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LONDON BOROUGH OF CAMDEN
DEVELOPMENT CONTROL COMMITTEE
THURSDAY 27TH FEBRUARY 2014

SUPPLEMENTARY AGENDA

ITEMS ON THE AGENDA

Item 7(1): Land to the west of Royal Mail Sorting Office bounded by Pheonix Place, Mount Pleasant, Gough Street and Calthorpe Street, London WC1

Supplementary information. **(Pages 5-69)**

Item 7(3): Garages, Willingham Terrace, London NW5

Supplementary information. **(Pages 71-74)**

Item 7(4): Gondar Gardens Reservoir, Gondar Gardens, London

Supplementary information. **(Pages 75-76)**

Item 7(5): 65-69 Holmes Road, London NW5 3AN

Supplementary information. **(Pages 77-82)**

Item 7(7): 31-32 and 33-34 Alfred Place, London WC1E 6DP

Supplementary information. **(Pages 83-86)**

Item 7(9): 4 Wild Court, London WC2B 4AU

Supplementary information. **(Page 87)**

WRITTEN SUBMISSIONS

Item 7(3): Garages, Willingham Terrace, London NW5

A written submission has been received from Hilary Lowe, a local resident, objecting to the application. **(Pages 91-92)**

DEPUTATION REQUESTS

Item 7(1): Land to the west of Royal Mail Sorting Office bounded by Pheonix Place, Mount Pleasant, Gough Street and Calthorpe Street, London WC1

A deputation request has been received from the Mount Pleasant Association, objecting to the application. **(Pages 95-97)**

Councillor Awale Olad, ward councillor for Holborn and Covent Garden ward, wishes to address the Committee.

Councillor James Murray, Executive Member for Housing and Development, London Borough of Islington, wishes to address the Committee.

Item 7(3): Garages, Willingham Terrace, London NW5

Deputation requests have been received from the following objectors to the application:-

- Derek Jarman, a local resident **(Page 99)**
- Phillip Allen, a local resident **(Page 101)**

A deputation request has been received from Grant Leggett, Marc Vlessing and Melanie Edge, on behalf of the applicant, in support of the application. **(Pages 103-104)**

Councillor Meric Apak, ward councillor for Kentish Town, wishes to address the Committee. **(Pages 105-115)**

Item 7(4): Gondar Gardens Reservoir, Gondar Gardens, London

Deputation requests have been received from the following commenting on or objecting to the application:-

- Gondar and Agamemnon Residents' Association **(Pages 117-118)**
- Sarre Road residents **(Pages 119-120)**
- Mark Stonebanks of the Fortune Green and West Hampstead Neighbourhood Development Forum **(Pages 121-122)**

A deputation request has been received from Jan Donovan of Rolfe Judd Planning, on behalf of the applicant, in support of the application. **(Page 123)**

Councillor Flick Rea, ward councillor for Fortune Green ward, wishes to address the Committee.

Vicky Wemyss-Cooke
for the Borough Solicitor Issued on Wednesday 26th February 2014

Please note that any views expressed or statements made in the written submissions or deputation statements are personal to the maker of the representation and do not represent the views of the Council. The Committee will however take these representations into account to the extent that they are relevant to planning issues being considered at the meeting.

SUPPLEMENTARY INFORMATION ON ITEMS ON THE AGENDA

Agenda Item: 7(1)

Address: Land to west of Royal Mail Sorting office bounded by Phoenix Place, Mount Pleasant, Gough Street & Calthorpe St. Camden WC1

Reference Number: 2013/3807/P & 2013/4128/P

Update to Committee Report

The following additions to the committee report are numbered to be read with the equivalent numbered paragraphs / sections of that report:

Letters of Objection

4.2.4 3 additional letters of objection have been received following the publication of the committee report, from 2 addresses in Holsworthy Square and on behalf of the Gray's Inn Tenants Association. The concerns raised objection to the:

- Excessive height and size of development
- Inadequate levels of affordable housing

Mayor of London call – in decision

It is also considered to be necessary to point out the significant level of concern that has been raised from community groups and elected representatives regarding the potential implications of the Mayor's call in.

Repeated reference has been made to the fact that every single scheme (of the 8 determined so far) taken over by the Mayor, following the respective borough's recommendation to refuse, has subsequently been approved by the Mayor. Further, that significant delays in the determination of these applications have occurred, with reference made to the 2 year delay in determining the recently approved Eileen House scheme in Southwark.

Officer's analysis shows that for the 8 called in / taken over applications, the time taken to determine the application by the GLA has only just fallen short of the time already taken by the borough prior to the call-in decision. The average time taken following the GLA's call-in of the 8 schemes to date is estimated to be nearly 11 months, nearly doubling the assessment period following an average borough assessment period of just over 12 months per application.

This is an unusual statistic given the conclusions offered within the decisions to call in the Mount Pleasant and Convoys Wharf application in Lewisham. (the only prior instance where another application has been taken over by the Mayor / GLA prior to the borough reaching its own conclusions). These decisions have heavily referred to the time taken by the boroughs:

"..*there is considerable doubt on the Council's ability to determine the application in a timely fashion*.."

(Paragraph 56 of the GLA's report to the Mayor, recommending that the Convoys Wharf application be called-in)

"..*the ability to report to a planning committee in early 2014, as more recently suggested by the Councils, appears unlikely*"

(Paragraph 30 of the GLA's report to the Mayor, recommending that the Mount Pleasant applications be called-in)

These statistics appear confusing, given the rationale highlighted above, demonstrating that the Mayor's decisions have rarely been reached very promptly following his calling in of any given scheme.

However, Camden officers are hopeful that GLA officers and the Mayor of London will look to take as long as is necessary to allow the proposals to be modified in such a manner that the boroughs are able to support them, and if such modifications are not able to be secured, that permission then be refused.

Wheelchair Accessible Housing

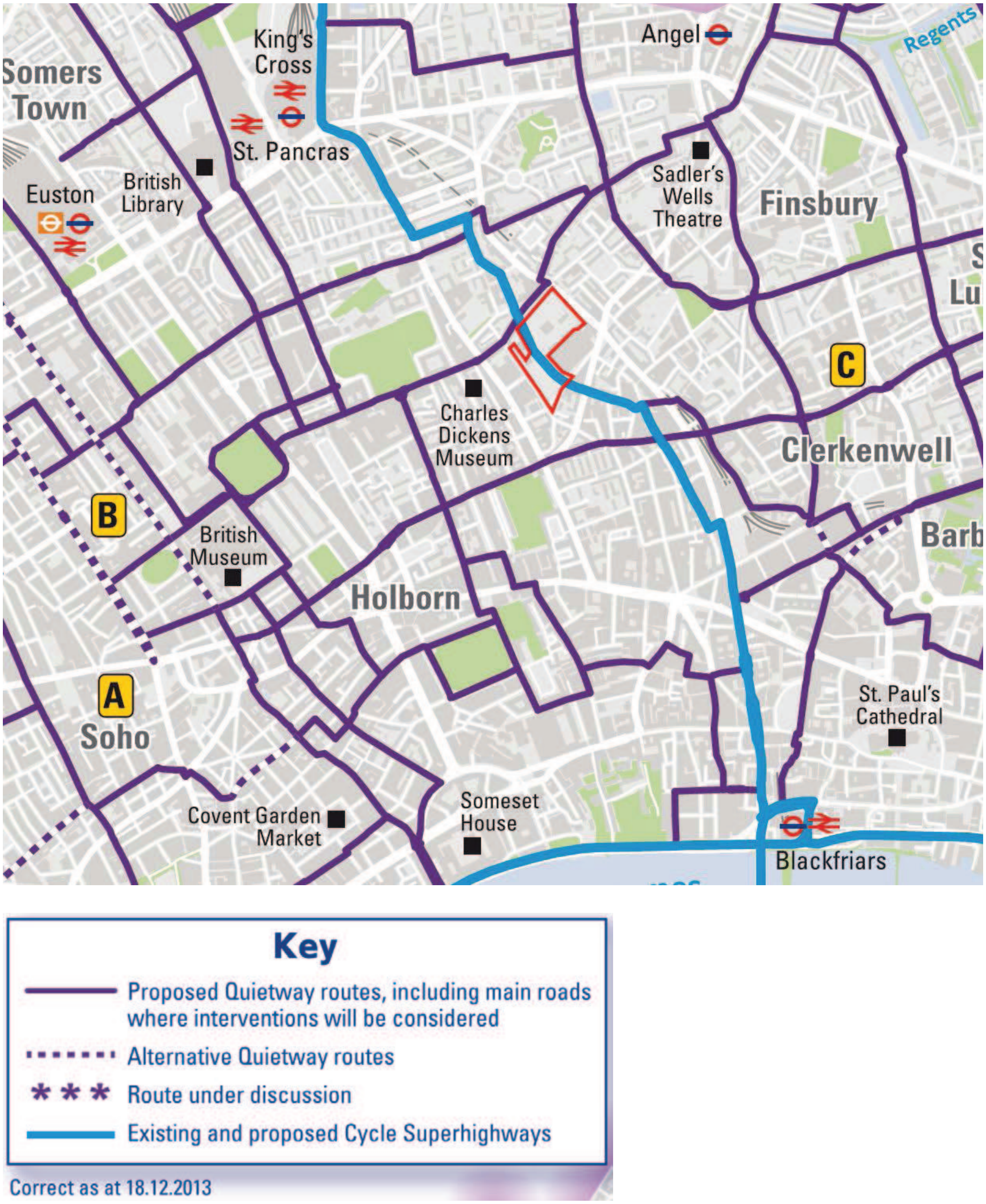
6.5.39 The applicant had undertaken in recent weeks to review outstanding matters regarding to this issue, but has failed to provide any subsequent information and the "*fully dimensioned flat layouts for the affordable adapted properties*" noted to be lacking at paragraph 6.5.39 remains outstanding.

Highways & Access

6.6 Officers have no additional response to provide regarding the applicant's partial response to the identified deficiencies in detailed design provided to them in December 2013. This will be relayed separately to GLA officers.

6.6.89 This paragraph onwards includes reference to cycling improvements in the local area. In this regard it is relevant to note that TFL has recently published it's proposed Central London Grid, and the proposed Grid Routes were the subject of public consultation which ended on 14th February 2014. The Gird is noted by TFL to have been developed in partnership with Camden and other host boroughs and the GLA.

The proposed Grid includes the identification of the highway separating the two borough sites, Phoenix Place as a Cycle Superhighway. The Grid excerpt is annotated to show the wider site, outlined in red, below:



Given the intended function of what is effectively the spine of the 2 application sites, it is considered to be necessary to allow for any reasonable highway modifications, beyond those shown in an indicative form on the proposed plans, to be identified and delivered, should the boroughs, TFL and the GLA consider them to be required as part of any subsequent Grid in this location.

TFL anticipate that a revised Grid will be published, and '*the first improvements will be delivered in 2014'*

(source: http://www.tfl.gov.uk/roadusers/cycling/29172.aspx)

Ground Contamination

6.8.11 The NPPF sets out the required to approach within paragraphs 120-122, and the scope of planning policy is targeted towards the consideration of whether 'the development itself is an acceptable use of the land, and (of the impact of) the impact of the use".

6.8.12 Camden CPG 6 (Amenity) chapter 3 builds upon Policy CS16 and refers specifically to the approach required within the borough. Paragraph 3.11 notes that:

"*The identification and assessment of land contamination issues is to be carried out by a qualified and experienced consultant, in consultation with the Council's Environmental Health Service*"

6.8.13 The Mount Pleasant SPD states that "*There is the potential for historic contamination on the site and detailed investigation and risk assessment will need to be carried out by the developer. If required, any mitigation measures would need to be carried out prior to commencement of development*"

6.8.14 This aspect of the proposed development is principally addressed within chapter 13 of the Environmental Statement. It identified the steps taken to identify on site issues, including reviews of various data sources, a site walkover, reviews of an intrusive geotechnical investigation undertaken in 2005, and prior consultation with the Council and the London Fire & Emergency Planning Authority. The ES sets out the range of temporary and permanent impacts in this area and where anything other than a "negligible" impact is anticipated, a range of necessary precautionary or mitigating works is identified.

6.8.15 The Environmental Health officer has reviewed the findings of the ES, raises no objection to the approach set out and has identified appropriate conditions requiring subsequent submission of a written programme of ground investigation, a subsequent investigation, and a condition relating to unexpected finds and mitigation. Officers therefore offer no objection on ground contamination grounds.

Financial Viability Approach / Affordable Housing Quantum

6.10.22 It should also be noted that comments have, following the publication of the BPS Report, been provided by DVS, whose work in assessing the financial viability of the development was reviewed by Council officers at both boroughs and used to identify areas where additional investigation and consideration was necessary. The BPS Report is partially reliant upon some conclusions reached through DVS' prior work (including analysis of detailed costings of the development including the substantial and complicated scope of enabling works) and is considered to identify the critical outstanding areas of concern.

The following paragraphs are provided to help summarise the conclusions set out within the updated BPS Report attached to this supplementary agenda.

Land Value (full commentary at Section 5 of Appendix 3)

6.10.23 Gerald Eve has undertaken a Market Value approach based on an analysis of comparable land transactions. BPS acknowledges that this can be useful, however advise that full details must be available of those transactions to enable effective analysis between the sites. Due regard must be given to the specific viability of the scheme and its need to comply with planning policies.

6.10.24 In nearly all comparables cited by Gerald Eve, those sites benefit from an existing use which has its own capital value. In most instances the existing use will be extinguished when the development takes place therefore the proposed development has to replace this (Existing Use) value and provide an additional return before being said to be viable. If the existing use value (EUV) is therefore seen as a hurdle, there is no apparent hurdle to be overcome with Mount Pleasant.

6.10.25 Arguably the Existing Use Value constitutes a large proportion of the market value of the comparable sites, with the balance derived through a combination of hope value and development potential (secured through the planning process). The enabling works (adjusted downwards by DVS cost consultants from that put forward by the applicant) are specifically designed to replace and enhance the parking and servicing arrangements of the Royal Mail, therefore the value to RMG of these activities has not been lost. The enabling works do not benefit the developer of the sites but only RMG as they serve to preserve the existing use benefits for RMG. This is fundamentally different from the comparable sites where existing use value is extinguished on redevelopment. In this context, the land cost adopted by Gerald Eve effectively represents a 'landowner premium', and is well in excess of premiums achieved at other sites.

6.10.26 With the above in mind, BPS recommend that the Site Value put forward by Gerald Eve be reduced by the cost of the DVS recommended value of enabling works on the basis that it is most likely that a developer would undertake these works and would pay less for the site compared with another site where no enabling works were required. Further commentary by BPS on this and the proposed 'comparable sites' as set out by the applicant is contained within section 5.0 of the BPS report (Appendix 3).

Private residential sales

6.10.27 BPS are unable to confirm that the sales values estimates relied on by Gerald Eve were, at the time of their preparation, properly supported by analysed sales evidence. BPS research, into the local market and into the comparable schemes cited by Knight Frank, indicates that present day values (at January 2014) achievable for the proposed units should be considerably higher than those adopted in the Gerald Eve Assessment. Based on Land Registry transaction data, BPS identify that there has been very strong average new build sales growth in this locality over 2013 (at 36%), which if applied to the March 2013 estimate would result in 30% growth up to the present day. This is consistent with recent local sales evidence for the area which indicates average values of circa. £1,100 per ft^2.

6.10.28 Given the large increase in sales values, it is vital that any appraisal is based on up to date sales value information. This has a significant impact on the outcomes of the assessment and the omission of robust analysis and up to date figures in both the Gerald Eve and DVS assessments are key omissions.

Development Programme (i.e. timing of costs and values input)

6.10.29 Gerald Eve adopted an approach whereby viability is tested by reference to output profit derived from a discounted cashflow and profit tested by reference to an Internal Rate of Return (IRR). This contrasts with the more simple approach more often used to test viability using an output Residual Value compared to a Benchmark Land Value. IRR provides a weighting to the cashflow to reflect time (discounts figures the further they are in time from the start point of the development).

6.10.30 For this reason, BPS advise that this approach to viability testing is highly sensitive to the timing and scale of both costs and values and timeframe of delivery of each phase and should not be confused with normal measures of profit which are generally based on a percentage of either scheme costs or revenue.

6.10.31 One of BPS' main concerns is that there is a great deal of uncertainty relating to the timings of the development due to the fact that a developer of the site has not been engaged. BPS consider that the timings assumed by Gerald Eve suppress IRR output and in consequence this has the significant effect of reducing the ability of the scheme to support higher levels of affordable housing. BPS are of the view that alternative assumptions on timing are possible if not more likely and this leads to the conclusion that the current approach does not maximise the delivery of affordable housing.

6.10.32 It is the view of BPS that a developer would not pay for the land up-front such a long time before vacant possession is attained (particularly given the significant impact on cashflow / IRR output, which affects viability). Even using a more conventional approach to viability appraisal, these early payments would have a significant impact on viability, due to the finance costs associated / necessary.

6.10.33 Whilst BPS have made some adjustments to the development programme, they recognise that a more radical re-design of the programme is highly likely once a developer is brought on board and this could have further significant impacts on the scheme viability and affordable housing levels.

6.10.34 Additionally, the phasing and payments (land receipts) has significant implications for the overall viability of this scheme. The initial affordable housing offer would have seen affordable housing delivered at each phase of the development (spread equally). It is the view of the BPS that the most likely method of bringing the Islington site forward would be for the residential element to the south of the site (containing the affordable units) to come forward in succession to the enabling structure.

Application of Sales Growth

6.10.35 The majority of the units in the scheme are assumed to be pre-sold. A significant proportion are assumed to be sold pre-construction, while another large proportion will be sold during construction. The sales growth is only continued up to the date of sale, which for some of the units is over three years before the date of practical completion. Gerald Eve's values are therefore effectively based on the present-day values at the date of sale.

6.10.36 BPS however suggest that is it unlikely that a developer would choose to sell such large proportions of the units at such an early stage if this results in a complete loss of any future growth in value between sale and completion. Consistent with other schemes and discussions with agents who actively pre-sell units, BPS consider that pricing is likely to be predicated on a 'sharing' of growth between purchaser and vendor and that the Gerald Eve assessment understates the level of growth that should be applied.

Growth Forecasts for 2014 onwards

6.10.37 The Gerald Eve viability appraisal adopted residential sales growth for 2014 onwards based on research by Knight Frank (although this was not undertaken specifically for the site and does not relate to the relevant area). Knight Frank have subsequently revised that forecast upwards. At the very least Gerald Eve should be updating their inputs according to revised Knight Frank forecasts. It is early growth in sales that would have a significant impact on viability as a result of the weighted IRR approach.

6.10.38 As a result of concerns with the applicant's low growth forecasts, the boroughs appointed economists the Centre of Economics and Business Research (CEBR) to provide growth forecasts for the site. This review estimated growth of 9.5% in this location moving forward across the development period which is in line with long term trends for the area.

6.10.39 The different opinions relating to future growth raises significant concerns over the reliability of utilising growth models. As such BPS recommend that the most reliable form of assessment for the scheme is to base this on present day residential sales values and to make provision for further reviews of viability prior to the implementation of subsequent phases. This would provide greater certainty over inputs and help to ensure that the maximum reasonable affordable housing is provided in accordance with Development Plan policies.

6.10.40 The application is therefore considered to be unacceptable in relation to inadequate justification for growth assumptions assumed by the applicant. Tied to this is the lack of agreed legal agreement wording to secure appropriate phasing and delivery of the scheme on the grounds of both affordable housing maximisation and additionally, absence of agreement for review mechanisms of the financial viability of the scheme, on a phased basis.

Additional matters

6.10.41 It should also be noted that in their assessment, BPS have adjusted build costs upwards to reflect BCIS values. BPS also consider that higher affordable housing values could be achieved than set out by Gerald Eve (see Section 10 of the report).

<u>Officer Recommendation & Borough input into Mayor of London's decision</u>

This remains unchanged in light of the additional information set out above.

GLA officers made recommendations within their report to the Mayor regarding the call in request, at paragraph 53, saying that they "*would recommend a close working relationship with Camden and Islington officers in determining the applications*".

Following the decision to call in the application, the Mayor of London provided further assurances regarding the input from and role of both the two boroughs and the local community at large.

The following statement was published on the GLA website the same day as the call-in decision, which quotes the Mayor as saying that his team "*will be working closely with the local authorities*" and states that the Mayor will "*consider all of the planning issues and* *address the concerns expressed by the boroughs and local residents before taking a decision on the planning application*".

The full text of statement follows (note – the schemes involve 681, not the cited 683 homes):

"***Mayor to consider plans to build homes at Mount Pleasant***

21 January 2014

The Mayor of London, Boris Johnson has agreed to step in and speed up a planning application that could lead to the construction of almost 700 much-needed homes on the site of the iconic Mount Pleasant postal sorting office.

Royal Mail Group want to build 683 homes as well as shops, offices, restaurants and public space on half of the site in Farringdon. If given the go-ahead, the scheme would transform the area surrounding Farringdon Road and Phoenix Place.

The site straddles the London boroughs of Islington and Camden but with on-going disagreement over some aspects of the scheme it appears unlikely that the boroughs will be in a position to determine the two applications in the near future.

As a result Royal Mail wrote to the Mayor to ask if he would agree to take on the role of planning authority for the scheme, and he has now agreed to do so.

The Mayor of London, Boris Johnson said: "London is growing at an unprecedented rate and it is absolutely vital that we get on with the important work of building thousands of new homes as quickly as we can. By taking over this application it should be possible to speed up the decision making process. My team will be working closely with the local authorities and Royal Mail without further delay."

The Mayor will now consider all of the planning issues and address the concerns expressed by the boroughs and local residents before taking a decision on the planning application.

The remaining half of the Mount Pleasant site would continue to be a postal sorting office, employing up to 3,000 people.

It is hoped that the planning application will be brought before the Mayor in the summer.

The Mayor used similar powers to 'call in' a planning application for up to 3,500 new homes in Lewisham in October"

(source: https://www.london.gov.uk/media/mayor-press-releases/2014/01/mayor-to-consider-plans-to-build-homes-at-mount-pleasant)

Land Mount Pleasant Delivery and Sorting Office, London, WC1

Independent Review of Assessment of Viability

February 2014

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Annex One: BPS re-modelling of Gerald Eve's appraisal

Annex Two: Re-modelling of Gerald Eve's appraisal

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1.0 INTRODUCTION

1.1 BPS Chartered Surveyors has been jointly instructed by the London Boroughs of Islington and Camden (the Councils) to review a March 2013 viability assessment prepared by Gerald Eve in relation to the current application by Royal Mail Group (the applicant - RMG) to redevelop land at Mount Pleasant Delivery and Sorting Office to provide a mixed use scheme of 681 dwellings together with commercial uses.

1.2 We have reviewed Gerald Eve's March 2013 Viability Assessment documents (Position Notes), and a later (November 2013) Viability Addendum provided in response to comments generated by ourselves and the Councils. We have also had reference to a September 2013 Viability report undertaken by the District Valuer Service (DVS), part of the Valuation Office Agency. DVS was initially commissioned to review Gerald's Eve Viability Assessment and we have taken into consideration the findings of this report when arriving at our own conclusions concerning viability.

1.3 This report sets out our analysis of the appraisal methodology applied by Gerald Eve and of the cost and value inputs used in the appraisal. It also provides commentary upon DVS's findings, and supports these findings where it has been demonstrated that DVS have undertaken a robust and evidenced review and have been provided with adequate supporting information by the applicant's advisers.

1.4 Our role has not been to critique work undertaken by DVS but to conduct our own assessment of the applicant's viability submission and to build on the work already undertaken by DVS where we feel justified in doing so.

1.5 In a 6th November 2013 note to Gerald Eve, we requested access to their electronic model but this access has not subsequently been provided. We later (in a 6th January 2013 note) requested that Gerald Eve create a revised version of the appraisal implementing our suggested changes, but they have since declined to do so. We have therefore recreated the scheme appraisal to model the impact of our conclusions.

1.6 Section 3 and Annex 1 of this report summarise the results of our appraisals which are based on a re-creation of Gerald Eve's updated (November 2013) appraisal but with certain changes made to reflect the findings of our review, including the timing and scale of specific costs and other inputs. For additional analysis, in Annex 2 we set out a 'mid-point' appraisal – taking a mid-point between our view and Gerald Eve's view on some of the key appraisal inputs, although this is not in any way intended to dilute or alter our findings as presented in Annex 1. This appraisal serves to illustrate the impact of even modest changes to core assumptions.

1.7 We have had discussions with DVS to clarify certain aspects of its report and to establish precisely what information and supporting evidence it was provided with by the applicant's advisers. We have also had a meeting with the applicant's advisers (Gerald Eve, DP9, and M3 Consulting) attended by Planning Officers, where we raised questions concerning the approach taken in modelling viability including the use of growth based modelling. We have subsequently focussed predominantly on those aspects of Gerald Eve's submission which we felt were either not adequately discussed by DVS or where we were of the view that alternative conclusions were potentially available (or for which it was provided with insufficient information to enable it to reach robust conclusions) – most notably in respect of the development programme.

1.8 Given the major impact that assumptions on the timing of costs and values has on viability, especially in the case of IRR models in which monetary inputs are time-weighted, we have looked at the possibility that alternative modelling assumptions could be adopted that could significantly alter the overall conclusions available on viability.

1.9 We provided a note to Gerald Eve dated 7^{th} November 2013 which included a number of questions regarding their approach, the answers to which were intended to feed into this review. We received a response on 15^{th} November 2013, within the Viability Addendum, which largely referred us back to the original viability assessment Position Notes (which Gerald Eve had already provided us with) and to a number of other related documents without in general seeking to expand upon points which were raised.

1.10 We understand the most recent affordable housing offer is 12% as set out in a letter dated 15^{th} October 2013 to the Councils. This offer comprises Social Rented and Intermediate units in accordance with the target tenure mix of the respective Councils.

1.11 However, based on changes we suggest for key appraisal assumptions, the reasons for which are summarised in Sections 2 and 3 of this report (and set out in detail in Sections 4- 11), we are of the view that significantly more affordable housing could be provided than that offered by the applicant.

2.0 EXECUTIVE SUMMARY

General Conclusions & Recommendations

2.1 The application has been made by the current landowner (RMG). It appears to serve the twin objectives of facilitating the consolidation of activities from other sites into this central location, thereby freeing up other sites for disposal, and to maximise land value potential from land which is currently largely undeveloped or underused. RMG has not yet brought the land to the market and no developer has been brought in to sense check the assumptions used in the appraisals including the proposed programme and cashflow. While we recognise that RMG has deployed an experienced and broad based team of professional advisers to design the scheme and assess its viability, the fact no developer has been involved must inevitably mean that any outcome must be open to significant uncertainty and change at a point when a developer is ultimately engaged.

2.2 In our view it is highly likely that any future developer(s) of this site will seek to make very significant alterations to assumptions on which viability is currently based. The scheme as currently modelled must be viewed as a hypothetical rather actual development, particularly in terms of its assumptions concerning the development programme and timing of land payments which will all be subject to future negotiation. <u>We are of the view that the scheme as currently presented by Gerald Eve does not optimise overall viability and has the effect of suppressing the level of affordable housing provision the scheme can successfully deliver.</u>

2.3 Our report identifies key areas of uncertainty in the assumptions informing the Gerald Eve appraisals and models the significant impact of changes to these assumptions to underline and support this conclusion.

2.4 Our key conclusions are that insufficient justification and evidence has been provided in support of the following aspects of the appraisal:

- Private Residential Sales Values
- Development Programme (i.e. timing of costs and values input)
- Affordable Housing Values
- Application of Sales Growth (as distinct from the growth forecasts themselves)
- Growth Rates applied to 2013
- Growth Forecasts for 2014 onwards

2.5 We consider there is the potential for changes to be made to these aspects of the appraisals, together with adjustments to the level of land value which we conclude is overstated. Our findings on these specific aspects of the appraisal are summarised below (Section 3) and discussed in more detail in Sections 4 to 14.

2.6 In modelling scheme viability, Gerald Eve has adopted an approach whereby viability is tested by reference to output profit derived from a discounted cashflow and profit tested by reference to an Internal Rate of Return (IRR). This contrasts with the more simple approach more often used to test viability using an output Residual Value compared to a Benchmark Land Value.

2.7 IRR is a basis commonly used to measure the return on an investment where a net cashflow records both negative and positive cash flow positions over a period of time. It is well suited to development schemes where there is a period of significant upfront investment before the scheme starts to generate net positive revenue returns. It effectively discounts figures the further they are in time from the start point of the development. In effect it provides a weighting to the cashflow to reflect time.

2.8 It is in consequence highly sensitive to the timing and scale of both costs and values and should not be confused with normal measures of profit which are generally based on a percentage of either scheme costs or revenue.

2.9 Gerald Eve has put forward an appraisal which assumes growth of sales revenues over time at a higher rate than cost growth. This approach would in general result in a more viable scheme which could support a higher level of affordable housing when compared to a more conventional model adopting present day costs and values. Central to this approach is the requirement that there would be no future reviews of viability to assess whether this appraisal had under or over provided affordable housing as this would be an inherent risk for the developer in proposing the initial level of growth supported affordable housing provision.

2.10 The alternative approach to modelling viability on a multi-phased scheme with a long delivery time is to base an initial view of viability of current day costs and values and to review this over the course of the development, reflecting actual outturn costs and values. This latter approach usually suffers from the drawback that the initial level of affordable housing provided is generally lower than would be proposed by a growth based model. However it has the distinct advantage that it eradicates uncertainty and reduces risk and can evidentially prove the scheme has maximised delivery of affordable housing in accordance with the requirements of national, regional and local planning policy.

2.11 The growth based approach in effect is a calculated speculation that the appraisal represents an accurate view of the future and is reliant on forecasts and projections and opinion. This is a significant step beyond how most schemes are tested where viability for planning purposes is reliant on factual evidence to support a conclusion. Our report indicates that there is strong evidence to show that a number of assumptions adopted by Gerald Eve are flawed or at least very likely to be open to alternative assumptions over time suggesting that in this instance the growth model is not providing more affordable housing than can be justified on a present day model and in consequence there should also be concern about the proposed absence of future outturn reviews of viability to verify the appraisals conclusions.

2.12 One of our main concerns is that we do not consider that the timings assumed by Gerald Eve maximise IRR output and in consequence have the effect of suppressing the ability of the scheme to support higher levels of affordable housing. We are of the view that alternative assumptions on timing are possible if not more likely and this leads to the conclusion that the current approach does not maximise the delivery of affordable housing.

2.13 We have revised Gerald Eve's appraisal to determine whether there may be scope for additional affordable housing provision to be made over the 12% currently offered. <u>The results based entirely on present-day costs and values, and reflecting the full impact of the changes to base assumptions we have suggested, indicate that a policy compliant level of 50% affordable housing could be provided. When future growth is applied there is potential for an even a higher level of affordable housing to be provided (see Section 3 and Annex 1). Further commentary on this is provided below and at Section 7).</u>

2.14 We have also created a 'mid-point' appraisal which adopts appraisal assumptions at a mid-point between Gerald Eve's view and our own. This is, however, not in any way meant to dilute or alter the findings of our appraisals which are based on the reasoned conclusions set out in this report. Based on present-day cost and values, the 'mid-point' appraisal results in affordable housing provision of 35%.

2.15 Once future growth is applied to these appraisals, there is a potential for even higher affordable housing contributions to be achieved than indicated on a present day basis (see Section 3 and Annex 2). There is, however, a wide variation of opinion on levels of future growth evident from the conflicting estimates included within this report. This strengthens the case for implementing further reviews based on actual outturn costs and values rather than allowing provision to be reliant upon conjecture which is based on potentially unreliable growth forecasts.

2.16 In addition to our general concerns over the reliability of growth forecasts, which are prone to inaccuracy, we have specific doubts regarding the residential forecast adopted by Gerald Eve which is based on Knight Frank's Q4 2012 forecast. In summary our concerns are that it is out of date and we question whether Gerald Eve ought to have used this forecast as it applies to a different class of property and is seemingly related to an alternative geographical area. It has also been proven to be grossly inaccurate in predicting house price growth in 2013 (actual c36% per annum) compared to Knight Frank's forecast of 1%. Despite this, Gerald Eve's latest (15th November) updated model retains 2013 growth assumptions at a level of 1% per annum.

2.17 The relatively low levels of growth predicted by Knight Frank in the early years of the scheme (2013, 1%; 2014, 3%; and 2015, 4%), significantly constrains viability, as higher growth levels in the early years of the development years has a larger impact on viability than growth later in the development as it affects a numerically greater number of units and due to the time-weighted nature of IRR based appraisals. Therefore if a growth based approach is to be adopted it should reflect both actual growth in values and be as accurate as possible in respect of future years.

2.18 DVS has proposed a uniform sales growth rate of 6% per annum, while the Centre for Economics and Business Research (CEBR), commissioned specifically by the Councils to consider this issue, forecast 9.5% per annum, a figure that happens to be broadly in line with historic averages growth rates for this locality. Whilst we recognise the potential for higher growth than DVS proposes, we also recognise that if any affordable housing offer is predicated upon higher levels of growth this increases the level of risk carried by the developer and may lead to a higher profit target being legitimately required in justification for the risk. This can prove counter-productive to delivery of affordable housing and belies the considerable opportunities that exist in a multiphase scheme to adjust the level of affordable housing according to actual viability which would otherwise manage this risk.

2.19 While further affordable housing could potentially be viable if growth exceeds a certain level, we suggest that a conservative approach would be to base initial provision on present-day costs and values that are supplemented by further viability reviews based on outturn costs and values prior to the commencement of substantive phases.

2.20 From the Councils' perspective, there is some logic to accepting an offer on a present-day basis (plus a review) as this avoids having to concede to a higher profit rate as would be the case if a growth model were to be relied upon to reach the affordable housing offer, which would of itself suppress viability. Where a growth model supports a higher level of affordable housing provision the additional provision represent a degree of risk to the applicant which in turn supports the use of a higher profit level than would be the case with a present day model.

2.21 It is acknowledged that Gerald Eve have sought to address the possibilities of variation on core assumptions through undertaking sensitivity testing and a Monte Carlo simulation which effectively uses repeated random sampling to assess the probability of different outcomes from occurring. We are of the view however, that it is important to ensure that the base assumptions are largely correct prior to relying on sensitivity testing to endorse the accuracy of the appraisals conclusions. Gerald Eve has modelled the impact of variations in sales values +/- 10% and costs +/- 10%. Whereas since the report was undertaken sales growth of 36% has occurred this clearly far exceeds the parameters of the variations used to test sensitivity. Therefore either the parameters used for sensitivity testing should be expanded or greater reliance placed on an approach which reflects actual costs and values.

2.22 Both DVS and Gerald Eve have undertaken sensitivity testing which varies the costs and values within a range plus 10% to -10% of the base value of [...REDACTED....] and also a 10% to -10% range for the costs. The sensitivity is presented as a matrix which is intended to show the whole range of viability outcomes (expressed as an IRR-output).

2.23 In the next Section, we outline the results of Gerald Eve's latest modelling and the results of our revised versions of Gerald Eve's model. We then summarise our conclusions in respect of the specific assumptions in Gerald Eve's viability assessment including costs and values assumptions (Section 4 to 14).

3.0 SUMMARY OF APPRAISAL RESULTS & BPS APPRAISAL

Gerald Eve model

3.1 Gerald Eve's most recent appraisal, dated November 2013, generates a profit output (IRR) of 11.9%. This is a growth model appraisal that adopts the same growth rates as were adopted in the March 2013 assessment. It is based upon a notional affordable housing offer of 12% by floor area. Based on Gerald Eve's target profit (IRR) of 20%, this 12% offer results in a deficit in viability; and this appraisal only breaks even i.e. becomes marginally viable, we calculate, if affordable housing provision is reduced to zero.

BPS appraisal

3.2 We have re-created and revised the November 2013 appraisal and made the changes suggested in Annex 1. The results produce considerable variation in the level of affordable housing that can be viably provided. The principal reasons for this stem from:

- the major impacts of changes to the level and timing of the land cost owing in particular to the fact that the performance of IRR-output is highly sensitive to these inputs especially the land cost timing and level (see Section 6);
- the lower profit rates attributable to affordable housing (see Section 4);
- the major impact of updating sales values to reflect recent growth (see Section 7);
- and the impact of our adoption of an alternative interpretation of how land value will be affected by the scale of enabling works needed to bring the site forward (see Section 5).

3.3 The key changes we have made to Gerald Eve's assumptions are summarised later in this section and in Annex 1, and set out in further detail in Sections 4-14. Our revised model adopts Gerald Eve's growth forecast from the date of this report represented as a straight line average growth rate of 4%. The appraisal does however take into account the actual growth that has occurred since the Gerald forecast was made and the current date. Our appraisal is made purely in order to enable direct comparison between it and Gerald Eve's model. We have based our results on an approach which increases the level of affordable housing to the point where the target IRR is reached in order to determine the site specific policy requirement of achieving the 'maximum reasonable' level of provision, while also providing a consistent view of development profit. As will be seen below this exceeds the strategic planning policy target level of provision, and shows that the scheme could support 52% affordable housing provision.

3.4 We have then tested our appraisal with different rates of sales growth. For all the scenarios which include sales growth, we have maintained cost growth at the level in Gerald Eve's appraisal which DVS considered to be reasonable, although we recognise the potential for higher (or lower) levels of cost growth. This appraisal shows that c.51% affordable housing can be provided on the basis of present day cost and values (i.e. with nil growth). In general terms this is not surprising given that following delivery of the enabling works this is in effect a cleared site and unlike most sites there will be no extinguishment of the existing use and consequent loss of this value. In addition the site benefits from being within an area where exceptionally high private market values can be achieved relative to London as a whole.

3.5 It will be seen in the table below that we have set varying target IRR's. Whilst accepting DVS's assessment of a reasonable profit target of 18% as appropriate in relation to Gerald Eve's forecast growth of an average 4% we have adjusted this target to reflect higher levels of risk associated with higher growth rates.

BPS appraisal – growth rate sensitivity testing

	Growth rate	Target IRR	Affordable housing
Present-day	0%	14%	51%
BPS suggested growth	4%	18%	52%
DVS growth forecast	6%	19%	55%
CEBR growth forecast	9.5%	22%	60%

3.6 The following Table summarises the results of our appraisal using a more conventional Residual approach as an alternative to the IRR approach. It includes a *fixed* Profit on Cost as an appraisal input, and then compares the resultant Residual Value against the Benchmark Land Value.

3.7 A Profit on Cost of 24% is applied solely to the private market element, while a lower rate of 8% profit on Cost is applied to the affordable element. The 'blended' rate therefore changes with the level of affordable housing. In terms of affordable housing provision that can viably be provided the results are broadly the same as above.

3.8 It should be noted that the benchmark land value adopted in these examples is based on our approach to the treatment of the enabling costs which differs from the approach adopted by Gerald Eve. If their proposed land value of [REDACTED] is adopted, the maximum reasonable level of affordable housing falls to circa. 42%.

BPS appraisal – conventional residual valuation (Present-day)

Affordable Housing	Blended Profit on Cost	Residual Value	Benchmark Land Value	Surplus	Revised Surplus using GE's Land Value
0%	24%	[REDACTED]	£38.4m	[REDACTED]	[REDACTED]
15%	21.6%	[REDACTED]	£38.4m	[REDACTED]	[REDACTED]
30%	19.2%	[REDACTED]	£38.4m	[REDACTED]	[REDACTED]
45%	16.8%	[REDACTED]	£38.4m	[REDACTED]	[REDACTED]

'Mid-point' appraisal

3.9 For additional analysis, we have also created an appraisal that presents a 'mid-point' position between the assumptions adopted in our appraisal and those adopted by Gerald Eve (see Annex 2). This appraisal serves to illustrate the impact of even modest changes to core assumptions and exposes the apparent risks of adopting an appraisal which relies on an assumption of a single programme possibility and is otherwise reliant on the accuracy of its forecasting.

3.10 It is acknowledged that Gerald Eve have sought to address the possibilities of variation on core assumptions through undertaking sensitivity testing and a Monte Carlo simulation which effectively uses repeated random sampling to assess the probability of different outcomes from occurring. However we are of the view that there is a strong case for calling into question the accuracy of some core assumptions, the impact of which significantly exceeds the parameters of the sensitivity testing and probability analysis that has been undertaken to assess the likelihood of this outcome. This is evidenced by the significantly different levels of affordable housing shown to be viable between our appraisals and those of Gerald Eve.

3.11 To undertake the 'mid-point' appraisal, we have made the following changes to our Annex 1 appraisal:

1. Target IRR at mid-point between Gerald Eve's (20%) and DVS's (14% and 18% for present-day and growth model, respectively)
2. Land cost mid-way between Gerald Eve's [REDACTED] and our [REDACTED]
3. Land cost payments incurred in June 2014 and August 2015 which reflects a mid-point position between our land payment dates and the dates of sale cited M3's development programme (REDACTED).
4. Phase 2 enabling cost timing moved in line with land payments
5. Phase 2 enabling costs at mid-point level between Gerald Eve and DVS view
6. Contingency and Marketing at mid-point between Gerald Eve and DVS view

3.12 Based on Gerald Eve's growth forecasts, this 'mid-point' appraisal results in provision of 41% affordable housing.

3.13 We have then tested different levels of sales growth rates. Based on present day values (i.e. 0% growth) the appraisal supports 35% affordable housing.

3.14 For the purposes of this appraisal we have adopted sales value growth at 36% based on Land Registry data for the period between Knight Frank's 26th February 2013 residential valuations, used by Gerald eve in their appraisal, to the end of 2013. Gerald Eve whilst acknowledging there has been significant movements in the market have not provided us with their assessment of price changes over this period, nor provided any assessment as to how this impacts their conclusions.

3.15 When growth is applied at 4, 6 and 9.5%, a higher level of affordable housing can be provided, at 40%, 46% and 51% respectively.

Midpoint appraisal – growth rate sensitivity testing

	Growth rate	Target IRR (**mid-point**)	Affordable housing
Present-day	0%	17%	35%
BPS suggestion	4%	19%	40%
DVS growth forecast	6%	19.5%	46%
CEBR growth forecast	9.5%	22%	51%

3.16 We have repeated our mid-point approach using a more conventional residual value approach as an alternative to the IRR approach and this is summarised in the table below:

Midpoint appraisal – conventional residual valuation (Present-day)

Affordable Housing	Blended Profit on Cost	Residual Value	Benchmark Land Value	Surplus	Revised Surplus using GE's Land Value
0%	24%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
15%	21.6%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
30%	19.2%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
45%	16.8%	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Summary of BPS View on Key Appraisal Assumptions

Target Profit

3.17 DVS has suggested 18% IRR profit target for the growth model assuming Gerald Eve's assumed growth rates and 14% for the present-day model. While we are in agreement with this level of profit in principle, it is important to consider the impact that different levels of affordable housing should have on the blended profit rate given that it is standard practice to apply different rates to affordable housing compared to private housing. In other words if there is a higher level of affordable provision the overall blended profit target should be reduced.

3.18 To elaborate this point further: profit is a product of risk, and in providing affordable housing the end product is capable of being sold in advance of construction for a known sum and can provide substantial instalments on the sales value through the construction process. Therefore the remaining risk to the developer is the management of the construction and costs. By comparison private sales carry a much higher level of risk in that each unit is reliant on an individual purchase and this is based on an anticipated price with an unknown period required to achieve the sale.

3.19 Based on present-day values (nil growth), our revised (BPS View – Annex 1) appraisal suggests that 50% affordable housing could be provided. This should be reflected in the blended (i.e. overall) profit rate. Our conclusion is therefore that at higher rates of affordable housing than in Gerald Eve's appraisal, this strengthens the case for adopting target profits *no higher* than the levels suggested by DVS.

Land Cost

3.20 Gerald Eve has taken a Market Value approach based on an analysis of comparable land transactions. We consider that inadequate levels of detail have been provided regarding the comparable land transactions that were used to benchmark the [REDACTED] land value adopted in the appraisal.

3.21 We discuss this issue in more detail below (Section 5). Our general view is that it is necessary for any land value estimate to have proper regard to the cost of meeting planning obligations. It is also, in line with RICS Guidance, necessary to take account of the specific circumstances of a site when arriving at a suitable benchmark land value even if a Market Value approach is taken.

3.22 In this case there are two key factors which differ from the land sale comparables. The first is that once the enabling works have been completed the site is in effect a 'cleared' largely unconstrained development site. In looking at other sites it is normal to allow for the costs of demolition and site clearance. In the same way it would be expected that a developer would reflect the high cost of the enabling works in the land value proposed. Adopting this approach, the price paid of [REDACTED] would be split between the cost of the enabling works and payment for the land. The approach adopted by Gerald Eve assumes it is an additional development cost which would effectively reduce the level of affordable housing without impacting on the land payment.

3.23 The second factor is that the comparable sites have in the main high existing use values which underpin the value of the land for development and will be lost through redevelopment. The subject site has an operational value to RMG which will be preserved and possibly enhanced through the enabling works. In effect the enabling works simply preserve RMG's operational value, therefore it seems unreasonable for the entire financial impact of these works to be reflected in reduced levels of affordable housing.

3.24 The enabling works include a substantial podium which will be constructed over the current service yard located to the rear of the main sorting office together with new RMG facilities provided within its basement. In this context, the land cost effectively represents pure 'landowner premium', and is well in excess of the level of premium achieved at other sites (e.g. City Forum).

3.25 City Forum has been used as a key comparable land transaction with both Gerald Eve and ourselves involved in the review of its viability as part of its recent planning application for large scale residential led redevelopment. We calculate that the achieved landowner premium (per Acre) is around *seven times* smaller than for Mount Pleasant as implied by Gerald Eve's [REDACTED] figure, while the total premium secured for City Forum over existing use value is [REDACTED] compared to a proposed premium of [REDACTED] for Mount Pleasant. In terms of land value per residential unit (in our view the most reliable basis for scheme comparison), the discrepancy is more marked: City Forum's premium is [REDACTED], while Mount Pleasant's is [REDACTED],

3.26 We are aware that Gerald Eve has tabled a proposal whereby the site including the sorting office is sold on the basis of a "sale & leaseback" arrangement. This would support the notion that the site had a recognised existing value to underpin the land value proposed. This proposal was tabled as a 'draft' valuation for 'discussion purposes only (and Gerald states it is "not exhaustive" and "is more of a desktop valuation which can be added to and further supported if required to do so").

3.27 Whilst this approach is of course a possibility it should be recognised that given the specialised nature of the buildings and the existing planning consent – i.e. Sui Generis (Sorting Office Facilities) – there is no ready occupier market for the property in its current use other than from RMG itself. Therefore any rent payable under such an arrangement would be a largely financial based transaction exploiting RMG's inherent covenant strength rather than the inherent value of the property. Therefore arguably the value under such an arrangement could be higher or lower dependent on the proposed annual payments made under such an arrangement. This has limited application however as a basis for determining a conventional site value.

3.28 We do not accept that this option represents a logical justification for viewing the proposed land values as representing a lower premium and higher existing use value, and our reasoning is further amplified below:

- The site would not be likely to get planning permission for commercial car parking so [REDACTED] valuation not valid.

- Sale of site for commercial car parking would leave RMG with no space for service yard and staff parking, thus is incompatible with continued operation of the sorting office which clearly requires parking and yard space in order to function.

- The capitalisation rate [REDACTED] reflects the strong covenant of RMG (as party to the sale & leaseback) but is not necessarily a realistic yield to apply to commercial car parking incomes. This raises the question that this approach is more an exercise to value an effective bond from RMG to pay a sum of money rather than a genuine open market property transaction. The length of lease and the alternative use prospects will also have a bearing on the value of this proposal.

3.29 Our detailed comments on the sale & leaseback valuation are included in Appendix 3. Gerald Eve's summary Table of this valuation is provided below:

[REDACTED TABLE]

3.30 Based on our reasoning above we are of the view that a land cost in the region of £35m-£40m is more appropriate, recognising that the total consideration funded by the developer would also include the cost of the enabling works in addition to the land payment. We have factored this reduced value in to our revised appraisal, specifically by reducing the land value by [REDACTED] which equates to the cost of re-providing RMG's services (Phase 2 and 3 Enabling Works).

<u>Estimated Private Sales Values</u>

3.31 The applicant's advisers have failed so far to provide the necessary supporting evidence (either to ourselves or to DVS) to support the estimated values applied in the appraisal. Knight Frank's report states that a schedule of comparable evidence is provided in Appendix One, but this Appendix has not been provided to either us or DVS. DVS has further confirmed that no schedule of comparables has been provided, nor has it received any supporting evidence in relation to the four 'key comparables'. Although this information has been requested it has not as yet been received.

3.32 DVS has not demonstrated in its report that it has undertaken an in-depth analysis of these estimates, nor have we any documented evidence that it undertook any of its own market research as none is discussed in its report.

3.33 We are unable to confirm that Knight Frank's estimates were, at the time of their preparation, properly supported by analysed sales evidence. This creates considerable uncertainty over the appropriate achievable present-day values. We typically expect that sales values are properly evidenced before we are able to confirm that the scheme maximises the provision of affordable housing. This is standard practice in viability assessments for planning purposes and is in accordance with RICS Guidance Note "*Financial Viability in Planning*".

3.34 Our own research, into the local market and into the comparable schemes cited by Knight Frank, indicates that present day values (i.e. January 2014) achievable for the proposed units should be considerably higher than the estimated average of [..........REDACTED...........]. This is no doubt at least in part due to the strong sales growth in this locality over 2013 (at 36% according to Land Registry data), which if applied to the March 2013 estimate would result in 30% growth up to the present day. We accept that there may be other (lower) figures on actual 2013 growth from other statistical sources, although we would still support a 30% increase up to the present day as we view this as necessary in order bring values in line with those indicated by recent local sales evidence as being achievable for Mount Pleasant: that is, an average of circa. £1,100 per ft^2. Our market research has not, however, been exhaustive, and we cannot entirely rule out the possibility of even higher values being achievable. Further details are set out in Section 9.

<u>Development Programme</u>

3.35 We have concluded that the land payment(s) ought to occur later in the programme than suggested by Gerald Eve which assumes land payments for both Phoenix Place and the Calthorpe site are made in [REDACTED], We consider it unrealistic to assume a developer would pay for the land substantially before vacant possession was provided, this being a further 18 months for Phoenix Place and 45 months for the Calthorpe Site, particular given the highly detrimental impact such an early payment has on viability (i.e. cashflow/IRR-output). Moreover, the timing of this payment is at variance with the timings cited by M3 in its development programme.

3.36 We are also of the view that given the strategic nature of the occupier developers would be naturally concerned about the enforceability of any timescale for delivering vacant possession. We understand that RMG view early receipt of the land payment as necessary to fund the enabling works, however we would again expect the developer to wish to undertake these works, not only to manage the costs involved but also because the podium on the Calthorpe site is the main structure from which a majority of housing for the scheme is developed from. We take the view that the cross collateral warranties and liquidated damages provisions involved in RMG commissioning the works would be likely to prohibit this arrangement from a practical perspective.

3.37 We also suggest that the date at which the Phase 2 Enabling Works costs are incurred should be moved to a later time, as whilst we understand these works have largely already been completed by RMG, we consider it unrealistic to expect a developer to pay for these at such an early stage. In any case, these works largely benefit RMG and it is debatable to what extent they are necessary to 'enable' the scheme to come forward.

3.38 Little commentary and justification was provided by Gerald Eve in relation to the timings adopted by the development programme. The DVS report provided only the following limited commentary on the programme as shown below:

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

3.39 Our further discussion with DVS indicated that they took the view that until a developer was engaged the programme was largely hypothetical.

3.40 While we have sought to make some adjustments to the development programme (Annex 1), we recognise the potential for a more radical re-design of the programme to take place once a developer is involved, and it is difficult to foresee what impact this may have on scheme viability, which emphasises the high degree of uncertainty over viability at this stage of the design and planning process. This conclusion suggests that there is a real need to review viability at a point where more clarity is available.

3.41 The following table summarises the different dates adopted by M3, Gerald Eve and ourselves:

	Phoenix Site	**Calthorpe Site**
M3 Vacant Possession dates	[REDACTED],	[REDACTED],
Gerald Eve Land Payment	[REDACTED],	
M3 land payments	[REDACTED],	[REDACTED],
“BPS View” appraisal payments (payments at VP)	October 2014	January 2017
BPS’s ‘mid-point’ appraisal payments	June 2014 (between M3 payment and BPS payment)	August 2015 (mid-point between VP and date of M3 land payment)

<u>Affordable Housing</u>

3.42 We do not consider that Gerald Eve has provided adequate evidence and explanatory information in support of its own valuation of the affordable housing. The Gerald Eve submission identifies weekly Affordable Rent estimates for studio, 1, 2, 3 and 4 bed units and suggests that the capitalised value of these rents equates to [REDACTED], but elsewhere in its report cites a value of [REDACTED] which creates uncertainty over their final view of values. The assumptions used to arrive at these values are not explained. We have requested such information but this has not been provided.

3.43 Gerald Eve has clearly cited Affordable Rental estimates but also refers to social rents, and they have yet to inform us on what rental basis their capital values have been estimated. The Affordable Rents cited as significantly higher per week than current target Social Rent levels so this is a key uncertainty that needs resolving in respect of understanding Gerald Eve’s valuation.

3.44 Our own modelling shows that Gerald Eve’s capitalised value per ft2 [REDACTED] is broadly reasonable if it is based on typical Social Rent levels. In contrast, we calculate that much higher capital values could be achieved based on the Affordable Rent levels Gerald Eve cites.

3.45 The affordable housing estimates have not been informed by offers from Registered Providers, contrary to what is commonly expected in order to determine suitable values for planning purposes, especially for a scheme of this magnitude. We are of the view that market testing is required so as to reach firm conclusions on achievable values.

3.46 Gerald Eve has also explicitly assumed there would be no RP subsidy or grant affecting the value offered by the RP. Whilst currently there is no grant available this situation could change and similarly RP’s may well choose to subsidise an offer for a scheme of this scale. Whilst both factors would be captured through a re-assessment there are grounds to suggest that the level of RP offer is a factor that should be available upfront as this will significantly influence viability.

3.47 Our summary modelling suggests there is potential for higher Shared Ownership values to be adopted than Gerald Eve's estimate, primarily because it does not appear that they have factored in the effect of staircasing of unsold equity which is a standard assumption in affordable housing models.

3.48 In our work for other London boroughs a straw poll of active RP's confirmed that the majority included value attributable to staircasing in their offers with on average RP's assuming that 75% of equity would be staircased over 20 years. The inclusion of this value would again be resolved through engagement with an RP.

3.49 Given the high level of uncertainty and lack of information, we have not at present made any revisions to the affordable housing capital values in our reworked appraisals.

<u>Build costs</u>

3.50 We understand that DVS has largely agreed with the build cost estimate used by Gerald Eve following detailed discussions between their respective quantity surveyors. We have been provided with little information concerning these discussions, nor do we have a report from DVS's cost consultant setting out the rationale for their view that the costs are reasonable.

3.51 Given the limited timescale under which our report has been prepared we have not been able to undertake a detailed review of the cost estimate. However based on our discussions with DVS's cost consultant, we have no reason at present to dispute their findings.

3.52 Given the lack of documented evidence of the review process so far undertaken, we are unable to provide more assurance on this aspect. However should any uncertainty exist a review of viability would provide evidence of actual expenditure.

<u>Other costs and values</u>

3.53 There are a considerable number of cost and value assumptions in the appraisal which we do not dispute as they are in line with typical benchmark levels, such as for example the Professional Fees cost which is based on [REDACTED].We have not, however, discussed these assumptions individually in this report.

<u>Sensitivity testing</u>

3.54 Gerald Eve has undertaken sensitivity testing which varies the sales values within a range plus 10% to -10% of the base value of [REDACTED], and also a 10% to -10% range for the costs. The sensitivity is presented as a matrix which is intended to show the whole range of viability outcomes (expressed as an IRR-output).

3.55 As summarised earlier in this report it is evident that events have made these assumptions redundant as in particular residential sales growth has far exceeded these parameters highlighting the risks associated with growth models where no further review of viability is to be considered.

4.0 FURTHER DISCUSSION - TARGET PROFIT

4.1 Gerald Eve has set a profit (IRR) target of 20%, whilst DVS's review concluded that an 18% IRR is more appropriate (for the growth model). These are evidently 'blended' rates, but Gerald Eve does not break its profit target down into its component parts – i.e. between private and affordable housing – despite this being common practice in development appraisals. This makes it difficult to assess the suitability of Gerald Eve's profit target.

4.2 DVS has proposed a lower rate of 14% for the present-day model, owing to the lower levels of risk associated with basing a scheme (including any affordable housing offers) upon present-day costs alone. We are in agreement with DVS on this point.

4.3 While Appeal decisions have supported certain levels of profit on *GDV*, we are not aware of target IRRs having been considered in this way by an Inspector. This creates some doubt over the suitability of Gerald Eve's target IRR, particularly given that this rate of 20% was not supported by any market evidence. DVS, on the other hand, has provided details of a number other large schemes in London which it has reviewed; DVS has analysed the target IRRs applied in these other schemes in order to arrive at its suggestion of 18%.

4.4 There is a tendency, based on the applicant's development programme and resulting timings of cost and values in the appraisal, for the resultant Profits on Cost and Profits on GDV to both be at considerably higher percentage figures than the IRR. For example, we calculate that an all-private version of Gerald Eve's appraisal (but with costs and values updated to Jan 2014 levels) generates a 19.6% IRR but a much higher rate of 28.0% and 38.8% for Profit on Cost and profit on GDV respectively. This compares to a typical rate of 20% on GDV that has been widely accepted as a suitable rate to apply to private market units, and underpinned by Appeal rulings. We remain to be convinced that there is anything particularly exceptional about this development that warrants an IRR target that results in such high profits on GDV. More specifically the project cashflow is extended largely due to the constraints imposed by the assumed sales rates and by the requirements for land payments at a point substantially before vacant possession is provided. If a more compact programme were devised the two bases for assessing profit are more likely to become aligned.

4.5 The construction period amounts to c.6 years with the scheme's 681 units anticipated to be delivered at the equivalent rate of [REDACTED]. The primary factor in determining whether an IRR should be used or a more conventional profit target hinges on the time lag between incurring costs and securing sales revenue. Apart from the assumptions around land payments which have been discussed elsewhere in this report there appears to be no exceptional reason why this scheme could not follow a more conventional valuation approach as has been adopted by other multi phased developments. Assuming our view is correct it would indicate that the profit target adopted by Gerald Eve exceeds more generally accepted norms.

4.6 As mentioned above, the target IRR of 20% has not been disaggregated into affordable housing and private housing components. Gerald Eve's target IRR is effectively predicated upon the notional affordable housing offer of 19% included in its March appraisal and its assumed rate of growth. We calculate that, assuming a typical present day IRR based profit of 6%, (roughly equivalent to 8% on costs) is applied to the sales value of the affordable element, a 20% blended IRR would require an IRR of c23% to be applied to the private element of the scheme, which we consider to be excessive.

4.7 One of the reasons given for the use of an IRR approach (and for choosing an IRR at the relatively high level of 20%) is to reflect the "front-loading" of costs – i.e. the high level of upfront costs together with the protracted development period, which raises the level of risk involved in this development for which the ‘time value of money’ needs to be taken into account, as IRR-output appraisal does.

4.8 In respect of the front-loading of costs, the level of enabling costs, for example, while not inconsiderable, are arguably not exceptional when viewed as a proportion of the total scheme, and while the delivery of the scheme is phased and thus spread over a long period, this does include build costs also being spread over a long period – i.e. whilst the revenues are spread out, so too are the build costs. In other words, a lengthy build period/phasing period is not in itself reason to adopt a higher profit rate, nor to adopt an IRR approach over a conventional approach.

4.9 It is common for phased schemes to adopt a profit on GDV/Cost approach, in which these conventional profits are taken as fixed costs, and where the output of the appraisal is a residual land cost which is compared against a benchmark land value.

4.10 Once the timings of the Phase 2 Enabling Works and the Land Cost are moved back to what we consider to be more appropriate dates, this has the effect of reducing the discrepancy between profit on GDV and IRR. This is due to the high importance in IRR-based appraisals of the timing and value of costs.

4.11 In conclusion, we accept that DVS appears to have based its target profit estimate of 18% on recent evidence from other schemes which demonstrates that a robust process of review of this element has been undertaken, we have assumed that DVS in arriving at this figure has reflected upon the suggested growth rates by Gerald Eve.

4.12 DVS do not explicitly address the issue of the profit target being blended. We are of the view that if higher levels of affordable housing can be provided (without recourse to ‘riskier’ levels of sales growth expectations), in these circumstances this could potentially be reflected in a lower ‘blended’ profit rate than DVS suggest. We have taken this into account when opting, in line with DVS, to apply a 14% target profit in our present day model (see Annex 1) and in arriving at our view of profit in our other revised models (see Annex 1 and 2).

5.0 BENCHMARK LAND VALUE

General commentary

5.1 We have previously summarised some of our views concerning the land value in our Land Value Note dated 6th January 2014, and in earlier advice provided to the Councils. These set out our more general comments concerning the need for Benchmark Land Values to have full regard to planning obligations, and concerning the shortcomings of a Market Value approach.

5.2 Gerald Eve has taken a Market Value approach based on an analysis of comparable land transactions. We accept that sales evidence can be useful in forming a view as to what the market might reasonably pay for land but it is essential for full details of transactions to be available in order that an effective analysis can be undertaken. We do not accept that comparable sales alone should determine the basis for arbitrating on the site value of the Mount Pleasant scheme and the level of planning obligations it could support. Due regard needs to be given to the specific viability of the scheme and its need to comply with relevant planning policies.

5.3 In most of the comparable land sales cited by Gerald Eve there has been a clear existing use which has its own capital value. Arguably this value constitutes a large proportion of the market value of these sites, with the balance derived through a combination of hope value and development potential secured through the planning process. It is important to also note that all of the comparables land values reflect a high level of provision of affordable housing, therefore it is to be assumed that the land value also reflected this obligation.

5.4 In relation to the subject site there is a book value of the existing use prepared by BNP Paribas, this valuation is based on a notional land value for the land in its current use. In actuality RMG largely benefits from parking and vehicle servicing which is essential to its current activities as a sorting office for which it has a sui generis classification. Were an application to be made for these uses in isolation we are advised by planning officers it would be non-compliant with current planning policy.

5.5 The enabling works are estimated as totalling [REDACTED] and are specifically designed to replace and enhance the parking and servicing arrangements, therefore the value to RMG of these activities has not been lost. Importantly the enabling works do not benefit the developer of the sites but only RMG as they serve to preserve the existing use benefits for RMG. This is fundamentally different from the comparable sites where existing use value is extinguished on redevelopment. In this context, the land cost adopted by Gerald Eve effectively represents a ‘landowner premium’, and is well in excess of the level of premium achieved at other sites.

5.6 With respect to Gerald Eve’s analysis of land sales, we consider that only limited levels of detail have been provided regarding the comparable land transactions that were used to arrive at the [REDACTED] land cost and this weakens this as the sole basis for determining an appropriate land value for this site.

BPS opinion of land value

5.7 Irrespective of the land value generated directly by the scheme it should be noted that the enabling works will allow RMG to consolidate activities on the Mount Pleasant site which will enable other sites to close, no doubt providing operational efficiencies and releasing site value. These benefits are indirect and largely incapable of quantification without more detailed information from RMG. However this aspect does suggest that close attention needs to be paid to the nature of the enabling works as to whether they are directly required in order to release land for development or whether they simply represent operational improvements and backlog maintenance. Works funded by the proposed development that fall into these latter categories should be seen as amounting to further consideration to RMG (see Section 13).

5.8 To underline this point it is forecast that on site staff will increase from 1,500 to 2,000 and its vehicle movements per day rise from 2,000 to 3,000 (see Supplementary Planning Document).

5.9 In most instances the existing use will be extinguished when the development takes place. An example being City Forum where the value associated with the tenancies of the existing offices is lost because of the development requiring demolition and replacement of this use, therefore the proposed development has to replace this value and provide an additional return before being said to be viable. If EUV is therefore seen as a hurdle, there is no apparent hurdle to be overcome with Mount Pleasant.

5.10 Accepting that the market would be willing to pay circa [REDACTED] for the site we are of the view that the land consideration receivable should reflect the costs associated with the relevant enabling works. To expand this point if we assume two identical sites a) and b), both generate a residual value of [REDACTED], however site a) has [REDACTED] of abnormal cost and b) has no abnormal costs it is logical to assume that the land payment for a) will be reduced by the amount of the abnormal costs, all other factors being equal.

5.11 The approach taken by Gerald Eve has in effect reduced the level of affordable housing rather than the land consideration to reflect the abnormal costs, consequently we take the view that land receipt proposed for RMG should be in the region of [REDACTED] rather than [REDACTED]. We have thus factored this in to our revised appraisal, by reducing the land value by [REDACTED] which DVS estimates to be the element of total enabling works directly associated with enabling the site to come forward for development.

<u>BPS Analysis of comparable land transactions</u>

5.12 We have created the following table below of the comparable land transactions that were relied upon by Gerald Eve:

Site	Value		BPS comments
City Forum (4.7 Acres) Sold June 2011	[REDACTED],	[REDACTED],	[...........REDACTED................ ....]
Silicon Tower (0.9 Acre)	[REDACTED],	[REDACTED],	Too small to be fully comparable. 36-storey tower to be developed thus high site value generated. Existing use of site one-and two-storey buildings in use as a 'district office' and depot value unknown **35% affordable housing provided.** £147,000 per market residential unit, but more valuable units as many of the units are at height within the tower.

Worcester Point, 89-93 Central Street, EC1V 8AL (0.9 Acres)	£19.5m	£20.53m per Acre £186,000 per market unit (misleading as high % of commercial in scheme)	Too small to be directly comparable. Site has two-storey office building so has EUV but may be low. Mixed use scheme providing conference facility and retail as residential so not clear comparable. **35% affordable housing provided.** Purchased with benefit of mixed use consent
Goodmans Field (7 acre)	£60m	£8.37m per Acre £107,000 per market unit	Not directly comparable (c5-storey office building), so likely high EUV per Acre, dependent on letting potential. **33% affordable housing provided** Lower MV than subject site, despite the high EUV.
Mount Pleasant estimate (6.4 Acres)	[REDACTED]	[REDACTED]	[REDACTED]

5.13 It can be seen from the table above that the relationship of land price to private unit values depends on the percentage of affordable housing provided.

5.14 The comparables are discussed in more detail below, focussing on City Forum for which we have a higher level of information available having analysed its viability for Islington Council as part of the recent planning application. Gerald Eve also acted for the applicant on this property.

5.15 It should be noted that land price is fuelled by many factors, not least the developers perception of the planning consent it is likely to be able to secure and the future market it will be able to sell its development into. Therefore in a competitive situation price paid is not always a reliable indicator of current as opposed to future markets. This is exemplified by the fact that many banks continue to hold toxic land assets on their books bought in expectation of market conditions that have never arisen. This factor is a major contributor to restricting the supply of development land as banks are unwilling to crystallise losses on these assets through early sale.

5.16 It will also been seen that we have repeated observations and analysis originally produced by DVS which we also accept as valid in this context and representative of our own views.

City Forum

5.17 This site has a [REDACTED] existing use value derived directly from rental income generated from the offices currently on site, which will effectively be extinguished when the site is redeveloped. However as the development is phased vacant possession can be secured on a rolling basis which would preserve the ability to maintain some income flow until the land was required.

5.18 The site value for redevelopment is therefore underpinned by a substantial exiting income which as with the other sites considered, must play a part in determining its value as a redevelopment site. The price paid for the site [REDACTED], reflects a degree of hope value commonly expressed as a land owner premium equating to [REDACTED]% over EUV. This was again underpinned in part by an extant consent for mixed use development.

5.19 In its review of the City Forum viability assessment, DVS accepted that the purchase price of [REDACTED], was reasonable as it represented EUV plus a [REDACTED] landowner premium (i.e. a [REDACTED] premium *per Acre*). This is a commonly accepted level of landowner premium which we note has been supported in other schemes and has been evidenced letters from institutional investors stating that this is the level of uplift required to incentivise them to release their sites. Moreover, earlier iterations of GLA guidance suggest that premiums should fall in a range between 10-30%.

5.20 City Forum's landowner premium per acre ([REDACTED]) is around [REDACTED],times smaller than Mount Pleasant as implied by Gerald Eve's [REDACTED] figure ([REDACTED]).

5.21 City Forum and Mount Pleasant have been ascribed broadly similar unit values on £per ft^2 basis with respect to their market housing elements which suggests the economic drivers should be broadly similar between the two sites. Following our review of both schemes, we are in agreement with this view.

5.22 The Table above shows that the land value for Mount Pleasant is [REDACTED] per market unit while it is [REDACTED] per market unit for City Forum, which is a discrepancy we do not think is justified particular as we are of the view that the Mount Pleasant's £per unit should be lower than City Forum, not higher given the high abnormal costs represented by the enabling works.

5.23 In conclusion, the [REDACTED] benchmark is considerably higher per acre than City Forum's figure, whereas we think it ought to be considerably lower as it is not underpinned by any existing rental income and appears from the modelling to carry much higher development risks due to significant delays between the point of payment for the land and the point at which the developer is finally provided with vacant possession, the point at which the developer finally gets the opportunity to capitalise on its investment in the land.

Goodman's Field

5.24 We are of the view that this is not directly comparable to Mount Pleasant as the site accommodated a very large office building. The scheme also provided 35% affordable housing. We are unable to identify the existing use value but suggest that the land owner premium is likely to be much less than the premium implicit for Mount Pleasant.

5.25 DVS assess price on a per Acre basis: Goodman Fields, £8.37 per Acre; Mount Pleasant, [REDACTED]. We consider that Mount Pleasant's benchmark should be lower than Goodman's purchase price.

5.26 No evidence that enabling costs, abnormals etc. are comparable to Mount Pleasant's.

Silicon Tower

5.27 This scheme will provide 35% affordable housing. We have no information concerning the EUV of this property but suspect it is relatively low. DVS consider that although it is inappropriate to compare this on a market value per Acre basis, it is appropriate to compare on a per market unit basis. However, we understand that Silicon Tower does not have the level of enabling costs and the lengthened project length which are both factors that increase costs with Mount Pleasant. The values per unit are likely to be higher as it is a high rise development.

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

5.28 This is a less desirable existing development so likely to have a relatively low EUV but this is dependent to a large extent on its ability to generate an income. The scheme is unlikely to have same extent of phasing, enabling costs etc. which affect the subject site.

5.29 DVS have compared the subject site on a per market unit basis to both Silicon Tower and Worcester which is difficult as these two are much smaller schemes without the costs associated with the Mount Pleasant scheme including the long phasing, lots of enabling works etc. and high profit (on GDV basis). We consider it more appropriate to compare the market value per unit of the larger sites: City Forum and Goodman's Fields (although account must be had to the EUV issue). These both have lower figures (Goodman's Field, £107,000 per market unit; City Forum [REDACTED] per market unit) than Mount Pleasant's [REDACTED]. This is in spite of the high EUV element of their purchase prices.

Comments on DVS's review of land valuation

5.30 DVS has applied a 10% per annum growth rate to the comparable sales to reflect improving market conditions. In the case of City Forum this amounts to a 28% increase to the price paid. While we recognise that there has been an improvement in values, this is a somewhat arbitrary approach to take and has not been supported by any evidence of land value growth. We also note that DVS has not taken a consistent approach in applying actual residential sales value growth in reworking their appraisals.

Further discussion of Market Value approach

5.31 We have a number of concerns with this approach, as set out below:

a) Comparing land transactions is dependent on a full knowledge and understanding of the proposed developments being used for comparison purposes. The number of development variables that comprise an appraisal which in turn generates a land value are highly numerous, some of the key items we consider below:

- Abnormal development costs
- Timescale for delivery
- Prospects for securing planning consent
- Likely S106 and other planning obligations
- Existing income generating uses on site
- Locational variations
- Height and massing of development
- Scale of development i.e. large developments versus small

There is no apparent evidence that analysis of the proposed land sales comparables has been undertaken to this level. We would expect detailed residual appraisals to be prepared based on detailed knowledge of the site specific costs and values as a basis to assess resultant residual land value to ensure that values per sq m of development are truly comparable. There is also no suggestion of full knowledge in relation to most of the cited comparables.

b) Land transactions don't necessarily reflect a sensible land price. It being that purchasers may be tempted to overbid for land based on sentiments about rising house prices. A good example of this is City Forum where the current affordable offer is not supported by current values.

c) By generating residual appraisals for each of the land sale comparables it would be possible to determine whether they support the price paid for the land. This is crucial to assessing whether the sales data is genuinely useful of not.

5.32 We are of the opinion that it is not just an issue of the amount of the premium realised over existing use value, it is also the justification for the premium that should be considered relevant when looking at land value from any perspective other than Market Value.

THE GLA Guidance AFFORDABLE HOUSING - DEVELOPMENT CONTROL TOOLKIT: GUIDANCE NOTES (2012) provides the following statement:

In understanding whether development is viable, it is important for all parties to distinguish between 'scheme viability', and 'site viability'. A scheme may 'stack up' for residential or mixed use development but if the value generated by that scheme does not exceed the value of the site in its current use, then the site will not come forward.

It is important that not only the developer makes a reasonable return, but also the land owner. The land owner is, in most circumstances (compulsory purchase as an exception) in the driving seat in so far as the decision to bring a site forward is concerned. At a site specific level, the return that the land owner requires will vary according to a range of factors including the market cycle, tax position and the long term investment potential of the site.

The allowance for land owner return needs to be considered in the context of local planning and land supply circumstances. A Borough that is pressured to deliver high volumes of housing may need to take a more flexible approach than one which has low housing delivery targets; the latter can, assuming a high affordable housing need, and a plentiful supply of potential sites, be less 'generous' in the land owner return it deems satisfactory.

5.33 Based on this guidance it is apparent that the GLA believe that the level of premium allowable is to an extent the product of housing numbers pressure on a local authority.

5.34 The GLA Guidance from 2011 made the following statement:

Local authorities may wish to ask planning applicants for information relating to the history of a site in deciding whether a specified affordable housing contribution is viable or otherwise. It is quite justifiable for land owners to require a 'return' on their land. In a situation where a planning permission adds significantly to an existing land use, then the uplift in land value serves as a return. Where the land owner is a business, then there is an additional consideration in whether the business can, or needs to re-locate. Under these circumstances the residential planning permission (with or without affordable housing) will have to provide sufficient money to allow the firm to purchase another site to carry on the business. The site may be owned and being promoted by a merchant land owner, which itself operates as a business and requires a specified return.

Local authorities should be aware of land market operators that purely seek to 'turn' land with a view to reducing or re-negotiating an affordable housing or Section 106 contribution without themselves bringing forward land for housing.

5.35 Arguably this guidance is now superseded but suggests the circumstances of the land owner should be taken into consideration in determining the level of premium which should be considered appropriate.

6.0 DEVELOPMENT PROGRAMME AND TIMING OF COSTS

6.1 We have concluded that the land payment(s) ought be modelled at a later date than that assumed by Gerald Eve [REDACTED], as we consider it to be unrealistic to assume a developer would pay for the land up-front such a long time before vacant possession is attained, particular give the detrimental impact such an early payment would have viability (i.e. cashflow/IRR-output).

6.2 We also moved back the date of the Phase 2 enabling works as whilst these have largely already been completed, we consider it not realistic to expect a developer to pay for these at such an early stage.

6.3 While we have sought to make some adjustments to the development programme, we recognise the potential for a more radical re-design of the programme once a developer is involved, and it is difficult to foresee what impact this may have on scheme viability, which emphasises the high degree of uncertainty over viability at this stage of the design process.

<u>Timing of Land Payment</u>

6.4 In Gerald Eve's latest appraisal, the land cost is incurred in [REDACTED], . As Annex 1 demonstrates, the early timing of this payment [REDACTED] before construction starts on the Phoenix site, and [REDACTED] before it starts on the Calthorpe Site – acts as a major constraint upon the IRR generated by the appraisal. The Phase 2 enabling costs are also incurred early and have a similar impact.

6.5 Even using a conventional appraisal approach, using a residual-output appraisal, with a fixed profit (based as a % of cost or value) as an input, the early land payment and enabling costs would still be a major constraint on viability, owing to the high level of finance costs this creates, although the effect is not as marked as in an IRR-based appraisal.

6.6 The site remains in the ownership of RMG. The development programme by M3 dated [REDACTED], puts the date of land sale at [REDACTED], for the Phoenix Place site and [REDACTED], for the Calthorpe Street site. M3's programme therefore supports later land payments and supports the principle of these payments being phased – i.e. split between the two sites. In contrast, the timing of Gerald Eve's land payment has not been explained anywhere to the best of our knowledge.

6.7 We are of the view that the land payments ought to be moved up to the time of vacant possession of each of the sites (see Annex 1).

<u>Enabling Costs</u>

6.8 In Gerald Eve's later appraisal, Phase 2 Enabling Works ([REDACTED]) are incurred between [REDACTED],

6.9 We suggest it would be appropriate for these costs to be incurred by the developer at the date the land payment is made – being, in our view, at the date of vacant possession. These costs are at present incurred a long time before vacant possession is achieved and construction has commenced. Even though RMG has decided for whatever reason to undertake these works at an earlier stage, it is more realistic that a developer would only pay for these works at a later stage and would, if undertaking the works themselves, not seek to complete them any sooner than necessary, given the cashflow/viability impact this has.

Affordable Housing Revenues

6.10 In our revised appraisal, we have split the affordable housing revenues into three and timed the payments as follows: payment one at start of construction of each phase; payment 2 at earliest PC date for the phase; and payment 3 at latest PC date. At the moment the value of the affordable is paid in a lump sum at end of each phase, which does not reflect the typical payment basis adopted by RP's.

7.0 SALES VALUE GROWTH

<u>Introduction</u>

7.1 It is generally accepted practice that all valuations whether for the purpose of planning viability or for more conventional valuations are based on current day costs and values. This is because the valuation can then be grounded purely in fact rather than conjecture. It is, however, often useful to predicate up-front affordable housing offers upon expectations of growth, provided that this growth is realistic and based on appropriate forecasts.

7.2 The following Table summarises the different growth forecasts that have been considered in relation to the proposed scheme, together with Knight Frank's Q4 2013 forecast which has not but applied but which shows how it has revised substantially its Q4 2012 forecast:

	2013	2014	2015	2016 onwards
Knight Frank Q4 2012 forecast (used in Gerald Eve's November 2013 appraisal)	1%	3%	4%	5%
Knight Frank Q4 2013 forecast for Prime Outer London	9.3%	7%	2%	4%
DVS forecast (Sep 13)	6%	6%	6%	6%
CEBR forecast (November 2013)	9.5%	9.5%	9.5%	9.5%
2013 growth based on **<u>actual</u>** EC1 growth (2012-13) as shown by Land Registry data	36%			

7.3 As shown above, Gerald Eve's modelled growth is especially low for 2013, 2014 and 2015 (at 1%, 3% and 4% respectively), and it is these early years' growth which have a proportionately greater impact on viability the later years' growth – because all the units are subject to this growth and due to the appraisal being 'time-weighted which means that later growth has a lesser impact on the profit IRR-output. The growth in these years is therefore of great significance to scheme viability.

7.4 Based on our review we are able to conclude that:

a) There is a wide variance between the three different forecasts which of itself highlights the inherent risks associated with using growth forecasts as a reliable and certain basis for assessing the economic viability of schemes with long development periods.

b) Of the three forecasts that prepared by CeBr is the most focussed on long terms trends relating to new build development in the relevant locality. If adopted, its forecast for growth would indicate that the development is significantly more viable than either Gerald Eve or DVS have so far concluded.

7.5 We summarise our concerns with the Knight Frank's growth forecast below:

a) Out of date (Q4 2012)

b) Predictions contradicted by actual growth realised since the forecasts were made

c) Not specific to the locality of Mount Pleasant

d) Gerald Eve has applied Knight Frank's Outer London rather than Central London estimate

e) The forecast relates to prime properties, i.e. over £2m and so are also not applicable.

f) Contradicted by Knight Frank's own forecast for the locality of Mount Pleasant (i.e. the Farringdon area)

7.6 In the context of Mount Pleasant CeBr's review has in our view a number of advantages over Knight Frank's:

a) It is specific to Mount Pleasant area rather than London wide

b) It focusses on the right property sector rather than Prime market

c) It is more up-to-date so reflects the recent improvement in market

d) It has not already been proven to be incorrect

7.7 We set out below our detail comments on the Knight Frank's forecast, and on the other forecasts.

<u>**Knight Frank forecast**</u>

7.8 Knight Frank's Q4 2012 forecast (4.5% p.a. growth) is now out of date. It provides forecasts for prime outer London property which may not be entirely appropriate for Mount Pleasant as Knight Frank's definition of Outer London does not include Islington.

7.9 So far Knight Frank's predictions for growth in 2013 have been shown to be significantly below actual growth experienced in 2013. Arguably it is easier to predict with more accuracy the year ahead rather than 10 years ahead, therefore this underestimate of the last 12 months should raise questions about the accuracy of its assumptions for later years as well. Furthermore the projections are not specific to the Mount Pleasant locality and reflect growth assumptions considerably below historic growth rates.

7.10 Knight Frank predicted 1% for 2013 growth; the actual figure (based on land registry) is 36% for EC1 (Mount Pleasant straddles the border of EC1 and WC1).

7.11 Knight Frank's more recent forecast shows that their Q4 2012 forecast was overcautious. They have still, however, actually reduced their 2015 to 2016 forecast "due to market uncertainty in the run up to the UK general election". No evidence is provided in support of this view concerning the likely impact of the run up to the general election, and seems a somewhat arbitrary basis for revising down forecast growth.

7.12 Knight Frank's Q4 2012 estimate for 2013 was 1.0% growth for Prime Outer London and 0.0% for Prime Central London. Gerald Eve applied the Prime Outer London rate although the Mount Pleasant locality would typically be categorised as being in Central London. Knight Frank does not provide a definition of these areas in its report. Knight Frank's "Sales Index" does indeed state that Islington is included as part of its definition of Prime Central London. This is important as the Central London forecast showed higher growth (6%) post 2016 than Outer London (5%) in the Q4 2012 report.

7.13 Knight Frank's later Q4 2013 forecast for 2013 identifies growth of 6.5% for Prime Central London and 9.3% for Prime Outer London. It is not clear why this is called a forecast given that it took place near the end of 2013. We presume this estimate is based largely on actual growth. Assuming these new growth rates for 2013 are reliable, it shows that even on Knight Frank's own figures, their Q4 2012 forecasts were incorrect showing under estimates of between 6.5-8.3%. Significantly underestimating sales values at the outset of this development means that even though growth is applied throughout the development, all sales values start at a lower base than is actually achievable in the current market which has the effect of depressing actual viability on all phases.

7.14 It is important to note that Knight Frank's report is a general market overview and is not specific to this locality or specifically to the Mount Pleasant site which is in an area widely viewed as having exceptional growth potential over the coming years owing to its regeneration.

7.15 The Knight Frank forecast adopted by Gerald Eve contrast with the more local forecast – also by Knight Frank – in relation to the Farringdon Area, in which Mount Pleasant is location (the site is c.600 yards from Farringdon Overground). As DVS state:

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

7.16 Knight Frank's Prime Central London forecast appears to relate to exclusively to properties selling for over £2m. Knight Franks Q4 2012 report notes that its definition of "prime" properties in Central London, which is referred to as being inclusive of Islington, includes all properties worth over £2m. In contrast, the vast majority of the proposed units are valued at under £1m. Therefore "prime" property growth forecasts may lose their relevance in relation to the lower value stock in Mount Pleasant. This is a key issue given that Knight Frank's pessimistic 2013 forecast and its later forecasts, especially 2014 and 2015, are predicated largely on the perceived negative impact that the government's proposed increase in stamp duty on units over £2m will have on sales values. The proposed increase is from 5% to 7-15%, the 15% rate only applying to purchases secured through a 'company structure'. This shows that Knight Frank's forecast is highly specific to this class of property and the Central London forecast also cannot be relied upon in terms of indicating accurate trends for the development which consists of lower valued property.

7.17 Knight Frank's Q4 2012 report does mention that "price growth in the £2-5m band slowed in the wake of the introduction of the new stamp duty rules in March 2012, while price growth and market activity in the sub-£2m band flourished.". This suggests that it is inappropriate for Gerald Eve to base their growth model on forecasts that relate to a category of property which includes £2m-plus housing instead of the better performing lower-valued category of housing.

DVS review of growth

7.18 DVS's report provides its own estimate of growth, of 6% per annum.

7.19 DVS's September 2013 appraisal does not factor in growth since the original value estimate was undertaken in March 2013 or earlier, thus the 6% rate it applies to 2013 is almost certainly understated.

7.20 Our general view is that DVS's review of the growth forecasting ought to have limited itself to assessing the general usefulness and limitations of forecasts and to considering to what extent the Knight Frank forecast (irrespective of whether it is reliable or not) is actually applicable to the area and the property class in question.

7.21 DVS appears to have based its growth estimate largely on the Knight Frank's forecast for the Farringdon area. It is worth noting the disparity between Knight Frank's growth for the Farringdon area (40% up to 2019) and the much lower growth applied by Gerald Eve (based on Knight Frank's Outer London figures). This suggests that Gerald Eve have not used Knight Frank's most suitable forecast.

7.22 We accept that DVS's reliance on this forecast for the Farringdon area has some merit, particularly in comparison to Gerald Eve's reliance on what appear to be an inappropriate forecast.

CeBr forecast

7.23 The Council commissioned further research on house price growth from CeBr and their report is dated November 2013. CeBr is a leading authority on generating forecasts of future economic trends. This report considers long term historic growth trends and forecasts an average growth of 9.5% per annum. It is based on growth rates in WC1 and the locality of Mount Pleasant.

7.24 We endorse CeBr's approach of focussing its forecast specifically on Land Registry data for new build properties. Land Registry data for Islington reflecting all housing stock includes sales of former Council owned units from within Islington's many housing estates which significantly underperform values that can be achieved in new build properties, particularly in the south of the Borough.

7.25 CeBr's key forecast is that the Mount Pleasant area's growth will rise 9.5% year-on-year. The average growth rate is expected to be 8.4% for Islington and 7.3% for London.

7.26 We consider that if the applicant is seeking to rely on growth projections as a basis for justifying the absence of a review then the growth adopted must be credible. Accepting that CeBr's review is specific to the area, new build property and the property types that will be delivered by City Forum it shows that reliance on Knight Frank's 2012 forecasts, which are shown to be out of date and have so far proven to be significantly inaccurate is flawed.

8 COST GROWTH

8.15 One other important issue to consider in growth forecasting is the potential for build cost growth which will have the effect of netting down any positive impact on viability that arises from house price growth. DVS concluded that Gerald Eve's adopted cost inflation rates were "not unreasonable" based on DVS's view that these rates are below the trend from 2000 to 2008. Little further commentary is given by DVS. As DVS state:

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

8.16 Gerald Eve state that their inflation rates were based [REDACTED],but no further details are provided. We have no reason to dispute the robustness of these forecasts, although we are the view they are prone to the same inherent weakness that apply to the forecasts of sales value growth.

8.17 In our present day version of our revised appraisals, we have updated the March 2013 cost estimates up to January 2014 by applying a 3% increase up to January 2014, broadly based on the "On-year" increase of 3.4% shown by the BCIS All-in Tender Price Index.

8.18 For the growth models we have added an additional 1% growth to account for the higher cost growth than the [REDACTED] shown for 2013 in Gerald Eve's model.

9 PRIVATE RESIDENTIAL VALUES

9.1 We have sought to establish whether the original average estimate of [REDACTED] per ft^2 ([REDACTED] per m^2) is reasonable, based on the evidence provided by Knight Frank in its 26th February 2013 valuation report. Secondly, we have considered the impact of sales value growth since the date of the appraisal.

9.2 One of our concerns is that Knight Frank's valuation has not been adequately supported by comparable evidence. The report includes four 'key comparables' with a single average value per ft^2 for each but no supporting evidence to show how these average values were arrived at, such as, for example, a schedule of achieved (or asking) prices for individual units.

9.3 Knight Frank's report states that a schedule of comparable evidence is provided in Appendix One, but this Appendix has not been provided. DVS has recently informed us that it never received a copy of this schedule of comparables, nor did it receive any supporting evidence in relation to the four 'key comparables'. We have asked Gerald Eve to provide us with this information but have not done so to date.

9.4 Given the lack of supporting information provided to ourselves and to DVS, we are not able to determine whether or not Knight Frank's sales values are based on verifiable market evidence.

9.5 In respect of DVS's report, it does not provide any of its own comparable evidence with which to support its view that Knight Frank's estimate is reasonable, so we have no way of verifying whether this view is based on substantive evidence.

9.6 Given the lack of supporting evidence in both Knight Frank's report and DVS's review of this report, we conclude that there remains a considerable amount of uncertainty over values and we are not able to validate the robustness of the valuation (and DVS's review of it). This strengthens the case for implementing a review of viability (based on outturn values and costs) so as to deal with this uncertainty.

9.7 We understand that the proposed development will be relatively high specification. Knight Frank's marketing report and valuation is based on the assumption [REDACTED],, which we have taken into account when considering achievable values.

9.8 We have compiled our own research which we consider that the locality is indeed an 'established' residential area with high values achievable and a considerable amount of recent new-build sales evidence – contrary to what it suggested by both Knight Frank and DVS.

9.9 We discuss Knight Frank's valuation in more detail below, followed by an outline of DVS's review of these values, and we then consider estimated values in the context of local sales transactions that we have collected.

<u>**Analysis of Knight Frank sales value estimate**</u>

9.10 As noted above (Para 9.3), the only sales value information provided to us (and, we understand, to DVS) in support of Knight Frank's estimate are for average scheme values per ft^2, which relate to each of four 'key comparable' schemes (Art House, Canaletto, Eagle House and Central Square), with no supporting evidence provided for these averages. Our assessment of sales values has thus necessarily needed to focus upon sales evidence that we ourselves have acquired, including sales transactions we have attempted to obtain for the four schemes cited by Knight Frank.

9.11 Concerning their approach to arriving at a sales value estimate, Knight Frank state the following:

"When considering the values of the proposed units we have had regard to the opinion of the Knight Frank New Homes Team....as well as the sales evidence that was average at the time.

While the site is located in a desirable area there are few developments of a similar scale or quality and therefore there is relatively little in the way of direct new build evidence. This lack of new build evidence makes it difficult to compare like for like and while we have focussed on Kings Cross [Art House] and Canaletto, we have also relied to a certain extent on our own opinion."

9.12 The above are the only comments concerning how Knight Frank arrived at its overall estimate, other than its statement that, "*using our local expertise and knowledge Knight Frank thorough studied the local market comparables both second hand and new build.."*

9.13 We question the (somewhat imprecise) claim that there is 'relatively little direct new build evidence'. We have found transactional evidence from local new-build and recently-built schemes which are highly suitable comparables and are located very close to the subject site. We are not clear as to the meaning of 'similar scale and quality', as the scheme will essentially be provided in a number of smaller blocks for which there exist similar comparable schemes nearby e.g. 28-30 Theobald's Road.

9.14 As Knight Frank states, it focussed on Art House and Canaletto, both of which are a considerable distance from the subject site (1.3km and 1.1 km away respectively) and are highly different types of development than the subject scheme, with Canaletto being a high-rise apartment block. We question the suitability of these schemes; indeed, Knight Frank does seem to have acknowledged the limited value of these schemes as comparators, despite having used them as its key comparables.

9.15 Knight Frank states that it has 'to a certain extent' relied on its own opinion when formulating its estimate. We are unclear of the precise extent of this reliance, especially given the lack of comparable sales evidence we have been provided with, and the lack of analysis of comparable evidence in Knight Frank's report.

9.16 In conclusion, the evidence provided falls far short of what we or another reviewer might usually expect to be provided with for the purposes of reviewing sales value estimates, especially in the case of such a large scheme.

Analysis of Knight Frank's key comparables

9.17 In the case of all four comparable schemes, Knight Frank includes a very limited commentary on their suitability as comparators to the subject scheme.

9.18 We unable to validate the average estimated values given for each of the key comparable, owing to the lack of supporting evidence.

9.19 Our analysis of these comparables does, however, indicate (based on our alternative view on these schemes, and on recent sales growth and recent transactions) that considerably higher values could be achieved at the proposed scheme. Thus even based on Knight Frank's own key comparables, its estimated values appear to be understated.

Art House

9.20 The estimated average value provided is £930 per ft^2, and was considered along with Canaletto by Knight Frank to be the two most suitable comparables. This scheme is located near King's Cross and is due for completion in Q4 2013.

9.21 Knight Frank has applied a discount of [REDACTED] per ft^2 [REDACTED] m^2) to reach its Mount Pleasant estimate of [REDACTED] per ft^2, ([REDACTED] m^2) the first reason given being that Art House is a better quality development, although no evidence is provided in support this view, which is at variance with Knight Frank's comment that Mount Pleasant's unit specification will equal or 'exceed' that of nearby pipeline developments. The second reason given is the superior transport links.

9.22 We consider that the subject site is sufficiently near Tube Stations to not be significantly disadvantaged, and that in fact Art House is arguably dis-advantaged because of its close proximity to the busy King's Cross station and its less desirable environment. Art House is in the midst of a busy transport hub, in a wider regeneration area, which is indeed cited by Knight Frank as one of its weaknesses.

9.23 Mount Pleasant is only a ¼ mile from Holborn Station and also has easy access to King's Cross. And it is 650 yards from Farringdon which provides Underground and National Rail services and will soon provide Crossrail, so we do not consider that any discounts at all should be made for supposedly inferior access to transport.

9.24 As Heatmap data shows (Appendix One), the locality of the subject site is at least on a par with (and arguably higher than) values in the vicinity of Art House. Our own view is that Mount Pleasant is in a marginally superior residential location.

9.25 We have obtained the following information on recent asking prices at Art House. Although this is not a comprehensive list (this being the only asking prices at Art House that are available to us) this does indicate that average values per ft^2 are considerably possibly higher £1,284 per ft^2 (£13,815 m^2) than Knight Frank suggest £930 per ft^2 £10,000 m^2), probably in part due to strong value growth since their analysis was undertaken (February 2013 or before).

Unit	Value per sq ft	Value per sq m
2 bed (5th Floor)	£1,283	£13,805
3 bed	£1,048	£11,276
1 bed (3rd Floor)	£1,149	£12,363
1 bed (4th floor)	£1,297	£13,956
1 bed (3rd Floor)	£1,449	£15,591
2 bed	£1,478	£15,903
	£1,284	**£13,816**

9.26 Even assuming for the sake of argument that Knight Frank' suggested [REDACTED] per ft2 ([REDACTED]m^2) reduction from £930 (£10,000 m^2)to [REDACTED] per ft^2 ([REDACTED] per m^2) is justified, based on the most recent pricing evidence – at an average of £1,284 per ft2 (£13,815 m^2)– this would give an updated Mount Pleasant value of £1,218 per ft^2 (£13,105 m^2) suggesting that Knight Frank's original estimate [REDACTED] per ft^2 ([REDACTED] per m^2) is now understated by c40%.

9.27 In conclusion, we remain to be convinced that Mount Pleasant will achieve values lower than Art House, and based solely on the above Art House values, the implication is that an average values of at least £1,280 per ft^2 (£13,772 m^2)ought to be applied.

Canaletto

9.28 The estimated average value provided by Knight Frank is £1,000 per ft2(£10,760 m2) This scheme is opposite City Forum, and is due for completion in Spring/summer 2015. The units are currently being marketed for sale off plan.

9.29 As Canaletto is a high rise scheme we accept that higher values would be achievable overall than for an equivalent low-rise scheme. The difficulty is that Canaletto is a very different type of scheme to Mount Pleasant both in design and location and therefore requires much more adjustment to the figures to derive a comparable sales value. Inevitably each adjustment is based on opinion and the more adjustments that are made reduce the value of the comparable as direct evidence. This is especially true of this scheme as very little commentary has been provided by Canaletto.

9.30 Canaletto is in a significantly differently type of location, being close to the busy City Road, and is not we consider directly comparable to the Mount Pleasant. It is moreover, 1.1 km away which is a long distance for a scheme which is being used as key comparable, particularly for Central London where values change rapidly by location.

9.31 We have collated recent pricing information for Canaletto. For example, the agents for the scheme informed us that 1-bed flats are on the market at c.£725,000 which equates to £1,104 per ft^2(£11,879 m^2) with typical studios at £500,000 £1,450 per ft^2(£15,600 m^2) and 2-beds typically priced at £810,000 £875 per ft^2(£9,415 m^2). The average value of these units is £1,143 per ft^2(£12,298 m^2) In contrast, Knight Frank quotes an average price of £1,000 per ft^2 (£10,760 m^2)but we do not know how this has been calculated and whether it reflects sold values rather than asking prices.

Central Square, Seward Street

9.32 Average values cited are £800 per ft^2(£8,608 m^2) Knight Frank considers this scheme to be inferior to the Mount Pleasant scheme. This scheme is 1.4 km away, so is of limited use as comparable evidence.

9.33 Knight Frank state that this average is based on sales completed from September 2011 to June 2012 (thus reflecting prices potentially agreed at an even earlier date), so this could represent sales evidence that is effectively 2 years old on average.

9.34 Price rises have been recorded at around 10% per annum in this area (EC1) year on year from 1995-2013. We understand growth was c36% in 2012-2013, and 6% for 2011-12. Applying a conservative price increase of 40% to the Central Square values gives £1,120 ft^2 (£12,051 m^2) in present day values.

9.35 We note a 1-bed at Central Square was sold more recently (January 2013) at £485,000 £1,021 per ft^2 (£10,985 m^2) which may better reflect the current values. Applying Knight Frank's level adjustment to reflect Mount Pleasant's superiority would give (based on the average of £1,120 per ft^2 (£12,051 m^2) an updated estimate of £1,184 per ft^2 (£12,739 m^2)for Mount Pleasant.

Eagle House

9.36 Knight Frank cites average price £900 per ft^2(£9,684 m^2) No evidence has been provided in support of this estimate. This scheme is due for completion in Q1 2015. Knight Frank considers Eagle House to be of similar quality to Mount Pleasant. We note that Eagle House is arguably in an inferior location as it is adjacent to the busy City Road. It is 2.6km away from the subject site so is of limited use as comparable evidence.

9.37 We do not consider that any firm conclusions can be drawn based on Eagle House given its distance from the subject site and the lack of supporting evidence of values.

DVS review of sales values

9.38 DVS's viability review does not provide any analysis of Knight Frank's comparable evidence. Its conclusion (with reference to the four key comparables) is that *"..the residential values assessed by Knight Frank do not appear to be unreasonable at present in comparison to the comparables referred to by the applicant in N1 and EC1".* No justification has been provided for this view, and no transactional evidence provided. No analysis is provided concerning the suitability of Knight Frank's comparable schemes. DVS does not demonstrate that it has verified that the average values per ft^2 provided by Knight Frank for its four 'key comparables' are accurate and supported by documented evidence. Proceeding the above comment, DVS state:

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

As a result, the residential market in this locality is relatively un-tested and therefore the proposed scheme will generate its own market and capital values.

9.39 We highly question the assertion that the local residential market is "relatively untested"; the site is almost entirely surrounded by residential uses, located in close proximity – streets like Calthorpe Street and Packenham Street, for example. And the site is surrounded by residential Conservation Areas, which demonstrates it is an established residential area. The northern section of the proposed development on the Calthorpe Site will form an integrated neighbourhood with the established residential streets to the north which provide high value, high quality housing.

9.40 We also question the statement that there is "*no comparable evidence within the immediate locality fully support the values*" – see the evidence above.

9.41 DVS's review of the estimated values focusses on Knight Frank's 'key comparables': Art House, Central Square, Eagle House and Canaletto. However, DVS's report gives no commentary at all on these schemes such as in respect of their similarities to the subject scheme. DVS simply conclude that it thinks the values are "not unreasonable" without giving any justification for, or evidence to support, this view.

9.42 We note that nearby established residential areas such as immediately to the west, near Gray's Inn Road, achieve relatively high values, so we would expect the proposed scheme to be able to create housing on a par with these areas.

9.43 DVS's is of the view that values are difficult to gauge given that the development will improve the area and "create its own market". We suggest, however, that it is possible to get a good idea of the 'tone' of the area once the proposed dwellings are developed, particularly based on the character and achievable values on the nearby residential streets which give a strong indication that Mount Pleasant can become one of the more desirable residential locations in the wider area.

Updating values up to present day (Jan 2014)

9.44 We have undertaken our own research into the local residential market to enable us to form a view of what values could be achieved at Mount Pleasant. This includes analysis of more recent sales, thus clearly there is the potential for Knight Frank's estimates to be understated simply due to sales growth since its estimate (February) was made.

9.45 In our revised appraisal (Annex 1), we have sought to increase values up to present day (1st January 2014) levels based on evidence of actual growth in this locality. The resulting revised estimate can then be compared against present day market values.

9.46 We have adopted a rate of 36% per annum in our revised model (Annex 1) for 2013 in order to update the appraisal to present-day values, based on Land Registry data for EC1 (Mount Pleasant straddles the border of EC1 and WC1).

9.47 In contrast, Land Registry growth for Sep 12 to Sept 13 is 8.75% for the whole of Islington LB. Land Registry growth for Sep 12 to Sept 13 is 11.0% for the whole of Camden LB. This demonstrates the higher growth rates in the EC1-WC1 areas of these Boroughs.

9.48 Based on 36% p.a. growth for 2013 (which is conservative) the [REDACTED] per ft2 present day value in Gerald Eve's report increases 30% up to present day (end of Nov), to [REDACTED] per ft^2 ([REDACTED] per m^2) – say, [REDACTED]per ft^2 ([REDACTED] per m^2).

BPS Market Commentary

9.49 Putting the Mount Pleasant site in context, Heatmap data, for example, demonstrates that areas nearby to the subject site achieve relatively high residential values for this area of London (see Appendix 1). There are especially high values in the nearby areas centred on Gray's Inn Road, Calthorpe Street and Rosebery Avenue. In consequence we would expect the proposed scheme to have the capability of generating a high value as it has the scale to create its own environment and provide facilities commensurate with a large scheme that will also boost values. The development will importantly provide quality open space, as well as having access to Gray's Inn Gardens and Coram's Fields.

9.50 The delivery of the scheme will in itself help to improve the local area significantly. Most notably, high values are achievable immediately to the north and west of the site, such as Calthorpe Street, Doughty Street, Gray's Inn Road and Gough Street which are predominantly comprised of attractive terraced townhouses. The proposed housing will become connected with these streets, forming an expanded residential area. To the south, Rosebery Avenue is an attractive street with some high-value residential uses.

9.51 We note that the site is largely surrounded by the Bloomsbury, Hatton Garden and Rosebery Avenue Conservation Areas, reflecting the fact that this is an established residential location with quality period architecture.

9.52 We outline below some nearby recently built schemes in the immediate vicinity of the subject site.

28-30 Theobald's Road

9.53 This recently built (2009) scheme is located less than 250 yards to the south west of the subject site. It is an office conversion to flats which was then refurbished recently. It is next to an unattractive office occupied by the Citizen's Advice Bureaux. Although a 'period' conversion it appears to not be of exceptional architectural merit.

9.54 Theobald's Road is a relatively busy road and we do not consider it to be superior to those streets adjoining the subject site – nor to the proposed streets which will be of a similar nature to the nearby streets such as Calthorpe Street.

9.55 The close proximity of this site is important, especially considering that the closest of Knight Frank's 'key comparable' sites (Canaletto) is 1.1 km away. Given how markedly Central London values can change within short distances, we consider it vital to have an understanding of values in the immediate area.

9.56 As can be seen in the Table below, values considerably higher than [REDACTED] per ft^2 ([REDACTED] per m^2) have been achieved at this scheme. Once growth in values since the sales of these units is taken into account, using a 35% per annum growth rate (as indicated by Land Registry data for 2012 to 2013), the values per ft2 are all in excess of £1,000 per ft^2. (£10,760 m^2) The time elapsed since these completed understates it as the sales prices probably agreed a while before the sales completion.

Address	Last sale price	Last sale date	roperty ty	Year built	Bedrooms	Floor area	£ per sq m	£ per sq ft	months sold before present	with 35% pa growth	with 35% pa growth
Flat 14 28-30 Theobalds Road WC1X 8NX	£1,460,000	15 May 2012	Flat	2009	2	93	£15,698.92	£1,458.48	6	£1,715,500	£1,713.71
Flat 3 28-30 Theobalds Road WC1X 8NX	£1,000,000	02-May-12	Flat		3	102	£9,803.92	£910.81	6	£1,175,000	£1,070.21
Flat 2 28-30 Theobalds Road WC1X 8NX	£495,000	25 Jul 2013	Flat		1	48	£10,312.50	£958.06	4	£552,750	£1,069.84
Flat 6 28-30 Theobalds Road WC1X 8NX	£895,000	17 Oct 2012	Flat		2	102	£8,774.51	£815.18	13	£1,234,354	£1,124.27
Flat 5 28-30 Theobalds Road WC1X 8NX	£865,000	02-May-12	Flat		2	78	£11,089.74	£1,030.27	18	£1,319,125	£1,571.16
Flat 1 28-30 Theobalds Road WC1X 8NX	£485,000	21 May 2012	Flat		1	48	£10,104.17	£938.71	18	£739,625	£1,431.53

9.57 Based on 2013 actual growth, the equivalent present-day average value for these Theobald's scheme is £1,330 per ft^2(£14,310 m^2). The most recent sales achieved £1,069 per ft^2(£11,502 m^2).

28 Amwell Street

9.58 This is a new-build in close proximity to the subject site (350 yards away). We have obtained the following achieved values:

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms	Floor area	Price per ft
Flat 13 Charles Allen House 28 Amwell Street EC1R 1XU	£832,500	28 Mar 2013	Flat	2013	2	80	£966.77
Flat5 Charles Allen House 28 Amwell Street EC1R 1XU	£802,000	20 Dec 2012	Flat	2013	2	80	£931.35
Flat 9 Charles Allen House 28 Amwell Street EC1R 1XU	£765,000	14 Mar 2013	Flat	2013	2	80	£888.39
Flat 7 Charles Allen House 28 Amwell Street EC1R 1XU	£756,000	26 Mar 2013	Flat	2013	2	80	£877.93
Flat 10 Charles Allen House 28 Amwell Street EC1R 1XU	£780,000	28 Mar 2013	Flat	2013	2	83	£873.06

9.59 The values achieved are all in excess of the average of [REDACTED] per ft^2 ([REDACTED] per m^2). Usefully, most of these sales date from March – near the date of Knight Frank's valuation.

General new-build transactions

9.60 We have compiled the following tables showing recently transacted new-build units situated within 1 mile and a quarter mile of the subject site respectively. We do not possess information concerning values broken down by floor area for most of these units, but these tables do demonstrate that there is indeed a good level of highly local new-build stock, which should have been used as evidence when valuing the proposed units.

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms
Flat2 Charles Allen House28 Amwell Street EC1R1XU	£650,000	24-Jun-13	Flat	2013	2
Flat10 Charles Allen House28 Amwell Street EC1R1XU	£780,000	28-Mar-13	Flat	2013	2
Flat15 Albany House41 Judd Street WC1H9QS	£335,000	10-Apr-13	Flat	2013	0
Flat24A Cubitt Street WC1X0LR	£815,000	11-Apr-13	Flat	2013	2
Flat9 Charles Allen House28 Amwell Street EC1R1XU	£765,000	14-Mar-13	Flat	2013	2
Flat144-7 Red Lion Court EC4A3EB	£1,042,750	11-Jan-13	Flat	2013	2
Flat74-7 Red Lion Court EC4A3EB	£994,375	11-Jan-13	Flat	2013	2
4 Ingle Mews EC1R1XG	£695,000	22-May-13	Flat	2013	2
Flat14-7 Red Lion Court EC4A3EB	£600,000	14-May-13	Flat	2013	2
5 Ingle Mews EC1R1XG	£695,000	12-Apr-13	Flat	2013	2
1 Ingle Mews EC1R1XG	£695,000	15-Mar-13	Flat	2013	2
801 Frobisher Crescent EC2Y8HD	£1,590,000	10-Apr-13	Flat	2013	3
701 Frobisher Crescent EC2Y8HD	£1,490,000	22-Mar-13	Flat	2013	3
901 Frobisher Crescent EC2Y8HD	£1,840,000	11-Mar-13	Flat	2013	
Flat104-7 Red Lion Court EC4A3EB	£997,660	07-Jan-13	Flat	2013	
Flat44-7 Red Lion Court EC4A3EB	£980,000	11-Jan-13	Flat	2013	
Flat34-7 Red Lion Court EC4A3EB	£902,000	09-Jan-13	Flat	2013	
Flat94-7 Red Lion Court EC4A3EB	£633,800	21-Jan-13	Flat	2013	
Flat84-7 Red Lion Court EC4A3EB	£610,000	11-Jan-13	Flat	2013	
Flat54-7 Red Lion Court EC4A3EB	£610,000	15-Jan-13	Flat	2013	
Flat114-7 Red Lion Court EC4A3EB	£600,000	11-Jan-13	Flat	2013	
Flat3 Doltan House51 Werrington Street NW11QN	£525,000	11-Jan-13	Flat	2013	
Flat274 Newman Street W1T3DB	£499,999	05-Feb-13	Flat	2013	
Flat174 Newman Street W1T3DB	£489,000	07-Mar-13	Flat	2013	
Flat4 Doltan House51 Werrington Street NW11QN	£390,000	21-Jan-13	Flat	2013	
Flat11 Albany House41 Judd Street WC1H9QS	£318,600	05-Apr-13	Flat	2013	
Flat13 Albany House41 Judd Street WC1H9QS	£280,000	22-Mar-13	Flat	2013	
Flat10 Albany House41 Judd Street WC1H9QS	£265,000	09-Apr-13	Flat	2013	
Flat2 Charles Allen House28 Amwell Street EC1R1XU	£650,000	24-Jun-13	Flat	2013	2
Flat10 Charles Allen House28 Amwell Street EC1R1XU	£780,000	28-Mar-13	Flat	2013	2
Flat24A Cubitt Street WC1X0LR	£815,000	11-Apr-13	Flat	2013	2
Flat9 Charles Allen House28 Amwell Street EC1R1XU	£765,000	14-Mar-13	Flat	2013	2
Flat144-7 Red Lion Court EC4A3EB	£1,042,750	11-Jan-13	Flat	2013	2
Flat74-7 Red Lion Court EC4A3EB	£994,375	11-Jan-13	Flat	2013	2
4 Ingle Mews EC1R1XG	£695,000	22-May-13	Flat	2013	2
Flat14-7 Red Lion Court EC4A3EB	£600,000	14-May-13	Flat	2013	2
5 Ingle Mews EC1R1XG	£695,000	12-Apr-13	Flat	2013	2
1 Ingle Mews EC1R1XG	£695,000	15-Mar-13	Flat	2013	3
801 Frobisher Crescent EC2Y8HD	£1,590,000	10-Apr-13	Flat	2013	3
701 Frobisher Crescent EC2Y8HD	£1,490,000	22-Mar-13	Flat	2013	3

NEW BUILD UNITS WITHIN A **1/4 MILE** OF SUBJECT SITE (WC1X)

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms
10 Wakefield Street WC1N1PF	£2,350,000	18-Jul-13	Terrace	2013	
8 Wakefield Street WC1N1PF	£2,200,000	10-Jun-13	Terrace	2013	2
Flat24A Cubitt Street WC1X0LR	£815,000	11-Apr-13	Flat	2013	2
Flat9 Charles Allen House28 Amwell Street EC1R1XU	£765,000	14-Mar-13	Flat	2013	2
2 Ingle Mews EC1R1XG	£695,000	01-Mar-13	Terrace	2013	
9 Ingle Mews EC1R1XG	£650,000	22-Aug-13	Flat	2013	2
Flat2 Charles Allen House28 Amwell Street EC1R1XU	£650,000	24-Jun-13	Flat	2013	0
Flat15 Albany House41 Judd Street WC1H9QS	£335,000	10-Apr-13	Flat	2013	
Flat11 Albany House41 Judd Street WC1H9QS	£318,600	05-Apr-13	Flat	2013	
Flat13 Albany House41 Judd Street WC1H9QS	£280,000	22-Mar-13	Flat	2013	
Flat10 Albany House41 Judd Street WC1H9QS	£265,000	09-Apr-13	Flat	2013	2
Flat10 Charles Allen House28 Amwell Street EC1R1XU	£780,000	28-Mar-13	Flat	2013	2
4 Ingle Mews EC1R1XG	£695,000	22-May-13	Flat	2013	2
5 Ingle Mews EC1R1XG	£695,000	12-Apr-13	Flat	2013	2
7 Ingle Mews EC1R1XG	£650,000	14-Aug-13	Flat	2013	2
1 Ingle Mews EC1R1XG	£695,000	15-Mar-13	Flat	2013	2
6 Ingle Mews EC1R1XG	£695,000	20-Dec-12	Flat	2012	

Second-hand market

9.61 The Table below demonstrates that high values have been achieved for second-hand apartments in the local area (within mile), and also contradicts the view that this is not an “established residential area”. The next Table shows that a considerable number of recently-built secondhand units (built/comprehensively refurbished since 2009) which we consider could have been used as comparable evidence.

Second-hand sales within mile of subject site, within last year

Address	Last sale price	Last sale date	Property type	Year built	Bedrooms	Floor area	Price per sq m	Price per sq ft
Flat1095 Fetter Lane EC4A1EP	£355,000	29-May-13	Flat	1967	1	37	£9,594.59	£891.69
Flat5 Jenner House Hunter Street WC1N1BL	£515,000	12-Jul-13	Flat	1908	1	53	£9,716.98	£903.07
Flat114 Russell Court Woburn Place WC1H0LP	£255,000	23-Nov-12	Flat		1	26	£9,807.69	£911.50
Flat26 Cranfield House97-107 Southampton Row WC1B4H	£790,000	18-Jun-13	Flat		2	80	£9,875.00	£917.75
Flat8 Betterton House Betterton Street WC2H9BT	£500,000	25-Feb-13	Flat	1900	1	50	£10,000.00	£929.37
Flat210 Gilbert Place WC1A2JD	£310,000	04-Jun-13	Flat	1860	1	29	£10,689.66	£993.46
Flat367 Russell Court Woburn Place WC1H0NH	£248,500	20-Dec-12	Flat		1	23	£10,804.35	£1,004.12
Flat64 Defoe House Barbican EC2Y8DN	£750,000	15-May-13	Flat	1960	2	69	£10,869.57	£1,010.18
Flat B34 Wilmington Square WC1X0EG	£364,000	05-Feb-13	Flat	1873	1	33	£11,030.30	£1,025.12
Flat8 Three Cups Yard Sandland Street WC1R4PZ	£823,000	02-May-13	Flat		2	74	£11,121.62	£1,033.61
Flat24 The Factory1 Nile Street N17LX	£1,330,000	14-Dec-12	Flat	1998	3	118	£11,271.19	£1,047.51
58B Colebrooke Row N18AF	£755,000	19-Dec-12	Flat	1860	2	66	£11,439.39	£1,063.14
Flat18 Aria House5-15 Newton Street WC2B5EN	£850,000	07-Dec-12	Flat	1990	2	74	£11,486.49	£1,067.52
Apartment114 New River Head173 Rosebery Avenue EC1	£2,875,000	12-Nov-12	Flat	1998	4	250	£11,500.00	£1,068.77
Flat5 The Lab Building177 Rosebery Avenue EC1R4TW	£390,000	26-Nov-12	Flat	1999	1	32	£12,187.50	£1,132.67
Flat15 Dingley Place EC1V8BP	£610,000	18-Jan-13	Flat	2001	1	48	£12,708.33	£1,181.07
Flat344-46 Kingsway WC2B6EL	£800,000	24-May-13	Flat		2	62	£12,903.23	£1,199.18
Flat15 Brunswick Mansions8 Handel Street WC1N1PE	£410,000	01-Feb-13	Flat	1904	1	31	£13,225.81	£1,229.16
Flat397 Huntley Street WC1E6AJ	£816,000	20-Feb-13	Flat	2008	2	60	£13,600.00	£1,263.94
Flat265 Huntley Street WC1E6AJ	£840,000	12-Feb-13	Flat	2008	2	58	£14,482.76	£1,345.98
Flat921 Barter Street WC1A2ED	£950,000	16-May-13	Flat	2008	2	60	£15,833.33	£1,471.50

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SECOND-HAND (RECENTLY BUILT) APARTMENTS					
Flat20 Carpenter Court37-41 Pratt Street NW10BJ	£620,000	21-Dec-12	Flat	2012	3
Unit210 Providence Place N10NT	£390,000	05-Nov-12	Flat	2012	2
Flat7242-244 St John Street EC1V4PG	£727,500	16-Nov-12	Flat	2012	2
Flat17 Carpenter Court37-41 Pratt Street NW10BJ	£525,000	21-Dec-12	Flat	2012	2
6 Ingle Mews EC1R1XG	£695,000	20-Dec-12	Flat	2012	2
Flat610 Providence Place N10NT	£390,000	31-Oct-12	Flat	2012	2
Flat239-40 Bartholomew Close EC1A7JN	£750,000	25-Apr-13	Flat	2012	3
Flat1023 Newman Street W1T1PN	£1,635,000	04-Apr-13	Flat	2012	
Flat1223 Newman Street W1T1PN	£1,590,000	07-May-13	Flat	2012	
262 Dance Square EC1V3AN	£1,500,000	27-Nov-12	Flat	2012	
Flat423 Newman Street W1T1PN	£800,000	01-Mar-13	Flat	2012	
205 Dance Square EC1V3AN	£480,000	15-Nov-12	Flat	2012	
Unit210 Providence Place N10NT	£390,000	05-Nov-12	Flat	2012	2
Flat20 Carpenter Court37-41 Pratt Street NW10BJ	£620,000	21-Dec-12	Flat	2012	2
Flat7242-244 St John Street EC1V4PG	£727,500	16-Nov-12	Flat	2012	2
Flat17 Carpenter Court37-41 Pratt Street NW10BJ	£525,000	21-Dec-12	Flat	2012	2
6 Ingle Mews EC1R1XG	£695,000	20-Dec-12	Flat	2012	2
Flat610 Providence Place N10NT	£390,000	31-Oct-12	Flat	2012	2
Flat239-40 Bartholomew Close EC1A7JN	£750,000	25-Apr-13	Flat	2012	3
Flat2 Shackleton House Chalton Street NW11RX	£425,000	18-Jan-13	Flat	2011	2
Apartment21 Crabtree Place W1T2AT	£1,170,000	12-Jul-13	Flat	2011	
Flat129 Bastwick Street EC1V3PN	£425,000	02-Aug-13	Flat	2009	1
Flat1351 Goswell Road EC1V7JP	£383,000	30-Nov-12	Flat	2009	1
Apartment27 Island Apartments33 Basire Street N18PN	£342,500	06-Nov-12	Flat	2009	1
Apartment2-05 St Pancras Chambers Euston Road NW12	£1,170,000	17-Jan-13	Flat	2009	2
Apartment5-21 St Pancras Chambers Euston Road NW12	£1,200,000	15-Mar-13	Flat	2009	3

AFFORDABLE HOUSING VALUES

9.62 Given that the affordable values based on 12% affordable provision creates of £[REDACTED] of revenue, any increase in values could have a potentially significant impact on viability. But clearly this impact will rise if a greater percentage of affordable housing is provided.

9.63 Gerald Eve has undertaken its own valuation rather than base the valuation on offers from Registered Providers. This is, they state, to avoid any 'internal cross-subsidy' or 'competitive considerations' in the RPs' offers. We do not agree with this view as the possibility of such factors should not be discounted. A large scheme with a significant element of affordable is likely to prove attractive to RPs and the possibility that they will bid higher than generally accepted models should not in consequence be discounted. Engagement with RP's at an early stage also conforms with GLA guidance.

9.64 Although we acknowledge that it is currently accepted that public subsidy and/or housing grant should be assumed to not be available when determining viability, this does not apply to internal cross-subsidy and competitive considerations of RPs themselves. There also remains the possibility of grant becoming available at some point in the future.

9.65 Put simply, if RP's put in high bids that is their concern and it is not for the developer to disregard or discount these high bids so as to dismiss the internal, corporate strategies of the RP's themselves. Moreover, we fail to see how and why 'competitive considerations' should be disregarded, and such 'considerations' would in any case be very difficult to evidence and quantify. To dismiss 'competitive considerations' is to overlook the reality that RP's competitively bid for housing in the open market, especially in a grant free environment.

9.66 Where affordable housing values are based directly on offers from RP's, it is not necessary to scrutinise the assumptions behind these offers as they should, by definition, represent Market Value. In this case, Gerald Eve has not provided any evidence of market testing.

9.67 It is common for RP offers to exceed the value estimates that are calculated using models. This is often due to the assumptions that are in reality made by RP's regarding assumptions such as capitalisation rates and levels of equity 'staircasing' when arriving at a suitable bid price. It is therefore important that RP testing is provided, especially given that Gerald Eve has not yet provided adequate support for its own valuation.

9.68 We have not received any supporting information concerning Gerald Eve's valuation of the affordable housing despite having requested it. The viability assessment only provides weekly rental estimate per units, and then a final result in the form of a capital value per sq ft. We have not received details of the assumptions used in the model, nor any capital values per unit. This is insufficient information for the purposes of scrutinising the approach taken.

DVS view of affordable housing values

9.69 DVS provide no commentary on the proposed affordable values other than to repeat almost verbatim GE's description of their valuation approach. Regarding the capital value estimates, DVS conclude that they "are of the opinion they are reasonable" without any justification or evidencing of this position. It has not been demonstrated that an adequate and robust review has been undertaken by DVS.

BPS comments- rented units

9.70 Gerald Eve's valuation is stated as being [REDACTED] per ft^2 ([REDACTED] m^2) for the rented units, but elsewhere in their report it is stated as being [REDACTED] ([REDACTED] per m^2) per ft^2 which creates uncertainty over what their final view is. No supporting evidence is provided for the rental estimates provided (which are 40-80% of market rent), and we haven't been provided with the assumptions used in the appraisal of these value rates including yields management costs.

9.71 It is still not entirely clear whether the model assumes Affordable Rents or Social Rents, and Gerald Eve has yet to clarify this point. Both 'social rent' and 'affordable rent' are referred to in its report. The weekly rents cited are clearly based on Affordable Rents. We do not have details of unit sizes which makes it difficult to assess through our own modelling as Gerald Eve's values estimates which are provided on a £per ft^2 basis.

9.72 For the reasons mentioned above, we are not in a position to reach any firm conclusion regarding the capital values of the rented units.

BPS comments - Intermediate units

9.73 Gerald Eve's valuation is based on a [REDACTED], which are realistic assumptions. It generates a capital value per ft2 of [REDACTED] per ft2 ([REDACTED] per m2).

9.74 While we are unable to give a definitive view in the absence of any RP offers, our summary modelling suggests that higher values could potentially be achievable if staircasing is taken into account together with 2013 actual growth in private market sales values which would impact on the value of the initial equity sold.

10 APPLICATION OF GROWTH RATES

10.1 In Annex 1 we have altered the way in which growth has been applied to the private residential units.

10.2 The majority of the units in the scheme are assumed to be pre-sold, which is a not unreasonable assumption particularly given the high demand for apartments in this location. We note recent research show that c80% of units in the City are being sold 'off-plan', while under construction. However, the selling of units pre-construction is less common.

10.3 Gerald Eve has assumed 30% of units sold pre-construction, while another large proportion will be sold during construction. The sales growth is only continued up to the date of sale, which for some of the units is over three years before the date of practical completion at which point the payment for the units is made. In other words, Gerald Eve's values are based on the present-day values at the date of sale, which we consider to understate the level of growth that should be applied.

10.4 In our experience, and based on recent discussions we have had with agents who actively pre-sell units, the pricing is predicated upon a 'sharing' of growth between purchaser and vendor, such that, for example, if a unit is sold today that will be completed in January 2017, the price will be based on present day value plus, say, 2 years of forecast sales growth, with the final year's growth not factored in – this acting as an incentive to buyers to commit to purchase prior to completion.

10.5 We have re-modelled the growth by applying growth to two-thirds of the time between date of sale and date of completion of all the units. Based on Gerald Eve's growth rates, this increases sales revenues by £16m, and this figure would increase if higher growth rates were to be applied.

10.6 The effect is most marked in the case of Phoenix Phase 1 which has in Gerald Eve's model a total growth of 8.6% due to the combined effect of low growth rates in the early years, and not applying growth after the date of pre-sale. To put this in context, this compares to our estimate of 30% growth in 2013 alone.

10.7 In general, we suggest that it is unlikely that a developer will choose to sell such large proportions of the units at such an early stage if this results in a complete loss of any future growth in value between sale and completion. This view of course depends on whether the developer considers the market to be rising or whether units are difficult to sell.

10.8 Viability assessments for a number of large schemes we have reviewed in Camden (but which for confidentiality reasons we cannot disclosed) have applied growth for a period after the date of sales. One scheme assumed 50% of units sold during construction (with none prior to construction. Similarly a recent scheme in Islington assumed 50% sold during construction and we understand the values were increased up to close to the time of practical completion of the units rather than terminating at the date of pre-sale.

10.9 We have also seen a typical approach being to apply a 5%-7.5% discount to estimated values at date of completion in order to reach a pre-sell value – this discount acting as an incentive to buyers. If this approach were to be applied to, for example, the 30% sold pre-construction in Gerald Eve's model, this would amount to the equivalent of 1 year's growth being discounted, and is in line with the approach we have taken in our revised model.

11 ENABLING WORKS

11.1 The issues are whether, firstly, these enabling works are costed at a level that is consistent with BCIS rates and other cost indices. The second issue is whether it is appropriate in any cases for the cost of these works to be treated as an abnormal development cost or regarded as additional consideration payable to RMG.

11.2 DVS has reduced the level of Phase 2 Enabling Costs from £[REDACTED]to £8.5m primarily to strip out costs that it considered were not directly necessary to 'enable' the proposed development and which appeared to solely benefit RMG. This included, for example, certain refurbishment works and improvements to the sorting office building. We agree with this view, and consequently we are in principle in agreement with the reductions suggested by DVS's cost consultant.

11.3 DVS are in agreement with the estimate of [REDACTED] for the Phase 3 Enabling Works.

11.4 We have not undertaken our own detailed review of the itemised enabling costs. On request, DVS have justified the conclusions they reached concerning the Enabling Costs, and has provided us with a brief commentary from their quantity surveyors. In conclusion we have no reason to dispute the findings DVS reached, and have adopted their conclusions in our revised appraisal (Annex 1).

12 COMMERCIAL VALUES

12.1 We have undertaken a headline review of the commercial values and have no reason to dispute the estimate values applied in the appraisal.

13 RESIDENTIAL BUILD COSTS

13.1 DVS concluded that the build costs were at a reasonable level for a scheme of this nature.

13.2 Our Cost Consultant has not undertaken a detailed review of the Cost Plan, largely due to the time constraints upon our instruction.

13.3 We have no reason to dispute the conclusions of DVS, which we arrived at following, we understand, detailed discussion between the respective cost consultant of DVS and Gerald Eve.

Appendix One

Heatmap with location of comparable schemes

1= Mount Pleasant

2= Eagle House

3= Art House

4= Central Square

5= Canaletto

Annex One

Mount Pleasant

BPS re-modelling of Gerald Eve's appraisal

January 2014

We have recreated Gerald Eve's model using the version included in Gerald Eve's [REDACTED], . We have based our IRR cashflow on the costs, revenues and development programme (including timings of key costs) on those detailed in the[REDACTED],

Based solely on Gerald Eve's assumptions (and prior to any changes made by us) our model generates an IRR of 11.6%. This compares to 11.9% shown in Gerald Eve's model. This demonstrates that our appraisal is sufficiently close the version created Gerald Eve, and we consider it satisfactory for the purposes of testing the impact of viability of the changes we intend to make.

Our 20th December 2013 note to Gerald Eve set out a number of changes which we requested they make to their model. We had previously requested access to the model but this was not provided, therefore this prompted us to make the requests for Gerald Eve to revise the model.

Table A summarises the changes that we requested be made by Gerald Eve, and details how these changes impacted on the viability results in our version of the model. The IRR results below show the cumulative impact of these changes upon scheme viability. This Table includes future (2014 onwards) sales growth at the levels adopted by Gerald Eve.

We have also (in right hand column) kept the target profit "fixed" while adjusting the level of affordable housing to the point where the profit target is just met and the scheme can be said to "break even". In line with the Councils' affordable housing policies we show the maximum reasonable affordable housing that the scheme can viably provide as a result of the cumulative changes to the model, even where this exceeds the strategic policy target.

Table B tests the sensitivity of this model to variations in future sales growth, beginning with a present day scenario. We have adopted a 14% profit target (IRR) for the present-day scenario, and have then increased this target as the applied growth rates are increased, up to a target rate of 22% for the last scenario which uses CeBr's growth of 9.5% per annum.

Table A: cumulative impact upon viability of changes to appraisal (WITH GERALD EVE GROWTH)

BPS suggested changes	IRR Output (at 12% affordable housing)	Development surplus at 12% affordable housing (assuming 20%* profit on GDV deducted) i.e. residual value minus land cost	Level of affordable housing (by area) that can viably be provided based on target profit (IRR) of 18%
Base appraisal (based on Gerald Eve's 20th November version of model, 12% affordable housing)	11.6%	-£62m	nil (100% private scheme generates 15% IRR)
changes to cost assumptions:			
Reduce land payment by £[REDACTED]	17.1%		9%
Split land payment between two sites and moves each payment to date of vacant possession of each site	21.2%		19%
Phase 2 Enabling Costs (at level suggested by DVS: £[REDACTED]) split in two, and each half moved to the date of vacant possession of the Phoenix and Calthorpe site respectively.	23.2%		23%
Reduce the Marketing Costs and Contingency as suggested by DVS.	25.5%		28%
Growth of sales values continued for longer (for example, up to 1 year before practical completion for the earlier pre-sales).	27.17%		31%
Split the affordable housing revenues into three and time the payments as follows: payment one at start of construction of each phase; payment 2 at earliest PC date for the phase; and payment 3 at latest PC date. (At the moment paid in lump sum at very end of each phase)	27.9%	£60m	33%
Increase private residential sales values by 30% up to present day	41.1%		53%
Increased build cost inflation for 2013 to reflect actual growth	40.1%		52%

*This 20% profit on GDV is for illustration purposes only and is not necessarily suitable, particularly given that the 'blended' profit rate will vary according to the level of affordable housing provided.

Table B: Sensitivity of "BPS View" appraisal to variations in residential sales growth

	Growth rate	Target IRR	Affordable housing
Present-day	0%	14%	51%
BPS suggestion	4%	18%	52%
DVS growth forecast	6%	19%	55%
CEBR growth forecast	9.5%	22%	60%

The following Table summarises our residual valuation of the scheme. It included a fixed Profit on GDV as an appraisal input, then compares the resultant Residual Value against the Benchmark Land Value.

A profit on Cost of 24% is applied solely to the private market element, while a lower rate of 8% profit on Cost is applied to the affordable element. The 'blended' rate therefore changes with the level of affordable housing. It should be noted that these rates are distinct from an IRR target.

It is the same in all other respects to the appraisal outlined in Table B.

Table C: Conventional Residual Valuation of 'BPS View' appraisal (PRESENT DAY – nil growth)

Affordable Housing	Blended Profit on Cost	Residual Value	Benchmark Land Value	Surplus
0%	24%	[REDACTED]	£38.4m	[REDACTED]
15%	21.6%	[REDACTED]	£38.4m	[REDACTED]
30%	19.2%	[REDACTED]	£38.4m	[REDACTED]
45%	16.8%	[REDACTED]	£38.4m	[REDACTED]

Annex Two

Re-modelling of Gerald Eve's appraisal
'Mid-point' appraisal

This Annex provides a summary of the final version of the appraisal which shows a 'mid-point between our view of the costs, values and development programme, and Gerald Eve's view. (Please see Table A of Annex 1 for details of our view). This additional analysis is not in any way intended to dilute or alter our findings as are presented in Annex 1 appraisal. Rather, this appraisal serves to illustrate the impact of even modest changes to core assumptions and exposes the apparent risks of adopting an appraisal which relies on an assumption of a single programme possibility and is otherwise reliant on the accuracy of its forecasting.

<u>Table D: Mid-point appraisal (WITH GERALD EVE GROWTH)</u>

Target IRR of 19% (mid-point between DVS growth model IRR and Gerald Eve IRR)	
Land payment of [REDACTED], (mid-point between [REDACTED]and [REDACTED])	
Land payment split between June 2014 and August 2015	
Phase 2 Enabling Costs [REDACTED] (mid-point) Payments made at revised dates of land payments	
Marketing Costs and Contingency at mid-point between DVS and Gerald Eve figures	
Application of sales growth: same as in Annex 1 (Table A)	
Timing of affordable housing revenue: same as in Annex 1	
Increase private residential sales values by 30% up to present day (same as in Annex 1)	
Increased build cost inflation for 2013 to reflect actual growth (same as in Annex 1)	
Level of affordable housing (by area) that can viably be provided	**41%**

<u>Table E: Sensitivity of "Midpoint" appraisal to variations in residential sales growth</u>
<u>Target profit: mid-point between Gerald Eve (20%) and BPS targets in Table B (form 14%)</u>

	Growth rate	Target IRR (<u>**mid-point**</u>)	Affordable housing
Present-day	0%	17%	35%
BPS suggestion	4%	19%	40%
DVS growth forecast	6%	19.5%	46%

CeBr growth forecast	9.5%	22%	51%

Table F: Conventional Residual Valuation of 'Mid-point' appraisal (PRESENT DAY - nil growth)

Affordable Housing	Blended Profit on Cost	Residual Value	Benchmark Land Value	Surplus
0%	24%	[REDACTED]	[REDACTED]	[REDACTED]
15%	21.6%	[REDACTED]	[REDACTED]	[REDACTED]
30%	19.2%	[REDACTED]	[REDACTED]	[REDACTED]
45%	16.8%	[REDACTED]	[REDACTED]	[REDACTED]

ANNEX 3

DISCUSSION OF SALE AND LEASEBACK VALUATION

1.1 Following the initial viability assessment, Gerald Eve subsequently provided a note (date June 2013) to DVS in September 2013 which set out the details of a sale & leaseback valuation. This is a supplementary valuation which has been used to provide additional support to the Market Value of [REDACTED],

1.2 This valuation assumes that the improvement works to the sorting office are undertaken, then RMG agree a sale & leaseback whereby the freehold/long leasehold of site is sold underpinned by a lease to RMG. The rents assumed are based on rents for equivalent 'non-sui generis' uses, such as B1 and B8 open market rents.

1.3 Given that this is undoubtedly an unusual approach in the context of site valuation for planning purposes, we would have expected DVS to explain in detail its reasoning for its acceptance of this approach. Instead, there appears to have been no analysis of this option undertaken by DVS.

1.4 Our comments on this are summarised below:

- The site would not be likely to get planning permission for commercial car parking so [REDACTED] valuation not valid.

- Sale of site for commercial car parking would leave RMG with no space for service yard and staff parking, thus is incompatible with continued operation of the sorting office which clearly requires parking and yard space in order to function.

- Capitalisation ([REDACTED]) reflects strong covenant of RMG (as party to the sales & leaseback) not necessarily a realistic yield to apply to commercial car parking incomes. This raises the question that this approach is more an exercise to value a financial arrangement rather than a genuine open market property transaction. The length of lease and the alternative use prospects will also have a bearing on the value of this proposal.

- The rent per annum of [REDACTED] per space is not supported by relevant comparable evidence

- Value ascribed to sorting office building based on other use classes and not directly applicable to sui generis and the likely absence of alternative occupiers in the market.

- Valuation incorrectly assumes 1,000 spaces can be accommodated on Calthorpe Site without the necessary capping works

- A higher valuation of [REDACTED] assumes a break clause so that purchaser can develop the site but it is not clear what this development would be. We understand this reflects 'hope value' of future residential development.

1.5 Gerald Eve's paper is a "draft for discussion only", and given that it appears to contains some flawed arguments in relation to its use as a supporting basis for determining site value, we question how much weight should be given to it. However, DVS have given it considerable weight in their review, despite it being for discussion only and in our opinion being a largely unjustified valuation, the logic of which we would be inclined to dispute.

1.6 Gerald Eve state that the valuation is "not exhaustive" and "is more of a desktop valuation which can be added to and further supported if required to do so". In spite of this, DVS has relied on this valuation to support its conclusion regarding the site's Market Value while not apparently investigating the valuation approach taken.

Detailed comments

1.7 No evidence has been provided in support of the estimated rent of [REDACTED] per car space.

1.8 The yield of [REDACTED] applied to the sites' income reflects the corporate 'covenant strength' of RMG in what is essentially a financial arrangement or bond rather than a property deal as such. This yield does not reflect the likely yield for typical car storage depots which is likely to be considerably higher. RMG will remain liable for paying the 'rent' pertaining to the site, even though it is let to a rent-a-car company. This would put them in position effectively of 'guarantor', and it will be RMG that is bolstering the capital value via this guarantee/leaseback, not the car rental firms.

1.9 Clearly even the most unsecure of rental streams would be able to drive low yields if it was secured by a major PLC 'guaranteeing' its payment. The security of the income received directly from the car rental firms would be dependent on the lease terms (including lease length) that is agreed with them. This hasn't been discussed by Gerald Eve.

1.10 We accept that the existing site has significant value to RMG. This is reflected in the Existing Use Valuation of the site by BNP at [REDACTED]. We have not fully verified this EUV, although we accept that it can be broadly justified by reference to the 'opportunity cost' to RMG of losing this space that is the cost involved in finding alternative yard and parking facilities, albeit finding alternative yard space may be unfeasible as obviously needs to be in close proximity to the sorting office that it serves).

1.11 DVS's comments are confined to the following statement:

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

1.12 DVS also state that the Sales & Leaseback approach "allows the full market value of a property to be utilised, rather than the restricted value from an Existing Use Value." This is a confusion of two separate concepts: the Sale and Leaseback proposed by Gerald Eve involves a sale and a change of use to commercial car parking of the entire site.

1.13 DVS have failed to explore whether this change of use to commercial car parking/car storage would be likely to gain planning permission. The Council have informed us that such a use of the Calthorpe Site (now the service yard) and the Phoenix Site (now a cleared site used for staff car parking) as car storage by, for example, a rent-a-car company would not gain consent. This invalidates this entire approach.

1.14 There is a logical flaw in this valuation, in that, while the valuation of the two sites assumes RMG vacates these sites to make way for their use by a car rental firm, it would not be operationally possible for RMG to vacate this space as this space is required in order for their operations at the site to continue. It is only by providing a basement service yard/car parking that the proposed scheme is able (at significant cost) to re-provide RMG's apparently essential services, yet in the sale & leaseback valuation these works would not take place so RMG would not be able to make the land available for rent.

1.15 We have no evidence to suggest that a car rental company is likely to require such a large number of cars all in one place.

1.16 Gerald Eve state in respect of the valuation of the two sites as car parking: "These rental levels are for commercial activities in respect of car parking/storage (where presumably planning permission would be required for such a use". Thus Gerald Eve has not established that the use would gain consent. DVS do not discuss this issue.

1.17 The valuation assumes that the site is complete up to end of Phase 2. Therefore the Calthorpe Street enabling works are not complete, but the operational works for the business rationalisation are.

1.18 Although not described as such, the valuation is an Alternative Use Valuation of the two sites based on a change of use to commercial car parking.

1.19 The valuation totals [REDACTED] per annum, based on 1,375 parking spaces at [REDACTED] per space, with 375 spaces on Phoenix and 1,000 on Calthorpe. Gerald Eve state that "Calthorpe Street could hold approximately 1,000 cars, only if the works to cap the open storage yard are undertaken." But the cost of such works is not factored into the valuation.

1.20 Gerald Eve don't say how much parking that the site could hold without the capping works taking place, which would need to be established if the capping works cost was to be omitted as suggested.

1.21 The value of [REDACTED] is ascribed to the two sites as "Car Parks". No costs are included for realising this capital value. In reality, RMG would not be able to let these sites out to commercial car rental companies without re-providing themselves with staff parking and yard space. We cannot see how RMG's operations at the sorting office building could continue without doing so. We fail to see the logic of renting this space only to have to have it re-provided. RMG could undertake the capping works themselves, and provide commercial car parking above and maintain their yard in the basement, although this would require the [REDACTED] capping cost to be netted from the capital value. The proposal would in in all likelihood fail to receive planning consent.

1.22 The buildings themselves are valued at [REDACTED] in the sale & leaseback. This is following the expenditure on 'business rationalisation' works that are instead defined as enabling works in the proposed scheme's appraisal. This value is dependent on rental levels which are at a much higher level than the VOA's rating valuations of this space.

1.23 For RMG the value of the car parking can also be expressed as the opportunity cost of the space used in connection with the sorting office i.e. the impact to the operation of Mount Pleasant if these facilities were not available. The lack of suitable alternative sites within a close proximity of Mount Pleasant to accommodate this amount of car parking also suggests this approach is not practical. Therefore this space potentially reflects a unique value to the RMG business given the location within the urban area.

1.24 As above, the 'opportunity cost' argument is mentioned but it is not clear what the relevance of this is to the sale & leaseback which is in effect an alternative use valuation involving change of use and occupation by a third party.

1.25 The opportunity cost argument is debatable in respect of the sorting office space (i.e. that the value of, say the 'office' space should be on a par with the cost of obtaining comparable B1 office space as replacement) given that RMG has a surplus of space and is selling off sites and 'rationalising'.

1.26 The valuation of sorting office buildings based on comparable rents for these uses e.g. for office space in the wider market (B1) at [REDACTED]per ft^2 ([REDACTED] per m^2) which has been applied to the offices within the building. This is a misleading approach as clearly this is a sui generis use and cannot be compared to other uses without an assessment of the prospects of securing consent for a change of use.

1.27 Gerald Eve do raise an important point, that RMG's considerable covenant strength means that their existing facilities can be considered of high value when assessed on a sale & leaseback basis.

1.28 A higher figure of [REDACTED] is estimated which assumes the purchaser will be given a break option so it can redevelop the site at a later date. This may be an artificial assumption given the ongoing operational importance of the site to RMG.

DEPUTATION REQUESTS

The Mount Pleasant Association

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Deputation to Camden Council's Development Control Committee (7pm, 27 February 2014)

Presented by Judith Dainton (Calthorpe Street) and Graeme Weston (Laytsall Court)

The Mount Pleasant Association (MPA, formerly the Mount Pleasant Forum) is a community group of local residents and stakeholders living and working around the proposed development at Mount Pleasant. The MPA was formally established in October 2012 in response to the total absence of any meaningful engagement by the Royal Mail Group (RMG) with the local community in contravention of the London Plan (Policy 3.7), which states that the planning of developments over 500 dwellings 'should take place with the engagement of local communities and other stakeholders.' The MPA's aim has been: to improve public participation in the planning process by attempting to engage constructively with the RMG, Planning Officials, elected Councillors and now the Mayor of London; to raise awareness in the local community of the RMG's proposed development; and to offer positive suggestions about alternatives. Camden Councillors and planning officers have kindly taken the time to attend MPA meetings and meet local residents. The RMG and the Mayor (to date), despite repeated invitations, have declined to make contact with the MPA or engage meaningfully with the local communities.

Our Position
The MPA is pro-development and pro-housing, but we have grave concerns about this planning application. These are detailed in individual responses to the planning application, which you will have seen and some of which are posted on our website under 'Members' Planning Application Responses.' Our collective concerns are so numerous that, on behalf of the local communities surrounding this site, we request in the strongest possible terms this application be rejected by the DCC.

Our Objections
In general, the proposed scheme is profoundly ill-conceived. It can be likened to a fortress that turns its back on the surrounding urban landscape when it should be doing precisely the opposite. The lack of any workable master plan has undermined the scheme from its inception and resulted in serious flaws in the subsequent architectural proposals. The most fundamental shortcoming is 'The Garden', the orientation, size, scale and position of which compromises the entire scheme, and contributes to the intense massing of high-rise buildings and unacceptably high-densities on the Camden side.

Density
Densities on the Camden side of 119 units per acre (345 units on 1.17hectares/2.89 acres) are totally unacceptable. The London Plan (Section 2.43) places a 'heavy emphasis' on the 'importance in the higher density environment of Inner London of the quality of, and access to, open space and play space.' 'The Garden' is the scheme's primary open space, but it is very poor quality and very poorly accessed. At one end it opens onto an extremely hostile section of the busy Farringdon Road and at the other it terminates pointlessly at the Postal Museum. Placing the vast majority of the scheme's low-functioning 'public realm' onto the Islington side has the effect of doubling the density on the Camden side.

Furthermore, the cynically named 1.7 acre 'Meadow,' which is the inaccessible roof space above the delivery ramp separating the Sorting Office from Block F, grossly distorts the density figures for the entire site. If we remove this redundant space from the density calculations the figures for the entire site go from 78 units per acre (based on 681 units on 8.7 acres) to 97 units per acre (based on 681 units on 7 acres). In 1929 when the Borough of Finsbury was planning the adjacent Margery Street Estate for local workers, a proposed density of 85 dwellings per acre was rejected by the Ministry of Health on the grounds that it would produce a poor quality living environment. The wisdom of our forebears produced quality working class housing that is now listed and highly sought after, whereas our generation is producing 'luxury apartments' that will create a slum for the future.

Height of Buildings
Section 4.3.6 (p.25) of the SPD states that 'Each part of any new development will need to be consistent with or complement the adjacent neighbourhoods.' These neighbourhood characteristics can be summarised as: 2-4 storey terraces of late Georgian grade two listed properties to the north of the site; 2-storey 19th century School House on Calthorpe Street that makes a 'positive contribution to the streetscape'(Appendix:A3.1.3); 'fine 18th and 19th century houses on wide streets and around several squares' (Appendix:A3.3.2) to the northeast of the site; 'characterful public spaces'(Appendix:A3.3.4); 'a fine grain grid of Georgian terraced streets and squares' to the west(Appendix:A3.3.6); the reflection of 18th century development along the Fleet River 'resulting in a pattern of narrow streets and a mix of land uses'(Appendix:A3.3.8) to the south; and to the southeast 'a fine mix of Edwardian residential buildings and a Grade II listed fire station'(Appendix:A3.3.9). The predominantly 8-15 storey buildings in this planning application are completely inconsistent with the SPD's guidelines.

Position of tall buildings – light and privacy
Not only are the high buildings insensitively arranged and incompatible with the surrounding built environment, they are also placed in poor locations, causing a significant loss of light (which has been extensively reported in the local and national press) and privacy for local residents. The SPD demands that the scheme should 'create new high quality and inclusive public spaces for local people both on the site and at its four corners' (Section 1.10). The architects' response to this has been to place the tallest tower (15 storeys) on one corner directly facing the already hemmed in Christopher Hatton Primary School (which the architects did not even know existed) - a staggeringly ill-conceived and incongruous piece of architecture facing the northern perimeter of the Hatton Garden Conservation Area.

Lack of Connectivity
The lack of a quality masterplan has resulted in the parcelling of the site into four quadrants. This severely comprises connectivity across, within and beyond the site. There are no practical or desirable routes into or across the site or that knit the site into the surrounding urban fabric. No one will want to risk their lives crossing Farringdon Road just to access 'The Garden' and on the Camden side there is no incentive for anyone to want to gain access, since it comprises only tall buildings. From the southwest corner, which contains the highest density of housing around the site (Mullen Tower, Laystall Court and Holsworthy Square) and Christopher Hatton Primary School, there is no way of even accessing the site.

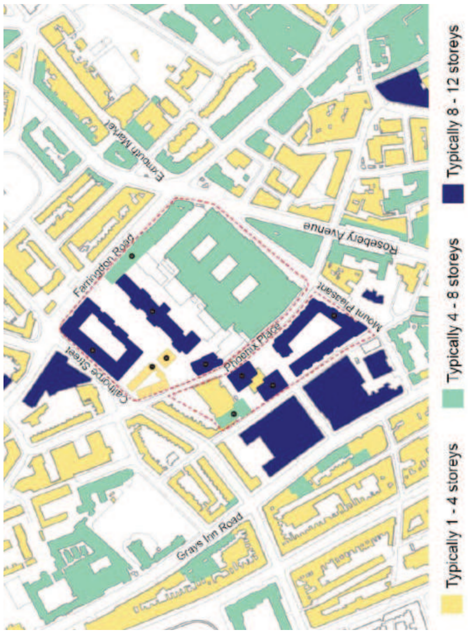
Lack of green space
If we remove Hampstead Heath and Primrose Hill from the equation, Camden and Islington are the most densely populated boroughs in the country. The southern portions of these boroughs have vastly less green space than their northern portions. This site therefore demands high functioning green space. The concrete precinct, 'The Garden,' which will be almost permanently overshadowed by surrounding nine-storey apartment blocks is functionally, aesthetically and environmentally inadequate and the tiny courtyards elsewhere do nothing to compensate for this deficiency.

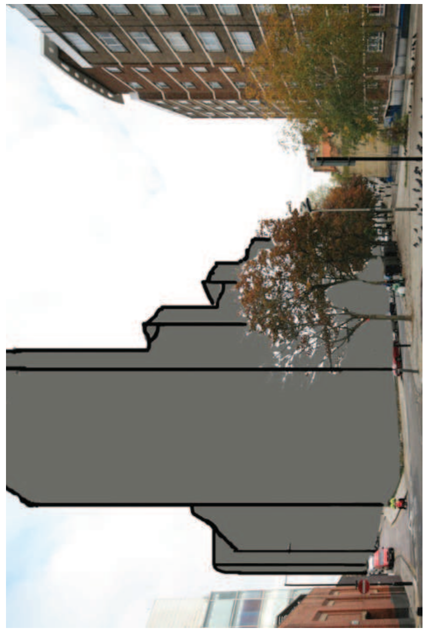
Lack of public amenities
The proposal demands a lot from the neighbouring communities and gives nothing back. There are few public amenities and certainly not enough to compensate for the demands this development will place on local amenities – green spaces, schools, doctors' surgeries, etc. Such vital amenities need to be integral to the scheme and not dismissed as the responsibility of the Community Infrastructure Levy.

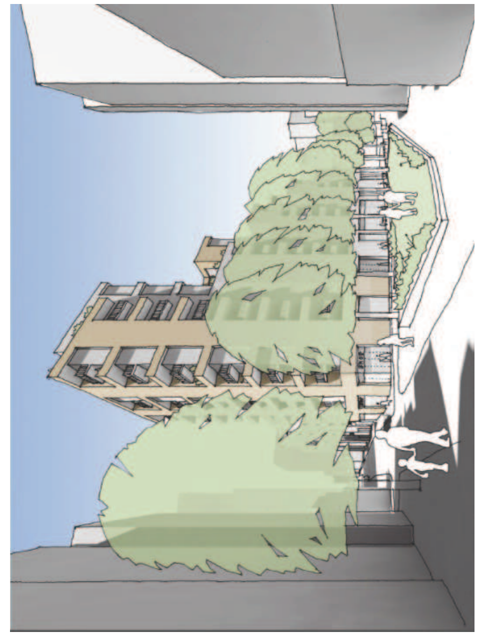
Lack of technical testing of infrastructure re sewage, drains, soil safety etc.
The hydrology of the area is extremely complex, with numerous springs, wells, sewers and river courses running through and around the site. There has been little or no testing of the hydrology on the site and there is grave concern for impact this development will have on surrounding structures.

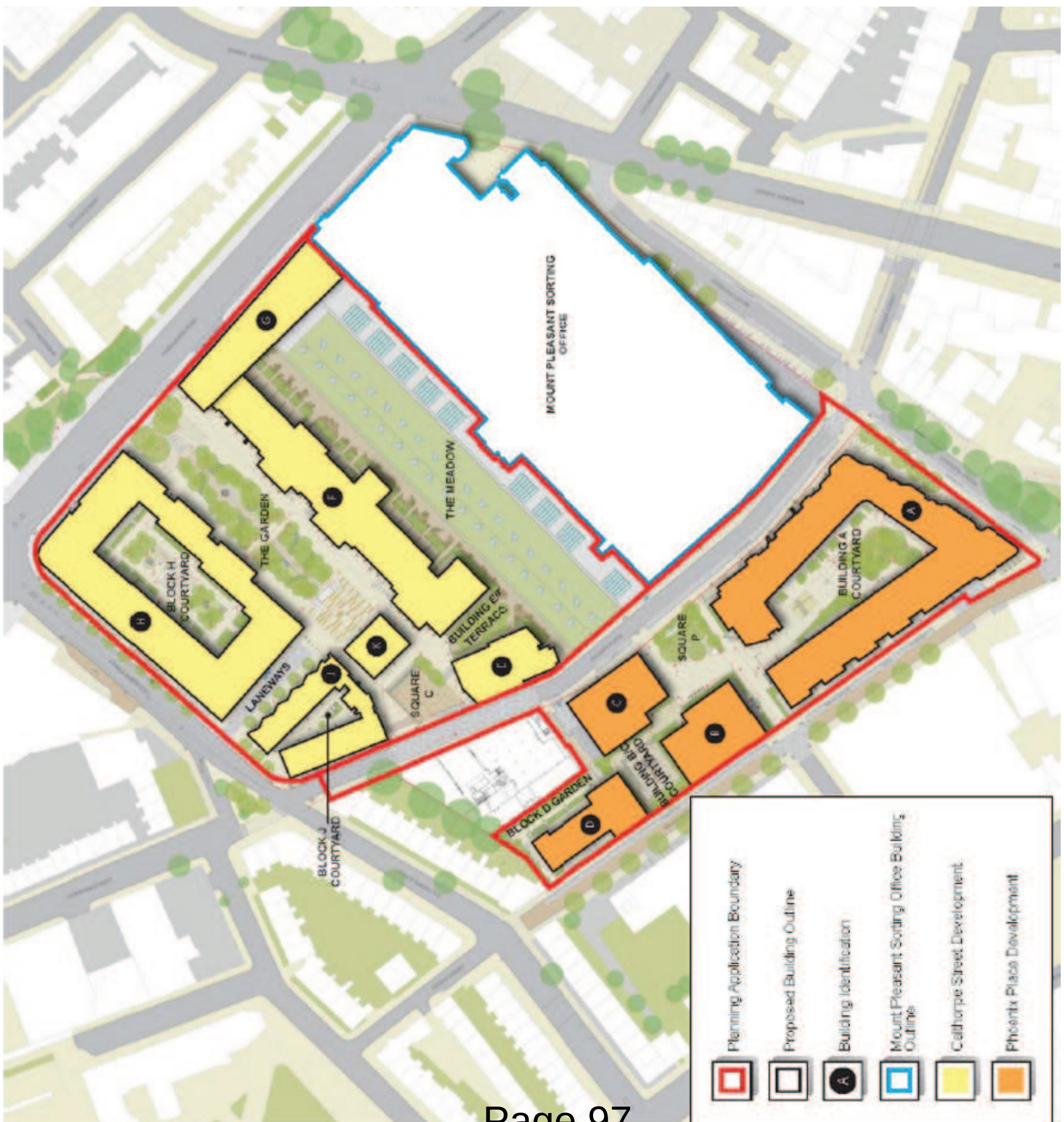
Lack of decent social housing provision.
The scandalous reduction of affordable housing from 20% to 12% has been well documented in the local and national press. Less has been said about the even tinier component of social rented housing, the levels of which, on such a huge development on formerly public land, is truly iniquitous.

Environmental Pollution
There is grave concern that dust from the construction will compromise the health of local residents immediately adjacent to the site. In the long term the environmental cost of having 3,000 RMG vehicles a day on our local roads and polluting the air we breathe is unthinkable.


Typically 1 - 4 storeys
Typically 4 - 8 storeys
Typically 8 - 12 storeys
Exmouth Market
Farringdon Road
Rosebery Avenue
Mount Pleasant
Phoenix Place
Calthorpe Street
Grays Inn Road






MOUNT PLEASANT SORTING OFFICE
THE MEADOW
THE GARDEN
BLOCK H COURTYARD
BUILDING E/F TERRACE
LANEWAYS
SQUARE C
BLOCK J COURTYARD
SQUARE P
BUILDING A COURTYARD
BLOCK D GARDEN
Planning Application Boundary
Proposed Building Outline
Building Identification
Mount Pleasant Sorting Office Building Outline
Calthorpe Street Development
Phoenix Place Development