to Mount Pleasant which indicates a higher value per acre is appropriate:

- Proximity to Midtown and the West End (Holborn Station is situated within half a mile)
- Residential sales values are higher in this area compared to City Forum and Goodmans Field; and
- The level of amenity and living environment in the area surrounding Mount Pleasant is of higher quality and more established.

7.51 In considering the above it is accepted the site benefits from closer proximity to Mid Town and the West End. I am uncertain whether the end sales values are higher compared to City Forum and Goodmans Field.

7.52 The site will benefit from the introduction of Crossrail as the site falls within a 10 minute walk time of Farringdon Station. Clearly the regenerative benefits of Crossrail will serve to increase interest and it is reasonable to assume increased competition for the site as a development opportunity.

7.53 The applicant has adopted a market value approach to determine the site value for the land which, including usual purchaser costs, equates to c. 15% of the overall scheme costs. Experienced development valuers consider this type of "cross check" approach to examine whether the site value is reasonable. As a crude rule of thumb, site value is typically considered to be between 10-40% of gross development value, so at 15%, the site value is at the lower end of this range.

7.54 Separately the applicant has prepared a model to consider the site value having regard to 50% affordable housing and this indicates a nil site value which falls below the existing use value that was independently assessed by the RMG external valuer. As such this would not provide a landowner or indeed a developer with sufficient 'competitive return' for the scheme to come forward.

7.55 As a cross check I have analysed the site value at [redacted] which the applicant is seeking to rely upon and on a per acre basis, and this indicates [redacted] per acre. In stepping back and considering this price per acre I have looked at the comparable evidence provided by the applicant for sites in excess of 4 acres and there are two transactions.

City Forum, 250 City Road, EC1V 2PU

7.56 Berkeley Homes acquired the City Forum site in June 2011 for [redacted]. Situated on the southern side of City Road, the site is located 1.2 miles from the Mount Pleasant Site and covers an area of 4.7 acres.

7.57 The site is similar to the Mount Pleasant Site in the sense that they are both positioned on the fringe of more established areas. Angel lies 0.5 miles to the north west of the site, and Old Street 0.4 miles to the south east. Though similar, we consider the location of the Mount Pleasant Site to be superior as it is within walking distance of Midtown being situated half a mile from Holborn and will also benefit in the future form the introduction of Crossrail at Farringdon Station.

7.58 City Forum currently consists of a business park comprising of a series of two and three storey buildings located around a central courtyard. The buildings which were constructed in the 1980's provide office accommodation with a total NIA of 106,821 sq ft.

7.59 The site was acquired with planning permission for a mixed-use development involving the construction of a 27 story tower with basement and part 1, part 4-10 storey buildings providing a total of 720 residential dwellings to include 30% affordable housing. The scheme also consists of a significant commercial element including 116,466 sq ft of gross office floor space, 47,448 sq ft of mixed retail space, student accommodation providing 160 rooms and a 125 room hotel.

7.60 The NIA of the consented scheme totals circa 666,294 sq ft. The purchase price, therefore, equates to [redacted] per sq ft on the basis of the existing net area. It should be noted that the aforementioned per sq ft rate is likely to be significantly lower than that which would apply to the indicative Mount Pleasant scheme, owing to the greater proportion of commercial floor space associated with the City Forum extant scheme.

7.61 On a site area basis the purchase price equates to [redacted] per acre.

Goodmans Fields, Leman Street, 74 Alie Street & Hooper Street, E1 8DE

7.62 Goodmans Fields comprises a 7 acre site located in Aldgate, East London. The former office building was purchased by the Berkeley Group in December 2010 for circa [redacted]

7.63 The site is located 2.4 miles from the Mount Pleasant Site. Leman Street which is located to the west of the site consists mainly of office buildings, most of which are secondary in nature. The area to the east, west and south of the site is largely residential.

7.64 At the time of acquisition, the site had planning permission for a residential-led scheme (754 units in total) but the new owners have subsequently obtained planning permission (part outline, part full) for a revised scheme including 864 residential units to include 35-33% affordable housing, 71,712 sq ft of net commercial space, a 250 room hotel and 25,311 sq ft of net mixed leisure/commercial space. The NIA across all elements of the scheme totals 1,055,878 sq ft. On the basis of proposed net area, the purchase price equates to circa [redacted] per sq ft.

7.65 Goodman's Fields constitutes one of the few comparables with a site area that approaches that of the Mount Pleasant Site. The price paid equates to [redacted] per acre. However, the Goodman's scheme has a wider mix of land uses than that proposed at Mount Pleasant.

7.66 In addition, the proportion of residential use, though significant at 65%, is less than that envisaged by the Mount Pleasant indicative scheme. Given the higher value associated with residential use in city fringe locations, the land value of the subject site, when expressed on the basis of net area per square foot and on a per acre basis, is likely to be significantly higher than that of the Goodman's Field scheme.

Analysis of Comparable Evidence

7.67 I have considered the comparable evidence and in particular the City Forum transaction and Goodmans Field and whilst these transactions are dated June 2011 and December 2010 they indicate a site value per acres of between [redacted] per acre.

7.68 Comparable evidence and market transactions by their very nature are historic as they have been subject to negotiation and agreement in the past. It is therefore key to understanding the weight to be allocated to any piece of evidence, it is important to understand the economic background and circumstances relative to the date which it is being applied.

7.69 In the case of the comparables referred to above the Goodmans Field was sold to Berkeley Group by the receiver and it is my understanding they were not necessarily the highest bidder for the site. But it was felt that they would in fact deliver upon their offer to purchase the price at a time when development funding was difficult to obtain and agree terms.

7.70 With the benefit of hindsight the market has improved significantly since the comparable evidence transaction dates due to increased market sentiment, improved debt funding conditions and improved domestic and foreign demand for residential opportunities to develop and purchase new homes in London.

7.71 In my opinion the improving economic circumstances and sentiment have served to increase the value of homes and indeed development site values since the comparable transaction dates which range Nov 2010 – July 2012.

7.72 Therefore in looking at the comparable evidence I have indexed the site land transactions to at a minimum rate of [redacted] per annum to arrive at a present day land values. In adopting [redacted] per annum growth this reflects the gearing effect of a 5% per annum uplift in sales values which I anticipate has been achieved over the past two years in London notwithstanding increased bidding competition that has occurred in the market.

7.73 I set out a table below which analyses four of the transactions on two different bases. The schemes which are similar to Mount Pleasant in terms of the proposed scheme on a capital value per market unit and in terms of price per acre for the City Forum and Goodmans Field transactions which are in excess of four acres.

7.74 In looking at the evidence to inform my assessment on a value per market housing unit I favour Silicon Tower and Worcester Point over the other two comparables as Goodmans Field proposal includes c.370,000 sq ft of commercial floorspace in order to inform a price paid on a market unit basis; and similarly in respect of City Forum I am aware the price paid is supported by the existing income generating uses that exist on site.

7.75 In looking at the evidence to inform my assessment on a price per acre basis I favour Goodmans Field and City Forum as these site areas are in excess of four acres and looking at Silicon Tower and Worcester Point these sites are less than an acre and as such serve to distort as evidenced in the table below.[R/5]

	Base			Indexed		
	Acquisition Price	Site value per market unit	Value per acre	Uplifted Acquisition Price	Site value per market unit	Value per acre
Silicon Tower	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Worcester Point	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
City Forum	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Goodmans Field	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

7.76 In drawing comparison with the applicant's opinion of site value a[redacted] and the analysis above this indicates a site value per acre [redacted] and this falls within the indexed range of City Forum & Goodmans Field.

7.77 By way of comparison on a site value per market unit proposed at 556 units this analyses at c[redacted] per market unit which falls below the lower end range of the base and indexed analysis which is [redacted] respectively.

7.78 We have recently been asked to consider other transactions that fall within LBC and these are:

- 45 Sidmouth Street
- Central St Giles
- Kings Cross

7.79 In looking at 45 Sidmouth Street the land transacted in 2007, and as such I have excluded this from our comparable review. In looking at Central St Giles the land and property has been historically owned by Legal & General and the recent development scheme did not involve a land transaction.

7.80 There are a number of transactions that have taken place in the Kings Cross area and again I have discounted these as the location is not similar to Mount Pleasant, as the value drivers at Kings Cross are driven by the regeneration proposals and superior transport links.

Benchmark alternative options- Sale & Leaseback

7.81 More recently the applicant has circulated a draft valuation and I attach a copy as Appendix 4. This paper considers a sale and leaseback of the entire site currently owned and occupied by RMG with and without an opportunity to subdivide the properties.

7.82 A sale and leaseback is where the owner of property sells the freehold or long leasehold interest in that property for a capital receipt and enters into a lease to continue occupying subject to the payment of an annual lease. It allows the full market value of a property to be utilised, rather than the restricted value from an Existing Use Value. This is a useful way of raising funding and capital receipts and is something that central and local government in addition to a number global organisations have and continue to undertake.

7.83 Under these scenarios the paper indicates a net site value ranging between [redacted] and it is reasonable for the applicant to seek to rely upon this value range albeit they are currently seeking to rely upon a site value of [redacted] which is below the lower end of range identified in the draft sale & leaseback paper.

Existing Use Value plus Premium

7.84 Clearly it is possible for the site value to be determined by reference to an existing use value plus a premium or mark up. However this would need to have reference and be supported by market evidence rather than an uplift factor that has been arrived at arbitrarily.

7.85 Notwithstanding our comments regarding the uplift factor I am of the opinion the existing use value at [redacted] is a restricted value and does not reflect the market value of the land. I am of the opinion the value of the land is artificially low and therefore it has limited application in assessing a competitive return for the land.

7.86 I refer to Gerald Eve's diagram below which shows that irrespective of methodology (i.e. market value or existing use value plus premium) the site value should be the same and can be disaggregated as existing use plus premium or margin mark up.

Source: Gerald Eve

7.87 It follows from the above, that in arriving at the site value in accordance with the RICS GN (and in turn the NPPF) it is appropriate in this instance to consider in principle the following:-

- The planning status and policy in respect of the Site;
- The Existing Use Value of the Site (EUV);
- Comparable transactions of development land; and
- Site constraints.

Title

7.88 Gerald Eve set out the site is free of any encumbrances, or restrictions on title which would adversely affect the value. A Title Report has been prepared by Olswang and Gerald Eve set out that RMG have a "good marketable title". A copy of the Title Report is available although we have not requested a copy of this confidential document.

Summary

7.89 In arriving at my opinion of value I have had regard to a land value that takes account of a 50% affordable housing provision, current use value and land transactions.

7.90 A site value that provides 50% affordable housing is not viable as even taking into account a nil site value the model IRR does not exceed a minimum IRR return hurdle rate.

7.91 This indicates the scheme could not offer a competitive return to a land owner to release land for development; or provide a prospective developer with a competitive return for taking forward a scheme of this nature as the IRR falls short of the DVS IRR hurdle rate at [redacted] and the applicant's rate at [redacted]. On this basis development of the site would not proceed.

7.92 Theexisting site value at [redacted] restricted value equates to [redacted]. Having regard to this based upon the comparable evidence and my professional judgement I am of the opinion this understates a "competitive return" that a reasonable landowner would require.[R/5]

7.93 Based upon the comparable evidence provided and based upon a site value derived by way of price per market unit indicates a site value range of c. [redacted] which devalues on a price per acre to [redacted].

7.94 In addition the applicant has provided a draft paper which considers the valuation of the complete RMG campus and this indicates the site value could range between [redacted]

7.95 I have analysed and considered the applicant's site value determined at [redacted] in a number of different ways, including site value relative to overall project costs (c. [redacted] of the overall scheme costs) and potential option of sale and leaseback. Looking at all these valuation approaches, I am of the opinion that [redacted] is at the lower end order range of value which the applicant could seek to rely.

8.0 Residential Revenue

Market Housing

8.1 I set out an analysis of the residential accommodation which is proposed:

Private		NSA sqft	units	hab rooms
Camden	Phoenix Phase 1	167,002	177	556
Camden	Phoenix Phase 2	88,096	109	287
Islington	Calthorpe Phase 3	115,285	120	432
Islington	Calthorpe Phase 4	136,927	150	387
Sub Total		**507,309**	**556**	**1,662**
Intermediate		**sqft**	**units**	**hab rooms**
Camden	Phoenix Phase 1	15,130	21	51
Camden	Phoenix Phase 2	5,916	6	22
Islington	Calthorpe Phase 3	12,056	16	40
Islington	Calthorpe Phase 4	8,295	12	27
Sub Total		**41,397**	**55**	**140**
Social Rent		**sqft**	**units**	**hab rooms**
Camden	Phoenix Phase 1	25,126	23	89
Camden	Phoenix Phase 2	16,302	16	72
Islington	Calthorpe Phase 3	22,088	19	83
Islington	Calthorpe Phase 4	16,833	19	67
Sub Total		**80,349**	**77**	**311**
Private		507,309	556	1,662
Affordable		121,745	132	451
Total		**629,055**	**688**	**2,113**

8.2 In support of the residential revenue, the applicant has provided a report prepared by Knight Frank (KF) dated 26th February 2013 in addition to a Mount Pleasant Block Summary dated 22nd May 2013 and an excel spreadsheet with unit by unit pricing for the scheme.

8.3 The KF report provides a high level over-view of the development scheme in addition to a section in regards to the local market/buyer profile in Farringdon.

8.4 In pricing the scheme, KF have had regard to development schemes at Central Square, Canaletto and Eagle House in EC1 and Art House in N1.

8.5 The proposed scheme has been priced by KF in the knowledge there is significant pipeline which will deliver c. 3,184 competing units and of there are 1,244 units which remain to be launched.

8.6 We set out below KF summary of these schemes in comparison to the proposed development:

> **Central Square EC1** – "We consider Central Square to be a slightly lower quality development than Mount Pleasant. Mount Pleasant is priced slightly higher as a result.
>
> **Eagle House EC1** – We consider Eagle House to be of a similar quality to Mt Pleasant and the pricing reflects this.
>
> **Art House (Kings Cross) N1** – We consider Art House to be of a better quality development than Mount Pleasant with superior transport links. The pricing at Mt Pleasant represents a slight discount to the Art House.
>
> **Canaletto EC1** - Canaletto has been used as a comparable when pricing Mt Pleasant as it is in close proximity to the development site. We consider Canaletto to be a higher quality development and therefore the values at Mt Pleasant are lower to reflect this. Due to the height advantage Canaletto offers more expansive views. It also has excellent views onto the City Road Basin. The quality of architecture and design is superior to Mt Pleasant and the site offers better amenities."

8.7 KF have priced the scheme on a unit by unit basis having regard to the individual characteristics for each building and apartment having regard to orientation, outlook, and proximity to public transport, amenity and height.

8.8 In support of the unit by unit pricing, KF have produced a schedule that provides greater insight into their valuation rationale. The schedule outlines the range of values across each building together with a strengths and weaknesses analysis which serves to illustrate the hierarchy of values across the scheme.

8.9 In summary, the residential values assessed by KF do not appear to be unreasonable at present in comparison to the comparables referred to by the applicant in N1 and EC1.

8.10 However, there is currently no comparable evidence within the immediate locality to fully support the values adopted for the scheme, due to the location of the subject site as it is not considered at present to be an established residential location.

8.11 As a result, the residential market in this locality is relatively un-tested and therefore the proposed scheme will generate its own market and capital values. The values the scheme could potentially achieve will be dependent upon the values achievable from the first initial phases, which will be influenced by the branding; product and place-making the scheme generates.

8.12 It is clear future sales values at the proposed scheme will benefit positively from the introduction of Crossrail in 2018. KF "Crossrail Report" dated May 2013 states *"Meanwhile Farringdon will become one of the biggest transport hubs in London, linking the East/West Crossrail route to the North/South Thameslink service and making it a very attractive destination for homebuyers who want to be able to reach most corners of the capital quickly".*

8.13 It should be highlighted the pricing of the units have been prepared on the basis of improvement to the external envelope of the main RMG building which RMG are seeking to rely. If improvements to the external envelope are not implemented it is reasonable to assume the value of the apartments that overlook the main building may be reduced. I should highlight that we have not reflected this in the residential values that inform the DVS base model assumptions.

Sales Programme

8.14 A key factor in KF sales strategy is the bank lending criteria of pre-selling a minimum of [redacted] of each plot before funding is released and construction can commence. This has become a key requirement in recent years to de-risk their debt exposure.

8.15 In assessing the sales programme beyond pre-sales the agent has assumed a maximum [redacted] per annum. This is supported with evidence of other scheme sales which indicate a sales rate equivalent to [redacted] per month, and as such, I am of the opinion is reasonable for this project.

Ground Rents

8.16 I have considered the ground rent comparable evidence (rents & yield) adopted and confirm these are reasonable.

Car Parking

8.17 The scheme will provide 343 car spaces. I have considered the price adopted for car parking spaces together with the comparable evidence and confirm the values adopted are reasonable.

Affordable Housing

8.18 The applicant has prepared their FVA assuming an affordable housing content of 132 units (55 intermediate 77 rent) which reflects c. 19.5% by area, c. 19.4% by unit and c. 21.4% by habitable room.

8.19 For the purpose of assessing the scheme Gerald Eve have taken a cross section of market rents across both boroughs in a range of postcodes in addition they have also had regard to affordable rent studies in LBC & LBI.

Rent Assumptions

8.20 The rent assumptions are based on capital value inputs (adjusted to take account of potential costs, voids and repairs) for the following:

- Studio: A maximum of 80% market rent equating to [redacted]
- 1 Bed: A range of 60-80% of market rents across a wide range of postcodes. As an average Gerald Eve assumes 70% market rent, equating to [redacted] per week.
- 2 Bed: A range of 50-70% of market rents across a wide range of postcodes. As an average 60% of market rent, equating to [redacted]
- 3 Bed: A maximum of 50% market rents equating to [redacted] per week;
- 4 Bed + : A maximum of 40% of market rents this equates to [redacted] per week

8.21 The blended capital values for affordable rent have been aggregated from the net cashflows and yield. In determining the value, Gerald Eve have assumed that a Registered Provider would not cross subsidise and there is no allowance for any competitive considerations. Furthermore as the affordable housing will be delivered under a S106, no social/affordable housing grant or public sector funding is reflected.

8.22 In having regard to this capital value I am of the opinion they are reasonable subject to confirmation from LBI & LBC the rents satisfy their policy requirements.

Intermediate

8.23 The intermediate tenures have been valued on the basis of a 30% equity sale and a 2.75% rent on the unsold equity which is capitalized with a risk adjusted yield to take account of the income in perpetuity. This has been applied across the intermediate units of the scheme to determine a rounded average and the resulting revenue adopted results in a capital value in excess of what I would anticipate.

9.0 Commercial Revenue

9.1 The application scheme comprises a mix of commercial uses including offices, retail, and other community uses. The application scheme proposes retail space within Phase 1, 2 & 4 while phase 3 contains both office and retail accommodation and after having regard to the comparable evidence we are satisfied the rents, yields and incentives are reasonable.

Use	Sq Ft
Retail	
Phoenix Phase 1	6,125
Phoenix Phase 2	2,734
Calthorpe Phase 3	6,975
Calthorpe Phase 4	8,019
Commercial	
Phoenix Phase 1	-
Phoenix Phase 2	-
Calthorpe Phase 3	31,603
Calthorpe Phase 4	-
Total	**55,456**

10.0 Construction Costs

Enabling Costs

10.1 The applicant is seeking to offset enabling costs which they set out are the works necessary in order for RMG to release the land for re-development. In looking at the RICS Guidance note it could fall that these costs could be interpreted as reasonable costs for "relocation" in order to release the land for development. The GLA Three Dragons Toolkit guide is more explicit, stating

"Where the land owner is a business, then there is an additional consideration in whether the business can, or needs to re-locate. Under these circumstances the residential planning permission (with or without affordable housing) will have to provide sufficient money to allow the firm to purchase another site to carry on the business." (Source: GLA Three Dragons Toolkit Guidance Notes 2012).

10.2 I consider that the enabling costs reasonably needed to release the application site for development should be included in the assessment. This would include current operations dealt with on the application site, but exclude costs associated with bringing in to the overall site elements not currently on the application site.

10.3 Where the enabling costs are for the benefit of "place making" for the application site they should also be allowed as they would have a positive effect on the development value of the scheme.

10.4 I set out overleaf a table setting out a brief description of the enabling costs which RMG are necessary in order for RMG to release the land for re-development as per their interpretation of the SPD.

10.5 In setting out the enabling costs RMG are seeking to offset we are advised the total enabling cost spend at Mount Pleasant is [redacted] RMG are seeking to claim [redacted] [R/1] of this sum as enabling costs against this project as a cost.

Phoenix Place Enabling Costs Headings

	Type of Work		Description
P1	LOB External Wall & Roof Treatment	Phase 2	A proportion of the total costs to upgrade the façade of the Letters Office Building (LOB) to provide views from the residential development that will support assumed residential values – 70% of the overall cost is allocated as enabling cost and 30% of this is associated with the Phoenix Place development
P2	Acoustic Treatment to West Loading Bay		The costs to rework the façade and provide acoustic attenuation between the west loading dock and the Phoenix Place receptors
P3	East facing residential - south	Development Work	Bomb proofing to the residential facing the RMG Operations facility
P4	Sub structure complication		Associated with a 7m drop across the length of the Site
P5	Staff Parking Permanent		New built basement car park (150 to 200) Site to replace existing facility on Phoenix Place
P6	Temporary Staff Parking		150-200 spaces temporarily relocated over 2-3 years at NCP at Bowling Green Lane during the construction of replacement facility

Source: M3 Consulting

10.6 The following table sets out the cost headings associated with the Calthorpe Street Site in order t enable development.

Calthorpe Street Enabling Costs Headings

	Type of Work		Description
C1	Internal Fabric & North Road strengthening	Phase 1	Removal of escalators, and strengthening to the Service Yard (North Road) to allow Ground Floor to accept the First Floor Mail Processing functions
C2	M&E Services		Relocation of M&E services and upgrades to allow intensified use of the Ground Floor
C3	Internals Fabric and MEP - Basement	Phase 2	Rework to the internal fabric and M&E systems at Ground, First and Basement to allow the relocation of the Delivery Office from Basement to First Floor
C4	MEP Shell & Core		Upgrade to M&E Shell & Core Systems to suit reconfigured floor functions
C5	LOB External Wall & RoofTreatment		A proportion of the total costs to upgrade the façade of the Letters Office Building (LOB) to provide views from the residential development that will support assumed residential values – 70% of the overall cost is allocated as anenabling cost and 70% of this is associated with the Calthorpe Street development
C6	POB External Wall Treatment		A proportion of the total costs to upgrade the façade of the Public Office Building (POB) to provide setting for the residential development that will support assumed residential values – 30% of the overall cost is allocated as enabling costs and 100% of this is associated with the Calthorpe Street development
C7	Basement LOB	Operational Cost	Non building works costs associated with the relocation of RMG vehicles to LOB Basement

C8	LOB Ground Floor		Non building works costs associated with Mail Processing intensification & Automation
C9	LOB First Floor		Non building works costs associated with the relocation of the DO to First Floor from Basement
C10	North Road & Ramp Structure	Phase 3	Structural Work to widen the North Road and build new ramps so that northern part of the Site can be released for development
C11	North Road Acoustic Roof		Heavyweight Intensive roof to deal with noise and light pollution to allow residential development to exist adjacent to the North Road
C12	Basin		Ground Floor structural slab formed over the existing basin to create separation between the residential development and the RMG operations
C13	LOB Basement		Making the LOB basement ready for vehicles: vent, light, sprinklers etc. so that RMG vehicles can vacate the majority of the basin and the space made available for the Calthorpe Street development
C14	South facing residential - south	Development Work	Bomb proofing to the residential facing the RMG Operations facility
C15	North Road - above ground		Thermal, acoustic and structural treatment to the residential units that sit over the new ramp structure
C16	Foundations to development		Structural complications associated with forming foundations through the mail rail and fleet sewer branch for the Phase 3 works and the residential development
C17	NW corner at Mail Rail depot access		Costs associated with maintaining emergency egress from the Mail Rail 'Depot' through the development as well as conversion of the Mail Rail loading access shaft to suit landscape proposals - pre cast planks etc.

Source: M3 Consulting

10.7 The Enabling costs are split into three sections namely Phase 1, 2 & 3. My quantity surveying colleague has met with the applicant to discuss and review the costs and the apportionment they are seeking to recover as enabling development costs.

Phase 1

10.8 This section involved the rework of the Ground Floor of the LOB so that it could accept an intensified Mail Processing operation combining the operations on the Ground and First Floors. This phase also included works to the First Floor, Basement and Roof and ancillary areas.

10.9 The claim is divided into three main areas being:

- Demolitions, repairs, structure and finishes
- Mechanical and Electrical
- Communications, Data, Fire, Security etc

10.10 It is his opinion that none of these costs are eligible as Enabling Costs as they relate to the installation of new equipment etc required for the updated processes as instigated by RMG and they do not enable the Development.

Phase 2

10.11 This section involves the completion of internal works to the existing buildings.

10.12 The claim is divided into three main areas being:

- **Works to envelope walls and roof** – He has allowed a proportion of these costs for the works to the render areas where overlooked by the proposed development, as these works will support the residential apartment values.

- **Mechanical and electrical** – He has included costs for the new Ventilation system etc to the basement but have not included the cost for the new boilers etc as he is of opinion these works are not required to enable the development.

- **DO Refurbishment** - The work covered here is a mix of building, services and finishes. This work was carried out to areas where both externally relocated operations and internal reorganisations were located. The floor areas used were measured and the split is 51.6% of the floor is used for internal reorganisation and 48.4% for relocated external operations. Accordingly 51.6% of the costs have been allowed, and this is the basis on which the application has been submitted.

Phase 3

10.13 The works covered by this Phase have yet to be carried out and are basically split into three areas:

- **The first section relates to the new roof over the new yard area, new ramps etc** - The costs submitted for these works have been reviewed and are acceptable as submitted.

- **The second section relates to Section 106 works** - This covers works to various road junctions etc and whilst the costs as submitted are acceptable I would not consider them to be enabling works.

- **The third sections relate to PV panels on the roof** – Whilst the costs are acceptable they should not be considered as enabling costs.

10.14 Having met with the applicant's advisors to consider the costs and apportionment in greater detail my QS colleague has adjusted the Enabling costs adopted by the applicant in the FVA model downwards by c [redacted] which has not been agreed with the applicant.

10.15 However, in excluding the cost of works to the exterior envelope there remain a risk this may serve to reduce the values of the apartments which have direct views of the RMG main building.

10.16 Notwithstanding our comments above if the applicant/occupier were seeking to relocate their operation to another site it is possible they could claim a fair proportion of the costs as relocation costs.

New Build Construction Costs

10.17 We were provided with an initial cost plan prepared by Davis Langdon which my QS colleague has reviewed. We have also met with them to review certain aspects in greater detail and following this meeting DL issued a revised Stage C+ Cost Plan rev 1 dated April 2013 to reflect the design freeze and set out comment in Para 10.13 -

10.18 We have reviewed the above document dated 11 April 2013 which has been prepared using the drawings prepared by the various Architects for the different phases of the scheme.

10.19 The prices used in the document are set at 1Q13 and are fixed price at that point in time.

10.20 The Cost Plan uses additions of [redacted] for Design Reserve and Contingency. These levels are all in line with general allowances for this type of scheme.

10.21 The Cost Plan has been calculated using measured quantities based on the drawings listed with rates from Davis Langdon own library of costs etc. These rates have been benchmarked and are in line with other similar schemes.

10.22 The report sets out at item 1.8 in the Executive Summary that it is likely that a discount in the order of [redacted] on these rates may be applicable to potential purchasers of the site.

10.23 It is accepted this may be possible however there are many factors that will impact on whether or not this materialises particularly future market conditions and how and when any future sales of plot(s) takes place. This is always a factor in larger schemes such as this and, in my opinion, cannot be relied upon at this stage of the cost estimating process.

10.24 The Cost Plan has been calculated by considering each of the main 5 Phases separately and the rates used in the various Phases are all consistent.

10.25 Allowances of [redacted] have been included in total for the Incoming Services and Network Reinforcement and these are stated as budget allowances only and may well vary depending when any scheme takes place and the capacity available at that time.

10.26 The total of the Davis Langdon Cost Plan is [redacted] but this includes [redacted] Enabling Works for Phase 3 which have been reviewed separately and comment upon at Para 10.1-10.11 above. Once this figure is deducted the figure [redacted].

10.27 The total Gross Internal Area for the entire scheme is 892,002 ft2 which is 82,867m2 and this area used with the reduced total build cost results in an overall build rate of [redacted] which is broadly in line with other similar schemes.

10.28 No allowance has been included for Professional Fees.

10.29 In summary the cost plan as submitted is acceptable with the foregoing minor comments.

Construction Contingency

10.30 The applicant's FVA includes an additional contingency provision which I do not accept because the cost plan provides for an adequate contingency allowance.

11 Growth Assumptions

11.1 The merit of using an outturn approach is that it can secure a known amount of affordable housing when the scheme on a current cost approach is not viable. The downside, however, is that growth is difficult to predict and the amount of affordable housing and S106 contributions secured could be either insufficient or excessive depending on the price growth or cost inflation.

11.2 The applicant has provided a financial model which allows for escalation of both costs and values, having regard to supporting documents produced by the applicant's professional team.

11.3 It is interesting to note that whilst the property market generally follows economic cycles the growth pattern for the financial model is upwards only.

11.4 There is no regeneration effect and no allowance has been made for the opening of Crossrail. In my view the subject site will benefit from Crossrail in 2018 as the site is within a 10 minute walk time of Farringdon Station.

11.5 In relation to the forecasting, whilst this is impossible to predict with any certainty, the base inflation figures suggested by Gerald Eve, reflecting an increase over the [redacted] year life span of the scheme, appear on the conservative side of reasonable when compared with the average over the last 17 years or even over the last 35 years.

11.6 However, past performance is not a guarantee of future performance and the economic circumstances that existed across the previous property cycles are very different to those that exist today.

11.7 The major issue is affordability and the availability of finance. This has changed significantly over the past 10 years as salary growth has been relatively modest compared to house price inflation. There are also other considerations as London is attractive to foreign investors. The health of global economy will have an impact and the ongoing issues within the Eurozone may see further investment in London as it is regarded as a relatively safe economy.

11.8 In looking ahead to 2022 and the level of growth that will be achieved there remains a level of uncertainty due to many factors but potentially the lack of income growth for domestic buyers is probably most significant with much larger multipliers of income now required to purchase property than before and the emergence of policy and regulation that financial services are now having to observe.

11.9 In having regard to recent comment both Jones Lang LaSalle and Knight Frank research are forecast uplift in residential capital values of c. 40% for residential schemes that are within a 10 minute walk time of Farringdon Station over the period to 2018 due to Crossrail. Clearly both LB Camden and LB Islington residential values will benefit from improved infrastructure at Farringdon Station.

11.10 This could potentially widen the appeal of the proposed scheme to international investors due to improved transport links to key business centre locations in London in addition to enhanced transport links at Farringdon Station in 2018.

11.11 Therefore in considering the applicant's growth model this indicates growth of c [redacted] and in order to fully reflect the potential growth as a consequence of Crossrail we have adopted a [redacted] uplift over the project programme which reflects [redacted]

	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Applicant	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
DVS	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

11.12 Following the circulation of my initial draft report LBI/LBC requested the applicant to provide a number of scenarios in order to understand the maximum reasonable amount of AH the scheme can support.

11.13 As part of this request LBI/LBC requested the applicant prepare models adopting residential revenue growth of [redacted]

Residential Growth	Equivalent to % uplift Residential Values by [redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

11.14 I attach copies of the scenarios as Appendix 4, which illustrates how revenue growth impacts upon the scheme metrics.

11.15 If the revenue growth rate is increased the risks of the development and the required target return will also increase, so it is necessary to take a balanced view. The current market is being fuelled in part by recent government initiatives (Help to buy) as well as substantial foreign investment.

11.16 Continued growth in prices will depend on a strengthening economy, and will improve sterling currency exchange rates. This may manifest in overseas investors seeking to take advantage of the arbitrage of increased London residential values and exchange rate gains in repatriating their investment funds. This will serve to dampen overseas investment demand for London residential property and it follows this will impact upon pricing/growth.

Office Growth Forecasts

11.17 Gerald Eve set out the forecasts for Midtown to provide a guide of the likely pattern of rental growth in Clerkenwell, which will be more gradual, which I accept and set out a summary below:

2013	2014	2015	2016	2017-21
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

Source: Gerald Eve Research

Retail Growth Forecasts

11.18 The economic downturn and economic uncertainty has had an impact upon the retail sector and I agree with Gerald Eve noting there is a need for caution applicable to Mount Pleasant as it is not currently a retail location.

11.19 Gerald Eve have therefore assumed growth in accordance with the Retail Price Index (RPI) which is a reasonable approach.[R/4]

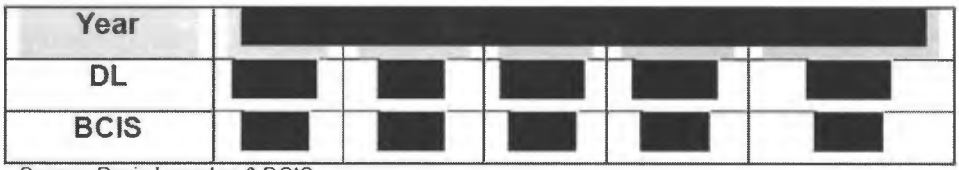
Source: Experian

Affordable Housing Growth Forecasts

11.20 The applicant's consultant has adopted RPI growth over the development period to inform affordable housing revenue receipts which is a reasonable approach.

Construction Cost Inflation[R/2]

11.21 In preparing the FVA the applicant has adopted cost inflation forecasts prepared by Davis Langdon, the costs consultants to the project, and in having regard to the forecast I am of the opinion they are reasonable after having regard to the BCIS forecast over a similar period.



Source: Davis Langdon & BCIS

12 Additional Cost Headings

Professional Fees

12.1 I accept the percentage allowance adopted by the applicant as reasonable for a scheme of this nature and complexity. However, any developer taking forward this scheme would probably agree fixed fees at a rate lower than the percentage sum allowances.

Sales & Marketing Fees

12.2 The applicant has adopted a sales fee of [redacted] and marketing fee of [redacted] For the purpose of this review, our assessment adopts a sales fee of [redacted] and marketing fee of [redacted]

Finance

12.3 Finance has been based on 100% gearing at a rate of [redacted] This is higher than other similar sized schemes I have reviewed over the last year or so, which have typically been assessed at an "all in" rate of [redacted] which would include arrangement fees.

12.4 I have undertaken some research into swap rates and these appeared to have fluctuated over the past 36 months with rates at almost 4% in 2011, falling to below 2% in mid 2012 before climbing to around 2.8% at the current time.

12.5 The medium term interest rate policy of the Bank of England is possibly clearer as the new Governor has recently set out his new regime of forward guidance.

12.6 Under this system, the Monetary Policy Committee will not consider raising interest rates until the unemployment rate falls below 7%, which he predicted would take about three years and the creation of 750,000 jobs. The Bank of England base rate has been 0.5% since March 2009 and now looks to be stable for some time.

12.7 The current 6 month Libor Rate is around 0.59%.

12.8 I would normally anticipate the finance rate to be adopted to reflect an appropriate property margin to reflect risk plus fees. This would generally give a finance rate of around 5-6%. However; it is unlikely that all of the funding would be provided in this way and as the assumption is 100% gearing the remainder of the funding would come from potentially more expensive sources. This overall effect of this is that I would expect a finance rate of circa [redacted]

12.9 Obtaining funding remains difficult at the moment and large liabilities that front load a project will serve to increase the risk profile of the project and potentially affect the opportunity to obtain funding.

12.10 The impact of the finance rate is not pertinent when the benchmark being considered is an IRR rather than a land value, as the IRR calculation ignores the cost of the funding. Instead the key issue are the programme and the timing of income and expenditure. Essentially if the development period is extended this potentially will reduce the IRR as the profit is achieved over a longer period if no further growth takes place.

Rights of Light

12.11 The applicant has determined rights of light compensation and these sums have been informed by a report and analysis prepared by specialist consultants and we have no reason to believe these do not reflect the level of compensation required.

12.12 The sums of money involved are significant when viewed in isolation but the overall impact of cutting these by 50% is only a [redacted] change in the IRR.

Value Added Tax

12.13 We are advised that RMG is partially exempt from VAT purposes, which means that in general terms it cannot recover all the VAT it incurs on expenditure. The extent of recovery is quite complex but in simple terms it would apply as follows:

"**Costs Incurred relating to operating assets or mixed costs:**
RMG can currently recover [redacted] This rate applies to all costs which were not directly attributable to a disposal or which related to retained Royal Mail assets. So this rate would be applied to costs relating to the provision of new car parking at Phoenix or adapting the RMG retained buildings on the Calthorpe site."

"Costs relating Directly to a Disposal of the Site: [redacted]

12.14 Therefore subject to a more detailed review Gerald Eve are advised by RMG's accountants that ar[redacted]

Project Programme

12.15 We have adopted the application scheme's project programme, as this appears to be reasonable. We acknowledge the next stage of design will more carefully consider value engineering and opportunities to reduce the project programme in order to optimise the scheme.

12.16 Clearly any change in the programme i.e. extension or shortening of the programme will impact upon the metrics of the scheme proposal.[R/6]

Construction	Start	End
Phoenix Phase 1	[redacted]	[redacted]
Phoenix Phase 2	[redacted]	[redacted]
Calthorpe Phase 1	[redacted]	[redacted]
Calthorpe Phase 2	[redacted]	[redacted]

Source: M3

Planning Obligations

12.17 The applicant's FVA sets out a provision for total c. £9.97m and confirmation from LBI & LBC is required to confirm this is correct.

	S106	Mayoral CIL
Phoenix Phase 1	1,825,603	1,808,775
Phoenix Phase 2	1,825,603	-
Calthorpe Phase 3	1,350,603	1,808,775
Calthorpe Phase 4	1,350,603	-
	£6,352,412	**£3,617,550**

Source: Gerald Eve

Developer Return

12.18 The applicant's present day financial models based upon the applicant's assumptions indicate an IRR [redacted] and on a growth basis [redacted]

12.19 However, in having regard to the various comments and assumptions set out above the IRR and on a present day (without growth & cost inflation) indicates an IRR of [redacted] and on an outturn model (with growth & cost inflation) indicates an IRR of [redacted]

12.20 I set out a summary below of the various analysis:[R/7]

DVS Assumptions	IRR
Present Day Model (excluding growth & inflation)	[redacted]
Outturn Model (includes growth & inflation)	[redacted]
*Outturn Model reduced Right of Light	[redacted]
Present Day Model nil site value & 50% affordable housing	[redacted]
Outturn Model assuming nil site value & 50% affordable housing.	[redacted]

Note: * If Rights of Light payments reduced by 50%

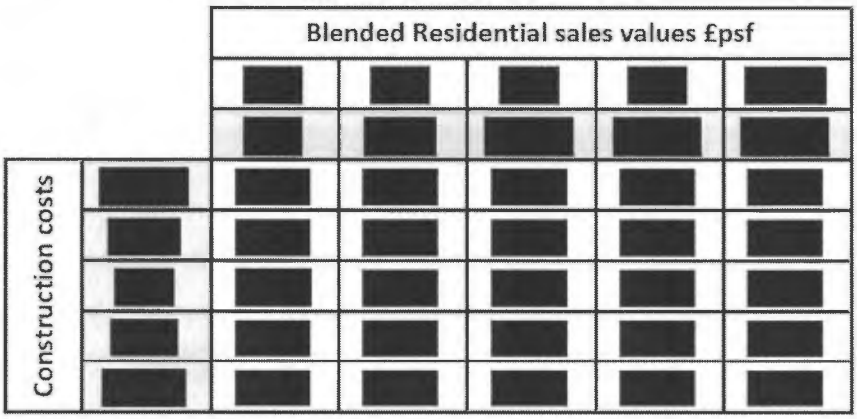
12.21 I attach an FVA summary of the outturn model which indicates an IRR of [redacted] as Appendix 5.

13 Sensitivity Analysis

13.1 In order to test the sensitivity of the scheme IRR having regard to our assumptions. We have looked at two scenarios that consider the movement in present day construction costs +/- 5% increments and sales values + 5% increments and set out the results in the table below:

13.2 In looking at the table below if construction costs are not subject to any variance the analysis below indicates that present day sale values would need to be c. [redacted] higher to exceed an IRR target return threshold of [redacted]

Proposed Scheme appraisal – DVS revised inputs[R/7]



13.3 The assumptions that inform the table analysis below are identical with exception to a 50% reduction of Rights to Light. On this basis present day sales values only need to increase by [redacted] in order to exceed an IRR target return threshold of [redacted]

Proposed Scheme appraisal – DVS revised inputs plus reduced Rights of Light cost[R/7]

14 Conclusion

14.1 I have assessed the applicant's FVA and after taking account of the various comments set out in this report I am of the opinion it represents the maximum reasonable the scheme can provide.

14.2 The FVA assumes an affordable housing content equivalent of 132 units (55 intermediate 77 rent) which reflects c. 19.5% by area, c. 19.4% by unit and c. 21.4% by habitable room.

14.3 The proposal also includes planning obligations by way of Mayoral CIL and S106 contributions equivalent to £9.97m.

14.4 I am of the opinion that an acceptable IRR for this project is [redacted] on an outturn basis.

14.5 On a present day basis the applicant the applicants FVA indicates an IRR of [redacted] and upon my comments and assessment set out in this report indicates an IRR of [redacted] which falls short of a present day threshold IRR return of [redacted]

14.6 The applicant's Outturn FVA model indicates an IRR of [redacted] and taking into consideration the comments contained in this report this indicates an IRR o[redacted]

14.7 In taking into account our comments in respect of Rights of Light compensation this would result in a revised IRR of [redacted]

14.8 In both scenarios 100% & 50% Right of Light scenarios the scheme IRR is below the IRR threshold return I would anticipate for a project of this scale and complexity and as such is not deemed to be viable. Therefore the applicant's affordable housing offer represents the maximum reasonable the scheme can provide.

14.9 In considering review mechanisms and more particularly when an FVA has been prepared on an outturn approach it is not recommended practice to seek a review mechanism. This is reflected in the RICS Guidance Note as the developer is in effect, putting their best foot forward based upon forecasts in order to demonstrate to an LPA the ability of a scheme to provide the maximum reasonable affordable housing and planning contributions.

14.10 However, it would be reasonable to seek a review mechanism if a developer did not build out the scheme as reasonably reflected in the FVA development construction phasing plan. This therefore should deter developers from obtaining a planning and sitting upon the planning permission without substantially implementing and taking the scheme forward.