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COMMERCIALLY CONFIDENTIAL

21-31 New Oxford Street
Financial Viability Assessment

On behalf of: New Oxford Street Limited

Redact Version

12 September 2014

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EXECUTIVE SUMMARY (NON-TECHNICAL)

1 This report provides a financial viability assessment (FVA) of a mixed use development proposal for the redevelopment of 21-31 New Oxford Street, London. The proposals are brought forward by New Oxford Street Limited and designed by AHMM.

2 In assessing the proposed scheme, the FVA has also examined alternative scenarios (counterfactuals), having regard to planning policy, in order to demonstrate the rationale and justification for application in terms of:

a) the proposed mix of uses;

b) the contribution to affordable housing;

c) level and timing of planning obligations;

d) Crossrail contribution;

e) Mayoral CIL; and

f) public realm benefits.

3 The FVA has been undertaken in a planning policy context and having regard to best practice viability guidance including the RICS Guidance Note Financial Viability in Planning. In particular, the report notes the need for the proposed scheme to be viable and deliverable, with decision-taking by the Local Planning Authority having regard to "competitive returns" and "flexibility" in the application of policy and obligations (NPPF paragraphs 173 and 205). The FVA applies a residual based methodology in assessing viability which is standard practice.

4 The FVA has considered three counterfactual scenarios together with the proposed scheme, the counterfactual scenarios relate to providing a higher proportion of residential accommodation on-site equating to the target residential floorspace required under Policy DP1 of the Camden Development Policies (2010).

5 In each instance, a notional planning obligations package has been assumed within the viability existing appraisal.

6 The counterfactual and proposed scenarios have been financially modelled on both a present day and growth (forecasting / outturn) basis in order to understand the potential capability of

each to be viable. A target return, having regard to the risk of delivering a scheme which involves the remodelling and extension of an existing building, has been determined, against which each scenario has been tested for comparison purposes.

7 The report provides a comprehensive evidence base in terms of sales and market data to justify rents and values for each scenario. Detailed cost reports have also been prepared which have fed into the FVA. The FVA has relied on a variety of consultant inputs in order to objectively and transparently assess the various scenarios.

8 The outturn results in respect of the scenarios are as follows:-

Scenario	Potential Capability to be Viable	
	Present Day	Growth
Counterfactual 1	X	X
Counterfactual 2	X	X
Counterfactual 3	X	X
Proposed Scheme	X	✓

Notes: X = unviable
✓ = potentially capable of being viable

9 It can be seen that the only scenario which is potentially capable of being viable is the proposed scheme assuming growth. The scenarios have been further tested through sensitivity, scenario and simulation analysis to test the inevitable uncertainties associated with development, with the outcome that the results remain as above.

10 The FVA has also demonstrated that the proposed level of on-site affordable housing, planning contributions and Mayoral CIL, when taken as a whole, is all that can be afforded.

11 The FVA has demonstrated that alternative scenarios of Counterfactuals 1, 2 and 3 are not viable and therefore a higher proportion of residential floor space could not be delivered. The proposed scheme however provides the optimum mix of uses, having regard to a maximum level of affordable housing and planning contributions in order to be able to deliver and implement a viable scheme in accordance with NPPF, London Plan and Camden policies. This has subsequently been robustly tested, including the timing of proposed payments, and the results presented.

12 The proposals meet NPPF, PPG, London Plan and LB Camden's policy tests in respect of the proposed change of use and the provision of the maximum reasonable amount of affordable housing.

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1. Location Plan
2. Site Plan
3. Existing Floor Plans
4. Proposed Floor Plans

Further appendices are provided to LBC's viability advisors only.

1 Introduction & Instructions

1.1 Gerald Eve LLP is instructed by New Oxford Street Limited ("the Applicant") to undertake a financial assessment of a mixed use development proposal at 21-31 New Oxford Street, London, WC1 ("the Site"), which is the subject of a detailed planning application. The application proposes the comprehensive conversion and refurbishment of the Site to create a mixed use office and retail scheme with on-site affordable housing ("the Scheme").

1.2 The purpose of this financial viability assessment is to justify an appropriate planning obligations package, including on-site affordable housing, to accompany the detailed planning application and listed building consent. This report has been prepared having regard to the National Planning Policy Framework (NPPF), PPG, London Plan, The London Borough of Camden ("LBC") Core Strategy, Development Policy DPD, the RICS guidance note 'Financial Viability in Planning' ("RICS GN") and generally accepted principles of undertaking financial viability assessments.

1.3 The report sets out the details of what is being proposed and provides a financial assessment, rationale and justification for the following:

- the proposed mix of uses;
- the level of affordable housing;
- the level and timing of other Section 106 contributions;
- Crossrail contribution; and
- Public realm (both on-site and off-site) benefits

1.4 The application is submitted by Gerald Eve LLP's planning team on behalf of the Applicant. This summary assessment is being provided to support the application and facilitate discussions with LBC's advisers in order to address and seek to reach agreement upon the viability of the Scheme, having regard to the level of planning obligations when taken collectively.

1.5 Certain information contained within this report and its appendices is commercially sensitive and therefore will only be provided to LBC's advisers on a confidential basis.

1.6 Bespoke financial appraisals have been built to assess the viability of the Scheme and Counterfactual Scenarios and results are provided via present day and outturn (growth) appraisals.

1.7 The benchmark return used in this report is the Internal Rate of Return (IRR). This allows a comparison between the present day and outturn (growth) appraisal as the IRR takes into account the time value of money given the development timeframe.

1.8 We have also provided a risk analysis in order to test the sensitivity and robustness of the returns having regard to changes in the inputs. This is in accordance with normal practice when undertaking financial viability assessments in respect of the nature of the Scheme.

1.9 The appraisals provide a benchmark return output and this has then been relied upon to establish the appropriate level of the pot for the Scheme. It therefore follows that the resultant pot has been determined by reference to the viability of the Scheme.

1.10 In order to inform our report we have relied upon information provided by a number of other consultants, the principal members being:

- Alfred Hall Monaghan Morris "AHMM" (Architects)
- Gillespies (Landscape Architect)
- Gerald Eve LLP (Planning consultants)
- EC Harris (Cost consultants)
- CBRE (Retail accommodation advisors)
- CBRE (Office accommodation advisors)
- CBRE (Private Residential accommodation advisors)
- Gerald Eve LLP (Affordable Housing consultants)
- Grantham
- Brockton Capital

1.11 The remainder of this report comprises a further 16 sections and is set out as follows:

Background

A general introduction and description of the Site and surrounding area and contextual matters relevant to the financial assessment.

Planning Context

A short synopsis of the planning background to the Scheme with reference to: a brief planning history; the relevant national, regional and local guidance, including residential requirements (including affordable housing); planning obligations; and Mayoral CIL (Crossrail contribution).

Proposed Scheme

An outline of the Scheme and summary of areas, including a residential and retail unit breakdown.

Limitations on Mix of Uses within the Property

A summary of the structural and technical reasons for which the provision of the mixed use policy compliant level of private residential and affordable housing within the property is inherently difficult.

Counterfactual Scenarios

An outline of alternative schemes ("Counterfactual Scenario") which comprises:

1. offices, private residential and affordable housing based on the policy compliant amount in accordance with Camden's mixed use policy.
2. offices and residential accommodation in accordance with the total amount of residential required by mixed use policy with this comprising mainly private accommodation with the minimum practicable amount of affordable housing.
3. offices and residential accommodation in accordance with the total amount of residential required by mixed use policy with this comprising only private accommodation.

Sales and Market Data

A summary of the market research that has been undertaken to justify the values, rents and yields applied for the commercial space and the residential sales in respect of the Scheme and Counterfactual Scenarios.

Costing and Exceptional Costs

A summary of the costs together with identifying exceptional cost items associated with the development of the Site. In addition details of the assumed finance costs are provided in this Section.

Programme & Phasing

An overview of the development programme. In addition to sales and letting assumptions in respect of the residential and commercial space.

Inflation & Forecasts

A review of the assumptions applied in the financial appraisal relating to cost inflation and forecast growth rates for the residential capital values and commercial rents.

Site Value

An explanation of the Site Value as applied within the appraisals and vacant possession costs.

Planning Obligations Package (Notional)

An outline of the planning obligations and illustrative quantification of apportionment in respect of the Scheme (and those relating to the Counterfactual Scenarios).

Interpretation of Results

An explanation of key assumptions within the financial appraisal, and guidance for interpreting the growth model approach and development return measures in relation to the proposed Scheme.

Proposed Scheme: Financial Appraisal

Financial viability appraisals of the Scheme on a present day and growth basis having regard to the level of planning obligations including the level of affordable housing and Mayoral CIL.

Counterfactual Scenarios: Financial Appraisal

Financial viability appraisals of the Counterfactual Scenarios on a present day and growth basis which demonstrate that it is not viable to deliver a greater proportion of residential floorspace.

Viability, Analysis, Sensitivity & Risk Assessment

An analysis and risk assessment of the Scheme and Counterfactual Scenarios having regard to the level of the proposed planning obligations package including on-site provision of affordable housing.

Concluding Financial Justification Statement

As a result of our analysis, the rationale as to the level of planning obligations package; confirming that the Scheme provides the maximum reasonable level of affordable housing and residential floorspace.

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

1.13 This report has been prepared as at September 2014 and assumes, normal funding and financing sources would be available for such a development, as proposed. The reader is therefore directed to the authors of this report, in the first instance, in order to confirm whether the numbers contained within it are still up to date and appropriate. It may therefore be necessary to refer to updated addenda.

1.14 In accordance with best practice and the RICS GN we confirm that this report has not been prepared on the basis of performance related or contingent fees or similar arrangements. We further acknowledge and confirm that in undertaking this assessment, we have acted reasonably, fairly and with transparency.

2 Background

2.1 The Site is located within the London Borough of Camden in the south west of the Borough. A location plan is attached at **Appendix 1**, identifying the Site's locational context.

2.2 The Site occupies a prominent position, bound by New Oxford Street to the north: High Holborn to the south; Museum Street to the West; and Commonwealth House to the East. The surrounding area is characterised by a mix of uses including retail, offices and residential accommodation. Nearby attractions including the British Museum (200 meters to the north), West End Theatres and Oxford Street shopping make the area a popular tourist destination.

2.3 The Site is well located for public transport with bus routes running along Oxford Street and High Holborn, connecting the Site with other parts of central and outer London. The site is 250 metres to the west of Holborn Underground Station (Piccadilly and Central lines), and the new Crossrail Station is currently being developed at Tottenham Court Road Station (Central and Northern lines), 400 metres to the east.

Site Description

2.4 The Site extends to an area of 1.06 acres (0.43 ha) and includes the existing building (21-31 New Oxford Street) Dunn's Passage and the surrounding public realm. A Site plan is attached at **Appendix 2**.

2.5 Known as the Royal Mail Sorting Office, the building, built between 1961-69, was once the Western Central District Office. The existing Gross External Area is 30,312 sqm (approx. 326,275 sq ft).

2.6 The building has been vacant (except for temporary exhibitions) since the early 1990's and has fallen into a state of disrepair.

2.7 The existing floor plans are attached at **Appendix 3.**

3 Planning Context

3.1 This section provides a brief overview of the planning background to the proposed development, in particular a brief planning history of the site and those policies which set the background and need for viability assessments, in order to justify the level of planning contributions. A full Planning Statement will also be submitted to the Council as part of the planning application.

Planning History

3.2 The planning history for the site is extensive and therefore this section does not include minor applications. A full planning history table is attached as at Appendix A of the Planning Statement.

3.3 In June 1994 planning permission was granted for the "formation of a street level entrance to the mail track and installation of partial boxes on the Museum Street elevation".

3.4 Planning permission (Ref. 9500266) was granted on appeal in May 1995 for the "change of use from post office sorting office (sui generis) to a museum support centre on basement, ground, first, second, third and mezzanine floors; to retail purposes (Classes A1, A2 and A3) on 2,000sqm of the ground floor fronting Museum Street, and to use for purposes within the meaning of Class B1 on the fourth, fifth and sixth floors". This permission was renewed in 2000.

3.5 A number of applications were submitted and withdrawn between 1995 and 1998 for mixed use developments incorporating museum accommodation, retail, offices, leisure and hotels.

3.6 In April 1999 planning permission (Ref. PS9704327R3) was granted for the "change of use and works of conversion from post office sorting depot and offices to a mixed use development comprising a museum study centre with storage and ancillary uses (Class D1), uses within Classes A1, A2 and A3, offices (Class B1), fitness club (Class D2) and hotel accommodation (Class C1)".

3.7 In 2001, a further planning permission was granted for the change of use to a mixed use comprising museum study centre (D1), A1, A2, A3 uses, B1 offices, B1 workshops and storage (B8).

3.8 In 2004 an application was withdrawn for the change of use from "sorting office use (sui generis) to office use (Class B1) on first floor and mezzanine, incorporating related works to create a new ground floor reception/entrance, relocation of existing vehicle entrance, alterations to the façade, and installation of new ventilation/air conditioning plant".

3.9 It is clear from this extensive planning history that numerous developments have been proposed over the past 20 years, none of which have been realised.

Site Specific Allocations and Designations

3.10 London Plan designations:

- Central Activities Zone
- Tottenham Court Road Opportunity Area

3.11 Camden LDF Designations:

- Central London Area
- Tottenham Court Road Growth Area
- Site Allocation Site 17 (*Mixed use development including retail, office, hotel and residential)*
- Archaeological Priority Area

Planning Policy

3.12 The statutory development plan for the purposes of Section 38 (6) of the Planning and Compulsory Purchase Act 2004 comprises:

i. The London Plan. On 11 October 2013, the Mayor published Revised Early Minor Alterations to the London Plan (REMA). From this date, the REMA are formal alterations to the London Plan and form part of the development plan for Greater London. Hereinafter this will be referred to as the London Plan ("LP").

ii. The Camden Local Development Framework (LDF). The LDF is made up of

Camden's Core Strategy, Development Policies and Site Allocations Document. The site is specifically designated as Site 17. These replace Camden's Unitary Development Plan in all respects. These documents set out the Council's intentions for land use and development from 2010 to 2025. The Development Policies provide more detailed policies (from those in the Core Strategy) for assessing planning applications. The LDF documents are up to date and should be afforded full weight.

3.13 Section 38(6) of the Planning and Compulsory Purchase Act 2004 requires planning applications to be determined in accordance with the statutory development plan unless material considerations indicate otherwise.

National Planning Policy: National Planning Policy Framework (NPPF), (2012)

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

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

DCLG Planning Practice Guidance (PPG), (2014)

3.15 The Planning Practice Guidance (PPG) provides guidance to support the National Planning Policy Framework and to make it more accessible. The PPG was launched by the Department for Communities and Local Government (DCLG on 6 March 2014 and is available entirely online. The statements below are from Section 3 of the PPG Viability Guidance found on the Governments online planning portal.

3.16 The PPG addresses the question of when and how viability should be assessed by the

Council in respect of planning applications. The PPG states:

"Decision-taking on individual applications does not normally require consideration of viability. However, where the deliverability of the development may be compromised by the scale of planning obligations and other costs, a viability assessment may be necessary. This should be informed by the particular circumstances of the site and proposed development in question. Assessing the viability of a particular site requires more detailed analysis than at plan level.

A site is viable if the value generated by its development exceeds the costs of developing it and also provides sufficient incentive for the land to come forward and the development to be undertaken."

3.17 The PPG addresses the use of forecast modelling within viability testing as follows:

"Viability assessment in decision-taking should be based on current costs and values. Planning applications should be considered in today's circumstances.

However, where a scheme requires phased delivery over the medium and longer term, changes in the value of development and changes in costs of delivery may be considered. Forecasts, based on relevant market data, should be agreed between the applicant and local planning authority wherever possible."

3.18 With regards to the Council's consideration of planning obligations in relation to viability – including the assessment of affordable housing provision, PPG states:

"In making decisions, the local planning authority will need to understand the impact of planning obligations on the proposal. Where an applicant is able to demonstrate to the satisfaction of the local planning authority that the planning obligation would cause the development to be unviable, the local planning authority should be flexible in seeking planning obligations.

This is particularly relevant for affordable housing contributions which are often the largest single item sought on housing developments. These contributions should not be sought without regard to individual scheme viability. The financial viability of the individual scheme should be carefully considered in line with the principles in this guidance."

Regional Planning Policy: The London Plan (REMA), (2013)

3.19 The London Plan REMA (2013) is the relevant plan for Greater London. Policy 3.12 "*Negotiating Affordable Housing on Individual Private Residential and Mixed Use Schemes*" states, that whilst boroughs should seek the maximum reasonable amount of affordable housing, negotiations on sites should take account of their individual circumstances, including development viability.

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

3.21 Policy 3.13 which deals with "*Affordable Housing Thresholds*" states that "*Boroughs should normally require affordable housing provision on a site which has a capacity to provide 10 or more homes, applying the density guidance*", as set out in the LP. "*Boroughs are encouraged to seek a lower threshold through the LDF process where this can be justified in accordance with guidance, including circumstances where this will enable proposals for larger dwellings in terms of floorspace to make an equitable contribution to affordable housing provision*".

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

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

Local Planning Policy: Camden Core Strategy (2010)

3.23 Policy CS6 of Camden's Core Strategy states that "*the Council will aim to secure high* *quality affordable housing available for Camden households that are unable to access market housing by:*

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

g) Seeking to negotiate a contribution from specific proposals on the basis of:

- *The maximum reasonable amount of affordable housing under the specific circumstances of the site, including the financial viability of the development,*
- *An affordable housing target of 50% of the total addition to housing floorspace, and*
- *Guidelines of 60% social rented housing and 40% intermediate affordable housing;*

h) Minimising the net loss of affordable housing;

i) Regenerating Camden's housing estates and seeking to bring Council stock up to the Decent Homes standard by 2012.

3.24 Policy CS6 goes on to states that "*the Council will monitor the delivery of additional housing against the target for housing supply, and will seek to maintain supply at the rate necessary to meet or exceed the target. In seeking to maintain the housing supple, the Council will adjust the type and mix of housing sought, having regard to the financial viability of development, the sales or capital value of different house types and tenures and the needs of different groups*".

Local Planning Policy: Camden Development Policies (2010)

3.25 Development Policy DP1 deals with mixed use development. This Policy requires any development providing in excess of 200sqm (gross) additional floorspace, to provide up to 50% additional floorspace as housing. The Council require the residential floorspace to be provided on site, particularly where 1,000sqm (gross) additional floorspace is proposed as part of the development. Where the residential use cannot be provided on site, the Council may accept a contribution to the mix of uses elsewhere in the area, or exceptionally a payment-in-lieu.

3.26 Policy DP1 states that "*in considering whether a mix of uses should be sought, whether it can practically be achieved on the site, the most appropriate mix of uses, and the scale and nature of any contribution to the supply of housing, the Council will take into* *account:*

a) *The character of the development, the site and the area;*
b) *Site size, the extent of the additional floorspace, and constraints on including a mix of uses;*
c) *The need for an active street frontage and natural surveillance;*
d) *The economics and financial viability of the development including any particular costs associated with it;*
e) *Whether the sole or primary use proposed is housing;*
f) *Where secondary uses would be incompatible with the character of the primary use;*
g) *Where an extension to the gross floorspace is needed for an existing user;*
h) *Where the development is publicly funded;*
i) *Any other planning objectives considered to be a priority for the site.*"

3.27 Development Policy DP3 deals with contributions to the supply of affordable housing. The Policy notes that the Council will expect all residential developments with a capacity for 10 or more additional dwellings to contribute towards supply of affordable housing. The Council adopts a cascade approach to the supply of affordable housing and will "*expect the affordable housing contribution to be made on site, but where it cannot practically be achieved on site, the Council may accept off-site affordable housing, or exceptionally a payment-in-lieu*".

3.28 Policy DP3 states that the Council "*will negotiate the development of individual sites and related sites to seek the maximum reasonable amount of affordable housing on the basis of an affordable housing target of 50% of the total addition to housing floorspace, but will apply the target with regard to a sliding scale from 10% for developments with capacity for 10 dwellings to 50% for development with capacity for 50 dwellings*".

3.29 In considering whether affordable housing should be sought on site, off site or whether a payment in lieu would be provided, the Council consider the following:

a) Access to public transport, workplaces, shops, services and community facilities;
b) The character of the development, the site and the area;
c) Site size, and constraints on including a mix of market and affordable tenures;
d) The economics and financial viability of the development including any particular costs associated with it;

e) The impact on creation of mixed and inclusive communities; and
f) Any other planning objectives considered to be a priority for the site.

Summary

3.30 The NPPF has a clear presumption in favour of sustainable development and in determining planning applications local planning authorities should take account of the desirability of sustaining and enhancing the significance of heritage assets and putting them to viable uses.

3.31 The NPPF recognises that development should not be subject to such a scale of obligation and policy burdens that its viability is threatened; and in addition, obligations should be flexible to market changes in order to ensure planned developments are not stalled. This reinforces the need for viability testing in order to allow willing landowners and developers to receive competitive returns which in turn enable the delivery of development.

3.32 In assessing the level of planning obligations, including affordable housing provision, in accordance with the London Plan and LBC's Development Polices, regard must be had to the economics of development and financial viability considerations associated with the scheme proposals and other planning objectives and requirements.

3.33 The NPPG reviews the deliverability of development through the scale of planning obligations and other costs, on a site by site basis, considering a viable development to be a scheme where the value generated by the development exceeds the cost of developing it. It notes that where the planning obligations would cause the scheme to be unviable, the local planning authority should be flexible on the level of obligation sought.

3.34 In line with this, the London Plan REMA and Policy CS6 of Camden's Core Strategy, both seek the maximum affordable housing possible, taking into consideration development and financial viability.

3.35 Camden adopts a cascade approach to the provision of residential floorspace in line with the mixed use Policy DP1. Residential floorspace should, in the first instance, be provided on site. Where this is not possible off site provision should be considered and, in exceptional circumstances, a financial payment in lieu of provision. The Council will seek 50% of this residential provision to be provided in the form of affordable housing.

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4 Proposed Scheme

Introduction

4.1 The Applicant is seeking planning permission for an office-led mixed-use scheme comprising 469,424 sq ft of development floor space (GEA). The development will provide offices, retail and affordable housing.

Description of Development

4.2 The proposed development is for the remodelling, refurbishment and extension of the existing building at 21-31 New Oxford Street in connection with the change of use to offices, retail and affordable housing along with associated highway, landscaping and public realm improvement works as described below.

4.3 The development includes the retention and recladding of the lower floors of the building. The existing set back upper floors are proposed to be removed and reconstructed.

4.4 The majority of the building is proposed to be for flexible office use taking advantage of the existing double height internal spaces and inserting mezzanines around a new core. The ground and lower ground floors will be animated with active public uses such as shops, restaurants and galleries (class A1/A3).

4.5 The proposed development includes up to 21 new affordable homes in the south east corner of the site fronting High Holborn.

4.6 The development includes public realm enhancement works including reopening Dunn's Passage, creating a new public open space on Museum Street and improving the surrounding public highway.

4.7 The proposed development has evolved in response to feedback received from Officers at Camden Council and extensive consultation with local groups, stakeholders and residents. A full description of the proposals is contained in the Design and Access Statement prepared by AHMM.

Table 1: Land Use Summary

Land Use	Existing (sqm GEA)	Proposed (sqm GEA)	Net Change (sqm GEA)
Sorting Office (Sui Generis)	30,312	0	-30,312
Office (Class B1)	0	35,568	+35,568
Retail (Class A1/A3)	0	4,514	+4,514
Affordable Residential (Class C3)	0	3,530	+3,530
TOTAL	**30,312**	**43,611**	**+13,299**

4.8 Proposed floor plans are provided at **Appendix 4**.

Office Proposal

4.9 The majority of the building would be for flexible office use taking advantage of double height internal spaces and inserting mezzanines around the new core. Approximately 255,000 sq ft (NIA) of office floorspace is proposed, which will be over the upper floors as outlined below:

Table 2: Office Accommodation

Level	Net Internal Area including Winter Gardens (sqft)
Level 1	31,592
Level 1 Mezzanine	10,839
Level 2	31,312
Level 2 Mezzanine	10,839
Level 3	31,592
Level 4	31,334
Level 5	25,005

Level 6	25,015
Level 7	24,596
Level 8	24,186
Level 8 Mezzanine	8,848
TOTAL	**255,158**

Affordable Residential Proposal

4.10 On-site affordable homes will be delivered in a self-contained part of the building, which can be effectively managed by a Registered Provider.

4.11 The provision of up to 21 residential units comprising a mix of one, two and three bedroom units, will be provided on the south eastern corner. All units will be South facing. The total GEA for the affordable accommodation represents the policy complaint amount in accordance with LBC's policies.

4.12 A unit schedule is provided below:

Table 3 – Residential Unit Schedule

Residential	Existing (units)	Proposed (units)	Net Change (units)
Affordable rent *1 bed (2 person)*	0	7	+7
Affordable rent *2 bed (4 person)*	0	2	+2
Affordable rent *3 bed (6 person)*	0	4	+4
Intermediate rent *1 bed (2 person)*	0	4	+4
Intermediate rent *2 bed (4person)*	0	4	+4
TOTAL	**0**	**21**	**+21**

Retail Proposal

4.13 The Scheme looks to provide active public uses over basement and ground floor levels, which will activate surrounding streets.

4.14 The table below gives a floor by floor breakdown of the retail unit areas:

Table 4: Retail Areas (NIA)

Level	Net Internal Area (sqft)
Basement 1	9,515
Ground Floor Level	16,360
Ground Mezzanine	11,238
TOTAL	**37,113**

5 Limitations on Mix of Uses within the Property

Introduction

5.1 The Scheme proposes the change of use and conversion of 21-31 New Oxford Street to provide offices, retail accommodation and affordable housing. In order to illustrate this as the mix of optimal uses the limitations associated with providing private residential within the confines of the property are examined below. Further detail on this, including particulars of the extensive work that has been undertaken to test whether the residential floor area sought under the Council's mixed use policy DP1 can be accommodated, is set out in the Housing Study submitted with the application.

Existing Building Constraints

5.2 The existing floorplates are designed for commercial use and are not readily adaptable for residential use having regard to residential design standards. The proposals are for the refurbishment of an existing commercial building which uses the entire footprint of the building.

5.3 The existing building has large commercial floor plates and high floor to ceiling heights. Therefore the majority of the floorspace is of a greater depth from the natural window light than would be required by residential use. As a result, it would be impractical to facilitate residential floorspace and provide residential accommodation in accordance with residential design standards in the majority of the building.

5.4 Many of the units created would be single aspect (including north facing single aspect) and would therefore not meet the required housing standards.

Impact on Proposed Retail Space

5.5 There would be a significant impact on the retail uses at ground floor level due to the number of cores required through the building.

Impact on Proposed Office Space

5.6 There would also be a significant impact on the office floorplates which would compromise the office space and value and in certain scenarios render the office space unlettable and therefore not deliverable.

Incorporation of Private Residential Floorspace

5.7 It was clear from the above constraints that the only practicable way to accommodate an increased quantum of housing was to provide the new accommodation within the top two floors of the building. This would still have a significant impact on the commercial space below as additional cores would be needed to run through the retail and office accommodation.

5.8 Design options where the uplift which provides circa 50% private residential and circa 50% office space have been drawn up by AHMM. The combination of offices, private residential and affordable housing uses within 21-31 New Oxford Street would require the provision of separate entrances in order to maintain a clear separation between the uses.

5.9 Notwithstanding the physical limitations identified above and within the Housing Study we have tested the viability of the most feasible option through three Counterfactual Scenarios as set out in Section 6. The consequential viability of these is examined in Section 15.

6 Counterfactual Scenarios

Introduction

6.1 In order to justify the proposed Scheme, as outlined in Section 4, we have also appraised three Counterfactual Scenarios in order to test the ability of 21-31 New Oxford Street to achieve an alternative mix that provides a policy compliant level of residential accommodation.

6.2 The Counterfactual Scenarios alter the proposed use and tenure of 21-31 New Oxford Street to provide the target residential floorspace required under Policy DP1:

i. **Scenario 1** – 50% Market, 50% Affordable Housing
ii. **Scenario 2** – Reduced Affordable Provision
iii. **Scenario 3** – 100% Market Housing

Counterfactual Scenario 1

6.3 This scenario comprises a policy compliant uplift of residential accommodation on the basis of the Council's mixed-use policy. The residential accommodation is situated over two floors: Level 8 and Level 8 Mezzanine and comprises 50% market housing and 50% affordable housing.

6.4 The provision of both private residential (market housing) and affordable housing requires the introduction of two residential cores and entrances at ground floor level, which has a consequential impact on the ground floor arrangement and office floorplates.

6.5 This scenario requires relocation of plant from the roof to the 7th floor, which results in significant loss of net lettable area and compromises the remaining office space by limiting natural daylighting levels and views.

Table 5: Counterfactual Scenario 1 – Floor Areas

Land Use	NIA/NSA (sqft)
A1/A3 Retail	33,787
B1 Office	224,245
C3 Private Residential	20,301
C3 Affordable	19,956
Total	**300,743**

Counterfactual Scenario 2

6.6 This scenario comprises a policy compliant uplift of residential accommodation on the basis of the Council's mixed-use policy. The residential accommodation is situated over two floors: Level 8 and Level 8 Mezzanine and comprises predominantly market housing with the minimum practicable amount of affordable housing.

6.7 As for Scenario 1, the provision of both private residential (market housing) and affordable housing requires the introduction of two residential cores and entrances at ground floor level, which has a consequential impact on the ground floor arrangement and office floorplates.

6.8 This scenario also requires relocation of plant from the roof to the 7th floor, which results in a significant loss of net lettable area and compromises the remaining office space by limiting natural daylighting levels and views.

Table 6: Counterfactual Scenario 2 – Floor Areas

Land Use	NIA/NSA (sqft)
A1/A3 Retail	33,787
B1 Office	226,699
C3 Private Residential	36,511
C3 Affordable	4,112
	301,109

Counterfactual Scenario 3

6.9 Scenario 3 comprises a policy compliant uplift of residential accommodation on the basis of the Council's mixed-use policy, which is wholly comprised of private residential accommodation i.e. no affordable housing is incorporated within this scenario.

6.10 The provision of private residential (market housing) at levels 8 and level 8 mezzanine requires the introduction of a residential core and a separate entrance at ground floor level. This has a consequential impact on the ground floor arrangement and office floorplates; though the loss of net lettable area is not as great as for Scenarios 1 and 2, which require the introduction of two additional cores.

6.11 This scenario also requires the relocation of plant from the roof to the 7th floor, which results in a significant loss of net lettable area and compromises the remaining office space by limiting natural daylighting levels and views.

Table 7: Counterfactual Scenario 3 – Floor Areas

Land Use	NIA/NSA (sqft)
A1/A3 Retail	34,972
B1 Office	230,578
C3 Private Residential	42,023
C3 Affordable	0

Total	**307,572**

7 Sales and Market Data

Introduction

7.1 An analysis of both the office and retail elements of the Scheme has been undertaken by independent agents on behalf of the Applicant. Market analysis has also been provided in respect of the private residential accommodation for the Counterfactual Scenarios. The key points of their analysis are summarised in this Section and are supplemented by our own internal research in order to provide an overview of the six key elements of which the Scheme comprises, these being:

- Offices (Proposed Scheme)
- Retail (Proposed Scheme)
- Affordable Housing
- Offices (Counterfactual Scenarios)
- Retail (Counterfactual Scenarios)
- Private residential (Counterfactual Scenarios)

Offices (Proposed Scheme)

7.2 The Site is situated at the corner of four of the West End's office submarkets, namely Soho to the south west, Noho to the North West, Covent Garden to the south east and Bloomsbury to the north east. The area is mixed use in character with a large element of retail and residential buildings positioned amongst some significant office schemes including Central St Giles. The building does not sit in the prime part of any of the aforementioned submarkets.

7.3 Further detail on the local office market and the development pipeline along with details of comparable evidence is set out in the Office Market Report prepared by CBRE and provided at **Appendix 5**.

7.4 CBRE state that the proposed accommodation "provides a genuinely unique office proposition within the core central London market" with larger than typical office floorplates, large volume floors and mezzanine decks. The specification of the accommodation is Grade A offices and will provide the best achievable sustainability criteria. CBRE identify the proposed space does bring with it some challenges due to the potential difficulties in incorporating cellularised offices and limitations on the location of meeting rooms along with a limit on the degree of sub-divisibility possible.

7.5 CBRE has advised on the basis of the proposed specification and taking into account comparable evidence an office rental value, [redacted].

7.6 [redacted]

Retail (Proposed Scheme)

7.7 The Scheme will provide 39,568 sq ft (NIA) of retail floorspace, situated at ground, ground mezzanine and basement levels.

7.8 Whilst prime Central London shopping streets (e.g. Oxford Street, Regent Street) have performed well during the market downturn, 21-31 New Oxford Street is a largely untested location and will need to be competitively priced to attract occupiers.

7.9 New Oxford Street is considered a secondary retail location with limited provision and an incoherent tenant mix. CBRE highlights in its Retail Market Report (**Appendix 6**) that the proposed mixed-use scheme will help to provide a sense of cohesion between the fragmented ownership along both New Oxford Street and High Holborn enhancing the vitality of the area.

7.10 The nature of the location will necessitate the need for a more destination specific retail and restaurant offer that will complement the proposed office-led scheme. [redacted]

7.11 [redacted]

[redacted]

7.12 [redacted]

Affordable Housing

7.13 The affordable housing will be delivered in a self-contained part of the building, totalling 19,817 sq ft (NIA).

7.14 [redacted]

Offices (Counterfactual Scenarios)

7.15 In respect of the Counterfactual Scenarios 1 and 2 CBRE advise there will be a negative impact on office rental values for the following reasons:

- Presence of residential cores running vertically through the office space will have a negative impact on the quality of the space;
- Loss of roof garden amenity space;
- Negative perception of a mixed-use building including concerns relating to security and potential noise;
- Overlooking of offices terraces by residential occupiers;
- Loss of the most valuable office space.

7.16 Counterfactual Scenario 3, which comprises solely private residential accommodation, is expected to have a lesser impact and therefore the rents remain as for the Proposed Scheme. Though the above points will still lessen the appeal of the building to office occupiers and limit the target market and this has been reflected in the letting void.

7.17 CBRE is of the opinion that there would be a variation in yields between the Proposed

Scheme and the Counterfactual Scenarios as result of (i) the impact of the loss of control resulting from office space being situated below virtual freeholds and (ii) in the case of Counterfactual Scenarios 1 and 2 the impact of affordable housing being situated directly above the office space. Further detail and reasoning is set out in the Office Market Report provided at **Appendix 5.** [redacted]

Retail (Counterfactual Scenarios)

7.18 The Scheme will provide 37,113 sq ft (NIA) of retail floorspace, situated at ground, ground mezzanine and basement levels.

7.19 Whilst prime Central London shopping streets (e.g. Oxford Street, Regent Street) have performed well during the market downturn, 21-31 New Oxford Street is a largely untested location and will need to be competitively priced to attract occupiers.

7.20 The nature of the location will necessitate the need for a more destination specific retail and restaurant offer that will complement the proposed office-led scheme. [redacted]

7.21 CBRE has advised it is appropriate to apply the same rental values and yield to the retail element in each Counterfactual Scenario as applied in the proposed scheme (see para. 7.11 and 7.12)

Private Residential (Counterfactual Scenario)

7.22 CBRE has reviewed the counterfactual scenarios and advised on the appropriate private residential values to be assumed in each case. This is set out in the Private Residential Market Report provided at **Appendix 7**.

8 Costings and Exceptional Costs

Introduction

8.1 In this section we set out the headline costs associated with the Scheme and the Counterfactual Scenarios.

8.2 Planning obligations and development returns are addressed in later sections of this report.

Construction Costs

8.3 We have relied on the cost plans provided by EC Harris for both the Scheme and Counterfactual Scenarios, which estimates costs as at Q2 2014. These are provided at **Appendices 8 to 11**. The total figures exclude professional fees, VAT and other items as listed in the cost plans; however the costs are inclusive of a contingency allowance.

8.4 By way of comparison we set out the construction costs (excluding inflation) of the Scheme and three Counterfactual Scenarios in the table below:-

Table 8: Summary of Construction Costs

	£	Refer to Appendix
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

8.5 The above figures include an allowance of 6% for Design Reserve and Contingency.

Professional Fees

8.6 We have assumed the developer will bear an industry standard allowance [redacted]. However it is considered that the likely professional fees for a scheme of this complexity is likely to be higher and this is therefore a minimum estimate.

Finance Costs

8.7 The interest rate applied in the appraisals represents a total cost of capital in financing the Scheme. This reflects both debt and equity financing with the banks requiring a larger element of the latter relative to the former having regard to the economic crisis. The debt element reflects both a margin and risk premium above 5 year swap rates. The equity element should in theory reflect an equity return which may be calculated by reference to the weighted average cost of capital (WACC). However, this would also need to have regard to the level of development return, which is reflected in the amount of profit a scheme is producing. It follows that to avoid double counting; the equity element should broadly follow the level of debt interest plus a margin to reflect the more costly equity.

8.8 The total cost also takes into account arrangement, monitoring and related fees.

8.9 The recent De Montfort University research on the UK Commercial Property Lending Market of May 2014 (for year ending December 2013) highlights the still limited number of lenders willing to offer development finance. In particular the survey highlighted traditional lenders:-

- Average loan to value ratio of 58% (no change from 2012);
- average loan to cost ratio of 68% (an increase 700 bpts from 2012); and
- interest rate margins of 369 bpts (a decrease of c.50 bpts from 2012)

8.10 The above ratios change when applied to 50% speculative (Loan to Value – 51%; Loan to Cost -62%; and margin 419 bpts) and wholly speculative commercial, (Loan to Value -45%; Loan to Cost 50%; and margin 369 bpts).

8.11 Non-bank lenders were prepared to lend at loan to value ratios in some cases higher than that set out above albeit with significantly increased margins and arrangement fees.

8.12 The RICS GN suggests that in assessing such matters as the rate of finance, that this should not be specific to the developer in question but be the benchmark rate that any developer capable of undertaking the Scheme would be able to access finance at.

8.13 [redacted]

Other Costs

8.14 It is also correct to allow fees associated with letting of the office and retail space. [redacted]

8.15 In respect of the Counterfactual Scenarios [redacted]

9 Programme and Phasing

Introduction

9.1 In this section we provide a summary of the development phasing and programme associated with the proposed Scheme.

9.2 A development programme has been prepared by EC Harris. Our financial appraisals have been prepared in accordance with these and the corresponding Gantt chart is attached at **Appendix 12**.

9.3 In terms of the letting of the office and retail we have relied on advice provided by CBRE.

9.4 CBRE has also advised on the appropriate sales programme for the private residential incorporated within the Counterfactual Scenarios.

Construction Programme: Proposed Scheme

9.5 [redacted]

9.6 [redacted]

9.7 [redacted]

Letting and Disposal: Proposed Scheme

9.8 [redacted]

9.9 [redacted]

9.10 [redacted]

[redacted]

Construction Programme: Counterfactual Scenarios

9.11 [redacted]

9.12 [redacted]

9.13 [redacted]

Letting and Disposal: Counterfactual Scenarios

9.14 [redacted]

9.15 [redacted]

9.16 [redacted]

9.17 [redacted]

10 Inflation and Forecasts

Introduction

10.1 The Scheme would be a major development with a commensurate programme of construction works. We therefore consider that it is necessary to have regard to anticipated future movements in both costs and values in order to consider the effect of an outturn approach to viability. This can then be compared with a present-day approach.

10.2 In this section we set out the underlying assumptions associated with the forecasting of cost and value inflation over the course of the proposed indicative development. We begin with a brief overview of cost inflation and then set the background to the forecast key contributions to changes in the value of the following uses:

- Offices
- Retail, including restaurants
- Affordable Housing
- Private Residential (Counterfactual Scenarios)

10.3 It should be noted that although we include the land value (see Section 11) as a present day cost, we have not sought to grow or index this up to a start on site for either the whole or the constituent parts.

Cost Inflation

10.4 There has been a rise in London in construction orders the latter part of 2013 and 2014 which has resulted in a rise in tender prices.

10.5 [redacted]

Table 9: Anticipated Tender Price Inflation for Central London

Year	Inflation (%)
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]
[redacted]	[redacted]

Offices

10.6 [redacted]

10.7 [redacted]

Retail

10.8 [redacted]

10.9 [redacted]

10.10 [redacted]

10.11 The retail growth rates incorporated in the growth appraisals is set out in the summary table below.

Affordable Housing

10.12 [redacted]

Private Residential (Counterfactual Scenarios)

10.13 Forecast growth rates for Prime London private residential have been provided by CBRE [redacted]

Summary

10.14 We provide in the table below the annual growth rates applied to each of the sectors described above.

Table 10: Forecast growth rates

Year	Offices	Retail	Affordable Residential	Private Residential
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

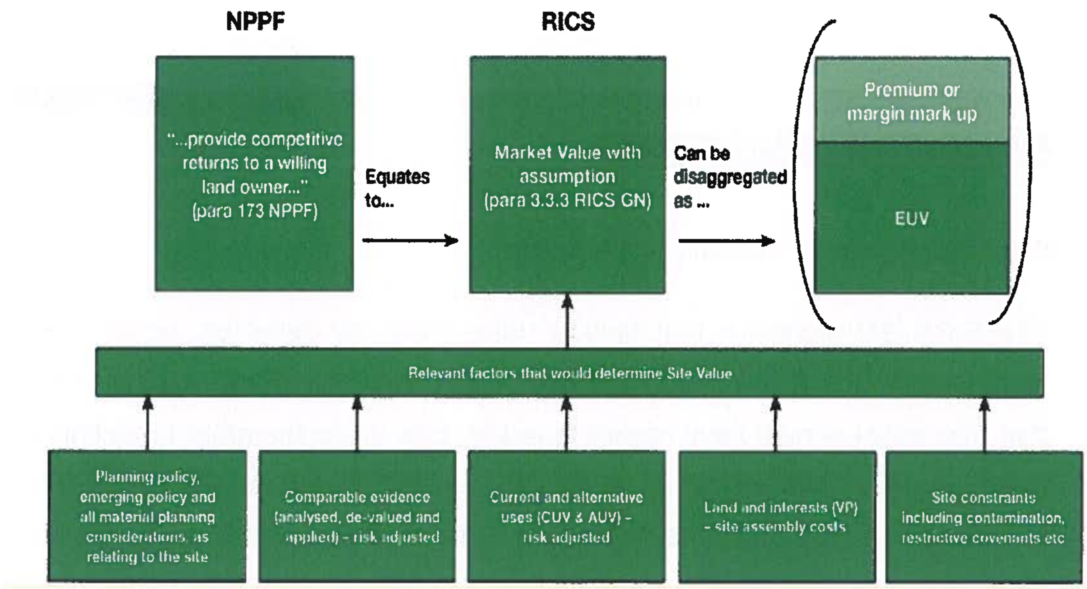
11 Site Value

11.1 This section sets out the underlying basis of the adopted Site Value. Our views are formed having regard to the RICS GN. Notwithstanding, this section reflects best practice for undertaking such assessment including those previously submitted to Camden Council by Gerald Eve.

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

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

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



Overall approach

11.4 In arriving at a Site Value we have had regard to the following:-

- The RICS GN 'Financial Viability in Planning';
- The ownership structure of the Site;
- The Market Value of the Site for existing use
- Future development in terms of uses, density, bulk, scale and massing having regard to the development plan;
- The overall planning status including current and emerging national, regional and local planning policies;
- Comparable transactions; and
- All other matters which the market will have regard to in arriving at a Market Value.

11.5 We have assumed the Site is free of any encumbrances, or restrictions on title which will adversely affect the value.

Background to the Site

11.6 The Site covers an area of 1.06 acres (0.43 ha); a description of the Site is set out above in in Section 2.

11.7 The Applicant holds a virtual freehold interest in the Site, [redacted]

RICS GN Financial Viability in Planning

11.8 The RICS GN highlights that Market Value must, by definition, be at a level where the landowner is willing to sell at a competitive return as recognised by the NPPF. It also says that Site Value should have regard to policy, Site Value therefore by definition is restricted when compared Market Value as defined the RICS Red Book. The degree of variance will be subject to a judgement, having regard to the circumstances in each instance.

Value Commentary

11.9 The RICS GN (para 3.6.1.1) recognises that the actual price at which a site has been purchased at, "may or may not be material" in arriving at the base land value for the purposes of financial viability. [redacted]

Central London Development Land Market

11.10 London's residential property market has far outperformed that in the rest of the UK. Prices and activity, especially in prime central London, have bounced back much more quickly from the fall-out of the financial crisis.

11.11 Development activity, demand, prices and sales have all risen significantly during 2013. This improvement in values is supported by overseas investment, improvements in commercial rental values and the tightening of yields. Between 2012 and 2013, the number of units built increased by 97% from 6,800 units to 13,500 units.

11.12 Savills produce a bi-annual updated London Multi Use Land Values Index. This provides useful indices to assess the changes in the development land market in London, for mixed-use development land.

11.13 [redacted]

11.14 [redacted]

Table 11: [redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

Comparable Evidence of Land Transactions

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

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

11.16 A schedule of comparable transaction and accompanying location plan is provided at **Appendix 13**. We consider the following transactions to be of particular relevance to the Site:

Chart 1: [redacted]

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[redacted]

11.17 [redacted]

11.18 [redacted]

11.19 [redacted]

11.20 [redacted]

[redacted]

11.21 [redacted]

[redacted]

11.22 [redacted]

11.23 [redacted]

11.24 [redacted]

11.25 [redacted]

High Holborn Estate, 50-55 High Holborn

11.26 [redacted].

11.27 [redacted]

11.28 [redacted]

[redacted]

11.29 [redacted]

11.30 [redacted]

11.31 [redacted]

11.32 [redacted]

[redacted]

11.33 [redacted]

11.34 [redacted]

11.35 [redacted]

[redacted]

11.36 [redacted]

11.37 [redacted]

11.38 [redacted]

[redacted]

11.39 [redacted]

11.40 [redacted]

11.41 [redacted]

11.42 [redacted]

[redacted]

11.43 [redacted]

[redacted]

11.44 [redacted]

11.45 [redacted]

11.46 [redacted]

11.47 [redacted]

[redacted]

11.48 [redacted]

11.49 [redacted]

11.50 [redacted]

[redacted]

11.51 [redacted]

11.52 [redacted]

11.53 [redacted]

11.54 [redacted]

Site Value

11.55 [redacted]

[redacted]

- [redacted]
- [redacted]
- [redacted]

11.57 [redacted]

11.58 [redacted]

12 Planning Obligations Package (Notional)

Introduction

12.1 One of the requirements of the financial appraisal of the Scheme is to determine the level of planning obligations including a public realm contribution and Crossrail contribution (Mayoral CIL) as an aggregated total sum. In other words, to assess what the Scheme can afford taking into account the financial impact of these items as a whole. In addition there are works in kind provided within the overall Scheme, for example on Museum Street.

12.2 This section sets out a resultant output with regard to the level of planning obligations (including affordable housing and Crossrail Mayoral CIL) in respect of the Scheme i.e. the notional package outlined is as a result of the Scheme viability. We however present this prior to the following sections showing the Scheme returns for the sake of clarity. In addition, a notional package has been suggested which will be subject to discussions between the Applicant and LBC in terms of the appropriate division. The resultant overall level of the total planning obligations is the output that the appraisals seek to test as being financially viable on both present day values and costs and on an outturn basis through the growth model having regard to the target rate of return.

Section 106 Contributions (including affordable housing and Crossrail)

12.3 In determining the potential planning obligation contributions in respect of the Scheme, we have been advised by Gerald Eve LLP's planning team who have referenced the Camden Planning Guidance SPG. A Crossrail contribution has also been determined using the Mayor's guidance. No explicit allowance for transport / highways contributions has been included at this stage and this will be subject to further discussions with LBC and a Section 278 Agreement.

12.4 A summary of the planning obligations for the Scheme and Counterfactual Scenarios are set out in the table overleaf:

Table 12: Summary of Planning Contributions

	Proposed Scheme £	Counterfactual A 50% Affordable Housing	Counterfactual B 10% Affordable Housing	Counterfactual C 0% Affordable Housing
Payment in Lieu	£4,212,000	£0	£0	£0
Decentralised energy networks	£334,017	£304,900	£304,900	£304,900
Open Space	£12,358	£7,939	£7,939	£7,939
Employment Space	£224,125	£143,987	£143,987	£143,987
Crossrail / Mayoral CIL	£5,252,070	£4,698,070	£4,698,070	£4,698,070
Total	**£10,034,570**	**£5,154,896**	**£5,154,896**	**£5,154,896**

* Assumes proposed retail is considered by LBC as 'employment space'.

12.5 In the financial appraisals we have assumed that the Section 106 payments will be paid either at the beginning of implementation of the Scheme or on occupation. It follows that the timings will be incorporated within an appropriate Section 106 Agreement attached to the planning permission.

Resultant Planning Obligations (Scheme)

12.6 As will be seen in the following sections the Scheme has been tested against a level of planning obligations which could be considered viable. These are then tested through a sensitivity and simulation having regard to a target rate of return. Therefore the resultant planning obligations that the Scheme is being tested against in order to assess viability is £10,034,570.

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13 Interpretation of Results

Introduction

13.1 The financial appraisals for both the Scheme and the Counterfactual Scenarios have been undertaken in accordance with generally accepted guidance and policy in undertaking viability assessments and, in particular, the Royal Institution of Chartered Surveyors "Financial Viability in Planning" of August 2012 (RICS GN). Further explanation outlining the basis upon which the appraisals has been carried out, including in relation to the growth model approach and development return measures is contained within **Appendix 14**.

Target Rate of Return

13.2 **Appendix 14** highlights a significant factor in undertaking viability assessments is the level of profit which a developer might reasonably require from undertaking the development. Given the complexity of the Scheme in this case, length of programme and inclusion of growth forecasts we have used the Internal Rate of Return ('IRR') as the measure of return in this case.

13.3 Prior to 2008, it would be normal to target an IRR within the range of 15% to 20% to reflect a reasonable developer's return to compensate for time management and risk associated with a scheme of this nature. However, following the financial crises of 2008/2009 and general economic conditions, returns in excess of this range are being required for financing purposes. It is therefore unlikely that a scheme producing a return at the lower end of this range would be implemented.

13.4 Working within the confines of an existing building there is inherently more risk associated with the redevelopment of 21-31 New Oxford Street. There is limited scope to modify the buildings or increase the floorplate, and as a result the Scheme is predominantly restricted within the existing structures.

13.5 There is the added complication of introducing new mechanical and electrical services and the risk of encountering unidentified faults and costs associated with the existing building. This is in addition to the presence of Mail Rail directly below the property.

13.6 The above risks are somewhat tempered by the fact that the proposed scheme will be unique and is situated in a Central London Location that will benefit from the new Crossrail station at Tottenham Court Road.

13.7 [redacted]

General Interpretation of Results

13.8 The outturn values and costs shown in the growth model are inflated figures and not at present day levels. As this report is concerned with absolute viability and the ability to meet planning obligations, it is not considered necessary to bring the values and costs back to present day levels by applying a discount factor.

13.9 The following should be noted when reviewing the growth model:-

- similarly the current day achievable commercial rental levels are grown on the basis of the time elapsed up to the actual letting (this is notwithstanding rent free periods after the letting has taken place);
- the commercial space created as an investment has an assumed notional disposal date, i.e. when fully let and income producing. This is valued on a simple term and reversion approach; and
- forecast tender price and inflation is incorporated into the financial appraisal as set out in Section 10.
- in respect of the counterfactual scenarios the current day residential values are multiplied by the appropriate growth factor relating to the period elapsed between commencement of the Scheme and the earlier of the reservation or sale date;

13.10 It should be noted that a small difference in the IRR is significant. In other words, even a 1% or 2% change in the return represents a considerable change in the return and this has to be set off against the risk of undertaking the project.

13.11 The IRR has been applied to both the present day and growth models where as an annualised percentage it provides a measure of the rate at which the Scheme generates a return.

13.12 The following section presents the financial viability appraisal results for the Scheme on both a present day and a growth (outturn) basis. The appraisal outputs for Counterfactual Scenarios 1, 2 and 3 are subsequently set out in Section 15.

Interpretation of Results given the context of 21-31 New Oxford Street

13.13 21-31 New Oxford Street is a substantial property and its redevelopment to provide office and retail along with affordable housing accommodation, in conjunction with public realm works, is anticipated to revitalise the surrounding area.

13.14 The Applicant is significantly constrained by the existing structures and that the Scheme must be developed within these.

13.15 The design and structure of the existing property will provide unique office accommodation which will be of a very different specification to standard modern offices and the product being proposed is largely untested. As a result The Scheme is somewhat reliant on the performance of the office market.

13.16 Counterfactual Scenario 1 to 3, outlined in Section 6, consider the viability of providing a greater quantum of residential accommodation over the two upper floors this would compromise the offices below and result in increased downside risk.

Sensitivity, Scenario and Simulation Analysis

13.17 Sensitivity, scenario and simulation analysis allow the robustness of the financial model and the resultant rate of return to be tested from a quantitative perspective. The overall viability of the Scheme can then be assessed having regard to the potential for any upside or downside and the likelihood of these. This is outlined further in Section 16.

14 Proposed Scheme: Financial Appraisal

Introduction

14.1 This section provides the appraisal outputs for the Scheme having regard to inputs outlined in the previous sections of this report along with the notional planning obligation package. These results are subsequently tested using sensitivity, scenario and simulation analysis in Section 16 of this report and conclusions are drawn in Section 17.

14.2 The previous Section of this report provides guidelines for interpreting the results set out in this section and the following two sections of the report (namely Section 15 Counterfactual Scenarios: Financial Appraisal and Section 16 Viability, Analysis, Sensitivity & Risk Assessment).

14.3 We present our results as follows:-

- Present day appraisal
- Outturn (growth) model

Present Day Appraisal

14.4 We attach as **Appendix 15** full details of the appraisal results based on the Scheme set out in Section 4. We summarise the outcome together with a chart showing the cumulative cashflow as follows:-

Table 13 : Present day appraisal summary – The Scheme

Developers return	
[redacted]	[redacted]
[redacted]	[redacted]

Chart 2 : Cashflow - Present day appraisal – The Scheme

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14.5 The results indicate that in overall terms the Scheme, based on a present day approach achieves a return significantly below the benchmark return level.

Outturn (Growth) Model

14.6 We attach as **Appendix 16** full details of the appraisal results based on the Scheme set out in Section 4 with the application of forecast growth rates on costs and values as set out in Section 10. We summarise the outcome in the table below together with a chart showing the cumulative cashflow as follows:-

Table 14 : Growth model appraisal summary - The Scheme

Developers return	
[redacted]	[redacted]

Chart 3: Cashflow – Growth model appraisal – The Scheme

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14.7 From the above it can be seen that on a present day basis, assuming the proposed level of on-site affordable housing planning obligations that the Scheme would not be viable. If the Scheme is run on a growth basis the return improves albeit still not to a minimum target level. It is therefore necessary to test further the appraisal by applying sensitivity, scenario and simulation analysis in order to see whether the Scheme is potentially capable of being viable. This is examined in Section 16 and conclusions drawn in Section 17. Prior to that we consider the Counterfactual Scenarios 1, 2 and 3 in the next section.

15 Counterfactual Scenarios: Financial Appraisal

Introduction

15.1 In the previous section, the financial model has assessed the viability of the proposed Scheme. This section assesses the viability of the Counterfactual Scenarios using a present day approach and a growth based (outturn) approach.

15.2 Section 6 of this report provides a description of the three Counterfactual Scenarios, which vary the proposed use and tenure of 21-31 New Oxford Street to provide to provide the target residential floorspace required under Policy DP1:

i. **Scenario 1** – 50% Market and 50% Affordable Housing

ii. **Scenario 2** – Reduced Affordable Housing

iii. **Scenario 3** – 100% Market Housing

15.3 The values included in the financial appraisals are set out in Section 7 of the report, where CBRE has advised on office rents and residential capital values respectively. Cost estimates have been prepared by EC Harris for the Counterfactual Scenarios and are set out in Section 8 of this report. The notional planning obligations (Section 106 costs) for Scenario 1, Scenario 2 and Scenario 3 are set out in Section 12.

15.4 The development programme is outlined in Section 9.

15.5 We deal with financial assessment for each Counterfactual Scenario separately, setting out the results from the outturn (growth) model before summarising our findings.

Counterfactual Scenario 1

15.6 We attach as **Appendix 17** full details of the appraisal results based on the Scenario 1 as set out in Section 6 with the application of forecast growth rates on costs and values as set out in Section 10. We summarise the outcome in the table below together with a chart showing the cumulative cashflow as follows:-

Table 15 : Growth model appraisal summary - Counterfactual Scenario 1

Developers return	
[redacted]	[redacted]

Chart 4 : Cashflow - Growth model appraisal - Counterfactual Scenario 1

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15.7 Even on a growth basis the results show that the level of return for Counterfactual Scenario 1 is significantly below the target rate.

Counterfactual Scenario 2

15.8 We attach as **Appendix 18** full details of the appraisal results based on Counterfactual Scenario 2 as set out in Section 6 with the application of forecast growth rates on costs and values as set out in Section 10. We summarise the outcome in the table below together with a chart showing the cumulative cashflow as follows:-

Table 16 : Growth model appraisal summary - Counterfactual Scenario 2

Developers return	
[redacted]	[redacted]

Chart 5 : Cashflow - Growth model appraisal - Counterfactual Scenario 2

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15.9 On a growth basis the results show that the level of return for Counterfactual Scenario 2 is significantly below the target rate of return and also substantially below that achieved by the Proposed Scheme

Counterfactual Scenario 3

15.10 We attach as **Appendix 19** full details of the appraisal results based on Counterfactual Scenario 3 as set out in Section 6 with the application of forecast growth rates on costs and values as set out in Section 10. We summarise the outcome in the table below together with a chart showing the cumulative cashflow as follows:-

Table 17 : Growth model appraisal summary - Counterfactual Scenario 3

Developers return	
[redacted]	[redacted]

Chart 6 : Cashflow - Growth model appraisal - Counterfactual Scenario 3

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15.11 On a growth basis the results show that the level of return for Counterfactual Scenario 3 also falls well below the target rate of return, and is below that achieved by the Proposed Scheme.

Summary

15.12 In contrast to the proposed Scheme the three Counterfactuals (on a growth basis) are nowhere near to achieving the minimum target rate of return. In these circumstances any sensitivity (or the like) testing is not going to indicate anything different to the conclusion that the Counterfactuals are unviable and therefore would not be deliverable. This confirms that it is not possible to provide a greater proportion of residential accommodation than is being bought proposed in the Scheme. Notwithstanding this and for completeness we have run a basic sensitivity test for all scenarios in the next section.

16 Viability, Analysis, Sensitivity & Risk Assessment

Introduction

16.1 The purpose of this section is to test the robustness of the Scheme and Counterfactual Scenarios from a quantitative perspective via a sensitivity and simulation risk assessment. As a result of the assessment in respect of the Scheme, the level of planning obligations (including Crossrail and off-site affordable housing) when aggregated are also tested having regard to the target rate of return.

16.2 In order to assess the robustness of the viability of the proposals, it is necessary to consider the pricing and cost inputs to the financial model. For the purposes of this exercise, we have employed three forms of analysis:

- Sensitivity (Scheme and Counterfactual Scenarios)
- Scenario (Scheme)
- Monte Carlo Simulation (Scheme and Counterfactual Scenarios)

16.3 The first of the above is a fairly simplistic approach (but widely used) for testing the viability and the robustness of the Scheme and Counterfactual Scenarios. In essence, uncertainties can be identified in respect of the inputs and their effect can then be looked at in terms of the development return. In short, this is a straightforward deterministic approach from which a judgement needs to be made as to the appropriateness of the outcome. Benchmarks can be used as performance measures. A prudent developer will also consider the sensitivities of a development and assess the risks of the particular project.

16.4 A more sophisticated approach, and one which is used in practice with the more complex development schemes, is to run a Monte Carlo simulation analysis on the financial model which quantifies the robustness of a development in terms of risks and return.

16.5 A Monte Carlo simulation exercise considers the probability of outcomes given certain variances applied to key inputs within the financial model through a stochastic process. The resultant forecast provides the most likely returns or the ability to achieve an acceptable IRR. The key inputs identified in the financial model for both the Scheme and Counterfactual Scenario are:

- office rental levels; and,
- build costs

16.6 We have not included interest rate variability due to the complexities in real terms in financing a large project. We have also not simulated the growth rates and these remain as per Section 10.

16.7 In-between a simple sensitivity analysis and the more sophisticated Monte Carlo simulation, is a scenario analysis. This again uses a series of inputs, analyses them under different scenarios and then probability weights the outcome (i.e. the IRR).

16.8 We set out the result of our analysis using the three approaches of sensitivity, scenario and simulation below. In practice each inform the other to the extent that the key value and cost drivers of the proposals can be identified and therefore the uncertainties around each, can be arrived at in order to test the overall robustness of the Scheme and Counterfactual Scenarios. This therefore in turn informs the likelihood or resulting returns varying from the deterministic outputs outlined in Sections 14 and 15.

Sensitivity Analysis

Proposed Scheme (Outturn Appraisal)

16.9 We produce below key sensitivity tables for the Scheme on the basis of the growth model and IRR output:-

Table 18 : Scheme Sensitivity Analysis – Office Rents and Retail Rents

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Table 19 : Scheme Sensitivity Analysis – Office rents and Costs

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16.10 [redacted]

<u>Counterfactual Scenario 1 (Outturn Appraisal)</u>

16.11 We present below key sensitivity tables for the Counterfactual Scenario 1 on the basis of the growth model and IRR output:-

Table 20 : Sensitivity Scenario 1 – Private Residential values and Office Rents

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16.12 [redacted]

<u>Counterfactual Scenario 2 (Outturn Appraisal)</u>

16.13 We present below key sensitivity tables for the Counterfactual Scenario 2 on the basis of the growth model and IRR output:-

Table 21 : Sensitivity Scenario 2 – Private Residential Values and Office Rents

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16.14 [redacted]

Counterfactual Scenario 3

16.15 We present below key sensitivity tables for the Counterfactual Scenario 3 on the basis of the growth model and IRR output.

Table 22 : Sensitivity Scenario 3 – Private Residential Values and Office Rents

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16.16 [redacted]

Scenario

16.17 By grouping together the inputs and varying them simultaneously, expected, optimistic and pessimistic case scenarios can be generated in terms of the Scheme IRR outturn. We have sought to apply a simplistic probability analysis having regard to the agents' and cost consultants' views as set out in their reports in the appendices to this assessment. [redacted]

Table 23: Scenario Analysis – The Scheme

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16.18 [redacted]

[redacted]

Simulation Analysis

16.19 A simulation analysis has been run on the Scheme (see **Appendix 20**) using the growth model, [redacted]

Chart 7: Simulation analysis Frequency Chart – The Scheme

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16.20 [redacted]

Chart 8: Simulation Analysis – Tornado Chart

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16.21 [redacted]

Summary

16.22 Both the sensitivity and simulation analysis of the Scheme have also shown that the financial viability is currently on the margins of being acceptable. Even if this were to improve it is clear that any further financial contribution to affordable housing, planning obligations and Crossrail could not be justified on viability grounds.

16.23 Sensitivity analysis of the three Counterfactual Scenarios shows that in no instance do any of them come close to achieving the minimum target rate of return [redacted]

16.24 It follows that on the basis of the proposed level of on-site affordable housing and planning obligations of £10,034,570, the Scheme is potentially capable of achieving the minimum target rate of return. Any further increase in this figure would reduce the chance of achieving the minimum target rate of return. This confirms that the proposed level of affordable housing represents the maximum reasonable in accordance with the London Plan.

17 Concluding Financial Justification Statement

17.1 A detailed planning application has been submitted which proposes the comprehensive conversion and refurbishment of 21-31 New Oxford Street to create a mixed use office-led scheme. The proposals present an opportunity to regenerate existing poor quality, vacant building and reinvigorate this important part of Central London.

Outline Rationale

17.2 Gerald Eve LLP was instructed by the Applicant to undertake a financial assessment of the above proposal in order to advise on appropriate level of planning obligations, including the provision of on-site affordable housing.

17.3 In order to provide a robust assessment, three Counterfactual Scenarios have also been appraised to determine whether it would be financially possible to provide an uplift in residential accommodation which accords with LBC's mixed use policy. This is notwithstanding the various structural, technical and access difficulties, as set out in Section 5 that would render the provision of further residential accommodation very challenging.

17.4 Present day sales and market data have been used to establish the overall value of both the Scheme and the Counterfactual Scenarios. Cost reports have been provided in respect of all options and full appraisals undertaken. Given that the Scheme is not due to reach practical completion until 2017 and will not be fully let and income producing until 2018 an outturn (growth) model was considered most appropriate. It follows that cost inflation and value forecasts have been applied so as to reflect future movement and uncertainty in the market.

Return Benchmark

17.5 Given the use of a growth model the benchmark return used for the viability appraisals is the Internal Rate of Return (IRR). The resultant appraisals have been run on both a present day and growth basis, allowing comparison between the Scheme and the Counterfactual Scenarios. A target rate of return [redacted] has been identified having regard to the inherent risks of developing this Property as set out in the report.

Counterfactual Scenarios

17.6 All Counterfactual Scenarios produce a significantly poorer return in comparison to the Scheme and below that which would be an acceptable basis on which to implement. The results overleaf confirm that these scenarios are neither feasible nor deliverable options.

Table 27: Counterfactual Scenario Returns

Return Basis	Counterfactual Scenario 1	Counterfactual Scenario 2	Counterfactual Scenario 3
[redacted]	[redacted]	[redacted]	[redacted]

17.7 In addition to the unacceptable level of return produced by Counterfactual Scenarios the configuration of the property hinders the building's ability to incorporate a higher proportion of residential accommodation. This is set out in detail in Section 5 of this report.

The Proposed Scheme

17.8 The outturns of the appraisals in respect of the Scheme are summarised in the table below:

Table 28: Scheme Returns

Return Basis	Present Day	Growth
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

17.9 From the above table it can be concluded that the present day model shows an unacceptable level of return. Therefore the Scheme can only potentially achieve an appropriate target rate of return with the inclusion of growth.

17.10 [redacted]

[redacted]

17.11 It follows that the level of on-site affordable housing and a proposed planning obligations package of £10,034,570 is the maximum reasonable level that the Scheme can afford in order for the Applicant to be able to deliver and implement a viable scheme.

17.12 To substantiate our assessment sensitivity, scenario and simulation analysis has been undertaken in order to test both the Scheme and Counterfactual Scenarios. The results concur with above conclusions and determine that it is only the Scheme that is potentially capable of achieving an appropriate target rate of return. Any increase in planning obligations would diminish the return of the Scheme and threaten its overall viability.

Summary

17.13 The regeneration proposals for 21-31 New Oxford Street represent the most beneficial use of the building and will rejuvenate and transform the surrounding area. Along with the provision of a substantial planning obligations package, including high quality on-site affordable housing, the Scheme will deliver the following benefits:

a) Bringing a vacant building back into use (which has been unoccupied for 20 years) ensuring its sustainable future over the long term.

b) the provision 21 affordable units supporting Camden's housing need;

c) the provision of new and improved high quality retail floorspace, which will activate the ground floor frontage at street level;

d) flexible new office space to provide approximately 3,000 jobs;

e) an excellent and contextual design approach incorporating high quality architecture which will transform the local environment and enhance local views;

f) enhanced public realm and pedestrian routes in key location between Covent Garden, Bloomsbury and Holborn; and

g) creation of a safe and secure environment for future residents, occupiers and employees.

17.14 The Counterfactual Scenarios have shown the inclusion of a greater proportion of residential floor space to be impractical and unviable. Furthermore, the proposed level of on-site affordable housing with a planning obligations package of £10,034,570 is the maximum reasonable amount the Scheme can afford while remaining viable. This is outlined in the matrix below:-

Table 29: Financial Viability Matrix

Variant	Level of on-site affordable housing	Level of planning obligations (£)
Proposed Scheme	Up to 21 units	£10,034,570
Inclusion of Private Residential (Counterfactual Scenarios 1,2 and 3)	Zero	Zero

17.15 In conclusion, the financial viability report has demonstrated that the Scheme has provided the optimal mix of uses, having regard to the level of affordable housing, financial planning obligations, Crossrail contribution and works in kind in order to be able to deliver and implement a viable scheme. This has subsequently been robustly tested and the results presented.