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

On behalf of Royal Mail Group

Position Note Three: Site Value

[Redacted Version]

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1 Introduction

1.1 Gerald Eve LLP is instructed by Royal Mail Group ("RMG") to undertake a financial assessment of a mixed-use development proposal at Mount Pleasant delivery and sorting office, more specifically land known as Calthorpe Street and Phoenix Place ("the Site" or "the Mount Pleasant Site"), which is the subject of a Supplementary Planning Document ("the SPD") adopted in February 2012 by both London Borough of Camden ("LBC") and London Borough of Islington ("LBI"). A Masterplan prepared by Terry Farrell architects and masterplanners was developed that informed the SPD. The Masterplan and therefore the SPD propose a holistic approach to development across the Mount Pleasant Site[1].

1.2 Subsequent to the publication of the SPD, RMG has instructed a team of consultants to prepare and submit three detailed planning applications for the Mount Pleasant Site. One application to LBC in respect of the Phoenix Place Site, and two applications to LBI in respect of the Calthorpe Street Site. It is anticipated that these applications will be submitted in 2013.

1.3 This document is the third of a series of detailed "Position Notes" ("PNs") which form part of pre-application discussions with the District Valuation Service ("the DVS") who are jointly appointed by LBC and LBI to independently review viability in respect of the Mount Pleasant Site.

1.4 The previous notes, PN1 and PN2, provided an introduction into RMG's overarching strategy for its central London operations, a background into the Site including obstacles which need to be overcome to enable development, and also a reconciliation and justification of the costs associated with Phase 1 and Phase 2, which we consider to be enabling costs for the development of the Scheme.

1.5 The information used in this PN and from all supporting documentation will ultimately inform a holistic financial viability assessment ("FVA") which will look at the entirety of the development proposals. When finalised, the FVA will seek to establish an appropriate level of affordable housing and planning obligations as an aggregated "pot". In other words, to assess what the proposals can afford as planning contributions to both Boroughs having regard to what is the maximum reasonable level of affordable housing.

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[1] See paragraph 4.3.40 of the joint SPD

1.6 The FVA will be prepared having regard to the National Planning Policy Framework ("NPPF"), London Plan, LBC's and LBI's (collectively known as "the Councils") Core Strategies, saved UDP Policies and generally accepted principles and guidelines in undertaking FVAs.

1.7 All the PNs will be prepared having regard to the RICS Guidance Note "Financial Viability in Planning" ("the RICS GN"), which was published in August 2012. The PNs should be considered as a whole and, as stated above, when combined, will form a major part of the FVA.

1.8 Specifically, this PN provides a detailed opinion of the Site Value having regard to the RICS GN. The information in this PN is in a form where the DVS will have the opportunity to review and comment accordingly.

1.9 We understand that the Greater London Authority ("GLA") will also rely upon the findings of the DVS.

1.10 The remainder of this PN is therefore set out under the following headings:

- Approach to Determining Site Value
- Planning Status
- Existing Use Value
- Comparable Evidence of Land Transactions
- Site Value

1.11 This report and its appendices are commercially sensitive and therefore is being provided to the Councils' advisers on a strictly confidential basis.

1.12 In order to inform the PNs we have and will be relying upon information provided by a number of other consultants which includes five architectural practices. The principal members of the planning application team are as follows:

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

1.13 A number of appendices are introduced and referred to in the text of the report.

1.14 This PN has been prepared as at February 2013 in the context of the prevailing uncertain economic climate (both UK and in the Eurozone). As a result, it may be necessary to revise and update the inputs prior to the preparation of the FVA, and therefore resulting outturns.

2 Approach to Determining Site Value

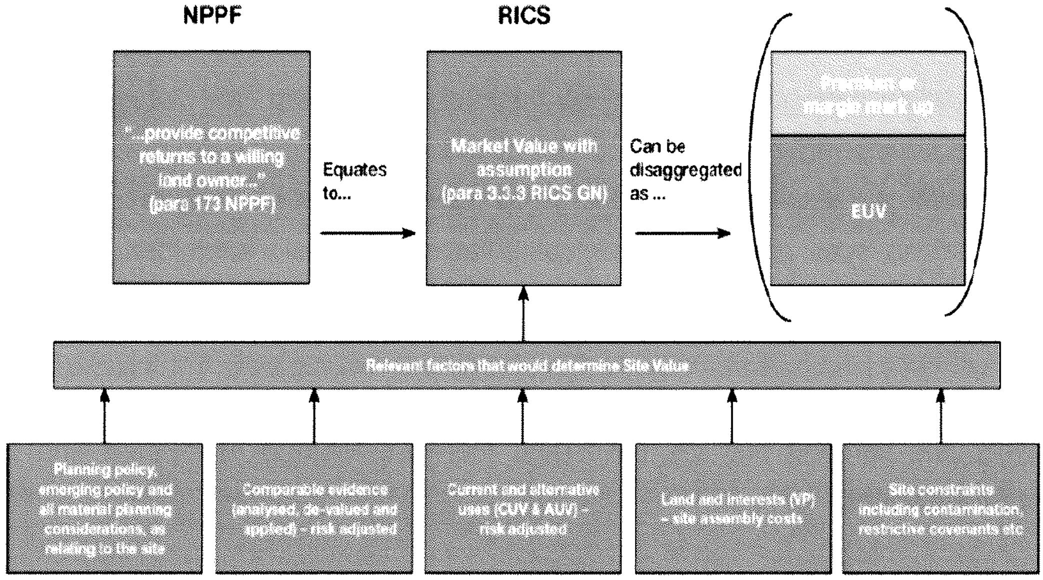
2.1 This section sets out the underlying basis of the adopted Site Value. Our views are formed having regard to the RICS GN of which the Executive Summary is attached at **Appendix 1**. Notwithstanding the RICS GN this section reflects best practice for undertaking such assessment including those previously submitted to Islington and Camden by Gerald Eve.

2.2 In arriving at the Site Value, we have had regard to optimisation in respect of the market cycle, the demand and the risks (and therefore returns) associated with delivering redevelopment.

2.3 Site Value is defined in the RICS GN as follows (para 3.3.3):-

> *"Site Value should equate to the Market Value subject to the following assumption; that the value has regard to the development plan policies and all other material considerations and disregards that which is contrary to the development plan".*

2.4 The RICS GN highlights that Site Value must, by definition, be at a level where the landowner is willing to sell at a competitive return as recognised by the NPPF (see paragraph 3.2 of this Position Note). It also says that Site Value should have regard to policy. Site Value therefore by definition is not unrestricted when compared to Market Value as defined the RICS Red Book. The degree of variance will be subject to a judgement, having regard to the circumstances in each instance. The diagram below summarises the assessment of Site Value as prescribed by the RICS GN having regard to paragraph 173 of the NPPF (and also how this can be disaggregated if required on an EUV plus basis):



2.5 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.

2.6 As there have been no transactions in respect of the Site, there is no evidence in this respect. We do however highlight that in accordance with the NPPF for the Site to come forward, RMG need to be a "willing seller" having regard to their ongoing operations as well as achieving a "competitive return".

2.7 We have assumed 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 this states that RMG have a "good marketable title". A copy of the Title Report can be provided on request although this must remain confidential.

Overall approach

2.8 In arriving at a Site Value we 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;
- 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).

2.9 We 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 clearly been worked up to accord with the SPD.

Ownership

2.10 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.

2.11 As the Sorting Office is to be retained it 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 height of the floors, this is equivalent in height to a much taller conventional office building. These are described more fully in the first two Position Notes.

3 Planning Status

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. The key planning policies in respect of financial viability are set out below. In terms of the specific Site planning context this is outlined in the SPD, which was adopted in February 2012 and is provided at **Appendix 2**.

National Planning Policy

3.2 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."*

3.3 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

3.4 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.

3.5 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. 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.

3.6 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

3.7 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.

3.8 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. A full extract of Policy DP3 is provided at **Appendix 3**.

London Borough of Islington

3.9 Policy CS 12 of the Core Strategy (a full extract of the policy is provided at **Appendix 4**).states that the London Borough of Islington will seek to provide affordable housing by

- "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.

  (our underlining)

3.10 The key element of the policy which we highlight 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".

3.11 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. 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.

3.12 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 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)

3.13 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.

3.14 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.

Summary

3.15 The national, regional and local policies set out above have been taken into account in formulating our view of the appropriate Site Value.

3.16 In summary, as a consequence, LBI policy in this instance is wholly reliant on and inseparable from a viability test to set the level of affordable housing with no lower or upper limit or indeed threshold level. It follows that when establishing land values it is not possible to rely on affordable policy in this instance albeit other policies show that residential would be acceptable on the Site. Therefore, in our opinion, both those acquiring land and valuers would need to place greater weight on comparable evidence and other valuation considerations (as set out in the RICS GN), in order to arrive at an appropriate Site Value.

3.17 LBC policy is clearer in this instance and in accordance with normal practice needs to be tested, having regard to the specific circumstances of the site and current market conditions in accordance with guidance and the NPPF.

3.18 The SPD identifies the Mount Pleasant site for residential development, of which the level of affordable housing will be subject to viability testing.

4 Existing Use Value

4.1 In consultation with RMG's valuers (BNPPRE) we have reviewed the existing use value of the site. This is the Market Value of the Site with a special assumption that it is retained in its existing use.

Phoenix Place Site

4.2 The Phoenix Place site totals 2.92 acres. It provides surface car parking for circa 350 cars and comprises a number of buildings in office and storage use.

4.3 [redacted]

4.4 [redacted]

4.5 [redacted]

4.6 [redacted]

Calthorpe Street Site

4.7 The site covers 3.5 acres and comprises hard standing providing yard space for vehicle parking and circulation. This site has a main road frontage to Farringdon Road to the north east and secondary road frontages to Calthorpe Street to the north west and

Phoenix Place to the south west. It adjoins the Royal Mail Sorting Office, which is purpose-built and dates predominantly from the 1930s. The Sorting Office is to be retained and is excluded from the assessment of Site Value.

4.8 [redacted]

Summary

4.9 The table below summarises the existing use value of the site:-

[Redacted]

4.10 Further details on the above can be provided.

5 Comparable Evidence of Land Transactions

5.1 The RICS GN outlines that it is important to have regard to sales prices of comparable development sites, para 3.16 states:

"*The importance…of comparable evidence cannot be over-emphasised, even if the supporting evidence is very limited, as evidenced in Court and Land Tribunal decisions.*"

5.2 A schedule of comparable transaction and accompanying location plan is provided at **Appendix 6**. We consider the following transactions to be of particular relevance to the Site:

Guardian House, 119-141 Farringdon Road, EC1R 3ER

5.3 The freehold interest in 119-141 Farringdon Road was acquired in July 2012 for £28.5 million. The site, which is situated within the London Borough of Islington, occupies a block bounded by Farringdon Road, Ray Street, Crawford Passage and Dabbs Lane. The building comprises basement, ground and five upper storeys and was constructed during the late 1960's. It provides office accommodation with a total NIA of 71,130 sq ft. The total area of the site equates to 0.66 acres.

5.4 The site is located 0.2 miles to the south of Mount Pleasant. The building fronts onto Farringdon Road, a relatively busy A road. However, the surrounding roads are minor and feature a mix of both residential and commercial uses. As such, the location of this property is similar to the Site.

5.5 Notwithstanding the above, Guardian House has marginally better transport links being located closer to Farringdon tube station, which is 0.3 miles to the south.

5.6 The site was sold without planning permission. [redacted]

5.7 A previously consented permission for the change of use, conversion and extension of the building to provide a GIA of 24,822 sq ft of office floor space at lower ground and ground floor levels, 1,421 sq ft of ground floor A3/A4 retail space and 118 residential units totalling 113,635 sq ft lapsed on 7th March 2012. [redacted]

207-11 Old Street & Empire House, 136-144 City Road

5.8 This site was acquired by Helical Bar and Crosstree in November 2011 for £60.7 million and is located adjacent to the Old Street Roundabout in East London. The freehold interest includes two large office buildings, arranged over 15 and 8 storeys with net internal areas of 114,944 sq ft and 95,929 sq ft respectively and Empire House, which is located to the north at 133-144 City Road. The latter is a period office building with a NIA of 20,544 sq ft and is currently vacant. The NIA of all of the existing buildings included within the freehold totals 286,607 sq ft [redacted]

5.9 [redacted] There is an opportunity for a tall building to be situated on this site, though the bulk and massing will have need to respond sympathetically to the adjoining buildings.

5.10 The site totals 3.19 acres, [redacted]

Silicon Tower, 261 City Road Basin, EC1V 1LE (Formerly the Lexicon)

5.11 261 City Road, formerly known as The Lexicon, was purchased by Affinity Sutton and Mount Anvil in a Joint Venture in December 2011 for circa £30 million.

5.12 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.

5.13 The site totals 0.92 acres. [redacted] In addition, the scheme includes two lower rise buildings ranging between 4 and 7 storeys in height.

5.14 In total, the development provides 307 units, 200 (65%) of which are private with the remaining 107 (35%) comprising of affordable housing tenures. [redacted]

5.15 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, [redacted]

5.16 Whilst this site has a frontage onto the busy City Road, we believe that its canal side location and plans for the wider generation of the City Basin area give the site a similar to slightly lesser level of residential amenity to that of the Mount Pleasant Site.

City Forum, 250 City Road, EC1V 2PU

5.17 Berkeley Homes acquired the City Forum site in June 2011 for £40.7 million. 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.

5.18 [redacted] 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.

5.19 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.

5.20 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. The scheme also consists of a significant commercial element including 116,466 sq ft of gross office floorspace, 47,448 sq ft of mixed retail space, student accommodation providing 160 rooms and a 125 room hotel. The NIA of the consented scheme totals circa 666,294 sq ft. [redacted]

5.21 [redacted]

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

5.22 The freehold of 89-93 Central Street, located in the Finsbury area of London was purchased for £19,500,000 by Mount Anvil in November 2010. The site area is 0.94 acres.

5.23 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.

5.24 The surrounding area is largely residential with a relatively high proportion of estate housing in the vicinity compared to the Mount Pleasant Site. We therefore consider the latter to be situated in a superior location.

5.25 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 61 residential units and office and retail floorspace. 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. [redacted]

St Barts Square, 47-62 Bartholomew Close EC1A 7ES

5.26 In April 2011, Helical Bar purchased a 2.3 acre site that previously formed part of St Bart's Hospital. The site is bounded by Cloth Fair to the north, Little Britain to the southwest, and Bartholomew Close, Albion Way, and Montague Street to the east.

5.27 The site was acquired without planning permission for up to £90 million comprising an initial price of £55 million with up to £35 million payable on vacant possession and receipt of planning. [redacted]

5.28 St Bart's Square is situated in a central yet off-pitch location. The location is considered to be superior to that of the subject site, being located within the City of London, 1.3 miles to the east of the Mount Pleasant Site. The site is located within 0.4 miles of St Paul's tube station.

5.29 The site comprised of 423,946 sq ft of existing buildings, predominantly in D1 use. [redacted]

5.30 Following acquisition of the site, Helical Bar submitted a planning application for the comprehensive redevelopment to provide a new living and working quarter. The masterplan splits the site into four distinct areas with residential floorspace concentrated within the northern part of the site and office space located in the south. In total, the proposed scheme seeks to provide 215 residential units with ancillary leisure facilities and resident's car parking. It is envisaged that the commercial elements of the scheme will comprise predominantly of office space with ancillary retail at ground level.

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

5.31 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 £60 million.

5.32 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.

5.33 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, 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. [redacted]

5.34 Goodman's Fields constitutes one of the few comparables with a site area that approaches that of the Mount Pleasant Site. [redacted]

Table 1: Summary of Comparable Land Transactions

[Redacted]

5.35 We have plotted the above transactions on the graphs below which compare the price paid expressed in terms of £/per unit, £/per private unit, £/sq ft NSA and £/acre.

[Redacted]

Summary

5.36 [redacted]

5.37 Notwithstanding the similarity in relation to site area, there are a number of additional key factors relating to Mount Pleasant which indicate a higher value per acre is appropriate for this Site (above the comparables at the lower end of the range shown above, namely City Forum and Goodmans Fields) including:

- 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 Fields; and
- The level of amenity and living environment in the surrounding area is of higher quality and more established.

5.38 The development of Mount Pleasant is comparable in residential terms to Silicon Tower and Worcester Point. Whilst it is not appropriate to compare this with the subject site on a per acre basis given the variation in size between Mount Pleasant and these two other sites, it is useful to compare on a per unit basis. [redacted]

6 Site Value

6.1 In arriving at the Site Value for the Site, we have had regard to the market cycle, the demand and the risks (and therefore returns) associated with delivering redevelopment, together with the above analysis.

6.2 For the purposes of planning, having regard to the above which we consider is material and taking account of the land comparables set out in Section 5 and **Appendix 6**, [redacted]

6.3 We consider this to be a conservative estimate on the basis of the comparable evidence analysed in this report and our of the view that should the Site be placed on the market today [redacted] Therefore for the purposes of the financial model we have adopted a Site Value of [redacted] which is at the mid to upper end of our range. This reflects the following:-

- The nature and make up of the two sites in terms of their developability;
- The operational requirements of RMG in terms of upfront enabling works;
- The planning status of the sites;
- The application of policy and signals to market; and
- The market for this quantum of landholdings in a central London location in order to create a scheme of intrinsic quality.

6.4 For all the reasons set out above, we consider this to be the most appropriate figure in the circumstances.