Appendix 16: Market Insights

Old Oak West OBC | Version 2: Revised December 2023

OPDC OLD OAK AND PARK ROYAL DEVELOPMENT CORPORATION

Homes England

Department for Transport

Department for Levelling Up, Housing & Communities

Contents

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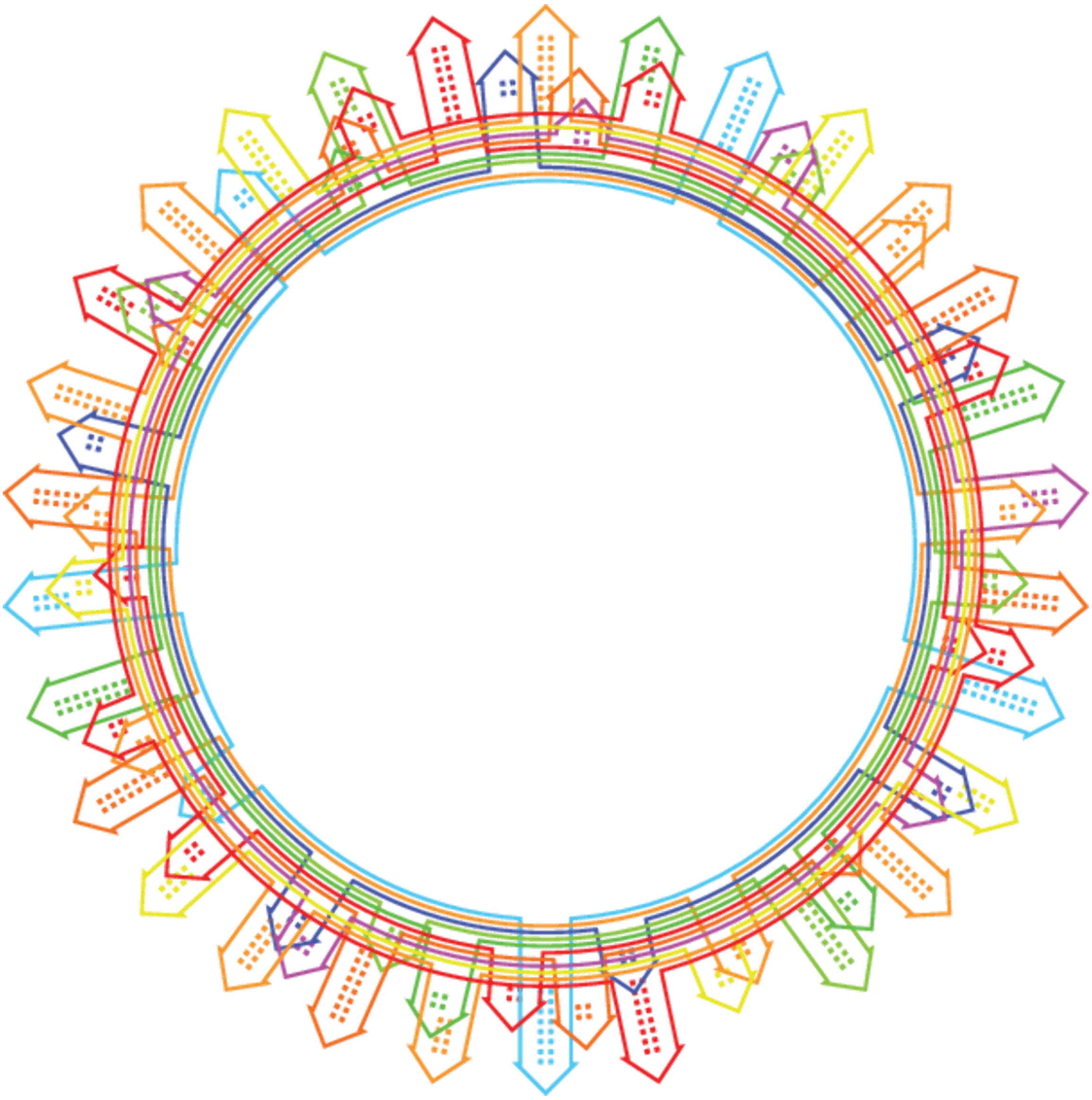

Old Oak West OBC: APPENDIX 16

Market Insights: Model Inputs & Commentary

Old Oak & Park Royal Development Corporation, 01 August 2023

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01 August 2023

Our Ref: Old Oak West - Market Insights

[redacted],

Project: Old Oak West Strategic Development Advisor – Market Insights

We enclose our Report ("the **Report**") dated 01 August 2023 which has been prepared for the sole purpose of assisting and advising OPDC in accordance with our Workstream Scopes ("the **Scopes**") dated 25th November 2022, 16th February 2023 and 17th March 2023. The Scopes provide further detail on OPDC's requirements and serves in addition to the Call-off Contract between OPDC and Deloitte LLP dated 7th November 2022 (the "**Contract**").

Our Workstream Scopes set out the scope of our work, sources of information and the limitation of the work undertaken. This Report includes information provided by you, your consultants Gort Scott and Arup. For the purposes of this Report, we have assumed that the information disclosed to us is reliable and complete and therefore has not been verified.

The figures presented in this Report (attached as an Appendix to the Old Oak West OBC) are provided in the context of advising on the inputs for the Old Oak West OBC Financial Model. The figures contained in this Report are not formal valuations and under no circumstances should be relied upon as such. Our advice is specifically excluded from the provisions of the RICS Valuation – Global Standards (effective from 31 January 2022), including the UK national supplement (collectively known as the 'Red Book'). The advice provided should not therefore be construed as formal valuations for accounts, lending or any other purpose. The figures within this report are high level and indicative, only and should be viewed as such. All values, costs and figures are provided as at January 2023, unless stated otherwise.

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Yours sincerely,

Deloitte LLP

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1. Introduction

1.1. Context

Deloitte LLP ("Deloitte") is instructed to support Old Oak and Park Royal Development Corporation ("OPDC") as Strategic Development Advisor for Old Oak West, an area identified for major land use change and regeneration in West London surrounding the future HS2/Elizabeth line station at Old Oak Common. OPDC is working with stakeholders to prepare an Outline Business Case ("OBC") to support plans for the future regeneration of the area.

The OBC considers the strategic rationale for intervention at Old Oak West (the "Strategic Case"), the economic benefits arising from different intervention options (the 'Economic Case'), the affordability of the preferred intervention option (the "Financial Case"), the structure for, and route to, bringing the project to market (the "Commercial Case"), as well as the proposals for project management and governance (the "Management Case"). The Economic and Financial cases within the OBC require analysis to be undertaken to support the findings of the OBC, which has been led by Homes England and underpinned through a bespoke excel model (the "Model").

In our capacity as Strategic Development Advisor, Deloitte has been instructed by OPDC to recommend a suite of property market and development appraisal inputs to the Model, including build and infrastructure cost assumptions. This Report, Appendix 16 to the OBC, has been instructed by OPDC to summarise our advice on the inputs to be applied in the Model.

1.2. Scope of work

Our scope of work has been agreed with OPDC within a series of task orders: *'Market Insights'* dated 17th March 2023, *'Programme and Phasing'* dated 25th November 2022 and *'Build and Infrastructure Costs'* dated 16th February 2023. The task orders provide further detail on OPDC's requirements and supplement the call off contract between OPDC and Deloitte LLP dated 7th November 2022. A summary of our scope is outlined below:

Recommend residential inputs:

- Key residential value assumptions, reflecting the variation in plot characteristics (including location and storey height). This includes different affordable housing tenure types as required by the scheme;
- Sales timings and profiles for all tenures;
- Take up and absorption rates for all tenures, accounting for phasing; and
- Application of regeneration premiums and build ups, including step changes in value linked to delivery of key infrastructure and placemaking interventions.

Recommend non-residential use inputs, including:

- Key non-residential value assumptions (office and retail), including rents and yields and rent frees, reflecting the variation in plot characteristics;
- Sales timings and profiles for all tenures;
- Application of regeneration premiums, including linkage to the delivery of infrastructure and placemaking interventions;
- Assumptions on the relative proportion of pre-let or speculative construction; and
- Take up and absorption rates for all tenures, accounting for phasing.

Recommend wider development appraisal assumptions, including:

- Project management / development management fees;
- Contingency allowances;
- Professional fees; and
- Marketing, letting, sales and legal fees.

Recommend build and infrastructure cost assumptions, including:

- A review and update of a build cost matrix, covering use types requested; and
- An order of costs for each "priority" infrastructure item requested.

Recommend phasing assumptions, including:

- Phasing schedule based on earliest land release dates, taking account of market absorption rates for different tenures.

1.3. Approach

Bespoke research has been undertaken to support our advice. This research has focussed on the local Old Oak market and relevant sub-markets across London, including regeneration areas and other more established locations. Data has been sourced from market databases (such as Molior, CoStar and Land Registry), in-house Deloitte analysis (such as the Deloitte Crane Survey research series) and direct evidence from agents and developers. We have also drawn upon our experience of advising on other large scale regeneration projects. Where relevant, we have sought input from our specialist sub-consultants, Mott MacDonald LLP ("Mott MacDonald") and DeVono Property Ltd ("DeVono").

1.4. Sources of information, key assumptions and limitations

Information relied upon

We have worked in collaboration with OPDC's wider consultants and stakeholders in our capacity as Strategic Development Advisor in the preparation of the OBC. The OBC Strategic Steering Group ("SSG") has approved three shortlisted development scenarios ("the OBC Scenarios") to explore a range of intervention options and commercial structures for Old Oak West, for which our inputs are required.

We have relied upon OPDC, the wider consultant team and stakeholders to provide all development scheme information. This includes the extent of land to be released, its current ownership and parcel size, indicative development capacities for each development plot, building storey heights and use/unit mix, build specification and strategic infrastructure requirements. In reviewing build and infrastructure costs for the OBC, we have relied on the Strategic Outline Case ("SOC") G&T Cost plan, as well as information provided by OPDC on infrastructure requirements based on supporting technical studies.

Key assumptions

The following key assumptions are reflected in the inputs provided in this Report and apply to all OBC scenarios:

- *Vision:* The values contained within this report assume the delivery of the OOW Vision – the comprehensive regeneration and transformation of the Old Oak area to the quality that is envisaged.
- *Date*: All inputs are provided as at 1 January 2023, unless stated otherwise. Inputs should be expected to change over time in accordance with real estate market and wider macro-economic conditions. Sensitivity analysis in the wider OBC provides an indication of the impact on project outputs of changes in key inputs.
- *Indexation*: All inputs are presented prior to the application of indexation rates.
- *Planning permission and other necessary consents can be secured*. It is noted that design work for all scenarios is at an early stage. It would be appropriate for inputs to be revisited and refined as the scheme progresses.
- ***Land will be assembled and released in a co-ordinated manner.*** It is assumed that any land assembly and operational rail release processes will be completely successfully. When considering phasing advice, it is assumed that land will be brought forward for redevelopment in a co-ordinated manner, in accordance with market demand.
- *All identified infrastructure and placemaking investment is delivered*. Should the level, or timing, of infrastructure delivered in a scenario change, our recommended inputs may need to be adjusted.
- *Old Oak Common station opening date*. The opening of the future Old Oak Common station is anticipated to be a significant driver underpinning the market-related inputs provided. A station opening date of 2031 is assumed.
- *Specification*: The values reported assume a level of internal and external specification for the development of each use that is consistent with products of a comparable value in the market.

Limitations

Our deliverables are anticipated to be used to support the financial and economic assessment of the Old Oak West OBC Scenarios. The inputs are not intended to be used for any other purpose, for example commercial negotiations or land transactions. We cannot accept any responsibility for how the figures recommended are entered into the model nor how the outputs are calculated or presented.

Inputs are indicative and reflective of the current stage of scheme design development, information currently available and market conditions as at the input date. There can be no assurance of the forward trajectory of the inputs and wider advice contained in this Report. Actual results may vary from the inputs identified as a result of market cycles and wider factors and those variations may be material.

RICS Red Book exclusion
The figures presented in this Report are provided in the context of advising on inputs for the OPDC OBC Financial Model. The figures within this report are high level and indicative, only and should be viewed as such. All values, costs and figures are recommended as at January 2023, unless stated otherwise. The figures contained in this document are not formal valuations and under no circumstances should be relied upon as such. Our advice is specifically excluded from the provisions of the RICS Valuation – Global Standards (effective from 31 January 2022), including the UK national supplement (collectively known as the 'Red Book'). The advice should not therefore be construed as formal valuations for accounts, lending, or any other purpose.

1.5. Structure of this Report

This Report commences with an overview of the Old Oak West project and the OBC scenarios. Each subsequent section addresses a specific group of inputs in turn, as summarised below:

- Section 2: Old Oak West overview
- Section 3: Residential inputs
- Section 4: Office inputs
- Section 5: Retail inputs
- Section 6: Build, infrastructure and other appraisal costs
- Section 7: Finance and profit inputs
- Section 8: Phasing and absorption rate inputs

This Report has been prepared as a standalone Appendix to the Old Oak West OBC. Where appropriate, signposts are included to the main OBC and supporting appendices.

2. Old Oak West overview

2.1. Introduction

This section provides an overview of Old Oak West project. The current characteristics of the area are described and the key changes anticipated within the OBC scenarios summarised. This is important context for the inputs provided in this Report. The key differences between the shortlisted OBC scenarios are also outlined.

2.2. Old Oak West: opportunity context

Old Oak West is one of the most significant development opportunities in the UK. There is the potential to deliver a truly transformational mixed-use redevelopment, building upon the investment in a new High Speed Two ("HS2") / Elizabeth Line interchange at Old Oak Common.

Services from Old Oak Common will create a step-change in the area's connectivity. There will be rapid and direct access to key regional cities via HS2[1] and the Great Western Mainline, as well as central London and Heathrow via the Elizabeth Line. HS2 is planned to open in phases. Old Oak Common will initially serve as the London terminus for HS2.

OPDC is a Mayoral Development Corporation established to promote and deliver the comprehensive regeneration of Old Oak and to make the most of the opportunity afforded by the arrival of the new Old Oak Common station. The Mayor's London Plan identifies that the wider OPDC boundary, within which Old Oak West is situated, can deliver an indicative 25,500 homes and 65,000 jobs[2]. OPDC has strategic planning powers and its Local Plan, adopted in June 2022, sets out the spatial vision, as well as specific site allocations for Old Oak West.

2.3. Old Oak West: location and current land uses

Old Oak West is located at the intersection of the three West London Boroughs: Hammersmith and Fulham, Ealing and Brent. Key existing transport nodes are Willesden Junction station (Bakerloo and London Overground lines) and North Acton station (Central line). The location of Old Oak West is illustrated in Figure 1, with other major regeneration areas and key city locations highlighted for context.

Today, Old Oak West is dominated by industrial, transport, rail, waste and construction-related land uses. These uses sit alongside established residential stock (such as the Wells House Road Triangle), a more recently developed co-living scheme ('the Collective'), as well as significant cluster of high density, new build residential and student accommodation at North Acton. The area is severed by railway lines and the Grand Union Canal. It lacks a town centre, albeit there are limited amenities available at North Acton and Willesden Junction. Nearby Park Royal is a major employment centre and business park, that is dominated by industrial uses. Key commercial occupiers in Old Oak West and surrounds include Boden, RATP/TfL, Lords Builders Merchants, Car Giant, EMR and Powerday. In summary, whilst the area is already undergoing some change, there are many challenges in terms of the quality of the urban environment, the relatively low density of land use adjacent to a future transport super-hub, lack of local amenities, poor connectivity within Old Oak West and above average levels of deprivation[3].

Notable features in the immediate area include the industrial areas of Park Royal and Old Oak North, the open expanse of Wormwood Scrubs, a large Crossrail Depot immediately adjacent to the new Old Oak Common station, as well as the established residential neighbourhood of Harlesden. Figure 2 maps the immediate locality of Old Oak West, with key features mentioned in this section annotated.

[1] Old Oak Common to Birmingham Curzon Street, for example, is envisaged to take just 42 minutes. Source: HS2 website, accessed 29th July 2023: https://www.hs2.org.uk/the-route/
[2] Source: OPDC Local Plan, adopted June 2022
[3] Old Oak West OBC – Strategic Case

Figure 1: Map highlighting the location of Old Oak West in a wider London context

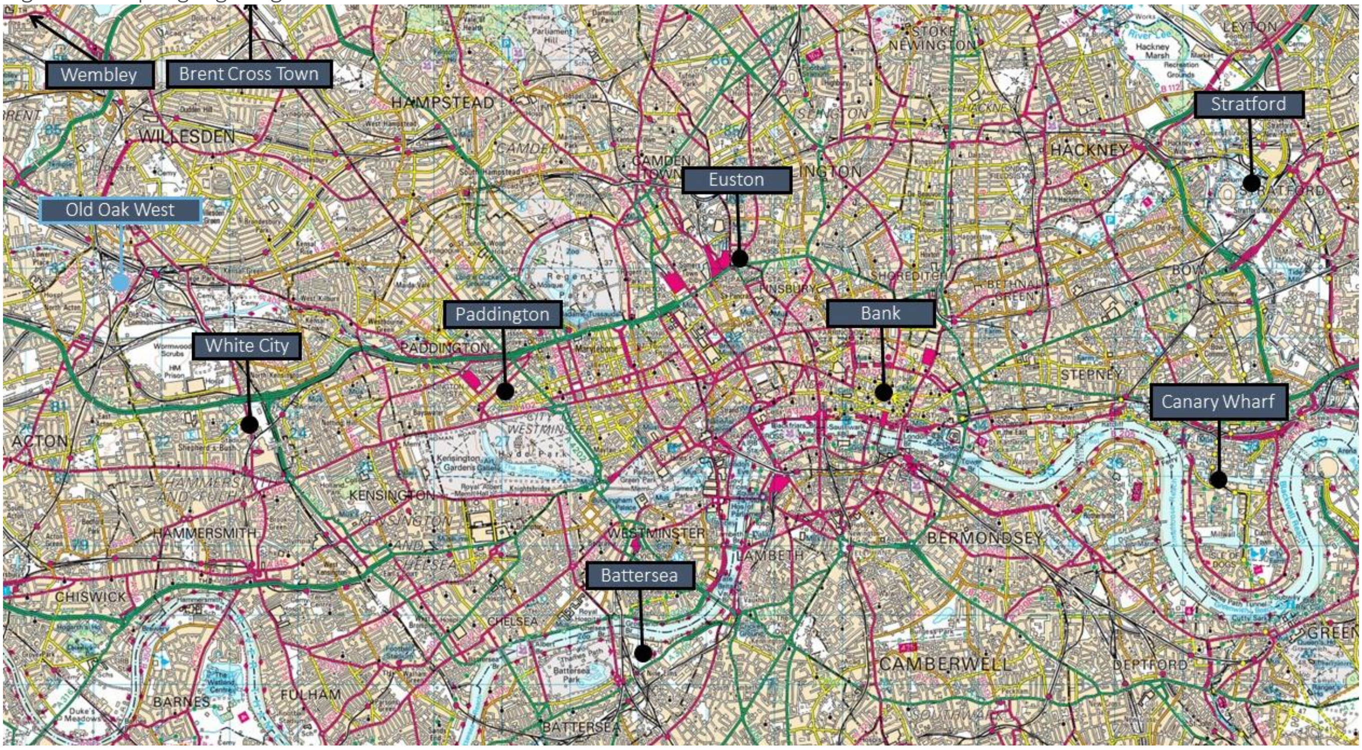

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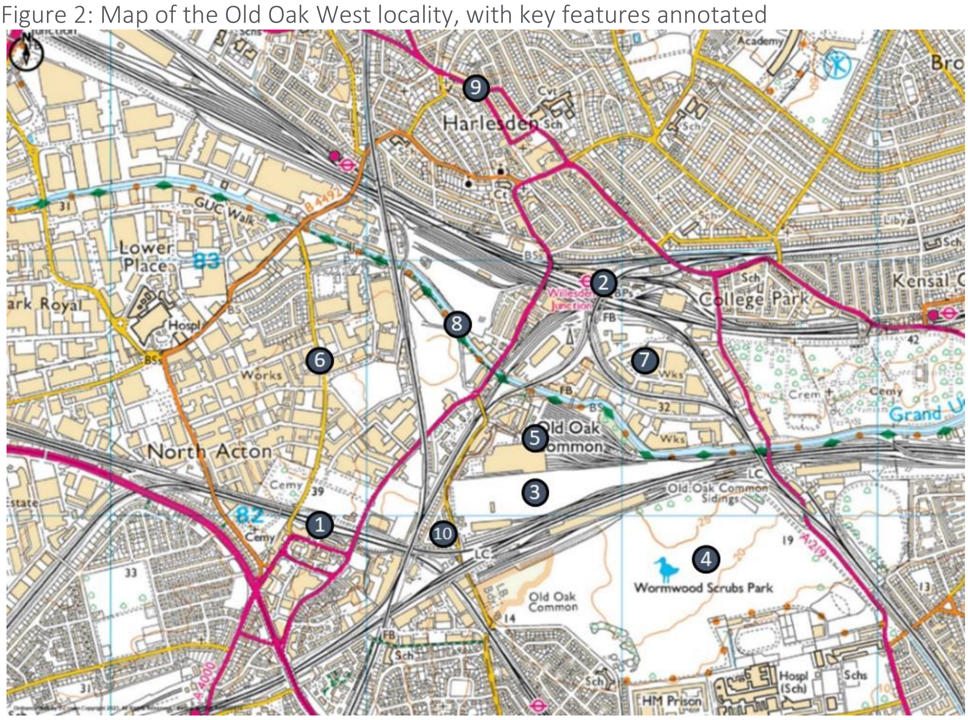
Figure 2: Map of the Old Oak West locality, with key features annotated



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No.	Feature
1	North Acton station
2	Willesden Junction station
3	Old Oak Common station
4	Wormwood Scrubs
5	Crossrail Depot
6	Park Royal Business Park
7	Old Oak North
8	Grand Union Canal
9	Harlesden
10	Wells House Road Triangle

2.4. Old Oak West: key development sites and land ownership

The Old Oak West project area extends from Willesden Junction in the north, to North Acton and the future Old Oak Common station in the south. Victoria Road and Old Oak Common Lane serve as the key north-south connecting roads between these areas, with the Grand Union Canal also running through the project area. The Old Oak West area is shown in Figure 3, with annotations to highlight existing and future transport links, potential development sites and key road connections. The plan also illustrates the fragmented nature of land ownership in the area.

The OBC scenarios identify an increasing number of sites within this area for land use change and redevelopment. Figure 3 identifies all of the sites that would be brought forward in the highest intervention scenario shortlisted for analysis. Only some of these sites are brought forward in other scenarios, as described in the subsequent section 2.5. Some sites are anticipated to be assembled and 'directly delivered' by the public sector, whilst others are assumed to be 'indirectly unlocked' as a result of the OBC interventions. The financial case is focussed on direct delivery sites only, whilst all sites are assessed in the economic case. The project area extends from Willesden Junction in the north, to North Acton and the future Old Oak Common station in the south. Victoria Road and Old Oak Common Lane serve as the key north-south connecting roads between these areas.

[redacted]

2.5. Shortlisted OBC scenarios

The OBC identifies six strategic objectives for Old Oak West. They focus on driving economic growth, building more homes, creating a place to be proud of, creating a better environment, ensuring value for the taxpayer and acting quickly to maximise the investment in Old Oak Common station[4].

[4] Old Oak West OBC: Strategic Case, July 2023

To test the optimal scale of intervention at Old Oak West, three scenarios were identified for analysis via the OBC shortlisting process: Business as Usual ('BAU'), Medium and Medium Plus ('Medium +'). Each is tested in the Model and inputs are provided for all three scenarios in this Report.

The scenarios assume an increasing scale of land use change generating an associated increase in developable floorspace and level of investment required in supporting physical and social infrastructure. The key differences between the scenarios are summarised in Table 1. Table 1 identifies the sites and infrastructure assumed in the BAU, together with the additional sites and infrastructure assumed the Medium and Medium + scenarios. Specific sites referenced in the table can are identified on the plan in Figure 3.

[redacted]

More detailed information on the three scenarios is available in the separate OBC Appendix 5 - Scheme Options. This Appendix also includes plans for each scenario that illustrate the extent of land brought forward and key infrastructure interventions.

2.7. Comparison of housing outputs between OBC scenarios

The number of homes per OBC scenario is shown in Table 2, including the level of affordable housing provided.

[redacted]

The anticipated residential unit mix and unit sizes assumed are detailed in Table 3. The unit mix adopted in the OBC has been adopted in response to planning policy targets. Adjustments have been made to BAU baseline mix to ensure that unit sizes and mix is comparable across scenarios.

[redacted]

2.8. Old Oak West summary: concluding commentary

Section 2 of this Report has provided a summary of the current and anticipated future environment at Old Oak West. We note following comments based on the information above as important for considering applicable OBC inputs:

- Old Oak West is not an established office location. Whilst there has been some recent residential development in the area, it is generally not to the same build / placemaking quality envisaged within the OBC. Local stations at North Acton and Willesden Junction require modernisation;
- All OBC scenarios assume a very material degree of land use change, significant scale of development and combination of placemaking, transport and connectivity investments. The Medium and Medium + scenarios both envisage transformation across a much wider area in comparison with BAU and allow for a greater scale of placemaking through the addition of additional sites, which also necessitate greater infrastructure investment. All scenarios assume high levels of affordable housing and family homes;
- The future Old Oak Common station will transform connectivity at Old Oak West, as well as the public profile of the area. The anticipated benefits are not only driven by the HS2 link, but also the Elizabeth Line connectivity, with services on the latter line already open and very well received by customers[7];
- The quality and speed of connections from Old Oak West to other parts of the UK (initially Birmingham, with other key regional cities to follow), Heathrow and Central London via HS2, the Elizabeth Line and Great Western Mainline are anticipated to be exceptional. Transport connectivity is a particularly important consideration for business occupiers. The connectivity at Old Oak Common could easily rival, and arguably outcompete, many other London districts; and
- Therefore, given the scale of changes anticipated at Old Oak West, it is important to consider the potential uplift, or 'regeneration premium', achievable above the current market evidence for the area.

More detailed narrative and summary tables addressing the key model input differences between each scenario is included in subsequent sections of this report, initially focussing on the key land uses of the scheme in Sections 3-5, covering residential, office and retail uses respectively.

[7] Source: TfL, Elizabeth Line Committee Paper, 24th January 2023 – available online: [Operational and programme update (tfl.gov.uk)]

3. Residential inputs

3.1. Introduction

All three OBC scenarios contain a substantial amount of new residential development, both private and affordable. Residential is the largest use class by gross floorspace in all OBC scenarios. This section sets out the context for, and outputs of, our advice on the residential inputs to the Model.

To consider potential capital values applicable to private residential accommodation in the area, we have:

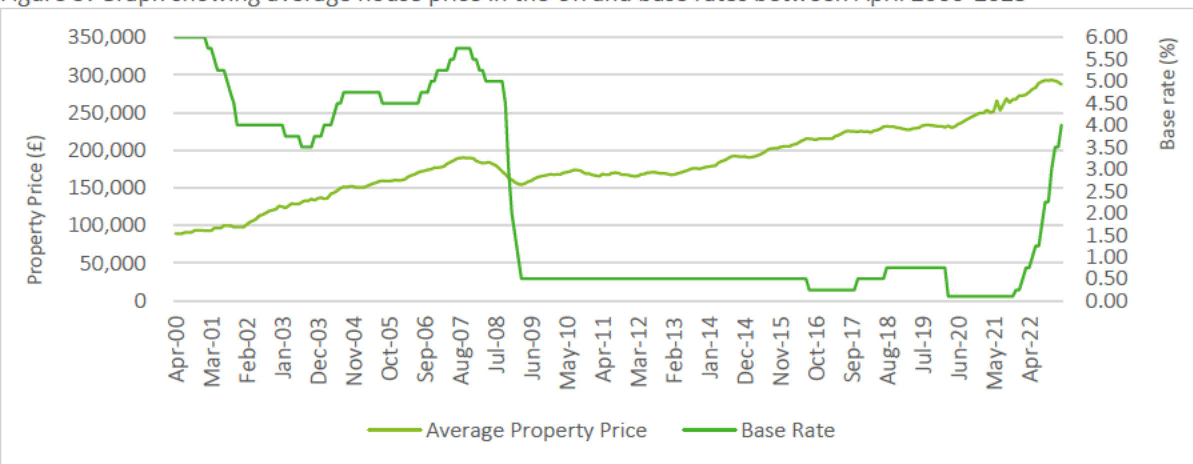
- Reviewed comparable evidence for current pricing in the Old Oak West new build housing market;
- Reflected the specific characteristics of each OBC scenario to form a baseline view of pricing based on current market conditions at Old Oak West, taking into account matters such as anticipated building height and plot location; and
- Recommended regeneration premia to be applied for each OBC scenario on top of the baseline pricing, based on evidence from other comparable projects and adjustment to reflect the Old Oak West specific context.

Our affordable housing inputs are based on undertaking bespoke cashflow modelling of the opportunity from the perspective of a prospective Registered Provider seeking to acquire the stock, rather than comparable evidence.

3.2. Private residential market context

Headlines taken from the RICS May Residential Market Update 2023, provide an indication of current housing market performance. As of Spring 2023, the Bank of England's Monetary Policy Committee has increased the base rate significantly in the past year in a bid to curb inflation. This, accompanied with other factors such as the end of the Government's Help to Buy programme, is beginning to put pressure on the mortgage market and prices are plateauing and softening in some locations. Thus far, substantial supply side shortages and high levels of demand have supported the relative resilience of house prices even in these changing circumstances. Figure 5 illustrates over a decade of property price growth, set against the context of an extended period of low base rates.

Figure 5: Graph showing average house price in the UK and base rates between April 2000-2023



Source: HM Land Registry © HM Land Registry and Bank of England 2022 This House Price Index is licensed under the Open Government Licence v3.0

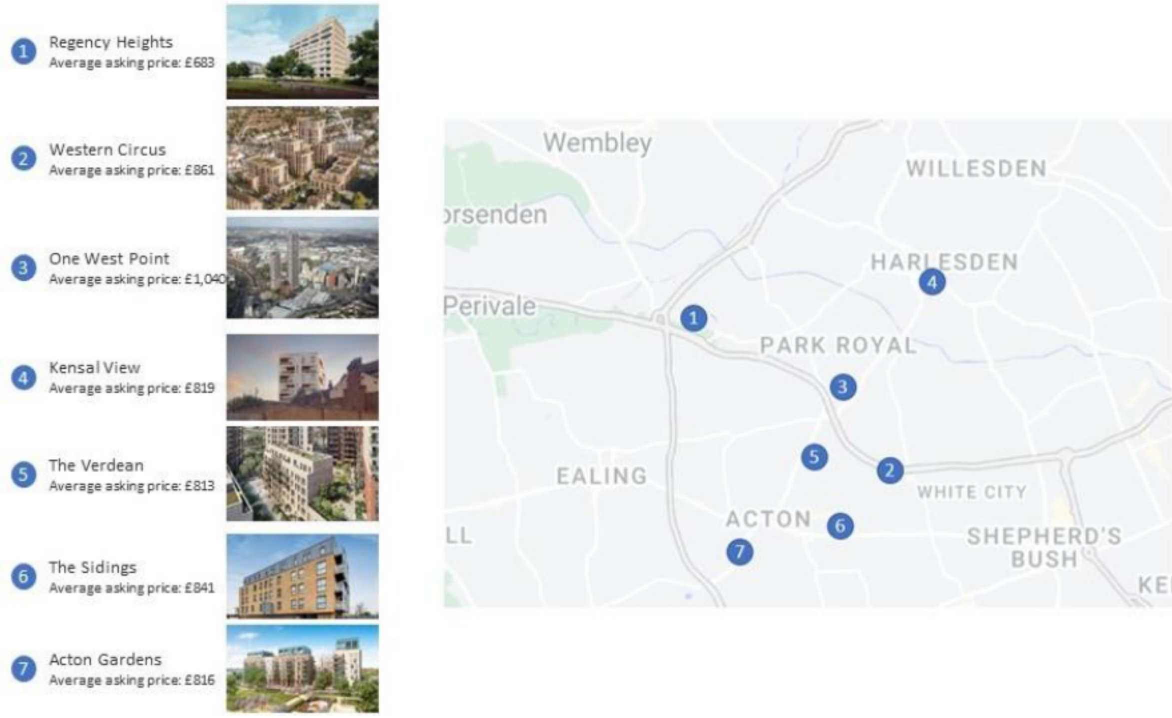
Within the development market, cost inflation has been prevalent[8]. The demise of the Help to Buy scheme has seen a significant drop in sales volumes. Generally, developers appear to have been maintaining prices and accepting the slower sales rates. More recently there have been an increasing number of incentives on offer to improve their sales momentum.

[8] BCIS Tender Price Index, 2023

3.3. Private residential market - local comparable evidence

Comparable new build schemes in the local area are mapped in Figure 6. The comparable schemes provide a robust evidence base for current private residential sales values in and around Old Oak West. Of the comparable schemes listed, One West Point and Kensal View are located in the Old Oak West project boundary, close to North Acton and Willesden Junction stations respectively.

Figure 6: Map of new build schemes and £psf in the area surrounding Old Oak West



Source: Molior, 2022

The comparable evidence was collated in December 2022 and shows a blended average asking price range from £683 to £1,040 psf, as detailed in Table 4. These figures have been calculated on the blended average asking or achieved price for each scheme. Some of the variability in the £psf rates reflects differing unit size and unit mix between projects.

Table 4: Comparable private residential evidence, including average asking prices and absorption rates

Map No.	Scheme Name	Developer	Sales Period	Capital Value	Average Size (sq ft)	Average Price (psf)	Absorption Rate/Quarter	Asking / Achieved
1	Park Royal 2	Fairview New Homes	June 2019 - June 2022	£478,973	712	£683	36	Achieved
2	One West Point (current phase)	City & Docklands	Ongoing	£689,035	664	£1,040	29	Asking
3	One West Point	City & Docklands	2021 - 2022	£594,226	704	£847	29	Achieved
4	Kensal View	Gold Compass Developments	Sept 2022, ongoing	£557,222	687	£819	0.25	Asking
5	The Verdean	Mount Anvil and Peabody	June 2021 (Block B1)	£509,231	630	£813	160	Asking
6	The Sidings	GS8 London	Oct 2022, ongoing	£653,571	777	£841	6	Asking
7	Acton Gardens	Countryside / L&Q	Feb 2021	£557,692	683	£816	79	Asking

Source: Molior, 2023

Evidence has been sourced from Molior and supplemented with direct contact with scheme sales agents and/or developers and site visits. When undertaking our comparable research, we undertook residential agent consultations. During these consultations, it became clear that there was a divergence between asking prices and achieved prices in this sub-market. Notably, we gathered actual sale transactions for One West Point and Kensal View, both schemes were achieving sales values circa 10% lower than their asking price. The majority of the comparable evidence obtained consisted of studios, 1 bed or 2 bed flatted units, owing to the average unit size being sub 700 sq ft. The market has a preference to bring forward smaller non-family sized units where a higher price per sq ft can generally be achieved. Our research and consultations also showed premiums being achieved for units in taller buildings, triggered by unobstructed surrounding views, usually from 15 storeys upwards.

The comparable schemes listed above demonstrate a wide range of achieved sales prices on a £psf basis. The type of residential developments offered in this area vary. There are mid-rise, basic specification developments with no additional offerings and limited placemaking, such as Kensal View. These developments could be delivered by smaller developers and are generally not located close to major transport hubs. There are also taller, more comprehensive developments, offering complementary workspaces, gyms, and concierge services, and generally better placemaking at scale. Such developments include One West Point and The Verdean. The former is known for its height (at 54 storeys it is one of London's tallest towners) and Central Line connectivity and the latter is a well-designed circa 1,000 home scheme situated adjacent to the Elizabeth Line. These are the primary drivers between the wide range of price points observed in our comparable evidence. The comparable schemes listed above contain market facing levels of affordable housing, based on deliverable levels tested against policy and in the context of financial viability. Within the Old Oak West area, schemes closer to North Acton, achieve higher pricing than those closer to Willesden Junction.

3.4. Private residential values – baseline assumptions

In forming our view of baseline residential capital values applicable to the Old Oak West OBC scenarios, we have considered existing sales values in the area based on the comparable evidence. Adjustments have then been made to reflect:

- The different location of plots within the scheme, with uplifts applied to plots closest to existing transport nodes at North Acton and Willesden Junction;
- The height of the buildings shown in the relevant capacity study, with uplifts applied to each private home of £5k per floor between 6-15 storeys and £7k floor from 26 storeys and above; and
- The specific unit mix proposed within the Old Oak West project, which include a higher proportion of larger 3 bed and 4 bed homes than that for market comparables.

The baseline rates do not take account of the benefit of the future Old Oak Common station or the shift in the area arising from investment in new infrastructure and placemaking, which is considered further below.

Table 5: Private residential baseline figures (£psf for typical unit size), inflation excluded

	BAU Weighted Ave	Medium Weighted Ave	Medium + Weighted Ave
Baseline private residential values (£psf), excluding regeneration premium	£841	£827	£826

Source: OBC Financial Model, 2023 based on Deloitte inputs and value adjustments

As established, the key drivers behind the baseline residential values are largely proximity to existing transport links and floor heights. Relative to Medium and Medium + scenarios, the land within the BAU scenario is closer to existing transport links, this also leads to a denser form of development and higher average storey heights which translates to a slightly higher baseline rate £psf.

3.5. Private residential - regeneration premium

The appeal of Old Oak West to residential purchasers, and the resultant sales pricing, is expected to be materially enhanced by the opening of the proposed Old Oak Common station and investment in placemaking. The difference between the current baseline values set out in Section 3.4 above, and the new price point that could be achieved once all the new infrastructure is in place can be referred to as the scheme 'regeneration premium'.

The regeneration premium is a separate driver of our inputs from general market growth. It seeks to reflect the anticipated uplift in pricing achievable through the careful and curated transformation of a neighbourhood over time. Specific actions supporting this shift include new transport links, comprehensive masterplanning and removal of bad neighbour uses, high quality architecture, new public realm, well maintained communal spaces, carefully curated ancillary uses such as retail, cultural and leisure uses, early delivery of social infrastructure, animation programmes that support creation of a new community and draw in visitors, as well as investment in energy efficient / green infrastructure.

Many research reports examine the impact of regeneration interventions on sales pricing. Often these studies look at specific interventions and their associated impact on value, such as the discrete impact of new transport links or investment in green spaces. In forming our view of the applicable regeneration premia for Old Oak West, we have benchmarked the scale of market value change achieved in other London regeneration locations, such as Nine Elms, King's Cross and Stratford (see Appendix A for case study). All regeneration schemes are unique and hence the applicability of the premia achieved in other areas to Old Oak West needs to be considered carefully. For example, it is considered that the baseline values at Old Oak West are already at a relatively high starting point in comparison with many East London regeneration schemes and hence the ability of the market to incorporate very significant regeneration uplifts without affecting absorption rates due to a reduced pool of potential purchasers at higher price points.

The regeneration premia recommended for each of the OBC scenarios are summarised in Table 6 below, with specific adjustments made to reflect the transport and placemaking drivers. Where a range of figures are provided, this reflects variability in the level of premia applied to specific plots. It is important to note that full premia identified will not be available immediately, the market shift will build over time. For the purposes of the OBC model, recommended timing triggers for the applicability of the premia are also detailed in Table 6.

Table 6: Private residential baseline figures (£psf and capital value for typical unit size) by OBC scenario

	Timing trigger	BAU	Medium	Medium +
Transport premium: Old Oak Common station	25%: Two years prior to opening. 100%: Upon opening	10-12.5%	10-12.5%	10-12.5%
Placemaking premium: plot dependent uplift	75% achieved by year 5, flat line profile over years 0-5. 100% achieved by year 6	3.5-10%	7.5-20%	7.5-20%

Source: Deloitte, 2023

The weighted average regeneration premium applied for each of the scenarios is therefore dependent upon the specific mix of plots and infrastructure delivered in each scenario, as well as the scenario phasing assumptions. The resultant average regeneration premia calculated in the OBC Model are summarised in Table 7, together with the average private residential £psf calculated.

Table 7: Weighted average regeneration premia applied per OBC scenario and resultant average capital values

	BAU	Medium	Medium +
Baseline	£841	£827	£826
Regeneration premium average	11%	20%	20%
Private residential value, including regeneration premium (£psf)	£943	£999	£994

Source: OBC Model, 2023

For the Medium +, this average £psf value translates to an assumed average private residential capital value of circa £730,000 per unit including regeneration premium, but excluding inflation.

3.6. Affordable housing

For each OBC scenario, the provision of affordable housing is split 70% intermediate tenure and 30% low cost rent housing, as per OPDC's Local Plan. The London Plan also requires public landowners to deliver 50% affordable housing on their sites.

The average £psf for the tenures of affordable housing modelled are shown in Table 8 below. We have adopted Shared ownership and London Affordable Rent tenure types within the options available and compliant with local planning policy. These figures are provided exclusive of grant. The inputs are provided based on assessing what Registered Providers could bid to acquire the stock based on cashflow modelling. Shared ownership figures are based on Mayoral guidance for maximum household earnings of £90,000 per annum. If a lower earnings cap was applied this would reduce the input rates provided below. We have also applied the unit mix identified as part of the OBC capacity studies. If mix were to be adjusted, the blended average £psf should be reviewed as the inputs are sensitive to the proposed unit mix.

Table 8: Table of affordable housing values (£psf) proposed for each scenario, excluding grant

Affordable housing tenure	BAU	Medium	Medium+
Shared Ownership	£543	£543	£543
London Affordable Rent	£184	£184	£184

Source: Deloitte, 2023

Note that regeneration premiums are not recommended to be applied to affordable housing tenures for the purposes of the OBC given affordability considerations.

3.7. Blended residential values commentary (combined private and affordable tenures)

The table below shows the blended average values, calculated in the Model based on the plots inputs summarised above, accounting for the private and specific affordable housing mix within each OBC scenario.

These figures are uninflated and include the regeneration premium. For comparison purposes, we have included the values including and excluding affordable grant funding. The with grant assumptions have been provided by OPDC.

Whilst private capital £psf values including regeneration premiums are similar in all scenarios (as shown in Table 7), the blended averages shown in Table 9 below differ as a result of the different percentages of affordable housing in each scenario (as detailed in Table 2).

Table 9: Table of blended weighted average blended private and affordable housing values (£psf)

Value	BAU	Medium	Medium+
£ psf without grant	£690	£742	£738
£ psf with grant	£724	£770	£765

Source: OBC Financial Model, 2023

The blended figures provide a useful benchmark for comparing the relative capital values achievable for different use types proposed at Old Oak West, particularly office space which is second most significant use type anticipated by volume of floorspace. Office inputs are discussed in detail in the following section.

4. Office inputs

4.1. Introduction

The Old Oak West area is currently home to a number of commercial occupiers, who are predominantly related to manufacturing, storage and distribution functions. As detailed within the OBC, the ambition for Old Oak West is for the area to become a major employment hub, offering opportunities for a range of enterprises and providing employment space at a higher density than currently exists. All OBC scenarios therefore envisage the introduction of new employment typologies to the area, including standalone 'Grade A' office buildings, together with employment space incorporated within mixed use buildings.

To consider potential rental values, rent-free periods, investment yields and take-up assumptions to inform the OBC Model, we have adopted the following approach:

- Considered where Old Oak West currently sits within the hierarchy of major employment locations across London;
- Had regard to London wide market trends, with associated implications upon Old Oak West;
- Considered the profile of potential occupier types;
- Reviewed annual take-up rates at comparable locations; and
- Considered how the differing extent of intervention envisaged under the BAU, Medium and Medium + scenarios could impact upon the key market variables required to inform the OBC financial model.

4.2. London office market context

Towards the end of twentieth century, the London office market became increasingly consolidated into the following four principal locations:

- West End – encompassing historic districts such as Mayfair, Soho, Marylebone and Fitzrovia. This area has traditionally been home to a diverse range of occupiers, including media, real estate, fashion and marketing uses. It has increasingly become a hub for boutique financial activities, including hedge funds.
- City of London – the traditional hub for banking, insurance and associated financial activities.
- Midtown – encompassing an area centred on Holborn. This area has traditionally been associated with legal, accountancy and engineering activities.
- Canary Wharf – developed from the late 1980s onwards and a hub for financial service occupiers, typically with large floorplate requirements.

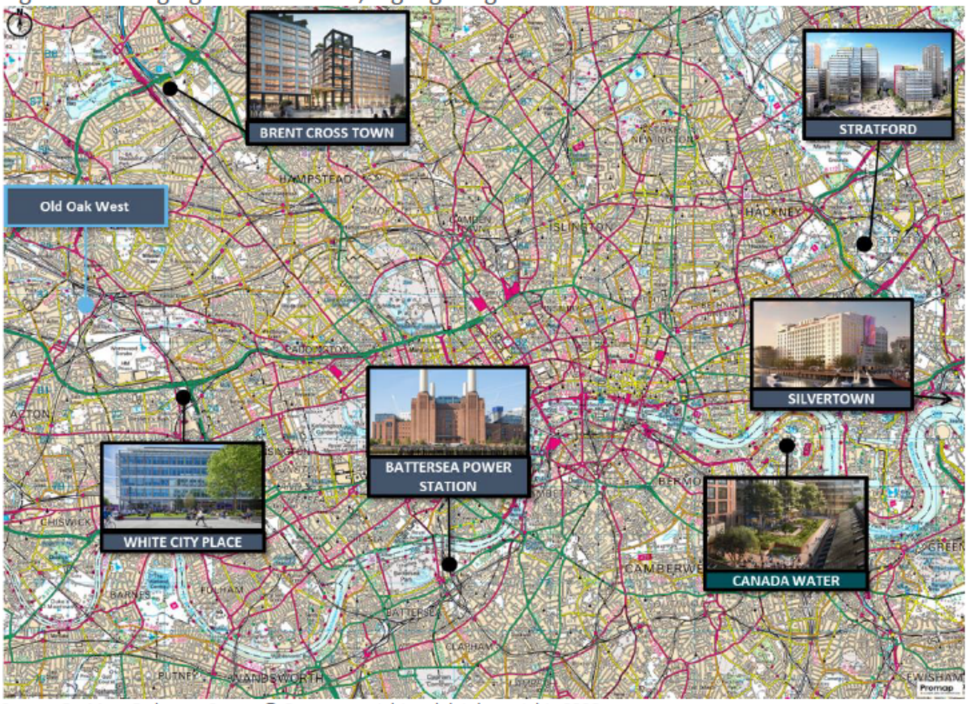
Figure 7: Map of established London office locations

Source: Deloitte Crane Survey, 2023

However, over the past 20 years, the London office market has become increasingly dynamic and fluid, with the emergence of a number of new employment clusters; including Kings Cross, Victoria, Southbank and Paddington. These locations are illustrated, alongside the more established locations, in Figure 7.

A more recent trend has been a further diversification of London's principal employment areas, with new clusters emerging in hitherto non-established locations; such as Stratford, White City, Silvertown, and Brent Cross Town. These clusters are mapped in Figure 8.

Figure 8: Emerging office districts, highlighting their relative location to Old Oak West



Source: ProMap. Ordnance Survey © Crown copyright and database rights 2023

These new employment districts share characteristics, including:

Transport infrastructure: One of the most critical success factors is good existing or planned transport provisions, with all comparable projects relying on the delivery of transport upgrades to unlock development potential, including the Battersea Power Station Northern Line extension and new Brent Cross West train station.

Vision: Investors with a long-term vision for the curation and management of an estate is key to successful delivery. For instance, the Battersea Power Station project is owned by a consortium of investors who bought the site in 2012, and later set up the Battersea Power Station Development Company (BPSDC). BPSDC has created a platform with the intention to remain an active manager.

Collaborative public private relationships/ partnerships: The public sector has a key role in helping to de-risk investment opportunities to leverage private sector funding. The Silvertown Quays project is a leading example of how the private sector (Lendlease and Starwood Capital) can work with the public sector to bring forward large and complex sites. Having been derelict for the past 40 years, Silvertown Quays will be transformed into a new community owing to a public funding package of more than £300m from Homes England and the GLA.

Anchor assets: A recurrent attribute is the presence of major anchor assets; be that large corporates (Apple at Battersea Power Station), universities (Imperial College London at White City, UCL at Stratford and Sheffield Hallam at Brent Cross Town) or cultural institutions (BBC Television Centre at White City and Millennium Mills at Silvertown Quays). Anchor assets can catalyse regeneration by attracting related businesses, driving footfall and help to establish a location within a certain sector/s. Attracting an anchor in the early stages of a development lifecycle is crucial to the success of a scheme as it gives potential occupiers confidence in that location. For occupying tenants, being in a cluster is good for sustained growth as it creates opportunities for collaboration, talent recruitment and sharing research. However, clusters do not just appear, it takes time and a focused strategic approach to bring brands, organisations or institutions together.

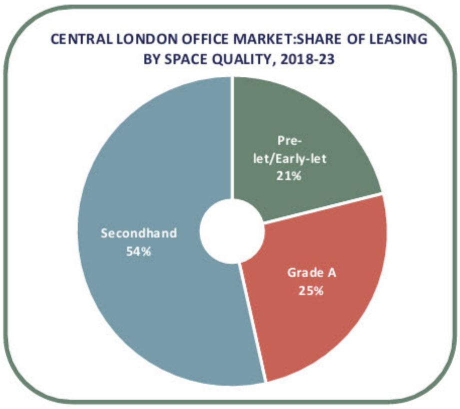
The emerging principles and overarching objectives for Old Oak West are consistent with the attributes identified above. With this in mind, our market analysis has not been geographically constrained to the immediate surrounding area but rather, considered how Old Oak West could be positioned with a broader London context.

4.3. London wide office leasing, development and investment market – current trends

4.3.1. Leasing market

The office leasing market suffered a downturn during 2020-21, which can be largely attributed to the Covid-19 pandemic and associated restrictions on movement. Since the end of the pandemic, DeVono research shows that leasing activity (within Central London) during 2022 totalled 12.9 million sq ft, representing a 28% increase on the volume let in 2021, and 9% above the long-term average. The occupier sectors currently taking the greatest amount of space are legal, technology, media & telecoms ('TMT') and financial services, which collectively equate to over 75% of take up recorded in Deloitte's Summer 2023 Crane Survey[9].

Figure 9: Summary of Central London leasing market activity, including breakdown by type of space



Source*: DeVono*

4.3.2. Development market

From a development perspective, Deloitte's Summer 2023 Crane Survey identified 4.4m sq ft of new construction starting across 50 schemes, which represented a notable increase in the number and volume of new starts compared to the previous survey period. A backlog in development activity means that over 10m sq ft of office space is due to complete during 2023, over double the amount delivered during 2022. Figure 10 illustrates the historic and known future pipeline for Central London offices. The chart illustrates the relatively cyclical nature of commercial office development.

Figure 10: Central London office development pipeline, historic and future projection

Source: Deloitte Crane Survey, 2023

[9] https://www2.deloitte.com/uk/en/pages/real-estate/articles/crane-survey.html

Both these leasing and development trends indicate that the office market has in general proven more resilient than some commentators had feared following an increase in home working since the pandemic. It is important to note that these trends are not uniform across the type, quality, and location of offices, with some key variables being:

- Smaller spaces: the average size of transaction of 6,908 sq ft, 9% below the 5-year average;
- Shorter leases: the average lease length in 2022 was 5.6 years, down from 6 years in 2021;
- Best-in-class spaces: total space pre-let in 2022 increased by 65% relative to the 2021 level;
- Location: above average market share of leasing for the West End at 32%, vs 27% long-term average;
- Number of businesses leasing: 23% rise in number of deals, only 4% below that recorded at 2019 (the last peak); and
- Grade A office space is bolstering rents. Grade A rents grew by an average of 3% from Q4 2022 and Q1 2023.

These trends point towards occupiers increasingly seeking better quality environments and greater flexibility (in terms of both space and leasing arrangements). On a related point, the development market is increasingly anticipating (and embracing) a transition to delivering net zero offices, with a majority in Deloitte's Summer 2023 Crane Survey expecting all of their new developments to be net zero by the end of the decade.

The context of these market trends presents a good opportunity for Old Oak West to embed flexibility, sustainability, and wellbeing attributes from the outset and to offer an environment which is distinctive from more established central locations; in a similar way to which emerging districts such as Brent Cross Town and Stratford are promoting themselves. Here East, in Stratford, for example has been able to successfully establish itself as desirable location for innovative, tech focussed businesses and start-ups through a carefully curated mix of tenants and supporting amenities and interesting architectural design. This is now reflected in a very successful and in demand property achieving high rental levels, in spite of being some distance from transport links. The wider benefits to occupiers and their staff of being based in a comprehensively planned regeneration area, with a full suite of amenities and quality public realm, will be key to attracting businesses to be based at Old Oak West. As businesses seek to entice staff back to the office, the quality of the wider environment and the breadth of amenities on offer is a critical factor to location decisions.

4.3.3. Investment market

The London office investment slumped markedly in the final months of 2022, as rising interest rates and uncertainty over pricing brought the market to a virtual standstill. Less than £700 million of London offices changed hands, making it the weakest quarter for two decades. This followed a strong start to the year when hopes for a strong post-pandemic recovery and rising demand for prime, well-let offices had put 2022 on course to be a record year.

Volumes are likely to remain weak in the near term, as buyers and sellers await more clarity over the path of interest rates and the economic outlook and thus where property prices may settle. Only a handful of transactions over £50 million have taken place in recent months. Some of the biggest deals have had a redevelopment angle, with some investors exhibiting confidence in the flight-to-quality trend persisting. Activity has cooled sharply, so how much of the reported £60 billion of global capital targeting London offices (as per a Knight Frank report in early 2022) is deployed in the coming months remains to be seen.

While core, well-let property has been the focus of investor attention since the pandemic began, some investors have shown willingness to embrace risk, particularly in areas near new Crossrail stations. Anecdotal evidence from 2021 suggested value-add opportunities near Crossrail stations were so liquid that more opportunistic investors seeking a circa 15% IRR were being outbid by core-plus investors, whose cost of capital and return expectations were lower. Value-add investments have dissipated in recent months amid the wider market volatility and increasing wariness of risk, though not completely.

Whilst this market context is important for appreciating the specific office yield assumptions made in this Report, it is noted that office development is not anticipated to be underway at Old Oak West for several years. Over the course of its delivery, the project is likely to experience multiple economic cycles. Ensuring flexibility and resilience within the Old Oak West masterplan and delivery programme to respond to market cycles will therefore be very important.

4.4. Office rental market comparable evidence and anticipated Old Oak West rental journey

To determine the office rental values we have considered a range of comparable evidence, both in the market locality as well as the surrounding commercial markets and wider regeneration schemes across London. Comparable evidence has been sourced from CoStar.

4.4.1. Old Oak West – current rental market comparable evidence

There is limited transactional evidence within the immediate locality to Old Oak West and that which exists is derived from second hand stock. As the following Table 10 illustrates, rents from between £14psf and £36psf have been achieved in recent years, noting that the First Central 200 scheme is a new build Grade A office on the business park.

Table 10: Comparable evidence for office rental values in Old Oak West and the immediate locality

Building Name	Rent (per sq ft)	NIA (sq ft)	BREEAM Rating	Transaction Date	Rent Reported
First Central 200	£32.50	10,398	Very Good	Available	Asking
First Central 200	£36.00	24,387	Very Good	Apr 2021	Asking
First Central 200	£36.00	20,000	Very Good	Feb 2021	Net effective
Black Arrow House	£24.50	4,428	N/A	July 2019	Net effective
Black Arrow House	£25.00	17,556	N/A	Sep 2020	Headline
33-34 Warple Way	£19.31	1,067	N/A	Dec 2022	Net effective
33-34 Warple Way	£14.00	1,280	N/A	Mar 2022	Net effective

Source: CoStar,2023

It is important to note that none of the schemes are directly comparable to the type of space envisaged at Old Oak West, which is assumed to be Grade A accommodation and benefitting from the wider placemaking and connectivity attributes.

4.4.2. West London – office rental market comparable evidence

Looking slightly further afield, we have obtained evidence of rents of between £45 and £58 psf being achieved within Hammersmith and rents of up to £51 psf being achieved in Chiswick. Both locations are established office markets and benefit from modern stock and good London underground connectivity to Central London and Heathrow.

Table 11: Wider West London office rental values

Building Name	Rent (per sq ft)	NIA (sq ft)	BREEAM Rating	Transaction Date
85 Uxbridge, Ealing	£44.89	3,826	Very Good (on refurbished floors)	Dec 2022
85 Uxbridge, Ealing	£42.90	5,174	Very Good (on refurbished floors)	Dec 2022
84 Uxbridge Road, Ealing	£25.00	2,959	N/A	Sep 2022
245 Hammersmith Road	£58.00	6,271	Excellent	Nov 2022
20 Hammersmith Broadway	£46.50	3,607	N/A	Apr 2022
The Broadway, Hammersmith	£46.50	3,607	N/A	Apr 2022
Hythe House	£45.00	2,283	N/A	Dec 2021
Chiswick Tower, Chiswick	£42.50	5,024	Very Good	Nov 2022
Chiswick Place, Chiswick	£38.44	31,840	N/A	Jun 2022

Source: CoStar, 2023

4.4.3. Wider London regeneration areas – office rental market comparable evidence

As a final review, we have considered rents being achieved at the emerging employment clusters we identified above. In many respects, we consider that locations such as Stratford, Brent Cross Town, Battersea and White City share some common attributes with Old Oak West, particularly with regard to scale, connectivity and placemaking ambition.

Prime headline rents within these emerging locations range up to circa £47psf in Stratford, up to £56psf at White City to £60psf in Battersea[10], with a summary of relevant transactions provided below in Table 12. Whilst an early letting has been secured for an anchor tenant at Brent Cross Town (Sheffield Hallam University), details are confidential.

The rental levels achieved at White City are an important comparable for Old Oak West, and particularly sites closest to North Acton which would partially be serviced via the Central Line as well as the new Old Oak Common station. White City has achieved rents in excess of £50psf, which are underpinned by a wider context of a curated mixed-use neighbourhood and anchor assets in terms of a major university occupier (Imperial College London) and a major shopping facility (Westfield White City).

Table 12: London office rents in regeneration areas

Building Name	Rent (per sq ft)	NIA (sq ft)	BREEAM Rating	Transaction Date	Rent Free	Term
Westworks, White City	£52.50	13,288	Excellent	Oct 2019	14 Months	5 Years
Westworks, White City	£56.00	14,690	Excellent	Oct 2019	16 Months	10 Years
Westworks, White City	£50.00	14,342	Excellent	Sep 2019	24 Months	10 Years
Westworks, White City	£52.00	50,431	Excellent	Apr 2019	24 Months	10 Years
The Hive, Wembley	£39.00	10,000	Excellent	Aug 2021	24 Months	10 Years
Redman Way, Stratford	£47.00	10,579	Outstanding	Nov 2019	Unknown	10 years
Stratford Walk, Stratford	£47.50	21,282	Excellent	July 2019	6 months	10 years

Source: Costar, 2023

From assessing comparable regeneration schemes, we note that incentive packages equivalent to 24 rent free months are typically being offered. This is reflective of the incentives typically required to encourage occupiers to relocate or start up outside of more established locations.

4.4.4. Office comparable rental evidence – summary and commentary of relevance to Old Oak West

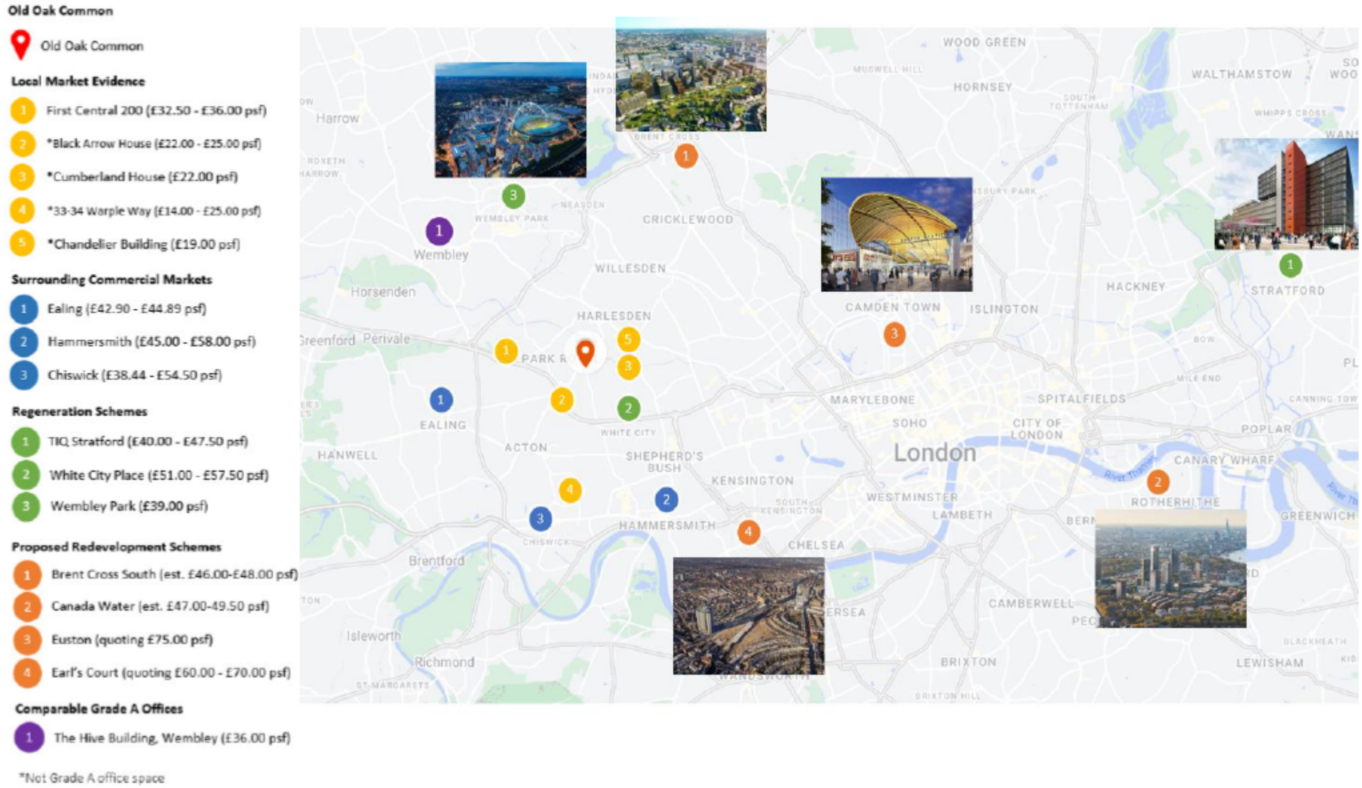
A summary of the comparable evidence for the local Old Oak West market and more established commercial centres in West London has been described in this Section 4.4, alongside rental levels in other major regeneration areas. This evidence is summarised in Figure 11 below.

The key factors driving our OBC rental recommendations include the absorption profile, competitiveness of the location relative to others, specification of the space delivered and quality of amenities in the immediate area. We understand that office stock to be delivered at Old Oak West will achieve some of the highest sustainability and wellness standards, with excellent tenant amenities and net zero carbon standards. We consider this to reflect 'prime' office stock.

Based on the comparable evidence, we consider that headline rents of up to £55psf could be achieved at Old Oak once the location is established as a commercial cluster, for the plots closest to the new Old Oak Common station. This would put Old Oak West in a rental price bracket higher than Stratford and similar to levels currently established at White City. The journey to establishing this level of headline rent is considered further in sub-section 4.4.5.

[10] Source: DeVono

Figure 11: Map of comparable commercial schemes – local area, established markets and regeneration areas



Source: Costar, 2023

4.4.5. Old Oak West – anticipated office rental value journey / regeneration premium

There has been little speculative new office development at Old Oak West to date. All OBC scenarios anticipate the project delivering a large quantum of office space and will therefore need to attract office occupiers at a significant scale. Our evidence suggests that to attract early occupiers to a completely new office location, rental levels during early phases must be competitive. This is where significant pre-lets will be sought. As the site is then developed, and space is 'committed and occupied', we consider that the market will respond positively and the increased demand reflected in a positive upwards rental trajectory that will also be supported by the general increase in demand for best-in-class space.

Based on the evidence reviewed, we have recommended starting rents for the first office plots assumed to be released in each development scenario of circa £37.50psf for the Medium / Medium+ scenarios and £42.50psf for the BAU scenario. The difference in the starting rents reflects the different location of the first plots released as well as differences in the assumed timing of release of the first plots relative to the Old Oak Common station opening date. Rents at this staring point also allow for the potential to secure important 'anchor asset' tenants to help build confidence in the location.

As the critical mass of occupiers is established, we would expect rent rises to follow. For the purposes of the OBC modelling, we would anticipate an increase of £5.00 psf after the first 500,000 sq ft of space has been delivered and occupied, and then a further rent rise of £7.50 psf to be observed on all plots after the second 500,000 sq ft of space has been delivered. At this point forwards, we have assumed that the area is considered to have achieved its rental potential relative to other London submarkets. The maximum headline rents assumed in all OBC scenarios are £55psf, for plots delivered later in the programme and in close proximity to the future Old Oak Common station. The profile of the rental journey achieved over time has been benchmarked against other regeneration schemes.

We have phased the office delivery for each scenario, dictated by land release, infrastructure, and absorption profiles. A rent and yield has then been applied to each plot. Due to phasing, void periods on pre-let plots are assumed to be zero. Only speculative plots are subject to a void period. We have varied the voids and rent-free periods largely around the location of each plot, with those near to the new transport nodes featuring the lowest incentive periods.

4.5. Office investment yields - comparable evidence

Below we outline our comparable evidence for office investment yields, obtained from CoStar. In assessing these we have considered the location, size and specification of the office development that will be brought forward at Old Oak West.

Comparable evidence for the quality of new build office buildings envisaged at Old Oak West is predominantly available for transactions in the centre of London where rents are high and yields are especially low due to the prime location. We have also considered comparable evidence in 'out of core' office locations such as Chiswick Park and Stratford, where the higher yields are reflective of the non-prime location and investor sentiment around the prospects for rental growth, amongst other considerations. The comparable evidence obtained where there is a government covenant has significantly lower yields than that of privately occupied space which must also be accounted for in our analysis, to the extent that any government pre-lets are assumed at Old Oak.

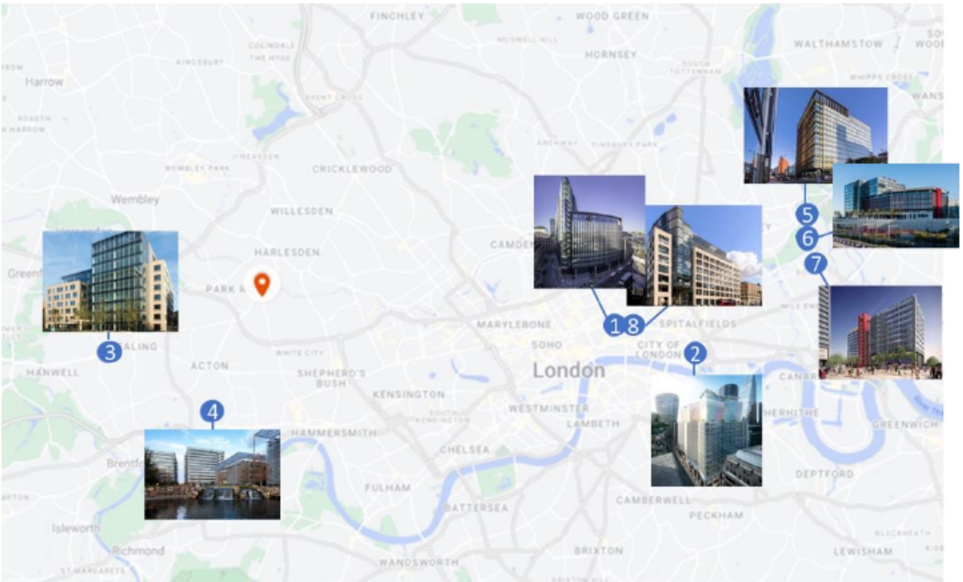
Figure 12: Map of comparable office investment sales transactions

Old Oak Common

Old Oak Common

Market Evidence

1 1 New Street Square (4.71% NIY, 2023)
2 120 Fenchurch Street (4.22% NIY, 2023)
3 85 Uxbridge Road (5.97% NIY, 2021)
4 Building 7 – Chiswick Park (5.30% NIY, 2020)
5 *14 Westfield Avenue (4.00% NIY, 2018)
6 2 Redman Place (5.00% NIY, 2018)
7 *Stratford Walk (4.17% NIY, 2016)
8 5 Fleet Place (4.00% NIY, 2022)



Source: CoStar, 2023

Further detailed comparable evidence is contained within Table 13.

Table 13: Table of office investment sales comparable evidence

Property Address	Date	Tenure	NIA (sq ft)	Tenant	Price	NIY	Capital Value (psf)
4 Building 7 – 566 Chiswick High Road	Feb-20	LL	334,054	Multi-let	£312m	5.30%	£934
62 Redman Place	Jul-18	LL	278,000	Cancer Research (78%)	£242m	5.05%	£871
514 Westfield Ave	Jun-18	LL	300,140	UK Govt	£250m	4.00%	£833
7 Building S6 – Stratford Walk	Jan-16	FH	265,000	TfL	£246m	4.17%	£928
11 New Street Square	Jan-23	LL	276,502	Deloitte	£349.5m	4.71%	£1,264
120 Fenchurch Street	Feb-23	LL	427,366	Multi-let	£312.5m (50% share of SPV)	4.22%	£1,462
385 Uxbridge Road	May-21	FH	135,639	Multi-let	£70.2m	5.97%	£572

Source: Costar, 2023

4.6. Office inputs - summary for each OBC scenario

Based on the comparable and market evidence discussed above, the key office inputs for the OBC scenarios are summarised in the table below.

For all scenarios, we have applied the following approach:

- Assumed pre-lettings for 50% of the office space. Based on our research into comparable regeneration schemes, we assume that some of these pre-lets would be to Government occupiers or similar very low-risk entities that would be secured to help establish the area and de-risk the project. The tenants attracted to The International Quarter in Stratford are good examples of this happening at comparable projects, where TfL and the Financial Conduct Authority (FCA) made early commitments. We have applied lower investment yields to specific pre-let plots to reflect the covenant strength associated with these specific occupiers, relative to the average commercial yields applied.
- The yields for the remaining plots are slightly higher and are based on our comparable evidence after adjustments to reflect the 'outer-core' location of Old Oak West. Stratford is considered to be a strong comparable, delivering successful campus-like office developments.

Relative to the Medium and Medium +, the BAU scenario is predicated on a denser and concentrated form of commercial development around the future transport node at Old Oak Common which is anticipated to generate slightly higher average rental values in the BAU. However, we have applied slightly lower yields to the Medium / Medium + schemes to reflect the blend of the type of office development being brought forward which is lower density and has smaller floorplates, as well as the wider scale of area anticipated to the area in these more comprehensive scenarios. The net result, as calculated in the financial model, is a similar weighted average capital value £psf, as shown in Table 14.

Table 14 Summary table of recommended office inputs for each OBC Scenario

Inputs	BAU	Medium	Medium +
Office rent (£psf)	£42.50 - £55.00	£37.50 - £55.00	£37.50 - £55.00
Initial yield	5.25% - 5.75%	5.25% - 5.75%	5.25% - 5.75%
Rent free	24 months	24 months	24 months
Capital value (weighted average, £psf NIA)	£742	£741	£741

Source: Deloitte, 2023 and OBC Model

4.7. Office and residential value summary

It is important to consider market forces and capital value prospects for different uses at Old Oak West. As Old Oak West is brought forward, development partners will review and reconsider the relative performance of different use classes, including commercial and residential. This is particularly important to provide resilience to the project, for example in the event of macroeconomic cycles and sectoral downturns that impact one use type more than another.

Table 15 compares the weighted average office capital value and blended residential value for each scenario. The similar pricing points between the two use classes is noted.

Table 15: Summary table of office and residential capital values £psf, uninflated, including regeneration premium

Inputs	BAU	Medium	Medium +
Private and affordable residential blended (including affordable grant)	£724	£770	£765
Office	£742	£741	£741

Source: Deloitte, 2023 and OBC Model

The following section considers inputs for retail uses.

5. Retail inputs

5.1. Introduction

Retail is the third most significant land use by area within the OBC development scenarios, comprising circa 7-8% of the gross floorspace depending on the specific scenario[11]. As in previous sections for residential and office uses, we outline the key rental and investment market trends, summarise relevant rental and investment market comparable evidence and conclude with the input recommendations for each OBC scenario.

5.2. Retail market trends

5.2.1. Retail leasing market

The retail landscape has experienced a significant structural shift in recent years, with new customer behaviours driving retailers to re-think their business models. Key trends in the retail property market include:

- Consolidation – Retail consolidation is anticipated to continue, but amid signs of a bricks and mortar revival in particular destinations, new concepts and approaches will emerge. The number of independent shops increased by 804 in the first half of 2021 (the best six-month period in recent years) – however, the number of chain stores fell by 5,251, continuing a trend of large scale closures, as found by JLL (UK Retail Capital Markets Review, 2022). This trend has been exacerbated by the increase in hybrid working over the course of the pandemic. With more people choosing to work from home more often, city-centre cafes, restaurants, pubs and leisure facilities are experiencing lower footfall, resulting in a need for businesses to reduce and consolidate their physical footprint to priority locations – such as those which capture a tourist and residential market as well as workers.
- Doughnut effect – The impact of homeworking has also seen localised spending increase which has triggered a 'doughnut effect' across Greater London. To evidence this, Savills research on London retail resilience in March 2023 using Pret A Manger's transaction index of average weekly sales found that suburban London sales grew by 15.3% in Q4 2022, outperforming both the West End (-6.4%) and the City (-16.0%), as well as pre-pandemic levels. This higher propensity to shop locally has influenced a number of food and beverage outlets to re-structure their expansion plans to focus on suburban locations, affluent neighbourhoods and London villages. As well as F&B outlets, other retailers have taken the opportunity presented by an agile workforce and expanded into Greater London locations. The retail offer at Old Oak West will need to meet the needs of this agile resident population by providing a range of local shops and creating a self-sufficient retail location.
- Experience-driven retail: attracting Generation Z – Attracting Gen Z will become more important as they become both customers and employees. The generation born between 1995 and 2010 has now joined the workforce. Not only do they have their own spending power, but they also have strong and distinctive wants and needs that retailers and brands need to cater for. Customer expectations and needs are rapidly refocusing on curated experiences, tech-enabled concepts and increasingly, exploring the metaverse. As a result, we are seeing brands invest in large retail formats, allowing space for products to be brought to life through interactive experiences.

Whilst the retail sector continues to experience challenges, it will be a critical land use within the Old Oak West scheme that establishes dynamism and a sense of place, particularly though the incorporation of leisure, food and beverage outlets alongside shops. In turn, this will underpin and enhance office and residential demand. Therefore getting the retail component of the scheme right, as well as the community and social infrastructure provision, will be critical for the financial performance of the scheme as a whole. Based on the above retail market trends, these show that retail sub-markets with the strongest resilience and even growth are those served by both a residential and an office population at the very least, if not also a tourist or event-driven footfall. We would expect that developers at Old Oak West would also carefully consider the overall balance of the quantum of retail offered on the ASD site in the context of that to be provided within the Old Oak Common station itself.

[11] OBC Model, July 2023

5.2.2. Retail investment market

Investor sentiment towards the retail sector, which was already weak before the pandemic, has deteriorated further over the past few years amid multiple lockdowns and a wave of store closures and company administrations. Average yields have risen as a result, with retail property now trading at a big discount to industrial properties in a complete reversal from a decade ago. This was starting to attract more opportunistic investors into the sector in early 2022, with some big transactions sending quarterly volumes up to a five-year high in Q1 2022. However, rising interest rates and faltering retail sales have cooled the market again in recent quarters. Yields have decompressed again as a result.

Few noteworthy transactions have completed in recent months. In September 2022, US investor The Ardent Companies paid £50 million to acquire the retail element of the Royal Exchange in the City of London, which houses a host of luxury fashion retailers and restaurants. The asset previously sold for £83 million in 2013. High street properties bought for income have been less popular with investors during the pandemic, as lockdown restrictions impacted nonessential retail, but several significant deals in 2021 illustrated the enduring appeal of prime locations like Bond Street in London.

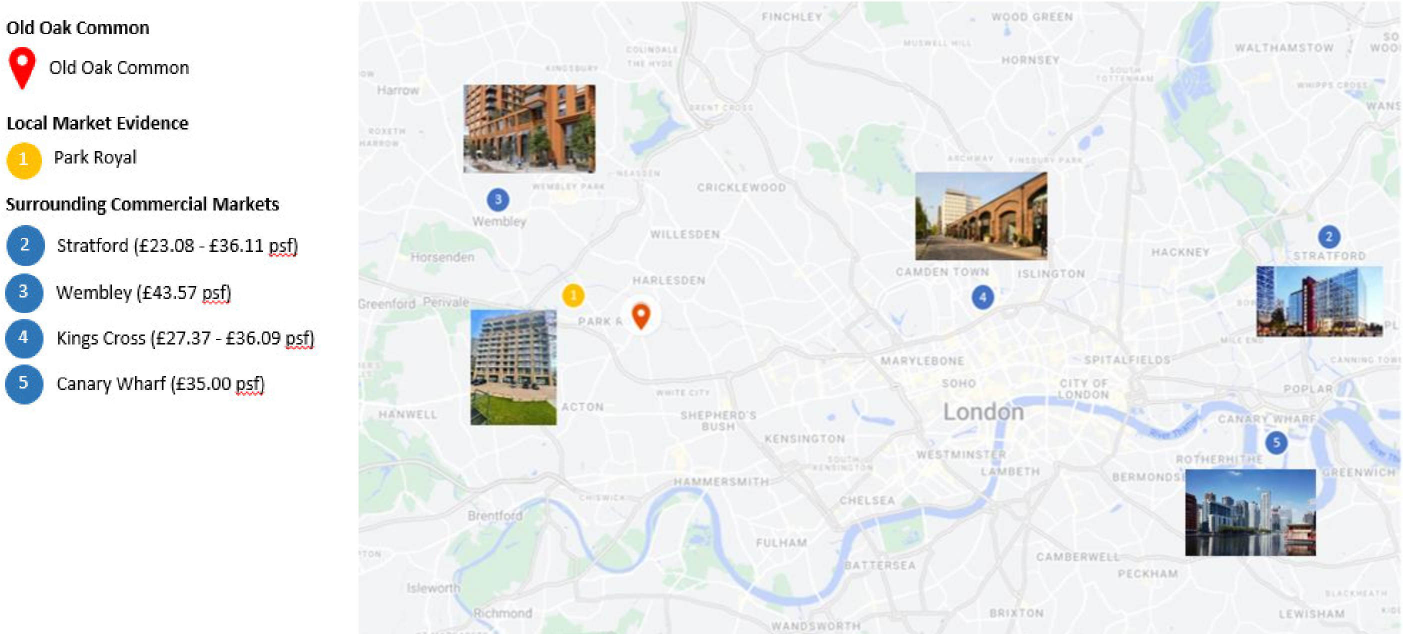
Rising inflation is bearing down on consumer spending and thereby creating concern around retail demand, while rising interest rates and increased market volatility have caused a drop in pricing and prevented many deals from getting done. The market is likely to remain quiet in the near term.

5.3. Retail comparable rental and investment yield evidence

5.3.1. Retail rental levels - comparable evidence

Below we outline our comparable evidence for retail units. In assessing these we have considered the location, size and specification of the retail development that will be brought forward at Old Oak West.

Figure 13: Map of comparable retail rental evidence



Source: CoStar, 2023

Further detailed comparable evidence is detailed in Table 16.

Table 16: Retail rental comparable evidence

Map no.	Property Address	Transaction Date	Rent (sq ft)	NIA (sq ft)	Tenant	Rent Free	Term
1	Unit 2, Regency Heights, Park Royal	Jan 2023	£29.60	1,098	Undisclosed	-	-
2	The International Quarter, Stratford	Nov 2018	£29.16	1,146	Signorelli	15 Months	15 Years
2	The International Quarter, Stratford	Sep 2018	£36.11	3,024	Figo	12 Months	20 Years
2	The International Quarter, Stratford	Nov 2019	£23.08	3,500	Itsu	6 Months	15 Years
3	Williamson Heights, Wembley	Jun 2021	£43.57	1,420	Sixty Six	15 Months	20 Years
4	1-21 Stable Street, King's Cross	May 2016	£35.73	2,518	Spiritland	48 Months	10 Years
4	1-21 Stable Street, King's Cross	Mar 2014	£36.09	6,928	Dishoom	37 Months	25 Years
4	1-21 Stable Street, King's Cross	Nov 2016	£27.73	4,564	18Montrose	36 Months	10 Years
4	Handyside Street, King's Cross	Jun 2017	£27.37	6,419	Everyman Cinema	12 Months	15 Years
5	Millharbour, Canary Wharf	May 2021	£35.00	883	Murger Han	12 Months	20 Years

Source: CoStar, 2023

As seen in Table 16, we have drawn evidence from comparable regeneration areas across London. Although many of the transactions are historic, we understand that retail rents have fallen significantly in recent years and have therefore taken this into consideration. Close to Old Oak West, a transaction took place in Park Royal, in which a rent of circa £30 psf was achieved. As for the International Quarter in Stratford, between 2018 - 2019 three transactions took place achieving rents ranging from £23 - £36psf. The early lettings in King's Cross between 2014 - 2016 (before the launch of King's Boulevard and of Coal Drops Yard) achieved rents of £27 - £36psf, whilst the 2021 letting in Canary Wharf achieved £35psf.

The rent-free periods granted within the transactions above in Table 16 range from 0-48 months. The rent-free periods granted in the King's Cross lettings are significantly higher than in the other comparable evidence, ranging from 36-48 months compared to 6-15 months in other locations. However, it must be noted that these rent-free periods were achieved during the period in which King's Cross was becoming established as a retail destination, thus explaining the generous length.

5.3.2. Retail investment yields – comparable evidence

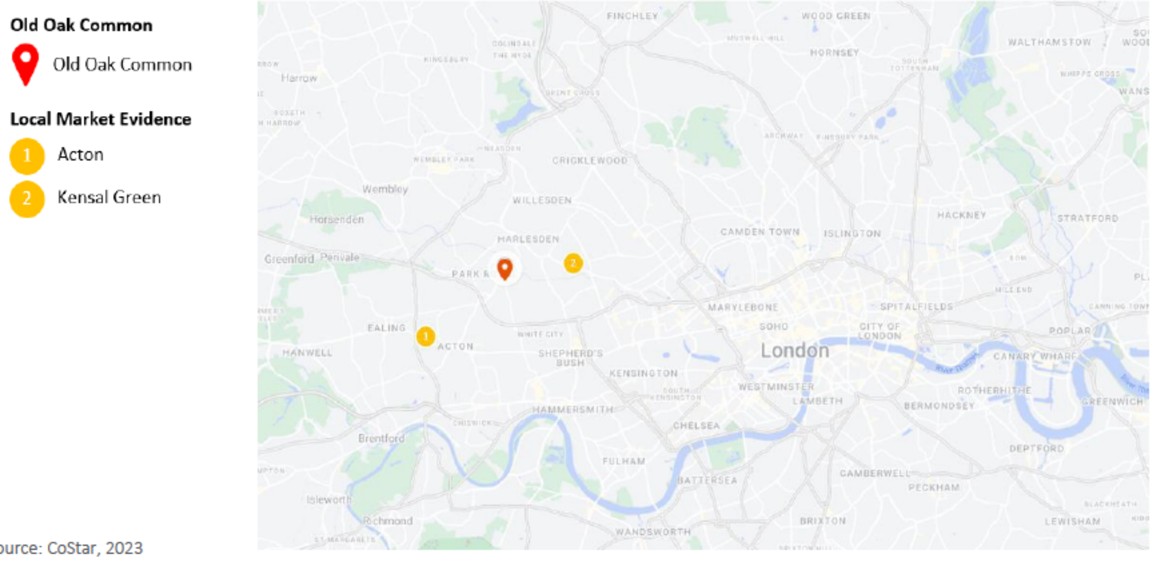
Below we outline our comparable evidence for retail investment yields in the local area, with a summary of comparable evidence contained in Table 17 and map shown in Figure 14. Evidence was sourced from CoStar.

Table 17: Retail sales comparable evidence

Map no.	Property Address	Transaction Date	Asking Price	Net Initial Yield	NIA (sq ft)
2	26 Chamberlayne Road	Aug 2022	£1,450,000	6.30%	369
1	30-36 Crown Street	Jul 2022	£730,000	7.25%	3,859
2	76 Chamberlayne Road	Jun 2022	£1,275,000	5.74%	1,420

Source: CoStar, 2023

Figure 14: Map of comparable retail investment transactions



Source: CoStar, 2023

5.4. Retail inputs – summary for each OBC scenario

Whilst the distribution of retail space differs slightly between BAU and Medium/Medium+, the quantum provided overall does not achieve the critical mass to be comparable to a major shopping centre, such as the nearby Westfield White City.

The BAU scenario includes a two-floor retail podium below office development on the ASD, as well as a smaller quantum of ground floor retail and leisure dispersed across the remainder of the site, which is largely in residential use. By contrast, the Medium and Medium+ scenarios assume a distribution of retail and leisure space across the scheme below both office and residential buildings, focused around public realm, along key pedestrian desire lines, and at identified new town centres. The retail in all three OBC options primarily serves a placemaking role and the rental levels recommended reflect this aspiration. However, the exception to this is the 'mall' area within BAU to which enhanced rents have been assumed.

Table 18 provides a summary of the retail inputs recommended for each OBC scenario.

Table 18: Summary table of retail inputs for each OBC scenario

Inputs	BAU	Medium	Medium +
Rent	£37.50 psf (ASD) £20-£25 psf (all other locations)	£32.50 (ASD) £20-£25 psf (all other locations)	£32.50 (ASD) £20-£25 psf (all other locations)
Yield	6.50%	6.50% - 7.00%	6.50% - 7.00%
Void	24 months	12-24 months	12-24 months
Rent Free	6-9 months	6-12 months	6-12 months

Source: CoStar, 2023

6. Build, infrastructure, and other cost inputs

6.1. Build costs

Recommended build cost ranges are summarised in Table 19 below. All build cost information has been provided by our sub-consultants, Mott MacDonald. Their reports are made available within the OBC Supporting Information files.

The range of build costs recommended for any given use type reflects differences in the assumed build height, scheme design and specification for a given development plot. Build rates are assumed to be consistent across the OBC scenarios, but the weighted averages reflect specific differences between scenarios, such as building heights and use mix. The weighted average build cost by scheme is shown below in Table 19, for each of the key use classes.

Table 19: Build costs by use, showing the range of build costs provided and the weighted average for each OBC scenario

		Weighted average build cost by scenario (£psf GIA, excluding inflation)		
Tenure/Type	Build cost range (£psf GIA, inflation excluded)	BAU	Medium	Medium +
Private residential	£280 - £370 psf	£321	£317	£315
Affordable residential	£255 - £345 psf	£271	£254	£280
Office	£375 - £435 psf	£422	£407	£407
Retail	£200 general / £502 psf (mall, BAU scenario only)	£407	£200	£200

Source: Deloitte / Mott MacDonald / OBC Financial Model, 2023

In addition to the base build costs, further allowances are made to reflect additional 'other development' costs, such as enabling works, site preparation, external works, plot utilities and drainage.

6.2. Infrastructure costs

A comparison of the key infrastructure items and Model infrastructure costs is included in the wider OBC Appendix, Appendix 4 – Full Infrastructure Overview.

Infrastructure costs estimates have been costed by Mott MacDonald, based on assumptions around the different infrastructure required to bring forward each scheme. Mott MacDonald's advice is included within the OBC Supporting Information folder. It is noted that the costs provided assume significant levels of contingency, reflecting the early stage of design development and complexity of some of the railway related works incorporated.

The application of the infrastructure costs to different OBC scenarios has been reviewed by OPDC to reflect the sites included / excluded in the final OBC scenarios.

6.3. Other costs and fees

The following fees and costs, summarised in Table 20 below, have been established through our industry experience as well as a range of recently approved comparable viability assessments and Outline Business Cases.

Table 20: Tables of additional costs and fees, to be applied consistently to each OBC scenario

Element	Input	Notes / rationale
Professional fees	10% of construction costs	This total allowance incorporates assumed masterplanning fee costs
DM/PM fees	3.5% of construction & infrastructure costs	
Construction contingency	5% of build costs	
Developer's contingency	3% total development costs (if included)	It is our experience that market practice is not consistent with regards to the inclusion / exclusion of developers' contingency allowance. Hence allowance is optional, particularly in the context of other appraisal allowances incorporated.
Private residential marketing, sales and legal fees	3% of GDV	
Affordable sales and legal fees	1% of GDV	
Office / Retail sales agent's and legal fees	1.5% of capital value	
Office / Retail letting fees	10% of annual rent	

Source: Deloitte, 2023

7. Finance and profit inputs

7.1. Senior debt finance rates

The financial model incorporates debt and equity finance for the development scenarios. Deloitte was instructed to recommend the senior debt finance rates applicable to each of the main use types within the scheme, together with anticipated loan to cost (LTC) or loan to value (LTV) ratios. We have summarised the recommended advice in Table 21 below.

Table 21: Market facing debt finance rates, to be applied consistently for all OBC scenarios

Tenure	Loan to Value / Loan to Cost	Margin Interest*
Private sale	65% (LTC) / 50% (LTV)	425bps (over SONIA
Affordable residential	75% (LTC) / 60% (LTV)	225bps (over GILTS)
Office	65% (LTC) / 50% (LTV)	500 bps (over floating SONIA or SONIA swap)
Retail	N/A	Assuming that the retail space would only comprise a small proportion of the plot being funded the indicative terms we have provided would not be impacted and the rates applicable to the main uses can be incorporated in the Model.

Source: Deloitte, 2023

In reviewing the assumptions table above, the following should be noted:

- The information provided represents our opinion of typical terms available in the UK market as of January 2023 having regard to the location and scale of the proposed scheme;
- The rates are those that would be available to a private sector market participant;
- Margins will vary between lenders based on their cost of capital, individual return requirements and the degree of risk they perceive in relation to the proposed loan. Key risk factors include: covenant levels (e.g. loan to cost (LTC) and loan to value (LTV)); the experience and track record of the delivery team; credit strength of the borrower; nature of any guarantees provided; and extent to which the developers exit risk has been mitigated through pre-sales or pre-lets. The margins quoted by individual lenders may also change over time due to such factors;
- All in cost of debt will include a lender arrangement fee and the underlying rate that the margin is applied to. The underlying rates used in the UK are typically either 3-month SONIA or the market yield for the relevant UK GILT at the date that the facility is signed. These underlying rates vary constantly and there has been significant volatility over the past 18 months with a corresponding impact on the all-in cost of borrowing; and
- Indicative LTV and LTC levels relate to senior debt, are subject to change and may reduce from those stated in instances where lenders perceive there to be increased risk. Where lower covenant levels are agreed this is often reflected in a lower margin being charged reflecting a lower level of risk to the lender. Whilst the forward funding structure that we have set out is typical, structures can vary depending upon the requirements of the developer and forward funder.

7.2. Developer's profit

Developer profit metrics are required to determine residual land values (RLVs) for the Economic Case. An Internal Rate of Return (IRR) is required for the Financial Case.

In the Economic Case, Land Value Uplift (LVU) is determined by assessing the uplift in land values from the land use changes on sites within OOW, derived from examining the Existing Economic Use Value (EEUV) of the land in its current use and the Future Use Value (FUV) of the sites to be developed. The FUV is derived from the RLVs that have been calculated in the financial model. The recommended developer profit metrics for the purposes of calculating returns in the economic case are contained in the table below, which are consistent between the OBC scenarios.

Table 22: Profit metrics by use class, provided for the purposes of the economic case

	BAU	Medium	Medium+
Private residential – profit on GDV	20%	20%	20%
Affordable residential – profit on GDV	7%	7%	7%
Commercial – profit on cost	15%	15%	15%
Retail – profit on cost	12%	12%	12%

Source: Deloitte, 2023

In the Financial Case, a levered IRR of 15% has been targeted. This is a market facing return that would be appropriate to apply to reflect the level of return that a prospective Master Development Partner (MDP) would expect to achieve. This recommendation is based on our professional experience of comparable projects, including involvement in competitive procurements of major regeneration schemes. Again, this assumption is to recommended to be applied consistently across the OBC scenarios.

8. Phasing

8.1. Introduction

Deloitte has been asked to advise on phasing schedules for each development scenario. Each of the scenarios has been phased predicated on the individual land release, infrastructure delivery, and absorption rates. Land release and infrastructure delivery dates have been provided by OPDC (in conjunction with the wider landowning stakeholders) and we have relied on this information to underpin our phasing exercise. In providing a recommended phasing profile, our approach has been to consider land availability, timescales for delivery of key infrastructure (noting that infrastructure proposals are at a relatively early stage), as well as market absorption rates for different use types.

8.2. Summary of approach

Once land is released, an allowance is included of 24 months for decontamination and 18 months for planning permission, which are assumed to run in tandem. It is assumed that land under DfT ownership will be released in a de-contaminated state, so an allowance of 18 months for planning permission has been assumed post land release.

Having accounted for the above factors, infrastructure requirements that might impact development have been considered. We have relied on OPDC's in-house technical team to outline the relationship between the timing of infrastructure delivery and the facilitation of development. Whilst all these assumptions are subject to further refinement, they form the basis of phasing schedules which illustrate the earliest date at which development can reasonably be expected to start. Construction periods are predicated on advice from Mott MacDonald and are included within the phasing work, generating practical completion dates for each plot.

The final element to consider are residential and commercial absorption rates. Evidence supporting our assumed absorption rates for both use types is discussed in detail at Appendix A.

8.3. Residential absorption – conclusions for each OBC scenario

Based on the evidence reviewed; our residential absorption conclusions are reported below for all sites (i.e. consistent with the economic case).

For the avoidance of doubt, our recommended absorption rates assume that Old Oak West is delivered as a combination of private market for sale and build to rent (BTR) tenures. The OBC Model only explicitly contains residential 'for sale' tenures from a pricing perspective, although it is understood that future iterations of the Model will explore Build to Rent (BTR). The absorption rates are also an 'all in' figure, inclusive of affordable housing tenures.

8.3.1. BAU residential phasing

The graph below plots the phasing of total residential unit completions over a nine-year period, including affordable housing. Based on differences between the scenarios in terms of placemaking and infrastructure investment, as well fewer differentiated sales outlets, a lower absorption rate is assumed for BAU relative to the Medium/ Medium + scenario.

We would anticipate two main sales districts, those being land to the west of HS2 (Shield site / North Acton), and the land at Channel Gate / Atlas Road. We assume each of these districts would have at least one sale outlet, capable of selling at least 100 private units per annum. It is assumed that the absorption rate will be between c.300 and 800 units per annum. The phasing for these scenarios is detailed in the figure below, 2029 and 2030 are restricted due to land release and infrastructure constraints.

Figure 15: BAU residential phasing completions – all sites including indirect delivery

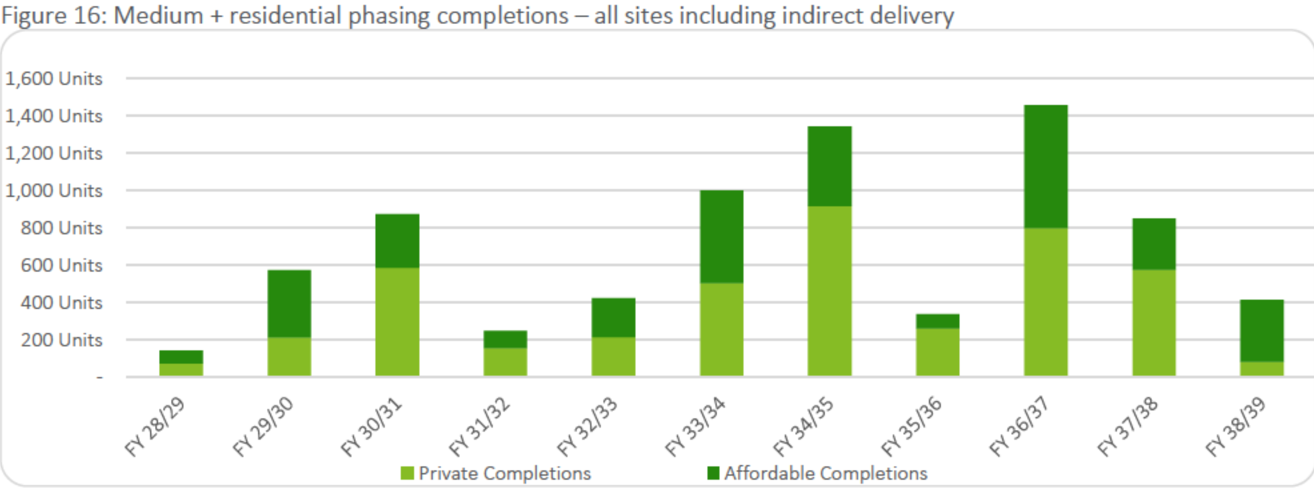
Source: Deloitte, 2023

8.3.2. Medium residential phasing

The Medium scenario is significantly larger in terms of overall residential units than the BAU. It is assumed that the absorption rate will be between c.400 and 1,000 units per annum. We expect that absorption in the first five years would be slower, while a sense of 'place' is generated. We have assumed that there would be four main sales districts within Old Oak West, those being, land around the proposed Old Oak Common Station (ASD site), Acton/ Acton Wells East and West, and the land at Channel Gate / Atlas Road. We assume each of these districts would have at least one sales outlet, capable of selling at least 100 units per annum.

The phasing for the Medium scenario is detailed in Figure 16 below, 2028 has relatively low completions due to land release and infrastructure constraints.

Figure 16: Medium + residential phasing completions – all sites including indirect delivery



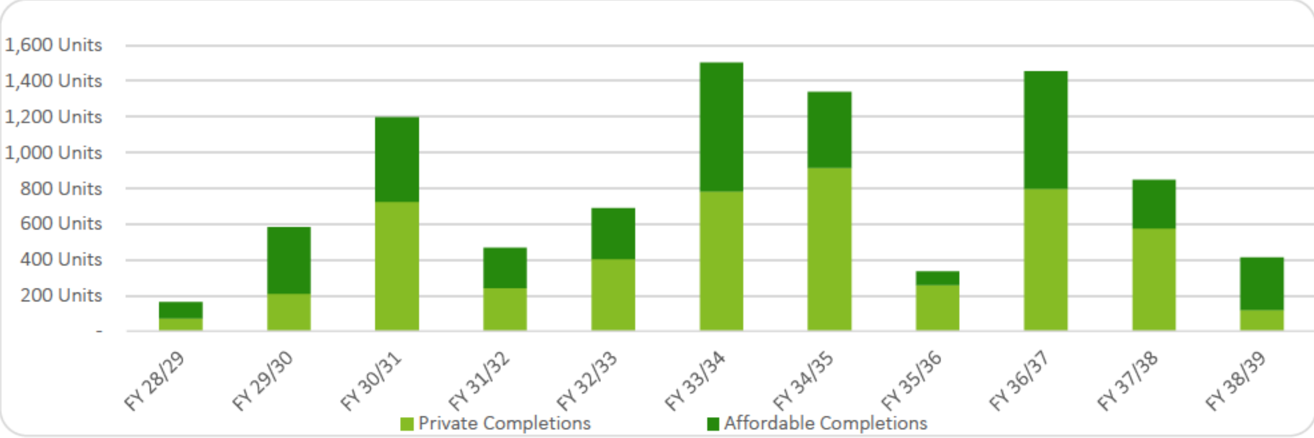
8.3.3. Medium+ residential phasing

The Medium+ scenario is the most comprehensive development scenario. It is assumed that the absorption rate will be between c.400 and 1,200 units per annum. We expect that absorption in the first five years would be slower, while a sense of 'place' is generated. We have assumed that there would be four main sales districts within Old Oak West, those being, land around the proposed Old Oak Common Station (ASD site), land around Willesden Junction, Acton Wells East and

West, and the land at Channel Gate / Atlas Road. We assume each of these districts would have at least one sale outlet, capable of selling at least 100 units per annum.

The phasing for this scenario is detailed in Figure 17 below, 2028 has relatively lower completions due to land release and infrastructure constraints.

Figure 17: Medium + residential phasing completions – all sites including indirect delivery



Source: Deloitte, 2023

8.4. Commercial absorption rates – conclusions for each scenario

Old Oak West will seek to deliver an exciting and attractive new office location for occupiers. The predictability of take up is dependent on factors including design, building standards, rents, occupier and industry demand and the wider mobility of office users in a post-Covid world.

Comparative schemes are a useful tool in predicting the behaviour of 'new' office markets. However, the regeneration of Old Oak West is unique. The transport links between HS2, Crossrail and the proximity to Heathrow are unique and will deliver a 'one of a kind' offering to the market.

8.4.1. BAU commercial absorption rates

The BAU scenario that we have reviewed contains office use on the ASD (land immediately adjacent to the future Old Oak Common Station) only. Our recommended take up rate for the BAU scenario is approximately 115,000 sq ft per annum across the entire development period, and 185,000 sq ft per annum for the first five years. It is noted that the office plots contained within the BAU scenario are of substantial size. The market would require time for these buildings to be fully absorbed, or let, before the delivery of subsequent plots.

8.4.2. Medium commercial phasing

The commercial phasing for the Medium scenario is the same as for the Medium + scenario, as described in the following sub-section. There is no difference in the overall quantum or distribution of floorspace between these scenarios.

8.4.3. Medium+ commercial case phasing

Relative to the BAU, the Medium + scenario contains a slightly greater overall quantum of office space, albeit more dispersed across Old Oak West, more akin to a campus approach. One benefit of this is earlier site release for the first commercial plot, which enables some office space delivery ahead of the opening of the Old Oak Common station.

Our recommended take up rate for the Medium + scenario is similar to the BAU, approximately 123,000 sq ft per annum across the entire development period, and 191,000 sq ft per annum for the first five years. Note, the office plots contained within the Medium + scenario are of smaller in size relative to BAU, as such there is a steadier uptake of space. The market would require time for these buildings to be fully absorbed, or let, before the delivery of subsequent plots.

8.5. Old Oak West – interplay between residential and commercial absorption

Applying the discrete absorption rates identified above to the proposed volume of commercial and residential space within the different OBC scenarios, together with the assumed land release dates and infrastructure phasing, generates an overall indicative project programme for each OBC scenario.

For all OBC scenarios, all of the residential units are absorbed within the first ten years of development. However, due to lower commercial absorption rates, commercial development would continue for over ten years after the final residential development plot has been completed based on the assumed commercial absorption rates.

There is the potential to outperform the commercial absorption rates adopted in the event of securing a particularly large anchor asset or tenant. There is precedent for this in other regeneration areas, for example Google's UK HQ building at King's Cross totals almost 1m sq. ft and Apple's HQ at Battersea Power Station is almost 0.5m sq ft.

We expect the optimal use mix to be further refined to optimise the overarching project programme as more detailed scheme design work progresses post OBC.

Appendix A: Supporting information

Introduction

This Appendix provides further information to support the advice given in this report on the application of (1) regeneration premia, (2) residential absorption rates and (3) commercial absorption rates.

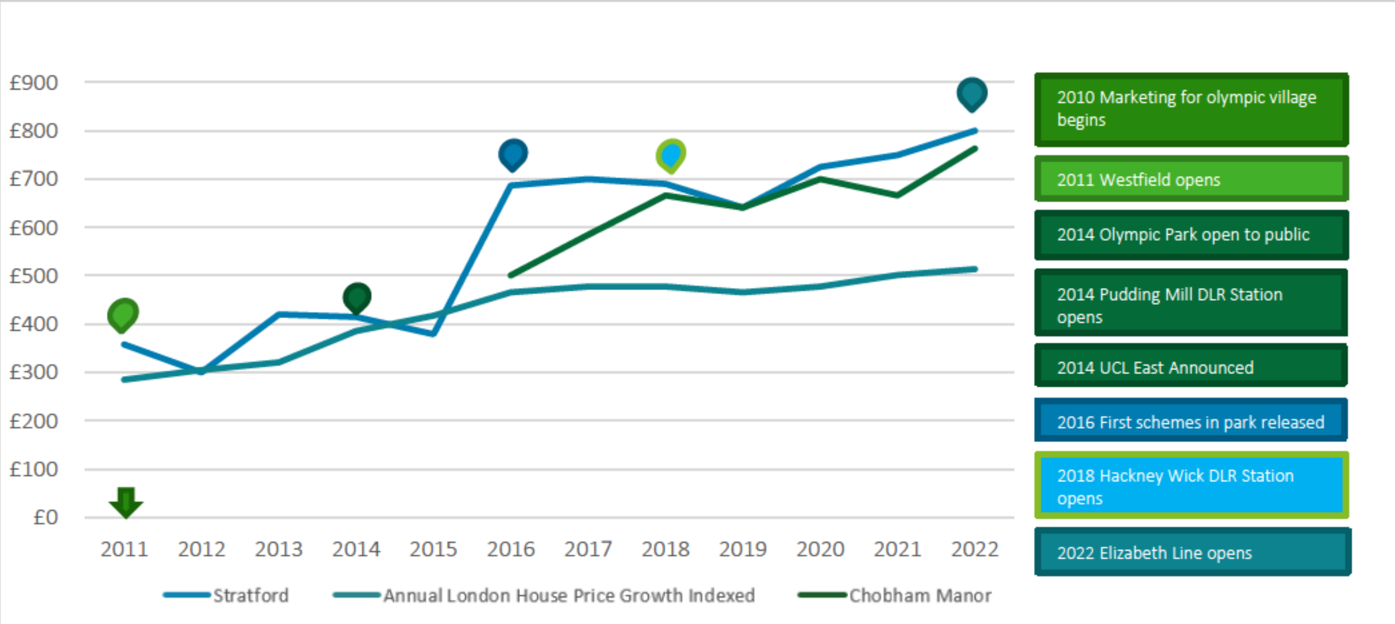
1. Private residential regeneration premia evidence: Stratford

We have reviewed several different regeneration areas and schemes across London and the UK to identify regeneration premium trends. One of the most comparable examples is Chobham Manor, part of the Queen Elizabeth Olympic Park development in Stratford, East London. We have used comparable evidence of increases in house prices in Stratford in addition to the Chobham Manor development more specifically, to help inform our regeneration premium build up. In the graph below the average house price of new build properties across Stratford as well as in the Chobham Manor scheme are compared against the annual London house price growth index. To establish the baseline value for average house price growth, the average price for flats in Newham (both new build and second-hand stock) in 2011 was established and calculated on a £psf basis. This was then indexed according to London average annual house price growth.

The data shows new builds in the regeneration area of Stratford outpace the underlying London house price growth index. In some cases this is up to 48% (seen in 2016) higher. LLDC has significantly since outperformed the surrounding area since 2016 demonstrating how a regeneration premium was achieved as the area was developed. We have also seen this impact on similar schemes elsewhere, though we consider 48% to be at the upper and optimistic range of regeneration premiums.

It is important to highlight the starting point from which a regeneration premium is calculated. The average value of new build and second-hand flats collectively will provide a lower starting point than if the average value of new build flats were considered. New build homes generally sell at a premium to second-hand stock; therefore, any regeneration premium would appear higher when measured in this way. The reason we considered new build and second-hand stock is due to the scarcity of new build flat sales data during 2011.

Figure 18: Stratford new build house price (flats only) £psf



Source: Land Registry, Molior 2023

2. Residential absorption rates

2.1 Absorption rate advice

Residential absorption - market commentary

Residential absorption rates are influenced by a range of factors, including the location, pricing, design, and amenities of the development, as well as wider economic conditions such as demand for housing and availability of financing. Generally, absorption rates have been strong in London in recent years, driven by a growing population, a shortage of housing supply, and low interest rates. More recently, the COVID-19 pandemic led to some uncertainty in the market, with some developers offering incentives and discounts to encourage sales. Though the pandemic has now ended, domestic buyer appetite still faces headwinds due to rising interest rates, which at the time of writing the BoE base rate is poised to rise to 5.0%.

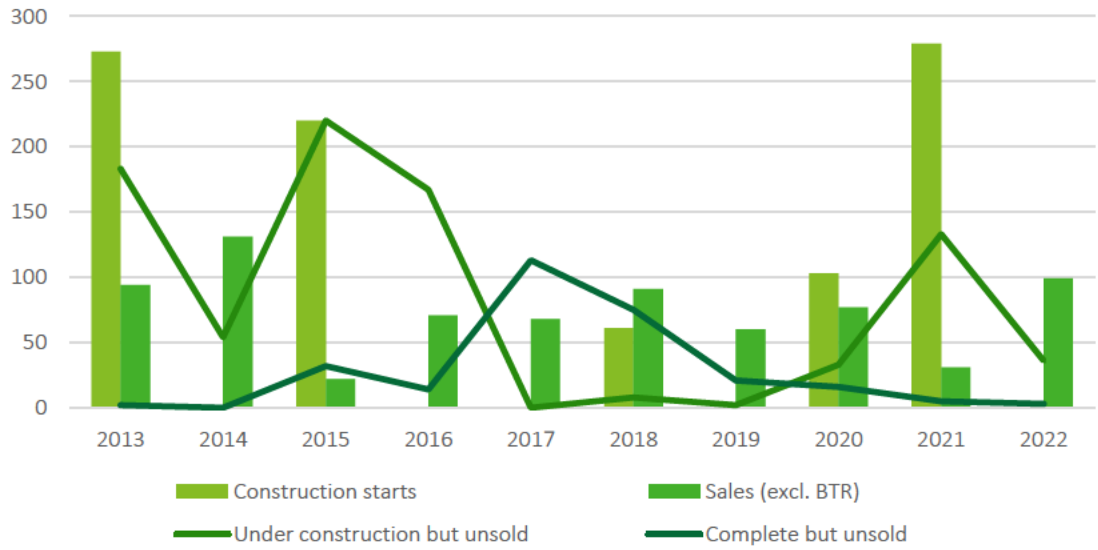
In London, real estate database maintained by Molior states that 23,000 homes are due to complete during 2023. Of these, 15,000 homes, two thirds, are already sold. Looking at the West London Market in Boroughs surrounding Old Oak West, Brent had 1,506 construction starts (3rd highest borough) and 1,294 completions and Ealing 290 starts and 1,863 completions (3rd highest Borough).

London's rental market continues to experience high demand due to various factors. The city's status as a global financial and cultural hub attracts a large influx of professionals, students, and individuals seeking diverse opportunities. Additionally, limited housing supply and high property prices make renting a more feasible option for many. Amidst this demand, the build-to-rent market has emerged as a prominent solution. Build-to-rent developments, purpose-built rental properties designed with modern amenities and communal spaces, have gained popularity due to their convenience and flexibility. They offer tenants long-term leases, on-site management, and a sense of community. The build-to-rent market in London has performed well, with developers investing significantly in these projects and experiencing high occupancy rates.

Regeneration schemes - comparable evidence

King's Cross. At King's Cross, building starts during the earlier years of 2013 and 2015 were over 200 per annum, but this then tapered down with exception of 2021 which also saw a large number of starts. Number of sales has been stable, averaging slightly below 100 units per annum. With regards to complete unsold buildings, they have remained steadily scarce representing good absorption rates, except for 2017 and 2018. It is important to note that King's Cross has seen more commercial regeneration than residential. The data is contained in Figure 19 below.

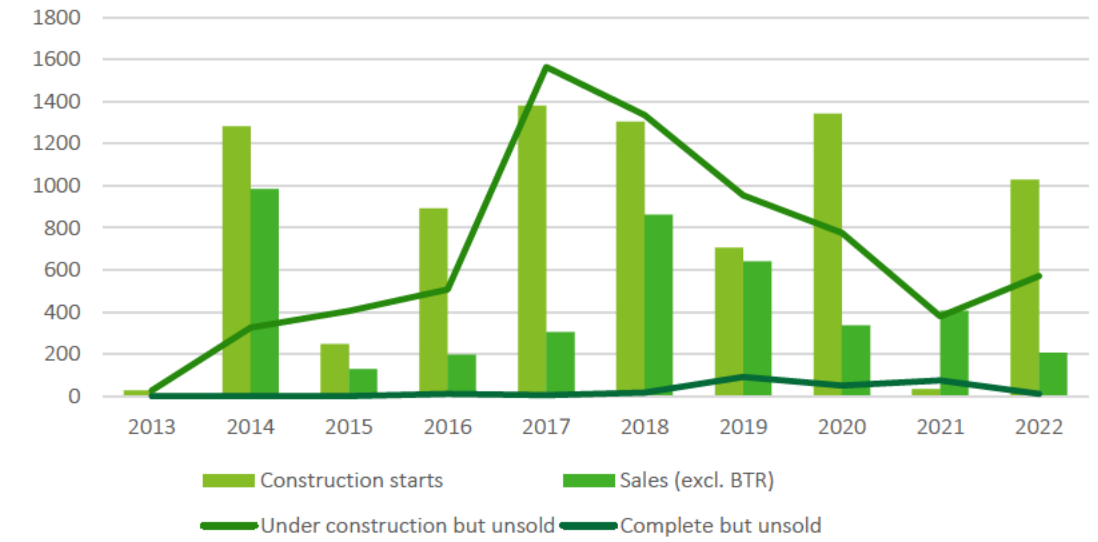
Figure 19: King's Cross starts and sales of residential builds



Source: Molior, 2022

Stratford. At Stratford, construction starts have been more consistent, between 800 and over 1,000 per annum, reflecting the longevity and scale of the residential lead regeneration. Number of sales has regularly been below starts, starting strong in 2014 at nearly 1,000, before falling. Sales then gradually rose to peak over 800 units per annum in 2018, before tapering off. Buildings under construction but unsold peaked in 2017 at nearly 1,600 units, but in recent years this has been controlled. The data is contained in Figure 20 below.

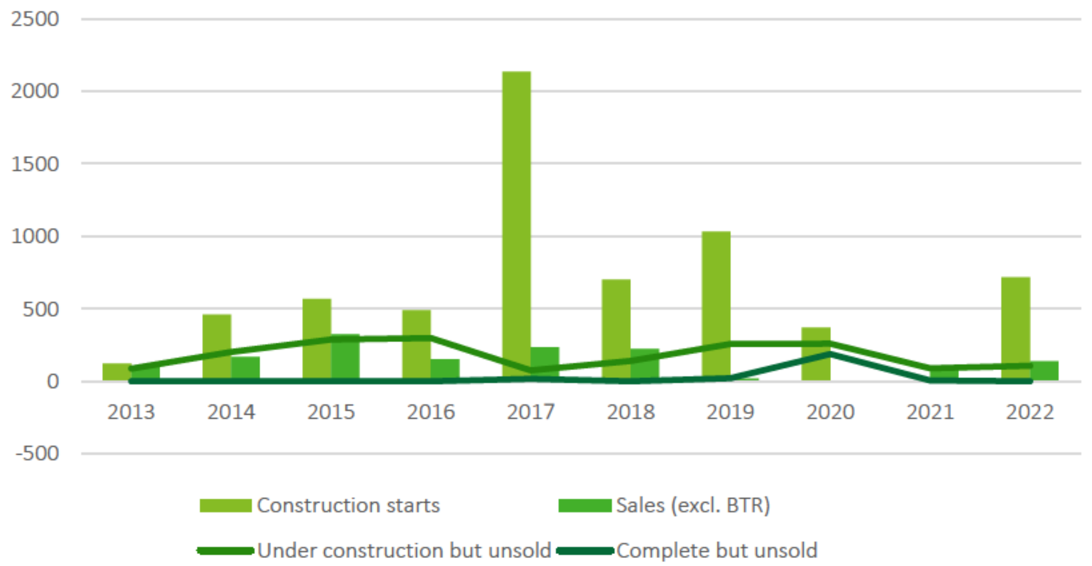
Figure 20: Stratford starts and sales of residential builds



Source: Molior, 2022

Wembley. At Wembley, construction starts have been stable at 500 units per annum. In 2017, there was a spike in construction starts, but unsold units have remained controlled. In the years since, starts have remained largely flatter, but averaging over 500 units per annum. One reason why complete and unsold builds have remained low across the time period is the high number of BTR developments in Wembley, which are generally forward funded and would not be recorded in the sales market. The data is contained in Figure 21 below.

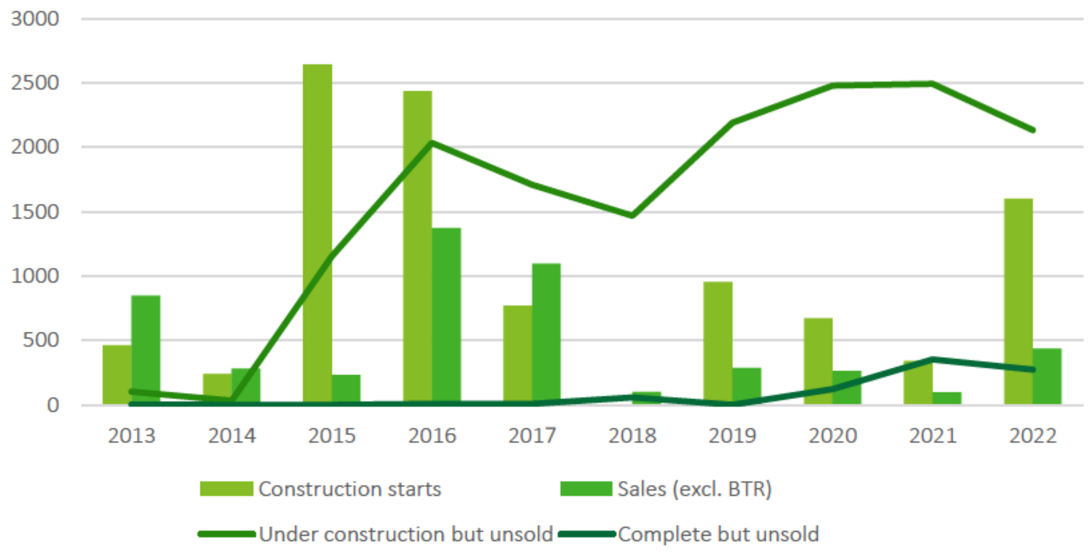
Figure 21: Wembley starts and sales of residential builds



Source: Molior, 2022

Canary Wharf. At Canary Wharf, there have been two main periods of construction activity, in 2015 and 2016 where construction starts Here, under construction but unsold units has been higher than other areas observed, persistently over 1,500 units per annum. However, completed but unsold units are low, suggesting that absorption is not a problem and market sentiment in this location has pushed construction starts. The data is contained in Figure 22 below.

Figure 22: Canary Wharf starts and sales of residential builds



Source: Molior, 2022

Local market - comparable evidence

We have reviewed specific new build schemes in the Old Oak West area to understand expected absorption rates, these are contained in Table 23 below.

Table 23: Comparable evidence for sales absorption

Scheme and developer	Description	Absorption (per month)
The Oak & The Aster (Mount Anvil, 1,200 units) 	Block B1 The Oak, 160 private units launched June 2020 and sold out in three weeks with pricing averaging £795 psf. Included international marketing. Block B3 The Aster, 170 private units launched October 2022, 128 had sold by January 2023 with pricing averaging £890 psf. 0.5 miles from Old Oak West.	Block B1: 160 units in 3 weeks Block B3: 56 units
Television Centre (Stanhope, 941 units) 	Phase 1, 432 private units sold out during Q3 2022, having completed Q1 2019. Early sales launched in April 2016 and over 400 units had sold by Q1 2019. Pricing generally over £1,000 psf. 1.7 miles from Old Oak West.	Phase 1: 6 – 11 units (quicker absorption during early years)

Scheme and developer	Description	Absorption (per month)
Fulton & Fifth (Dominvs Group, 759 units) 	Block A, 171 private units is under construction scheduled for completion Q1 2025. The exact sales position is secret, but Molior believe the block is 40% sold at the end of Q1 2023. Sales launched in the UK and Hong Kong Q4 2022. 1.75 miles from Old Oak West.	Block A: 3 per month (pricing point unknown)
King's Cross Central (Argent, 176 units) 	The scheme was launched toward the end of Q1 2022, 28 units remain unsold at the end of Q1 2023. Construction is progressing and will complete during Q2 2024. It is understood the scheme was 63% sold by the start of Q3 2022 and 28 units remained unsold at the end of Q1 2023. This was the last phase of King's Cross and a number of bulk sales were achieved, including overseas buyers. Pricing was at least £1,600 psf. 5.25 miles from Old Oak West.	KX Central: 9 per month (quicker absorption during early years)
Chobham Manor 1, 2, 3 (Taylor Wimpey, 719 units) 	Chobham 1, 180 private units launched in Q2 2014 and sold out in Q2 2015, and practically completed in Q4 2017. Chobham 2, 185 private units launched Q3 2017 and sold out by the end of Q3 2019. Chobham 3, 113 private units launched Q3 2019 and sold out Q1 2021. Pricing levels were £480 - £700 psf.	Chobham Manor 1: 15 per month Chobham Manor 2: 7.5 per month Chobham Manor 3: 6 pr month

Source: Molior, 2022

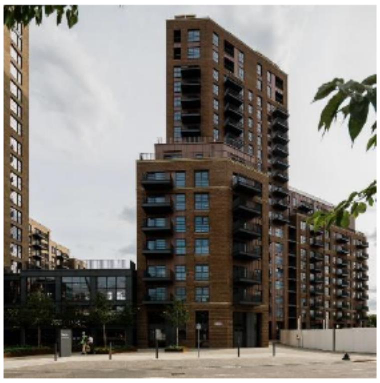
Residential Build to Rent (BTR) absorption evidence

We have reviewed specific new build schemes in the nearby area to understand expected absorption rates at Old Oak West. For BTR tenures, the absorption is more commonly referred to as a let-up rate, being the number of units taken by a tenant expressed monthly.

We have reviewed specific new build schemes in the Old Oak West area to understand expected absorption rates these are contained in Table 24.

Table 24: Comparable evidence of BTR absorption

Scheme and developer (or operator)	Description	Lease up rate
Oaklands Rise 	605 unit mixed use scheme 3,500 sq. ft of office and commercial space at ground level to provide for small local businesses.	15 - 17 units per month
AWOL, One West Point (City & Docklands) 	A 131 unit scheme leased up in 3 weeks, at least 131 units per month, reported September 2022.	131 units per month
Regency Heights (First Central) 	A 106 unit scheme leased up at a rate of c.12 units per month, reported 2022.	12 units per month
Wembley Park Alameda (Quintain) 	A 340 unit scheme leased up at a rate of c.11 units per month, reported April 2022.	11 units per month

Scheme and developer (or operator)	Description	Lease up rate
BSR Wembley (Vonder) 	A 315 unit scheme, leased up at a rate of c.20 units per month, reported September 2022.	20 units per month
South West Lands / Ferrum, Wembley 	Phase 1, a 188 unit scheme, leased up at a rate of 5 units per month. Scheme experienced competition from larger Phase 2. Phase 2, a 439 unit scheme, leased up at a rate of 44 units per month. Reported October 2022.	5 – 44 units per month
Stratford City Coppermaker Square 	Is targeting a lease up rate of 70 units per month, reported January 2023.	70 units per month (target rate only)

Source: Molior, 2022

Let up rates are widely monitored and reported in London by Molior. During the first three quarters of 2022, 31 schemes stabilised, at an average of 31 units per month. Seven schemes have both launched and stabilised within 2022, at an average of 71 units per month.

During the first three quarters of 2022, 31 schemes stabilised, at an average of 31 units per month. Seven schemes have both launched and stabilised within 2022, at an average of 71 units per month. Ranging from 15 -131 units per month. Let up rates at Wembley can achieve up to 50 units per month, and recent schemes at Stratford are targeting as high as 70 units per month.

Given the highly sought-after transport connections, we consider that Old Oak West has the potential to reach high let up rates once fully established, but a stepped approach should be taken.

3. Office absorption rates

London commercial market absorption commentary

In 2022 the London Office Market maintained positive momentum with 11.54m sq ft of take-up, an annual rise of 31.6% and only 6.8% below the long-term annual trend. The occupier focus on best-in-class buildings has led to an acceleration of take-up of new and refurbished buildings during 2022 to 6.77m sq ft and representing 60% of all transactions.

The figure below shows the extent to which available office space has been taken up by occupiers starting from 2011 and projected into 2027. The net absorption drops significantly during the period of the Covid-19 pandemic and consequent lockdowns and starts to rise again once these restrictions were lifted.

Figure 23: London office net absorption 2011-2027

Source: CoStar, 2023

Deloitte office crane survey 2023

Deloitte's October 2022 – March 2023 Crane Survey recorded an 80% increase in the volume of new starts, to 4.4m sq ft, across 50 schemes. It noted myriad factors confronting the London developer and the complicated calculations they are having to make. Hybrid working has reduced the demand for space, though it may take years to ascertain precisely to what degree. In addition, the recent sharp rise in interest rates after a prolonged period of ultra-easy monetary policy has placed the viability of many schemes in doubt – and the financial strains felt at the beginning of the survey period were exacerbated by the "mini budget" of September 2022. Following on from this, a key theme noted was the increase in the number of office refurbishments being carried out. The highest level of office refurbishment schemes was reported since the surveys' beginning in October 2015.

Another key theme was the cost of construction. The pandemic seriously disrupted supply chains, while the Ukraine war pushed up the cost of energy, and of energy-hungry materials, like concrete and glass, essential to construction. As a result of this inflation, build costs remain the leading challenge to construction, according to developers, with material and labour costs being the main drivers.

3.1 Office lettings in regeneration areas

When determining office rental values earlier in this report, we reviewed take up activity in key regeneration areas around London. Here, we have accounted for that evidence and in addition, reviewed the office leasing profile in Stratford and King's Cross in more detail, below.

Stratford (Olympic Park)

We have reviewed lettings over 25,000 sq ft at the Olympic Park since regeneration began. During the early phases (approx. 5 years), larger lettings were secured at relatively lower rents. Many of these tenants were public sector, tech, education or charity focused. After 2018, annual take up slowed to below 100,000 sq ft per annum, most of the larger occupiers are still orientated around education and tech, albeit by this point rents had achieved their stabilised 'premium'.

Table 25: Office lettings Stratford (Olympic Park)

Address	Sign date	Sq Ft	Rent psf	Tenant	Industry
International Broadcast Centre, Olympic Park	Sep-12	50,000	N/A	Loughborough University	Education
International Broadcast Centre, Olympic Park	Feb-13	55,229	£27.24	BT Sport	Media
International Quarter – S9, Westfield Avenue, Stratford	May-15	425,000	£34.82	FCA	Public sector
International Broadcast Centre, Olympic Park	Jun-15	248,000	£17.58	ISDC Developments Ltd	Data Centre
Press Centre (Here East), Olympic Park	Feb-16	53,000	£22.88	Plexal	Technology
International Broadcast Centre, Olympic Park	Aug-16	34,000	N/A	Univeristy College London	Education
International Quarter – S6, Westfield Avenue, Stratford	Jul-17	265,000	N/A	TFL	Public sector
2 Redman Place, Westfield Ave	Jul-17	83,000	N/A	British Council	Education
Press Centre (Here East), Olympic Park	Sep-17	26,000	£27.60	LC2 (Ladbrokes and Coral)	Technology
Plot M7, 14 Westfield Avenue	Nov-17	217,000	N/A	HMRC	Public sector
Press Centre (Here East), Olympic Park	Jan-18	25,000	£26.09	Quadient	Technology
International Quarter, 1 Westfield Avenue	May-18	25,000	£47.50	Unicef	Charity
2 Redman Place, Westfield Ave	Oct-18	129,000	N/A	Cancer Research	Charity
Press Centre (Here East), Olympic Park	Dec-20	26,000	£47.50	Sports Interactive	Technology
Press Centre (Here East), Olympic Park	Dec-22	35,000	N/A	Liverpool Media Academy	Education
Press Centre (Here East), Olympic Park	Jan-23	26,000	£50.00	Teeside University	Education

Source: CoStar and Deloitte, 2023

King's Cross

We have reviewed lettings over 25,000 sq ft at King's Cross since the regeneration began. Relative to the Olympic Park, King's Cross has delivered significantly more commercial floorspace, mostly due to its excellent placemaking, transport links and preferential location to Central London.

During the early phases (approx. 5 years), larger lettings were secured at relatively lower rents, though still higher than the Olympic Park. However, with the exception of the LB Camden, many of these tenants were tech (including social media and multimedia) focussed. With take up regularly exceeding 300,000 sq ft per annum. Only recently has this take up slowed, as King's Cross has largely completed its regeneration.

Table 26: Office lettings King's Cross

Address	Sign date	Sq Ft	Rent psf	Tenant	Industry
5 Pancras Square	Jul-11	149,996	-	London Borough of Camden	Public sector
Handyside	Jul-12	82,300	-	Aga Khan Centre	Education
Stable Street	Dec-12	22,100	-	Hoare Lea	Engineering
2 Pancras Square	Sep-13	35,046	£45.35	PRS for Music	Music
1 Pancras Square	Jan-14	19,858	£56.26	The Office Group	Co-working
1 Pancras Square	Jan-14	28,306	£54.74	DXC Technology Company	Technology
6 Pancras Sq	Mar-14	160,004	£62.50	Google	Technology

Address	Sign date	Sq Ft	Rent psf	Tenant	Industry
6 Pancras Sq	Jan-15	205,117	£62.50	Google	Technology
Handyside	Jun-15	186,000	£55.00	Google	Technology
York Way	Jul-16	30,081	-	NewDay	FinTech
4 Pancras Sq	Jun-17	191,641	£62.77	Universal Music UK Ltd	Music
Handyside	Jul-17	24,236	£76.22	XTX Markets	FinTech
Handyside St	Jul-17	124,028	£57.89	Google	Technology
11 Canal Reach	Jul-18	230,509	-	Facebook	Social Media
York Way	Jul-18	196,002	-	Facebook	Social Media
21 Canal Reach	Jul-18	165,961	-	Facebook	Social Media
2 Pancras Sq	Jan-19	37,016	£57.00	AstraZeneca PLC	Pharmaceutical
1 Handyside St	Jan-19	124,627	-	Sony Music Entertainment	Music
1 Pancras Sq	Mar-19	19,858	-	The Office Group	Coworking
1 Handyside St	Apr-19	63,376	-	NIKE	Retail
Handyside	Feb-20	38,325	-	Google	Technology
1121 York Way	Mar-21	203,393	-	Facebook	Social Media
7 Pancras Sq	Mar-21	19,858	£123.15	The Office Group	Coworking
Handyside St	Sep-21	170,000	-	The Office Group	Coworking

Source: CoStar and Deloitte, 2023

Other regeneration schemes towards West London, such as Wembley and White City, have delivered a much lower quantum of office space, all tracking below 100,000 sq ft of take up per annum.

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